

Chief Executive's Review

We are continuing to deliver



It is pleasing to see growth balanced across each of our sectors, with three strong legs of growth."

Steve Foots
Group Chief Executive

Sales growth

+10.4%

2016: +15.0%

NPP sales as % of Group sales

27.6%

2016: 27.4%

Return on sales

24.2%

2016: 24.0%

Record profit and strong sales growth

2017 was a year of significant progress for Croda; a year of record profits and strong organic sales growth; and a year when all core sectors and major regions contributed to growth. Our strategy continues to deliver. We are achieving consistent top and bottom line growth. It is pleasing to see this growth balanced across each of our core sectors, reinforcing that Croda has three strong legs of growth. We have continued our relentless focus on innovation, growing strongly in premium niches, across all customers – big and small.

In constant currency, adjusted profit before tax increased 6.5% on sales 4.6% higher. With around 95% of our sales outside the UK, the weakness of Sterling in the first half year benefited our reported currency results, with sales increasing by 10.4% to £1,373.1m and adjusted profit before tax up 11.1% to a record £320.3m.

With our strategy broadly unchanged over many years, we take a long term view of investing and developing our business and our people. We keep things simple. Our job is to provide unique performing ingredients, satisfying the unmet needs of our customers whilst delivering significant value for both them and Croda. Through 2017 we have continued to invest: in Research & Development (R&D), through our local laboratory expansion programme; in Open Innovation, collaborating with many universities; and in Smart Partnering, with a number of new commercial partnerships established. We have continued to invest in faster growth technologies, both organically

and by acquisition; in manufacturing, in our operating capabilities; and in building further knowledge in our people.

At the heart of our business is a creative and customer focused innovation programme. This is harnessed within a powerful culture; a culture where the 'can do' attitude, free thinking and deep understanding of our customers' needs set us apart from our competition, which delivers great value for all our stakeholders. Our culture is the raw material that drives our innovation spirit. In 2017, this helped New and Protected Product (NPP) sales grow for the fifth consecutive year to a record 27.6% of total sales. We have more intellectual property (IP) in the business today than five years ago.

Over the last 12 months, we have acquired or invested in four fast growth disruptive technology companies, including Nautilus, a source of new marine biotech active ingredients. We invested over £150 million in capacity, three times depreciation, including in Beauty Actives, a bio-surfactant plant in North America to supply sustainable ingredients to consumer and industrial markets, and in high purity Health Care and Smart Materials technologies. We created a new digital team to unlock new ways to better reach and serve our customers.

Accelerating top line growth – constant currency sales up 4.6%

Sales increased by 10.4% to £1,373.1m. This included a 5.8% benefit from currency translation due to weaker Sterling in the first half of the year. Sales in constant currency increased by 4.6% and there was no material impact from acquisitions.

Case studies

Making ethylene oxide sustainable

We have been manufacturing ethoxylates at our Atlas Point facility since the 1940s and produce many globally recognised surfactants and emulsifiers.

Our ingredients have provided solutions to our customers' application problems that had previously been very difficult to solve.

There is growing demand to increase the proportion of bio-based, renewable ingredients in consumer products. Our new bio-based ethylene oxide is now a recognised replacement for petrochemical based ethylene oxide.

Our new range of ECO surfactants is 100% renewable with performance matching that of petrochemical based options.

Community benefit

Our facility has always been a supportive and active member of the local community. During construction, this project has created over 250 local construction jobs and we have recruited 30 new, local, full-time employees to operate the ECO plant.

Safety at ECO

Process safety principles have been applied at all stages of construction. We partnered with a specialist EO process design company which

has registered millions of hours of incident-free operating time.

The detailed process design was subjected to rigorous hazard studies to identify and eliminate problems. Our contractors worked a combined 800,000 hours without injury, something of which we are very proud.



Personal Care growth was a particular highlight, with constant currency sales up over 5%, successfully reversing a decline in the more mature Specialities market whilst continuing to deliver faster growth in the premium Actives market. Life Sciences achieved a strong second half year, with high purity drug excipients and crop delivery systems performing well. Following exceptionally strong demand at the start of the year, Performance Technologies streamlined sales to target value over volume growth and drive significant margin improvement in the second half year.

