

INNOSPEC INC.  
Form 10-K  
February 17, 2016  
Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 2015

or

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

For the transition period from to

Commission file number 1-13879

**INNOSPEC INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**

State or other jurisdiction of

incorporation or organization

**8310 South Valley Highway**

**Suite 350**

**Englewood**

**Colorado**

(Address of principal executive offices)

**98-0181725**

(I.R.S. Employer  
Identification No.)

**80112**

(Zip Code)

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

Edgar Filing: INNOSPEC INC. - Form 10-K

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

Title of each class

N/A

Name of each exchange on which registered

N/A

Securities registered pursuant to Section 12(g) of the Act: **Common stock, par value \$0.01 per share**

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

..

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.

# Edgar Filing: INNOSPEC INC. - Form 10-K

Large accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company)

Accelerated filer   
Smaller reporting company

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, 2015) was approximately \$735 million, based on the closing price of the common shares on the NASDAQ on June 30, 2015. 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 11, 2016, 24,007,021 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, 2016 are incorporated by reference into Part III of this Form 10-K.

Table of Contents**TABLE OF CONTENTS**

TABLE OF CONTENTS	2
<u>PART I</u>	4
Item 1 <u>Business</u>	4
Item 1A <u>Risk Factors</u>	10
Item 1B <u>Unresolved Staff Comments</u>	18
Item 2 <u>Properties</u>	19
Item 3 <u>Legal Proceedings</u>	20
Item 4 <u>Mine Safety Disclosures</u>	20
<u>PART II</u>	21
Item 5 <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	21
Item 6 <u>Selected Financial Data</u>	24
Item 7 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 7A <u>Quantitative and Qualitative Disclosures About Market Risk</u>	47
Item 8 <u>Financial Statements and Supplementary Data</u>	50
Item 9 <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	96
Item 9A <u>Controls and Procedures</u>	96
Item 9B <u>Other Information</u>	98
<u>PART III</u>	99
Item 10 <u>Directors, Executive Officers and Corporate Governance</u>	99
Item 11 <u>Executive Compensation</u>	99
Item 12 <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	99
Item 13 <u>Certain Relationships and Related Transactions, and Director Independence</u>	100
Item 14 <u>Principal Accountant Fees and Services</u>	100
<u>PART IV</u>	101
Item 15 <u>Exhibits and Financial Statement Schedules</u>	101
<u>SIGNATURES</u>	104

**Table of Contents**

**CAUTIONARY STATEMENT RELATIVE TO FORWARD-LOOKING STATEMENTS**

**FORWARD-LOOKING STATEMENTS**

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

**Table of Contents**

**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 fuel additives, oilfield chemicals, personal care and other specialty chemicals. Our products are sold primarily to oil and gas exploration and production companies, oil refiners, fuel users, personal care companies, and other chemical and industrial companies throughout the world. Our fuel additives help improve fuel efficiency, boost engine performance and reduce harmful emissions. Our oilfield services business supplies drilling, completion and production chemicals which make exploration and production more cost-efficient and more environmentally-friendly. Our other specialty chemicals provide effective technology-based solutions for our customers' processes or products focused in the Personal Care, and Polymers markets. Our Octane Additives business manufactures products for use in automotive gasoline and provides services in respect of environmental remediation.

*Segment Information*

Innospec divides its business into three segments for management and reporting purposes:

Fuel Specialties

Performance Chemicals

Octane Additives

The Fuel Specialties and Performance Chemicals segments operate in markets where we actively seek growth opportunities although their ultimate customers are different. The Octane Additives segment is generally characterized by unpredictable and declining demand. 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.

Our Fuel Specialties segment also includes our activities in the oilfield services sector, which develops and markets products to prevent loss of mud in drilling operations, chemical

## **Table of Contents**

solutions for fracturing and stimulation operations and products for oil and gas production which aid flow assurance and asset integrity.

In addition to our acquisitions in the oilfield services sector, 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. In fuels, these drivers include increased 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 fuel efficiency.

Our customers in this segment include national oil companies, multinational oil companies, oil and gas exploration and production 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 and Polymers markets.

This segment has also grown organically, through the development and marketing of innovative products to the personal care industry. 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 niche industries.

### ***Octane Additives***

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



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

***Strategy***

Our strategy is to develop new and improved products and technologies to continue to strengthen and increase our market positions within our Fuel Specialties and Performance Chemicals segments. The segments together have had average organic revenue growth of 4% per annum, and average operating income growth of 8% per annum, since 2010. We also

## **Table of Contents**

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 and Performance Chemicals segments, in which the Company has existing experience, expertise and knowledge, provides opportunities for positive returns on investment with reduced operating risk. We also continue to develop our geographical footprint, consistent with the development of global markets.

## ***Geographical Area Information***

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

## ***Working Capital***

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

The purchase of large amounts of certain raw materials for our Fuel Specialties and Octane Additives segments can create some variations in working capital requirements, but these are planned and well 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 cetane number improvers, Ethylene, various solvents, octane enhancers and lubricity improvers.

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 in products representing approximately 5% of the Company's sales.

We use long-term contracts (generally with fixed or formula-based costs) and advance bulk purchases to help ensure availability and continuity of supply, and to manage the risk of cost

## **Table of Contents**

increases. From time to time, for some raw materials the risk of cost increases is managed with commodity swaps.

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

## ***Intellectual Property***

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

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

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

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

## ***Customers***

In 2015, the Company had as a significant customer in the Fuel Specialties segment, Royal Dutch Shell plc and its affiliates ( *Shell* ), which accounted for \$65.8 million (6.5%) of our net group sales. In 2014 and 2013, *Shell* accounted for \$81.9 million (8.5%) and \$83.1 million (10.1%) of our net group sales, respectively.

We have sales contracts with customers in some markets using fixed or formula-based prices, as appropriate, to maintain our gross profits.

***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

## **Table of Contents**

quality and performance, specialized product lines, customer relationships and service, and regulatory and toxicological expertise.

*Fuel Specialties:* Within the Fuel Specialties segment, the Fuels sub market is generally fragmented and characterized by a small number of competitors, none of which hold a dominant position. The oilfield services sub-market 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. We consider our competitive edge to be our proven technical development capacity, independence from major oil companies and strong long-term customer relationships.

*Performance Chemicals:* We operate in two principal markets within Performance Chemicals Personal Care and Polymers. The Personal Care market is highly fragmented, and the Company experiences substantial competition from a large number of multinational and specialty chemical suppliers in each geographical market. The Polymers market is more concentrated, with a small number of principal competitors. 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.

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

### ***Research, Development, Testing and Technical Support***

Research, product/application development and technical support ( R&D ) provide the basis for the growth of our Fuel Specialties and Performance Chemicals 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 \$25.3 million, \$22.2 million and \$21.2 million in 2015, 2014 and 2013, respectively.

We believe that our proven technical capabilities provide us with a significant competitive advantage. In the last five years, the Fuel Specialties segment has developed new detergent, cold flow improvers, stabilizers, anti-foulants, lubricity and combustion improver products, in addition to the introduction of many new cost effective fuel additive packages. This proven technical capability has also been instrumental in enabling us to produce innovative new products within our Performance Chemicals segment including Iselux and Statsafe®.

**Table of Contents**

***Health, Safety and Environmental Matters***

We are subject to environmental laws in the countries in which we 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, including where appropriate asset retirement obligations.

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

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

The European Union legislation known as the Registration, Evaluation and Authorization of Chemical Substances Regulations ( REACH ) requires most of the Company's products to be registered with the European Chemicals Agency. Under this legislation the Company has to demonstrate that its products are appropriate for their intended purposes. During this registration process, the Company incurs expense to test and register its products. The Company estimates that the cost of complying with REACH will be approximately \$2 million over the next three years.

***Employees***

The Company had approximately 1300 employees in 20 countries as at December 31, 2015 and 2014.

***Available Information***

Our corporate web site is [www.innospecinc.com](http://www.innospecinc.com). We make available, free of charge, on or through this web site our annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the U.S. Securities and Exchange Commission ( SEC ).

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



**Table of Contents**

**Item 1A Risk Factors**

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

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

Demand for our services and products in our oilfield services business is particularly sensitive to the level of exploration, development and production activity of, and the corresponding capital spending by, oil and gas companies. The level of exploration, development, and production activity is directly affected by trends in oil and gas prices, 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 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 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 fuels. Any prolonged reduction in oil and gas prices will depress the immediate levels of exploration, development, and production activity which could have a material adverse impact on our results of operations, financial position and cash flows.

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

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

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

Due to our global operations, we are subject to many laws governing international commercial activity, conduct and relations, including those that prohibit improper payments to government officials, restrict where and with whom we can do business, and limit the products, software and technology that we can supply to certain countries and customers. These laws include but

**Table of Contents**

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

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

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

***Competition and market conditions may adversely affect our operating results.***

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

***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

**Table of Contents**

larger than us and may have greater access to financial, technological and other resources. 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.

***Decline in our TEL business***

The remaining sales of the Octane Additives business are now concentrated to one remaining customer. When this customer chooses to cease using TEL as an octane enhancer then the Company's future operating income and cash flows from operating activities would be materially impacted.

The sales of the AvTel product line are recorded within our Fuel Specialties business. The piston aviation industry has been and is currently researching a safe replacement fuel to replace leaded fuel. While we expect that at some point in the future a replacement fuel will be identified, trialed and supplied to the industry there is no current known replacement. In addition there is no clear timescale on the legislation of a replacement product. If a suitable product is identified and the use of leaded fuel is prohibited in piston aviation the Company's future operating income and cash flows from operating activities would be adversely impacted.

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

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

***We may be required to make additional cash contributions to our United Kingdom defined benefit pension plan and recognize greater pension charges.***

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 charge 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.



**Table of Contents**

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

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

The ongoing concern about the stability of global markets generally and the strength of counterparties in particular has led many lenders and institutional investors to reduce, or cease to provide, credit to businesses and consumers. These factors have led to a substantial and continuing decrease in spending by businesses and consumers, and a corresponding decrease in global infrastructure spending which could affect our business. Global economic factors affecting our business include, but are not limited to, geopolitical instability in some markets, miles driven by passenger and commercial vehicles, legislation to control fuel quality, impact of alternative propulsion systems, consumer demand for premium personal care and cosmetic products, and oil and gas drilling and production rates. The availability, cost and terms of credit have been, and may continue to be, adversely affected by the foregoing factors and these circumstances have produced, and may in the future result in, illiquid markets and wider credit spreads, which may make it difficult or more expensive for us to obtain credit. Uncertainties in the U.S. and international markets and economies leading to a decline in business and consumer spending could adversely impact our results of operations, financial position and cash flows.

***An information technology system failure may adversely affect our business.***

We rely on information technology systems to transact our business. Like other global companies, we have, from time to time, experienced threats to our data and systems. Although we have implemented administrative and technical controls and take protective actions to reduce the risk of cyber incidents and protect 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. While to date we have not experienced a material cyber security breach, our systems, processes, software and network still 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. Such an information technology failure or disruption could prevent us from being able to





**Table of Contents**

process transactions with our customers, operate our manufacturing facilities, and properly report those transactions in a timely manner. A significant, protracted information technology system failure may result in a material adverse effect on our results of operations, financial position and cash flows.

In 2015 we continued with the process of developing our new, company-wide, information system platform. In the fourth quarter of 2015 we have implemented the new platform at the majority of reporting units outside of the U.S.. While the majority of our businesses are now on the new platform, further implementation costs may be more than expected or the new information system may not perform as expected, either of which could adversely impact our results of operations, financial position and cash flows.

***We may have additional tax liabilities.***

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

***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 rate for inclusion in our consolidated financial statements. Fluctuations in these currency exchange rates affect the recorded levels of our assets and liabilities, and our results of operations.

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.



**Table of Contents**

***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 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 little or no control. We use long-term contracts (generally with fixed or formula-based costs) and advance bulk purchases to help ensure availability and continuity of supply, and to manage the risk of cost increases. From time to time, we have entered into hedging arrangements for certain utilities and raw materials, but do not typically enter into hedging arrangements for all raw materials, chemicals or energy costs. If the costs of raw materials, chemicals or energy increase, and we are not able to pass on these cost increases to our customers, then profit margins and cash flows from operating activities would be adversely impacted. If raw material costs increase significantly, then our need for working capital could increase. Any of these risks could adversely impact our results of operations, financial position and cash flows.

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

Although we try to anticipate problems with supplies of raw materials or transportation services by building certain inventories of strategic importance, any significant disruption in either area could affect our ability to obtain raw materials or transportation services at affordable costs, if at all, which could adversely impact our results of operations, financial position and cash flows.

***Our reliance on a small number of significant stockholders may have a material adverse impact on our stock price.***

Approximately 36% of our common stock is held by five stockholders. A decision by any of these stockholders to sell all or a significant part of its holding, or a sudden or unexpected disposition of our stock, could result in a significant decline in our stock price which could in turn adversely impact our ability to access equity markets which in turn could adversely impact our results of operations, financial position and cash flows.

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

Failure to maintain or protect our intellectual property rights may result in the loss of valuable technologies, or us having to pay other companies for infringing on their intellectual property rights. Measures taken by us to protect our intellectual property may be challenged, invalidated, circumvented or rendered unenforceable. 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

**Table of Contents**

claims, which may cause our customers to switch to our competitors. Any of these events could adversely impact our results of operations, financial position and cash flows.

***Our products are subject to extensive government scrutiny and regulation.***

We are subject to regulation by federal, state, local and foreign government authorities. In some cases, we need government approval of our products, manufacturing processes and facilities before we may sell certain products. Many products are required to be registered with the U.S. Environmental Protection Agency and with comparable government agencies in the European Union and 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, and that we are capable of manufacturing the product in accordance with applicable regulations. This approval process can be costly, time consuming, and subject to unanticipated and significant delays. We cannot be sure that necessary approvals will be granted on a timely basis or at all. Any delay in obtaining, or any failure to obtain or maintain, these approvals would adversely affect our ability to introduce new products and to generate income from those products. New or stricter laws and regulations may be introduced that could result in additional compliance costs and prevent or inhibit the development, manufacture, distribution and sale of our products. Such outcomes could adversely impact our results of operations, financial position and cash flows.

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

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

***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.

**Table of Contents**

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

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

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

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

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

***The terms of our 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 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 credit facility also contains a number of restrictions that limit our ability, among other things, and subject to certain limited exceptions, to incur additional indebtedness, pledge our assets as security, guarantee obligations of third parties, make investments, undergo a merger or consolidation, dispose of assets or materially change our line of business.





## **Table of Contents**

In addition, the credit facility requires us to meet certain financial ratios, including ratios based on net debt to 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 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 credit facility, it could adversely impact our results of operations, financial position and cash flows.

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

We are subject to hazards which are common to chemical manufacturing, blending, storage, handling and transportation. These hazards include fires, explosions, remediation, chemical spills and the release or discharge of toxic or hazardous substances together with the more generic risks of labor strikes or slowdowns, mechanical failure in scheduled downtime, extreme weather or transportation interruptions. These hazards could result in loss of life, property damage, environmental contamination and temporary or permanent manufacturing cessation. Any of these factors could adversely impact our results of operations, financial position and cash flows.

*Domestic or international natural disasters 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 may negatively affect local economies, including those of our customers or suppliers. The occurrence 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, property damage or site closure. Any of these matters could adversely impact our results of operations, financial position and cash flows.

## **Item 1B Unresolved Staff Comments**

None.

**Table of Contents****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 <sup>(1)</sup>	Fuel Specialties and Performance Chemicals	Corporate Headquarters  Business Teams
Newark, Delaware <sup>(1)</sup>	Fuel Specialties	Sales/Administration Research & Development
High Point, North Carolina	Performance Chemicals	Manufacturing/Administration
Salisbury, North Carolina	Performance Chemicals	Research & Development Manufacturing/Administration
Crowley, Louisiana <sup>(1)</sup>	Fuel Specialties	Research & Development Sales/Manufacturing/Administration
Chatsworth, California <sup>(1)</sup>	Performance Chemicals	Sales/Manufacturing/Administration
Oklahoma City, Oklahoma	Fuel Specialties	Sales/Manufacturing/Administration
Midland, Texas	Fuel Specialties	Sales/Manufacturing/Administration
Pleasanton, Texas	Fuel Specialties	Sales/Manufacturing/Administration
The Woodlands, Houston, Texas <sup>(1)</sup>	Fuel Specialties	Sales/Administration/Laboratory
Williston, North Dakota	Fuel Specialties	Warehouse/Sales
Casper, Wyoming <sup>(1)</sup>	Fuel Specialties	Warehouse
Lovington, New Mexico <sup>(1)</sup>	Fuel Specialties	Warehouse
Brazos County, Texas <sup>(1)</sup>	Fuel Specialties	Warehouse/Distribution
Ellesmere Port, United Kingdom	Fuel Specialties, Performance Chemicals and Octane Additives	European Headquarters  Business Teams
		Sales/Manufacturing/Administration
		Research & Development
Singapore <sup>(1)</sup>	Fuel Specialties and Performance Chemicals	Fuel Technology Center Asia-Pacific Headquarters
		Business Teams
		Sales/Administration Sales/Manufacturing/Administration
Herne, Germany <sup>(1)</sup>	Fuel Specialties	Research & Development Sales/Manufacturing/Administration
Leuna, Germany	Fuel Specialties and Performance Chemicals	Research & Development Sales/Manufacturing/Administration
Vernon, France	Fuel Specialties	Research & Development Sales/Manufacturing/Administration

## Edgar Filing: INNOSPEC INC. - Form 10-K

Milan, Italy <sup>(1)</sup>	Fuel Specialties and Performance Chemicals	Research & Development
Zug, Switzerland <sup>(1)</sup>	Octane Additives	Sales/Administration
Moscow, Russia <sup>(1)</sup>	Fuel Specialties	Sales/Administration
Rio de Janeiro, Brazil <sup>(1)</sup>	Fuel Specialties and Performance Chemicals	Sales/Administration

(1) Leased property

**Table of Contents**

***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 swings. We believe that all of our facilities are maintained to appropriate levels and in good operating condition though there remains an ongoing need for 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 their 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.

