# Croda International Plc

Results for the 12 months to
31 December 2008

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# Chairman

# Financial Review

# Summary

- Results confirm the resilience of Group's business model and strategy
  - Consumer Care sales up 28.0% to £442.4m
  - Industrial Specialities sales up 11.9% to £514.0m
  - Pre tax profit up 61.8% to £98.4m
- Q4 trading robust despite volume declines in Industrial Specialities
  - Consumer Care sales up 46.4% to £113.9m
  - Industrial Specialities sales down 15.7% to £107.1m
  - Pre tax profits of £20.9m ahead of last year by 11.2%
- Chicago and share of Baxenden sold; proceeds £60m
- Input cost inflation fully recovered
- Dividend up 25.4% to 19.75p

All continuing operations before exceptionals

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# Sales trends by quarter
## Price/volume/currency

| | Q1 | Q2 | Q3 | Q4 | Year |
|---|---|---|---|---|---|
| Price and mix | +15.7% | +18.9% | +20.5% | +18.4% | +18.5% |
| Volume | -7.9% | -0.1% | -8.0% | -29.3% | -11.2% |
| **Underlying** | **+7.8%** | **+18.8%** | **+12.5%** | **-10.9%** | **+7.3%** |
| Currency | +6.6% | +10.0% | +12.7% | +18.8% | +11.5% |
| **Continuing sales** | **+14.4%** | **+28.8%** | **+25.2%** | **+7.9%** | **+18.8%** |

- Average price driven by favourable mix in Q4
- Volume declines in commodities/Industrial Specialities accelerate
- Currency benefit increasing throughout year

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# Q4 price trends in more detail

- Overall average price increase dominated by mix
  - High average price CC sales **UP**
  - Low average price commodities/IS sales **DOWN**
  - **NB Mix effect much less marked in individual divisions**
- Individual product price increases less marked as the year progressed
  - Raw material inflation moderating
- Distributor ‘margin capture’
  - Benefits Consumer Care in particular

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# Sales trends by quarter
## Sector split

| | Q1 | Q2 | Q3 | Q4 | Year |
|---|---|---|---|---|---|
| Consumer Care | +16.4% | +28.4% | +23.6% | +46.4% | +28.0% |
| Industrial Specialities | +12.7% | +29.1% | +26.5% | -15.7% | +11.9% |
| **Continuing Sales** | **+14.4%** | **+28.8%** | **+25.2%** | **+7.9%** | **+18.8%** |

- Very significant volume decline in Industrial Specialities in Q4
- Record Sales in Q4 for Consumer Care
  - Consumer Care sales higher than Industrial Specialities in Q4 for first time since Uniqema acquisition

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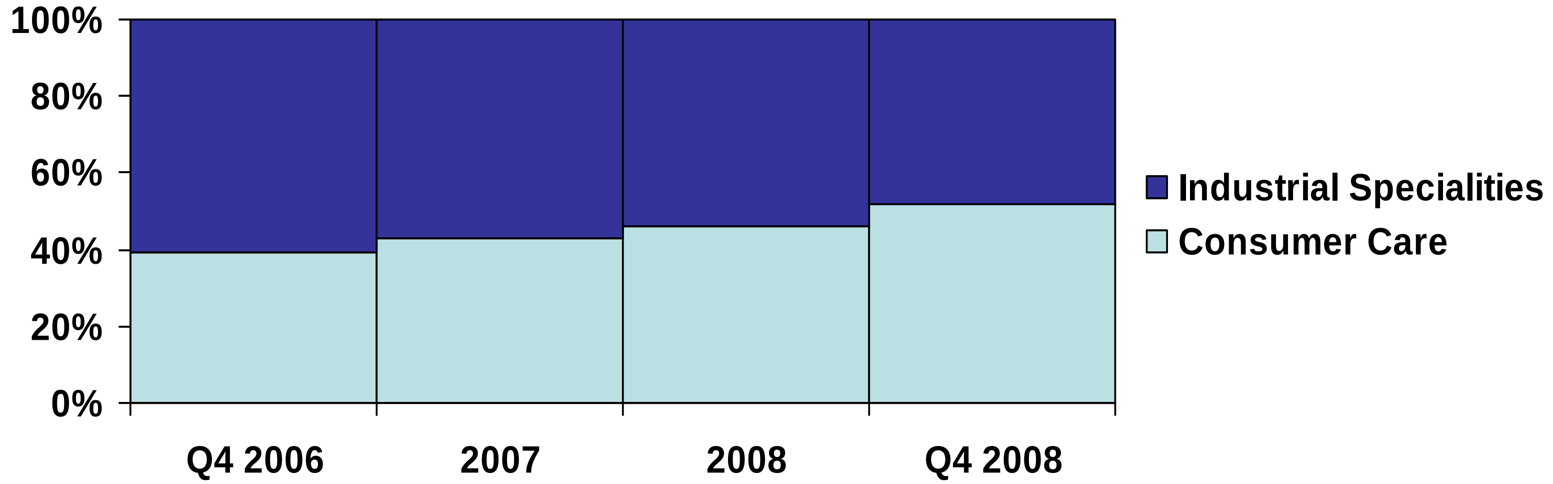
# Improving sales mix




- CC now represents 46% of turnover, up from 43% in 2007
  - This increases to 52% in Q4
- Divestments have reduced IS base turnover by around half plus de-marketing on price effect, partially countered by higher selling price increases in IS than CC

