



Board leadership and Company Purpose

Board leadership

At the date of this report, the Board comprises eight Directors: the Chair; the Group Chief Executive; the Group Finance Director; four independent Non-Executive Directors and one non-independent Non-Executive Director, who was the Company's Chief Technology Officer until his retirement in 2017. The size of our Board allows time for full discussion and debate of items and enables all Directors' views to be heard.

The Company is led by an effective and entrepreneurial Board, whose role is to promote the long-term sustainable success

of the Company, generating value for shareholders and contributing to wider society.

The Non-Executive Directors have a broad range of business, financial and international skills and experience, which provide appropriate balance and diversity.

The composition of the Board is subject to ongoing review and a key consideration for any new Board appointment will be the additional breadth a new Director could bring, including in terms of skills, knowledge, experience, gender and ethnicity.



“Strong transparent governance, delivered to the highest standards, facilitates effective decision making by the Board.”

Anita Frew
Chair

Directors' biographical notes appear on pages 54 and 55 and at www.croda.com.

Role and operation of the Board

The Board has ultimate responsibility for the overall leadership of the Group. In this role, it oversees the development and delivery of a clear Group strategy ensuring the long-term sustainable success of the Company for all stakeholders. It monitors operational and financial performance against agreed goals and objectives and

challenges the Executive team. The Board ensures that appropriate controls and systems exist to manage risk and that there are the necessary financial resources and people with the necessary skills to achieve the strategic goals the Board has set.

Matters reserved for the Board

The matters reserved for the Board fall into four broad areas:

- 1 Matters required by law to be reserved for the Board's decision, such as approving the Annual Report and Accounts, appointing new Directors and declaring dividends.
- 2 The requirements of the UK Listing, Prospectus and Disclosure Guidance and Transparency Rules, such as approving circulars to shareholders and other significant communications.
- 3 UK Corporate Governance Code recommendations, such as ensuring the Group has a sound system of internal control and risk management, and approving the Board and Committees' terms of reference.
- 4 Other matters, such as approval of the Group's strategy and budget, material corporate transactions and capital expenditure.

For the full schedule of matters reserved for the Board visit the governance section at www.croda.com.

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Our Purpose:

Smart science to improve lives™

Company Culture

The Board is responsible for assessing, monitoring and promoting company culture and ensuring it is aligned with strategy, purpose and values.

At Croda, we share a clear sense of Purpose and are motivated by our Commitment to be the most sustainable supplier of innovative ingredients. Our distinctive 'One Croda' culture guides the way we work and helps us to attract and retain the first-class people we need, by enabling collaboration and skills development. To ensure our long-term success, we have defined the values that make us different as a Company, encouraging our people to be 'Responsible', 'Innovative' and to work 'Together.'

may act as an early indication of a drift of culture away from the Group's core values. Safety metrics were regularly reviewed and challenged – both behavioural and process safety – to ensure Croda is living up to its core value that all employees and contractors return home at the end of the day without being harmed in the workplace, whether physically or mentally. Other metrics the Board used to assess culture related to diversity and inclusion, employee training and responsible business. In addition, the Board discussed the feedback from listening group and pulse surveys, which enabled communications and policies to be tailored and adjusted to ensure employees needs were being met.

Our 2030 Commitment:



Croda's positive culture was evident throughout the pandemic through our commitment to supporting employees, suppliers, customers and our local communities (see p16 to p20). During the year the Board focused on defining the values that make Croda different as a company and guide us in everything we do.

During 2020, the Board gained cultural insights from several sources. These included reports on significant instances of inappropriate conduct, whether through the Company's Speak-Up line or other grievance channels. The Board considered reports on any material systems or control failures, which

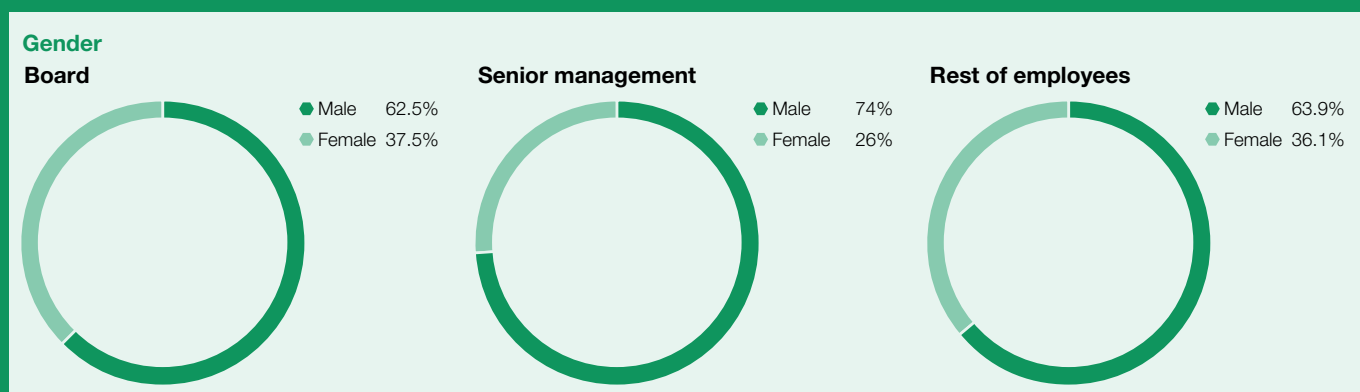
Alignment to culture is clearly established in the Remuneration Policy and embedded in the Remuneration Committee's discretion framework is an assessment of our cultural performance. In addition one of Croda's key sustainability goals is to be People Positive with clear targets to increase our positive impact on society and improve the lives or our employees and people around the world. During the year we established the Croda Foundation that will help improve the lives of local communities supported by our own technologies.

The Board was satisfied that Croda's Purpose, values, strategy and culture are aligned and will act together to preserve long-term value.

Section 172(1) disclosures

S172 Factor	Disclosures		
The long-term consequences	Purpose – p2 Dividend policy – p42	Megatrends – p10	Business model – p12 Strategy – p22
Employees	Diversity and inclusion – p66	Employee engagement – p16 and 84	
Business relationships – suppliers, customers and others	Modern slavery – p37	Anti-bribery – p37	Customers and suppliers p17 and 18
Community and the environment	Community activity – p20	Sustainability Committee – p63	Sustainability Commitment – p30
High standards of business conduct	Corporate Governance Report – p50 Whistleblowing – p72	Internal controls – p68 Ethics Committee – p48 and 63	Culture and values – p51
Shareholders	Shareholder engagement – p60	AGM – p53	

We provide examples of how the Board took account of the interests of our key stakeholders in some significant decisions made during the year on p59.



Chair's statement on corporate governance

At the heart of our decision-making throughout the year has been our duty and desire to balance the interests of our stakeholders.



Anita Frew
Chair

Dear fellow shareholder

We have faced a unique set of circumstances in 2020 and I am proud of the way that all our employees and the Board rose to the challenge of protecting our business whilst living up to our Purpose. A cornerstone to this resilient performance is strong transparent governance, delivered to the highest standards, which facilitates effective decision making by the Board. At the heart of our decision-making throughout the year has been our duty and our desire to balance the interests of all our stakeholders in the decisions and actions we take as a Board, and to promote the long-term interests of the Company for our shareholders to ensure we provide a good return on their investment in Croda.

This report, together with the Directors' Remuneration Report, set out on pages 76 to 101, describe how the 2018 UK Corporate Governance Code (the Code) principles have been applied by the Company. I am pleased to report that the Company has complied with the provisions of the Code for the period under review. The 2018 UK Corporate Governance Code is available at www.frc.org.uk.

Our stakeholders

As a Board we were deeply involved in assessing the impact of the COVID-19 pandemic on all of our stakeholders. Our priority was to protect the health and safety of all our employees and others impacted by our operations. This has been at the very top of our agenda at every Board meeting.

We took great care to balance the needs of all our stakeholders during the crisis. The response and commitment of all our employees has been exceptional, with almost all able to work effectively, either onsite or from home. We did not furlough employees or reduce pay. All our principal manufacturing sites remained in operation, with only two significantly impacted, and raw material supply chains were secure. We supported our customers and suppliers and gave financial assistance to the communities closest to our sites. We also sustained our track record of paying regular dividends to shareholders and we did not utilise government liquidity facilities. Through our actions, we lived up to our Purpose of using Smart science to improve lives™.



As a Board we were deeply involved in assessing the impact of the COVID-19 pandemic on all of our stakeholders.”

We describe on page 58 how the Board engaged with each of our key stakeholders during 2020 and give some examples of how we have considered them in some of the Board's decisions made during the year.

Strategy

As well as dealing with the immediate crisis phase of the COVID-19 pandemic, the Board worked closely with the Executive management team, with the support of an external consultant, in considering the impact that the pandemic would have in the longer term. From this review the Executive team produced a roadmap to operationalise and deliver our 2030 strategic commitments in line with our Purpose, Smart science to improve lives™. More information about this work can be found in the Strategic report.

In addition to this review, the Board held a virtual strategy session with the Croda teams responsible for delivering our strategic ambition to provide an outstanding customer experience digitally, complementing Croda's successful traditional customer intimacy model.

Leadership

2020 saw a number of leadership changes at Board level. Alan Ferguson retired at the AGM in 2020 having served nine years as a Director. I extend grateful thanks from myself, the rest of the Board, the Executive team and colleagues for the outstanding contribution he made to the Board and as Chair of the Audit Committee over the last nine years. His support, advice and challenge will be missed and we wish him all the best.

We were pleased to welcome John Ramsay to the Board. John joined the Board on 1 January 2020, which allowed him to spend time with Alan before he became Audit Committee Chair on Alan's retirement. John brings with him a wealth of financial, international and sector experience. The recent Board evaluation confirmed that John had transitioned into his role well and as Chair of the Audit Committee provided high-quality and thoughtful contributions.

On the recommendation of the Nomination Committee, the Board agreed to extend Helena Ganczakowski's appointment for a further year. The annual extension is in line with our policy to review appointments annually, once six years' tenure has been

Board meetings in 2020

Throughout the year the Board continued with the regular scheduled meetings and programme of business. These were held face to face when government regulations allowed.

During the first lockdown, the Board demonstrated its agility by moving quickly and effortlessly into video conferencing as the main method of communication. The Board had fortnightly calls to receive updates from across the business. The COVID-19 crisis management team reported directly into these meetings each time. The updates covered safety, management of the crisis, the situation in

the individual countries and workplaces, relationships with customers, operational matters (for example, on matters such as the supply of raw materials or manufacturing constraints on our sites), communications, trading and treasury. Throughout the rest of the year, additional calls were scheduled, as required. On occasion, if all Board members were unable to attend, the Chair and Chief Executive followed up with a briefing call to ensure everyone was receiving the same information on any developing situations.

The move to virtual Board meetings was supported by the use of the existing and well-established electronic Board portal for papers, which included a resource centre to

provide supplemental information and copies of all key policies. To ensure that the meetings remained effective, it was essential that they were well structured and without unnecessary complexity. The ground rules were established early on by simplifying agendas and allowing for sufficient breaks to reduce fatigue. It was important that content was concise and that the meetings allowed for adequate debate and participation by all Board members. The Board evaluation showed that the Board had risen well to the challenge and the Chair had been extremely adept in her leadership of the meetings.

completed. Helena has made a significant contribution to the Board as Remuneration Committee Chair and she also became Senior Independent Director on Alan's retirement. The recent Board evaluation showed that the Remuneration Committee had evolved significantly under her leadership.