**Table of Contents****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 11, 2016 there were 939 registered holders of the common stock. The following table shows the closing high and low prices of our common stock for each of the last eight quarters:

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
<b>2015</b>				
High	\$ 46.54	\$ 46.48	\$ 49.64	\$ 58.70
Low	\$ 39.47	\$ 42.88	\$ 41.35	\$ 47.99
<b>2014</b>				
High	\$ 46.03	\$ 45.85	\$ 43.13	\$ 45.57
Low	\$ 41.01	\$ 41.10	\$ 35.90	\$ 35.55

**Dividends**

The Company declared the following cash dividends for the year ended December 31, 2015:

<b>Date declared</b>	<b>Stockholders of Record</b>	<b>Date Paid</b>	<b>Amount per share</b>
November 3, 2015	November 16, 2015	November 25, 2015	\$ 0.31
May 5, 2015	May 18, 2015	May 27, 2015	\$ 0.30

The Company declared the following cash dividends for the year ended December 31, 2014:

<b>Date declared</b>	<b>Stockholders of Record</b>	<b>Date Paid</b>	<b>Amount per share</b>
----------------------	-------------------------------	------------------	---------------------------------

November 3, 2014	November 17, 2014	November 26, 2014	\$ 0.28
May 5, 2014	May 19, 2014	May 28, 2014	\$ 0.27

There are no restrictions on our ability to declare dividends and the Company is allowed to repurchase its own common stock as long as we are in compliance with the financial covenants in the Company's credit facility.

### **Unregistered Sales of Equity Securities**

There were no unregistered sales of equity securities during the fourth quarter of 2015.

### **Issuer Purchases of Equity Securities**

During 2015 the Company repurchased 309,697 of our common stock at a cost of \$14.0 million, which completed the authorized share repurchase program announced on May 12, 2014. During the quarter ended December 31, 2015, there were no share repurchases made by the Company.

**Table of Contents**

On November 3, 2015 the Company announced that its board of directors had authorized a new share repurchase program which targets to repurchase up to \$90 million of common stock over the next three years.

The Company has authorized securities for issuance under equity compensation plans. The information contained in the table under the heading "Equity Compensation Plans" in the Proxy Statement is incorporated herein by reference. The current limit for the total amount of shares which can be issued or awarded under the Company's five stock option plans is 2,640,000.

**Table of Contents****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, 2010, assuming a \$100 investment and the re-investment of any dividends thereafter.

**Value of \$100 Investment made December 31, 2010\***

	2010	2011	2012	2013	2014	2015
Innospec Inc.	100.00	137.60	178.87	242.30	226.73	291.62
S&P 500 Index	100.00	100.00	113.40	146.97	163.71	162.52
NASDAQ Composite Index	100.00	98.20	113.82	157.44	178.53	188.75
Russell 2000 Index	100.00	94.55	108.38	148.49	153.73	144.95

\* Excludes purchase commissions.



**Table of Contents****Item 6 Selected Financial Data****FINANCIAL HIGHLIGHTS****(in millions, except financial ratios, share and per share data)**

	2015	2014	2013	2012	2011
<b>Summary of performance:</b>					
Net sales	\$ 1,012.3	\$ 960.9	\$ 818.8	\$ 776.4	\$ 774.4
Operating income	156.3	112.5	90.6	96.5	47.2
Income before income taxes	152.3	110.9	92.8	93.3	50.2
Income taxes	(32.8)	(26.8)	(15.0)	(26.4)	(3.1)
Net income	119.5	84.1	77.8	66.9	47.1
Net income attributable to Innospec Inc.	119.5	84.1	77.8	66.9	47.1
Net cash provided by operating activities	117.7	106.3	61.3	61.3	34.7
<b>Financial position at year end:</b>					
Total assets	1,030.0	999.9	794.7	579.4	568.8
Long-term debt including finance leases (including current portion)	136.1	141.6	148.0	30.0	35.0
Cash, cash equivalents, and short-term investments	141.7	46.3	86.8	27.5	81.0
Total equity	\$ 605.3	\$ 515.9	\$ 409.4	\$ 317.0	\$ 343.1
<b>Financial ratios:</b>					
Net income attributable to Innospec Inc. as a percentage of sales	11.8	8.8	9.5	8.6	6.1
Effective tax rate as a percentage <sup>(1)</sup>	21.5	24.2	16.2	28.3	6.2
Current ratio <sup>(2)</sup>	2.2	1.9	2.6	2.0	2.2
<b>Share data:</b>					
Earnings per share attributable to Innospec Inc.					
Basic	\$ 4.96	\$ 3.45	\$ 3.29	\$ 2.89	\$ 2.00
Diluted	\$ 4.86	\$ 3.38	\$ 3.22	\$ 2.81	\$ 1.92
Dividend paid per share	\$ 0.61	\$ 0.55	\$ 0.50	\$ 2.00	\$ 0.00
Shares outstanding (basic, thousands)					
At year end	24,101	24,291	24,347	23,332	23,047
Average during year	24,107	24,391	23,651	23,187	23,568
Closing stock price					
High	\$ 58.70	\$ 46.03	\$ 48.71	\$ 34.49	\$ 37.66
Low	\$ 39.47	\$ 35.55	\$ 35.27	\$ 25.56	\$ 19.16
At year end	\$ 54.31	\$ 42.70	\$ 46.22	\$ 34.49	\$ 28.07

(1) The effective tax rate is calculated as income taxes as a percentage of income before income taxes.

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

**Table of Contents****QUARTERLY SUMMARY**

(in millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2015</b>				
Net sales	\$ 269.2	\$ 242.9	\$ 254.2	\$ 246.0
Gross profit	81.8	87.5	90.4	86.3
Operating income	23.4	57.4	41.2	34.3
Net income <sup>(1)</sup>	17.9	34.5	35.6	31.5
Net cash provided by operating activities	\$ 18.2	\$ 36.9	\$ 35.5	\$ 27.1
Per common share:				
Earnings basic	\$ 0.74	\$ 1.43	\$ 1.48	\$ 1.31
diluted	\$ 0.72	\$ 1.40	\$ 1.45	\$ 1.28
<b>2014</b>				
Net sales	\$ 220.7	\$ 221.3	\$ 228.2	\$ 290.7
Gross profit	65.7	68.6	73.6	94.1
Operating income	18.0	25.3	25.2	44.0
Net income <sup>(2)</sup>	16.9	18.5	20.8	27.9
Net cash provided by operating activities	\$ 20.9	\$ 12.9	\$ 25.2	\$ 47.3
Per common share:				
Earnings basic	\$ 0.69	\$ 0.76	\$ 0.85	\$ 1.14
diluted	\$ 0.69	\$ 0.75	\$ 0.83	\$ 1.11

**NOTES**

- (1) Special items, before tax except for the adjustment of unrecognized tax benefits, during the year ended December 31, 2015 comprised the following:

(in millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2015</b>				
Adjustment to fair value of contingent consideration	\$ 3.5	\$ (26.6)	\$ (8.5)	\$ (9.1)
Amortization of acquired intangible assets	4.3	4.3	4.3	4.3
Fair value acquisition accounting related to inventory valuation	0.0	0.0	0.0	3.7
Adjustment of unrecognized tax benefits	0.1	0.0	(2.7)	0.3
Profit on disposal of subsidiary	0.0	0.0	(1.6)	0.0
Foreign currency exchange gains/(losses)	\$ (1.5)	\$ 4.7	\$ (1.2)	\$ (2.0)

- (2) Special items, before tax except for the adjustment of unrecognized tax benefits, during the year ended December 31, 2014 comprised the following:

(in millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
---------------	------------------	-------------------	------------------	-------------------

Edgar Filing: INNOSPEC INC. - Form 10-K

2014				
Adjustment to fair value of contingent consideration	\$ 0.0	\$ 0.0	\$ 0.0	\$ 1.9
Amortization of acquired intangible assets	3.5	3.4	3.0	4.1
Foreign currency exchange gains/(losses)	1.9	(0.8)	1.0	(0.4)
Adjustment of unrecognized tax benefits	2.2	0.0	1.8	(2.0)
Acquisition-related costs	\$ 0.0	\$ 0.0	\$ (1.3)	\$ (0.5)

**Table of Contents**

**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 business performance in 2015 grew in line with our expectations, as we delivered on our strategy to maintain our oilfield services business against the current challenging market conditions. Sales in our growth businesses of Fuel Specialties and Personal Care reflected the strength of our product portfolio and research and development pipeline in these markets. Our Fuel Specialties segment also includes our AvTel product line, which comprises sales of TEL for use in the piston engine aviation market. Innospec has made a commitment to manufacture and supply AvTel to the aviation industry until a suitable unleaded additive or fuel is found. We anticipate that this product line will decline when an unleaded substitute is identified.

Our Octane Additives segment performance was in line with the final stages of transition to unleaded gasoline in the automotive market.

We have managed our investments in capital equipment, working capital and the recruitment of additional skilled personnel in line with these market factors. Our capital program and expenses during 2015 included the continued investment in a new information system platform, which we expect to add value to our business in future years. During 2015 we completed the integration of our Independence Oilfield Chemicals LLC business ( Independence ), to further build out our presence in this market.

**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.

**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 measurement of the fair values of assets acquired and liabilities assumed requires considerable judgment. Although independent appraisals may be used to assist in the determination of the fair values of certain assets and liabilities, those determinations 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

## **Table of Contents**

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.

While we use our best estimates and assumptions as part of the process to value assets acquired and liabilities assumed at the acquisition date and contingent consideration at each balance sheet reporting date, our estimates are inherently uncertain and subject to refinement. During the measurement period, which occurs before finalization of the purchase price allocation, changes in assumptions and estimates that result in adjustments to the fair values of assets acquired and liabilities assumed will have a corresponding offset to goodwill. Subsequent adjustments will impact our consolidated statements of income.

## **Contingencies**

We are subject to legal, regulatory and other proceedings and claims. The Company discloses information concerning contingent liabilities in respect of these claims and proceedings for which an unfavorable outcome is more than remote and the potential loss could materially impact our results of operations, financial position and cash flows. We recognize within selling, general and administrative expenses liabilities for these claims and proceedings when it is probable that the Company has incurred a loss based on an unfavorable outcome and the amount of the loss can be reasonably estimated and we endeavor to fairly present, in conjunction with the disclosures of these matters in our consolidated financial statements, management's view of our exposure. We review outstanding claims and proceedings with external counsel as appropriate to assess probability and estimates of loss. When the reasonable estimate is a range, the recognized liability will be the best estimate within the range. If no amount in the range is a better estimate than any other amount then the minimum amount of the range will be recognized.

We re-evaluate our assessments each quarter or as new and significant information becomes available. The actual cost of ultimately resolving a claim or proceeding may be significantly different from the amount of the recognized liability. In addition, because it is not permissible to recognize a liability until the loss is both probable and estimable, in some cases there may be insufficient time to recognize a liability prior to the actual incurrence of the loss (upon verdict and judgment at trial, for example, or in the case of a quickly negotiated settlement).

## **Environmental Liabilities**

Remediation provisions at December 31, 2015 amounted to \$37.7 million and relate principally to our Ellesmere Port site in the United Kingdom. We recognize environmental liabilities when they are probable and costs can be reasonably estimated, and asset retirement obligations when there is a legal obligation and costs can be reasonably estimated. The Company has to anticipate the program of work required and the associated future expected costs, and

comply with environmental legislation in the countries in which it operates or has

## **Table of Contents**

operated in. The Company views the costs of vacating our Ellesmere Port site as contingent upon if and when it vacates the site because there is no present intention to do so.

## **Pensions**

The Company maintains a defined benefit pension plan covering a number of its current and former employees in the United Kingdom. The Company also has other much smaller pension arrangements in the U.S. and overseas, but the obligations under those plans are not material. The United Kingdom plan is closed to future service accrual, but has a large number of deferred and current pensioners.

Movements in the underlying plan asset value and Projected Benefit Obligation ( PBO ) are dependent on actual return on investments as well as our assumptions in respect of the discount rate, annual member mortality rates, future return on assets and future inflation. A change in any one of these assumptions could impact the plan asset value, PBO and pension charge recognized in the income statement. Such changes could adversely impact our results of operations and financial position. For example, a 0.25% change in the discount rate assumption would change the PBO by approximately \$24 million while the net pension credit for 2016 would be unchanged. A 0.25% change in the level of price inflation assumption would change the PBO by approximately \$17 million and the net pension credit for 2016 would change by approximately \$0.1 million.

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

## **Deferred Tax and Uncertain Income Tax Positions**

As at December 31, 2015, no deferred taxes have been provided for on the unremitted earnings of our overseas subsidiaries as any tax basis differences relating to investments in these overseas subsidiaries are considered to be permanent in duration. We have no current intention to repatriate past or future earnings of our overseas subsidiaries and consider that these earnings have been reinvested overseas. If circumstances were to change that would cause these earnings to be repatriated an additional U.S. tax liability could be incurred, and we continue to monitor this position.

The calculation of our tax liabilities involves evaluating uncertainties in the application of 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, when challenged by the taxing authorities. To the extent that we prevail in matters for which liabilities have been established, or are required to pay amounts in excess of our liabilities, our effective tax rate in a given period may be

## **Table of Contents**

materially affected. An unfavorable tax settlement may require cash payments and result in an increase in our effective tax rate in the year of resolution. A favorable tax settlement may be recognized as a reduction in our effective tax rate in the year of resolution. We report interest and penalties related to uncertain income tax positions as income taxes. For additional information regarding uncertain income tax positions see 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.

Initially The Company performs 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 prior to performing the two-step goodwill impairment test. If a two-step 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.

As at December 31, 2015 we had \$228.3 million and \$39.1 million of goodwill relating to our Fuel Specialties and Performance Chemicals segments, respectively. Our impairment assessment concluded that there had been no impairment of goodwill in respect of those reporting segments.

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 may result in materially different calculations of any potential impairment charges.

## **Property, Plant and Equipment and Other Intangible Assets (Net of Amortization)**

As at December 31, 2015 we had \$76.0 million of property, plant and equipment and \$168.7 million of other intangible assets (net of amortization), that are discussed in Notes 6 and 8 of the Notes to the Consolidated Financial Statements, respectively. These long-lived assets relate to all of our reporting segments and are being amortized or depreciated straight-line over periods of up to 17 years in respect of the other intangible assets and up to 25 years in respect of the property, plant and equipment.

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

We also test these long-lived assets for any potential impairment when events occur or circumstances change which suggests that impairment may have occurred. These types of events or changes in circumstances could include, but are not limited to:

introduction of new products with enhanced features by our competitors;

**Table of Contents**

loss of, material reduction in purchases by, or non-renewal of a contract by, a significant customer;

prolonged decline in business or consumer spending;

sharp and unexpected rise in raw material, chemical or energy costs; and

new laws or regulations inhibiting the development, manufacture, distribution or sale of our products.

In order to facilitate this testing 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 periods over which these long-lived assets are amortized or depreciated, or result in a non-cash impairment of a portion of their carrying value. A reduction in amortization or depreciation periods would have no effect on cash flows.

In 2015 we continued with the process of developing a new, company-wide, information system platform. The platform provider is well established in the market. The implementation is a phased, risk-managed, site deployment and follows a multistage user acceptance program with the existing platform providing a fallback position. In the fourth quarter of 2015 we have implemented the new platform at the majority of reporting units outside of the U.S. which combined with the initial deployment in 2013 means the majority of our businesses are now operating with the new platform. Internally developed software and other costs capitalized at December 31, 2015 were \$36.4 million (2014 \$27.8 million). An amortization expense of \$4.0 million was recognized in 2015 (2014 \$3.8 million) in selling, general and administrative expenses.