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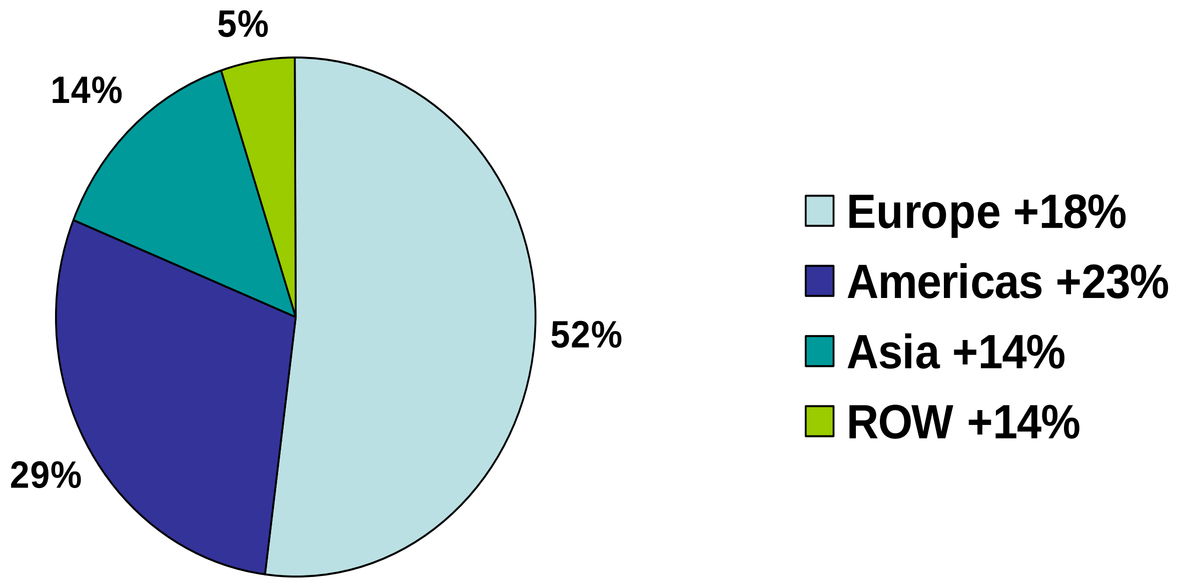
# Continuing turnover by destination




- Strong sales growth in all regions
- Post disposal of Chicago, Americas' proportion of the total is smaller

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# Continuing Consumer Care

| £m | 2008 | 2007 | Inc |
|---|---|---|---|
| Turnover | 442.4 | 345.6 | +28.0% |
| Operating Profit | 89.9 | 74.1 | +21.3% |
| ROS | 20.3% | 21.4% | |

- Good sales growth allied to on-target EBIT margins
- High relative sales versus Industrial Specialities meant higher central cost allocation, slightly reducing reported Return on Sales

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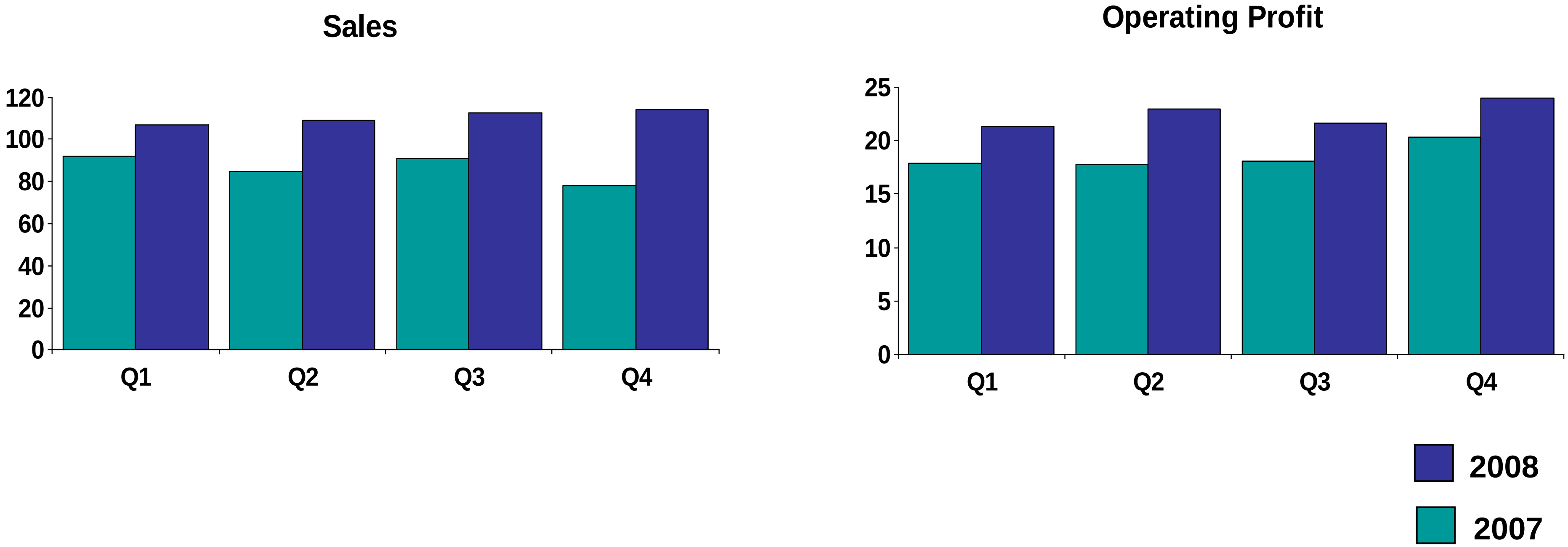
# Consumer Care trends (£m)




Consistent sales and profit performance across the quarters

December sales strong despite Christmas normally being a quiet time

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# Continuing Industrial Specialities

| £m | 2008 | 2007 | Inc |
|---|---|---|---|
| Turnover | 514.0 | 459.2 | 11.9% |
| Operating Profit | 24.8 | 8.9 | 178.7% |
| ROS | 4.8% | 1.9% | |

- Very strong performance overall for the year but boosted by £6.2m favourable glycerine pricing versus 2007
- Q4 profit down versus last year as volumes fall in commodities and Industrial Speciality markets

