Strategy and Analysis

1.1 Statement from the most senior decision-maker of the organisation and overall vision

Chief Executive’s Statement

Sustainability is central to our culture and a key element of our strategy for growth. It is embedded in all of our businesses and enthusiastically embraced by our employees around the world.

We were delighted to receive recognition of our achievements in the latest report from Canadian company Corporate Knights, where we were ranked 25th in the Global Top 100 Most Sustainable Corporations in the World. We were the highest ranked UK based company in this survey, providing independent testimony to the effectiveness of fully integrating sustainability into our approach at all of our operations, both manufacturing and non-manufacturing.

Our strong ‘green’ credentials are rooted in our focus on the production of natural ingredients, with around 70% of our raw materials derived from renewable sources. As a leader in sustainable technologies, we take great pride in the fact that so many of our products enhance the quality of life through their beneficial impact on human health, wellbeing and the wider environment.

During 2012, we have made excellent progress in reducing energy usage across the business, with all of our manufacturing sites working proactively on energy reduction projects that have delivered exceptional results. One particular highlight was the development of a £5.4 million renewable energy project at our Atlas Point manufacturing site in North America. Using gas from a nearby landfill site to fuel a combined heat and power plant, this innovative development will reduce our dependence on fossil fuels and cut greenhouse gas emissions at the site.

We continue to place a strong emphasis on minimising the environmental impact of our operations through a range of initiatives, such as reducing our consumption of water and cutting the quantities of waste that we send to landfill. These are both areas where we have made significant progress in the last two years.

It is critical to our continuing business success that we have the ability to attract and retain outstanding individuals; I am pleased to report that our staff retention rates around the world are at record levels. The fact that we have a highly motivated workforce who want to share in our success is reflected in more than 75% of our UK based employees and 48% of our non-UK workforce participating in a Save As You Earn scheme. This performance was honoured for ‘Best Overall Performance in Fostering Employee Share Ownership’ at the 2012 IFS ProShare Awards.

Interaction with our local communities has always been a major part of our culture, with community education a particular focus as it allows us to promote the importance of studying science and business, which we hope will ultimately secure a gifted pool from which we can recruit in the future. As an alumnus of the Croda Graduate Development Programme myself, I am particularly keen to see young talent come into our business. This is why we have implemented the scheme in Asia during 2012, following the years of success we have had in Europe and North America, and by the end of 2013 it will be available in Latin America to ensure that we have a succession of future leaders across our global operations.

Steve Foots, Chief Executive

The Croda Vision

Life at Croda is underpinned by the Croda Vision, a statement of our culture that both informs and describes our behaviour:

- To remain an independent company and operate as one global team
- We will remain a ‘fun’, lively, stimulating and exciting place to work, where all employees have the courage to question, and all functions and individuals are valued
- There will be a place for many styles of leadership, but all leaders will have as their primary objective to build other leaders
- We can only achieve our goals through excellent and constant communication, creativity and setting clear objectives at every level
- We will continually improve
• We will continue to be an ethical and responsible company

**Corporate Social Responsibility**

Sustainability underpins our business strategy, playing a holistic role across our business.

Implemented through our CSR activities, we ensure that the Material Issues of our business and key stakeholders are addressed as part of our sustainability strategy.

Our CSR Department is a corporate function and part of our dedicated CSR Steering Committee, who report directly into our Group Executive Committee and subsequently the Board. This is via an Executive Committee member who sits alongside the CSR Steering Committee Chairman.

Responsible for developing and supporting the implementation of our sustainability strategy and targets, our CSR Steering Committee consists of four Pillar Owners who are senior managers with expertise in one of our Four Pillars: Environment, People, Partners and Neighbours. Reflecting our overall business management approach, we also have four Regional Representatives who are supported by Regional CSR Steering Committees to ensure that our sustainability strategy, targets and progress are communicated and supported around the world.

We continually monitor and report progress against our targets to the Group Executive Committee. Our annual results, covering economic, social and environmental performance are communicated through our Annual Report & Accounts, Sustainability Report, online GRI response, CDP disclosure and on our website at [www.croda.com](http://www.croda.com). This open and transparent reporting ensures that our stakeholders are kept informed of our CSR activities and can see how our sustainability strategy is safeguarding our future.

**1.2 Description of key impacts, risks and opportunities**

**Material Issues**

Our underlying approach to sustainability has focused on establishing clear commitments and performance targets aligned to our material issues. By material issues we mean topics or issues with the potential to affect the long term success of our business and the sustainability of the economy, environment and communities in which we operate.

Our Materiality Matrix, established in 2011, maps these issues based on their potential impact on the long term success of our business and their importance to our stakeholders.

Managed through our Four Pillar approach, we have six Material Areas and 18 Material Issues. CSR targets have been set with our Group Executive Committee to ensure that progress is made in addressing our Material Issues, which ultimately supports our sustainability strategy.

Our materiality and targets are reviewed on an annual basis at a Strategic Review meeting between the CSR Steering Committee and our Group Executive Committee. As a result of this meeting in 2012, we broadened our previous Landfill Waste material issue to Land Impact in order to reflect our focus on biodiversity. We also redefined Ethical Supply Chain to incorporate product stewardship and product quality, and all three Community material issues were revised to better illustrate the community impact and resulting business benefit.

<table>
<thead>
<tr>
<th>Material Issue</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Quality &amp; Climate Change</td>
<td>To reduce the emissions of greenhouse gases to the environment from our manufacturing sites to ensure that we progress towards more sustainable operations</td>
</tr>
<tr>
<td>Water Quality &amp; Supply</td>
<td>To minimise the environmental burden arising from water usage and waste water discharges from our manufacturing sites</td>
</tr>
<tr>
<td>Land Impact</td>
<td>To mitigate the environmental burden our activities place on land, water and air by seeking to preserve biodiversity and phase out the disposal of waste to landfill</td>
</tr>
<tr>
<td>Process Safety Management</td>
<td>To reduce risks associated with all of our chemical processes to a point deemed to be as low as reasonably practicable (ALARP)</td>
</tr>
<tr>
<td>Occupational Health &amp; Safety</td>
<td>To reduce the frequency of injuries to all of those who work at our operations to a level compatible with the top quartile of peer companies, with an aspirational goal of zero harm</td>
</tr>
<tr>
<td>Renewable Raw</td>
<td>To ensure that our product portfolio is sustainable and to dedicate new product development to</td>
</tr>
<tr>
<td>Materials</td>
<td>meeting our customer needs in this area</td>
</tr>
<tr>
<td>-----------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td>Responsible Palm Oil Sourcing</td>
<td>To fully support sustainable palm oil and palm kernel oil and to keep working with the industry to secure a sustainable source of derivatives</td>
</tr>
<tr>
<td>Product Data Gathering</td>
<td>To ensure that we are leaders in the quality and quantity of product data to support all future customer needs and to allow further in depth sustainability analysis of our products internally</td>
</tr>
<tr>
<td>Recruitment &amp; Retention</td>
<td>To attract, recruit and retain high calibre employees to support our objectives and changing business requirements</td>
</tr>
<tr>
<td>Talent Management &amp; Employee Development</td>
<td>To offer a wide range of development opportunities to enable our employees at all levels to gain the skills, competencies and experience necessary to attain individual, team and organisational goals and expectations</td>
</tr>
<tr>
<td>Compensation &amp; Benefits</td>
<td>To ensure that our compensation and benefits packages enable us to attract, recruit and retain key talent</td>
</tr>
<tr>
<td>HR Policies &amp; Systems</td>
<td>To operate streamlined, fair and coherent employment policies and systems</td>
</tr>
<tr>
<td>Performance Management</td>
<td>To instil a high performance culture through an integrated and consistent approach to performance management</td>
</tr>
<tr>
<td>Corporate Stakeholder Engagement</td>
<td>To have open, ongoing engagement with all key stakeholders to identify and review the Material Issues for our business and all our partners, thus ensuring that we take appropriate action</td>
</tr>
<tr>
<td>Ethical Supply Chain</td>
<td>To continually strive to increase engagement and standards within our supply chain to ensure that it is ethical and sustainable, so as to meet the future needs of our business</td>
</tr>
<tr>
<td>Community Communication</td>
<td>To develop relationships with the communities in which we operate through effective communication regarding our business operations and in doing so, ensure that we consider local concerns to gain support for business growth</td>
</tr>
<tr>
<td>Community Involvement</td>
<td>To put community communication into action in order to deliver real benefits to the communities in which we operate and, in doing so, enhance the performance of our employees and support the recruitment needs of our business</td>
</tr>
<tr>
<td>Community Education</td>
<td>To raise the profile of science, technology and engineering by providing community education and training opportunities relevant to the communities in which we operate and, in doing so, enhance our brand and reputation, as well as develop employee skills</td>
</tr>
</tbody>
</table>
Organisation Profile

2.1 Name of the organisation

Croda International Plc.

