CRODA

Press Release

25 July 2017

Results for the six months ended 30 June 2017

Strategy delivering – continued organic sales growth, profit margin maintained

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 2017.

First half year highlights (reported currency):

- Sales up 16.2% driven by continued organic growth across all Core Business sectors, together with positive currency translation
- Margin performance maintained, with return on sales of 24.9%
- Adjusted profit before tax up 14.3% at £169.7m, reflecting profit growth across the Core Business
- Relentless focus on innovation, with sales of New and Protected Products (NPP) increasing to almost £200m
- Continued cash generation supporting peak organic investment, and strong balance sheet. Free cash flow of over £40m, leverage ratio of 1.0x and 6.9% increase in interim dividend
- Full year outlook affirmed.

	Half year ended 30 June			
	2017 reported currency		Constant currency change	2016
	£m	Change		£m
Sales	**707.3**	16.2%	3.8%	608.7
Adjusted operating profit	**175.8**	15.2%	5.4%	152.6
Adjusted profit before tax	**169.7**	14.3%	4.4%	148.5
Adjusted basic earnings per share	**93.4p**	18.2%		79.0p
Free cash flow	**40.5**	(18.8)%		49.9
Leverage ratio (net debt/EBITDA)	**1.0x**			1.3x
IFRS profit before tax	**168.0**	15.8%		145.1
IFRS basic earnings per share	**92.4p**	20.0%		77.0p
Interim dividend per share (declared)	**35.0p**	6.9%		32.75p

Sector highlights (constant currency):

Group sales up 3.8%, driven by organic growth in Core Business of 4.4%, comprised as follows:

- **Personal Care:** encouraging signs of growth (+2.3%), with Speciality products and North America improving, alongside continued strong Actives performance. Robust profitability sustained, with return on sales of 34.7%
- **Life Sciences:** strong performance with adjusted operating profit up 12.1% and organic sales growth (+0.8%), as API sales stabilised
- **Performance Technologies**: excellent growth in sales (+9.1%) and adjusted operating profit (+8.1%), benefiting from faster growth technologies and improved end markets.

Steve Foots, Croda's Chief Executive Officer, commented:

"Our strategy delivered a good first half performance with all Core Business sectors growing sales and profit organically, highlighting Croda's increased breadth across three growth sectors. This was underpinned by growth in premium market niches, continued organic investment and our relentless focus on innovation. It was encouraging to see growth coming from a broad base of both product and geography. Alongside an improved sales trend, we delivered adjusted operating profit growth of over 5% in constant currency and over 15% in reported currency.

"Our priorities for 2017 remain unchanged: to drive profitability through premium, faster growth niches; improve performance in less differentiated markets; and continue to grow margins in Life Sciences and Performance Technologies. We are confident of delivering continued progress through the remainder of 2017."

Further information:

All results are on an IFRS basis at reported currency unless otherwise stated. Non-statutory terms are defined in the 'Alternative Performance Measures' section of the Finance Report.

A presentation for investors and analysts will be held at 0930 BST on 25 July 2017 at JP Morgan, 60 Victoria Embankment, London EC4Y 0JP. The presentation will be audiocast on www.croda.com

	2017 First Half Year Reported currency		Constant currency change	2016 Restated[1] £m
	£m	Change		
Sales				
Personal Care	**238.3**	14.9%	2.3%	207.4
Life Sciences	**162.4**	13.1%	0.8%	143.6
Performance Technologies	**239.9**	21.7%	9.1%	197.1
Core Business	**640.6**	**16.9%**	**4.4%**	**548.1**
Industrial Chemicals	**66.7**	10.1%	(1.1)%	60.6
Group	**707.3**	**16.2%**	**3.8%**	**608.7**

	2017 First Half Year Reported currency		Constant currency change	2016 Restated[1] £m
	£m	Change		
Adjusted profit				
Personal Care	**82.6**	13.0%	1.8%	73.1
Life Sciences	**49.3**	22.0%	12.1%	40.4
Performance Technologies	**40.9**	13.9%	8.1%	35.9
Core Business	**172.8**	**15.7%**	**6.1%**	**149.4**
Industrial Chemicals	**3.0**	(6.3)%	(25.0)%	3.2
Operating profit	**175.8**	**15.2%**	**5.4%**	**152.6**
Net interest	**(6.1)**	48.8%	43.9%	(4.1)
Profit before tax	**169.7**	**14.3%**	**4.4%**	**148.5**

[1] *Following product portfolio changes, 2016 sector revenue and adjusted operating profit have been restated by £1.6m and £0.1m respectively for a net reclassification of business from Industrial Chemicals to Performance Technologies.*

GROUP PERFORMANCE REVIEW[1]

Strategy delivering – continued organic sales growth, profit margin maintained
Croda has delivered a good performance in the first half of 2017. We saw consistent organic sales growth and continued to grow profit. Each of our principal sectors (the 'Core Business') has increased sales and profit, demonstrating the broad-based growth across our three target markets. Cash generation was good, supporting the peak of our investment programme and an increase in the dividend. Our strategy is delivering, as Croda connects to faster growth market niches, develops faster growth technologies and expands in faster growth geographies.

