CRODA

Press Release

28 February 2017

Results for the year ended 31 December 2016

Relentless innovation driving record profit

Croda International Plc ("Croda" or the "Group"), the speciality chemical company that creates high performance ingredients and technologies relied upon by industries and consumers globally, today announces its full year results for the year ended 31 December 2016.

Full year Group highlights (reported currency):

- Record profit delivered, with profit growth in all Core Business sectors. Adjusted profit before tax up 13.2% at £288.3m
- Robust sales growth, up 15.0%, driven by Incotec, innovation and progress in high value markets, together with positive currency translation
- Relentless innovation creating more IP-protected business across all sectors, with sales of New & Protected Products (NPP) up 20% to 27.4% of total sales
- Excellent margin and return on capital retained, with return on sales of 24.0% and ROIC at 19.3%
- Impressive cash generation with free cash flow of over £155m, supporting net capital expenditure of over £100m, a 7.2% increase in ordinary dividend and further de-leveraging after special dividend payment of £136m in June 2016.

	2016 reported currency		Constant	2015
		Year on year	currency	
	£m	change	change	£m
Sales	**1,243.6**	+15.0%	+3.1%	1,081.7
Adjusted operating profit	**298.2**	+12.9%	+4.6%	264.2
Adjusted profit before tax	**288.3**	+13.2%	+4.8%	254.7
Adjusted basic earnings per share	**155.8p**	+15.4%		135.0p
Free cash flow	**155.5**	+32.3%		117.5
Leverage (net debt/EBITDA)	**1.1x**			0.8x
IFRS profit before tax	**275.7**	+9.3%		252.3
IFRS basic earnings per share	**148.2p**	+11.2%		133.3p
Ordinary dividend per share (declared)	**74.0p**	+7.2%		69.0p

Sector highlights (constant currency):

We manage the business using constant currency. This shows a robust performance in 2016:

- **Group:** bottom line growth ahead of top line, with adjusted profit before tax up 4.8% on sales 3.1% ahead
- **Personal Care:** profit growth through investment in fast growing niches and innovation, with NPP reaching 40% of sales. Adjusted operating profit up 4.0%, despite sales 0.8% lower, with reported currency return on sales up 100 basis points to 34.0%
- **Life Sciences:** successful integration of Incotec and clever innovation more than offset a halving of API sales in our North America generic contract. Adjusted operating profit up 3.6%, with sales 19.0% higher
- **Performance Technologies:** improving sales trend, strong profit growth and better return on sales. Adjusted operating profit up 12.1%, with sales 1.4% higher
- **Industrial Chemicals:** continued progress to refine product mix and develop niche technologies. Sales 8.5% lower.

Steve Foots: Chief Executive Officer statement

"Croda has delivered a record profit in 2016. We have grown sales through selective 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 of New and Protected Products increasing for the fourth consecutive year. We continue to expand in higher growth markets, with Asia the stand out performer, and we are growing with regional and smaller customers.

"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. 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."

Further information:

All results are on an IFRS basis at actual reported currency unless otherwise stated. Non-statutory terms are defined in the 'Alternative Performance Measures' section of the Finance Report on page 10.

A presentation for investors and analysts will be held at 0900 GMT on 28 February 2017 at the Grange St Paul's Hotel, London EC4V 5AJ. The presentation will be webcast on www.croda.com

Sector Financial Summary:

	2016 reported currency £m	2016 reported currency Year on year change	Constant currency change	2015 Restated £m
Sales				
Personal Care	**420.6**	+11.5%	(0.8)%	377.3
Life Sciences	**292.2**	+30.5%	+19.0%	223.9
Performance Technologies	**402.5**	+13.4%	+1.4%	354.8
Core Business	**1,115.3**	+16.7%	4.6%	956.0
Industrial Chemicals	**128.3**	+2.1%	(8.5)%	125.7
Group	**1,243.6**	+15.0%	+3.1%	1,081.7

	2016 reported currency £m	2016 reported currency Year on year change	Constant currency change	2015 Restated £m
Adjusted profit				
Personal Care	**143.1**	+14.9%	+4.0%	124.5
Life Sciences	**82.0**	+9.2%	+3.6%	75.1
Performance Technologies	**66.2**	+16.5%	+12.1%	56.8
Core Business	**291.3**	+13.6%	+5.7%	256.4
Industrial Chemicals	**6.9**	-11.5%	(30.8)%	7.8
Operating profit	**298.2**	+12.9%	+4.6%	264.2
Net interest	**(9.9)**	+4.2%	-	(9.5)
Profit before tax	**288.3**	+13.2%	+4.8%	254.7

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.

CHIEF EXECUTIVE'S REPORT[1]

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.

