Remuneration Report

Report of the Remuneration Committee

for the year ended 31 December 2016

"Our remuneration policies have contributed to the building of sustainable long term business growth."

Steve Williams
Chairman of the Remuneration Committee

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Members and attendance (eligibility) at meetings held during the year ended 31 December 2016

Steve Williams Chairman	5 (5)
Alan Ferguson Independent Non-Executive	5 (5)
Anita Frew Board Chairman	5 (5)
Helena Ganczakowski Independent Non-Executive	5 (5)
Nigel Turner Independent Non-Executive	5 (5)

Responsibilities

The Committee determines and agrees with the Board the Company's remuneration policy and framework. It determines the remuneration packages for all Executive Directors and the Chairman, and recommends and monitors the level and structure of remuneration for senior managers.

Key responsibilities:

- To determine the Company's remuneration policy and framework, taking into account factors which it deems necessary, including legal and regulatory requirements;
- To review the ongoing appropriateness and relevance of the remuneration policy;
- To determine the total individual remuneration packages for the Chairman, each Executive Director, the Company Secretary and other members of the Executive management team as are designated by the Board from time to time;
- To ensure that no payment or proposed payment is made that is not consistent with the remuneration policy most recently approved by shareholders;
- To select, appoint and set the terms of reference for any remuneration consultants who advise the Committee; and
- To oversee any major changes in employee benefits structures throughout the Group.

Detailed responsibilities are set out in the Committee's terms of reference, which can be found at **www.croda.com**.

Looking ahead to 2017

In addition to routine business, the Committee will implement our refined remuneration policy, if approved at the 2017 AGM.

Chairman's letter

Dear fellow shareholder,

On behalf of both the Remuneration Committee and your Board of Directors, it gives me great pleasure to present the Company's Remuneration Report for 2016.

The Committee believes that our remuneration policies to date have contributed to our success by stressing the importance of building for a sustainable long term future and encouraging only those actions which result in profitable growth, irrespective of the basis of measurement.

If we have all learned one thing in 2016 it is that circumstances change and we must be prepared to respond to those changes. So it is appropriate that at this Annual General Meeting we will be placing before you our revised Remuneration Policy for consideration.

This letter, therefore, deals with two matters. First, a summary of the principles which have guided us in framing the new policy and its application for 2017 and, second, a summary of the remuneration outturn for 2016.

The revised Remuneration Policy and 2017 application

In considering how the Company's Remuneration Policy should develop the Committee has been guided by five general principles framed, in part, in consultation with our principal shareholders.

First, to achieve the closest possible alignment with the Company's strategy. To this end a new long term metric is being introduced reflecting our focus on innovation and our progress in developing New and Protected Products (NPP). This will take its place alongside Total Shareholder Return (TSR) and Earnings Per Share (EPS) growth in the long term plan.

Second, to raise the profile of both actual and relative performance and to ensure it is judged against true business competition. The comparator group for long term TSR performance is now a bespoke group of our international competitors. The bar is therefore raised.

Third, to ensure that the policy properly reflects the various concerns of shareholders as to structure and metrics. Thus, although the policy rewards improved profit performance each year, and TSR, EPS and NPP growth in the longer term, these are subject to underpins. This means that the Committee must satisfy itself, each year that other measures of corporate performance have not been sacrificed to achieve a result against our primary incentive plan performance measures. For example these might be operational matters like the SHE record or financials matters such as cash generation and ROCE. Indeed the Committee will report on these deliberations each year.

Fourth, to ensure that target setting year by year results in stretching ambitions and that the scale of reward on offer is proportionate and always linked to improved performance. Therefore, for 2017, only incremental profit performance is rewarded, and the targets, although revised, are designed to be equally tough as in preceding years bearing in mind the current environment. For instance, the achievement of what we believe is a stretching budget in 2017 would yield around 10 percentage points of bonus less than it would have done in 2016. In addition, by changing the performance measurement basis to constant currency, achieving the target is likely to be much more challenging because if current exchange rates had been maintained then we would expect a further currency benefit to reported results.

Fifth and finally, the Committee's method of operation will be flexible and dynamic taking account of external changes in recommended best practice as well as business performance. This represents a strengthened approach to look at rewards holistically and to treat each year as providing different challenges. Thus although the new policy is designed to last until 2020 it may be the case that refinement to its operation is required before then.

In further detail then:

Annual bonus

The structure and operation of the annual bonus system will remain similar to the approach taken in prior years. The principle requirement that no bonus can be paid unless and until the previous year's income is exceeded will remain a distinguishing feature.
The income targets (broadly being a measure of our success in achieving profit growth adjusted for movements in working capital over the year) will henceforth be set and assessed each year on a constant currency basis, removing the external volatility of currency translation from reward. We feel that moving to a constant currency approach will better align performance and reward. Furthermore, since we are to adopt this approach over the long term, the potential for any windfall benefits, due to the insulation of executives from the impact of negative currency movements will be offset in equal measure by years in which there are positive currency movements.

Increases in the maximum bonus to 150% of salary for the Group CEO and 125% of salary for the CFO are proposed. These increases reflect:

1. Our performance requirements are tougher under the refined bonus structure;
2. Our Business has increased in size and complexity since 2013 when we designed our current policy. We structured our approach to doing business in 2014 so that we now operate based on global market sectors. This business model is now successfully integrated and has facilitated our continued organic growth and enabled the smooth integration of our targeted acquisitions which have broadened our business capabilities and potential; and
3. the Committee's view of the very good performance of the senior team.

In reaching this conclusion, the Committee noted that these changes will more closely align total potential pay levels with UK listed companies of a comparable size and complexity. However, the Committee does not operate a policy of targeting specific 'quartile' positioning against market data – all cases are treated on their individual merits, as is this.

All else remains as is with 33% of the bonus subject to a three year deferral into shares, together with recovery and withholding provisions.

Long Term Incentive Plan

EPS and TSR performance metrics will remain, subject to changes in weighting to accommodate an additional metric.

In line with a key focus of our strategy, this third metric will assess New and Protected

Product (NPP) sales over the performance period. The NPP metric is a tried and tested measure within Croda that will be set as a hard target which will need to be achieved for this part of the award to vest. In addition to the general financial underpin that applies to both the EPS and TSR performance conditions, this part of an award will also be subject to additional requirements for overall Group profitability to be positive over the three year performance period plus absolute growth in NPP to average at least 5% per annum, for vesting to take place.

A bespoke TSR peer group will be adopted, replacing the current FTSE 350 peer group.

This peer group has been carefully chosen to identify a more relevant benchmark of true global business performance that is less impacted by the volatilities of unrelated sectors in the FTSE. The group has been chosen to include the companies we are competing against across our operations which, as a result, is intended to be highly motivating to our senior team. TSR will be assessed on a local currency basis given the multinational nature of our markets and competitors. Thus, vesting is determined based on our performance relative to TSR calculated on a basis that the Committee considers to reflect best the actual underlying performance of companies within the Group.

We propose that for 2017 awards be granted based on 40% TSR, 40% EPS and 20% based on NPP, compared with 50% EPS and 50% TSR under the old policy. Long term incentive awards will also continue to be subject to a two year holding period on vested shares, together with recovery and withholding provisions and of course reviewed in the light of the financial underpins.

Salary
Our policy is to increase salary for Executive Directors in line with those of the UK workforce. In 2017 the Executive Directors have declined to receive their full increase and will receive a 1% increase to salary as opposed to the 2% average increase across the UK.

Pension
During 2014 and 2015, the Company reviewed pension provisions for UK employees and decided to continue to provide a defined benefit arrangement through a Career Average Revalued Earnings scheme and applied a salary cap of £65,000 to pension benefits.

At the same time, the Committee also agreed to adjust the cash allowance it provided above the £65,000 defined benefit pension cap. As the cap had been reduced for the defined benefit element of the pension, the level of cash allowance provided above the cap was increased to 25% of salary (in line with our remuneration policy maximum) with the objective being to continue to support the provision of pensions in retirement. To provide consistency of approach, the Committee also agreed at the same time to set the cash in lieu of a Company pension contribution at 25% of salary.

In conclusion, your Committee believes the changes to the Remuneration Policy will support our strategy by sharpening the focus on innovation and promoting a greater awareness of the competitive challenge. As such, we commend the new policy to you.

Performance and reward for 2016

When considering how our Business performance in 2016 translates into reward, we should first consider the annual bonus and then the longer term incentive plan.

Turning first to the annual bonus, you will recall that under the existing policy this is set on the basis of the Company's results expressed in reported currency (i.e. the results include the impact of currency translation into Sterling). This has been the basis on which reward has been calculated for the past six years. Your Committee believes that it is fair and just to maintain the reported currency basis for 2016 as this was the basis on which targets were set for 2016 and therefore retains consistency over recent years. Last year was the first in which the bonus scheme paid out in part since 2012, reflecting the tough nature of the targets set by the Committee.

Income growth for 2016 was in excess of 10% over inflation which results in a maximum bonus payment to those participating in this scheme – the performance underpinning this payment is an achievement of which we should be justly proud. The results were excellent on the basis of reported currency and we also delivered robust growth on a constant currency basis. It is on this latter basis that they will be judged in future years to align better performance and reward and remove what, at the time of setting our targets, appear to be a potential favourable tailwind for 2017 performance.

With regard to longer term incentives, 2016 was the year in which grants made in 2014, under Performance Share Plan (PSP) reached the conclusion of the three year performance period.

As you will read in the following pages, these programmes required TSR and EPS criteria to be met in the years from 2014 to 2016 before any vesting could take place. Over the performance period we delivered a three year TSR of 47% which placed our performance towards the top quartile against our FTSE 350 comparator group, resulting in 85.9% of this part of the award vesting. However, in light of the demanding EPS targets set by the Committee, notwithstanding delivering 18% EPS growth over the performance period, we narrowly missed the threshold EPS growth condition. Thus, overall vesting will be at 42.95% of the total award. Our consistently improving TSR performance is demonstrated on the TSR performance graph on p74.