2.2 Major brands, products and/or services

We are a supplier of speciality chemicals so, whilst our name is not seen on the high street, millions of people throughout the world benefit on a daily basis from the many thousands of consumer and commercial goods that incorporate our products.

<table>
<thead>
<tr>
<th>Consumer Care</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personal Care Markets:</strong></td>
<td><strong>Health Care Markets:</strong></td>
<td><strong>Crop Care Markets:</strong></td>
</tr>
<tr>
<td>We create products for the skin care, sun care, hair care, baby care, colour cosmetics, male grooming, bath and shower and antiperspirant markets.</td>
<td>Our high purity ingredients are used in the pharmaceutical, dermatological, nutraceutical, functional food and animal health markets.</td>
<td>We provide inert ingredients and adjuvants for the full spectrum of agrochemical applications.</td>
</tr>
<tr>
<td><strong>Products:</strong></td>
<td><strong>Products:</strong></td>
<td><strong>Products:</strong></td>
</tr>
<tr>
<td>These include inorganic UV absorbers, lanolins, emollients, polymers, proteins, surfactants and skin care actives. <a href="http://www.croda.com">Read more at www.croda.com</a></td>
<td>These include concentrated omega fatty acids, ultra pure medical grade lanolins, Super Refined™ excipients and a wide range of surfactants, solubilisers, emulsifiers and fatty acid esters. <a href="http://www.croda.com">Read more at www.croda.com</a></td>
<td>These include polymeric surfactants, dispersants, wetting agents, emulsifiers, stabilisers, adjuvants and seed coating binders. <a href="http://www.croda.com">Read more at www.croda.com</a></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Performance Technologies</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Home Care Markets:</strong></td>
<td><strong>Geo Technologies Markets:</strong></td>
<td><strong>Polymer Additives Markets:</strong></td>
</tr>
<tr>
<td>We supply ingredients for laundry, household, industrial and institutional cleaning applications, as well as for wipes, tissues, nappies and hygiene articles.</td>
<td>We provide innovative, efficient solutions for the oil field, mining and water treatment markets.</td>
<td>We provide speciality effects for a wide range of industrial and consumer plastics, packaging and rubber applications.</td>
</tr>
<tr>
<td><strong>Products:</strong></td>
<td><strong>Products:</strong></td>
<td><strong>Products:</strong></td>
</tr>
<tr>
<td>These include proteins and their derivatives, softeners, surfactants, solvents, emulsifiers, solubilisers, hydrotropes, tissue lotions, botanical extracts, fatty acids and glycerine. <a href="http://www.croda.com">Read more at www.croda.com</a></td>
<td>These include demulsifiers for the oil field industry, emulsifiers for explosives and water soluble polymer components for the formulation of water treatments. <a href="http://www.croda.com">Read more at www.croda.com</a></td>
<td>These include slip, anti-block, antistatic, anti-fog, mould and torque release agents as well as UV absorbers, dispersants and concentrates. <a href="http://www.croda.com">Read more at www.croda.com</a></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Coatings and Polymers Markets:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Croda provide environmentally friendly, high performance solutions to paint formulators, resin manufacturers and additive producers.</td>
<td><strong>Lubricant Additives Markets:</strong></td>
<td><strong>Lubricant Additives Markets:</strong></td>
</tr>
<tr>
<td><strong>Products:</strong></td>
<td>Croda supply ingredients based on renewable raw materials to automotive and industrial lubricant markets.</td>
<td>These include multi-functional esters, polyalkylene glycols and speciality lubricant additive products deliver high performance, energy efficient solutions to meet the challenging demands of the lubricant industry. <a href="http://www.croda.com">Read more at</a></td>
</tr>
<tr>
<td>This includes a wide range of naturally derived oleochemicals and speciality surfactants. <a href="http://www.croda.com">Read more at www.croda.com</a></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Industrial Chemicals

**Markets:**
We supply ingredients and additives for use in a range of market applications including rubber, candles, textiles, leather and surfactants.

**Products:**
These include the full range of our products; from base oleochemical fatty acids and glycerine to esters, polymeric surfactants and amides. [Read more at www.croda.com](http://www.croda.com)

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2.3 Operational structure of the organisation, including main divisions, operating companies, subsidiaries and joint ventures

We are a global organisation with 3,288 employees across 34 countries*. By being close to our customers around the world, we have a collaborative approach to business, which allows us to respond quickly and efficiently to unmet needs.

During 2012, the structure of reporting on our business activities changed, splitting into three reporting business sectors:

**Consumer Care** consists of the global business in the following markets: Personal Care, Health Care and Crop Care. Consumer Care addresses fast growing niche markets which demand high quality, differentiated and patented technologies and exceptional customer relationships. This is a low volume, high value business. In all markets we are a leading speciality ingredient supplier offering unique performance claims to our customers, often with very small inclusion levels.

**Performance Technologies** consists of Lubricants, Polymer Additives, Coatings & Polymers, Geo Technologies and Home Care. The markets for our Performance Technologies businesses possess similar characteristics to those addressed by Consumer Care. In both cases, our customers want differentiated and patented technologies and we focus on numerous, profitable niche market applications.

**Industrial Chemicals** serves a variety of important industrial markets with ingredients, additives and processing aids. Our Industrial Chemicals business, reporting separately for the first time this year, addresses a wide range of markets and applications in mostly industrial sectors that are not covered by our more focussed Consumer Care and Performance Technologies operations. Margins are lower and volumes higher than in our other reporting sectors and tend to be more volatile as a result of our limited pricing power.

In addition to the above, the Group has an Enterprise Technology function that identifies and integrates new technology into the global business structure.

A list of our principal subsidiary companies can be found in our 2012 Annual Report.

More information on our organisational structure can be found at [www.croda.com](http://www.croda.com).

*As at 31 December 2012

2.4 Location of organisation’s headquarters and major divisions, operating companies, joint ventures and subsidiaries

Our corporate headquarters are located at Cowick Hall in East Yorkshire, England.

More information about the locations in which we operate can be found at [www.croda.com](http://www.croda.com).

2.5 Number of countries where the organisation operates and names of countries with major operations, or that are specifically relevant to the sustainability issues covered in the report
We are a global organisation with 3,288 employees across 34 countries.* The strength of our research, development and manufacturing capabilities is underpinned by our global network of sales offices and technical/customer support teams.

