Group Independent Auditors' Report to the Members of Croda International Plc

Report on the Group financial statements

Our opinion

In our opinion, Croda International Plc's Group financial statements (the 'financial statements'):

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:

- the Group Balance Sheet as at 31 December 2016;
- the Group Income Statement and Group Statement of Comprehensive Income for the year then ended;
- the Group Statement of Cash Flows for the year then ended;
- the Group Statement of Changes in Equity for the year then ended;
- the Group Accounting Policies; and
- the notes to the financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview

Materiality	→ Overall Group materiality: £13.8m which represents 5% of profit before tax
Audit scope	→ We, as the Group engagement team, audited the two financially significant components – the UK and the US – covering 51% of the Group's external revenues and 48% of the Group's profit before tax → For the next seven largest components of the Group, which are audited by PwC component auditors (the five largest as full scope audits and the remaining two subject to specified procedures), we were heavily involved at all stages of their audits by virtue of numerous communications throughout the process, including the issuance of detailed audit instructions, review and discussion of audit findings, in particular over our areas of focus → As a result of this scoping we obtained coverage over 77% of the Group's external revenues and 85% of the Group's profit before tax
Areas of focus	→ Provision for environmental remediation → Valuation of defined benefit pension scheme liability → Taxation

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the following table. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Provision for environmental remediation *Refer to page 50 (Audit Committee Report), page 91 (Accounting Policies) and page 117 (notes).* As a consequence of the Group's production of chemicals, there are a number of open claims and litigation against the Group relating to soil and potential groundwater contamination on sites, both currently in use and previously occupied. Environmental standards and legislation are specific to, and often contain unique requirements, in each territory the Group operates in and may be subject to change. As such, understanding the potential environmental risks and the financial implications that the Group is exposed to is often complex. The provision held for environmental liabilities within the balance sheet at 31 December 2016 totalled £12.1m, which relates to a number of matters. For each matter, the Directors, in conjunction with experts they engaged, assessed the likelihood of the Group being found liable for any remedial work and, where applicable the costs of that work, as well as any associated fines and legal costs. Assessing the likelihood and quantum of any financial obligations arising, requires judgement. There is a risk that the provision could be materially misstated and the required disclosures insufficient due to the inherent uncertainties and the potentially wide range of outcomes and timelines in respect of the resolution of each matter. The Directors performed a detailed assessment of environmental liabilities to ensure that the level of environmental provision held remains appropriate.	We obtained and read the Directors' assessment of each specific environmental matter that the Directors made us aware of, and assessed the completeness of the list against publicly available information and other information on potential environmental exposure at current and former sites. We performed audit work on each matter as there is a risk that the liability for each matter could be materially misstated. We evaluated the Directors' assumptions, both in terms of the likelihood of the Group being found liable and also of any resulting financial obligation by: → reading publicly available information, correspondence with relevant stakeholders and other information available to the Directors relating to the specific matters identified, and assessing the Directors' assumptions against this information; → reading remediation plans drawn up by the Directors' external experts and considering whether the Directors have properly reflected them in the calculation of the provision; → evaluating the independence, objectivity and competence of the experts that the Directors engage to assess the likely outcome of the cases against the Group, and the cost of remediation needed, by confirming they are qualified and affiliated with the appropriate industry bodies in the respective local territory; → comparing historical provisions with actual remediation costs incurred during the year to assess the Directors' historical forecasting accuracy; → assessing the Directors' accuracy in estimating exposures for fines and legal costs by comparing historic provisions for cases that have been settled with the actual fine/legal costs; → discussing all matters with the Group's legal counsel and head of sustainability, and obtaining independent confirmations from the Group's external legal advisers on the progress of each claim; and → discussing all matters arising in Europe and the US with local management, and corroborating information received from all parties. We found, based on the results of our testing, that the provision recorded and disclosures made in the financial statements were consistent with the supporting evidence obtained.