The Nomination Committee also extended the appointment of Keith Layden for a further three years. Having worked at Croda for 33 years, Keith's in-depth knowledge of our products and operations adds valuable insights and constructive challenge to the Board discussions.

Some changes were also made to the Executive Committee, with details of these changes set out in the Nomination Committee report on pages 66 and 67.

Board evaluation

The Code requires that an external evaluation of the Board is undertaken every three years, and this was conducted during the second half of 2020. We were assisted by Heidrick & Struggles who were selected after a competitive tender process. Formal external evaluation is a valuable tool for improvement and helps ensure impartiality and independence throughout the process.

I am pleased that the report confirmed that we operate as a very effective Board with a high level of trust in the boardroom, a track record of improved effectiveness, and the ability to adapt and change; strengths that served us well during this challenging year. Full details of the evaluation and the outcomes are included in the report on pages 64 and 65.

Diversity & inclusion

We consider that creating a work environment where everyone feels safe to be themselves is essential to enrich the diversity on the Board and throughout the Company. Research has shown that greater diversity can foster innovative thinking and provide businesses with access to a wider pool of talented people. We have maintained our position of having in excess of 30% of women on the Board, but, as yet, we don't have any ethnic diversity on the Board. This will be a focus for us in the short term.

The Board and the Executive Committee participated in two development sessions on inclusion and diversity led by John Amaechi OBE, an organisational psychologist. The sessions raised the Board's awareness and understanding of inclusion and diversity, leading to some fundamental discussions on

what we need to do as an organisation if we are to achieve our People Positive commitment. It is incumbent on the Board and the Executive team to create a psychologically safe place for our employees, an environment where they feel included. In doing so, we will enable them to perform to their best abilities, bringing rewards for them and for Croda. Our core Value of 'Together' will help guide us on this journey.

Annual general meeting

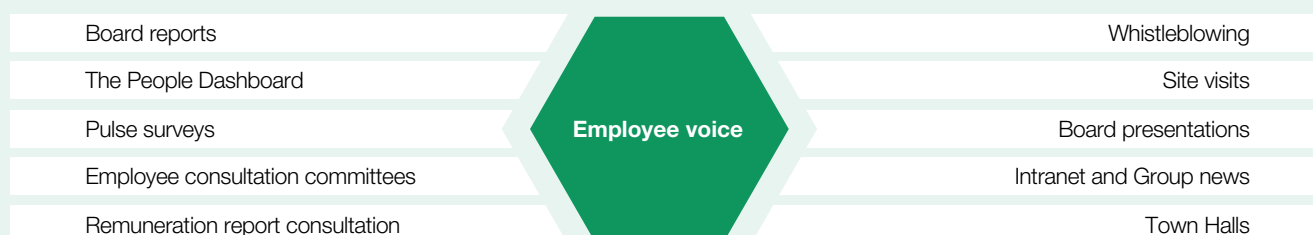
In light of government guidance relating to COVID-19 prohibiting public gatherings and restricting non-essential travel, shareholders are strongly advised not to attend the Annual General Meeting (AGM) on 21 May 2021. Although we do not expect to have the opportunity to meet with shareholders in person at our AGM, we are very keen to engage with all shareholders and will therefore be holding an online shareholder engagement event prior to the AGM. More details of this event are set out in the Notice of Meeting and I would be delighted to answer any questions that shareholders may have.



Anita Frew
Chair

Hearing the employee voice in the boardroom

The Board utilises many ways of ensuring that we understand the interests and views of our employees and take them into account when we make decisions to promote the long term success of Croda.



Our leadership team

We have a Board that is well equipped to provide oversight and challenge to the Executive Team and has the breadth of skills, experience and diversity to lead the business in delivering our ambitious strategic priorities that will deliver long-term growth.



N

Anita Frew, 63
Chair

Appointment: March 2015 and Chair since September 2015

Nationality: British

Anita has served on Plc boards in the chemical, resources, engineering, water and financial services industries for over 20 years. Prior to joining Croda, she was Chair of Victrex plc and Senior Independent Director of Aberdeen Asset Management PLC, IMI plc and was Deputy Chair of Lloyds Banking Group plc. During her time as a Director, she chaired main Boards, Remuneration, Responsible Business and Risk Committees. Currently she is also a Non-Executive Director of BHP Plc and BHP Limited. Anita brings extensive experience as Chair to the Croda Board as well as leadership in strategic management, mergers and acquisitions and risk experience from working internationally across many sectors.



E F SHEQ

Steve Foots, 52
Group Chief Executive

Appointment: July 2010 and Group Chief Executive since the beginning of 2012

Nationality: British

Steve joined Croda as a graduate trainee in 1990 and he brings to the Board a business, strategic and operational background gained from a number of senior leadership roles across the Group. Having spent several years leading many different Croda businesses, he has also gathered extensive insight into the markets served, the importance of customer focus and the power of an innovative culture. Outside of Croda, Steve's role as Industry co-Chair of the UK Chemistry Council enables him to work alongside Government ministers and industry peers to bring wider industry knowledge into the Croda business.



R E F

Jez Maiden, 59
Group Finance Director

Appointment: January 2015 as Group Finance Director

Nationality: British

Jez is an experienced Group Finance Director, having served in this role on five UK listed company Boards. As a chartered management accountant, his expertise in all aspects of finance management, gained in speciality chemical, FMCG and other manufacturing environments, allows him to support the Board and Executive of Croda in managing the performance of the business, risk management and control, and in capital allocation and investment evaluation. Jez acts as business partner to the Group Chief Executive and leads the finance, IT and digital teams globally. He has also been a Non-Executive Director and Audit Committee Chair in two other UK Plcs.



RM A N

Helena Ganczakowski, 58
Non-Executive Director (Senior Independent Director)

Appointment: February 2014

Nationality: British

With 23 years of experience in marketing and corporate strategy at Unilever and a further eight as a strategic consultant for other multinational businesses, Helena brings marketing skill and an end-consumer perspective to the Croda boardroom, as well as challenge and support to the CEO in strategy development. Her academic roots in engineering, with a PhD from Cambridge University, drive her passion and curiosity for both product and process innovation. Helena is also a Non-Executive Director and Remuneration Committee Chair of Greggs Plc.



A RM N

John Ramsay, 63
Non-Executive Director

Appointment: January 2020

Nationality: British

John has over 30 years' broad-based international finance background with Life Science businesses such as ICI, AstraZeneca and Syngenta. A large part of this experience was gained while working in Latin American and Asian countries. John brings extensive knowledge of business strategy to the Croda Board as well as a keen interest in building on Croda's strong culture to deliver superior business performance. As the new Chair of the Croda Audit Committee he aims to maintain the high standards set by his predecessor. He is also a Director and Audit Committee Chair at Koninklijke DSM NV, RHI Magnesita NV and G4S plc.

Board and Committee changes

Alan Ferguson stood down on 23 April 2020. His biography is set out in the 2019 Annual Report and Accounts. John Ramsay was appointed on 1 January 2020 and became Audit Committee Chair on 23 April 2020. Helena Ganczakowski became Senior Independent Director on 23 April 2020.

Key

Chair of the Committee		Risk Management Committee	R
Member of the Committee		Group Executive Committee	E
Secretary of the Committee		Group Ethics Committee	ET
Nomination Committee	N	Group Finance Committee	F
Remuneration Committee	RM	Group SHEQ Committee	SHEQ
Audit Committee	A		



A RM N

Roberto Cirillo, 49
Non-Executive Director

Appointment:
April 2018

Nationality: Swiss

With ten years' experience as Country and Group CEO in the Service and Health Care industries, and many years spent as a strategy practitioner in Europe and Asia, Roberto brings knowledge of and passion for growth and operations to the Croda boardroom. He can also share lessons learned from large transformations and M&A. Roberto's engineering background enables him to link Croda's R&D and production competences with the evolving demands of its multinational markets. Alongside his role as Non-Executive Director for Croda, he is CEO of Swiss Post and he was previously the Group CEO at Optegra Eye Health Care Ltd, France CEO and Group COO at Sodexo SA and Associate Partner at McKinsey & Co.



A RM N

Jacqui Ferguson, 50
Non-Executive Director

Appointment:
September 2018

Nationality: British

Jacqui is an experienced CEO from the technology industry with general management and M&A experience in international and emerging markets. She has first-hand insight of transformational/disruptive digital, cyber security, technology and business process solutions. Jacqui spent three years in Silicon Valley as Chief of Staff at Hewlett Packard, focused on a new company strategy and turnaround and she has chaired the public services strategy board for the CBI. Away from Croda, she is a Non-Executive Director of John Wood Group PLC and Tesco Bank, a fellow of the IET, a Trustee of Engineering UK, a member of the Scottish First Ministers Advisory Board and a member of the Advisory Board of Engie UK.



N

Keith Layden, 61
Non-Executive Director

Appointment:
February 2012 and Non-Executive Director since May 2017

Nationality: British

Keith brings to the Croda Board 33 years' experience of working at Croda in a variety of positions, most recently leading the Global Research, Development and Innovation function and as President of the Global Life Sciences business. He also has an interest and background in organisational culture, which is a key consideration in the decision making of the Board. In his roles of Honorary Professor of Chemistry and Industry at the University of Nottingham, member of Council at the University of Sheffield and a Fellow of the Royal Society of Chemistry, he widens his network of emerging technology companies and research institutes to spot new talent that will aid Croda's future success.



ET A RM N R E

Tom Brophy, 47
Group General Counsel and Company Secretary

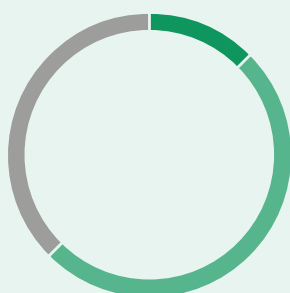
Appointment: December 2012 as Board Secretary

Nationality: British

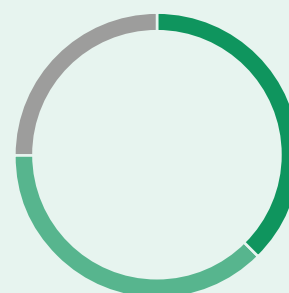
Tom is an experienced corporate lawyer, having worked at City law firm Hogan Lovells and FTSE 100 company Ferguson. His expertise in public and private acquisitions supports Croda's inorganic growth plans and his professional background and breadth of experience in insurance, risk and compliance enable him to Chair the Ethics Committee. Tom provides corporate governance knowhow to the Board and Croda. Having spent many years leading global teams, Tom leads the Legal and Company Secretary team and until recently was Managing Director of the Western European Region.

Board age and tenure

Age



Tenure



Board activity in 2020

There were eight meetings of the Board during the year. The Board agenda programme ensures strategic, operational, financial, human resources and corporate governance items are discussed at the appropriate time with additional deep dives into key strategic areas during the year. The Board agenda has strong links to the strategic objectives for the business and is set via a collaborative process between the Chair, Group Chief Executive and Company Secretary. This ensures adequate time is allocated to allow effective discussion.

