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Croda International Plc
Results for the six months ended 30 June 2016

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 half year results for the six months ended 30 June 2016.

Strategy delivering - improved profit driven by strong innovation

	Half year ended 30 June				
	2016 reported £m	2016 constant currency £m	2015 reported £m	Change (reported currency)	Change (constant currency)
Sales	608.7	576.5	564.6	+7.8%	+2.1%
Adjusted operating profit	152.6	148.2	140.8	+8.4%	+5.3%
Operating margin	25.1%	25.7%	24.9%	+0.2pp	+0.8pp
Adjusted profit before tax	148.5	144.2	135.7	+9.4%	+6.3%
IFRS profit before tax	145.1	n/a	135.6	+7.0%	n/a
Adjusted earnings per share	79.0p	n/a	71.8p	+10.0%	n/a
Dividend per share	32.75p	n/a	31.0p	+5.6%	n/a

pp: percentage points

First half year highlights

Our strategy is continuing to deliver:

- More protected innovation: New & Protected Products (NPP) sales increased to 27.5% of constant currency sales† (2015: 26.1%)
- Key technology platforms growing: constant currency sales up 2.1% including Incotec acquisition
- Improved operating margin: up 0.8 percentage points to 25.7% (2015: 24.9%) at constant currency, reflecting increased innovation and technology-driven growth
- Strong bottom line performance: adjusted profit before tax up 6.3% in constant currency - adjusted earnings per share (EPS) up 10.0% in reported currency
- Robust cash flow from operating activities: funding over £56m of capital investment for future growth
- Continued dividend growth: interim dividend increased by 5.6%, following payment of 100p special dividend in June 2016

Steve Foots, Croda's Chief Executive, commented:

"Despite subdued demand in the first half of 2016, we have delivered a strong bottom line performance, improving our operating margin through a richer product mix, whilst also increasing profit and the dividend. Our strategy is driving more protected innovation, closer customer intimacy and a greater focus on key technologies for future growth.

"Although we remain cautious given the continued economic uncertainty, we expect to deliver further top and bottom line progress in the second half of 2016. The Group is on track to deliver our expectations for the full year, in constant currency terms, while Sterling weakness will benefit our reported results."

Sector financial summary

	Half year ended 30 June				
Sales	2016 reported £m	2016 constant currency £m	2015* reported £m	Change (reported currency)	Change (constant currency)
Personal Care	207.4	196.2	197.1	5.2%	(0.5)%
Life Sciences	143.6	136.1	114.3	25.6%	19.1%
Performance Technologies	195.5	185.1	185.7	5.3%	(0.3)%
Core Business	546.5	517.4	497.1	9.9%	4.1%
Industrial Chemicals	62.2	59.1	67.5	(7.9)%	(12.4)%
Group	608.7	576.5	564.6	7.8%	2.1%

	Half year ended 30 June				
Adjusted profit	2016 reported £m	2016 constant currency £m	2015* reported £m	Change (reported currency)	Change (constant currency)
Personal Care	73.1	70.1	64.4	13.5%	8.9%
Life Sciences	40.4	39.9	39.9	1.3%	-
Performance Technologies	35.8	35.2	31.6	13.3%	11.4%
Core Business	149.3	145.2	135.9	9.9%	6.8%
Industrial Chemicals	3.3	3.0	4.9	(32.7)%	(38.8)%
Operating profit	152.6	148.2	140.8	8.4%	5.3%
Net interest	(4.1)	(4.0)	(5.1)	(19.6)%	(21.6)%
Profit before tax	148.5	144.2	135.7	9.4%	6.3%

** 2015 sector sales of £4.5m and adjusted operating profit of £0.6m have been restated for a reclassification of toll product from Life Sciences to Industrial Chemicals*

† *excluding Incotec, where the NPP component has yet to be assessed*

Further information

Jez Maiden, Group Finance Director — *Tel: 01405 860551*
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A presentation for investors and analysts will be held at 0900 BST on 26 July 2016 at the Andaz Hotel, Liverpool Street, London EC2M 7QN. The presentation will be audiocast at www.croda.com

Definitions:

Constant currency results are translated to Sterling at the prior year average foreign exchange rates

Sales in Latin America are primarily based on US dollars, which is used as the functional currency for constant currency sales translation

The Core Business comprises Personal Care, Life Sciences and Performance Technologies. The Industrial Chemicals sector sells co-streams, undertakes toll processing and develops novel industrial applications

Operating margin is adjusted operating profit divided by sales. Adjusted operating profit is before exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition

GROUP PERFORMANCE REVIEW

Strategy delivering – improved profit driven by strong innovation

Despite subdued demand in the first half of 2016, we have delivered a strong bottom line performance, improving our operating margin through a richer product mix, whilst also increasing profit and the dividend. Our strategy is driving more protected innovation, closer customer intimacy, a greater focus on key technologies for future growth and leveraging our industry-leading position in sustainability.

In the first half of 2016, sales growth of 2.1% in constant currency was driven by organic growth from our key technology platforms - including skin actives, sun care ingredients, high purity health care excipients and crop delivery systems. This was supplemented by last year's technology-driven acquisition of Incotec, our seed treatment business. Together, these more than offset softer market demand due to weaker economic conditions in the Americas.

This technology focus, supported by continued product innovation, led to a further increase in the Group's operating margin, up 0.8 percentage points to 25.7% (2015: 24.9%) in constant currency. New and Protected Products (NPP) sales increased to 27.5% of total sales, adding new intellectual property (IP) to our product portfolio and supporting pricing power through the novel benefits we deliver to our customers.

