

Chief Executive's review

During a year in which we have faced unprecedented challenges, the response and commitment of all our employees to maintain business continuity and serve our customers has been outstanding. The strength and quality of Croda's business model has been further demonstrated.



Steve Foots
Group Chief Executive

Living our Purpose through our response to COVID-19

Croda's Purpose is Smart science to improve lives™. This sits at the heart of everything we do, not least in the way we responded to the COVID-19 crisis.

Our priorities during the pandemic have been to protect the health and safety of our employees and balance the needs of all our stakeholders fairly. Almost all our employees have been able to work effectively, either onsite, with strict social distancing measures in place, or from home. We have not furloughed any employees, reduced pay or utilised government liquidity facilities. We have supported our customers and suppliers; made supplies of free materials available for hand sanitiser production, COVID-19 vaccine

research and PPE provision; and have given financial assistance to the communities closest to our sites. We paid final and interim dividends to shareholders in full during 2020.

The response and commitment of all our employees to maintain business continuity and serve our customers has been outstanding. Everyone has shown remarkable fortitude in the face of an unprecedented challenge and I am grateful to all Croda colleagues around the world. All but two of our 19 principal manufacturing sites have operated without material disruption, our research and development (R&D) teams have had significant laboratory time, protecting our customers' innovation pipelines, and our sales teams have developed even stronger bonds with customers, supported by investment to enhance our digital presence.

There is no better example to demonstrate how we are using Smart science to improve lives™ than our involvement with the COVID-19 vaccines and drugs. My proudest



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moment in more than 30 years at Croda came with our support for the Pfizer-BioNTech vaccine. We are involved in over 60 projects to deliver COVID-19 vaccines and therapeutic drugs, putting us at the forefront of the fight against this devastating virus.

Delivering our strategy

The strength and quality of Croda's business model has been further demonstrated this year. Whilst customer demand in certain end markets has inevitably been impacted by the crisis, the strength and breadth of our product portfolio across consumer and industrial markets, our global footprint and customer intimacy, together with our flexible manufacturing model, have all helped to reduce its impact on financial performance. This has allowed us to make almost £1bn of organic and inorganic investments in fast growth markets of the future, capitalising on emerging trends in existing and adjacent markets.

2020 saw the full launch of our sustainability strategy, as part of our Purpose. By 2030 we will be Climate, Land and People Positive, delivering our part in a global commitment to limit the planetary temperature rise to 1.5°C. The need for sustainable solutions is disrupting markets, creating significant opportunities for Croda to create market-leading products whilst ensuring that we have a positive effect on the environment and society.

Our strong balance sheet, low leverage and robust liquidity allowed us to invest with confidence to accelerate delivery of our strategy of enhancing future sales and profit in life science and consumer markets. We invested over £120m in organic capital expansion, with a particular focus in growing Health Care and innovation, and over £850m on two acquisitions into key market adjacencies. In Life Sciences, Avanti Polar

The Strategic Report was approved by the Board on 1 March 2021 and signed on its behalf by Steve Foots.

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Group Chief Executive

Definitions are in the Finance review on page 43: alternative performance measures, constant currency results, underlying results, adjusted results, Core Business, return on sales, net debt, leverage ratio and free cash flow. Adjusted results are stated before exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition, and tax thereon. Constant currency results reflect current year performance for existing business translated at the prior year's average exchange rates.

Lipids adds market-leading lipid technology to Croda's existing patient health capability, opening the door to supporting not only COVID-19 projects but a wide variety of future mRNA and gene therapy drug and vaccine applications, a journey which starts with the Pfizer-BioNTech vaccine. We are combining our Personal Care and Home Care businesses with our acquisition of Iberchem in fragrances to create a Consumer Care leader. Iberchem opens up significant synergies as we are able to service medium-size and smaller customers with a 'one-stop-shop' combining Croda's critical ingredients and Iberchem's on-trend fragrances in stable formulations. As a result of these investments, life science and consumer markets now represent over 80% of Croda's profit generation.

