CRODA

Press Release

27 February 2018

Results for the year ended 31 December 2017

Record profit and strong sales growth

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 full year results for the year ended 31 December 2017.

	2017 reported currency £m	2017 reported currency Year on year change	Constant currency change	2016 £m
Sales	**1,373.1**	+10.4%	+4.6%	1,243.6
Adjusted operating profit	**332.2**	+11.4%	+6.9%	298.2
Adjusted profit before tax	**320.3**	+11.1%	+6.5%	288.3
Adjusted basic earnings per share	**179.0p**	+14.9%	+10.5%	155.8p
Net debt	**381.5**	+4.8%		364.1
Leverage (net debt/EBITDA)	**1.0x**	(0.1)x		1.1x
IFRS profit before tax	**314.1**	+13.9%		275.7
IFRS basic earnings per share	**180.8p**	+22.0%		148.2p
Ordinary dividend per share (declared)	**81.0p**	+9.5%		74.0p

Group highlights (reported currency):

- **Record profit** - excellent growth reflecting continued progress across all core sectors. Adjusted profit before tax up 11.1% at £320.3m and IFRS profit before tax up 13.9% at £314.1m
- **Strong sales growth** - up 10.4%, driven by ongoing focus on premium, faster growth niches in Personal Care, Life Sciences and Performance Technologies, together with positive currency translation
- **Continued innovation** - fifth consecutive year of New & Protected Products (NPP) sales growth
- **Improved margin** - return on sales up 20 basis points to 24.2%, with ROIC stable at 19.2%.

Highlights (constant currency):

- **Group: robust top and bottom line organic growth** - adjusted operating profit up 6.9% on sales 4.6% higher, the strongest organic sales growth since 2012
- **Personal Care: strong sales improvement with stable margin** - sales up 5.3% in the year, and 8.2% in the second half year; return to growth in Beauty Formulations, improving Beauty Effects sales trend and continued fast growth in Beauty Actives
- **Life Sciences: innovation and Incotec integration delivering faster profit growth** - sales up 4.6% with adjusted operating profit 14.0% higher; record NPP level
- **Performance Technologies: transitioning to more focused innovation -** progressive move to value over volume, with focus on technology markets; sales up 6.6% and adjusted operating profit 10.7% higher.

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

"2017 was a year of significant progress, with record profits and strong organic sales growth. All core sectors and major regions contributed to this growth, demonstrating that our strategy continues to deliver and reinforcing that Croda has three strong legs of growth. Our focus on premium, faster growing market niches and high quality technologies delivered consistent top and bottom line growth. Innovation continued at record levels, with sales of New and Protected Products increasing for the fifth consecutive year. We continued to invest in fast growth technologies and expanded our successful Open Innovation programme, initiatives that will drive future growth.

"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; in R&D, through our successful Open Innovation and Smart Partnering programmes; in manufacturing, through improved operating capabilities; and in our people. We are confident of delivering continued progress in 2018."

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 Review.

A presentation for investors and analysts will be held at 0900 GMT on 27 February 2018 at Farmers & Fletchers In the City, 3 Cloth Street, London EC1A 7LD. The presentation will be webcast on www.croda.com

	2017 reported currency £m	Year on year change	Constant currency change	2016 Restated[1] £m
Sales				
Personal Care	**466.6**	+10.9%	+5.3%	420.6
Life Sciences	**322.6**	+10.4%	+4.6%	292.2
Performance Technologies	**456.9**	+12.6%	+6.6%	405.6
Core Business	**1,246.1**	+11.4%	+5.6%	1,118.4
Industrial Chemicals	**127.0**	+1.4%	(4.0)%	125.2
Group	**1,373.1**	+10.4%	+4.6%	1,243.6

	2017 reported currency £m	Year on year change	Constant currency change	2016 Restated[1] £m
Adjusted profit				
Personal Care	**155.5**	+8.7%	+3.3%	143.1
Life Sciences	**97.0**	+18.3%	+14.0%	82.0
Performance Technologies	**75.4**	+13.2%	+10.7%	66.6
Core Business	**327.9**	+12.4%	+8.0%	291.7
Industrial Chemicals	**4.3**	(33.8)%	(40.0)%	6.5
Operating profit	**332.2**	+11.4%	+6.9%	298.2
Net interest	**(11.9)**	+20.2%	+19.2%	(9.9)
Profit before tax	**320.3**	+11.1%	+6.5%	288.3

[1]*Following product portfolio changes, 2016 sector revenue and adjusted operating profit have been restated by £3.1m and £0.4m respectively for a net reclassification of business from Industrial Chemicals to Performance Technologies.*

2017 constant currency sales growth	First half %	Second half %	Full year %
Personal Care	2.3	8.2	5.3
Life Sciences	0.8	8.2	4.6
Performance Technologies	9.1	4.3	6.6
Core Business	4.4	6.8	5.6
Industrial Chemicals	(1.1)	(6.8)	(4.0)
Group	3.8	5.4	4.6

Underlying sales were in line with constant currency sales, with no material impact from acquisitions.

STRATEGIC REPORT[1]

CHIEF EXECUTIVE'S REVIEW

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.

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.

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[1] All figures are stated in reported (IFRS) terms unless otherwise stated. Alternative performance measures are defined in the Finance Review

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 by 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 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 ISO26000, 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 non-leaching 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 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.