Our relentless focus on innovation delivered record sales for New and Protected Products (NPP), achieving almost £200m in the first half year, over 27% of Group sales. Our Open Innovation programme increased to nearly 300 partner universities and small enterprises, supported by new funding secured from government and research councils. Innovation is driving superior growth and profitability, with 2017 seeing the opening of new R&D facilities in seed enhancement and in Latin America. This is being supported by a significant organic investment programme to drive future growth, including our sustainable bio-surfactant facility in North America and expansion projects in our Beauty Actives, high purity Health Care and Smart Materials businesses. With growth increasingly driven by regional and local customers, we continue to enhance our proximity to customers and benefit from the new breed of independent customers ('Indies') leveraging the digital revolution.

Continued organic growth – constant currency sales up 3.8%
The improving sales trend seen at the end of 2016 continued through the first half of 2017. Sales grew by 16.2% to £707.3m (2016: £608.7m). Sales in constant currency increased by 3.8%, driven by organic growth of 4.4% in the Core Business (which excludes the managed reduction in low value-add Industrial Chemicals sales). Innovation and targeting faster growth niches continue to drive the good sales performance, with success in the first half year in premium markets, including skin actives, high purity excipients and our seed enhancement business, Incotec. In conjunction with this progress, it was encouraging to see a broader based recovery, with sales stabilised in Speciality ingredients in Personal Care and in our API contract in Health Care, together with growth in North America. We also delivered robust growth in Performance Technologies, which has a sharper focus on premium markets and faster growth technologies. This broad-based growth demonstrates the advantage of having three strong legs for Croda.

Continued bottom line growth - adjusted EPS up 18.2%
We continue to deliver superior profitability, with return on sales of 24.9% (2016: 25.1%). Adjusted operating profit increased by over 15% to £175.8m (2016: £152.6m), reflecting 5.4% constant currency growth, together with the benefit of currency translation.

Adjusted profit before tax increased by 14.3% to £169.7m (2016: £148.5m), up 4.4% in constant currency. Profit before tax on an IFRS basis rose 15.8% at £168.0m (2016: £145.1m). Adjusted EPS increased 18.2% to 93.4p (2016: 79.0p). The interim dividend has been increased by 6.9% to 35.0p (2016: 32.75p).

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[1] All figures are stated in reported (IFRS) terms unless otherwise stated. Alternative Performance Measures are defined in the Finance Report

Organic sales and profit growth across all three Core Business sectors
Each of our Core Business sectors is successfully delivering consistent top and bottom line growth; getting closer to its customers; and developing technologies and new market niches. In the first half year, Personal Care saw encouraging progress with sales 2.3% higher in constant currency. Alongside another excellent performance from our Beauty Actives business, sales of Speciality ingredients have stabilised and North America is growing once again. Life Sciences, excluding the Active Pharmaceutical Ingredient (API) contract in North America, grew by 1.7% in constant currency, led by good growth in our high purity excipient business. Performance Technologies delivered excellent growth with sales up 9.1% in constant currency.

Good growth in Asia and Europe supported by recovery in North America
Organic sales are now growing in our three largest regions. Asia and Europe continued to drive sales growth. In constant currency terms, the Core Business saw Asia sales increase by 7%, with growth across all three market sectors, benefiting from increased proximity to local and regional customers and the transfer of sales through distributors to our direct selling model. Growth in North Asia, including China, remained particularly robust.

On a constant currency basis, the market in Europe remained good with Core Business sales up 4%, reflecting improved market confidence. Actions taken over the last 12 months to restore growth to North America delivered a 6% sales increase in the Core Business, reflecting a resurgence in oil and gas demand and good momentum across the wider business. Regionally, only Latin America remained weak, due to difficult macro conditions, particularly in Brazil and Mexico, with sales down 3% in constant currency in the Core Business.

Robust financial platform funding organic investment
Croda continues to deliver good cash generation and maintain a strong balance sheet with flexibility for organic investment, acquisition and returns to shareholders. We are nearing the end of a period of significant capital expenditure, with construction of our industry-leading bio-surfactant plant commissioning at the end of 2017. To drive greater innovation and supplement our in-house development, we expect to increase the number of technology acquisitions we make, and completed an acquisition in novel surfactants earlier this month. Our financial platform is robust and supportive of future growth and continued shareholder value creation.

Outlook affirmed
As set out at our full year results in February, our priorities for 2017 are to drive profitability through premium, faster growth niches; improve performance in less differentiated markets; and progress towards our return on sales targets in Life Sciences and Performance Technologies. We are encouraged by the Group's performance in the first half year and are confident of delivering continued progress through the remainder of 2017. Sterling exchange rates are now largely consistent with the prior year and, if unchanged, would not therefore repeat the first half year benefit of currency translation on sales and profit.

SECTOR PERFORMANCE REVIEW

Continued sales growth in Personal Care
Personal Care achieved encouraging top line progress. Sales rose 14.9% to £238.3m (2016: £207.4m). In constant currency, sales were 2.3% higher. Adjusted operating profit increased by 13.0% to £82.6m (2016: £73.1m), up 1.8% in constant currency. The sector's strong margin was maintained, with return on sales only marginally lower at 34.7% (2016: 35.2%), reflecting a change in product mix as sales growth returned.