So far as the Committee is concerned, 2016 was a successful year and the existing policy has proved its worth. However, events move on and it is timely that the policy be revised and refreshed.

In the following pages you will find:

→ full details of the proposed new Remuneration Policy; and

→ an Annual Report on Remuneration in which we describe how we will be applying the new policy in 2017 and what was earned in 2016 with disclosure of our actual performance against the targets set.

The intention is to present a full picture of where we have been and where, with your approval, we wish to go.

On behalf of the Committee and the Board, I thank you for your support.

Yours sincerely,

Steve Williams
Chairman of the Remuneration Committee

2016 Remuneration at a glance

How we performed

Business highlights

Revenue growth	Adjusted EPS growth	Adjusted operating profit	NPP as a % of Group sales
+15.0% to £1,243.6m	+15.4% to 155.8p	+12.9% to £298.2m	+1.3% points to 27.4%

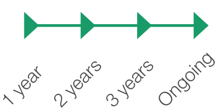
See our Finance report on **p24 to p27**

How was our policy in 2016 implemented?

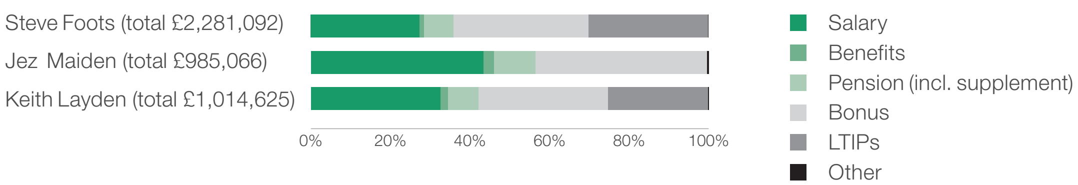
Key component	Feature	Metrics and targets	How we implemented
Basic salary and core benefits	Competitive salary and benefits to attract and retain high-calibre Executives	N/A	Pay rise of **1.5%** in line with rest of UK workforce Chief Executive Officer: **£618,135** Group Finance Director: **£426,300** Chief Technology Officer: **£330,049**
Annual bonus	Incentivise delivery of key objectives and contribute to long term alignment with shareholders Challenging financial targets set in line with Group KPIs	**Income growth** (broadly measuring profit growth adjusted for movements in working capital over the year) Max target: 2015 actual plus CPI plus 10% Actual: 2015 actual plus CPI plus 10.85% % of bonus achieved = 100%	**100%** of maximum bonus paid Chief Executive Officer: **£772,669** (125% of salary) Group Finance Director: **£426,300** (100% of salary) Chief Technology Officer: **£330,049** (100% of salary)
Deferred element of bonus	Compulsory deferral of one third of any bonus paid into shares for three years through the Deferred Bonus Share Plan (DBSP)	N/A	Chief Executive Officer: **£257,556** deferred (out of £772,669) Group Finance Director: **£142,100** deferred (out of £426,300) Chief Technology Officer: **£110,016** deferred (out of £330,049)
PSP	Incentivise execution of business strategy over longer term, rewarding sustained growth in profit and shareholder value 50% EPS 50% TSR	**EPS Growth** Threshold target: 6% p.a. Max target: 12% p.a. **Relative TSR (versus FTSE 350)** Threshold target: median TSR Max target: upper quartile TSR Performance measured over three years to 31 December 2018	Awards granted in 2016 (subject to performance) were: Chief Executive Officer: **200%** of salary Group Finance Director: **150%** of salary Chief Technology Officer: **150%** of salary

Shareholding requirements	Share ownership guidelines to ensure material personal stake in the business	Chief Executive: **200%** of salary Group Finance Director: **150%** of salary Chief Technology Officer: **150%** of salary

Time horizon key



Single figure remuneration at a glance



See **p70** for the full details of 2016 remuneration

Remuneration Policy 2017–2020 Report

Our proposed Remuneration Policy will be presented to shareholders at the 2017 AGM and is intended to operate until the expiration of the AGM in 2020. Changes to the Policy have been minimised and the Committee believes that these changes are right for the business, reflect the values of the organisation and remain reasonable and proportionate.

Objectives of the new policy

The Committee has spent several months considering the effectiveness of the current policy and any potential changes for the future. This review has been completed with the following five principal objectives in mind:

- To achieve the closest possible alignment with the Company's strategy
- To raise the profile of performance and to ensure that it is judged against true business competition
- To ensure that the policy properly reflects the various concerns of shareholders as to structure and metrics
- To ensure that target setting year by year sets truly stretching ambitions and that the scale of reward is proportionate
- The Committee's method of operation will be flexible and dynamic taking account of external changes and business performance

Additionally, the Committee has sought to simplify the operation of the policy wherever possible to give the CEO flexibility that both he and the Committee believe is necessary to continue the underlying sales and profit growth and the consequent rewards to shareholders.

Main changes to policy

The Remuneration Policy described below includes a small number of changes when compared against the Remuneration Policy approved by shareholders at the 2014 AGM.

The only substantial change is the increase in the maximum potential bonus for the CEO from 125% to 150% of salary and the Group Finance Director from 100% to 125% of salary. These increases are made against the backdrop of tougher performance requirements set under the refined bonus structure and the committee's view of the very good performance of the senior team. Our Business has increased in size and complexity since 2013 when we designed our current policy, and the move made in 2014 to global market sectors has been successfully integrated and has facilitated our continued organic growth and enabled the smooth integration of our targeted acquisitions which have broadened our business capabilities and potential.

With regard to the application of the policy the metrics for the PSP have been changed. The EPS and relative TSR performance metrics will remain, subject to changes in weighting to accommodate an additional metric, NPP. For 2017, awards will be granted based on 40% relative TSR, 40% EPS and 20% based on NPP (compared with 50% EPS and 50% TSR currently). The NPP metric is a three year target aligned to internal KPIs and is a tried and tested measure within Croda. The NPP metric requires NPP sales growth to be twice non NPP sales growth. In addition Group profits will also have to increase over the performance period, along with an absolute growth in NPP sales at an average of 5% per annum over the three year vesting period. For TSR a bespoke peer group will be adopted, replacing the current FTSE 350 peer group. This peer group has been carefully chosen to identify a more relevant benchmark of true global business performance that is less impacted by the volatilities of unrelated sectors in the FTSE.

In operating our revised policy, the Committee intends to ensure that its application will reflect shareholders' interests and the Committee will consider all aspects of corporate performance before approving any rewards through the careful consideration of all financial and health and safety underpins with disclosure of the factors considered in doing so disclosed in the Annual Report on Remuneration each year.

These changes have also been made below the Board with a revised approach to target setting being implemented for PSP participants at the Group Executive Committee level and below. Refining the targets to be weighted towards metrics that these executives have greater ability to influence towards was considered aligned with the Committee's objective of affording the CEO the flexibility necessary to drive sales and profitable growth.

Also, with regard the application of the Policy, the income targets (broadly being a measure of our success in achieving profit growth adjusted for movements in working capital over the year) will be set and assessed each year on a constant currency basis, removing the external volatility of currency translation from reward.

Finally, as previously reported and agreed in 2014 and implemented in April 2016, the UK defined benefit pension changed to a Career Average Revalued Earning scheme for all employees with a maximum accrual rate of 1/60th and a salary cap of £65,000. In line with policy the Executive Directors pension allowances were increased from 20% to 25%.

Main components of Croda's Remuneration Policy

Link to strategy	Operation	Maximum opportunity
Basic salary To assist in the recruitment and retention of high-calibre executives.	Reviewed annually with increases effective from 1 January. Base salaries will be set by the Committee, taking into account: → The performance and experience of the individual concerned → Any change in responsibilities → Pay and employment conditions elsewhere in the Group → Rates of inflation and market-wide wage increases across international locations → The geographical location of the Executive → Rates of pay in international manufacturing and pan-sector companies of a comparable size and complexity.	Salaries may be increased each year (in percentage of salary terms). The Committee will be guided by the salary increase budget set in each region and across the workforce generally. Increases beyond those linked to the region of the Executive or the workforce as a whole (in percentage of salary terms) may be awarded in certain circumstances such as where there is a change in responsibility, experience or a significant increase in the scale of the role and/or size, value or complexity of the Group. The Committee retains the flexibility to set the salary of a new hire at a discount to the market level initially, and to implement a series of planned increases in subsequent years, in order to bring the salary to the desired positioning, subject to individual performance.
Framework used to assess performance and for the recovery of sums paid The Committee considers individual salaries at the appropriate Committee meeting each year, taking due account of the factors noted in operation of the salary policy.		
Benefits To provide competitive benefits to act as a retention mechanism and reward service.	The Group typically provides the following benefits: → Company car (or cash allowance) → Private fuel allowance → Health and other insured benefits → Other ancillary benefits, including relocation expenses/arrangements (as required). Additional benefits might be provided from time to time (eg in circumstances where an Executive Director is recruited from overseas). The Committee will consider whether the payment of any additional benefits is appropriate and in line with market practice when determining whether they are paid.	Cost of benefits is not pre-determined and may vary from year to year based on the cost to the Group.
Framework used to assess performance and for the recovery of sums paid None.		
Performance related bonus To incentivise and reward delivery of the Group's key annual objectives. To contribute to longer term alignment with shareholders.	Compulsory deferral of one third of any bonus paid into shares for three years through the Deferred Bonus Share Plan (DBSP). The Committee has the discretion to permit DBSP awards to benefit from dividends on shares that vest. The balance of the bonus is paid in cash.	Group Chief Executive: 150% of salary Group Finance Director: 125% of salary Other Executive Directors: 100% of salary
Framework used to assess performance and for the recovery of sums paid Details of the performance measures used for the current year and targets set for the year under review and performance against them is provided in the Annual Report on Remuneration. Bonus will be fully (or largely) based on a challenging range of financial targets set in line with the Group's KPIs (eg income growth targets). The Committee has the flexibility to include, for a minority of the bonus, targets related to the Group's other KPIs where this is considered appropriate. For each objective set, bonus starts to accrue once the threshold target is met (0% payable) rising on a graduated scale to 100% for out-performance. The Committee has the flexibility to take health, safety and environmental performance into consideration when determining the actual overall level of individual bonus payments and it may reduce the bonus awards if it considers it appropriate to do so. Bonuses paid are subject to provisions that enable the Committee to recover value overpaid through the withholding of variable pay previously earned or granted (malus) or through requesting a payment from an individual (claw back) in the event of a material misstatement of results or serious misconduct. The provisions will operate for a three-year period following the date on which the bonus is paid.		

