

Chairman's Statement

A year of strong progress



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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.