Personal Care is investing in fast growth niches. During the second half of this year, we will significantly increase production capacity and enhance innovation facilities at Sederma. This is our flagship business in Beauty Actives, the premium market within Personal Care and where Croda is the global market leader. Sales in the first half of 2017 grew by 9%, a record performance. Innovation is key and we launched the next generation of the award winning Matrixyl® range, Matrixyl® Morphomics™, combining the latest scientific technologies with Sederma's expertise in anti-ageing peptides and claim substantiation to offer the best solutions in skin rejuvenation. Recently launched products performed well, including Citystem™, a plant stem cell culture that fights pollution damage to the skin.

In our results for 2016 we highlighted the need to eliminate the decline in the more mature Specialities market, whilst continuing to deliver fast growth in our premium Actives business. In the first half of the year sales stabilised in Specialities, with year-on-year sales flat in this market. To address the different dynamics within this market, we created two teams - Beauty Formulations and Beauty Effects. The Beauty Formulations team is driving completion of our distributor exit programme, targeting resource with innovation-driven customers and developing and differentiating our heritage ingredient portfolio. We have seen encouraging signs of improvement, with greater innovation with multinational customers and sales growth in North America.

Building on the success of Beauty Actives, the Beauty Effects team is developing other fast growth niches in hair, solar and skin treatments. We believe that this technically demanding market can drive similar growth and profitability to Beauty Actives. Over time, we are targeting for half of Personal Care sales to come from these two premium niche segments. Successful innovations in the first half year included the launch of Solaveil™ Clarus transparent sunscreen for Asian-led trends, new performance data to differentiate Volarest™FL, a novel curl retention product, and expansion in bio-technology ingredients. Reflecting the role of innovation in Personal Care, sales from NPP are over 40% of total sales.

Personal Care is also investing in fast growth technologies, through acquisitions and 'smart partnering'. Last year's successful encapsulation delivery systems acquisition has been followed by the purchase of a novel surfactant technology spin-off. In addition, by partnering with small and start-up businesses, we expect to accelerate the successful introduction of target technologies, particularly in the key trend areas of colour cosmetics and sustainable ingredients. The latter will also benefit from our innovative bio-surfactant plant when it comes on stream at the end of 2017.

Our growing digital presence will also support increasing demand from 'Indie' and local customers. In response to growing consumer demand for personalised skin care treatments, we have invested in a multi-award winning technology company which has developed a device for assessing skin health and which prepares the skin for the optimum delivery of skin care formulations.

Improved margin in Life Sciences, supported by performance of Incotec

Life Sciences delivered an improved profit, reflecting growth in Health Care and cost synergies in Incotec. Adjusted operating profit increased by 22.0% to £49.3m (2016: £40.4m) and was 12.1% higher in constant currency. Sales increased by 13.1% to £162.4m (2016: £143.6m) and were 0.8% ahead in constant currency, with sales in our North American API contract stabilising during the half year. Excluding the latter, constant currency sales rose by 1.7%. Improved product mix and better contribution from Incotec increased return on sales by 2.3 percentage points to 30.4% (2016: 28.1%).

In Health Care, we continue to invest in faster growth technologies. Sales grew, led by demand for high purity excipients for complex drug delivery systems, supported by new data packages for an expanded range of pharmaceutical applications. We are investing to increase capacity of these novel solutions over the next two years. Innovation is strong, as we continue to build our family of high purity ingredients for drug formulation, and we expect growth to accelerate as we invest in the faster growing geographies of Asia and North America. Following significantly lower sales in 2016 in our Omega-3 API contract in North America, demand is currently stable but is likely to remain volatile, given the nature of the generic drug market.

Our objective in Crop Care is to invest in faster innovation through collaboration with our agrochemical customers, target faster growing geographies and increase profitability at Incotec, our 2015 acquisition in seed enhancement technology. In the first half of 2017, sales in Crop Care were flat, reflecting a challenging agrochemical market. However, profitability improved, benefiting from a richer product mix, including innovation alongside our crop science customers, leveraging our market leading drift reduction capability. As we move closer to our customers, we have increased the number of collaboration arrangements, giving us greater access to our customers' product innovation pipeline. We launched the Tween™L series of advanced adjuvants developed for safer and more effective delivery of active crop ingredients. This offers an effective green chemistry alternative to traditional products, further supporting our sustainability credentials.

Incotec is making good progress, benefiting from cost synergies secured and by getting closer to customers, to deliver an improvement in profitability in the first half of the year, in line with our acquisition plan. As profit improves, we are targeting to increase sales in faster growth markets. We opened a new R&D centre in the Netherlands, to create innovative seed enhancement solutions for customers. We launched Disco® AG Clear L-650, a seed film coat formulation which outperforms in flowability, drying time and dust control.

Excellent growth in Performance Technologies
Performance Technologies had an exceptional start to 2017, reflecting healthy demand and strong organic volume growth. Sales rose by 21.7% to £239.9m (2016: restated £197.1m) and by 9.1% on a constant currency basis. Adjusted operating profit increased by 13.9% to £40.9m (2016 restated: £35.9m), up 8.1% in constant currency. Return on sales reduced to 17.0% (2016 restated: 18.2%), reflecting product mix and timing of raw material price recovery.

