

## Chairman's Statement

# A year of significant progress



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**Anita Frew**  
Chairman

### Overview

I am pleased to report another year of significant progress for Croda, strong sales growth and a record profit, good cash generation and excellent returns to shareholders.

This performance was driven by investment in faster growth markets, new technologies, enhanced Research & Development (R&D) capabilities and a significant capital spend programme. We continued to focus on delivering the highest standards of health and safety, and in driving sustainability.

Our people contributed significantly to Croda's success in 2017 with their dedication and creativity. I had the privilege of meeting many of them during site visits I made in the last twelve months. I am impressed by Croda's very special culture, where great emphasis is placed on 'doing the right thing' at all times. On behalf of the Board, I would like to take this opportunity to thank all our employees for their hard work and commitment.

### Strong sales and a record profit

Sales for the year increased by 10.4% to £1,373.1m (2016: £1,243.6m), with growth in all of our sectors. Adjusted profit before tax grew by 11.1% to £320.3m (2016: £288.3m). On a statutory basis, profit before tax rose to £314.1m, up 13.9%. The Board was particularly pleased by the performance in Personal Care, where sales are now growing in addition to profit, reflecting a successful improvement programme implemented under the new sector management team. A richer product

mix and successful Incotec integration delivered a stronger operating margin in Life Sciences, whilst Performance Technologies increased profit and moved towards more technology-driven markets and applications.

### Our strategy is delivering

We have a clear strategy that is focused on providing unique performing ingredients satisfying the unmet needs of our customers, driving increased value for our shareholders. Alongside sales growth across all types of customer, large and small, we delivered a total shareholder return of over 40% in 2017 through share price growth and an increased dividend.

Our model is to generate strong profit margins through innovation and focused capital investment, which drives a superior return on capital and generates cash. We reinvest this cash to develop new technologies, create greater R&D, increase our manufacturing capability and develop our people. In 2017, we invested over £30m in acquiring new capabilities in faster growth niches, adding three new exciting technologies in skin care, novel surfactants and static electricity protective polymers. We invested nearly £40m in R&D, increasing the proportion of sales that come from patented and protected products, and expanding our Open Innovation programme to almost 400 partners in universities and technology enterprises across Europe and Asia. We invested over £150m in new capacity, notably our first to market bio-surfactant plant in North America, which we expect to commission early in 2018.

### Case study

#### Global Employee Culture Survey

Since it was introduced, the 'Croda Vision' has become an important part of describing our company, our people and the values, behaviours and attitudes we expect of ourselves. These values, behaviours and attitudes are often referred to as our culture.

To understand if the Croda Vision was experienced across our global organisation, we launched a Global Employee Culture Survey, the first for over ten years. The survey was designed

internally to test the elements of our culture that are important to us and that we believe set us apart from our peers. Three sections directly related to our culture; 'Who we are', 'How we work together' and 'How we manage our work'.

The survey was translated into 15 languages and we were delighted with an overall response rate of 80%. The results of the survey have been pleasing; employees rated their relationship with their immediate supervisor positively and presented a good picture of team work

across departments. Employees also shared that they have a good understanding of the purpose and goals of the organisation.

A great deal of work is now being undertaken to review the results of the survey at every location and business unit.

80%

response rate to the employee survey

Croda has a long held commitment to sustainability and we are accelerating the capture of new sustainable technologies. These technologies are increasingly important to our customers, who are excited by our new ECO range of bio-based ingredients from our new bio-surfactant plant in North America, which will replace petrochemical products without loss of performance. As well as helping customers meet their consumers' needs, Croda is also committed to reducing its own environmental impact. Our Sustainability Report has exciting news on our progress.

### Governance, culture and values

With the Board, I lead our programme to ensure the highest standards of corporate governance and integrity right across Croda, which is critical to our continued success and viability. Our work in 2017 included ensuring that we maintain strong risk management, health and safety, and ethical supply chain compliance programmes.

We also continue to recognise the importance and value of Croda's unique culture to its continued success. In 2017 the Board spent time visiting our overseas operations and meeting our employees, engendering a common understanding of the business goals and identifying opportunities for future growth and development. We conducted a Global Employee Culture Survey, to examine our culture, ensure that it is aligned with our core values and understand how we can protect this critical competitive advantage

as Croda continues to grow and acquire. We were pleased with the overall positive results, with the majority of employees understanding the main goals of the Company. In 2018, we will implement the resultant Culture Plan in each global sector and region.

We believe that diversity across Croda drives better performance and a stronger company. Our leadership development programmes comprise employees from different cultures, backgrounds and nationalities. We have adopted a Diversity and Inclusion programme across our workforce and are taking action to encourage more women into leadership roles. As a Board we have 25% female representation, with a policy to achieve 33% in the medium term.

We completed our latest externally facilitated Board evaluation. The overall result was very positive, in particular on how we encourage a culture and environment that enables candid debate. Effectively managed succession is critical to delivering successful leadership and, after serving nine years on Croda's Board, Nigel Turner will retire at this year's AGM. I would like to thank Nigel for his dedication and outstanding contribution. Alan Ferguson will take over from Nigel as Senior Independent Non-Executive Director. Alan has been on the Board since 2011 and acts as Chairman of the Audit Committee, bringing a wealth of relevant experience, having served as Senior Independent Director with other listed companies.

### Dividend

We have a clear capital allocation policy with profits reinvested for growth; a regular dividend paid to shareholders; organic growth supplemented by selected acquisitions; and an appropriate balance sheet maintained, with excess capital returned to shareholders. Following the strong performance in 2017, the Board is recommending an 9.5% increase in the full year dividend to 81.0p, covered 2.2 times (2016: 2.1x) by adjusted earnings per share. Following the payment of an interim dividend of 35p in October 2017, shareholders will receive a final dividend of 46p, subject to approval at the AGM.

The Board has reviewed the leverage of the business, which is at the lower end of its target range. It will consider further returns to shareholders in the event that leverage falls below this range.

### Outlook

We have entered 2018 with good momentum and a strong platform on which to deliver long term growth. In the year ahead, we will continue to invest in fast growth technologies, R&D, improved operating capabilities and our people. We are confident of delivering continued progress in 2018.



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Action plans are being developed including to improve knowledge sharing around the Group and flexible working practices. These are regularly shared with the Executive Committee and Board, who have appointed Keith Layden as the Board member with primary responsibility for ensuring that the survey results are considered and followed through.

→ To read our full Global Employee Culture Survey feature go to our 2017 Sustainability Report

### Summary of results by survey section

