

INNOSPEC INC.  
Form 10-K  
February 15, 2018  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 2017

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**

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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.

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Large accelerated filer  
Non-accelerated filer  
Emerging growth company

(Do not check if a smaller reporting company)

Accelerated filer  
Smaller reporting company

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

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

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of the most recently completed second fiscal quarter (June 30, 2017) was approximately \$954 million, based on the closing price of the common shares on the NASDAQ on June 30, 2017. 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 8, 2018, 24,350,319 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 9, 2018 are incorporated by reference into Part III of this Form 10-K.

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

**FORWARD-LOOKING STATEMENTS**

This Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included or incorporated herein may constitute forward-looking statements. Such forward-looking statements include statements (covered by words like expects, estimates, anticipates, may, believes, feels 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.

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**PART I**

**Item 1 Business**

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

**General**

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

***Segment Information***

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

Fuel Specialties

Performance Chemicals

Oilfield Services

Octane Additives

The Fuel Specialties, Performance Chemicals and Oilfield Services segments operate in markets where we actively

seek growth opportunities although their ultimate customers are different. The Octane Additives segment is expected to decline in the near future as our one remaining refinery customer transitions to unleaded fuel.

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

### **Fuel Specialties**

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

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

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

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

## ***Performance Chemicals***

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

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

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

## ***Oilfield Services***

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

This segment has recently been growing strongly, driven by increased customer activity, following the increase in crude oil prices, as the industry recovers from the significant declines of the last two years.



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

***Octane Additives***

Our Octane Additives segment, which we believe is the world's only producer of tetra ethyl lead ( TEL ), comprises sales of TEL for use in automotive gasoline and provides services in respect of environmental remediation. We are continuing to responsibly manage the decline in the demand for TEL for use in automotive gasoline in line with the transition plans to

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

## ***Strategy***

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

## ***Geographical Area Information***

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

## **Working Capital**

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

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

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

### **Raw Materials and Product Supply**

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

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

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

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

## **Intellectual Property**

Our intellectual property, including trademarks, patents and licenses, forms a significant part of the Company's competitive advantage, particularly in the Fuel Specialties 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.

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

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### **Competition**

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

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

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

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

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

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

Research, product/application development and technical support ( R&D ) provide the basis for the growth of our Fuel Specialties, Performance Chemicals and Oilfield Services segments. Accordingly, the Company's R&D activity has been, and will continue to be, focused on the development of new products and formulations. Our R&D department provides technical support for all of our reporting segments. Expenditures to support R&D services were \$31.4 million, \$25.4 million and \$25.3 million in 2017, 2016 and 2015, 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, 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 products including Iselux and Statsafe®.

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

We are subject to environmental laws in the countries in which we operate and conduct business. Management believes that the Company is in material compliance with applicable environmental laws and has made the necessary provisions for the continued costs of compliance with environmental laws, 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 remediation liabilities when they are probable and costs can be reasonably estimated, and asset retirement obligations when there is a legal obligation and costs can be reasonably estimated. This involves anticipating the program of work and the associated future expected costs, and so involves the exercise of judgment by management. We regularly review the future expected costs of remediation and the current estimate is reflected in Note 12 of the Notes to the Consolidated Financial Statements.

The European Union legislation known as the Registration, Evaluation and Authorization of Chemical Substances Regulations ( REACH ) requires most of the Company's products to be registered with the European Chemicals Agency. Under this legislation the Company has to demonstrate that its products are appropriate for their intended purposes. During this registration 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 based on the current regulatory environment.

### **Employees**

The Company had approximately 1900 employees in 24 countries as at December 31, 2017.

### ***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.

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**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 and political factors that are beyond our control. Even the perception of longer-term lower oil and gas prices by oil and gas companies can similarly reduce or defer major expenditures given the long-term nature of many large-scale development projects. Factors affecting the prices of oil and gas include the level of supply and demand for oil and gas, governmental regulations, including the policies of governments regarding the exploration for and production and development of their oil and gas reserves, weather conditions and natural disasters, worldwide political, military, and economic conditions, the level of oil and gas production by non-OPEC 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 and engine technologies. Any prolonged reduction in oil and gas prices will depress the immediate levels of exploration, development, and production activity which could have a material adverse impact on our results of operations, financial position and cash flows.

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

We serve global markets and operate in certain countries with political and economic instability, including the Middle East, Northern Africa, Asia-Pacific, Eastern Europe and South American regions. Our international operations are subject to numerous international business risks including, but not limited to, geopolitical and economic conditions, risk of expropriation, import and export restrictions, 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

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

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

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

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

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

***Political developments may adversely affect our business***

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

Council, under

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Article 50(2) of the Treaty on European Union, of the U.K.'s intention to withdraw from the European Union. The U.K. submitted this notice to the European Council on March 29, 2017. Accordingly, the U.K. is currently expected to withdraw from the European Union on March 29, 2019. The U.K. is currently in the process of negotiating a withdrawal agreement with the European Union, but if this is not agreed and ratified by March 29, 2019 (or such later date as may be agreed between the U.K. and the European Council), the U.K. may be required to withdraw from the European Union without a withdrawal agreement being in force. It is possible that there will be greater restrictions on imports and exports between the U.K. and E.U. countries and increased regulatory complexities. The announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar against foreign currencies in which we conduct business.

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

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

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

***Decline in our TEL business***

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

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.



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

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

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

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

***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, develop, retain and motivate highly-qualified technical, sales and support staff. We cannot guarantee that we will be able to retain our key personnel or attract or retain qualified personnel in the future. If we are unsuccessful in our efforts in this regard, this could adversely impact our results of operations, financial position and cash flows.

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

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

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of alternative propulsion systems, consumer demand for premium personal care and cosmetic products, and oil and gas drilling and production rates. The availability, cost and terms of credit have been, and may continue to be, adversely affected by the foregoing factors and these circumstances have produced, and may in the future result in, illiquid markets and wider credit spreads, which may make it difficult or more expensive for us to obtain credit. Continuing uncertainties in the U.S. and international markets and economies leading to a decline in business and consumer spending could adversely impact our results of operations, financial position and cash flows.

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

We rely on information technology systems to transact our business. Like other global companies, we have, from time to time, experienced threats to our data and systems. Although we have implemented administrative and technical controls and take protective actions to reduce the risk of cyber incidents and 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 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.

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

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

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***Uncertainty in the interpretation and application of the 2017 Tax Cuts and Jobs Act could materially affect our tax obligations and effective tax rate***

The 2017 Tax Cuts and Jobs Act (the Tax Reform Act ) was enacted on December 22, 2017, and significantly affected U.S. tax law by changing how the U.S. imposes income tax on multinational corporations. The U.S. Department of Treasury has authority to issue regulations and interpretative guidance that may impact how we apply the law and impact our results of operations in the period issued and subsequently.

The Tax Reform Act requires complex computations not previously required under U.S. tax law. As such, the application of accounting guidance for such items is currently uncertain. Further, compliance with the Tax Reform Act and the accounting for such provisions requires the accumulation of information not previously required or regularly produced. As a result, we have provided a provisional estimate of the effect of the Tax Reform Act in our financial statements. As additional regulatory guidance is issued, as we perform additional analysis on the application of the law, and as we refine our estimates in calculating the effect, our final analysis may be different from our current provisional amounts, which 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 rates for inclusion in our consolidated financial statements. Fluctuations in these currency exchange rates affect the recorded levels of our assets and liabilities, results of operations and cash flows.

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

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

We use a variety of raw materials, chemicals and energy in our manufacturing and blending processes. Many of these raw materials are derived from petrochemical-based and vegetable-based feedstocks which can be subject to periods of rapid and significant cost instability. These fluctuations in cost can be caused by political instability in oil producing nations and

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

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

Approximately 38% of our common stock is held by four 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 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.



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

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

In order to obtain regulatory approval of certain new products we must, among other things, demonstrate that the product is appropriate and effective for its intended uses, and that we are capable of manufacturing the product in accordance with applicable regulations. This approval process can be costly, time consuming, and subject to unanticipated and significant delays. We cannot be sure that necessary approvals will be granted on a timely basis or at all. Any delay in obtaining, or any failure to obtain or maintain, these approvals would adversely affect our ability to introduce new products and to generate income from those products. New or stricter laws and regulations may be introduced that could result in additional compliance costs and prevent or inhibit the development, manufacture, distribution and sale of our products. Such outcomes could adversely impact our results of operations, financial position and cash flows.