The Performance Technologies business is increasingly targeting faster growth technologies in the premium Smart Materials and Energy Technologies markets. The Smart Materials market benefits from a drive for novel higher performance materials, often with an improved environmental profile, and includes our coatings and polymer additive technologies. The Energy Technologies market is driven by the search for new technologies that can gain or retain energy, and includes our lubricant, oil and gas, and phase change material technologies. In addition, we continue selectively to develop our presence in Home Care and Water Treatment, targeting the valuable high-end technologies of bio-based surfactants and formulations.

After a period of subdued global conditions, the first half year saw a robust recovery in demand in most markets and rising raw material prices. Sales growth was strongest in Energy Technologies, where robust lubricant sales were supported by a surge in demand in oil and gas. However, product mix remained soft due to the sustained low oil price and the business is targeting more value-add products.

Robust sales growth in Smart Materials reflected our investment in faster growth technologies and new capacity. MyCroFence™, our patented antimicrobial coatings solution, was commercially launched and Incroslip™SL, our novel slip additive, secured food contact approval. Both products are exciting examples of innovation, offering good development potential. In polymer additives, where we are a global leader in slip, antistatic and anti-scratch solutions to customers in the premium packaging and automotive industries, we announced a £27m expansion of our UK facility.

Sales growth was also good in the Home Care and Water Treatment segment, while sales momentum in Asia and North America continued to reduce our dependence on European markets. Performance Technologies continues to invest resource in these fast growth geographies, supported by a growing pipeline of innovative solutions. The strong demand in Performance Technologies was accompanied by higher raw material input costs, which created some margin pressure, but we exited the half year with most of this recovered through selling prices.

Continuing refinement of Industrial Chemicals

We continued to refine the product mix in Industrial Chemicals, with the volume of low value add co-products and tolling business reducing further. Sales increased by 10.1% to £66.7m (2016 restated: £60.6m) but were 1.1% lower on a constant currency basis. Adjusted operating profit was £3.0m (2016 restated: £3.2m).

Industrial Chemicals continues to innovate selectively to develop niche products for new performance-based applications. Together with diverting some commodity co-products to greener energy generation, we are creating a smaller sustainable, innovation-orientated Industrial Chemicals business.

FINANCE REPORT

Currency

Currency translation had a beneficial impact on both sales and profit due to continued weakness of Sterling. In the first six months of the year, Sterling averaged US$1.260 (2016: $1.433) and €1.162 (2016: €1.283). Currency translation increased sales compared to 2016 by £75.4m (12.4%) and adjusted profit before tax by £14.7m (9.9%).

Sales

Sales increased by 16.2% to £707.3m (2016: £608.7m). At constant currency, sales rose by 3.8%, driven by continued organic growth. There was no material impact from acquisitions.

Sales	£m	%
2016 reported	608.7	
Underlying growth	23.0	3.8
Impact of acquisitions	0.2	-
2017 at constant currency	631.9	3.8
Impact of currency translation	75.4	12.4
2017 reported	707.3	16.2

In the Core Business, constant currency sales increased by 4.4%; sales volume increased by 6.1%, with sales price/mix 1.7% lower, reflecting weaker product mix from reduced high value API sales and an increase in lower value oil and gas sales. Sales growth in the second quarter was broadly in line with first quarter growth, after adjusting for a 1.5% switch from the second to the first quarter from the timing of Easter.

Sales at constant currency	First quarter %	Second quarter %	Half year %
Personal Care	4.6	0.2	2.3
Life Sciences	(1.9)	4.0	0.8
Performance Technologies	11.7	6.5	9.1
Core Business	5.3	3.4	4.4
Industrial Chemicals	1.9	(3.8)	(1.1)
Group	4.9	2.7	3.8

Adjusted profit

Adjusted operating profit rose by 15.2% to £175.8m (2016: £152.6m). On a constant currency basis, adjusted operating profit increased by 5.4%.

Adjusted operating profit	£m	%
2016 reported	152.6	
Underlying growth	8.3	5.4
Impact of acquisitions	-	-
2017 at constant currency	160.9	5.4
Impact of currency translation	14.9	9.8
2017 reported	175.8	15.2

The underlying improvement in adjusted operating profit was driven by the organic growth in the Core Business, with all sectors seeing profits rise. To reflect changes in product portfolios, 2016 sector revenue and adjusted operating profit have been restated by £1.6m and £0.1m respectively for a net reclassification of business from Industrial Chemicals to Performance Technologies.

Adjusted operating profit	2017 Reported £m	2017 Constant currency £m	2016 Restated £m
Personal Care	82.6	74.4	73.1
Life Sciences	49.3	45.3	40.4
Performance Technologies	40.9	38.8	35.9
Core Business	172.8	158.5	149.4
Industrial Chemicals	3.0	2.4	3.2
Group	175.8	160.9	152.6

The net interest charge increased to £6.1m (2016: £4.1m), reflecting higher debt from the 2016 special dividend, partly offset by capitalised interest on the North American bio-surfactant plant under construction. Adjusted profit before tax increased by £21.2m to £169.7m (2016: £148.5m).