**Countries of Operation***

<table>
<thead>
<tr>
<th>Asia Pacific</th>
<th>Europe and the Middle East</th>
<th>The Americas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Belgium</td>
<td>Argentina</td>
</tr>
<tr>
<td>China</td>
<td>Czech Republic</td>
<td>Brazil^</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>France^^</td>
<td>Canada</td>
</tr>
<tr>
<td>India^</td>
<td>Germany</td>
<td>Chile</td>
</tr>
<tr>
<td>Indonesia^</td>
<td>Hungary</td>
<td>Colombia</td>
</tr>
<tr>
<td>Japan^</td>
<td>Italy^</td>
<td>Mexico</td>
</tr>
<tr>
<td>Singapore^</td>
<td>The Netherlands^</td>
<td>Peru</td>
</tr>
<tr>
<td>South Africa</td>
<td>Poland</td>
<td>USA^^</td>
</tr>
<tr>
<td>South Korea</td>
<td>Russia</td>
<td></td>
</tr>
<tr>
<td>Taiwan</td>
<td>Spain^</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>Sweden</td>
<td></td>
</tr>
<tr>
<td>Vietnam</td>
<td>Turkey</td>
<td></td>
</tr>
<tr>
<td></td>
<td>United Arab Emirates</td>
<td></td>
</tr>
<tr>
<td></td>
<td>United Kingdom†^***</td>
<td></td>
</tr>
</tbody>
</table>

**Key**

† Head Office  
^ Manufacturing site

*As at 31 December 2012

**2.6 Nature of ownership and legal form**

Croda International Plc. is a Public Limited Company; we have been listed on the London Stock Exchange since 1964. Our Articles of Association can be found at [www.croda.com](http://www.croda.com).

Our ownership structure and major shareholders can be found in our 2012 Annual Report.

**2.7 Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries)**

The markets served by our business can be found under disclosure 2.2. The revenue generated during 2012, separated by region is detailed below:

- Europe – £433.4m
- Americas – £383.4m
- Asia Pacific – £235.1m

Meanwhile, the breakdown of revenue and operating profit during 2012, separated by business sector, was as follows:

- **Consumer Care**
  - Revenue = £586.4m,  
  - Operating Profit = £185.4m
- **Performance Technologies**
  - Revenue = £382.8m,  
  - Operating Profit = £59.7m
- **Industrial Chemicals**
Revenue = £82.7m,
Operating Profit = £10.3m

2.8 Scale of the reporting organisation

As recorded at 31 December 2012, the Group employs 3,288 employees worldwide, operating 17 manufacturing sites and more than 30 commercial offices in 14 countries across six continents.

During 2012, 55.7% of sales revenue was related to our Consumer Care markets, 36.4% was due to our Performance Technologies sector and 7.9% a result of our activities in Industrial Chemicals.

In 2012, the net sales by revenue and destination were: Europe 41.2%, Americas 36.4% and Asia Pacific 22.4%, whilst revenue from continuing operations was £1,051.9 million.

At 31 December 2012, total debt was £207.7 million and £344.3 million equity.

These figures apply to Croda International Plc. in its entirety.

Further information can be found in our 2012 Annual Report.

2.9 Significant changes during the reporting period regarding size, structure or ownership

In July 2012, we acquired Istituto Di Ricerche Biotecnologiche (IRB) in Italy, the global leader in plant stem cell technology, for a total consideration of €7.7m. The acquisition has been successfully integrated within our Sederma skin care actives business and we have received very encouraging response to its unique capabilities from our existing customers, with one major multinational client already incorporating an IRB product into a new global product formulation.

In December 2012, we acquired the trade and assets of Innovachem LLC in the US for a total consideration of US$2.8m. This acquisition is an excellent strategic fit for our Personal Care business, adding a number of exciting new patented product lines and technologies to our existing portfolio and enhancing its abilities to service customers around the world.

Due to the timing and nature of these investments, their activities have not been included within this report.

In November 2012, we sold our Cremona business in Italy, completing the disposal of the last remaining fatty acid and glycerine plant that we acquired with Uniqema in 2006. These undifferentiated technologies are not Croda’s core competence, but our employees had worked tirelessly to deliver value from the site and we were delighted to conclude its sale to an Italian business. Performance data from our Cremona manufacturing site in Italy has also been excluded from this report as since it is no longer under our ownership.

2.10 Awards received in the reporting period

- Croda Singapore was awarded the Achievement Award in the Pollution Prevention Code, Employee Health and Safety Code and Process Safety Code of the Singapore Chemical Industry Council (SCIC) Responsible Care awards for 2012.
- Croda Canada received a Supplier Excellence Award from Cosmetica Laboratories.
- Croda China scored an “A” in a customer’s Vendor Performance Report
- Croda Inc were awarded Banner Pharmacaps “Partners in Success” Award
- Croda Leek won the Neutraceautical Business and Technology awards for Environmental Excellence
- Croda Peru received recognition for sustainability efforts from Cosmos
- Sederma received the 2012 European New Product Innovation of the Year for the product Legance™, anti-aging for leg care, by Frost & Sullivan
- Croda Mexico received the Mission Hills Award from Colgate as the main supplier evaluated as Quality Services
- Croda Poland received the Forbes Diamond Award due to development and financial performance
- Croda Poland won Gazela Biznesu Business Gasel award from Business Puls magazine due to financial performance and development
- Croda International Plc. received an IFS ProShare Award for “Best Overall Performance in Fostering Employee Share Ownership”
- Croda International Plc. received the “Best Compensation and Benefits Team Award” from Payroll World, in recognition of our 1% Club
Report Parameters

3.1 Reporting period for information provided

This report covers the performance of the Croda Group for the period 1 January 2012 to 31 December 2012. The reporting of some objectives and targets may cover a wider period, this will be made clear where relevant.

3.2 Date of most recent previous report

With the implementation of GRI Reporting in 2008, this report is Croda's fifth GRI Report and reflects our application at a self-declared level B. Our previous GRI reports can be downloaded from our online GRI report archive whilst our 2012 Sustainability Report is also available at www.croda.com/CSR.

3.3 Reporting cycle

We follow an annual reporting cycle; our printed Sustainability Report (formerly CSR Report up to 2010) is published in April each year and released in conjunction with our Annual Report. Our GRI report is released exclusively online at www.croda.com/GRI.

3.4 Contact point for questions regarding the report or its content

Should you have any questions regarding our Sustainability Report or its contents then please do not hesitate to contact our CSR Manager, Sarah Millns, via our.responsibility@croda.com.

3.5 Process for defining report content

Our Material Matrix, established in 2011, maps the most significant issues that will affect the long term success of our business against their importance to our stakeholders.

During 2012, we have reviewed the issues that are material to our Company at a Strategy Review Meeting between the CSR Steering Committee and our Group Executive Committee. As a result of this meeting in 2012, we have broadened our previous Landfill Waste Material Issue to Land Impact in order to reflect our growing focus on biodiversity. We have also redefined Ethical Supply Chain to incorporate product stewardship and product quality, and all three Community Material Issues have been revised to provide a better illustration of the community impact and resulting business benefit.

3.6 Boundary of the report

The scope of this report covers all fully managed operations for the duration of the reporting period (1 January 2012 to 31 December 2012). This includes all of those functions controlled by our Board and Group Executive Committee, who are responsible for policies, standards and performance.

Due to the timing and nature of our purchase of Istituto Di Ricerche Biotecnologiche (IRB) in July 2012 and in December the trade and assets of Innovachem LLC their activities have not been included within this report. Performance data from our Cremona manufacturing site in Italy has also been excluded, due to its disposal in November 2012.

More information about our operations can be found in disclosure 2.3 and in our 2012 Annual Report.

3.7 State any specific limitations on the scope or boundary of the report

There are no specific limitations with concern to the scope of the report within our stated boundary.
3.8 Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organisations

The basis for reporting on joint ventures, subsidiaries, leased facilities and other entities does not significantly affect comparability from period to period.

3.9 Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report

The data provided in this report is measured using the most appropriate techniques, methodologies or guidelines. Unless otherwise stated, the data presented has been measured by us or a third party on our behalf. Data that has been calculated rather than measured is stated in the report, with the basis of calculation and any assumptions made clearly stated alongside the relevant information.