Link to strategy	Operation	Maximum opportunity
Performance Share Plan (PSP) To incentivise and reward the execution of business strategy over the longer term. To reward sustained growth in (i) profit and (ii) shareholder value.	The PSP provides for awards of free shares (ie either conditional shares or nil-cost options) normally made annually which vest after three years subject to continued service and the achievement of challenging performance conditions. Shares (on an after tax basis) are subject to a two year post-vesting holding period. The Committee has the discretion when awards are granted, to permit awards to benefit from the dividends paid on shares that vest.	Normal maximum opportunity of 200% of salary. In exceptional circumstances (eg recruitment), awards may be granted up to 300% of salary to compensate for value forfeited from a previous employer.

Framework used to assess performance and for the recovery of sums paid
Granted subject to a blend of challenging financial (eg EPS), shareholder return (eg relative TSR) and strategic targets (eg NPP). Targets will normally be tested over three years.

In relation to financial targets (eg EPS growth and TSR) 25% of awards subject to such targets will vest for threshold performance with a graduated scale operating through to full vesting for equalling, or exceeding, the maximum performance targets (no awards vest for performance below threshold). In relation to strategic targets, the structure of the target will vary based on the nature of target set (i.e. it will not always be practicable to set such targets using a graduated scale and so vesting may take place in full for strategic targets if specific criteria are met in full). Vesting is also dependent on satisfactory underlying financial performance of the Group over the performance period and subject to potential claw back in the event of a material misstatement of results or serious misconduct. The claw back provisions will operate for a three year period following the date on which the awards vest.

Link to strategy	Operation	Maximum opportunity
All-employee share plans To encourage long term shareholding in the Company. To provide all employees with the opportunity to become shareholders in the Company on similar terms.	Periodic invitations are made to participate in the Group's Sharesave Plan and Share Incentive Plan. Shares acquired through these arrangements have significant tax benefits in the UK subject to satisfying certain HMRC requirements. The plans can only operate on an all-employee basis. The plans operate on similar terms but on a non-tax favoured basis outside the UK as appropriate.	The maximum participation level (for UK-based employees) is as per HMRC limits (see Annual Report on Remuneration for current maximum limits).

Framework used to assess performance and for the recovery of sums paid
There are no post-grant performance targets applicable to these awards.

Link to strategy	Operation	Maximum opportunity
Pension To provide competitive long term retirement benefits. To act as a retention mechanism and reward service.	Pension benefits are typically provided either through (i) participation in the UK's defined benefit pension plan with a cash supplement provided above any pension salary cap or (ii) a cash supplement provided in lieu of pension. Only basic salary is pensionable.	Career Average Revalued Earnings Scheme with up to 1/60th accrual up to a capped salary currently set at up to £65,000 plus cash allowance of up to 25% of salary above the cap. The salary cap may be reduced due to annual allowance regulations. Or Cash allowance of up to 25% of salary.

Framework used to assess performance and for the recovery of sums paid
None.

Bonus plan and long term incentive policy

The Committee will operate the annual bonus plan, PSP and all-employee plans according to their respective rules and in accordance with the Listing Rules and HMRC rules where relevant. The Committee retains discretion, consistent with market practice, in a number of regards to the operation and administration of these plans. These include the following (plan limits and performance targets restricted to the descriptions detailed in the preceding policy table):

- Who participates in the plans
- The timing of grant of award and/or payment
- The size of an award and/or payment
- The determination of vesting
- Dealing with a change of control (eg the timing of testing performance targets) or restructuring
- Determination of a good/bad leaver for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen
- Adjustments required in certain circumstances (eg rights issues, corporate restructuring and special dividends)
- The annual review of performance conditions, including metrics and weightings, for the annual bonus plan and PSP

The Committee also retains the ability to adjust the targets and/or set different measures and alter weightings for the annual bonus plan and to adjust targets for the PSP if events occur (eg material divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy.

Shareholding guidelines

The Committee operates share ownership guidelines which apply to all Executive Directors and the Group Executive Committee. The Group Chief Executive is subject to a share ownership guideline of 200% of salary and the other Executive Directors to 150% of salary.

It is expected that the guideline will be met within a five year time period from its adoption (or date of joining for new appointments) through a combination of share purchases and the retention of incentive shares. On the exercise of Sharesave options or the vesting of awards from the Company's long term incentive plans, Executives are required to retain shares awarded representing 50% of the net of tax gain until the ownership target is met or exceeded.

Choice of performance measures and approach to target setting

The performance metrics that are used for annual bonus and long term incentive plans are a subset of the Group's KPIs.

Under the annual bonus plan, an underlying profit-based objective such as income growth will be used as the primary performance metric. Such a measure will be used as it looks to reward two KPIs that are used within the business, namely the growth in underlying profitability and the efficient use of working capital. Other metrics based on the Group's KPIs may be used in the future where it is considered that they provide clear alignment with the evolving strategy of the Group. In any event, the achievement of profitable growth whilst ensuring that efficient management of ROIC/ROCE and cash is fully encouraged and will be central to the Committee's deliberations.

In terms of long term performance targets, PSP awards will vest subject to challenging financial targets (eg EPS growth) that are informed by the long term levels of growth targeted by the Group, shareholder return targets (eg relative TSR) which provide clear alignment of interests between shareholders and executives and strategic targets (eg NPP) that are aligned with Company's targeted long term KPIs.

Financial targets are set, where possible, based on sliding scales that take account of internal planning and external market expectations for the Group. Only modest rewards are available for delivering threshold performance levels with maximum rewards requiring substantial out-performance of the challenging plans approved at the start of each year.

No performance targets are applied to the all-employee plans which are aimed at encouraging broad based equity ownership.

Further details of the annual bonus metrics to be used for the current financial year are set out in the Annual Report on Remuneration. The targets for awards to be granted under the PSP in the current financial year are consistent with the policy set out above and are also set out in the Annual Report on Remuneration.

How Executive Directors' Remuneration Policy relates to the wider group

The Executive Directors' Remuneration Policy provides an overview of the structure that operates for the Group Executive Directors and those senior Executives forming the Group Executive Committee (noting, however, that there are some differences in PSP participation and levels within this group).

The Committee is made aware of pay structures across the Group when setting the Remuneration Policy for Executive Directors. The key difference is that, overall, the Remuneration Policy for Executive Directors is more heavily weighted towards variable pay than for other employees.

Base salaries are operated under the same policy as detailed in the Remuneration Policy table with any comparator groups used as a reference point being country and/or industry specific. The Committee considers the general basic salary increase for the broader Group and, in particular, the UK based employees when determining the annual salary review for the Executive Directors.

The performance related bonus scheme operates on a tiered basis from 150% of salary down to 30% of salary across the most senior global grades. Outside of the most senior tiers of Executives, the PSP is not operated as this arrangement is reserved for those anticipated as having the greatest potential to influence Group level performance.

However, the Committee believes in wider employee share ownership and promotes this through the operation of the HMRC tax approved all-employee share schemes which are open to all UK employees. Other similar share schemes are offered in other jurisdictions where local securities laws allow.

How the views of employees are taken into account

The Company, in line with current market practice, does not actively consult with employees on Executive remuneration. The Group has a diverse workforce operating globally in 36 different countries, with various local pay practices, which hinders effective consultation and so the Group Human Resources Director updates the Committee periodically on feedback received on remuneration practices across the Group.

The Committee takes due account of remuneration structures elsewhere in the Group when setting pay for the Executive Directors (for example, consideration is given to the overall salary increase budget and the incentive structures that operate across the Group).