**Table of Contents****RESULTS OF OPERATIONS**

The following table provides operating income by reporting segment:

(in millions)	2015	2014	2013
<b>Net sales:</b>			
Fuel Specialties	\$ 758.3	\$ 682.2	\$ 567.4
Performance Chemicals	194.5	223.5	192.4
Octane Additives	59.5	55.2	59.0
	\$ 1,012.3	\$ 960.9	\$ 818.8
<b>Gross profit:</b>			
Fuel Specialties	\$ 265.1	\$ 219.0	\$ 181.1
Performance Chemicals	52.4	54.4	46.3
Octane Additives	28.5	28.6	27.8
	\$ 346.0	\$ 302.0	\$ 255.2
<b>Operating income:</b>			
Fuel Specialties	\$ 103.9	\$ 104.4	\$ 92.7
Performance Chemicals	23.5	25.6	23.6
Octane Additives	24.7	22.6	21.5
Pension credit/(charge)	0.2	(3.3)	(2.3)
Corporate costs	(38.3)	(38.7)	(43.6)
Adjustment to fair value of contingent consideration	40.7	1.9	0.0
Profit on disposal of subsidiary	1.6	0.0	0.0
Impairment of Octane Additives segment goodwill	0.0	0.0	(1.3)
Total operating income	\$ 156.3	\$ 112.5	\$ 90.6

**Table of Contents****Results of Operations Fiscal 2015 compared to Fiscal 2014:**

(in millions, except ratios)	2015	2014	Change	
<b>Net sales:</b>				
Fuel Specialties	\$ 758.3	\$ 682.2	\$ 76.1	+11%
Performance Chemicals	194.5	223.5	(29.0)	-13%
Octane Additives	59.5	55.2	4.3	+8%
	\$ 1,012.3	\$ 960.9	\$ 51.4	+5%
<b>Gross profit:</b>				
Fuel Specialties	\$ 265.1	\$ 219.0	\$ 46.1	+21%
Performance Chemicals	52.4	54.4	(2.0)	-4%
Octane Additives	28.5	28.6	(0.1)	0%
	\$ 346.0	\$ 302.0	\$ 44.0	+15%
<b>Gross margin (%):</b>				
Fuel Specialties	35.0	32.1	+2.9	
Performance Chemicals	26.9	24.3	+2.6	
Octane Additives	47.9	51.8	-3.9	
Aggregate	34.2	31.4	+2.8	
<b>Operating expenses:</b>				
Fuel Specialties	\$ (161.2)	\$ (114.6)	\$ (46.6)	+41%
Performance Chemicals	(28.9)	(28.8)	(0.1)	0%
Octane Additives	(3.8)	(6.0)	2.2	-37%
Pension credit/(charge)	0.2	(3.3)	3.5	n/a
Corporate costs	(38.3)	(38.7)	0.4	-1%
Adjustment to fair value of contingent consideration	40.7	1.9	38.8	n/a
Profit on disposal of subsidiary	1.6	0.0	1.6	n/a
	\$ (189.7)	\$ (189.5)	\$ (0.2)	0%

**Fuel Specialties**

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

Change (%)	Americas	EMEA	ASPAC	AvTel	Total
Volume	-10	+16	+3	-26	-1
Acquisitions	+39	0	0	0	+20

Edgar Filing: INNOSPEC INC. - Form 10-K

Price and product mix	-3	-6	-5	+20	-3
Exchange rates	0	-16	-2	0	-5
	+26	-6	-4	-6	+11

Excluding oilfield services, revenues in the Americas were 2% higher than the prior year as a result of increased volumes. Oilfield services saw a decline in revenues year over year after

**Table of Contents**

excluding the acquisition of Independence, which generated additional sales compared to the prior year. EMEA volumes increased from the prior year driven by a strong performance in our core markets. Volumes were higher in ASPAC driven by higher demand in the first quarter. An adverse price and product mix in EMEA and ASPAC negatively impacted revenues primarily due to sales of lower margin products compared to the prior year. AvTel volumes were lower than the prior year due to the timing of shipments to customers as opposed to any change in the long-term outlook for that market, with an improved price and product mix. EMEA and ASPAC were adversely impacted by exchange rate movements year over year, driven primarily by a weakening of the European Union euro and the British pound sterling against the U.S. dollar.

*Gross margin:* the year on year increase of 2.9 percentage points primarily reflected the higher margins achieved in the Americas, including our oilfield services businesses, together with the higher margin contribution from AvTel and the positive effect of weaker exchange rates versus the U.S. dollar on our cost base.

*Operating expenses:* the year on year increase of 41%, or \$46.6 million, was due to \$39.4 million of additional costs for the Independence business; partly offset by a \$3.9 million decrease in expenses within our other oilfield businesses; together with a \$13.4 million increase in selling and technical support expenses primarily related to increased sales volumes in the Americas, excluding oilfield services; and a \$2.3 million decrease in other expenses primarily due to favorable exchange rates in EMEA and ASPAC resulting from a weakening of the European Union euro and the British pound sterling against the U.S. dollar.

**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:

<b>Change (%)</b>	<b>Americas</b>	<b>EMEA</b>	<b>ASPAC</b>	<b>Aroma Chemicals</b>	<b>Total</b>
Volume	+11	+23	-6	0	+10
Disposals	0	0	0	-15	-15
Price and product mix	-3	-8	+5	0	-3
Exchange rates	0	-17	-6	0	-5
	+8	-2	-7	-15	-13

Volumes were higher in the Americas and EMEA, primarily due to increased Personal Care volumes, partly offset by adverse pricing pressures affecting the price and product mix. ASPAC saw lower volumes partly offset by a favorable price and product mix. A weakening of the European Union euro and the British pound sterling against the U.S. dollar resulted in an adverse exchange variance for EMEA and ASPAC. The disposal of our Aroma Chemicals business has



been excluded from the market analysis above and included as one variance for the segment total.

## **Table of Contents**

*Gross margin:* the year on year increase of 2.6 percentage points was primarily driven by a greater proportion of sales from our higher margin Personal Care business, partly resulting from the disposal of our Aroma Chemicals business at the start of the third quarter.

*Operating expenses:* the year on year increase of \$0.1 million was due to \$0.8 million higher research and development costs and \$0.4 million of additional headcount to support our Personal Care growth, partly offset by a \$1.1 million reduction due to the disposal of our Aroma Chemicals business.

## **Octane Additives**

*Net sales:* the year on year increase of \$4.3 million was primarily due to the timing of demand with our one remaining refinery customer.

*Gross margin:* the year on year decrease of 3.9 percentage points is primarily driven by the timing and efficiency of production for our one remaining refinery customer.

*Operating expenses:* the year on year decrease of \$2.2 million was due to the continuing efficient management of the cost base.

## **Other Income Statement Captions**

*Pension credit/(charge):* is non-cash, and was a \$0.2 million net credit in 2015 compared to \$3.3 million net charge in 2014, primarily driven by lower interest cost on the projected benefit obligation.

*Corporate costs:* the year on year decrease of \$0.4 million, related to \$1.1 million lower legal, professional and other expenses in 2015; \$1.8 million non-recurring professional costs in 2014 related to the acquisition of our Independence business; \$1.4 million lower insurance claims due to non-recurring charges in 2014 relating to self-insured incidents; which were partly offset by \$3.1 million higher personnel-related compensation, including higher accruals for share-based compensation; and the net \$0.8 million release of a severance provision in 2014.

*Adjustment to fair value of contingent consideration:* the credit of \$40.7 million relates to an adjustment of the carrying value of our liability for contingent consideration related to our Independence acquisition of \$51.4 million,

partly offset by the accretion charge of \$10.7 million. The carrying value of the contingent consideration is based on the estimated EBITDA and free cash flow generated by the Independence business through the period to October 31, 2016. The contingent consideration payable is based on management's latest forecasts of the business and on the current trading performance. The results of the business are particularly sensitive to the level of exploration, development and production activity of our customers in the oil and gas sector, this is directly affected by trends in oil prices.

*Profit on disposal of subsidiary:* The disposal of our Aroma Chemicals business generated a profit on disposal of \$1.6 million in the third quarter.

**Table of Contents**

*Other net income/(expense)*: other net expense of \$0.0 million primarily related to \$1.4 million of losses on translation of net assets denominated in non-functional currencies in our European businesses, offset by gains of \$1.4 million on foreign currency forward exchange contracts. In 2014, other net income of \$1.8 million primarily related to net gains of \$3.4 million on foreign currency forward exchange contracts, partly offset by \$1.6 million of losses on translation of net assets denominated in non-functional currencies in our European businesses.

*Interest expense, net*: was \$4.0 million in 2015 and \$3.4 million in 2014, being primarily driven by higher borrowing in 2015 resulting from the funding required for the acquisition of our Independence business in the fourth quarter of 2014.

*Income taxes*: the effective tax rate was 21.5% and 24.2% in 2015 and 2014, respectively. The effective tax rate, once adjusted for changes to the fair value of contingent consideration, adjustments to income tax positions and the tax impact of other discrete items, was 20.1% in 2015 compared with 24.9% in 2014. 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.

<b>(in millions, except ratios)</b>	<b>2015</b>	<b>2014</b>
Income before income taxes	\$ 152.3	\$ 110.9
Adjustment to fair value of contingent consideration	(40.7)	0.0
Adjustment to acquisition accounting for inventory fair valuation	3.7	0.0
Profit on disposal of subsidiary	(1.6)	0.0
	\$ 113.7	\$ 110.9
Income taxes	\$ 32.8	\$ 26.8
Add back adjustment of income tax provisions	2.3	6.8
Add back tax on adjustments to fair value of contingent consideration	(15.5)	0.0
Add back other discrete items	3.2	(6.0)
	\$ 22.8	\$ 27.6
GAAP effective tax rate	21.5%	24.2%
Adjusted effective tax rate	20.1%	24.9%

In addition to those mentioned above, the following factors had a significant impact on the Company's effective tax rate as compared to the U.S. federal income tax rate of 35%:

<b>(in millions)</b>	<b>2015</b>	<b>2014</b>
Foreign tax rate differential	\$ (14.5)	\$ (16.2)
Foreign income inclusions	2.7	6.0
Deferred tax credit from United Kingdom income tax rate reduction on pensions	\$ (1.1)	\$ 0.0

**Table of Contents**

The impact on the effective tax rate from profits earned in foreign jurisdictions with lower tax rates varies as the geographical mix of the Company's profits changes year on year. In 2015, the Company's income tax expense benefited to a lesser degree from a proportion of its overall profits arising in Switzerland than in 2014. This resulted in a \$7.5 million benefit in Switzerland (2014 \$9.4 million). In addition, there was a \$6.8 million benefit in relation to the United Kingdom (2014 \$7.9 million) and a \$0.3 million benefit in relation to Germany (2014 \$0.4 million), offset by a \$0.1 million reduction in other jurisdictions.

Foreign income inclusions arise each year from certain types of income earned overseas being taxable under U.S. tax regulations. These types of income include Subpart F income, principally from foreign based company sales in the United Kingdom, including the associated Section 78 tax gross up, and also from the income earned by certain overseas subsidiaries taxable under the U.S. tax regime. In 2015, Subpart F income and the associated Section 78 gross up resulted in U.S. taxation of \$4.7 million (2014 \$5.0 million). Certain overseas subsidiaries taxable under the U.S. tax regime incurred losses of \$0.2 million (2014 \$2.1 million income).

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 in certain years prevent any offset of foreign tax credits. In total, \$4.7 million of foreign tax credits were utilized during 2015 to offset the incremental U.S. taxes arising from foreign income inclusions in the year (2014 \$4.8 million). Of this balance, \$2.4 million of foreign tax credit carry forwards from earlier years was utilized (2014 \$3.6 million). As at December 31, 2015, the Company has utilized all foreign tax credit carry forwards from earlier years.

The United Kingdom's 1% reduction in the corporation tax rate from 20% to 19% from April 2017 and subsequent reduction from 19% to 18% in April 2020, enacted in November 2015, resulted in a deferred tax credit of \$1.1 million in the fourth quarter of 2015 in relation to the deferred tax position of the United Kingdom defined benefit pension plan.

Further details are given in Note 10 of the Notes to the Consolidated Financial Statements.

**Table of Contents****Results of Operations Fiscal 2014 compared to Fiscal 2013:**

(in millions, except ratios)	2014	2013	Change	
<b>Net sales:</b>				
Fuel Specialties	\$ 682.2	\$ 567.4	\$ 114.8	+20%
Performance Chemicals	223.5	192.4	31.1	+16%
Octane Additives	55.2	59.0	(3.8)	-6%
	\$ 960.9	\$ 818.8	\$ 142.1	+17%
<b>Gross profit:</b>				
Fuel Specialties	\$ 219.0	\$ 181.1	\$ 37.9	+21%
Performance Chemicals	54.4	46.3	8.1	+17%
Octane Additives	28.6	27.8	0.8	+3%
	\$ 302.0	\$ 255.2	\$ 46.8	+18%
<b>Gross margin (%):</b>				
Fuel Specialties	32.1	31.9	+0.2	
Performance Chemicals	24.3	24.1	+0.2	
Octane Additives	51.8	47.1	+4.7	
Aggregate	31.4	31.2	+0.2	
<b>Operating expenses:</b>				
Fuel Specialties	\$ (114.6)	\$ (88.4)	\$ (26.2)	+30%
Performance Chemicals	(28.8)	(22.7)	(6.1)	+27%
Octane Additives	(6.0)	(6.3)	0.3	-5%
Pension credit/(charge)	(3.3)	(2.3)	(1.0)	+43%
Corporate costs	(38.7)	(43.6)	4.9	-11%
	\$ (191.4)	\$ (163.3)	\$ (28.1)	+17%

**Fuel Specialties**

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

Change (%)	Americas	EMEA	ASPAC	AvTel	Total
Volume	+7	-12	-5	+24	-3
Acquisitions	+53	0	0	0	+19

Price and product mix	+6	+6	-4	-9	+4
Exchange rates	0	0	0	0	0
	+66	-6	-9	+15	+20

Americas saw an increase in volumes as a result of higher demand, while benefiting from an improved price and product mix. Acquisitions in the Americas, relating to Bachman and Independence, generated additional sales compared to the prior year. EMEA volumes decreased from the prior year due to weaker trading conditions and the impact of government sanctions related to Russia, partly offset by an improved price and product mix. Volumes were



**Table of Contents**

lower in ASPAC due to the loss of a contract in 2013 which offset increased underlying volumes, together with an adverse price and product mix as a result of lower sales of higher margin products. AvTel volumes were higher due to the timing of shipments to customers as opposed to any change in the long-term outlook for that market, while the price and product mix was negatively impacted by an adverse customer mix.

*Gross margin:* the year on year increase of 0.2 percentage points primarily reflected a mix of increased sales from higher margin products and a higher margin contribution from our oilfield services acquisitions.

*Operating expenses:* the year on year increase of 30%, or \$26.2 million, was due to \$20.8 million of additional costs for the Bachman businesses; \$6.3 million of additional costs for the Independence business; a \$1.4 million increase in bad debt provisions, excluding recent acquisitions; partly offset by a \$1.0 million decrease in personnel-related compensation costs, primarily due to lower accruals for share-based compensation expense; a \$0.8 million decrease in costs for our Strata business; and a \$0.5 million decrease in other expenses.

**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:

<b>Change (%)</b>	<b>Americas</b>	<b>EMEA</b>	<b>ASPAC</b>	<b>Total</b>
Volume	-4	+15	+10	+5
Acquisitions	+22	0	0	+10
Price and product mix	-1	-2	0	-1
Exchange rates	+1	+3	+2	+2
	+18	+16	+12	+16

Volumes in the Americas were lower, primarily due to lower volumes in Fragrance Ingredients and for an industrial product partly offset by increased Personal Care volumes. Acquisitions in the Americas, relating to Chemsil and Chemtec, generated additional sales compared to the prior year. Volumes in EMEA were higher than the prior year, primarily due to higher volumes in Personal Care and Fragrance Ingredients, while negatively impacted by an adverse price and product mix. Higher volumes in ASPAC were driven by increases in Personal Care. All our markets benefited from favorable exchange rate movements year over year, driven primarily by a strengthening of the European Union euro and the British pound sterling against the U.S. dollar.

*Gross margin:* the year on year increase of 0.2 percentage points primarily reflected a richer sales mix driven by a greater proportion of sales from our Personal Care market, including our Chemsil business.

*Operating expenses:* the year on year increase of 27%, or \$6.1 million, was primarily in respect of \$5.2 million of additional costs for our Chemsil and Chemtec businesses, and a \$0.9 million increase in other costs, partly driven by additional headcount in several locations.

## **Table of Contents**

### **Octane Additives**

*Net sales:* the year on year decrease of 6% was primarily due to the timing of shipments and declining demand with our one remaining customer.

*Gross margin:* the year on year increase of 4.7 percentage points was primarily due to favorable manufacturing variances.

*Operating expenses:* the year on year decrease of \$0.3 million was due to the efficient management of the cost base.

### **Other Income Statement Captions**

*Pension credit/(charge):* is non-cash, and was a \$3.3 million net charge in 2014 compared to \$2.3 million net charge in 2013, primarily due to a higher interest cost on the projected benefit obligation.

*Corporate costs:* the year on year decrease of 11%, or \$4.9 million, related to \$2.8 million higher costs for amortization of the new information system platform; \$1.3 million higher insurance claims; offset by \$1.0 million lower personnel-related compensation costs, primarily due to lower accruals for share-based compensation expense together with accruals for the new cash-based long-term incentive plan; the release of a \$0.8 million restructuring provision which is no longer required; and \$7.2 million lower legal, professional and other expenses.

*Impairment of Octane Additives segment goodwill:* was \$0.0 million in 2014 and \$1.3 million in 2013, following the final impairment charge in the fourth quarter of 2013.

*Other net income/(expense):* other net income of \$1.8 million primarily related to net gains of \$3.4 million on foreign currency forward exchange contracts, partly offset by \$1.6 million of losses on translation of net assets denominated in non-functional currencies in our European businesses. In 2013, other net income of \$4.1 million primarily related to gains of \$5.8 million on translation of net assets denominated in non-functional currencies in our European businesses, partly offset by net foreign exchange losses on foreign currency forward exchange contracts of \$1.6 million.

*Interest expense, net:* was \$3.4 million in 2014 and \$1.9 million in 2013 due to the higher level of borrowing during 2014, used primarily to fund our acquisition activity in the second half of 2013.

*Income taxes:* the effective tax rate was 24.2% and 16.2% in 2014 and 2013, respectively. The effective tax rate, once adjusted for income tax provisions and for the tax impact of other discrete items, was 24.9% in 2014 compared with 15.9% in 2013. 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

**Table of Contents**

internally to evaluate the performance of the Company's operations and for planning and forecasting in subsequent periods.