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# £6.2m Glycerine benefit v 2007

| | £m |
|---|---|
| Q1 | 2.4 |
| Q2 | 2.5 |
| Q3 | 1.7 |
| Q4 | (0.4) |

- Imbalance between supply and demand for glycerine in the first half caused by fluctuations in biodiesel production worldwide
- This is not expected to be repeated in 2009
- The majority of this benefit was seen in Industrial Specialities

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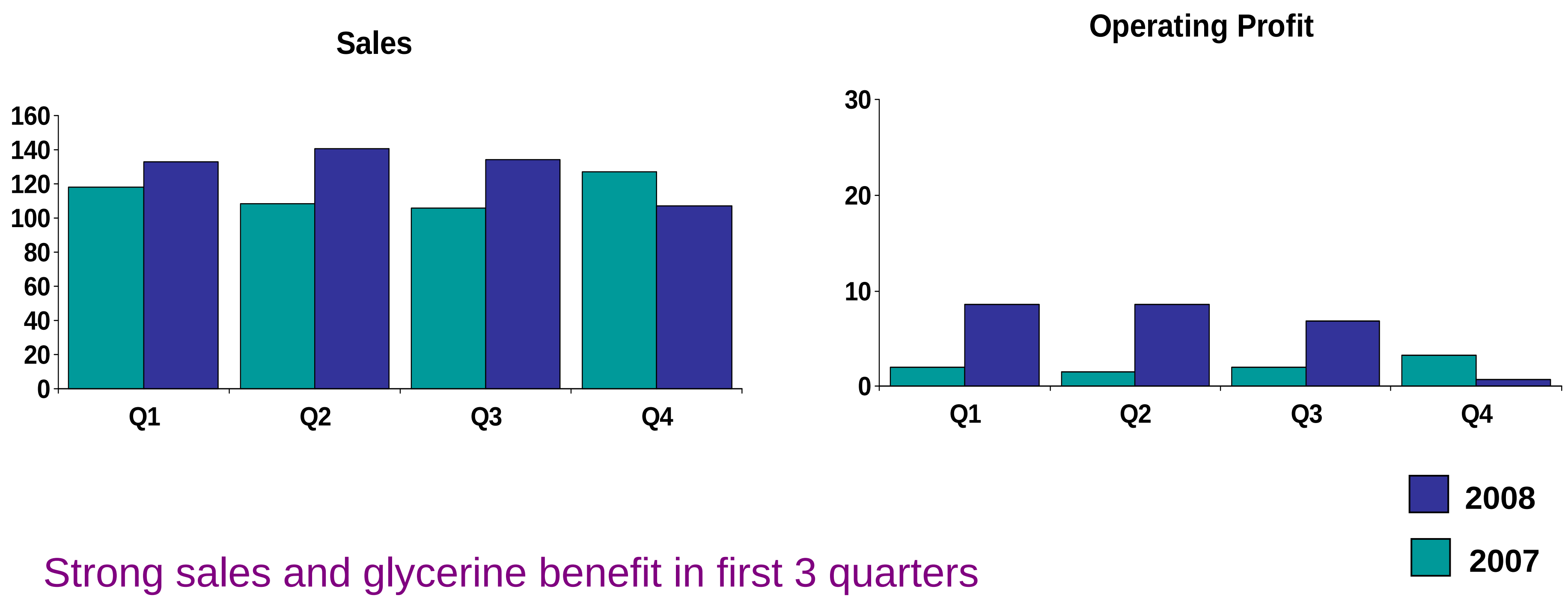
# Industrial Specialities trends (£m)




Strong sales and glycerine benefit in first 3 quarters
Significant sales and profit downturn in Q4
Lower profitability of division relative to Consumer Care minimises the impact of this downturn

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# Continuing business
# Operating profit up 38.2%

| £m | 2008 | 2007 | Inc |
|---|---|---|---|
| Turnover | 956.4 | 804.8 | +18.8% |
| Operating Profit | 114.7 | 83.0 | +38.2% |
| ROS | 12.0% | 10.3% | |

- 1.7 percentage point margin increase boosts ROS to 12.0%
  - Post Uniqema deal in 2006, ROS was 7.5%

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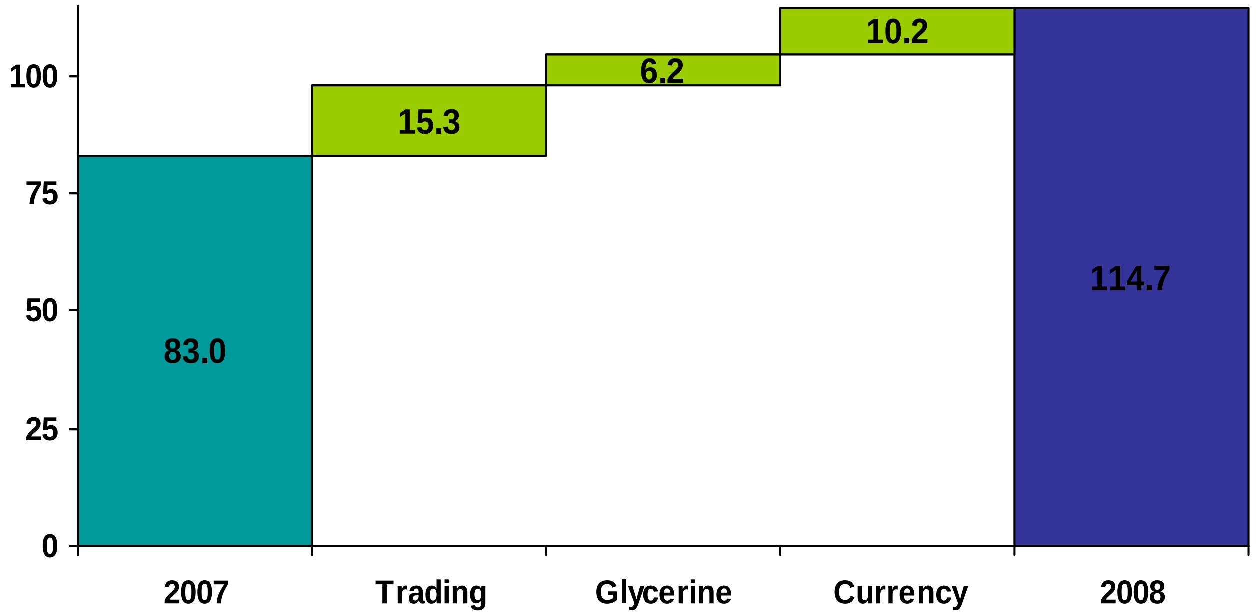
# Operating profit bridge (£m)
# Continuing operating profit up 38%




