CRODA

Innovation every day

Annual Report and Accounts 2016

We are the name behind the high performance ingredients and technologies in some of the biggest, most successful brands in the world; creating, making and selling speciality chemicals that are relied on by industries and consumers everywhere.

In this year's report

2016

Strategic Report

Directors' Report

Financial Statements

Other Information

Adjusted profit is stated before exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition and the tax thereon where applicable Non-statutory terms are defined in alternative performance measures on p27

Innovation driving profit growth

+13.2%

Adjusted profit before tax up 13.2% to £288.3m

Sales
£1,243.6m
2015: £1,081.7m +15.0%

Underlying sales growth in constant currency
3.1%
2015: 3.7%

Adjusted operating profit
£298.2m
2015: £264.2m +12.9%

NPP sales as % of Group sales
27.4%
2015: 26.1%

Adjusted earnings per share
155.8p
2015: 135.0p +15.4%

Energy from non-fossil fuel sources
21.3%
Rebased 2015: 20.5%

Proposed dividend per share
74.0p +7.2%
2015: 69.0p (ordinary dividend)
2015: 100.0p (special dividend)

Lost time injury rate per 200,000 hours worked
0.34
2015: 0.52

Our strategy

Delivering Growth
Delivering consistent top and bottom line growth

Driving Innovation
Increasing the proportion of protected innovation

Sustainable Solutions
Accelerating our customers' transition to sustainable solutions

Read more on **p05** and in the Chief Executive's Report on **p10**

Sustainability

Embedded in our strategic thinking, sustainability adds value to our Business.

People and community p13
86.7% of employees received training

Sustainable product innovation p21
63.0% increase in sales of products made with RSPO certified palm oil derivatives

Planet and process p28
9.5% reduction in Group water consumption compared to 2015

Global market sectors

4

Personal Care

Personal Care focuses on ingredients for skin, hair, sun protection and colour cosmetic products.

Adjusted operating profit

£143.1m

p14

Life Sciences

Life Sciences comprises three complementary businesses, Health Care, Crop Protection and Seed Enhancement.

Adjusted operating profit

£82.0m

p16

Performance Technologies

Performance Technologies delivers innovative ingredients to a wide range of niche, mostly industrial, markets.

Adjusted operating profit

£66.2m

p18

Industrial Chemicals

Industrial Chemicals is a small, diverse sector based on selling co-streams, developing novel niche applications and undertaking toll processing.

Adjusted operating profit

£6.9m

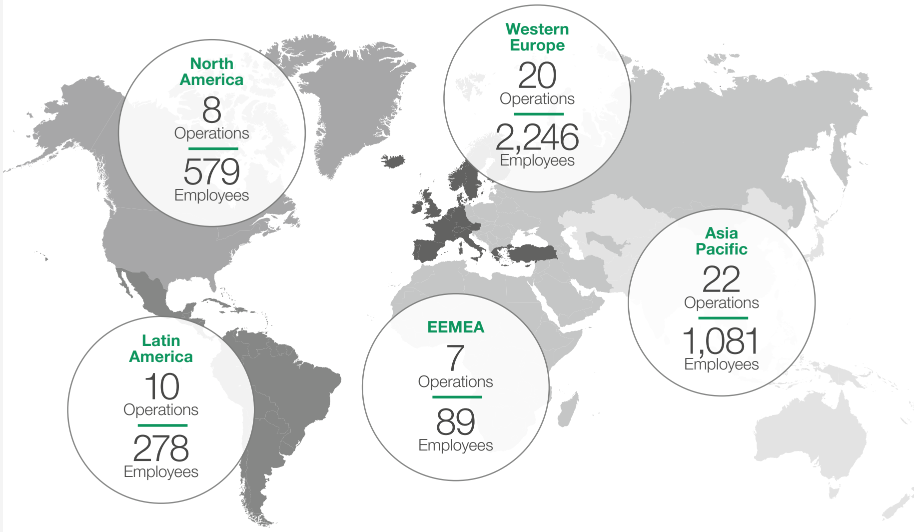
p20

Where we operate

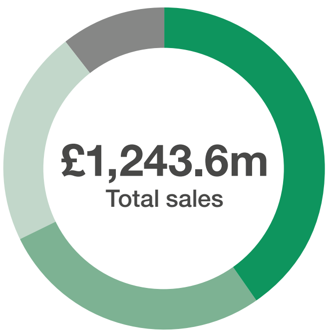
36
Countries across the world

4,273
Employees

Every day our global team works together, inspiring and influencing each other and our customers.

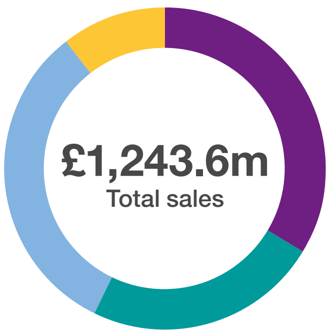


Sales by region



Europe, Middle East & Africa	£502.9m
North America	£341.9m
Asia Pacific	£270.0m
Latin America	£128.8m

Sales by sector



Personal Care	£420.6m
Life Sciences	£292.2m
Performance Technologies	£402.5m
Industrial Chemicals	£128.3m

Strategic Report

Chairman's Statement

A year of strong progress

"

Croda has a unique culture which blends commercial realism and customer intimacy with excellent technical, financial and operational skills."

Anita Frew
Chairman

Overview

As I reflect on Croda's achievements at the end of my first full year as Chairman, I am pleased to report record sales and profit performance, strong cash generation and enhanced returns to shareholders.

Our focus on growth market sectors, supported by continued innovation, capital investment and a commitment to the highest standards of health and safety and sustainability are important contributors to these strong results.

I have also been hugely impressed by the contribution and commitment of all of our employees, many of whom I meet during my regular programme of site visits. Croda has a unique culture which blends commercial realism and customer intimacy with excellent technical, financial and operational skills. There is a strong sense of shared values, matched by individual accountability and a willingness to do the right thing for all our stakeholders. It is a culture of 'we', not 'I' and this is a significant contributor to our continued success. On behalf of the Board, I would like to thank all of our hard working employees.

Strong sales and pre-tax profit performance

Sales for the year increased by 15% to £1,243.6m (2015: £1,087.1m) and adjusted profit before tax grew by 13.2% to £288.3m (2015: £254.7m), a strong performance in a difficult global trading environment. Sales and profit increased in all three Core Business sectors. I was particularly encouraged by the progress we achieved in our high value actives business in Personal Care, in integrating Incotec into the Life Sciences business and in the progressive strengthening of sales and margin in Performance Technologies. Coupled with excellent cash generation, this has positioned Croda for further growth in 2017.

Our strategic focus

We have a clear and differentiated strategy to deliver growth across our sectors and geographies. Croda is successful in finding fast growing market niches, staying ahead of the competition by identifying and developing products to satisfy unmet customer needs, and creating new differentiation in competitive markets. We find new applications; for example, taking sun care from the beach to use in thousands of every day skin care products. We find new international markets; for example, in Asia, where we are getting closer to the hundreds of smaller customers who are creating new trends. We find new technologies, such as the encapsulation business we acquired in 2016, supporting a record level of home-grown innovation. And in a world which is increasingly recognising the fragile planet on which we live, Croda is at the forefront of delivering sustainable ingredients for customers and their consumers.

Our talent, culture and values

Ensuring that we have the right people and talent for the future needs of our Business is critical to our continuing success. As a Board and Executive team, we spend considerable time on succession planning and talent development across our Businesses.

In addition, recognising the importance and value of our culture to our continued strong performance, this year the Board has worked on the development of our Croda culture plan, which links the Company culture, our values, behaviours and practices to our Business strategy, both of which work equally to deliver business success.

We now have the ability to assess how effective our culture and values are across our global businesses and regions and to ensure alignment between our culture and the key people processes of reward, performance management, succession planning and recruitment.

Board composition, engagement and performance

Dr. Keith Layden, Chief Technology Officer and President, Life Sciences, has decided to retire from the Company after 32 years of service. I am delighted that Keith has accepted the Board's invitation to continue as a Non-Executive Director and help guide Croda's highly successful innovation agenda further forward. I would like to thank Keith for his long service and exceptional contribution to Croda. Dr. Nick Challoner, President, Asia, will also become President of Life Sciences and lead Croda's Global Research and Technology function. These changes will take effect from 1 May 2017.

To be effective in its role, the Board requires a balance of skills, experience and diversity. We regularly undertake an assessment of the skills matrix of the Board and appraise their effectiveness. Further details on this process and our priorities are discussed more fully in the section on governance on p36 to 46.

The Board's needs in this regard will evolve over time to match the business and strategic requirements and we have clearly defined succession plans for both Executive and Non-Executive Directors.

We meet the current Board requirement in terms of gender diversity and we have well developed plans to enhance our progress throughout the organisation and embrace the business case for diversity in all its forms.

As I reflect on the performance of my Board colleagues over the last year, I have been impressed by the quality of debate, by the diversity of thought and the willingness to challenge constructively, by their commitment, the level of engagement and involvement in the businesses and by their strong sense of belief in the Croda culture.

Our Non-Executive Directors see attendance at Board and Committee meetings as only one part of their role. They regularly meet with senior management and spend time increasing their understanding of the Business through site visits, business presentations, leadership development meetings, informal briefings and Board dinners. In the Directors' Report, we set out more details of the full programme of activities throughout the year, including our site visits across our fast growing Asia region.

Dividend and returns to shareholders

Your Board seeks to deliver high quality profits, measured through a superior return on invested capital, earnings growth and strong cash returns. We have a clear policy in place to ensure that we reinvest profits for growth; provide regular returns to investors; supplement growth by selected acquisition, where appropriate; and maintain an appropriate balance sheet, returning excess capital to shareholders. Following our strong performance in 2016 and reflecting our confidence for the future, the Board is recommending an 8.6% increase in the final dividend for 2016. This is in addition to the increased interim dividend already paid and the 100 pence per share special dividend that we made in June 2016.

Outlook

Our priorities in 2017 are to drive profitability through a greater focus on premium, faster growth market niches, improve our performance in less differentiated markets and continue to grow profitability in lower margin businesses. We have seen some encouraging signs of improving sales trends and are confident of delivering continued progress in 2017.

Anita Frew
Chairman

Board site visits

During the year all of our Non-Executive Directors undertook manufacturing site visits outside of the normal Board site visits. Anita Frew and Alan Ferguson visited our manufacturing operations in China. They met with employees across all functions, including the sales and marketing teams, gaining insight into the exclusive customer projects and innovation pipelines for each of our market sectors. Both Alan and Anita were impressed with the close collaboration between the sales, marketing and R&D teams – an essential ingredient to providing our customers with solutions to their unmet needs.

Anita visited our manufacturing site in Shiga (Japan), an important site for our Personal Care and Health Care businesses and where we manufacture a number of our high purity ingredients and other NPP products. She had the opportunity to spend time with the site's quality team and discuss the important work they do in achieving the required level of Good Manufacturing Practice (GMP) certification to ensure compliance with our customers' rigorous quality standards.

Anita also met with the Korean management team and explored the accelerating level of growth in Asia and the high level of innovative products being developed in Korea.

Our Directors spent time in a more relaxed environment meeting informally with employees at all levels across the Business and enabling local teams to gain insights from a Board member.

Market Opportunities and Strategy

Maximising opportunities for growth

Our strategy is shaped by our response to three global mega trends, which all relate to the rapid expansion of the world's population. They provide opportunities for us to maximise our growth by delivering product benefits to consumers and also to futureproof our Business.

Global Mega Trends

Changing demographics

Largely due to revolutions in sanitation and health care over the last 100 years, people in developed economies are living longer and have more income and better access to buy a wider range of health, beauty and wellbeing products. In the developing world, population growth is driven by lower mortality rates which, together with an expanding middle class, is generating new markets for products that make a difference to living standards.

Fragile world

The impacts of global warming are accelerating as a result of increasing greenhouse gas emissions from the burning of more fossil fuels by an expanding population, coupled with the degradation of the natural means of the planet to counteract these effects. The consequences include water and land shortages and crop failure at a time when the world needs to support a growing population. Regulators are also demanding more stringent standards of environmental and social protection.

Changing expectations and behaviours

Fuelled by the convergence of social, mobile and 'big data', consumers' expectations are changing. They want greater choice and control, demanding more transparency in the products and services they use and anywhere, anytime access to information. Digital technologies make it easier for them to have their voices heard and also increase the speed at which new trends are adopted. Reacting to these demands, businesses are engaging start-ups, small independent ('Indie') customers and virtual communities as co-creators.

To find out how we create value, read our Business Model on **p06 and 07**

Our Strategic Approach

Delivering Growth

Through our direct selling business model, our people build intimate relationships with our customers large and small, working closely with them to target niche, rapidly growing markets where our innovative and sustainable approach is valued. We have a flexible and agile structure for growth that enables our people to stay local to our customers around the world, whilst working together as one global team to respond quickly to demands identified by changing demographics in a fragile world.

KPIs:

- Return on sales **(p22)**
- % Group sales outside Europe **(p22)**

Key risks:

- Revenue generation in established and emerging markets **(p31)**
- Talent development and retention **(p31)**

Driving Innovation

Innovation plays a critical role across our Business, with dedicated business sector Research and Development teams developing new ingredients in collaboration with our customers. Working with our open innovation partners identifies unique opportunities that add value to our customers' products and satisfies the needs of their consumers. It is a combination of our products and the way we operate that enables our customers to build on our innovations, so that together we address the challenges of the three global mega trends.

KPIs:

- NPP sales as % of group sales **(p22)**
- NPP sales growth compared with overall sales growth **(p22)**

Key risks:

- Product and technology innovation **(p31)**
- Protect new intellectual property **(p31)**
- Talent development and retention **(p31)**

Sustainable Solutions

We continue to build on our renewable raw material heritage to create, make and sell sustainable solutions today, to positively influence tomorrow. Through the investments we make in innovative product design and flexible operations, we are working with our supply chain to develop products that deliver more benefit, with less impact. This, coupled with active participation in regulatory debates, ensures that we are at the forefront of providing answers to the challenges presented by the three global mega trends.

KPIs:

- Non-fossil fuel energy % **(p23)**
- Lost time injury rate **(p23)**

Key risks:

- Product liability claims **(p31)**
- Major safety or environmental incident **(p32)**
- Security of raw material supply **(p32)**
- Major capital project management **(p32)**

To find out what we have done in 2016 see **p10 and 11**

Our Business Model

Creating value

We create long term value through collaboration with our customers, our proactive and creative attitude and our ability to think differently. Our agile structure allows us to adapt in response to global mega trends as we turn exciting, often groundbreaking ideas into practical solutions that enhance a diverse range of products.

Consumer demand

Influenced by global mega trends, consumers dictate the unmet needs across our four market sectors

Customer need

Our customers seek innovative products that address consumer needs

Croda

We work in close partnership with our customers and supply chain, offering innovative and sustainable products that are supported by exceptional performance and claims validation

Personal Care	Life Sciences

Engage

Working closely with our customers and supply chain we identify unmet consumer needs around the world

Create

We create innovative and sustainable products and technologies that meet consumer demands

Our difference

Our long term growth is driven by what makes us different, which includes:

- Our global culture driven by shared values and a 'can do' attitude
- Our intimate customer relationships, from niche 'Indie' customers to large multinationals
- Our agility in responding to customer needs built through local sales and technical teams with a global focus
- Our selective acquisitions and capital investments
- Our agile regional manufacturing base
- Our valuable protected intellectual property and an extensive innovation pipeline
- Our exceptional product performance and claims validation, coupled with first class regulatory support and quality testing
- Our extensive open innovation partnerships
- Our knowledgeable and talented people
- Our valuable sustainable chemistry that focuses on intrinsic and extrinsic product benefits, where we apply independent third party guidelines
- Our focus on building transparency and traceability throughout our supply chain.

Performance Technologies

Industrial Chemicals

Customer formulation

Our customers use our products to enhance their formulations to meet their consumers' needs

Consumer benefit

Our innovative products meet consumer demands by addressing their unmet needs

Make

Our manufacturing sites run flexible operations to consistently high standards across the world

Sell

We generate revenue through our direct selling model, with sales, technical and warehousing support local to our customers

Creating value

The way we operate and our innovative products create sustainable environmental, social and financial value including:

- → Our culture brings exceptional customer service and ability to manage complexity by working together
- → Our agility allows us to respond quickly to our customers' needs in response to the global mega trends
- → Our investments support top-line momentum, ensuring that we deliver shareholder value
- → Our new and protected products generate valuable revenue streams
- → Our product data package provides customer and consumer confidence in our innovation
- → Our investment in innovation and our peoples' industry insight helps to futureproof our Business
- → Our people deliver environmental, social and financial returns
- → Our global, sustainable innovation delivers products with minimal environmental impact and maximum benefit
- → Our investment in supply chain transparency develops growing trust with customers and consumers.

Chief Executive's Report

We are continuing to deliver

"In a low growth environment Croda has continued to prioritise profitable growth over top line sales."

Steve Foots
Group Chief Executive

Sales growth
+15.0%

NPP sales as % of Group sales
27.4%

Return on sales
24.0%

Relentless innovation driving record profit

Croda has delivered a record profit in 2016. We have grown sales through strategic acquisitions and organic growth in premium market niches, driving bottom line performance through high value products and relentless innovation. Our innovation pipeline is exciting, with sales from New and Protected Products (NPP) increasing for the fourth consecutive year and strong momentum across all market sectors. We continue to expand in higher growth markets, with Asia the stand out performer. We are growing with regional and smaller customers and are well positioned for the digital revolution across our customer base. We are investing in new technologies and further strengthening our existing market leading positions.

In a low growth environment Croda has continued to prioritise profitable growth over top line sales. In constant currency, adjusted profit before tax grew by 4.8%, whilst sales grew by 3.1%. As a global business but with 95% of sales made overseas, our results also benefited from favourable currency translation, with sales increasing by 15.0% and adjusted profit before tax up 13.2% to a record £288.3m.

Croda is a knowledge-based business, with innovation at the heart of our culture. NPP reached 27.4% (2015: 26.1%) of total sales as we added new Intellectual Property (IP) to the product portfolio, increasing our pricing power through the novel benefits we are able to deliver to customers. We continued to increase sales of premium products in Personal Care and Life Sciences, and returned to growth in Performance Technologies. In Life Sciences, progress was supported by the successful integration of Incotec, a leading Seed Enhancement business acquired in 2015. At the same time, we tightened our focus in less differentiated markets, successfully reducing sales of lower value-add products, exiting almost 20,000 tonnes of commodity sales in Industrial Chemicals and enhancing the product mix.

Croda's model is highly cash generative, delivering a superior Return on Invested Capital (ROIC) and excellent returns for investors. In 2016 we paid over £230m in dividends, including a £136m special dividend. We invested over £100m in capital expenditure for future organic growth, including an industry-leading bio-surfactants plant in North America to produce sustainably sourced ingredients for consumer markets. Despite this record level of investment, we increased free cash flow to over £155m and reduced leverage to the lower end of our target range at 1.1x net debt to EBITDA. ROIC remained excellent at 19.3% (restated 2015: 20.1%), despite dilution from ongoing investment and acquisition programmes.

Headline sales up 15.0%

Sales increased by 15.0% to £1,243.6m (2015: £1,081.7m). This included an 11.9% benefit from currency translation due to weaker Sterling. Sales in constant currency increased by 3.1%, with acquisitions contributing 4.7%.

Underlying sales (which excludes the impacts of currency translation and acquisition) declined by 1.6%, largely reflecting our strategy of reducing sales of low value-add co-products and tolling business in Industrial Chemicals. Within the Core Business (which excludes Industrial Chemicals), although underlying sales declined by 0.7% in the full year, there was a return to growth in the fourth quarter. Encouragingly, sales continued to grow in many premium markets, including actives in Personal Care, and in high purity excipients and crop delivery systems in Life Sciences. Offsetting this, we saw weaker demand in less differentiated areas of Personal Care, together with significantly lower sales from our generic Active Pharmaceutical Ingredient (API) contract in North America.

Strong profit growth with adjusted EPS up 15.4%

Adjusted profit before tax increased by 13.2% to £288.3m (2015: £254.7m). This was 4.8% higher in constant currency. Profit before tax on an IFRS basis was also up strongly at £275.7m (2015: £252.3m).

Return on sales increased by 40 basis points in constant currency, reflecting a richer product mix of 'high end' products and innovation. Reported return on sales was slightly lower at 24.0% (2015: 24.4%), due to the dilution impact of the Incotec acquisition and lower profit from the API contract in North America. Adjusted EPS rose 15.4% to 155.8p (2015: 135.0p) and the proposed final dividend has been increased by 8.6% to 41.25p (2015: 38.0p).

Investment in fast growing niches driving profit in Personal Care

Personal Care delivered a good profit improvement as ongoing innovation, growth in premium market niches and improved proximity to customers helped offset softer conditions in more mature and less differentiated markets. NPP increased to 40% of sector sales, driven by our Actives business, where sales grew by 6%, reflecting further success in Sederma. Asia delivered excellent growth with increasingly sophisticated, innovation-driven customers. In a market where regional and local players drive much innovation and growth, we are getting closer to more customers, replacing distributors with our direct selling model, delivered through locally based sales, marketing and technical personnel. We are better aligned to new independent, or 'Indie', brands, fast to market and increasingly delivered through digital channels.

By contrast to the Actives business, the market for Specialities was slower in 2016. We have a programme to drive greater product differentiation with multinational customers and expansion of our sustainable product portfolio. Overall, in constant currency, Personal Care adjusted operating profit increased by 4.0%, despite sales being 0.8% lower, improving reported return on sales by 100 basis points.

Focused acquisition and clever innovation offsetting API weakness in Life Sciences

Life Sciences achieved a good performance, with the majority of the business delivering robust sales and profit growth, supported by the acquisition of Incotec. In constant currency, sales rose by 19.0%, reflecting the integration of Incotec and initial synergies with our Crop Protection business.
We continued to grow the diversified, IP-rich delivery systems business in the Health Care and Crop Protection markets, with sales in the latter growing by 4% in constant currency. Adjusted operating profit grew by 3.6% in constant currency, a strong result and overcoming a halving of sales in the North America generic API contract.

Improving sales and margin in Performance Technologies

Performance Technologies saw an improving sales trend through 2016, excellent profit growth and a better return on sales. This reflected increased innovation leading to new products for faster growth markets; continued geographic expansion outside its traditional European heartland; and an enhanced product mix through upgrading into more value-add products. At constant currency, sales grew by 1.4% in the year and by 6% in the fourth quarter, with adjusted operating profit 12.1% better in the full year. Business quality continued to improve. Our focus on value, rather than volume, saw exits from low value products in Coatings & Polymers, driving better profitability through greater differentiation. NPP sales improved, with progress in novel patented slip additives and speciality bio-based coatings. Sales expanded in Asia, with strategic investment underway in the Sipo joint venture in China. The sector remains on track to achieve a return on sales of 20% in the medium term, through better product mix and building market leading positions in 'high-tech' niches.

Refining the mix in Industrial Chemicals

2016 saw continued progress in our strategy to reduce sales from co-products and tolling in Industrial Chemicals, whilst creating new products for novel applications. During 2016, we reduced sales volume by almost 20,000 tonnes, including diverting glycerine by-product to a new bio-fermentation plant in the Netherlands to produce low cost, green energy. As a result, in constant currency, sales declined by 8.5%.

Continued sales growth in Asia and Europe

We saw good underlying sales growth across the Core Business in Asia and Europe. Asia underlying sales increased by 5%, with growth across all three market sectors, driven by increased proximity to local and regional customers. The market in Europe remained positive, with underlying sales up 2%, reflecting resilient consumer demand. These encouraging performances were offset by lower underlying sales in the Americas, with North America down by 6% and Latin America nearly 7% lower. North America included the adverse impact of lower API sales, whilst poor macro-economic conditions in Latin America saw weaker sales in US Dollar-denominated prices, although sales value was up in local currency terms. Encouragingly, both these regions showed an improving trend in the fourth quarter.

Our strategy

Delivering Growth
Delivering consistent top and bottom line growth

Driving Innovation
Increasing the proportion of protected innovation

Sustainable Solutions
Accelerating our customers' transition to sustainable ingredients

Continuing to deliver our strategy

Croda creates innovative ingredients for niche markets in order to create shareholder value. Our strategy to deliver this comprises three components:

1. Delivering consistent top and bottom line growth
2. Increasing the proportion of protected innovation
3. Accelerating our customers' transition to sustainable ingredients.

In 2016 we delivered in each of these three areas.

Delivering consistent top and bottom line growth

We aim to deliver profit growth ahead of sales value growth, in turn ahead of volume growth. Despite weak global demand, Croda made good progress in delivering top and bottom line growth in 2016. Sales value grew by 15.0% and adjusted operating profit by 12.9%.

In a low growth environment, less differentiated markets are becoming increasingly mature. In response, Croda is connecting to faster growth markets by developing faster growth technologies; expanding in faster growth geographies; and finding faster growth niches. Through our global sector teams, we identify and anticipate consumer trends and respond swiftly to satisfy customer needs through key technologies which are often unique to Croda. In 2016, these faster growth technologies included actives in Personal Care, crop delivery systems in Life Sciences and new coatings solutions in Performance Technologies.

We continue to develop in fast growth geographies. Asia continues to be a growth engine, accounting for 22% of sales in 2016. We have invested in new application laboratories, including in Korea, where many global personal care trends originate. We are establishing greater customer intimacy, with our locally-based sales, technical and warehousing ensuring close proximity to regional and local customers, as well as multinational customers. In the digital world, 2016 saw the rapid growth of new 'virtual' customers. We are structuring our Business to help these customers create, formulate and bring products to market quickly. In addition, in 2016 in Asia and Latin America we transitioned sales from distributors to our direct selling model, giving us direct access to hundreds of new customers in growth territories, such as China and Indonesia.

We are developing in faster growing niches by investing organically in new technologies, expanding capacity in existing technologies and acquiring technology-rich businesses. In 2016 we continued our investment in a new bio-surfactants plant in North America, we expanded the Sederma skin actives facility and opened a new R&D facility in Crop Care in Europe. We integrated the most recent 'bolt-on' acquisition in Life Sciences, Incotec, a 'below the ground' crop technology with excellent synergies to the existing Crop Protection business. We have successfully repositioned Incotec for top line growth and margin improvement. In 2016 we added an encapsulation delivery technology to Croda's portfolio through the acquisition of Inventiva in Brazil.

Increasing the proportion of protected innovation

Innovation is the lifeblood of Croda and is deeply embedded across our global sectors. It is a key differentiator between ourselves and our peers, making us a preferred supplier for many customers.

In constant currency, NPP sales have increased by over 40% since 2012, from 20.5% of total sales to 27.3% today. We have an extensive innovation pipeline, supported by 250 Open Innovation partnerships with universities, specialist research laboratories and Small and Medium-sized Enterprises (SMEs). In 2016 we secured funding for a number of PhD R&D chemists through the UK's Biotechnology and Biological Sciences Research Council (BBSRC). We are targeting to grow NPP twice as fast as non-NPP sales.

Personal Care has the richest innovation, with NPP sales reaching 40% of sector sales in 2016. Building on our pioneering heritage in skin active ingredients, we are developing our Actives business with a target to deliver half of Personal Care sales from high value, protected niches. In 2016, we saw sales grow in plant cell cultures from 'IRB by Sederma', new biological systems in hair care and enjoyed rapid growth in metal oxide sun care ingredients for cosmetics. We are investing in a new state-of-the-art Materials Innovation Factory at the University of Liverpool, alongside a key multinational customer.

In Life Sciences, NPP sales now account for over 30% of sales. In 2016 we developed new applications for ultra-pure systems for the delivery of complex pharmaceutical drugs. Customers need to deliver more from new and existing drug actives and Croda's clever technology delivers the purity and stability required. We are supporting this by investing in additional capacity. Collaborative product development with multinational customers is securing significant growth in Crop Protection.

In Performance Technologies we are building the innovation pipeline from a low historical base. In 2016 we achieved a preliminary registration for MyCroFence™, a novel non-leaching anti-microbial coatings technology, and delivered new innovative products in lubricant additives, helping NPP sales in this sector to reach almost 20% of total sales.

Accelerating our customers' transition to sustainable ingredients

We are passionate about sustainability, a key component of our growth plans. We are an industry leader in using sustainable raw materials and processes to meet consumer demand. This demand is expected to grow; in Personal Care, for example, more than 25% of customer product launches now make a sustainability claim.

With around two-thirds of raw materials already coming from natural sources, we are ideally positioned to help deliver our customers' promises and assist them in achieving their sustainability targets. In 2016 we progressed construction of the US$175m bio-surfactant plant in North America. Due to commission in the second half of 2017, the facility will replace petrochemical feedstocks with a new and unique 'ECO' range of 100% sustainable surfactant products, creating growth opportunities across the Core Business.

We continue to reduce our own environmental impact. Waste to landfill has been cut by 60% since 2010. In the Netherlands we commissioned a bio-fermentation plant to convert glycerine by-products into greener energy.

In Spain, we are investing to reduce the quantity of water used by 90% through water recycling and high-efficiency cooling systems.

Future opportunities

Our priorities for 2017 are to drive profitability through a greater focus on premium, faster growth niches; improve performance in less differentiated markets; and continue to grow margins in Performance Technologies and Incotec.

We have seen some encouraging signs of improving sales trends, which have continued into 2017. We are supporting this through innovation and investment. Innovation will be supported by technology-driven acquisitions, investments and smart partnering, including more Open Innovation. Focused investment in new manufacturing capabilities will also access higher growth, including new 'ECO' products, expansion in high purity Health Care systems and extending our leadership in Polymer Additives. We will continue to leverage our industry leading position in sustainability.

Croda is a strongly cash generative business with substantial balance sheet capacity. We will remain disciplined in both our capital allocation and in driving returns for shareholders.

We are confident of delivering continued progress in our performance in 2017. Additionally, if current exchange rates are maintained, there will be a further currency benefit to reported results.

S. Foots

Steve Foots
Group Chief Executive

Our Investment Case

Strength and delivery

We are a speciality chemical company that creates high performance ingredients and technologies relied upon by industries and consumers globally.

Global product innovation in collaboration with customers…

- Differentiated market leading technologies
- Innovation embedded in the Business
- Technical teams focused on bigger and better innovation
- Investment in R&D delivering fast growth
- Local innovation centres driving increased customer collaboration
- Products increasingly delivering sustainable solutions

27.4%
NPP sales as % of Group sales

…with local sales and technical delivery…

- Operating in fast growing sectors
- Customer intimacy and collaboration
- Committed to sustainable local manufacturing globally
- Global marketing expertise and sales reach delivered locally
- Operating in fragmented markets

59.6%
Sales outside Europe

…that drives superior financial performance…

- Excellent profit margin
- Capital light model
- Continued focus on top line growth whilst protecting margins
- Strong cost control
- Strong free cash flow

155.8p
Adjusted EPS

…and generates strong returns to shareholders

- Excellent returns on capital
- Supporting investment to grow
- Consistent regular dividend payments
- Disciplined approach to acquisitions that are technology driven
- Excess capital returned to shareholders

19.3%
Return on Invested Capital

People and Community

Ensuring the success and safety of our people and supporting the communities in which we operate

People underpin everything we do and are the focus of our Business.

From the design of our products, to the safe and sensitive impact of our operations on the surrounding environment and community, it is our employees who have made us the sustainability leader we are and will continue to be. We work hard to invest in everyone at every level of our Business to help them achieve their best, whilst creating a safe and supportive place for them to embrace the many opportunities we offer.

We are proud of our people's personal and professional achievements, both within the Croda family and in the wider world as they represent us in industry and through their volunteering work in our local communities.

People are the focus of five of our 10 Material Areas. This ensures that we continue to develop new programmes and methods for our employees to progress their careers, to achieve their ambitions and at the same time encourage knowledge sharing for long term business benefit. As a global business we realise the importance of understanding and embracing differences within the countries in which we operate, whilst ensuring that our core values are aligned. In 2016 we have begun to work on a global employee survey that will help us gain a deeper understanding of our own Croda culture as we strive to sustain an environment where our talented and dedicated people can flourish in a way that differentiates our business.

Key Material Areas

Occupational Health & Safety
Empower employees to have health and safety at the forefront of their thinking

Our People
Create an environment where people can thrive

Diversity & Inclusion
Embrace and empower all individuals

Knowledge Management
Safeguard our knowledge and expertise

Community Education & Involvement
Support the communities in which we operate, with a primary focus on encouraging young people to work within science and technology

Highlights

102,000+
training hours were recorded by 86.7% of employees

Training
on knowledge management is now embedded in our programmes for leaders, managers and specialists

83.5%
of UK employees and 57% of those overseas invest in one of our sharesave schemes

OSHA
reporting has been embedded to enable us to benchmark against multinational organisations

3,157
hours were spent on education initiatives, almost half of our volunteering time

195+
is the number of trade associations and industry bodies that our people are active in

To find out more, read our 2016 Sustainability Report at www.croda.com/sustainability

Diversity and inclusion

We embrace the differences of a multi-ethnic, multi-geographic and multi-skillset company

Across the Group (2015: 2,855/1,384)
2,885 | 1,388

Regional and Business Board Members and Senior Functional Heads (2015: 89/20)
82 | 19

Executive Committee Members (2015: 9/1)
9 | 1

Board of Directors (2015: 6/2)
6 | 2

We continue to comply with the ILO Declaration on Fundamental Principles and Rights at Work. Key policies can be found at www.croda.com/companypolicy

Our Sector Performance

Personal Care

"Our Personal Care market sector focuses on ingredients for skin, hair, sun protection and colour cosmetic products. Our broad portfolio includes anti-ageing ingredients for skin, conditioning agents for hair care and metal oxides for UV filters."

Sandra Breene
President, Personal Care

Highlights

- Strong performance in premium market niches
- NPP sales reach record level 40%
- Action to improve less differentiated business areas

Sales
£420.6m 2015: £377.3m

Adjusted operating profit
£143.1m 2015: £124.5m

Return on sales
34.0% 2015: 33.0%

Performance

Personal Care achieved a good profit performance through innovation and growth in the premium Actives business, despite slower demand in the Specialities business partly due to the impact of the distributor exit programme. Sales rose 11.5% to £420.6m (2015: £377.3m) but on a constant currency basis were 0.8% lower. Adjusted operating profit increased by 14.9% to £143.1m (2015: £124.5m), up 4.0% in constant currency. The better product mix saw return on sales increase by 100 basis points to 34.0% (2015: 33.0%).

As more mature markets in Personal Care slowed, Croda successfully connected to faster growth technologies. Sales in the Actives business grew 6%, led by the skin actives business, Sederma; new product launches included Citystem™, a plant cell culture which fights pollution damage to the skin. We continued to grow in other premium niches, including colour cosmetics, with innovative physical sunscreens produced to meet enhanced regulatory standards, and in hair actives, where Crodaplex™ strengthens hair fibres and defends against damage from colouration and bleaching. We also acquired an exciting encapsulation technology, Inventiva, giving Croda a new delivery system for the Personal Care market. NPP sales increased and now account for 40% of all Personal Care sales. We are targeting 50% of sector sales to come from high value niche markets in the medium term.

Personal Care is connecting to faster growth geographies. Asia was the strongest growth region and we have invested additional resource. Growth with local customers was particularly robust, driven by digitalisation and new global trends from Korea, where we opened a new laboratory. We are expanding hair care development in Brazil and have opened a centre of excellence for ethnic skin and hair care in South Africa. We completed distributor exits in China, Indonesia and Brazil, giving us direct access to many more local customers. Globally, we are well positioned to grow with the new 'Indie' customers, which develop new brands quickly and with agility.

The market for Specialities products was slower in 2016 and sales declined by 3%. This was impacted by slower export markets and multinational customer demand in North America, continued weakness in consumer spending in Latin America and the distributor exit programme, which temporarily reduced the inventory pipeline. To return to growth we are driving increased product differentiation by growing innovation, particularly with multinational customers, and expanding our sustainable product portfolio. Consumer demand for ethical and sustainable raw material sourcing is increasing and Croda is recognised as an industry leader and trusted supplier. Building on our success with responsibly sourced palm oil ingredients, in 2017 we will launch a new 'ECO' range of bio-surfactants, providing customers with a 100% renewable alternative to petrochemical based surfactants, made using renewable energy and with identical product performance.

New product innovation

Citystem is a natural active ingredient, which was developed using Sederma's eco-designed HTN™ plant cell culture process to fight visible and invisible pollution damage to the skin.
In response to the identification of the consumer need worldwide, Citystem protects skin cells from the penetration of pollutants, neutralises toxic oxidants, strengthens the skin barrier and restores cell metabolism.

Consumer and clinical studies evidenced that Citystem offers instant and long term cosmetic benefits including refined skin grain, purified complexion and smoother skin.

Innovation every day

Increasing effectiveness

Our specialist polymers improve the water resistance and durability of sun creams, increasing effectiveness while reducing the frequency of applications, resulting in a saving in the amount of product consumers need to use.

Reducing energy

We have ingredients that enable our customers to make their creams and lotions at lower temperatures, reducing energy requirements and cost of manufacture.

Improved wellbeing

Our highly effective anti-ageing peptides have been proven to help improve skin elasticity and reduce the visibility of wrinkles, enabling consumers to see results from a single product.

Resource efficiency

Our formulation experts work closely with our customers to help them get the desired effects from our ingredients, reducing time, energy and amount of ingredients used in customer product development.

Reducing environmental impact

Some of our active ingredients are created using bio-technology, reducing their environmental impact.

Life Sciences

"Life Sciences comprises Health Care, which develops products for pharmaceutical and nutraceutical markets, Crop Protection which develops products for agrochemical companies to help farmers achieve superior yields and Seed Enhancement which develops products that improve seed performance and farming yields."

Keith Layden
President, Life Sciences

Highlights

- → Robust sales and profit growth
- → Strong performance in IP-rich delivery systems
- → Seed enhancement focused on markets with greatest potential

Sales
£292.2m **2015: £223.9m†**

Adjusted operating profit
£82.0m **2015: £75.1m†**

Return on sales
28.1% **2015: 33.5%†**

† Restated Note 1 p98

Performance

Innovation and acquisition drove a good result in Life Sciences, with the majority of the business delivering robust sales and profit growth. This was a creditable performance, achieved despite lower sales from our North American generic Active Pharmaceutical Ingredient (API) contract, where increased competition saw lower market pricing and a halving of sales from 2015. Sales increased by 30.5% to £292.2m (2015 restated: £223.9m) and were 19.0% higher in constant currency. The growth in adjusted operating profit was more modest, up 9.2% to £82.0m (2015 restated: £75.1m) and 3.6% higher in constant currency. This reflected dilution from the acquisition of Incotec and reduced API profitability, resulting in return on sales declining to 28.1% (2015 restated: 33.5%).

We are investing in faster growth technologies. Sales grew in both Health Care and Crop Protection delivery systems, where we create innovative solutions for pharmaceutical and agrochemical companies to maximise the benefit from their complex active treatments. In Health Care, we are aligned with rapid growth in global demand for high purity excipients, particularly in Asia and North America.

As drug actives become more complex and find broader application, the need for higher purity delivery systems is increasing. We are expanding technical and production capacity to support this growth.

Crop Protection outperformed a challenging agrochemical market through increased collaboration with major customers. This has built stronger relationships, creating a supportive programme of innovation with more intellectual property and greater technical engagement. We have better access to customers' pipelines for new product launches. The existing Crop Protection business also benefited from integration with Incotec. We have repositioned this acquired business, focusing on high value niches in vegetable and field crop seed treatments and rationalising the markets in which we operate, to target those with the greatest potential. We have built a new R&D facility in the Netherlands and are expanding in China. Return on sales has begun to grow in line with our acquisition plan.

The API platform continues to develop new sales opportunities globally to offset reduced North American demand and remains an opportunity for future growth.

New product innovation

Suncrust Sunflower, by Incotec, is an encrustation technology that successfully increases the seed kernel weight of sunflower seeds without changing thier shape or performance. This ensures that healthy, small and lightweight seeds meet export regulatory requirements and, therefore, farmer needs for the market standard weight they demand.

With all seeds meeting the required size, this technology also ensures that existing planting and processing equipment can be used for optimum crop sowing.

Innovation every day

Preventing contamination

We have specialist technologies that ensure crop treatments are delivered directly to the target surface, which reduces the amount of product used and prevents the contamination of land and waterways through drift and overspray.

Reduce environmental impact

Our seed coatings decrease the amount of dust generated at the time of sowing. This reduces waste and impact on the surrounding environment and wildlife.

Improved taste

Our high purity excipients improve the taste of children's medicines, making them more palatable to take.

Minimising product use

Our seed enhancement treatments directly protect seeds from pests, reducing the need for farmers to use additional products on their crops.

Enabling new medicines

Our high purity excipients are enabling new and complex treatments for oncology to be brought to market as they help to stabilise and deliver these life-changing drugs.

Performance Technologies

"Our Performance Technologies market sector delivers innovative ingredients for five key business areas: Lubricants, Coatings & Polymers, Polymer Additives, Geo Technologies and Home Care."

Maarten Heybroek
President, Performance Technologies

Highlights

- Adjusted operating profit increased by 12.1% in constant currency
- Enhanced product mix improving margin
- Building market leading positions in 'high tech' niches

Sales
£402.5m 2015: £354.8m

Adjusted operating profit
£66.2m 2015: £56.8m

Return on sales
16.4% 2015: 16.0%

Performance

2016 was an excellent year for Performance Technologies. Following a subdued first six months, Performance Technologies recovered well in the second half of the year. Full year sales rose by 13.4% to £402.5m (2015: £354.8m) and by 1.4% on a constant currency basis. Adjusted operating profit increased by 16.5% to £66.2m (2015: £56.8m), up 12.1% in constant currency. Return on sales improved 40 basis points to 16.4% (2015: 16.0%).

Business quality continued to improve. From a low base, NPP sales have reached 19.4% (2015: 18.2%), the innovation pipeline is robust and the sector is moving to capture 'high-tech' growth opportunities. A preliminary regulatory step was achieved for MyCroFence™, a novel non-leaching anti-microbial technology acquired in 2014. Anti-microbial coatings is one of the fastest growing 'functional coatings' markets.

Coatings & Polymers improved product mix by delisting less differentiated products to concentrate on higher value-add opportunities. Geo Technologies returned to growth, following a stabilisation in oil markets and through expansion into new geographies, supported by JD Horizons, a flow assurance technology business acquired in 2014.

In Lubricants, investment in friction modification and wear control technologies led to new business wins in the automotive industry, helping customers meet lower emissions and improved fuel efficiency regulation. In Home Care, new product opportunities are being developed for bio-surfactants.

Markets in Europe improved during the year with new customer gains supporting growth momentum. The customer base continued to expand, particularly outside Europe. Performance Technologies is also investing in growth in North America and Asia, particularly in China through our joint venture, Sipo, where capacity will be added in 2017. Sipo is one of three sites for the Polymer Additives business, where we are the global market leader. With capacity in Polymer Additives now fully committed, we are investing £27m to expand our plant in the UK to support future growth and innovation in novel slip additives.

New product innovation

MyCroFence is a safe and durable anti-microbial technology for coatings, resulting from our investment into disruptive anti-microbial technology. It prevents algal, fungal and bacterial growth on the surface of the paint and replaces more toxic additives. With its long term effect and unique anti-microbial mechanism it can be used in exterior wall, bathroom and kitchen paints and also in coatings for high hygiene areas such as schools and hospitals.

Innovation every day

Eliminating solvents

Our ingredients for water-based coatings help protect paintwork from stone chipping and UV damage. This increases the longevity of the paint and car bodywork, whilst allowing solvents to be replaced with water, delivering environmental and health benefits when applying the coatings.

Effective cleaning

Our ingredients provide effective cleaning performance, enabling highly concentrated formulations and increased bio-based products. This can lead to lower water usage and less packaging, which reduces demands on transportation.

Durability

Our speciality lubricant and fuel components reduce friction and wear throughout the car, leading to lower fuel consumption, lower emissions and improved vehicle life.

Improve fuel economy

Our polymer additives are used to improve the processing and performance of plastics for automotive components by reducing cycle time and improving scratch resistance. They also enable light weight plastics to be used as substitutes for traditional materials to help improve fuel economy.

Performance enhancement

Our ingredients enable engineering plastics to be modified to improve their endurance to friction, flexing, temperature and grease in applications where the plastics are used to protect critical components such as constant velocity joints and air ducts, thus prolonging their life.

Industrial Chemicals

"Industrial Chemicals is a small, diverse market sector selling co-streams, developing novel niche industrial applications and undertaking toll processing."

Maarten Heybroek
President, Industrial Chemicals

Highlights

- Further refinement in sales mix
- Lower volume of low value-add co-products

Sales
£128.3m — 2015: £125.7m†

Adjusted operating profit
£6.9m — 2015: £7.8m†

Return on sales
5.4% — 2015: 6.2%†

† Restated Note 1 p98

Performance

2016 saw the continued transformation of Industrial Chemicals, with the volume of low value-add co-products and tolling business reducing by almost 20,000 tonnes. Sales increased by 2.1% to £128.3m (2015 restated: £125.7m) due to currency translation but were 8.5% lower on a constant currency basis. Adjusted operating profit was £6.9m (2015 restated: £7.8m). The decline in profit reflected a programme to divert some co-products for internal use.

Industrial Chemicals is innovating selectively to develop niche products for new applications. CrodaTherm™, a bio-based phase change material that helps maintain a consistent temperature in a range of environments and materials, gained sales during 2016. Other new product development will enable customers to achieve better performance and higher levels of sustainability.

Together with the transfer of some co-products to internal applications, we are creating a smaller sustainable, innovation-orientated Industrial Chemicals business. In 2016 this included a new bio-fermentation plant in the Netherlands, which converts a glycerine co-product stream into green energy, reducing sales but increasing profitability through lower power costs.