An additional strategy day, attended by members of the Executive Committee, is held during the year. The strategy day is held in the first half of the year, followed by the consideration of the three-year plan in the autumn and then the approval of the budget towards the end of the year.

In addition to the formal Board meetings, the Board had 15 additional update calls via video conference, to discuss business performance in the COVID-19 environment and to ensure additional time was allocated to review the impact on stakeholders of any additional strategic opportunities.

Key highlights of the Board's 2020 activities and priorities are set out below, along with an estimate of the proportion of the time that the Board spent discussing each area.

Strategy (50%)

- Group strategic ambition and priorities
- Group strategic projects and targets and regular updates on progress
- Sustainability strategy and targets
- Safety, health, environment and quality – including behavioural safety, safety leadership and process safety
- Growth priorities and future markets
- Presentations on 'fast grow China' by the local management team
- Product innovation programmes and technology platforms
- Consideration of Avanti, Iberchem and other acquisition opportunities
- Digital strategy
- Product manufacturing strategies
- Capital expenditure approvals



- Business presentations from all sector Presidents
- New and Protected Products pipeline
- Review of Sustainability Report
- Responsible business activities

People (15%)

- Croda's Purpose and developing a purpose-led culture
- Succession planning and organisational restructure, including senior management succession
- Female talent review and mentoring scheme
- Leadership training and development
- The Board's engagement with employees and the employee voice
- Extension of the term of office of Helena Ganczakowski and Keith Layden
- Diversity – Board diversity policy, diversity and inclusion of our workforce and the gender pay gap reporting
- Diversity & Inclusion training
- Modern Slavery reporting
- Health and safety of our employees and contractors
- All-employee sharesave grants

Governance and reporting (10%)

- Board and Committee effectiveness evaluation
- Review of Annual Report and Accounts and other financial statements
- Governance compliance review
- Presentation from the Director of Investor Relations and Corporate Affairs
- Investor relations review
- Ethical compliance programme
- Group litigation report
- Group insurance programme

Financial, risk and performance management (25%)

- Trading performance, including COVID-19 response
- Review of key risks, internal and external assurance of each risk
- Review of risk appetite statements
- Preparations for Brexit, including the key risks and mitigating actions
- Dividend policy and dividend approvals
- Long-term viability statement
- The Group's budget, forecasts and key performance targets and indicators
- A review of the Company's tax strategy
- Placing of shares associated with the Iberchem acquisition
- A post-implementation capital expenditure review

Standing agenda Items

- A Health and Safety and environmental update is the first operational matter considered by the Board at each meeting
- The Group Chief Executive and Group Finance Director present reports on trading matters and financial performance
- The Group General Counsel and Company Secretary updates the Board on changes to relevant laws, regulations and governance matters

Outside the boardroom

The Board undertook a number of site visits in 2020 when Government guidelines allowed. Roberto Cirillo toured Chocques in France at the start of the year. He also received a site presentation and had a separate session with a number of employees. In September 2020, three Board members visited the Ditton site and visited the biotechnology plant, the biopolymers plant and the laboratories. They received presentations from local management and met operational employees. Three Board members also visited the Rawcliffe Bridge site and toured the warehouse, the control room and met the quality control team. In all cases they received presentations from local management, met operational employees and received briefings on Health and Safety and key risks at each site. These visits offer an additional opportunity to discuss areas relevant to the Board.

The Directors attended two meetings to review the Group's strategy, one focusing on the long-term strategy and the other the three-year strategic plan.

The Non-Executive Directors have direct access at any time to the Executive Directors, senior management teams and employees across the Group. This provides the opportunity to develop a deeper understanding of the Company's operations or to request information about specific areas. These relationships strengthen the ability of the Non-Executive Directors to constructively challenge at the Board meetings.

The Chair spends time interacting with the Chief Executive, Group Finance Director, Company Secretary and the senior management team between Board meetings. During 2020, the Chair had monthly meetings with the Executive members and the rest of the Executive management team. This ensured that she was kept up to date on significant developments and emerging issues and opportunities.

The Chair and Non-Executive Directors met without the Executive Directors present to allow an additional opportunity to discuss areas relevant to the operation of the Board. The Non-Executive Directors also met on their own, without the Chair.

Progress on focus areas for 2020

<p>Ensure safety leadership continues to be prioritised and performance monitored</p>	<ul style="list-style-type: none"> • The Board held regular calls with the Executive during the COVID-19 pandemic, with safety as the highest priority • Received updates in safety leadership in all business reports and presentations, including a presentation from the Global head of SHE on the implications of the pandemic on safety management across the business and process safety assurance. The Board assessed the risks relating to remote SHE audits • Reviewed and challenged management on the trends in safety performance, including process safety incident rates and recordable injury rates • Approved Croda's SHE behaviour standard, a framework that covers behaviours expected across all levels in the organisation and linked to our values 	<p>Looking Ahead to 2021</p> <ul style="list-style-type: none"> • Ongoing focus on safety leadership • Continue to oversee delivery of the 2030 strategy, with focus in 2021 on sustainability, innovation and our Consumer Care and Life Sciences market sectors • Consider how to further enhance Board diversity • Bring more external and customer insights into Board meetings to help shape thinking and decisions
<p>Focus on the balance between organic/inorganic growth and the short term/2030 strategic plans</p>	<ul style="list-style-type: none"> • Worked with the Executive team to further define and operationalise the Group's 2030 strategic priorities • Strategically targeted M&A, including Avanti and Iberchem which accelerated our strategic delivery in the Life Sciences and Consumer Care markets • Approved several organic capital expansion projects including investments in the UK and US to deliver drug delivery scale-up requirements • Approved a significant contract with Pfizer in support of our fast growing Health Care business 	
<p>Continue to support and challenge management on the delivery of the 2030 strategy, with a focus on organisational structure and capability</p>	<ul style="list-style-type: none"> • Organisation and Executive team reorganisation to refresh talent and create the optimal structure to deliver the 2030 strategy • Received presentations on key strategic enablers, including digital capability and process transformation 	
<p>Oversee the embedding of our sustainability Commitment to be Climate, Land and People Positive by 2030</p>	<ul style="list-style-type: none"> • Sustainability Committee established • Non-financial KPIs developed • Sustainability performance objectives incorporated into Executive remuneration • Investor sustainability day held in October 2020 • Received updates from the Group's sustainability leaders and team 	

Board engagement with stakeholders

The Section 172(1) statement and the key stakeholder groups that form part of our stakeholder ecosystem are on pages 14 to 21 and 58 to 61.

By understanding the interests and needs of our stakeholders, the Board can take these into account in boardroom discussions and decisions. Having consideration for our stakeholders aligns with our Purpose and our Values, both of which guide us in our approach to delivering our strategic commitments and promoting the long-term success of Croda for our shareholders.

The Chair and Company Secretary provide guidance when required at Board meetings to ensure sufficient consideration is given to the likely consequences of any decisions in the long term and to the interests and impact of such decisions on our stakeholder groups. The relevance of each stakeholder group may change depending on the issue under discussion and the Board always seeks to understand the priorities and interests of each stakeholder group during its deliberations and decision-making process. The Board continued to enhance its methods of

engagement with the workforce during the year. With regard to the 2018 Corporate Governance Code, the Board utilises a variety of different methods to engage with and gather the views of the workforce, ranging from pulse surveys and listening groups to site visits and Board mentoring programmes. Details of these engagement mechanisms can be found throughout this report. These mechanisms provide the Board with meaningful and regular dialogue with employees and are effective in providing the Board with an understanding of the interests and views of the workforce, taking them into account in its decision making. Significant engagement is also carried out through our commercial and functional business teams. The Board engagement table below describes how the Board seeks to understand the interests of our key stakeholders and also shows where further information is available throughout this report.

In addition, the Board receives information through the following methods which assists the Directors in their understanding of stakeholders and to perform their duties:

- An annual strategy review which assesses the success in the delivery of the Group's strategy

- Annual presentations to the Board from all the members of the Executive on the performance across the sectors and regions. A broad spectrum of employees from across the business are invited to present to the Board
- An annual Board presentation on progress with the Group's sustainability agenda from the wider sustainability team
- The CEO regularly updates the Board on interactions with customers and his engagement with policy makers and regulatory bodies
- The Group Finance Director maintains a regular dialogue with shareholders and updates Board members between meetings on any material issues
- Comprehensive reports which cover
 - Risk
 - Global operations including customer service
 - Innovation
 - SHEQ and Sustainability
 - IT and Digital operations
 - Legal and Company Secretarial
 - HR, culture and diversity
- Surveys and reports from brokers and advisers

Board engagement with stakeholders



Our people – Our success depends on our skilled employees. The Board meets regularly with employees, during site visits and Board presentations. Although business travel and face-to-face meetings were restricted during 2020, Board members continued to engage with a wide range of employees through video calls and received and discussed the results of employee pulse surveys and listening groups that took place throughout the year.

→ See page 16



Our shareholders – Board engagement is primarily through the Group Chief Executive, Group Finance Director and the recently appointed Investor Relations and Corporate Affairs Director. The Directors attend the AGM to allow shareholders to ask questions directly, although this was not possible in 2020 due to government restrictions.

→ See page 21



Our customers – Our direct sales model ensures we work closely with customers and allows us to develop a deep understanding of their needs. The Board receives customer insights and information through Board reports from the CEO and sector teams, as well as during strategy and business presentations.

→ See page 17



Local communities – As a responsible business, we believe it is essential that we operate safely and sustainably and that we understand the impact of our operations on local communities and on the environment. Living our Purpose also means we are committed to providing a positive impact to society and we nurture the links we have to our communities through our offices and our sites. Throughout the pandemic our employees have contributed to their local communities through both our long running 1% Club programme and STEM programme, our community consultation committees and through our Acts of Kindness initiative. The Board regularly receives information and feedback on these activities.

→ See page 20



Our suppliers – Supply chain integrity is essential to being a sustainable business and our supplier relationships provide valuable insights to the Board. Site and purchasing teams engage and partner with suppliers on a wide range of matters, from product stewardship and ethical sourcing to regulatory compliance and operational improvements. The Board understands these issues through Board reports and engagement with our operations and functional teams.

→ See page 18

Acquisitions and considering our stakeholders

The Board approved two substantial acquisitions during the year, Avanti and Iberchem. As part of the acquisition processes, the Board was informed of the interests of a wide range of stakeholders through presentations and detailed papers. The Board considered both acquisitions at several Board meetings, allowing time to consider and interrogate the information presented and ask for clarification where necessary.

A separate resource centre was available that contained greater detail of all the due diligence information. The governance around these approval processes enabled the Board to conclude that the acquisitions were likely to promote the success of the Company for the benefit of shareholders in the long term.

The first was the acquisition of Avanti in August 2020.

Shareholders — The Board considered not only the strategic fit but also the alignment of the business with Croda's Purpose of using Smart science to improve lives™. The Board also considered the financial returns of the acquisition and concluded that it was in the best interest of the Company and its shareholders to approve the transaction.

Communities — The Board took account of the impact of the acquisition on the community. Croda's expansion plans for Avanti benefited local communities given the need to create new jobs to deliver the growth plans.