Most of the glycerine benefit came in H1, currency weighted 40:60 H1:H2

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# Discontinued businesses

| £m | 2008 | 2007 |
|---|---|---|
| Turnover | 46.2 | 145.3 |
| Operating profit | 4.7 | 13.9 |
| Post tax | 2.9 | 9.9 |
| Gross proceeds | 59.8 | 76.8 |
| Profit/(loss) on sale | (8.6) | 41.0 |

- Associate company, Baxenden, sold to Chemtura for £13m in February 2008
- Chicago Oleochemicals sold to HIG for £46.8m in May 2008
- Croda Food Services, Klang and Refrigerant Lubricants sold in 2007

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# Interest costs

| £m | 2008 | 2007 |
|---|---|---|
| Bank interest | (23.4) | (27.2) |
| Pension funding interest | 7.1 | 5.0 |
| Net interest | (16.3) | (22.2) |

- Interest costs reduced
  - Lower underlying interest rates
  - Improving Debt/EBITDA ratio reduces margin
  - Pension funding interest credit higher due to improved pension deficit at start of year

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# Pre-tax profit up 61.8%

| £m | 2008 | 2007 | Inc |
|---|---|---|---|
| Continuing operating profit | 114.7 | 83.0 | +38.2% |
| Interest | (16.3) | (22.2) | |
| **Continuing pre-tax profit** | **98.4** | **60.8** | **+61.8%** |
| Tax rate | 32.0% | 33.9% | |
| Discontinued post tax/minorities/other | 2.6 | 9.7 | |
| **Earnings for the year** | **69.5** | **49.9** | **+39.3%** |

Lower overseas and UK tax rates reduce overall tax rate

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# Earnings per share up 39%

| £m | 2008 | 2007 | Inc |
|---|---|---|---|
| Earnings for the year | 69.5 | 49.9 | +39.3% |
| Number of shares (m) | 134.4 | 134.6 | |
| **EPS** | **51.7** | **37.1** | **+39.4%** |

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# Dividend up 25%

| | 2008 | 2007 | Inc |
|---|---|---|---|
| EPS | 51.7p | 37.1p | +39.4% |
| **Dividend** | **19.75p** | **15.75p** | **+25.4%** |
| Cover | 2.6x | 2.4x | |

- Dividend cover improves to 2.6x

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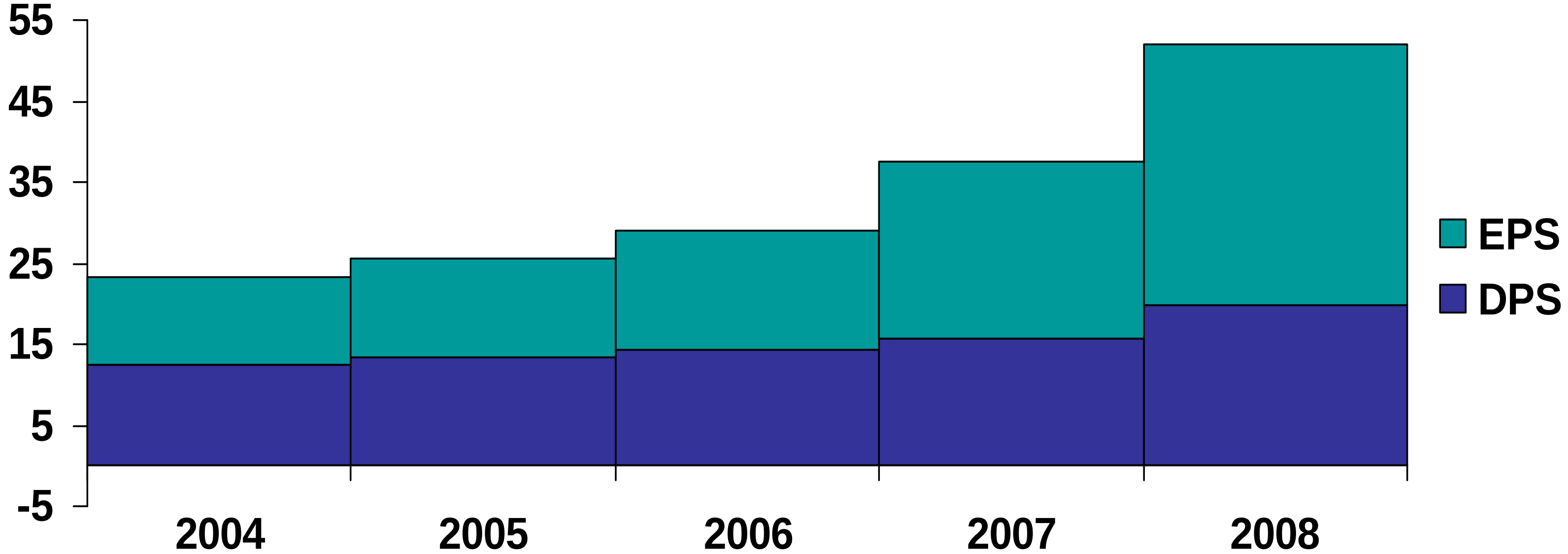
# EPS and dividend