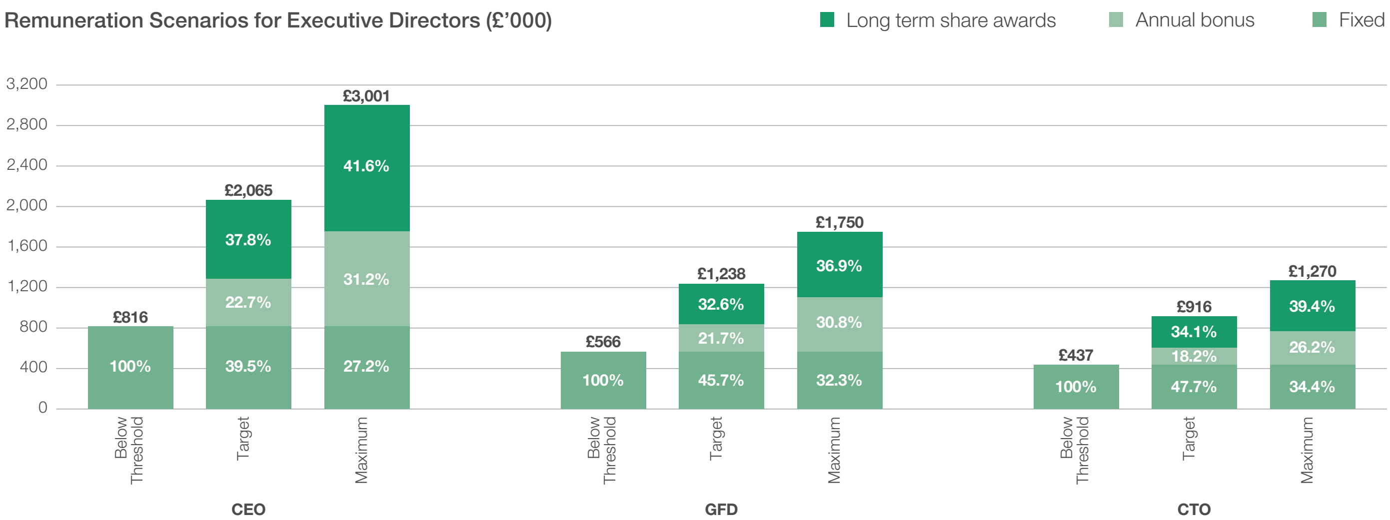
How the views of shareholders are taken into account

The Remuneration Committee considers shareholder feedback received in relation to the AGM each year and guidance from shareholder representative bodies more generally. In late 2016 and early 2017 the Committee undertook an extensive consultation process with shareholders explaining in advance the proposed Remuneration Policy. This feedback, plus any additional feedback received during any meetings held with shareholders from time to time, is then considered as part of the Committee's ongoing review of Remuneration Policy.

Remuneration scenarios for Executive Directors

The Group's policy results in a significant proportion of remuneration received by Executive Directors being dependent on Group performance. The graph below illustrates how the total pay opportunities for the Executive Directors varies under three different performance scenarios: below target, on-target and maximum. When reviewing the graph, it should be noted that it has been prepared based on the policy detailed above and ignores, for simplicity, the potential impact of future share price growth.

Remuneration Scenarios for Executive Directors (£'000)



Assumptions:

Below target = fixed pay only (base salary, benefits and pension);

On-target = 50% payable of the 2017 annual bonus and 62.5% vesting of the 2017 PSP awards; and

Maximum = 100% payable of the 2017 annual bonus and 100% vesting of the 2017 PSP awards.

Salary levels (on which other elements of the package are calculated) are based on those applying on 1 January 2017. The value of taxable benefits is based on the cost of supplying those benefits (as disclosed on page 70) for the year ending 31 December 2016. The pension value is based on the assumptions used to value pensions for the emoluments table (as disclosed on page 70 and a salary supplement in lieu of pension at 25% of salary where relevant). The Executive Directors can participate in the all-employee share plans on the same basis as other employees. The value that may be received under these schemes is subject to tax approved limits. For simplicity, the value that may be received from participating in these schemes has been excluded from the graph above.

Recruitment and promotion policy

For Executive Director recruitment and/or promotion situations, the Committee will follow the guidelines below:

Remuneration element	Policy
Base salary	Base salary levels will be set in accordance with the Group's Remuneration Policy, taking into account the experience and calibre of the individual (eg typically around market rates in companies of comparable size and complexity). Salary levels may be set below this level (eg if the individual was promoted to the Board). Where it is appropriate to offer a below market rate of pay initially, a series of increases to the desired salary positioning may be given over the subsequent few years subject to individual performance. Above market salaries may also be offered if the experience and calibre of the candidate is considered to justify such an approach being taken by the Committee.
Benefits	Benefits in accordance with the current policy. In addition, where necessary, the Committee may approve the payment of relocation expenses to facilitate recruitment.
Pension	A Company pension contribution or cash supplement in accordance with the current policy.
Annual bonus	The annual bonus would operate in accordance with the current policy in terms of the maximum opportunity and performance targets, albeit pro-rated for the period of employment. Any increases in ongoing annual bonus opportunity above the normal limit will be contingent on the Company receiving shareholder approval for an amendment to its approved policy.
Long term incentives	Share awards will be granted in accordance with the current policy. An award may be made shortly after an appointment (subject to the Company not being in a prohibited period). For an internal hire, existing awards would continue over their original vesting period and remain subject to their terms as at the date of grant. The maximum ongoing annual award level is as per the current policy.
Buy out awards	In the case of an external hire and in exceptional circumstances, if it is necessary to buy out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer), this would be provided for taking into account the form (cash or shares), timing and expected value (ie likelihood of meeting any existing performance criteria) of the remuneration being forfeited. Replacement share awards, if used, will be granted using the Company's existing share plans within the limits detailed in the current policy table. Awards may also be granted outside of these schemes if necessary and as permitted under the Listing Rules.

Directors' service contracts and payments for loss of office

Executive Directors' service contracts are terminable by the Company on up to one year's notice and by the Director on at least six months' notice.

In respect of termination, the Committee's policy is to deal with each case on its merits, in accordance with the law and any further policy adopted by the Committee at the time. In the event of early termination, other than for cause, the relevant Director's then current salary and contractual benefits would be taken into account in calculating any liability of the Company. For clarification, the Company's policy is that no entitlement to unearned bonus will be taken into account when determining payments on early termination.

The principal contractual benefits provided in addition to salary are the provision of a car or car allowance, private fuel allowance, pension, medical insurance and life assurance. Annual bonuses and long term incentives are non-contractual and are dealt with in accordance with the rules of the relevant schemes.

The Committee's policy is also for contracts to contain provisions which enable the Company to terminate contracts at any time with immediate effect. The Executive Director would be entitled to receive compensation equivalent to a maximum of twelve months' salary plus the value of their pension benefits (currently valued at 25% of basic salary) and the value of other benefits, payable in equal monthly instalments over the full notice period or, if less, the remainder of any notice period not yet completed. Such payments would discontinue or reduce to the extent that alternative employment is obtained.

An Executive Director's service contract may be terminated without notice for certain events such as gross misconduct. No payment or compensation beyond sums accrued up to the date of termination will be made if such an event occurs.

Other than in the event of a redundancy, retirement or other good leaver circumstances, at the discretion of the Committee, no bonus may be payable unless the individual remains employed and is not under notice at the payment date. In the event that an individual does cease employment for one of the good leaver reasons detailed, bonuses would become payable pro-rata based on the number of complete calendar months worked in the relevant year. The policy for a new hire would be based on terms that are consistent with these provisions.

The treatment for share-based incentives previously granted to an Executive Director will be determined based on the relevant plan rules. The default treatment will be for outstanding awards to lapse on cessation of employment. In relation to awards granted under the Company's long term incentive plans, in certain prescribed circumstances, such as injury or disability, redundancy, transfer or sale of the employing company, retirement with the Company's agreement or other circumstances at the discretion of the Committee (reflecting the circumstances that prevail at the time) 'good leaver' status would be applied. If treated as a good leaver, awards will be eligible to vest subject to performance conditions, which will be measured over the performance period from grant to the normal vesting date, and which will be reduced pro-rata (unless the Committee consider it appropriate to do so) to reflect the proportion of the performance period actually served.

The treatment for share awards granted to facilitate part deferral of annual bonus will be determined based on the relevant plan rules. Ordinarily, deferred share bonus awards will vest on their original vesting date other than in certain circumstances (eg dismissal for gross misconduct) when they will lapse.

It is the Company's policy to honour pre-existing award commitments in accordance with their terms.

External appointments

Executive Directors can accept external non-executive appointments with the prior approval of the Board. It is normal practice for Executive Directors to retain fees provided for non-executive appointments.

Non-Executive Directors' letters of appointment

The Chairman and Non-Executive Directors have letters of appointment for an initial fixed term of three years subject to earlier termination by either party on written notice. In each case, this term can be extended by mutual agreement. Non-Executive Directors have no entitlement to contractual termination payments.

The dates of the initial appointments of the Non-Executive Directors are set out in the Annual Report on Remuneration.

Non-Executive Directors' fees

The policy on Non-Executive Directors' fees is:

Link to strategy	Operation	Maximum opportunity
Fees To provide a competitive fee which will attract those high-calibre individuals who can further the interests of the Group through their experience, stewardship and contribution to strategic development.	The fees for Non-Executive Directors (including the Chairman) are typically reviewed each year. Fee levels are set by reference to the expected time commitments and responsibilities, and are periodically benchmarked against relevant market comparators, as appropriate, reflecting the size and nature of the role. The Chairman and Non-Executive Directors are paid an annual fee which is paid monthly in cash and do not participate in any of the Company's incentive arrangements or receive any pension provision. The Non-Executive Directors receive a basic Board fee, with additional fees payable for chairmanship of the Company's key Committees and for performing the Senior Independent Director role. All Non-Executive Directors are reimbursed for travel and related business expenses reasonably incurred in performing their duties so that they are fully recompensed for undertaking Company business. The Committee recommends the remuneration of the Chairman to the Board. The Chairman's fee is determined by the Committee (during which the Chairman has no part in discussions) and recommended by them to the Board. The Non-Executive Directors' fees are determined by the Chairman and the Executive Directors.	Fee levels will be eligible for increases during the period that the Remuneration Policy operates to ensure they continue to appropriately recognise the time commitment of the role, increases to fee levels for Non-Executive Directors in general and fee levels in companies of a similar size and complexity.

Framework used to assess performance and for the recovery of sums paid
None.

Annual Report on Remuneration

Unaudited Information

This part of the Report has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 which sets out the disclosures required for Directors' remuneration as at the reporting date. The Report is also in accordance with the requirements of the Listing Rules and the Financial Conduct Authority.