We have continued to reduce sales of low value-add products, with the improved quality of our product mix helping to deliver profit growth of 6.3% in constant currency, outstripping the growth in sales value and generating a double digit percentage increase in adjusted EPS. This was supported by a strong cash flow from operating activities, funding over £56m of capital investment for future organic growth and an increase in the interim dividend.

We also continue to build on our industry-leading position in sustainability, where we are differentiated from our petro-chemical based peers. Two thirds of our raw materials already come from natural sources and this should exceed 70% once our new non-ionic biosurfactant plant is completed in North America in the second half of 2017. Sustainable sourcing will continue to increase as a priority for our customers and their consumers, and Croda is exceptionally well placed to meet this need.

Reported sales up 7.8%

Group sales increased by 7.8% to £608.7m (2015: £564.6m). This included a £32.2m benefit from currency translation as Sterling weakened in the first half of the year. Sales in constant currency increased by 2.1%, with Incotec adding 4.1% to Group sales in its first complete half year since acquisition.

Underlying sales (which exclude the impacts of currency translation and acquisition) declined by 2.0%, largely reflecting our strategy of reducing sales of low value-add co-products and tolling business in Industrial Chemicals. By contrast, underlying sales in the core business (Personal Care, Life Sciences and Performance Technologies) were close to flat. Sales in several key technologies saw strong growth, which offset weaker sales in less differentiated areas amid more subdued macroeconomic conditions.

Top line sales growth in Asia and Europe

We continued to grow the core business strongly in Asia, up 7% in underlying terms, driven by increased proximity to local and regional customers, together with transfers from sales through distributors to our direct selling model. Sales in China and India performed particularly well. Positive consumer confidence in Europe helped underlying sales in the core business increase by 3%.

These strong regional performances were offset by lower underlying sales in the core business in the Americas, with North America down 6% and Latin America 11% lower. North America saw export customers adversely impacted by the strong dollar and some US customers have relocated manufacturing overseas. Sales in Latin America, which are predominantly denominated in US dollars, remained weak due to challenging macroeconomic conditions, although sales value rose in local currency.

Robust profit growth with adjusted EPS up 10.0%
Adjusted profit before tax increased by 9.4% in the first half of the year, up £12.8m to £148.5m (2015: £135.7m) and was 6.3% higher in constant currency. This impressive performance reflects our continued focus on growing the bottom line faster than the top line. Adjusted EPS grew by 10.0% to 79.0p (2015: 71.8p).

Innovation and improved product mix driving strong profit improvement
The improvement in profit reflected an increase in operating margin of 0.8 percentage points to 25.7%, at constant currency. This was achieved despite the dilutive effect of the lower margin Incotec acquisition. This progress was driven by our relentless focus on innovation, with record sales of NPP which grew well ahead of overall sales and now represent 27.5% of Group sales (2015: 26.1%), excluding Incotec. Innovation, coupled with growth in key technology platforms and an improved mix from actively reducing sales of low value add products, helped drive the margin increase. There was also a currency transaction benefit from the impact of weaker Sterling on UK exported production. As a result, adjusted operating profit increased to £152.6m (2015: £140.8m) and was 5.3% higher in constant currency.

Cash generation funding organic growth investment
We continue to generate good cash flow. This supported capital investment of approximately three times depreciation, including our North America non-ionic biosurfactant plant, to underpin future organic growth. Net debt at the end of the first half year was £419.4m (31 December 2015: £259.3m) and reflected payment of the 100p special dividend in June 2016. Leverage of 1.3 times EBITDA is in line with our capital allocation policy.

The EU referendum and outlook
With over 95% of sales and 80% of production outside of the UK, Croda is a truly international group. The terms of a future exit from the EU by the UK are unclear. We will continue to monitor this area.

Although we remain cautious given the continued economic uncertainty, we expect to deliver further top and bottom line progress in the second half of 2016. The Group is on track to deliver our expectations for the full year, in constant currency terms, while Sterling weakness will benefit our reported results.

SECTOR PERFORMANCE REVIEW
The Group continued to generate profit growth in its core business in the first half of 2016.

Skin actives driving margin growth in Personal Care
Sales in Personal Care increased by 5.2% to £207.4m (2015: £197.1m). On a constant currency basis, sales were 0.5% lower than prior year, although the second quarter saw modest positive growth. Adjusted operating profit rose by 13.5% to £73.1m (2015: £64.4m) and was 8.9% higher at constant currency, a record first half profit. At constant currency, operating margin increased to 35.7% (2015: 32.7%). Our strategy is focused on targeting profitable top line growth, by leveraging increased innovation and IP; getting closer to customers, particularly in fast growth regions; and fulfilling current trends in sustainability and digitalisation.

Sales grew strongly in Actives and sun care ingredients. We are expanding innovation and production capacity at our Sederma business and saw good demand for recently launched actives, including Majestem, recognised in April by In-Cosmetics for its contribution to sustainability. This was supported by growth in our 'IRB by Sederma' plant cell skin active ingredients and from plant extracts at Crodarom. We are also investing in new capacity in Europe for our innovative sun care ingredients, responding to demand for broader spectrum UVA/UVB protection, meeting enhanced regulatory standards. Overall, NPP sales reached a record level as we focus on winning with customers through bigger and better innovation.