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

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

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

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

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



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

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

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

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

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

Our term loan and 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 term loan and credit facility includes a material adverse change to our assets, operations or financial condition, and certain other events. The term loan and revolving credit facility also contains a number of restrictions that limit our ability, among other things, and subject to certain limited exceptions, to incur additional indebtedness, pledge our assets as security, guarantee obligations of third parties, make investments, undergo a merger or consolidation, dispose of assets or materially change our line of business.

In addition, the term loan and revolving 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

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successful operating performance of the business. If we fail to comply with financial covenants, we would be in default under the term loan and revolving credit facility and the maturity of our outstanding debt could be accelerated unless we were able to obtain waivers from our lenders. If we were found to be in default under the term loan and revolving credit facility, it could adversely impact our results of operations, financial position and cash flows.

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

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

***Domestic or international natural disasters 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 and consequences of such events cannot be predicted, but they can adversely impact economic conditions in general and in our specific markets. The resulting damage from such events could include loss of life, severe injury and property damage or site closure. Any of these matters could adversely impact our results of operations, financial position and cash flows.

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

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

The outcome of new or potential legislation or regulation in the U.S. and other jurisdictions in which we operate may result in new or additional requirements, additional charges to fund energy efficiency activities, fees or restrictions on certain activities. Compliance with these

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

**Item 1B      Unresolved Staff Comments**

None.

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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
Herne, Germany <sup>(1)</sup>	Fuel Specialties	Sales/Manufacturing/Administration
Vernon, France	Fuel Specialties	Research & Development Sales/Manufacturing/Administration
Moscow, Russia <sup>(1)</sup>	Fuel Specialties	Research & Development Sales/Administration
Leuna, Germany	Fuel Specialties	Sales/Manufacturing/Administration
Ellesmere Port, United Kingdom	Fuel Specialties, Performance Chemicals and Octane Additives	Research & Development European Headquarters  Business Teams  Sales/Manufacturing/Administration  Research & Development
Beijing, China <sup>(1)</sup>	Fuel Specialties and Performance Chemicals	Fuel Technology Center Sales/Administration
Singapore <sup>(1)</sup>	Fuel Specialties and Performance Chemicals	Asia-Pacific Headquarters  Business Teams
Milan, Italy <sup>(1)</sup>	Fuel Specialties and Performance Chemicals	Sales/Administration
Rio de Janeiro, Brazil <sup>(1)</sup>	Fuel Specialties and Performance Chemicals	Sales/Administration
High Point, North Carolina	Performance Chemicals	Manufacturing/Administration
Salisbury, North Carolina	Performance Chemicals	Research & Development Manufacturing/Administration
Chatsworth, California <sup>(1)</sup>	Performance Chemicals	Research & Development Sales/Manufacturing/Administration
Everberg, Belgium <sup>(1)</sup>	Performance Chemicals	Sales/Administration/Research & Development
Saint Mihiel, France	Performance Chemicals	

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Castiglione, Italy	Performance Chemicals	Manufacturing/Administration/Research & Development
Barcelona, Spain <sup>(1)</sup>	Performance Chemicals	Manufacturing/Administration/Research & Development
Oklahoma City, Oklahoma	Oilfield Services	Manufacturing/Administration/Research & Development
Midland, Texas	Oilfield Services	Sales/Manufacturing/Administration
Pleasanton, Texas	Oilfield Services	Sales/Manufacturing/Administration
The Woodlands, Houston, Texas <sup>(1)</sup>	Oilfield Services	Sales/Manufacturing/Administration
Williston, North Dakota	Oilfield Services	Sales/Administration/Research & Development
Casper, Wyoming <sup>(1)</sup>	Oilfield Services	Sales/Warehouse
Zug, Switzerland <sup>(1)</sup>	Octane Additives	Warehouse
		Sales/Administration

<sup>(1)</sup> *Leased property*

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***Manufacturing Capacity***

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

**Item 3      Legal Proceedings**

**Legal matters**

While we are involved from time to time in claims and legal proceedings that result from, and are incidental to, the conduct of our business including business and commercial litigation, employee and product liability claims, there are no material pending legal proceedings to which the Company or any of its subsidiaries is a party, or of which any of 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 9, 2018 there were 917 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:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2017</b>				
High	\$ 73.25	\$ 69.15	\$ 66.10	\$ 72.95
Low,	\$ 61.00	\$ 60.40	\$ 54.25	\$ 60.95
<b>2016</b>				
High	\$ 52.32	\$ 50.21	\$ 60.81	\$ 72.75
Low	\$ 42.45	\$ 43.14	\$ 45.59	\$ 55.50

**Dividends**

The Company declared the following cash dividends for the year ended December 31, 2017:

Date declared	Stockholders of Record	Date Paid	Amount per share
November 7, 2017	November 16, 2017	November 27, 2017	\$ 0.39
May 9, 2017	May 22, 2017	May 31, 2017	\$ 0.38

The Company declared the following cash dividends for the year ended December 31, 2016:

Date declared	Stockholders of Record	Date Paid	Amount per share
November 2, 2016	November 15, 2016	November 24, 2016	\$ 0.34
May 3, 2016	May 16, 2016	May 25, 2016	\$ 0.33

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 2017.

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

During 2017 the Company made no repurchases of our common stock.

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As at December 31, 2017, there was \$82.5 million still available under the share repurchase program that was approved on November 3, 2015 for the repurchase of \$90.0 million of Innospec shares over a three year period.

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.

**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, 2012, assuming a \$100 investment and the re-investment of any dividends thereafter.

**Table of Contents****Value of \$100 Investment made December 31, 2012\***

	2012	2013	2014	2015	2016	2017
Innospec Inc.	\$ 100.00	\$ 135.46	\$ 126.76	\$ 163.03	\$ 207.64	\$ 216.34
S&P 500 Index	100.00	129.60	144.36	143.31	156.98	187.47
NASDAQ Composite Index	100.00	138.32	156.85	165.84	178.28	228.63
Russell 2000 Index	\$ 100.00	\$ 137.00	\$ 141.84	\$ 133.74	\$ 159.78	\$ 180.79

\* Excludes purchase commissions.

**Item 6 Selected Financial Data****FINANCIAL HIGHLIGHTS**

(in millions, except financial ratios, share and per share data)

	2017	2016	2015	2014	2013
<b>Summary of performance:</b>					
Net sales	\$ 1,306.8	\$ 883.4	\$ 1,012.3	\$ 960.9	\$ 818.8
Operating income	129.7	105.4	156.3	112.5	90.6
Income before income taxes	128.1	103.1	152.3	110.9	92.8
Income taxes	(66.3)	(21.8)	(32.8)	(26.8)	(15.0)
Net income	61.8	81.3	119.5	84.1	77.8
Net income attributable to Innospec Inc.	61.8	81.3	119.5	84.1	77.8
Net cash provided by operating activities	\$ 82.7	\$ 105.5	\$ 118.2	\$ 106.3	\$ 61.3
<b>Financial position at year end:</b>					
Total assets	\$ 1,410.2	\$ 1,181.4	\$ 1,028.6	\$ 999.9	\$ 794.7
Long-term debt including finance leases (including current portion)	224.3	273.3	134.7	140.5	146.2
Cash, cash equivalents, and short-term investments	90.2	101.9	141.7	46.3	86.8
Total equity	\$ 794.3	\$ 653.8	\$ 605.3	\$ 515.9	\$ 409.4
<b>Financial ratios:</b>					
Net income attributable to Innospec Inc. as a percentage of sales	4.7	9.2	11.8	8.8	9.5
Effective tax rate as a percentage <sup>(1)</sup>	51.8	21.1	21.5	24.2	16.2
Current ratio <sup>(2)</sup>	2.1	2.4	2.2	1.9	2.6
<b>Share data:</b>					
Earnings per share attributable to Innospec Inc.					
Basic	\$ 2.56	\$ 3.39	\$ 4.96	\$ 3.45	\$ 3.29
Diluted	\$ 2.52	\$ 3.33	\$ 4.86	\$ 3.38	\$ 3.22
Dividend paid per share	\$ 0.77	\$ 0.67	\$ 0.61	\$ 0.55	\$ 0.50
Shares outstanding (basic, thousands)					
At year end	24,350	24,071	24,101	24,291	24,347
Average during year	24,148	23,998	24,107	24,391	23,651
Closing stock price					
High	\$ 73.25	\$ 72.75	\$ 58.70	\$ 46.03	\$ 48.71
Low	\$ 54.25	\$ 42.45	\$ 39.47	\$ 35.55	\$ 35.27
At year end	\$ 70.60	\$ 68.50	\$ 54.31	\$ 42.70	\$ 46.22

(1)

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The effective tax rate is calculated as income taxes as a percentage of income before income taxes. Income taxes are impacted in 2017 by the provisional estimates recorded in respect of the Tax Reform Act.