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[1] All figures are stated in reported (IFRS) terms unless otherwise stated. Alternative performance measures are defined in the Finance Report on page 10

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.

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 antimicrobial 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 approximately 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.

Outlook
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.

FINANCE REPORT

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). At constant currency, sales rose by 3.1%, reflecting the Incotec and Inventiva acquisitions. Underlying sales reduced by 1.6%, primarily due to a planned reduction of low value co-stream and tolling products in Industrial Chemicals.

Sales	£m	%
2015 reported	1,081.7	
Underlying sales	(17.5)	(1.6)
Impact of acquisitions	51.2	4.7
2016 at constant currency	1,115.4	3.1
Impact of currency translation	128.2	11.9
2016 reported	1,243.6	15.0

Underlying sales in the Core Business declined by 0.7%. Sales volume increased by 0.6% with sales price/mix 1.3% lower, primarily due to a £12m reduction in 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.

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)

Adjusted profit

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

Adjusted operating profit	£m	%
2015 reported	264.2	
Underlying profit	5.6	2.1
Impact of acquisitions	6.6	2.5
2016 at constant currency	276.4	4.6
Impact of currency translation	21.8	8.3
2016 reported	298.2	12.9

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

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

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*).*

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

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).

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).

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

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).

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)

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 3 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.

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 2 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 post-tax deficit 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 the Finance Report;
- *Underlying sales*: these reflect constant currency values adjusted to exclude the impact of acquisitions. They are reconciled to statutory sales in the Finance Report;
- *Adjusted profit*: this is profit before exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition. It is reconciled in the Finance Report;
- *Adjusted EPS*: this is earnings per share using the adjusted profit after tax and is reconciled in note 5 to the Summary Financial Statements;
- *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*: comprises cash and cash equivalents (including bank overdrafts), current and non-current borrowings and obligations under finance leases;
- *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.

SECTOR REPORT

Personal Care
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.

Life Sciences
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 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 IP 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.

Performance Technologies

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.

Industrial Chemicals

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.

Croda International Plc
Summary financial statements for the year ended 31 December 2016
Group income statement

	Note	2016 £m Adjusted	2016 £m Adjustments[1]	2016 £m Reported Total	2015 £m Adjusted	2015 £m Adjustments[1]	2015 £m Reported Total
Revenue	2	**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		**(146.9)**	**(12.6)**	**(159.5)**	(113.4)	(2.4)	(115.8)
Operating profit	2	**298.2**	**(12.6)**	**285.6**	264.2	(2.4)	261.8
Financial costs	3	**(10.6)**	**-**	**(10.6)**	(10.2)	-	(10.2)
Financial income	3	**0.7**	**-**	**0.7**	0.7	-	0.7
Profit before tax		**288.3**	**(12.6)**	**275.7**	254.7	(2.4)	252.3
Tax	4	**(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

[1] Adjustments relate to exceptional items, acquisition costs, amortisation of intangible assets arising on acquisition and the tax thereon.

		Pence per share Adjusted		Pence per share Total	Pence per share Adjusted		Pence per Share Total
Earnings per 10p share	5						
Basic		**155.8**		**148.2**	135.0		133.3
Diluted		**155.0**		**146.9**	134.3		132.3
Ordinary dividends	6						
Interim				**32.75**			31.00
Final				**38.00**			36.00
Special				**100.00**			-

Group statement of comprehensive income for the year ended 31 December 2016

	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	**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[1]
Assets			
Non-current assets			
Intangible assets		**355.3**	337.8
Property, plant and equipment		**598.1**	460.6
Investments		**1.0**	1.0
Deferred tax assets		**56.3**	38.9
		1,010.7	838.3
Current assets			
Inventories		**235.7**	221.6
Trade and other receivables		**192.4**	156.1
Cash and cash equivalents		**61.0**	106.7
		489.1	484.4
Liabilities			
Current liabilities			
Trade and other payables		**(186.2)**	(159.6)
Borrowings and other financial liabilities		**(10.4)**	(58.4)
Provisions		**(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		**(414.7)**	(307.6)
Other payables		**(2.6)**	(2.1)
Retirement benefit liabilities	7	**(146.5)**	(78.8)
Provisions	7	**(9.2)**	(8.9)
Deferred tax liabilities		**(66.3)**	(55.8)
		(639.3)	(453.2)
Net assets		**608.8**	607.3
Equity attributable to owners of the parent		**600.6**	600.8
Non-controlling interests in equity		**8.2**	6.5
Total equity		**608.8**	607.3

[1] Cash and cash equivalents and Borrowings and other financial liabilities have been restated following the change in accounting policy described in note 1a. This change has had no impact on net assets.

