

Chief Executive's review



Steve Foots, Group Chief Executive

Croda has delivered another year of record sales, profits and margins, despite a challenging economic environment in 2011. We made significant progress in both our business segments throughout the year and 2012 has started well. This continued strong performance underlines the resilience of our unique and highly innovative business model which is focused on fast-growing niche markets and high margin businesses where we can utilise our global reach.

Our Strategy

We focus on niche markets driven by strong, positive megatrends in beauty and ageing, health and wellbeing, and the increasing importance of sustainability and environmental protection. These factors, coupled with the strong structural drivers of population growth, increasing disposable incomes and, ultimately, growing consumer spending, give me great confidence that the core markets in which we operate will continue to grow.

In today's world, people not only want to look and feel good, but increasingly want to use renewable raw materials that combine great performance with excellent sustainability credentials. The trend towards sustainable products in our industrial markets is also growing rapidly. Our customers want improved performance from products which are also safe to use and can meet the ever increasing regulatory demands imposed on specific industries and in different countries around the world.

With our continued focus on innovation, coupled with approximately 70% of our raw materials coming from natural sources, Croda is well placed to take advantage of these drivers. We are continuing to drive top line growth through successful new product development, moving even closer to our customers and increasing our focus on faster growing emerging economies, particularly in Asia and Latin America. Within our industrial businesses, we are replicating this approach to significantly increase sales of speciality products, adopting the same emphasis on niche markets, differentiated technologies and innovative marketing that we have applied so successfully in Consumer Care.

We will accelerate the capture of new technologies across the Group, with a strong focus on sustainability.

We will only invest in businesses, current and future, that can be truly global, in which we can create profitable innovation, that operate in end markets which have long term growth prospects well above global GDP, and in which we can realistically sustain high operating margins.

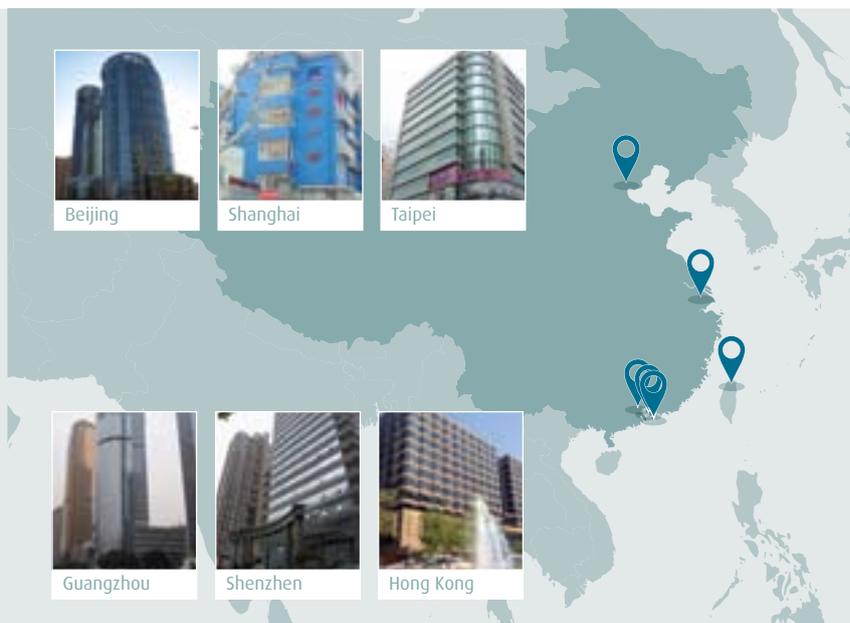
New Reporting Segments and Medium Term Targets

From 2012, we will change the way we report our sales and profits to better reflect the new internal management and business structure in place from 1 January 2012.

Industrial Specialities will be renamed **Performance Technologies**. Process Additives, previously part of Industrial Specialities, will in future be reported separately and renamed **Industrial Chemicals**.

The business moved forward in all our four operating regions

In recent years Croda's operations in China and Taiwan have been scaled up with sales offices in six major cities employing 50 people and serving over 1,200 customers. The area also has laboratories in Guangzhou with facilities to perform efficacy testing and formulation development.



This will result in three segments for reporting purposes:

Consumer Care (unchanged), comprising Personal Care, Health Care and Crop Care.