- Steady progression in earnings.
- Dividend increases now more closely aligned to earnings growth
  - In the past we sought to build cover

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# Free Cash-flow

| £m | 2008 | 2007 |
|---|---|---|
| EBITDA | 153.4 | 128.4 |
| Associate profit | (0.3) | (1.1) |
| Working capital movement | (8.2) | (60.0) |
| **Cash from operations** | **144.9** | **67.3** |
| Capital expenditure | (52.0) | (38.1) |
| **Free cash flow** | **92.9** | **29.2** |

- Very impressive working capital performance in view of inflationary pressures
  - The effect of inflation on inventories alone is at least £15m
- Relatively high capital expenditure reflects post ICI ‘catch up’ at Uniqema

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# Net Cash-flow

| £m | 2008 | 2007 |
|---|---|---|
| **Free cash flow** | **92.9** | **29.2** |
| Excess pension contributions | (8.9) | (70.0) |
| Share purchases/issue | 0.6 | (2.4) |
| Dividends paid | (22.9) | (19.8) |
| Interest | (20.9) | (23.7) |
| Tax (including £7.6m on disposals) | (41.3) | (14.2) |
| M&A | 45.3 | 83.4 |
| Other (mainly restructuring) | (16.4) | (13.2) |
| **Net cash-flow** | **28.4** | **(30.7)** |
| Exchange differences | (60.5) | (5.4) |
| **Change in net debt** | **(32.1)** | **(36.1)** |

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# Net Debt

| | 2008 | 2007 |
|---|---|---|
| Net debt | 398.1 | 366.0 |
| Committed facilities | 476.0 | 404.0 |
| Committed headroom | 77.9 | 38.0 |
| Net debt/EBITDA | 2.6x | 2.8x |
| EBITDA interest cover | 9.3x | 5.8x |

- Primarily as a result of the adverse currency translation, net debt at the year end stood at £398m versus committed facilities of £476m plus various uncommitted lines
- EBITDA growth was faster than the rise in debt so improved performance versus bank covenants

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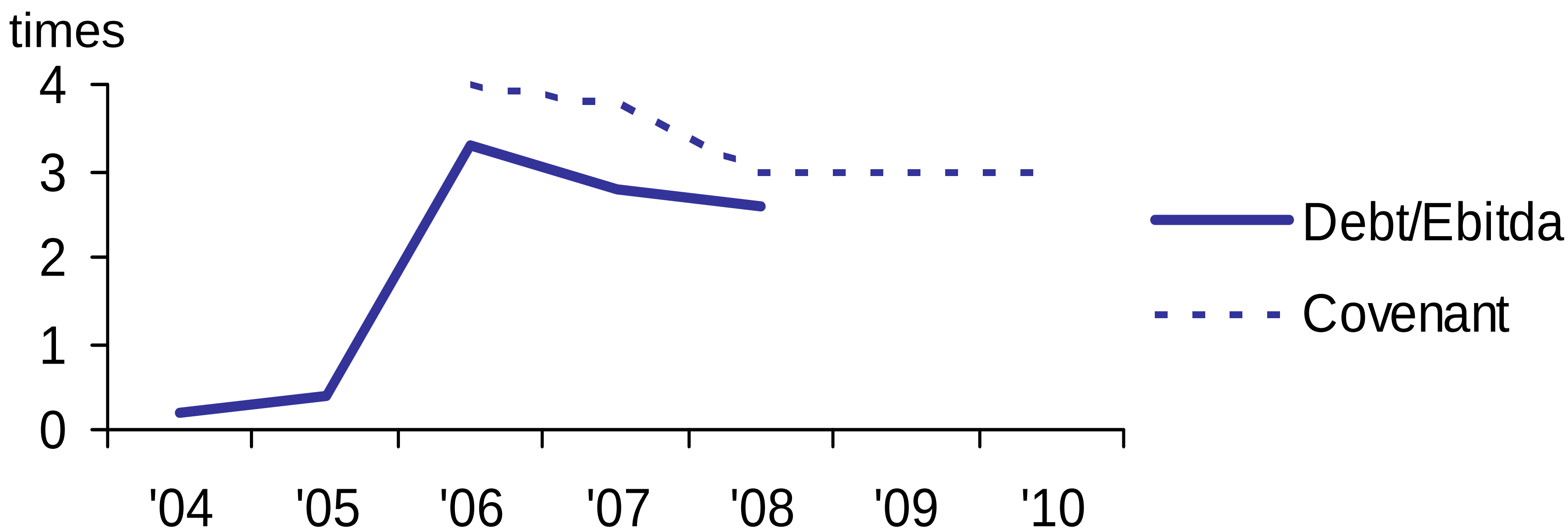
# Bank covenants: debt/EBITDA




Croda has two bank covenants

Debt/EBITDA < 3 (Was < 4 immediately post Uniqema acquisition)