Membership and operation of the Committee

The Committee comprises all Non-Executive Directors including the Chairman. Details of the members and attendance at meetings during the year and the responsibilities of the Committee are set out on page 55. The Committee invites individuals to attend meetings to ensure that decisions are informed and take account of pay and conditions in the wider Group. During 2016, invitees included other Directors and employees of the Group and the Committee's advisers (see below), including Steve Foots (Group Chief Executive), Jez Maiden (Group Finance Director), Tracy Sheedy (Group HR Director), and Tom Brophy (Group General Counsel and Company Secretary).

External advisers to the Remuneration Committee

New Bridge Street (part of Aon Plc) was retained as the appointed adviser to the Committee during 2016 to provide independent advice on remuneration policy and practice. Korn Ferry Hay Group also provided advice to the Committee during 2016. Neither New Bridge Street nor Korn Ferry Hay Group have any connection with the Group other than in providing advice in relation to Executive remuneration and Non-Executive fees. Another subsidiary of Aon Plc provides insurance broking services to the Group. The Committee is comfortable that no conflicts arise out of these relationships. The total fees paid to New Bridge Street for its services during the year were £75,289 (excluding VAT) and the total fees paid to Korn Ferry Hay Group during the year were £10,500 (excluding VAT). Both New Bridge Street and Korn Ferry Hay Group are signatories to the Remuneration Consultants Group Code of Conduct.

The Committee regularly reviews the external adviser relationship and is comfortable that the advice it is receiving remains objective and independent.

Statement of shareholder voting

At the 2016 AGM, the Directors' Remuneration Report received the following votes from shareholders:

	Annual Report on Remuneration	
Votes cast in favour	92,197,603	93.30%
Votes cast against	6,618,366	6.70%
Total votes cast	**98,815,969**	**100.00%**
Abstentions	533,089	

Key Committee activities during 2016

Remuneration structure/policy

- Developing the new Remuneration policy
- Consulting with major institutional investors about the proposed changes including the annual bonus quantum for the Group Chief Executive and Group Finance Director and PSP structure and targets
- Considering the corporate governance environment and monitoring developments in investors' expectations

2017 remuneration

- Setting 2017 Executive Director salary levels
- Determining 2017 annual bonus award levels and performance targets

Governance

- Noting remuneration trends across the Group
- Reviewing Remuneration Committee effectiveness
- Reviewing terms of reference
- Ensuring compliance with the Investment Association's share headroom guidance and adherence to
- Monitoring the Compay's policy on share ownership

2016 remuneration

- Testing the performance target for the 2016 annual bonus
- Testing performance targets for the Company's 2014 long term incentive awards
- Implementing the previously agreed pension changes for Executive Directors
- Determining grants under the Deferrd Bonus Share Plan

Long term remuneration

- Determining 2016 Performance Share Plan award levels, the associated performance targets and the granting of the awards

Implementation of Remuneration Policy for year ending 31 December 2017

Basic salary

The Executive Directors' base salaries were reviewed during the final quarter of the financial year ending 31 December 2016. The Committee considered each individual's progression in their role as well as their responsibilities, performance, skills and experience. The Committee also took into account the wider pay levels and salary increases being proposed across the Group as a whole.

Executive Director	Salary as at 01.01.17	Salary as at 01.01.16	Increase
Steve Foots	£624,316	£618,135	1.0%
Jez Maiden	£430,563	£426,300	1.0%
Keith Layden	£333,349	£330,049	1.0%

2% increases will be awarded to all UK based employees in 2017.

Other benefits

Other benefits such as company cars or car allowances, fuel allowance and health benefits are made available to Executive Directors. Benefits in kind and bonuses are not pensionable. The Committee reviews the individual components and the balance of these components from time to time.

Performance related annual bonus

In 2017, Executive Directors will be eligible to receive a performance-related bonus of up to 150% of salary (Group Chief Executive) 125% of salary (Group Finance Director) and 100% of salary (other Executive Directors). The rationale for increasing bonus opportunity is set out in the Chairman's introductory letter on page 56.

The bonus scheme for Executive Directors and senior Executives incentivises and rewards the delivery of income growth. Income growth is the growth in underlying profitability (defined for bonus purposes as Group EBITDA for continuing operations before exceptional items and any charges or credits under IFRS 2 'Share-based payments') less a notional interest charge on working capital employed during the year. Income is measured after providing for the cost of any bonuses.

In 2017 income targets will be measured on a constant currency basis. This is because we want our executive team to be incentivised to focus on underlying top and bottom line growth as opposed to benefiting or being penalised by the translation impacts of movements in foreign exchange. In setting the revised approach to moving to constant currency it was noted that where bonuses have been paid over the past five years (including in respect of 2016) that using reported currency has resulted in lower bonuses being paid on two occasions than would have been the case using constant currency and a higher bonus on one occasion. Given current exchange rates it was also noted that had we not changed our approach, 2017 would have likely been a year in which there would have been a benefit from continued use of reported currencies which has now been removed.

2017 performance targets

For the 2017 financial year, the bonus structure will continue to operate on a similar basis to that operated in previous years. The targets operate as a sliding scale with no bonus becoming payable until the previous year's income has been exceeded, through to a maximum bonus becoming payable for delivery of the maximum target. The targets for 2017 are shown below:

Level of award	Income	% of bonus payable
Threshold	At least equivalent to 2016 actual	0%
Maximum	2016 actual, plus 10%	100%

Once the level of bonus has been determined against the targets set at the start of the year, the Committee will have the flexibility to take health, safety and environmental performance into consideration when determining the actual overall level of individual bonus payments and may reduce the bonus awards if it considers it appropriate (eg if health, safety and environmental performance is not considered satisfactory during the period over which the bonus was earned).

The Committee considers the targets set for 2017 to be more demanding than those set in 2016 allowing for the revised basis of target setting (ie moving to constant currency from reported). It is noted that the range of targets were set after taking due account of the Company's inflationary expectations. In concluding that the targets are more demanding than those set in 2016 the Committee considered that the achievement of what we believe is a stretching budget in 2017 would yield around 10 percentage points of maximum bonus less than it would have done in 2016. As a result the Committee was comfortable with the revised range of targets set in light of the bonus opportunity for 2017. The Committee will review the range of growth targets each year to ensure the targets are appropriately demanding allowing for the commercial circumstances, and inflationary expectations, at the time.

One third of any bonus earned will be the subject of a mandatory deferral into the Company's shares for three years, through the Deferred Bonus Share Plan.

The Committee remains comfortable that the structure of the annual bonus does not encourage inappropriate risk taking and that the mandatory deferral of one third of bonus into shares provides clear alignment with shareholders and fosters a longer term link between annual performance and reward.

The 2017 annual bonus is also subject to claw back and withholding provisions which enable the Committee to recover the value overpaid to an Executive Director in respect of 2017 performance in the event of a misstatement of the Group's financial results, an error being made in assessing how far performance targets were ultimately achieved, or serious misconduct. Recovery of any value overpaid includes the ability to withhold future incentive pay awards as well as seeking reimbursement from an individual. The claw back and withholding provisions will operate for three years following the date on which the bonus is paid.

Full retrospective disclosure of the targets and actual performance will be provided in next year's Annual Report on Remuneration.

Performance Share Plan

The PSP was approved by shareholders in 2014.

2017 PSP award levels

The maximum normal award limit under the PSP is 200% of salary. The awards for 2017 were set after taking due account of (i) the need to motivate and retain Executive Directors and other participants, and (ii) the challenging nature of the performance targets. It is intended that awards will be granted at the following levels during 2017 (as nil-cost options):

Executive Director	2017 PSP award (percentage of salary)
Steve Foots	200%
Jez Maiden	150%

2017 performance targets

Awards under the PSP will be subject to a performance condition which is split into three parts, each with a separate performance condition. 40% of the award will vest dependent on Croda's relative TSR measured against a bespoke group of the Company's peers, 40% will vest dependent on challenging EPS growth targets and 20% will vest based on sales performance of NPP.

The targets, each tested over three years, are as follows:

- With regards to the proportion of the award subject to relative TSR, Croda's performance is compared against a bespoke peer group. This peer group has been chosen to identify a more relevant benchmark of global business performance that is less impacted by the volatilities of unrelated sectors in the FTSE and includes companies in a similar markets (see below for further details of the TSR peer group constituents). This element will vest at 25% for a median ranking and 100% for upper quartile performance.
- TSR peer group constituents: AkzoNobel, Albemarle, Arkema, Ashland, BASF, Clariant, Koninklijke DSM, Eastman Chemicals, Elementis, Evonik Industries, Givaudan, Johnson Matthey, Kemira, Lanxess, Novozymes, Solvay, Symrise, Synthomer, Victrex.
- For the proportion of the award subject to EPS, challenging absolute growth targets have been set, which will operate on a graduated scale. The EPS targets that have been proposed for the 2017 PSP follow the Committee's review of internal financial planning, external market expectations, analysis of the current trading environment and consideration of the base point from which growth will be measured. The range of targets to apply are at annual growth of between 5% and 11%. These targets are considered to be no less challenging to the range of targets set for the 2016 awards, providing a realistic incentive at the lower end of the performance range, but with full vesting requiring exceptional outperformance in the current commercial context.
- For the proportion of awards based on NPP target vesting will be for NPP sales growth to be at least twice non-NPP sales and subject to a minimum of 5% growth per year and overall positive Group profit growth.

In addition to the above, a general financial underpin operates, enabling the Committee to reduce the vesting result if it does not consider they reflect the Group's underlying financial performance over the performance period. This consideration may include such things as management of ROIC/ROCE and cash.

The Committee will disclose any factors considered when applying the underpin.