- (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>2017</b>				
Net sales	\$ 294.3	\$ 326.3	\$ 332.4	\$ 353.8
Gross profit	90.9	105.1	98.8	108.5
Operating income	26.4	34.7	30.2	38.4
Net income/(loss) <sup>(1)</sup>	17.2	26.1	23.3	(4.8)
Net cash provided by operating activities	\$ (19.9)	\$ (10.9)	\$ 35.2	\$ 78.3
Per common share:				
Earnings basic	\$ 0.71	\$ 1.08	\$ 0.97	\$ (0.20)
diluted	\$ 0.70	\$ 1.06	\$ 0.95	\$ (0.20)
<b>2016</b>				
Net sales	\$ 212.1	\$ 228.0	\$ 205.5	\$ 237.8
Gross profit	76.2	85.5	79.2	91.4
Operating income	25.6	28.6	18.9	32.3
Net income <sup>(2)</sup>	18.9	28.9	11.4	22.1
Net cash provided by operating activities	\$ 6.7	\$ 50.4	\$ 29.9	\$ 18.5
Per common share:				
Earnings basic	\$ 0.79	\$ 1.21	\$ 0.48	\$ 0.92
diluted	\$ 0.77	\$ 1.18	\$ 0.47	\$ 0.90

**NOTES**

- (1) Net income includes the following special items, before tax except for the adjustment of unrecognized tax benefits, during the year ended December 31, 2017:

(in millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2017</b>				
US Tax Cuts and Jobs Act 2017	\$ 0.0	\$ 0.0	\$ 0.0	\$ 40.6
Amortization of acquired intangible assets	5.1	5.0	5.0	5.5
Adjustment of unrecognized tax benefits	0.0	0.0	(0.5)	0.0
Loss/(gain) on disposal of subsidiary	0.0	1.0	0.0	(0.1)
Foreign currency exchange losses/(gains)	1.0	(2.1)	(1.8)	(3.7)
Foreign exchange loss on liquidation of subsidiary	1.8	0.0	0.0	0.0
Fair value acquisition accounting	\$ 1.7	\$ 0.0	\$ 0.0	\$ 0.0

- (2) Net income includes the following special items, before tax except for the adjustment of unrecognized tax benefits, during the year ended December 31, 2016:

(in millions)

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	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2016</b>				
Adjustment to fair value of contingent consideration	\$ (1.6)	\$ (2.4)	\$ (2.3)	\$ (3.1)
Amortization of acquired intangible assets	4.2	4.2	4.3	4.3
Acquisition-related costs	0.0	1.0	1.7	1.7
Adjustment of unrecognized tax benefits	0.0	(0.4)	(1.2)	0.0
Loss on disposal of subsidiary	1.4	0.0	0.0	0.0
Settlement of distributor claim	0.0	0.0	1.0	0.0
Foreign currency exchange losses/(gains)	\$ 0.3	\$ (8.5)	\$ 5.0	\$ 2.3

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

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

**EXECUTIVE OVERVIEW**

In 2017, our sales grew in line with our expectations, as we delivered on our strategy to grow all of our strategic business units. Sales in Fuel Specialties and Performance Chemicals reflected the strength of our product portfolio and research and development pipeline in these markets. Our Oilfield Services segment experienced strong growth, reflecting the increase in customer activity, as the market recovered.

Our Octane Additives segment performance was in line with the final stages of transition to unleaded gasoline in the automotive market. Our Avtel product line, producing TEL for Avgas 100LL for piston engine aircraft, is included in our Fuel Specialties segment. We anticipate that this product line will decline when an alternative to Avgas 100LL is proven, and a deliverable transition plan is developed.

During the year, we completed the integration of the business acquired from Huntsman at the end of 2016. From the first quarter of 2018, Performance Chemicals will be reported as a single business in our commentary, and we will no longer report the detailed split between the acquired and heritage businesses.

**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 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

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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 based on new information that was not previously available, 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.

## **Environmental Liabilities**

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

Remediation provisions at December 31, 2017 amounted to \$46.1 million and relate principally to our Ellesmere Port site in the United Kingdom. We recognize environmental liabilities when they are probable and costs can be reasonably estimated, and asset retirement obligations when there is a legal obligation and costs can be reasonably estimated. The Company has to anticipate the program of work required and the associated future expected costs, and comply with environmental legislation in the countries in which it operates or has operated in. 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

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assumption would change the PBO by approximately \$25 million while the net pension credit for 2018 would change by approximately \$0.1 million. A 0.25% change in the level of price inflation assumption would change the PBO by approximately \$18 million and the net pension credit for 2018 would change by approximately \$1.5 million.

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

## **Income Taxes**

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

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

We also recognize tax benefits to the extent that it is more likely than not that our positions will be sustained, based on technical merits, when challenged by the taxing authorities. To the extent that we prevail in matters for which liabilities have been established, or are required to pay amounts in excess of our liabilities, our effective tax rate in a given period may be materially affected. An 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.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the Tax Reform Act) was enacted and significantly revises the U.S. corporate income tax regime. The new legislation contains several key tax provisions that affect us, including a one-time mandatory transition tax on accumulated foreign earnings and a reduction in the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018, amongst others.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), which provides guidance on accounting for the tax effects of the Tax Reform Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Reform Act enactment date for companies to complete their accounting under ASC 740, *Income Taxes*. Until accounting is complete, companies may record provisional estimates. As a result of the Tax Reform Act, we have recorded provisional amounts in relation to the accounting of the transition tax in 2017. We

consider the accounting of the transition tax and other items as

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further disclosed in Note 10 to be incomplete due to the forthcoming guidance and our ongoing analysis of final data and tax positions which may impact these calculations.

We expect to complete our analysis within the measurement period in accordance with SAB 118.

## **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.

At December 31, 2017 we had \$361.8 million of goodwill relating to our Fuel Specialties, Performance Chemicals and Oilfield Services segments. Our impairment assessment concluded that there had been no impairment of goodwill in respect of those reporting segments.

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 Depreciation and Amortization, respectively)**

As at December 31, 2017 we had \$196.0 million of property, plant and equipment and \$163.3 million of other intangible assets (net of depreciation and amortization, respectively), 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.

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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;

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.