A resilient financial performance

Against the backdrop of the extreme circumstances experienced globally in 2020, Croda's financial performance was resilient. We experienced only a 2.7% decline in underlying sales, supplemented by acquisition sales adding 3.8%, to grow overall by 1.1% in constant currency. In reported currency, sales increased by 0.9% to £1,390.3m (2019: £1,377.7m) with the proportion of sales from NPP products falling slightly to 27.4% (2019: 28.1%). Sales in the second quarter were hard hit by the first round of global lockdowns, with Group constant currency sales almost 12% lower year-on-year. However, the second half saw a steady month-on-month improvement in both consumer and industrial markets, with encouraging exit sales rates, as underlying fourth quarter sales recovered to be in line with prior year in Personal Care and returned to growth in Performance Technologies. Life Sciences also returned to strong underlying double-digit growth in the second half year and both in-year acquisitions performed well.

The challenging conditions saw adjusted operating profit 4.0% lower in constant currency and 5.9% down in reported currency at £319.6m (2019: £339.7m). This reflected an adverse mix in both Personal Care and Performance Technologies, where demand for higher value-add products was most impacted by the pandemic. Return on sales was 23.0% (2019: 24.7%). Adjusted profit before tax was £300.6m (2019: £322.1m) and adjusted basic earnings per share (EPS) were 175.5p (2019: 185.0p). This was a creditable performance in challenging market conditions.

Exceptional items, acquisition costs and amortisation of intangible assets arising on acquisition increased to £31.1m (2019: £19.8m), primarily reflecting the acquisition activity during the year. Profit before tax on an IFRS basis was £269.5m (2019: £302.3m).

Robust cash generation supporting continued investment and increased dividend

In 2020 we delivered robust free cash flow of £176.9m (2019: £201.7m). This was after investing in not only our regular capital programme but also in three key areas where we have accelerated our organic investment; innovation; fast growing our China presence; and scaling our drug delivery platform. Although many innovation projects were temporarily paused during lockdown, we ensured that our R&D teams were able to access laboratories, protecting our future innovation pipeline. Adding to over 40 existing customer innovation centres, we invested in new centres in the US, in biotechnology in the UK and in Shanghai.

China offers significant growth opportunities as part of our 'fast grow' strategy. During 2020, we added over 15% to resourcing of the Croda China team, and delivered a major upgrade to our digital presence, including a locally hosted China website. We are also introducing our successful French botanical ingredients business to the China market, where consumers have long been focused on plant-based beauty and health products.

Drug delivery offers our strongest global opportunity for growth and we are investing in new manufacturing capacity to serve these patient health care markets. We are currently commissioning a doubling of our US speciality excipient plant, serving a market growing by double-digit percentage annually. We also reprioritised £10m of investment in 2020 to support the Pfizer contract and other opportunities from our Avanti acquisition. Much of this capacity will come on stream this year to serve growth in 2021 and beyond.

We have supported this organic investment with our two key acquisitions in 2020; Avanti, for an initial consideration of US\$185m, and Iberchem, for a total consideration of €320m. Supporting acquisition debt financing, Iberchem was part-funded by an equity placing, which raised gross proceeds of £627m and was well supported by existing institutional shareholders which represented 75% of the placing. Our employees and private shareholders also participated through the PrimaryBid platform.

Net debt closed the year just above £800m, with a leverage ratio of 1.8 times EBITDA. Coupled with resilient earnings in 2020 and the prudent leverage and dividend policies we have adopted for many years, we have weathered the truly challenging conditions of 2020 and the Board has proposed an increase in the full year ordinary dividend to 91.0p (2019: 90.0p).

Another record year for Life Sciences; challenges for Personal Care and Performance Technologies

The standout performance in 2020 was again in Life Sciences, with record sales and profit, driven by a strong performance in both Health Care and Seed Enhancement. With no discernible negative impact from COVID-19, sales grew by nearly 15% to £401.6m (2019: £350.5m) and adjusted operating profit increased over 20% to £129.4m (2019: £107.1m), both in reported currency. With continued growth in higher value-added niches, return on sales increased by 160 basis points to 32.2% (2019: 30.6%), in line with our strategy. In Health Care, continued growth in speciality excipients and vaccine adjuvants was complemented by the acquisition of Avanti, with its pipeline of development and synergistic scale-up opportunities, beginning with our contract to supply vaccine delivery components for COVID-19. Crop Protection continued to grow sales, excluding the impact of planned product withdrawals, and Seed Enhancement returned to double-digit revenue growth. Life Sciences is now well established as a fast-growth, high-value business in Croda's model.