Expansion in Asia continued at pace, with a double digit percentage rise in constant currency sales. Progress in converting customers from distributor to direct sales supported rising demand, particularly in North Asia, alongside expansion with local and regional customers and from being close to key trends. These include the growing leadership of Korean cosmetics, the emergence of new internet-savvy 'digital' customers and expanding our presence in local emerging markets.

Sales in Europe were also good, up high single digit percentage in constant currency, supported by positive consumer sentiment. Sales were weaker in Speciality products, particularly in North America, due to lower export-driven sales, and in Latin America, due to weakness in US dollar-based demand, although sales grew in local currency.

As part of our Technology Innovation Group (TIG), we continue to identify exciting early stage technologies to acquire for future commercialisation. In the first half of the year, we acquired Inventiva, an encapsulation technology business with growth opportunities in skin actives and across the broader Personal Care market.

Growth in Life Sciences boosted by Crop Care and Incotec acquisition

Sales in Life Sciences increased by 25.6% to £143.6m (2015: £114.3m). On a constant currency basis, sales were 19.1% higher than prior year, reflecting the benefit of the first half year of trading from the newly acquired Incotec seed treatment business, which added £23.0m in sales. Adjusted operating profit rose by 1.3% to £40.4m (2015: £39.9m) and was unchanged in constant currency. Our strategy is to grow our high value-add technologies in health care excipients and crop care adjuvants, through innovation and customer collaboration, and to grow in seed treatment by leveraging Incotec's technology and market opportunities.

Underlying sales, which exclude currency translation and the Incotec acquisition, fell by 1.0%. As anticipated, this reflected lower sales of our Omega-3 active pharmaceutical ingredient (API) in North America, following supply chain stocking in the comparator period for the customer's product launch. We expect sales to remain below prior year in the second half of 2016, reflecting increased generic competition. Sales of new APIs using this technology platform are growing steadily, including two new registrations in the first half, but will not be sufficient to offset this decline fully in 2016.

Excluding APIs, underlying sales grew steadily. Growth in high purity excipients continued, notably in Europe, and in India where we are increasing our market presence. Sales of our Crop Care delivery systems outperformed the market, particularly in the first quarter, reflecting successful collaboration projects with multinational and regional customers, and providing a positive outlook for this market.

At constant currency, operating margin reduced to 29.3% (2015: 34.9%). This reflected the dilution impact of integrating the lower margin Incotec acquisition. During 2016 we are combining the technology and operational capability of Incotec with Croda. Implementation of the integration programme is now underway, including rationalisation in smaller markets which do not offer the potential to grow profitably, focusing innovation on maximising commercial opportunities and simplifying the organisational structure. The cost of implementing this programme is being taken as an exceptional charge, including £2.0m charged in the first half of the year. We are excited by the opportunities in seed treatment to refine the business and increase the operating margin, while identifying opportunities to grow.

Improving product mix in Performance Technologies

Sales in Performance Technologies increased by 5.3% to £195.5m (2015: £185.7m). On a constant currency basis, sales were 0.3% lower than prior year. Adjusted operating profit rose by 13.3% to £35.8m (2015: £31.6m) and was 11.4% higher at constant currency. At constant currency, operating margin increased to 19.0% (2015: 17.0%). Our strategy is to improve the operating margin to 20% by increasing innovation, expanding outside of the traditional European heartland of the business and enhancing the product mix by exiting low value-add products.

The first half of 2016 saw good progress in implementing this strategy despite some soft industrial markets. We exited low margin products in Coatings & Polymers, driving better profitability through greater differentiation, in line with our focus on value rather than volume. Sales from NPP increased, with excellent progress in market development of our novel patented slip additive in the Polymer Additives business, and encouraging technical developments in antimicrobial surface innovation. We continue to increase sales into Asia, which is at an early stage of penetration, with the Sipo joint venture in China delivering profitable growth. Lower sales levels in the challenged oil and gas markets have now stabilised and we are developing technology-based niche markets, such as flow assurance.

Refining our presence in Industrial Chemicals
Sales in Industrial Chemicals reduced by 7.9% to £62.2m (2015: £67.5m). On a constant currency basis, sales were 12.4% lower than prior year. Adjusted operating profit declined to £3.3m (2015: £4.9m) and was 38.8% lower at constant currency. At constant currency, operating margin decreased to 5.1% (2015: 7.3%). This performance was in line with our strategy to reduce the volume of low value-add products and tolling, while creating new novel industrial applications for the co-products that we produce from our core business manufacturing processes. During the period, our investment in biofermentation of crude glycerine started up in the Netherlands. This project converts a low value commodity co-product stream into energy, reducing external sales but increasing Group profit through lower plant power costs.

Interim dividend increased by 5.6%
Following the strong financial performance in the first half of the year, the Board has increased the interim dividend by 5.6% to 32.75p (2015: 31.0p). The dividend will be paid on 4 October 2016 to shareholders on the register on 9 September 2016.

SUPPORTING FINANCIAL DATA

Currency
Currency translation had a beneficial impact on both sales and profit, due to the weakness of Sterling against the US Dollar ($) and Euro (€). In the first half of 2016, Sterling averaged $1.433 (2015: $1.524) and €1.283 (2015: €1.365). Currency translation increased sales compared to 2015 by £32.2m (5.7%) and adjusted profit before tax by £4.3m (3.0%).

Sales
Sales increased by 7.8% to £608.7m (2015: £564.6m). At constant currency, sales rose by 2.1%, reflecting the Incotec acquisition towards the end of 2015 which contributed £23.0m in the period. Underlying sales reduced by £11.1m, primarily due to reductions in co-stream and tolling products in Industrial Chemicals.