This segment accounts for 31% of Group volumes, 54% of turnover and 72% of operating profit. Sales are driven by global population dynamics. The majority of product launches are patented and competition is fairly fragmented. Volumes are relatively low but margins are high, driven by innovation, quality and the highly technical nature of the products.

The segment is targeting sales growth of 5-10% per annum and ROS above 25%.

Performance Technologies, comprising Lubricants, Coatings & Polymers, Geo Technologies, Polymer Additives and Home Care.

This segment generates 42% of Group volumes, 36% of turnover and 25% of operating profit. Sales are driven by product performance and the strength of our "green" credentials. Many, but not all, new product launches are patented. Margins are good, though not as high as in Consumer Care.

The segment is targeting sales growth of 4-8% per annum and ROS of 20%.

Industrial Chemicals produces basic fatty acids, glycerine and other by-products together with our textile business and other industrial products.

There are also some speciality products in the portfolio.

This segment accounts for 27% of Group volumes, 10% of turnover and 3% of operating profit. Much of the volume in this business is driven by our activity levels elsewhere, but we have little pricing power and margins are lower than the other two sectors and can be erratic. Volumes are high but their value is relatively low.

The segment will seek to maximise profitability.

These segments have different dynamics in terms of drivers, growth and margins and we believe that managing and reporting them separately will permit us to maximise our focus and drive profitability improvements in all parts of the Group.

Business Performance and Prospects

Consumer Care

The sector continued to break all records, with sales growing by 11.2% to £574.3m (2010: £516.4m) and operating profit increasing by 27.0% to £173.4m (2010: £136.5m). Our ROS rose by 3.8 percentage points to 30.2% (2010: 26.4%), the first time in Croda's history that ROS has exceeded 30%. It was particularly pleasing to see strong sales and profit increases in all three business areas throughout the year.

Our best performance was in Health Care, driven primarily by very strong growth of our excipient business selling into the pharmaceutical, dermatology and animal health markets. During the year our production facility in Leek, Staffordshire, was successfully inspected by the US Food and Drug Administration (FDA). This is a really exciting development, which we have worked for 10 years to achieve, that gives us the ability to supply Omega-3 into the pharmaceutical arena.

We continue to seek new opportunities to expand the market for Omega-3 in dietary supplements and will shortly launch a new Incromega™ 3mulsion, responding to market demand for a tastier Omega 3 in the form of a concentrated, flavoured emulsion that is particularly well suited for consumption by children.

Crop Care also performed extremely well, particularly in Europe, the USA and Latin America, and especially in excipient and adjuvant products. We have successfully developed new polymeric surfactants for electrolyte tolerant systems that offer significant performance advantages in Crop Care formulations.

Chief Executive's review

We are continuing to drive top line growth through successful new product development, moving even closer to our customers and increasing our focus on faster growing emerging economies, particularly in Asia and Latin America

Personal Care, which is the largest business area within Consumer Care, achieved impressive turnover and profit growth, driven by sales to our major multinational customers in all parts of the world. Throughout the year, consumers showed no inclination to trade down even in those areas under most economic pressure. Our product pipeline in this area has never been stronger and we launched a number of successful new products during the year. Highlights included the Crodasone™ Cystine hair therapy smoothing system and Resistem™ for skincare, making revolutionary new use of plant stem cell technology to deliver anti-ageing protection and improved skin transparency.

Industrial Specialities

Sales increased by 1.8% to £494.1m (2010: £485.5m) and operating profit grew by 11.1% to £69.0m (2010: £62.1m), representing a ROS of 14.0% (2010: 12.8%). Breaking this down into the new reporting sectors we will use from 2012:

Performance Technologies sales increased by 2.6% to £389.2m (2010: £379.4m) and operating profit rose by 17.4% to £60.1m (2010: £51.2m), a ROS of 15.4% (2010: 13.5%).

Lubricants, Home Care and Coatings & Polymers all contributed to the strong profit growth in this sector. Geo Technologies also made good underlying progress, though the windfall sales and profits resulting from the Gulf of Mexico clean-up in 2010 were obviously not repeated in 2011. In Polymer Additives, weak sales in Europe outweighed strong growth in other parts of the world.

Our strategic aim in this sector is to replicate the success we have achieved in Consumer Care by launching many new products into profitable niche market applications, and good progress was made in this during the year. In Lubricants, we introduced the Perfad™ 3000 series of organic friction modifiers, which offer outstanding friction reduction and improved fuel economy in oil based systems. In Home Care, we launched Modisurf™ Clarity, a stay-clean additive for hard surface cleaners, acting as an effective lime scale repellent that is also environmentally friendly and mild to the skin.