Customers — The Board believed that Avanti's expertise in drug delivery technologies for pharmaceuticals and Croda's access to global markets, manufacturing expertise and ability to scale up Avanti's technology would bring great benefits to our customers.

People — The Board felt that the combined businesses would provide a significant contribution to Croda's ambition to become People Positive. This was later demonstrated when the Board approved a commercial agreement with Pfizer to supply novel excipients used in the manufacture of the critical COVID-19 vaccine candidate.

In November 2020, the Board approved the acquisition of Iberchem, a fragrances and flavours business. The Board concluded that the acquisition would create a compelling platform from which to grow the combined business in the long term and was in the best interest of the Company.

Shareholders — The Board decided that the most appropriate method to finance the acquisition was via a combination of the Group's existing debt facilities and the proceeds of an equity placing. This structure preserved the Group's robust financial flexibility and balance sheet strength. The Board also took account of the projected financial returns.

The Board took account of the need to treat all stakeholders fairly and provided retail investors the opportunity to participate in the equity raise through an offer for shares on the PrimaryBid platform.



Customers — Although an adjacency to Croda's existing businesses, the Board considered that Croda's formulation capability would complement Iberchem's expertise, and that bringing the two businesses together would create a new, full-service offering to meet our customers' needs.

People — The Board considered the interests of our pension trustees in reaching their decision on the financing structure. UK employees were informed of and given guidance on how to participate in the retail offer should they wish to do so.

Payment of dividend

During the year, the Board considered the recommendation of a final dividend and the payment of an interim dividend. This was at a time of great uncertainty about the future because of the global pandemic.

The Board considered that the balance sheet strength of the Company and limited leverage provided reassurance that the Company could continue to pay dividends even at a time of great uncertainty. In reaching this decision the Board carefully considered the interests of all stakeholders.

It had regard to the fact that no employees had been furloughed or made redundant and that the pay and benefits of those self-isolating, unwell or with caring responsibilities had continued. The Board noted that no government liquidity facilities had been utilised, and took account of the fact that Croda had supported suppliers and customers with the offer of flexible payment terms. Finally, the Board considered the interests of our local communities and noted the Acts of Kindness initiatives, which saw a financial

donation by Croda to support local communities in their fight against the pandemic.

Taking all these factors into account, the Board was reassured that there had been fair and consistent treatment of all our key stakeholders during the crisis, and that payment of the dividends were in the best interests of the Company.

Communication with shareholders

The Board maintains open and regular dialogue with shareholders to ensure that they understand our strategy and trading performance, and to listen to their feedback.

Our investor relations activity is led by a recently appointed Investor Relations and Corporate Affairs Director who reports to the Group Finance Director, with other Directors and Executives involved as appropriate. We maintain relationships with existing and potential investors, and 20 analysts in the US, UK and other countries in Europe, who provide an important source of independent analysis on Croda. We continue to increase engagement on ESG topics and prioritised our engagement with ESG rating agencies this year to focus on those most regularly used by our shareholders.

The Board engages with shareholders through the Group Chief Executive, Group Finance Director, the Chair and the Chair of the Remuneration Committee/Senior Independent Director. In 2020 we provided more regular and detailed disclosure during the COVID-19 crisis, publishing trading updates and communicating directly with shareholders by letter. We undertook extensive scenario testing in line with investor focus on business continuity and continued to pay dividends to shareholders in line with the Board's commitment to treat all stakeholders fairly.

In November, we raised gross proceeds of £627m in new equity to part-fund the acquisition of Iberchem, three quarters of which was allocated to existing shareholders. We invited our most significant shareholders to discuss the acquisition in advance and carefully followed the principle of pre-emption to ensure the 100 existing institutional shareholders who supported the placing received at least their pro-rata allocation, where requested. We also allocated the maximum permitted number of shares to smaller shareholders and employees through a separate retail offer.

During the year, we met more than 350 investors including two thirds of institutions on the shareholder register, with over three quarters of meetings taking place in a virtual format. We also held a capital markets seminar to explain our sustainability strategy which was attended



2020 Sustainability investor seminar

In October 2020 we hosted a virtual investor seminar on Sustainability. Croda speakers included Steve Foots, CEO, Stuart Arnott, President of Sustainability and members of his team, and leaders of Croda businesses. External speakers at the event were customers from Bayer and Henkel and a Director of the Cambridge University Institute for Sustainability Leadership. The live event attracted 250 delegates, with a further 150 viewing the content on demand in the weeks after the event. Attendees represented a

cross-section of ESG specialists, generalist investors and specialists in the Chemicals sector.

To support investor engagement on ESG topics, in 2020 we also created a single 'sign-posting' website page and a data pack collating non-financial information. Priorities for 2021 are continued assessment of the carbon benefits of Croda's products in use and the application of the EU taxonomy to Croda.

by almost 250 delegates (see above). These meetings provided an opportunity to capture shareholders' views which are reported regularly to the Board. The Senior Independent Director and all Non-Executive Directors are available to attend meetings if required by shareholders; no such meetings were requested by shareholders during the year.

The Board receives a monthly investor relations report, as well as updates on the trading environment, including retail sales information, and on Croda's performance in relation to peers. The Investor Relations and Corporate Affairs Director presented to the Board in September providing an opportunity for Board members to discuss shareholder feedback.

All Company results presentations and events are webcast and include a live Q&A, so that all shareholders have an opportunity to ask questions. The answers to the most commonly asked shareholder questions and a calendar of 2020 investor events are on the opposite page.

In 2021 we plan to combine our successful digital engagement with the resumption of face-to-face meetings and site visits when safe to do so. We look forward to resuming our governance lunch with shareholders and expect to continue to increase engagement on ESG topics.

Substantial shareholders

As at the date of this Annual Report and Accounts the Company had received notification of the following material shareholdings pursuant to the Disclosure and Transparency Rules of the UK Listing Authority:

	Number of shares	% of issued capital
Massachusetts Financial Services Company	12,551,036	9.73%
BlackRock, Inc.	8,534,795	6.62%
Mawer Investment Management Limited	6,438,386	4.99%
RBC Global Asset Management Inc.	5,212,886	4.04%

Commonly asked shareholder questions

1. How does the Company manage its allocation of capital?

With our strong return on invested capital, we seek opportunities to expand capacity for existing products and create capacity for new innovative products through our organic capital investment programme. This investment is increasingly focused on our sustainability strategy, particularly where it supports innovation for customer benefit. We also prioritise a regular ordinary dividend in line with our dividend policy. Surplus capital is invested in inorganic expansion through acquisitions or returned to shareholders where capital is surplus to our medium-term requirements. Our capital allocation policy is set out in the Finance review on p42.

2. What are Croda's priorities in respect of acquisition activity?

There are a very limited number of large-scale opportunities, so our focus is primarily on technologies and mid-scale acquisitions. By investing in, partnering with or acquiring businesses with nascent technologies, we bring advanced research pipelines into Croda in support of our in-house innovation programme. We also acquire mid-sized, knowledge-based businesses, principally in existing or adjacent consumer care and life science markets.

3. What is the potential of Avanti Polar Lipids acquired in August 2020?

Avanti specialises in the development of high-purity lipids that are increasingly being used in the delivery of next-generation pharmaceuticals including mRNA-based drugs and vaccines. The potential of lipids as the delivery system for mRNA has been demonstrated with the Pfizer-BioNTech vaccine and our contract to supply vaccine components. mRNA is degraded quickly and is not stable, so lipids are used to encapsulate the mRNA and transport it to the immune cells. The technology has potential beyond COVID-19 and vaccines, into the treatment of cancer, infectious diseases and inherited illnesses.

4. You also acquired Iberchem; why did you want to enter the Fragrances and Flavours (F&F) market?

Prior to the acquisition of Iberchem, fragrances were the one value-add ingredient of most personal care and home care formulations that we did not offer. With Iberchem, we can provide a full formulations service that is particularly appealing to regional and independent businesses. Iberchem has a similar customer profile to Croda, but 83% of its sales are to emerging markets so there is an opportunity to leverage respective customer networks. We can also drive a more sustainable approach at Iberchem which is a potential source of competitive advantage in F&F markets.

5. Revenue growth has been disappointing in the last two years. What is your medium-term guidance for the three core Sectors?

We are well aligned to the megatrends that will drive future growth, including sustainability, digital and emerging markets. Our expectations are to organically grow Consumer Care at mid single-digit percentage with continued industry-leading margins. We expect Life Sciences to grow by mid to high single-digit percentage with growing margins. Our priority for Performance Technologies is an improved portfolio driving a greater focus on sustainable technologies and reduced cyclicality. We are targeting sales growth at global GDP and an improved return on sales of 20%.

2020 investor calendar

Over three quarters of our meetings with investors during 2020 were held virtually.

January	Close Period
February	Full year results announcement and roadshows
March	Results roadshows and investor conferences
April	Annual General Meeting. COVID-19 announcement and letter to shareholders
May	Global roadshows and private client fund manager engagement
June	Investor conferences
July	Half year results announcement and roadshows
August	Investor engagement on Avanti acquisition
September	Virtual seminar on Croda's Health Care business
October	Sustainability investor seminar
November	Investor presentation and meetings on Iberchem acquisition
December	Investor conferences



Division of responsibilities

The Board

Chair

The Chair leads the Board and sets the tone from the top promoting a culture of openness and debate and effective communication between the Executive and Non-Executive Directors. She creates an environment at Board meetings in which all Directors are able to contribute to discussions and feel comfortable in engaging in healthy debate and constructive challenge.

Senior Independent Director

The Senior Independent Director provides a sounding board for the Chair and acts as an intermediary for the Non-Executive Directors, where necessary. She is available to shareholders where communication through the Chair or Executive Directors has not been successful or where it may not seem appropriate.

Independent Non-Executive Directors

The role of independent Non-Executive Director is central to an effective and accountable Board structure as they provide strategic and specialist guidance together with effective governance. They constructively challenge the Executive Directors and scrutinise the performance of management in meeting agreed goals and objectives and ensure all stakeholder views are considered.

Non-Independent Non-Executive Director

Having served Croda for 33 years, the latter five of which were as a member of the Board, Keith Layden is not considered independent. However, because of that experience, Keith contributes strongly to the Board's culture and personality, and adds unique and valuable insight and constructive challenge.

Group Chief Executive

The Group Chief Executive has day-to-day responsibility for the effective management of the Group's business and for ensuring that Board decisions are implemented. He plays a key role in devising and reviewing Group strategies for discussion and approval by the Board. The Group Chief Executive is tasked with providing regular reports to the Board.

Group Finance Director

The role of Group Finance Director is to bring a commercial and financial perspective to the boardroom. Working with the Chief Executive, he is responsible for the leadership and management of the Company according to the strategic direction set by the Board. He leads the global finance function and oversees the relationship with the investment community.

Group General Counsel and Company Secretary

The Group General Counsel and Company Secretary is secretary to the Board and its Committees. He ensures that Board procedures are complied with and advises on regulatory compliance and corporate governance. This role is to support the Chair and the Non-Executive Directors.

Principal Board Committees

Nomination Committee
Chaired by Anita Frew

Reviews the structure, size and composition of the Board and its Committees, identifies and nominates suitable candidates for appointment to the Board and has responsibility for Board and Executive Committee succession planning. For more information see pages 66 to 67.