Innovation every day

Energy efficiency
Our phase change materials can be incorporated into sportswear to help regulate body temperature, or into building materials to save energy and increase comfort.

Minimising environmental impact
Our textile finishing products help to reduce the amount of water and energy that manufacturers need when making high quality textiles for upholstery and clothing.

Saving energy
Our advanced material additives allow the particles used in the latest technologies for display screens to be evenly dispersed, which enable them to run at lower energy levels while still giving the best and brightest experience.

Prolonging product life
Our ingredients help the performance of lithium ion batteries and prolong product lifetimes, therefore reducing material needs and replacement costs.

Sustainable Product Innovation

Making high performance, high quality products with the sustainable benefits our customers want

At Croda, product innovation and sustainability go hand in hand with customer intimacy.

We know that it is only by being close to our customers that we can understand and fulfil their needs in terms of new ways to improve sustainable product performance and reduce negative impacts. We assess the everyday impact of our products in two ways: *intrinsic*, referring to attributes such as renewable raw material content, product purity and cradle to gate carbon footprint; and *extrinsic*, which refers to the social, environmental and financial impacts our products have in use or as they biodegrade at the end of their life.

Our customers are influenced by consumer concerns, which are strongly influenced by health and the environment, leading to their demands for products that have low social and environmental impact while offering cost benefits.

From our focus on innovation in product design and the way we ensure supply chain transparency and traceability of raw materials, to the steps we take to safeguard customer satisfaction through our rigorous quality assurance processes; we continually seek to differentiate ourselves through our sustainability programme, futureproofing our Business through the value and product advantages we bring to our customers.

Key Material Areas

Product Design
Deliver the most innovative and sustainable ingredients to our customers

Product Stewardship
Ensure that the ingredients we produce contribute positively to the environment and society throughout their lifecycle

Environmental Impact
Minimise the impact of our operations

Quality Assurance
Contribute to, and proactively seek, higher quality standards across product and operational aspects of our Business to ensure consumer safety

Highlights

62%
of our raw materials were from renewable sources, an industry leading position

11 or 12
is the score our new ingredients mostly meet against the 12 Principles of Green Chemistry

63%
increase in sales of products made with RSPO certified palm oil derivatives compared to 2015

CDP
awarded us A- for our Forest Report on palm oil, putting us amongst just 15 others to achieve this score

Top 1%
with Gold Status is where we are placed amongst all companies assessed by the sustainability platform EcoVadis

EXCiPACT
certification has been received at all of our manufacturing sites supplying the pharmaceutical industry

» To find out more, read our 2016 Sustainability Report at www.croda.com/sustainability

12 Principles of Green Chemistry

We continue to apply the 12 Principles of Green Chemistry* (the Principles) as an industry recognised independent framework to assess our New and Protected Products (NPP). On average, our 2016 NPP launches met 11.6 of the 12 Principles and a review of our key existing products, the top 25 by value across our Business, met an average of 11.3, demonstrating our consistently strong performance in this area. Atplus™ DRT–100 is a top 25 product that meets all 12 Principles, it is 100% renewable and enables more accurate application of pesticides, reducing their negative impact on the surrounding environment.

* Anastas, P. T.; Warner, J. C. Green Chemistry: Theory and Practice, Oxford University Press, New York, 1998

Key Performance Indicators

How we performed

KPI | **Comment** | **Target** | **Our performance**

On target

Return on sales (ROS)%

KPI definition
Operating profit as a percentage of Group sales.

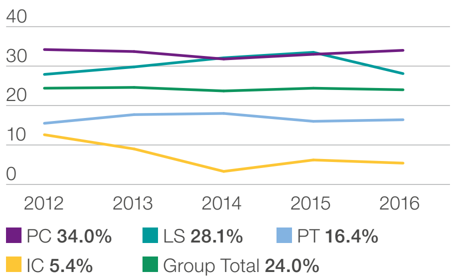
Personal Care delivered healthy profit growth and an improved ROS, driven by ongoing innovation and premium market growth. The integration of Incotec and lower generic API sales diluted Life Sciences ROS, but the majority of the business saw robust sales and profit growth. Performance Technologies delivered an improved ROS, reflecting greater innovation and an enhanced product mix with more value-add products. Industrial Chemicals profit declined reflecting a programme to divert some co-products for internal use.

Personal Care (PC) and Life Sciences (LS) maintain 2015 levels.

Performance Technologies (PT) grow to 20% in the medium term.

Industrial Chemicals (IC) maximise profitability.

Return on sales %



On target

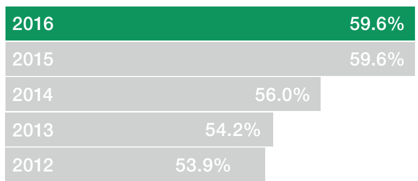
% of Group sales outside Europe

KPI definition
The percentage of Group sales into USA, Latin America and Asia.

Our growth strategy is supported by investment in fast growing markets, bringing us closer to customers and reducing our exposure to Europe. Asia saw double digit growth which was partly offset by lower export-driven sales in North America, and continued adverse macro-economic conditions in Latin America.

Increase the proportion of sales into faster growing markets.

% of Group sales outside Europe



On target

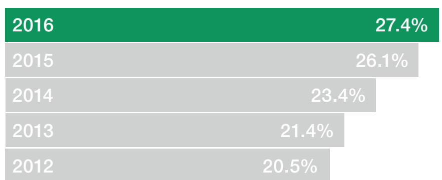
NPP sales as a % of Group sales

KPI definition
NPP products are where existing sales are protected by virtue of being either newly launched, protected by intellectual property or by unique quality characteristics.

We focus technically and commercially on increasing the percentage of sales that we define as NPP, with relentless innovation helping to maintain pricing power through the novel benefits we are able to deliver to customers, a key contributor to the continued improvement in Group margins reported for 2016.

NPP sales to be 30% of Group sales in the medium term.

NPP sales as a % of Group sales



Ahead of target

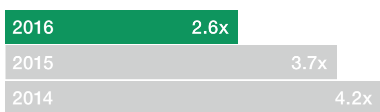
NPP sales growth compared with overall sales growth

KPI definition
NPP sales growth as a ratio of overall sales growth measured at constant currency.

Our technical and commercial focus on creating differentiated solutions for our customers saw strong NPP growth in the year, with the ratio to overall sales ahead of target.

2x overall sales growth.

NPP sales growth compared with overall sales growth



Link to Strategy

- Delivering Growth
- Driving Innovation
- Sustainable Solutions

KPI | **Comment** | **Target** | **Our performance**

On target

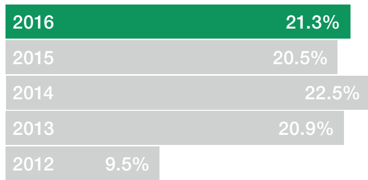
Non-fossil fuel energy %

KPI definition
The proportion of our energy that comes from non-fossil fuel sources.

In 2016, our energy and carbon reporting systems were independently verified. As a consequence, we have rebased our non-fossil energy calculations, resulting in a systematic lowering of the KPI and targets by two to three percentage points. In 2016, the proportion of our energy from non-fossil sources increased to 21.3% from 20.5% in 2015, which is on track to meet a rebased 2020 target of 27% helped by a major bio-gas project commissioned in mid-2016.

Target: >27% by 2020.

Non-fossil fuel energy % (rebased)



On target

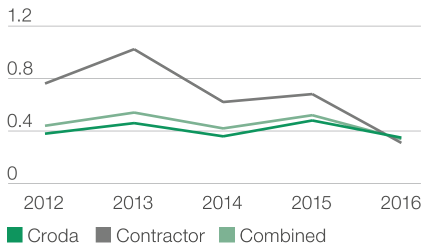
Lost time injury (LTI) rate

KPI definition
Rate of injuries that result in an absence from work of one day or more, divided by total number of hours worked per annum, multiplied by 200,000 hours.

From 2016 we adopted the American Occupational Safety and Health Administration (OSHA) standard for injury reporting, and therefore restated our historical LTI data. Our plateauing 2015 injury rate, prompted us to implement a new behaviour-based safety programme globally and there are early signs of improvement. The improvement in contractor rate has been achieved whilst executing several major construction projects.

Target: Our aspirational goal for the LTI rate is zero.

Lost time injury rate (per 200,000 hours worked)



Creating shareholder value

Ahead of target

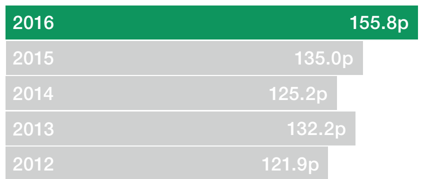
Adjusted basic earning per share (EPS) growth

KPI definition
Adjusted profit after tax divided by the average number of issued shares.

We are pleased to report an adjusted EPS of 155.8p, representing an increase of 15.4% on last year, partly driven by currency translation. This places us ahead of our target range and reflects the continued effective delivery of our strategy.

Target: 6-12% EPS growth per annum.

Adjusted basic earnings per share (p)



On target

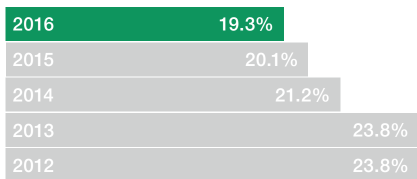
Return on Invested Capital (ROIC)

KPI definition
Adjusted operating profit after tax divided by the average invested capital for the year for the Group. Invested capital represents the net assets of the Group, adjusted for earlier goodwill written off to reserves, net debt, retirement benefit liabilities, provisions and deferred taxes.

Croda's model is capital light and cash generative, delivering a superior ROIC. ROIC for 2016 was slightly lower than 2015 due to dilution from strategic capital investment, but remained excellent at 19.3%. 2015 has been restated to include the acquisition of Incotec.

Target: Maintaining ROIC at two to three times Weighted Average Cost of Capital (estimated at 7.3%).

Return on Invested Capital (ROIC)



Finance Report

Strong cash generation

"Delivering a robust cash flow is core to Croda's strategy. This cash was used to invest in new technologies and to increase innovation and expand production capacity."

Jez Maiden
Group Finance Director

Performance highlights

- Adjusted profit before tax up 13.2%
- Significant improvement in free cash flow

Sales value

£1,243.6m

Adjusted profit before tax

+13.2%

Free cash flow

£155.5m

Currency

Currency translation had a significant beneficial impact on both sales and profit in 2016 due to weaker Sterling. In the year, Sterling averaged US$1.354 (2015: US$1.528) and €1.224 (2015: €1.377). Currency translation increased sales compared to 2015 by £128.2m (11.9%) and adjusted profit before tax by £21.8m (8.3%).

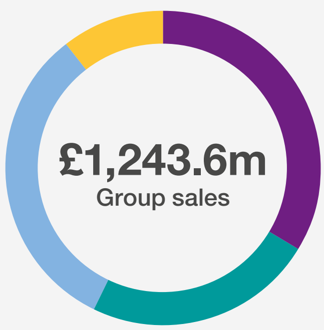
Sales

In 2016 sales grew by 15.0% to £1,243.6m (2015: £1,081.7m) (Figure 2). At constant currency, sales rose by 3.1%, reflecting the Incotec and Inventiva acquisitions. Underlying sales reduced by 1.6%, primarily due to planned a reduction of low value co-stream and tolling products in Industrial Chemicals.

Underlying sales in the Core Business declined by 0.7% (Figure 4). Sales volume increased by 0.6% with sales price/mix 1.3% lower, primarily due to a £12m reduction in Active Pharmaceutical Ingredient (API) sales in Life Sciences. Sales in Personal Care in the second half of the year were adversely affected by the distributor exit programme in Asia. Performance in Life Sciences was impacted by the decline in API sales, particularly in the second half of the year, masking good growth in Health Care and Crop Protection delivery systems. By contrast, Performance Technologies improved significantly in the second half of the year (Figure 1).

Figure 1

Sales by market sector (£m)



Personal Care	£420.6m
Life Sciences	£292.2m
Performance Technologies	£402.5m
Industrial Chemicals	£128.3m

Adjusted operating profit

Adjusted operating profit rose by 12.9% to £298.2m (2015: £264.2m)(Figure 3). On a constant currency basis, adjusted operating profit increased by 4.6%.

Adjusted operating profit in the Core Business grew across all sectors. Profit in Industrial Chemicals declined as a result of planned lower sales (Figure 5).

The net interest charge was broadly flat at £9.9m (2015: £9.5m), with higher debt from acquisitions and a special dividend offset by capitalised interest on the bio-surfactant plant construction. Adjusted profit before tax increased by £33.6m to £288.3m (2015: £254.7m)(Figure 6).

The effective tax rate on this profit was unchanged at 28.0% (2015: 28.0%). The tax rate is driven by the geographic mix of profit and the exposure to higher tax rates outside the UK, where the statutory rate was 20.0% (2015: 20.25%). There are no other significant adjustments between the Group's expected and reported tax charge based on its accounting profit.

The adjusted profit for the year was £207.6m (2015: £183.5m). Adjusted Earnings Per Share (EPS) increased by 15.4% to 155.8p (2015: 135.0p).

Figure 2

Sales (£m)

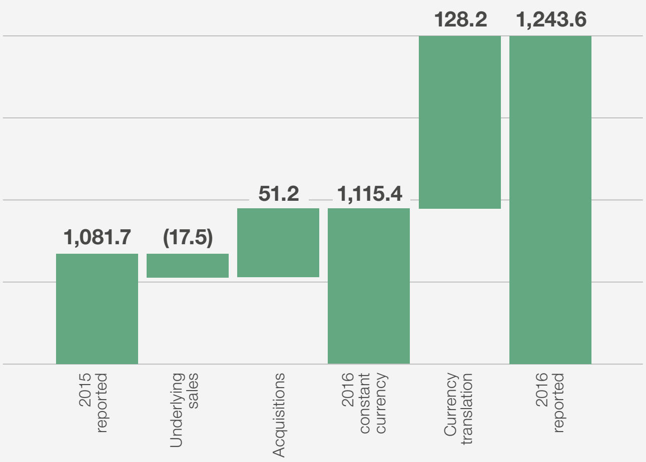


Figure 3

Adjusted operating profit (£m)

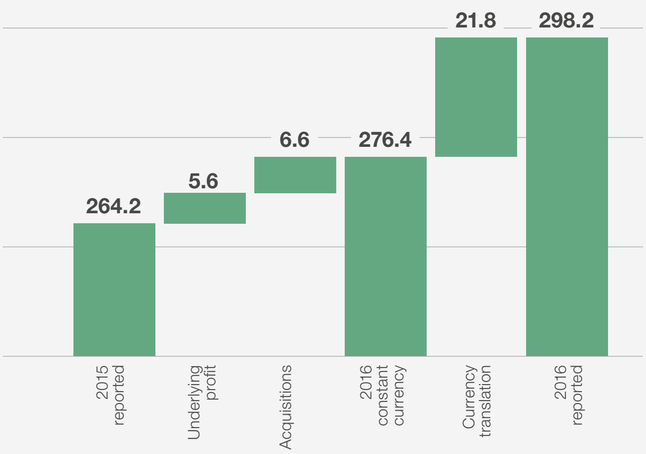


Figure 4

Underlying sales

	First half %	Second half %	Full year %
Personal Care	(0.5)	(1.4)	(0.9)
Life Sciences	(1.0)	(6.5)	(3.7)
Performance Technologies	(0.3)	3.3	1.4
Core Business	(0.5)	(0.9)	(0.7)
Industrial Chemicals	(12.4)	(3.9)	(8.5)
Group	(2.0)	(1.2)	(1.6)

Figure 5

Adjusted operating profit

	2016 Reported £m	2016 Constant currency £m	2015 Restated £m
Personal Care	**143.1**	**129.5**	124.5
Life Sciences	**82.0**	**77.8**	75.1
Performance Technologies	**66.2**	**63.7**	56.8
Core Business	**291.3**	**271.0**	256.4
Industrial Chemicals	**6.9**	**5.4**	7.8
Group	**298.2**	**276.4**	264.2

Figure 6

Summary income statement

	2016 £m	2015 £m
Sales	**1,243.6**	1,081.7
Operating costs	**(945.4)**	(817.5)
Adjusted operating profit	**298.2**	264.2
Net interest charge	**(9.9)**	(9.5)
Adjusted profit before tax	**288.3**	254.7

IFRS profit

Adjusted profit is stated before exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition, and tax thereon. The Board believes that the adjusted presentation (and the columnar format adopted for the Group income statement) assists shareholders in better understanding the performance of the business and is adopted on a consistent basis for each half year and full year results.

The charge before tax for exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition was £12.6m (2015: £2.4m). Acquisition costs were £1.1m (2015: £2.0m). The charge for amortisation of intangible assets was £3.1m (2015: £0.4m). Exceptional items were £8.4m (2015: £nil). The latter related to the rationalisation of Incotec, following its acquisition in 2015, with a number of smaller operations exited and larger operations consolidated. No further exceptional charge is expected for this project in 2017.

The profit after tax for the year on an IFRS basis was £197.6m (2015: £181.1m) and basic EPS were 148.2p (2015: 133.3p) (Figure 4).

Cash management

Delivering a strong cash flow is core to Croda's strategy. This cash is used to invest in new technologies in faster growth markets, both organically and by acquisition, to increase innovation and to expand production capacity.

In the year, EBITDA increased to £344.3m (2015: £302.3m), which funded net capital expenditure of £104.5m (2015: £91.1m). Working capital performance was excellent. As a result, free cash flow improved significantly to £155.5m (2015: £117.5m) (Figure 8).

Net debt increased by £104.8m to £364.1m (2015: £259.3m) including adverse currency translation of £31.8m. In addition to the ordinary dividend, a special dividend of £135.7m was paid in June 2016. Strong second half year cash generation saw leverage reduce from the half year to 1.1 times and is substantially below the maximum covenant level under the Group's bank facilities of three times.

During the first half of the year, the Group increased its committed debt facilities. Committed bank facilities were increased to £552m, with the majority extended to 2021. In addition, the Group placed the equivalent of US$256m (approximately £183m) in the US private placement market, maturing in 2023 and 2026, at an average fixed interest coupon of 2.1%. These facilities provide ample liquidity to meet the Group's immediate plans and potential opportunities, at a relatively low interest cost. At 31 December 2016 the Group had £471.6m (2015: £249.2m) of cash and undrawn committed credit facilities available.

Figure 7

IFRS profit

	2016 £m	2015 £m
Adjusted profit before tax	**288.3**	254.7
Exceptional items, acquisition costs and intangibles	**(12.6)**	(2.4)
Profit before tax	**275.7**	252.3
Tax	**(78.1)**	(71.2)
Profit after tax	**197.6**	181.1

Figure 8

Cash flow

	2016 £m	2015 £m
Adjusted operating profit	**298.2**	264.2
Depreciation and amortisation	**46.1**	38.1
EBITDA	**344.3**	302.3
Working capital	**7.2**	(1.4)
Net capital expenditure	**(104.5)**	(91.1)
Additional pension contributions	**(10.9)**	(18.5)
Interest & tax	**(80.6)**	(73.8)
Free cash flow	**155.5**	117.5
Dividends	**(230.2)**	(90.9)
Acquisitions	**(1.4)**	(104.0)
Other (including currency translation)	**(28.7)**	(1.7)
Movement in net debt	**(104.8)**	(79.1)

Dividend and capital allocation

Croda seeks to deliver high quality profits, measured through a superior ROIC, earnings growth and strong cash returns. The Group's capital allocation policy is to:

1. **Reinvest for growth** – we reinvest in capital projects to grow sales, increase product innovation and expand in attractive geographic markets to deliver a superior ROIC. During 2016, capital investment was approximately two times depreciation, funding asset replacement, new investment in key technologies and construction of the bio-surfactant plant;

2. **Provide regular returns to shareholders** – we pay a regular dividend to shareholders, representing 40% to 50% of adjusted earnings over the business cycle. The Board has proposed an increase of 7.2% in the full year dividend to 74.0p, (2015: 69.0p), covered 2.1 times from adjusted EPS;

3. **Acquire promising technologies** – we supplement organic growth by acquiring new technologies and through 'bolt-on' acquisitions in existing and adjacent markets. Following the acquisition of Incotec in December 2015, we added Inventiva, an encapsulation technology business, in 2016; and

4. **Maintain an appropriate balance sheet and return excess capital** – we maintain an appropriate balance sheet to meet future investment and trading requirements. We target leverage of 1 to 1.5 times (excluding deficits on retirement benefit schemes); we are prepared to move above this range if circumstances warrant and will consider further returns to shareholders in the event that leverage falls below the target range.

Retirement benefits

The deficit after tax on retirement benefit plans, measured on an accounting valuation basis under IAS19, increased to £112.7m (2015: £55.9m), with an increase in liabilities due to lower discount rates. However, cash funding of the various plans within the Group is driven by the schemes' ongoing actuarial valuation reviews. No deficit funding payments are currently required to the Group's largest pension scheme, the UK Croda Pension Scheme, with the next valuation due towards the end of 2017.

Alternative performance measures

We use a number of alternative performance measures to assist in presenting information in this statement in an easily analysable and comprehensible form. We use such measures consistently at the half year and full year and reconcile them as appropriate. The measures used in this statement include:

- Constant currency sales and profit: these reflect current year results for existing business translated at the prior year's average exchange rates, and include the impact of acquisitions. They are reconciled to reported results in Figure 2 and Figure 3;
- Underlying sales: these reflect constant currency values adjusted to exclude the impact of acquisitions. They are reconciled to reported sales in Figure 2;
- Adjusted profit: this is profit before exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition. It is reconciled to reported results in Figure 7;
- Adjusted EPS: this is earnings per share using the adjusted profit after tax and is reconciled in note 7 to the accounts;
- Return on sales: this is adjusted operating profit divided by sales;
- Return on Invested Capital (ROIC): this is adjusted operating profit after tax divided by the average invested capital for the year for the Group. Invested capital represents the net assets of the Group, adjusted for earlier goodwill written off to reserves, net debt, retirement benefit liabilities, provisions and deferred taxes;
- Net debt: this comprises cash and cash equivalents (including bank overdrafts), current and non-current borrowings and obligations under finance leases; and
- Leverage: this is the ratio of net debt to Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). EBITDA is adjusted operating profit plus depreciation.

The Core Business comprises Personal Care, Life Sciences and Performance Technologies. Sales in Latin America are primarily based on US dollars, which is used as the functional currency for constant currency sales translation. ROIC for 2015 has been restated to include Incotec, which was acquired in December 2015.

Jez Maiden
Group Finance Director

Sustainability

Planet and Process

Minimising the impact of our manufacturing processes

Our sustainable product story is aligned with our focus on the impacts of our operations on people, planet and profit.

The impacts can be intrinsic to the product, referring to its renewable raw material content and route of manufacture; or extrinsic, referring to the ways in which our products are used and their biodegradability as they are disposed of. Our aim is to minimise any negative environmental impacts and maximise the positive ones.

A key measurement of our progress in this area is on reducing our impact on a fragile world, which has been a major focal point in 2016 as we obtained verification of our energy and greenhouse gas (GHG) data in accordance with ISO 14064-3.

At the same time we have broadened our scope of GHG measurement to include all of our business locations in addition to our manufacturing sites, and now include tracking of our refrigerant inventories, although only small, to gauge any losses of these potent GHGs. Our multiyear energy and carbon strategy has passed another major milestone with the commissioning of a large bio-gas energy system at our manufacturing site at Gouda in the Netherlands. This is an integrated bio-refinery and uses by-product materials to generate energy, just one example of how our teams around the world are working hard to continually improve the efficiency of all our operations in a safe environment, whilst ensuring customer satisfaction and consumer safety.

Key Material Areas

Environmental Impact
Minimise the impact of our operations

Process Safety
Keeping our manufacturing sites safe and legally compliant

Quality Assurance
Contribute to, and proactively seek, higher quality standards across product and operational aspects of our Business to ensure consumer safety

Highlights

Externally Verified
Group scope 1, 2 and 3 GHG emissions by Carbon Smart

9.5%
reduction in Group water consumption compared to 2015

3.2%
reduction in scope 1 and scope 2 GHG emissions compared to 2015

10.4%
reduction in energy intensity compared to 2015

2.5%
reduction in Group waste to landfill compared to 2015

90%+
of the packaging we use is fully recyclable

To find out more, read our 2016 Sustainability Report at www.croda.com/sustainability

Carbon verification

During 2016 and the start of 2017 we worked with Carbon Smart to verify the measurement of our energy consumption, and associated greenhouse gas (GHG) emissions. At the end of the verification process we were very pleased to receive limited verification of our scope 1, 2 and 3 emissions for 2016, as well as for 2015, our baseline year.

In 2016, we set ourselves a new Group target to reduce total energy intensity by 5% by the end of 2020. Our chosen measure of energy intensity is energy consumption divided by 'value added', where value added is defined as operating profit before depreciation and employee costs.[1] In 2016 our energy intensity was 6394 GJ per £million, a fall of 10.4% from the 2015 figure of 7135 GJ per £million.

	Scope 1[3]	Scope 2[3]
2016[2]	128,550	67,350
2015[2]	130,492	71,727

The formal Independent Verification Statement by Carbon Smart is available at www.croda.com/carbonverification

1 Expressed in constant currency terms.
2 Data calculated in accordance with a revised measurement methodology following external verification.
3 Scope 1 emissions are calculated using the International Energy Agency's published conversion factors for the tonne equivalents of CO_2. Scope 2 emissions are determined using the country emission factors for electricity generation published by the International Energy Agency.

Our Risks

Protecting value

The effective management of our risks and opportunities, both financial and non-financial, puts us in the best position to develop our Business whilst protecting our people, our local communities and our reputation, and hence delivering our strategic objectives.

Through regular review of risks, the Board ensures that our risk exposure is matched to our strategy. Overall responsibility for the risk framework and definition of risk appetite rests with the Board (p44). Our Executive Risk Management Committee ensures that the management of risk using our common risk framework is embedded in our manufacturing sites, market sectors, regions and functions, with all our employees having an important role to play.

We regularly consider the impact of global emerging risks on our Business as well as internal emerging risks identified through our bottom up risk review process.

The details of our 'key risks' and how we respond to these are explained in more detail on pages 31 to 33. We recognise that we face wider risks and uncertainties that are captured and considered through our risk review process, some of which are beyond our direct control, so we disclose those we consider to have the greatest impact on our Business at this moment.

During 2016 we considered the implications of the result of the UK referendum to leave the EU ('Brexit') on our strategy and this was discussed with the Board. Although not currently considered to be key, this developing risk will remain under regular review during 2017 as the Brexit process continues to evolve.

One risk has been removed from the key risks list since 2015, Identification and integration of acquisitions. Although remaining in the register, this is no longer considered to be key following the successful integration of Incotec.

Risk framework

What we monitor

Our risk landscape

Risks that could affect our Business, customers, supply chain and communities and stop us achieving our strategic goals

Current risks

Emerging risks
Identified from those external to our Business or internally which will impact in the future

Our risk categories

- Strategic
- People
- Process
- External environment
- IT systems and security
- Financial

What we assess

Likelihood and impact
financial, operational or regulatory

Inherent risk
before mitigating control activity is taken

Residual risk
after the effect of the mitigating control is taken into account

How we manage it

Top down

Board
- Overall responsibility for the risk management framework and definition of risk appetite
- Reviews key risks with an opportunity for in depth discussion of specific key risks and mitigating controls twice a year (p40)

Audit Committee
- Reviews the effectiveness of the Group risk management process
- Directs internal audit to undertake annual assurance reviews over controls for selected key risks and reviews the results (p48)

Risk Management Committee*
- Reviews key and emerging risks quarterly
- Receives an in depth presentation on one key risk and its mitigating controls from the Executive owner at each meeting

SHEQ Steering Committee*
- Reviews Safety, Health, Environmental and Quality (SHEQ) risks quarterly
- Considers the results of assurance audits over SHEQ controls
- Monitors defined and agreed KPIs

Identify, own and manage risks involved in day-to-day operations

- Market sectors
- Regions
- Manufacturing sites
- Functions

Bottom up

* Executive Committee

2016 Key inherent risks (before mitigating controls)

1	Revenue generation in established and emerging markets
2	Talent development and retention
3	Product and technology innovation
4	Protect new intellectual property
5	Product liability claims
6	Major safety or environmental incident
7	Security of raw material supply
8	Major capital project management
9	Chemical regulatory compliance
10	Security of business information and networks
11	Ethics and compliance
12	Ineffective management of pension fund

Long term viability statement

Assessment of prospects

In assessing the prospects of the Company and determining the appropriate viability period, the Directors have taken account of:

- → the Company's financial and strategic planning time horizons, which cover a three year period. The strategic planning process is led by the CEO and all relevant functions and sectors are involved. The Board participates fully in the process, as set out on page 40 of the Director's report and they approved the strategic plan in November 2016;
- → the strong innovation pipeline, which supports the Company's business through development of new sales growth opportunities, protection of sales and margins, differentiates it from competitors and provides barriers to competitive entry;
- → the Company's Business Model, set out on pages 06 and 07 of the Strategic Report, including the diversification of the Company's products, operations and customer base, which reduces exposure to geographical and sector markets, as well as large customer/ product combinations; and
- → the Company's strong cash generation and its ability to renew and raise debt facilities in most market conditions, as set out in the Finance Report on pages 24 to 27.

The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten the delivery of the Company's strategy, business model, future performance, solvency or liquidity. These risks and how they are managed and mitigated are described below. These risks are considered as part of the assessment of the Company's viability.

Assessment of viability

The Company's financial and strategic plans consider key assumptions and financial metrics over the period to which they relate. These metrics are subject to a sensitivity analysis which involves varying a number of primary assumptions underlying the forecasts, and evaluating the potential monetary impact of severe but plausible risk combinations and likely degree of effectiveness of mitigating actions available to the Company if such risks did arise. These scenarios are assessed relative to the financial headroom available to the Company, to consider its ability to continue to operate over the viability period.

Viability statement

Based on their assessment of prospects and viability, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next three years.

Link to Strategy	Key
Delivering Growth	Risk increase
Driving Innovation	No change
Sustainable Solutions	Risk decrease

Key risk	Potential impact on our Business	How we respond	What we have done in 2016
Revenue generation in established and emerging markets	Failure to keep pace with our customers as they follow consumers into emerging markets, and increasing competition from mainstream and other chemical companies looking to move into our established markets will adversely impact delivery of our strategic objective to deliver consistent top and bottom line growth.	Through our global sector sales, marketing and technology teams, we identify consumer trends and respond swiftly to satisfy customer needs through key technologies. Our direct selling model enables us to get closer to our customers.	Invested in faster growth technologies including Actives in Personal Care, crop delivery systems in Life Sciences and new coating solutions in Performance Technologies. Developed in fast growth geographies, particularly Asia (p09).
Talent development and retention	The vision and experience of our knowledgeable and specialist employees is critical to maintaining the Group's success. Inability to recruit and retain appropriately skilled people could adversely impact our ability to deliver our strategic priorities. If these individuals were to leave, it would take time to replace them if no succession plans were in place.	Reward programmes, a strong development culture and excellent learning opportunities support the retention and career development of the high quality teams we need. Global graduate and management development programmes include stretching and high profile assignments and provide a pipeline of internal talent. Annual global talent review process supports review of resources and succession plans for critical roles, with actions monitored by the Executive and the Board.	Developed a new people plan approved by the Executive which aligns people related activities to the business strategy and defines actions to reinforce the Croda culture. In support of the plan improved people metrics have been developed which are routinely reported to senior management. A Diversity and Inclusion plan has been approved by the Board and is in the process of being implemented.
Product and technology innovation	Innovation plays a critical role across our operations; it differentiates us from the competition, protects sales and improves our margins. Failure to drive New and Protected Products (NPP) through innovation will impact directly on growth.	Our outstanding technical resources are fully integrated into our global sector leadership teams to focus innovation on customer requirements. We build partnerships with customers and open innovation partners and invest in external acquisitions to remain at the cutting edge. We have identified key technology platforms linked to the global mega trends (p04] that will direct future innovation acquisition and development.	Continued to expand our innovation pipeline supported by 250 open innovation partnerships with universities, specialist research laboratories and SMEs. Our acquisition of Inventiva opens up a new delivery system for our Personal Care sector (p14).
Protect new intellectual property	Failure to protect our Intellectual Property (IP) in both existing and new markets could undermine our competitive advantage.	We have a specialist IP team who participate in the technical and business planning and strategy meetings to identify ways to protect any new products and technologies. They defend our IP and challenge third party IP where appropriate.	Filed patents in a number of key areas, concentrating on recently acquired businesses and technologies such as seed coatings and anti-microbial coatings.
Product liability claims	We sell into a number of highly regulated markets. Non-compliance with our customers' stringent quality requirements could expose us to liability and reputational damage especially in the light of our commitment to sustainability.	Our sites are certified to demanding quality standards which are highly valued by our customers. Compliance with these is audited both internally by our specialist audit team and externally. We work proactively with relevant trade associations to shape future regulation.	All sites achieved required levels of Good Manufacturing Practice (GMP) certification. A network was formed to review and improve order picking accuracy which has delivered improvements.

Key risk	Potential impact on our Business	How we respond	What we have done in 2016
Major safety or environmental incident	We rely on the continued sustainable operation of our manufacturing sites around the world. A major event causing loss of production, or violating safety, health or environmental regulations could limit our operations and expose the Group to liability, cost and reputational damage, especially in the light of our commitment to sustainability and customer service.	Our global network of process safety engineers and SHE specialists located at each site enforce compliance with the policies and procedures defined in the Group SHE manual. Assurance over mitigating controls is provided by the dedicated Group SHE internal audit team, whilst external audits assess compliance with OHSAS 18001 and ISO14001 certifications. Stretching sustainability targets are set by our SHEQ Steering Committee who meet quarterly to review progress (p29). We have business continuity plans in place for each site and a Group crisis management plan which is tested at least annually.	Commissioned external specialists to perform qualitative risk assessments on our Alkoxylation plants, with incremental improvement actions being implemented. In 2016 our well established Hazard Study Leaders Academy saw five of our process safety specialists complete their first full year of a two year programme and a further five starting the programme.
Security of raw material supply	An interruption in the supply of key raw materials would significantly affect our operations and financial position. Such a disruption could arise from market shortages or from restrictive legislation, for example that relating to the transport of hazardous goods.	Professional purchasing teams based in our regions monitor supply to identify potential future shortages. We look to develop good relationships with our suppliers and to agree long term contracts. To protect supply, we aim to source from multiple suppliers. Where this is not possible, we build up our own inventories.	Introduced a global raw material risk management policy. All regions have reviewed risks associated with raw material interruption and in depth studies of those with the highest impact have been undertaken, with mitigating actions identified and progressed where appropriate.
Major capital project management	Current major strategic capital expenditure programmes require closely controlled project management to avoid overspend and late delivery, both of which would have an impact on growth.	Specialist project management teams are formed for all major capital expenditure programmes with steering groups chaired by a member of the Executive.	Audited previous capital projects against cost, schedule, quality and financial expectations to identify learnings which were shared with the Board and other sites. Internal audit also undertook reviews of current capital projects. Improvement opportunities identified have been incorporated into the capital programme.
Chemical regulatory compliance	As a global chemical producer, we operate in highly regulated markets, which are subject to regular change. Violation, incomplete knowledge or change, of the appropriate regulations could limit the markets into which we can sell, or expose the Group to fines or penalties.	Global Regulatory expertise is provided by our in house team of specialists, who have in depth knowledge of the regional and market regulatory frameworks within which we operate. They work proactively to influence regulation and they are an integral part of our new product development process. We use the SAP EHS module to ensure that regulatory changes are applied to existing products.	Extended our activities in trade association working groups developing guidance for new and emerging legislation. Group-wide due diligence activities to demonstrate compliance with the Nagoya Protocol.

Link to Strategy	Key
Delivering Growth	Risk increase
Driving Innovation	No change
Sustainable Solutions	Risk decrease

Key risk	Potential impact on our Business	How we respond	What we have done in 2016
Security of business information and networks (Risk increase)	We rely heavily on IT systems for effective and efficient operations and to communicate globally. As cyber attacks on businesses are growing more frequent, sophisticated and damaging, we recognise that corporate knowledge is a valuable asset whether held electronically or not.	Our Information Security specialists monitor our IT services and network, and oversee PC and mobile device protection, in line with our established policies and processes. Regular penetration testing is undertaken and we run our key applications in distributed computing environments with regular failover testing. We have ISO27001 certifcation for key systems and locations. Internal audit reviews the operation of system controls annually.	Recognising the increasing risk we provided regular awareness training and communication to all employees. We strengthened our email and internet filtering technologies. The security of IT infrastructure at all recently acquired businesses was fully reviewed.
Ethics and compliance (Risk increase)	We are subject to UK legislation, including the Bribery Act, which is far reaching in terms of global scope. Our increased presence in emerging economies and the introduction of the Modern Slavery Act gives rise to a heightened risk to our Business.	Training and education programmes are rolled out globally and results monitored and followed up. Refresher training is required periodically. Completion of gift registers is a requirement for gifts given and received.	Formed an Executive Ethics Committee and Ethics network, to reinforce appropriate values and culture and to promote the importance of ethics and compliance across our Business, and third parties who work with us.
Ineffective management of pension fund (Risk decrease)	The Group maintains an open defined benefit pension scheme in the UK, which constitutes a higher risk than a defined contribution scheme. A change in market conditions could increase future funding requirements and may adversely affect our financial position.	The pension fund investment strategy, developed by the Investment sub-committee of the Trustee Board, is delivered with the support of professional advisers. Trained pension fund Trustee Directors take professional advice and monitor and review arrangements quarterly. The Company maintains close dialogue with the Trustee Board.	We have undertaken a de-risking exercise to reduce future liabilities, introducing a career average capped salary basis. The Trustees have begun to extend the liability driven investment component of the scheme's assets to better match assets with liability movements and further diversified the scheme's return seeking assets to reduce expected future volatility.

Note:
The risks listed do not comprise all those associated with the Group and they are not in order of priority. Our risk management programme can only provide reasonable, not absolute, assurance that key risks are managed at an acceptable level.

Signed on behalf of the Board who approved the Strategic Report on 28 February 2017.

Steve Foots
Group Chief Executive

Our Board

A strong leadership team

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1. Anita Frew
Chairman

Appointment: Appointed to the Board in March 2015 and Chairman since September 2015.

Key strengths and experience: Anita has been on plc boards for 20 years and has extensive leadership and international experience, together with a broad knowledge of strategic management across a range of sectors including speciality chemicals. Anita was Chairman of Victrex Plc until 2014 and Senior Independent Director of Aberdeen Asset Management PLC and IMI plc. She has held executive director roles at Abbott Mead Vickers and WPP Group, as well as various investment and marketing roles at Scottish Provident Institute and The Royal Bank of Scotland Plc.

External appointments: Anita is Deputy Chairman of Lloyds Banking Group plc and a Non-Executive Director of BHP Billiton Plc and BHP Billiton Limited.

N RM

2. Steve Foots
Group Chief Executive

Appointment: Appointed to the Board in July 2010 and Group Chief Executive since the beginning of 2012.

Key strengths and experience: Strong business, operational and strategic leadership, and wide-ranging sales and marketing experience. Steve joined Croda as a graduate trainee in 1990 and has held a number of senior management positions in the Group, becoming President of Croda Europe in July 2010. Prior to this, Steve held a number of Managing Director roles across Croda's European business.

External appointments: Chairman of the Chemical Growth Partnership (CGP).

E F ET N R SHEQ

3. Jez Maiden
Group Finance Director

Appointment: Appointed to the Board as Group Finance Director in January 2015.

Key strengths and experience: Extensive experience in financial management, acquisitions and disposals, and a wealth of experience working in the speciality chemical sector. Jez was Group Finance Director at National Express Group Plc from 2008 to 2014. Prior to that, he was Group Finance Director at Northern Foods Plc and he has been Chief Financial Officer at British Vita Plc as well as Group Finance Director at Hickson International Plc, both listed speciality chemical companies. Former Chairman of the Audit Committee and Senior Independent Director of Synthomer Plc. Jez is a fellow of the CIMA.

External appointments: Non-Executive Director and Audit Committee chairman of PZ Cussons plc.

R E F SHEQ

Key

- Chairman of the Committee
- Member of the Committee
- Secretary of the Committee

N | Nomination Committee
RM | Remuneration Committee
A | Audit Committee
R | Risk Management Committee

E | Group Executive Committee
ET | Group Ethics Committee
F | Group Finance Committee
SHEQ | Group SHEQ Committee

4. Alan Ferguson
Non-Executive Director

Appointment: Appointed to the Board in July 2011.

Key strengths and experience: Extensive international financial management and board experience. Alan was Chief Financial Officer and a Director of Lonmin Plc until December 2010. Prior to that he was Group Finance Director of The BOC Group until 2006. Before then he spent 22 years in a variety of roles at Inchcape Plc, including six years as Group Finance Director from 1999. Alan is a Chartered Accountant.

External appointments: Alan is Senior Independent Director of Johnson Matthey Plc and Non-Executive Director of The Weir Group Plc. He chairs the Audit Committees at both of these companies. Alan is also the Senior Independent Director of Marshall Motor Holdings Plc, an AIM listed company, where he chairs the Audit Committee. Alan sits on the Business Policy Panel of the Institute of Chartered Accountants of Scotland.

A RM N

5. Helena Ganczakowski
Non-Executive Director

Appointment: Appointed to the Board in February 2014.

Key strengths and experience: Wealth of experience in consumer marketing and innovative product development. Helena worked for Unilever for 23 years and held senior positions in brand management, consumer marketing and strategy development. Helena has a PhD in Engineering from the University of Cambridge.

External appointments: Helena is a Non-Executive Director of Greggs Plc and People Against Dirty. She runs a consulting business working with a range of organisations, helping them to develop and implement strategies.

A RM N

6. Keith Layden
Chief Technology Officer and President Life Sciences

Appointment: Appointed to the Board as Chief Technology Officer in February 2012.

Key strengths and experience: Deep understanding of chemical innovation and broad operational and management experience. Keith joined Croda in 1984, is responsible for global R&D and is President Life Sciences. Until January 2016 he was responsible for the Technology Investment Group.

External appointments: Keith represents Croda as a member of the advisory board for chemistry at the Universities of Nottingham and York. At the University of Sheffield he serves as a member of Council, a Representative of the Learning and Teaching Committee, Careers Advisory Board and Alumni Board. Keith is a Fellow of the Royal Society of Chemistry and a Trustee and member of Council at the Royal Society of Chemistry.

R E F SHEQ

7. Nigel Turner
Non-Executive Director (Senior Independent Director)

Appointment: Appointed to the Board in June 2009 and Senior Independent Director since August 2011.

Key strengths and experience: Broad City experience having spent over 35 years as a corporate financier. Nigel was the Chairman of Numis Securities Ltd and Deputy Chairman of Numis Corporation Plc from 2005 until his retirement in 2007. From 2000 until 2005 he was with ABN AMRO with responsibility for the Global Corporate Finance and Global Equities Divisions. Between 1985 and 2000 he was with Lazard where he was a Managing Director and a member of the Supervisory Board.

External appointments: Senior Independent Director, and Chairman of the Remuneration Committee of Genus Plc.

A RM N

8. Steve Williams
Non-Executive Director

Appointment: Appointed to the Board in July 2010.

Key strengths and experience: Extensive industry, legal and board experience. Steve was General Counsel and Chief Legal Officer of Unilever plc and Unilever NV from 1986 until 2010. From 2004 until 2010 he was Senior Independent Director of Arriva Plc. From 1995 until 2004 he was a Non-Executive Director of Bunzl Plc.

External appointments: Steve is a Non-Executive Director of Whitbread PLC where he is also Chairman of the Remuneration Committee. In addition, Steve is a Non-Executive Director of Eversheds LLP and a senior adviser to Spencer Stuart LLP. He is Chairman of the De La Warr Pavilion Charitable Trust and a member of the Board of Leverhulme Trust and Moorfields NHS Trust.

RM A N

9. Tom Brophy
Group General Counsel & Company Secretary

Appointment: Appointed as Secretary to the Board in December 2012.

Key strengths and experience: Tom is a solicitor and has responsibility for legal affairs, corporate governance, human resources and insurance. Prior to joining Croda, Tom spent seven years at Wolseley Plc in a number of legal and governance roles, including as Deputy General Counsel and Company Secretary. Before then he worked as a corporate lawyer at City law firm Hogan Lovells.

ET A RM N R E SHEQ

Corporate Governance

Chairman's Letter

Good governance is not just about compliance with rules and regulations; it is about culture, behaviours and how we do business, and the Board has a vital role to play by ensuring it sets the tone for the rest of the organisation."

Anita Frew
Chairman

Dear fellow shareholder

An effective governance framework is vital to ensuring that Croda remains successful and sustainable. Your Board is committed to high standards of corporate governance and to complying with the provisions of the UK Corporate Governance Code (the Code). However, good governance is not just about compliance with rules and regulations; it is about culture, behaviours and how we do business, and the Board has a vital role to play by ensuring that it sets the tone for the rest of the organisation.

The Board is accountable to Croda's shareholders for good governance and this report, together with the Directors' Remuneration Report set out on pages 55 to 75, describes how the Code's main principles of governance have been applied by the Company. This report includes practical insights into how our governance framework underpins and supports our Business and the decisions we make every day. I am pleased to report that the Company has complied with the Code for the period under review.

Leadership

Dr. Keith Layden, Chief Technology Officer and President, Life Sciences, will retire from the Company after 32 years of service. Dr. Nick Challoner, President, Asia, will also become President of Life Sciences and lead Croda's Global Research and Technology function. These changes will take effect from 1 May 2017.