Personal Care was significantly affected by lockdowns in response to COVID-19. This negatively impacted sales by reducing consumer demand for products associated with 'going out' and by interrupting sales channels, particularly for prestige products. Sales were 1.9% lower at £475.9m (2019: £485.2m) and 6% lower in underlying terms pre-Iberchem. However, from a low point in May, sales recovered month-on-month and were in line with prior year in the fourth quarter. With a higher proportion of sales of 'at home' use Beauty Formulation products and a greater sales reduction in the higher margin Beauty Actives and Beauty Effects businesses, the adverse mix saw adjusted operating profit reduced to £136.5m (2019: £162.1m) and return on sales of 28.7% (2019: 33.4%). We expect sales and profit to improve when lockdowns lift, luxury channels re-open and with the significant cross-selling opportunities provided by the Iberchem acquisition.

In Performance Technologies, sales were only 3% lower than prior year at £416.4m (2019: £430.2m) in challenging industrial markets globally but profitability reduced significantly. After a good start to the year, sales progressively weakened during the second quarter alongside temporary closures of automotive and industrial plants. The second half saw a steady recovery, with fourth quarter sales encouragingly ahead of prior year. However, adjusted operating profit reduced by over 20% to £54.0m (2019: £69.4m) and return on sales was 13.0% (2019: 16.1%),

due to the sector's higher operating leverage, lower production at European sites and adverse profit mix, as volume was more resilient in lower margin parts of the business. With a recovery accompanied by growth in renewable technologies and sustainable solutions, the sector should become less cyclical as sales growth and better margin return.

Regional growth in North America offset by slower Europe and Asia markets

Sales in all regions were impacted in the second quarter by governments' initial COVID-19 responses. North America and Latin America returned to underlying sales growth in the second half of 2020, with North America also achieving growth across 2020 as a whole. Lockdowns were more extensive and impactful in Asia and Europe but both regions achieved flat underlying sales in the second half year, compared to 2019. In Asia, China growth rebounded quickly but the key manufacturing markets of Japan and Korea remained soft due to the reduction in foreign tourists.

The North American biosurfactant plant came online early in 2020. Following a successful commissioning phase, the plant produced the majority of our US feedstock demand, allowing replacement of traditional petrochemical surfactants with our ECO range of bio-based products, which deliver identical performance from sustainable ingredients for the first time. COVID-19 has adversely impacted short-term economics, with sanitiser-grade bioethanol in short supply, resulting in a high raw material price. In addition, the plant was unable to operate from September 2020 after the local regulator raised a number of deficiencies with regard to air permit limits, which have tightened over the last few years in line with lower emissions at the site (p36). As a result, the operating loss on the plant increased by £7m on 2019. We expect the plant to be operational again during the first half of 2021, allowing progressive development of the sustainable product pipeline, a move to a cheaper feedstock and a steady improvement in profitability.

Our Purpose

At Croda, we believe that delivering a strong financial performance is only a part of having a clear, shared purpose; shared with our employees, our customers and all our stakeholders. Our Purpose builds deeper connections throughout the business and improves our competitiveness, driving the long-term success of our Company. Our Purpose is to use Smart science to improve lives™ and to deliver this we combine our knowledge, passion and entrepreneurial spirit to create, make and sell speciality ingredients that are relied upon by industries and consumers everywhere.

Croda was built on a foundation of using smart science to turn renewable raw materials into innovative ingredients. This sustainability focus still sits at the core of what we do, driving innovation to create market-leading products and ensuring that we have a positive effect on the environment and society. By aligning our smart science with the United Nations Sustainable Development Goals (SDGs), our sustainability Commitment is to be Climate, Land and People Positive by 2030. The impact that Croda has in these three key areas of sustainability will be net positive for the planet. Our commitment is to become the most sustainable supplier of innovative ingredients. It is the right thing to do, but it is also what our customers want and what their consumers are increasingly demanding. COVID-19 may have been the challenge of 2020 but creating a sustainable future remains our biggest long-term challenge.