Sales	£m	%
First half year 2015 reported	564.6	
Underlying growth	(11.1)	(2.0)
Impact of acquisitions	23.0	4.1
First half year 2016 at constant currency	576.5	2.1
Impact of currency translation	32.2	5.7
First half year 2016 reported	608.7	7.8

Underlying sales in the core business were broadly flat across the half year. Sales in Personal Care and Performance Technologies improved slightly as the year unfolded, offset by slower sales in Life Sciences, primarily due to inventory stocking in 2015 for a major API launch.

Underlying sales growth	First quarter %	Second quarter %	Half year %
Personal Care	(1.1)	0.2	(0.5)
Life Sciences	4.6	(7.1)	(1.0)
Performance Technologies	(0.6)	(0.1)	(0.3)
Core business	0.4	(1.5)	(0.5)
Industrial Chemicals	(10.7)	(14.1)	(12.4)
Group	(0.9)	(3.0)	(2.0)

In the core business average sales volume reduced by 1.1%, with average price/mix up 0.6%.

Adjusted profit

Adjusted operating profit rose by 8.4% to £152.6m (2015: £140.8m). On a constant currency basis, adjusted operating profit increased by 5.3%.

Adjusted operating profit	£m	%
First half year 2015 reported	140.8	
Profit improvement from underlying mix and acquisition	7.4	5.3
First half year 2016 at constant currency	148.2	5.3
Impact of currency translation	4.4	3.1
First half year 2016 reported	152.6	8.4

In constant currency, adjusted operating profit from the core business grew strongly. Profit in Industrial Chemicals was lower, reflecting a reduction in tolling and co-product sales.

Adjusted operating profit	2016 reported £m	2016 constant currency £m	2015 reported £m
Personal Care	73.1	70.1	64.4
Life Sciences	40.4	39.9	39.9
Performance Technologies	35.8	35.2	31.6
Core business	149.3	145.2	135.9
Industrial Chemicals	3.3	3.0	4.9
Group	152.6	148.2	140.8

The net interest charge decreased to £4.1m (2015: £5.1m), reflecting a lower pension financing cost and capitalised interest on construction of the non-ionic biosurfactant plant. Adjusted profit before tax increased by £12.8 million to £148.5m (2015: £135.7m).

Summary income statement	Half year ended 30 June		Full year
	2016 £m	2015 £m	2015 £m
Sales	608.7	564.6	1,081.7
Operating costs	(456.1)	(423.8)	(817.5)
Adjusted operating profit	152.6	140.8	264.2
Net interest costs	(4.1)	(5.1)	(9.5)
Adjusted profit before tax	148.5	135.7	254.7

The effective tax rate on this profit was unchanged at 28.2% (2015: 28.2%). 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%. There are no other significant adjustments between the Group's expected and reported tax charge based on its accounting profit.

The adjusted profit after tax for the half year was £106.6m (2015: £97.4m). Adjusted basic earnings per share (EPS) increased by 10.0% to 79.0p (2015: 71.8p).

IFRS profit

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

The total charge for exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition was £3.4m (2015: £0.1m). This comprised an amortisation charge of £1.4m (2015: £0.1m) and an exceptional charge of £2.0m (2015: nil). The latter relates to reorganisation of the acquired Incotec business, with a larger exceptional charge expected in the second half of 2016. There were no acquisition costs in the period (2015: nil).

The profit after tax for the period on an IFRS basis was £103.9m (2015: £97.3m) and basic EPS were 77.0p (2015: 71.7p).

	Half year ended 30 June		Full year
	2016	2015	2015
IFRS profit	£m	£m	£m
Adjusted profit before tax	148.5	135.7	254.7
Exceptional items, acquisition costs & intangibles	(3.4)	(0.1)	(2.4)
Profit before tax	145.1	135.6	252.3
Tax	(41.2)	(38.3)	(71.2)
Profit after tax	103.9	97.3	181.1

Cash management
A strong cash flow is core to Croda's strategy. In the first half of the year, the Group increased EBITDA to £174.1m (2015: £159.7m), which funded an increase in working capital of £33.6m, reflecting increased inventory cover from seasonal raw material purchasing and accelerated purchases ahead of planned maintenance, and net capital expenditure of £56.8m. Free cash flow was broadly unchanged at £49.9m (2015: £46.7m). In addition to the regular final dividend, a special dividend of £135.7m was paid in June 2016.

	Half year ended 30 June		Full year
	2016	2015	2015
Cash flow	£m	£m	£m
Adjusted operating profit	152.6	140.8	264.2
Depreciation and other items	21.5	18.9	38.1
EBITDA	174.1	159.7	302.3
Working capital	(33.6)	(23.2)	(1.4)
Net capital expenditure	(56.8)	(38.2)	(91.1)
Additional pension contributions	(1.3)	(19.4)	(18.5)
Interest & tax	(32.5)	(32.2)	(73.8)
Free cash flow	49.9	46.7	117.5
Dividends	(187.3)	(48.9)	(90.9)
Acquisitions	(1.4)	-	(104.0)
Other cash movements	1.1	0.6	(1.7)
Net cash flow	(137.7)	(1.6)	(79.1)

Net debt at 30 June 2016 increased to £419.4m (31 December 2015: £259.3m), including £22.4m due to currency translation, primarily on weaker Sterling. Our financial position remains robust, with leverage (the ratio of net debt to EBITDA) of 1.3 times, substantially below the maximum covenant level under the Group's bank facilities of 3 times.