Summary income statement	2017 £m	2016 £m
Sales	707.3	608.7
Operating costs	(531.5)	(456.1)
Adjusted operating profit	175.8	152.6
Net interest charge	(6.1)	(4.1)
Adjusted profit before tax	169.7	148.5

The effective tax rate on this profit reduced slightly to 27.7% (2016: 28.2%), reflecting the geographic mix of profit and the lower UK statutory rate of 19.25% (2016: 20.0%). There were no other significant adjustments between the Group's expected and reported tax charge based on its accounting profit.

The adjusted profit for the half year was £122.7m (2016: £106.6m). Adjusted basic earnings per share (EPS) increased by 18.2% to 93.4p (2016: 79.0p).

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

The charge before tax for exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition was £1.7m (2016: £3.4m). The profit for the half year on an IFRS basis was £121.4m (2016: £103.9m) and basic EPS were 92.4p (2016: 77.0p).

	Half year ended 30 June	
	2017	2016
IFRS profit	£m	£m
Adjusted profit before tax	169.7	148.5
Exceptional items, acquisition costs & intangibles	(1.7)	(3.4)
Profit before tax	168.0	145.1
Tax	(46.6)	(41.2)
Profit after tax for the period	121.4	103.9

Cash management
Delivering good cash generation is core to Croda's strategy. This cash is used to invest in new technologies in faster growth markets, both organically and by acquisition, to increase innovation, to expand production capacity and pay increased dividends. In the first half year, EBITDA increased to £200.4m (2016: £174.1m), which funded net capital expenditure of £70.8m (2016: £56.8m), as our capital programme peaked with spend on our North America bio-surfactants plant. Working capital increased in line with the usual seasonal trend. Free cash flow was slightly lower than 2016 at £40.5m (2016: £49.9m).

	Half year ended 30 June	
	2017	2016
Cash flow	£m	£m
Adjusted operating profit	175.8	152.6
Depreciation and other items	24.6	21.5
EBITDA	200.4	174.1
Working capital	(34.5)	(33.6)
Net capital expenditure	(70.8)	(56.8)
Non-cash pension expense	1.6	(1.3)
Interest & tax	(56.2)	(32.5)
Free cash flow	40.5	49.9
Dividends	(54.1)	(187.3)
Acquisitions	-	(1.4)
Other cash movements	3.8	1.1
Net cash flow	(9.8)	(137.7)

After currency translation, net debt increased by £3.5m to £367.6m (31 December 2016: £364.1m). The leverage ratio (the ratio of net debt to EBITDA) reduced from 1.1x at the 2016 year-end to 1.0x at the half year and remains substantially below the maximum covenant level under the Group's bank facilities of 3 times. At 30 June 2017 the Group had £452.0m (2016: £427.5m) of cash and undrawn committed credit facilities available.

Dividend and capital allocation
Croda seeks to deliver high quality profits, measured through a superior ROIC, earnings growth and strong cash returns. The Group's capital allocation policy is to:

1) **Reinvest for growth** – we reinvest in capital projects to grow sales, increase product innovation and expand in attractive geographic markets to deliver a superior ROIC. During the first half of 2017, capital investment was almost three times depreciation, funding asset replacement, new investment in key technologies and construction of the bio-surfactant plant. We expect the level of capital investment to return to around 1.5 times depreciation from 2018, depending on organic growth potential;

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 increased the interim dividend by 6.9% to 35.0p (2016: 32.75p);

3) **Acquire promising technologies** – we have identified a number of exciting technologies to supplement organic growth in existing and adjacent markets. Some of these will be acquired, either as nascent opportunities for future scale-up or as scale 'bolt ons'. In July 2017 we acquired Enza Biotech, a Swedish university spin-off in novel surfactant technology. We are targeting to increase the number of such nascent technology acquisitions through our Technology Innovation Group; and

4) **Maintain an appropriate balance sheet and return excess capital –** we maintain an appropriate balance sheet to meet future investment and trading requirements, with a target leverage of 1 to 1.5 times (excluding deficits on retirement benefit schemes), although we will move above this range if circumstances warrant.

Retirement benefits
The post-tax deficit on retirement benefit plans at 30 June 2017, measured on an accounting valuation basis under IAS19, reduced to £77.4m (31 December 2016: £112.7m), reflecting better asset returns. Cash funding of the various plans within the Group is driven by the schemes' ongoing actuarial valuation reviews. No deficit funding payments are currently required to the Group's largest pension scheme, the UK Croda Pension Scheme, with the next valuation due towards the end of 2017.

Alternative Performance Measures
We use a number of alternative performance measures to assist in presenting information in this statement in an easily analysable and comprehensible form. We use such measures consistently at the half year and full year and reconcile them as appropriate. The measures used in this statement include:

- *Constant currency sales and profit*: these reflect current year results for existing business translated at the prior year's average exchange rates, and include the impact of acquisitions. They are reconciled to statutory results in the Finance Report;
- *Underlying sales*: these reflect constant currency values adjusted to exclude the impact of acquisitions. They are reconciled to statutory sales in the Finance Report;
- *Adjusted profit*: this is profit before exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition. It is reconciled in the Finance Report;
- *Adjusted EPS*: this is earnings per share using the adjusted after-tax profit;
- *Return on sales*: this is adjusted operating profit divided by sales;
- *Return on Invested Capital (ROIC)*: this is adjusted operating profit after tax divided by the average invested capital for the year for the Group. Invested capital represents the net assets of the Group, adjusted for earlier goodwill written off to reserves, net debt, retirement benefit liabilities, provisions and deferred taxes;

- *Net debt*: comprises cash and cash equivalents (including bank overdrafts), current and non-current borrowings and obligations under finance leases;
- *Leverage ratio*: this is the ratio of net debt to Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). EBITDA is adjusted operating profit plus depreciation.