Continued profit growth – adjusted EPS up 10.5% in constant currency

Adjusted profit before tax increased by 11.1% to £320.3m. Profit before tax on an IFRS basis rose strongly to £314.1m. The increase in top line sales was supported by an improved margin, reflecting higher NPP sales and an improved product mix. Return on sales increased by 20 basis points to 24.2%. Adjusted EPS rose 10.5% in constant currency and 14.9% in reported currency to 179.0p. The proposed final dividend has been increased by 11.5% to 46.0p.

Personal Care: strong sales improvement with stable margin

The return to robust growth in Personal Care reflected ‘self-help’ measures to improve sales performance whilst protecting margin. This saw the creation of three businesses to reflect the differing characteristics of each end market, where our investment in R&D is bearing fruit. Strong innovation-led growth in Beauty Actives helped sector NPP exceed 40% of sales, a record. Our Beauty Effects

business saw improving demand for solar protection, hair and colour cosmetics ingredients. The Beauty Formulations business increased differentiation and competitiveness in our heritage ingredients portfolio and returned to healthy sales growth. Sales to multinational customers also returned to growth, after several difficult years, alongside continued fast growth with regional and local customers through our distributed model which puts us closer to customers. This was enhanced by new digital capabilities to support the growing demand from newer ‘Indie’ customers. Sales grew 5.3% in constant currency and adjusted operating profit increased 3.3% on the same basis to £155.5m, reflecting a modest decline in return on sales due to the broader product mix.

Life Sciences: innovation and Incotec integration delivering faster profit growth

Life Sciences delivered its target of faster profit growth through new innovative technologies and Incotec margin improvement, in line with our strategic objective of creating a business to match Personal Care. Sales of IP-rich delivery systems were supported by a resurgence in Crop Protection demand in the second half year, reflecting investment in faster innovation through collaboration with our agrochemical customers. The integration of our Seed Enhancement business, Incotec, continued to progress successfully, with rationalisation of the geographic footprint completed and new R&D investments bearing fruit. In Health Care we exited our North American generic Active Pharmaceutical Ingredients (API) contract following a successful four year period

of manufacture. Sector sales grew by 4.6% in constant currency and adjusted operating profit increased to £97.0m with return on sales of 30.1% (2016: 28.1%).

Performance Technologies: transitioning to more focused innovation

Performance Technologies continued its journey to ‘value over volume’. We focused on developing faster growth technologies in the premium Smart Materials and Energy Technologies markets. 2017 saw strong structural growth in the first half of the year, particularly in lubricants and oil and gas markets, with growth in the second half year moderating as the sector focused on increasing value and more selectively targeting volume. Sales grew by 6.6% in constant currency, whilst adjusted operating profit increased to £75.4m, the second year of double digit percentage constant currency profit growth. After some margin compression in the first half year from raw material price increases, return on sales increased by 120 basis points in the second half year, and is progressing towards our 20% medium term target.

Continued growth in Asia and Europe; return to growth in North America

Sales grew organically in our three largest regions. Asia and Europe continued to drive growth, with Core Business sales in constant currency in Asia up 6%, leveraging recent investment to increase proximity to local customers. In Europe, improved market confidence saw sales on the same basis increase by 5%, with excellent progress in new geographies in

Renewable energy at Atlas Point

In 2012, we invested US\$8m in a renewable energy project, using gas from a local landfill site to generate electricity and steam. In 2013, we invested an additional US\$2.3m in solar panels to further reduce annual CO₂ emissions.

Avoidance of greenhouse gas emissions

Our use of landfill gas, combined with lower consumption of natural gas, has led to a reduction in greenhouse gas emissions of close to 1 million tonnes.

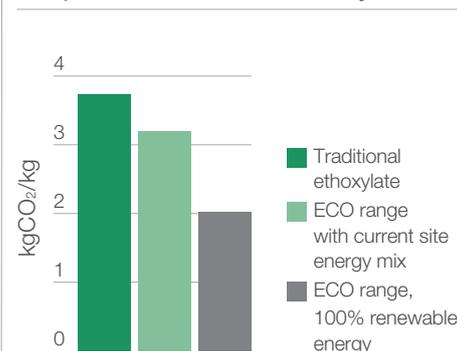
Carbon footprint of ECO range

We have modelled the Life Cycle Analysis of our ECO products, focusing on the climate change impact category, in alignment with ISO 14067.

If a typical ECO product family was made using 100% renewable energy, we would see a further reduction in the carbon footprint.