Audit Committee
Chaired by John Ramsay

Monitors the integrity of the Group's financial statements and announcements, the effectiveness of internal controls and risk management as well as managing the external auditor relationship. For more information see pages 70 to 75.

Remuneration Committee
Chaired by Helena Ganczakowski

Recommends the Company's remuneration policy and framework and determines the remuneration packages for members of senior management. For more information see pages 76 to 101.

Governance structure

The Board has three main Committees: the Nomination Committee, the Audit Committee, and the Remuneration Committee. The terms of reference for each Board Committee can be found at www.croda.com.

The day-to-day operational management of the Business is delegated by the Board to the Group Chief Executive, who uses several Committees to assist him in this task: the Group Executive Committee; the Group Finance Committee; the Risk Management Committee; the Group Safety, Health, Environment and Quality (SHEQ) Steering Committee; the Group Ethics Committee and the Sustainability Committee.

Further information on each of the Committees and the membership as at year end is shown on page 63.

Meetings

Membership of the Board and its Committees, and attendance (eligibility) at meetings held during the year ended 31 December 2020.

Chair of the Committee	Board	Nomination Committee	Audit Committee	Remuneration Committee
Anita Frew (Chair)	8 (8)	4 (4)		
Roberto Cirillo	8 (8)	4 (4)	5 (5)	5 (5)
Jacqui Ferguson	8 (8)	4 (4)	5 (5)	5 (5)
Steve Foots	8 (8)			
Helena Ganczakowski	8 (8)	4 (4)	5 (5)	5 (5)
Keith Layden¹	8 (8)	3 (4)		
Jez Maiden	8 (8)			
John Ramsay	8 (8)	4 (4)	5 (5)	5 (5)
Alan Ferguson²	2 (2)	2 (2)	3 (3)	3 (3)

1. Keith Layden did not attend the meeting where his reappointment was discussed.
2. Alan Ferguson retired from the Board on 23 April 2020.

In addition to the meetings scheduled as part of the Board programme, an additional 15 Board calls were held via video conference to discuss the Group's response to the COVID-19 pandemic and additional strategic opportunities.

Group Chief Executive

Group Executive Committee Chaired by Steve Foots	Group Finance Committee Chaired by Steve Foots	Risk Management Committee Chaired by Jez Maiden	Group SHEQ Steering Committee Chaired by Mark Robinson	Group Ethics Committee Chaired by Tom Brophy	Sustainability Committee Chaired by Stuart Arnott
The Committee meets eleven times a year and is responsible for: developing and implementing strategy, operational plans, policies, procedures and budgets; monitoring operational and financial performance; assessing and controlling risk; and prioritising and allocating resources.	The Committee meets eleven times a year to review monthly operating results and examine capital expenditure projects. The Finance Director, President of Global Operations and Group Financial Controller also attend.	The Committee meets quarterly to evaluate and propose policies and monitor processes to control business, operational and compliance risks faced by the Group, and to assess emerging risks. Three Executive Committee members attend as well as the Group Financial Controller and VP Risk and Assurance.	The Committee meets quarterly to monitor progress against the Group safety, health, environment and quality objectives and targets, review safety performance and audits, and determine the requirement for new or revised SHEQ policies, procedures and objectives. The Chief Executive and three Executive members attend. The VP Risk and Assurance also attends.	The Committee meets quarterly in support of our culture of integrity, honesty and openness, and to promote the importance of ethics and compliance across the Group and amongst our supply chain partners. It comprises five Executive Committee members. The VP Risk and Assurance also attends.	The Committee meets quarterly to further develop the Group sustainability strategy, to embed sustainability practices throughout the organisation and to monitor progress towards achieving our Commitment. It comprises a diverse group of leaders representing all aspects of our business and each Committee member is the champion for one or more of the KPIs in Our Commitment.



Composition, succession and evaluation

Board support

Each Director has access to the advice and services of the Company Secretary. Where necessary, the Directors may take independent professional advice at the Company's expense.

Training and briefings are available to all Directors taking into account their existing experience, qualifications and skills. In order to build and increase the Non-Executive Directors' familiarity with, and understanding of, the Group's people, businesses and markets, senior managers regularly make presentations at Board meetings. As well as planned training on governance, legal and regulatory matters. The programme is sufficiently flexible to capture new and emerging regulation, development stemming from evaluation and specific training requests from Directors. Each Director's training programme includes the same online training on competition law and anti-bribery and corruption as taken by managers and selected employees across the Business.

Before each Board meeting, the Company Secretary makes sure that the meeting papers are made available electronically one week in advance, which ensures that each Director has the time and resources to fulfil their duties. Directors have the opportunity to raise questions stemming from the papers prior to the meeting, should they wish to do so. A resource centre within the web portal provides access to useful information about the Group, including corporate governance materials, finance and strategy information, Group policies and procedures, and information on topics such as risk and insurance.

Conflicts of interest

The Board has an established process for declaring and monitoring actual and potential conflicts. The Articles of Association of the Company allow the non-conflicted members of the Board to authorise a conflict or potential conflict situation.

Details of the professional commitments of the Chair and the Non-Executive Directors are included in their biographies on pages 54 and 55. The Board is satisfied that these do not interfere or conflict with the performance of their duties for the Company.

Independence of Non-Executive Directors

Croda complies with the Financial Reporting Council's Reporting Code (the Code) in having experienced Non-Executive Directors who represent a source of advice, strong judgement and challenge to the Executive Directors. At present there are six such Directors, including the Chair and the Senior Independent Director, each of whom has significant commercial experience. Their understanding of the Group's operations is enhanced by regular business presentations and site visits.

The independence of the Non-Executive Directors is kept under review. The Chair was independent upon her appointment in 2015 but, as Chair, is not classified as independent. With the exception of Keith Layden, the Board considers that all Non-Executive Directors who served during the year are independent in character and judgement, with no relationships or circumstances that are likely to affect, or could appear to affect, their judgement.

Keith Layden is not considered independent, having served as the Company's Chief Technology Officer prior to retirement from the Company and appointment as a Non-Executive Director in May 2017.

Board re-election

The Board has a broad range of skills and experience from different industries, advisory roles and from international markets. These skills support the strategic aims of the Company. Following individual performance assessments, the Board is satisfied that each Director continues to perform effectively, allocates sufficient time for their duties and remains fully committed to their role. Full biographies for the Directors are on pages 54 and 55.

The terms and conditions of appointment of Non-Executive Directors can be viewed at www.croda.com. Contracts for Executive and Non-Executive Directors can be inspected during normal business hours at the Company's registered office by contacting the Company Secretary and will also be available for inspection at the AGM.

Board evaluation

Each year, the Board undertakes an evaluation of its own effectiveness and performance and that of its Committees and individual Directors. Every three years, the evaluation is externally facilitated.

In 2020, following a competitive tender process during May and June, Heidrick & Struggles, an independent party and not subject to a conflict of interest, were appointed to undertake an external evaluation. Heidrick & Struggles have a long history of working with boards, using a methodology for evaluation that focuses on four areas: mobilisation (including board dynamics, strategy and diversity); execution (including talent, composition and operating mechanisms); transformation (including purpose, succession and disruption); and agility (including resilience, adaptability and foresight).

The planning of the Board review started in July 2020 to ensure the Board agreed with the proposed approach to be taken and specific areas of focus. Given the restrictions on face-to-face meetings and on travel, careful thought was given as to how to carry out an effective externally facilitated Board review virtually using videoconferencing. The Chair and Company Secretary worked closely with Heidrick & Struggles to agree the sequencing and timetable for the review.

Board Effectiveness Review methodology

Confidential interviews

Structured interviews were undertaken with each Director and the Company Secretary to understand the strengths and development areas for the Board. The discussions were focused on Board dynamics, composition and trust in addition to the role and effectiveness of the three Board Committees; Audit, Remuneration and Nomination. In addition to the Board, views were sought from other invited attendees, for example the Group Financial Controller and the Vice President of Risk and Assurance.

Quantitative survey

An online survey was completed by all participants to surface areas of alignment and misalignment on the Board.

Capability review and benchmarking

A capability review of Croda's Board was created against agreed metrics which included other Boards with a strong sustainability agenda.

Document review and observation

Documentation and information flows between Board members were reviewed to understand what items are being discussed and considered and with what frequency over the course of a year. One Board meeting and the Committee meetings were observed virtually.

Outcomes of the Review

The evaluation concluded that the Board was highly effective with many signature strengths.

Strengths

- Trust in the boardroom –The Board is a transparent, open, inclusive environment. The Board are engaged and support and trust each other. The Chair plays a fundamental role in creating these dynamics.
- A track record of improvement –The Board continues to evolve in composition, gender representation, operating mechanisms and purposeful focus on strategy.
- Adaptability and agility – The Board is particularly good at pivoting and adapting under pressure. The agility and capability to react to a crisis was tested in 2020 and the Board responded robustly.
- Purpose that drives decision-making – The Board has high integrity and confidence in the strategy, purpose and values. Board members spend time getting to know the business, executives and rising talent. This helps to guide and anchor decision-making.
- Committees – All Board Committees were performing well and were effective. They are led by strong, capable and effective Chairs that encouraged a supportive environment and quality conversation. The flow of information was good and members were well prepared.

Development areas

- Increase challenge and debate – There is opportunity to increase the level of challenge at Board meetings, exploring alternative perspectives.
- Invite more outside-in thinking –The Board should consider bringing even more external and customer insights into the conversations to help shape thinking and decisions.
- Accelerate diversity and drive inclusion – Although the Board is a leader in terms of gender diversity, it could also further reflect the markets, customers and segments that the Group serves.
- Learn and make changes – There is room to improve the embedding of 'lessons learned' and to further challenge the Executives to drive necessary change.

Board review Sequencing and timetable



2020 July-August

Socialise plan

- Agree outcomes and timing
- Socialise approach with the Board



Sept-Early Nov

Diagnose

- Analyse key documentation
- Measure Board acceleration potential through the Board Accelerator Questionnaire (BAQ)
- Tailor interview guide; conduct structured interviews
- Observe the Board in action during Board meeting and Committee meetings



Mid-Late Nov

Look in the mirror

- Prepare draft Board report; socialise with key stakeholders
- Facilitate a review of findings and action planning with the Board members
- Refine as required



December

Action plan

- Prepare a Board report with accurate insights and actionable recommendations
- Brief the final Board report to key audiences



2021 Onwards

Create change

- Board to lead the implementation of improvement initiatives

Report of the Nomination Committee
for the year ended 31 December 2020



Anita Frew
Chair

Dear fellow shareholder

I am pleased to present the Nomination Committee report for the year ended December 2020.

Main activities and priorities in 2020

Board changes and succession planning

John Ramsay was appointed to the Board on 1 January 2020 and became Audit Committee Chairman on 23 April 2020 when Alan Ferguson stepped down. At the same time Helena Ganczakowski became Senior Independent Director. Helena's appointment was considered by the Committee and her term was extended by another year in line with the Nomination Committee policy that once a Non-Executive Director has served six years, any extension to their term would be on a year-by-year basis.

Keith Layden's initial three-year term of office as a Non-Executive Director expired on 1 May 2020. The Committee performed a review of his appointment and considered his contribution to boardroom discussions, industry knowledge and time commitment to the appointment.