FINANCE REVIEW

Currency
Currency translation had a beneficial impact on both sales and profit in the first half of 2017, due to the continued weakness of Sterling. However, Sterling strengthened somewhat during the second half year, reducing this benefit. Across the year as a whole, Sterling averaged US$1.290 (2016: US$1.354) and €1.141 (2016: €1.224). Currency translation increased sales compared to 2016 by £71.9m and adjusted profit before tax by £13.2m.

Sales

Sales grew by 10.4% to £1,373.1m (2016: £1,243.6m). At constant currency, sales rose by 4.6%. There was no material impact from acquisitions.

Sales	£m	%
2016 reported	1,243.6	
Underlying growth	57.6	4.6
Impact of acquisitions	-	-
2017 at constant currency	1,301.2	4.6
Impact of currency translation	71.9	5.8
2017 reported	1,373.1	10.4

In the Core Business, constant currency sales increased by 5.6%, with sales volume 3% higher and sales price/mix benefitting from the impact of innovation and an improved product mix, together with raw material price recovery in Performance Technologies. After a return to steady growth in the first half of the year, with Core Business constant currency sales rising by 4.4%, growth accelerated in the second half of the year, up 5.7% in the third quarter and 7.9% in the fourth quarter. This reflected a progressive improvement in Personal Care and Life Sciences.

Sales at constant currency	First half %	Second half %	Full year %
Personal Care	2.3	8.2	5.3
Life Sciences	0.8	8.2	4.6
Performance Technologies	9.1	4.3	6.6
Core Business	4.4	6.8	5.6
Industrial Chemicals	(1.1)	(6.8)	(4.0)
Group	3.8	5.4	4.6

Adjusted profit

Adjusted operating profit rose by 11.4% to £332.2m (2016: £298.2m). On a constant currency basis, adjusted operating profit increased by 6.9%.

Adjusted operating profit	£m	%
2016 reported	298.2	
Underlying growth	21.0	7.0
Impact of acquisitions	(0.3)	(0.1)
2017 at constant currency	318.9	6.9
Impact of currency translation	13.3	4.5
2017 reported	332.2	11.4

The constant currency improvement in adjusted operating profit was driven by the organic growth across the Core Business, with all sectors seeing profit increase. Return on sales increased by 20 basis points to 24.2% (2016: 24.0%). To reflect changes to product portfolios, 2016 sector revenue and adjusted operating profit have been restated by £3.1m and £0.4m 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	155.5	147.8	143.1
Life Sciences	97.0	93.5	82.0
Performance Technologies	75.4	73.7	66.6
Core Business	327.9	315.0	291.7
Industrial Chemicals	4.3	3.9	6.5
Group	332.2	318.9	298.2

The net interest charge increased to £11.9m (2016: £9.9m), with higher debt from acquisitions and the special dividend in the prior year partly offset by capitalised interest on the construction of the North American bio-surfactant plant. Adjusted profit before tax increased by £32.0m to £320.3m (2016: £288.3m*).*

Summary income statement	2017 £m	2016 £m
Sales	1,373.1	1,243.6
Operating costs	(1,040.9)	(945.4)
Adjusted operating profit	332.2	298.2
Net interest charge	(11.9)	(9.9)
Adjusted profit before tax	320.3	288.3

The effective tax rate on this profit reduced to 26.8% (2016: 28.0%), 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 Group's adjusted profit for the year was £234.4m (2016: £207.6m). Adjusted basic earnings per share (EPS) increased by 14.9% to 179.0p (2016: 155.8p).

IFRS profit
Adjusted profit is stated before exceptional items (including discontinued business costs), 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 £6.2m (2016: £12.6m). Acquisition costs were £0.8m (2016: £1.1m), the charge for amortisation of intangible assets was £3.7m (2016: £3.1m) and exceptional items were £1.7m (2016: £8.4m), being an increase in environmental provisions on discontinued business. The US Tax Cuts and Jobs Act led to a revaluation of the Group's net deferred tax liability, resulting in a £7.7m exceptional tax credit. The net credit after tax for exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition was £2.3m (2016: £10.0m charge).

The profit after tax for the year on an IFRS basis was £236.7m (2016: £197.6m) and basic EPS were 180.8p (2016: 148.2p).

IFRS profit	2017 £m	2016 £m
Adjusted profit before tax	320.3	288.3
Exceptional items, acquisition costs & intangibles	(6.2)	(12.6)
Profit before tax	314.1	275.7
Tax	(77.4)	(78.1)
Profit after tax	236.7	197.6

2018 potential impacts
A preliminary assessment of the impact of the new US tax law on the Group's effective tax rate suggests an expected fall of approximately 2.5 percentage points in 2018, which will benefit EPS. Currency translation could have an adverse impact on 2018 reported currency profit, compared to the beneficial impact in 2017, if Sterling maintains its recent strength.

Cash management
Delivering good cash generation is core to Croda's strategy. This cash is used to invest in R&D, faster growth technologies, both organically and by acquisition, to expand production capacity and to pay increased dividends. EBITDA increased to £381.8m (2016: £344.3m), which funded net capital expenditure of £157.2m (2016: £104.5m), as our capital programme peaked with the completion of installation of our bio-surfactant plant. Working capital increased by £33.3m, reflecting stronger trading and higher inventories at the end of the year to support sales orders. As a result, free cash flow was £98.5m (2016: £155.5m).