During the first half of the year, following its acquisition of Incotec and the declaration of the special dividend, the Group increased its committed debt facilities. The existing committed bank facilities were increased by approximately £126m to £552m, with the majority extended to 2021. In addition, the Group placed the equivalent of $256m (approximately £183m) in the US private placement market, maturing in 2023 and 2026, at an average fixed interest coupon of 2.1%. This provides ample liquidity to meet the Group's immediate plans and potential opportunities, at a relatively low interest cost. At 30 June 2016 the Group had £427.5m (31 December 2015: £239.9m) of cash and undrawn committed credit facilities available.

Dividend and capital allocation

Croda seeks to deliver high quality earnings, measured through a high return on invested capital (ROIC), well in excess of its cost of capital, future earnings growth and strong cash returns. The Group's capital allocation policy is to:

1) **Reinvest for growth** – through organic investment in capital projects to grow in our core business, product innovation and growth in emerging markets, to deliver a superior ROIC. During the first half of the year, we invested at nearly 3 times depreciation, funding asset replacement, future growth investment and construction of our non-ionic biosurfactant plant in North America. The latter investment is planned to complete in the second half of 2017 and will secure a key supply chain, while creating exciting 'white space' opportunities in new sustainable alkoxylates;

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 declared an interim dividend of 32.75p, an increase of 5.6% (2015: 31.0p);

3) **Acquire promising technologies** – we supplement organic growth by acquiring companies with promising technologies and in markets adjacent to, and consistent with, our current capabilities. Following the acquisition of Incotec in seed treatment in December 2015, we added Inventiva, an encapsulation technology business, in June 2016; and

4) **Maintain a strong balance sheet and return excess capital –** we target a balance sheet leverage of 1 to 1.5 times (excluding benefits on retirement benefit schemes), although we are prepared to move outside this range if circumstances warrant. Following the payment of the special dividend of 100p per share in the first half of 2016, leverage (net debt:EBITDA on a bank covenant test basis) is 1.3 times (31 December 2015: 0.8x), in line with this policy. The Board 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 at 30 June 2016, measured on an accounting valuation basis under IAS19R, increased to £110.9m (31 December 2015: £55.9m), primarily reflecting 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. The triennial valuation to 30 September 2014 for the Group's largest pension scheme, the UK Croda Pension Scheme, showed that the actuarial valuation deficit had been eliminated, taking into account the final scheduled deficit payment of £22m paid in January 2015. As a result, no further deficit funding payments to this scheme are required before the next valuation.

Other matters

The principal risks and uncertainties facing the Group are set out in note 9. Related party transactions during the period are set out in note 10.

Statement of Directors' Responsibilities

The Directors confirm that this condensed interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last Annual Report.

The Directors of Croda International Plc at 30 June 2016 are as listed in the Group's Annual Report and Accounts for the year ended 31 December 2015. A list of current Directors is maintained on the Croda website: www.croda.com.

By order of the Board

Steve Foots
Group Chief Executive

Jez Maiden
Group Finance
Director

26 July 2016

Independent Review Report to Croda International Plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Croda International Plc's condensed consolidated interim financial statements (the "interim financial statements") in the half-yearly financial report of Croda International Plc for the 6 month period ended 30 June 2016. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Group condensed interim balance sheet as at 30 June 2016;
- the Group condensed interim income statement and Group condensed interim statement of comprehensive income and expense for the period then ended;
- the Group condensed interim statement of cash flows for the period then ended;
- the Group condensed interim statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the half-yearly financial report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the condensed consolidated interim financial statements and the review

Our responsibilities and those of the Directors

The half-yearly financial report, including the interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of the interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
26 July 2016
Leeds

Croda International Plc

Interim announcement of trading results for the six months ended 30 June 2016

Group condensed interim income statement

	Note	Unaudited £m			Unaudited £m			Audited £m		
		H1 2016 Adjusted	H1 2016 Adjustments[1]	H1 2016 Reported Total	H1 2015 Adjusted	H1 2015 Adjustments[1]	H1 2015 Reported Total	2015 Adjusted	2015 Adjustments[1]	2015 Reported Total
Revenue	2	**608.7**	**-**	**608.7**	564.6	-	564.6	1,081.7	-	1,081.7
Cost of sales		**(385.3)**	**-**	**(385.3)**	(365.5)	-	(365.5)	(704.1)	-	(704.1)
Gross profit		**223.4**	**-**	**223.4**	199.1	-	199.1	377.6	-	377.6
Operating costs		**(70.8)**	**(3.4)**	**(74.2)**	(58.3)	(0.1)	(58.4)	(113.4)	(2.4)	(115.8)
Operating profit	2	**152.6**	**(3.4)**	**149.2**	140.8	(0.1)	140.7	264.2	(2.4)	261.8
Financial costs	3	**(4.3)**	**-**	**(4.3)**	(5.6)	-	(5.6)	(10.2)	-	(10.2)
Financial income	3	**0.2**	**-**	**0.2**	0.5	-	0.5	0.7	-	0.7
Profit before tax		**148.5**	**(3.4)**	**145.1**	135.7	(0.1)	135.6	254.7	(2.4)	252.3
Tax		**(41.9)**	**0.7**	**(41.2)**	(38.3)	-	(38.3)	(71.2)	-	(71.2)
Profit after tax for the period		**106.6**	**(2.7)**	**103.9**	97.4	(0.1)	97.3	183.5	(2.4)	181.1
Attributable to:										
Non-controlling interests				**0.5**			0.1			0.4
Owners of the parent				**103.4**			97.2			180.7
				103.9			97.3			181.1