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

The following table provides operating income by reporting segment:

(in millions)	2017	2016	2015
<b>Net sales:</b>			
Fuel Specialties	\$ 523.8	\$ 509.6	\$ 532.8
Performance Chemicals	419.5	138.7	155.0
Oilfield Services	304.4	191.7	265.0
Octane Additives	59.1	43.4	59.5
	\$ 1,306.8	\$ 883.4	\$ 1,012.3
<b>Gross profit:</b>			
Fuel Specialties	\$ 188.2	\$ 186.4	\$ 176.0
Performance Chemicals	75.8	43.4	42.4
Oilfield Services	109.3	76.4	99.1
Octane Additives	30.0	26.1	28.5
	\$ 403.3	\$ 332.3	\$ 346.0
<b>Operating income:</b>			
Fuel Specialties	\$ 107.1	\$ 110.6	\$ 102.1
Performance Chemicals	32.6	16.0	16.3
Oilfield Services	9.5	(4.7)	9.0
Octane Additives	26.7	22.7	24.7
Pension credit	4.4	6.7	0.2
Corporate costs	(47.9)	(53.9)	(38.3)
Adjustment to fair value of contingent consideration	0.0	9.4	40.7
(Loss)/profit on disposal of subsidiary	(0.9)	(1.4)	1.6
Foreign exchange loss on liquidation of subsidiary	(1.8)	0.0	0.0
Total operating income	\$ 129.7	\$ 105.4	\$ 156.3
<b>Included in net income:</b>			
Other income/(expense), net	\$ 6.6	\$ 0.9	\$ 0.0
Interest expense, net	(8.2)	(3.2)	(4.0)
Income before income taxes	128.1	103.1	152.3
Income taxes	(66.3)	(21.8)	(32.8)
Net income	\$ 61.8	\$ 81.3	\$ 119.5



**Table of Contents****Results of Operations Fiscal 2017 compared to Fiscal 2016:**

(in millions, except ratios)	2017	2016	Change	
<b>Net sales:</b>				
Fuel Specialties	\$ 523.8	\$ 509.6	\$ 14.2	+3%
Performance Chemicals	419.5	138.7	280.8	n/a
Oilfield Services	304.4	191.7	112.7	+59%
Octane Additives	59.1	43.4	15.7	+36%
	\$ 1,306.8	\$ 883.4	\$ 423.4	+48%
<b>Gross profit:</b>				
Fuel Specialties	\$ 188.2	\$ 186.4	\$ 1.8	+1%
Performance Chemicals	75.8	43.4	32.4	+75%
Oilfield Services	109.3	76.4	32.9	+43%
Octane Additives	30.0	26.1	3.9	+15%
	\$ 403.3	\$ 332.3	\$ 71.0	+21%
<b>Gross margin (%):</b>				
Fuel Specialties	35.9	36.6	-0.7	
Performance Chemicals	18.1	31.3	-13.2	
Oilfield Services	35.9	39.9	-4.0	
Octane Additives	50.8	60.1	-9.3	
Aggregate	30.9	37.6	-6.7	
<b>Operating expenses:</b>				
Fuel Specialties	\$ (81.1)	\$ (75.8)	\$ (5.3)	+7%
Performance Chemicals	(43.2)	(27.4)	(15.8)	+58%
Oilfield Services	(99.8)	(81.1)	(18.7)	+23%
Octane Additives	(3.3)	(3.4)	0.1	-3%
Pension credit	4.4	6.7	(2.3)	-34%
Corporate costs	(47.9)	(53.9)	6.0	-11%
Adjustment to fair value of contingent consideration	0.0	9.4	(9.4)	n/a
Loss on disposal of subsidiary	(0.9)	(1.4)	0.5	-36%
Foreign exchange loss on liquidation of subsidiary	(1.8)	0.0	(1.8)	n/a
	\$ (273.6)	\$ (226.9)	\$ (46.7)	+21%

**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:

<b>Change (%)</b>	<b>Americas</b>	<b>EMEA</b>	<b>ASPAC</b>	<b>AvTel</b>	<b>Total</b>
Volume	+11	-10	-1	-16	-3
Price and product mix	-6	+11	+6	+7	+5
Exchange rates	0	+2	0	0	+1
	+5	+3	+5	-9	+3

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Volumes in the Americas were higher as a result of increased demand following a slower than normal end to 2016. Price and product mix in the Americas was adversely impacted by increased sales of lower margin products. Volumes in EMEA and ASPAC decreased due to customer reformulation to our new technologies. Price and product mix in EMEA and ASPAC benefited from increased sales of higher margin products. AvTel volumes were lower than the prior year due to variations in the timing and level of demand from customers, together with a favorable price mix. EMEA benefited from favorable exchange rate movements year over year, driven by a strengthening of the European Union euro against the U.S. dollar.

*Gross margin:* the year on year decrease of 0.7 percentage points was adversely impacted by lower sales of higher margin products compared to a strong prior year, partly offset by the benefit of a stronger European Union euro versus the U.S. dollar towards the end of the year.

*Operating expenses:* the year on year increase of \$5.3 million was driven by \$3.4 million higher selling and administrative expenses and \$1.9 million higher research and development expenses. Higher performance based personnel-related compensation has increased expenses year on year.

**Performance Chemicals**

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

Change (%)	Americas	EMEA	ASPAC	Acquisition	Total
Volume	+16	+5	+11	0	+13
Acquisition	0	0	0	+195	+195
Price and product mix	-8	+4	-7	0	-6
Exchange rates	0	0	-1	0	0
	+8	+9	+3	+195	+202

Excluding the Huntsman acquisition, increased Personal Care demand led to higher volumes in all our markets. Price and product mix in the Americas and ASPAC was adversely affected by pricing pressures in Personal Care, while EMEA benefited from favorable price and product mix in Personal Care. ASPAC was adversely impacted by exchange rate movements year over year, driven by a weakening of the British pound sterling against the U.S. dollar. Sales growth from the acquisition of our Huntsman business at the end of 2016 has been excluded from the market analysis above and included as one variance for the segment total.

*Gross margin:* the year on year decrease of 13.2 percentage points was driven by the dilutive effect of the lower margins for our acquired Huntsman business together with some one-off events for an unplanned plant outage and raw materials purchasing and pricing issues in the second quarter for the acquired business.

*Operating expenses:* the year on year increase of \$15.8 million is due to \$17.6 million additional expenses within our acquired Huntsman business, partly offset by a reduction in performance based personnel-related compensation and the favorable impact of a \$1.0 million one-off commercial legal settlement in the prior year.

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### **Oilfield Services**

*Net sales:* the year on year increase of \$112.7 million was due to an improvement in customer demand for all our product lines following the rising customer activity as oil prices have recovered. Overall volumes increased by 60 percent year on year, partly offset by an adverse price and product mix of 1 percent.

*Gross margin:* the year on year decrease of 4.0 percentage points, compared with a strong prior year, is driven by the mix of customer activity and the adverse effect of Hurricane Harvey on raw material prices and availability.

*Operating expenses:* the year on year increase of \$18.7 million was primarily driven by \$15.3 million higher selling and technical support expenses required to service the increase in customer demand, together with \$1.2 million additional research and development expenses and \$2.2 million higher administration costs to support the business growth.

### **Octane Additives**

*Net sales:* have increased by \$15.7 million compared to the prior year, due to the phasing of orders from our one remaining refinery customer.

*Gross margin:* the year on year decrease of 9.3 percentage points was due to lower volumes of production in the current year leading to higher manufacturing costs per tonne.

*Operating expenses:* the year on year decrease of \$0.1 million was primarily due to a reduction in the provisions for doubtful debts.

### **Other Income Statement Captions**

*Pension credit:* is non-cash, and was a \$4.4 million net credit in 2017 compared to a \$6.7 million net credit in 2016 primarily driven by higher amortization of actuarial losses.

*Corporate costs:* the year on year decrease of \$6.0 million related to \$4.4 million non-recurring acquisition-related costs in the prior year for our Huntsman business, partly offset by \$1.9 million of integration related costs in the current year; together with lower performance based personnel-related compensation and the benefit of the weaker British pound sterling against the U.S. dollar for our Ellesmere Port cost base over the year.

*Adjustment to fair value of contingent consideration:* in the prior year there was a contingent consideration credit of \$9.4 million related to an acquisition in 2014.

*Loss on disposal of subsidiary:* the loss of \$0.9 million relates to an indemnity claim in relation to residual testing in the Aroma Chemicals business which was sold in 2015.

*Foreign exchange loss on liquidation of subsidiary:* the \$1.8 million loss relates to the reclassification of historic foreign exchange translations of net assets from accumulated other comprehensive losses, for our captive insurance company which was liquidated in the first quarter of 2017.



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*Other net income/(expense)*: other net income of \$6.6 million related to \$7.5 million of gains on translation of net balances denominated in non-functional currencies mainly in our European businesses, partly offset by losses of \$0.9 million on foreign currency forward exchange contracts. In the prior year, other net income of \$0.9 million primarily related to \$4.4 million net gains on foreign currency forward contracts, partly offset by losses of \$3.5 million on translation of net assets denominated in non-functional currencies in our European businesses.