Cash flow	2017 £m	2016 £m
Adjusted operating profit	332.2	298.2
Depreciation and amortisation	49.6	46.1
EBITDA	381.8	344.3
Working capital	(33.3)	7.2
Net capital expenditure	(157.2)	(104.5)
Non-cash pension expense	3.4	(10.9)
Interest & tax	(96.2)	(80.6)
Free cash flow	98.5	155.5
Dividends	(100.0)	(230.2)
Acquisitions	(30.4)	(1.4)
Other cash movements	5.6	3.6
Net cash flow	(26.3)	(72.5)

After currency translation, net debt increased by £17.4m to £381.5m (2016: £364.1m). The leverage ratio (the ratio of net debt to EBITDA) reduced to 1.0x (2016: 1.1x) and remains substantially below the maximum covenant level under the Group's lending facilities of 3 times.

There were no material changes to committed debt facilities during the year. These facilities provide ample liquidity to meet the Group's immediate plans at a relatively low interest cost. At 31 December 2017 the Group had £433.7m (2016: £461.6m) 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, delivering a superior ROIC of 19.2% in 2017 (2016: 19.3%). During 2017 capital investment was over three times depreciation, funding asset replacement, new investment in key technologies and construction of the bio-surfactant plant, all of which should support future ROIC. We expect the level of capital expenditure to return to around 1.5x depreciation from 2018, depending on organic growth opportunities;

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 proposed an increase of 9.5% in the full year dividend to 81.0p (2016: 74.0p), a payout of 45% of adjusted EPS;

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 larger 'bolt ons'. During 2017 we completed the acquisitions of Enza Biotech and IonPhasE, together with an investment in Cutitronics; and

4) **Maintain an appropriate balance sheet and return excess capital –** we maintain an appropriate balance sheet to meet future investment and trading requirements. We target leverage of 1 to 1.5x (excluding deficits on retirement benefit schemes), although we are prepared to move above this range if circumstances warrant and will consider further returns to shareholders in the event that leverage falls below the target range.

Retirement benefits

The post-tax deficit on retirement benefit plans, measured on an accounting valuation basis under IAS19, decreased to £21.1m (2016: £112.7m), reflecting strong 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, and this is not expected to change with the latest valuation of the scheme, as at 30 September 2017, which is currently ongoing.

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 reported results in the Finance Review. Sales in Latin America are primarily based on US dollars, which is used as the functional currency for constant currency sales translation;
- *Underlying sales*: these reflect constant currency values adjusted to exclude the impact of acquisitions. They are reconciled to reported sales in the Finance Review;
- *Adjusted profit*: this is profit before exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition. It is reconciled in the Finance Review;
- *Adjusted EPS*: this is earnings per share using the adjusted profit after tax and is reconciled in the financial statements;
- *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*: 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 the core sectors of Personal Care, Life Sciences and Performance Technologies.

SECTOR REVIEW

Personal Care

In Personal Care we are targeting consistent sales growth, whilst broadly maintaining margin. We delivered this in 2017, with sales growth in all regions, driven by stronger sales volume. Sales increased 10.9% to £466.6m (2016: £420.6m) and by 5.3% in constant currency, the latter driven by a 5% increase in volume. Adjusted operating profit increased by 8.7% to £155.5m (2016: £143.1m), 3.3% ahead in constant currency. The sector's strong margin delivery continued, with return on sales only marginally lower at 33.3% (2016: 34.0%); as expected, this reflected a broadening in mix as sales growth returned across the product portfolio.

During 2017 we successfully reversed a decline in the more mature Specialities market, whilst continuing to deliver fast growth in our premium Actives business. We created three businesses: Beauty Actives, Beauty Effects and Beauty Formulations, which have given greater focus and dynamism. Our flagship Beauty Actives business, where Croda is the global market leader, had another excellent year, delivering double digit percentage sales growth in constant currency. Innovation is the key to its continued success 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.

In Beauty Effects, the smallest of the three businesses, our aim is to develop fast growth niches in hair, solar protection and colour cosmetics. We believe that these technically demanding markets can drive similar growth and profitability to Beauty Actives. With a focus on new product innovation, Beauty Effects delivered sales growth in the second half year. It successfully launched Volarest™, a novel curl retention product, and Kereffect™, an exciting semi-permanent hair straightening and curl relaxant product offering a milder alternative to traditional straightening systems.

In Beauty Formulations we completed our distributor exit programme, targeted resource to innovation driven customers and increased differentiation of our heritage ingredients portfolio. As a result, we returned this business to growth. We also reversed a declining trend with multinational customers, increasing the intensity of product innovation with a targeted group of customers and delivering modest sales growth.

Alongside an improving trend with multinationals, the fastest growth continues to be with regional and local customers. Our investment in locally based sales, marketing and technical resource continues to be a key differentiator in accessing smaller customers and enabling us to identify and leverage exciting new trends. Enhanced digital capabilities and targeted marketing are delivering a growing pipeline of opportunities by connecting faster with new ‘Indie’ customers as they bring new products rapidly to market. The breadth of our customer base drove growth in all regions.