In Coatings & Polymers, our new Maxemul™ polymeric capitalise on the trend to water-based coatings driven by ever tighter environmental regulations restricting the use of Volatile Organic Compounds (VOCs). Maxemul™ permits the total elimination of VOC solvents without any compromise on product performance. In Polymer Additives, we have focused our efforts on developing products for wood-plastic composites to improve output, decrease water uptake and provide internal lubrication.

In Geo Technologies, we have launched a range of green demulsifiers to help with the challenge of improving environmental performance in the oil industry. Our launches have included several new products that are designed to help oilfield service companies meet the very specific needs of each oil production well with improved environmental ratings.

Right across the sector, our successful innovation has meant the replacement of higher volume, low margin products by new lines that add real value for our customers and offer higher levels of profitability. This was the key driver of the significant improvement in the sector's return on sales during the year.



The Cystine Hair Smoothing system is a unique set of demonstration formulations put together by Croda's application scientists to show how Croda ingredients can be combined to create products for effective semi-permanent hair smoothing. The hair smoothing category has seen an explosion of global market interest in the last few years yet safe and effective technical solutions have been hard to find. Cystine Hair Smoothing is the ideal solution for this significant market need.



Perfad™ 3000 and Perfad 3050 are unique organic friction modifiers, both in terms of their chemistry and their performance. Based on polymer chemistry, they deliver outstandingly low friction properties, which is the key to increasing fuel efficiency, reducing CO₂ emissions and engine wear, as well as extending the durability of engine equipment. A small improvement in individual vehicle fuel efficiency has a dramatic impact on total fuel consumption and exhaust emissions.

We will accelerate the capture of new technologies across the Group, with a strong focus on sustainability

Industrial Chemicals sales were down 1.1% at £104.9m (2010: £106.1m) and operating profit was 18.3% lower at £8.9m (2010: £10.9m), a ROS of 8.5% (2010: 10.3%). This reflected high raw material prices and competitive commodity and textile markets, though we did see an improving trend in the final quarter.

Geography

The business moved forward in all our four operating regions, with the strongest progress being achieved in Latin America, where sales grew by 11%, and in Europe, with sales growth of 9%. Sales in North America grew by a more modest 4% as we exited from a major distributor, which reduced sales in the second and third quarters. In Asia, our deliberate de-marketing from the tail of our Industrial Specialities business held sales back to an overall increase of 3%.

Sustainability

Croda's "green" credentials are one of our greatest strengths, with our focus on the production of natural ingredients and some 70% of our raw materials already derived from renewable resources. As a leader in sustainable technologies, we are proud that so many of our products enhance the quality of life through their beneficial impact on human health and wellbeing, and on the wider environment.

We continue to place a strong emphasis on responsible sourcing and on

minimising the environmental impact of our operations through a series of initiatives to reduce our consumption of energy and water, and to cut the quantities of waste we send to landfill. We also remain strongly committed to being a first class employer and a good neighbour to the communities in which we operate. Full details of our policies and actions can be found in the Sustainability review on pages 12 to 21 and in our separately published Sustainability (formerly Corporate Social Responsibility) Report.

Our People

Croda employs more than 3,200 people in 33 countries around the world. Many are highly qualified chemists; all share an overriding commitment to putting our customers first, through their focus on identifying and meeting customers' current and future needs.

Our continuing business success depends on our ability to attract and retain individuals who are passionate about personal and business development and who want to make a significant contribution to the future of Croda. We recognise that our employees want to make a difference and through open and honest dialogue we are able to design reward strategies and development opportunities that meet the individual needs of our global workforce. We have a terrific talent pool in Croda and we look forward to seeing our people grow in the organisation.

I am grateful to all my colleagues for their contributions as individuals and as teams to another year of outstanding progress for the Group.

Summary

We have a clear strategy, a strong business model, robust finances, talented people, great products and a strong development pipeline. Taken together these provide us with the soundest of platforms for continuing to deliver customer satisfaction, meeting our ambitious performance targets and delivering shareholder value. I look forward with confidence to leading Croda's continued growth and development in the years ahead.

Steve Foots

Group Chief Executive