Keith is one of the principal architects for Croda becoming the successful business that it is today. Under his direction, Croda has significantly expanded its R&D capability and introduced impactful new technologies to the market. I would like to thank Keith for his long service and exceptional contribution to Croda and I am delighted that he has accepted the Board's invitation to continue as a Non-Executive Director to help guide Croda's highly successful innovation agenda further forward.

The Nomination Committee undertakes an assessment of the skills and experiences of the Board to ensure we have the right balance and composition. This enables us to create defined succession plans for both Executive and Non-Executive Directors.

Effectiveness

The actions agreed following the 2015 Board effectiveness review have progressed well. In 2016 the Board and Committee review was conducted using an online questionnaire, designed by Lintstock with input from me and the Company Secretary.

The evaluation was once again positive and I was particularly pleased with the quality of support and challenge provided by the Non-Executives to the management team and the atmosphere of constructive debate around the boardroom table. Further details on the evaluation can be found on page 41. The evaluation enabled the Board to reflect on areas for focus and improvement, one of which related to our Board agendas. For 2017 we will be taking action to strike a balance between reporting (from the CEO, finance, business units, technology, operations, legal compliance, HR, and the Board Committees), approvals and governance matters, whilst ensuring that we devote more time to the major strategic issues such as generating continued organic growth, investing in differentiated products, open innovation, intellectual property, sustainability and market dynamics.

The Board spends a considerable amount of time meeting with employees and visiting our offices and manufacturing sites around the world. This improves the Directors' understanding of our operations and the Croda culture and these connections enhance the quality of decision making in the boardroom. On page 41 we set out more details of the Board's programme of activities outside the boardroom.

The Board is committed to greater diversity within our Business. A broader range of ideas, skills, knowledge, experience and ethnicity, and more balanced gender representation throughout our organisation, is important to our continuing long term success. 25% of the members of the Board are female and our Board diversity policy includes a commitment to maintaining this level of female representation on the Board, whilst ensuring that diversity in its broadest sense remains a central feature. A copy of the policy is available at **www.croda.com**.

Within our Business we continue to focus on creating connections between our employees, whether through training on cultural awareness and diversity, managing remote teams or ensuring leadership development programmes comprise employees from different cultures, backgrounds and nationalities. We believe that creating these connections leads to employees feeling included and valued and will safeguard our diverse workforce. The global review of talent undertaken by the Executive Committee and the Board aims to ensure we will have a diverse and global representation for the Group's future leaders.

Creating these connections between our employees goes to the heart of the Croda Culture. We recognise the value of culture and the Board has spent time working on the development of our Culture Plan, linking our culture to our Business strategy in order to deliver business results. Croda is not unique in having a strong culture, but we believe our culture is unique. We value openness and fairness. Our employees are committed and loyal and take pride in their work and are proud to work for Croda. There is a trust and a real sense of family and community between Croda employees and, importantly, a belief that coming to work should be fun. Our strong global networks provide us with agility and the empowerment given to employees leads to the creativity and innovation for which Croda is renowned.

Accountability

The Board spent a considerable amount of time discussing the areas of risk assessment, risk management and internal control systems (including a review of control failings), and assessing the long term prospects of the Company.

The Remuneration Report on pages 55 to 75 sets out details of the time spent in reviewing our Remuneration Policy. We have ensured that there is a clear link between remuneration objectives for our executive team and the delivery of our strategy and will be seeking support from shareholders for the new Policy at our Annual General Meeting (AGM) in April.

Relations with shareholders

As Chairman, I am responsible for effective communication with shareholders and for ensuring that the Board understands the views of major shareholders. During the year I have met with several shareholders as well as speaking with many shareholders at our AGM. Our shareholders support our strategy and are very comfortable with our approach to corporate governance.

Anita Frew
Chairman

Looking ahead to 2017

During the year the Board will:

- → Spend time looking at major strategic issues including innovation, sustainability and market dynamics
- → Regularly review our innovation pipeline
- → Continue to monitor the culture and behaviours within the organisation, taking account of these when making decisions
- → Focus on Board succession planning and the optimum balance and composition of the Board.

Outside the boardroom

In May 2016, the Board visited our manufacturing site in Ditton, UK. As well as visiting the plant areas, the Board spent time in the laboratories with our research and development, and process innovation teams where they received demonstrations of the site's key technologies and gained a fuller understanding of the applications in which our products are used by our customers.

A strong framework

Leadership

Role and operation of the Board

The Board has ultimate responsibility for the overall leadership of the Group. In this role it oversees the development of a clear Group strategy, monitors operational and financial performance against agreed goals and objectives, and ensures that appropriate controls and systems exist to manage risk.

Specific Board matters

The matters reserved for the Board fall into four broad areas:

1. Matters required by law to be reserved for the Board's decision, such as approving the Annual Report and Accounts, appointing new Directors, and declaring dividends
2. The requirements of the UK Listing, Prospectus and Disclosure and Transparency Rules, such as approving circulars to shareholders and other significant communications
3. UK Corporate Governance Code recommendations, such as ensuring the Company has a sound system of internal control and risk management, and approving the Board's and Committees' terms of reference
4. Other matters such as approval of the Group's strategy and budget, material corporate transactions and capital expenditure.

The full schedule of matters reserved for the Board can be found at **www.croda.com**.

Membership of the Board and attendance (eligibility) at Board meetings held during the year ended 31 December 2016

Anita Frew (Chairman)	7 (7)
Alan Ferguson	7 (7)
Steve Foots	7 (7)
Helena Ganczakowski	7 (7)
Keith Layden	7 (7)
Jez Maiden	7 (7)
Nigel Turner	7 (7)
Steve Williams	7 (7)

At the date of this report, the Board comprises eight Directors: the Chairman; the Group Chief Executive; the Group Finance Director; the Chief Technology Officer; and four independent Non-Executive Directors. The small size of our Board allows time for full discussion and debate of items, and enables all Directors' views to be heard. The Non-Executive Directors have a broad range of business, financial and international skills and experience, which provides appropriate balance and diversity within the Board. Biographical notes appear on pages 34 and 35.

With support from the Company Secretary, the Chairman sets the annual Board agenda programme and Board meeting agendas, and determines the number of meetings to be held during the year. She ensures enough time is devoted, during meetings and throughout the year, to discussing all material matters, including strategic, financial, operational, business, risk, HR and governance issues.

The Board has taken action to strike a balance between reporting, approvals and governance matters, whilst ensuring more time is devoted to major strategic issues.

Governance structure

The Board has three main Committees: the Audit Committee; the Remuneration Committee; and the Nomination Committee. The terms of reference for each Board Committee can be found at **www.croda.com**.

The day-to-day operational management of the Business is delegated by the Board to the Group Chief Executive, who uses several Committees to assist him in this task: the Group Executive Committee; the Group Finance Committee; the Risk Management Committee; the Group SHEQ Steering Committee; the Group Ethics Committee; and the Routine Business Committee. For further information on each of these Committees see page 54.

The Board

Audit Committee

Chaired by Alan Ferguson

Monitors the integrity of the Group's financial statements/announcements, the effectiveness of internal controls and risk management as well as managing the external auditor relationship. For more information see pages 47 to 51.

Remuneration Committee

Chaired by Steve Williams

Approves the Company's remuneration policy and framework and determines the remuneration packages for members of senior management. For more information see pages 55 to 75.

Nomination Committee

Chaired by Anita Frew

Reviews the structure, size and composition of the Board and its Committees, identifies and nominates suitable candidates for appointment to the Board, and has responsibility for succession planning. For more information see pages 52 and 53.

Board roles

The roles of the Chairman and Group Chief Executive are separate and clearly defined, with the division of responsibilities set out in writing and agreed by the Board.

Chairman

The Chairman leads the Board and is responsible for promoting open and effective communication between the Executive and Non-Executive Directors, and for creating an environment at Board meetings in which all Directors contribute to discussions and feel comfortable in engaging in healthy debate and constructive challenge.

The Chairman leads the annual Board effectiveness review process and ensures that all new Directors have an appropriately tailored induction process. She is responsible for effective communication with shareholders and for ensuring the Board understands the views of major shareholders. The Chairman also ensures that the Group complies with good practice in corporate governance, ethical, environmental and human resources matters, and upholds high standards of integrity and probity.

Group Chief Executive

The Group Chief Executive has day-to-day responsibility for the effective management of the Group's Business and for ensuring that Board decisions are implemented. He plays a key role in devising and reviewing Group strategies for discussion and approval by the Board. The Group Chief Executive is tasked with providing regular reports to the Board on all matters of significance relating to the Group's Business, or reputation, to ensure that the Board has accurate, timely and clear information on all matters on which a Board decision is required. He also promotes the Company's culture and standards.

The Chairman and Group Chief Executive liaise closely and have frequent meetings, face-to-face or by telephone, in which the Chairman is kept appraised of significant developments between Board meetings. This ensures any areas of potential conflict between the Executive and Non-Executive Directors are minimised.

Senior Independent Director

The Senior Independent Director provides a sounding board for the Chairman and acts as an intermediary for the Non-Executive Directors, where necessary. He is available to shareholders where communication through the Chairman or Executive Directors has not been successful or where it may not seem appropriate. The Senior Independent Director is responsible for leading the Non-Executive Directors in appraising the performance of the Chairman and in their discussions of her term of appointment and fees.

Independent Non-Executive Directors

The independent Non-Executive Directors' role is central to an effective and accountable Board structure. They constructively challenge the Executive Directors and scrutinise the performance of management in meeting agreed goals and objectives. They help develop and monitor the delivery of the strategy within the risk and control framework set by the Board. They determine appropriate levels of remuneration for Executive Directors and have a prime role in appointing and, where necessary, removing, Executive Directors, and in succession planning.

Group General Counsel and Company Secretary

The Group General Counsel and Company Secretary is secretary to the Board and its Committees. He ensures Board procedures are complied with and advises on regulatory compliance and corporate governance. In addition he develops Board and Committee agendas and collates and distributes meeting papers. He facilitates induction programmes and provides briefings on governance, legal and regulatory matters.

The Board's 2016 activities and priorities

The Board has an agenda programme that ensures strategic, operational, business, financial, HR and corporate governance items are discussed at the appropriate time at Board meetings. The Board agenda has strong links to the strategic objectives for the Business. The Board has seven meetings during the year and in addition a strategy day at which all members of the Executive Committee attend. The strategy day in the first half of the year is followed by consideration of the three year plan in the autumn and then approval of the budget at the end of the year. Key highlights of the Board's 2016 activities and priorities are set out below.

Board activity in 2016

Strategy

Delivering growth (p05)

- Personal Care, Croda China, Croda India and Asia Pacific business reviews
- Adjacent market opportunities
- Product manufacturing strategies
- Various acquisition opportunities and pipeline, including the acquisition of Inventiva
- Integration of Incotec

Driving innovation (p05)

- Product innovation programmes and technology platforms
- Technology led acquisitions
- New and Protected Products pipeline
- Innovation and R&D metrics
- Open innovation

Sustainable solutions (p05)

- Safety, health, environment and quality
- Sustainability strategy and targets
- Senior management succession
- Ethical compliance reinforcement programme, including modern slavery statement

People

- Talent review and succession planning
- The Croda culture
- Board diversity
- Health and safety of our employees and contractors
- Diversity and inclusion of our workforce
- Ethical compliance programmes

Governance and reporting

- Review of Annual Report and Accounts and other financial statements
- Board evaluation and effectiveness
- Defence strategy
- Investor relations review

Financial, risk and performance management

- Capital expenditure approvals and performance reviews of historical capex
- Capital allocation policy, capital returns and share consolidation
- The Group's budget, forecasts and key performance targets and indicators
- Dividend approvals
- Anti-bribery, Brexit and intellectual property risk reviews
- Long term viability

Outside the boardroom

In addition to formal Board meetings, in 2016, the Directors attended offsite meetings to review the Group's strategy and were present at the AGM. They also met with the Company's financial and public relations advisers to discuss the feedback from investors and analysts on the Group's annual results. The Chairman and Non-Executive Directors met together without the Executive Directors present.

The Chairman spends a considerable amount of time meeting with Steve Foots and the senior management team at the Company's head office. This ensures that she is kept appraised of significant developments in the Company between Board meetings.

All Directors are involved in the Group's Leadership Development Programme. This involves attending various sessions, and includes discussions on business strategy and leadership chaired by a Director, as well as interacting with employee course members in team building sessions or at dinners.

The Board visited our manufacturing site in Ditton, UK, where they participated in interactive labatory demonstrations, undertook a plant tour and discussed the sites key technologies and their end applications.

During the year, some of the Non-Executive Directors undertook an overseas manufacturing site visit, outside of the normal Board site visits. Anita Frew and Alan Ferguson visited the Sipo manufacturing site in China and Helena Ganczakowski met the Croda India management team at our manufacturing site in Thane. The Non-Executives discussed a wide range of topics with the local management teams, including process safety, innovation, plant expansion plans and challenges and opportunities in each market. In addition, all the Board met with the Asia Pacific management team at Croda Singapore's sales office and spent time at the manufacturing site on Jurong Island. Anita continued her comprehensive induction programme, spending time at our operations in Korea and Japan.

As in previous years, members of the Executive Committee and other senior managers from across Croda attended Board dinners where the Board discussed topics relevant to the Business and its strategy. In addition, during the Board's visit to our operations in Singapore and the Non-Executive Directors' visits to India, China, Japan and Korea, the Directors met informally with many of the Group's employees. These interactions enhance the Board's understanding of the Business and allow Directors to spend time with the Group's senior managers and potential future leaders.

Effectiveness

The Nomination Committee

The Nomination Committee report is set out on page 52. The report describes the membership of the Nomination Committee, its responsibilities, its main activities in 2016 and its priorities for 2017.

Board evaluation

The Board undertakes a formal review of its performance and that of its Committees each year. In 2015, the Board review was conducted using an online questionnaire tailored to Croda's activities and current concerns. The key actions and progress in meeting them are summarised below:

Continue to focus on long term strategy and strategic aquisitions	✓
Continue to concentrate on risks that could materially impact the Group's strategy and long term viability	✓
Ensure that the Board is regularly exposed to the global nature of our Business, including overseas site visits and meetings	✓

✓ Completed → Ongoing

During 2016, the Board review was again conducted using an online questionnaire tailored to Croda's activities and current concerns. Separate questionnaires were also used for the Audit, Remuneration and Nomination Committees. A report was prepared based on the completed questionnaires, which facilitated an evaluation of the effectiveness of the Board and its Committees and the support and information received from management and advisers. The results were discussed in detail by the Board and areas for focus and improvements were identified and agreed. The Chairman fed back on a one-to-one basis to each of the Non-Executive Directors and the Group Chief Executive, and the results of the evaluation were discussed with the Nomination Committee.

The review concluded that:

- The Non-Executives support and challenge of management was appropriate and the relationships between individual members of the Board continues to be very strong. There is an excellent relationship between the Board and the Group Chief Executive and the Board and senior management
- The level of the Board's oversight of the various aspects of risk is appropriate and the Board is effective in considering risk when making strategic and operational decisions
- The Board's involvement in succession and development plans for senior management was rated highly
- The Board will review its agenda programme to ensure appropriate time is spent focusing on innovation, sustainability and market dynamics.

The Board's priorities for 2017 are set out on page 37.

In 2017 we will commission an externally facilitated review in line with the requirements of the Code.

Board re-election

The Board contains a broad range of skills and experience from different industries and advisory roles, and from international markets.

These skills support the strategic aims of the Company. Following individual performance assessments, the Board is satisfied that each Director continues to perform effectively, allocates sufficient time for their duties, and remains fully committed to their role in the Company. All Directors will stand for re-election at the 2017 AGM. Full biographies for the Directors can be found on pages 34 and 35.

Directors' induction

On joining Croda, Directors receive a tailored induction programme. New Directors need to quickly absorb a great deal about a business if they are to fulfil their roles effectively from the start. Our tailored inductions offer a swift and thorough way to help new Directors understand Croda's business, markets and relationships and to establish a link with employees.

As part of the induction, new Directors gain a thorough understanding of Croda's business through meetings with Croda employees across all regions in which we operate. This includes site visits, typically hosted by one of our Executive Committee members. This allows our new Directors to get to know the regional and local leadership teams and to discuss a wide range of topics, including the local organisation structure, growth plans, strategic priorities, risks and the competitive landscape. Directors also spend time at our laboratories with the R&D teams, where they gain insight into the technology platforms and chemistries, as well as our product development pipeline. Visiting our manufacturing sites enable new Directors to explore Croda's complex manufacturing processes and our approach to process safety and behavioural safety. They are also able to discuss our challenging sustainability targets and find out about quality and regulatory issues.

New Directors are given lots of opportunities to spend time engaging with and talking to a wide variety of employees across all functions and seniorities. This includes time at dinners and social events. Through these interactions new Directors gain an insight into the Croda culture and our values that are a key differentiator between us and our competitors.

When planning an induction we take the following steps:

1 Bespoke programme

Our Company Secretary discusses how the programme should be tailored to meet a Director's needs

2 Varied delivery

We use diverse formats to communicate information. These include iPad reading materials, meetings with employees and fellow Directors, briefings and training from external advisers and site visits

3 Length

Conscious of a Director's other commitments and not wanting to overload them with too much information in too short a time, we deliver the induction over the full Board cycle of 12 months

4 Review

The Company Secretary and the Director have regular reviews, with input from the Chairman, to agree what extra insights the induction needs to deliver

Board support

Each Director has access to the advice and services of the Company Secretary. Where necessary, the Directors may take independent professional advice at the Company's expense.

Training and briefings are available to all Directors taking into account their existing experience, qualifications and skills. In order to build and increase the Non-Executive Directors' familiarity with, and understanding of, the Group's people, businesses and markets, senior managers regularly make presentations at Board meetings. The Board also receives regular briefings from the Company Secretary on governance, legal and regulatory matters, and additional briefings from the Company's professional advisers.

Before each Board meeting, the Company Secretary makes sure that the meeting papers and other information are delivered electronically via a secure, iPad-accessible web portal. This helps to ensure that each Director has the time and resources to fulfil their duties. A resource centre within the web portal provides access to useful information about the Group, including corporate governance materials, finance and strategy information, Group policies and procedures, and information on topics such as risk and insurance.

Independence of Non-Executive Directors

Croda complies with the Code in having experienced Non-Executive Directors who represent a source of strong advice, judgement and challenge to the Executive Directors. At present there are five such Directors, including the Chairman and the Senior Independent Director, each of whom has significant commercial experience. Their understanding of the Group's operations is enhanced by regular business presentations and site visits.

The independence of the Non-Executive Directors is kept under review. The Chairman was independent on her appointment in 2015 but, as Chairman, is not classified as independent. Steve Williams has consultancy roles with Eversheds LLP, which provides some legal services to the Group, and Spencer Stuart, a search consultancy firm that has previously been used by Croda. The Board does not consider that these roles would affect his judgement in relation to Croda and its Business and, therefore, considers that all Non-Executive Directors who served during the year are independent in character and judgement, with no relationships or circumstances that are likely to affect, or could appear to affect, their judgement.

Conflicts of interest

The Board has an established process for declaring and monitoring actual and potential conflicts. The Articles of Association of the Company allow the non-conflicted members of the Board to authorise a conflict or potential conflict situation. In addition to the potential conflicts of Steve Williams (noted above), Nigel Turner declared a potential conflict in relation to the possible sale of farm produce (oilseed rape) through agents to Croda. Helena Ganczakowski has a Non-Executive Director role on the board of People Against Dirty, a customer of Croda. Jez Maiden has a Non-Executive Director role on the board of PZ Cussons plc, a customer of Croda.

Details of the professional commitments of the Chairman and the Non-Executive Directors are included in their biographies on pages 34 and 35. The Board is satisfied that these do not interfere with the performance of their duties for the Company.

During 2016, no Non-Executive Director had served on the Board for more than nine years from the date of their first election, with the range between two years and seven and a half years.

The terms and conditions of appointment of Non-Executive Directors can be viewed at **www.croda.com**. They can be inspected during normal business hours at the Company's registered office by contacting the Company Secretary and will also be available for inspection at the AGM.

Time commitment

Each Director is aware of the need to allocate sufficient time to the Company to discharge their responsibilities effectively. In addition to time spent at Board and Committee meetings, the Directors participate in several Company related events; details are set out on page 41.

External consultants

New Bridge Street, now part of Aon Plc, and Korn Ferry have provided remuneration consultancy to the Remuneration Committee. While the Aon group provides insurance services to Croda, these are not provided by New Bridge Street.

Zygos and Russell Reynolds have previously acted as search advisers to the Board and Nomination Committee. Neither firm has any other connection with the Group.

Accountability

The Audit Committee

The Audit Committee report, which describes the membership of the Audit Committee, its responsibilities, main activities in 2016 and priorities for 2017, is set out on pages 47 to 51.

Risk management and internal control

The Board acknowledges its responsibility for ensuring the maintenance of a sound system of internal controls and risk management. In accordance with the guidance set out in the Financial Reporting Council's (FRC's) Guidance on Risk Management, Internal Control and Related Financial Business Reporting 2014, and in the Corporate Governance Code itself, an ongoing process has been established for identifying, evaluating and managing the principal risks faced by the Group. The Directors have established an organisational structure with clear operating procedures, lines of responsibility and delegated authority.

In particular, there are clear procedures and defined authorities for the following:

- Financial reporting, with clear policies and procedures governing the financial reporting process and preparation of the financial statements. There is a clear and documented framework of required controls. Each reporting location prepares an annual self-assessment of compliance with these controls, which is assured during planned internal audit visits
- Comprehensive monitoring and quantification of business risks, under the direction of the Risk Management Committee. The Group's approach to risk management and the principal risks facing the Group are discussed in more detail in the Strategic Report on pages 29 to 33
- Capital investment with detailed appraisal, risk analysis, authorisation and post-investment review procedures.

This process has been in place for the full financial year and up to the date on which the financial statements were approved by the Directors.

The Board discharged its responsibility for monitoring the operational effectiveness of the internal control and risk management systems throughout the financial year and up to the date of approval of the Annual Report. It used a process which involved:

- Written confirmations from relevant senior executives and divisional directors concerning the operation of those elements of the system for which they are responsible
- Internal audit work carried out by KPMG LLP which reports through the Vice President Risk and Control to the Audit Committee
- Reports from the external auditors
- Presentations of key risks and controls by the Executive owner and other assurance providers
- Half-yearly report on significant controls from the Vice President Risk and Control.

This system is designed to mitigate rather than eliminate the risk of failure to achieve business objectives and provides reasonable but not absolute assurance against material misstatement or loss. As appropriate, the Board also ensures that necessary actions have been, or are being, taken to remedy failings or weaknesses identified from the review of internal controls' effectiveness and judges their level of significance.

Fair, balanced and understandable

The process of compiling the Annual Report starts early enough to give the Board time to assess whether it is fair, balanced and understandable, as required by the Code. The Board considered whether the Annual Report contained the necessary information for shareholders to assess the Company's position and performance, business model and strategy. The Board reviewed how the business model was presented and the linkage to the Group's strategy, to ensure clarity for shareholders. The tone was reviewed to ensure a balanced approach and the Board made sure the narrative at the front end of the report was consistent with the financial statements.

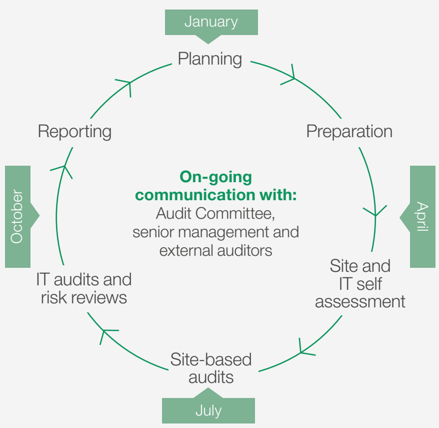
Our internal audit annual programme

One element of our internal control framework is the work carried out by our internal auditors.

The planning process for the year's audit work is undertaken by the internal audit team, led by our Vice President Risk and Control. Themes from prior year audits, key risk areas and fundamental controls feed into the selection of the audit programme, which is approved by the Audit Committee. Consideration is given to the appropriate mix of IT and manual controls to be tested.

Self-assessments of controls are carried out by local management and systems owners, which are analysed by the internal audit team with their findings and any emerging themes being reported to the Audit Committee. The Committee places great importance on the self-assessments and are concerned when there are differences (positive or negative) between the self-assessed scores and those assessed during the audit visits.

The site-based audit fieldwork and IT audits are undertaken between May and October, followed by the risk-based reviews. The outcome of this work is reported to the Audit Committee and any failures of internal controls or weaknesses from non-financial and risk-based reviews are followed up by the Audit Committee, with common themes feeding into the planning process for the following year's audit programme.



Relations with shareholders

Communication with shareholders

The Chairman, Executive Directors and other senior managers maintain regular contact with existing and potential shareholders to ensure our strategy and trading trends are clearly understood.

Recognising the importance of communicating with our shareholders, our Vice President for Investor Relations and Corporate Finance manages the day-to-day contact with the investment community, including investors and analysts, as well as to co-ordinate site visits and presentations at investor conferences and roadshows.

The Board engages in active dialogue with shareholders through the Group Chief Executive, Group Finance Director and the Chairman, who meet with shareholders regularly. These meetings provide an appropriate means of capturing shareholders' opinions and the Chairman ensures the Board is regularly apprised of shareholders' views and key issues. All Non-Executive Directors are available to attend meetings if requested by shareholders and the Senior Independent Director is available to discuss matters concerning the Chairman if the need arises; no such meetings were requested by shareholders during the year.

The Board believes its practices in this area are consistent with both the Code concerning dialogue with shareholders, and good governance.

During the year, numerous meetings were held with investors in the UK, US, Europe and Asia, including face-to-face meetings, telephone and video conferences, and hosted site visits in all of these regions.

The Board invites the Company's brokers and financial public relations advisers to attend at least one meeting each year at which the economic and investment environment, Croda's performance (generally and in comparison with its sector peers) and investor reactions are discussed. The Chairman attended the Company's results announcements. These presentations are webcast live, so all shareholders have access to them, and are also available to download. We answer all investor questions sent to our website.

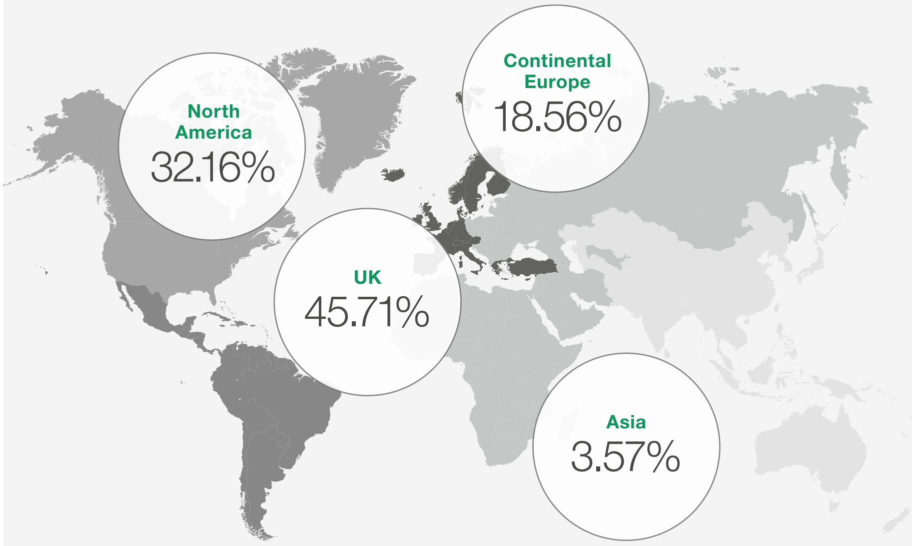
Set out overleaf on page 46 is a calendar of our investor events attended by senior management throughout the year.

Substantial shareholders

As at the date of this Annual Report the Company had received notification of the following material shareholdings pursuant to the Disclosure and Transparency Rules of the UK Listing Authority:

	Number of shares	% of issued capital
BlackRock, Inc.	7,044,667	5.36%
Mawer Investment Management Limited	6,563,126	5.01%

Geographical breakdown of shareholder base



Our investor calendar

Set out below is a calendar of our investor events attended by senior management in 2016:

February
- → Full year results published
- → Roadshow in London

March
- → Roadshow in New York
- → Conferences in New York, San Francisco and London
- → Annual Report published
- → Capital Markets Day held at Sederma, France

April
- → Roadshow in Mid-West America
- → Conference in London
- → Q1 Trading Update published
- → Annual General Meeting in York

May
- → Conference in Nice
- → Roadshow in the Netherlands

June
- → Roadshow in Edinburgh
- → Conferences in Paris and London
- → Investor field trip to Paris

July
- → Half year results published
- → Roadshow in London

September
- → Conferences in Dublin and London
- → Roadshow in Milan

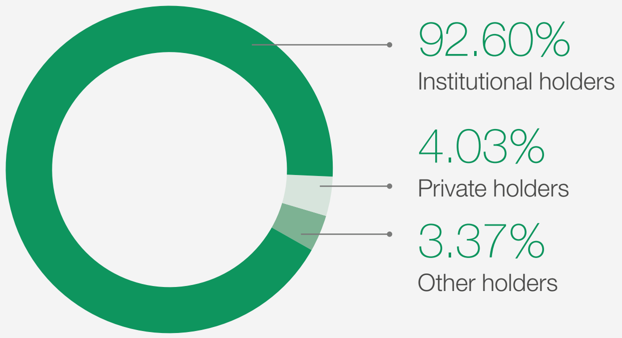
October
- → Roadshows in Helsinki and Copenhagen

November
- → Q3 Trading Update published
- → Conferences in Boston and London
- → Roadshows in New York, Chicago and Toronto

December
- → Conference in London

Investor concentration

Percentage of issued capital by type of holder



Annual General Meeting

The AGM provides an opportunity for private shareholders to raise questions with Board members. The Directors are also available to answer questions afterwards in a more informal setting. The Annual Report and Accounts, including notice of AGM, are sent to shareholders at least 20 working days before the meeting. There is a separate investor relations section on **www.croda.com** which includes, among other items, presentations made to analysts. The AGM will be held at the Principal Hotel, Station Road, York, North Yorkshire YO24 1AA, on 26 April 2017 at 12 noon.

Deadlines for exercising voting rights

Votes are exercisable at a General Meeting of the Company in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy or, in relation to corporate members, by corporate representatives. The Company's Articles of Association provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of a meeting or adjourned meeting.

Audit Committee

Report of the Audit Committee

for the year ended 31 December 2016

"The Committee has delivered on its key priorities during the year."

Alan Ferguson
Chairman of the Audit Committee

Members and attendance (eligibility) at meetings held during the year ended 31 December 2016

Alan Ferguson Chairman	5 (5)
Helena Ganczakowski Independent Non-Executive	5 (5)
Nigel Turner Independent Non-Executive	5 (5)
Steve Williams Independent Non-Executive	5 (5)

In addition there were two meetings held subsequent to the year end. Attendance was full at both.

Responsibilities

The Committee assists the Board in ensuring that the Group's financial systems provide accurate and up-to-date information on its financial position.

Key responsibilities:

- To monitor the integrity of the financial statements and results announcements of the Group and to review significant financial reporting issues and judgements
- To recommend external auditor appointment and removal, assess audit quality, negotiate and approve the audit fee, assess independence and monitor non-audit services
- To review the adequacy and effectiveness of the Group's internal controls and risk management systems, and the adequacy, effectiveness and output of the internal audit function
- To review the adequacy of the Group's whistle-blowing arrangements and procedures for detecting fraud.

In addition to its business as usual activities, the Committee selects certain focus areas each year for detailed review.

Detailed responsibilities are set out in the Committee's terms of reference, which can be found at **www.croda.com**.

Dear fellow shareholder

In my capacity as Chairman of the Audit Committee, I am pleased to present the Audit Committee Report for the year ended 31 December 2016.

Committee membership

The Committee is made up of four Non-Executive Directors. The experience of each member of the Committee is summarised on pages 34 and 35. I have held a number of senior financial roles, most recently as Chief Financial Officer of Lonmin Plc, and am Chairman of the Audit Committees of two other FTSE 100/250 companies, as well as an AIM listed company. The Board considers each member of the Committee is independent within the definition of the Code and has relevant financial experience, as well as a broad and diverse spread of commercial experience. Such consideration provides the Board with assurance that the Committee has the appropriate skills and experience to ensure that it can be fully effective, and that it meets the Code requirement that at least one member has significant, recent and relevant financial experience.

The Chairman of the Board, the Group Chief Executive, the Group Finance Director, the Group Financial Controller, the Vice President Risk and Control, who leads the internal audit function, and representatives from the external and internal auditors regularly attend meetings by invitation.

The Committee periodically, and I more regularly, meet separately with the Vice President Risk and Control and the external auditors without the Executives being present. While these meetings are invaluable, I also meet with the external auditors, the Group Finance Director and the Group Financial Controller at least twice each year to discuss the detail of the year end and half year results before the relevant Committee meetings. This helps me to better understand the key issues and to make sure enough time is devoted to them at the subsequent meeting.

Main (business as usual) activities of the Committee since the publication of the 2015 Annual Report

The Committee met three times in 2016 after publication of the 2015 Annual Report and twice between the year end and the publication of this Annual Report. The key issues covered at the Committee meetings were reported at the subsequent Board meeting.

The Committee's main business as usual activities, excluding the focus areas, and an estimate of the proportion of time spent on them, are detailed below:

Committee activity in 2016

Financial reporting (25%)

The Committee:

- Monitored the Group's financial statements and results announcements, and reviewed significant financial reporting and accounting issues including the going concern assessment and exceptional items
- Undertook regular reviews of the Group's material litigation and was satisfied with the approach to provisioning
- In conjunction with the Board, reviewed the financial modelling and stress testing based on plausible scenarios arising from selected key risks, noting the effect they would have during the viability period

Governance (15%)

The Committee:

- Reviewed the effectiveness of the Group's anti-bribery and fraud procedures, including the whistle-blowing procedure
- Met with internal audit and external audit without management being present
- Received a presentation from the Finance Director, PTIC and Europe
- Undertook an effectiveness review, which was conducted using a questionnaire and concluded that the Committee was operating effectively, with virtually all the scores being very close to those from 2015 when similar questions were asked. Areas for attention included some training needs (including around cyber security) and supporting and ensuring that focus is maintained on the key issues in 2017 recognising the audit tender process will absorb additional time and effort.

Internal audit and risk management (25%)

The Committee:

- Received an update report from the Vice President Risk and Control at each meeting and monitored compliance with the Group risk management programme. The Committee reviewed the reliance placed by management on the risk mitigating controls of the Group's highest risks and analysed the types of assurance, both internal and external, that applied to these controls
- Assessed the 2016 risk-based assurance activity carried out by internal audit, which included a review of: product assurance; Incotec integration; the order-to-cash process in Hong Kong and Singapore; controls over capital projects; and our New and Protected Products process
- Considered the results of the 2016 internal audits and the IT audits, the self-assessment process, the adequacy of management's response to matters raised and the time taken to resolve such matters
- Reviewed and approved the 2017 internal audit plan and started the preparations for putting the internal audit work out to tender.

External audit (20%)

The Committee:

- Discussed and approved the external audit plan, including: the assessment of significant audit risks; the engagement risk profile; the scope of the audit (covering 85% of the Group's consolidated pre-tax profit, 2015: 84%); the materiality level (circa 5% of the Group's consolidated pre-tax profit, or £13.8m, 2015: £12.6m); the de minimus reporting threshold (£0.7m, 2015: £0.6m); the approach to working with internal audit; and the key members of the engagement team supported by specialist auditors where necessary. The audit fee was approved by the Committee following challenge and discussion
- Reviewed the provision of non-audit services by the external auditor and, in light of the FRC's Revised Ethical Standard, adopted a new Group policy in this area
- Agreed the timing and plan for tendering the external audit in line with the regulatory framework and commenced work in this regard
- Discussed in detail the FRC's audit quality review of PwC's 2015 audit of the Company
- Considered and confirmed the independence of PwC.

Key

✓	Completed
→	Ongoing

Key focus areas for 2016

The Audit Committee has delivered on our 'business as usual' work, as set out in our terms of reference, and from this perspective there is nothing to highlight for your attention. Last year, we noted five focus areas for 2016, which absorbed the balance of the Committee's time of around 15%, with the main component being work on the SAP system.

Key focus area	Actions during the year	Progress
Continue to work with management on further development of our systems-based internal audit approach	The Company benefits from one SAP system. Over the last couple of years a lot of attention has been focused on two areas. First, how better to utilise the system to strengthen the control framework. A systems based audit approach to SAP access controls was taken in 2016 using the newly implemented SAP GRC system. This system enables continuous monitoring of access and has introduced workflow to the authorisations process. Mitigating controls were identified for key segregation conflicts, and these were tested as part of the site audits where relied upon by sites. Sites have confirmed that the GRC system has improved the effectiveness of the access process. Second, there has been a focus on how to use data analytics both as an audit tool and as a tool to examine process flows which may lead to control or efficiency improvements. Analytics were used for the first time to identify transaction flows across two critical sites covering the sales to receivables process. The output was used to help identify a best practice flow and also to identify any inefficiencies and integrity issues. The work analysed 100% of data flows in a seven month period for this process. The results of this review were discussed by the Audit Committee, together with a proposal on how data analytics could be used in a similar way to support the 2017 internal audits.	→
Assess the impact on Croda of the FRC changes to the UK Corporate Governance Code and Guidance on Audit Committees which which came into effect in 2016	A comprehensive review of the Code and the Guidance was undertaken, and minor changes to adapt to the new provisions were made, including updating our non-audit policy.	✓
Focus on the controls over capital projects, given the increasing spend in this area	Internal audit undertook a review of governance and monitoring controls in operation over significant capital projects in Singapore, Atlas Point (USA), Chocques (France) and Croda India. The review concluded that effective controls were in operation at each site around both project and financial management. Some recommendations were made around best practice formalities. The President of Global Operations reported to each Board meeting on the progress and spend control over the Atlas Point project. The Group Financial Controller and the President of Global Operations completed the annual post-audit of major capital projects and reported this to the Board.	✓
Receive a report from the integration team following the recent acquisition of Incotec and agree with internal audit their audit approach for 2016	A report shared with the Audit Committee showed that the integration was progressing well. Internal audit's approach to Incotec was to carry out a peer review supported by the Vice President Risk and Control in 2016, with all sites visited. A formal audit is scheduled for 2017. This approach was agreed by the Committee.	✓
Focus on cyber security risks, working with management to try to ensure our networks and business information are as secure as possible, and that learnings from our regular IT systems penetration testing are followed up	Cyber security controls were tested during the 2016 internal audit round and ISO27001 testing was also undertaken. No significant actions were identified from either audit. Penetration testing has been undertaken and actions arising are being progressed. Further testing services will be carried out in 2017. A cyber maturity risk assessment review has been scoped and will be completed before the end of Q1 2017.	→

Significant financial statement reporting issues

With support from the external auditors, the Committee considered a number of significant issues related to the financial statements for the year ended 31 December 2016, as set out below.

Pensions: The Committee continued to monitor the Group's pension arrangements, in particular the liability in respect of the defined benefit plans in the UK, the US and the Netherlands, which are sensitive to assumptions made in respect of discount rates and inflation. The Committee reviewed the actuarial assumptions used and compared them with those used by other companies, and considered them to be reasonable.

Provisions: The Committee reviewed whether certain environmental, reorganisation, litigation and other legal provisions were sufficient to cover estimated costs of potential and actual claims and decided that they were reasonable and appropriate. For larger areas of exposure, the Committee was reassured by legal opinions and insurance coverage.

Taxation: The global footprint of the Group necessitates an understanding of, and compliance with, complex tax regulations. The Committee reviewed the basis of calculation of the effective tax rate, the status of the Group's tax compliance, details of potentially significant challenges from tax authorities and the level of accruals. The Committee concurred with management's views. In addition, the Committee reviewed the adequacy of the tax disclosures.

Goodwill: The strategy of the Group includes acquisitions of new technologies and businesses operating in adjacent markets. Goodwill represents a significant asset value on the balance sheet (£307.1m out of a total net assets of £608.8m at 31 December 2016). The Committee completed its routine annual impairment review of the carrying value of goodwill, as prepared by management, including the sensitivity to a number of underlying assumptions. After due challenge, the Committee was satisfied the assumptions were reasonable and that no impairments were necessary.

Internal audit and risk management

In 2016 I met with the Vice President Risk and Control several times outside of the formal meetings to discuss the performance and output of the internal audit function and aspects of risk management. The Vice President Risk and Control attended each Committee meeting and presented an internal audit report that was fully reviewed and discussed, highlighting any major deviations from the annual plan agreed with the Committee.

At each meeting, the Committee considered the results of the audits undertaken and considered the adequacy of management's response to matters raised, including the time taken to resolve such matters. It also focused, in particular, on where there was a major divergence between the outcome of the internal audit and the scoring of the self-assessment questionnaire, completed annually by each business unit. In these instances it challenged management as to what actions it was taking to try to minimise the chances of divergences arising in the future. The Committee looked at recurring themes where issues are identified across a number of locations.

We also agreed the internal audit plan for 2017; this takes into account such factors as the results of previous audits, both external and internal, the self-assessment questionnaire, recurring themes from 2016, acquisitions, system changes and the views of Executive management.

In February, the Committee conducted its annual review of the internal auditor, including the approach to audit planning and risk assessment, communication within the Business and with the Committee and its relationship with the external auditors. Internal feedback is used in this process. This did not highlight any significant areas for development. However, given we are tendering the external audit (see page 51) the Committee took the decision to tender the internal audit contract that KPMG have held for six years. This was because of the length of tenure of KPMG as internal auditors and the fact that if KPMG were successful in the external audit tender we would have to tender the internal audit contract in undue haste.

Details on how the Business implements its risk management and controls on a Group-wide basis are set out on pages 29 to 33 and page 44.

External auditors' effectiveness

During the year, the Committee assessed the effectiveness of PwC as Group external auditor. To assist in the assessment, the Committee spoke with senior members of the finance team to obtain their views on PwC's effectiveness in carrying out the 2016 audit. The Committee considered:

- → Quality of planning, delivery and execution of the audit
- → Quality and knowledge of the audit team
- → Effectiveness of communications between management and the audit team
- → Robustness of the audit, including the audit team's ability to challenge management as well as demonstrate professional scepticism and independence.

The Committee also considered the quality of reports from PwC and the additional insights provided by the audit team, particularly at partner level. It took account of the views of the Group Finance Director and Group Financial Controller, who had met local audit partners when visiting some of the Group's businesses, to gauge the quality of the team and their knowledge and understanding of the Business. The Committee considered how well the auditors assessed key accounting and audit judgements and the way they applied constructive challenge and professional scepticism in dealing with management.

We reviewed both the Audit Quality Review of the 2015 audit of the Company which was undertaken by the FRC this year, as well as the FRC's Audit Quality Inspection report on the UK firm, and overall the results were reassuring. The main area of comment by the FRC was around the audit of taxation and the Committee was satisfied with PwC's responses to the points raised. A review of effectiveness also forms part of PwC's own system of quality control and these procedures, which are set out in PwC's 2016 Audit Quality and Transparency Report, were disclosed to the Committee.

Following the review, the Committee concluded that the audit was effective.

External audit tendering

The Statutory Audit Services Order 2014, which we fully support, requires rotation of audit firms every 10 years unless there is a tender, in which case the audit firm can remain as auditor for up to 20 years. The transitional provisions stagger the introduction of mandatory firm rotation depending on the length of audit tenure as at 17 June 2014. As PwC have been the Group's auditors for more than 20 years we have a transition period that means PwC cannot be reappointed as our auditors after 17 June 2020.

The Committee has consistently said that it would tender the audit to coincide with the expiry of Ian Morrison's term as lead audit partner, when he would sign the 2017 Annual Report, or sooner if it were felt necessary by the Committee. This year the Committee formally committed to tender the audit during 2017. The first year to be audited by the newly appointed firm will be the year to 31 December 2018. During the year we agreed an outline timetable for the tender and agreed which audit firms we would ask to tender. The Group Finance Director and I have visited these audit firms to start the discussion with them around the key attributes we would expect to see in the senior members of the Group audit team and the likely structure of that team. The objective of this process is to ensure each firm puts forward the highest quality Group audit team to lead the tender that fits with our requirements. This process will continue through the first part of 2017. As part of the tender process the Committee, in conjunction with the firms themselves, are monitoring the Group's spend with those tendering the audit to avoid any independence issue arising in the run up to the tender. There are no contractual obligations that restrict our choice of external auditor, although, as noted, under the European rules we are obliged to rotate PwC from the audit by 2020.

External auditors' independence

The Committee and the Board place great emphasis on the objectivity of the Group's external auditors in reporting to shareholders. Both PwC Group audit partners are present at Audit Committee meetings to ensure full communication of audit-related affairs and that they remain fully appraised of all matters considered by the Committee.

PwC were the Group's joint auditors from 1970 to 1980 and have been sole auditors since 1981. To ensure objectivity, the rotation of audit partners' responsibilities within PwC is actively encouraged and has taken place.

During the year, the Committee undertook a detailed review of the provision of non-audit services by PwC and, in light of the FRC's Revised Ethical Standard, we adopted a new Group policy in this area. The new policy, which is on our website **www.croda.com**, sets out prohibited non-audit services and the controls over assignments awarded to the external auditor to ensure that audit independence is not compromised. I am required to give prior approval for work carried out by PwC and its associates above a threshold of £20,000 and the Committee is required to approve work over £100,000. These reviews include determining that other potential providers of non-audit services have been properly considered in recognition of the importance of this matter to the Committee.