Innovation continues to drive the sector, with NPP sales growing faster than the average and now representing over 40% of sales. The ability to innovate alongside customers is being enhanced through an expansion of R&D at Sederma, a new centre of excellence for hair in Japan and a new innovation centre in Brazil. In addition to organic investment, we continue to add to our range of market leading technologies, including the acquisition of a novel surfactant technology spin-off and co-investment in a multi-award winning company focusing on the optimum delivery of skincare formulations. Five years ago we added plant stem cell technology to Sederma’s anti-ageing portfolio through the acquisition of IRB, which is now delivering meaningful sales. We have recently added Nautilus, a technology-rich marine biotechnology company, which will further enhance this unmatched range of skin active capabilities.

Life Sciences
In Life Sciences we are creating IP rich delivery systems for complex health and crop applications, delivering sales and profit growth in line with our strategic objective of creating a business to match our Personal Care success. 2017 saw Life Sciences deliver an excellent performance, driven by strong sales growth in Crop Protection and margin improvement in Seed Enhancement. Sales increased by 10.4% to £322.6m (2016: £292.2m) and were 4.6% higher in constant currency. Adjusted operating profit rose 18.3% to £97.0m (2016: £82.0m), 14.0% higher in constant currency. Volume growth of 6%, together with an improving Incotec contribution, increased return on sales by 2 percentage points to 30.1% (2016: 28.1%).

Our Crop Protection business continued to outperform the wider agrochemical market. After a challenging first half of 2017, which saw sales unchanged year on year, the second half of the year saw a return to strong growth. We have invested in faster innovation through closer collaboration with our agrochemical customers and are targeting faster growing geographies. The pipeline of new projects has continued to develop, particularly leveraging our market leading drift reduction technology. We continued to grow with our multinational customers but have also seen growth amongst regional and smaller accounts. This has been supported by investment in additional capacity in Latin America, where the medium term outlook for crop production is strong, together with encouraging growth in Asia, a relatively new crop opportunity for Croda. Driving greater innovation is key and we have successfully launched the Tween™ L series of advanced adjuvants and Atplus™ PFA, an adjuvant developed to improve the performance of fungicidal applications.

The integration of our Seed Enhancement business, Incotec, following acquisition at the end of 2015, continued to progress successfully. Reorganisation of the geographic footprint and cost base is now complete, and the business is on track to deliver our target to double pre-acquisition profitability by the end of 2018. It is focused on faster growth territories in North America, Europe, Brazil, China and India, getting closer to customers by increasing customer-centric innovation. We opened a new R&D facility in the Netherlands and are creating new centres in North America and China, the latter combining above the ground Crop Protection R&D capability with below the ground Seed Enhancement in one location. 2017 saw exciting sales growth for Disco® AG Clear L-650, representing the first technical development by Croda/Incotec and which provides a seed film coat formulation that outperforms in seed flow, drying time and dust control. The new product pipeline is continuing to improve.

Health Care achieved modest sales growth in 2017. Whilst growth in mainstream excipients was slower, we delivered a strong performance from our investments in faster growth technologies, particularly high purity excipients which meet increasing demand for complex drug delivery systems. The innovation pipeline strengthened, with a record level of NPP sales. We launched Crodamol™ IPIS, an excipient with light and easy spreading characteristics with outstanding moisturisation and sensory appeal. Innovation is also driving more data generation, which supports wider uses of existing excipients, whilst new applications are helping to de-risk generic drug formulation.

As expected, competition in the North American generic Omega-3 API market has continued, leading to lower prices and, at the end of 2017, we exited our exclusive supply contract without cost. This completed a profitable four year period of manufacture and we will continue to build our range of other Omega-3 API applications in selected niches and countries.

Performance Technologies

Performance Technologies markets are witnessing unprecedented technological change which is creating attractive opportunities for Croda's innovation. In 2017, we sharpened our focus on the premium Smart Materials and Energy Technologies markets, where we are seeing opportunities for high added value innovation that improves the performance of our customers' products with a reduced environmental profile, to deliver our medium term 20% return on sales target.

Performance Technologies delivered a good result in 2017. Following an exceptionally strong growth in demand at the start of the year, which saw constant currency sales increase 9.1% in the first half, we progressively streamlined sales to improve the quality of business, growing by 4.3% in the second half of the year whilst increasing return on sales by 120 basis points.

Over 2017 as a whole, sales increased by 12.6% to £456.9m (2016: £405.6m) and by 6.6% at constant currency. Overall volume grew by 1%, with an improved product mix supported by progressive recovery of increased raw material prices. Adjusted operating profit increased by 13.2% to £75.4m (2016: £66.6m), up 10.7% in constant currency, the second successive year of double digit constant currency profit growth for the sector. Return on sales improved by 10 basis points to 16.5% (2016: 16.4%).

Smart Materials delivered good growth in 2017, with robust demand in the automotive and premium packaging markets for polymer additives. Our novel Incroslip™ SL slip additive doubled sales for the third year running and there is growing interest in our anti-scratch technology. However, sales from our China plant were adversely impacted by higher prices for domestically sourced rape seed. We commenced a £27m project to expand capacity in the UK and acquired IonPhasE, an innovative technology provider of static electricity dissipation solutions for electronic and automotive applications. In the coatings market, MyCroFence™, a patented antimicrobial solution with strong environmental benefits, was commercially launched. The Smart Materials business is well positioned to meet increased demand for products with high levels of renewable carbon.