In 2020, we have continued to drive our sustainability agenda, establishing interim goals against which we measure our progress towards achieving our Commitment. We have developed decarbonisation roadmaps for our top ten carbon-emitting sites. In recognition of Croda's leading position, we were awarded a 'Triple A' ESG rating by stock market agency, MSCI. We were again recognised as one of Britain's top five 'Most Admired Companies' and the most admired British chemical company by Management Today. Since 2015, we have driven a 33.9% reduction in waste-to-landfill, a 15.4% reduction in our Green House Gas emissions, and a 25.0% improvement in our energy mix. We sustained our process safety performance in 2020, with no serious incidents or any with major accident potential. Personal injury performance also continued to improve, ahead of our target of 0.6 per 200,000 hours, with a Total Recordable Injury Rate (TRIR) of 0.54 (excluding recent acquisitions and COVID-19 cases).

Our bio-based raw material content is now 67% (2019: 63%). Leveraging our position in renewable raw materials, Croda enables our customers to meet their sustainability commitments, driven by consumer demand as well as regulatory change. In consumer care markets, we deliver this through ethical sourcing, sustainable manufacture, focusing more of our innovation on sustainable ingredients and through our ingredient transparency project. This project is responding to growing consumer demand for sustainable ingredients and the 'clean beauty' trend, where consumers want to know what is in the products they use, as well as how well they perform. Our ECO biosurfactant plant enables us to produce sustainable ingredients that deliver identical performance to their petrochemical peers,

with customers in both the home care and personal care markets adopting these bio-based surfactants during 2020.

A purpose-led consumer-facing ingredients company

Our overall strategy continues to be to drive:

- Growth – consistent top and bottom line growth, with profit growing ahead of sales, ahead of volume;
- Innovation – the lifeblood of our business, we seek to increase the proportion of New and Protected Products (NPP) that we sell and formulate into customers' products; and
- Sustainability – aligning our business with our Purpose and accelerating our customers' transition to sustainable ingredients.

Our strategies for each sector are described below.

Expand to Grow Life Sciences

With its growing margin and exciting technologies aligned to global health and crop sustainability trends, we continue to build our Life Sciences brand as a high value-add solution provider to our pharmaceutical and crop customers. We are deploying more capital in this sector, having accelerated investment in Life Sciences with organic expansion of our speciality excipients business and the acquisition of adjacent technologies to build a broad drug delivery business of global scale. Through the acquisition of Avanti, we added proprietary lipid technology to Croda's capabilities in drug delivery systems. Alongside urgent demand to respond to the COVID-19 pandemic, this unlocks a major pipeline of other opportunities, including mRNA and gene therapy drug and vaccine technologies. To rapidly develop this, 2021 will see us invest a further £40m to expand the Avanti and UK scale-up facilities. Alongside improving sales from our recent vaccine adjuvant acquisition, Biosector, and strong R&D relationships in Crop Care, we expect to deliver mid to high single-digit percentage sales growth at increased margins over the medium term.

Strengthen to Grow Consumer Care

Already recognised as the leading market innovator, we will strengthen growth in our Personal Care business. With the acquisition of Iberchem, together with unlocking the high-growth potential of our Home Care business in hygiene and fabric applications, 2021 will see these three legs consolidated into a Consumer Care sector. This combination will enable the cross-selling of our industry-leading Beauty Actives, Beauty Effects and heritage Beauty Formulation high performance ingredients with Iberchem's on-trend fragrances to both sets of

customers. Iberchem expands Croda's access into emerging markets, while Croda provides Iberchem access to much of Europe and North America for the first time. We will be able to offer improved, stable formulations containing fragrance and a greater range of sustainable solutions, including our ECO range of biosurfactants across Beauty Formulation and Home Care. Consumer Care offers the opportunity to selectively deploy more capital, through organic growth, geographic expansion and bolt-on acquisition. With a recovery in prestige consumer markets when lockdowns are lifted, Iberchem's consistent record of growth and new revenue synergies, we expect over the medium term to achieve mid single-digit percentage top-line growth and high margins that reflect the blend of the three businesses.

Refine to Grow Performance Technologies

We are refining Performance Technologies to focus on high-tech markets and reduce exposure to cyclical business. 2020 saw progress in meeting demands for sustainable solutions in advanced technologies, focusing on fast-growth markets in circular plastics, electric vehicles and other renewable technologies, such as wind turbines, and a continued reduction in oil and gas and some traditional automotive applications. We are also expanding our geographic footprint, creating a new innovation centre to drive our China growth, in the world's biggest and fastest-growing industrial market. We expect to progressively reduce the cyclical nature of this business, with sales growth targeting global GDP and steady margin improvement towards our 20% target over the medium term.