Non-audit fees have fallen for the fifth consecutive year. In 2016, they were £0.3m, significantly less than the total audit fees of £0.9m; the non-audit to audit fees ratio stands at 0.33:1.

The only significant fees for non-audit work undertaken by PwC relate to tax compliance and advisory in the US. The firm's detailed knowledge of our operations in the US has been particularly helpful given the complexities of both Federal and State legislation, which necessitated the completion of 35 tax returns last year. During the year the Committee agreed to move this work away from PwC, and a tender process has been run, with a new firm appointed who are not involved in the external audit tender process.

The Committee undertook its annual review of the Group's policies relating to external audit, including the policy which governs how and when employees and former employees of the Group's auditors can be employed by Croda. No changes were made.

External auditor reappointment

The Committee recommended to the Board that PwC be offered for re-election at the forthcoming AGM, based on the work carried out in assessing their effectiveness and independence.

I will be available at the AGM to respond to any questions shareholders may raise on the Committee's activities, including the external and internal audit tender processes.

Alan Ferguson
Chairman of the Audit Committee

Looking ahead to 2017

In addition to our routine business, the Committee has four focus areas for 2017. We will:

→ Plan and conduct the tenders of the external audit and internal audit services

→ Review the implementation of our enhanced ethical compliance programmes relating to anti-bribery and sales of products into sanctioned markets

→ Review the progress of the project to increase the use of data analytics both as an audit tool and as a tool to examine process flows within SAP

→ Continue our focus on cyber security risk and ensure the Committee receives some training on this area.

Nomination Committee

Report of the Nomination Committee

for the year ended 31 December 2016

"We will ensure a healthy pipeline of talent is emerging for future Executive and Board roles."

Anita Frew
Chairman of the Nomination Committee

Members and attendance (eligibility) at meetings held during the year ended 31 December 2016

Anita Frew Chairman	3 (3)
Alan Ferguson Independent Non-Executive	3 (3)
Steve Foots Group Chief Executive	3 (3)
Helena Ganczakowski Independent Non-Executive	3 (3)
Nigel Turner Independent Non-Executive	3 (3)
Steve Williams Independent Non-Executive	3 (3)

Responsibilities

The Committee is responsible for nominating candidates for appointment to the Board for approval by the Board, and for succession planning. It evaluates the balance of skills, knowledge, experience and diversity on the Board, and identifies and nominates suitable candidates for appointment to the Board.

Key responsibilities

- → To review regularly the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations for any changes to the Board
- → To give full consideration to succession planning for Directors and other senior Executives in the course of its work, taking into account the challenges and opportunities facing the Company and, consequently, what skills and expertise the Board will need in future
- → Where a Board vacancy is identified, to evaluate the balance of skills, knowledge, experience and diversity on the Board and prepare a description of the role and capabilities required for the respective appointment
- → To identify and nominate candidates to fill Board vacancies, for the approval of the Board, as and when openings arise
- → To keep the organisation's leadership needs, both Executive and Non-Executive, under review to ensure that Croda continues to compete effectively in the marketplace
- → To review annually the time required from a Non-Executive Director and the Chairman
- → To make recommendations on succession planning for the Board.

Detailed responsibilities are set out in the Committee's terms of reference, which can be found at **www.croda.com**.

Dear fellow shareholder,

Main activities and priorities in 2016

Dr. Keith Layden, Chief Technology Officer and President, Life Sciences, will retire on 1 May 2017. The Nomination Committee spent time discussing and planning for Keith's retirement and succession. The Committee considered that the Company would benefit from Keith's expertise in technology and innovation if he remained on the Board. On the Committee's recommendation, the Board invited Keith to continue as a Non-Executive Director and I am delighted that he accepted this invitation, which will take effect from 1 May 2017.

After full consideration of succession for Keith, the Committee approved the appointment of Dr. Nick Challoner as President of Life Sciences with effect from 1 May 2017. Nick will continue to be responsible for the Asian Pacific region and to be based in Singapore. Nick will also lead Croda's Global Research and Technology function. Keith's other responsibilities have been assumed by other members of the Executive Committee.

The Committee spent time considering CEO succession, both in terms of emergency succession plans in the event that the Board needed to appoint a temporary CEO due to unforeseen circumstances, and for possible successors now or in the future.

The Committee carried out a review of the size, structure and composition of the Board for its current and future needs, to align with the Company's strategy. The Committee will continue to review the balance, experience and skills on the Board.

The Committee reviewed the time commitment of the Non-Executive Directors and was also satisfied that all the Non-Executives are able to commit the required time for the proper performance of their duties and continue to fulfil the criteria of independence.

The Committee regularly reviews the Board diversity policy. In terms of gender diversity, 25% of the members of the Board are female. Regarding all appointments to the Board, whether for Non-Executive or Executive positions, we consider carefully the benefits of greater diversity, including gender diversity, whilst ensuring that we fulfil our obligations to our shareholders to recruit the best person for the role on merit. The executive search firms used for our recent appointments to the Board are signatories to the Voluntary Code of Conduct for Executive Search Firms. The Committee ensures that the specification for any new Director role is equally suited to applicants of any gender and that no unlawful discrimination occurs at any stage in the selection process on the grounds of age, disability, gender reassignment, marriage and civil partnership, maternity, pregnancy, race, religion or belief, or sex or sexual orientation. The Board's diversity policy can be found at **www.croda.com**.

I will be available at the AGM to respond to any questions shareholders may raise on the Committee's activities.

Anita Frew
Chairman of the Nomination Committee

Looking ahead to 2017

In addition to our routine business, during the year the Committee will:

- → Continue to review the balance, experience and skills of the Board, paying particular attention to the tenure of the Non-Executive Directors and the need to progressively refresh the Board
- → Continue to monitor succession planning for the senior leadership team to ensure a healthy pipeline of talent is emerging for future Executive and Board roles.

Other Committees

The management of the Business is delegated by the Board to the Group Chief Executive, who uses various Committees to assist him in this task.

The role of the Executive-level Committees is set out below, with a table showing the membership at the date of this Report.

Group Executive Committee

The Committee meets eight times a year and is responsible for: developing and implementing strategy, operational plans, policies, procedures and budgets; monitoring operating and financial performance; assessing and controlling risk; and prioritising and allocating resources.

Group Finance Committee

The Committee meets every month to review monthly operating results and examine capital expenditure projects.

Risk Management Committee

The Committee meets quarterly to evaluate and propose policies and monitor processes to control business, operational and compliance risks faced by the Group, and to assess emerging risks.

Group SHEQ Steering Committee

The Committee meets quarterly to monitor progress against the Group SHEQ objectives and targets, review safety performance and audits, and determine the requirement for new or revised SHEQ policies, procedures and objectives.

Group Ethics Committee

The Committee was set up at the start of 2017 and meets quarterly in support of our culture of integrity, honesty and openess to promote the importance of ethics and compliance across the Group and amongst our supply chain partners.

Routine Business Committee

The Committee comprises the Group Chief Executive and Group Finance Director, with the Group General Counsel and Company Secretary and Group Financial Controller acting as alternates. The Committee attends to business of a routine nature and to the administration of certain matters, the principles of which have been agreed by the Board or the Group Executive Committee.

Committee membership (as at the date of this report)		Group Executive Committee	Risk Management Committee	Group SHEQ Steering Committee	Group Finance Committee	Group Ethics Committee
Steve Foots	Group Chief Executive	●	•	•	●	•
Stuart Arnott	President Global Operations	•	•	●	•	•
Sandra Breene	President Personal Care	•	•	•		
Tom Brophy	Group General Counsel and Company Secretary	•	•	•		●
Nick Challoner	President Asia	•	•	•		•
Anthony Fitzpatrick	President Corporate Development	•	•	•		•
Maarten Heybroek	President Performance Technologies & Industrial Chemicals	•	•	•		
Keith Layden	Chief Technology Officer & President Life Sciences	•	•	•	•	
Jez Maiden	Group Finance Director	•	●	•	•	
Graham Myers	Group Financial Controller	•	•	•	•	

● Chairman • Member

Remuneration Report

Report of the Remuneration Committee

for the year ended 31 December 2016

Our remuneration policies have contributed to the building of sustainable long term business growth."

Steve Williams
Chairman of the Remuneration Committee

Members and attendance (eligibility) at meetings held during the year ended 31 December 2016

Steve Williams Chairman	5 (5)
Alan Ferguson Independent Non-Executive	5 (5)
Anita Frew Board Chairman	5 (5)
Helena Ganczakowski Independent Non-Executive	5 (5)
Nigel Turner Independent Non-Executive	5 (5)

Responsibilities

The Committee determines and agrees with the Board the Company's remuneration policy and framework. It determines the remuneration packages for all Executive Directors and the Chairman, and recommends and monitors the level and structure of remuneration for senior managers.

Key responsibilities:

- To determine the Company's remuneration policy and framework, taking into account factors which it deems necessary, including legal and regulatory requirements;
- To review the ongoing appropriateness and relevance of the remuneration policy;
- To determine the total individual remuneration packages for the Chairman, each Executive Director, the Company Secretary and other members of the Executive management team as are designated by the Board from time to time;
- To ensure that no payment or proposed payment is made that is not consistent with the remuneration policy most recently approved by shareholders;
- To select, appoint and set the terms of reference for any remuneration consultants who advise the Committee; and
- To oversee any major changes in employee benefits structures throughout the Group.

Detailed responsibilities are set out in the Committee's terms of reference, which can be found at **www.croda.com**.

Looking ahead to 2017

In addition to routine business, the Committee will implement our refined remuneration policy, if approved at the 2017 AGM.

Chairman's letter

Dear fellow shareholder,

On behalf of both the Remuneration Committee and your Board of Directors, it gives me great pleasure to present the Company's Remuneration Report for 2016.

The Committee believes that our remuneration policies to date have contributed to our success by stressing the importance of building for a sustainable long term future and encouraging only those actions which result in profitable growth, irrespective of the basis of measurement.

If we have all learned one thing in 2016 it is that circumstances change and we must be prepared to respond to those changes. So it is appropriate that at this Annual General Meeting we will be placing before you our revised Remuneration Policy for consideration.

This letter, therefore, deals with two matters. First, a summary of the principles which have guided us in framing the new policy and its application for 2017 and, second, a summary of the remuneration outturn for 2016.

The revised Remuneration Policy and 2017 application

In considering how the Company's Remuneration Policy should develop the Committee has been guided by five general principles framed, in part, in consultation with our principal shareholders.

First, to achieve the closest possible alignment with the Company's strategy. To this end a new long term metric is being introduced reflecting our focus on innovation and our progress in developing New and Protected Products (NPP). This will take its place alongside Total Shareholder Return (TSR) and Earnings Per Share (EPS) growth in the long term plan.

Second, to raise the profile of both actual and relative performance and to ensure it is judged against true business competition. The comparator group for long term TSR performance is now a bespoke group of our international competitors. The bar is therefore raised.

Third, to ensure that the policy properly reflects the various concerns of shareholders as to structure and metrics. Thus, although the policy rewards improved profit performance each year, and TSR, EPS and NPP growth in the longer term, these are subject to underpins. This means that the Committee must satisfy itself, each year that other measures of corporate performance have not been sacrificed to achieve a result against our primary incentive plan performance measures. For example these might be operational matters like the SHE record or financials matters such as cash generation and ROCE. Indeed the Committee will report on these deliberations each year.

Fourth, to ensure that target setting year by year results in stretching ambitions and that the scale of reward on offer is proportionate and always linked to improved performance. Therefore, for 2017, only incremental profit performance is rewarded, and the targets, although revised, are designed to be equally tough as in preceding years bearing in mind the current environment. For instance, the achievement of what we believe is a stretching budget in 2017 would yield around 10 percentage points of bonus less than it would have done in 2016. In addition, by changing the performance measurement basis to constant currency, achieving the target is likely to be much more challenging because if current exchange rates had been maintained then we would expect a further currency benefit to reported results.

Fifth and finally, the Committee's method of operation will be flexible and dynamic taking account of external changes in recommended best practice as well as business performance. This represents a strengthened approach to look at rewards holistically and to treat each year as providing different challenges. Thus although the new policy is designed to last until 2020 it may be the case that refinement to its operation is required before then.

In further detail then:

Annual bonus

The structure and operation of the annual bonus system will remain similar to the approach taken in prior years. The principle requirement that no bonus can be paid unless and until the previous year's income is exceeded will remain a distinguishing feature.
The income targets (broadly being a measure of our success in achieving profit growth adjusted for movements in working capital over the year) will henceforth be set and assessed each year on a constant currency basis, removing the external volatility of currency translation from reward. We feel that moving to a constant currency approach will better align performance and reward. Furthermore, since we are to adopt this approach over the long term, the potential for any windfall benefits, due to the insulation of executives from the impact of negative currency movements will be offset in equal measure by years in which there are positive currency movements.

Increases in the maximum bonus to 150% of salary for the Group CEO and 125% of salary for the CFO are proposed. These increases reflect:

1. Our performance requirements are tougher under the refined bonus structure;
2. Our Business has increased in size and complexity since 2013 when we designed our current policy. We structured our approach to doing business in 2014 so that we now operate based on global market sectors. This business model is now successfully integrated and has facilitated our continued organic growth and enabled the smooth integration of our targeted acquisitions which have broadened our business capabilities and potential; and
3. the Committee's view of the very good performance of the senior team.

In reaching this conclusion, the Committee noted that these changes will more closely align total potential pay levels with UK listed companies of a comparable size and complexity. However, the Committee does not operate a policy of targeting specific 'quartile' positioning against market data – all cases are treated on their individual merits, as is this.

All else remains as is with 33% of the bonus subject to a three year deferral into shares, together with recovery and withholding provisions.

Long Term Incentive Plan

EPS and TSR performance metrics will remain, subject to changes in weighting to accommodate an additional metric.

In line with a key focus of our strategy, this third metric will assess New and Protected Product (NPP) sales over the performance period. The NPP metric is a tried and tested measure within Croda that will be set as a hard target which will need to be achieved for this part of the award to vest. In addition to the general financial underpin that applies to both the EPS and TSR performance conditions, this part of an award will also be subject to additional requirements for overall Group profitability to be positive over the three year performance period plus absolute growth in NPP to average at least 5% per annum, for vesting to take place.

A bespoke TSR peer group will be adopted, replacing the current FTSE 350 peer group.

This peer group has been carefully chosen to identify a more relevant benchmark of true global business performance that is less impacted by the volatilities of unrelated sectors in the FTSE. The group has been chosen to include the companies we are competing against across our operations which, as a result, is intended to be highly motivating to our senior team. TSR will be assessed on a local currency basis given the multinational nature of our markets and competitors. Thus, vesting is determined based on our performance relative to TSR calculated on a basis that the Committee considers to reflect best the actual underlying performance of companies within the Group.

We propose that for 2017 awards be granted based on 40% TSR, 40% EPS and 20% based on NPP, compared with 50% EPS and 50% TSR under the old policy. Long term incentive awards will also continue to be subject to a two year holding period on vested shares, together with recovery and withholding provisions and of course reviewed in the light of the financial underpins.

Salary

Our policy is to increase salary for Executive Directors in line with those of the UK workforce. In 2017 the Executive Directors have declined to receive their full increase and will receive a 1% increase to salary as opposed to the 2% average increase across the UK.

Pension

During 2014 and 2015, the Company reviewed pension provisions for UK employees and decided to continue to provide a defined benefit arrangement through a Career Average Revalued Earnings scheme and applied a salary cap of £65,000 to pension benefits.

At the same time, the Committee also agreed to adjust the cash allowance it provided above the £65,000 defined benefit pension cap. As the cap had been reduced for the defined benefit element of the pension, the level of cash allowance provided above the cap was increased to 25% of salary (in line with our remuneration policy maximum) with the objective being to continue to support the provision of pensions in retirement. To provide consistency of approach, the Committee also agreed at the same time to set the cash in lieu of a Company pension contribution at 25% of salary.

In conclusion, your Committee believes the changes to the Remuneration Policy will support our strategy by sharpening the focus on innovation and promoting a greater awareness of the competitive challenge. As such, we commend the new policy to you.

Performance and reward for 2016

When considering how our Business performance in 2016 translates into reward, we should first consider the annual bonus and then the longer term incentive plan.

Turning first to the annual bonus, you will recall that under the existing policy this is set on the basis of the Company's results expressed in reported currency (i.e. the results include the impact of currency translation into Sterling). This has been the basis on which reward has been calculated for the past six years. Your Committee believes that it is fair and just to maintain the reported currency basis for 2016 as this was the basis on which targets were set for 2016 and therefore retains consistency over recent years. Last year was the first in which the bonus scheme paid out in part since 2012, reflecting the tough nature of the targets set by the Committee.

Income growth for 2016 was in excess of 10% over inflation which results in a maximum bonus payment to those participating in this scheme – the performance underpinning this payment is an achievement of which we should be justly proud. The results were excellent on the basis of reported currency and we also delivered robust growth on a constant currency basis. It is on this latter basis that they will be judged in future years to align better performance and reward and remove what, at the time of setting our targets, appear to be a potential favourable tailwind for 2017 performance.

With regard to longer term incentives, 2016 was the year in which grants made in 2014, under Performance Share Plan (PSP) reached the conclusion of the three year performance period.

As you will read in the following pages, these programmes required TSR and EPS criteria to be met in the years from 2014 to 2016 before any vesting could take place. Over the performance period we delivered a three year TSR of 47% which placed our performance towards the top quartile against our FTSE 350 comparator group, resulting in 85.9% of this part of the award vesting. However, in light of the demanding EPS targets set by the Committee, notwithstanding delivering 18% EPS growth over the performance period, we narrowly missed the threshold EPS growth condition. Thus, overall vesting will be at 42.95% of the total award. Our consistently improving TSR performance is demonstrated on the TSR performance graph on p74.

So far as the Committee is concerned, 2016 was a successful year and the existing policy has proved its worth. However, events move on and it is timely that the policy be revised and refreshed.

In the following pages you will find:

→ full details of the proposed new Remuneration Policy; and

→ an Annual Report on Remuneration in which we describe how we will be applying the new policy in 2017 and what was earned in 2016 with disclosure of our actual performance against the targets set.

The intention is to present a full picture of where we have been and where, with your approval, we wish to go.

On behalf of the Committee and the Board, I thank you for your support.

Yours sincerely,

Steve Williams
Chairman of the Remuneration Committee

2016 Remuneration at a glance

How we performed

Business highlights

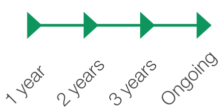
Revenue growth	Adjusted EPS growth	Adjusted operating profit	NPP as a % of Group sales
+15.0% to £1,243.6m	+15.4% to 155.8p	+12.9% to £298.2m	+1.3% points to 27.4%

See our Finance report on **p24 to p27**

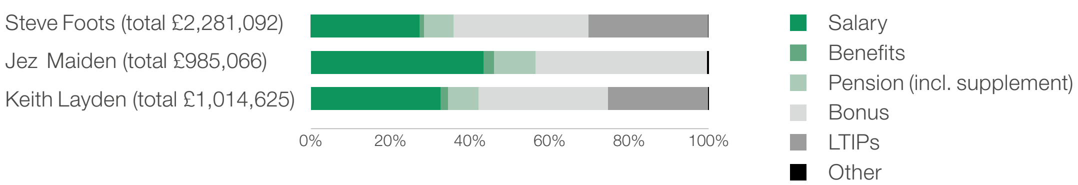
How was our policy in 2016 implemented?

Key component	Feature	Metrics and targets	How we implemented
Basic salary and core benefits	Competitive salary and benefits to attract and retain high-calibre Executives	N/A	Pay rise of **1.5%** in line with rest of UK workforce Chief Executive Officer: **£618,135** Group Finance Director: **£426,300** Chief Technology Officer: **£330,049**
Annual bonus	Incentivise delivery of key objectives and contribute to long term alignment with shareholders Challenging financial targets set in line with Group KPIs	**Income growth** (broadly measuring profit growth adjusted for movements in working capital over the year) Max target: 2015 actual plus CPI plus 10% Actual: 2015 actual plus CPI plus 10.85% % of bonus achieved = 100%	**100%** of maximum bonus paid Chief Executive Officer: **£772,669** (125% of salary) Group Finance Director: **£426,300** (100% of salary) Chief Technology Officer: **£330,049** (100% of salary)
Deferred element of bonus	Compulsory deferral of one third of any bonus paid into shares for three years through the Deferred Bonus Share Plan (DBSP)	N/A	Chief Executive Officer: **£257,556** deferred (out of £772,669) Group Finance Director: **£142,100** deferred (out of £426,300) Chief Technology Officer: **£110,016** deferred (out of £330,049)
PSP	Incentivise execution of business strategy over longer term, rewarding sustained growth in profit and shareholder value 50% EPS 50% TSR	**EPS Growth** Threshold target: 6% p.a. Max target: 12% p.a. **Relative TSR (versus FTSE 350)** Threshold target: median TSR Max target: upper quartile TSR Performance measured over three years to 31 December 2018	Awards granted in 2016 (subject to performance) were: Chief Executive Officer: **200%** of salary Group Finance Director: **150%** of salary Chief Technology Officer: **150%** of salary
Shareholding requirements	Share ownership guidelines to ensure material personal stake in the business	Chief Executive: **200%** of salary Group Finance Director: **150%** of salary Chief Technology Officer: **150%** of salary	

Time horizon key



Single figure remuneration at a glance



See **p70** for the full details of 2016 remuneration

Remuneration Policy 2017–2020 Report

Our proposed Remuneration Policy will be presented to shareholders at the 2017 AGM and is intended to operate until the expiration of the AGM in 2020. Changes to the Policy have been minimised and the Committee believes that these changes are right for the business, reflect the values of the organisation and remain reasonable and proportionate.

Objectives of the new policy

The Committee has spent several months considering the effectiveness of the current policy and any potential changes for the future. This review has been completed with the following five principal objectives in mind:

→ To achieve the closest possible alignment with the Company's strategy

→ To raise the profile of performance and to ensure that it is judged against true business competition

→ To ensure that the policy properly reflects the various concerns of shareholders as to structure and metrics

→ To ensure that target setting year by year sets truly stretching ambitions and that the scale of reward is proportionate

→ The Committee's method of operation will be flexible and dynamic taking account of external changes and business performance

Additionally, the Committee has sought to simplify the operation of the policy wherever possible to give the CEO flexibility that both he and the Committee believe is necessary to continue the underlying sales and profit growth and the consequent rewards to shareholders.

Main changes to policy

The Remuneration Policy described below includes a small number of changes when compared against the Remuneration Policy approved by shareholders at the 2014 AGM.

The only substantial change is the increase in the maximum potential bonus for the CEO from 125% to 150% of salary and the Group Finance Director from 100% to 125% of salary. These increases are made against the backdrop of tougher performance requirements set under the refined bonus structure and the committee's view of the very good performance of the senior team. Our Business has increased in size and complexity since 2013 when we designed our current policy, and the move made in 2014 to global market sectors has been successfully integrated and has facilitated our continued organic growth and enabled the smooth integration of our targeted acquisitions which have broadened our business capabilities and potential.

With regard to the application of the policy the metrics for the PSP have been changed. The EPS and relative TSR performance metrics will remain, subject to changes in weighting to accommodate an additional metric, NPP. For 2017, awards will be granted based on 40% relative TSR, 40% EPS and 20% based on NPP (compared with 50% EPS and 50% TSR currently). The NPP metric is a three year target aligned to internal KPIs and is a tried and tested measure within Croda. The NPP metric requires NPP sales growth to be twice non NPP sales growth. In addition Group profits will also have to increase over the performance period, along with an absolute growth in NPP sales at an average of 5% per annum over the three year vesting period. For TSR a bespoke peer group will be adopted, replacing the current FTSE 350 peer group. This peer group has been carefully chosen to identify a more relevant benchmark of true global business performance that is less impacted by the volatilities of unrelated sectors in the FTSE.

In operating our revised policy, the Committee intends to ensure that its application will reflect shareholders' interests and the Committee will consider all aspects of corporate performance before approving any rewards through the careful consideration of all financial and health and safety underpins with disclosure of the factors considered in doing so disclosed in the Annual Report on Remuneration each year.

These changes have also been made below the Board with a revised approach to target setting being implemented for PSP participants at the Group Executive Committee level and below. Refining the targets to be weighted towards metrics that these executives have greater ability to influence towards was considered aligned with the Committee's objective of affording the CEO the flexibility necessary to drive sales and profitable growth.

Also, with regard the application of the Policy, the income targets (broadly being a measure of our success in achieving profit growth adjusted for movements in working capital over the year) will be set and assessed each year on a constant currency basis, removing the external volatility of currency translation from reward.

Finally, as previously reported and agreed in 2014 and implemented in April 2016, the UK defined benefit pension changed to a Career Average Revalued Earning scheme for all employees with a maximum accrual rate of 1/60th and a salary cap of £65,000. In line with policy the Executive Directors pension allowances were increased from 20% to 25%.

Main components of Croda's Remuneration Policy

Link to strategy	Operation	Maximum opportunity
Basic salary To assist in the recruitment and retention of high-calibre executives.	Reviewed annually with increases effective from 1 January. Base salaries will be set by the Committee, taking into account: → The performance and experience of the individual concerned → Any change in responsibilities → Pay and employment conditions elsewhere in the Group → Rates of inflation and market-wide wage increases across international locations → The geographical location of the Executive → Rates of pay in international manufacturing and pan-sector companies of a comparable size and complexity.	Salaries may be increased each year (in percentage of salary terms). The Committee will be guided by the salary increase budget set in each region and across the workforce generally. Increases beyond those linked to the region of the Executive or the workforce as a whole (in percentage of salary terms) may be awarded in certain circumstances such as where there is a change in responsibility, experience or a significant increase in the scale of the role and/or size, value or complexity of the Group. The Committee retains the flexibility to set the salary of a new hire at a discount to the market level initially, and to implement a series of planned increases in subsequent years, in order to bring the salary to the desired positioning, subject to individual performance.
Framework used to assess performance and for the recovery of sums paid The Committee considers individual salaries at the appropriate Committee meeting each year, taking due account of the factors noted in operation of the salary policy.		
Benefits To provide competitive benefits to act as a retention mechanism and reward service.	The Group typically provides the following benefits: → Company car (or cash allowance) → Private fuel allowance → Health and other insured benefits → Other ancillary benefits, including relocation expenses/arrangements (as required). Additional benefits might be provided from time to time (eg in circumstances where an Executive Director is recruited from overseas). The Committee will consider whether the payment of any additional benefits is appropriate and in line with market practice when determining whether they are paid.	Cost of benefits is not pre-determined and may vary from year to year based on the cost to the Group.
Framework used to assess performance and for the recovery of sums paid None.		
Performance related bonus To incentivise and reward delivery of the Group's key annual objectives. To contribute to longer term alignment with shareholders.	Compulsory deferral of one third of any bonus paid into shares for three years through the Deferred Bonus Share Plan (DBSP). The Committee has the discretion to permit DBSP awards to benefit from dividends on shares that vest. The balance of the bonus is paid in cash.	Group Chief Executive: 150% of salary Group Finance Director: 125% of salary Other Executive Directors: 100% of salary
Framework used to assess performance and for the recovery of sums paid Details of the performance measures used for the current year and targets set for the year under review and performance against them is provided in the Annual Report on Remuneration. Bonus will be fully (or largely) based on a challenging range of financial targets set in line with the Group's KPIs (eg income growth targets). The Committee has the flexibility to include, for a minority of the bonus, targets related to the Group's other KPIs where this is considered appropriate. For each objective set, bonus starts to accrue once the threshold target is met (0% payable) rising on a graduated scale to 100% for out-performance. The Committee has the flexibility to take health, safety and environmental performance into consideration when determining the actual overall level of individual bonus payments and it may reduce the bonus awards if it considers it appropriate to do so. Bonuses paid are subject to provisions that enable the Committee to recover value overpaid through the withholding of variable pay previously earned or granted (malus) or through requesting a payment from an individual (claw back) in the event of a material misstatement of results or serious misconduct. The provisions will operate for a three-year period following the date on which the bonus is paid.		

Link to strategy	Operation	Maximum opportunity
Performance Share Plan (PSP) To incentivise and reward the execution of business strategy over the longer term. To reward sustained growth in (i) profit and (ii) shareholder value.	The PSP provides for awards of free shares (ie either conditional shares or nil-cost options) normally made annually which vest after three years subject to continued service and the achievement of challenging performance conditions. Shares (on an after tax basis) are subject to a two year post-vesting holding period. The Committee has the discretion when awards are granted, to permit awards to benefit from the dividends paid on shares that vest.	Normal maximum opportunity of 200% of salary. In exceptional circumstances (eg recruitment), awards may be granted up to 300% of salary to compensate for value forfeited from a previous employer.

Framework used to assess performance and for the recovery of sums paid
Granted subject to a blend of challenging financial (eg EPS), shareholder return (eg relative TSR) and strategic targets (eg NPP). Targets will normally be tested over three years.

In relation to financial targets (eg EPS growth and TSR) 25% of awards subject to such targets will vest for threshold performance with a graduated scale operating through to full vesting for equalling, or exceeding, the maximum performance targets (no awards vest for performance below threshold). In relation to strategic targets, the structure of the target will vary based on the nature of target set (i.e. it will not always be practicable to set such targets using a graduated scale and so vesting may take place in full for strategic targets if specific criteria are met in full). Vesting is also dependent on satisfactory underlying financial performance of the Group over the performance period and subject to potential claw back in the event of a material misstatement of results or serious misconduct. The claw back provisions will operate for a three year period following the date on which the awards vest.

Link to strategy	Operation	Maximum opportunity
All-employee share plans To encourage long term shareholding in the Company. To provide all employees with the opportunity to become shareholders in the Company on similar terms.	Periodic invitations are made to participate in the Group's Sharesave Plan and Share Incentive Plan. Shares acquired through these arrangements have significant tax benefits in the UK subject to satisfying certain HMRC requirements. The plans can only operate on an all-employee basis. The plans operate on similar terms but on a non-tax favoured basis outside the UK as appropriate.	The maximum participation level (for UK-based employees) is as per HMRC limits (see Annual Report on Remuneration for current maximum limits).

Framework used to assess performance and for the recovery of sums paid
There are no post-grant performance targets applicable to these awards.

Link to strategy	Operation	Maximum opportunity
Pension To provide competitive long term retirement benefits. To act as a retention mechanism and reward service.	Pension benefits are typically provided either through (i) participation in the UK's defined benefit pension plan with a cash supplement provided above any pension salary cap or (ii) a cash supplement provided in lieu of pension. Only basic salary is pensionable.	Career Average Revalued Earnings Scheme with up to 1/60th accrual up to a capped salary currently set at up to £65,000 plus cash allowance of up to 25% of salary above the cap. The salary cap may be reduced due to annual allowance regulations. Or Cash allowance of up to 25% of salary.

Framework used to assess performance and for the recovery of sums paid
None.

Bonus plan and long term incentive policy

The Committee will operate the annual bonus plan, PSP and all-employee plans according to their respective rules and in accordance with the Listing Rules and HMRC rules where relevant. The Committee retains discretion, consistent with market practice, in a number of regards to the operation and administration of these plans. These include the following (plan limits and performance targets restricted to the descriptions detailed in the preceding policy table):

- Who participates in the plans
- The timing of grant of award and/or payment
- The size of an award and/or payment
- The determination of vesting
- Dealing with a change of control (eg the timing of testing performance targets) or restructuring
- Determination of a good/bad leaver for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen
- Adjustments required in certain circumstances (eg rights issues, corporate restructuring and special dividends)
- The annual review of performance conditions, including metrics and weightings, for the annual bonus plan and PSP

The Committee also retains the ability to adjust the targets and/or set different measures and alter weightings for the annual bonus plan and to adjust targets for the PSP if events occur (eg material divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy.

Shareholding guidelines

The Committee operates share ownership guidelines which apply to all Executive Directors and the Group Executive Committee. The Group Chief Executive is subject to a share ownership guideline of 200% of salary and the other Executive Directors to 150% of salary.

It is expected that the guideline will be met within a five year time period from its adoption (or date of joining for new appointments) through a combination of share purchases and the retention of incentive shares. On the exercise of Sharesave options or the vesting of awards from the Company's long term incentive plans, Executives are required to retain shares awarded representing 50% of the net of tax gain until the ownership target is met or exceeded.

Choice of performance measures and approach to target setting

The performance metrics that are used for annual bonus and long term incentive plans are a subset of the Group's KPIs.

Under the annual bonus plan, an underlying profit-based objective such as income growth will be used as the primary performance metric. Such a measure will be used as it looks to reward two KPIs that are used within the business, namely the growth in underlying profitability and the efficient use of working capital. Other metrics based on the Group's KPIs may be used in the future where it is considered that they provide clear alignment with the evolving strategy of the Group. In any event, the achievement of profitable growth whilst ensuring that efficient management of ROIC/ROCE and cash is fully encouraged and will be central to the Committee's deliberations.

In terms of long term performance targets, PSP awards will vest subject to challenging financial targets (eg EPS growth) that are informed by the long term levels of growth targeted by the Group, shareholder return targets (eg relative TSR) which provide clear alignment of interests between shareholders and executives and strategic targets (eg NPP) that are aligned with Company's targeted long term KPIs.

Financial targets are set, where possible, based on sliding scales that take account of internal planning and external market expectations for the Group. Only modest rewards are available for delivering threshold performance levels with maximum rewards requiring substantial out-performance of the challenging plans approved at the start of each year.

No performance targets are applied to the all-employee plans which are aimed at encouraging broad based equity ownership.

Further details of the annual bonus metrics to be used for the current financial year are set out in the Annual Report on Remuneration. The targets for awards to be granted under the PSP in the current financial year are consistent with the policy set out above and are also set out in the Annual Report on Remuneration.

How Executive Directors' Remuneration Policy relates to the wider group

The Executive Directors' Remuneration Policy provides an overview of the structure that operates for the Group Executive Directors and those senior Executives forming the Group Executive Committee (noting, however, that there are some differences in PSP participation and levels within this group).

The Committee is made aware of pay structures across the Group when setting the Remuneration Policy for Executive Directors. The key difference is that, overall, the Remuneration Policy for Executive Directors is more heavily weighted towards variable pay than for other employees.

Base salaries are operated under the same policy as detailed in the Remuneration Policy table with any comparator groups used as a reference point being country and/or industry specific. The Committee considers the general basic salary increase for the broader Group and, in particular, the UK based employees when determining the annual salary review for the Executive Directors.

The performance related bonus scheme operates on a tiered basis from 150% of salary down to 30% of salary across the most senior global grades. Outside of the most senior tiers of Executives, the PSP is not operated as this arrangement is reserved for those anticipated as having the greatest potential to influence Group level performance.

However, the Committee believes in wider employee share ownership and promotes this through the operation of the HMRC tax approved all-employee share schemes which are open to all UK employees. Other similar share schemes are offered in other jurisdictions where local securities laws allow.

How the views of employees are taken into account

The Company, in line with current market practice, does not actively consult with employees on Executive remuneration. The Group has a diverse workforce operating globally in 36 different countries, with various local pay practices, which hinders effective consultation and so the Group Human Resources Director updates the Committee periodically on feedback received on remuneration practices across the Group.

The Committee takes due account of remuneration structures elsewhere in the Group when setting pay for the Executive Directors (for example, consideration is given to the overall salary increase budget and the incentive structures that operate across the Group).

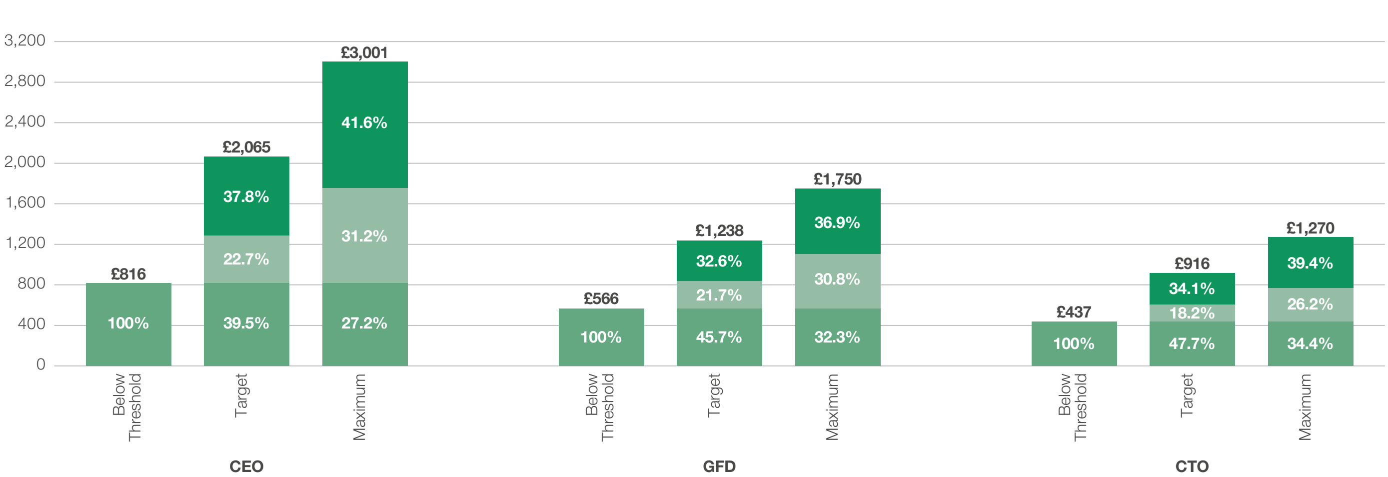
How the views of shareholders are taken into account

The Remuneration Committee considers shareholder feedback received in relation to the AGM each year and guidance from shareholder representative bodies more generally. In late 2016 and early 2017 the Committee undertook an extensive consultation process with shareholders explaining in advance the proposed Remuneration Policy. This feedback, plus any additional feedback received during any meetings held with shareholders from time to time, is then considered as part of the Committee's ongoing review of Remuneration Policy.

Remuneration scenarios for Executive Directors

The Group's policy results in a significant proportion of remuneration received by Executive Directors being dependent on Group performance. The graph below illustrates how the total pay opportunities for the Executive Directors varies under three different performance scenarios: below target, on-target and maximum. When reviewing the graph, it should be noted that it has been prepared based on the policy detailed above and ignores, for simplicity, the potential impact of future share price growth.

Remuneration Scenarios for Executive Directors (£'000)



Assumptions:

Below target = fixed pay only (base salary, benefits and pension);

On-target = 50% payable of the 2017 annual bonus and 62.5% vesting of the 2017 PSP awards; and

Maximum = 100% payable of the 2017 annual bonus and 100% vesting of the 2017 PSP awards.

Salary levels (on which other elements of the package are calculated) are based on those applying on 1 January 2017. The value of taxable benefits is based on the cost of supplying those benefits (as disclosed on page 70) for the year ending 31 December 2016. The pension value is based on the assumptions used to value pensions for the emoluments table (as disclosed on page 70 and a salary supplement in lieu of pension at 25% of salary where relevant). The Executive Directors can participate in the all-employee share plans on the same basis as other employees. The value that may be received under these schemes is subject to tax approved limits. For simplicity, the value that may be received from participating in these schemes has been excluded from the graph above.

Recruitment and promotion policy

For Executive Director recruitment and/or promotion situations, the Committee will follow the guidelines below:

Remuneration element	Policy
Base salary	Base salary levels will be set in accordance with the Group's Remuneration Policy, taking into account the experience and calibre of the individual (eg typically around market rates in companies of comparable size and complexity). Salary levels may be set below this level (eg if the individual was promoted to the Board). Where it is appropriate to offer a below market rate of pay initially, a series of increases to the desired salary positioning may be given over the subsequent few years subject to individual performance. Above market salaries may also be offered if the experience and calibre of the candidate is considered to justify such an approach being taken by the Committee.
Benefits	Benefits in accordance with the current policy. In addition, where necessary, the Committee may approve the payment of relocation expenses to facilitate recruitment.
Pension	A Company pension contribution or cash supplement in accordance with the current policy.
Annual bonus	The annual bonus would operate in accordance with the current policy in terms of the maximum opportunity and performance targets, albeit pro-rated for the period of employment. Any increases in ongoing annual bonus opportunity above the normal limit will be contingent on the Company receiving shareholder approval for an amendment to its approved policy.
Long term incentives	Share awards will be granted in accordance with the current policy. An award may be made shortly after an appointment (subject to the Company not being in a prohibited period). For an internal hire, existing awards would continue over their original vesting period and remain subject to their terms as at the date of grant. The maximum ongoing annual award level is as per the current policy.
Buy out awards	In the case of an external hire and in exceptional circumstances, if it is necessary to buy out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer), this would be provided for taking into account the form (cash or shares), timing and expected value (ie likelihood of meeting any existing performance criteria) of the remuneration being forfeited. Replacement share awards, if used, will be granted using the Company's existing share plans within the limits detailed in the current policy table. Awards may also be granted outside of these schemes if necessary and as permitted under the Listing Rules.

Directors' service contracts and payments for loss of office

Executive Directors' service contracts are terminable by the Company on up to one year's notice and by the Director on at least six months' notice.

In respect of termination, the Committee's policy is to deal with each case on its merits, in accordance with the law and any further policy adopted by the Committee at the time. In the event of early termination, other than for cause, the relevant Director's then current salary and contractual benefits would be taken into account in calculating any liability of the Company. For clarification, the Company's policy is that no entitlement to unearned bonus will be taken into account when determining payments on early termination.

The principal contractual benefits provided in addition to salary are the provision of a car or car allowance, private fuel allowance, pension, medical insurance and life assurance. Annual bonuses and long term incentives are non-contractual and are dealt with in accordance with the rules of the relevant schemes.

The Committee's policy is also for contracts to contain provisions which enable the Company to terminate contracts at any time with immediate effect. The Executive Director would be entitled to receive compensation equivalent to a maximum of twelve months' salary plus the value of their pension benefits (currently valued at 25% of basic salary) and the value of other benefits, payable in equal monthly instalments over the full notice period or, if less, the remainder of any notice period not yet completed. Such payments would discontinue or reduce to the extent that alternative employment is obtained.

An Executive Director's service contract may be terminated without notice for certain events such as gross misconduct. No payment or compensation beyond sums accrued up to the date of termination will be made if such an event occurs.

Other than in the event of a redundancy, retirement or other good leaver circumstances, at the discretion of the Committee, no bonus may be payable unless the individual remains employed and is not under notice at the payment date. In the event that an individual does cease employment for one of the good leaver reasons detailed, bonuses would become payable pro-rata based on the number of complete calendar months worked in the relevant year. The policy for a new hire would be based on terms that are consistent with these provisions.

The treatment for share-based incentives previously granted to an Executive Director will be determined based on the relevant plan rules. The default treatment will be for outstanding awards to lapse on cessation of employment. In relation to awards granted under the Company's long term incentive plans, in certain prescribed circumstances, such as injury or disability, redundancy, transfer or sale of the employing company, retirement with the Company's agreement or other circumstances at the discretion of the Committee (reflecting the circumstances that prevail at the time) 'good leaver' status would be applied. If treated as a good leaver, awards will be eligible to vest subject to performance conditions, which will be measured over the performance period from grant to the normal vesting date, and which will be reduced pro-rata (unless the Committee consider it appropriate to do so) to reflect the proportion of the performance period actually served.

The treatment for share awards granted to facilitate part deferral of annual bonus will be determined based on the relevant plan rules. Ordinarily, deferred share bonus awards will vest on their original vesting date other than in certain circumstances (eg dismissal for gross misconduct) when they will lapse.

It is the Company's policy to honour pre-existing award commitments in accordance with their terms.

External appointments

Executive Directors can accept external non-executive appointments with the prior approval of the Board. It is normal practice for Executive Directors to retain fees provided for non-executive appointments.

Non-Executive Directors' letters of appointment

The Chairman and Non-Executive Directors have letters of appointment for an initial fixed term of three years subject to earlier termination by either party on written notice. In each case, this term can be extended by mutual agreement. Non-Executive Directors have no entitlement to contractual termination payments.

The dates of the initial appointments of the Non-Executive Directors are set out in the Annual Report on Remuneration.

Non-Executive Directors' fees

The policy on Non-Executive Directors' fees is:

Link to strategy	Operation	Maximum opportunity
Fees To provide a competitive fee which will attract those high-calibre individuals who can further the interests of the Group through their experience, stewardship and contribution to strategic development.	The fees for Non-Executive Directors (including the Chairman) are typically reviewed each year. Fee levels are set by reference to the expected time commitments and responsibilities, and are periodically benchmarked against relevant market comparators, as appropriate, reflecting the size and nature of the role. The Chairman and Non-Executive Directors are paid an annual fee which is paid monthly in cash and do not participate in any of the Company's incentive arrangements or receive any pension provision. The Non-Executive Directors receive a basic Board fee, with additional fees payable for chairmanship of the Company's key Committees and for performing the Senior Independent Director role. All Non-Executive Directors are reimbursed for travel and related business expenses reasonably incurred in performing their duties so that they are fully recompensed for undertaking Company business. The Committee recommends the remuneration of the Chairman to the Board. The Chairman's fee is determined by the Committee (during which the Chairman has no part in discussions) and recommended by them to the Board. The Non-Executive Directors' fees are determined by the Chairman and the Executive Directors.	Fee levels will be eligible for increases during the period that the Remuneration Policy operates to ensure they continue to appropriately recognise the time commitment of the role, increases to fee levels for Non-Executive Directors in general and fee levels in companies of a similar size and complexity.

Framework used to assess performance and for the recovery of sums paid
None.

Annual Report on Remuneration

Unaudited Information

This part of the Report has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 which sets out the disclosures required for Directors' remuneration as at the reporting date. The Report is also in accordance with the requirements of the Listing Rules and the Financial Conduct Authority.