[1] **Adjustments = exceptional items, acquisition costs and 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	Pence per Share Adjusted	Pence per Share Total
Earnings per 10p share						
Basic	**79.0**	**77.0**	71.8	71.7	135.0	133.3
Diluted	**78.4**	**76.4**	71.3	71.3	134.3	132.3
Ordinary dividends						
Interim		**32.75**		31.0		31.0
Final						36.0

Group condensed interim statement of comprehensive income and expense

	Unaudited £m		Audited £m
	2016	2015	2015
	First half	First half	Full year
Profit for the period	**103.9**	97.3	181.1
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations	**(61.9)**	(6.9)	33.6
Tax on items that will not be reclassified	**15.4**	0.9	(6.6)
	(46.5)	(6.0)	27.0
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences	**54.6**	(13.3)	(3.1)
Other comprehensive income/ (expense) for the period net of tax	**8.1**	(19.3)	23.9
Total comprehensive income for the period	**112.0**	78.0	205.0
Attributable to:			
Non-controlling interests	**1.0**	0.1	0.4
Owners of the parent	**111.0**	77.9	204.6
	112.0	78.0	205.0
Arising from:			
Continuing operations	**112.0**	78.0	205.0

Group condensed interim balance sheet

	Note	**Unaudited £m** **At** **30 June** **2016**	Audited £m *Restated** At 31 December 2015
Assets			
Non-current assets			
Intangible assets		**352.9**	337.8
Property, plant and equipment	5	**546.2**	460.6
Investments		**0.9**	1.0
Deferred tax assets		**54.3**	38.9
		954.3	838.3
Current assets			
Inventories		**245.2**	221.6
Trade and other receivables		**203.5**	156.1
Cash and cash equivalents		**96.2**	106.7
		544.9	484.4
Liabilities			
Current liabilities			
Trade and other payables		**(172.4)**	(159.6)
Borrowings and other financial liabilities		**(73.8)**	(58.4)
Provisions		**(5.3)**	(4.9)
Current tax liabilities		**(54.9)**	(39.3)
		(306.4)	(262.2)
Net current assets		**238.5**	222.2
Non-current liabilities			
Borrowings and other financial liabilities		**(441.8)**	(307.6)
Other payables		**(2.5)**	(2.1)
Retirement benefit liabilities		**(149.2)**	(78.8)
Provisions		**(9.9)**	(8.9)
Deferred tax liabilities		**(55.9)**	(55.8)
		(659.3)	(453.2)
Net assets		**533.5**	607.3
Equity attributable to owners of the parent		**526.0**	600.8
Non-controlling interests in equity		**7.5**	6.5
Total equity		**533.5**	607.3

***** Cash and cash equivalents and Borrowings and other financial liabilities have been restated following the change in accounting policy described in note 12.

Group condensed interim statement of changes in equity

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Non-controlling interests £m	Total £m
Audited						
At 1 January 2015	15.1	93.3	1.1	373.4	6.1	489.0
Profit for the period attributable to equity shareholders	-	-	-	97.2	0.1	97.3
Other comprehensive expense	-	-	(13.3)	(6.0)	-	(19.3)
Transactions with owners:						
Dividends on equity shares	-	-	-	(48.9)	-	(48.9)
Share-based payments	-	-	-	2.5	-	2.5
Total transactions with owners	**-**	**-**	**-**	**(46.4)**	**-**	**(46.4)**
Total equity at 30 June 2015	**15.1**	**93.3**	**(12.2)**	**418.2**	**6.2**	**520.6**
Unaudited						
At 1 January 2016	15.1	93.3	(2.0)	494.4	6.5	607.3
Profit for the period attributable to equity shareholders	-	-	-	103.4	0.5	103.9
Other comprehensive income/(expense)	-	-	54.1	(46.5)	0.5	8.1
Transactions with owners:						
Dividends on equity shares	-	-	-	(187.3)	-	(187.3)
Share-based payments	-	-	-	1.2	-	1.2
Consideration received for sale of own shares	-	-	-	0.3	-	0.3
Total transactions with owners	**-**	**-**	**-**	**(185.8)**	**-**	**(185.8)**
Total equity at 30 June 2016	**15.1**	**93.3**	**52.1**	**365.5**	**7.5**	**533.5**

Other reserves comprise the Capital Redemption Reserve of £0.9m (30 June 2015: £0.9m) and the Translation Reserve of £51.2m (30 June 2015: £(13.1m)).