3.10 Explanation of the effect of any re-statements of information provided in earlier reports and the reasons for such re-statement

There were no significant re-statements with relevance for GRI reporting.

3.11 Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report

Since our last report in 2011, there have been some changes to the Group targets in areas across GRI. As such, the way in which we track and measure certain targets has changed.

Our targets for 2013 and beyond can be found on pages 6-7 of the 2012 Sustainability Report, with details on our performance detailed on pages 8-37.

3.12 Table identifying the location of the standard disclosures in the report

The table allowing navigation to the standard disclosures that we provide responses to can be found at www.croda.com/GRI.

3.13 Assurance

The financial information contained in the 2012 Annual Report has been externally audited by PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors, detailed in a statement which can be found in our 2012 Annual Report. Along with this process, the financial and non-financial information in the directors’ report, including the Sustainability section, has been reviewed for inconsistencies with the audited financial statements.

Whilst the decision to assure our Sustainability Report or accompanying online GRI report is reviewed on an annual basis, at this time we are not seeking to externally assure information contained in these reports.
Governance, Commitments and Engagement

4.1 Governance structure of the organisation

Our management structure allows us to respond quickly and effectively to individual business challenges and opportunities.

Our two senior decision making bodies are the Board of Directors, comprising three executive directors and five independent non-executive directors, and the Group Executive Committee, consisting of our most senior Executives including those who sit on the Board. These possess a broad range of business, financial and international skills and experience, providing appropriate balance and diversity.

The Board has ultimate responsibility for the overall leadership of the Company and in this role it assists in the development of a clear strategy for the Group, monitors operational and financial performance against agreed goals and objectives and ensures that appropriate controls and systems are in place to manage risk. A formal schedule of matters specifically reserved for the Board can be found on our website at www.croda.com.

The Board has three main committees:

- Audit Committee
- Nomination Committee
- Remuneration Committee

Each of our Executive Committee members has responsibility for a region or core function within the business and has established their own Regional and Business Boards. These are responsible for localising and implementing strategy and delivering results.

Our Board and Group Executive Committee also work with our specialist committees of Finance, Risk Management, Routine Business and SHE to set economic, environmental and social targets and KPIs. CSR plays a holistic role across all of these committees and our different business functions to ensure that the material issues of our business and key stakeholders are addressed as part of our sustainable business development.

More information about the responsibilities of the Board and main committees can be found in our 2012 Annual Report, whilst the Articles of Association are available on our website at www.croda.com/corporategovernance.

4.2 Indicate whether the Chair of the highest governance body is also an executive officer

Our Chairman is an independent, and therefore non-executive, director.

Further information about our Board of Directors can be found in our 2012 Annual Report.

4.3 For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members

At the date of this report, our Board comprises the Chairman, the Group Chief Executive, the Group Finance Director, the Chief Technology Officer and four independent non-executive directors who have a range of business, financial and international skills and experience.

More information about our Board of Directors can be found in our 2012 Annual Report.

4.4 Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body

Each year we invite all of our shareholders to an Annual General Meeting (AGM) to ask questions relating to the agenda of the meeting, which customarily deals with our annual report and accounts, including the report on directors’ remuneration. In addition to this, UK company law provides statutory mechanisms for shareholders, requiring directors of companies to hold shareholder meetings and propose resolutions submitted by shareholders.

We believe that effective internal communication is vital to achieving our business objectives and that communication and consultation strengthen the relationship between management and employees. We promote a transparent and open way of working, and are committed to developing and improving the effectiveness of any communication and consultation processes.
The appropriate method of communication and/or consultation will be decided by the Company dependent upon the nature of the topic involved. Communication and consultations may take various forms that include, but are not limited to:

- Employee surveys
- Face to face meetings that may be formal or informal
- Telephone calls
- Letter
- E-mail
- Notice
- Memo
- E-list
- Announcements on intranet
- Article in company magazine
- Team briefing and cascades
- Group meetings
- Meeting with Union representatives and/or consultative bodies
- Focus groups
- Questionnaire
- Team consultations

More information about our communication with shareholders can be found at www.croda.com and on page 36 of our 2012 Annual Report.

4.5 Linkage between compensation for members of the highest governance body, senior managers and executives (including departure arrangements) and the organisation’s performance (including social and environmental performance)

Remuneration of the executive members of the Board includes performance related aspects rewarding contribution to sustained increases in Company performance and value. In line with the Association of British Insurers’ Guidelines on Responsible Investment Disclosure, the Remuneration Committee ensures that the incentive structure for executive directors and senior executive management will not raise environmental, social or governance (ESG) risks by inadvertently motivating irresponsible behaviour. The Committee also has the discretion to take health, safety and environmental performance into consideration when determining the actual overall level of individual bonus payments and it may reduce the bonus awards if it considers it appropriate to do so.

4.6 Processes in place for the highest governance body to ensure conflicts of interest are avoided

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.

During 2012, three potential conflicts were highlighted to the Board. Steve Williams has consultancy roles with Eversheds LLP, which provides some legal services to the Group, and Spencer Stuart, a search consultancy firm that has previously been used by the Group. The Board does not consider that these roles would affect his judgement in relation to Croda and its business.

In addition to the conflicts of Steve Williams, Nigel Turner declared a potential conflict in relation to the possible sale of farm produce (oilseed rape) through agents to Croda. In November 2012, Sean Christie was appointed as a non-executive director of Eminate, a subsidiary of Nottingham University whose Intellectual Property could possibly be of interest to Croda.

After careful review, the Board authorised these potential conflicts.

The independence of the Non-Executive Directors is kept under constant review, and it is the Board’s opinion that all the non-executive directors who served during the year are independent in character and judgement, with no relationships or circumstances which are likely to affect, or could appear to affect, their judgement.

4.7 Processes for determining the qualifications and expertise of the members of the highest governing body for guiding the organisation’s strategy on economic, environmental, and social topics

At Croda, we comply with the provisions of the UK Corporate Governance Code (the “Code”) and our Board has ultimate responsibility for overall leadership of the company. At the date of this report, the Board comprises the Chairman, the
Group Chief Executive, the Group Finance Director, the Chief Technology Officer and four very experienced non-executive directors who represent a source of strong independent advice and judgement. The Chairman, Martin Flower, and the Senior Independent director, Nigel Turner, each have significant commercial experience and the Board’s understanding of the Group’s operations is enhanced by regular business presentations and site visits.

The Board supports the principles set out in the Code regarding Board appointments and agrees that having a diverse mix of skills, experience and backgrounds on the Board is very important. All members of the Board have full access to the Company Secretary for his advice and services. Where necessary, the directors may also take independent professional advice at the Company’s expense. Directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their positions to the extent permitted by law. In addition the Company maintained directors’ and officers’ liability insurance cover throughout the year.

Training and briefings are available to all directors on appointment and subsequently, as appropriate, taking into account their existing experience, qualifications and skills. Directors receive a tailored induction programme based on their experience as a Director of a listed company and knowledge of the industry sector. This includes: time with the Company Secretary, members of the Executive Committee and other senior management across the business, meetings with advisers; visits to operations around the Group; and provision of current and historical information about the Company and the Group and specific details on duties of Directors. In order to build and increase the non-executive directors’ familiarity with, and understanding of, the Group’s people and businesses and the markets in which it operates, presentations from senior managers are made at Board meetings on a regular basis.

The Board also usually hold at least one Board meeting a year at a Croda operating site. In September the Board held its meeting in Singapore, which gave the Non-Executive Directors the opportunity to visit our Jurong Island manufacturing site. This also allowed the Non-Executive Directors to observe our operations at first hand and to meet with the senior management and local employees of our Asian region, gaining their insight into our Asian business. Non-executive directors also undertake site visits on an individual basis.

