Independent Auditor's Report to the Members of Croda International Plc

1. Our opinion is unmodified

We have audited the financial statements of Croda International Plc ("the Company") for the year ended 31 December 2019 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group Statement of Cash Flows, the Group and Company Statements of Changes in Equity, and the related notes, including the accounting policies on pages 115 to 121 and on page 151.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholders on 25 April 2018. The period of total uninterrupted engagement is for the two financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£15m (2018: £16m) 4.8% (2018: 5%) of normalised Group profit before tax
Coverage	79% (2018: 79%) of normalised Group profit before tax

Key audit matters		vs 2018
Recurring risks	Valuation of defined benefit pension scheme liabilities	◀▶
	New: Goodwill valuation	▲
	Recoverability of parent company's intercompany receivables	◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Group	The risk	Our response
Valuation of defined benefit pension scheme liabilities (Gross defined benefit obligation £1,441.7m; 2018: £1,268.7m) *Refer to page 68 (Audit Committee Report), page 118 (accounting policy) and note 11 on pages 128 to 131 (financial disclosures).*	**Subjective valuation:** • The Group has three defined benefit pension schemes that are material in the context of the overall balance sheet and the results of the Group. • Significant estimates, including the discount rate, the inflation rate and the mortality rate, are made in valuing the Group's defined benefit pension obligations (before deducting the schemes' assets).The UK scheme is still open to future accrual and new members, and small changes in the assumptions and estimates with respect to the obligation would have a significant effect on the financial position of the Group. The Group engages external actuarial specialists to assist them in selecting appropriate assumptions and calculate the obligations. • The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the defined benefit obligations has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 11) disclose the sensitivity estimated by the Group.	**Our procedures included:** • **Benchmarking assumptions:** challenged key assumptions applied (discount rate, inflation rate, and mortality rate) with the support of our own actuarial specialists, including a comparison of key assumptions against market data. • **Sensitivity analysis:** assessed the sensitivity of the defined benefit obligation to changes in certain assumptions. • **Actuary's credentials:** assessed the competence, independence and integrity of the Group's actuarial expert. • **Assessing transparency:** considered adequacy of the Group's disclosures in respect of the sensitivity of the net deficit to changes in key assumptions. **Our results** • We found the valuation of retirement benefit liabilities to be acceptable (2018 result: acceptable).

Independent Auditor's Report to the Members of Croda International Plc continued

Group	The risk	Our response
Goodwill impairment (Goodwill: £348.5m, although the risk is only associated with the Sipo (£20.7m) and Biosector (£24.9m) Cash Generating Units). *Refer to page 68 (Audit Committee Report), page 116 (accounting policy) and note 12 on page 132 and 133 (financial disclosures).*	**Forecast based valuation:** • The Group has, over recent years, acquired a number of companies which has led to a material increase in the goodwill balance. Some of these acquisitions, and in particular Biosector, are still at an early stage of their integration into the Group and are therefore subject to greater levels of estimation uncertainty in respect of the underlying impairment model assumptions. • In addition, the headroom in respect of the impairment test on Sipo, a historic acquisition and separate Cash Generating Unit, is relatively small, and small changes in the assumptions and estimates applied in the value in use calculations could impact on management's conclusions about the carrying value of goodwill (£20.7m) and how this compares to the recoverable amount. • The effect of these matters is that, as part of our risk assessment, we determined that impairment assessments in respect of the Sipo and Biosector Cash Generating Units have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 12) disclose the sensitivities estimated by the Group.	**Our procedures included:** • **Assessing methodology:** obtained the discounted value in use cash flow models and assessed the methodology, principles and integrity of each model; • **Benchmark assumptions:** challenged the Group's forecast assumptions for cash flow projections, including the rate of short to medium term growth of EBITDA, the long term growth rates and the appropriateness of discount rates, with reference to internally and externally derived sources; • **Our valuation expertise:** involved our own valuation specialists in respect of the Sipo and Biosector models to assist us in challenging the appropriateness of the methodology, key assumptions and cash flow forecasts; • **Sensitivity analysis:** performed breakeven analysis on the key assumptions including the discount rate and growth rate; • **Historical comparisons:** assessed the Group's historical forecasting accuracy by comparing forecasts from prior years with actual results in those years; and • **Assessing transparency:** considered the adequacy of the Group's disclosures in respect of impairment testing and whether disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions properly reflect the risks inherent in the valuations. **Our results** • We found the carrying amounts of the Sipo and Biosector goodwill, with no impairment, to be acceptable.

Parent Company	The risk	Our response
Recoverability of parent Company's intercompany receivables (£1,589.6m; 2018: £1,675.4m) *Refer to page 68 (Audit Committee Report), page 120 (accounting policy) and note H on page 153 (financial disclosures).*	**Low risk, high value:** • The carrying amount of the parent Company's intercompany receivables, held at cost less impairment, represents 72.3% of the Company's total assets. • We do not consider the recoverable amount of these receivables to be at a high risk of significant misstatement, or to be subject to a significant level of judgement. However, due to their materiality in the context of the Company financial statements as a whole, this is considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our company audit.	**Our procedures included:** • **Tests of detail:** Assessed the total receivable balance to identify, with reference to the relevant subsidiaries' draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those subsidiaries have historically been profit-making. **Our results** • We found the Group's assessment of the recoverability of the intercompany receivables to be acceptable (2018: acceptable).