(in millions, except ratios)	2014	2013
Income before income taxes	\$ 110.9	\$ 92.8
Income taxes	\$ 26.8	\$ 15.0
Add back adjustment of income tax provisions	6.8	(0.2)
Add back other discrete items	(6.0)	0.0
	\$ 27.6	\$ 14.8
GAAP effective tax rate	24.2%	16.2%
Adjusted effective tax rate	24.9%	15.9%

In addition to those mentioned above, the following factors had a significant impact on the Company's effective tax rate as compared to the U.S. federal income tax rate of 35%:

(in millions)	2014	2013
Foreign tax rate differential	\$ (16.2)	\$ (13.6)
Foreign income inclusions	6.0	3.9
Prior year adjustments	\$ 5.2	\$ (2.7)

The impact on the effective tax rate from profits earned in foreign jurisdictions with lower tax rates varies as the geographical mix of the Company's profits changes year on year. In 2014, the Company's income tax expense benefited to a greater degree from a higher proportion of its overall profits arising in Switzerland than in 2013. This resulted in a \$9.4 million benefit in Switzerland (2013 \$9.3 million). In addition, there was a \$7.9 million benefit in relation to the United Kingdom (2013 \$3.9 million) and a \$0.4 million benefit in relation to Germany (2013 \$0.3 million).

Foreign income inclusions arise each year from certain types of income earned overseas being taxable under U.S. tax regulations. These types of income include Subpart F income, principally from foreign based company sales in the United Kingdom, including the associated Section 78 tax gross up, and also from the income earned by certain overseas subsidiaries taxable under the U.S. tax regime. In 2014, the amount of Subpart F income and the associated Section 78 gross up amounted to \$5.0 million (2013 \$4.3 million). The income earned by certain overseas subsidiaries taxable under the U.S. tax regime increased to \$2.1 million from \$1.2 million in 2013.

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 in certain years prevent any offset of foreign tax credits. In total, \$4.8 million of foreign tax credits were utilized during 2014 to partially offset the incremental U.S. taxes arising from foreign income inclusions in the year (2013 \$4.2 million). Of this balance, \$3.6 million of foreign tax credit

**Table of Contents**

carry forwards from earlier years was utilized (2013 \$2.4 million). This resulted in a decrease in the recognition of foreign tax credit carry forwards of \$3.6 million during the year (2013 a \$2.4 million decrease).

Further details are given in Note 10 of the Notes to the Consolidated Financial Statements.

**LIQUIDITY AND FINANCIAL CONDITION****Working Capital**

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

(in millions)	2015	2014
Total current assets	\$ 458.7	\$ 414.2
Total current liabilities	(206.1)	(222.9)
Working capital	252.6	191.3
Less cash and cash equivalents	(136.9)	(41.6)
Less short-term investments	(4.8)	(4.7)
Less current portion of deferred tax assets	(8.8)	(8.4)
Less prepaid income taxes	(3.0)	(2.0)
Less other current assets	(1.8)	0.0
Add back current portion of accrued income taxes	7.9	5.6
Add back current portion of long-term debt	0.0	0.4
Add back current portion of finance leases	0.7	0.5
Add back current portion of plant closure provisions	6.4	5.7
Add back current portion of acquisition-related contingent consideration	54.6	45.7
Add back current portion of deferred income	0.2	0.2
Adjusted working capital	\$ 167.1	\$ 192.7

In 2015 our adjusted working capital decreased by \$25.6 million, primarily as a result of the disposal of our Aroma Chemicals business in the third quarter of 2015, together with lower working capital requirements at the end of 2015 across our segments.

We had a \$26.9 million decrease in trade and other accounts receivable in 2015, which is primarily related to the collection of receivables in our Fuel Specialties segment, together with the disposal of our Aroma Chemicals business in the third quarter of 2015 and lower sales in the fourth quarter of 2015 than the prior year. Days sales outstanding in our Fuel Specialties



## **Table of Contents**

segment decreased from 52 days to 47 days and decreased from 48 days to 43 days in our Performance Chemicals segment.

We had a \$25.0 million decrease in inventories in 2015, which is primarily related to the disposal of our Aroma Chemicals business in the third quarter and lower sales in the fourth quarter of 2015 than the prior year. Days sales in inventory in our Fuel Specialties segment increased from 76 days to 96 days and decreased in our Performance Chemicals segment from 99 days to 83 days.

Prepaid expenses decreased by \$2.2 million in 2015 from \$8.3 million to \$6.1 million, primarily related to the normal expensing of prepaid costs.

We had a \$28.5 million decrease in accounts payable and accrued liabilities in 2015, partly driven by lower sales in the fourth quarter of 2015 than the prior year, together with the disposal of our Aroma Chemicals business in the third quarter of 2015. Creditor days in our Fuel Specialties segment decreased from 40 days to 26 days and our Performance Chemicals segment remained unchanged at 31 days.

## **Operating Cash Flows**

We generated cash from operating activities of \$117.7 million in 2015 compared to \$106.3 million in 2014. Year over year cash from operating activities has benefited from increased operating income and lower working capital requirements across our businesses driven by the collection of receivables and lower inventory levels, partly offset by a reduction in accounts payable.

## **Cash**

At December 31, 2015 and 2014, we had cash and cash equivalents of \$136.9 million and \$41.6 million, respectively, of which \$118.8 million and \$30.1 million, respectively, were held by non-U.S. subsidiaries principally in the United Kingdom. The Company is in a position to control whether or not to repatriate foreign earnings. We currently do not expect to make a repatriation in the foreseeable future and hence have not provided for future income taxes on the cash held by overseas subsidiaries. The amount of unremitted earnings at December 31, 2015 was approximately \$775 million. If circumstances were to change that would cause these earnings to be repatriated, an additional U.S. tax liability could be incurred, and we continue to monitor this position.

## **Short-term Investments**

At December 31, 2015 and 2014, we had short-term investments of \$4.8 million and \$4.7 million, respectively.

**Table of Contents****Debt**

On November 6, 2015, the Company agreed a new revolving credit facility that retains the \$200.0 million facility available to the Company and certain subsidiaries of the Company and extends the term of the facility through November 2020. In addition, the new credit agreement allows the Company to request an additional amount of up to \$50.0 million to be committed by the existing lenders under the credit agreement or by new lenders.

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) our ratio of net debt to EBITDA must not be greater than 3.0:1 and (2) our ratio of EBITDA to net interest must not be less than 4.0:1. Management has determined that the Company has not breached these covenants throughout the period to December 31, 2015 and does not expect to breach these covenants for the next 12 months. The credit facility is secured by a number of fixed and floating charges over certain assets which include key operating sites of the Company and its subsidiaries.

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

At December 31, 2015, we had \$133.0 million of debt outstanding under the revolving credit facility and \$3.1 million of obligations under finance leases relating to certain fixed assets within our oilfield businesses.

At December 31, 2015, our maturity profile of long-term debt and finance leases is set out below:

<b>(in millions)</b>	
2016	\$ 0.7
2017	1.0
2018	1.0
2019	0.3
2020	133.1
Total debt	136.1
Current portion of long-term debt and finance leases	(0.7)
Long-term debt and finance leases, net of current portion	\$ 135.4



**Table of Contents**

**Outlook**

We are pleased with our operational performance and results for 2015. The results reinforce our confidence in our strategy and approach to the market. Both our core businesses and acquisitions met our expectations and, importantly, provided strong cash inflows.

We continue to have expectations that our Fuel Specialties and Performance Chemicals business will deliver good performances in 2016. However, the significant movement in crude oil prices is both an opportunity and a challenge for Innospec. We expect to benefit from lower raw material prices in Fuel Specialties and Performance Chemicals but we anticipate pressure on many of our customers, notably in oilfield services. Our planned focus will be to continue to work with our customers, bring them the best available technology in the most cost-effective manner, and support them through this volatile period.

We anticipate a decline in revenues from our Octane Additives segment. We have not agreed a new contract with our sole remaining customer and thus have limited visibility for 2016 and beyond, although we have received an inquiry from them regarding additional supply of TEL in the early part of 2016.

At December 31, 2015, the Company had cash, cash equivalents and short-term investments of \$141.7 million, long-term debt of \$133.0 million and finance leases of \$3.1 million, giving total debt of \$136.1 million, resulting in a net cash position of \$5.6 million.

During 2015 the Company repurchased 309,697 of our common stock at a cost of \$14.0 million, which completed the authorized share repurchase program announced on May 12, 2014.

On November 3, 2015 the Company announced that its board of directors has authorized a new share repurchase program which targets to repurchase up to \$90 million of common stock over the next three years. During the quarter ended December 31, 2015, there were no share repurchases made by the Company.

The Company expects to fund its operations and share repurchase program over at least the next 12 months from a combination of operating cash flows and its revolving credit facility.

**Table of Contents****Contractual Commitments**

The following represents contractual commitments at December 31, 2015 and the effect of those obligations on future cash flows:

(in millions)	Total	2016	2017-18	2019-20	Thereafter
<b><u>Operating activities</u></b>					
Planned funding of pension obligations	\$ 5.7	\$ 1.1	\$ 2.3	\$ 2.3	\$ 0.0
Remediation payments	37.7	6.4	9.5	2.7	19.1
Operating lease commitments	15.8	3.8	5.9	4.4	1.7
Raw material purchase obligations	24.6	6.0	12.3	6.3	0.0
Interest payments on debt	4.3	0.9	1.7	1.7	0.0
<b><u>Investing activities</u></b>					
Capital commitments	2.4	2.4	0.0	0.0	0.0
<b><u>Financing activities</u></b>					
Long-term debt obligations	133.0	0.0	0.0	133.0	0.0
Finance leases	3.1	0.7	2.0	0.4	0.0
Acquisition-related contingent consideration	54.6	54.6	0.0	0.0	0.0
<b>Total</b>	<b>\$ 281.2</b>	<b>\$ 75.9</b>	<b>\$ 33.7</b>	<b>\$ 150.8</b>	<b>\$ 20.8</b>

**Operating activities**

The amounts related to pension obligations refer to the likely levels of funding of our United Kingdom defined benefit pension plan (the Plan). The Plan is closed to future service accrual, but has a large number of deferred and current pensioners. The Company expects its annual cash contribution to be \$1.1 million in 2016, \$2.3 million in 2017-18 and \$2.3 million in 2019-20. Year on year the commitment to make cash contributions to the Plan has been reduced due to the Plan being in a surplus position. It is not considered meaningful to predict amounts beyond 2020 since there are too many uncertainties including future returns on assets, pension increases and inflation which are evaluated when the plan undertakes an actuarial valuation every three years.

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

Operating lease commitments relate primarily to office space, motor vehicles and various items of computer and office equipment which are expected to be renewed and replaced in the normal course of business.

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

## Table of Contents

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

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

## Investing activities

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

## Financing activities

On November 6, 2015, the Company agreed a new revolving credit facility that retains the \$200.0 million previous facility available to the Company and certain subsidiaries of the Company and extends the term of the facility through November 2020. In addition, the new credit agreement allows the Company to request an additional amount of up to \$50.0 million to be committed by the existing lenders under the credit agreement or by new lenders.

Finance leases relate to the financing of certain fixed assets in our oilfield businesses.

As part of the acquisition of Independence, Innospec has deferred consideration which is contingently payable over the two years post acquisition based on a multiple of Independence's annualized earnings before interest, taxes, depreciation and amortization plus a percentage of free cash flow. Innospec paid \$44.0 million as part of the deferred consideration on January 11, 2016 in line with the terms of the sale and purchase agreement. Based on the current forecasts for Independence's performance, Innospec will make a further deferred consideration payment of \$10.6 million, payable approximately two years after closing, with a portion of such deferred payments payable, at Innospec's election, in shares of Innospec's common stock.

## **Environmental Matters and Plant Closures**

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



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

We evaluate costs for remediation, decontamination and demolition projects on a regular basis. Full provision is made for those costs to which we are committed under environmental laws amounting to \$37.7 million at December 31, 2015. Remediation expenditure utilizing these provisions was \$2.6 million, \$2.0 million and \$1.9 million in the years 2015, 2014 and 2013, respectively.

**Table of Contents**

**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, 2015 the Company had cash, cash equivalents and short-term investments of \$141.7 million, no bank overdraft and long-term debt and finance leases of \$136.1 million (including current portion). Long-term debt comprises a revolving credit facility which provides for borrowings by us of up to \$200.0 million. The credit facility carries an interest rate based on U.S. dollar LIBOR plus a margin of between 1.20% and 2.45% 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, 2015, \$133.0 million was drawn under the revolving credit facility. As cash and cash equivalents more than offset long-term debt, the Company has not entered into interest rate swap agreements in relation to this exposure.

The Company has \$136.1 million long-term debt and finance leases (including the current portion) which is offset by the \$136.9 million cash and cash equivalents and \$4.8 million short-term investments. Therefore, the interest payable on long-term debt (excluding the margin) exceeds the interest receivable on positive cash balances and short-term

investments.

## **Table of Contents**

On a gross basis, assuming no additional interest on the cash balances and short-term investments, 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 \$1.3 million before tax. On a net basis, assuming additional interest on the cash balances and short-term investments, 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 \$0.1 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 and Performance Chemicals reporting segments is inherently naturally hedged and accordingly changes in exchange rates would not be material to our earnings or financial position. The cost base of our Octane Additives reporting segment and corporate costs, however, are largely denominated in British pound sterling. A 5%

**Table of Contents**

strengthening in the U.S. dollar against British pound sterling would increase reported operating income by approximately \$2.8 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 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.

**Table of Contents**

**Item 8 Financial Statements and Supplementary Data**

Report of Independent Registered Public Accounting Firm

**To the Board of Directors and Stockholders of Innospec Inc.:**

We have audited the accompanying consolidated balance sheets of Innospec Inc. (Innospec) and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, accumulated other comprehensive loss, cash flows and equity for each of the years in the three-year period ended December 31, 2015. We also have audited Innospec's internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Innospec'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 the accompanying

Management's Report on Internal Control Over Financial Reporting appearing in item 9A of the Form 10-K. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on Innospec's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) provide reasonable





**Table of Contents**

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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Innospec and subsidiaries as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Innospec maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

**/s/ KPMG Audit Plc**

Manchester, United Kingdom

February 17, 2016

**Table of Contents****CONSOLIDATED STATEMENTS OF INCOME****(in millions, except share and per share data)**

	Years ended December 31		
	2015	2014	2013
Net sales	\$ 1,012.3	\$ 960.9	\$ 818.8
Cost of goods sold	(666.3)	(658.9)	(563.6)
Gross profit	346.0	302.0	255.2
Operating expenses:			
Selling, general and administrative	(206.7)	(169.2)	(142.1)
Research and development	(25.3)	(22.2)	(21.2)
Adjustment to fair value of contingent consideration	40.7	1.9	0.0
Profit on disposal of subsidiary	1.6	0.0	0.0
Impairment of Octane Additives segment goodwill	0.0	0.0	(1.3)
Total operating expenses	(189.7)	(189.5)	(164.6)
Operating income	156.3	112.5	90.6
Other net income	0.0	1.8	4.1
Interest expense, net	(4.0)	(3.4)	(1.9)
Income before income taxes	152.3	110.9	92.8
Income taxes	(32.8)	(26.8)	(15.0)
Net income	\$ 119.5	\$ 84.1	\$ 77.8
Earnings per share:			
Basic	\$ 4.96	\$ 3.45	\$ 3.29
Diluted	\$ 4.86	\$ 3.38	\$ 3.22
Weighted average shares outstanding (in thousands):			
Basic	24,107	24,391	23,651
Diluted	24,612	24,878	24,156
Dividend declared per common share	\$ 0.61	\$ 0.55	\$ 0.50

The accompanying notes are an integral part of these statements.



**Table of Contents****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in millions)**

<b>Total comprehensive income for the years ended December 31</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net income	\$ 119.5	\$ 84.1	\$ 77.8
Changes in cumulative translation adjustment	(11.0)	(18.0)	1.2
Changes in unrealized losses on derivative instruments, net of tax of \$0.0 million, \$0.0 million and \$0.0 million, respectively	0.0	0.0	(0.1)
Amortization of prior service credit, net of tax of \$0.2 million, \$0.3 million and \$0.3 million, respectively	(1.0)	(1.0)	(1.0)
Amortization of actuarial net losses, net of tax of \$(1.0) million, \$(1.1) million and \$(1.4) million, respectively	4.2	4.3	4.8
Actuarial net gains/(losses) arising during the year, net of tax of \$(0.9) million, \$(13.9) million and \$1.8 million, respectively	3.2	54.7	(6.7)
<b>Total comprehensive income</b>	<b>\$ 114.9</b>	<b>\$ 124.1</b>	<b>\$ 76.0</b>

**CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS****(in millions)**

<b>Accumulated other comprehensive loss for the years ended December 31</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Cumulative translation adjustment	\$ (60.0)	\$ (49.0)	\$ (31.0)
Unrecognized actuarial net losses, net of tax of \$20.5 million, \$22.2 million and \$36.9 million, respectively	(50.9)	(57.3)	(115.3)
<b>Accumulated other comprehensive loss</b>	<b>\$ (110.9)</b>	<b>\$ (106.3)</b>	<b>\$ (146.3)</b>

The accompanying notes are an integral part of these statements.