The Committee endorsed the Chairman's recommendation to extend Keith's term of office which was then extended for a further three years to 1 May 2023.

Early in the year, the Committee had an update on the review of talent and succession planning within the Group. Succession plans for sector, region and function had been updated and the plan to improve female talent in senior succession plans was in place. A diverse group of individuals commenced a programme of mentoring by the Group Board and Executive management team.

In July 2020, the Committee considered the proposals to restructure some areas of the business in line with the 2030 strategy. The restructuring provided opportunities for several individuals identified through the Executive development plans and the review of talent process.

Some changes were made to the Executive Committee. Sandra Breene was appointed to the newly created role of President Regional Delivery, with all the Regional MDs reporting to her. With the integration of the Home Care business into Personal Care to form the new Consumer Care sector, Maarten Heybroek was appointed to the role of President Consumer Care.

Nick Challoner continues in his role as President Life Sciences but in addition has been appointed to a newly created role of Chief Scientific Officer. Anthony Fitzpatrick, President Corporate Development was appointed to the additional role of President Performance Technologies and Industrial Chemicals (PTIC).

Our strategic commitment to sustainability is aligned with delivering superior performance to stakeholders and at the end of 2019 Stuart Arnott was appointed to a newly created role of President of Sustainability. In this role he chairs the Sustainability Committee, which was established during the year. Mark Robinson was appointed President Global Operations, the role formally held by Stuart Arnott, and during 2020 Mark joined the Executive Committee.

Diversity and Inclusion

The Board supports the recommendations of the Hampton-Alexander and Parker Reviews in relation to gender and ethnic diversity. Research has shown that greater diversity can foster innovative thinking and provide businesses with access to a wider pool of talented people. As a Committee we have worked hard over the last few years to ensure we have an inclusive and diverse Board and I am pleased that we have maintained our position of having in excess of 30% of women on the Board (including female Directors as Chair and Senior Independent Director), but as yet we don't have any ethnic diversity on the Board. This will be a focus for the Committee during 2021.

The Committee carried out a review of the size and composition of the Board and the collective skills and experiences of the Directors. Diversity was a key consideration through this process and the discussion. During 2021 the Committee will consider the need to add an additional Director to the Board. When we search for new Directors we ensure that the longlists and shortlists of candidates are gender balanced and candidates are drawn from a wide range of backgrounds, including ethnically diverse candidates. We take care not to create a specification that has the effect of reducing the diversity of the potential pool of candidates.

A copy of our Board Diversity Policy, which is regularly reviewed by the Board, is available in the corporate governance section at www.croda.com. For more information on our Board see the Directors Biographies on pages 54 and 55.

We will be working alongside the Executive Committee in deciding what we need to do as an organisation if we are to achieve our People Positive commitment. It is incumbent upon us to create a psychologically safe place for our employees, an environment where they feel included. In doing so, we will enable them to perform to their best abilities, bringing rewards for them and for Croda. Our core value of 'Togetherness' will help guide us in this journey. This applies equally to the Board and Executive Committee as to the wider organisation.

The gender balance on Executive Committee and senior management teams (direct reports to the Executive Committee) by 31 December 2020 stood at 26% female. We continued to increase the diversity of our leaders below Board and Executive Committee level. 26% of our Top 50 employees are female, with the Top 50 made up of employees across nine nationalities. Of particular note in 2020 was the appointment of female employees to the Regional Managing Director roles in Europe and Latin America. We also appointed a female manufacturing site head and have for the first time employed female operators at many of our sites. We know we still have work to do to create further diversity, but these are highly visible leadership roles and will create role models for other female and ethnically diverse employees to look up to as they consider their career paths in Croda.

There have been initiatives to improve diversity throughout the Group and the Board receives reports from the Group HR Director on these initiatives throughout the year. Members of the senior management team are given the opportunity to present to the Board whenever the opportunity arises.

Diversity training is included in all of our induction and management development programmes. We have a global Diversity and Inclusion Committee to promote and inform improved diversity across our business. The whole organisation was given access to an online course on unconscious bias which has been completed by over 50% of colleagues to date. Six internal podcasts have been published discussing various aspects of inclusion and a website developed with further resources for colleagues to access. Last year we set new targets to double the number of women in leadership positions by 2025 and to achieve gender balanced shortlists for 80% of our roles by 2023. By the end of 2020 we had increased the number of women in leadership positions by 19%.

Other activities of the Committee

During the year the Committee reviewed the development plans for each Executive Committee member, and these were taken in to account as part of the Executive Committee changes that took place in 2020.

The Committee reviewed the time commitment of the Non-Executive Directors. It was satisfied that all the Non-Executive Directors remain able to commit the required time for the proper performance of their duties. They also considered and concluded that, except for Keith Layden, all Non-Executive Directors continue to fulfil the criteria of independence. As Keith was formerly an Executive Director of the Company, he is not currently considered to be independent.

The Directors, together with the Executive Committee, continued our participation in a formal mentoring programme, mentoring some of our most talented employees in their careers at Croda. This provides opportunities for the Committee members to get to know our leaders of the future and provides mentees with role models and development opportunities.

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



Anita Frew

Chair of the Nomination Committee

Responsibilities

The Committee is responsible for nominating candidates for appointment to the Board for approval by the Board, and for succession planning. It evaluates the balance of skills, knowledge, experience and diversity on the Board.

Key responsibilities

- To regularly review the structure, size and composition, including the skills, knowledge, experience and diversity, of the Board and make recommendations for any changes to the Board
- To give full consideration to succession planning for Directors and other senior Executives, taking into account the challenges and opportunities facing the Company and, consequently, what skills and expertise the Board will need in the future
- Where a Board vacancy is identified, to evaluate the balance of skills, knowledge, experience and diversity on the Board, and prepare a description of the role and capabilities required for the respective appointment
- To identify and nominate candidates to fill Board vacancies, for the approval of the Board, as and when openings arise
- To keep the organisation's leadership needs, both Executive and Non-Executive, under review to ensure that the Company continues to compete effectively in the marketplace
- To review annually the time required from a Non-Executive Director and the Chair
- To make recommendations on succession planning for the Board.

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

Members of the Executive management team attend the meetings on request and details of

attendance at the meetings during the course of the year can be found on page 63.

Induction

The Company provides new Directors with a comprehensive and tailored induction process which includes meeting the members of the Board and Executive Committee, meetings with key senior managers and the Group's audit partner.

Induction programmes are developed by the Group's Company Secretarial department and discussions start well in advance of the appointment date to tailor the experience to the exiting knowledge base of the Director. If considered appropriate, new Directors are provided with external training that addresses their role and duties as a Director of a quoted public company.

John Ramsay's induction began during 2019 in advance of his appointment to the Board from 1 January 2020.

He was given access to our electronic Board paper system and the Group intranet which provided easy and immediate access to key documents including:

- the previous twelve month's Board and Committee papers
- recent reports from the external Auditor
- the Group's risk register and Schedule of Principal Risks
- the latest budget and strategic plan;
- recent broker reports and feedback from our stakeholder engagement programmes
- information on our sustainability initiatives;
- Matters reserved for the Board and the Committee terms of reference and other key policies.

Given the focus on Health and Safety in all the Board meetings, John's first session on commencing his role was with the Group Health and Safety Director. In the first few months John spent significant time with Alan Ferguson, the outgoing Chair of the Audit Committee to ensure the transfer of knowledge and an orderly handover of duties at the AGM on 23 April 2020. John also spent considerable time with KPMG, the Group Auditor and our Vice President Risk and Assurance.

In addition, John had individual meetings with all the Board members, the Executive management team and the IT Director. He also had meetings with all the senior members of the global finance team. As well as a tour of the R&D function at Cowick, John undertook a comprehensive tour of the Rawcliffe Bridge site which included presentations by the site senior management team. A number of other planned visits were curtailed because of the global pandemic and these will be rescheduled as soon as they can go ahead in 2021.



Audit, risk and internal control

The Board has established formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

Fair, balanced and understandable

The process of compiling the Annual Report and Accounts starts early enough to give the Board time to assess whether it is fair, balanced and understandable, as required by the Code. The Board considered whether the Annual Report and Accounts contained the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

The key messages in the narrative in the Strategic Report and Governance sections of the Annual Report and Accounts were reviewed to ensure they reflected the financial reporting contained in the financial statements.

The Board considered if the Annual Report and Accounts fully disclosed the successes and the challenges that had been faced in the period and that the narrative and analysis effectively balanced the information needs and interests of each of our key stakeholder groups.

The framework and layout were considered to be clear and coherent, with a consistent tone throughout and clearly signposted linkage between all sections, in a manner that reflected a comprehensive narrative.

Following this assessment, the Board was of the opinion that the Annual Report and Accounts are representative of the year and present a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

A full statement of Directors' responsibilities can be found on p105.

Risk management and internal control

The Board acknowledges its responsibility for ensuring the maintenance of a sound system of internal controls and risk management. In accordance with the guidance set out in the Financial Reporting Council's (FRC's) Guidance on Risk Management, Internal Control and Related Financial Business Reporting 2014, and in the Corporate

Governance Code itself, an ongoing process has been established for identifying, evaluating and managing the emerging and principal risks faced by the Group (p44). The Executive management have established an organisational structure with clear operating procedures, lines of responsibility and delegated authority which was reviewed by the Board.

In particular, there are clear procedures and defined authorities for the following:

- Financial reporting, with policies and procedures governing the financial reporting process and preparation of the financial statements.
- Internal Controls, with a documented framework of required internal controls. Each reporting location prepares an annual self assessment of compliance with these controls, which is assured during planned internal audit visits.
- Business risks, with comprehensive monitoring and quantification of business risks, under the direction of the Risk Management Committee. The Group's approach to risk management and the principal and emerging risks facing the Group are discussed in more detail in the Strategic Report on p44 to p48
- Capital investment, through detailed appraisal, risk analysis, authorisation and post-investment review procedures.

This process has been in place for the full financial year and up to the date on which the financial statements were approved by the Board.

The Board discharged its responsibility for monitoring the operational effectiveness of the internal control and risk management systems throughout the financial year and up to the date of approval of the Annual Report and Accounts, using a process which involved:

- Review of the controls self-assessment returns in April to ensure internal audit visits focused on key areas (p73).
- Review of the findings from the internal audit assurance programme which reports

through the Vice President of Risk and Assurance, who attends every Audit Committee meeting alongside the PwC internal audit partner (p73).

- Review of closure of management actions to remedy failings and weaknesses identified through the internal audit programme.
- Receipt of written confirmations from relevant senior executives and divisional directors at the end of the year confirming the continued operation of those control elements for which they are responsible.
- Review of the report on significant control weaknesses from the Vice President Risk and Assurance, including whistle-blowing and fraud incidents.
- Annual presentation and review of risk appetite statements, principal and emerging risks and mitigating controls, supported by a quarterly update from the Risk Management Committee (p56).
- Reports from the external auditors.

This system is designed to mitigate, rather than eliminate, the risk of failure to achieve business objectives and provides reasonable, but not absolute, assurance against material misstatement or loss.