We continue to perform procedures over environmental provisions and taxation. However our risk assessment indicated that the ranges of potential outcomes have narrowed in the year, and so there is a reduction in both the size and complexity of these risks. We have not assessed these as being the most significant risks in our current year audit and, therefore, they are not separately identified in our report this year.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £15.0m (2018: £16.0m), determined with reference to a benchmark of Group profit before tax, normalised to exclude this year's exceptional redundancy costs and related curtailment gain as disclosed in notes 3 and 11 of £311.5m (2018: profit before tax £317.8m), of which it represents 4.8% (2018: 5.0%).

Materiality for the parent Company financial statements as a whole was set at £8.7m (2018: £10.2m), determined with reference to a benchmark of company total assets of £2,198.5m (2018: £2,276.8m), of which it represents 0.4% (2018: 0.4%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.8m (2018: £0.8m), or £2.3m for reclassification misstatements, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 81 (2018: 80) reporting components, we subjected 9 (2018: 8) to full scope audits for Group purposes and 7 (2018: 8) to specified risk-focused audit procedures. One component for which we performed specified risk-focused procedures was not individually financially significant enough to require an audit for Group reporting purposes, but did present specific individual risks that needed to be addressed. The other 6 (2018: 7) components for which we performed work other than audits for Group reporting purposes were not individually significant but were included in the scope of our Group reporting work in order to provide further coverage over the Group's results. We subjected these 7 (2018: 8) components to specified risk-focused audit procedures over a combination of revenue (5 components (2018: 6)), property, plant and equipment (1 component (2018: 2)) and defined benefit pension assets and liabilities (1 component (2018: 1)). The Group team performed procedures on the items excluded from normalised Group profit before tax. The components within the scope of our work accounted for 79% (2018: 79%) of the total profits and losses that made up Group profit before tax.

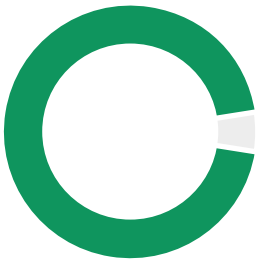
The remaining 24% of total Group revenue, 21% of Group profit before tax and 15% of total Group assets is represented by 64 (2018: 64) reporting components, none of which individually represented more than 2% (2018: 3%) of any of total Group revenue, Group profit before tax or total Group assets. For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £0.8m to £8.7m (2018: £0.8m to £11.0m), having regard to the mix of size and risk profile of the Group across the components. The work on 10 of the 16 (2018: 12 of 16) components was performed by component auditors in Germany, Italy, France, Singapore, Japan, Brazil, Spain, India and Denmark (2018: Germany, Italy, France, Singapore, Japan, Brazil, Spain, India, China and the Netherlands), and the rest, including the audit of the parent company, was performed by the Group team at locations in the UK and the USA. This year the Group team also performed procedures relating to the Chinese component.

The Group team visited one (2018: 3) component locations in France (2018: Singapore, France and Brazil), to assess the audit risk and strategy. Video and telephone conference meetings were also held with these component auditors and certain others that were not physically visited. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Normalised profit before tax

£311.5m (2018 profit before tax: £317.8m)



Group Materiality

£15.0m (2018: £16.0m)

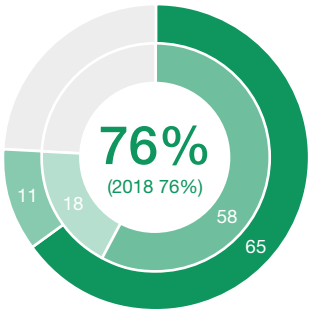
£15.0m
Whole financial statements materiality (2018: £16.0m)

£8.7m
Range of materiality at 16 components (£0.8m-£8.7m) (2018: £0.8m to £11.0m)

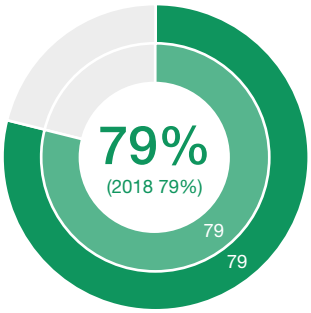
£0.8m
Misstatements reported to the audit committee (2018: £0.8m)

Normalised profit before tax
Group materiality

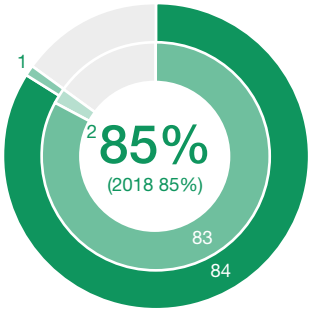
Group revenue



Group profit before tax



Group total assets



- Full scope for group audit purposes 2019
- Specified risk-focused audit procedures 2019
- Full scope for group audit purposes 2018
- Specified risk-focused audit procedures 2018
- Residual components

Independent Auditor's Report to the Members of Croda International Plc continued

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- The impact of a significant business continuity issue affecting the Group's manufacturing facilities or those of its suppliers; and
- A potential significant legal settlement relating to a compliance breach such as an environmental issue.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in the Accounting Policies on pages 115 and 151 on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 100 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on page 43 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 and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered 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.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Independent Auditor's Report to the Members of Croda International Plc continued

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 101, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; assessing the Group and parent Company'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 they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities 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 the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pensions legislation, and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: GDPR compliance, health and safety and product liability, competition, anti-bribery and corruption, intellectual property, employment law, tax, export and environmental legislation, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Chris Hearld (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
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Sovereign Street
Leeds
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24 February 2020