Membership and operation of the Committee

The Committee comprises all Non-Executive Directors including the Chairman. Details of the members and attendance at meetings during the year and the responsibilities of the Committee are set out on page 55. The Committee invites individuals to attend meetings to ensure that decisions are informed and take account of pay and conditions in the wider Group. During 2016, invitees included other Directors and employees of the Group and the Committee's advisers (see below), including Steve Foots (Group Chief Executive), Jez Maiden (Group Finance Director), Tracy Sheedy (Group HR Director), and Tom Brophy (Group General Counsel and Company Secretary).

External advisers to the Remuneration Committee

New Bridge Street (part of Aon Plc) was retained as the appointed adviser to the Committee during 2016 to provide independent advice on remuneration policy and practice. Korn Ferry Hay Group also provided advice to the Committee during 2016. Neither New Bridge Street nor Korn Ferry Hay Group have any connection with the Group other than in providing advice in relation to Executive remuneration and Non-Executive fees. Another subsidiary of Aon Plc provides insurance broking services to the Group. The Committee is comfortable that no conflicts arise out of these relationships. The total fees paid to New Bridge Street for its services during the year were £75,289 (excluding VAT) and the total fees paid to Korn Ferry Hay Group during the year were £10,500 (excluding VAT). Both New Bridge Street and Korn Ferry Hay Group are signatories to the Remuneration Consultants Group Code of Conduct.

The Committee regularly reviews the external adviser relationship and is comfortable that the advice it is receiving remains objective and independent.

Statement of shareholder voting

At the 2016 AGM, the Directors' Remuneration Report received the following votes from shareholders:

	Annual Report on Remuneration	
Votes cast in favour	92,197,603	93.30%
Votes cast against	6,618,366	6.70%
Total votes cast	**98,815,969**	**100.00%**
Abstentions	533,089	

Key Committee activities during 2016

Remuneration structure/policy

- Developing the new Remuneration policy
- Consulting with major institutional investors about the proposed changes including the annual bonus quantum for the Group Chief Executive and Group Finance Director and PSP structure and targets
- Considering the corporate governance environment and monitoring developments in investors' expectations

2017 remuneration

- Setting 2017 Executive Director salary levels
- Determining 2017 annual bonus award levels and performance targets

Governance

- Noting remuneration trends across the Group
- Reviewing Remuneration Committee effectiveness
- Reviewing terms of reference
- Ensuring compliance with the Investment Association's share headroom guidance and adherence to
- Monitoring the Compay's policy on share ownership

2016 remuneration

- Testing the performance target for the 2016 annual bonus
- Testing performance targets for the Company's 2014 long term incentive awards
- Implementing the previously agreed pension changes for Executive Directors
- Determining grants under the Deferrd Bonus Share Plan

Long term remuneration

- Determining 2016 Performance Share Plan award levels, the associated performance targets and the granting of the awards

Implementation of Remuneration Policy for year ending 31 December 2017

Basic salary

The Executive Directors' base salaries were reviewed during the final quarter of the financial year ending 31 December 2016. The Committee considered each individual's progression in their role as well as their responsibilities, performance, skills and experience. The Committee also took into account the wider pay levels and salary increases being proposed across the Group as a whole.

Executive Director	Salary as at 01.01.17	Salary as at 01.01.16	Increase
Steve Foots	£624,316	£618,135	1.0%
Jez Maiden	£430,563	£426,300	1.0%
Keith Layden	£333,349	£330,049	1.0%

2% increases will be awarded to all UK based employees in 2017.

Other benefits

Other benefits such as company cars or car allowances, fuel allowance and health benefits are made available to Executive Directors. Benefits in kind and bonuses are not pensionable. The Committee reviews the individual components and the balance of these components from time to time.

Performance related annual bonus

In 2017, Executive Directors will be eligible to receive a performance-related bonus of up to 150% of salary (Group Chief Executive) 125% of salary (Group Finance Director) and 100% of salary (other Executive Directors). The rationale for increasing bonus opportunity is set out in the Chairman's introductory letter on page 56.

The bonus scheme for Executive Directors and senior Executives incentivises and rewards the delivery of income growth. Income growth is the growth in underlying profitability (defined for bonus purposes as Group EBITDA for continuing operations before exceptional items and any charges or credits under IFRS 2 'Share-based payments') less a notional interest charge on working capital employed during the year. Income is measured after providing for the cost of any bonuses.

In 2017 income targets will be measured on a constant currency basis. This is because we want our executive team to be incentivised to focus on underlying top and bottom line growth as opposed to benefiting or being penalised by the translation impacts of movements in foreign exchange. In setting the revised approach to moving to constant currency it was noted that where bonuses have been paid over the past five years (including in respect of 2016) that using reported currency has resulted in lower bonuses being paid on two occasions than would have been the case using constant currency and a higher bonus on one occasion. Given current exchange rates it was also noted that had we not changed our approach, 2017 would have likely been a year in which there would have been a benefit from continued use of reported currencies which has now been removed.

2017 performance targets

For the 2017 financial year, the bonus structure will continue to operate on a similar basis to that operated in previous years. The targets operate as a sliding scale with no bonus becoming payable until the previous year's income has been exceeded, through to a maximum bonus becoming payable for delivery of the maximum target. The targets for 2017 are shown below:

Level of award	Income	% of bonus payable
Threshold	At least equivalent to 2016 actual	0%
Maximum	2016 actual, plus 10%	100%

Once the level of bonus has been determined against the targets set at the start of the year, the Committee will have the flexibility to take health, safety and environmental performance into consideration when determining the actual overall level of individual bonus payments and may reduce the bonus awards if it considers it appropriate (eg if health, safety and environmental performance is not considered satisfactory during the period over which the bonus was earned).

The Committee considers the targets set for 2017 to be more demanding than those set in 2016 allowing for the revised basis of target setting (ie moving to constant currency from reported). It is noted that the range of targets were set after taking due account of the Company's inflationary expectations. In concluding that the targets are more demanding than those set in 2016 the Committee considered that the achievement of what we believe is a stretching budget in 2017 would yield around 10 percentage points of maximum bonus less than it would have done in 2016. As a result the Committee was comfortable with the revised range of targets set in light of the bonus opportunity for 2017. The Committee will review the range of growth targets each year to ensure the targets are appropriately demanding allowing for the commercial circumstances, and inflationary expectations, at the time.

One third of any bonus earned will be the subject of a mandatory deferral into the Company's shares for three years, through the Deferred Bonus Share Plan.

The Committee remains comfortable that the structure of the annual bonus does not encourage inappropriate risk taking and that the mandatory deferral of one third of bonus into shares provides clear alignment with shareholders and fosters a longer term link between annual performance and reward.

The 2017 annual bonus is also subject to claw back and withholding provisions which enable the Committee to recover the value overpaid to an Executive Director in respect of 2017 performance in the event of a misstatement of the Group's financial results, an error being made in assessing how far performance targets were ultimately achieved, or serious misconduct. Recovery of any value overpaid includes the ability to withhold future incentive pay awards as well as seeking reimbursement from an individual. The claw back and withholding provisions will operate for three years following the date on which the bonus is paid.

Full retrospective disclosure of the targets and actual performance will be provided in next year's Annual Report on Remuneration.

Performance Share Plan

The PSP was approved by shareholders in 2014.

2017 PSP award levels

The maximum normal award limit under the PSP is 200% of salary. The awards for 2017 were set after taking due account of (i) the need to motivate and retain Executive Directors and other participants, and (ii) the challenging nature of the performance targets. It is intended that awards will be granted at the following levels during 2017 (as nil-cost options):

Executive Director	2017 PSP award (percentage of salary)
Steve Foots	200%
Jez Maiden	150%

2017 performance targets

Awards under the PSP will be subject to a performance condition which is split into three parts, each with a separate performance condition. 40% of the award will vest dependent on Croda's relative TSR measured against a bespoke group of the Company's peers, 40% will vest dependent on challenging EPS growth targets and 20% will vest based on sales performance of NPP.

The targets, each tested over three years, are as follows:

- With regards to the proportion of the award subject to relative TSR, Croda's performance is compared against a bespoke peer group. This peer group has been chosen to identify a more relevant benchmark of global business performance that is less impacted by the volatilities of unrelated sectors in the FTSE and includes companies in a similar markets (see below for further details of the TSR peer group constituents). This element will vest at 25% for a median ranking and 100% for upper quartile performance.
- TSR peer group constituents: AkzoNobel, Albemarle, Arkema, Ashland, BASF, Clariant, Koninklijke DSM, Eastman Chemicals, Elementis, Evonik Industries, Givaudan, Johnson Matthey, Kemira, Lanxess, Novozymes, Solvay, Symrise, Synthomer, Victrex.
- For the proportion of the award subject to EPS, challenging absolute growth targets have been set, which will operate on a graduated scale. The EPS targets that have been proposed for the 2017 PSP follow the Committee's review of internal financial planning, external market expectations, analysis of the current trading environment and consideration of the base point from which growth will be measured. The range of targets to apply are at annual growth of between 5% and 11%. These targets are considered to be no less challenging to the range of targets set for the 2016 awards, providing a realistic incentive at the lower end of the performance range, but with full vesting requiring exceptional outperformance in the current commercial context.
- For the proportion of awards based on NPP target vesting will be for NPP sales growth to be at least twice non-NPP sales and subject to a minimum of 5% growth per year and overall positive Group profit growth.

In addition to the above, a general financial underpin operates, enabling the Committee to reduce the vesting result if it does not consider they reflect the Group's underlying financial performance over the performance period. This consideration may include such things as management of ROIC/ROCE and cash. The Committee will disclose any factors considered when applying the underpin.

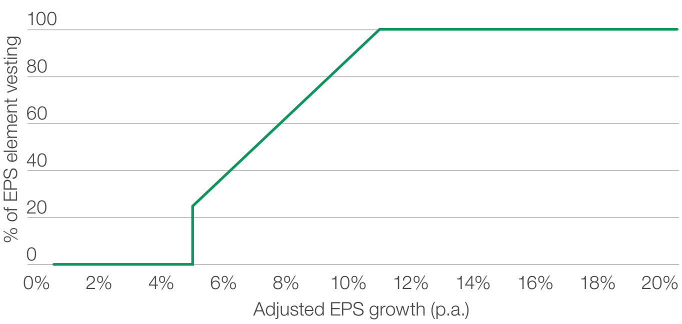
For the awards granted in 2017, the after-tax number of vested shares must be retained for a minimum of two years. PSP awards granted in 2017 to Executive Directors are also subject to claw back and withholding provisions. These enable the Committee to reclaim the value overpaid to an Executive Director, in respect of performance during the three years ending 31 December 2019, if it was discovered that there had been a material misstatement of the Group's financial results or serious misconduct during this period in the three years following vesting (ie shortly following the conclusion of the 2022 financial year).

Pension

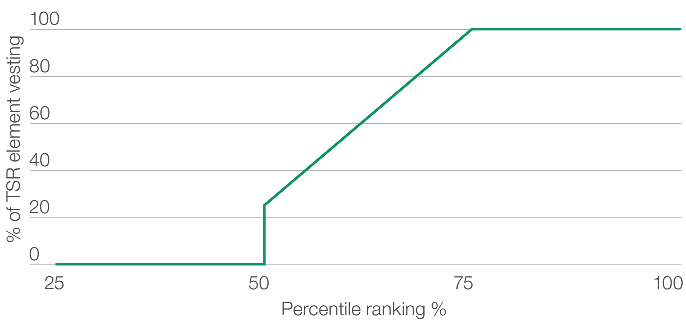
Croda has a number of different pension plans in the countries in which we operate. Pension entitlements for Company Executives are tailored to local market practice, length of service and the participant's age. The principal pension plan in the UK is a defined benefit scheme. A salary supplement in lieu of pension provision above the salary cap applies.

As noted in the Chairman's introductory letter, during 2014 and 2015, the Company reviewed the way it provides pension benefits to all UK employees. The review was undertaken to ensure that our approach to providing pension benefits in the future was sustainable but also continued to mark Croda as unique and recognise our long service culture. Aligned with these principles, it was agreed that we would continue to provide pension benefits on a defined benefit basis (enabling employees to better plan for retirement than if we moved to a defined contribution pension) but through a Career Average Revalued Earnings scheme as opposed to a final salary structure.

EPS vesting schedule



TSR vesting schedule



In addition, a cap of £65,000 was applied to pension benefits. This approach has the effect of smoothing pensionable earnings as opposed to setting pension by reference to the salary at retirement. As result, this is considered a fairer way of calculating pension in retirement (as it better reflects the profile of an individual's career as opposed to their final few years) and is also a more cost effective method of providing pension, which ensures it remains sustainable over time for the Company.

At the same time as revising the approach to providing defined benefit pensions, in 2014 the Committee also agreed to adjusted the cash allowance it provided above the £65,000 defined benefit pension cap it introduced (the previous cap had been £150,000). As the cap had been reduced for the defined benefit element of the pension, the level of cash allowance provided above the cap was increased to 25% of salary (in line with our remuneration policy maximum) with the objective being to continue to support the provision of pensions in retirement. To provide consistency of approach, the Committee also agreed at the same time to set the cash in lieu of a Company pension contribution at 25% of salary.

Due to an administrative oversight the increases to pension cash allowances paid in 2016, but approved in 2014, were not included in the 2015 Directors' Report on Remuneration.

Steve Foots' pension provision
Steve Foots accrues pension benefits under the CPS with an accrual rate of 1/60th and an entitlement to retire at age 60. From 6 April 2011 onwards, pension benefits accruing are based on a capped salary. This cap was £187,500 until April 2014 at which point it reduced to £150,000, and due to annual allowance regulations and changes to the pension scheme, reduced again to £37,500 in April 2016 (reduced from the scheme cap of £65,000 due to annual allowance regulations). If Steve Foots retires before he is 61, a reduction will be applied to the element of his pension accrued after 6 April 2006. If he retires before the age of 60, a reduction will be applied to the element of his pension accrued before 6 April 2006, unless in either instance he is retiring at the Company's request. In the event of death, a pension equal to two-thirds of the Director's pension would become payable to the surviving spouse. Steve Foots' pension in payment is guaranteed to increase in line with the rate of inflation up to a maximum of 10% per annum for benefits accrued before 6 April 2006, and in line with inflation up to a maximum of 2.5% per annum for benefits accrued from 6 April 2006 onwards.

Steve Foots is entitled to death-in-service benefits from the CPS. He also receives a pension supplement at 25% of salary (20% of salary until 1April 2016) above his pension benefit cap of £37,500.

Jez Maiden's pension provision
Jez Maiden is paid a pension supplement of 25% of salary (20% of salary until 1 April 2016). He has an agreement with the Company to provide him with death-in service benefits outside of the CPS.

Keith Layden's pension provision
As detailed in last year's remuneration report, Keith Layden started to draw his pension under the CPS on 19 October 2014. He can draw this deferred pension, with Company consent, while continuing in employment. His pension will increase in line with retail price index (RPI) to a maximum of 10% per annum for pension accrued before April 2006 and a maximum of 2.5% for pension accrued afterwards.

Keith Layden is paid a pension supplement of 25% of salary (20% of salary until 1 April 2016). He is entitled to death-in-service benefits from the CPS with Trustee consent.

All-Employee share plans

Executive Directors are invited to participate in the HMRC tax-approved UK Sharesave Scheme and the Croda Share Incentive Plan (SIP) in line with, and on the same terms as, the wider UK workforce.

Sourcing of shares and dilution

Awards under all Group share schemes may be satisfied using newly issued shares, treasury shares or shares purchased in the market and held in the Company's employee benefit trusts.

Awards under the Group's discretionary schemes which may be satisfied by new issue shares must not exceed 5% of the Company's issued share capital in a ten year period. The total of all awards satisfied via new issue shares under all plans must not exceed 10% of the Company's issued share capital in a ten year period.

As at 31 December 2016, the headroom under the Company's 5% and 10% limits was 1.66% and 2.45% respectively, out of an issued share capital of 135,124,108 shares.

Service contracts

Steve Foots, Keith Layden and Jez Maiden have service contracts dated 16 September 2010, 6 February 2012 and 9 October 2014 respectively. These can be terminated by the Company on one year's notice and by the Director on six months' notice. The terms of the Executive Directors' contracts are consistent with the Remuneration Policy.

Chairman and other Non-Executive Directors' remuneration

The fees paid to the Non-Executive Directors (including for chairmanship of Committees) and to the Senior Independent Director were reviewed in January 2017 (taking into consideration the anticipated time commitments of the roles and market rates), with changes taking effect from 1 February 2017. The revised fee structure for the Chairman and other Non-Executive Directors for 2017 is now as follows and the adjustments made reflect the extra time commitment expected to apply for those specific roles given the continued growth of the Company:

- Chairman: £238,000 (increased by £13,000)
- Non-Executive Director base fee: £55,000 (increased by £1,000)
- Senior Independent Director: £10,000
- Chairman of the Audit Committee: £10,000
- Chairman of the Remuneration Committee: £10,000.

The effective dates of the letters of appointment for the Chairman and each Non-Executive Director who served during 2016, are shown in the table below:

Non-Executive Director	Original appointment date	Expiry date of current term
Anita Frew	5 March 2015	5 March 2018
Alan Ferguson	1 July 2011	30 June 2017
Helena Ganczakowski	1 February 2014	31 January 2020
Nigel Turner	1 June 2009	31 May 2018
Steve Williams	1 July 2010	30 June 2017

Annual Report on Remuneration

Audited Information

Directors' remuneration

The remuneration before tax of Executive Directors for the year ended 31 December 2016 payable by Group companies was as follows:

Executive Director		Salaries and fees[1] £	Benefits[2] £	Pension[3] supplement £	Pension[4] £	Annual bonus[5] £	Long term incentives[6] £	Other[7] £	Total £
Steve Foots	**2016**	**618,135**	**30,302**	**132,276**	**35,884**	**772,669**	**688,855**	**2,971**	**2,281,092**
	2015	609,000	30,517	91,800	59,329	581,443	–	1,957	1,374,046
Jez Maiden	**2016**	**426,300**	**27,377**	**101,246**	**–**	**426,300**	**–**	**3,843**	**985,066**
	2015[8]	420,000	23,658	84,000	–	320,796	–	302,060	1,150,514
Keith Layden	**2016**	**330,049**	**20,061**	**78,387**	**–**	**330,049**	**254,498**	**1,581**	**1,014,625**
	2015	325,171	20,075	65,034	–	248,366	–	1,508	660,154
Sean Christie	**2016**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2015[9]	117,903	6,206	13,580	–	90,054	–	173,882	401,625
Total 2016		**1,374,484**	**77,740**	**311,909**	**35,884**	**1,529,018**	**943,353**	**8,395**	**4,280,783**
Total 2015		1,472,074	80,456	254,414	59,329	1,240,659	–	479,407	3,586,339

1 Steve Foots' salary before salary sacrifice pension contributions of £15,000
2 Benefits include benefit-in-kind for company car or cash allowance, benefit-in-kind for private medical insurance and private fuel allowance
3 Represents the 20% cash supplement paid to Jez Maiden and Keith Layden and the 20% supplement paid to Steve Foots in relation to benefits provided above the final salary pension cap from 1 January to 31 March 2016. The cash supplements increased to 25% with the introduction of the CARE scheme on 1 April 2016
4 For final salary pensions the amount included is the additional value accrued during the year, calculated using HMRC's methodology for the purposes of income tax using a multiplier of 20
5 The 2016 bonuses for Executive Directors were calculated by reference to the amount by which the income for the year exceeded the income for 2015 (the 'base income'). Bonuses for 2016 are payable against a graduated scale once the 2016 income exceeds the base income by more than inflation (defined as the CPI) with bonus targets set, and performance measured, based on actual exchange rates. The targets set equated to a threshold target of £287.8m (last year's Income result plus CPI) and a maximum target of £316.1m (10% above the threshold target). Payments were calculated on a straight-line basis between performance points. The actual result of £319.0m was significantly above the maximum targets set (at 10% growth on the prior year) and so a maximum bonus was earned
6 The PSP awards granted in May 2014 reached the end of their performance periods on 31 December 2016. The TSR target applying to half of the award has been met at 85.9% of the maximum based on the Company being ranked at the 70.3 percentile versus the peer group (i.e. towards the upper quartile) and the EPS target applying to half the award has not been met. Full details of performance against the targets is included on page 67. The values included in the table above are based on the three month average share price to 31 December 2016 of 33.2764p. These values will be updated in next year's Annual Report based on the share price at vesting which will take place on 12 May 2017
7 Sharesave awards valued as the value of the discount on the date of grant. SIP shares valued using the value of the partnership shares awarded over the year based on the average purchase price for the year
8 Jez Maiden was appointed to the Board on 1 January 2015. As disclosed on page 69 in last year's annual report, Jez Maiden received £126,625 in respect of reimbursement of relocation costs and rental costs and £173,926 in compensation for forfeiture of the deferred element of his 2013 annual bonus from his previous employer, he also received £1,509 in respect of SIP and Sharesave.
9 Sean Christie stood down as Group Finance Director on 22 January 2015 and left the Company on 22 April 2015. As disclosed in last year's Remuneration Report, the Committee exercised its discretion to determine that Mr Christie would be eligible for a bonus in respect of the financial year ended 31 December 2015 to the extent that the applicable performance conditions were met. Accordingly, he was paid a bonus of £90,054 (reflecting his pro-rated service in the 2015 financial year). This was paid part in cash (£60,054) and part in deferred shares (£30,000) which vest three years from grant. The deferred shares were granted through a bespoke deferral arrangement ensuring deferral in accordance with the Company's Remuneration Policy. Claw back provisions will also continue to apply

The remuneration of Non-Executive Directors for the year ended 31 December 2016 payable by Group companies was as follows:

Non-Executive Director		Salaries and fees £	Benefits[1] £	Total £
Anita Frew	**2016**	**225,000**	**8,727**	**233,727**
	2015	91,720	8,178	99,898
Nigel Turner	**2016**	**63,583**	**2,651**	**66,234**
	2015	59,000	5,387	64,387
Steve Williams	**2016**	**63,833**	**3,263**	**67,096**
	2015	62,000	2,248	64,248
Alan Ferguson	**2016**	**63,833**	**2,077**	**65,910**
	2015	62,000	4,067	66,067
Helena Ganczakowski	**2016**	**53,833**	**4,370**	**58,203**
	2015	52,000	4,452	56,452
Martin Flower[2]	**2016**	**–**	**–**	**–**
	2015	144,061	9,035	153,096
Total 2016		**470,082**	**21,088**	**491,170**
Total 2015		470,781	33,367	504,148

1 The benefits relate to Directors undertaking business travel on behalf of Croda and ensuring the Directors are not out of pocket for related tax. Comparators for 2015 have been included
2 Martin Flower retired from the Board on 19 September 2015

PSP awards granted in 2016

Directors were eligible to receive PSP awards up to a value of 200% of salary at grant. The PSP awards granted on 4 March 2016 were as follows:

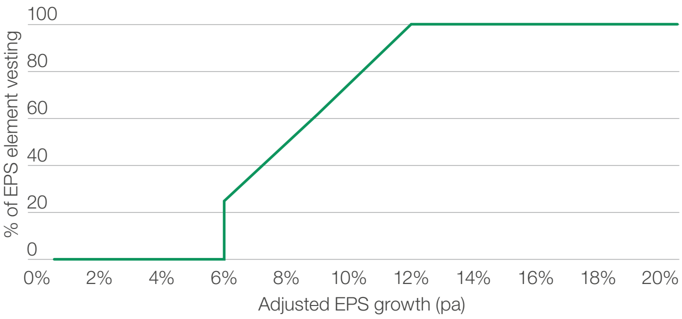
Executive Director	Number of PSP shares awarded	Basis of award granted (% of salary)	Face/maximum value of awards at grant date[1]	% of award vesting at threshold (maximum)	Performance period
Steve Foots	41,284	200%	1,236,249	25% (100%)	01.01.16 – 31.12.18
Jez Maiden	21,354	150%	639,446	25% (100%)	01.01.16 – 31.12.18
Keith Layden	16,532	150%	495,051	25% (100%)	01.01.16 – 31.12.18

1 Face value/maximum value of award is calculated based on a share price of £29.945, being the average mid-market share price of the three dealing days prior to the date of grant

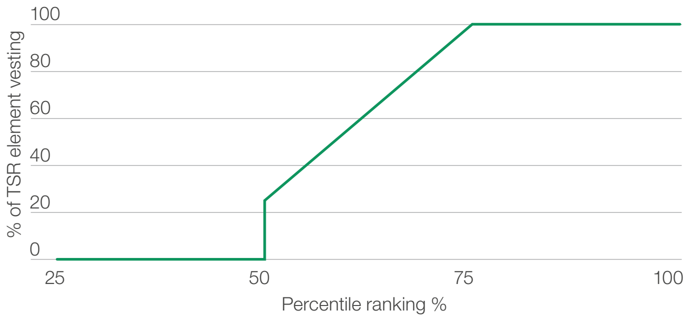
The 2016 PSP awards, as in previous years, are subject to a performance condition which is split into two equal separate parts. Half of the award is subject to a relative TSR performance condition, comparing Croda's TSR performance against the constituents of the FTSE 350 (excluding investment trusts) over a three-year performance period. The remaining half of the award is subject to an EPS growth condition.

Vesting under the two parts of the performance condition will take place on the following sliding scale:

EPS vesting schedule



TSR vesting schedule



All-Employee share plan awards granted in 2016

SIP

Details of shares purchased and awarded to Executive Directors under the SIP are shown in the table below. A brief description of the SIP is set out in note 22 on page 122.

Executive Director	SIP shares held 01.01.16	Partnership shares acquired in year	Matching shares awarded in year	Total shares held 31.12.16	SIP shares that became unrestricted in the year	Total unrestricted SIP shares held at 31.12.16
Steve Foots	5,712	51	51	5,623	148	**5,127**
Jez Maiden[1]	–	50	49	100	–	**–**
Keith Layden	5,712	51	51	5,623	148	**5,127**

1 Jez Maiden also had one additional share acquired through the Dividend Reinvestment Plan

A share consolidation took place on 9 May 2016 on the basis of 28 new ordinary shares for 29 existing ordinary shares resulting in less shares held at year end than prior year.

Unrestricted shares (which are included in the total shares held at 31 December 2016) are those held until there is no longer a tax liability if they are withdrawn from the plan.

Sharesave

Details of awards made under the UK Sharesave scheme are set out below:

Date of grant	Earliest exercise date	Expiry date	Face value*	Exercise price	Number at 01.01.16 (10p shares)	Granted in year	Number at 31.12.16 (10.357143p shares)
Steve Foots							
19 September 2013	1 November 2016	30 April 2017	£2,247.56	2141p	84	–	–
18 September 2014	1 November 2017	30 April 2018	£2,247.06	1763p	102	–	102
17 September 2015	1 November 2018	30 April 2019	£4,490.29	2232p	161	–	161
16 September 2016	1 November 2019	30 April 2020	£6,728.94	2639p	–	204	204
					347	**204**	**467**
Jez Maiden							
17 September 2015	1 November 2018	30 April 2019	£11,239.67	2232p	403	–	403
16 September 2016	1 November 2019	30 April 2020	£11,247.89	2639p	–	341	341
					403	**341**	**744**

During 2016, the highest mid-market price of the Company's shares was 3129.5p and the lowest was 2573p. The year end closing price was 3042p. The year end mid-market price was 3042.5p.

* Face value is calculated using the market value on the day before the date of grant, multiplied by the number of shares awarded

PSP vesting in relation to performance at 31 December 2016

The awards made to Executive Directors in May 2014, and which are due to vest in May 2017, are based on relative TSR and EPS growth measured over a three-year period. Performance against the vesting schedule can be summarised as follows:

PSP awards vesting in May 2017

Measure	Weighting	Threshold	Maximum	Actual Performance	Out-turn (% of max element) PSP
Relative TSR versus FTSE 350 constituents	50%	Median (50th percentile)	Upper quartile (75th percentile)	70.3% percentile%	42.95%
Adjusted average EPS growth	50%	7%	14%	0%	0%

1 Performance measurement period three years to 31 December 2016.

The forecast vesting value of the awards made in May 2014, subject to the above performance targets, is included in the 2016 single figure table above.

Gains made on exercise of share options and PSPs

The gains are calculated according to the market price of Croda International Plc Ordinary Shares of 10.357143p each on the date of exercise, although the shares may have been retained.

Executive Director	Exercise date	Shares exercised	Scheme	Exercise price	Market price	Gain (before tax)
Steve Foots	1 November 2016	84	Sharesave	2141p	3487.4p	£1,130.98

Directors' interests in the share capital of the Company

The interests of the Directors who held office at 31 December 2016, are set out in the table below:

	Legally owned		PSP awards (unvested)	DBSP awards (unvested)	Sharesave (unvested)	SIP		Total 31.12.16	% of salary held under shareholding guideline
	31.12.15	31.12.16				Restricted	Unrestricted		
Executive Director									
Steve Foots	128,484	124,225	134,456	6,472	467	496	5,127	**271,243**	>200% target
Jez Maiden	3,600	3,475	44,616	3,570	744	100	–	**52,505**	<150% target
Keith Layden	70,112	68,141	52,351	2,764	–	496	5,127	**128,879**	>150% target
Non-Executive Director									
Alan Ferguson	2,500	2,414	–	–	–	–	–	**2,414**	–
Anita Frew	10,000	9,655	–	–	–	–	–	**9,655**	–
Helena Ganczakowski	359	362	–	–	–	–	–	**362**	–
Nigel Turner	15,000	14,482	–	–	–	–	–	**14,482**	–
Steve Williams	11,331	11,566	–	–	–	–	–	**11,566**	–

A share consolidation took place on 9 May 2016 on the basis of 28 new ordinary shares for 29 existing ordinary shares resulting in less shares held at year end than the prior year.

There have been no changes in the interests of any Director between 31 December 2016 and the date of this report, except for the purchase of nine SIP shares and nine matching shares each by Steve Foots, Keith Layden and Jez Maiden during January and February 2017.

Pension rights

The pension rights that accrued during the year in line with the policy on such benefits as set out in the Policy Report were as follows:

Defined benefit schemes

Executive Director	Normal retirement date under the CPS	Accrued pension 2016 £000	Single remuneration figure 2016 £000[1]	Single remuneration figure 2015 £000	Single remuneration figure excluding supplement £000
Steve Foots	14 September 2033	117	168	151	36
Jez Maiden	N/A	0	101	70	0
Keith Layden	18 October 2020	67[2]	78	65	0

1 The value of all pension savings made during the financial year inclusive of cash supplement on behalf of Directors. Steve Foots and Keith Layden are entitled to death-in-service benefits from the CPS. Jez Maiden has a separate agreement which provides death-in-service benefits outside of the CPS

2 Keith Layden started to draw his pension on 19 October 2014.

Note: Members of the CPS have the option to pay voluntary contributions. Neither the contributions nor the resulting benefits are included in this table. During 2016, Steve Foots was paid £132,275 (2015: £91,800), Keith Layden was paid £78,386 (2015: £65,034) and Jez Maiden was paid £101,246 (2015: £84,000) in addition to their basic salary to enable them to make independent provision for their retirement. This contribution reflects the introduction of a cap to the maximum salary on which benefits at retirement are based under the CPS or, in the case of Keith Layden and Jez Maiden, the full provision. Accordingly, for Steve Foots benefits above this cap are now provided by a salary supplement in lieu of pension benefits above the cap of £37,500.

Payments for cessation of employment

There were no payments for loss of office during the year under review.

Keith Layden retirement

As announced on 28 February 2017, Keith Layden will retire from his role as Chief Technology Officer and Executive Director on 30 April 2017. Keith will continue to receive base salary and contractual benefits up to his retirement date at which time these payments and benefits will cease. In line with the provisions in the relevant plan rules, as a retiree, he will be a good leaver. As a result, he will be eligible to receive a pro-rata annual bonus payment for the period of his employment in 2017 (based on the number of complete calendar months worked in the relevant year). The payment will be made at the normal time calculated based on the performance targets tested over the complete financial year. One-third of any bonus earned will be deferred for three years. With regard to his outstanding shares awards, as a good leaver, these will remain eligible to vest in line with the relevant plan rules. Vesting in connection with Performance Share Plan awards will be subject to a pro-rata reduction to reflect the proportion of the relevant performance periods for which he was employed and with performance targets tested at the normal time. The holding period applying to vested share awards will continue to apply. No PSP awards will be made in 2017. No further payments will be made in connection with his retirement.

Payments to former Directors

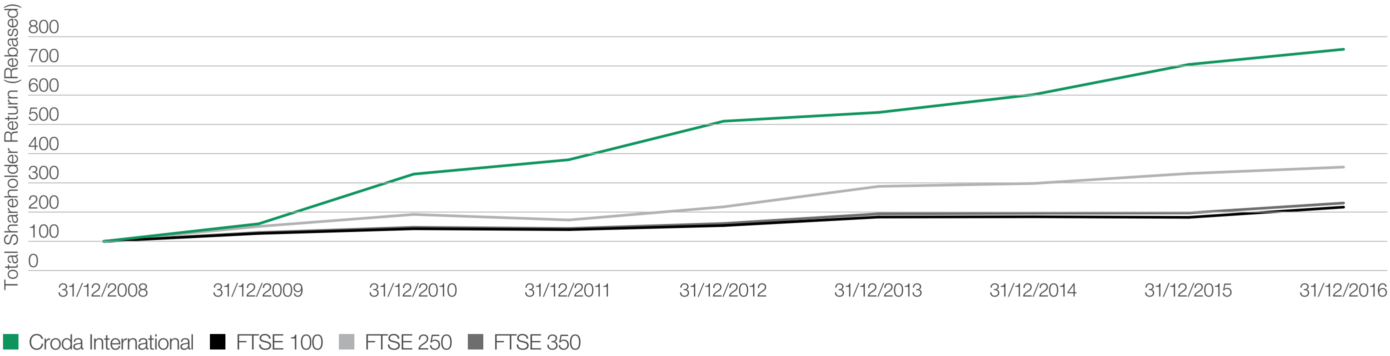
Mike Humphrey, former CEO, was paid £55,000 in 2016 in respect of consultancy services to the business.

Other unaudited information

Performance graph

The graph below shows the value, at 31 December 2016, of £100 invested in Croda International Plc on 31 December 2008 compared with the value of £100 invested in the FTSE 100, FTSE 250 and FTSE 350 Indices. TSR performance has been rebased to 100 as at 31 December 2008.

Total shareholder return



Source: Datastream (Thomson Reuters)

In the opinion of the Directors, the FTSE 350 Index is an appropriate index against which to measure the Company's TSR because Croda is a current constituent and the index represents a broad-based set of companies of a similar size and with similar historic volatility of TSR returns. In addition, the FTSE 100 Index is presented since the Company is currently a constituent of the FTSE 100 Index with the FTSE 250 Index shown as the Company has been a constituent during the period illustrated in the chart.

Total remuneration figures for Group Chief Executive

The total remuneration figure includes the annual bonus and long term incentive awards which vested based on performance in those years. The annual bonus and long term incentive award percentages show the payout for each year as a percentage of the maximum.

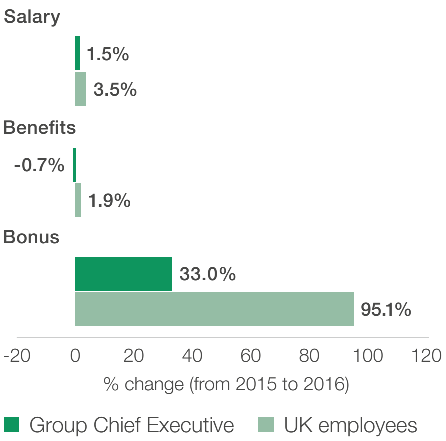
	2009*	2010*	2011*	2012^	2013^	2014^	2015^	2016
Total remuneration (£)	1,943,740	3,224,875	4,142,608	1,364,048	1,427,156	769,414	1,374,046	**2,281,092**
Annual bonus (%)	100%	100%	100%	28%	0%	0%	76.38%	**100%**
Long term incentives vesting (%)	100%	100%	100%	100%	81.8%	0%	0%	**42.95%**

* relate to Mike Humphrey ^ relate to Steve Foots

Percentage change in remuneration levels

The following chart shows the movement in the salary, benefits and annual bonus for the Group Chief Executive between the current and previous financial year compared with that of the average UK employee. The Committee has chosen this comparator as it feels it provides a more appropriate reflection of the earnings of the average worker than the movement in the Group's total wage bill, which is distorted by fluctuations in the number of employees and variations in wage practices in our overseas markets.

Change in remuneration levels %

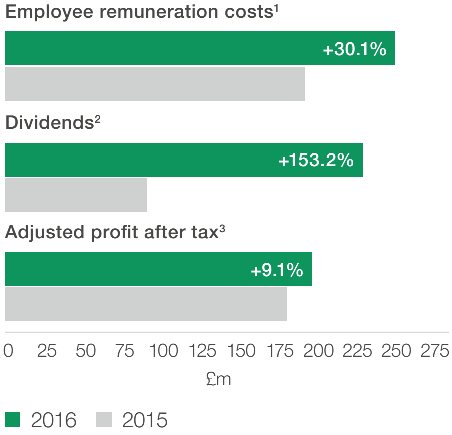


Note: Benefits exclude pension

Relative importance of the spend on pay

The chart below shows the movement in spend on staff costs versus that in dividends and adjusted profit after tax.

Relative importance of the spend on pay %



1 Employee remuneration costs, as stated in the notes to the Group accounts on page 103. These comprise all amounts charged against profit in respect of employee remuneration for the relevant financial year, less redundancy costs and share-based payments, both of which can vary significantly from year to year
2 Dividends are the amounts payable in respect of the relevant financial year
3 Adjusted profit after tax is profit for the relevant year adjusted for exceptional items, acquisition costs, amortisation of intangible assets arising on acquisition and the tax thereon

External directorships

Executive Directors are permitted to accept external appointments with the prior approval of the Board. It is normal practice for Executive Directors to retain fees provided for non-executive roles. Jez Maiden was appointed as a Non-Executive Director of PZ Cussons on 16 October 2016 and received a fee of £8,750 for 2016.

I will be available at the AGM to respond to any questions shareholders may raise on the Committee's activities.

On behalf of the Board

Steve Williams
Chairman of the Remuneration Committee
28 February 2017

Other Disclosures

Pages 34 to 79 inclusive (together with the sections of the Annual Report incorporated by reference) constitute a Directors' Report that has been drawn up and presented in accordance with applicable English company law: the liabilities of the Directors in connection with that report are subject to the limitations and restrictions provided by that law.

Research and development

Research and development activities are undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Dividends

The Directors are recommending a final dividend of 41.25p per share (2015: 38p). If approved by shareholders, total dividends for the year will amount to 74p per share (2015: 169p (including the special dividend). Details of dividends are shown in note 8 on page 102; details of the Company's Dividend Reinvestment Plan can be found on page 137. The Company has established various Employee Benefit Trusts (EBTs) in connection with the obligation to satisfy future share awards under employee share incentive schemes. The trustees of the EBTs have waived their rights to receive dividends on certain Ordinary Shares of the Company held in the EBTs. Such waivers represent less than 1% of the total dividend payable on the Company's Ordinary Shares. Further details of the EBTs can be found in note 24 on page 122.

Directors

The Company's Articles of Association (the 'Articles') give the Directors power to appoint and replace Directors. Under the terms of reference of the Nomination Committee, any appointment must be recommended by the Nomination Committee for approval by the Board of Directors. The present Directors of the Company are shown on pages 34 and 35. In line with the UK Corporate Governance Code, each Director will be standing for re-election at the AGM. Details of the Directors' service contracts are given in the Directors' Remuneration Report on page 69.

Apart from the share option schemes, long term incentive schemes and service contracts, no Director had any beneficial interest in any contract to which the Company or a subsidiary was a party during the year.

A statement indicating the beneficial and non-beneficial interests of the Directors in the share capital of the Company, including share options, is shown in the Directors' Remuneration Report on page 73.

The Directors are responsible for managing the business of the Company and may exercise all the powers of the Company subject to the provisions of relevant statutes, the Company's Memorandum and Articles and any directions given by special resolution.

Directors' indemnities

The Company maintains Directors' and Officers' liability insurance which gives appropriate cover for any legal action brought against its Directors. The Company has also granted indemnities to each of its Directors and the Company Secretary which represent 'qualifying third party indemnity provisions' (as defined by Section 234 of the Companies Act 2006), in relation to certain losses and liabilities which the Directors (or Company Secretary) may incur to third parties in the course of acting as Directors (or Company Secretary) or employees of the Company or of any associated company. In addition, such indemnities have been granted to other officers of the Company who are Directors of subsidiary companies within the Group. The Company has also granted an indemnity representing 'qualifying pension scheme indemnity provisions' (as defined by Section 235 of the Companies Act 2006) to a paid Director of the corporate trustee of the Group's UK pension scheme. Such indemnities were in place during 2016 and at the date of approval of the Group financial statements.

Share capital

At the date of this Report, 135,124,108 Ordinary Shares of 10.357143p each have been issued and are fully paid up and quoted on the London Stock Exchange. At the date of this Report, the Company has issued and fully paid up 21,900 7.5% Cumulative Preference Shares, 498,434 6.6% Cumulative Preference Shares and 615,562 5.9% Cumulative Preference Shares, all of £1 each (the Preference Shares). The rights and obligations attached to the Company's Ordinary Shares and Preference Shares are set out in the Articles, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary. There are no restrictions on the voting rights attached to the Company's Ordinary Shares or on the transfer of securities in the Company. The 7.5% Cumulative Preference Shares do not confer on the holders any right to receive notice of or to be present or to vote at any general meeting of the Company unless the cumulative preferential dividend on such shares is more than 12 calendar months in arrears. The 6.6% and 5.9% Cumulative Preference Shares do not confer on the holders any right to receive notice of or to be present or to vote at any general meeting of the Company unless the cumulative preferential dividend on such shares is more than six calendar months in arrears or the business of the general meeting includes the consideration of a resolution for reducing the share capital of the Company, to sell the undertaking of the Company or to alter the Articles. No person holds securities in the Company that carry special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Power to issue or buy back shares

At the 2016 AGM, authority was given to the Directors to allot unissued shares in the Company up to a maximum amount equivalent to approximately one third of the issued share capital (excluding shares held in treasury) for general purposes, plus up to a further one third of the Company's issued share capital (excluding shares held in treasury), but only in the case of a rights issue. No such shares have been issued.

A further special resolution passed at that meeting granted authority to the Directors to allot equity securities in the Company for cash, without regard to the pre-emption provisions of the Companies Act 2006. Both these authorities expire on the date of the 2017 AGM, that is 26 April 2017, and so the Directors propose to renew them for a further year.

At last year's AGM the members renewed the Company's authority to purchase up to 10% of its Ordinary Shares. No purchases were made during the year. As a result the Company will be seeking to renew its authority to purchase its own shares at the 2017 AGM. Shares will only be purchased if the Board believes that such purchases will improve earnings per share and be in the best general interest of shareholders. It is the Company's intention that any shares purchased will be held as treasury shares. At the date of this report the Company holds 3,876,348 shares in treasury.

Employees

Diversity: We are committed to the principle of equal opportunity in employment and to ensuring that no applicant or employee receives less favourable treatment on the grounds of gender, marital status, race, ethnic origin, religion, disability, sexuality or age, or is disadvantaged by conditions or requirements which cannot be shown to be justified. Group HR policies are clearly communicated to all our employees and are available through the Company intranet.

Recruitment and progression: It is established policy throughout Croda that decisions on recruitment, career development, promotion and other employment related issues are made solely on the grounds of individual ability, achievement, expertise and conduct.

Croda gives full and fair consideration to applications for employment from people with disabilities. Should an employee become disabled during their employment with Croda, they are fully supported by its Occupational Health provision. Efforts are made to continue their employment with reasonable adjustments being made to the workplace and role where feasible. Retraining is provided if necessary.

Development and learning: Croda recognises that the key to future success lies in the skills and abilities of its dedicated global workforce.

The continuous development of our employees is key to meeting the future demands of our customers, especially in relation to enhanced creativity, innovation and customer service. During 2016, 86.7% of our employees received training, totalling over 102,000 hours.

Involvement: Croda is committed to ensuring that employees share in the success of the Group. Owning shares in the Company is an important way of strengthening involvement in the development of the Business and bringing together employees' and shareholders' interests. In 2016, 83.5% of our UK employees and 56.8% of our non-UK employees participated in one of our all-employee share plans, indicating employees' continued desire to be involved in the Company.

Employees are kept informed of matters of concern to them in a variety of ways, including Croda Way (the Company magazine), quarterly updates, Croda Connect (the Company intranet), team briefings, webinars and Croda Now (email messages). These communications help achieve a common awareness of the financial and economic factors affecting the performance of Croda and of changes within the Business. Croda is also committed to providing employees with opportunities to share their views and provide feedback on issues that are important to them. All regions have undertaken an employee survey since 2010. The largest of these, targeting our European employees, was completed during 2011.

Articles of Association

Unless expressly specified to the contrary in the Articles, the Company's Articles may be amended by a special resolution of the Company's shareholders.

Significant contracts and change of control

The Group has borrowing facilities which may require the immediate repayment of all outstanding loans together with accrued interest in the event of a change of control. The rules of the Company's employee share plans set out the consequences of a change in control of the Company on participants' rights under the plans. Generally, such rights will vest and become exercisable on a change of control subject to the satisfaction of performance conditions. None of the Executive Directors' service contracts contains provisions which are affected by a change of control and there are no other agreements to which the Company is a party which take effect, alter or terminate in the event of a change of control of the Company which are considered to be significant in terms of their potential impact on the Group.

The Company does not have any contractual or other arrangements which are essential to the Business of the Group.