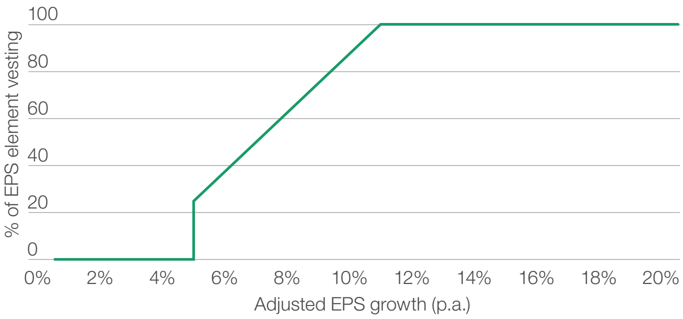
For the awards granted in 2017, the after-tax number of vested shares must be retained for a minimum of two years. PSP awards granted in 2017 to Executive Directors are also subject to claw back and withholding provisions. These enable the Committee to reclaim the value overpaid to an Executive Director, in respect of performance during the three years ending 31 December 2019, if it was discovered that there had been a material misstatement of the Group's financial results or serious misconduct during this period in the three years following vesting (ie shortly following the conclusion of the 2022 financial year).

Pension

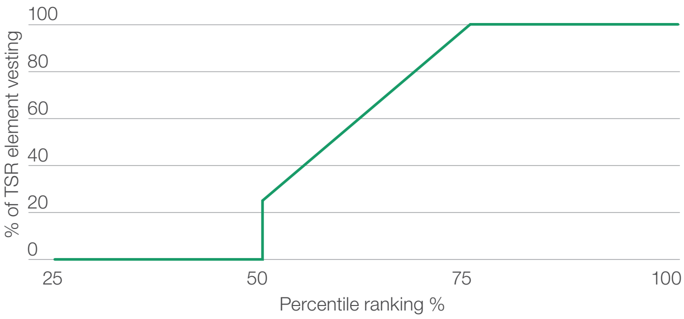
Croda has a number of different pension plans in the countries in which we operate. Pension entitlements for Company Executives are tailored to local market practice, length of service and the participant's age. The principal pension plan in the UK is a defined benefit scheme. A salary supplement in lieu of pension provision above the salary cap applies.

As noted in the Chairman's introductory letter, during 2014 and 2015, the Company reviewed the way it provides pension benefits to all UK employees. The review was undertaken to ensure that our approach to providing pension benefits in the future was sustainable but also continued to mark Croda as unique and recognise our long service culture. Aligned with these principles, it was agreed that we would continue to provide pension benefits on a defined benefit basis (enabling employees to better plan for retirement than if we moved to a defined contribution pension) but through a Career Average Revalued Earnings scheme as opposed to a final salary structure.

EPS vesting schedule



TSR vesting schedule



In addition, a cap of £65,000 was applied to pension benefits. This approach has the effect of smoothing pensionable earnings as opposed to setting pension by reference to the salary at retirement. As result, this is considered a fairer way of calculating pension in retirement (as it better reflects the profile of an individual's career as opposed to their final few years) and is also a more cost effective method of providing pension, which ensures it remains sustainable over time for the Company.

At the same time as revising the approach to providing defined benefit pensions, in 2014 the Committee also agreed to adjusted the cash allowance it provided above the £65,000 defined benefit pension cap it introduced (the previous cap had been £150,000). As the cap had been reduced for the defined benefit element of the pension, the level of cash allowance provided above the cap was increased to 25% of salary (in line with our remuneration policy maximum) with the objective being to continue to support the provision of pensions in retirement. To provide consistency of approach, the Committee also agreed at the same time to set the cash in lieu of a Company pension contribution at 25% of salary.

Due to an administrative oversight the increases to pension cash allowances paid in 2016, but approved in 2014, were not included in the 2015 Directors' Report on Remuneration.

Steve Foots' pension provision
Steve Foots accrues pension benefits under the CPS with an accrual rate of 1/60th and an entitlement to retire at age 60. From 6 April 2011 onwards, pension benefits accruing are based on a capped salary. This cap was £187,500 until April 2014 at which point it reduced to £150,000, and due to annual allowance regulations and changes to the pension scheme, reduced again to £37,500 in April 2016 (reduced from the scheme cap of £65,000 due to annual allowance regulations). If Steve Foots retires before he is 61, a reduction will be applied to the element of his pension accrued after 6 April 2006. If he retires before the age of 60, a reduction will be applied to the element of his pension accrued before 6 April 2006, unless in either instance he is retiring at the Company's request. In the event of death, a pension equal to two-thirds of the Director's pension would become payable to the surviving spouse. Steve Foots' pension in payment is guaranteed to increase in line with the rate of inflation up to a maximum of 10% per annum for benefits accrued before 6 April 2006, and in line with inflation up to a maximum of 2.5% per annum for benefits accrued from 6 April 2006 onwards.

Steve Foots is entitled to death-in-service benefits from the CPS. He also receives a pension supplement at 25% of salary (20% of salary until 1April 2016) above his pension benefit cap of £37,500.

Jez Maiden's pension provision
Jez Maiden is paid a pension supplement of 25% of salary (20% of salary until 1 April 2016). He has an agreement with the Company to provide him with death-in service benefits outside of the CPS.

Keith Layden's pension provision
As detailed in last year's remuneration report, Keith Layden started to draw his pension under the CPS on 19 October 2014. He can draw this deferred pension, with Company consent, while continuing in employment. His pension will increase in line with retail price index (RPI) to a maximum of 10% per annum for pension accrued before April 2006 and a maximum of 2.5% for pension accrued afterwards.

Keith Layden is paid a pension supplement of 25% of salary (20% of salary until 1 April 2016). He is entitled to death-in-service benefits from the CPS with Trustee consent.

All-Employee share plans

Executive Directors are invited to participate in the HMRC tax-approved UK Sharesave Scheme and the Croda Share Incentive Plan (SIP) in line with, and on the same terms as, the wider UK workforce.

Sourcing of shares and dilution

Awards under all Group share schemes may be satisfied using newly issued shares, treasury shares or shares purchased in the market and held in the Company's employee benefit trusts.

Awards under the Group's discretionary schemes which may be satisfied by new issue shares must not exceed 5% of the Company's issued share capital in a ten year period. The total of all awards satisfied via new issue shares under all plans must not exceed 10% of the Company's issued share capital in a ten year period.

As at 31 December 2016, the headroom under the Company's 5% and 10% limits was 1.66% and 2.45% respectively, out of an issued share capital of 135,124,108 shares.

Service contracts

Steve Foots, Keith Layden and Jez Maiden have service contracts dated 16 September 2010, 6 February 2012 and 9 October 2014 respectively. These can be terminated by the Company on one year's notice and by the Director on six months' notice. The terms of the Executive Directors' contracts are consistent with the Remuneration Policy.

Chairman and other Non-Executive Directors' remuneration

The fees paid to the Non-Executive Directors (including for chairmanship of Committees) and to the Senior Independent Director were reviewed in January 2017 (taking into consideration the anticipated time commitments of the roles and market rates), with changes taking effect from 1 February 2017. The revised fee structure for the Chairman and other Non-Executive Directors for 2017 is now as follows and the adjustments made reflect the extra time commitment expected to apply for those specific roles given the continued growth of the Company:

- Chairman: £238,000 (increased by £13,000)
- Non-Executive Director base fee: £55,000 (increased by £1,000)
- Senior Independent Director: £10,000
- Chairman of the Audit Committee: £10,000
- Chairman of the Remuneration Committee: £10,000.

The effective dates of the letters of appointment for the Chairman and each Non-Executive Director who served during 2016, are shown in the table below:

Non-Executive Director	Original appointment date	Expiry date of current term
Anita Frew	5 March 2015	5 March 2018
Alan Ferguson	1 July 2011	30 June 2017
Helena Ganczakowski	1 February 2014	31 January 2020
Nigel Turner	1 June 2009	31 May 2018
Steve Williams	1 July 2010	30 June 2017

Annual Report on Remuneration

Audited Information

Directors' remuneration

The remuneration before tax of Executive Directors for the year ended 31 December 2016 payable by Group companies was as follows:

Executive Director		Salaries and fees[1] £	Benefits[2] £	Pension[3] supplement £	Pension[4] £	Annual bonus[5] £	Long term incentives[6] £	Other[7] £	Total £
Steve Foots	**2016**	**618,135**	**30,302**	**132,276**	**35,884**	**772,669**	**688,855**	**2,971**	**2,281,092**
	2015	609,000	30,517	91,800	59,329	581,443	–	1,957	1,374,046
Jez Maiden	**2016**	**426,300**	**27,377**	**101,246**	**–**	**426,300**	**–**	**3,843**	**985,066**
	2015[8]	420,000	23,658	84,000	–	320,796	–	302,060	1,150,514
Keith Layden	**2016**	**330,049**	**20,061**	**78,387**	**–**	**330,049**	**254,498**	**1,581**	**1,014,625**
	2015	325,171	20,075	65,034	–	248,366	–	1,508	660,154
Sean Christie	**2016**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2015[9]	117,903	6,206	13,580	–	90,054	–	173,882	401,625
Total 2016		**1,374,484**	**77,740**	**311,909**	**35,884**	**1,529,018**	**943,353**	**8,395**	**4,280,783**
Total 2015		1,472,074	80,456	254,414	59,329	1,240,659	–	479,407	3,586,339