4.8 Internally developed mission and values statements, codes of conduct, and principles relevant to economic, environmental and social performance and the status of their implementation

In 2005, the Croda Vision was set out as a statement of six values inherent to the Croda business. Since its inception, the Vision has remained unchanged but has become the underlying statement against which all social, economic and ecological policies and procedures are aligned with. Our CSR policy, established in 2007, underpins our sustainability mission. Every new employee is given a copy of the Croda Vision and Group policies are available on Croda’s company intranet, Connect.

We manage our business across the triple bottom line, as a product or service can only be considered truly sustainable when the demands of economy, environment and society are met. We will continually strive to align our operations with this strategy.

Our sustainability strategy is underpinned by our mission to:

- continue innovating to improve our products and processes by minimising their effect on the environment, whilst maximising the efficient use of all resources;
- safeguard the responsible management of our raw materials and products both up and down our supply chain;
- invest in truly global and profitable innovation where we will have long term growth;
- comply with all legislative requirements and, when appropriate, set our own more demanding standards;
- set consistent standards across all operations, so as to provide a safe and healthy environment in which to work;
- foster open and comprehensive dialogue with all stakeholders and work cooperatively to address our Material Issues;
- provide development opportunities for all employees to reach their full potential; and
- ensure fair and equitable employment conditions, providing a stimulating working environment based on respect and partnership.

To ensure that our sustainability strategy is well informed, we use our risk management framework, stakeholder engagement and strategic discussions with our Group Executive Committee to define our Material Issues.

Each Material Issue has a clear management approach within the business to establish clear strategy development, performance management and implementation responsibilities.
Social Performance

We believe that social performance depends not only on the actions of the Group as a whole, but is also reflected by the actions of our individual employees. As such a 'Code of Conduct' has been developed that outlines the high standards to which all of our employees are expected to conduct themselves with respect to colleagues, stakeholders and our Company.

Economic Performance

The Croda Vision states our key economic mission "to remain an independent Company and operate as one global team". As an established multi-national company, we have developed economic performance policies and indicators in areas such as finance, risk management, acquisitions and disposals with significant issues in these areas are communicated to all employees. Furthermore, the authority to act in any area of economic importance in the Group is detailed in a freely available document, which explains at what level of the business specific decisions should be made.

Environmental Performance

Our performance is monitored and externally audited against the ISO14001 environmental management standard and in 2010 all of our global manufacturing sites were certified to this standard. We have also implemented the '12 principles of green chemistry' in each of our R&D centres across the Group. These principles guide the development of new products in such a way that reduces waste, improves efficiency and ensures that our new products are as sustainable as reasonably practicable.

4.9 Procedures of the highest governance body for overseeing the organisation’s identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles

Effective management of risks and opportunities is essential to the delivery of the Group’s financial and non-financial objectives, thereby ensuring that we deliver value to our shareholders, protect our reputation and continue to meet the requirements of good corporate governance.

We are committed to the effective management of all key risks identified and coordinate our global approach through our Risk Management Committee. Chaired by the Group Finance Director and comprising the regional Presidents, Group Financial Controller and Company Secretary, with the Group Risk and Control Manager in attendance, this committee meets quarterly and reports directly to the board.

Further details of our risk management processes can be found on pages 16-19 of the 2012 Annual Report.

4.10 Processes for evaluating the highest governance body’s own performance, particularly with respect to economic, environmental, and social performance

The Remuneration Committee, which consists of all non-executive directors, including the Chairman, reviews and approves the annual salaries, incentive arrangements (including setting the performance targets and payments/vesting events), service agreements and other employment conditions of the Executive Directors and certain members of the senior executive management team, designated by the Board.

The key objectives of our policy on executive remuneration are:

- to ensure that individual rewards and incentives are comparable with those provided by similar companies having regard to the Group’s turnover, business sector and market worth and the need for skills to manage international businesses;
- to enable the Group to attract and retain high calibre people;
- to give full consideration to the relevant principles on directors’ remuneration set out in the 2010 UK Corporate Governance Code;
- to ensure a balance between fixed and performance related remuneration, with the latter being related to objective measurement of the financial performance of the Company;
- to place a substantial weighting in the overall package on variable pay, with the greatest proportion of pay being delivered through long-term variable pay at maximum performance levels; and
- to set stretching performance targets that are linked to the key performance objectives of the Group which are structured so that they do not encourage undue financial or operational risk-taking or give rise to environmental, social or governance risks by inadvertently motivating irresponsible behaviour.
The Committee believes that the interests of shareholders and directors are more closely aligned by the operation of short-term incentives, which encourage the achievement of stretching profit targets and under which rewards may be delivered in the form of cash and shares, combined with share-based long term incentives that reward performance against three year earnings per share and relative total shareholder return targets.

In designing an appropriate incentive structure for the executive directors and senior executive management team, the Committee endeavours to set challenging performance criteria that are aligned with the Group’s strategy for the business and the enhancement of shareholder value. In line with the Association of British Insurers’ Guidelines on Responsible Investment Disclosure, the Committee ensures that the incentive structure for executive directors and senior executive management will not raise environmental, social or governance (ESG) risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration structure, there is no restriction on the Committee that prevents it from taking into account corporate governance on ESG matters and it takes due account of issues of general operational risk when structuring incentives.

The Committee takes due account of remuneration structures elsewhere in the Group when setting pay for the executive directors for example, consideration is given to the overall salary increase budget and the incentive structures that operate across the Group.

More information about the Remuneration Committee and our Remuneration Report can be found on pages 42-56 of the 2012 Annual Report.
Commitments to External Initiatives

4.11 Explanation of whether and how the precautionary approach or principle is addressed by the organisation

Effective management of risks and opportunities is essential to the delivery of the Group's strategic, sustainability and financial objectives, ensuring that the Group delivers value to the shareholders, protects its reputation and meets the requirements of good corporate governance. Croda is committed to the effective management of key business risks throughout the organisation.

The Group coordinates its global approach through the Risk Management Committee which meets quarterly and reports directly to the Board via the Audit Committee. The Risk Management Committee is chaired by the Group Finance Director and comprises the Regional Presidents, the President of Global Operations, the Chief Technology Officer, the Group Financial Controller and the Group General Counsel and Company Secretary, with the Group Risk and Control Manager in attendance.

The Risk Management Committee is responsible for the Group’s Generic Risk Framework, which is then applied by our Regional Boards and core business functions. These are responsible for scoring and applying the classifications within the framework whilst the management of the high level Executive Register is also the responsibility of the Risk Management Committee.

The responsibility for risk identification, analysis and mitigation rests with management at:

- Manufacturing sites and sales offices (review at least annually)
- Regional and functional level (review at least half yearly)
- Executive level (review quarterly)

These registers are reviewed and consolidated to ensure that there is a comprehensive view of the material risks facing the Group, along with the controls in place to mitigate these risks.

The review of our risk framework will be ongoing as our business changes. As a minimum, all regions and core functions update their registers twice per year. During 2012, particular focus was placed on two Material Issues following a risk review: responsible supply chain management and consistent community engagement. Increased communication and interaction with our suppliers, customers and community groups through our management of Corporate Stakeholders and Community ensured that we can report progress in these areas.


4.12 Externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or endorses

Our proactive approach to working with many external organisations, both inside and outside of our industry, saw us contributing to around 150 different bodies during 2012. Many of these relate to product, personal and process safety and regulatory affairs.