Political donations

No donations were made for political purposes during the year (2015: £nil).

Financial risk management

The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risks are contained in note 19 on pages 113 to 117.

Capitalised interest

The Group's policy for capitalising borrowing costs directly attributable to the purchase or construction of fixed assets is set out on page 96.

Other disclosures

Certain information that is required to be included in the Directors' Report can be found elsewhere in this document as referred to below, each of which is incorporated by reference in to the Directors' Report:

- → Information on greenhouse gas emissions can be found on page 28
- → An indication of likely future developments in the Group's business can be found in the Strategic Report, starting on page 02
- → An indication of the Company's overseas branches can be found on pages 134 to 136

There have been no events affecting the Company since the financial year end to report to shareholders in accordance with the Accounts Regulations and Disclosure and Transparency Rules.

For the purposes of Listing Rule 9.8.4R, the information required to be disclosed by LR 9.8.4R can be found on the following pages of this Annual Report:

Section	Topic	Page reference
(1)	Capitalised interest	Page 78
(2)	Publication of unaudited financial information	Not applicable
(3)	Smaller related party transactions	Not applicable
(4)	Details of long term incentive schemes established specifically to recruit or retain a Director	Not applicable
(5) (6)	Waiver of emoluments by a Director	Not applicable
(7) (8)	Allotments of equity securities for cash	Page 77
(9)	Participation in a placing of equity securities	Not applicable
(10)	Contracts of significance	Page 78
(11) (14)	Controlling shareholder disclosures	Not applicable
(12) (13)	Dividend waiver	Page 76

All the information cross referenced above is incorporated by reference into the Directors' Report.

References in this document to other documents on the Company's website, such as the Sustainability Report, are included as an aid to their location and are not incorporated by reference into any section of the Annual Report and Accounts.

Independent auditors

Our auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and, on the recommendation of the Audit Committee, a resolution regarding their reappointment and remuneration will be submitted to the Annual General Meeting.

Audit Information

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and that they have each taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

In preparing the Group financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- → Select suitable accounting policies and then apply them consistently
- → Make judgements and accounting estimates that are reasonable and prudent
- → State whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Company financial statements respectively
- → Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group, and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Each of the Directors, whose details are set out on pages 34 and 35 confirm that, to the best of their knowledge:

- → The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- → The Directors' Report and Strategic Report include a fair review of the development and performance of the Business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The Directors' Report and the Strategic Report, including the sections of the Annual Report and Accounts incorporated by reference, is the 'management report' for the purposes of the Financial Conduct Authority Disclosure and Transparency Rules (DTR 4.1.8R). It was approved by the Board on 28 February 2017 and is signed on its behalf by

Tom Brophy
Group General Counsel
and Company Secretary

28 February 2017

Group Independent Auditors' Report to the Members of Croda International Plc

Report on the Group financial statements

Our opinion

In our opinion, Croda International Plc's Group financial statements (the 'financial statements'):

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:

- the Group Balance Sheet as at 31 December 2016;
- the Group Income Statement and Group Statement of Comprehensive Income for the year then ended;
- the Group Statement of Cash Flows for the year then ended;
- the Group Statement of Changes in Equity for the year then ended;
- the Group Accounting Policies; and
- the notes to the financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview

Materiality	→ Overall Group materiality: £13.8m which represents 5% of profit before tax
Audit scope	→ We, as the Group engagement team, audited the two financially significant components – the UK and the US – covering 51% of the Group's external revenues and 48% of the Group's profit before tax → For the next seven largest components of the Group, which are audited by PwC component auditors (the five largest as full scope audits and the remaining two subject to specified procedures), we were heavily involved at all stages of their audits by virtue of numerous communications throughout the process, including the issuance of detailed audit instructions, review and discussion of audit findings, in particular over our areas of focus → As a result of this scoping we obtained coverage over 77% of the Group's external revenues and 85% of the Group's profit before tax
Areas of focus	→ Provision for environmental remediation → Valuation of defined benefit pension scheme liability → Taxation

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the following table. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Provision for environmental remediation *Refer to page 50 (Audit Committee Report), page 91 (Accounting Policies) and page 117 (notes).* As a consequence of the Group's production of chemicals, there are a number of open claims and litigation against the Group relating to soil and potential groundwater contamination on sites, both currently in use and previously occupied. Environmental standards and legislation are specific to, and often contain unique requirements, in each territory the Group operates in and may be subject to change. As such, understanding the potential environmental risks and the financial implications that the Group is exposed to is often complex. The provision held for environmental liabilities within the balance sheet at 31 December 2016 totalled £12.1m, which relates to a number of matters. For each matter, the Directors, in conjunction with experts they engaged, assessed the likelihood of the Group being found liable for any remedial work and, where applicable the costs of that work, as well as any associated fines and legal costs. Assessing the likelihood and quantum of any financial obligations arising, requires judgement. There is a risk that the provision could be materially misstated and the required disclosures insufficient due to the inherent uncertainties and the potentially wide range of outcomes and timelines in respect of the resolution of each matter. The Directors performed a detailed assessment of environmental liabilities to ensure that the level of environmental provision held remains appropriate.	We obtained and read the Directors' assessment of each specific environmental matter that the Directors made us aware of, and assessed the completeness of the list against publicly available information and other information on potential environmental exposure at current and former sites. We performed audit work on each matter as there is a risk that the liability for each matter could be materially misstated. We evaluated the Directors' assumptions, both in terms of the likelihood of the Group being found liable and also of any resulting financial obligation by: → reading publicly available information, correspondence with relevant stakeholders and other information available to the Directors relating to the specific matters identified, and assessing the Directors' assumptions against this information; → reading remediation plans drawn up by the Directors' external experts and considering whether the Directors have properly reflected them in the calculation of the provision; → evaluating the independence, objectivity and competence of the experts that the Directors engage to assess the likely outcome of the cases against the Group, and the cost of remediation needed, by confirming they are qualified and affiliated with the appropriate industry bodies in the respective local territory; → comparing historical provisions with actual remediation costs incurred during the year to assess the Directors' historical forecasting accuracy; → assessing the Directors' accuracy in estimating exposures for fines and legal costs by comparing historic provisions for cases that have been settled with the actual fine/legal costs; → discussing all matters with the Group's legal counsel and head of sustainability, and obtaining independent confirmations from the Group's external legal advisers on the progress of each claim; and → discussing all matters arising in Europe and the US with local management, and corroborating information received from all parties. We found, based on the results of our testing, that the provision recorded and disclosures made in the financial statements were consistent with the supporting evidence obtained.

Area of focus	How our audit addressed the area of focus
Valuation of defined benefit pension scheme liability *Refer to page 50 (Audit Committee Report), page 91 (Accounting Policies) and pages 104 to 108 (notes).* The Group has a number of defined benefit pension schemes that, together, are in a net deficit position of £146.5m, which is material both in the context of the overall balance sheet and the results of the Group. The schemes in the UK and the US account for £79.7m and £28.6m of the net deficit, respectively. The valuation of the pension liability requires significant levels of judgement and technical expertise in choosing appropriate assumptions, a number of which can be volatile. Small changes in a number of the key assumptions (including salary increases, inflation, discount rates, and mortality) can have a material impact on the calculation of the liability.	We primarily focused our work on the pension plan liabilities in the UK and the US which, together, account for the majority of the balance and, hence, estimation uncertainty. We evaluated the Directors' assessment of the assumptions they made in relation to the valuation of the liabilities in the pension plan as follows: → we agreed the discount and inflation rates used in the valuation of the pension liabilities to our internally developed expectations using our internal actuarial specialists and compared the assumptions around salary increases and mortality to national and industry accepted averages; → we evaluated the competence of the experts that the Directors engaged to calculate the defined benefit pension schemes, by confirming they are qualified and affiliated with the appropriate industry body; and → we evaluated the sensitivity of the pension scheme liabilities to differences between our independent judgements and those made by the Directors, both individually and in aggregate. Based on the evidence obtained, we found that the assumptions used by the Directors in the valuation of the liability were within a range considered to be reasonable using an internally developed range of acceptable assumptions for valuing pension liabilities, based on our view of various economic indicators.
Taxation *Refer to page 50 (Audit Committee Report), page 91 (Accounting Policies) and pages 100 and 101 (notes).* Due to the large number of tax jurisdictions in which the Group operates, the calculation of the Group's tax position is complex and is subject to scrutiny and challenge by different tax authorities. An error in the interpretation of, often complex, tax regulations, particularly relating to transfer pricing, could lead to a material misstatement in the tax expense. The Group also holds a number of specific judgemental tax accruals that relate to specific transfer pricing risks, open tax investigations/audits and other such matters. The estimation of the accrual is dependent on the Directors' assessment of the outcome of the outstanding matters.	We evaluated the Directors' assumptions for determining and calculating the consolidated tax expense, balances and accruals. For all in scope territories we: → obtained the Group's tax computations and tested the deductions and tax rates applied by reference to local tax legislation; → obtained the Group's latest internal transfer pricing studies and associated documentation and used our internal tax specialists to assess its reasonableness; → assessed the amount of the specific tax accruals based on our experience of similar situations both related and unrelated to the Group; → read the latest correspondence between the Group and tax authorities and considered any implications this may have had on the tax position reported in the Group's financial statements; → utilised our experience of similar tax exposures and risks faced by other multinational groups to assess the evidence described above; and → compared the levels of tax expense by territory with the local statutory tax rates and investigated the basis for any differences. The Directors' judgements in respect of the Group's position on uncertain tax items are supportable and reasonable in the context of the information currently available to them and no matters were identified by our work that the Directors had not adequately reflected in their estimate of the tax expense, balances and accruals.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group operates through various components in 36 different countries across five continents.

We, as the Group engagement team, performed an audit of the complete financial information for the two financially significant components – the UK and the US. For the next five largest components of the Group, PwC component auditors, under our instruction, performed an audit of their complete financial information. PwC component auditors also performed specified procedures at the two next largest components of the Group.

Where the work was performed by PwC component auditors we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. We were involved at all stages of their audits by virtue of numerous communications throughout the process, including the issuance of detailed audit instructions, review and discussion of audit findings, in particular over our areas of focus. We, as the Group engagement team, were also responsible for other head office activities such as the consolidation, financial statement disclosures and share based payments.

The procedures performed over the components (either by the Group team or PwC component audit teams) and specifically by the Group team (for example, on goodwill), accounted for 77% of the Group's external revenues and 85% of the Group's profit before tax.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as per the table below.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.7m (2015: £0.6m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 91, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- → the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and;
- → the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Overall Group materiality	£13.8m (2015: £12.6m).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
→ information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
→ the statement given by the Directors on page 79, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
→ the section of the Annual Report on pages 47 to 51, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
→ the Directors' confirmation on page 30 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
→ the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
→ the Directors' explanation on page 30 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement
Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to 10 further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 79, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- → whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- → the reasonableness of significant accounting estimates made by the Directors; and
- → the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Company financial statements of Croda International Plc for the year ended 31 December 2016 and on the information in the Directors' Remuneration Report that is described as having been audited.

Ian Morrison

Ian Morrison (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
Leeds

28 February 2017

Group Consolidated Statements

Group Income Statement

for the year ended 31 December 2016

	Note	2016 Adjusted £m	2016 Adjustments £m	2016 Reported Total £m	2015 Adjusted £m	2015 Adjustments £m	2015 Reported Total £m
Revenue	1	**1,243.6**	**–**	**1,243.6**	1,081.7	–	1,081.7
Cost of sales		**(798.5)**	**–**	**(798.5)**	(704.1)	–	(704.1)
Gross profit		**445.1**	**–**	**445.1**	377.6	–	377.6
Operating costs	2	**(146.9)**	**(12.6)**	**(159.5)**	(113.4)	(2.4)	(115.8)
Operating profit	3	**298.2**	**(12.6)**	**285.6**	264.2	(2.4)	261.8
Financial costs	4	**(10.6)**	**–**	**(10.6)**	(10.2)	–	(10.2)
Financial income	4	**0.7**	**–**	**0.7**	0.7	–	0.7
Profit before tax		**288.3**	**(12.6)**	**275.7**	254.7	(2.4)	252.3
Tax	5	**(80.7)**	**2.6**	**(78.1)**	(71.2)	–	(71.2)
Profit after tax for the year		**207.6**	**(10.0)**	**197.6**	183.5	(2.4)	181.1
Attributable to:							
Non-controlling interests				**0.9**			0.4
Owners of the parent				**196.7**			180.7
				197.6			181.1

Adjustments relate to exceptional items, acquisition costs, amortisation of intangible assets arising on acquisition and the tax thereon. See note 3.

Earnings per 10p share	Note	2016 Pence	2015 Pence
Basic	7	**148.2**	133.3
Diluted	7	**146.9**	132.3

Group Statement of Comprehensive Income

for the year ended 31 December 2016

	Note	2016 £m	2015 £m
Profit for the year		**197.6**	181.1
Other comprehensive (expense)/income:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of post-employment benefit obligations		**(65.5)**	33.6
Tax on items that will not be reclassified	5	**10.4**	(6.6)
		(55.1)	27.0
Items that may be reclassified subsequently to profit or loss:			
Currency translation		**79.0**	(3.1)
Other comprehensive income for the year		**23.9**	23.9
Total comprehensive income for the year		**221.5**	205.0
Attributable to:			
Non-controlling interests		**1.7**	0.4
Owners of the parent		**219.8**	204.6
		221.5	205.0
Arising from:			
Continuing operations		**221.5**	205.0

Group Balance Sheet

at 31 December 2016

	Note	2016 £m	2015 £m Restated
Assets			
Non-current assets			
Intangible assets	12	**355.3**	337.8
Property, plant and equipment	13	**598.1**	460.6
Investments	15	**1.0**	1.0
Deferred tax assets	6	**56.3**	38.9
		1,010.7	838.3
Current assets			
Inventories	16	**235.7**	221.6
Trade and other receivables	17	**192.4**	156.1
Cash and cash equivalents	19	**61.0**	106.7
		489.1	484.4
Liabilities			
Current liabilities			
Trade and other payables	18	**(186.2)**	(159.6)
Borrowings and other financial liabilities	19	**(10.4)**	(58.4)
Provisions	20	**(8.1)**	(4.9)
Current tax liabilities		**(47.0)**	(39.3)
		(251.7)	(262.2)
Net current assets		**237.4**	222.2
Non-current liabilities			
Borrowings and other financial liabilities	19	**(414.7)**	(307.6)
Other payables		**(2.6)**	(2.1)
Retirement benefit liabilities	11	**(146.5)**	(78.8)
Provisions	20	**(9.2)**	(8.9)
Deferred tax liabilities	6	**(66.3)**	(55.8)
		(639.3)	(453.2)
Net assets		**608.8**	607.3
Equity			
Ordinary share capital	21	**14.0**	14.0
Preference share capital	23	**1.1**	1.1
Share capital		**15.1**	15.1
Share premium account		**93.3**	93.3
Reserves		**492.2**	492.4
Equity attributable to owners of the parent		**600.6**	600.8
Non-controlling interests in equity	25	**8.2**	6.5
Total equity		**608.8**	607.3

Cash and cash equivalents and Borrowings and other financial liabilities have been restated following the change in accounting policy described in note 29. This change has had no impact on net assets.

The financial statements on pages 86 to 123 were signed on behalf of the Board who approved the accounts on 28 February 2017.

Anita Frew
Chairman

Jez Maiden
Group Finance Director

Group Statement of Cash Flows

for the year ended 31 December 2016

	Note	2016 £m	2015 £m Restated
Cash flows from operating activities			
Cash generated from operations	ii	**345.1**	282.1
Interest paid		**(11.1)**	(7.7)
Tax paid		**(70.2)**	(66.8)
Net cash generated from operating activities		**263.8**	207.6
Cash flows from investing activities			
Acquisition of subsidiaries	27	**(1.4)**	(104.0)
Purchase of property, plant and equipment	13	**(103.8)**	(92.7)
Purchase of other intangible assets	12	**(1.6)**	(0.8)
Proceeds from sale of property, plant and equipment		**0.9**	2.4
Proceeds from sale of other investments		**0.1**	–
Cash paid against non-operating provisions	20	**(2.2)**	(2.1)
Interest received		**0.7**	0.7
Net cash used in investing activities		**(107.3)**	(196.5)
Cash flows from financing activities			
New borrowings		**699.3**	88.2
Repayment of borrowings		**(632.5)**	(1.8)
Capital element of finance lease repayments	iii	**(0.4)**	(0.2)
Sale of own shares held in trust	21	**1.2**	1.2
Dividends paid to equity shareholders	8	**(230.2)**	(90.9)
Net cash used in financing activities		**(162.6)**	(3.5)
Net movement in cash and cash equivalents	i,iii	**(6.1)**	7.6
Cash and cash equivalents brought forward		**55.8**	45.6
Exchange differences	iii	**6.7**	2.6
Cash and cash equivalents carried forward		**56.4**	55.8
Cash and cash equivalents carried forward comprise:			
Cash at bank and in hand		**61.0**	106.7
Bank overdrafts		**(4.6)**	(50.9)
		56.4	55.8

Cash at bank and in hand and Bank overdrafts have been restated following the change in accounting policy described in note 29.

Group Cash Flow Notes

for the year ended 31 December 2016

(i) Reconciliation to net debt

	Note	2016 £m	2015 £m
Movement in cash and cash equivalents	iii	**(6.1)**	7.6
Movement in debt and lease financing	iii	**(66.4)**	(86.2)
Change in net debt from cash flows		**(72.5)**	(78.6)
New finance lease contracts		**(0.5)**	(0.5)
Exchange differences		**(31.8)**	–
		(104.8)	(79.1)
Net debt brought forward		**(259.3)**	(180.2)
Net debt carried forward	iii	**(364.1)**	(259.3)

(ii) Cash generated by operations

	Note	2016 £m	2015 £m
Continuing operations			
Adjusted operating profit		**298.2**	264.2
Exceptional items	iv	**(8.4)**	–
Acquisition costs and amortisation of intangible assets arising on acquisition		**(4.2)**	(2.4)
Operating profit		**285.6**	261.8
Adjustments for:			
Depreciation and amortisation		**49.2**	38.5
Loss on disposal of property, plant and equipment		**0.9**	–
Net provisions charged (note 20)		**4.3**	–
Share-based payments		**9.5**	4.7
Cash paid against operating provisions (note 20)		**(0.7)**	(3.0)
Pension fund contributions in excess of service cost		**(10.9)**	(18.5)
Movement in inventories		**8.4**	(15.1)
Movement in receivables		**(10.9)**	(6.9)
Movement in payables		**9.7**	20.6
Cash generated by continuing operations		**345.1**	282.1

(iii) Analysis of net debt

	2016 £m	Cash flow £m	Exchange movements £m	Other non-cash £m	2015 £m Restated
Cash and cash equivalents	**61.0**	(52.4)	6.7	–	106.7
Bank overdrafts	**(4.6)**	46.3	–	–	(50.9)
Movement in cash and cash equivalents		(6.1)	6.7		
Borrowings repayable within one year	**(5.4)**	2.5	(0.7)	–	(7.2)
Borrowings repayable after more than one year	**(414.2)**	(69.3)	(37.8)	–	(307.1)
Finance leases	**(0.9)**	0.4	–	(0.5)	(0.8)
Movement in borrowings and other financial liabilities		(66.4)	(38.5)		
Total net debt	**(364.1)**	(72.5)	(31.8)	(0.5)	(259.3)

(iv) Cash flow on exceptional items

The total cash outflow during the year in respect of exceptional items, including those recognised in prior years' income statements, was £2.9m (2015: £4.8m). Details of exceptional items can be found in note 3 on page 99.

Group Statement of Changes in Equity

for the year ended 31 December 2016

	Note	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
At 1 January 2015		15.1	93.3	1.1	373.4	6.1	489.0
Profit for the year		–	–	–	180.7	0.4	181.1
Other comprehensive (expense)/income		–	–	(3.1)	27.0	–	23.9
Total comprehensive (expense)/income for the year		–	–	(3.1)	207.7	0.4	205.0
Transactions with owners:							
Dividends on equity shares	8	–	–	–	(90.9)	–	(90.9)
Share-based payments		–	–	–	3.0	–	3.0
Consideration received for sale of own shares held in trust		–	–	–	1.2	–	1.2
Total transactions with owners		–	–	–	(86.7)	–	(86.7)
Total equity at 31 December 2015		**15.1**	**93.3**	**(2.0)**	**494.4**	**6.5**	**607.3**
At 1 January 2016		15.1	93.3	(2.0)	494.4	6.5	607.3
Profit for the year		–	–	–	196.7	0.9	197.6
Other comprehensive income/(expense)		–	–	78.2	(55.1)	0.8	23.9
Total comprehensive income for the year		–	–	78.2	141.6	1.7	221.5
Transactions with owners:							
Dividends on equity shares	8	–	–	–	(230.2)	–	(230.2)
Share-based payments		–	–	–	9.0	–	9.0
Consideration received for sale of own shares held in trust		–	–	–	1.2	–	1.2
Total transactions with owners		–	–	–	(220.0)	–	(220.0)
Total equity at 31 December 2016		**15.1**	**93.3**	**76.2**	**416.0**	**8.2**	**608.8**

Other reserves include the Capital Redemption Reserve of £0.9m (2015: £0.9m) and the Translation Reserve of £75.3m (2015: £(2.9)m).

Group Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, in accordance with International Financial Reporting Standards Interpretations Committee (IFRSIC) and the Companies Act 2006 applicable to companies reporting under IFRS. The standards used are those published by the International Accounting Standards Board (IASB) and endorsed by the EU at the 31 December 2016. A summary of the more important Group accounting policies is set out below.

Going concern

The financial statements which appear on pages 86 to 123 have been prepared on a going concern basis as, after making appropriate enquiries, including a review of forecasts, budgets and banking facilities, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence.

Accounting estimates and judgements

The Group's significant accounting policies under IFRS have been set by management with the approval of the Audit Committee. The application of these policies requires estimates and assumptions to be made concerning the future and judgements to be made on the applicability of policies to particular situations. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Under IFRS an estimate or judgement may be considered critical if it involves matters that are highly uncertain or where different estimation methods could reasonably have been used, or if changes in the estimate that would have a material impact on the Group's results are likely to occur from period to period. The critical judgements required when preparing the Group's accounts are as follows:

(i) Provisions – as disclosed in note 20, the Group has made provision for potential environmental liabilities. The rationale behind these and other provisions is discussed in note 20, with consideration of contingent liabilities disclosed in note 28. The Directors believe that these provisions are appropriate based on information currently available

(ii) Goodwill and fair value of assets acquired (note 12) – under IFRS, management are required to undertake an annual test for impairment of indefinite lived assets such as goodwill. Accordingly, the Group tests annually whether goodwill has suffered any impairment and the Group's goodwill value has been supported by detailed value-in-use calculations relating to the recoverable amounts of the underlying Cash Generating Units ('CGUs'). These calculations require the use of estimates to enable the calculation of the net present value of cash flow projections of the relevant CGU, the critical estimates are as follows:

- → Growth in EBITDA (calculated as operating profit before depreciation and amortisation) – estimated at 3% long term, a prudent estimate given the Group's historical growth rates
- → Timing and quantum of capital expenditure – estimated to grow from current levels at the same 3% rate
- → Selection of appropriate discount rates to reflect the risks involved – typically the Group's weighted average cost of capital would be used as a starting point unless the risk profile of a particular acquired business warranted different treatment.

Currently, as recoverable amounts exceed carrying values, including goodwill, there is thus no impairment within a reasonable range of assumptions. Goodwill arising on acquisition is allocated to the CGU that is expected to benefit from the synergies of the acquisition. Such goodwill is then incorporated into the Group's standard impairment review process as described above

(iii) Retirement benefit liabilities – as disclosed in note 11, the Group's principal retirement benefit schemes are of the defined benefit type. Year end recognition of the liabilities under these schemes and the valuation of assets held to fund these liabilities require a number of significant assumptions to be made, relating to levels of scheme membership, key financial market indicators such as inflation and expectations on future salary growth and asset returns. These assumptions are made by the Group in conjunction with the schemes' actuaries and the Directors are of the view that any estimation should be prudent and in line with consensus opinion.

(iv) Taxation – the Group is subject to corporate income taxes in numerous jurisdictions. Significant judgement is often required in determining the worldwide expense and liability for such taxes, including consideration of the potential impact of transfer pricing. There are many transactions and calculations where the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for tax issues based on estimates of whether additional taxes will be due, based on its best interpretation of the relevant tax laws and rules. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Changes in accounting policy

(i) New and amended standards adopted by the Group for the first time for the financial year beginning on 1 January 2016:

In March 2016, the IFRSIC issued an agenda decision regarding the treatment of offsetting and cash pooling arrangements clarifying in which circumstances these can be offset in accordance with IAS 32 'Financial Instruments: Presentation'. It was determined that where a Group does not expect to settle subsidiaries' bank balances on a net basis, these balances cannot be offset. In response to this, the Group has reviewed its offsetting and cash pooling arrangements which has resulted in changes to the amounts that can be offset. Comparative information for the year ended 31 December 2015 has been restated in line with a change in accounting policy requirements. The impact of this change on 2015 is to increase both cash and cash equivalents and current borrowings in the Consolidated balance sheet by £48.9m. There was no overall impact on net debt or net assets.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2016 have been appropriately applied where applicable but are not material to the Group.

(ii) New standards and interpretations not yet adopted – a number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2017, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, 'Financial Instruments' – IFRS 9 includes requirements for classification and measurement, impairment and hedge accounting. It replaces the classification and measurement models for financial instruments in IAS 39 with three classification categories: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The standard is expected to become effective for periods ending on or after 1 January 2018. The Group is in the process of assessing the impact of this standard. This is not expected to have a material impact on the Group.

IFRS 15, 'Revenue from contracts deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group is in the initial stage of assessing the impact of IFRS 15. This is not expected to have a material impact on the Group.

IFRS 16, 'Leases' will require lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Under IAS 17, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). The IASB has included an optional exemption for certain short term leases and leases of low value assets; however, this exemption can only be applied by lessees. The standard is effective for annual periods beginning on or after 1 January 2019. At this stage the Group is not able to fully estimate the impact of the new rules on the Group's financial statements. The Group's future minimum lease commitments under existing operating lease disclosures are shown in note 14. The Group will continue to perform a detailed assessment of the impact over the next twelve months.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Group accounts

General information

Croda International Plc is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the United Kingdom. It is registered in England and the address of its registered office can be found on page 138.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Parent Company has control. The Parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Acquisition costs are expensed as incurred.

Identifiable assets acquired, and liabilities and contingent liabilities assumed, in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the Group's share of identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with the equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded as equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Intangible assets

Goodwill

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds such net assets. Goodwill arising on acquisitions is capitalised and carried at cost less accumulated impairment losses. Goodwill is subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable. For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as CGUs. If the recoverable amount of the CGU is less than the carrying value of the goodwill, an impairment loss is recognised immediately against the goodwill value. The recoverable amount of the CGU is the higher of fair value less costs to sell and value in use. Value in use is estimated with reference to estimated future cash flows discounted to net present value using a discount rate that reflects the risks specific to the CGU. Typically the Group's weighted average cost of capital would be used as a starting point unless the risk profile of a particular acquired business warranted different treatment. The Group uses prudent growth estimates that track below the Group's historical growth rates.

Other intangible assets arising on acquisition

On acquisition, intangible assets other than goodwill are recognised if they can be identified through being separable from the acquired entity or arising from specific contractual or legal rights.

Once recognised, such intangible assets will be initially valued using either the 'market approach' (where a well defined external market for the asset exists), the 'income approach' (which looks at the future income the asset will generate) or the 'cost approach' (the cost of replacing the asset), whichever is most relevant to the asset under consideration. Following initial recognition, the asset will be written down on a straight-line basis over its useful life. Useful lives are regularly reviewed to ensure their continuing relevance.

Research and development

Research expenditure, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is charged to the income statement in the year in which it is incurred. Internal development expenditure, whereby research findings are applied to a plan for the production of new or substantially improved products or processes, is charged to the income statement in the year in which it is incurred unless it meets the recognition criteria of IAS 38 'Intangible Assets'. Measurement and other uncertainties generally mean that such criteria are not met. Where, however, the recognition criteria are met, intangible assets are capitalised and amortised over their useful economic lives from product launch. Intangible assets relating to products in development are subject to impairment testing at each balance sheet date or earlier upon indication of impairment. Any impairment losses are written off to the income statement.

Computer software

Acquired computer software licences covering a period of greater than one year are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Revenue recognition

Sale of goods

Revenue comprises the fair value for the sale of goods, excludes inter-company sales and value-added taxes and represents net invoice value less estimated rebates, returns and settlement discounts.

The Group supplies products to customers from its various manufacturing sites and warehouses and in some limited instances from consignment inventory held on customer sites, under a variety of standard terms and conditions. In each case revenue is recognised when the transfer of legal title, which is defined and generally accepted in the standard terms and conditions, arises between the Group and the customer. This will nearly always be on dispatch or delivery, but never before dispatch. Provisions for sales discounts and rebates to customers are based upon the terms of sales contracts and are recorded in the same period as the related sales as a deduction from revenue. The Group estimates the provision for sales discounts and rebates based on the terms of each agreement at the time the revenue is recognised.

Royalties and profit sharing arrangements

Revenues are recognised on an accruals basis in accordance with the substance of the underlying agreement, subject to reliable measurement of the amounts.

Interest and dividend income

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the right to receive payment is established.

Segmental reporting

An operating segment is a group of assets and operations engaged in providing products and services that are subject to risks or returns that are different from those of other segments. Operating segments presented in the financial statements are consistent with the internal reporting provided to the Group's Chief Operating Decision Maker, which has been identified as the Group Executive Committee.

Employee benefits

Pension obligations

The Group accounts for pensions and similar benefits under IAS 19 'Employee Benefits' (revised). In respect of defined benefit plans (pension plans that define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation), obligations are measured at discounted present value whilst plan assets are recorded at fair value. The liability recognised in the balance sheet in respect of defined benefit pension plans is the net of the plan obligations and assets. No allowance is made in the past service liability in respect of either the future expenses of running the schemes or for non-service related death in service benefits which may arise in the future. The operating costs of such plans are charged to operating profit and the finance costs are recognised as financial income or an expense as appropriate. Service costs are spread systematically over the lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised in the Statement of Comprehensive Income. Payments to defined contribution schemes (pension plans under which the Group pays fixed contributions into a separate entity) are charged as an expense as they fall due.

Other post-retirement benefits

Some Group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses are recognised in the Statement of Comprehensive Income. These obligations are valued annually by independent qualified actuaries.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Share-based payments

The Group operates a number of cash and equity-settled, share-based incentive schemes. These are accounted for in accordance with IFRS2 'Share-based Payments', which requires an expense to be recognised in the income statement over the vesting period of the options. The expense is based on the fair value of each instrument which is calculated using the Black-Scholes or binomial model as appropriate. Any expense is adjusted to reflect expected and actual levels of options vesting, as the Group does not use market-based performance criteria.

Currency translations

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Sterling, which is the Company's functional and presentation currency.

Transactions and balances

Monetary assets and liabilities are translated at the exchange rates ruling at the end of the financial period. Exchange profits or losses on trading transactions are included in the Group income statement except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity.

When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and for accounting purposes. Temporary differences arise on differences between the carrying value of assets and liabilities in the financial statements and their tax base and primarily relate to the difference between tax allowances on tangible fixed assets and the corresponding depreciation charge, and upon the pension fund deficit. Full provision is made for the tax effects of these differences. No provision is made for unremitted earnings of foreign subsidiaries where there is no commitment to remit such earnings.

Similarly, no provision is made for temporary differences relating to investments in subsidiaries since realisation of such differences can be controlled and is not probable in the foreseeable future. Deferred tax assets are recognised, using the balance sheet liability method, to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

All taxation is calculated on the basis of the tax rates and laws enacted or substantively enacted at the balance sheet date.

Exceptional items

Exceptional items are those items that in the Directors' view are required to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance. In the current year all exceptional items relate to reorganisation costs. There were no exceptional items in the prior year. Details can be found in note 3 on page 99.

Income statement presentation

The acquisition in 2015 of Incotec and in 2016 of Inventiva, increased acquisition costs and amortisation of acquired intangible assets. If the right targets can be found, these costs are likely to increase in the future. To avoid distorting the underlying trend in profitability, the Group introduced the definitions 'Adjusted operating profit', 'Adjusted pre-tax profit' and 'Adjusted earnings per share'. In each case acquisition costs, amortisation or write-off of intangible assets arising on acquisition and exceptional items, including the respective tax effect, are excluded. The Group income statement has been produced in a columnar format to further aid this analysis.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation, with the exception of assets acquired as part of a business combination. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. The Group's policy is to write-off the difference between the cost of all property, plant and equipment, except freehold land, and their residual value on a straight-line basis over their estimated useful lives.

Reviews are made annually of the estimated remaining lives and residual values of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear, and adjustments are made where appropriate. Under this policy it becomes impractical to calculate average asset lives exactly. However, the total lives range from approximately 15 to 40 years for land and buildings, and 3 to 15 years for plant and equipment. All individual assets are reviewed for impairment when there are indications that the carrying value may not be recoverable. By far the bulk of the Group's 'plant and equipment' asset class relates to the value of plant and equipment at the Group's manufacturing facilities. Consequently, the Group does not seek to analyse out of this class other items such as motor vehicles and office equipment.

Impairment of non-financial assets

The Group assesses at each year end whether an asset may be impaired. If any evidence exists of impairment, the estimated recoverable amount is compared to the carrying value of the asset and an impairment loss is recognised where appropriate. The recoverable amount is the higher of an asset's value in use and fair value less costs to sell. In addition to this, goodwill is tested for impairment at least annually. Non-financial assets other than goodwill which have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Leases

Assets acquired under finance leases are included in the balance sheet under property, plant and equipment at an amount reflecting the lower of the present value of future rentals and the fair value of the asset and are depreciated over the shorter of the lease term and their estimated useful lives. The capital element of future lease rentals is included in borrowings. Finance charges are allocated to the income statement each year in proportion to the capital element outstanding.

The cost of operating leases is charged to the income statement on a straight-line basis over the lease period.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to interest rates and short term currency rate fluctuations.

Derivative financial instruments are recorded initially at cost. Subsequent measurement depends on the designation of the instrument as either: (i) a hedge of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (ii) a hedge of highly probable forecast transactions (cash flow hedge).

(i) Fair value hedge

Changes in the fair value of derivatives, for example interest rate swaps and foreign exchange contracts, that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Derivative Financial Instruments continued

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Inventories

Inventories are stated at the lower of cost and net realisable amount on a first in first out basis. Cost comprises all expenditure, including related production overheads, incurred in the normal course of business in bringing the inventory to its location and condition at the balance sheet date. Net realisable amount is the estimated selling price in the ordinary course of business less any applicable variable selling costs. Provision is made for obsolete, slow moving and defective inventory where appropriate. Profits arising on intra Group sales are eliminated in so far as the product remains in Group inventory at the year end.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less impairment losses. A provision for impairment is made when there is objective evidence that the amount will not be collectible. Such amounts are written down to their estimated recoverable amounts, with the charge being made to operating expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short term deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Cash and bank overdrafts are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts, there is an intention to settle on a net basis and interest is charged on a net basis.

Environmental, restructuring and other provisions

The Group is exposed to environmental liabilities relating to its operations and liabilities arising from the restructuring of its operations following the acquisition of Uniqema. Provisions are made immediately where a legal obligation is identified, can be quantified and it is regarded as more likely than not that an outflow of resources will be required to settle the obligation. The Group does consider the impact of discounting when establishing provisions and provisions are discounted when the impact is material and the timing of cash flows can be estimated with reasonable certainty.

Share capital

Investment in own shares

(i) Employee share ownership trusts – shares acquired by the trustees of the employee share ownership trust (the Trustees), funded by the Company and held for the continuing benefit of the Company are shown as a reduction in equity attributable to owners of the parent. Movements in the year arising from additional purchases by the Trustees of shares or the receipt of funds due to the exercise of options by employees are accounted for within reserves and shown as a movement in equity attributable to owners of the parent in the year. Administration expenses of the trusts are charged to the Company's income statement as incurred.

(ii) Treasury shares – where any Group company purchases the Company's equity share capital as treasury shares, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Dividends

Dividends on Ordinary share capital are recognised as a liability when the liability is irrevocable. Accordingly, final dividends are recognised when approved by shareholders and interim dividends are recognised when paid.

Investments

Investments in quoted securities are treated as 'available for sale' and stated at fair value, being the appropriate quoted market value, with movements in the fair value being recognised in equity. Investments in unquoted securities are carried at fair value unless such value cannot be reliably measured, in which case the investments are carried at cost. Investments are subject to impairment testing at each balance sheet date or earlier upon indication of impairment. Held to maturity investments are measured at amortised cost using the effective interest rate method.

Notes to the Group Accounts

1. Segmental analysis

The Group's sales, marketing and research activities are organised into four global market sectors, being Personal Care, Life Sciences, Performance Technologies and Industrial Chemicals. These are the segments for which summary management information is presented to the Group's Executive Committee, which is deemed to be the Group's Chief Operating Decision Maker. A review of each sector can be found within the Strategic Report on pages 14 to 20.

There is no material trade between segments. Segmental results include items directly attributable to a specific segment as well as those that can be allocated on a reasonable basis. Segment assets consist primarily of property, plant and equipment, goodwill, inventories and trade and other receivables.

	2016 £m	2015 £m Restated
Income statement		
Revenue		
Personal Care	**420.6**	377.3
Life Sciences[2]	**292.2**	223.9
Performance Technologies	**402.5**	354.8
Industrial Chemicals[2]	**128.3**	125.7
Total Group revenue	**1,243.6**	1,081.7
Adjusted operating profit		
Personal Care	**143.1**	124.5
Life Sciences[2]	**82.0**	75.1
Performance Technologies	**66.2**	56.8
Industrial Chemicals[2]	**6.9**	7.8
Total Group operating profit (before exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition)	**298.2**	264.2
Exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition[1]	**(12.6)**	(2.4)
Total Group operating profit	**285.6**	261.8

1 Relates to Personal Care £0.8m (2015: £0.4m), Life Sciences £11.3m (2015: £1.9m), Performance Technologies £0.5m (2015: £0.1m) and Industrial Chemicals £nil (2015: £nil)
2 2015 sector revenue and adjusted operating profit have been restated for a reclassification of toll product from Life Sciences to Industrial Chemicals by £7.4m and £1.1m respectively.

	2016 £m	2015 £m Restated
Balance sheet		
Total assets		
Segment total assets:		
Personal Care	**527.3**	445.6
Life Sciences	**315.0**	283.1
Performance Technologies	**389.4**	312.3
Industrial Chemicals	**149.8**	135.1
Total segment assets	**1,381.5**	1,176.1
Tax assets	**56.3**	38.9
Cash and investments	**62.0**	107.7
Total Group assets	**1,499.8**	1,322.7

Capital expenditure and depreciation

	2016 £m		2015 £m	
	Additions to non-current assets	Depreciation and amortisation	Additions to non-current assets	Depreciation and amortisation
Personal Care	**31.4**	**13.0**	29.8	12.1
Life Sciences	**21.2**	**13.6**	16.4	7.0
Performance Technologies	**43.8**	**16.8**	38.5	14.3
Industrial Chemicals	**12.0**	**5.8**	10.1	5.1
Total Group	**108.4**	**49.2**	94.8	38.5

The Group manages its business segments on a global basis. The operations are based in the following geographical areas; Europe, with manufacturing sites in the UK, France, the Netherlands, Italy and Spain; the Americas, with manufacturing sites in the US, Brazil and Argentina; Asia, with manufacturing sites in Singapore, Japan, India, China, and Indonesia; and Australia and South Africa.

The Group's revenue from external customers in the UK is £45.0m (2015: £43.6m), in Germany is £113.6m (2015: £100.0m), in the US is £317.2m (2015: £285.2m) and the total revenue from external customers from other countries is £767.8m (2015: £652.9m).

The total of non-current assets other than financial instruments and deferred tax assets located in the UK is £90.2m (2015: £87.2m), and the total of the non-current assets located in other countries is £557.1m (2015: £419.0m). Goodwill has not been split by geography as this asset is not attributable to a geographical area.

No single external customer represents more than 3% of the total revenue of the Group.

2. Operating costs

	2016 £m	2015 £m
Analysis of net operating expenses by function:		
Distribution costs	**59.5**	40.3
Administrative expenses	**100.0**	75.5
	159.5	115.8

Additional information on the nature of operating expenses, including depreciation and employee costs, is provided in note 3.

3. Profit for the year

	2016 £m	2015 £m
The Group profit for the year is stated after charging/(crediting):		
Depreciation and amortisation (note 12 & 13)	**49.2**	38.5
Staff costs (note 9)	**245.5**	191.5
Redundancy costs		
Non-exceptional	**1.6**	1.8
Exceptional	**4.1**	–
Inventories		
Cost recognised as expense in cost of sales	**674.8**	607.4
Right down on inventories	**5.1**	3.3
Research and development	**34.6**	25.0
Hire of plant and machinery and other operating lease rentals	**5.9**	5.6
Net foreign exchange	**(3.3)**	(0.6)
Bad debt charge (note 17)	**1.8**	1.0

Adjustments (including exceptional) items:

Adjustments in the Group income statement of £12.6m (2015: £2.4m) include £8.4m (2015: £nil) of costs associated with the reorganisation of Incotec during the year (redundancy costs and restructuring costs). Also included are acquisition costs of £1.1m (2015: £2.0m) and amortisation of intangible assets arising on acquisition of £3.1m (2015: £0.4m).

	2016 £m	2015 £m
Services provided by the Group's auditors		
Audit services		
Fees payable to the Group auditor for the audit of parent company and consolidated financial statements	**0.1**	0.1
Fees payable to the Group auditor and its associates for the audit of the Company's subsidiaries	**0.8**	0.7
Other audit services		
Tax compliance services	**0.3**	0.3
Other services	**–**	0.1
	1.2	1.2

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4. Net financial costs

	2016 £m	2015 £m
Financial costs		
US$100m 5.94% fixed rate 10 year bond	**4.4**	3.9
2014 Club facility due 2021	**3.2**	2.7
2016 Club facility due 2021	**0.2**	–
€30m 1.08% fixed rate 7 year bond	**0.1**	–
€70m 1.43% fixed rate 10 year bond	**0.4**	–
£30m 2.54% fixed rate 7 year bond	**0.4**	–
£70m 2.80% fixed rate 10 year bond	**1.0**	–
Net interest on retirement benefit liabilities	**2.5**	3.3
Other bank loans and overdrafts	**1.4**	1.1
Capitalised interest	**(3.0)**	(0.8)
	10.6	10.2
Financial income		
Bank interest receivable and similar income	**(0.7)**	(0.7)
Net financial costs	**9.9**	9.5

5. Tax

	2016 £m	2015 £m
(a) Analysis of tax charge for the year		
UK current corporate tax	**17.4**	12.2
Overseas current corporate taxes	**59.3**	56.1
Current tax	**76.7**	68.3
Deferred tax (note 6)	**1.4**	2.9
	78.1	71.2
(b) Tax on items (credited)/charged to equity		
Deferred tax on actuarial movement on retirement benefit liabilities	**(10.4)**	6.6
Deferred tax on share based payments	**(0.5)**	0.2
	(10.9)	6.8
(c) Factors affecting the tax charge for the year		
Profit before tax	**275.7**	252.3
Tax at the standard rate of corporation tax in the UK, 20.00% (2015: 20.25%)	**55.1**	51.1
Effect of:		
Deferred tax rate change	**(0.4)**	(0.7)
Tax cost of remitting overseas income to the UK	**0.3**	1.1
Expenses and write-offs not deductible for tax purposes	**0.5**	1.3
Effect of higher overseas tax rates	**22.6**	18.4
	78.1	71.2

Croda's 2016 effective corporate tax rate of 28.3% is significantly higher than the UK's standard rate of 20.0%. Croda operates in many tax jurisdictions other than the UK, both as a manufacturer and distributor, with the majority of those jurisdictions having rates higher than the UK; considerably so in some cases. It is the exposure to these different tax rates that increases the effective tax rate above the UK standard rate and also makes it difficult to forecast the Group's future tax rate with any certainty given the unpredictable nature of exchange rates, individual economies and tax legislators. Other than the exposure to higher overseas tax rates, there are no significant adjustments between the Group's expected and reported tax charge based on its accounting profit. Given the global nature of the Group, and the number of associated cross-border transactions between connected parties, we are exposed to potential adjustments to the price charged for those transactions by tax authorities. However, we would not expect such adjustments, if any, to have a material impact on the Group's tax charge in future years.

The main rate of UK corporation tax reduced from 21% to 20% from 1 April 2015. Further reductions to the UK tax rate have been announced that will reduce the rate to 17% by 1 April 2020, although for 2017 the rate as currently enacted will be 19.25%. The future changes to rates were substantively enacted on 6 September 2016. Overseas tax is calculated at the rates prevailing in the respective jurisdictions.