EBITDA interest cover > 4

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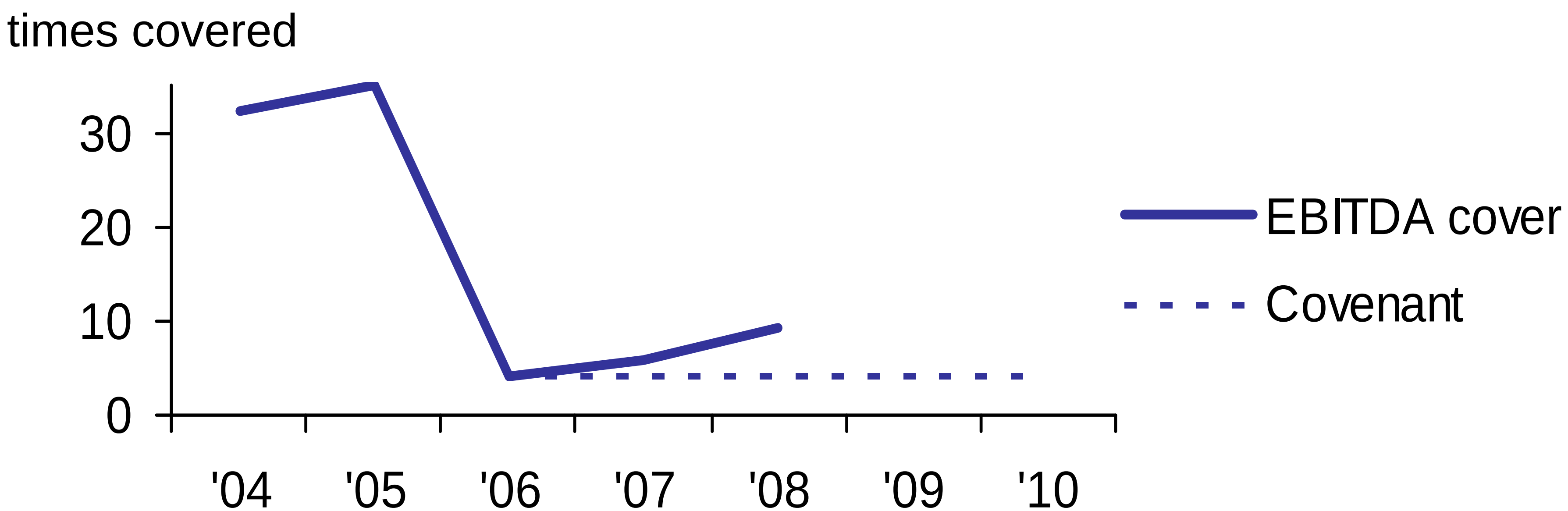
# Bank covenants: EBITDA interest cover

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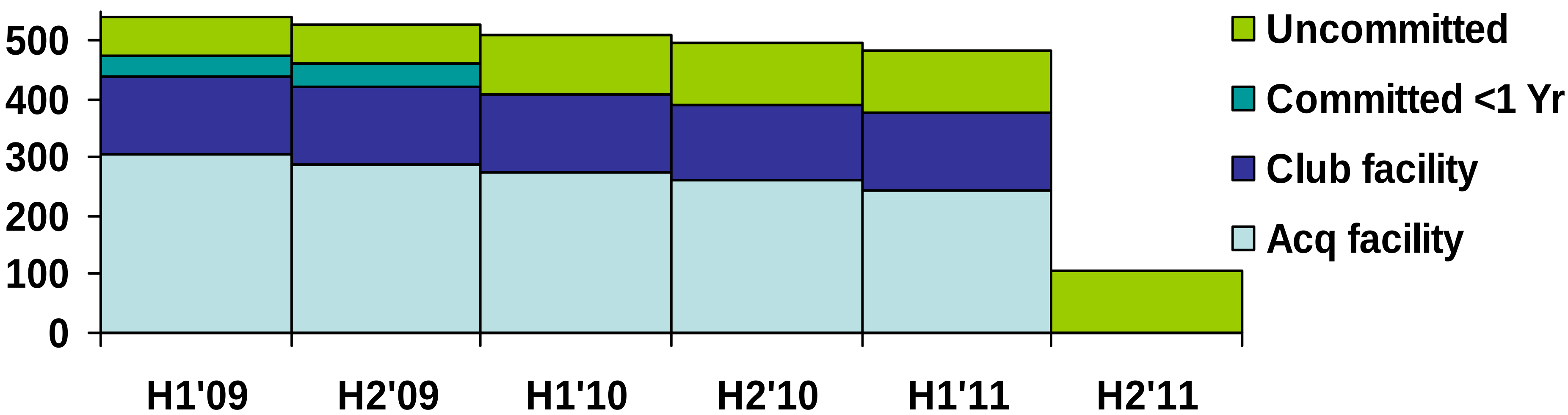
# Bank facilities (£m)




- Core facilities remain in place until June 2011

# Net Debt : currencies and hedging

- Net debt £398.1m of which:
  - Currency borrowings
    - US$145m (2007: US$180m)
      - Reduced in 2008 by Chicago disposal
    - €150m (2007: €150m)
  - £100m fixed sterling at 5.99% to 31 January 2010

# Balance Sheet

| £m | 2008 | 2007 |
|---|---|---|
| Operating assets | 751.9 | 645.0 |
| Pension deficit | (88.5) | (59.3) |
| Net debt | (398.1) | (366.0) |
| **Net assets** | **265.3** | **219.7** |