The Energy Technologies market is driven by the search for new technologies that can gain or retain energy. Sales in Energy Technologies in the first half of the year were particularly strong due to growth in marine, wind turbine and environmentally acceptable lubricants, together with an upsurge in demand for oil and gas products, benefitting our flow assurance business. In the second half of the year, in line with our strategy of driving value ahead of volume, we selectively demarketed less differentiated products to these markets. Our focus is on creating greater innovation and higher value products, including our Priolube™ range of friction modifiers for the automotive market.

In addition, we continue selectively to develop our presence in Home Care and Water, by focusing on bio-based surfactants in Home Care and by improving the relatively low margin of the Water business by upgrading product mix. Sales growth in 2017 was good.

Industrial Chemicals

In 2017 we continued to improve the product mix in Industrial Chemicals, with a targeted reduction in low value add co-product and tolling business, which saw sector volume reduce by 12%. Sales increased by 1.4% to £127.0m (2016: £125.2m) but reduced by 4.0% in constant currency. Adjusted operating profit was £4.3m (2016: £6.5m).

Industrial Chemicals continued to refine its business. The transfer of co-product glycerine from external sales to in-house green energy conversion resulted in a further 10,000mt reduction in sales from our manufacturing facility in the Netherlands but with greater value generated from lower energy costs. The sector continues to innovate selectively to develop niche NPP for new performance-based applications. We will continue to focus on our strategy of creating a smaller, innovation orientated Industrial Chemicals business.

Croda International Plc
Summary financial statements for the year ended 31 December 2017
Group income statement

	Note	2017 £m Adjusted	2017 £m Adjustments[1]	2017 £m Reported Total	2016 £m Adjusted	2016 £m Adjustments[1]	2016 £m Reported Total
Revenue	2	**1,373.1**	**-**	**1,373.1**	1,243.6	-	1,243.6
Cost of sales		**(855.7)**	**-**	**(855.7)**	(798.5)	-	(798.5)
Gross profit		**517.4**	**-**	**517.4**	445.1	-	445.1
Operating costs		**(185.2)**	**(6.2)**	**(191.4)**	(146.9)	(12.6)	(159.5)
Operating profit	2	**332.2**	**(6.2)**	**326.0**	298.2	(12.6)	285.6
Financial costs	3	**(12.5)**	**-**	**(12.5)**	(10.6)	-	(10.6)
Financial income	3	**0.6**	**-**	**0.6**	0.7	-	0.7
Profit before tax		**320.3**	**(6.2)**	**314.1**	288.3	(12.6)	275.7
Tax	4	**(85.9)**	**8.5**	**(77.4)**	(80.7)	2.6	(78.1)
Profit after tax for the year		**234.4**	**2.3**	**236.7**	207.6	(10.0)	197.6
Attributable to:							
Non-controlling interests				**(0.3)**			0.9
Owners of the parent				**237.0**			196.7
				236.7			197.6

[1] **Adjustments relate to exceptional items, acquisition costs, amortisation of intangible assets arising on acquisition and the tax thereon.**

	Note	Pence per share Adjusted	Pence per Share Total	Pence per share Adjusted	Pence per Share Total
Earnings per 10.36p ordinary share	5				
Basic		**179.0**	**180.8**	155.8	148.2
Diluted		**177.3**	**179.0**	154.4	146.9
Ordinary dividends	6				
Interim			**35.00**		32.75
Final			**41.25**		38.00
Special			**-**		100.00

Group statement of comprehensive income for the year ended 31 December 2017

	2017 £m	2016 £m
Profit for the year	**236.7**	197.6
Other comprehensive income/(expense):		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of post-employment benefit obligations	**121.9**	(65.5)
Tax on items that will not be reclassified	**(23.8)**	10.4
	98.1	(55.1)
Items that may be reclassified subsequently to profit or loss:		
Currency translation	**(22.6)**	79.0
Other comprehensive income for the year	**75.5**	23.9
Total comprehensive income for the year	**312.2**	221.5
Attributable to:		
Non-controlling interests	**(0.6)**	1.7
Owners of the parent	**312.8**	219.8
	312.2	221.5
Arising from:		
Continuing operations	**313.9**	221.5
Discontinued operations	**(1.7)**	-
	312.2	221.5

Group balance sheet at 31 December 2017

	Note	2017 £m	2016 £m
Assets			
Non-current assets			
Intangible assets		**386.3**	355.3
Property, plant and equipment		**684.0**	598.1
Investments		**2.2**	1.0
Deferred tax assets		**33.1**	56.3
Retirement benefit assets		**19.1**	-
		1,124.7	1,010.7
Current assets			
Inventories		**258.5**	235.7
Trade and other receivables		**202.2**	192.4
Cash and cash equivalents		**63.3**	61.0
		524.0	489.1
Liabilities			
Current liabilities			
Trade and other payables		**(201.4)**	(186.2)
Borrowings and other financial liabilities		**(18.4)**	(10.4)
Provisions		**(5.2)**	(8.1)
Current tax liabilities		**(45.9)**	(47.0)
		(270.9)	(251.7)
Net current assets		**253.1**	237.4
Non-current liabilities			
Borrowings and other financial liabilities		**(426.4)**	(414.7)
Other payables		**(1.1)**	(2.6)
Retirement benefit liabilities	7	**(49.6)**	(146.5)
Provisions	7	**(7.4)**	(9.2)
Deferred tax liabilities		**(63.4)**	(66.3)
		(547.9)	(639.3)
Net assets		**829.9**	608.8
Equity attributable to owners of the parent		**822.3**	600.6
Non-controlling interests in equity		**7.6**	8.2
Total equity		**829.9**	608.8