6. Deferred tax

	2016 £m	2015 £m
The deferred tax balances included in these accounts are attributable to the following:		
Deferred tax assets		
Retirement benefit obligations	**33.8**	22.9
Provisions	**22.5**	16.0
	56.3	38.9
Deferred tax liabilities		
Excess of capital allowances over depreciation	**52.2**	44.1
Revaluation gains	**1.9**	1.9
Acquired intangibles	**9.4**	8.7
Other	**2.8**	1.1
	66.3	55.8
The movement on deferred tax balances during the year is summarised as follows:		
Deferred tax (charged)/credited through income statement		
Continuing operations before adjustments	**(2.1)**	(2.9)
Adjustments and exceptional items	**0.7**	–
Deferred tax credited/(charged) directly to equity (note 5(b))	**10.9**	(6.8)
Acquisition	**–**	(8.5)
Exchange differences	**(2.6)**	(0.2)
	6.9	(18.4)
Net balance brought forward	**(16.9)**	1.5
Net balance carried forward	**(10.0)**	(16.9)
Deferred tax (charged)/credited through the income statement relates to the following:		
Retirement benefit obligations	**(3.0)**	(2.3)
Excess of capital allowances over depreciation	**(0.9)**	(3.1)
Other	**2.5**	2.5
	(1.4)	(2.9)

Deferred tax is calculated in full on temporary differences under the balance sheet liability method at rates appropriate to each subsidiary. Deferred tax expected to reverse in the year to 31 December 2017 and beyond has been measured using the rate due to prevail in the year of reversal.

Deferred tax assets have been recognised in all cases where such assets arise, as it is probable the assets will be recovered.

Deferred tax is only recognised on the unremitted earnings of overseas subsidiaries to the extent that remittance is expected in the foreseeable future. If all earnings were remitted, an additional £2.9m (2015: £2.3m) of tax would be payable.

All movements on deferred tax balances have been recognised in income with the exception of the charges shown in note 5(b), which have been recognised directly in equity.

Of the deferred tax assets, £5.0m are expected to reverse within 12 months of the balance sheet date, due to payments against provisions. No material reversal of any of the deferred tax liability is expected within 12 months of the balance sheet date based on the Group's current capital expenditure programme.

7. Earnings per share

	2016 £m	2015 £m
Adjusted profit for the year[1]	**207.6**	183.5
Exceptional items, acquisition costs and amortisation of goodwill	**(12.6)**	(2.4)
Tax impact on exceptional items	**2.6**	–
Non-controlling interests	**(0.9)**	(0.4)
	196.7	180.7

	Number m	Number m
Weighted average number of 10p Ordinary Shares in issue for basic calculation	**132.7**	135.6
Deemed issue of potentially dilutive shares	**1.2**	1.0
Average number of 10p Ordinary Shares for diluted calculation	**133.9**	136.6

	Pence	Pence
Basic earnings per share	**148.2**	133.3
Adjusted basic earnings per share from continuing operations[1]	**155.8**	135.0
Diluted earnings per share	**146.9**	132.3
Adjusted diluted earnings per share from continuing operations[1]	**155.0**	134.3

1 Before exceptional items, acquisition costs, amortisation of intangible assets arising on acquisition and the tax thereon

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of Ordinary Shares in issue during the year, excluding those held in the employee share trusts (note 24) which are treated as cancelled as except for a nominal amount, dividends have been waived.

For diluted earnings per share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all potentially dilutive Ordinary Shares.

Additional earnings per share measures are included above to give a better indication of the Group's underlying performance.

8. Dividends

	Pence per share	2016 £m	Pence per share	2015 £m
Ordinary				
Interim				
2015 interim, paid September 2015	**–**	**–**	31.00	42.0
2016 interim, paid October 2016	**32.75**	**42.9**	–	–
Final				
2014 final, paid May 2015	**–**	**–**	36.00	48.8
2015 final, paid June 2016	**38.00**	**51.5**	–	–
2015 special, paid June 2016	**100.00**	**135.7**	–	–
	170.75	**230.1**	67.00	90.8
Preference (paid June and December)		**0.1**		0.1
		230.2		90.9

The Directors are recommending a final dividend of 41.25p per share, amounting to a total of £54.7m, in respect of the financial year ended 31 December 2016.

Subject to shareholder approval, the dividend will be paid on 1 June 2017 to shareholders registered on 5 May 2017 and has not been accrued in these financial statements. The total dividend for the year ending 31 December 2016 is 74.00p per share amounting to a total of £97.6m.

9. Employees

	2016 £m	2015 £m
Group employment costs including Directors		
Wages and salaries	**181.7**	142.4
Share-based payment charges (note 22)	**13.0**	7.0
Social security costs	**32.5**	23.7
Post retirement costs	**18.3**	18.4
Redundancy costs	**5.7**	1.8
	251.2	193.3

	2016 Number	2015 Number
Average employee numbers by function		
Production	**2,683**	2,246
Selling and distribution	**1,017**	918
Administration	**589**	579
	4,289	3,743

As required by the Companies Act 2006, the figures disclosed above are weighted averages based on the number of employees at each month end and include Executive Directors. At 31 December 2016, the Group had 4,273 (2015: 4,239) employees in total.

10. Directors' and key management compensation

Detailed information concerning Directors' remuneration, interests and options is shown in the Directors' Remuneration Report, which is subject to audit on pages 55 to 75 forming part of the Annual Report and Accounts.

Aggregate compensation for key management, being the Directors and members of the Group Executive Committee, was as follows:

	2016 £m	2015 £m
Key management compensation including Directors		
Short term employee benefits	**7.1**	7.7
Post employment benefits	**0.1**	0.3
Share-based payments	**2.4**	1.5
Termination benefits	**–**	0.3
	9.6	9.8

11. Retirement benefit liabilities

The table below summarises the Group's net year end post-employment liabilities and activity for the year.

	2016 £m	2015 £m
Balance sheet obligations for:		
Defined pension benefits	**130.3**	62.8
Post-employment medical benefits	**16.2**	16.0
	146.5	78.8
Income statement charge included in profit before tax for:		
Defined pension benefits	**15.9**	18.2
Post-employment medical benefits	**1.2**	1.1
	17.1	19.3
Remeasurements included in other comprehensive expense/(income) for:		
Defined pension benefits	**69.2**	(32.1)
Post-employment medical benefits	**(3.7)**	(1.5)
	65.5	(33.6)

Defined benefit pension schemes

The Group operates defined benefit pension schemes in the UK, US and several other territories under broadly similar regulatory frameworks. Following changes to the UK pension scheme during the current year, all of the Group's final salary type pension schemes (which provide benefits to members in the form of a guaranteed level of pension payable for life based on salary in the final years leading up to retirement) are now closed to future service accrual with the exception of a small number of 'grandfathered' employees in the US scheme. The UK scheme operated on a final salary basis until the 5 April 2016, following which the scheme changed to a Career Average Revalued Earnings (CARE) defined benefit scheme, with annual pensionable earnings capped at £65,000 and indexation of pensions in payment based on CPI (previously RPI), for service accrued from 6 April 2016. This change is expected to reduce the future comparable cost and risk attached to the UK scheme. Material defined benefit pension schemes in other territories operate on a similar basis to the UK, except in the US, which (other than for 'grandfathered' employees) operates a cash balance pension scheme that provides a guaranteed rate of return on pension contributions until retirement. The US plans also do not generally receive inflationary increases once in payment. With the exception of this difference in inflationary risk, the Group's main defined benefit pension schemes continue to face broadly similar risks, as described on page 107.

The majority of benefit payments are from trustee administered funds; however, there are also a number of unfunded plans where the relevant Group company meets the benefit payment obligation as it falls due.

Plan assets held in trusts are governed by local regulations and practice in each country, as is the nature of the relationship between the Group and the trustees (or equivalent) and their composition. Responsibility for governance of the schemes – including investment decisions and contribution schedules – predominantly lies with the particular scheme's board of trustees with appropriate input from the relevant Group company. The board of trustees must be composed of representatives in accordance with each scheme's regulations and any relevant legislation.

The amounts recognised in the balance sheet in respect of these schemes are as follows:

	2016 £m	2015 £m
Present value of funded obligations		
UK pension scheme	**(1,036.1)**	(784.1)
US pension scheme	**(135.7)**	(112.2)
Rest of World	**(183.6)**	(131.1)
	(1,355.4)	(1,027.4)
Fair value of schemes' assets		
UK pension scheme	**956.4**	767.1
US pension scheme	**126.3**	94.2
Rest of World	**146.7**	108.3
	1,229.4	969.6
Net liability in respect of funded schemes	**(126.0)**	(57.8)
Present value of unfunded obligations	**(4.3)**	(5.0)
Liability in Group balance sheet (excluding post-employment medical benefits)	**(130.3)**	(62.8)

	2016 £m	2015 £m
Movement in present value of retirement benefit obligations in the year:		
Opening balance	**1,032.4**	1,057.3
Current service cost	**14.1**	15.6
Interest cost	**37.4**	35.8
Remeasurements		
Change in demographic assumptions	**(0.7)**	(15.8)
Change in financial assumptions	**272.5**	(31.9)
Experience (gains)/losses	**(7.5)**	3.0
Contributions paid in		
Employee	**2.6**	2.7
Benefits paid	**(38.6)**	(34.7)
Exchange differences on overseas schemes	**47.5**	0.4
	1,359.7	1,032.4
Movement in fair value of schemes' assets in the year:		
Opening balance	**969.6**	946.5
Interest income	**35.6**	33.1
Remeasurements		
Return on scheme assets, excluding amounts included in financial expenses	**195.1**	(12.6)
Contributions paid in		
Employee	**2.6**	2.7
Employer	**25.1**	34.7
Benefits paid out including settlements	**(38.6)**	(34.7)
Exchange differences on overseas schemes	**40.0**	(0.1)
	1,229.4	969.6

As at the balance sheet date, the present value of retirement benefit obligations was comprised of approximately £414m in respect of active employees, £385m in respect of deferred members and £561m in relation to members in retirement.

Total employer contributions to the schemes in 2017 are expected to be £12.5m.

The significant actuarial assumptions were as follows:

	2016 UK	2016 US	2015 UK	2015 US
Discount rate	**2.6%**	**4.0%**	3.8%	4.3%
Inflation rate – RPI	**3.3%**	**2.5%**	3.1%	2.5%
Inflation rate – CPI	**2.3%**	**n/a**	2.1%	n/a
Rate of increase in salaries	**4.3%**	**4.0%**	4.1%	4.0%
Rate of increase for pensions in payment	**3.1%**	**n/a**	2.9%	n/a
Duration of liabilities (ie life expectancy) (years)	**20.5**	**11.5**	18.5	11.7
Remaining working life	**15.8**	**11.1**	15.8	11.2

11. Retirement benefit liabilities continued

The sensitivity of the defined benefit obligation to changes in the assumptions is as follows:

	Impact on retirement benefit obligation		
	Sensitivity	Of increase	Of decrease
Discount rate	**0.5%**	–9.2%	+10.7%
Inflation rate	**0.5%**	+6.3%	–6.2%
Mortality (assume all scheme members one year younger)	**1 year**	+3.0%	n/a

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting year) has been applied as when calculating the retirement benefit obligation recognised in the Group balance sheet.

The weighted average duration of the defined benefit obligation is 19.9 years (2015: 18.2 years).

The assets in the schemes comprised:

	2016 £m	2016 %	2015 £m	2015 %
Quoted				
Equities	**486.5**	**40%**	488.9	50%
Government bonds	**56.4**	**5%**	44.8	5%
Corporate bonds	**123.8**	**10%**	138.0	14%
Other quoted securities	**4.8**	**0%**	18.8	2%
Unquoted				
Cash and cash equivalents	**66.8**	**5%**	50.8	5%
Real estate	**67.2**	**5%**	65.8	7%
Liability driven instruments	**179.6**	**15%**	96.3	10%
Other	**244.3**	**20%**	66.2	7%
	1,229.4	**100%**	969.6	100%

Post-employment medical benefits

The Group operates an unfunded post-employment medical benefit scheme in the US. The method of accounting, significant assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes set out above with the addition of actuarial assumptions relating to the long term increase in health care costs of 8.0% a year (2015: 8.4%).

The amounts recognised in the balance sheet in respect of this scheme are as follows:

	2016 £m	2015 £m
Present value of unfunded obligations		
US scheme	**16.2**	16.0

	2016 £m	2015 £m
Movement in present value of retirement benefit obligations in the year:		
Opening balance	**16.0**	15.9
Current service cost	**0.5**	0.5
Interest cost	**0.7**	0.6
Remeasurements		
Change in demographic assumptions	**(0.2)**	–
Change in financial assumptions	**(2.0)**	(0.4)
Experience gains	**(1.5)**	(1.1)
Benefits paid	**(0.4)**	(0.4)
Exchange differences on overseas schemes	**3.1**	0.9
	16.2	16.0

Pension and medical benefits – risks and volatility

Through its defined benefit pension schemes and post-employment medical schemes, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The schemes' liabilities are calculated using a discount rate set with reference to corporate bond yields; if scheme assets underperform this yield, a deficit will be created. Both the UK and US plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long term while providing volatility and risk in the short term. Whilst our Dutch scheme is less mature, regulatory pressures result in lower equity holdings. As the schemes mature, the Group intends to reduce the level of investment risk by investing more in assets that better match the liabilities. However, the Group and the pension trustees (Trustees) believe that due to the long term nature of the scheme liabilities and the strength of the supporting Group, a level of continuing equity investment is an appropriate element of the Group's long term strategy to manage the schemes efficiently. See below for more details on the Group's asset-liability matching strategy.

Changes in bond yields

A decrease in corporate bond yields will increase scheme liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings.

Inflation risk

Some of the Group's pension obligations are linked to inflation, and higher inflation will lead to higher liabilities. However, the level of inflationary increases are usually capped to protect the scheme against extreme inflation. The majority of the schemes' assets are either unaffected by inflation in the case of fixed interest bonds or loosely correlated in the case of equities, meaning that an increase in inflation will thus increase the deficit. In the US schemes, the pensions in payment are not linked to inflation, so this is a less material risk.

Life expectancy

The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the schemes' liabilities. This is particularly significant in the UK scheme, where inflationary increases result in higher sensitivity to changes in life expectancy. In the case of the funded schemes, the Group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long term investments that are cognisant of the obligations under the pension schemes. Within this framework, the Group's ALM objective is to match a portion of assets to the pension obligations by investing in long term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group and Trustees actively monitor how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Group has not changed the processes used to manage its risks from previous years. As part of these processes, the Group increased the proportion of assets in its UK liability driven investment portfolio during the year by approximately 9%.

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets in 2016 consist of equities and bonds, although the schemes also invest in property, cash and infrastructure funds. The Group believes that equities offer the best returns over the long term with an acceptable level of risk. Both the UK and Dutch schemes make use of a portfolio of derivative instruments to mitigate interest rate and inflation risk.

The triennial valuation of the UK scheme was completed as at 30 September 2014. The results showed that the actuarial scheme deficit had been eliminated following the last deficit payment of £22m in January 2015. As a result, no deficit funding payments to this scheme will be required prior to the next triennial valuation due as at September 2017. The funding review of our US scheme is undertaken annually. As at 31 December 2015 the scheme was 123% funded, with the funding level allowing for contributions to be received during 2016. The Group's Dutch scheme is subject to a more rigorous regulatory environment under the supervision of the Dutch National Bank (DNB). As at 31 December 2016 the scheme was 104% funded on an actuarial basis relative to the DNB's required level of 123% and a minimum funding requirement of 104%.

11. Retirement benefit liabilities continued

The expected distribution of the timing of benefit payments is as follows:

	Less than a year £m	Between 1–2 years £m	Between 2–5 years £m	Beyond 5 years £m	Total £m
Pension benefits	35.8	36.0	117.1	1,170.8	1,359.7
Post-employment medical benefits	0.6	0.7	2.1	12.8	16.2
	36.4	36.7	119.2	1,183.6	1,375.9

Defined contribution schemes

	2016 £m	2015 £m
Contributions paid charged to operating profit	**3.7**	2.3

12. Intangible assets

	Goodwill £m	Software £m	Other intangibles £m	Total £m
Cost				
At 1 January 2015	233.7	13.0	5.1	251.8
Exchange differences	1.0	(0.3)	0.2	0.9
Additions	–	0.8	–	0.8
Acquisitions	58.5	–	34.7	93.2
Disposals and write-offs	–	(0.1)	(0.6)	(0.7)
Reclassification from plant and equipment	–	0.3	–	0.3
At 31 December 2015	**293.2**	**13.7**	**39.4**	**346.3**
At 1 January 2016	293.2	13.7	39.4	346.3
Exchange differences	12.5	2.5	6.8	21.8
Additions	–	1.5	0.1	1.6
Acquisitions	1.4	–	0.4	1.8
Reclassification from plant and equipment	–	0.9	–	0.9
At 31 December 2016	**307.1**	**18.6**	**46.7**	**372.4**
Accumulated amortisation and impairment losses				
At 1 January 2015	–	6.4	0.5	6.9
Exchange differences	–	(0.2)	(0.3)	(0.5)
Charge for the year (note 3)	–	2.2	0.4	2.6
Disposals and write-offs	–	–	(0.5)	(0.5)
At 31 December 2015	–	**8.4**	**0.1**	**8.5**
At 1 January 2016	–	8.4	0.1	8.5
Exchange differences	–	2.5	1.0	3.5
Charge for the year (note 3)	–	2.0	3.1	5.1
At 31 December 2016	–	**12.9**	**4.2**	**17.1**
Net carrying amount				
At 31 December 2016	**307.1**	**5.7**	**42.5**	**355.3**
At 31 December 2015	293.2	5.3	39.3	337.8
At 1 January 2015	233.7	6.6	4.6	244.9

Intangible asset amortisation is recorded in operating costs within the income statement on page 86.

Reclassifications represent amounts transferred from plant and equipment upon completion of asset construction projects. Whilst these projects remain in progress, all capital expenditure is disclosed within plant and equipment.

Impairment testing for goodwill

The goodwill relates predominantly to the value of commercial and other synergies arising from the combination of acquired businesses, or the specific technologies or products acquired, with Croda's established global sales, marketing and R&D networks. This goodwill is allocated to the Group's cash generating units (CGUs) that are expected to benefit from that combination. The carrying amount of goodwill is allocated to CGUs as follows:

	2016 £m	2015 £m
Uniqema (Personal Care and Life Sciences)	**193.4**	193.4
Sipo	**22.3**	20.1
Incotec (Life Sciences)	**69.0**	59.3
Other	**22.4**	20.4
	307.1	293.2

As discussed in the accounting policies note on page 93, goodwill is tested at each year end for impairment with reference to the relevant CGUs' recoverable amount compared to the unit's carrying value including goodwill. Assets are grouped at the lowest level for which there are separately identifiable cash flows relevant to the acquisition generating the goodwill. The recoverable amount is based on value in use calculations using pre-tax discounted cash flow projections based on the Group's current year results and a long term future growth rate.

Unless the risk profile of a particular acquisition dictates otherwise, the cash flows are discounted using a rate derived from the Group's weighted average cost of capital, which for these purposes has been calculated to be approximately 7.3% pre-tax (2015: 7.3%) for Uniqema and Incotec. A long term future growth rate of 3% was used for this calculation. For the purposes of the Sipo calculation, the pre-tax rate was increased to 9.0% (2015: 9.0%) because of the higher risk associated with this investment. An initial growth rate of 5% has been used for the first two years, which reflects the Directors' growth expectations in that market. A long term growth rate of 3% was then used beyond two years.

The key assumptions underpinning the forecasts employed in the value in use calculation reflect a prudent view of past experience and are that market share will not change significantly and that gross and operating margins will remain broadly constant. In respect of the brought forward goodwill, the Directors believe there are no reasonably possible changes in assumptions which would give rise to an impairment charge in the year. Goodwill arising in the year will be subject to the same assumptions and review process commencing the year after initial recognition.

13. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 January 2015	141.0	522.5	663.5
Exchange differences	(0.8)	(4.4)	(5.2)
Additions	7.7	86.3	94.0
Acquisitions	7.0	9.2	16.2
Other disposals and write-offs	(3.6)	(17.4)	(21.0)
Reclassifications	0.2	(0.5)	(0.3)
At 31 December 2015	**151.5**	**595.7**	**747.2**
At 1 January 2016	151.5	595.7	747.2
Exchange differences	27.5	122.6	150.1
Additions	7.9	98.9	106.8
Acquisitions	–	0.1	0.1
Other disposals and write-offs	(0.8)	(7.1)	(7.9)
Reclassifications	0.6	(1.5)	(0.9)
At 31 December 2016	**186.7**	**808.7**	**995.4**
Accumulated depreciation and impairment losses			
At 1 January 2015	47.5	228.2	275.7
Exchange differences	(0.7)	(5.6)	(6.3)
Charge for the year (note 3)	4.1	31.8	35.9
Other disposals and write-offs	(1.4)	(17.3)	(18.7)
At 31 December 2015	**49.5**	**237.1**	**286.6**
At 1 January 2016	49.5	237.1	286.6
Exchange differences	12.0	60.8	72.8
Charge for the year (note 3)	5.5	38.6	44.1
Other disposals and write-offs	(0.4)	(5.8)	(6.2)
At 31 December 2016	**66.6**	**330.7**	**397.3**
Net book amount			
At 31 December 2016	**120.1**	**478.0**	**598.1**
At 31 December 2015	102.0	358.6	460.6
At 1 January 2015	93.5	294.3	387.8

The net book amount of assets held by the Group under finance leases for plant and equipment at 31 December 2016 was £1.1m (2015: £0.9m). The leased equipment secures the lease obligations in note 19. No other property, plant or equipment have been pledged as security for liabilities.

Reclassifications represent amounts transferred from plant and equipment upon completion of asset construction projects. Whilst these projects remain in progress, all capital expenditure is disclosed within plant and equipment.

14. Future commitments

	2016 £m	2015 £m
Group capital projects		
At 31 December the Directors had authorised the following expenditure on capital projects:		
Contracted, but not provided for		
Property, plant and equipment	**43.2**	33.8
Intangible assets	**0.7**	0.4
Authorised, but not contracted for		
Property, plant and equipment	**76.8**	96.9
Intangible assets	**4.0**	0.8
	124.7	131.9
Operating leases – minimum lease commitments		
At 31 December the Group's future minimum lease commitments were due as follows:		
Within one year	**6.3**	4.4
From one to five years	**10.8**	8.8
After five years	**9.2**	6.7
	26.3	19.9

The Group leases various buildings, vehicles and other plant and equipment under non-cancellable operating lease arrangements. The leases have various terms typical of lease agreements for the particular class of asset.

15. Investments

	2016 £m	2015 £m
Investments	**1.0**	1.0

Investments of £1.0m (2015: £1.0m) comprise equity securities classified as available-for-sale and are included at cost, as fair value cannot be measured reliably, or, if quoted on an active market, at market value.

The Directors believe the carrying value of the investments is supported by their underlying net assets.

16. Inventories

	2016 £m	2015 £m
Raw materials	**45.9**	42.5
Work in progress	**32.0**	33.8
Finished goods	**157.8**	145.3
	235.7	221.6

The Group consumed £674.8m (2015: £607.4m) of inventories during the year.

17. Trade and other receivables

	2016 £m	2015 £m
Amounts falling due within one year		
Trade receivables	**164.7**	132.2
Less: provision for impairment of receivables	**(4.4)**	(2.9)
Trade receivables – net	**160.3**	129.3
Other receivables	**25.0**	20.1
Prepayments	**7.1**	6.7
	192.4	156.1

The ageing of the Group's year end overdue receivables against which no provision has been made is as follows:

	2016 £m	2015 £m
Not impaired		
Less than three months	**17.6**	20.6
Three to six months	**0.1**	1.1
Over six months	**0.2**	0.3
	17.9	22.0

The individually impaired receivables relate to customers in unexpectedly difficult economic circumstances. The overdue receivables against which no provision has been made relate to a number of customers for whom there is no recent history of default, nor any other indication that settlement will not be forthcoming. The other classes within trade and other receivables do not contain impaired assets and are considered to be fully recoverable.

The carrying amounts of the Group's receivables are denominated in the following currencies:

	2016 £m	2015 £m
Sterling	**13.3**	11.9
US Dollar	**54.2**	46.1
Euro	**71.0**	58.0
Other	**53.9**	40.1
	192.4	156.1

Movements on the Group's provision for impairment of trade receivables are as follows:

	2016 £m	2015 £m
At 1 January	**2.9**	1.8
Exchange differences	**0.4**	–
Charged to income statement	**1.8**	1.0
Net write-off of uncollectible receivables	**(0.7)**	0.1
At 31 December	**4.4**	2.9

Amounts charged to the income statement are included within administrative expenses. The other classes of receivables do not contain impaired assets.

18. Trade and other payables

	2016 £m	2015 £m
Trade payables	**62.2**	60.4
Taxation and social security	**8.3**	8.0
Other payables	**37.8**	21.4
Accruals and deferred income	**77.9**	69.8
	186.2	159.6

All trade payables are payable within one year.

19. Borrowings, other financial liabilities and other financial assets

This note should be read in conjunction with the further liquidity disclosures in our accounting policies note and the Finance Report on pages 24 to 27.

	2016 £m	2015 £m
Current assets		
Investments	**1.0**	1.0
Trade and other receivables (excluding prepayments)	**185.3**	149.4
	186.3	150.4
Current liabilities		
Trade and other payables (excluding taxation, social security, accruals and deferred income)	**100.0**	81.8
Unsecured bank loans and overdrafts due within one year or on demand	**4.7**	51.3
Other loans	**5.3**	6.8
Obligations under finance leases	**0.4**	0.3
	110.4	140.2
Non-current liabilities		
2014 Club facility due 2021	**80.3**	218.0
2016 Club facility due 2021	**20.0**	–
US$100m 5.94% fixed rate 10 year bond	**81.8**	67.8
€30m 1.08% fixed rate 7 year bond	**25.7**	–
€70m 1.43% fixed rate 10 year bond	**60.1**	–
£30m 2.54% fixed rate 7 year bond	**30.0**	–
£70m 2.80% fixed rate 10 year bond	**70.0**	–
Other unsecured bank loans	**46.3**	21.3
Obligations under finance leases	**0.5**	0.5
	414.7	307.6

The Club facility was put in place in June 2014 and falls due for repayment upon expiry of the agreement in July 2021. During the first half of 2016, a further facility was put in place and also falls due upon expiry of the agreement in July 2021. Interest is charged on both agreements at a floating rate based on ICE GBP LIBOR, ICE LIBOR or EURIBOR, depending upon the drawdown currency, plus a variable margin. The margin the Group pays on its borrowings over and above standard rates is determined by the Group’s net debt to EBITDA ratio.

In addition to the new Club facility, the Group took out four new Sterling and Euro denominated bonds in the US private placement market. The bonds have an average maturity of 8.6 years and carry an average fixed rate of interest of 2.1%.

19. Borrowings, other financial liabilities and other financial assets continued

	2016 £m	2015 £m
Maturity profile of financial liabilities		
Repayments fall due as follows:		
Within one year		
Bank loans and overdrafts	**4.7**	51.3
Other loans	**5.3**	6.8
Obligations under finance leases	**0.4**	0.3
	10.4	58.4
After more than one year		
Loans repayable		
Within one to two years	**0.1**	0.1
Within two to five years	**228.3**	307.0
Five years and over	**185.8**	–
Obligations under finance leases payable between years two and five	**0.5**	0.5
	414.7	307.6
The minimum lease payments under finance leases fall due as follows:		
Within one year	**0.4**	0.3
Within two to five years	**0.5**	0.5
	0.9	0.8
Future finance charges on finance leases	**(0.1)**	(0.1)
Present value of finance lease liabilities	**0.8**	0.7

	2016 £m	2015 £m
Undiscounted maturity analysis of financial liabilities		
Within one year		
Bank loans and overdrafts	**5.4**	55.4
Other loans	**5.0**	4.5
Obligations under finance leases	**0.4**	0.3
	10.8	60.2
After more than one year		
Loans repayable		
Within one to two years	**0.1**	0.1
Within two to five years	**249.5**	332.9
Five years and over	**220.5**	–
Obligations under finance leases	**0.5**	0.5
	470.6	333.5

The analysis above includes estimated interest payable to maturity on the underlying loans. For the loans due after more than one year £10.3m (2015: £6.1m) of the interest falls due within one year of the balance sheet date, £10.3m (2015: £6.1m) within one to two years, £20.6m (2015: £13.7m) within two to five years and £14.7m (2015: £nil) beyond five years.

Interest rate and currency profile of Group financial liabilities

	Total £m	Fixed £m	Floating £m	Fixed rate weighted average Interest Rate %	Fixed rate weighted average Fixed period Years
Sterling	159.6	100.0	59.6	2.72	8.6
US Dollar	141.3	81.8	59.5	5.94	3.1
Euro	117.1	85.8	31.3	1.33	8.6
Other	7.1	–	7.1	–	–
At 31 December 2016	**425.1**	**267.6**	**157.5**	**3.26**	**6.9**
Sterling	157.2	–	157.2	–	–
US Dollar	100.0	67.8	32.2	5.94	4.1
Euro	99.8	–	99.8	–	–
Other	9.0	–	9.0	–	–
At 31 December 2015	366.0	67.8	298.2	5.94	4.1

Fair values
The table below details a comparison of the book and fair values of the Group's financial assets and liabilities. Where there are no readily available market values to determine fair values, cash flows relating to the various instruments have been discounted at prevailing interest and exchange rates to give an estimate of fair value.

	Book value 2016 £m	Fair value 2016 £m	Book value 2015 £m	Fair value 2015 £m
Cash deposits	**61.0**	**61.0**	106.7	106.7
Other investments	**1.0**	**1.0**	1.0	1.0
2014 Club facility due 2021	**(80.3)**	**(80.3)**	(218.0)	(218.0)
2016 Club facility due 2021	**(20.0)**	**(20.0)**	–	–
US$100m 5.94% fixed rate 10 year bond	**(81.8)**	**(84.1)**	(67.8)	(70.9)
€30m 1.08% fixed rate 7 year bond	**(25.7)**	**(25.5)**	–	–
€70m 1.43% fixed rate 10 year bond	**(60.1)**	**(61.6)**	–	–
£30m 2.54% fixed rate 7 year bond	**(30.0)**	**(30.3)**	–	–
£70m 2.80% fixed rate 10 year bond	**(70.0)**	**(70.0)**	–	–
Other bank borrowings	**(51.0)**	**(51.0)**	(72.6)	(72.6)
Other loans	**(5.3)**	**(5.3)**	(6.8)	(6.8)
Obligations under finance leases	**(0.9)**	**(0.9)**	(0.8)	(0.8)

For financial instruments with a remaining life of greater than one year, fair values are based on cash flows discounted at prevailing interest rates. Accordingly, the fair value of cash deposits and short term borrowings approximates to the book value due to the short maturity of these instruments. The same applies to trade and other receivables and payables excluded from the above analysis.

Financial instruments
Effective 1 January 2013, the Group adopted the amendment to IFRS 13 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following hierarchy:

→ Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

→ Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)

→ Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

All of the Group's financial instruments are classified as level 3

Borrowing facilities
As at 31 December 2016, the Group had undrawn committed facilities of £410.6m (2015: £191.4m). In addition, the Group had other undrawn facilities of £65.0m (2015: £59.0m) available. Of the Group's total committed facilities of £824.8m, £672.7m expire after 2020.

19. Borrowings, other financial liabilities and other financial assets continued

Financial risk factors

The Group's activities expose it to a variety of financial risks: currency risk, interest rate risk, liquidity risk, and credit risk. The Group's overall risk management strategy is approved by the Board and implemented and reviewed by the Risk Management Committee. Detailed financial risk management is then delegated to the Group Finance department which has a specific policy manual that sets out guidelines to manage financial risk. Regular reports are received from all operating companies to enable prompt identification of financial risks so that appropriate action may be taken. In the management and definition of capital the Group includes ordinary and preference share capital and net debt.

Currency risk

The Group operates internationally and is exposed to currency risk arising from various currency exposures, primarily with respect to the US Dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Entities in the Group use foreign currency bank balances to manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities. The Group's risk management policy is to manage transactional risk up to three months forward. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is not specifically hedged but is reduced primarily through borrowings denominated in the relevant foreign currencies where it is efficient to do so.

For 2016, had the Group's basket of reporting currencies been 10% weaker/stronger than the actual rates experienced, post-tax profit for the year would have been £14.8m (2015: £12.8m) lower/higher than reported, primarily as a result of the translation of the profits of the Group's overseas entities, and equity would have been £47.7m (2015: £37.5m) lower/higher.

Interest rate risk

The Group has both interest bearing assets and liabilities. The Group had a policy of maintaining no more than 60% of its gross borrowings at fixed interest rates in normal circumstances. At 31 December 2016, approximately 63% of Group borrowings were at fixed rates, with the Directors comfortable that the small excess over 60% was justified based on the very low fixed rates of interest on the majority of its borrowings. Subsequent to the year end the policy formally increased the upper limit for fixed rate debt to 75% of gross borrowings. During 2016, the Group increased its amount of fixed rate debt following payment of the £136m special dividend and consequent increase in core debt requirements. Bonds were issued in the amounts of £100m and €100m with an average maturity of 8.6 years and interest rate of 2.08%. The Group also retains its US$100m loan note repayable in 2020 carrying a fixed rate of 5.94%.

As at 31 December 2016, aside from the loan notes referred to above, all Group debt and cash was exposed to repricing within 12 months of the balance sheet date.

At 31 December 2016, the Group's fixed rate debt was at a weighted average rate of 3.26 % (2015: 5.94%). The Group's floating rate liabilities are predominantly based on LIBOR and its overseas equivalents.

Based on the above, had interest rates moved by 10 basis points in the territories where the Group has substantial borrowings, post-tax profits would have moved by £0.2m (2015: £0.2m) due to increased interest expense on the Group's floating rate borrowings.

Liquidity risk

The Group actively maintains a mixture of long term and short term committed facilities designed to ensure that the Group has sufficient funds available for operations and planned investments. The Group also has a share buyback programme that is managed to ensure the efficiency of the Group's funding structure.

On a regular basis, management monitors forecasts of the Group's cash flows against both internal targets and those targets imposed by external lenders. The Group has substantial committed, unused facilities and the Directors are confident this situation will remain the case for the foreseeable future.

Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, as well as maintaining an optimal capital structure to reduce overall cost of capital.

In order to maintain this optimal structure, the Group may adjust the amount of dividends paid, issue new shares, return capital to shareholders or dispose of assets to reduce net debt. Given the Group's strong balance sheet and sustained trading growth, the Group announced a new dividend policy in 2011 of paying a dividend of between 40% and 50% of sustainable earnings. Further details can be found in the Chairman's Statement on pages 2 and 3.

Underlying growth coupled to Return on Invested Capital (ROIC) is the key perceived driver of shareholder value within the Group. The acquisition of Uniqema in 2006 reduced the ROIC, but also reduced Weighted Average Cost of Capital (WACC) since the deal was predominantly financed through debt. The Group's ROIC now stands at 19.3% against a post-tax WACC of 5.3%, thus hitting the Group's target of maintaining ROIC at a higher level than the WACC. In addition, the Group employs two widely used ratios to measure our ability to service our debt. Both net debt/EBITDA and EBITDA interest cover were well ahead of target in 2016. Further details can be found in the Finance Report on pages 24 to 27. The Group was in compliance with its covenant requirements throughout the year. Additional information on progress against Key Performance Indicators can be found on 22 and 23.

20. Provisions

	Environmental £m	Restructuring £m	Other £m	Total £m
At 1 January 2016	12.3	1.2	0.3	13.8
Exchange differences	2.0	–	0.1	2.1
Charged to the income statement	–	4.0	0.3	4.3
Cash paid against provisions	(2.2)	(0.7)	–	(2.9)
At 31 December 2016	**12.1**	**4.5**	**0.7**	**17.3**

Analysis of total provisions

	2016 £m	2015 £m
Current	**8.1**	4.9
Non-current	**9.2**	8.9
	17.3	13.8

Provisions are made where a constructive or legal obligation has arisen from a past event, can be quantified and where the timing of the transfer of economic benefits relating to the provisions cannot be ascertained with any degree of certainty.

The environmental provision relates to soil and potential groundwater contamination on a number of sites, both currently in use and previously occupied, in Europe and the Americas.

In relation to the environmental provision, the Directors consider that the balance will be utilised within 20 years. Provisions for remediation costs are made when there is a present obligation, it is probable that expenditures for remediation work will be required and the cost can be estimated within a reasonable range of possible outcomes. The costs are based on currently available facts and prior experience. Environmental liabilities are recorded at the estimated amount at which the liability could be settled at the balance sheet date. Remediation of environmental damage typically takes a long time to complete due to the substantial amount of planning and regulatory approvals normally required before remediation activities can begin. In addition, increases in or releases of environmental provisions may be necessary whenever new developments occur or additional information becomes available. Consequently, environmental provisions can change significantly. The level of environmental provision is based on management's best estimate of the most likely outcome for each individual exposure. The Group has also considered the impact of discounting on its provisions and has concluded that, as a consequence of the significant utilisation expected in a relatively short timescale, the impact is not material.

The restructuring provision primarily relates to the reorganisation of Incotec. Most of this provision is expected to be utilised within one year.

21. Ordinary share capital

Ordinary Shares of 10.36p (2015: 10.00p)	2016 £m	2015 £m
Authorised at 1 January and 31 December		
222,788,170 Ordinary Shares of 10.36p each (2015: 230,744,890 Ordinary Shares of 10.00p each)	**23.1**	23.1
Allotted, called up and fully paid at 1 January and 31 December		
135,124,108 Ordinary Shares of 10.36p each (2015: 139,949,969 Ordinary Shares of 10.00p each)	**14.0**	14.0

At the Annual General Meeting on 27 April 2016, shareholders approved a share consolidation which was completed on 9 May 2016. As a result, shareholders held 28 new Ordinary Shares of 10.357143 pence each in exchange for every 29 Ordinary Shares of 10 pence each held immediately prior to the share consolidation, which were cancelled by the Company.

In 2016 options were granted to employees under the Croda International Plc Sharesave Scheme to subscribe for 117,348 Ordinary Shares at an option price of 2639p per share and under the Croda International Plc International Sharesave Plan to subscribe for 391,769 Ordinary Shares at an option price of 2639p per share. Conditional awards over 288,019 Ordinary Shares were granted under the Performance Share Plan during the year. Also granted in the year were 76,474 Ordinary Shares under the Deferred Bonus Share Plan and 1,039 Ordinary Shares under the Deferred Bonus Discretionary Arrangement. No options were granted under the Long Term Incentive Plan or the Bonus Co-Investment Plan during the year.

During the year consideration of £1.2m was received on the exercise of options over 57,513 shares. The options were satisfied with shares transferred from the Group's employee share trusts. Since the year end a further 716 shares have been transferred from the schemes.

There are outstanding options to subscribe for Ordinary Shares as follows:

	Year option granted	Number of shares	Price	Options exercisable from
Croda International Plc Sharesave Scheme	2013	2,188	2141p	1 November 2016 to 30 April 2017
	2014	76,699	1763p	1 November 2017 to 30 April 2018
	2015	69,996	2232p	1 November 2018 to 30 April 2019
	2016	116,586	2639p	1 November 2019 to 30 April 2020
Croda International Plc International Sharesave Plan (2009)	2014	254,267	1763p	1 November 2017 to 30 November 2017
	2015	161,724	2232p	1 November 2018 to 30 November 2018
	2016	387,234	2639p	1 November 2019 to 30 November 2019
Croda International Plc Performance Share Plan (2014)	2014	320,182	Nil	12 May 2017
	2015	314,816	Nil	4 March 2018
	2016	277,456	Nil	4 March 2019
	2016	5,460	Nil	31 October 2019
Croda International Plc Deferred Bonus Share Plan	2016	73,004	Nil	4 March 2019
	2016	1,824	Nil	16 March 2019
Croda International Plc Deferred Bonus Discretionary Arrangement	2016	1,039	Nil	16 March 2019

22. Share-based payments

The impact of share-based payment transactions on the Group's financial position is as follows:

	2016 £m	2015 £m
Analysis of amounts recognised in the income statement:		
Charged in respect of equity settled share-based payment transactions	**6.1**	3.2
Charged in respect of cash settled share-based payment transactions	**6.9**	3.8
	13.0	7.0
Analysis of amounts recognised in the balance sheet:		
Liability in respect of cash settled share-based payment transactions	**8.4**	5.0

The key elements of each scheme along with the assumptions employed to arrive at the charge in the income statement are set out across. Where appropriate the expected volatility has been based on historical volatility considering daily share price movements over periods equal to the expected future life of the awards and the risk free rate is based on the Bank of England's projected nominal yield curve with appropriate duration.

Croda International Plc Sharesave Scheme ('Sharesave')

The Sharesave scheme, established in 1983 and renewed in 2013, grants options annually in September to employees of the Group at a fixed exercise price, being the market price of the Company's shares at the grant date discounted by up to 20%. Employees then enter into a savings contract over three to five years and, subject to continued employment, purchase options at the end of the period based on the amount saved. Options are then exercisable for a six month period following completion of the savings contract. For options granted in the year, the fair value per option granted and the assumptions used in the calculation of the value are as follows:

Grant date	2016	2015
Share price at grant date	3320.5p	2749p
Exercise price	2639p	2232p
Number of employees	573	526
Shares under option	117,348	73,116
Vesting period	Three years	Three years
Expected volatility	20%	25%
Option life	Six months	Six months
Expected life	–	–
Risk free rate	0.1%	1.0%
Dividend yield	2.2%	2.4%
Possibility of forfeiture	7.5% p.a.	7.5% p.a.
Fair value per option at grant date	688.9p	629.5p
Option pricing model	Black Scholes	Black Scholes

A reconciliation of option movements over the year is as follows:	2016 Number	2016 Weighted average exercise price (p)	2015 Number	2015 Weighted average exercise price (p)
Outstanding at 1 January	214,885	2025	214,597	1918
Granted	117,348	2639	73,116	2232
Forfeited	(7,629)	2058	(8,774)	1957
Exercised	(57,513)	2116	(64,054)	1911
Outstanding at 31 December	267,091	2275	214,885	2025
Exercisable at 31 December	2,841	2141	5,300	1942
For options exercised in year, weighted average share price at date of exercise		3394		2867
Weighted average remaining life at 31 December (years)	2.5		2.4	

Croda International Plc International Sharesave Plan (2009) ('International')

The International scheme, established in 1999 and renewed in 2009, has the same option pricing model, savings contract and vesting period as the Sharesave scheme. At exercise, employees are paid a cash equivalent for each option purchased, being the difference between the exercise price and market price at the exercise date. For options granted in the year, the fair value per option granted and the assumptions used in the calculation of the value are as follows:

Grant date	2016	2015
Share price at grant date	3320.5p	2749p
Exercise price	2639p	2232p
Number of employees	1,891	1,416
Shares under option	391,769	175,811
Vesting period	Three years	Three years
Expected volatility	20%	25%
Option life	One month	One month
Expected life	–	–
Risk free rate	0.7%	0.9%
Dividend yield	2.3%	2.2%
Possibility of forfeiture	7.5% p.a.	7.5% p.a.
Fair value per option at 31 December	613.6p	846p
Option pricing model	Black Scholes	Black Scholes

22. Share-based payments continued

A reconciliation of option movements over the year is as follows:

	2016 Number	2016 Weighted average exercise price (p)	2015 Number	2015 Weighted average exercise price (p)
Outstanding at 1 January	**621,464**	**1999**	614,865	1917
Granted	**391,769**	**2639**	175,811	2232
Forfeited	**(51,205)**	**2056**	(39,714)	1951
Exercised	**(157,846)**	**2137**	(129,498)	1945
Outstanding at 31 December	**804,182**	**2280**	621,464	1999
For options exercised in year, weighted average share price at date of exercise		**3477**		2890
Weighted average remaining life at 31 December (years)	**2.1**		1.9	

Croda International Plc Performance Share Plan 2014 ('PSP')

The PSP scheme was established in 2014 and replaces the Company's previous Executive long term incentive plans (the Long Term Incentive Plan and the Bonus Co-Investment Plan). The PSP provides for awards of free shares (ie either conditional shares or nil-cost options) normally made annually which vest after three years dependent upon an EPS performance related sliding scale (non-market condition) and the Group's total shareholder return (market condition). The PSP is discussed in detail in the Directors' Remuneration Report (pages 55 to 75). Shares (on an after tax basis) are subject to a one year post vesting holding period for awards granted in 2014 and a two year post vesting holding period for awards granted in subsequent years. For options granted in the year, the fair value per option granted and the assumptions used in the calculation of the value are as follows:

	2016 Market condition	2016 Non-market condition	2016 Market condition	2016 Non-market condition	2015 Market condition	2015 Non-market condition
Grant date	**31 October 2016**	**31 October 2016**	**4 March 2016**	**4 March 2016**	4 March 2015	4 March 2015
Share price at grant date	**3493p**	**3493p**	**2988.5p**	**2988.5p**	2683p	2683p
Number of employees	**56**	**56**	**101**	**101**	108	108
Shares under conditional award	**5,460**	**5,460**	**282,559**	**282,559**	327,567	327,567
Vesting period	**Three years**	**Three years**	**Three years**	**Three years**	Three years	Three years
Expected volatility	**20%**	**20%**	**20%**	**20%**	25%	25%
Expected life	**–**	**–**	**–**	**–**	–	–
Risk free rate	**–**	**–**	**–**	**–**	–	–
Dividend yield	**2.1%**	**2.1%**	**2.3%**	**2.3%**	2.4%	2.4%
Possibility of forfeiture	**3.45%**	**3.45%**	**3.45%**	**3.45%**	3.45%	3.45%
Fair value per option at grant date	**1732p**	**1732p**	**1532p**	**1532p**	1387p	1387p
Option pricing model	**Closed form valuation**	**Closed form valuation**	**Closed form valuation**	**Closed form valuation**	Closed form valuation	Closed form valuation

A reconciliation of option movements over the year is as follows:

	2016 Number	2016 Weighted average exercise price (p)	2015 Number	2015 Weighted average exercise price (p)
Outstanding at 1 January	**645,556**	**–**	332,276	–
Granted	**288,019**	**–**	327,567	–
Forfeited	**(15,661)**	**–**	(14,287)	–
Exercised	**–**	**–**	–	–
Outstanding at 31 December	**917,914**	**–**	645,556	–
For options exercised in year, weighted average share price at date of exercise		**–**		–
Weighted average remaining life at 31 December (years)	**1.2**		1.8	

Croda International Plc Deferred Bonus Share Plan ('DBSP')

The DBSP scheme was established in 2014. From 2014 one third of any annual bonuses due to certain senior executives are deferred under the DBSP. The size of award is determined by the amount of the total bonus divided by one third and converted into a number of Croda shares using the market value of shares at the time the award is granted. The awards vest on the third anniversary of the date of grant, unless the recipient has been dismissed for cause. There are no performance conditions applied to the award. The DBSP is also discussed in the Directors' Remuneration Report (pages 55 to 75).