Carbon footprint of ECO products compared with traditional ethoxylates



Eastern Europe, Middle East and Africa. Actions taken in North America restored growth to 8% on the same basis, supported by strong market conditions. Whilst full year constant currency sales in Latin America were slightly below 2016, growth turned positive in the second half year, helped by macroeconomic stabilisation and our investment in capacity.

Robust financial platform funding investment

Croda continues to deliver good cash generation and maintain a strong balance sheet with flexibility for organic investment, acquisition and returns to shareholders. This cash is used to invest in R&D, faster growth technologies and manufacturing capacity. In 2017, Croda's capital investment peaked, with over £150m of capital expenditure to support future growth. This included completion of the installation phase of our industry leading bio-surfactant plant in North America, with commissioning expected around the end of the first quarter 2018. We made three technology acquisitions and investments during 2017. ROIC remained a multiple of our cost of capital at 19.2% (2016: 19.3%), ahead of realising the benefits of recent investments and acquisitions. Despite the significant level of investment, leverage reduced to the lower end of our target range at 1.0x net debt to EBITDA.

Delivering a sustainable strategy

Croda delivers shareholder value by creating innovative ingredients for niche markets, satisfying the unmet needs of our customers, globally and locally. Our strategy to achieve this comprises three components:

1. Deliver consistent top and bottom line growth
2. Increase the proportion of protected innovation
3. Accelerate the capture of new sustainable technologies.

Alongside the strong growth and increased NPP, we continued to build our platform of sustainable technologies. Sustainability connects every aspect of Croda's business and is an increasing requirement and differentiating factor for our customers and their consumers. We have adopted ISO 26000, the international sustainability standard. Our bio-surfactant plant will see the launch in 2018 of our ECO range of products, enabling customers to build sustainably focused consumer brands without sacrificing performance. Our environmental programme is enhancing our reputation for producing the best sustainable ingredients whilst reducing our environmental burden on the planet and our local communities, with a focus on carbon neutrality and in helping our customers manage risk through the assurance provided by our responsible sourcing programme. Highlights across our manufacturing sites in 2017 included a 16% reduction in waste to landfill and 5% reduction in water withdrawal since 2015.

To deliver our strategy we are investing in:

- new technologies
- greater R&D
- new operational capability and
- our people.

Investing in new technologies

We continue to identify new technologies for Croda to deliver to its customers. We seek to acquire new technologies both organically, by creating our own capability where none exists in the market, and inorganically, by acquisition. Alongside our new bio-surfactant plant, organic investment included continued development of our global market-leading Matrixyl® Personal Care brand, with the launch of the next generation in skin rejuvenation, Matrixyl® Morphomics™, and new solar protection products, such as Solaveil CTP7, for use in silicone-based sun care, especially popular in Asia. New technologies developed for Life Sciences included new high purity drug delivery systems and advanced crop protection and seed enhancement systems, including seed encrustment, which enables customers to add more active and complex formulations, increasing crop yields and reducing environmental impact. We continued to build the technology pipeline in Performance Technologies, commercialising MyCroFence™, a novel surface active antimicrobial coatings technology.

Inorganic investment includes both 'bolt-on' acquisitions of established businesses, such as our 2015 purchase of Incotec, and technology acquisitions of novel chemistries. We particularly target opportunities where Croda's existing R&D and global sales and marketing network allow for profitable scale up. We acquired Enza Biotech, developing the next generation of renewable surfactants; IonPhasE, an innovative supplier of static

Our Strategic Approach

Delivering Growth

Through our direct selling business model, our people build intimate relationships with our customers large and small, working closely with them to target niche, rapidly growing markets where our innovative and sustainable approach is valued. Our flexible and agile structure enables our people to stay close to our customers around the world, whilst working together as one global team to respond quickly to demands identified by changing demographics in a fragile world (p04).

KPIs:

- Return on sales **p24**
- Core Business sales growth **p24**

Key risks:

- Revenue generation in established and emerging markets **p32**
- Talent development and retention **p32**

Driving Innovation

Innovation plays a critical role across our Business, with dedicated business sector research and development teams creating new ingredients in collaboration with our customers. Working with our open innovation partners and through smart partnering, we identify unique opportunities that add value to our customers' products and satisfy the needs of their consumers. It is a combination of the ingredients we create and the way we operate that enables our customers to build on our innovations.

electricity protection, operating in faster growth segments of the electronics and automotive markets; and invested in Cutitronics, a UK innovator of personalised, adaptive skin care.