Charters

Responsible Care®

We are signatories to Responsible Care®, which is the chemical industry's global voluntary initiative through which companies, through their national associations, work together to continuously improve their health, safety and environmental performance and to communicate with stakeholders about their products and processes. The Responsible Care® ethic helps industries to operate safely, profitably and with due care for future generations. It was commended by UNEP as making a significant contribution to sustainable development at the World Summit on Sustainable Development in 2002.
Round Table on Sustainable Palm Oil (RSPO)

We have been active members of RSPO since it was established in 2004, and sit on the Derivatives Working Group. The mission of RSPO is to advance the production, procurement and use of sustainable oil palm products through the development, implementation and verification of credible global standards and the engagement of stakeholders along the supply chain. We are members of the RSPO, which collectively brings oil palm growers, oil processors, food companies, retailers, NGOs and investors to work together towards a global supply of palm oil that is produced in a socially and environmentally responsible way. The Roundtable promotes palm oil production practices that help reduce deforestation, preserve biodiversity, and respect the livelihoods of rural communities in oil-producing countries. It ensures that no new primary forest or other high conservation value areas are sacrificed for palm oil plantations, that plantations apply accepted best practices and that the basic rights and living conditions of millions of plantation workers, smallholders and indigenous people are fully respected.

12 Principles of Green Chemistry

The 12 Principles of Green Chemistry were developed in 1991 by Paul Anastas and John C. Warner. The aim of the principles is to minimise the environmental impact of chemical products and reduce the environmental and social risks of these products. We have been using these principles since 2010 to ensure that our New Product Development follows a more sustainable and environmentally friendly path.

4.13 Memberships of associations

We are a signatory to the Responsible Care® Initiative of the chemical industry trade associations in the UK, USA and Singapore, and more recently have endorsed the Global Charter agreed amongst the members of the International Council of Chemical Associations. We have also demonstrated our commitment to Sustainable Development by endorsing the principles developed in cooperation with stakeholders and member companies of the Chemical Industries Association.

In addition to this, we are also members of:

- American Chemical Society
- American Chemistry Council in the USA (ACC) and part of the voluntary industry initiative High Production Volume Challenge Program
- American National Standards Institute - National Sanitation Foundation (ANSI-NSF)
- American Oil Chemists Society (AOCS)
- American Society for Testing and Methods (ASTM)
- Argentinian Association of Cosmetics Chemists (AAQC)
- Association of Indonesian Employers (APINDO)
- Association of the Spanish Plastics Industry (CEP)
- Association of Trading Chemical Companies (ASSIC)
- Bioscience KTN Industrial Biotechnology – Special Interest Group (IB-SIG)
- Bombay Chambers of Commerce
- Brazilian Chemical Industry Association (ABIQUIM)
• British Adhesives & Sealants Association (BASA)
• Business in the Community (BITC) in the UK
• Canadian Association Of Chemical Distributors (CADC)
• Canadian Cosmetic, Toiletry & Fragrance Association (CCTFA) and sit on the technical committee
• Canadian Sanitation Supply Association
• Carbon Disclosure Project (CDP)
• Catalan Chemical Industry Federation (FEDEQUIM)
• Center for Chemical Process Safety (CCPS)
• Centre of Excellence for Biocatalysis, Biotransformation and Biocatalytic Manufacture (CofEBio3)
• Chemicals Industry Association: EO Sector network group and Speciality Chemicals Risk Interest Forum
• Chemistry Council of New Jersey (CCNJ)
• Chemistry Innovation
• Chilean Society of Cosmetic Chemists (SChQC)
• China Association of Fragrance Flavour & Cosmetic Industries (CAFFCI)
• China Cosmetics Quality Assurance Committee (CCQAC)
• China State Food and Drug Administration (SFDA)
• Colombian Association of Cosmetic and Tec (ACCyTec)
• Consumer Specialty Products Association (CSPA)
• Cosmetic Executive Women
• Cosmetic Mediterranean Association (COSMED) and OcWell (Languedoc-Roussillon regional group of COSMED)
• Cosmetic, Toiletry & Fragrance Association of South Africa (CTFA)
• Cosmetics, Toiletries and Perfumery Association in the UK (CTPA)
• Delaware Safety Council (DSC)
• Dubai Chamber of Commerce
• Dutch association for Energy, Environment and Water (VEMW)
• Dutch Paint Association (NVVT)
• East and West Cowick liaison panel
• Environment Agency
• Environmental Assessment Working Group (EAWG), acting as the CADC representative and Co-Chair
• Environmental Conservation Association of Shiga Prefecture
• Ethylene Oxide Panel
• European Oleochemical Industry Association (APAG)
• European Union Chamber of Commerce on Korea (EUCCK)
- Federation of Enterprises in Beauty – France (FEBEA)
- Federation of Indian Chambers of Commerce and Industry (FICCI)
- Federation of Oils, Seeds and Fats Associations (FOSFA)
- Federsalus (Association of or producers of nutritional supplements, fortified foods, etc.)
- French Coating Association (AFTPVA)
- French National Association of Surfactants Manufacturers (ASPA-INGRECOS)
- French Society of Cosmetology (SFC)
- German Association of Wholesale Traders in Oils, Fats and Oil Raw Materials (GROFOR)
- German Paint Association (VILF)
- Gokasho Chamber of Commerce and Industry
- Health and Safety Executive (HSE)
- Higashiomi Chamber of Commerce and Industry
- Higashiomi Fire Disaster Prevention Association
- Hull & Humber Chamber of Commerce
- Humber Chemicals Focus: Major hazards & human factors groups
- IMS – Entreprendre pour la Cité
- Independent Lubricant Manufactures Association
- Indian Chemical Council
- Indian Specialty Chemicals Manufacturers Association
- Industrial Biotechnology Leadership Forum (IBLF)
- Industry Coordinating Group for Canadian Environmental Protection Act (CEPA - ICG)
- International Collaboration on Cosmetics Regulation (ICCR), representing Europe
- International Fishmeal and Fish Oil Organisation (IFFO)
- International Pharmaceutical Excipient Council (IPEC) of Americas
- International Society for Agrochemical Adjuvants (ISAA)
- Japan Cosmetic Industry Association
- Japan Cosmetic Suppliers Association
- Japan Hygienic Olefin and Styrene Plastics Association
- Japanese Society for Cosmetic Scientists
- Johannesburg chamber of commerce and Industry (JCCI)
- Korea Chemical Management Association (KCMA)
- Korea Cosmetic Association (KCA)
- Korea Pharmaceutical Traders Association (KPTA)
• Mouvement des Enterprises de France (MEDEF)
• National Safety Council
• National Skills Academy for Process Industries
• Netherlands Oils, Fats and Oilseeds Trade Association (NOFOTA)
• New Jersey Chemistry Council
• North Central Weed Science Society (NCWSS)
• Pennsylvania Chemical Industry Council (PCIC)
• Personal Care Products Council (PCPC) and represented on the Chemicals Management Task Force
• Peruvian Association of Cosmetics Chemists (APQC)
• Peruvian Association of Textiles Technician
• Responsible Care Initiative
• Round Table for Sustainable Palm Oil (RSPO) including the Derivatives Working Group
• Russian Perfumery and Cosmetics Association
• Scandinavian Society of Cosmetic Chemists
• Silver member of World Wide Fund for Nature (WWF) in China
• Singaporean Chemical Trade Associations
• Society of Cosmetic Chemists
• Society of Cosmetic Chemists in Mexico (SQC)
• Society of Cosmetic Chemists South Africa (Coschem), a member of the council and chair the seminar committee
• Society of Petroleum Engineers (SPE)
• Society of Plastics Engineers
• Society of Tribologists and Lubrication Engineers
• Spanish Association of Surfactants Producers and Distributors (AEPSAT)
• Thane Belapur Industries Association – India (TBIA)
• The American Cleaning Institute (ACI) and represented on the Cleaning Product Ingredient Safety Initiative (CPISI) Steering Team
• The Australian Society of Cosmetic Chemists
• The British Association for Chemical Specialties in the UK (BACS): member of the Regulatory Affairs Forum
• The Chemical Industries Association (CIA) in the UK: sit on the Council of the CIA, chair of the REACH Issue Team, sit on the Chemical Management Strategy Group and GHS issue team
• The Chemical Industry Association in Germany (VCI) via TEGEWA
• The Chemical Industry Association in Italy (Federchimica)
• The Chemical Industry Association in The Netherlands (VNCI)
• The Chemical Producers and Distributors Association in the USA (CPDA)
• The Confederation of Indian Industry (CII)
• The Council for Responsible Nutrition in the UK (CRN)
• The European Chemical Industries Federation (CEFIC): member of the Global Emerging Regulations Task Force and Active Pharmaceutical Ingredient Council (APIC)
• The European Federation for Cosmetic Ingredients (EFCI): chair of the Good Manufacturing Practice (GMP) committee, member of the Regulatory Affairs and Product safety Group and sit on the global regulations group
• The Global Organisation for EPA and DHA Omega 3 (GOED)
• The International Pharmaceuticals Excipients Council (IPEC)
• The Korea International Trade Association (KITA)
• The Sung Nam Chamber of Commerce & Industry (SNCCI)
• The Swedish Plastics and Chemicals Federation
• Tokyo Chamber of Commerce and Industry
• Tokyo Cosmetic Material Association
• Toronto North CAER Group
• Turkish Chemical Industry Association (ME)
• UK Lubricants Association
• Union des Industrie Chimiques (UIC)
• Worldwide Cleaning Industry Association (ISSA)
• Yorkshire Chemical Focus
Stakeholder engagement