**Table of Contents****CONSOLIDATED BALANCE SHEETS****(in millions, except share and per share data)**

	<b>At December 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 136.9	\$ 41.6
Short-term investments	4.8	4.7
Trade and other accounts receivable (less allowances of \$3.6 million and \$3.9 million, respectively)	137.4	164.3
Inventories (less allowances of \$8.8 million and \$10.2 million, respectively):		
Finished goods	104.4	127.0
Work in progress	2.7	1.2
Raw materials	52.8	56.7
Total inventories	159.9	184.9
Current portion of deferred tax assets	8.8	8.4
Prepaid expenses	6.1	8.3
Prepaid income taxes	3.0	2.0
Other current assets	1.8	0.0
Total current assets	458.7	414.2
Net property, plant and equipment	76.0	80.8
Goodwill	267.4	276.1
Other intangible assets	168.7	181.1
Deferred finance costs	1.4	1.1
Deferred tax assets, net of current portion	1.4	0.7
Pension asset	55.5	45.2
Other non-current assets	0.9	0.7
Total assets	\$ 1,030.0	\$ 999.9
<b>Liabilities and Equity</b>		
Current liabilities:		
Accounts payable	\$ 52.2	\$ 87.6
Accrued liabilities	84.1	77.2
Current portion of long-term debt	0.0	0.4
Current portion of finance leases	0.7	0.5
Current portion of plant closure provisions	6.4	5.7
Current portion of accrued income taxes	7.9	5.6
Current portion of acquisition-related contingent consideration	54.6	45.7
Current portion of deferred income	0.2	0.2
Total current liabilities	206.1	222.9
Long-term debt, net of current portion	133.0	139.0
Finance leases, net of current portion	2.4	1.7
Plant closure provisions, net of current portion	31.3	28.4
Unrecognized tax benefits, net of current portion	3.9	6.2
Deferred tax liabilities, net of current portion	37.7	23.0
Pension liabilities	9.2	10.4
Acquisition-related contingent consideration	0.0	49.5
Deferred income, net of current portion	0.6	0.9
Other non-current liabilities	0.5	2.0

Edgar Filing: INNOSPEC INC. - Form 10-K

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	311.0	308.8
Treasury stock (5,453,078 and 5,263,481 shares at cost, respectively)	(91.8)	(78.7)
Retained earnings	496.4	391.8
Accumulated other comprehensive loss	(110.9)	(106.3)
Total Innospec stockholders' equity	605.0	515.9
Non-controlling interest	0.3	0.0
Total equity	605.3	515.9
Total liabilities and equity	\$ 1,030.0	\$ 999.9

The accompanying notes are an integral part of these statements.

**Table of Contents****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in millions)**

	Years ended December 31		
	2015	2014	2013
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 119.5	\$ 84.1	\$ 77.8
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	35.2	29.1	20.4
Impairment of Octane Additives segment goodwill	0.0	0.0	1.3
Adjustment to fair value of contingent consideration	(40.7)	(1.9)	0.0
Deferred taxes	12.0	5.8	5.8
Excess tax benefit from stock-based payment arrangements	(0.5)	(0.4)	(3.8)
Cash contributions to defined benefit pension plans	(9.0)	(11.6)	(11.0)
Non-cash expense of defined benefit pension plans	0.5	3.8	3.0
Stock option compensation	3.7	2.6	2.5
Repayment of promissory note in civil complaint settlement	0.0	(5.0)	(5.0)
Changes in assets and liabilities, net of effects of acquired and divested companies:			
Trade and other accounts receivable	13.6	(0.9)	(1.4)
Inventories	5.5	(11.1)	(10.1)
Prepaid expenses	1.8	(1.3)	(0.5)
Accounts payable and accrued liabilities	(24.5)	0.5	(4.4)
Accrued income taxes	2.0	14.9	(14.7)
Plant closure provisions	4.1	1.9	1.9
Profit on disposal of subsidiary	(1.6)	0.0	0.0
Unrecognized tax benefits	(2.3)	(6.8)	0.2
Other non-current assets and liabilities	(1.6)	2.6	(0.7)
<b>Net cash provided by operating activities</b>	<b>117.7</b>	<b>106.3</b>	<b>61.3</b>
<b>Cash Flows from Investing Activities</b>			
Capital expenditures	(17.6)	(13.5)	(11.0)
Business combinations, net of cash acquired	0.0	(98.7)	(94.4)
Proceeds from disposal of subsidiary	41.5	0.0	0.0
Internally developed software	(8.6)	(8.4)	(9.4)
Purchase of short-term investments	(6.7)	(5.0)	(7.0)
Sale of short-term investments	6.4	6.6	5.7
<b>Net cash provided by/(used in) investing activities</b>	<b>15.0</b>	<b>(119.0)</b>	<b>(116.1)</b>
<b>Cash Flows from Financing Activities</b>			
Non-controlling interest	0.3	0.0	0.0
Proceeds from revolving credit facility	6.0	53.0	145.0
Repayments of revolving credit facility	(12.0)	(56.0)	(23.0)
Repayments of term loans	(0.4)	(1.7)	(0.2)
Refinancing costs	(1.5)	(0.1)	(0.9)
Excess tax benefit from stock-based payment arrangements	0.5	0.4	3.8
Dividend paid	(14.9)	(13.4)	(12.0)
Issue of treasury stock	1.0	0.4	3.8
Repurchase of common stock	(15.3)	(6.9)	(3.7)
<b>Net cash provided by/(used in) financing activities</b>	<b>(36.3)</b>	<b>(24.3)</b>	<b>112.8</b>
Effect of foreign currency exchange rate changes on cash	(1.1)	(1.6)	(0.2)

## Edgar Filing: INNOSPEC INC. - Form 10-K

Net change in cash and cash equivalents	95.3	(38.6)	57.8
Cash and cash equivalents at beginning of year	41.6	80.2	22.4
Cash and cash equivalents at end of year	\$ 136.9	\$ 41.6	\$ 80.2

Amortization of deferred finance costs of \$1.2 million (2014 \$0.7 million, 2013 \$0.4 million) for the year are included in depreciation and amortization in the cash flow statement but in interest expense in the income statement. Cash payments/receipts in respect of income taxes and interest are disclosed in Note 10 and Note 11, respectively, of the Notes to the Consolidated Financial Statements.

The accompanying notes are an integral part of these statements.



**Table of Contents****CONSOLIDATED STATEMENTS OF EQUITY****(in millions)**

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Non- controlling Interest	Total Equity
Balance at December 31, 2012	\$ 0.3	\$ 292.1	\$ (85.0)	\$ 254.1	\$ (144.5)	\$ 0.0	\$ 317.0
Net income				77.8			77.8
Dividend paid (\$0.50 per share)				(12.0)			(12.0)
Changes in cumulative translation adjustment					1.2		1.2
Non-controlling interest						0.0	0.0
Changes in unrealized gains/(losses) on derivative instruments, net of tax					(0.1)		(0.1)
Treasury stock re-issued		(4.2)	8.8				4.6
Treasury stock repurchased			(3.7)				(3.7)
Excess tax benefit from stock-based payment arrangements		3.8					3.8
Stock option compensation		2.5					2.5
Fair value of Bachman acquisition-related consideration		10.5	4.5				15.0
Fair value of Chemsil acquisition-related consideration		4.1	2.1				6.2
Amortization of prior service credit, net of tax					(1.0)		(1.0)
Amortization of actuarial net losses, net of tax					4.8		4.8
Actuarial net losses arising during the year, net of tax					(6.7)		(6.7)
Balance at December 31, 2013	\$ 0.3	\$ 308.8	\$ (73.3)	\$ 319.9	\$ (146.3)	\$ 0.0	\$ 409.4
Net income				84.1			84.1
Dividend paid (\$0.55 per share)				(13.4)			(13.4)
Changes in cumulative translation adjustment					(18.0)		(18.0)
Non-controlling interest						0.0	0.0
Treasury stock re-issued		(1.0)	1.5				0.5
Treasury stock repurchased			(6.9)				(6.9)
Excess tax benefit from stock-based payment arrangements		0.4					0.4
Stock option compensation		2.6					2.6
Fair value of contingent consideration		(2.0)		1.2			(0.8)
Amortization of prior service credit, net of tax					(1.0)		(1.0)
Amortization of actuarial net losses, net of tax					4.3		4.3
Actuarial net gains arising during the year, net of tax					54.7		54.7
Balance at December 31, 2014	\$ 0.3	\$ 308.8	\$ (78.7)	\$ 391.8	\$ (106.3)	\$ 0.0	\$ 515.9
Net income				119.5			119.5
Dividend paid (\$0.61 per share)				(14.9)			(14.9)
Changes in cumulative translation adjustment					(11.0)		(11.0)
Non-controlling interest						0.3	0.3
Business disposal		(0.4)					(0.4)
Treasury stock re-issued		(1.6)	2.2				0.6
Treasury stock repurchased			(15.3)				(15.3)
Excess tax benefit from stock-based payment arrangements		0.5					0.5
Stock option compensation		3.7					3.7
Amortization of prior service credit, net of tax					(1.0)		(1.0)
Amortization of actuarial net losses, net of tax					4.2		4.2
Actuarial net gains arising during the year, net of tax					3.2		3.2
Balance at December 31, 2015	\$ 0.3	\$ 311.0	\$ (91.8)	\$ 496.4	\$ (110.9)	\$ 0.3	\$ 605.3

The accompanying notes are an integral part of these statements.

**Table of Contents**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Nature of Operations**

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

See Note 3 of the Notes to the Consolidated Financial Statements for financial information on the Company's reportable segments.

**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 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. All acquisitions and disposals are accounted for in accordance with GAAP. 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.

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

*Short-term investments:* Investment securities with maturities of more than 3 months and less than 12 months when purchased are considered to be short-term investments.

*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.

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

Buildings	7 to 25 years
Equipment	3 to 10 years

*Goodwill and other intangible assets:* Goodwill and other intangible assets deemed to have indefinite lives are not amortized but are subject to at least annual impairment assessments. Initially we perform 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 prior to performing the two-step goodwill impairment test. If a two-step 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. The annual measurement date for impairment assessment of the goodwill relating to the Fuel Specialties and Performance Chemicals segments is December 31 each year. The Company capitalizes software development costs, including licenses, subsequent to the establishment of technological feasibility. Other intangible assets deemed to have finite lives, including software development costs and licenses, are amortized using the straight-line method over their estimated useful lives and tested for any potential impairment when events occur or circumstances change which suggest that an impairment may have occurred.

*Deferred finance costs:* The costs relating to debt financing are capitalized, separately disclosed in the consolidated balance sheets and amortized using the effective interest method over the expected life of the debt financing facility.

*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 assets are compared with the



**Table of Contents**

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

carrying value of the assets 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 assets. 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 non-current assets or liabilities in the consolidated balance sheet and measures those instruments at fair value. Changes in the fair value of derivatives that are not designated as hedges, or do not meet the requirements for hedge accounting, are recognized in earnings. Derivatives which are designated as hedges are tested for effectiveness on a quarterly basis, and marked to market. The ineffective portion of the derivative's change in value is recognized in earnings. The effective portion is recognized in other comprehensive income until the hedged item is recognized in earnings.

*Environmental compliance and remediation:* Environmental compliance costs include ongoing maintenance, monitoring and similar costs. We recognize environmental liabilities when they are probable and the costs can be reasonably estimated, and asset retirement obligations when there is a legal obligation and the costs can be reasonably estimated. Such accruals are adjusted as further information develops or circumstances change. Costs of future obligations are discounted to their present values using the Company's credit-adjusted risk-free rate.

*Acquisition-related contingent consideration:* Contingent consideration payable in cash is discounted to its fair value at each balance sheet date. Where contingent consideration is dependent upon pre-determined financial targets, an estimate of the fair value of the likely consideration payable is made at each balance sheet date. Adjustments to the fair value of contingent consideration are recognized in operating income in the reporting period and within the associated liability at the balance sheet date to reflect the passage of time accretion expense and any revisions to the amount or timing of the initial measurement.

*Revenue recognition:* The Company supplies products to customers from its various manufacturing sites and in some instances from containers held on customer sites, under a variety of standard shipping terms and conditions. In each case revenue is recognized when legal title, which is defined and generally accepted in the standard terms and conditions, and the risk of loss transfers between the Company and the customer. Provisions for sales discounts and rebates to customers are based upon the terms of sales contracts and are recorded in the same period as the related sales as a deduction from revenue. The Company estimates the provision for sales discounts and rebates based on the terms of each agreement at the time of shipping.





**Table of Contents**

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

*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 made and reported in the administrative expense line item.

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

*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 net income/(expense). 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 net income/(expense) 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

---

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

*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.

*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. When appropriate, the Company evaluates the need for a valuation allowance to reduce deferred tax assets. 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 an uncertain tax position only if it is more likely than not 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 uncertain tax positions as part of income taxes in our consolidated statements of income.

**Note 3. Segment Reporting and Geographical Area Data**

Innospec divides its business into three segments for management and reporting purposes: Fuel Specialties, Performance Chemicals and Octane Additives. The Fuel Specialties and Performance Chemicals segments operate in markets where we actively seek growth opportunities although their ultimate customers are different. The Octane Additives segment is generally characterized by unpredictable and declining demand.

In 2015, the Company had as a significant customer in the Fuel Specialties segment, Royal Dutch Shell plc and its affiliates (Shell), which accounted for \$65.8 million (6.5%) of our net group sales. In 2014 and 2013, Shell accounted for \$81.9 million (8.5%) and \$83.1 million (10.1%) of our net group sales, respectively.



**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

(in millions)	2015	2014	2013
<b>Net sales:</b>			
Fuel Specialties	\$ 758.3	\$ 682.2	\$ 567.4
Performance Chemicals	194.5	223.5	192.4
Octane Additives	59.5	55.2	59.0
	\$ 1,012.3	\$ 960.9	\$ 818.8
<b>Gross profit:</b>			
Fuel Specialties	\$ 265.1	\$ 219.0	\$ 181.1
Performance Chemicals	52.4	54.4	46.3
Octane Additives	28.5	28.6	27.8
	\$ 346.0	\$ 302.0	\$ 255.2
<b>Operating income:</b>			
Fuel Specialties	\$ 103.9	\$ 104.4	\$ 92.7
Performance Chemicals	23.5	25.6	23.6
Octane Additives	24.7	22.6	21.5
Pension credit/(charge)	0.2	(3.3)	(2.3)
Corporate costs	(38.3)	(38.7)	(43.6)
Adjustment to fair value of contingent consideration	40.7	1.9	0.0
Profit on disposal of subsidiary	1.6	0.0	0.0
Impairment of Octane Additives segment goodwill	0.0	0.0	(1.3)
Total operating income	\$ 156.3	\$ 112.5	\$ 90.6
<b>Identifiable assets at year end:</b>			
Fuel Specialties	\$ 633.0	\$ 676.9	\$ 446.4
Performance Chemicals	137.0	181.0	176.8
Octane Additives	28.7	29.2	42.0
Corporate	231.3	112.8	129.5
	\$ 1,030.0	\$ 999.9	\$ 794.7

The pension credit/(charge) relates to the United Kingdom defined benefit pension plan which is closed to future service accrual. The charges related to our other much smaller pension arrangements in the U.S. and overseas are

included in the segment and income statement captions consistent with the related employees costs.

**Table of Contents**

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

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

managing the Group as a company with securities listed on the NASDAQ and registered with the SEC;

the President/CEO's office, group finance, group human resources, group legal and compliance counsel, and investor relations;

running the corporate offices in the U.S. and Europe;

the corporate development function since they do not relate to the current trading activities of our other reporting segments; and

the corporate share of the information technology, accounting and human resources departments.

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.

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

(in millions)	2015	2014	2013
<b>Net sales by source:</b>			
United States	\$ 571.9	\$ 468.6	\$ 276.1
United Kingdom	445.2	486.1	502.4
Rest of Europe	133.3	146.9	129.1
Rest of World	22.1	21.4	0.2
Sales between areas	(160.2)	(162.1)	(89.0)
	\$ 1,012.3	\$ 960.9	\$ 818.8
<b>Income before income taxes:</b>			
United States	\$ 52.7	\$ 15.2	\$ 10.0
United Kingdom	60.6	57.8	43.7
Rest of Europe	42.0	39.3	40.4
Rest of World	(3.0)	(1.4)	0.0
Impairment of Octane Additives segment goodwill	0.0	0.0	(1.3)
	\$ 152.3	\$ 110.9	\$ 92.8
<b>Long-lived assets at year end:</b>			
United States	\$ 185.8	\$ 197.9	\$ 148.2
United Kingdom	49.3	54.1	29.4
Rest of Europe	10.6	10.4	11.5
Rest of World	0.4	0.6	0.0
	\$ 246.1	\$ 263.0	\$ 189.1
<b>Identifiable assets at year end:</b>			
United States	\$ 412.3	\$ 449.3	\$ 291.7
United Kingdom	303.4	216.4	261.5
Rest of Europe	30.9	39.0	53.2
Rest of World	16.0	19.1	0.4
Goodwill	267.4	276.1	187.9
	\$ 1,030.0	\$ 999.9	\$ 794.7



**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 4. Profit on Disposal of Subsidiary**

On July 6, 2015 the Company divested its 100% equity interest in its Aroma Chemicals business, Innospec Widnes Limited, for cash consideration of \$41.5 million after transaction costs.