Group statement of changes in equity for the year ended 31 December 2017

	Share Capital £m	Share Premium Account £m	Other Reserves £m	Retained Earnings £m	Non-Controlling Interests £m	Total £m
At 1 January 2016	**15.1**	**93.3**	**(2.0)**	**494.4**	**6.5**	**607.3**
Profit for the year	-	-	-	196.7	0.9	197.6
Other comprehensive income/(expense)	-	-	78.2	(55.1)	0.8	23.9
Total comprehensive income for the year	-	-	78.2	141.6	1.7	221.5
Transactions with owners:						
Dividends on equity shares	-	-	-	(230.2)	-	(230.2)
Share-based payments	-	-	-	9.0	-	9.0
Sale of own shares held in trust	-	-	-	1.2	-	1.2
Total transactions with owners	-	-	-	(220.0)	-	(220.0)
Total equity at 31 December 2016	**15.1**	**93.3**	**76.2**	**416.0**	**8.2**	**608.8**
At 1 January 2017	**15.1**	**93.3**	**76.2**	**416.0**	**8.2**	**608.8**
Profit for the year	-	-	-	237.0	(0.3)	236.7
Other comprehensive (expense)/income	-	-	(22.3)	98.1	(0.3)	75.5
Total comprehensive (expense)/income for the year	-	-	(22.3)	335.1	(0.6)	312.2
Transactions with owners:						
Dividends on equity shares	-	-	-	(100.0)	-	(100.0)
Share-based payments	-	-	-	8.2	-	8.2
Sale of own shares held in trust	-	-	-	0.7	-	0.7
Total transactions with owners	-	-	-	(91.1)	-	(91.1)
Total equity at 31 December 2017	**15.1**	**93.3**	**53.9**	**660.0**	**7.6**	**829.9**

Other reserves include the Capital Redemption Reserve of £0.9m (2016: £0.9m) and the Translation Reserve of £53.0m (2016: £75.3m).

Group statement of cash flows for the year ended 31 December 2017

	Note	2017 £m	2016 £m
Cash generated from operations			
Adjusted operating profit		**332.2**	298.2
Exceptional items		**(1.7)**	(8.4)
Acquisition costs and amortisation of intangible assets arising on acquisition		**(4.5)**	(4.2)
Operating profit		**326.0**	285.6
Adjustments for:			
Depreciation and amortisation		**53.3**	49.2
Loss on disposal of property, plant and equipment		**1.5**	0.9
Share of loss of associate		**0.1**	-
Net provisions charged		**1.3**	4.3
Cash paid against operating provisions		**(2.2)**	(0.7)
Movement in inventories		**(31.0)**	8.4
Movement in receivables		**(14.4)**	(10.9)
Movement in payables		**12.1**	9.7
Non-cash pension expense		**3.4**	(10.9)
Share based payments		**9.2**	9.5
Cash generated by continuing operations		**359.3**	345.1
Interest paid		**(13.9)**	(11.1)
Tax paid		**(82.9)**	(70.2)
Net cash generated from operating activities		**262.5**	263.8
Cash flows from investing activities			
Acquisition of subsidiaries		**(29.0)**	(1.4)
Acquisition of associates		**(1.4)**	-
Purchase of property, plant and equipment		**(155.8)**	(103.8)
Purchase of other intangible assets		**(3.5)**	(1.6)
Proceeds from sale of property, plant and equipment		**2.1**	0.9
Proceeds from sale of other investments		**-**	0.1
Cash paid against non-operating provisions		**(2.5)**	(2.2)
Interest received		**0.6**	0.7
Net cash used in investing activities		**(189.5)**	(107.3)
Cash flows from financing activities			
New borrowings		**359.3**	699.3
Repayment of borrowings		**(331.8)**	(632.5)
Capital element of finance lease repayments		**(0.8)**	(0.4)
Sale of own shares held in trust		**0.7**	1.2
Dividends paid to equity shareholders	6	**(100.0)**	(230.2)
Net cash used in financing activities		**(72.6)**	(162.6)
Net movement in cash and cash equivalents		**0.4**	(6.1)
Cash and cash equivalents brought forward		**56.4**	55.8
Exchange differences		**(1.9)**	6.7
Cash and cash equivalents carried forward		**54.9**	56.4
Cash and cash equivalents carried forward comprise			
Cash at bank and in hand		**63.3**	61.0
Bank overdrafts		**(8.4)**	(4.6)
		54.9	56.4

Group statement of cash flows for the year ended 31 December 2017 (continued)

	Note	2017 £m	2016 £m
Reconciliation to net debt			
Movement in cash and cash equivalents		**0.4**	(6.1)
Movement in debt and lease financing		**(26.7)**	(66.4)
Change in net debt from cash flows		**(26.3)**	(72.5)
New finance lease contracts		**(0.7)**	(0.5)
Exchange differences		**9.6**	(31.8)
		(17.4)	(104.8)
Net debt brought forward		**(364.1)**	(259.3)
Net debt carried forward		**(381.5)**	(364.1)

Notes to the summary financial statements

1. Basis of preparation

The financial information set out above does not constitute the Group's statutory financial statements for the years ended 31 December 2017 or 2016, but is derived from those financial statements. Statutory financial statements for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered following the Company's Annual General Meeting. The auditors have reported on those financial statements; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

In preparing this financial information, management has used the principal accounting policies that will be detailed in the Group's Annual Report for 2017 and which are unchanged from the prior year, except as detailed below.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group
There are no IFRSs or IFRIC interpretations that are effective for annual periods beginning after 1 January 2017 that have had a material impact on Group.