Currency translation boosts asset base as well as debt

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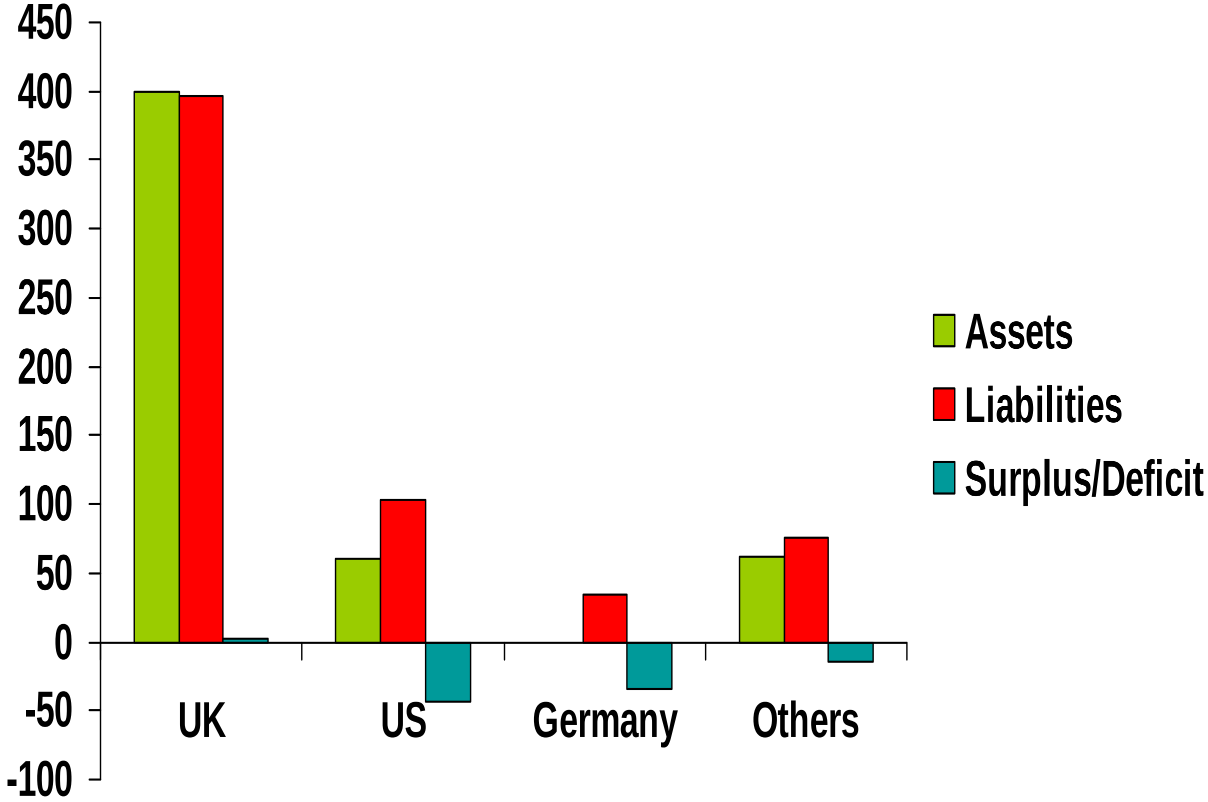
# Pension Fund

| £m | 2008 | 2007 |
|---|---|---|
| Market value of assets | 520.8 | 584.3 |
| Value of liabilities | (609.3) | (643.6) |
| Gross deficit | (88.5) | (59.3) |
| Funding level | 86.3% | 90.8% |

- £22.1m of the increased deficit is due to currency translation
- Overseas unfunded schemes account for £57.8m of the deficit
- Increased cash contribution over and above the P&L charge in 2009
  - UK triennial valuation ongoing
  - US revaluation
- Lower funding interest credit in 2009 (non cash)

# Pensions: state of main funds




IAS19 basis

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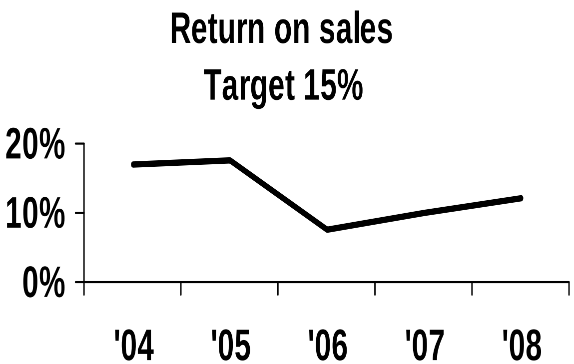
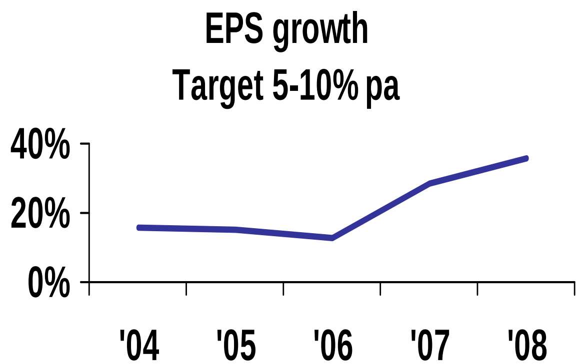
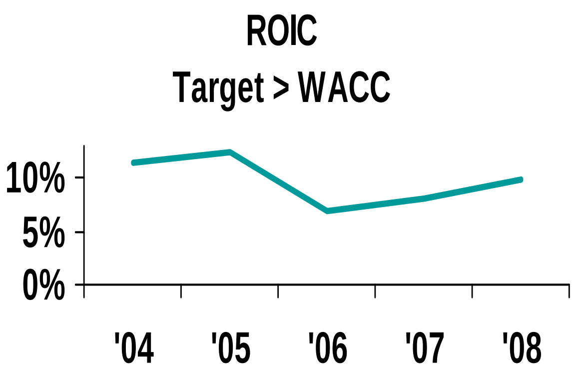
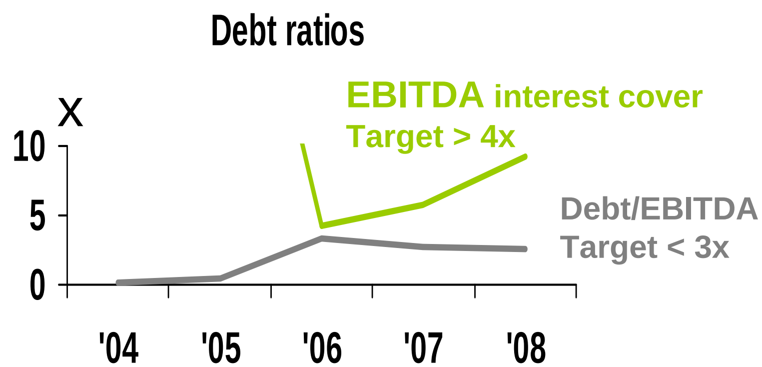
# Financial KPI trends