(in millions)

Total consideration	\$ 41.5
Net assets disposed	(33.9)
Other effects <sup>(1)</sup>	(6.0)
Net gain	\$ 1.6

(1) Other effects include foreign exchange losses transferred to the income statement

During the twelve month period ended December 31, 2015 the Aroma Chemicals business generated pre-tax profits amounting to \$2.6 million (2014 \$7.3 million). Under the guidance in ASU 2014-08, it was determined that the Aroma Chemicals business does not qualify as discontinued operations as of December 31, 2015. The disposal of the Aroma Chemicals business does not represent a strategic shift that has or will have a major impact on our operations or financial results.

The following table presents the aggregate carrying amount of the major classes of assets and liabilities related to the Aroma Chemicals business disposed on July 6, 2015:

(in millions)

**Assets**

Trade and other accounts receivable	\$ 9.5
Inventories	15.2
Other current assets	0.3
Property, plant and equipment	9.0
Goodwill	7.6
Total assets	\$41.6

**Liabilities**

Accounts payable and accrued liabilities	\$ 5.5
--	--------

Accrued income taxes	1.6
Plant closure provision	0.3
Other liabilities	0.3
<b>Total liabilities</b>	<b>\$ 7.7</b>

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 5. 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:

	2015	2014	2013
<b>Numerator (in millions):</b>			
Net income available to common stockholders	\$ 119.5	\$ 84.1	\$ 77.8
<b>Denominator (in thousands):</b>			
Weighted average common shares outstanding	24,107	24,391	23,651
Dilutive effect of stock options and awards	505	487	505
Denominator for diluted earnings per share	24,612	24,878	24,156
<b>Net income per share, basic:</b>	<b>\$ 4.96</b>	<b>\$ 3.45</b>	<b>\$ 3.29</b>
<b>Net income per share, diluted:</b>	<b>\$ 4.86</b>	<b>\$ 3.38</b>	<b>\$ 3.22</b>

In 2015, 2014 and 2013 the average number of anti-dilutive options excluded from the calculation of diluted earnings per share were 0, 36,775 and 0 respectively.

**Note 6. Property, Plant and Equipment**

Property, plant and equipment consists of the following:

(in millions)	2015	2014
Land	\$ 6.2	\$ 8.8
Buildings	21.6	20.7
Equipment	128.0	151.8
Work in progress	5.2	5.7
	161.0	187.0

Less accumulated depreciation	(85.0)	(106.2)
	\$ 76.0	\$ 80.8

Of the total net book value of equipment at December 31, 2015 \$3.0 million (2014 \$2.2 million) are in respect of assets held under finance leases.

Depreciation charges were \$13.0 million, \$10.6 million and \$8.9 million in 2015, 2014 and 2013, respectively.

The estimated additional cost to complete work in progress is \$2.4 million (2014 \$1.4 million).

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 7. Goodwill**

The following table analyzes goodwill for 2015 and 2014.

(in millions)	Fuel Specialties	Performance Chemicals	Octane Additives	Total
At January 1, 2014				
Gross cost <sup>(1)</sup>	\$ 141.1	\$ 46.8	\$ 236.5	\$ 424.4
Accumulated impairment losses	0.0	0.0	(236.5)	(236.5)
Net book amount	141.1	46.8	0.0	187.9
Exchange effect	(0.3)	(0.1)	0.0	(0.4)
Acquisitions	88.1	0.0	0.0	88.1
Adjustments to purchase price allocation	0.5	0.0	0.0	0.5
At December 31, 2014				
Gross cost <sup>(1)</sup>	229.4	46.7	236.5	512.6
Accumulated impairment losses	0.0	0.0	(236.5)	(236.5)
Net book amount	229.4	46.7	0.0	276.1
Exchange effect	(0.2)	0.0	0.0	(0.2)
Disposals	0.0	(7.6)	0.0	(7.6)
Adjustments to purchase price allocation	(0.9)	0.0	0.0	(0.9)
At December 31, 2015				
Gross cost <sup>(1)</sup>	228.3	39.1	236.5	503.9
Accumulated impairment losses	0.0	0.0	(236.5)	(236.5)
Net book amount	\$ 228.3	\$ 39.1	\$ 0.0	\$ 267.4

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

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

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company performs its annual impairment assessment in respect of our Fuel Specialties and Performance Chemicals goodwill as at December 31, 2015. At this date we had \$228.3 million and \$39.1 million of goodwill relating to our Fuel Specialties and Performance Chemicals segments, respectively. Our impairment assessment concluded that there had been no impairment of goodwill in respect of those reporting segments. For the years ended December 31, 2014 and 2013 the Company performed annual impairment tests and concluded that there had been no impairment of goodwill in respect of those reporting segments at those balance sheet dates.

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 8. Other Intangible Assets**

Other intangible assets comprise the following:

(in millions)	2015	2014
<b>Gross cost:</b>		
Product rights	\$ 34.0	\$ 34.0
Brand names	8.9	8.9
Technology	55.1	59.9
Customer relationships	85.1	87.9
Patents	2.9	2.9
Non-compete agreements	4.1	4.1
Marketing related	22.1	22.1
Internally developed software	36.4	27.8
	248.6	247.6
<b>Accumulated amortization:</b>		
Product rights	(8.8)	(5.0)
Brand names	(2.0)	(0.8)
Technology	(8.9)	(10.3)
Customer relationships	(25.7)	(21.8)
Patents	(2.9)	(2.9)
Non-compete agreements	(2.5)	(1.6)
Marketing related	(20.3)	(19.3)
Internally developed software	(8.8)	(4.8)

(79.9) (66.5)

\$ 168.7 \$ 181.1



Table of Contents

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

Product rights

Following the acquisition of Chemsil on August 30, 2013, the Company recognized an intangible asset of \$34.0 million in respect of Chemsil's product rights portfolio. This asset has an expected life of 9 years and is being amortized on a straight-line basis over this period. No residual value is anticipated.

An amortization expense of \$3.8 million was recognized in 2015 (2014 \$3.7 million) in cost of goods sold.

Brand names

Following the acquisition of Independence on October 27, 2014, the Company recognized an intangible asset of \$6.0 million in respect of Independence's brand name. This asset has an expected life of 10 years and is being amortized on a straight-line basis over this period. No residual value is anticipated.

Following the acquisition of Bachman on November 4, 2013, the Company recognized an intangible asset of \$2.9 million in respect of Bachman's brand names. This asset has an expected life of 5 years and is being amortized on a straight-line basis over this period. No residual value is anticipated.

An amortization expense of \$1.2 million was recognized in 2015 (2014 \$0.7 million) in selling, general and administrative expenses.

Technology

Following the acquisition of Independence on October 27, 2014, the Company recognized an intangible asset of \$26.0 million in respect of Independence's product formulations. This asset has an expected life of 15 years and is being amortized on a straight-line basis over this period. No residual value is anticipated.

Following the acquisition of Bachman on November 4, 2013, the Company recognized an intangible asset of \$8.5 million in respect of Bachman's core chemistry know-how of oilfield chemicals. This asset has an expected life of 15 years and is being amortized on a straight-line basis over this period. No residual value is anticipated.

Following the acquisition of Strata on December 24, 2012, the Company recognized an intangible asset of \$18.3 million in respect of technological know-how of the mixing and manufacturing process, patents which protect the technology and the associated product branding. This asset has an expected life of 16.5 years and is being amortized on a straight-line basis over this period. No residual value is anticipated.

An amortization expense of \$3.4 million was recognized in 2015 (2014 \$2.4 million) in cost of goods sold.

Table of Contents

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

Customer relationships

Following the acquisition of Independence on October 27, 2014, the Company recognized an intangible asset of \$29.2 million in respect of Independence's long-term customer relationships. This asset has a weighted average expected life of 10 years and is being amortized on a straight-line basis over this period. No residual value is anticipated.

Following the acquisition of Bachman on November 4, 2013, the Company recognized an intangible asset of \$14.5 million in respect of Bachman's long-term customer relationships. This asset has a weighted average expected life of 14.5 years and is being amortized on a straight-line basis over this period. No residual value is anticipated.

Following the acquisition of Strata on December 24, 2012, the Company recognized an intangible asset of \$28.2 million in respect of long-term customer relationships. This asset has an expected life of 11.5 years and is being amortized on a straight-line basis over this period. No residual value is anticipated.

Following the acquisition of Finetex (now merged into Innospec Active Chemicals LLC) in January 2005, the Company recognized an intangible asset of \$4.2 million in relation to customer lists acquired. This asset has an expected life of 13 years and is being amortized on a straight-line basis over this period. No residual value is anticipated.

An amortization expense of \$6.7 million was recognized in 2015 (2014 \$5.0 million) in selling, general and administrative expenses.

Non-compete agreements

Following the acquisition of Independence on October 27, 2014, the Company recognized an intangible asset of \$2.6 million in respect of a non-compete agreement. This asset has an expected life of 3 years and is being amortized on a straight-line basis over this period. No residual value is anticipated.

Following the acquisition of Strata on December 24, 2012, the Company recognized an intangible asset of \$1.5 million in respect of a non-compete agreement. This asset had an expected life of 2 years and is now fully amortized.

An amortization expense of \$0.9 million was recognized in 2015 (2014 \$0.9 million) in selling, general and administrative expenses.

Marketing related

An intangible asset of \$28.4 million was recognized in the second quarter of 2007 in respect of Ethyl Corporation foregoing their entitlement effective April 1, 2007 to a share of the future income stream under the sales and marketing agreements to market and sell TEL. In 2008,

Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

contract provisions no longer deemed necessary of \$6.3 million were offset against the intangible asset. The amount attributed to the Octane Additives reporting segment was amortized straight-line to December 31, 2013 and the amount attributed to the Fuel Specialties reporting segment is being amortized straight-line to December 31, 2017. An amortization expense of \$1.0 million was recognized in 2015 (2014 \$1.0 million) in cost of goods sold.

Internally developed software

In 2015 we continued with the process of developing our new, company-wide, information system platform. In the fourth quarter of 2015 we have implemented the new platform at the majority of reporting units outside of the U.S. which combined with the initial deployment in 2013 means the majority of our businesses are now operating with the new platform. At December 31, 2015 we had capitalized \$36.4 million (2014 \$27.8 million) in relation to this internally developed software. This asset has an expected life of 5 years from the point in time each deployment is completed and is being amortized on a straight-line basis over these periods. No residual value is anticipated.

An amortization expense of \$4.0 million was recognized in 2015 (2014 \$3.8 million) in selling, general and administrative expenses.

Amortization expense

The aggregate of other intangible asset amortization expense was \$21.0 million, \$17.8 million and \$11.1 million in 2015, 2014 and 2013, respectively, of which \$8.2 million, \$7.4 million and \$3.8 million, respectively, was recognized in cost of goods sold, and the remainder was recognized in selling, general and administrative expenses.

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

<b>(in millions)</b>	
2016	\$ 24.3
2017	\$ 24.1
2018	\$ 21.1
2019	\$ 17.7
2020	\$ 17.4

**Note 9. Pension Plans**

United Kingdom plan

The Company maintains a defined benefit pension plan (the Plan ) covering a number of its current and former employees in the United Kingdom, although it does also have other much smaller pension arrangements in the U.S. and overseas. The Plan is closed to future service

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

In 2015, the Company contributed \$9.0 million in cash to the Plan in accordance with an actuarial deficit recovery plan agreed with the trustees.

(in millions)	2015	2014	2013
<i>Plan net pension charge/(credit):</i>			
Service cost	\$ 1.5	\$ 1.7	\$ 1.6
Interest cost on PBO	27.7	34.7	31.3
Expected return on plan assets	(33.4)	(37.2)	(35.5)
Amortization of prior service credit	(1.2)	(1.3)	(1.3)
Amortization of actuarial net losses	5.2	5.4	6.2
	\$ (0.2)	\$ 3.3	\$ 2.3

*Plan assumptions at December 31, (%):*

Discount rate	3.69	3.55	4.40
Inflation rate	2.15	2.15	2.55
Rate of return on plan assets overall on bid-value	4.20	4.05	4.85
Rate of return on plan assets equity securities	6.65	6.50	7.50
Rate of return on plan assets debt securities	2.85	2.75	3.40

*Plan asset allocation by category (%):*

Equity securities	34	32	35
Debt securities	62	63	61
Cash	4	5	4
	100	100	100

The discount rate used represents the annualized yield based on a cash flow matched methodology with reference to an AA corporate bond spot curve and having regard to the duration of the Plan's liabilities. The inflation rate is derived using a similar cash flow matched methodology as used for the discount rate but having regard to the difference



**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

between yields on fixed interest and index linked United Kingdom government gilts. A 0.25% change in the discount rate assumption would change the PBO by approximately \$24 million and the net pension credit for 2016 would be unchanged. A 0.25% change in the level of price inflation assumption would change the PBO by approximately \$17 million and the net pension credit for 2016 by approximately \$0.1 million.

The current investment strategy of the Plan is to obtain an asset allocation of 65% debt securities and 35% equity securities in order to achieve a more predictable return on assets. As at December 31, 2015, approximately 35% (December 31, 2014 50%) of the Plan's assets were held in index-tracking funds with one investment management company. Approximately 16% (December 31, 2014 40%) of the Plan's assets were invested in United Kingdom government gilts. No more than 5% of the Plan's assets were invested in any one individual company's investment funds.

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

(in millions)	2015	2014
<b>Change in PBO:</b>		
Opening balance	\$ 817.1	\$ 819.8
Interest cost	27.7	34.7
Service cost	1.5	1.7
Benefits paid	(42.9)	(47.6)
Actuarial losses/(gains)	(21.8)	59.3
Exchange effect	(41.9)	(50.8)
 Closing balance	 \$ 739.7	 \$ 817.1
<b>Fair value of plan assets:</b>		
Opening balance	\$ 862.3	\$ 790.3
Actual benefits paid	(42.9)	(47.6)
Actual contributions by employer	9.0	11.4
Actual return on assets	11.5	161.7
Exchange effect	(44.7)	(53.5)
 Closing balance	 \$ 795.2	 \$ 862.3

The accumulated benefit obligation for the Plan was \$739.7 million and \$817.1 million at December 31, 2015 and 2014, respectively.

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.

**Table of Contents**

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

**Equity 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 and are classified in Level 1.

**Fixed income 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.

**Insurance contracts**

During the year the Company has invested in insurance contracts, known as buy-in contracts. The value of the insurance contract used significant unobservable inputs including plan participant medical data, in addition to observable inputs which includes 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.

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

(in millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
At December 31, 2015				
Fixed income securities:				
Debt securities issued by U.S. government and government agencies	\$ 0.4	\$	\$	\$ 0.4
Debt securities issued by non-U.S. governments and government agencies	132.1			132.1
Corporate debt securities	189.7			189.7
Other asset-backed securities	0.2			0.2
Equity securities:				
Equity securities held for proprietary investment purposes	125.0			125.0
Real estate	64.7			64.7
Insurance contracts			171.9	171.9
Investments measured at net asset value <sup>(1)</sup>				47.6
Other assets		31.6		31.6
Total assets at fair value	512.1	31.6	171.9	763.2
Cash	32.0			32.0
Total plan assets	\$ 544.1	\$ 31.6	\$ 171.9	\$ 795.2
At December 31, 2014				
Fixed income securities:				
Debt securities issued by U.S. government and government agencies	\$ 1.1	\$	\$	\$ 1.1
Debt securities issued by non-U.S. governments and government agencies	324.3			324.3
Corporate debt securities	211.4			211.4
Residential mortgage-backed securities	0.2			0.2
Other asset-backed securities	3.1			3.1
Equity securities:				
Equity securities held for proprietary investment purposes	134.1			134.1
Real estate	65.6			65.6
Investments measured at net asset value <sup>(1)</sup>				44.1
Other assets		32.7	0.0	32.7
Total assets at fair value	739.8	32.7	0.0	816.6
Cash	45.7			45.7
Total plan assets	\$ 785.5	\$ 32.7	\$ 0.0	\$ 862.3

## Edgar Filing: INNOSPEC INC. - Form 10-K

- (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 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.

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The reconciliation of the fair value of the Plan assets measured at net asset value was as follows:

(in millions)	Other Assets
Balance at December 31, 2013	\$ 38.3
Realized/unrealized gains/(losses):	
Relating to assets still held at the reporting date	7.3
Relating to assets sold during the period	0.0
Purchases, issuances and settlements	0.7
Exchange effect	(2.2)
Balance at December 31, 2014	44.1
Realized/unrealized gains/(losses):	
Relating to assets still held at the reporting date	4.7
Relating to assets sold during the period	0.0
Purchases, issuances and settlements	6.5
Exchange effect	(7.7)
Balance at December 31, 2015	\$ 47.6

The projected net pension credit for the year ending December 31, 2016 is as follows:

(in millions)	
Service cost	\$ 1.0
Interest cost on PBO	22.4
Expected return on plan assets	(32.3)
Amortization of prior service credit	(1.2)
Amortization of actuarial net losses	2.8
	\$ (7.3)

The following benefit payments are expected to be made:

(in millions)	
2016	\$ 45.2
2017	\$ 43.1

2018	\$ 43.7
2019	\$ 44.3
2020	\$ 44.9
2021-2025	\$ 233.1

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****German plan**

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

(in millions)	2015	2014	2013
<i>Plan net pension charge:</i>			
Service cost	\$ 0.2	\$ 0.2	\$ 0.2
Interest cost on PBO	0.2	0.3	0.3
Amortization of prior service cost/(credit)	0.0	0.0	(0.1)
Amortization of actuarial net loss	0.3	0.1	0.2
	\$ 0.7	\$ 0.6	\$ 0.6
<i>Plan assumptions at December 31, (%):</i>			
Discount rate	2.40	2.10	3.50
Inflation rate	1.75	1.75	2.00
Rate of increase in compensation levels	2.75	2.75	2.75

Movements in PBO of the German plan are as follows:

(in millions)	2015	2014
<i>Change in PBO:</i>		
Opening balance	\$ 10.4	\$ 9.6
Service cost	0.2	0.2
Interest cost	0.2	0.3
Benefits paid	(0.2)	(0.2)
Actuarial losses/(gains)	(0.3)	1.8
Exchange effect	(1.1)	(1.3)
Closing balance	\$ 9.2	\$ 10.4

The amount of unrecognized actuarial net losses in other comprehensive loss in respect of the German plan is \$1.9 million, net of tax of \$0.6 million.