Group statement of changes in equity for the year ended 31 December 2016

	Share Capital £m	Share Premium Account £m	Other Reserves £m	Retained Earnings £m	Non-Controlling Interests £m	Total £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	-	-	-	(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	-	-	-	(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 statement of cash flows for the year ended 31 December 2016

	Note	2016 £m	2015 £m Restated[1]
Cash generated from operations			
Continuing operations			
Adjusted operating profit		**298.2**	264.2
Exceptional items		**(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		**4.3**	-
Cash paid against operating provisions		**(0.7)**	(3.0)
Movement in inventories		**8.4**	(15.1)
Movement in receivables		**(10.9)**	(6.9)
Movement in payables		**9.7**	20.6
Pension fund contributions in excess of service cost		**(10.9)**	(18.5)
Share based payments		**9.5**	4.7
Cash generated by operations		**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		**(1.4)**	(104.0)
Purchase of property, plant and equipment		**(103.8)**	(92.7)
Purchase of other intangible assets		**(1.6)**	(0.8)
Proceeds from sale of property, plant and equipment		**0.9**	2.4
Proceeds from sale of other investment		**0.1**	-
Cash paid against non-operating provisions		**(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		**(0.4)**	(0.2)
Sale of own shares held in trust		**1.2**	1.2
Dividends paid to equity shareholders	6	**(230.2)**	(90.9)
Net cash used in financing activities		**(162.6)**	(3.5)
Net movement in cash and cash equivalents		**(6.1)**	7.6
Cash and cash equivalents brought forward		**55.8**	45.6
Exchange differences		**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

[1] Cash at bank and in hand and Bank overdrafts have been restated following the change in accounting policy described in note 1a.

Group statement of cash flows for the year ended 31 December 2016 (continued)

	Note	2016 £m	2015 £m
Reconciliation to net debt			
Movement in cash and cash equivalents		**(6.1)**	7.6
Movement in debt and lease financing		**(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		**(364.1)**	(259.3)

Notes to the summary financial statements

1. Basis of preparation

The financial information set out above does not constitute the Group's statutory financial statements for the years ended 31 December 2016 or 2015, but is derived from those financial statements. Statutory financial statements for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the Company's Annual General Meeting. The auditors have reported on those financial statements; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

In preparing this financial information, management has used the principal accounting policies that will be detailed in the Group's Annual Report for 2016 and which are unchanged from the prior year, except as detailed below.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group
The following standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2016.

In March 2016, the IFRS Interpretations Committee (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 Group 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.

Changes in accounting policy and disclosures (continued)

(b) 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 with customers' 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 but it 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 fully to estimate the impact of the new rules on the Group's financial statements, although this is not expected to be material. 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 entity in the current or future reporting periods and on foreseeable future transactions.

2. Segmental information

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.

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.

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). The adjustments relate to our segments as follows: 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. Segmental information (continued)

Income statement

	2016 £m	2015 £m Restated[1]
Revenue		
Personal Care	**420.6**	377.3
Life Sciences[1]	**292.2**	223.9
Performance Technologies	**402.5**	354.8
Industrial Chemicals[1]	**128.3**	125.7
	1,243.6	1,081.7
Adjusted operating profit		
Personal Care	**143.1**	124.5
Life Sciences[1]	**82.0**	75.1
Performance Technologies	**66.2**	56.8
Industrial Chemicals[1]	**6.9**	7.8
	298.2	264.2
Exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition	**(12.6)**	(2.4)
Total Group operating profit	**285.6**	261.8

[1] 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.

Total assets

	2016 £m	2015 £m
Personal Care	**527.3**	505.5
Life Sciences	**315.0**	229.4
Performance Technologies	**389.4**	312.3
Industrial Chemicals	**149.8**	128.9
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

3. Net financial cost

	2016 £m	2015 £m
Financial costs		
US$100m 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 fixed rate 7 year bond	**0.1**	-
€70m fixed rate 10 year bond	**0.4**	-
£30m fixed rate 7 year bond	**0.4**	-
£70m fixed rate 10 year bond	**1.0**	-
Net interest on retirement benefit liabilities (note 7)	**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

4. Tax on continuing operations

	2016 £m	2015 £m
Analysis of tax charge for the year		
United Kingdom current tax	**17.4**	12.2
Overseas current tax	**59.3**	56.1
Deferred tax	**1.4**	2.9
	78.1	71.2

5. Earnings per share

	2016 p	2015 p
Adjusted earnings per share[1]	**155.8**	135.0
Impact of exceptional items, acquisition costs, amortisation of intangible assets arising on acquisition and the tax thereon	**(7.6)**	(1.7)
Basic earnings per share	**148.2**	133.3

[1] Adjusted earnings per share from continuing operations before exceptional items, acquisition costs, amortisation of intangible assets arising on acquisition and the tax thereon

6. Dividends paid

	Pence per share	2016 £m	2015 £m
Ordinary			
2014 Final – paid May 2015	**36.00**	**-**	48.8
2015 Interim – paid September 2015	**31.00**	**-**	42.0
2015 Final – paid June 2016	**38.00**	**51.5**	-
2015 Special – paid June 2016	**100.00**	**135.7**	
2016 Interim – paid October 2016	**32.75**	**42.9**	-
		230.1	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. The total proposed dividend for the year ended 31 December 2016 is 74.0p per share amounting to £97.6m.