*Interest expense, net*: was \$8.2 million in 2017 compared to \$3.2 million in 2016, driven by the additional term loan related to the Huntsman acquisition, increased working capital requirements funded by our credit facility and the recent rise in LIBOR impacting our revolving credit facility borrowing.

*Income taxes*: The effective tax rate was 51.8% and 21.1% in 2017 and 2016, respectively. The adjusted effective tax rate, once adjusted for the items set out in the following table, was 20.2% in 2017 compared with 22.4% in 2016. 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>2017</b>	<b>2016</b>
Income before income taxes	\$ 128.1	\$ 103.1
Adjustment to fair value of contingent consideration	0.0	(9.4)
Adjustment to acquisition accounting for inventory fair valuation	1.7	0.0
Loss on disposal of subsidiary	0.9	1.4
Foreign exchange loss on liquidation of subsidiary	1.8	0.0
Adjustment for stock compensation	4.0	0.0
	<b>\$ 136.5</b>	<b>\$ 95.1</b>
Income taxes	\$ 66.3	\$ 21.8
Adjustment of income tax provisions	0.5	1.6
Tax on adjustments to fair value of contingent consideration	0.0	(3.6)
Tax on stock compensation	3.1	0.0
Tax on adjustment to fair value accounting	0.3	0.0
Tax Cuts & Jobs Act 2017 provisional impact	(40.6)	0.0
(Deduct)/add back other discrete items	(2.0)	1.5
	<b>\$ 27.6</b>	<b>\$ 21.3</b>
GAAP effective tax rate	51.8%	21.1%
Adjusted effective tax rate	20.2%	22.4%

The most significant factor impacting our effective rate is the recognized implications of the Tax Reform Act. As a result of the Act, we accrued a provisional estimate of the mandatory

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transition tax on our accumulated earnings as of December 31, 2017, resulting in an increase to income tax expense of \$47.7 million. In addition, our U.S. deferred tax assets and liabilities were re-measured from 35% to 21% at the same date, which resulted in \$7.1 million of deferred income tax benefit.

In addition to those mentioned above, the mix of taxable profits in the different geographical jurisdictions in which the Group operates continues to have a significant positive impact on the effective tax rate.

The foreign tax rate differential arising from profits being earned in foreign jurisdictions with lower tax rates in 2017 was \$17.5 million (2016 \$17.1 million). In 2017, the Company's income tax expense benefited to a greater degree from a proportion of its overall profits arising in Switzerland than in 2016. This resulted in an \$8.2 million benefit in Switzerland (2016 \$7.8 million). In addition, there was an \$8.3 million benefit in relation to the United Kingdom (2016 \$8.4 million), a \$0.7 million benefit in relation to Germany (2016 \$0.5 million), and a \$0.3 million benefit in other jurisdictions (2016 \$0.3 million benefit).

Foreign income inclusions arise each year from certain types of income earned overseas being taxable under U.S. tax regulations. The Tax Reform Act will substantially change the U.S. taxation of income earned overseas in 2018 and future years. In 2017, income earned overseas and taxable under U.S. regulations includes Subpart F income, principally from foreign based company sales in the United Kingdom, and 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 2017, Subpart F income and the associated Section 78 gross up resulted in U.S. taxation of \$7.1 million (2016 \$5.7 million). Certain overseas subsidiaries taxable under the U.S. tax regime generated taxable income of \$2.4 million (2016 \$0.2 million loss).

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, \$5.6 million of foreign tax credits were utilized during 2017 to offset the incremental U.S. taxes arising from foreign income inclusions in the year, excluding those associated with the one-time mandatory transition tax inclusion (2016 \$6.1 million), all generated during 2017.

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

**Table of Contents****Results of Operations Fiscal 2016 compared to Fiscal 2015:**

(in millions, except ratios)	2016	2015	Change	
<b>Net sales:</b>				
Fuel Specialties	\$ 509.6	\$ 532.8	\$ (23.2)	-4%
Performance Chemicals	138.7	155.0	(16.3)	-11%
Oilfield Services	191.7	265.0	(73.3)	-28%
Octane Additives	43.4	59.5	(16.1)	-27%
	\$ 883.4	\$ 1,012.3	\$ (128.9)	-13%
<b>Gross profit:</b>				
Fuel Specialties	\$ 186.4	\$ 176.0	\$ 10.4	+6%
Performance Chemicals	43.4	42.4	1.0	+2%
Oilfield Services	76.4	99.1	(22.7)	-23%
Octane Additives	26.1	28.5	(2.4)	-8%
	\$ 332.3	\$ 346.0	\$ (13.7)	-4%
<b>Gross margin (%):</b>				
Fuel Specialties	36.6	33.0	+3.6	
Performance Chemicals	31.3	27.4	+3.9	
Oilfield Services	39.9	37.4	+2.5	
Octane Additives	60.1	47.9	+12.2	
Aggregate	37.6	34.2	+3.4	
<b>Operating expenses:</b>				
Fuel Specialties	\$ (75.8)	\$ (73.9)	\$ (1.9)	+3%
Performance Chemicals	(27.4)	(26.1)	(1.3)	+5%
Oilfield Services	(81.1)	(90.1)	9.0	-10%
Octane Additives	(3.4)	(3.8)	0.4	-11%
Pension credit	6.7	0.2	6.5	n/a
Corporate costs	(53.9)	(38.3)	(15.6)	+41%
Adjustment to fair value of contingent consideration	9.4	40.7	(31.3)	+77%
(Loss)/profit on disposal of subsidiary	(1.4)	1.6	(3.0)	n/a
	\$ (226.9)	\$ (189.7)	\$ (37.2)	+20%

**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:

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<b>Change (%)</b>	<b>Americas</b>	<b>EMEA</b>	<b>ASPAC</b>	<b>AvTel</b>	<b>Total</b>
Volume	-14	+11	+3	+4	0
Price and product mix	-2	-9	-1	+4	-3
Exchange rates	0	-1	0	0	-1
	-16	+1	+2	+8	-4

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Volumes in the Americas were lower than the prior year due to softer fuel demand, a warmer winter and a change in the refinery crude slates. EMEA and ASPAC volumes increased from the prior year driven by increased demand for high volume low margin products. Price and product mix in EMEA and ASPAC was adversely impacted by the increased sales of lower margin products together with some pricing pressures. AvTel volumes were higher than the prior year due to new customer orders combined with a favorable price and product mix from a richer customer mix. EMEA was adversely impacted by exchange rate movements year over year, driven 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 3.6 percentage points was primarily achieved from reduced sales of lower margin products in the Americas, together with the positive effect of weaker exchange rates versus the U.S. dollar on our cost base in EMEA and ASPAC and the higher margin contribution from additional AvTel volumes.

*Operating expenses:* the year on year increase of \$1.9 million, was primarily driven by increased share-based compensation accruals due to the rise in the Innospec share price in the year together with increased provisions against doubtful debts.

**Performance Chemicals**

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

Change (%)	Americas	EMEA	ASPAC	Aroma Chemicals	Total
Volume	+6	+29	+18	0	+12
Disposals	0	0	0	-18	-18
Price and product mix	-2	-15	+1	0	-4
Exchange rates	0	-3	-4	0	-1
	+4	+11	+15	-18	-11

Volumes were higher in all our regions, driven by increased Personal Care volumes. Americas and EMEA experienced pricing pressures in Personal Care which adversely affected the price and product mix. ASPAC benefited from favorable pricing in Personal Care. A weakening of the European Union euro and British pound sterling against the U.S. dollar resulted in an adverse exchange rate variance for EMEA and ASPAC. The disposal of our Aroma Chemicals business in 2015 has been excluded from the market analysis above and included as one variance for the segment total.

*Gross margin:* the year on year increase of 3.9 percentage points was primarily driven by a greater proportion of sales from our higher margin Personal Care business following the disposal of our lower margin Aroma Chemicals business in the prior year, together with the positive effect of weaker exchange rates versus the U.S. dollar on our cost base in EMEA and ASPAC.