Other plans

Company contributions to defined contribution schemes during 2015 were \$8.5 million (2014 \$8.2 million).

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 10. Income Taxes**

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

(in millions)	Interest and Penalties	Unrecognized Tax Benefits	Total
Opening balance at January 1, 2013	\$ 0.6	\$ 12.2	\$ 12.8
Additions for tax positions of prior periods	0.6	0.2	0.8
Reductions due to lapsed statutes of limitations	(0.1)	(0.5)	(0.6)
Closing balance at December 31, 2013	1.1	11.9	13.0
Current	(0.6)	(6.2)	(6.8)
Non-current	\$ 0.5	\$ 5.7	\$ 6.2
Opening balance at January 1, 2014	\$ 1.1	\$ 11.9	\$ 13.0
Reductions for tax positions of prior periods	(0.4)	(3.6)	(4.0)
Additions for tax positions of prior periods	0.0	0.1	0.1
Additions for current year tax positions	0.0	0.2	0.2
Reductions due to lapsed statutes of limitations	(0.2)	(2.9)	(3.1)
Closing balance at December 31, 2014	0.5	5.7	6.2
Current	0.0	0.0	0.0
Non-current	\$ 0.5	\$ 5.7	\$ 6.2
Opening balance at January 1, 2015	\$ 0.5	\$ 5.7	\$ 6.2
Reductions for tax positions of prior periods	0.0	0.0	0.0
Additions for tax positions of prior periods	0.1	0.3	0.4
Additions for current year tax positions	0.0	1.2	1.2
Reductions due to lapsed statutes of limitations	(0.3)	(3.6)	(3.9)
Closing balance at December 31, 2015	0.3	3.6	3.9
Current	0.0	0.0	0.0
Non-current	\$ 0.3	\$ 3.6	\$ 3.9

All of the \$3.9 million of unrecognized tax benefits, and interest and penalties, would impact our effective tax rate if recognized.

We recognize accrued interest and penalties associated with uncertain tax positions as part of income taxes in our consolidated statements of income.

During 2015, the Company recorded a net reduction of \$2.3 million in unrecognized tax benefits and associated interest and penalties.

The Company or one of its subsidiaries files income tax returns with the U.S. federal government, and various state and foreign jurisdictions. As previously disclosed, one of the

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Company's U.S. subsidiaries received notification in March 2015 of a federal income tax examination by the IRS in respect of 2013. The examination was effectively settled in the fourth quarter of 2015 with no additional tax cost to the Company.

The Company's German subsidiaries received a tax audit notification in October 2015 in respect of 2010 – 2014 inclusive. The Company currently anticipates that adjustments, if any, arising out of this tax audit would not result in a material change to the Company's financial position as at December 31, 2015.

The Company and its U.S. subsidiaries remain open to examination by the IRS for years 2012 onwards. The Company's subsidiaries in foreign tax jurisdictions are open to examination including France (2013 onwards), Germany (2010 onwards), Switzerland (2014 onwards) and the United Kingdom (2014 onwards).

The sources of income before income taxes were as follows:

(in millions)	2015	2014	2013
Domestic	\$ 52.7	\$ 15.2	\$ 10.0
Foreign	99.6	95.7	82.8
	\$ 152.3	\$ 110.9	\$ 92.8

The components of income tax charges are summarized as follows:

(in millions)	2015	2014	2013
<b>Current:</b>			
Federal	\$ 5.2	\$ 4.5	\$ 0.8
State and local	1.3	2.1	0.8
Foreign	14.3	14.9	6.8
	20.8	21.5	8.4
<b>Deferred:</b>			
Federal	12.8	3.3	1.7
State and local	0.5	0.3	0.1
Foreign	(1.3)	1.7	4.8

	12.0	5.3	6.6
	\$ 32.8	\$ 26.8	\$ 15.0

Cash payments for income taxes were \$22.5 million, \$11.6 million and \$21.1 million during 2015, 2014 and 2013, respectively.

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	2015	2014	2013
Statutory rate	35.0%	35.0%	35.0%
Foreign income inclusions	1.8	5.5	4.2
Foreign tax rate differential	(9.6)	(14.6)	(14.6)
Tax charge/(credit) from previous years	(0.5)	4.7	(2.9)
Net charge/(credit) from unrecognized tax benefits	(1.5)	(6.2)	0.2
Foreign currency translation	(1.9)	1.0	(2.7)
Other items and adjustments, net	(1.1)	(1.2)	(3.9)
United Kingdom income tax rate reduction	(0.7)	0.0	0.9
	21.5%	24.2%	16.2%

The most significant factor is the mix of taxable profits generated in the different geographical localities in which the Group operates, which continues to have a significant positive impact on the effective rate.

Foreign income inclusions arise each year from certain types of income earned overseas being taxable under the U.S. tax regulations. These types of income include Subpart F income, principally from foreign based company sales in the United Kingdom, including the associated Section 78 tax gross up, and also from the income earned by certain overseas subsidiaries taxable under the U.S. tax regime. Foreign income inclusions have a negative impact on the effective tax rate.

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 in certain years prevent any offset of foreign tax credits. The effective rate is positively impacted by the utilization of foreign tax credits against foreign income inclusions in 2015.

As a consequence of the Group having operations outside of the U.S., it is exposed to foreign currency fluctuations. These have had a positive impact on the effective rate in 2015.

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



**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

(in millions)	2015	2014
<b>Deferred tax assets:</b>		
Foreign tax credits	\$ 0.0	\$ 0.8
Accrued expenses	0.3	0.3
Stock options	5.2	5.0
Excess of tax over book basis in property, plant and equipment	0.1	0.4
Net operating loss carry forwards	2.7	0.6
Pension assets	0.6	0.7
Intangible assets	3.3	5.3
Accretion expense	4.8	0.9
Other	5.0	4.5
<b>Subtotal</b>	<b>22.0</b>	<b>18.5</b>
Less valuation allowance	0.0	0.0
<b>Total net deferred tax assets</b>	<b>\$ 22.0</b>	<b>\$ 18.5</b>
<b>Deferred tax liabilities:</b>		
Excess of book over tax basis in property, plant and equipment	\$ (4.1)	\$ (2.7)
Goodwill amortization	(11.3)	(13.0)
Intangible amortization	(23.4)	(7.2)
Pension liabilities	(10.0)	(9.0)
Other	(0.7)	(0.5)
<b>Total deferred tax liabilities</b>	<b>\$ (49.5)</b>	<b>\$ (32.4)</b>
<b>Net deferred tax liability</b>	<b>\$ (27.5)</b>	<b>\$ (13.9)</b>
Current portion of deferred tax assets	\$ 8.8	\$ 8.4
Deferred tax assets, net of current portion	1.4	0.7
Current portion of deferred tax liabilities	0.0	0.0
Deferred tax liabilities, net of current portion	(37.7)	(23.0)
	\$ (27.5)	\$ (13.9)

The Company evaluates deferred tax assets to determine whether it is more likely than not that they will be realized. Valuation allowances are reviewed each period on a tax jurisdiction by tax jurisdiction basis to analyze whether there is sufficient positive or negative evidence to support a change in judgment about the realizability of the related



deferred tax assets. As a result of the Company's assessment of its deferred tax assets at December 31, 2015, the Company considers it more likely than not that it will recover the full benefit of its deferred tax assets and no valuation allowance is required.

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Should it be determined in the future that it is no longer more likely than not that these assets will be realized, a valuation allowance would be required, and the Company's operating results would be adversely affected during the period in which such a determination would be made.

Net operating loss carry forwards result in a deferred tax asset of \$2.7 million (2014 \$0.6 million). The net operating loss carry forwards arose in the U.S. and in three of the Company's foreign subsidiaries. The net operating loss carry forwards of \$0.2 million in the U.S. arose from state tax losses in prior periods and a current year federal income tax loss in one of the Company's U.S. subsidiaries. It is expected that sufficient taxable profits will be generated in the U.S. against which the federal net operating loss carry forwards of \$0.1 million can be relieved prior to their expiration in 2035, and the state net operating loss carry forwards of \$0.1 million can be relieved prior to their expiration in the period 2016 to 2033. The net operating loss carry forwards in three of the Company's foreign subsidiaries totaling \$2.5 million arose primarily in the current period and it is expected that sufficient taxable profits will be generated against which these net operating loss carry forwards can be relieved. These losses can be carried forward indefinitely without expiration.

The Company is in a position to control whether or not to repatriate foreign earnings and we currently do not expect to make a repatriation in the foreseeable future. No taxes have been provided for on the unremitted earnings of our overseas subsidiaries as any tax basis differences relating to investments in these overseas subsidiaries are considered to be permanent in duration. The amount of unremitted earnings at December 31, 2015 was approximately \$775 million. If these earnings are remitted, additional taxes could result after offsetting foreign income taxes paid although the calculation of the additional taxes is not practicable to compute at this time.

**Note 11. Long-Term Debt**

Long-term debt consists of the following:

(in millions)	2015	2014
Revolving credit facility	\$ 133.0	\$ 139.0
Other long-term debt	0.0	0.4
	133.0	139.4
Less current portion	0.0	(0.4)
	\$ 133.0	\$ 139.0

On November 6, 2015, the Company agreed a new revolving credit facility that retains the \$200.0 million previous facility available to the Company and certain subsidiaries of the Company and extends the term of the facility through November 2020. In addition, the new credit agreement allows the Company to request an additional amount of up to \$50.0 million to be committed by the existing lenders under the credit agreement or by new lenders.

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As a result, the Company capitalized \$1.5 million of refinancing costs which are being amortized over the expected life of the facility, as shown here:

(in millions)	2015	2014
Gross cost at January 1	\$ 2.6	\$ 2.5
Capitalized in the year	1.5	0.1
Written down in the year	(2.6)	0.0
	\$ 1.5	\$ 2.6
Accumulated amortization at January 1	\$ (1.5)	\$ (0.8)
Amortization in the year	(1.2)	(0.7)
Amortization written down in the year	2.6	0.0
	\$ (0.1)	\$ (1.5)
Net book value at December 31	\$ 1.4	\$ 1.1

Amortization expense was \$1.2 million, \$0.7 million and \$0.4 million in 2015, 2014 and 2013, 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 revolving 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, 2015 and does not expect to breach these covenants for the next 12 months. The credit facility is secured by a number of fixed and floating charges over certain assets which include key operating sites of the Company and its subsidiaries.

**Table of Contents**

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

The weighted average rate of interest on borrowings was 1.67% at December 31, 2015 and 1.7% at December 31, 2014. Payments of interest on long-term debt were \$2.3 million, \$2.3 million and \$1.0 million in 2015, 2014 and 2013, respectively.

The net cash outflows in respect of refinancing costs were \$1.5 million, \$0.1 million and \$0.9 million in 2015, 2014 and 2013, respectively.

**Note 12. Plant Closure Provisions**

The principal site giving rise to environmental remediation liabilities is the manufacturing site at Ellesmere Port in the United Kingdom, which management believes is the last ongoing manufacturer of TEL. There are also environmental remediation liabilities on a much smaller scale in respect of our other manufacturing sites in the U.S. and Europe. The liability for estimated closure costs of Innospec's manufacturing facilities includes costs for decontamination and environmental remediation activities (remediation) when demand for TEL diminishes.

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Movements in the provisions are summarized as follows:

(in millions)	Severance	Remediation	Total
Total at January 1, 2013	\$ 1.1	\$ 29.3	\$ 30.4
Charge for the period	0.0	3.9	3.9
Utilized in the period	(0.1)	(1.9)	(2.0)
Exchange effect	0.0	0.1	0.1
Total at December 31, 2013	1.0	31.4	32.4
Due within one year	0.0	(6.2)	(6.2)
Due after one year	\$ 1.0	\$ 25.2	\$ 26.2
Total at January 1, 2014	\$ 1.0	\$ 31.4	\$ 32.4
Charge for the period	0.0	5.0	5.0
Utilized in the period	0.0	(2.0)	(2.0)
Released in the period	(1.0)	0.0	(1.0)
Exchange effect	0.0	(0.3)	(0.3)
Total at December 31, 2014	0.0	34.1	34.1
Due within one year	0.0	(5.7)	(5.7)
Due after one year	\$ 0.0	\$ 28.4	\$ 28.4
Total at January 1, 2015	\$ 0.0	\$ 34.1	\$ 34.1
Charge for the period	0.0	6.8	6.8
Utilized in the period	0.0	(2.6)	(2.6)
Disposal in the period	0.0	(0.3)	(0.3)
Exchange effect	0.0	(0.3)	(0.3)
Total at December 31, 2015	0.0	37.7	37.7
Due within one year	0.0	(6.4)	(6.4)
Due after one year	\$ 0.0	\$ 31.3	\$ 31.3

Amounts due within one year refer to provisions where expenditure is expected to arise within one year of the balance sheet date. Severance charges are recognized in the income statement in selling, general and administrative expenses. Remediation costs are recognized in cost of goods sold.

Remediation

The remediation provision represents the Company's liability for environmental liabilities and asset retirement obligations. The charge for the period in 2015 represents the accretion expense recognized of \$3.0 million and a further \$3.8 million primarily in respect of changes in the expected cost and scope of future remediation activities. A discount rate of 8.92% was used in valuing the remediation provision.



**Table of Contents**

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

We recognize environmental liabilities when they are probable and costs can be reasonably estimated, and asset retirement obligations when there is a legal obligation and costs can be reasonably estimated. The Company has to anticipate the program of work required and the associated future expected costs, and comply with environmental legislation in the countries in which it operates or has operated in. The Company views the costs of vacating our Ellesmere Port site as contingent upon if and when it vacates the site because there is no present intention to do so.

Remediation expenditure utilized provisions of \$2.6 million, \$2.0 million and \$1.9 million in 2015, 2014 and 2013, respectively.

**Note 13. Fair Value Measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes a mid-market pricing convention for valuing the majority of its assets and liabilities measured and reported at fair value. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs. The Company gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy Levels. In 2015, 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.

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

(in millions)	December 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets</b>				
<b>Non-derivatives:</b>				
Cash and cash equivalents	\$ 136.9	\$ 136.9	\$ 41.6	\$ 41.6
Short-term investments	4.8	4.8	4.7	4.7
<b>Liabilities</b>				
<b>Non-derivatives:</b>				
Long-term debt (including current portion)	\$ 133.0	\$ 133.0	\$ 139.4	\$ 139.4
Finance leases (including current portion)	3.1	3.1	2.2	2.2
<b>Derivatives (Level 1 measurement):</b>				
Other non-current liabilities:				
Foreign currency forward exchange contracts	0.3	0.3	1.8	1.8
<b>Non-financial liabilities (Level 3 measurement):</b>				
Stock equivalent units	7.8	7.8	7.2	7.2
Acquisition-related contingent consideration	54.6	54.6	95.2	95.2

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

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

*Long-term debt and finance leases:* Long-term debt principally comprises the revolving credit facility, which was entered into in December 2011 and subsequently amended and restated in November 2015. Finance leases relate to certain fixed assets in our oilfield services business. The carrying amount of long-term debt and finance leases approximates to the fair value.

*Acquisition-related contingent consideration:* Contingent consideration payable in cash is discounted to its fair value at each balance sheet date. Where contingent consideration is dependent upon pre-determined financial targets, an estimate of the fair value of the likely consideration payable is made at each balance sheet date. The carrying value of the contingent consideration at the balance sheet dates is based on the estimated EBITDA and free cash flow generated by the Independence business through the period to October 31, 2016. The



**Table of Contents**

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

contingent consideration payable in relation to the acquisition of Independence is based on management's latest forecasts of the business and on the current trading performance. The results of the Independence business are particularly sensitive to the level of exploration, development and production activity of our customers in the oil and gas sector, this is directly affected by trends in oil prices.

*Derivatives:* The fair value of derivatives relating to interest rate swaps, foreign currency forward exchange contracts and commodity 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.

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

**Note 14. Derivative Instruments and Risk Management**

The Company has limited involvement with derivative instruments and does not trade them. The Company does use derivatives to manage certain interest rate, foreign currency exchange rate and raw material cost exposures, as the need arises. As at December 31, 2015 and December 31, 2014 the Company did not hold any interest rate or raw material derivatives.

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, 2015 the contracts have 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 2015 was a gain of \$1.4 million.

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

**Note 15. Commitments and Contingencies**

Operating leases

The Company has commitments under operating leases primarily for office space, motor vehicles and various items of computer and office equipment. The leases are expected to be renewed and replaced in the normal course of business. Rental expense was \$4.5 million in

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

2015, \$3.7 million in 2014 and \$3.1 million in 2013. Future commitments under non-cancelable operating leases are as follows:

<b>(in millions)</b>	
2016	\$ 3.8
2017	3.3
2018	2.6
2019	1.4
2020	1.0
Thereafter	4.2
	<b>\$ 16.3</b>

**Environmental remediation obligations**

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

**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, 2015, such guarantees which are not recognized as liabilities in the consolidated financial statements amounted to \$4.2 million.