(b) New standards and interpretations not yet adopted
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2018, and have not been applied in preparing these consolidated financial statements. Those most relevant to the consolidated financial statements of the Group are set out below:

IFRS 9 ‘Financial Instruments’ includes requirements for classification and measurement, impairment and hedge accounting. It replaces the classification and measurement models for financial instruments in IAS 39 with three classification categories: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The standard will become effective for periods ending on or after 1 January 2018, subject to EU endorsement. The Group has assessed the impact of IFRS 9 and concluded that it will not have a material impact, consistent with the non-complex nature of the Group’s financial instruments.

Changes in accounting policy and disclosures (continued)

IFRS 15 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

The Group has completed a detailed assessment of IFRS 15 and has concluded that the impact will not be material to the Group's revenue and profit. This reflects the relatively non-complex and largely standardised terms and conditions applicable to the Group's revenue contracts. Accordingly, the Group does not intend to restate prior year comparators when the new standard is adopted.

IFRS 16 'Leases' will require lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Under IAS 17, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). The IASB has included an optional exemption for certain short term leases and leases of low value assets; however, this exemption can only be applied by lessees. The standard is effective for annual periods beginning on or after 1 January 2019.

The Group will complete its IFRS16 implementation work over the next twelve months. The Group does not intend to early adopt IFRS 16, having already undertaken a significant review. The new standard will result in most of the Group's current operating leases (as defined under IAS17) being recognised on balance sheet. As at the reporting date, the Group had non-cancellable operating lease commitments of £30.7m. 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, although the impact on the latter will not be material based on initial estimates. Some existing operating lease commitments are expected to be covered by the exception for short-term and low-value leases. The Group does not intend to restate prior year comparators when the new standard is adopted, with lease asset values being set equal to lease liabilities at the date of transition in line with the 'simplified approach' under IFRS 16.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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 £6.2m (2016: £12.6m) include £1.7m relating to environmental costs of businesses discontinued in prior years (2016: £8.4m of costs associated with the reorganisation of Incotec during the year). Also included are acquisition costs of £0.8m (2016: £1.1m) and amortisation of intangible assets arising on acquisition of £3.7m (2016: £3.1m). The adjustments relate to our segments as follows: Personal Care £0.6m (2016: £0.8m), Life Sciences £3.2m (2016: £11.3m), Performance Technologies £0.6m (2016: £0.5m), Industrial Chemicals £0.1m (2016: £nil) and operations discontinued in prior years £1.7m (2016: £Nil).

2. Segmental information (continued)

Income statement

	2017 £m	2016 £m Restated[1]
Revenue		
Personal Care	**466.6**	420.6
Life Sciences	**322.6**	292.2
Performance Technologies	**456.9**	405.6
Industrial Chemicals	**127.0**	125.2
	1,373.1	1,243.6
Adjusted operating profit		
Personal Care	**155.5**	143.1
Life Sciences	**97.0**	82.0
Performance Technologies	**75.4**	66.6
Industrial Chemicals	**4.3**	6.5
	332.2	298.2
Exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition	**(6.2)**	(12.6)
Total Group operating profit	**326.0**	285.6

[1] 2016 sector revenue and adjusted operating profit have been increased by a net of £3.1m and £0.4m respectively in Performance Technologies for product portfolio changes, with corresponding reductions in Industrial Chemicals.

Total assets

	2017 £m	2016 £m
Personal Care	**561.4**	527.3
Life Sciences	**358.9**	315.0
Performance Technologies	**444.0**	389.4
Industrial Chemicals	**166.7**	149.8
Total segment assets	**1,531.0**	1,381.5
Tax assets	**33.1**	56.3
Retirement benefit assets	**19.1**	-
Cash and investments	**65.5**	62.0
Total Group assets	**1,648.7**	1,499.8

3. Net financial cost

	2017 **£m**	2016 £m
Financial costs		
US$100m 5.94% fixed rate 10 year bond	**4.6**	4.4
2014 Club facility due 2021	**2.9**	3.2
2016 Club facility due 2021	**0.1**	0.2
€30m 1.08% fixed rate 7 year bond	**0.3**	0.1
€70m 1.43% fixed rate 10 year bond	**0.9**	0.4
£30m 2.54% fixed rate 7 year bond	**0.8**	0.4
£70m 2.80% fixed rate 10 year bond	**2.0**	1.0
Net interest on retirement benefit liabilities (note 7)	**3.6**	2.5
Other bank loans and overdrafts	**2.3**	1.4
Capitalised interest	**(5.0)**	(3.0)
	12.5	10.6
Financial income		
Bank interest receivable and similar income	**(0.6)**	(0.7)
Net financial costs	**11.9**	9.9