The Core Business comprises Personal Care, Life Sciences and Performance Technologies. Sales in Latin America are primarily based on US dollars, which is used as the functional currency for constant currency sales translation.

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 2017 are as listed in the Group's Annual Report and Accounts for the year ended 31 December 2016. 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

Independent Review Report to Croda International Plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Croda International Plc's 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 2017. 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 Guidance and Transparency Rules sourcebook 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 2017;
- 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 Guidance and Transparency Rules sourcebook 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 Guidance and Transparency Rules sourcebook 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 Guidance and Transparency Rules sourcebook 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, 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
25 July 2017
Leeds

a) The maintenance and integrity of the Croda International Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Croda International Plc

Interim announcement of trading results for the six months ended 30 June 2017

Group condensed interim income statement

	Note	Unaudited £m H1 2017 Adjusted	H1 2017 Adjustments[1]	H1 2017 Reported Total	Unaudited £m H1 2016 Adjusted	H1 2016 Adjustments[1]	H1 2016 Reported Total	Audited £m 2016 Adjusted	2016 Adjustments[1]	2016 Reported Total
Revenue	2	**707.3**	**-**	**707.3**	608.7	-	608.7	1,243.6	-	1,243.6
Cost of sales		**(435.1)**	**-**	**(435.1)**	(385.3)	-	(385.3)	(798.5)	-	(798.5)
Gross profit		**272.2**	**-**	**272.2**	223.4	-	223.4	445.1	-	445.1
Operating costs		**(96.4)**	**(1.7)**	**(98.1)**	(70.8)	(3.4)	(74.2)	(146.9)	(12.6)	(159.5)
Operating profit	2	**175.8**	**(1.7)**	**174.1**	152.6	(3.4)	149.2	298.2	(12.6)	285.6
Financial costs	3	**(6.3)**	**-**	**(6.3)**	(4.3)	-	(4.3)	(10.6)	-	(10.6)
Financial income	3	**0.2**	**-**	**0.2**	0.2	-	0.2	0.7	-	0.7
Profit before tax		**169.7**	**(1.7)**	**168.0**	148.5	(3.4)	145.1	288.3	(12.6)	275.7
Tax		**(47.0)**	**0.4**	**(46.6)**	(41.9)	0.7	(41.2)	(80.7)	2.6	(78.1)
Profit after tax for the period		**122.7**	**(1.3)**	**121.4**	106.6	(2.7)	103.9	207.6	(10.0)	197.6
Attributable to:										
Non-controlling interests				**0.3**			0.5			0.9
Owners of the parent				**121.1**			103.4			196.7
				121.4			103.9			197.6

[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	**93.4**	**92.4**	79.0	77.0	155.8	148.2
Diluted	**92.5**	**91.5**	78.4	76.4	155.0	146.9
Ordinary dividends						
Interim		**35.00**		32.75		32.75
Final						38.00

Group condensed interim statement of comprehensive income and expense

	Unaudited £m		Audited £m
	2017	2016	2016
	First half	First half	Full year
Profit for the period	**121.4**	103.9	197.6
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations	**44.3**	(61.9)	(65.5)
Tax on items that will not be reclassified	**(9.2)**	15.4	10.4
	35.1	(46.5)	(55.1)
Items that may be reclassified subsequently to profit or loss:			
Currency translation	**(11.8)**	54.6	79.0
Other comprehensive income for the period	**23.3**	8.1	23.9
Total comprehensive income for the period	**144.7**	112.0	221.5
Attributable to:			
Non-controlling interests	**-**	1.0	1.7
Owners of the parent	**144.7**	111.0	219.8
	144.7	112.0	221.5
Arising from:			
Continuing operations	**144.7**	112.0	221.5

Group condensed interim balance sheet

	Note	**Unaudited £m At 30 June 2017**	Audited £m At 31 December 2016
Assets			
Non-current assets			
Intangible assets		**354.4**	355.3
Property, plant and equipment	5	**630.2**	598.1
Investments		**1.0**	1.0
Deferred tax assets		**52.9**	56.3
		1,038.5	1,010.7
Current assets			
Inventories		**253.3**	235.7
Trade and other receivables		**219.6**	192.4
Cash and cash equivalents		**61.6**	61.0
		534.5	489.1
Liabilities			
Current liabilities			
Trade and other payables		**(204.9)**	(186.2)
Borrowings and other financial liabilities		**(40.1)**	(10.4)
Provisions		**(5.9)**	(8.1)
Current tax liabilities		**(47.5)**	(47.0)
		(298.4)	(251.7)
Net current assets		**236.1**	237.4
Non-current liabilities			
Borrowings and other financial liabilities		**(389.1)**	(414.7)
Other payables		**(2.8)**	(2.6)
Retirement benefit liabilities		**(104.7)**	(146.5)
Provisions		**(8.3)**	(9.2)
Deferred tax liabilities		**(68.1)**	(66.3)
		(573.0)	(639.3)
Net assets		**701.6**	608.8
Equity attributable to owners of the parent		**693.4**	600.6
Non-controlling interests in equity		**8.2**	8.2
Total equity		**701.6**	608.8