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# Strategy

- Focus on high growth markets
- Thousands of products to thousands of customers worldwide
- Pricing power
- Innovation

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# Key Strengths

- Leading producer of natural ingredients for niche markets
- Reputation for innovation, quality products and excellent customer service
- Global reach with operations in 35 countries
- Technical and manufacturing centres in every major region of the world
- A customer focused, service-driven culture
- Unrivalled industry/market knowledge and experience

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# The Current Crisis

- ↓ Consumer demand has fallen – especially for “Big Ticket” items – cars, houses, domestic appliances
- ↓ UK energy costs are still high
- ↑ “Recession” leads to lower oil prices and lower raw material prices
- ↑ Lower interest rates

# Innovation

- We continue to accelerate new product development in all sectors
- We embrace change and disruptive technologies
- We will not cut back on R&D and jeopardise our future

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# Innovation

## Volulip

- Maxilip is one of Sederma's best sellers, used in virtually all top brand lipsticks
- Volulip is the next generation lip enhancer
- Volulip's ingredients include:
  - A naturally occurring peptide
  - Purslane (Kiss Me Quick)
- Volulip is Patented
- Volulip - increases surface area by over 8%
  - improves texture by over 10%
  - increases volume by over 15%
  - improves shape by over 9%

# Innovation

## **Innovation in Energy Saving**

- 2MW wind turbine installed at Hull site
    - On time, on budget and will provide about 40% of site's energy needs
- Novel steam generator installed at Emmerich site
    - Consumes gas, site by-product biofuel and VOCs
    - Eliminates VOC emissions, reduces $CO^2$ emissions and saves about 15% of site energy costs

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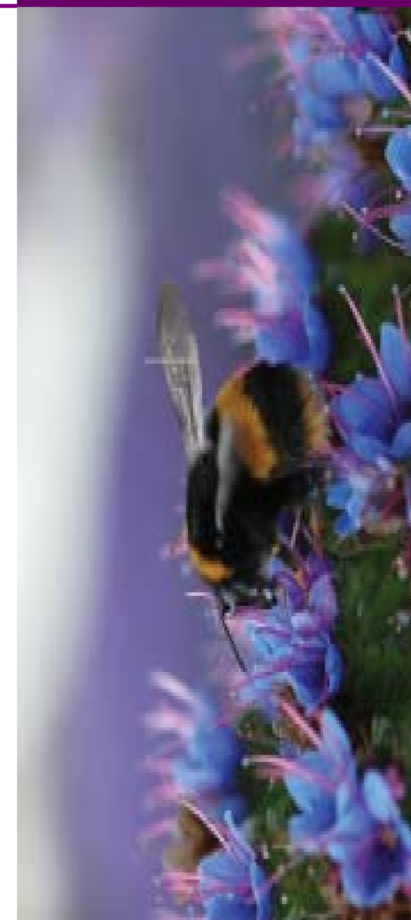
# Innovation

## Incromega V3

- Omega 3 fatty acids are usually fish oil derived
- Incromega V3 is extracted from Echium, a novel plant seed developed by Croda
- Patented plant source of stearidonic acid and precursor for EPA
- Potent anti-inflammatory
- Sustainable



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# 2009 Issues

**Industrial Markets -** Demand has fallen off a cliff

**Consumer Care Markets -** Customers are nervous

**General -** Destocking is at an all time high

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# 2009 Issues

**The Macro Environment**

- Weak Sterling is good for Croda
- Raw materials prices are falling
- Our prices are not falling in specialities
- Major customers want global security of supply

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# 2009 Outlook

- Consumer Care resilient
- Industrial Specialities weak Q1/2
- No glycerine windfall
- Higher net interest costs
- The costs are still coming out
- Constant cost control
- Constant innovation
- January 2009 in line with expectations

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# Croda International Plc

Results for the 12 months to
31 December 2008

# Appendix 1: 2008 by quarter

| £m | Q1 | Q2 | Q3 | Q4 | 2008 |
|---|---|---|---|---|---|
| Consumer Care | 106.9 | 109.0 | 112.6 | 113.9 | 442.4 |
| Industrial Specialities | 132.7 | 140.1 | 134.1 | 107.1 | 514.0 |
| **Continuing turnover** | **239.6** | **249.1** | **246.7** | **221.0** | **956.4** |
| | | | | | |
| Consumer Care | 21.3 | 23.0 | 21.6 | 24.0 | 89.9 |
| Industrial Specialities | 8.6 | 8.6 | 6.8 | 0.8 | 24.8 |
| **Continuing operating profit** | **29.9** | **31.6** | **28.4** | **24.8** | **114.7** |
| Interest | (4.2) | (4.4) | (3.8) | (3.9) | (16.3) |
| **Continuing pre-tax** | **25.7** | **27.2** | **24.6** | **20.9** | **98.4** |

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# Appendix 2: 2007 by quarter (restated for 2008 disposals)

| £m | Q1 | Q2 | Q3 | Q4 | 2007 |
|---|---|---|---|---|---|
| Consumer Care | 91.8 | 84.9 | 91.1 | 77.8 | 345.6 |
| Industrial Specialities | 117.7 | 108.5 | 106.0 | 127.0 | 459.2 |
| **Continuing turnover** | **209.5** | **193.4** | **197.1** | **204.8** | **804.8** |
| | | | | | |
| Consumer Care | 17.9 | 17.8 | 18.1 | 20.3 | 74.1 |
| Industrial Specialities | 2.0 | 1.6 | 2.0 | 3.3 | 8.9 |
| **Continuing operating profit** | **19.9** | **19.4** | **20.1** | **23.6** | **83.0** |
| Interest | (5.7) | (5.8) | (5.9) | (4.8) | (22.2) |
| **Continuing pre-tax** | **14.2** | **13.6** | **14.2** | **18.8** | **60.8** |

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