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.

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**Note 16. Stockholders Equity**

(number of shares in thousands)	Common Stock			Treasury Stock		
	2015	2014	2013	2015	2014	2013
At January 1	29,555	29,555	29,555	5,263	5,208	6,222
Exercise of options	0	0	0	(152)	(105)	(632)
Acquisition-related stock issued	0	0	0	0	0	(471)
Stock purchases	0	0	0	342	160	89
At December 31	29,555	29,555	29,555	5,453	5,263	5,208

At December 31, 2015, the Company had authorized common stock of 40,000,000 shares (2014 40,000,000). Issued shares at December 31, 2015, were 29,554,500 (2014 29,554,500) and treasury stock amounted to 5,453,078 shares (2014 5,263,481).

**Note 17. Stock-Based Compensation Plans****Stock option plans**

The Company has five active stock option plans, two of which provide for the grant of stock options to employees, one provides for the grant of stock options to non-employee directors, and another provides for the grant of stock options to key executives on a matching basis provided they use a proportion of their annual bonus to purchase common stock in the Company on the open market or from the Company. The fifth plan is a savings plan which provides for the grant of stock options to all Company employees provided they commit to make regular savings over a pre-defined period which can then be used to purchase common stock upon vesting of the options. The stock options have vesting periods ranging from 24 months to 6 years and in all cases stock options granted expire within 10 years of the date of grant. All grants are at the sole discretion of the Compensation Committee of the Board of Directors. 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 2,640,000.



The fair value of stock options is measured on the grant date using either the Black-Scholes model, or in cases where performance criteria are dependent upon external factors such as the

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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:

	2015	2014	2013
Dividend yield	1.03%	1.34%	0.11%
Expected life	5 years	5 years	5 years
Volatility	25.5%	30.7%	41.1%
Risk free interest rate	1.05%	0.97%	0.46%

The following table summarizes the transactions of the Company's stock option plans for the year ended December 31, 2015:

	Number of Options	Weighted Average Exercise Price	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2014	728,640	\$ 19.55	\$ 16.17
Granted at discount	98,217	\$ 0.00	\$ 41.55
at market value	23,550	\$ 43.95	\$ 9.89
Exercised	(152,378)	\$ 6.80	\$ 14.43
Forfeited	(30,590)	\$ 30.11	\$ 12.11
Outstanding at December 31, 2015	667,439	\$ 19.87	\$ 20.19

At December 31, 2015, there were 89,949 stock options that were exercisable, 18,318 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 2015, 2014 and 2013 was \$3.7 million, \$2.6 million and \$2.5 million, respectively. The total intrinsic value of options exercised in 2015, 2014 and 2013 was \$2.4 million, \$0.9 million and \$4.7 million, respectively.

The total compensation cost related to non-vested stock options not yet recognized at December 31, 2015 was \$4.8 million and this cost is expected to be recognized over the weighted-average period of 2.24 years.

The cash tax benefit realized from stock option exercises totaled \$1.3 million, \$0.9 million and \$5.7 million in 2015, 2014 and 2013, respectively. The excess tax benefit classified in financing activities was \$0.5 million, \$0.4 million and \$3.8 million in 2015, 2014 and 2013, respectively.

No stock options awards were modified in 2015, 2014 or 2013.

**Table of Contents****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 11 months to 4 years and in all cases SEUs granted expire within 10 years of the date of grant. Grants may be priced at market value or at a premium or discount. There is no limit to the number of SEUs that can be granted. As at December 31, 2015 the liability for SEUs of \$7.8 million is located in accrued liabilities in the consolidated balance sheets until they are cash settled.

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

	2015	2014	2013
Dividend yield	1.12%	1.29%	1.08%
Volatility	24.6%	26.0%	37.6%
Risk free interest rate	1.31%	1.10%	0.78%

The following table summarizes the transactions of the Company's SEUs for the year ended December 31, 2015:

	Number of SEUs	Weighted Average Exercise Price	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2014	286,563	\$ 3.41	\$ 27.10
Granted at discount	91,280	\$ 0.00	\$ 40.20
at market value	7,552	\$ 43.95	\$ 9.89
Exercised	(104,140)	\$ 1.97	\$ 24.90
Forfeited	(1,505)	\$ 29.56	\$ 29.56
Outstanding at December 31, 2015	279,750	\$ 3.79	\$ 31.72

At December 31, 2015, there were 56,435 SEUs that were exercisable, 46,951 had performance conditions attached.

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

The SEU compensation cost for 2015, 2014 and 2013 was \$4.9 million, \$2.0 million and \$7.1 million, respectively. The total intrinsic value of SEUs exercised in 2015, 2014 and 2013 was \$2.4 million, \$3.7 million and \$2.2 million, respectively.

Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The weighted-average remaining vesting period of non-vested SEUs is 1.50 years.

Additional exceptional long-term incentive plan

In the first quarter of 2014, Innospec implemented an additional exceptional long-term incentive plan to reward selected executives with a cash bonus for delivering exceptional performance. One of the elements of the plan is payable only if the Innospec share performance matches or out-performs that of competitors, as measured by the Russell 2000 Index, over the performance period January 1, 2014 to December 31, 2016. The maximum cash bonus payable under this element of the plan is \$3.0 million and is accounted for as share-based compensation. As such, the fair value of these liability cash-settled long-term incentives is calculated on a quarterly basis. The fair value is calculated using a Monte Carlo model and is summarized as follows:

(in millions)	2015	2014
Balance at January 1	\$ 0.1	\$ 0.0
Compensation charge for the period	0.9	0.1
Balance at December 31	\$ 1.0	\$ 0.1

The following assumptions were used in the Monte Carlo model at December 31:

	2015	2014
Dividend yield	1.12%	1.29%
Volatility of Innospec's share price	24.6%	26.0%
Risk free interest rate	1.31%	1.10%

**Note 18. Reclassifications out of Accumulated Other Comprehensive Loss**

Reclassifications out of accumulated other comprehensive loss for 2015 were:

(in millions)	Amount Reclassified from AOCL	Affected Line Item in the Statement where Net Income is Presented
Details about AOCL Components		

<b>Foreign currency translation items:</b>		
Disposal of subsidiary	\$ 5.3	Profit on disposal of subsidiary
<b>Defined benefit pension plan items:</b>		
Amortization of prior service credit	\$ (1.2)	See <sup>(1)</sup> below
Amortization of actuarial net losses	5.2	See <sup>(1)</sup> below
	4.0	Total before tax
	(0.8)	Income tax expense
	3.2	Net of tax
<b>Total reclassifications</b>	\$ 8.5	Net of tax

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

**Table of Contents****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Changes in accumulated other comprehensive loss for 2015, net of tax, were:

(in millions)	Defined Benefit Pension Plan Items	Cumulative Translation Adjustments	Total
Balance at December 31, 2014	\$ (57.3)	\$ (49.0)	\$ (106.3)
Other comprehensive income/(loss) before reclassifications	0.0	(16.3)	(16.3)
Actuarial net gains arising during the year	3.2	0.0	3.2
Amounts reclassified from AOCL	3.2	5.3	8.5
Net current period other comprehensive income/(loss)	6.4	(11.0)	(4.6)
Balance at December 31, 2015	\$ (50.9)	\$ (60.0)	\$ (110.9)

**Note 19. Recently Issued Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ( ASU 2014-09 ), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. The original effective date for ASU 2014-09 was for annual and interim periods within those years beginning after December 15, 2016. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date, which defers the effective date of ASU 2014-09 for one year and permits early adoption as early as the original effective date of ASU 2014-09. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is currently evaluating the timing of its adoption and the impact of adopting the new revenue standard on its consolidated financial statements.

The FASB issued Accounting Standards Update (ASU) No. 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) in May 2015. The Company has elected to early adopt ASU 2015-07. This standard eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured at net asset value per share (or its equivalent) using the practical expedient in FASB ASC Topic 820, Fair Value Measurement.



The FASB issued Accounting Standards Update (ASU) No. 2015-17, Balance Sheet Classification of Deferred Taxes in November 2015. As the Company presents a classified balance sheet, under the ASU it will be required to classify all deferred taxes as non-current assets or non-current liabilities. The ASU is effective for annual periods beginning after December 15, 2016 and the Company has not chosen early adoption of ASU 2015-17. The Company has not determined the effect of the standard on its ongoing financial reporting.

**Table of Contents**

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

**Note 20. Related Party Transactions**

Mr. Robert I. Paller has been a non-executive director of the Company since November 1, 2009. The Company has retained and continues to retain Smith, Gambrell & Russell, LLP ( SGR ), a law firm with which Mr. Paller holds a position. In 2015, 2014 and 2013 the Company incurred fees payable to SGR of \$0.3 million, \$1.1 million and \$1.0 million, respectively. As at December 31, 2015, the amount due to SGR from the Company was \$0.1 million (December 31, 2014 \$0.1 million).

**Note 21. Subsequent Events**

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

**Table of Contents**

**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, 2015.

**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,

## **Table of Contents**

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, 2015.

Our independent registered public accounting firm KPMG Audit Plc, has audited our consolidated financial statements and the effectiveness of our internal control over financial reporting as of December 31, 2015. 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.

As previously disclosed, we have continued with the process of developing a new, company-wide, information system platform which began in 2011. The platform provider is well established in the market. The implementation is a phased, risk-managed, site deployment following a multistage user acceptance program with the existing platform providing a fallback position. In the fourth quarter of 2015 we have implemented the new platform at the majority of reporting units outside of the U.S. which combined with the initial deployment in 2013 means the majority of our businesses are now operating with the new platform. In connection with this implementation, the Company has updated its internal controls over financial reporting, as necessary, to accommodate modifications to its business processes and accounting procedures.

## **Remediation of Existing Material Weaknesses**

The following material weakness that existed as of December 31, 2014 and reported in the Company's 2014 Form 10-K filed on February 17, 2015, was remediated during the year.

### *Treatment of Intercompany Loans Denominated in Currencies Other Than the Entity's Functional Currency:*

The Company previously reported that it lacked effective internal control over financial reporting procedures to ensure the proper application of ASC 830, Foreign Currency Matters, ( ASC 830 ), related to the treatment of foreign currency gains or losses on intercompany loan balances denominated in currencies other than the entity's functional currency. The Company previously reported it did not maintain effective internal control over the calculation of intercompany foreign exchange gains or losses and lacked an effective control to assess and document at inception whether or not intercompany loan balances are long-term in nature. The ineffectiveness of the internal control environment with

respect to the treatment of foreign currency gains or losses on intercompany loan balances has not resulted in an adjustment to any historic financial statements.

**Table of Contents**

The Company has designed and implemented new internal control over financial reporting procedures to address this material weakness in the quarter. The Company has completed the remediation plan including the following:

Implemented and evidenced a monthly review of all loan balances to ensure the designation and documentation of certain intercompany loans is correct to ensure the proper application of ASC 830; and

Implemented additional control procedures to ensure the calculation of foreign exchange gains and losses on intercompany loans included in other comprehensive income is correct.

The Company has tested the operating effectiveness of the internal control over financial reporting steps described above, which are performed on a monthly basis, and concluded that during the year, this previously reported material weakness has been remediated.

Except as otherwise discussed herein, 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, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B Other Information**

None.

**Table of Contents**

**PART III**

**Item 10 Directors, Executive Officers and Corporate Governance**

The information set forth under the headings Re-Election of Two Class III Directors , Election of One Class III Director , Information about the Board of Directors, Information about the Executive Officers and Section 16(a) Beneficial Ownership Reporting Compliance in the Proxy Statement for the Annual Meeting of Stockholders to be held on May 4, 2016 ( the Proxy Statement ) is incorporated herein by reference.

The Board of Directors has adopted a Code of Ethics 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 Ethics, our Corporate Governance Guidelines or any charters of our Board s committees may obtain them without charge by writing to the General Counsel and Chief Compliance Officer, Innospec Inc., 8310 South Valley Highway, Suite 350, Englewood, Colorado, 80112, e-mail [investor@innospecinc.com](mailto:investor@innospecinc.com). These and other documents can also be accessed via the Company s web site, [www.innospecinc.com](http://www.innospecinc.com).

The Company intends to disclose on its website [www.innospecinc.com](http://www.innospecinc.com) any amendments to, or waivers from, its Code of Ethics that are required to be publicly disclosed pursuant to the rules of the SEC or NASDAQ.

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

Information regarding the procedures by which stockholders may recommend nominees to the Board of Directors set forth under the heading Corporate Governance Board Committees Nominating and Governance Committee in the 2016 Proxy Statement is incorporated herein by reference.

**Item 11 Executive Compensation**

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



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

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

**Table of Contents**

***Shares Authorized for Issuance Under Equity Compensation Plans***

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

**Item 13      Certain Relationships and Related Transactions, and Director Independence**

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

**Item 14      Principal Accountant Fees and Services**

Information regarding fees and services related to the Company's independent registered public accounting firm, KPMG Audit Plc, 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.

---

**Table of Contents**

**PART IV**

**Item 15 Exhibits and Financial Statement Schedules**

**(a) (1) *Financial Statements***

The Consolidated Financial Statements (including notes) of Innospec Inc. and its subsidiaries, together with the report of KPMG Audit Plc dated February 17, 2016, 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***

- 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 March 16, 2006).
- 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).
- 10.1 Executive Service Agreement of Mr. PJ 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, Ian McRobbie (Incorporated by reference to Exhibit 10.23 of the Company's Form 10-K on March 28, 2003). \*
- 10.3 Contract of Employment, Dr. Catherine Hessner (Incorporated by reference to Exhibit 10.26 of the Company's Form 10-K on March 31, 2005). \*
- 10.4 Contract of Employment, 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, 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). \*

---

**Table of Contents**

- 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 \$100,000,000 Multicurrency Revolving Facility Agreement dated December 14, 2011 with Lloyds TSB Bank plc as agent and security agent (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K on December 19, 2011).
- 10.12 Contract of Employment, 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). \*
- 10.13 Letters dated December 1, 2010 from the Board of Directors to the following officers regarding one off bonus payments: Patrick Williams, Ian P Cleminson, Philip J Boon, Ian McRobbie and Brian Watt (Incorporated by reference to Exhibit 10.12, 10.13, 10.14, 10.15 and 10.16 of the Company's Form 10-K on February 18, 2011).\*
- 10.14 Reward for Exceptional Performance One off Bonus Plan: January 2008 – December 2012: Brian Watt (Incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q on November 1, 2012). \*
- 10.15 Supplemental Agreement, dated August 28, 2013, among the Company, certain subsidiaries of the Company, and various lenders, including Lloyds TSB Bank Plc, as agent and security agent (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K on August 29, 2013).
- 10.16 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).
- 10.17 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).
- 10.18 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).

**Table of Contents**

10.19 Employment contract for Brian Watt (Incorporated by Reference to Exhibit 10.4 of the Company's Form 10-Q filed on May 7, 2014). \*

10.20 Innospec Inc. 2014 Long-Term Incentive Plan (Incorporated by Reference to Exhibit 10.5 of the Company's Form 10-Q filed on May 7, 2014). \*

10.21 Increase Confirmation Letter, dated July 31, 2014, among the Company, certain subsidiaries of the Company, and U.S. Bank N.A. (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on July 31, 2014).

10.22 Second Amendment and Restatement Agreement, dated November 6, 2015, relating to the Facility Agreement dated December 14, 2011 as previously amended and restated on August 28, 2013 (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K on November 9, 2015).

10.23 Executive Service Agreement of Mr. Patrick J. McDuff dated May 7, 2015 (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K on May 8, 2015). \*

10.24 Executive Service Letter to Mr. Philip J Boon dated October 15, 2015 (filed herewith). \*

12.1 Computation of Financial Ratios (filed herewith).

14 The Innospec Inc. Code of Ethics (as updated) (Incorporated by reference to Exhibit 14 of the Company's Form 10-K on February 17, 2012).

16 Letter regarding change in certifying accountant dated June 17, 2011 (Incorporated by reference to Exhibit 16.1 of the Company's Form 8-K on June 17, 2011).

21.1 Principal Subsidiaries of the Registrant (filed herewith).

23.1 Consent of Independent Registered Public Accounting Firm, KPMG Audit Plc (filed herewith).

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

32.2 Certification of the Chief Financial Officer to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

101 XBRL Instance Document and Related Items.

\* Denotes a management contract or compensatory plan.

Table of Contents

**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 17, 2016

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 17, 2016:

/s/ MILTON C. BLACKMORE	Chairman and Director
Milton C. Blackmore	
/s/ PATRICK S. WILLIAMS	President and Chief Executive Officer (Principal Executive Officer); Director
Patrick S. Williams	
/s/ IAN P. CLEMINSON	Executive Vice President and Chief Financial Officer
Ian P. Cleminson	
/s/ PHILIP A. CURRAN	Group Financial Controller (Principal Accounting Officer)
Philip A. Curran	
/s/ HUGH G. C. ALDOUS	Director
Hugh G. C. Aldous	
/s/ MARTIN M. HALE	Director
Martin M. Hale	
/s/ DAVID LANDLESS	Director
David Landless	
/s/ LAWRENCE J. PADFIELD	Director

Lawrence J. Padfield

/s/ ROBERT I. PALLER

Director

Robert I. Paller

/s/ JOACHIM ROESER

Director

Joachim Roeser