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*Operating expenses:* the year on year increase of \$1.3 million is primarily due to a \$1.0 million commercial legal settlement with a distributor; together with higher share-based compensation accruals driven by the rise in the Innospec share price in the year and higher performance related compensation; partly offset by a \$0.6 million reduction due to the disposal of our Aroma Chemicals business in the prior year.

## **Oilfield Services**

*Net sales:* the year on year decrease of \$73.3 million was primarily due to a reduction in customer activity especially in well completion, following the decline in oil prices in prior years. Customer activity and confidence has improved in 2016 leading to a 22% growth in sales for the fourth quarter compared to the fourth quarter of 2015. Overall volumes declined by 13 percent year on year, together with an adverse price and product mix of 15 percent.

*Gross margin:* the year on year increase of 2.5 percentage points was primarily due to a favorable sales mix driven by a higher proportion of sales from our higher margin production business.

*Operating expenses:* the year on year decrease of \$9.0 million was driven by our cost reduction programs and lower selling and technical support expenses to align with the decline in customer demand.

## **Octane Additives**

*Net sales:* have decreased by \$16.1 million compared to the prior year due to the phasing of orders from our one remaining refinery customer.

*Gross margin:* the year on year increase of 12.2 percentage points was primarily due to higher volumes of production in 2016 generating favorable manufacturing variances together with the benefit of a weaker British pound sterling against the U.S. dollar for our Ellesmere Port cost base.

*Operating expenses:* the year on year decrease of \$0.4 million was due to the continuing efficient management of the cost base and the benefit of a weaker British pound sterling against the U.S. dollar for our Ellesmere Port cost base.

## **Other Income Statement Captions**



*Pension credit:* is non-cash, and was a \$6.7 million net credit in 2016 compared to a \$0.2 million net credit in 2015 primarily driven by lower interest cost on the projected benefit obligation.

*Corporate costs:* the year on year increase of \$15.6 million, related to \$4.6 million higher amortization and other costs related to the EMEA and ASPAC deployment of our group wide ERP system; \$4.4 million acquisition-related professional fees; \$3.2 million higher legal, professional and other expenses primarily due to the recovery of legal fees in the prior year

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and a \$3.4 million increase related to higher personnel-related compensation, including higher accruals for share-based compensation driven by the rise in the Innospec share price in the year.

*Adjustment to fair value of contingent consideration:* the credit of \$9.4 million relates to an adjustment to the carrying value of our liability for contingent consideration of \$10.3 million, partly offset by the accretion charge of \$0.9 million, both in relation to our acquisition of Independence Oilfield Chemicals LLC ( Independence ). The contingent consideration payable at December 31, 2016 has been calculated based on the actual trading results through the period to October 31, 2016, although the amount to be paid is subject to final agreement with the previous owners.

*(Loss)/profit on disposal of subsidiary:* the disposal of our Aroma Chemicals business generated a \$1.4 million loss on disposal in 2016 compared to a profit on disposal of \$1.6 million in the prior year. The loss on disposal in 2016 related to the finalization of the assets and liabilities disposed.

*Other net income/(expense):* other net income of \$0.9 million primarily related to \$4.4 million net gains on foreign currency forward contracts, partly offset by losses of \$3.5 million on translation of net assets denominated in non-functional currencies in our European businesses. In 2015, other net expense of \$0.0 million primarily related to gains of \$1.4 million on foreign currency forward exchange contracts, offset by \$1.4 million of losses on translation of net assets denominated in non-functional currencies in our European businesses.

*Interest expense, net:* was \$3.2 million in 2016 compared to \$4.0 million in 2015, with the reduction being due to the higher amortization of deferred finance costs in the prior year, lower average net debt in 2016 and lower borrowing costs within our revised credit facility, partly offset by the rise in LIBOR during 2016.

*Income taxes:* the effective tax rate was 21.1% and 21.5% in 2016 and 2015, respectively. The effective tax rate, as adjusted for changes to the fair value of contingent consideration, adjustments to income tax positions and the tax impact of other discrete items, was 22.4% in 2016 compared with 20.1% in 2015. The Company believes that this adjusted effective tax rate, a non-GAAP financial measure, provides useful information to investors and may assist them in evaluating the Company's underlying performance and identifying operating trends. In addition, management uses this non-GAAP financial measure internally to evaluate the performance of the Company's operations and for planning and forecasting in subsequent periods.

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(in millions, except ratios)	2016	2015
Income before income taxes	\$ 103.1	\$ 152.3
Adjustment to fair value of contingent consideration	(9.4)	(40.7)
Adjustment to acquisition accounting for inventory fair valuation	0.0	3.7
Loss/(profit) on disposal of subsidiary	1.4	(1.6)
	\$ 95.1	\$ 113.7
Income taxes	\$ 21.8	\$ 32.8
Add back adjustment of income tax provisions	1.6	2.3
Add back tax on adjustments to fair value of contingent consideration	(3.6)	(15.5)
Add back other discrete items	1.5	3.2
	\$ 21.3	\$ 22.8
GAAP effective tax rate	21.1%	21.5%
Adjusted effective tax rate	22.4%	20.1%

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)	2016	2015
Foreign tax rate differential	\$ (17.1)	\$ (14.5)
Foreign income inclusions	0.5	2.7
Deferred tax credit from United Kingdom income tax rate reduction on pensions	(0.6)	(1.1)

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 2016, the Company's income tax expense benefited to a greater degree from a proportion of its overall profits arising in Switzerland than in 2015. This resulted in a \$7.8 million benefit in Switzerland (2015 \$7.5 million). In addition, there was an \$8.4 million benefit in relation to the United Kingdom (2015 \$6.8 million) and a \$0.5 million benefit in relation to Germany (2015 \$0.3 million), and a \$0.3 million benefit in other jurisdictions (2015 \$0.1 million reduction).

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 2016, Subpart F income and the associated Section 78 gross up resulted in U.S. taxation of \$5.7 million (2015 \$4.7 million). Certain overseas subsidiaries taxable under the U.S. tax regime incurred losses of \$0.2 million (2015 \$0.2 million losses).

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

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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, \$6.1 million of foreign tax credits were utilized during 2016 to offset the incremental U.S. taxes arising from foreign income inclusions in the year (2015 \$4.7 million). Of this balance, \$0.5 million of foreign tax credit carry forwards from earlier years was utilized (2015 \$2.4 million). As at December 31, 2016, the Company has utilized all foreign tax credit carry forwards from earlier years.

The United Kingdom's 1% reduction in the corporation tax rate effective from April 2020 from 18% to 17%, enacted in September 2016, resulted in a deferred tax credit of \$0.6 million in the fourth quarter of 2016 primarily 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.

**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)	2017	2016
Total current assets	\$ 561.5	\$ 441.1
Total current liabilities	(261.6)	(183.1)
Working capital	299.9	258.0
Less cash and cash equivalents	(90.2)	(101.9)
Less prepaid income taxes	(2.8)	(4.8)
Less other current assets	(1.1)	0.0
Add back current portion of accrued income taxes	15.8	9.4
Add back current portion of long-term debt	15.8	10.3
Add back current portion of finance leases	2.7	1.6
Add back current portion of plant closure provisions	5.2	6.7
Add back current portion of deferred income	0.1	0.1
Adjusted working capital	\$ 245.4	\$ 179.4

During 2017 our working capital increased by \$41.9 million, while our adjusted working capital has increased by \$66.0 million. The difference is primarily due to the exclusion of cash and cash equivalents and long term debt from the adjusted working capital measure. The Huntsman acquisition accounted for approximately \$34.0 million of these movements which

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included a one-off working capital funding requirement post acquisition, reflecting the structure of the acquisition, which excluded the transfer of trade receivables and payables. The remaining movements are primarily driven by the timing of demand from our customers.

We had a \$90.1 million increase in trade and other accounts receivable primarily related to a \$61.9 million increase for the Huntsman acquisition in our Performance Chemicals segment. The increase in sales in our Fuel Specialties and Oilfield Services segments has also increased receivables balances. Days sales outstanding in our Fuel Specialties segment increased from 46 days to 51 days; increased in our Performance Chemicals segment from 55 days to 68 days; and increased from 54 days to 58 days in our Oilfield Services segment.