Group condensed interim statement of changes in equity

Unaudited	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
At 1 January 2016	15.1	93.3	(2.0)	494.4	6.5	607.3
Profit for the period	-	-	-	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
Transactions in 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**
Unaudited						
At 1 January 2017	15.1	93.3	76.2	416.0	8.2	608.8
Profit for the period	-	-	-	121.1	0.3	121.4
Other comprehensive (expense)/income	-	-	(11.5)	35.1	(0.3)	23.3
Transactions with owners:						
Dividends on equity shares	-	-	-	(54.1)	-	(54.1)
Share-based payments	-	-	-	2.7	-	2.7
Transactions in own shares	-	-	-	(0.5)	-	(0.5)
Total transactions with owners	**-**	**-**	**-**	**(51.9)**	**-**	**(51.9)**
Total equity at 30 June 2017	**15.1**	**93.3**	**64.7**	**520.3**	**8.2**	**701.6**

Other reserves comprise the Capital Redemption Reserve of £0.9m (30 June 2016: £0.9m) and the Translation Reserve of £63.8m (30 June 2016: £51.2m).

Group condensed interim statement of cash flows

	Note	**Unaudited £m** **2017 First half £m**	2016 First half £m	Audited £m 2016 Full year £m
Cash flows from operating activities				
Continuing operations				
Operating profit		**174.1**	149.2	285.6
Adjustments for:				
Depreciation and amortisation		**26.2**	22.8	49.2
Loss on disposal of property, plant and equipment		**1.1**	-	0.9
Changes in working capital		**(34.5)**	(33.6)	7.2
Non-cash pension expense		**1.6**	(1.3)	(10.9)
Share based payments		**5.9**	2.6	9.5
Movement on provisions		**(1.7)**	1.4	3.6
Cash generated from continuing operations		**172.7**	141.1	345.1
Interest paid		**(6.7)**	(4.3)	(11.1)
Tax paid		**(49.7)**	(28.4)	(70.2)
Net cash generated from operating activities		**116.3**	108.4	263.8
Cash flows from investing activities				
Acquisition of subsidiaries		**-**	(1.4)	(1.4)
Purchase of property, plant and equipment		**(70.1)**	(56.3)	(103.8)
Purchase of intangible assets		**(1.2)**	(0.8)	(1.6)
Proceeds from sale of property, plant and equipment		**0.5**	0.3	0.9
Proceeds from sale of other investments		**-**	-	0.1
Cash paid against non-operating provisions		**(0.5)**	(1.1)	(2.2)
Interest received		**0.2**	0.2	0.7
Net cash used in investing activities		**(71.1)**	(59.1)	(107.3)
Cash flows from financing activities				
New borrowings		**58.0**	282.0	699.3
Repayment of borrowings		**(67.1)**	(168.5)	(632.5)
Net transactions in own shares		**(0.5)**	0.3	1.2
Dividends paid to equity shareholders	4	**(54.1)**	(187.3)	(230.2)
Capital element of finance lease payments		**(0.4)**	-	(0.4)
Net cash used in financing activities		**(64.1)**	(73.5)	(162.6)
Net movement in cash and cash equivalents		**(18.9)**	(24.2)	(6.1)
Cash and cash equivalents brought forward		**56.4**	55.8	55.8
Exchange differences		**0.3**	1.3	6.7
Cash and cash equivalents carried forward		**37.8**	32.9	56.4
Cash and cash equivalents carried forward comprise:				
Cash at bank and in hand		**61.6**	96.2	61.0
Bank overdrafts		**(23.8)**	(63.3)	(4.6)
		37.8	32.9	56.4

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 25 July 2017. The financial information included in this interim financial report for the six months ended 30 June 2017 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 2016 is also unaudited. The comparative figures for the year ended 31 December 2016 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 2017 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 2016, 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

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 2016 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 2017, 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' – IFRS 15 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.

The Group has largely completed its assessment of the impact of IFRS 15 and expects that the impact will not be material.

IFRS 16 'Leases' – IFRS 16 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. The standard is effective for annual periods beginning on or after 1 January 2019, and early adoption is permitted if IFRS 15 is also adopted.

IFRS 16 will principally affect the Group's accounting for what are currently treated as operating leases. As of 31 December 2016, the Group had non-cancellable future operating lease commitments of £26.3m. However, the Group has not yet fully determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Some commitments will be covered by the exemption for short-term and low-value leases, and some additional lease commitments, as defined by IFRS 16, may be identified.

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 £1.7m (31 December 2016: £12.6m) include acquisition costs and amortisation of intangible assets arising on acquisition of £1.7m (31 December 2016: £4.2m). Also included are £Nil (31 December 2016: £8.4m) of costs associated with the reorganisation of Incotec during the year (redundancy costs and restructuring costs). The adjustments relate to our segments as follows: Personal Care £0.2m (31 December 2016: £0.8m), Life Sciences £1.4m (31 December 2016: £11.3m), Performance Technologies £0.1m (31 December 2016: £0.5m) and Industrial Chemicals £Nil (31 December 2016: £Nil).