Alongside our three sector strategies, we are pursuing key strategic targets across Croda, to deliver fast growth in China, through increased investment in sales, innovation and manufacturing, as set out above; scaling our biotechnology investment to drive disruptive technologies and greater sustainability; increasing the robustness of our global supply chain to meet customers' future needs; and developing the Croda brand as an employer of choice to continue to recruit and retain the best entrepreneurs and innovators.

We are also building our digital capability to continue to improve customer intimacy and experience, while improving process efficiency. Our digital transformation programme extends across our Create, Make and Sell model. In Create, we are investing in knowledge management, to further leverage our global innovation expertise. In Make, we have introduced real-time monitoring of production plant performance and are rolling out a supply chain programme which will

improve stock availability local to the customer while reducing working capital. In Sell, with few in-person customer visits possible during lockdown, we prioritised the use of digital for customer engagement and rolled out our Live Chat functionality in 35 countries. This resulted in a third more website visitors and leads generated from digital channels, compared to 2019.

Accelerating strategic delivery through acquisition

We are also continuing to pro-actively search for M&A opportunities to accelerate our strategic delivery in the life science and consumer markets. 2020 saw two key milestones in delivering this programme. In August, we completed the acquisition of Avanti, a US-headquartered business which makes lipid-based delivery systems for drugs and vaccines. The latest technology, lipid nanoparticle (LNP) systems, are increasingly attractive for the delivery of complex therapeutic drugs and in next-generation mRNA vaccines. The acquisition combined Avanti's leading position in early-stage pharma research with Croda's manufacturing scale-up expertise. Previously, Avanti's scale had not been able to take clinical trial quantities of successful drug systems into commercial manufacture. Despite this, Avanti delivered double-digit percentage CAGR sales growth between 2016 and 2019, and the synergistic combination of Avanti and Croda should unlock this growth considerably. The acquisition also more than doubled our Health Care R&D capability, with 100 scientists joining with Avanti.

During 2020, Avanti saw a dramatic increase in its project pipeline, driven by potential COVID-19 treatments; in one of these projects, pre-acquisition, Avanti and Croda worked together to develop and scale-up an LNP delivery system for a vaccine candidate. This development work led to a five-year non-exclusive contract to supply lipid components into the Pfizer-BioNTech COVID-19 vaccine, which we initially estimated would generate approximately US\$100m of sales in 2021 if the customers' publicly indicated volumes were required. Based on contractual commitments received to date, we now expect a minimum of US\$125m sales in 2021 for this vaccine. While this was a proud moment for all at Croda, the vaccine marks an early use of innovative mRNA technology which is expected to drive future excipient growth well beyond COVID-19 in the prevention of other infectious diseases and treatments, including cancer. The acquisition also cements the position of Health Care and the wider Life Sciences business as a high growth, high-value part of Croda's future success.

The second milestone was achieved in November, when we completed the acquisition of Iberchem, a global fragrance and flavour business. Strategically, Iberchem further increases our exposure to faster growing consumer care markets and geographies, with Iberchem having grown at 14% sales CAGR between 2016 and 2020. With a highly commercial approach to R&D and its focus on delivering tailor-made products at speed, Iberchem is strong in customer niches such as own-brand, regional and independent brands, a customer profile that is similar to much of Croda's own Personal Care business. It also has over 80% of its sales in high-growth emerging markets, a combination with Croda which creates significant cross-selling opportunities which are expected to generate nearly €50m of annualised revenue synergies within five years. With our leading position in sustainability, we are also well placed to help transition Iberchem's raw material profile onto a more sustainable platform, a potential differentiator in the market.

Outlook

While continued COVID-19 restrictions make the near-term outlook for elements of our Consumer Care and Performance Technologies sectors difficult to predict, 2020 sales exit rates were encouraging with consumer and industrial end markets showing signs of recovery. Life Sciences is expected to remain strong. The benefits of recovery, together with the full year impact of Avanti, Iberchem and our Pfizer-BioNTech COVID-19 vaccine contract, are expected to support profitable growth across the business.

Through our Purpose, Smart science to improve lives™, we will continue to increase the positive impact our products deliver for our customers and their consumers, whilst also reducing the negative impact our activities have on our fragile world. The combination of our differentiated business model, healthy innovation pipeline and recent investments is expected to underpin performance and generate value for all our stakeholders.



Steve Foots
Group Chief Executive