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

Report on the audit of the Group financial statements

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 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the 'Annual Report'), which comprise: the Group balance sheet as at 31 December 2017; the Group income statement and statement of comprehensive income, the Group statement of cash flows, and the Group statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Materiality	→ Overall Group materiality: £15.7 million (2016: £13.8 million), based on 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 43% of the Group's external revenues and 46% 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 75% of the Group's external revenues and 87% of the Group's profit before tax.
Key audit matters	→ Provision for environmental remediation. → Valuation of defined benefit pension scheme liability. → Taxation.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in the Directors' Report, we have provided no non-audit services to the Group in the period from 1 January 2017 to 31 December 2017.

The scope of our audit

As part of designing our audit, we determined materiality and assessed 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.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industries in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We designed audit procedures that focused on the risk of non-compliance related to the Group's financial conduct as well as ongoing legal claims as a consequence of the Group's production of speciality chemicals. Our tests included review of legal correspondence, discussions with the Group's legal counsel and management's experts. We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters
Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Provision for environmental remediation Refer to page 54 (Audit Committee Report), page 93 (Accounting Policies) and page 119 (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 2017 totalled £10.2 million, 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 historic 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 Vice President 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. We consider management's estimates to be a reasonable reflection of the current situation.

Key audit matter	How our audit addressed the key audit matter
Valuation of defined benefit pension scheme liability Refer to page 54 (Audit Committee Report), page 93 (Accounting Policies) and pages 106 to 109 (notes). The Group has a number of defined benefit pension schemes that, together, are in a net deficit position of £30.5 million, which is material both in the context of the overall balance sheet and the results of the Group. 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 surplus/deficit 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; → 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; and → we have reviewed the Trust Deed and Rules for the UK scheme to confirm that the Group has the unconditional right to the refund, in line with the requirements of IFRIC 14 and IAS 19R. 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 54 (Audit Committee Report), page 93 (Accounting Policies) and pages 102 and 103 (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 structure of the Group, the accounting processes and controls, and the industry in which it operates.

The Group operates through various components in 37 different countries across five continents.

We, as the Group engagement team, 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.

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 instructions, 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 75% of the Group's external revenues and 87% 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 in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£15.7 million (2016: £13.8 million).
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.

For each component in the scope of our Group audit, we allocated a materiality hat is less than our overall Group materiality. The range of materiality allocated across components was between £0.7 million and £14.0 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.8 million (2016: £0.7 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.
We are required to report if the Directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our Auditors' Report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

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

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 35 of the Annual Report 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.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 35 of the Annual Report 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 to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and 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 UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the Group and its environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 81, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group obtained in the course of performing our audit.
- The section of the Annual Report on pages 51 to 57 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 81, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' Report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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; or
- certain disclosures of Directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the Directors in 1970 to audit the financial statements for the year ended December 1970 and subsequent financial periods. The period of total uninterrupted engagement is 48 years, covering the years ended December 1970 to December 2017.

Other matter

We have reported separately on the Company financial statements of Croda International Plc for the year ended 31 December 2017 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

27 February 2018