This focus on new technology also saw Croda invest in digital. We continued to digitalise Croda's enterprise, introducing high throughput robotic analytical testing to accelerate R&D. We are introducing new digitally enabled customer offerings, building on our new web platform, increasing the services we provide smaller and Indie customers. We are collaborating in new digital ecosystems, for example through our investment in Cutitronics, where digital skin devices will unlock powerful consumer data for skin health.

Investing in greater R&D

Our lifeblood is innovation. We have expanded and accelerated our innovation programmes through internal and external projects. NPP sales in 2017 were below our target to grow at twice the rate of non-NPP sales, reflecting the return to growth in the underlying business. However, NPP sales were 75% higher than in 2012, with the proportion of NPP rising from 20.5% of total sales to 27.6% over the same period.

We supported our experienced R&D team through enhanced Open Innovation and Smart Partnering programmes. With almost 400 partners and comprising over 100 completed and 75 ongoing projects, Open Innovation gives Croda access to chemists, biologists and agronomists in universities and specialist research laboratories and enterprises, adding over £12m of external funding since the programme commenced.

We have expanded this European programme to Asia.

Smart Partnering has seen Croda co-invest with industry technology leaders. We opened a state-of-the-art Centre of Innovation for Formulation Science at the Materials Innovation Factory at the University of Liverpool. We are partnering with a leader in innovative special effect pigments, in the fast growing colour cosmetics market. We have expanded in-house innovation capability, increasing R&D capacity at Sederma, our flagship Beauty Actives business, where 80% of sales come from NPP. The global market leader, Sederma remains at the forefront of disruptive technology, through the addition of plant stem cell technology from IRB and, in 2018, marine biotech actives from Nautilus. We also expanded R&D facilities in Brazil, Japan, Korea, South Africa and in Seed Enhancement in the Netherlands, the latter part of our investment to establish new innovation-driven sales in Incotec.

Investing in new operational capability

2017 has seen the biggest organic capacity investment in Croda's recent history. In addition to our bio-surfactant plant, we have created a global centre of excellence in solar protection, invested in emerging geographies by expanding local manufacture in Latin America and India, and increased biotech production in the UK. We have major investments underway to expand capacity in high purity excipients in Health Care and in our UK polymer additives business, where we are a global leader in slip, anti-static and anti-scratch solutions to customers in the premium packaging and automotive industries.

Investing in our people

Our people and the culture that they embody are at the centre of our success. We continue to invest in our people, with a focus on sales and technical skills to serve our increasing number of customers. We have added biotech scientists through our acquisition of Enza; digital capability, including the appointment of a Chief Digital Officer; and agronomy specialists through Incotec. Following a Global Employee Culture Survey in 2017, a programme is developing and reinforcing the values and behaviours which make Croda's culture special. We are driving delivery of our diversity plans.

Outlook

We have entered 2018 with momentum and a platform on which to deliver long term growth. In the year ahead, we will continue to invest in:

- Fast growth technologies, both organically and by acquisition, to support future profitable growth;
- R&D, through successful Open Innovation and Smart Partnering programmes;
- Manufacturing, through improved operating capabilities; and
- Our people, building creativity, innovation and expertise.

We are confident of delivering continued progress in 2018.



Steve Foots
Group Chief Executive

KPIs:

- NPP sales % **p24**
- Relative NPP sales growth **p24**

Key risks:

- Product and technology innovation **p32**
- Protect new intellectual property **p32**
- Talent development and retention **p32**



Sustainable Solutions

We continue to build on our renewable raw material heritage to create, make and sell sustainable solutions today, to positively influence tomorrow. By investing in innovative product design and flexible operations, we are working with our supply chain to develop ingredients that deliver more benefit, with less impact. This, coupled with our participation in regulatory debates, ensures that we are providing solutions to the opportunities presented by our global mega trends (p04).

KPIs:

- Non-fossil fuel energy % **p25**
- Lost time injury rate **p25**

Key risks:

- Product liability claims **p32**
- Major safety or environmental incident **p33**
- Security of raw material supply **p33**
- Major capital project management **p33**
- Chemical regulatory compliance **p33**