	2016	2016	2015
Grant date	**16 March 2016**	**4 March 2016**	–
Share price at grant date	**2893.5p**	**2988.5p**	–
Number of employees	**8**	**104**	–
Shares under conditional award	**1,824**	**74,650**	–
Vesting period	**Three years**	**Three years**	–

A reconciliation of option movements over the year is as follows:

	2016 Number	2016 Weighted average exercise price (p)	2015 Number	2015 Weighted average exercise price (p)
Outstanding at 1 January	**–**	**–**	–	–
Granted	**76,474**	**–**	–	–
Forfeited	**(1,646)**	**–**	–	–
Exercised	**–**	**–**	–	–
Outstanding at 31 December	**74,828**	**–**	–	–
For options exercised in year, weighted average share price at date of exercise		**–**		–
Weighted average remaining life at 31 December (years)	**2.2**		–	

Croda International Plc Deferred Bonus Discretionary Arrangement

In addition to the awards under the DBSP, a no cost option over 1,039 shares was awarded to similarly defer bonus entitlement where the DBSP could not be used due to the employment having ceased before the grant date. These options will be deemed to be exercised automatically on the date falling three years after the date of grant. As of 31 December 2016, 2.2 years of the vesting period remains outstanding.

Croda International Long Term Investment Plan ('LTIP')

The LTIP was established in 2005 and granted no cost options to senior employees which vest after three years dependent upon an EPS performance related sliding scale (non-market condition) and the Group's total shareholder return (market condition). There were no options granted during the year or prior year and no further options will be granted or remain to be exercised under the Plan.

A reconciliation of option movements over the year is as follows:

	2016 Number	2016 Weighted average exercise price (p)	2015 Number	2015 Weighted average exercise price (p)
Outstanding at 1 January	**79,421**	**–**	172,402	–
Lapsed	**(79,421)**	**–**	(92,981)	–
Outstanding at 31 December	**–**	**–**	79,421	–
For options exercised in year, weighted average share price at date of exercise		**–**		–
Weighted average remaining life at 31 December (years)	**–**		1.2	

Bonus Co-Investment Plan ('BCIP')

The BCIP was established in 2005 and granted no cost options to senior employees which vest after three years dependent upon an EPS performance related sliding scale. There were no options granted during the year or prior year and no further options will be granted or remain to be exercised under the Plan.

A reconciliation of option movements over the year is as follows:

	2016 Number	2016 Weighted average exercise price (p)	2015 Number	2015 Weighted average exercise price (p)
Outstanding at 1 January	**48,070**	**–**	205,701	–
Lapsed	**(48,070)**	**–**	(157,631)	–
Outstanding at 31 December	**–**	**–**	48,070	–
For options exercised in year, weighted average share price at date of exercise		**–**		–
Weighted average remaining life at 31 December (years)	**–**		0.3	

22. Share-based payments continued

Croda International Share Incentive Plan ('SIP')

The SIP was established in 2003 and has similar objectives to the Sharesave scheme in terms of increasing employee retention and share ownership. Under the SIP scheme, employees enter into an agreement to purchase shares in the Company each month. For each share purchased by an employee, the Company awards a matching share which passes to the employee after three years' service. The matching shares are allocated each month at market value with this fair value charge being recognised in the income statement in full in the year of allocation..

23. Preference share capital

	2016 £m	2015 £m
The authorised, issued and fully paid preference share capital comprises:		
615,562 5.9% preference shares of £1 (2015: 615,562)	**0.6**	0.6
498,434 6.6% preference shares of £1 (2015: 498,434)	**0.5**	0.5
21,900 7.5% preference shares of £1 (2015: 21,900)	**–**	–
	1.1	1.1

The preference shares have no redemption rights and carry no voting rights other than in certain circumstances affecting the rights of the preference shareholders, details of which are set out in the Company's Articles of Association. The three classes of preference shares rank *pari passu* with each other but ahead of the Ordinary Shares on a winding up. Rights on a winding up are limited to repayment of capital and any arrears of dividends.

24. Shareholders' equity

Investments in own shares represent the Croda International Plc Qualifying Share Ownership Trust (QUEST), the Croda International Plc Employee Benefit Trust (CIPEBT) and the Croda International Plc AESOP Trust (AESOP), which each hold shares purchased on the open market or transferred from treasury shares to satisfy the future issue of shares under the Group's share option schemes. As at 31 December 2016 the QUEST had a net amount due from the Company of £5.6m (2015: £4.4m) and held 41,938 (2015: 102,808) shares transferred at a nil cost (2015: nil cost) with a market value of £1.3m (2015: £3.1m). As at 31 December 2016 the CIPEBT was financed by a repayable on demand loan to the Company of £3.9m (2015: £3.9m) and held 144,928 (2015: 150,105) shares transferred at a nil cost (2015: nil cost) with a market value of £4.6m (2015: £4.6m).

As at 31 December 2015 the AESOP had issued all its previously held shares, as financed by the Company, and thus had no residual loan balance with the Company. All of the shares held by the QUEST and CIPEBT were under option at 31 December 2016 and, except for a nominal amount, the right to receive dividends has been waived.

25. Non-controlling interests in equity

	2016 £m	2015 £m
At 1 January	**6.5**	6.1
Exchange differences	**0.8**	0.1
Disposal of interest	**–**	(0.1)
Income allocated to non-controlling interests	**0.9**	0.4
At 31 December	**8.2**	6.5

In 2015 the Group disposed of its 60% interest in Croda EPC Thornton Pty Ltd.

26. Related party transactions

The Group has no related party transactions, with the exception of remuneration paid to key management and Directors which is included in note 10.

27. Business combinations

On 20 June 2016, the Group acquired Inventiva Indústria e Inovação em Produtos Cosméticos Ltda, an encapsulation technology business with growth opportunities in skin actives and across the broader Personal Care market.

The following table summarises the Directors' provisional assessment of the consideration paid in respect of the acquisition, the fair value of assets acquired and liabilities assumed.

	Total £m
Consideration (including deferred consideration of £0.5m)	**1.9**
Fair value of assets and liabilities acquired	
Intangible assets	0.4
Tangible assets	0.1
Total identifiable net assets	**0.5**
Goodwill	**1.4**

The goodwill is attributable to the synergies expected to arise from the combination of the acquired encapsulation technology and the Group's global sales and marketing network. It will not be deductible for tax purposes.

Acquisition-related costs of £1.1m, which include acquisitions made in prior years, have been charged to administration expenses in the consolidated income statement for the year ended 31 December 2016.

During 2016, the Group completed its fair value review of the 2015 acquisition of Incotec Group BV. This review did not identify any changes to the asset base nor goodwill.

28. Contingent liabilities

The Group is subject to various claims which arise in the course of business. These contingent liabilities are reviewed on a regular basis and where possible an estimate is made of the potential financial impact on the Group.

The Group is also involved in certain legal and environmental actions and proceedings. Whilst the Group cannot predict the outcome of any current or future actions or proceedings with any certainty, it currently believes the likelihood of any material liabilities to be low, and that the liabilities, if any, will not have a material adverse effect on its consolidated income, financial position or cash flows. The Group also considers it has insurance in place in relation to any significant contingent liabilities.

29. Change in accounting policy

In March 2016, the IFRS Interpretations Committee (IFRSIC) issued an agenda decision regarding the treatment of offsetting and cash pooling arrangements in accordance with IAS 32: 'Financial instruments: Presentation'. This provided additional guidance on when bank overdrafts in cash pooling arrangements would meet the requirements for offsetting in accordance with IAS 32. Following this additional guidance, the Group has reviewed its cash pooling arrangements and has revised its presentation of bank overdrafts. This has involved a prior year restatement of £48.9m of bank overdrafts within bank overdrafts, bank loans and other borrowings that would previously have been offset against cash balances. This change has had no impact on net assets or net debt.

Parent Company Financial Statements

Pages 125 to 133 represent the separate financial statements of Croda International Plc as required by the Companies Act 2006 ('the Act').

These financial statements have been prepared in accordance with the Act and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

Company Independent Auditors' Report to the Members of Croda International Plc

Report on the Company financial statements

Our opinion

In our opinion, Croda International Plc's Company financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:

- the Company Balance Sheet as at 31 December 2016;
- the Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 79, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

→ whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;

→ the reasonableness of significant accounting estimates made by the Directors; and

→ the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Group financial statements of Croda International Plc for the year ended 31 December 2016.

Ian Morrison

Ian Morrison (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

28 February 2017

Company Financial Statements

Company Balance Sheet

at 31 December 2016

	Note	2016 £m	2015 £m Restated
Fixed assets			
Intangible assets	E	**–**	–
Tangible assets	F	**1.4**	1.5
Investments			
Shares in Group undertakings	G	**447.7**	437.7
Other investments other than loans	H	**0.6**	0.6
		449.7	439.8
Current assets			
Debtors	I	**1,930.8**	2,184.4
Deferred tax asset	J	**0.7**	0.2
Cash and cash equivalents		**6.4**	10.4
		1,937.9	2,195.0
Current liabilities			
Creditors: Amounts falling due within one year	K	**(59.3)**	(63.6)
Borrowings	L	**(7.5)**	(56.9)
		(66.8)	(120.5)
Net current assets		**1,871.1**	2,074.5
Total assets less current liabilities		**2,320.8**	2,514.3
Non-current liabilities			
Borrowings	L	**(213.8)**	(218.0)
Retirement benefit liabilities	M	**(4.0)**	(0.8)
		(217.8)	(218.8)
Net assets		**2,103.0**	2,295.5
Capital and reserves			
Ordinary share capital	21	**14.0**	14.0
Preference share capital	23	**1.1**	1.1
Called up share capital		**15.1**	15.1
Share premium account		**93.3**	93.3
Reserves		**1,994.6**	2,187.1
Total shareholders' funds		**2,103.0**	2,295.5

Cash and cash equivalents and Borrowings have been restated following the change in accounting policy described in note R. This change has had no impact on net assets.

The financial statements on pages 127 to 133 were approved by the Board of Directors on 28 February 2017 and signed on its behalf by

Anita Frew
Chairman

Jez Maiden
Group Finance Director

Financial Statements

Company Statement of Changes in Equity

for the year ended 31 December 2016

	Note	Share capital £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Retained earnings £m	Total £m
At 1 January 2015		15.1	93.3	0.9	2.1	326.0	437.4
Profit for the year attributable to equity shareholders		–	–	–	–	1,942.2	1,942.2
Other comprehensive income		–	–	–	–	2.5	2.5
Transactions with owners:							
Dividends on equity shares	8	–	–	–	–	(90.9)	(90.9)
Share-based payments		–	–	–	–	3.1	3.1
Consideration received for sale of own shares held in trust		–	–	–	–	1.2	1.2
Total transactions with owners		–	–	–	–	(86.6)	(86.6)
Total equity at 31 December 2015		**15.1**	**93.3**	**0.9**	**2.1**	**2,184.1**	**2,295.5**
At 1 January 2016		15.1	93.3	0.9	2.1	2,184.1	2,295.5
Profit for the year attributable to equity shareholders		–	–	–	–	37.2	37.2
Other comprehensive expense		–	–	–	–	(4.5)	(4.5)
Transactions with owners:							
Dividends on equity shares	8	–	–	–	–	(230.2)	(230.2)
Share-based payments		–	–	–	–	3.8	3.8
Consideration received for sale of own shares held in trust		–	–	–	–	1.2	1.2
Total transactions with owners		–	–	–	–	(225.2)	(225.2)
Total equity at 31 December 2016		**15.1**	**93.3**	**0.9**	**2.1**	**1,991.6**	**2,103.0**

Of the retained earnings, £556.3m (2015: £533.2m) are realised and £1,435.3m (2015: £1,650.9m) are unrealised. Details of investments in own shares are disclosed in note 24 of the Group financial statements.

Notes to the Company Accounts

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all years presented, unless otherwise stated.

A. Accounting policies

Basis of accounting

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2015, the Company adopted FRS 101 'Reduced Disclosure Framework' and has ceased to apply all UK Accounting Standards issued prior to FRS 100. Therefore the recognition and measurement requirements of EU-adopted IFRS have been applied, with amendments where necessary in order to comply with the requirements of the Companies Act 2006 ('the Act'). The financial statements have been prepared under the historical cost convention, in compliance with the provisions of the Act and the requirements of the Listing Rules of the Financial Conduct Authority.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under the standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are provided in the Group financial statements of Croda International Plc.

Going concern

The financial statements which appear on pages 127 to 133 have been prepared on a going concern basis as, after making appropriate enquiries, including a review of forecasts, budgets and banking facilities, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence.

Principal accounting policies

The accounting policies which have been applied by the Company when preparing the financial statements are in accordance with FRS 101. FRS 101 is based on the recognition and measurement requirements of EU-adopted IFRS, under which the Group financial statements have been prepared against. As a result, the accounting policies of the Company are consistent with those used by the Group as presented on pages 91 to 97, except for those relating to the recognition and measurement of goodwill and the recognition of revenue, which are not directly relevant to the Company financial statements.

The Group accounting policy for financial risk factors is also relevant to the preparation of the Company financial statements and is disclosed on pages 116 and 117.

B. Profit and loss account

Of the Group's profit for the year, £37.2m (2015: £1,942.2m) is included in the profit and loss account of the Company which was approved by the Board on 28 February 2017 but which is not presented as permitted by Section 408 Companies Act 2006.

Included in the Company profit and loss account is a charge of £0.1m (2015: £0.1m) in respect of the Company's audit fee.

C. Employees

	2016 £m	2015 £m
Company employment costs including Directors		
Wages and salaries	**9.3**	9.0
Share-based payment charges (note N)	**3.8**	3.1
Social security costs	**1.2**	1.2
Post retirement costs	**0.4**	0.5
Redundancy costs	**–**	0.4
	14.7	14.2

	2016 Number	2015 Number
Average employee numbers by function		
Production	**23**	24
Administration	**32**	47
	55	71

As required by the Companies Act 2006, the figures disclosed above are weighted averages based on the number of employees at each month end and include Executive Directors. At 31 December 2016, the Group had 54 (2015: 72) employees in total.

Detailed information concerning Directors' remuneration, interests and options is shown in the table within the Directors' Remuneration Report which is subject to audit on pages 55 to 75 which forms part of the Annual Report and Accounts.

D. Group restructuring

During the year ended 31 December 2015, a group restructuring was undertaken and a new company was created called Croda Investments No 3 Limited. Croda Overseas Holdings Limited and Croda Europe Limited, both subsidiaries of Croda International Plc, were then sold by Croda International Plc to Croda Investments No 3 Limited resulting in a profit on disposal of £1,850.9m. As at 31 December 2016, £1,435.3m (2015: £1,650.9m) remained unrealised.

E. Intangible assets

	Other Intangibles £m
Cost	
At 1 January 2016	0.8
Additions	–
At 31 December 2016	**0.8**
Accumulated amortisation	
At 1 January 2016	0.8
Charge for year	–
At 31 December 2016	**0.8**
Net carrying amount	
At 31 December 2016	**–**
At 31 December 2015	–

F. Tangible assets

	Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 January 2016	1.7	1.6	3.3
Additions	–	0.2	0.2
At 31 December 2016	**1.7**	**1.8**	**3.5**
Accumulated depreciation			
At 1 January 2016	1.1	0.7	1.8
Charge for year	0.1	0.2	0.3
At 31 December 2016	**1.2**	**0.9**	**2.1**
Net book amount			
At 31 December 2016	**0.5**	**0.9**	**1.4**
At 31 December 2015	0.6	0.9	1.5

G. Shares in Group undertakings

	Shares £m	Loans £m	Total £m
Cost			
At 1 January 2016	336.0	127.0	463.0
Exchange differences	–	17.7	17.7
Additions	0.6	629.9	630.5
Amounts repaid	(10.4)	(627.8)	(638.2)
At 31 December 2016	**326.2**	**146.8**	**473.0**
Impairment			
At 1 January 2016 and **31 December 2016**	(25.3)	–	(25.3)
Net book value			
At 31 December 2016	**300.9**	**146.8**	**447.7**
At 31 December 2015	310.7	127.0	437.7

The undertakings which affect the financial statements are listed on pages 134 to 136.

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

H. Other investments other than loans

	Other investments £m
Cost or valuation of net equity	
At 1 January 2016 and **31 December 2016**	**0.6**

Available for sale financial assets comprise unlisted investments included at Directors' valuation based on appropriate attributable net assets.

I. Debtors

	2016 £m	2015 £m
Amounts owed by Group undertakings	**1,912.9**	2,177.3
Corporation tax	**17.4**	6.4
Other receivables	**0.3**	0.5
Prepayments	**0.2**	0.2
	1,930.8	2,184.4

The amounts owed by Group undertakings are current and have no fixed date of repayment. Of the amount at 31 December 2016, £1,911.7m will continue to attract interest from 1 January 2017 at a floating rate based on the main facility agreement. The remainder will continue to be interest free.

J. Deferred tax

The deferred tax asset in the balance sheet is attributable to the following:

	2016 £m	2015 £m
Retirement benefit liabilities	**0.7**	0.2

The movement on deferred tax balances during the year is summarised as follows:

	2016 £m	2015 £m
At 1 January	**0.2**	0.9
Deferred tax charged through the profit and loss account	**(0.1)**	(0.2)
Deferred tax credited/(charged) directly to equity	**0.6**	(0.5)
At 31 December	**0.7**	0.2

Deferred tax assets have been recognised in all cases where such assets arise, as it is probable that the assets will be recovered.

K. Creditors: Amounts falling due within one year

	2016 £m	2015 £m
Amounts falling due within one year		
Trade payables	**0.1**	0.3
Taxation and social security	**1.1**	1.0
Amounts owed to Group undertakings	**46.5**	52.9
Other payables	**7.1**	3.1
Accruals and deferred income	**4.5**	6.3
	59.3	63.6

The amounts owed to Group undertakings are interest free, unsecured and have no fixed date of repayment.

L. Borrowings

The Company's objectives, policies and strategies in respect of financial instruments are outlined in the accounting policies note on page 96 which forms part of the Annual Report and Accounts. Short term receivables and payables have been excluded from all of the following disclosures.

	2016 £m	2015 £m
Maturity profile of financial liabilities		
2014 Club facility due 2021	**28.0**	218.0
€30m 1.08% fixed rate 7 year bond	**25.7**	–
€70m 1.43% fixed rate 10 year bond	**60.1**	–
£30m 2.54% fixed rate 7 year bond	**30.0**	–
£70m 2.80% fixed rate 10 year bond	**70.0**	–
Bank loans and overdrafts repayable on demand	**7.5**	56.9
	221.3	274.9
Repayments fall due as follows:		
Within one year		
Bank loans and overdrafts	**7.5**	56.9
	7.5	56.9
After more than one year		
Loans repayable		
Within two to five years	**28.0**	218.0
After five years	**185.8**	–
	213.8	218.0

M. Retirement benefit liabilities

In line with the requirements of FRS 101, the Company now recognises its share of the UK pension fund assets and liabilities. A full reconciliation of the Group retirement benefit obligation can be found in note 11 of the Group financial statements on pages 104 to 108. The table below shows the movement in the obligation during the year.

	2016 £m	2015 £m
Opening balance:		
Assets	**35.5**	47.0
Liabilities	**(36.3)**	(51.5)
Net opening retirement benefit liability	**(0.8)**	(4.5)
Movements in the year:		
Service cost	**(0.3)**	(0.5)
Interest cost	**–**	(0.1)
Contributions	**1.0**	1.8
Actuarial movement	**(3.9)**	2.5
Closing balance	**(4.0)**	(0.8)

N. Share-based payments

The total charge for the year in respect of share based remuneration schemes was £3.8m (2015: £3.1m). The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

The key elements of each scheme along with the assumptions employed to arrive at the charge in the profit and loss account are set out in note 22 to the Group financial statements.

O. Contingent liabilities

The Company has guaranteed loan capital and bank overdrafts of subsidiary undertakings amounting to £128.1m (2015: £89.1m).

P. Dividends

Details of dividends are disclosed in note 8 of the Group financial statements.

Q. Related party transactions

The Company has taken advantage of the exemption available under FRS 101 from disclosing transactions with other Group undertakings. There were no other related party transactions during the year. Information on the Group can be found in note 26 on page 122 of the Group financial statements.

R. Change in accounting policy

In March 2016, the IFRS Interpretations Committee (IFRSIC) issued an agenda decision regarding the treatment of offsetting and cash pooling arrangements in accordance with IAS 32: ‘Financial instruments: Presentation’. This provided additional guidance on when bank overdrafts in cash pooling arrangements would meet the requirements for offsetting in accordance with IAS 32. Following this additional guidance, the Company has reviewed its cash pooling arrangements and has revised its presentation of bank overdrafts. This has involved a prior year restatement of £10.4m of bank overdrafts within bank loans and overdrafts that would previously have been offset against cash balances. This change has had no impact on net assets.

Related Undertakings

Related undertakings of Croda International Plc

All companies listed below are owned by the Group and all interests are in ordinary share capital, except where otherwise indicated. All subsidiaries have been consolidated. All companies operate principally in their country of incorporation. Unless otherwise indicated, all shareholdings represent 100% of the issued share capital of the subsidiary.

Subsidiaries:

Incorporated in the UK

Cowick Hall, Snaith, Goole, East Yorkshire, DN14 9AA
Brookstone Chemicals Limited [viii]
Cowick Hall Trustees Limited [xi]
Croda (Goole) Limited [viii]
Croda Application Chemicals Limited [viii]
Croda Bakery Services Limited [viii]
Croda Bowmans Chemicals Limited [v] [viii]
Croda CE Limited [viii]
Croda Chemicals Limited [viii]
Croda Colloids Limited [viii]
Croda Cosmetics & Toiletries Limited [i] [v] [viii]
Croda Cosmetics (Europe) Limited [iii] [viii]
Croda Distillates Limited [i] [x]
Croda Enterprises Limited [viii]
Croda Europe Limited [i] [v] [vii]
Croda Fire Fighting Chemicals Limited [viii]
Croda Food Services Limited [viii]
Croda Hydrocarbons Limited [viii]
Croda Investments Limited [ix]
Croda Investments No 2 Limited [ix]
Croda Investments No 3 Limited [ix]
Croda JDH Limited [viii]
Croda Leek Limited [viii]
Croda Limited [viii]
Croda Overseas Holdings Limited [i] [ix]
Croda Pension Trustees Limited [viii]
Croda Polymers International Limited [i] [ix]
Croda Resins Limited [viii]
Croda Solvents Limited [iii] [iv] [viii]
Croda Trustees Limited [viii]
Croda Universal Limited [viii]
Croda World Traders Limited [i] [v] [viii]
John L Seaton & Co Limited [viii]
Southerton Investments Limited [i] [viii]
Sowerby & Co Limited [viii]
Technical and Analytical Services Limited [i] [viii]
Uniqema Limited [i] [viii]
Uniqema UK Limited [i] [viii]

c/o Pagan Osborne, Clarendon House, 116 George Street, Edinburgh, EH2 4LH
Croda (CPI) Limited [ix]

Incorporated in China

Unit BCD, 19 Floor, Urban City Center, No.45, Nanchang Road, Shanghai
Croda China Trading Company Ltd [vii]

Rm207 Xin Xing Building, No.8 Jia Feng Road, Wai Gao Qiao Free Trade Zone, Shanghai
Croda Trading (Shanghai) Co., Ltd [viii]

No. 1 Hongda Road, Xihuan Beikou, Changping Town, Changpin District, Beijing
Incotec (Beijing) Agricultural Technology Co. Ltd [vii]

No. 2 Plant, No. 1 QuanFeng Road, Wuqing Development Zone, Wuqing District, Tianjin
Incotec (Tianjin) Agricultural Technology Co. Ltd [vii]

Incorporated in France

1, rue de Lapugnoy, 62920 Chocques
Croda Chocques SAS [vii]

Route Nationale 10, Immoparc, 78190 Trappes
Croda France SAS [vii]
Croda Holdings France SAS [ix]

Zone artisanale, 48230 Chanac
Crodarom SAS [vii]

4 rue Fernand Forest, 49000 Angers
Incotec France SARL [vii]

29 rue du Chemin Vert, 78610, Le Perray en Yvelines
Sederma SAS [vii]

Incorporated in the Netherlands

Kernhemseweg 2, 6718 ZB Ede
AM Coatings BV [v] [viii]

Buurtje 1, 2802 BE Gouda
Croda Nederland B.V. [vii]
Unicorn Power BV [viii]
Uniqema BV [ix]

Westeinde 107, 1601 BL Enkhuizen
Incotec Europe B.V. [vii]
Incotec Group B.V. [i] [ix]
Incotec Holding B.V. [ix]

Incorporated in the USA

The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801
Croda Americas LLC (viii)
Croda Inc (vii)
Croda Inks Corp (viii)
Croda Investments Inc (ix)

300-A Columbus Circle, Edison, NJ 08837-3907
Croda Storage Inc (viii)
Croda Synthetic Chemicals Inc (ix)
Mona Industries Inc (viii)
Sederma Inc (vii)

1293 Harkins Road, Salinas, CA 93901
Incotec Holding North America, Inc (ix)
Incotec Integrated Coating and Seed Technology, Inc. (vii)

United Corporate Services, Inc, 874 Walker Road, Suite C, Dover, DE 19904
Croda Finance Inc (viii)

Incorporated in other overseas countries

Argentina – Dardo Rocha 2044, 1640, Martinez, Buenos Aires
Croda Argentina SA (vii)

Argentina – Avenida del Libertador 498, Piso 12, Oficina 1220 Buenos Aires
Incotec Argentina S.A (vii)

Australia – Suite 102, 447 Victoria Street, Wetherill Park, NSW 2164
Croda Australia (ii) (vii)

Australia – 18 Doveton Street North, Ballarat, Victoria 3350
Kriset Pty. Ltd (vii)

Belgium – "Corporate Village", Da Vincilaan 9/E6 Elsionor, 1930 Zaventem
Croda Belgium BVBA (vii)

Brazil – Rua Croda, 580, Distrito Industrial, Campinas, São Paulo, CEP 13.074-710
Croda do Brasil Ltda (vii)

Brazil – Rua Pirajú, nº 255, Santa Maria Goretti, CEP 91030-190, Porto Alegre – Rio Grande de Sul
Inventiva Indústria e Inovação em Produtos Cosméticos Ltda. ME (vii)

Canada – 1700 Langstaff Road, Suite 1000, Vaughan, Ontario, L4K 3S3
Croda Canada Ltd (vii)

Chile – Santa Beatriz 100, 12th Floor, Office 1205, Providencia Santiago
Croda Chile Ltda (vi) (vii)

Colombia – Calle 90 # 19-41 Office 601, Bogotá
Croda Colombia (ii) (vii)

Czech Republic – Praha 5, Pekařská 603/12, 150 00
Croda Spol. s.r.o (vii)

Germany – Herrenpfad Süd 33, 41334 Nettetal
Croda GmbH (vii)
Sederma GmbH (vii)

Guernsey – Maison Trinity, Trinity Square, St Peter Port, GY1 4AT
Cowick Insurance Services Ltd (i) (xii)

Hong Kong – Unit 806, Tower II, South Seas Centre, 75 Mody Road, Tsim Sha Tsui East Kowloon
Croda Hong Kong Company Ltd (vii)

Hungary – 1114 Budapest, Bartok Belu út 61.
Croda Magyarorszag Kft (i) (vii)

India – Plot No. 1/1 Part, TTC Industrial Area, Thane Belapur Road, Koparkhairne, Navi Mumbai 400710, Maharashtra
Croda India Company Private Ltd (i) (v) (vii)

India – 47, Mahagujarat Industrial Estate, Opp. Pharma Lab, rkhej-Bavla Highway, At. Moraiya, Ta. Sanand, Ahmedabad-382213, Gujarat
Integrated Coating and Seed Technology India Pvt. Ltd (vii)

Indonesia – Kawasan Industri Jababeka, Jl. Jababeka IV Blok V Kav 74-75, Cikarang Bekasi 17530
PT Croda Indonesia (iii) (iv) (vii)

Iran – Apt. 305, 3rd Floor, No 14 Golestan Avenue, Alikhani Avenue, Southern Shiraz Street, Tehran
Croda Pars Trading Co (vii)

Italy – Via P. Grocco 915, 27036 Mortara
Croda Italiana S.p.A. (vii)

Italy – Via Viazzolo Scala 936, 41038 San Felice sul Panaro (MO)
Incotec Mediterranean Srl (vii)

Italy – Via Lago di Tovel 7, 36077 Altavilla Vicentina (VI)
I.R.B. – Istituto di Richerche Biotechnologiche S.p.a. (vii)

Japan – 4-3 Hitotsubashi 2-chome, Chiyoda-ku, Tokyo 101-0003
Croda Japan KK (i) (vii)

Malaysia – Unit no. 203, 2nd floor, block C, Damansara Intan no. 1, Jalan SS20/27, Petaling Jaya, Selangor
Incotec Malaysia Sdn. Bhd (vii)

Mexico – Hamburgo 213, Piso 10, Colonia Juárez, Delegacion Cuauhtémoc, D.F., C.P. 06600
Croda México SA de CV (vii)

Peru – Avenida La Encalada 1388 Oficina 801, Polo Hunt 1, Surco
Croda Peruana S.A.C (vii)

Poland – 31-131 Kraków, ul. Karmelicka 27/3
Croda Poland Sp. z o.o. (i) (vii)

Republic of Korea – Rm. 1201, 12th Floor, 42, Hwang Sae Ul-Ro 360 Beon-Gil, Bun Dang-Gu, Seong Nam-Si, Gyeong Gi-Do, 13591
Croda Korea (ii) (vii)

Russia – Raketnyi Boulevard 16, BC "Alekseevskaya Tower", Office 1301, 129164 Moscow
Croda Russia (ii) (vii)

Incorporated in other overseas countries continued

Singapore – 30 Seraya Avenue, Singapore 627884
Croda Singapore Pte Ltd (i) (v) (vii)

South Africa – Clearwater Estate Office Park, Block G, Corner of Atlas & Park Road, Parkhaven Ext 8, Boksburg 1459
Croda (SA) (Pty) Ltd (vii)

South Africa – 4 Shortts Retreat Road, Mkondeni, Pietermaritzburg, KwaZulu-Natal, 3201
Incotec South Africa (Pty.) Ltd (vii)

Spain – Plaza. Francesc Macià, 7, 7°B , 08029 Barcelona
Croda Ibérica SA (vii)

Sweden – Geijersgatan 2B, 216 18 Limhamn
Croda Nordica AB (vii)

Thailand – 319 Chamchuri Square Building, 16th Floor, Unit 13-14, Payathai Road, Patumwan, Bangkok 10330
Croda (Thailand) Co., Ltd (i) (vii)

Turkey – Nidakule Göztepe Iş Merkezi, Merdivenköy Mahallesi, Bora Sokak, No: 1 Kat:2/5 Kadıköy 34732, Istanbul
Croda Kimya Ticaret Limited Şirketi (vii)

United Arab Emirates – P. O. BOX 17916, Office 2112, 2113, 21st Floor, Jafza One, Jebel Ali Free Zone, Dubai
Croda Middle East FZE (vii)

Zimbabwe – 4a Knightsbridge Crescent, Highlands, Harare
Croda Chemicals Zimbabwe Pvt Ltd (viii)
Croda Zimbabwe (Pvt) Ltd (viii)

Classifications Key
(i) Companies owned directly by Croda International Plc
(ii) Branch office
(iii) A Ordinary
(iv) B Ordinary
(v) Preference including cumulative, non-cumulative and redeemable shares
(vi) No share capital, share of profits
(vii) Manufacture, sales or distribution of speciality chemicals, or of seed treatment services and products
(viii) Dormant
(ix) Holding company
(x) Property holding company
(xi) Trustee
(xii) Captive insurance company

Joint ventures and associates:

Incorporated in other overseas countries

Brazil – Rua das Sementes nr. 291, Holambra, State of São Paulo
Incotec America do Sul Tecnologia em Sementes Ltda. (vii) 99.90%

China – No 656 East Tangxun Road Economic and Technological Development Zone Miangyang Sichuan
Croda Sipo (Sichuan) Co., Ltd (vii) 65.00%

Japan – No. 5-23, Nobitome 8-chome, Niiza-shi, Saitama-ken
Incotec Japan Co. Ltd (vii) 97.50%

Malaysia – Unit no. 203, 2nd floor, block C, Damansara Intan no. 1, Jalan SS20/27, Petaling Jaya, Selangor
Incotec Kedah (M) Sdn. Bhd (vii) 51.00%

Shareholder Information

Corporate Calendar

2017 Annual General Meeting	26 April 2017
2016 Final ordinary dividend payment	1 June 2017
2017 Half year results announcement	25 July 2017
2017 Interim ordinary dividend payment	3 October 2017
2017 Preference dividend payments	30 June 2017
	31 December 2017
2017 Full year results announcement	27 February 2018

Investor relations

Shareholders can now get up to date information on Stock Exchange announcements, key dates in the corporate calendar, the Croda share price and brokers' estimates by visiting our corporate website at **www.croda.com** and clicking on the section called 'Investor'.

Shareholders can receive shareholder communications electronically by registering on the Registrars' website, **www.capitashareportal.com** and following the instructions. To register shareholders will require their investor code (IVC): this is an 11 digit number starting five or six zeros and can be found on your dividend tax voucher or your share certificate. Receiving corporate communications by email has a number of benefits including being more environmentally friendly, reducing unnecessary waste, faster notification of information to shareholders and eventually leading to a reduction in company costs.

Shareholders who register on the above website can also check their shareholding, view their dividend history, elect for the dividend reinvestment plan, register changes of address and dividend mandate instructions.

Share price information

As well as being available on our website, the latest ordinary share price is available on the Financial Times Cityline service (0905 817 1690) (calls cost 75 pence per minute from a BT landline and the average duration is 1 minute per stock quote. Cost from other networks or mobile phones may be higher).

The middle market values of the listed share capital at 31 December 2016, or last date traded*, were as follows:

Ordinary shares	3181.0p
5.9% preference shares	97.5p*
6.6% preference shares	107.5p*

Dividend reinvestment plan ('DRIP')

Ordinary shareholders may wish to know about this plan, which allows you to use your dividends to buy further shares in Croda. The DRIP is provided by Capita Asset Services, a trading name of Capita IRG Trustees Ltd which is authorised and regulated by the Financial Conduct Authority.

For information and an application pack please call 0371 664 0381 (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9.00am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales. From outside the UK dial +44 (0)208 639 3402). Alternatively you can email shares@capita.co.uk or log on to **www.capitashareportal.com**.

Overseas shareholders – choose to receive your next dividend in your local currency

If you live outside the UK, Capita has partnered with Deutsche Bank to provide you with a service that will convert Sterling dividends into your local currency at a competitive rate. You can choose to receive payment directly to your local bank account or alternatively you can be sent a currency draft.

You can sign up to this service on the Share Portal (by clicking on 'your dividend options' and following the on-screen instructions) or by contacting the Customer Support Centre. For further information contact Capita:

By phone – UK 0871 664 0385 (calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate). From overseas +44 (0)208 639 3405. Lines are open 9.00am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

By email – ips@capita.co.uk

Share dealing

A simple and competitive service to buy and sell shares is provided by Capita Asset Services.

There is no need to pre-register and there are no complicated application forms to fill in and by visiting **www.capitadeal.com** you can also access a wealth of stock market news and information free of charge. For further information on this service, or to buy and sell shares, visit **www.capitadeal.com** or call 0371 664 0445 (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9.00am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales. From outside the UK dial +44 (0)371 664 0445).

Share dealing continued

This is not a recommendation to buy or sell shares and this service may not be suitable for all shareholders. The price of shares can go down as well as up, and you are not guaranteed to get back the amount that you originally invested. Terms, conditions and risks apply. Capita Asset Services is a trading name of Capita IRG Trustees Limited which is authorised and regulated by the Financial Conduct Authority. The service is only available to private shareholders resident in the European Economic Area, the Channel Islands or the Isle of Man.

Capita Asset Services is a trading name of Capita Registrars Limited and Capita IRG Trustees Limited. Share registration and associated services are provided by Capita Registrars Limited (registered in England and Wales, No. 2605568). Regulated services are provided by Capita IRG Trustees Limited (registered in England and Wales, No. 2729260), which is authorised and regulated by the Financial Conduct Authority.

UK shareholders – Stocktrade

Telephone dealing 0131 240 0414 quoting 'Croda Dial & Deal service'.

For further information visit **www.stocktrade.co.uk/croda**.

Relating to beneficial owners of shares with 'information rights'

Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's registrar, Capita Asset Services, or to the Company directly.

Share fraud warning

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money.

The Financial Conduct Authority ('FCA') has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200m lost in the UK each year.

Protect yourself

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

→ Get the name of the person and organisation contacting you

→ Check the Financial Services Register at **www.fca.org.uk** to ensure they are authorised

→ Use the details on the FCA Register to contact the firm

→ Call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date

→ Search the list of unauthorised firms and individuals to avoid doing business with.

Remember: if it sounds too good to be true, it probably is!

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

Report a scam

If you are approached about a share scam you should tell the FCA using the share fraud reporting form at **www.fca.org.uk/scams,** where you can find out about the latest investment scams. You can also call the Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Secretary and Registered Office

Tom Brophy (Company Secretary)
Cowick Hall, Snaith, Goole,
East Yorkshire DN14 9AA
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Fax: +44 (0)1405 861767
Website: **www.croda.com**
Registered in England number 206132

Registrars

Capita Asset Services
The Registry, 34 Beckenham Road,
Beckenham, Kent, BR3 4TU

Tel: 0871 664 0300 (from UK) – calls cost 12p per minute plus network extras; lines are open 9.00am to 5.30pm, Monday to Friday +44 (0)208 639 3399 (from overseas)

Fax: + 44 (0)1484 601512

Website: **www.capitaassetservices.com**
Email: shareholderenquiries@capita.co.uk

Independent Auditors

PricewaterhouseCoopers LLP,
Central Square, 29 Wellington Street,
Leeds, LS1 4DL

Merchant Bankers

Morgan Stanley & Co. International plc
J P Morgan Cazenove

Solicitors

Freshfields Bruckhaus Deringer LLP

Stockbrokers

Morgan Stanley & Co. International plc
J P Morgan Cazenove

Financial PR Advisers

Teneo Blue Rubicon

Five Year Record

Earnings

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Turnover	**1,243.6**	1,081.7	1,046.6	1,077.0	1,051.9
Adjusted operating profit[1]	**298.2**	264.2	248.4	264.6	255.1
Adjusted profit before tax[1]	**288.3**	254.7	235.4	251.4	238.3
Profit after tax	**197.6**	181.1	165.2	177.9	164.2
Profit attributable to ordinary shareholders*	**198.4**	181.4	165.2	177.4	150.9
	%	%	%	%	%
Adjusted operating profit as a % of turnover[1]	**24.0**	24.4	23.7	24.6	24.3
Adjusted Return on Invested Capital (ROIC)[1]	**19.3**	20.1	21.2	23.8	23.8
Effective tax rate	**28.0**	28.0	28.0	28.9	31.1
	pence	pence	pence	pence	pence
Adjusted earnings per share[1]	**155.8**	135.0	125.2	132.2	121.9
Ordinary dividends per share	**74.0**	69.0	65.5	64.5	59.5
	times	times	times	times	times
Net debt/EBITDA[1]	**1.1**	0.9	0.6	0.7	0.7
EBITDA interest cover[1]**	**33.1**	43.2	33.2	35.5	35.5

1 Before exceptional items, acquisition costs, amortisation of intangible assets arising on acquisition and the tax thereon where applicable
* Total Group figures, all other figures are continuing operations only
** Interest excludes pension scheme net financial expense and capitalised interest

Summarised Balance Sheet

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Intangible assets, property plant and equipment and investments	**954.4**	799.4	633.5	602.9	552.3
Inventories	**235.7**	221.6	201.0	192.8	170.5
Trade and other receivables	**192.4**	156.1	145.0	136.7	162.9
Trade and other payables	**(188.8)**	(161.7)	(129.4)	(129.1)	(139.2)
Capital employed	**1,193.7**	1,015.4	850.1	803.3	746.5
Tax, provisions and other	**(74.3)**	(70.0)	(54.2)	(45.9)	(28.7)
Retirement benefit liabilities	**(146.5)**	(78.8)	(126.7)	(135.8)	(165.8)
	972.9	866.6	669.2	621.6	552.0
Shareholders' funds	**600.6**	600.8	482.9	413.1	344.2
Non-controlling interests	**8.2**	6.5	6.1	6.3	0.1
	608.8	607.3	489.0	419.4	344.3
Net debt	**364.1**	259.3	180.2	202.2	207.7
	972.9	866.6	669.2	621.6	552.0
Gearing (%)	**59.8**	42.7	36.9	48.2	60.3

Glossary of Terms

12 Principles of Green Chemistry	Set of principles that when used in the design, development and implementation of chemical products and processes, enables scientists to protect and benefit the economy, people and the planet
Adjusted	Before exceptional items, acquisition costs, amortisation of intangible assets arising on acquisition and the tax thereon where applicable
AGM	Annual General Meeting
AIM	Alternative Investment Market
ALM	Asset-Liability Matching
API	Active Pharmaceutical Ingredient
BBSRC	Biotechnology and Biological Sciences Research Council
BCIP	Bonus Co-Investment Plan
Business Areas	Personal Care, Health Care, Crop Protection, Seed Enhancement, Geo Technologies, Home Care, Polymer Additives, Lubricants, Coatings and Polymers, Industrial Chemicals
CARE	Career Average Revalued Earnings
CEO	Chief Executive Officer
CGP	Chemical Growth Partnership
CGU	Cash Generating Unit
CIPEBT	Croda International Plc Employee Benefit Trust
CO_2	Carbon Dioxide
Code	Financial Reporting Council's Corporate Code
Constant Currency	Current year results for existing business translated at the prior year's average exchange rates
CPI	Consumer Price Index
CPS	Croda Pension Scheme
CSPO	Certified Sustainable Palm Oil
DRIP	Dividend Reinvestment Plan
DBSP	Deferred Bonus Share Plan
EBITDA	Earnings Before Interest, Taxation, Depreciation and Amortisation
EBT	Employee Benefit Trust
EPS	Earnings Per Share
EXCiPACT	Certification scheme for pharmaceutical excipient suppliers
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FRS	Financial Reporting Standard
FSCS	Financial Services Compensation Scheme
FTSE	Finance Times Stock Exchange
GHG	Greenhouse Gas
GHG emissions – scope 1	Greenhouse Gas emissions from sources that we own or control
GHG emissions – scope 2	Greenhouse Gas emissions that are a consequence of our activities, but occur at sources owned or controlled by another entity
GMP	Good Manufacturing Practice
GRI	Global Reporting Initiative
HMRC	HM Revenue & Customs
HR	Human Resources
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRSIC	International Financial Reporting Standards Interpretation Committee
IP	Intellectual Property
ISA	International Standards on Auditing
ISO	International Organisation for Standardisation
IT	Information Technology
KPI	Key Performance Indicator
LTI	Lost Time Injury
LTIP	Long Term Incentive Plan
M&A	Mergers & Acquisitions
Market sectors	Personal Care, Life Sciences, Performance Technologies, Industrial Chemicals
Material Areas	Our 10 most important sustainability areas
Net debt	Borrowings and other financial liabilities less cash and cash equivalents
NPP	New and Protected Products
OHSAS	Occupational Health and Safety Advisory Series
OSHA	Occupational Safety and Health Administration
PSP	Performance Share Plan
QUEST	Croda International Plc Qualifying Share Ownership Trust
R&D	Research and Development
Return on sales	Adjusted operating profit divided by revenue
ROCE	Return on Capital Employed
ROIC	Adjusted operating profit after tax divided by the average invested capital for the year for the Group. Invested capital represents the net assets of the Group, adjusted for earlier goodwill written off to reserves, net debt, retirement benefit liabilities, provisions and deferred taxes
RPI	Retail Price Index
RSPO	Roundtable on Sustainable Palm Oil
SAP EHS	Safety, Health and Environment module in the SAP reporting system
SAP GRC	Governance, Risk and Compliance module in the SAP reporting system
SHE	Safety, Health, Environment
SHEQ	Safety, Health, Environment, Quality
SIP	Share Investment Plan
SMEs	Small and Medium Enterprises
Te	Tonnes
Te CO_2e	Tonnes Carbon Dioxide Equivalent
TSR	Total Shareholder Return
Underlying	Current year results in local currency translated to Sterling at the prior year average foreign exchange rate excluding acquisitions
VOC	Volatile Organic Compound
WACC	Weighted Average Cost of Capital

Cautionary Statement
The information in this publication is believed to be accurate at the date of its publication and is given in good faith but no representation or warranty as to its completeness or accuracy is made. Suggestions in this publication are merely opinions. Some statements and in particular forward-looking statements, by their nature, involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future and actual results may differ from those expressed in such statements as they depend on a variety of factors outside the control of Croda International Plc. No part of this publication should be treated as an invitation or inducement to invest in the shares of Croda International Plc and should not be relied upon when making investment decisions.

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