Area of focus	How our audit addressed the area of focus
Valuation of defined benefit pension scheme liability *Refer to page 50 (Audit Committee Report), page 91 (Accounting Policies) and pages 104 to 108 (notes).* The Group has a number of defined benefit pension schemes that, together, are in a net deficit position of £146.5m, which is material both in the context of the overall balance sheet and the results of the Group. The schemes in the UK and the US account for £79.7m and £28.6m of the net deficit, respectively. The valuation of the pension liability requires significant levels of judgement and technical expertise in choosing appropriate assumptions, a number of which can be volatile. Small changes in a number of the key assumptions (including salary increases, inflation, discount rates, and mortality) can have a material impact on the calculation of the liability.	We primarily focused our work on the pension plan liabilities in the UK and the US which, together, account for the majority of the balance and, hence, estimation uncertainty. We evaluated the Directors' assessment of the assumptions they made in relation to the valuation of the liabilities in the pension plan as follows: → we agreed the discount and inflation rates used in the valuation of the pension liabilities to our internally developed expectations using our internal actuarial specialists and compared the assumptions around salary increases and mortality to national and industry accepted averages; → we evaluated the competence of the experts that the Directors engaged to calculate the defined benefit pension schemes, by confirming they are qualified and affiliated with the appropriate industry body; and → we evaluated the sensitivity of the pension scheme liabilities to differences between our independent judgements and those made by the Directors, both individually and in aggregate. Based on the evidence obtained, we found that the assumptions used by the Directors in the valuation of the liability were within a range considered to be reasonable using an internally developed range of acceptable assumptions for valuing pension liabilities, based on our view of various economic indicators.
Taxation *Refer to page 50 (Audit Committee Report), page 91 (Accounting Policies) and pages 100 and 101 (notes).* Due to the large number of tax jurisdictions in which the Group operates, the calculation of the Group's tax position is complex and is subject to scrutiny and challenge by different tax authorities. An error in the interpretation of, often complex, tax regulations, particularly relating to transfer pricing, could lead to a material misstatement in the tax expense. The Group also holds a number of specific judgemental tax accruals that relate to specific transfer pricing risks, open tax investigations/audits and other such matters. The estimation of the accrual is dependent on the Directors' assessment of the outcome of the outstanding matters.	We evaluated the Directors' assumptions for determining and calculating the consolidated tax expense, balances and accruals. For all in scope territories we: → obtained the Group's tax computations and tested the deductions and tax rates applied by reference to local tax legislation; → obtained the Group's latest internal transfer pricing studies and associated documentation and used our internal tax specialists to assess its reasonableness; → assessed the amount of the specific tax accruals based on our experience of similar situations both related and unrelated to the Group; → read the latest correspondence between the Group and tax authorities and considered any implications this may have had on the tax position reported in the Group's financial statements; → utilised our experience of similar tax exposures and risks faced by other multinational groups to assess the evidence described above; and → compared the levels of tax expense by territory with the local statutory tax rates and investigated the basis for any differences. The Directors' judgements in respect of the Group's position on uncertain tax items are supportable and reasonable in the context of the information currently available to them and no matters were identified by our work that the Directors had not adequately reflected in their estimate of the tax expense, balances and accruals.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group operates through various components in 36 different countries across five continents.

We, as the Group engagement team, performed an audit of the complete financial information for the two financially significant components – the UK and the US. For the next five largest components of the Group, PwC component auditors, under our instruction, performed an audit of their complete financial information. PwC component auditors also performed specified procedures at the two next largest components of the Group.

Where the work was performed by PwC component auditors we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. We were involved at all stages of their audits by virtue of numerous communications throughout the process, including the issuance of detailed audit instructions, review and discussion of audit findings, in particular over our areas of focus. We, as the Group engagement team, were also responsible for other head office activities such as the consolidation, financial statement disclosures and share based payments.

The procedures performed over the components (either by the Group team or PwC component audit teams) and specifically by the Group team (for example, on goodwill), accounted for 77% of the Group's external revenues and 85% of the Group's profit before tax.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as per the table below.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.7m (2015: £0.6m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 91, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Overall Group materiality	£13.8m (2015: £12.6m).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
→ information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
→ the statement given by the Directors on page 79, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
→ the section of the Annual Report on pages 47 to 51, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
→ the Directors' confirmation on page 30 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
→ the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
→ the Directors' explanation on page 30 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement
Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to 10 further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 79, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter
We have reported separately on the Company financial statements of Croda International Plc for the year ended 31 December 2016 and on the information in the Directors' Remuneration Report that is described as having been audited.

Ian Morrison

Ian Morrison (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
Leeds

28 February 2017