7. Accounting estimates and judgements

The Group's significant accounting policies under IFRS have been established 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. Critical judgement has been required when preparing the Group's accounts as follows:

Provisions

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.

At 31 December 2016, the Group has an environmental provision of £12.1m (2015: £12.3m) in respect of soil and potential ground water contamination on a number of sites.

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.

7. Accounting estimates and judgements (continued)

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.

Goodwill and fair value of assets acquired

The Group tests annually whether goodwill has suffered any impairment and the carrying value of goodwill in the Group balance sheet has been supported by detailed value-in-use calculations relating to the recoverable amounts of the underlying cash generating units. These calculations require the use of estimates and judgements, such as those around future trading and cash flows; however as recoverable amounts significantly exceed carrying values including goodwill, there is no impairment within a wide range of assumptions.

Retirement benefit liabilities

The Group's principal retirement benefit schemes are of the defined benefit type. 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. 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. The discount rate applied to the Group's UK scheme is based on Towers Watson's RATE: Link methodology. Total Group retirement benefit liabilities have increased by £67.7m in 2016 to £146.5m. This movement is made up of £10.9m of contributions in excess of service cost, £9.0m of experience gains, offset by £74.5m due to changes in actuarial assumptions, £2.5m of net financial expense and £10.6m of exchange movements.

Taxation

The Group is subject to corporate income taxes in numerous jurisdictions. Significant judgment 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.

8. Contingent liabilities

The Company has guaranteed loan capital and bank overdrafts of subsidiary undertakings amounting to £128.1m (2015: £89.1m).

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.

9. Principal risks and uncertainties

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 definition of capital the Group includes ordinary and preference share capital and net debt. These summary financial statements do not include all financial risk management information; full disclosures will be available in the Group's annual financial statements for the year ended 31 December 2016.

Financial instruments

The Group accounts for financial instruments in accordance with IFRS 13. This standard 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 classed as level 3.

Fair values

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. 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.

Prior to 2016, the Group did not typically utilise complex financial instruments and accordingly the only element of Group borrowings where fair value differed from book value was the US$100m fixed rate ten year bond that was issued in 2010. On the 27 June 2016, the Group issued £100m and €100m of new fixed rate bonds. The book value and fair values of these bonds can be found in the table below.

	Book Value 2016 £m	**Fair value 2016 £m**	Book Value 2015 £m	Fair value 2015 £m
US$100m fixed rate 10 year bond	**81.8**	**84.1**	67.8	70.9
€30m fixed rate 7 year bond	**25.7**	**25.5**	-	-
€70m fixed rate 10 year bond	**60.1**	**61.6**	-	-
£30m fixed rate 7 year bond	**30.0**	**30.3**	-	-
£70m fixed rate 10 year bond	**70.0**	**70.0**	-	-

10. Related Party Transactions

The Group has no related party transactions, with the exception of remuneration paid to key management and Directors.

11. Business combinations

On the 20 June 2016, the Group acquired Inventiva, an encapsulation technology business with growth opportunities in skin actives and across the broader Personal Care market.

On 4 December 2015, the Group acquired 100% of the issued share capital of Incotec Group BV, an independent innovative seed enhancement business headquartered in the Netherlands, for a total consideration, inclusive of debt, of £104.0m. Operating in one of the fastest growing segments within the crop care market, Incotec has developed and supplied a wide range of proprietary and sustainable technologies for both vegetable seeds and field crops since 1968. Their products and services help to enhance and improve seed performance, allowing greater efficacy and functionality to be delivered directly by the seed to increase farming yields to feed the world's growing population. Incotec forms part of the Group's Crop Care business within the Life Sciences sector. During 2016, the Group completed its fair value review of the acquired financial assets and liabilities of Incotec. This review did not identify any changes to the asset base nor goodwill.

Responsibility Statement of the Directors on the Annual Report

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 IFRSs issued by the IASB 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 performance, business model and strategy.

Each of the Directors, whose names and functions will be detailed in the Group's Annual Report for 2016, confirms 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; and
- 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 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.