1 Steve Foots' salary before salary sacrifice pension contributions of £15,000
2 Benefits include benefit-in-kind for company car or cash allowance, benefit-in-kind for private medical insurance and private fuel allowance
3 Represents the 20% cash supplement paid to Jez Maiden and Keith Layden and the 20% supplement paid to Steve Foots in relation to benefits provided above the final salary pension cap from 1 January to 31 March 2016. The cash supplements increased to 25% with the introduction of the CARE scheme on 1 April 2016
4 For final salary pensions the amount included is the additional value accrued during the year, calculated using HMRC's methodology for the purposes of income tax using a multiplier of 20
5 The 2016 bonuses for Executive Directors were calculated by reference to the amount by which the income for the year exceeded the income for 2015 (the 'base income'). Bonuses for 2016 are payable against a graduated scale once the 2016 income exceeds the base income by more than inflation (defined as the CPI) with bonus targets set, and performance measured, based on actual exchange rates. The targets set equated to a threshold target of £287.8m (last year's Income result plus CPI) and a maximum target of £316.1m (10% above the threshold target). Payments were calculated on a straight-line basis between performance points. The actual result of £319.0m was significantly above the maximum targets set (at 10% growth on the prior year) and so a maximum bonus was earned
6 The PSP awards granted in May 2014 reached the end of their performance periods on 31 December 2016. The TSR target applying to half of the award has been met at 85.9% of the maximum based on the Company being ranked at the 70.3 percentile versus the peer group (i.e. towards the upper quartile) and the EPS target applying to half the award has not been met. Full details of performance against the targets is included on page 67. The values included in the table above are based on the three month average share price to 31 December 2016 of 33.2764p. These values will be updated in next year's Annual Report based on the share price at vesting which will take place on 12 May 2017
7 Sharesave awards valued as the value of the discount on the date of grant. SIP shares valued using the value of the partnership shares awarded over the year based on the average purchase price for the year
8 Jez Maiden was appointed to the Board on 1 January 2015. As disclosed on page 69 in last year's annual report, Jez Maiden received £126,625 in respect of reimbursement of relocation costs and rental costs and £173,926 in compensation for forfeiture of the deferred element of his 2013 annual bonus from his previous employer, he also received £1,509 in respect of SIP and Sharesave.
9 Sean Christie stood down as Group Finance Director on 22 January 2015 and left the Company on 22 April 2015. As disclosed in last year's Remuneration Report, the Committee exercised its discretion to determine that Mr Christie would be eligible for a bonus in respect of the financial year ended 31 December 2015 to the extent that the applicable performance conditions were met. Accordingly, he was paid a bonus of £90,054 (reflecting his pro-rated service in the 2015 financial year). This was paid part in cash (£60,054) and part in deferred shares (£30,000) which vest three years from grant. The deferred shares were granted through a bespoke deferral arrangement ensuring deferral in accordance with the Company's Remuneration Policy. Claw back provisions will also continue to apply

The remuneration of Non-Executive Directors for the year ended 31 December 2016 payable by Group companies was as follows:

Non-Executive Director		Salaries and fees £	Benefits[1] £	Total £
Anita Frew	**2016**	**225,000**	**8,727**	**233,727**
	2015	91,720	8,178	99,898
Nigel Turner	**2016**	**63,583**	**2,651**	**66,234**
	2015	59,000	5,387	64,387
Steve Williams	**2016**	**63,833**	**3,263**	**67,096**
	2015	62,000	2,248	64,248
Alan Ferguson	**2016**	**63,833**	**2,077**	**65,910**
	2015	62,000	4,067	66,067
Helena Ganczakowski	**2016**	**53,833**	**4,370**	**58,203**
	2015	52,000	4,452	56,452
Martin Flower[2]	**2016**	**–**	**–**	**–**
	2015	144,061	9,035	153,096
Total 2016		**470,082**	**21,088**	**491,170**
Total 2015		470,781	33,367	504,148

1 The benefits relate to Directors undertaking business travel on behalf of Croda and ensuring the Directors are not out of pocket for related tax. Comparators for 2015 have been included
2 Martin Flower retired from the Board on 19 September 2015

PSP awards granted in 2016

Directors were eligible to receive PSP awards up to a value of 200% of salary at grant. The PSP awards granted on 4 March 2016 were as follows:

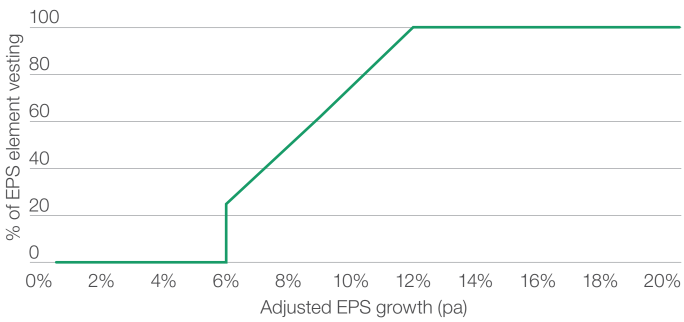
Executive Director	Number of PSP shares awarded	Basis of award granted (% of salary)	Face/maximum value of awards at grant date[1]	% of award vesting at threshold (maximum)	Performance period
Steve Foots	41,284	200%	1,236,249	25% (100%)	01.01.16 – 31.12.18
Jez Maiden	21,354	150%	639,446	25% (100%)	01.01.16 – 31.12.18
Keith Layden	16,532	150%	495,051	25% (100%)	01.01.16 – 31.12.18

1 Face value/maximum value of award is calculated based on a share price of £29.945, being the average mid-market share price of the three dealing days prior to the date of grant

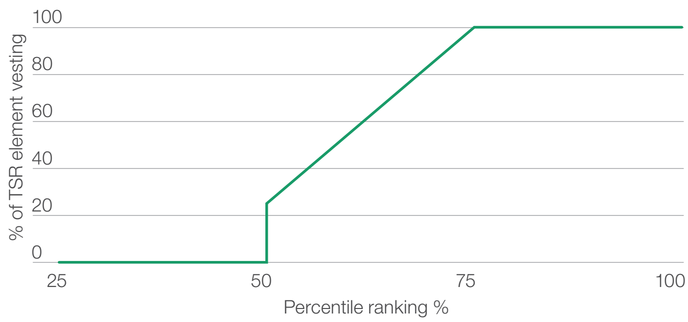
The 2016 PSP awards, as in previous years, are subject to a performance condition which is split into two equal separate parts. Half of the award is subject to a relative TSR performance condition, comparing Croda's TSR performance against the constituents of the FTSE 350 (excluding investment trusts) over a three-year performance period. The remaining half of the award is subject to an EPS growth condition.

Vesting under the two parts of the performance condition will take place on the following sliding scale:

EPS vesting schedule



TSR vesting schedule



All-Employee share plan awards granted in 2016

SIP

Details of shares purchased and awarded to Executive Directors under the SIP are shown in the table below. A brief description of the SIP is set out in note 22 on page 122.

Executive Director	SIP shares held 01.01.16	Partnership shares acquired in year	Matching shares awarded in year	Total shares held 31.12.16	SIP shares that became unrestricted in the year	Total unrestricted SIP shares held at 31.12.16
Steve Foots	5,712	51	51	5,623	148	**5,127**
Jez Maiden[1]	–	50	49	100	–	**–**
Keith Layden	5,712	51	51	5,623	148	**5,127**

1 Jez Maiden also had one additional share acquired through the Dividend Reinvestment Plan

A share consolidation took place on 9 May 2016 on the basis of 28 new ordinary shares for 29 existing ordinary shares resulting in less shares held at year end than prior year.

Unrestricted shares (which are included in the total shares held at 31 December 2016) are those held until there is no longer a tax liability if they are withdrawn from the plan.

Sharesave

Details of awards made under the UK Sharesave scheme are set out below:

Date of grant	Earliest exercise date	Expiry date	Face value*	Exercise price	Number at 01.01.16 (10p shares)	Granted in year	Number at 31.12.16 (10.357143p shares)
Steve Foots							
19 September 2013	1 November 2016	30 April 2017	£2,247.56	2141p	84	–	–
18 September 2014	1 November 2017	30 April 2018	£2,247.06	1763p	102	–	102
17 September 2015	1 November 2018	30 April 2019	£4,490.29	2232p	161	–	161
16 September 2016	1 November 2019	30 April 2020	£6,728.94	2639p	–	204	204
					347	**204**	**467**
Jez Maiden							
17 September 2015	1 November 2018	30 April 2019	£11,239.67	2232p	403	–	403
16 September 2016	1 November 2019	30 April 2020	£11,247.89	2639p	–	341	341
					403	**341**	**744**

During 2016, the highest mid-market price of the Company's shares was 3129.5p and the lowest was 2573p. The year end closing price was 3042p. The year end mid-market price was 3042.5p.

* Face value is calculated using the market value on the day before the date of grant, multiplied by the number of shares awarded

PSP vesting in relation to performance at 31 December 2016

The awards made to Executive Directors in May 2014, and which are due to vest in May 2017, are based on relative TSR and EPS growth measured over a three-year period. Performance against the vesting schedule can be summarised as follows:

PSP awards vesting in May 2017

Measure	Weighting	Threshold	Maximum	Actual Performance	Out-turn (% of max element) PSP
Relative TSR versus FTSE 350 constituents	50%	Median (50th percentile)	Upper quartile (75th percentile)	70.3% percentile%	42.95%
Adjusted average EPS growth	50%	7%	14%	0%	0%

1 Performance measurement period three years to 31 December 2016.

The forecast vesting value of the awards made in May 2014, subject to the above performance targets, is included in the 2016 single figure table above.

Gains made on exercise of share options and PSPs

The gains are calculated according to the market price of Croda International Plc Ordinary Shares of 10.357143p each on the date of exercise, although the shares may have been retained.