2. Segmental information continued

	2017 First half £m	2016 First half £m Restated[1]	2016 Full year £m Restated[1]
Revenue			
Personal Care	**238.3**	207.4	420.6
Life Sciences	**162.4**	143.6	292.2
Performance Technologies	**239.9**	197.1	405.6
Industrial Chemicals	**66.7**	60.6	125.2
	707.3	608.7	1,243.6
Adjusted operating profit			
Personal Care	**82.6**	73.1	143.1
Life Sciences	**49.3**	40.4	82.0
Performance Technologies	**40.9**	35.9	66.6
Industrial Chemicals	**3.0**	3.2	6.5
	175.8	152.6	298.2
Exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition	**(1.7)**	(3.4)	(12.6)
Total Group operating profit	**174.1**	149.2	285.6

[1] 2016 sector revenue (net £1.6m first half and £3.1m full year) and adjusted operating profit (net £0.1m first half and £0.4m full year) have been restated for product portfolio changes between Performance Technologies and Industrial Chemicals.

3. Net financial costs

	2017 First half £m	2016 First half £m	2016 Full Year £m
Financial costs			
Bank interest payable	**(6.7)**	(4.3)	(11.1)
Capitalised interest	**2.2**	1.2	3.0
Net interest on retirement benefit liabilities	**(1.8)**	(1.2)	(2.5)
	(6.3)	(4.3)	(10.6)
Financial income			
Bank interest receivable and similar income	**0.2**	0.2	0.7
Net financial costs	**(6.1)**	(4.1)	(9.9)

4. Dividends paid

	Pence per share	**2017 First half £m**	2016 First Half £m	2016 Full year £m
Ordinary				
2015 Final – paid June 2016	38.00	**-**	51.5	51.5
2015 Special – paid June 2016	100.00	**-**	135.7	135.7
2016 Interim – paid October 2016	32.75	**-**	-	42.9
2016 Final – paid June 2017	41.25	**54.1**	-	-
		54.1	187.2	230.1
Preference (paid June and December)		**0.0**	0.1	0.1
		54.1	187.3	230.2

An interim dividend in respect of 2017 of 35.0p per share, amounting to a total dividend of £45.9m, was declared by the Directors at their meeting on 24 July 2017. This interim report does not reflect the 2017 interim dividend payable. The dividend will be paid on 3 October 2017 to shareholders registered on 1 September 2017.

5. Property, plant and equipment

	2017 First half £m	2016 First half £m	2016 Full year £m
Opening net book amount	**598.1**	460.6	460.6
Exchange differences	**(14.8)**	49.1	77.3
Additions	**72.3**	57.5	106.8
Acquisitions	**-**	-	0.1
Disposals and write offs	**(1.8)**	(0.5)	(2.6)
Depreciation charge for period	**(23.6)**	(20.5)	(44.1)
Closing net book amount	**630.2**	546.2	598.1

At 30 June 2017 the Group had contracted capital expenditure commitments of £40.7m (2016: £45.8m).

6. Reconciliation to net debt

	2017 First half £m	2016 First half £m	2016 Full year £m
Net movement in cash and cash equivalents	**(18.9)**	(24.2)	(6.1)
Movement in debt and lease financing	**9.5**	(113.5)	(66.4)
Change in net debt from cash flows	**(9.4)**	(137.7)	(72.5)
New finance lease contracts	**(0.4)**	-	(0.5)
Exchange differences	**6.3**	(22.4)	(31.8)
	(3.5)	(160.1)	(104.8)
Net debt brought forward	**(364.1)**	(259.3)	(259.3)
Net debt carried forward	**(367.6)**	(419.4)	(364.1)

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 2017, the Group has an environmental provision of £9.7m (31 December 2016: £12.1m) 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 decreased by £41.8m in the first half of 2017 to £104.7m. This movement comprises £1.6m service costs in excess of contributions and £1.8m net financial costs, offset by a £0.9m currency translation gain and £44.3m 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 £113.5m (31 December 2016: £128.1m).

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 sectors and regional operating units 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 2016. 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

IFRS 13 requires disclosure of the Group's financial instruments measured at fair value 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.

Prior to 2016, the Group did not typically utilise complex financial instruments and accordingly the only element of Group borrowings where fair value differed from book value was the US$100m fixed rate ten year bond that was issued in 2010. On the 27 June 2016, the Group issued £100m and €100m of new fixed rate bonds. The book value and fair values of these bonds can be found in the table below.

	Book Value First half 2017 £m	**Fair value First half 2017 £m**	Book Value Full year 2016 £m	Fair value Full year 2016 £m
US$100m fixed rate 10 year bond	**77.0**	**80.9**	81.8	84.1
€30m fixed rate 7 year bond	**26.3**	**26.7**	25.7	25.5
€70m fixed rate 10 year bond	**61.5**	**62.1**	60.1	61.6
£30m fixed rate 7 year bond	**30.0**	**30.6**	30.0	30.3
£70m fixed rate 10 year bond	**70.0**	**71.2**	70.0	70.0

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.