Group condensed interim statement of cash flows

	Note	Unaudited £m 2016 First half £m	Unaudited £m *Restated** 2015 First half £m	Audited £m *Restated** 2015 Full year £m
Cash flows from operating activities				
Continuing operations				
Operating profit		**149.2**	140.7	261.8
Adjustments for:				
Depreciation and amortisation		**22.8**	19.0	38.5
Changes in working capital		**(33.6)**	(23.2)	(1.4)
Pension fund contributions in excess of service cost		**(1.3)**	(19.4)	(18.5)
Share based payments		**2.6**	3.9	4.7
Movement on provisions		**1.4**	(1.8)	(3.0)
Cash generated from continuing operations		**141.1**	119.2	282.1
Interest paid		**(4.3)**	(3.7)	(7.7)
Tax paid		**(28.4)**	(29.0)	(66.8)
Net cash generated by operating activities		**108.4**	86.5	207.6
Cash flows from investing activities				
Acquisition of subsidiaries		**(1.4)**	-	(104.0)
Purchase of property, plant and equipment		**(56.3)**	(40.1)	(92.7)
Purchase of intangible assets		**(0.8)**	(0.5)	(0.8)
Proceeds from sale of property, plant and equipment		**0.3**	2.4	2.4
Cash paid against non-operating provisions		**(1.1)**	(1.5)	(2.1)
Interest received		**0.2**	0.5	0.7
Net cash absorbed by investing activities		**(59.1)**	(39.2)	(196.5)
Cash flows from financing activities				
New borrowings		**282.0**	51.5	88.2
Repayment of borrowings		**(168.5)**	(47.3)	(1.8)
Net transactions in own shares		**0.3**	-	1.2
Dividends paid to equity shareholders	4	**(187.3)**	(48.9)	(90.9)
Capital element of finance lease payments		**-**	-	(0.2)
Net cash absorbed by financing activities		**(73.5)**	(44.7)	(3.5)
Net movement in cash and cash equivalents		**(24.2)**	2.6	7.6
Cash and cash equivalents brought forward		**55.8**	45.6	45.6
Exchange differences		**1.3**	(5.4)	2.6
Cash and cash equivalents carried forward		**32.9**	42.8	55.8
Cash and cash equivalents carried forward comprise:				
Cash at bank and in hand		**96.2**	86.9	106.7
Bank overdrafts		**(63.3)**	(44.1)	(50.9)
		32.9	42.8	55.8

***** Cash at bank and in hand and Bank overdrafts have been restated following the change in accounting policy described in note 12.

A reconciliation of the cash flows above to the movements in net debt is shown in note 6.

Notes to the Interim Financial Statement

1. a. General information

The Company is a public limited company (Plc) incorporated and domiciled in the UK. The address of its registered office is Cowick Hall, Snaith, Goole, East Yorkshire DN14 9AA. The Company is listed on the London Stock Exchange. This consolidated interim report was approved for issue on 26 July 2016. The financial information included in this interim financial report for the six months ended 30 June 2016 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006 and is unaudited. The comparative information for the six months ended 30 June 2015 is also unaudited. The comparative figures for the year ended 31 December 2015 have been extracted from the Group's financial statements, as filed with the Registrar of Companies, on which the auditors gave an unqualified opinion, did not contain an emphasis of matter paragraph and did not make a statement under section 498 of the Companies Act 2006. These Group condensed interim financial statements have been reviewed, not audited.

b. Basis of preparation

This consolidated interim financial report for the six months ended 30 June 2016 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and IAS 34 `Interim Financial Reporting' (as adopted by the EU). The report should be read in conjunction with the Group's financial statements for the year ended 31 December 2015, available on the Group's website (www.croda.com), which were prepared in accordance with IFRSs as adopted by the EU.

Going concern basis

After making enquiries, and having reassessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the interim financial information.

c. Accounting policies

Except for the change in accounting policy described in note 12, all accounting policies adopted in preparing this report are consistent with those used in the Group's financial statements for the year ended 31 December 2015 as described in those statements.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these interim consolidated financial statements. The new pronouncements which are expected to be relevant to the Group are set out below:

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 and earlier application is permitted subject to EU endorsement.

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.

The Group is currently confirming the impact of the above new pronouncements on its financial statements, although it is not expected to be material.

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.

Tax policy

Taxes on income in interim periods are accrued using the tax rate that would be applicable to the expected total Group annual profit or loss.

Other matters

For details on the principal risks and uncertainties facing the Group refer to note 9. For information on related party transactions during the period refer to note 10.

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 £2.7m (31 December 2015: £2.4m) include £2.0m (31 December 2015: £Nil) of costs associated with the reorganisation of Incotec during the year (redundancy costs and restructuring costs). Also included are acquisition costs and amortisation of intangible assets arising on acquisition of £1.4m (31 December 2015: £2.4m) and the tax thereon of £0.7m (31 December 2015:£Nil). The adjustments relate to our segments as follows: Personal Care £0.1m (31 December 2015: £0.4m), Life Sciences £2.6m (31 December 2015: £1.9m), Performance Technologies £Nil (31 December 2015: £0.1m) and Industrial Chemicals £Nil (31 December 2015: £Nil).

2. Segmental information continued

	2016 First half £m	2015* First half £m	2015* Full year £m
Revenue			
Personal Care	**207.4**	197.1	377.3
Life Sciences	**143.6**	114.3	223.9
Performance Technologies	**195.5**	185.7	354.8
Industrial Chemicals	**62.2**	67.5	125.7
	608.7	564.6	1,081.7
Adjusted operating profit			
Personal Care	**73.1**	64.4	124.5
Life Sciences	**40.4**	39.9	75.1
Performance Technologies	**35.8**	31.6	56.8
Industrial Chemicals	**3.3**	4.9	7.8
	152.6	140.8	264.2
Exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition	**(3.4)**	(0.1)	(2.4)
Total Group operating profit	**149.2**	140.7	261.8

** 2015 sector revenue (of £4.5m) and adjusted operating profit (of £0.6m) have been restated for a reclassification of toll product from Life Sciences to Industrial Chemicals*