Executive Director	Exercise date	Shares exercised	Scheme	Exercise price	Market price	Gain (before tax)
Steve Foots	1 November 2016	84	Sharesave	2141p	3487.4p	£1,130.98

Directors' interests in the share capital of the Company

The interests of the Directors who held office at 31 December 2016, are set out in the table below:

	Legally owned					SIP			
	31.12.15	31.12.16	PSP awards (unvested)	DBSP awards (unvested)	Sharesave (unvested)	Restricted	Unrestricted	Total 31.12.16	% of salary held under shareholding guideline
Executive Director									
Steve Foots	128,484	124,225	134,456	6,472	467	496	5,127	**271,243**	>200% target
Jez Maiden	3,600	3,475	44,616	3,570	744	100	–	**52,505**	<150% target
Keith Layden	70,112	68,141	52,351	2,764	–	496	5,127	**128,879**	>150% target
Non-Executive Director									
Alan Ferguson	2,500	2,414	–	–	–	–	–	**2,414**	–
Anita Frew	10,000	9,655	–	–	–	–	–	**9,655**	–
Helena Ganczakowski	359	362	–	–	–	–	–	**362**	–
Nigel Turner	15,000	14,482	–	–	–	–	–	**14,482**	–
Steve Williams	11,331	11,566	–	–	–	–	–	**11,566**	–

A share consolidation took place on 9 May 2016 on the basis of 28 new ordinary shares for 29 existing ordinary shares resulting in less shares held at year end than the prior year.

There have been no changes in the interests of any Director between 31 December 2016 and the date of this report, except for the purchase of nine SIP shares and nine matching shares each by Steve Foots, Keith Layden and Jez Maiden during January and February 2017.

Pension rights

The pension rights that accrued during the year in line with the policy on such benefits as set out in the Policy Report were as follows:

Defined benefit schemes

Executive Director	Normal retirement date under the CPS	Accrued pension 2016 £000	Single remuneration figure 2016 £000[1]	Single remuneration figure 2015 £000	Single remuneration figure excluding supplement £000
Steve Foots	14 September 2033	117	168	151	36
Jez Maiden	N/A	0	101	70	0
Keith Layden	18 October 2020	67[2]	78	65	0

1 The value of all pension savings made during the financial year inclusive of cash supplement on behalf of Directors. Steve Foots and Keith Layden are entitled to death-in-service benefits from the CPS. Jez Maiden has a separate agreement which provides death-in-service benefits outside of the CPS

2 Keith Layden started to draw his pension on 19 October 2014.

Note: Members of the CPS have the option to pay voluntary contributions. Neither the contributions nor the resulting benefits are included in this table. During 2016, Steve Foots was paid £132,275 (2015: £91,800), Keith Layden was paid £78,386 (2015: £65,034) and Jez Maiden was paid £101,246 (2015: £84,000) in addition to their basic salary to enable them to make independent provision for their retirement. This contribution reflects the introduction of a cap to the maximum salary on which benefits at retirement are based under the CPS or, in the case of Keith Layden and Jez Maiden, the full provision. Accordingly, for Steve Foots benefits above this cap are now provided by a salary supplement in lieu of pension benefits above the cap of £37,500.

Payments for cessation of employment

There were no payments for loss of office during the year under review.

Keith Layden retirement

As announced on 28 February 2017, Keith Layden will retire from his role as Chief Technology Officer and Executive Director on 30 April 2017. Keith will continue to receive base salary and contractual benefits up to his retirement date at which time these payments and benefits will cease. In line with the provisions in the relevant plan rules, as a retiree, he will be a good leaver. As a result, he will be eligible to receive a pro-rata annual bonus payment for the period of his employment in 2017 (based on the number of complete calendar months worked in the relevant year). The payment will be made at the normal time calculated based on the performance targets tested over the complete financial year. One-third of any bonus earned will be deferred for three years. With regard to his outstanding shares awards, as a good leaver, these will remain eligible to vest in line with the relevant plan rules. Vesting in connection with Performance Share Plan awards will be subject to a pro-rata reduction to reflect the proportion of the relevant performance periods for which he was employed and with performance targets tested at the normal time. The holding period applying to vested share awards will continue to apply. No PSP awards will be made in 2017. No further payments will be made in connection with his retirement.

Payments to former Directors

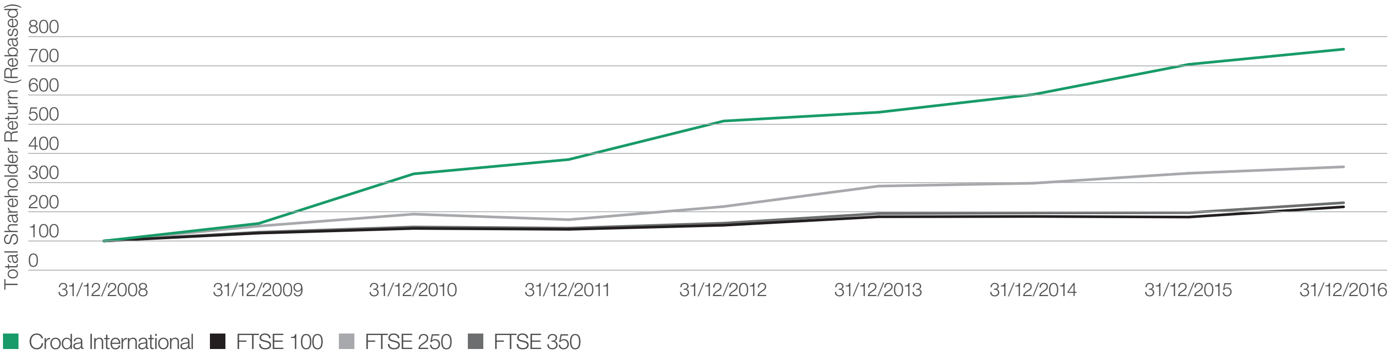
Mike Humphrey, former CEO, was paid £55,000 in 2016 in respect of consultancy services to the business.

Other unaudited information

Performance graph

The graph below shows the value, at 31 December 2016, of £100 invested in Croda International Plc on 31 December 2008 compared with the value of £100 invested in the FTSE 100, FTSE 250 and FTSE 350 Indices. TSR performance has been rebased to 100 as at 31 December 2008.

Total shareholder return



Source: Datastream (Thomson Reuters)

In the opinion of the Directors, the FTSE 350 Index is an appropriate index against which to measure the Company's TSR because Croda is a current constituent and the index represents a broad-based set of companies of a similar size and with similar historic volatility of TSR returns. In addition, the FTSE 100 Index is presented since the Company is currently a constituent of the FTSE 100 Index with the FTSE 250 Index shown as the Company has been a constituent during the period illustrated in the chart.

Total remuneration figures for Group Chief Executive

The total remuneration figure includes the annual bonus and long term incentive awards which vested based on performance in those years. The annual bonus and long term incentive award percentages show the payout for each year as a percentage of the maximum.

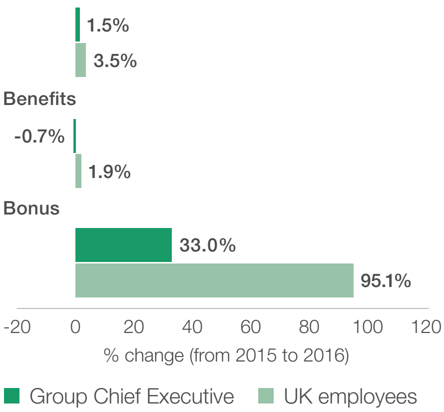
	2009*	2010*	2011*	2012^	2013^	2014^	2015^	2016
Total remuneration (£)	1,943,740	3,224,875	4,142,608	1,364,048	1,427,156	769,414	1,374,046	**2,281,092**
Annual bonus (%)	100%	100%	100%	28%	0%	0%	76.38%	**100%**
Long term incentives vesting (%)	100%	100%	100%	100%	81.8%	0%	0%	**42.95%**

* relate to Mike Humphrey ^ relate to Steve Foots

Percentage change in remuneration levels

The following chart shows the movement in the salary, benefits and annual bonus for the Group Chief Executive between the current and previous financial year compared with that of the average UK employee. The Committee has chosen this comparator as it feels it provides a more appropriate reflection of the earnings of the average worker than the movement in the Group's total wage bill, which is distorted by fluctuations in the number of employees and variations in wage practices in our overseas markets.

Change in remuneration levels %

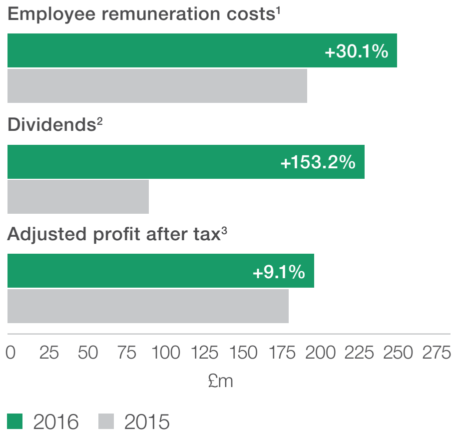


Note: Benefits exclude pension

Relative importance of the spend on pay

The chart below shows the movement in spend on staff costs versus that in dividends and adjusted profit after tax.

Relative importance of the spend on pay %



1 Employee remuneration costs, as stated in the notes to the Group accounts on page 103. These comprise all amounts charged against profit in respect of employee remuneration for the relevant financial year, less redundancy costs and share-based payments, both of which can vary significantly from year to year
2 Dividends are the amounts payable in respect of the relevant financial year
3 Adjusted profit after tax is profit for the relevant year adjusted for exceptional items, acquisition costs, amortisation of intangible assets arising on acquisition and the tax thereon

External directorships

Executive Directors are permitted to accept external appointments with the prior approval of the Board. It is normal practice for Executive Directors to retain fees provided for non-executive roles. Jez Maiden was appointed as a Non-Executive Director of PZ Cussons on 16 October 2016 and received a fee of £8,750 for 2016.

I will be available at the AGM to respond to any questions shareholders may raise on the Committee's activities.

On behalf of the Board

Steve Williams
Chairman of the Remuneration Committee

28 February 2017