We had a \$36.0 million increase in inventories, which is primarily related to a \$23.4 million increase in our Fuel Specialties segment due to the timing of demand from customers. Days sales in inventory in our Fuel Specialties segment increased from 84 days to 100 days; decreased in our Performance Chemicals segment from 94 days to 51 days; and decreased from 72 days to 63 days in our Oilfield Services segment.

Prepaid expenses increased \$6.9 million, from \$6.2 million to \$13.1 million, driven by a payment in advance of \$4.2 million in our South American business, together with the timing of invoices received and the normal expensing of prepaid invoices.

We had a \$67.0 million increase in accounts payable and accrued liabilities primarily related to a \$37.1 million increase for the Huntsman acquisition in our Performance Chemicals segment and a \$22.1 million increase for our Oilfield Services segment driven by increased customer activity. Creditor days in our Fuel Specialties segment increased from 28 days to 32 days; in our Performance Chemicals segment increased from 32 days to 50 days; and increased from 32 days to 51 days in our Oilfield Services segment.

## **Operating Cash Flows**

We generated cash from operating activities of \$82.7 million in 2017 compared to \$105.5 million in 2016. Year over year cash from operating activities has been adversely impacted by the one-off working capital funding requirement of \$28.0 million for the Huntsman acquisition.

## **Cash**

At December 31, 2017 and 2016, we had cash and cash equivalents of \$90.2 million and \$101.9 million, respectively, of which \$74.1 million and \$90.2 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 and we currently do not expect to make a repatriation in the foreseeable future. The Tax Reform Act requires, amongst other provisions, a one-time mandatory transition tax on accumulated foreign earnings, for which we have recorded a provisional estimated tax liability at December 31, 2017 of \$47.7 million. We intend to pay the tax liability over an eight-year payment schedule as prescribed by the Tax Reform Act.



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**Debt**

On December 14, 2016, Innospec and certain subsidiaries of the Company entered into a Third Amendment and Restatement Agreement with various lenders which amends and restates the Company's credit facility agreement dated December 14, 2011, as amended and restated on August 28, 2013 and November 6, 2015 (the Pre-Existing Credit Agreement; the Pre-Existing Credit Agreement, as amended and restated pursuant to the Third Amendment and Restatement Agreement, being the Amended Credit Agreement. )

The Amended Credit Agreement retains the \$200,000,000 revolving credit facility available to the Company and adds a term loan facility of \$110,000,000. The termination date of the revolving facility remains November 6, 2020. A repayment for the term loan of \$11,000,000 was made on December 29, 2017, to be followed by a \$16,500,000 installment due December 28, 2018 and a \$22,000,000 installment due December 28, 2019, with the outstanding balance due on November 6, 2020.

The term loan and 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, 2017 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, 2017, we had \$121.0 million of debt outstanding under the revolving credit facility, \$99.0 million of debt outstanding on our term loan and \$5.9 million of obligations under finance leases relating to certain fixed assets within our Fuel Specialties and Oilfield Services segments.

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At December 31, 2017, our maturity profile of long-term debt and finance leases is set out below:

<b>(in millions)</b>	
2018	\$ 18.5
2019	22.9
2020	182.5
2021	0.4
<b>Total debt</b>	<b>224.3</b>
Current portion of long-term debt and finance leases	(18.5)
<b>Long-term debt and finance leases, net of current portion</b>	<b>\$ 205.8</b>

The fair value of long-term debt approximates to the carrying value, as the discounting to its present value is offset by the interest rate swaps.

**Outlook**

Our business has performed well in 2017, and this is reflected in our positive results. This is continued evidence that our strategy is working. Delivering new products to customers in our key markets, combined with good customer service has enabled us to meet our expectations, in spite of some very challenging market conditions. The business has continued to generate good cash flows even in the light of the required working capital investments to grow and integrate the acquired business, and our leverage has been further improved.

We continue to have expectations that our Fuel Specialties, Performance Chemicals and Oilfield Services businesses will deliver good performances in 2018.

We expect to continue to focus on the development of new technology, combined with good customer service, in order to maintain our competitive advantage.

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 2018 and beyond.

At December 31, 2017, the Company had cash and cash equivalents of \$90.2 million, long-term debt of \$218.4 million and finance leases of \$5.9 million, giving total debt of \$224.3 million, resulting in a net debt position of \$134.1 million.

During 2017 the Company did not repurchase any of our common stock under the authorized share repurchase program announced on November 3, 2015.

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, 2017 and the effect of those obligations on future cash flows:

(in millions)	Total	2018	2019-20	2021-22	Thereafter
<b><u>Operating activities</u></b>					
Planned funding of pension obligations	\$ 5.2	\$ 1.0	\$ 2.1	\$ 2.1	\$ 0.0
Remediation payments	46.1	5.2	8.5	5.0	27.4
Operating lease commitments	20.3	4.3	6.3	3.8	5.9
Raw material purchase obligations	19.8	6.4	8.2	3.4	1.8
Interest payments on debt	11.5	4.8	6.7	0.0	0.0
<b><u>Investing activities</u></b>					
Capital commitments	2.3	2.3	0.0	0.0	0.0
<b><u>Financing activities</u></b>					
Long-term debt obligations	218.4	15.7	202.7	0.0	0.0
Finance leases	5.9	2.7	2.6	0.6	0.0
<b>Total</b>	<b>\$ 329.5</b>	<b>\$ 42.4</b>	<b>\$ 237.1</b>	<b>\$ 14.9</b>	<b>\$ 35.1</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 \$1.0 million in 2018, \$2.1 million in 2019-20 and \$2.1 million in 2021-22. It is not considered meaningful to predict amounts beyond 2022 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.

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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 December 14, 2016, Innospec and certain subsidiaries of the Company entered into a Third Amendment and Restatement Agreement with various lenders which amends and restates the Company's credit facility agreement dated December 14, 2011, as amended and restated on August 28, 2013 and November 6, 2015 (the "Pre-Existing Credit Agreement" the Pre-Existing Credit Agreement, as amended and restated pursuant to the Third Amendment and Restatement Agreement, being the "Amended Credit Agreement.")

The Amended Credit Agreement retains the \$200,000,000 revolving credit facility available to the Company and adds a term loan facility of \$110,000,000. The termination date of the revolving facility remains November 6, 2020. A repayment for the term loan of \$11,000,000 was made on December 29, 2017, to be followed by a \$16,500,000 installment due December 28, 2018 and a \$22,000,000 installment due December 28, 2019, with the outstanding balance due on November 6, 2020.

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

## **Environmental Matters and Plant Closures**

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

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

We evaluate costs for remediation, decontamination and demolition projects on a regular basis. Full provision is made for those costs to which we are committed under environmental laws amounting to \$46.1 million at December 31, 2017. Remediation expenditure utilizing these provisions was \$2.4 million, \$2.7 million and \$2.6 million in the years 2017, 2016 and 2015, respectively.

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**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, 2017 the Company had cash and cash equivalents of \$90.2 million, and long-term debt and finance leases of \$224.3 million (including current portion). Long-term debt comprises a \$200,000,000 revolving credit facility available to the Company and a remaining term loan facility of \$99,000,000. The credit facilities carry 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, 2017, \$121.0 million was drawn under the revolving credit facility and the term loan facility of \$99.0 million was drawn. A repayment for the term loan of \$11,000,000 was made on December 29, 2017, to be followed by a \$16,500,000 installment due December 28, 2018 and a \$22,000,000 installment due December 28, 2019, with the outstanding balance due on November 6, 2020.

The Company has taken out interest rate swaps to hedge interest rate risk on core debt. As at December 31, 2017, interest rate swaps with a notional value of \$149,000,000 were in place. Fixed interest rates payable under the interest



rate swaps vary from 1.42% to 1.67%. Interest

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rate swaps in place to hedge interest rate risk on the term loan have an amortizing profile matching the amortization of the term loan.

The Company has \$224.3 million long-term debt and finance leases (including the current portion) which is partly offset by \$90.2 million cash and cash equivalents. The interest payable on long-term debt (excluding the margin) exceeds the interest receivable on positive cash balances. On a gross basis, assuming no additional interest on the cash balances and after deducting interest rate hedging, a hypothetical absolute change of 1% in U.S. base interest rates for a one-year period would impact net income and cash flows by approximately \$0.7 million before tax. On a net basis, assuming additional interest on the cash balances, a hypothetical absolute change of 1% in U.S. base interest rates for a one-year period would impact net income and cash flows by approximately \$0.2 million before tax.