4. Tax on continuing operations

	2017 **£m**	2016 £m
Analysis of tax charge for the year		
United Kingdom current tax	**16.4**	17.4
Overseas current tax	**65.5**	59.3
Deferred tax	**(4.5)**	1.4
	77.4	78.1

5. Earnings per share

	2017 **p**	2016 p
Adjusted earnings per share[1]	**179.0**	155.8
Impact of exceptional items, acquisition costs, amortisation of intangible assets arising on acquisition and the tax thereon	**1.8**	(7.6)
Basic earnings per share	**180.8**	148.2

[1] Adjusted earnings per share from continuing operations before exceptional items, acquisition costs, amortisation of intangible assets arising on acquisition and the tax thereon

6. Dividends paid

	Pence per share	2017 £m	2016 £m
Ordinary			
2015 Final – paid June 2016	**38.00**	**-**	51.5
2015 Special – paid June 2016	**100.00**	**-**	135.7
2016 Interim – paid October 2016	**32.75**	**-**	42.9
2016 Final – paid June 2017	**41.25**	**54.1**	-
2017 Interim – paid October 2017	**35.00**	**45.8**	-
		99.9	230.1
Preference (paid June and December)		**0.1**	0.1
		100.0	230.2

The Directors are recommending a final dividend of 46.0p per share amounting to a total of £60.4m in respect of the financial year ended 31 December 2017. Subject to shareholder approval, the dividend will be paid on 31 May 2018 to shareholders registered on 5 May 2018. The total proposed dividend for the year ended 31 December 2017 will be 81.0p per share amounting to £106.2m.

7. Accounting estimates and judgements

The Group's significant 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 31 December 2017, the Group has an environmental provision of £10.2m (2016: £12.1m) in respect of soil and potential ground water contamination on a number of sites.

In relation to the environmental provision, the Directors consider that the balance will be utilised within ten 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.

7. Accounting estimates and judgements (continued)

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.

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 methodology. Total Group retirement benefit liabilities have decreased by £116.0m in 2017 to £30.5m. This movement comprises £61.0m of experience gains, £60.9m of gains due to changes in actuarial assumptions and £1.1m of currency translation gains, offset by £3.4m of service costs in excess of contributions and £3.6m net financial expense.

Taxation

The Group is subject to corporate income taxes in numerous jurisdictions. Significant judgment 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 £91.2m (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 operating companies to enable prompt identification of financial risks so that appropriate action may be taken. In the management definition of capital the Group includes ordinary and preference share capital and net debt. These summary financial statements do not include all financial risk management information; full disclosures will be available in the Group's annual financial statements for the year ended 31 December 2017.

Financial instruments

The Group accounts for financial instruments in accordance with IFRS 13. This standard requires disclosure of fair value measurements by level of the following hierarchy;

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

All of the Group's financial instruments are classed as level 3.

Fair values

For financial instruments with a remaining life of greater than one year, fair values are based on cash flows discounted at prevailing interest rates. Accordingly, the fair value of cash deposits and short term borrowings approximates to the book value due to the short maturity of these instruments. The same applies to trade and other receivables and payables. Where there are no readily available market values to determine fair values, cash flows relating to the various instruments have been discounted at prevailing interest and exchange rates to give an estimate of fair value.

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 2017 £m	**Fair value 2017 £m**	Book Value 2016 £m	Fair value 2016 £m
US$100m 5.94% fixed rate 10 year bond	**73.9**	**76.4**	81.8	84.1
€30m 1.08% fixed rate 7 year bond	**26.6**	**27.0**	25.7	25.5
€70m 1.43% fixed rate 10 year bond	**62.1**	**63.1**	60.1	61.6
£30m 2.54% fixed rate 7 year bond	**30.0**	**30.5**	30.0	30.3
£70m 2.80% fixed rate 10 year bond	**70.0**	**71.4**	70.0	70.0

10. Related Party Transactions

The Group has no related party transactions, with the exception of remuneration paid to key management and Directors.

11. Business combinations

On 7 July 2017, the Group acquired Enza Biotech AB, a research enterprise established as a spin-out company from Lund University in Sweden. Total consideration was £10.7m (inclusive of deferred consideration). Enza Biotech's patented technology will enable us to create the next generation of renewable surfactants using carbohydrate-based chemistry, and enhance our well-established natural and renewable product portfolio to offer our customers, particularly in Personal Care and Life Sciences markets.

On 8 December 2017, the Group acquired IonPhasE OY, an innovative technology provider of static electricity dissipation solutions for electronic and automotive applications, headquartered in Tampere, Finland. Total consideration was £20.9m (inclusive of debt). IonPhasE's products are a natural extension to our existing product portfolio and by bringing together the expertise of both research and development teams, a broader and more diverse range will be made available to customers through our Smart Materials marketing and sales force (within our Performance Technologies sector).

During 2017, the Group completed its fair value review of the 2016 acquisition of Inventiva Indústria e Inovação em Produtos Cosméticos Ltda. This review did not identify any changes to the asset base nor goodwill.

Responsibility Statement of the Directors on the Annual Report

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

In preparing the Group financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and IFRSs issued by the IASB and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a company's performance, business model and strategy.

Each of the Directors, whose names and functions will be detailed in the Group's Annual Report for 2017, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and

- the Directors' Report and Strategic Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and that they have each taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.