In order to assess the financial statements, the Audit Committee (p70 to 75) regularly reviews reports from members of the finance team and external Auditors who are invited to attend the Committee's meetings. When conducting its reviews, the Committee considers:

- The accounting policies and practices applied.
- The effectiveness and application of internal financial controls.
- Material accounting assumptions and estimates made by management.
- Any significant judgements or key audit matters identified by the external Auditor (see p107 to p110).
- Compliance with relevant accounting standards and other regulatory financial reporting requirements, including the UK Corporate Governance Code.

Business resilience

As set out on page 6, Croda's overriding priority throughout the COVID-19 pandemic has been to keep our people safe whilst maintaining supplies for our customers.

Strategic and stakeholder considerations

With advance warning of the impact of COVID-19 from our China offices, in February 2020 the Executive team set up a Group-level crisis team. Given the potential seriousness and impact that the spread of the virus could have on Croda, our CEO declared this as a level 1 crisis (the most severe category) and notified the Board. A cross functional global team was assembled under Executive leadership, to assess and understand how the crisis could compromise strategic delivery, to develop mitigating strategies and controls and to manage communications both internal and external. Critical to this exercise was an underlying understanding of our key risks and the operation of the current control environment, which are identified through our risk management framework (p44), supported by scenario testing. The testing confirmed that Croda had sufficient liquidity to absorb extended uncertainty.

Given the severity of the crisis the Board was regularly apprised at weekly meetings of the Board and the Executive members of the crisis team.

Critical initial risks to address were supply chain (raw material security of delivery), maintaining safe operations and ensuring the safety of our employees and all those affected by our operations. The impact on our employee mental health and wellbeing became a particular area of focus when, in March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic and governments globally introduced lockdowns affecting the way everyone in the countries lived and worked. Our IT function immediately developed and rolled out solutions to all employees who were able to work from home, whilst operating sites and laboratories assessed who could work from home and who could not. Manufacturing site heads worked together to share learning and best practice in making our sites and laboratories COVID-19 secure, including introducing new procedures and rules to keep our teams safe and introducing physical changes to the work environment and

changes to shift patterns. These enabled production to continue globally across all our sites and to date only two of our locations suffered temporary shutdowns because of local government requirements. Regular communication with employees through pulse surveys, videos, Company-wide emails and webinars ensured that the team was aware of employee concerns and could respond quickly to them.

In May the Executive Committee and the Board completed a 'plan ahead' review of strategic objectives to assess their continued resilience in the light of the pandemic, concluding that whilst the underlying strategic direction remains unchanged, the delivery of some strategic priorities should be accelerated.

In July the Board assessed the Group's key principal and emerging risks and concluded that the nature of the risks had not changed as a result of COVID-19, although their relevance had, confirming the resilience of the Company's risk management framework.



Audit Committee

The Audit Committee assists the Board in ensuring that the Group's financial systems provide accurate and up-to-date information on the Group's financial position.



John Ramsay
Chair of the Audit Committee

Report of the Audit Committee for the year ended 31 December 2020

As Chair of the Audit Committee, I am pleased to present the Audit Committee report for the year ended 31 December 2020, which provides detail of the activities carried out by the Committee during the year. This is my first year as Chair, and I would like to thank Alan Ferguson, my predecessor, who retired from the Board at the AGM. The COVID-19 pandemic has created a challenging year for everyone involved in the control and audit functions of Croda, and the Committee thanks the executive management team, the external and internal audit teams and Croda employees across the Company for their dedication in securing the control environment throughout this difficult year.

Committee membership

The Committee consists of four Non-Executive Directors. I joined the Board and became a member of the Audit Committee on the 1 January 2020 and became Chair of the Audit Committee on the retirement of Alan Ferguson on 23 April 2020. Having this time before becoming the Chair of the Committee allowed me not only to focus on my induction to the Board and the Group, it also afforded time for a comprehensive and structured handover of the Audit Committee Chair responsibilities.

The experience of each member of the Committee is summarised on pages 54 and 55. I have over 30 years' experience from an international finance background with the Life Sciences businesses of ICI, AstraZeneca and Syngenta and extensive experience as an Audit Committee Chair. The Board considers each member of the Committee is independent within the definition of the Code, has relevant financial experience, as well as a broad and diverse spread of commercial experience, including competence in operating within the chemical industry.

“

The Committee thanks the executive management team, the external and internal audit teams and Croda employees across the Company for their dedication in securing the control environment throughout this difficult year.”

Such consideration provides the Board with assurance that the Committee has the appropriate skills and breadth and depth of experience to ensure that it can be fully effective, and that it meets the Code requirements that at least one member has significant, recent and relevant financial experience and that the Committee as a whole is competent in the sector in which the Company operates.

The Chair of the Board, Keith Layden (a Non-Executive Director), the Group Chief Executive, the Group Finance Director, the Group Financial Controller, the Vice President Risk and Assurance, who leads the internal audit function, and representatives from the external and internal auditors attend the meetings by invitation.

Continued controls assurance during the pandemic

When the WHO declared COVID-19 a pandemic in March 2020 it was clear that the delivery of planned internal and external audit work would be impacted as a result of local government restrictions on both travel and safe distancing requirements. The annual business and IT controls self-assessment was run as normal in March 2020, and at the April meeting the Audit Committee reviewed the results of the self-assessment (which indicated minimal degradation in control environment). At that same meeting they agreed a revised approach to internal audit delivery via a hybrid mixture of local onsite PwC resource (where this was allowed) and virtual audits,

all managed by a member of the core PwC internal audit team. The audit programme delivered the majority of the originally planned audits alongside new reviews requested by the Committee. The new reviews related to the COVID-19 impact on cyber security on sites and the maintenance of a control culture during the enforced changed ways of working away from the office environment. Feedback from the sites audited, shared with the Audit Committee in January 2021, was that although face-to-face visits were preferred, sites had still seen the expected benefits from internal audit visits. At its July meeting, the Committee discussed the implications of

COVID-19 on the 2020 external audit. KPMG shared their assessment of the increased risks (going concern, goodwill valuation and debtor recoverability), and of changes to their audit approach due to travel restrictions. The Committee agreed that conducting some remote audits and/or additional procedures at Group level would be necessary. Additional time for this work was factored in to the external audit plan to enable KPMG to obtain sufficient evidence to support their audit opinion. The changes to the audit plan were reviewed again in November, and the Committee continued to monitor delivery of the audit plan and its quality throughout the audit period.

The Committee periodically, and I more regularly, meet or speak separately with the Vice President Risk and Assurance and the internal and external auditors without the Executives being present. I also meet with the external auditors, the Group Finance Director and the Group Financial Controller at least twice each year but typically before each Audit Committee meeting to discuss control and compliance issues generally and specifically the detail of the year end and half year results, accounting judgements and disclosures. This helps me to better understand the key issues, technical matters and judgements and to make sure sufficient time is devoted to them at the subsequent meeting.

Responsibilities

The Committee assists the Board in ensuring that the Group's financial systems provide accurate and up-to-date information on its financial position.

Its key responsibilities are:

- To monitor the integrity of the financial statements and results announcements of the Group and to review significant financial reporting issues and judgements.
- To recommend external auditor appointment and removal, assess audit quality, negotiate and approve the audit fee, assess independence, monitor non-audit services and be responsible for audit tendering.
- To review the adequacy and effectiveness of the Group's internal controls and risk management systems, and the adequacy, effectiveness and output of the internal audit function.
- To review the adequacy of the Group's whistleblowing arrangements and procedures for detecting fraud.
- In addition to its 'business as usual' activities, the Committee selects certain focus areas each year for detailed review.
- Detailed responsibilities are set out in the Committee's terms of reference, which can be found at www.croda.com.

Committee evaluation

An external evaluation of the effectiveness of the Committee was undertaken by Heidrick & Struggles during the course of the year. Further details on the process are included in the Corporate Governance report on pages 64 and 65.

The evaluation concluded that the Committee was operating effectively. Committee members were well prepared for meetings, which were open and inclusive, engendering excellent quality conversations and constructive debate. One area for consideration was to make sure the Board's and Committee's areas of responsibilities in relation to risk are clearly defined to sharpen effectiveness and to limit overlap. The Committee will review this during the course of its oversight of the Company's risk management in 2021.

Main ('business as usual') activities of the Committee since the publication of the 2019 Annual Report and Accounts

The Committee met five times in 2020, of which two were after publication of the 2019 Annual Report and Accounts, and three times between the year end and the publication of this Annual Report. There was full attendance by all Committee members at each meeting. The key issues covered at the Committee meetings were reported at the subsequent Board meeting.

The Committee's main business as usual activities, as well as the focus areas, and an estimate of the proportion of time spent on them, are detailed below.

Committee activity in 2020

Financial reporting (25%)

The Committee:

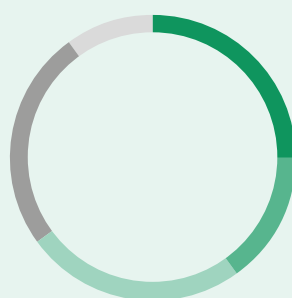
- Monitored the Group's financial statements and results announcements, including the Annual Report and the interim statement.
- With support from the external auditors, reviewed those items in the Group's financial statements that had the potential to significantly impact reporting.
- Reviewed management's accounting judgements and issues, including alternative performance measures, the going concern assessment and exceptional items.
- In conjunction with the Board, reviewed the financial modelling and stress testing conducted for the going concern assessment.
- Reviewed the viability assessment process undertaken in support of the Viability Statement, based on plausible scenarios arising from key risks and their impact on headroom and bank covenants. Challenged the assumptions and scenarios noting the effect they would have during the viability period with particular attention this year being given to the potential impacts on the business from the consequences of the COVID-19 pandemic.
- Undertook regular reviews of the Group's litigation and was satisfied with the approach to provisioning and disclosure.
- Considered the appropriateness of accounting policies, critical accounting judgements and key sources of estimation of uncertainty.
- Received updates on the progress of the Global Finance Standardisation project to improve the quality of product costing analysis and comparison across the Group

Governance (15%)

The Committee:

- Reviewed the input from a compliance review to ensure the Committee met its corporate governance and regulatory requirements.

Audit committee activity breakdown



Financial reporting	25%
Governance	15%
External audit	25%
Internal audit and risk management	25%
Specific focus areas for 2020	10%

- Reviewed the effectiveness of the Group's anti-bribery and fraud procedures, including those for whistleblowing. The Committee received a report on the independent investigations that had been conducted in response to concerns raised under the whistleblowing policy and were satisfied with the outcome, including follow up actions.
- Received presentations from senior members of the finance team, including the Finance Directors of Western Europe and Latin America.
- Undertook an external evaluation of the Committee's effectiveness. Further details are set out on page 64.
- Reviewed and took account of the annual FRC letter to Audit Committee Chairs.
- Reviewed the Committee's terms of reference and confirmed that the role and responsibilities of the Committee are aligned with the UK Corporate Governance Code. No changes were made.
- Completed its annual review of the Group's tax compliance policy (which can be found on our website) and risks relating thereto.
- Discussed and approved increases to the audit fee to reflect expansion of the Group through acquisition and additional work and use of senior staff arising from recent changes to the auditing regime, particularly in the UK.
- Reviewed the impact of changes to the audit approach resulting from limitations in the reliance placed on IT controls, following a period of change in the systems environment of the Group.
- Discussed the impact of COVID-19 on the delivery of the external audit plan, particularly the impact of remote working on the quality of audit processes
- Met with the external auditors without management present.
- Considered and confirmed the independence of KPMG, as further described on p75.
- Considered the effectiveness of the external audit process and, in light of the findings, recommended the re-appointment of KPMG at the AGM.
- Reviewed candidates for, and agreed to the appointment of, a new audit partner for 2021 onwards, which became necessary following organisational changes within KPMG.