The above does not consider the effect of interest or exchange rate changes on overall activity nor management action to mitigate such changes. As at December 31, 2017, Innospec has interest rate swaps which mitigate a proportion of the risk identified above.

## **Exchange Rate Risk**

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

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

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

The Company's objective in managing the exposure to foreign currency fluctuations is to reduce earnings and cash flow volatility associated with foreign currency exchange rate changes. Accordingly, the Company enters into various contracts that change in value as foreign currency exchange rates change to protect the U.S. dollar value of its existing

foreign currency denominated assets, liabilities, commitments, and cash flows. The Company also uses foreign currency forward exchange contracts to offset a portion of the Company's exposure to certain foreign currency denominated revenues so that gains and losses on these

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contracts offset changes in the U.S. dollar value of the related foreign currency denominated revenues. The objective of the hedging program is to reduce earnings and cash flow volatility related to changes in foreign currency exchange rates.

The trading of our Fuel Specialties, Performance Chemicals and Oilfield Services segments is inherently naturally hedged and accordingly changes in exchange rates would not be material to our earnings or financial position. The cost base of our Octane Additives reporting segment and corporate costs, however, are largely denominated in British pound sterling. A 5% strengthening in the U.S. dollar against British pound sterling would increase reported operating income by approximately \$2.8 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 and vegetable-based feedstocks which can be subject to periods of rapid and significant cost instability. These fluctuations in cost can be caused by political instability in oil producing nations and elsewhere, or other factors influencing global supply and demand of these materials, over which we have no or little control. We use long-term contracts (generally with fixed or formula-based costs) and advance bulk purchases to help ensure availability and continuity of supply, and to manage the risk of cost increases. From time to time we enter into hedging arrangements for certain raw materials, but do not typically enter into hedging arrangements for all raw materials, chemicals or energy costs. Should the costs of raw materials, chemicals or energy increase, and should we not be able to pass on these cost increases to our customers, then operating margins and cash flows from operating activities would be adversely impacted. Should raw material costs increase significantly, then the Company's need for working capital could similarly increase. Any of these risks could adversely impact our results of operations, financial position and cash flows.

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**Item 8 Financial Statements and Supplementary Data**

Report of IndependentRegistered Public Accounting Firm

To the stockholders and board of directors

Innospec Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Innospec Inc. and subsidiaries (the Company ) as of December 31, 2017 and 2016, 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, 2017, and the related notes (collectively, the consolidated financial statements ). We also have audited the Company s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinion

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

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

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

**Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (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 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.

/s/ KPMG Audit Plc

We have served as the Company's auditor since 2011.

Manchester, United Kingdom

February 15, 2018





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

	Years ended December 31		
	2017	2016	2015
Net sales	\$ 1,306.8	\$ 883.4	\$ 1,012.3
Cost of goods sold	(903.5)	(551.1)	(666.3)
Gross profit	403.3	332.3	346.0
Operating expenses:			
Selling, general and administrative	(239.5)	(209.5)	(206.7)
Research and development	(31.4)	(25.4)	(25.3)
Adjustment to fair value of contingent consideration	0.0	9.4	40.7
(Loss)/profit on disposal of subsidiary	(0.9)	(1.4)	1.6
Foreign exchange loss on liquidation of subsidiary	(1.8)	0.0	0.0
Total operating expenses	(273.6)	(226.9)	(189.7)
Operating income	129.7	105.4	156.3
Other income/(expense), net	6.6	0.9	0.0
Interest expense, net	(8.2)	(3.2)	(4.0)
Income before income taxes	128.1	103.1	152.3
Income taxes	(66.3)	(21.8)	(32.8)
Net income	\$ 61.8	\$ 81.3	\$ 119.5
Earnings per share:			
Basic	\$ 2.56	\$ 3.39	\$ 4.96
Diluted	\$ 2.52	\$ 3.33	\$ 4.86
Weighted average shares outstanding (in thousands):			
Basic	24,148	23,998	24,107
Diluted	24,486	24,442	24,612
Dividend declared per common share	\$ 0.77	\$ 0.67	\$ 0.61

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>2017</b>	<b>2016</b>	<b>2015</b>
Net income	\$ 61.8	\$ 81.3	\$ 119.5
Changes in cumulative translation adjustment, net of tax of \$(3.3) million, \$1.5 million and \$(0.2) million, respectively	44.0	(20.5)	(11.0)
Unrealized gains on derivative instruments, net of tax of \$(0.2) million, \$(0.1) million and \$0.0 million, respectively	0.9	0.3	0.0
Amortization of prior service credit, net of tax of \$0.2 million, \$0.2 million and \$0.2 million, respectively	(0.8)	(0.9)	(1.0)
Amortization of actuarial net losses, net of tax of \$(0.9) million, \$(0.5) million and \$(1.0) million, respectively	4.1	2.1	4.2
Actuarial net gains arising during the year, net of tax of \$(8.8) million, \$(0.8) million and \$(0.9) million, respectively	39.5	3.7	3.2
<b>Total comprehensive income</b>	<b>\$ 149.5</b>	<b>\$ 66.0</b>	<b>\$ 114.9</b>

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

<b>Accumulated other comprehensive loss for the years ended December 31</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Cumulative translation adjustment	\$ (36.5)	\$ (80.5)	\$ (60.0)
Unrealized gains on derivative instruments, net of tax of \$(0.3) million, \$(0.1) million and \$0.0 million, respectively	1.2	0.3	0.0
Unrecognized actuarial net losses, net of tax of \$9.9 million, \$19.4 million and \$20.5 million, respectively	(3.2)	(46.0)	(50.9)
<b>Accumulated other comprehensive loss</b>	<b>\$ (38.5)</b>	<b>\$ (126.2)</b>	<b>\$ (110.9)</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>2017</b>	<b>2016</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 90.2	\$ 101.9
Trade and other accounts receivable (less allowances of \$4.1 million and \$4.7 million, respectively)	244.5	154.4
Inventories (less allowances of \$12.6 million and \$8.6 million, respectively):		
Finished goods	145.9	118.1
Raw materials	63.9	55.7
Total inventories	209.8	173.8
Prepaid expenses	13.1	6.2
Prepaid income taxes	2.8	4.8
Other current assets	1.1	0.0
Total current assets	561.5	441.1
Net property, plant and equipment	196.0	157.4
Goodwill	361.8	374.8
Other intangible assets	163.3	144.4
Deferred tax assets	6.5	14.9
Pension asset	116.0	48.0
Other non-current assets	5.1	0.8
Total assets	\$ 1,410.2	\$ 1,181.4
<b>Liabilities and Equity</b>		
Current liabilities:		
Accounts payable	\$ 117.9	\$ 59.6
Accrued liabilities	104.1	95.4
Current portion of long-term debt	15.8	10.3
Current portion of finance leases	2.7	1.6
Current portion of plant closure provisions	5.2	6.7
Current portion of accrued income taxes	15.8	9.4
Current portion of deferred income	0.1	0.1
Total current liabilities	261.6	183.1
Long-term debt, net of current portion	202.6	258.5
Finance leases, net of current portion	3.2	2.9
Plant closure provisions, net of current portion	40.9	32.8
Accrued income taxes, net of current portion	41.7	0.0
Unrecognized tax benefits, net of current portion	2.5	2.3
Deferred tax liabilities	45.0	32.3
Pension liabilities and post-employment benefits	16.5	14.2
Deferred income, net of current portion	0.5	0.5
Other non-current liabilities	1.4	1.0
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	320.4	315.1
Treasury stock (5,204,181 and 5,483,341 shares at cost, respectively)	(93.3)	(97.5)
Retained earnings	605.0	561.8

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Accumulated other comprehensive loss	(38.5)	(126.2)
Total Innospec stockholders equity	793.9	653.5
Non-controlling interest	0.4	0.3
Total equity	794.3	653.8
Total liabilities and equity	\$ 1,410.2	\$ 1,181.4