3. Net financial costs

	2016 First half £m	2015 First half £m	2015 Full Year £m
Financial costs			
Bank interest payable	**(4.3)**	(3.7)	(7.7)
Capitalised interest	**1.2**	-	0.8
Net interest on retirement benefit liabilities	**(1.2)**	(1.9)	(3.3)
	(4.3)	(5.6)	(10.2)
Financial income			
Bank interest receivable and similar income	**0.2**	0.5	0.7
Net financial costs	**(4.1)**	(5.1)	(9.5)

4. Dividends paid

	Pence per share	**2016 First half £m**	2015 First Half £m	2015 Full year £m
Ordinary				
2014 Final – paid May 2015	36.00	**-**	48.8	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**	-	
		187.2	48.8	90.8
Preference (paid June and December)		**0.1**	0.1	0.1
		187.3	48.9	90.9

An interim dividend in respect of 2016 of 32.75p per share, amounting to a total dividend of £42.9m, was declared by the Directors at their meeting on 26 July 2016. This interim report does not reflect the 2016 interim dividend payable. The dividend will be paid on 4 October 2016 to shareholders registered on 9 September 2016.

5. Property, plant and equipment

	2016 First half £m	2015 First half £m	2015 Full year £m
Opening net book amount	**460.6**	387.8	387.8
Exchange differences	**49.1**	(13.8)	1.1
Additions	**57.5**	40.1	94.0
Acquisitions	**-**	-	16.2
Disposals and write offs	**(0.5)**	(2.5)	(2.6)
Depreciation charge for period	**(20.5)**	(17.9)	(35.9)
Closing net book amount	**546.2**	393.7	460.6

At 30 June 2016 the Group had contracted capital expenditure commitments of £45.8m (2015: £36.5m).

6. Reconciliation to net debt

	2016 First half £m	2015 First half £m	2015 Full year £m
Net movement in cash and cash equivalents	**(24.2)**	2.6	7.6
Movement in debt and lease financing	**(113.5)**	(4.2)	(86.2)
Change in net debt from cash flows	**(137.7)**	(1.6)	(78.6)
New finance lease contracts	**-**	-	(0.5)
Exchange differences	**(22.4)**	2.6	-
	(160.1)	1.0	(79.1)
Net debt brought forward	**(259.3)**	(180.2)	(180.2)
Net debt carried forward	**(419.4)**	(179.2)	(259.3)

7. Accounting estimates and judgements

The Group's critical 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 30 June 2016, the Group has an environmental provision of £12.2m (31 December 2015: £12.3m) in respect of soil and potential ground water contamination on a number of sites, both currently in use and previously occupied, in Europe and the Americas.

In relation to the environmental provision, the Directors consider that the balance will be utilised within 20 years. Provisions for remediation costs are made when there is a present obligation, it is probable that expenditures for remediation work will be required and the cost can be estimated within a reasonable range of possible outcomes. The costs are based on currently available facts and prior experience. Environmental liabilities are recorded at the estimated amount at which the liability could be settled at the balance sheet date. Remediation of environmental damage typically takes a long time to complete due to the substantial amount of planning and regulatory approvals normally required before remediation activities can begin. In addition, increases in or releases of environmental provisions may be necessary whenever new developments occur or additional information becomes available. Consequently, environmental provisions can change significantly. The level of environmental provision is based on management’s best estimate of the most likely outcome for each individual exposure.

The Group has also considered the impact of discounting on its provisions and has concluded that, as a consequence of the significant utilisation expected in a relatively short timescale, the impact is not material.

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.

7. Accounting estimates and judgements continued

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 model. Total Group retirement benefit liabilities have increased by £70.4m in the first half of 2016 to £149.2m. This movement comprises £1.3m of contributions in excess of service cost, offset by £1.2m of net financial costs, £8.6m currency translation loss and £61.9m due to changes in actuarial assumptions and the market value of assets.

Taxation

The Group is subject to corporate income taxes in numerous jurisdictions. Significant judgement is often required in determining the worldwide expense and liability for such taxes. 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 £110.1m (31 December 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. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's financial statements for the year ended 31 December 2015. There have been no changes in the Group's risk management processes or policies since the year end.

9. Principal risks and uncertainties continued

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.

The Group does not typically utilise complex financial instruments and accordingly the only element of Group borrowings where fair value differs from book value is the $100m fixed rate ten year bond that was issued in 2010. At 30 June 2016 the fair value of the loan note was £78.8m (31 December 2015: £70.9m) compared to a book value of £74.8m (31 December 2015: £67.8m).

The Group issued £100m and €100m (£83.1m) of new fixed rate bonds on 27 June 2016 and fair values were equivalent to book values at the period end.

10. Related party transactions

The Group has not entered into any related party transactions in the first six months of the year, except for Directors' and key management compensation.

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. The fair values allocated to the acquired financial assets and liabilities of Incotec remain provisional.

12. Change in accounting policy

In March 2016, the IFRS Interpretations Committee (IFRS IC) issued an agenda decision regarding the treatment of offsetting and cash-pooling arrangements in accordance with IAS 32: 'Financial instruments: Presentation'. This provided additional guidance on when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32. Following this additional guidance, the Group has reviewed its cash-pooling arrangements and has revised its presentation of bank overdrafts and has recognised £37.6m of bank overdrafts within bank overdrafts, bank loans and other borrowings in the current period that would previously have been offset against cash balances. Comparatives at 31 December 2015 and 30 June 2015 have been restated by £52.0m and £40.6m respectively.