4.14 List of stakeholder groups engaged by the organisation

Every business must consider and take necessary action to meet the needs and expectations of its stakeholders. We are committed to our customers, investors, suppliers and non-governmental organisations (NGOs) and have long standing relationships with them.

By understanding the sustainability issues that are of key concern to our corporate stakeholders, we can ensure that our focus is on the topics of most importance to them and, therefore, of most significance to the future of our business.

In holding open engagement with our stakeholders, they can be confident that we are a business that not only cares about economic value, but also sustainable long term growth.

In addition to our ongoing activities in relation to our key stakeholder engagement areas, we have undertaken a number of specific projects that have focused on particular aspects of stakeholder engagement during 2011. Following the success of our sustainability survey in 2011, we extended our questioning to a larger global audience during 2012. From the responses we received, we were able to gain confirmation that our Material Issues are aligned with those of our customers. This engagement also gave us greater insight into our customers' sustainability strategies and their priorities.

We interact with academic institutes that provide world class capabilities in our areas of interest. This includes joint research programmes, work experience opportunities across various age groups and involvement with a number of university advisory boards to ensure that we are able to influence the teaching and learning of numerous chemistry-related subjects for the scientific innovators of tomorrow.

As a global company and a respected voice in our industry, we are asked by governments and industry bodies to contribute to, and in some cases lead, working groups and committees. We are especially active in areas relating to product, personal and process safety, health and environment, regulatory affairs and taskforces concerned with the growth of the chemical industry.

One such example of this during 2012 is our engagement with the British Association for Chemical Specialities (BACS) on the issues surrounding sustainable palm oil (PO) and derivatives. Together with other members, we played a vital role in advising the UK government department, Defra, on the problems facing the derivatives market. We also provided input into a nationwide statement outlining the country's commitment to a sustainable supply of PO products.

Our efforts are focussed around our key local community stakeholders, which we define as; authorities, governments and emergency services; businesses and business representative groups; and educational institutions. Of these, our interaction with schools, colleges and universities is our top priority to support our community education and employee recruitment strategies. Our efforts to communicate with the local communities around our manufacturing sites, and large offices, saw all but one location holding five or more meetings with key stakeholder groups in 2012.

In recognising that our employees work and live in communities that are very different from one another, an important element of our volunteering programme, the 1% Club, is that whilst all employees have the same provision for spending time in the community, it can be tailored to meet local cultural, legal and business needs. The 1% Club enables each individual to use 1% of their annual working time to support activities within the community where they work or live, which is approximately three days per year for full time employees. The profile of our 1% Club continued to grow both internally and externally during 2012. An impressive 4,541 hours were dedicated to worthwhile community activities in 2012 and it was presented with a Best Compensation and Benefits Award.

Whilst we were unable to improve upon the exceptional number of hours donated in 2011, we are proud to see that more than 21% of our workforce undertook some form of 1% Club activity during 2012. These figures are particularly pleasing given the challenging economic environment, which saw our number of internal global conferences decrease. In 2011, community projects linked to these contributed heavily to our 1% Club hours and their absence explains the challenge we faced in meeting our target.

Further information on our approach to stakeholder engagement can be found on pages 30, 34 and 35 of the 2012 Sustainability Report.

4.15 Basis for identification and selection of stakeholders with whom to engage

Key stakeholder engagement areas are:

- working closely with our customers to meet their current and future needs;
- close interaction with suppliers to deliver high performance sustainable products;
• regular engagement with our employees on performance, policies and issues relating to meeting personal and business needs;

• engagement with neighbours close to all of our operations and open discussion regarding safety with those who live around our manufacturing sites;

• ensuring that our investors are satisfied not only with our short term performance, but also our long term sustainability strategy; and

• a proactive approach to working with many external organisations, both within and outside our industry, to contribute and aid our understanding of the issues affecting the sustainability of our business.

Further information on who we have engaged with during 2012 can be found on pages 20, 25, 30, 31, 33-37 of the 2012 Sustainability Report.

4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group

We are committed to upholding ethical and sustainable standards across all of our operations and within our supply chain to meet and exceed the expectations of others. By actively engaging with our key stakeholders, we are able to target the economic, environmental and social issues with the potential to affect the long term success of our business. Our proactive approach to sharing and developing our expertise, both within our industry and in areas relating to our Material Issues, sees us working with many different organisations to continuously improve product safety and quality.

Following the success of our sustainability survey in 2011, we extended our questioning to a larger global audience during 2012. From the responses we received, we were able to gain confirmation that our Material Issues are well aligned with those of our customers. This engagement also gave us greater insight into our customers’ sustainability strategies and their top priorities.

Interaction with our suppliers was increase during the year through the communication of our revised Supplier Code of Conduct.

During 2012 we also increased our level of direct engagement with current and prospective ethical investors, presenting them with the information that they require to determine our suitability for their funds. By working with our brokers, we have identified additional investor groups with whom we could discuss our sustainability credentials.

Our proactive approach to working with many organisations, both within and outside our industry, saw us contributing to around 150 different bodies during 2012. Many of these relate to product, personal and process safety and regulatory affairs.

In recognising that our employees work and live in communities that are very different from one another, an important element of our volunteering programme, the 1% Club, is that whilst all employees have the same provision for spending time in the community, it can be tailored to meet local cultural, legal and business needs. The 1% Club enables each individual to use 1% of their annual working time to support activities within the community where they work or live, which is approximately three days per year for full time employees. The profile of our 1% Club continued to grow both internally and externally during 2012. An impressive 4,541 hours were dedicated to worthwhile community activities in 2012 and it was presented with a Best Compensation and Benefits Award.

Our engagement efforts are focussed around our key local community stakeholders, which we define as; authorities, governments and emergency services; businesses and business representative groups; and educational institutions. Of these, our interaction with schools, colleges and universities is our top priority to support our community education and employee recruitment strategies. Our efforts to communicate with the local communities around our manufacturing sites, and large offices, saw all but one location holding five or more meetings with key stakeholder groups in 2012.

There are a large number of non-governmental organisations (NGO’s) with which we engage on a regular basis. These engagements are managed locally or within relevant departments, and the frequency of engagement depends on the NGO in question.

A list of associations which Croda is a member of can be found in GRI Profile Disclosure 4.13. Further information on our engagement activities with during 2012 can be found on pages 20, 25, 30, 31, 33-37 of the 2012 Sustainability Report.