External audit (25%)

The Committee:

- Discussed and approved the external audit plan, including the assessment of significant audit risks; the engagement risk profile; the use of data analytics; the scope of the audit; the materiality level and the de minimis reporting threshold; the co-ordination of external audits; and the key members of the engagement team.

Internal audit and risk management (25%)

The Committee:

- Received a regular report from the Vice President Risk and Assurance and monitored compliance with the Group risk assurance programme.
- Discussed the impact of COVID-19 on the delivery of the internal audit plan, particularly the impact of remote working on the quality of audit processes. Whilst COVID-19 impacted the starting date of the audit plan, an alternative resourcing model was employed which enabled the majority of the agreed programme to be delivered, alongside continued use of data analytics.
- Considered the themes arising from the controls self-assessment process undertaken in March, discussing themes arising and the plans to address these.
- Discussed the results of the 2020 controls assurance internal audits delivered by PwC, the adequacy of management's response to matters raised and the time taken to resolve such matters.
- Confirmed a reduced scope of Croda 'peer reviews' in the light of COVID-19 restrictions, on the understanding that the programme be reinstated in 2021.
- Considered management action taken with regard to the IT control environment during the year and commissioned further internal audit work to review and recommend improvements for implementation in 2021.
- Considered additional key risks arising from acquisitions during the year.
- Assisted the Board in its assessment of the Group's emerging and principal risks through directing and challenging the results of the 2020 risk assurance activity carried out by internal audit with reference to the Group's principal risks.
- Reviewed and approved the 2021 internal audit plan and supported the review of the digital strategic and global supply chain initiatives.
- Met with the internal auditors without management present.
- Conducted its annual review of the effectiveness of the Group's internal audit function see page 75.

Specific focus areas for 2020 (10%)

As highlighted above, the Audit Committee has delivered on our 'business as usual' work, as set out in our terms of reference. In addition, last year we noted three specific focus areas for 2020, which absorbed the balance of the Committee's time.

Specific focus area	Actions during the year	Progress
Continue to extend cyber security capability	<p>The Committee reviewed and challenged actions taken by management to mitigate the heightened cyber risks resulting from COVID-19, with specific focus on the IT networks, systems and data. A virtual desktop infrastructure was rapidly deployed to enable employees to work remotely, together with regular employee awareness communication of heightened threats. The Committee considered a report from internal audit on this subject summarising further actions to be undertaken and concluded that this was an area for ongoing monitoring and attention.</p> <p>The appointment of a new Information Security manager was welcomed and the Committee agreed a rolling annual programme of risk-based cyber internal audits based on the guidelines identified in the National Institute of Standards and Technology (NIST) framework, covering cyber security focus areas. Cyber security controls over key applications and networks are assessed annually as part of the IT internal audit programme and the results of these assessments were considered by the Committee.</p>	Ongoing
Continue to evaluate the maturity and security of the approach to digital development	The Committee evaluated internal assurance reviews of cloud governance and the SAP/Hana database migration, both of which are foundations of the Group's digital programme. The Committee challenged management around the findings of the reports and encouraged them to focus on completing the actions arising to reduce the risk exposure.	Ongoing
Review in detail the HR system implementation	The new HR system, MyCroda, supports the HR global database, the learning management system and the performance management system. Internal audit review of the implementation had been postponed from 2019 until all modules were implemented and the review took place, virtually, in July 2020. The Committee discussed the wider learnings arising from the audit encouraging management to improve project management disciplines taking account of the recently established Croda Project Management framework.	Completed

Significant financial statement reporting items

The Committee, with support from the external auditors, reviewed those items in the Group's financial statements that have the potential to significantly impact reporting. These are set out below.

Pensions: The Committee monitored the Group's pension arrangements, in particular the funding of the defined benefit plans in the UK, the US and the Netherlands, which are sensitive to assumptions made in respect of discount rates, salary increases and inflation.

The Group engages external actuarial specialists. The Committee reviewed the actuarial assumptions used and compared them with those used by other companies. The external auditors also challenged the benchmark assumptions applied and conducted sensitivity analysis.

The Committee considered this work and found the assumptions to be reasonable.

Goodwill: The strategy of the Group includes acquiring new technologies and businesses operating in adjacent markets. 2020 saw two important acquisitions for Croda. As a result, goodwill represents a significant asset value on the balance sheet (£866.7m out of total net assets of £1,595.1m at 31 December 2020).

The Committee completed its annual impairment review of the carrying value of goodwill, as prepared by management, including the detailed sensitivity analysis to a number of underlying assumptions, including the potential impact of the COVID-19 pandemic. The Committee assessed the methodologies used and the adequacy of the management disclosures. Particular attention was focused on Biosector and Sipo, which had the smallest headroom between their carrying values and value in use. The Committee reviewed the methodology adopted to evaluate the risk of goodwill impairment. After challenge, the Committee was satisfied that the assumptions were reasonable and that no impairments were necessary; however, enhanced disclosure was agreed to be appropriate, given the sensitivity of the calculations to certain assumptions.

Valuation of acquired intangible assets:

The Group acquired Avanti Polar Lipids LLC (Avanti) on 12 August 2020 and Fragrance Spanish Topco, S.L. (Iberchem) on 24 November 2020. The identification and valuation of goodwill, intangibles and contingent consideration required a significant degree of judgement including estimates. The Committee challenged management in relation to the valuations and calculations recognised on acquisition and were satisfied with the assumptions made.

Recoverability of parent Company's intercompany receivables:

The Committee considered the recoverability of parent Company's intercompany receivables of £1,452.2m (2019: £1,589.6m), which represents 50.9% of the parent Company's total assets (2019: 72.3%).

The recoverability of these balances is not considered judgemental; however, they are the most significant component of the parent Company balance sheet and therefore require additional consideration as part of preparing the financial statements. This included comparing the carrying amount with the respective subsidiary's net asset value or profitability. After review, the Committee was satisfied that the recoverability of the intercompany receivables was acceptable, and no impairments were necessary.

Provisions: The Committee reviewed the risks around provisioning, which had previously been disclosed as a significant area of judgement, and, in light of progress made on reducing environmental risks, and noting the immaterial nature of new issues arising in the year, concluded that separate consideration was no longer required.

Internal audit and risk management

I met with the Vice President Risk and Assurance several times during the year outside of the formal meetings to discuss the performance and output of the internal audit function and aspects of risk management. The Vice President Risk and Assurance attended each Committee meeting and presented an internal audit report that was fully reviewed and discussed, highlighting any major deviations from the annual plan agreed with the Committee.

At each meeting, the Committee considered the results of the audits undertaken and the adequacy of management's response to matters raised, including the time taken to resolve such matters. Particular focus was addressed to those areas where there was a major divergence between the outcome of the internal audit and the scoring of the self-assessment questionnaire, completed annually by each business unit. In these instances, the Committee challenged management as to what actions it was taking to minimise the chances of divergences arising in the future.

In January, the Committee conducted its annual review of the internal audit function, including its approach to audit planning and risk assessment, communication within the business and with the Committee and its relationship with the external auditors. Senior management feedback from sites included in the 2020 audit programme is gathered by questionnaire to support this process. These did not highlight any significant areas for development. In the light of the changed audit approach in 2020, the Committee was pleased with progress, with notable benefits being seen from virtual audits which will be retained in the future audit programme.

Details on how the Business implements its risk management framework and monitors controls on a Group-wide basis are set out on pages 44 to 48.

External auditors' effectiveness

During the year, the Committee assessed the effectiveness of KPMG as Group external auditor. To assist in the assessment, the Committee considered the quality of reports from KPMG and the additional insights provided by the audit team, particularly at partner level. It took account of the views of the Group Finance Director and Group Financial Controller, who had discussed subsidiary component audits with local audit partners, to gauge the quality of the team and knowledge and understanding of the business. The Committee also considered how well the auditor assessed key accounting and audit judgements and the way it applied constructive challenge and professional scepticism in dealing with management.

The Committee also reviewed the output from a questionnaire completed by senior members of the finance team to obtain their views on KPMG's effectiveness in carrying out the 2020 audit.

The questionnaire covered:

- Quality of planning, delivery and execution of the audit.
- Quality and knowledge of the audit team.
- Effectiveness of communications between management and the audit team.
- Robustness of the audit, including the audit team's ability to challenge management as well as demonstrate professional scepticism and independence.

Following the review, the Committee concluded that the audit was effective and overall the Committee was satisfied with the performance of KPMG.

Croda is in compliance with the Statutory Audit Services Order 2014. We undertook an audit tender in 2017 and the Board appointed KPMG as external auditor, with Chris Heard as the Lead Audit Partner. The first year to be audited by KPMG was the year ended 31 December 2018.

Following an organisational change in KPMG, Chris Heard will step down as Lead Audit Partner and will be succeeded by Ian Griffiths. After discussing the handover process in detail with myself and our Group Finance Director, the Committee are confident that the transition and handover period will be efficiently managed.

External auditor's independence

The Committee and the Board place great emphasis on the objectivity of the Group's external auditors in reporting to shareholders.

Our Group policy on the provision of non-audit services by external auditors, which is on our website www.croda.com, sets out permitted and prohibited non-audit services and the controls over assignments awarded to the external auditor to ensure that audit independence is not compromised. During the year, the Committee undertook a detailed review of the provision of non-audit services by KPMG and compliance with the FRC's Revised Ethical Standard for auditors and as a result updated our policy in this regard. KPMG already had a policy which was compliant with the FRC's Revised Ethical Standard for auditors. They have not been required to terminate any services that would not be permissible under the Standard.

In 2020, non-audit fees were £0.1m, significantly less than the total audit fees of £1.5m; the non-audit to audit fees ratio stands at 0.1:1.

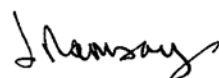
The Committee undertook its annual review of the Group's policies relating to external audit, including the policy that governs how and when employees and former employees of the Group's auditors can be employed by the Company. No changes were made. The Committee also reviewed and accepted KPMG's Independence letter.

In conclusion, the Committee agreed that KPMG were independent.

External auditor reappointment

As noted above, the Committee recommended to the Board that KPMG be offered for re-election at the forthcoming AGM.

I will be available at the shareholder engagement event to respond to any questions shareholders may raise on the Committee's activities in the year.



John Ramsay
Chair of the Audit Committee

Looking ahead to 2021

In addition to our routine business, the Committee has four focus areas for 2021. We will:

- Maintain our focus on cyber security with a refreshed rolling annual assurance programme based on the NIST security framework.
- Monitor Avanti and Iberchem integration programmes, including controls assessment against Croda risk and control standards.
- Review the major capital projects assurance programme.
- Assess the impact of anticipated regulatory changes on Croda's risk and control framework.