4.17 Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting
Management Approach Disclosures

Economic

2011 Financial Highlights

Revenue - continuing operations
Up 2.3%
2012: £1,051.9m
2011: £1,028.0m

Operating profit – continuing operations
Up 7.4%
2012: £255.4m
2011: £237.7m

Earnings per share - continuing operations
Up 8.2%
2012: 130.0p
2011: 120.1p

Dividends per share
Up 8.2%
2012: 59.5p
2011: 55.0p

Our purpose is to be a leading speciality chemical company providing innovative technologies that will give our customers what they want and need to win in their markets.

We have identified three megatrends which will provide the catalyst for our future growth. Sustainability, Beauty & Ageing and Health & Wellbeing will impact right across our key business areas, and continued innovation coupled with our ongoing focus on naturally sourced raw materials will leave us well placed to take advantage of them.

We have identified five key strategic growth themes that will enable the delivery of our ambitious goals. In each of these, our emphasis will be on relentless innovation and constant investment in our business to drive our continued growth.

From 1 January 2012, the way we report our sales and profits changed, but the market segments in which we operate did not. The following data reflects our 2012 performance across these new reporting lines:

Consumer Care – Personal Care, Health Care and Crop Care.

During 2012, the sector continued to break all records, with sales growing 2.6% to £586.4m (2011: £571.4m) and operating profit increasing by 8.3% to £185.4m (2011: £171.2m). Our return on sales (ROS) rose by 1.6 percentage points to 31.6%, the first time in Croda’s history that we have achieved a ROS in excess of 31%.

Performance Technologies – Coatings & Polymers, Geo Technologies, Home Care, Lubricants and Polymer Additives.

The newly created Performance Technologies sector exceeded our expectations in its first year. Sales increased by 2.5% to £382.8m (2011: £373.6m) and operating profit grew by 8.0% to £59.7m (2011: £55.3m). Our return on sales (ROS) rose by 0.8 percentage points to 15.6% (2011: 14.8%). Our strategic aim in this sector is to replicate the success we have achieved in Consumer Care by launching many new products into profitable niche market applications, and these results reflected the good progress that was made during the year.

Industrial Chemicals – serving a variety of important industrial markets with ingredients, additives and processing aids.

Sales from continuing operations showed a marginal reduction of 0.4% to £82.7m (2011: £83.0m) while operating profit declined by 8.0% to £10.3m (2011: £11.2m), a return on sales of 12.5% (2011: 13.5%). Both sales and profits
recovered strongly in the second half after a weak performance in the first half as a result of high raw material prices and intense competition in the commodity and textile markets.

These segments have different dynamics in terms of drivers, growth and margins and we believe that managing and reporting them separately allows us to maximise our focus and drive profitability improvements in all parts of the Group.

For further details on our economic performance see the 2012 Annual Report.

Environmental

Our Material Issues relating to the environment and how we manage these are:

**Air Quality & Climate Change** – To reduce the emissions of greenhouse gases to the environment from our manufacturing sites to ensure that we progress towards more sustainable operations.

The link between emissions of combustion products such as CO\(_2\) and climate change is now well established. It is therefore essential that as a socially responsible company we reduce the impact of our emissions to a sustainable level. The expectation of all of our stakeholders is that we continue to make progress in reducing discharges of climate change gases.

The SHE Manager at every manufacturing site is responsible for measuring energy consumption and emissions of volatile organic compounds, from which the site's equivalent CO\(_2\) burden is calculated. With reduction targets set by our Group Executive Committee, each site reports on a quarterly basis to Group SHE who collate the results for the quarterly SHE Steering Committee.

At these meetings issues are discussed and actions agreed between the Group SHE Vice President, the Group Executive Committee representative and subsequently the relevant Site Director. Improvement plans for non-manufacturing locations are also managed in this way, though the primary focus remains on the largest contributors.

**Water Quality & Supply** – To minimise the environmental burden arising from water usage and waste water discharges from our manufacturing sites

Fresh water is becoming increasingly scarce as population and industrial activity increases. Furthermore, the onset of climate change may influence rainfall patterns such that water resources in some parts of the world become increasingly stressed. Left unmanaged, supplies would eventually run out. Whilst our operations are not in regions where water resources are under immediate threat, many of our manufacturing sites and offices operate in communities that are dependent on a shared natural fresh water resource. We therefore have a public responsibility and a business need to have a strategy for water management to ensure the sustainability of our operations.

The SHE Manager at every manufacturing site is responsible for measuring the consumption of water from all sources, including piped supplies, and aquifer and river abstraction. The manager also monitors the quality and quantity of water discharged to the environment. Looking across all operations, but especially focusing on those in higher risk areas, our Group Executive Committee have set stringent internal reduction targets, which are monitored by Group SHE and reported quarterly through our SHE Steering Committee.

**Land Impact** – To mitigate the environmental burden our activities place on land, water and air by seeking to preserve biodiversity and phase out the disposal of waste to landfill

As with other finite natural resources, land is under increasing strain and fauna and flora is under threat.

We recognise that the deposition of waste to landfill is not sustainable, permanently modifying land and potentially introducing contamination to both air and water. As a result, a detailed list of all landfill waste arising from each of our manufacturing sites has been produced and the feasibility of eliminating, reducing or recycling this waste is being studied. We aspire to a goal of zero waste to landfill, although we know cost and feasibility will be increasingly challenging.

We understand that our operations have an impact upon local biodiversity. We take the stewardship of our own land very seriously and will continue to review our impact on land, water and air.

**Renewable Raw Materials** – To ensure that our product portfolio is sustainable and to dedicate new product development to meeting our customer needs in this area
The developing world is increasing its reliance on oil and other non-renewable material sources; it is clear that these resources are being depleted and the environment cannot support current production levels in the future. To ensure that we can continue to make the products that our customers require, we are committed to developing and manufacturing high performance products from renewable raw materials wherever reasonably practicable.

It is the responsibility of our Research and Development teams across the markets and regions in which we operate to ensure new product design and raw material selection adheres to as many of the 12 Principles of Green Chemistry as possible. This effort is shared with production teams and purchasing managers, as well as sales and marketing directors to ensure that we meet the needs of our customers. Our Group Executive Committee review our use of raw materials and our new product launches against the 12 Principles of Green Chemistry.

**Responsible Palm Oil Sourcing** – To fully support sustainable palm oil (PO) and palm kernel oil (PKO) and to keep working with the industry to secure a sustainable source of derivatives

As a member of the Roundtable on Sustainable Palm Oil (RSPO) since 2004, we are committed to providing sustainably sourced PO products.

We use an extremely low amount of pure PO and PKO and relatively small volumes of derivatives that are the result of processing the oil for food markets. The supply chain of derivatives is very complex due to the number of different producers involved; however, we are determined to catalyse change within the industry to secure a sustainable supply.

Working in partnership with our suppliers will be critical in achieving our objective, and we will continue to assist our customers in their support of sustainable PO and PKO by calculating the volume of these materials in our derivatives.

For further details on our strategy, 2012 performance and future targets for the environment see the 2012 Sustainability Report, pages 8-12 and 17-20.

**Labour Practices and Decent Work**

Our Material Issues relating to Labour Practices and Decent Work and how we manage these are:

**Recruitment & Retention** – To attract, recruit and retain high calibre employees to support our objectives and changing business requirements

Like all successful businesses, we recognise that our future depends on our ability to attract and retain individuals who are passionate about personal and business growth and want to make a significant contribution to the future of our business. Recruiting individuals that fit this description and the culture of the business is always hard, but within the chemical industry it is increasingly a problem with a high level of competition for a decreasing number of graduates. As our business is focused on innovation and growth in emerging markets and developing countries, this challenge increases further.

Through our global competency framework, developed by Group HR and managed by HR Managers in each of the regions in which we operate, we can ensure recruitment practices across the Group identify the people with the right skills, knowledge and attitude. Our proven track record of successfully developing future leaders from within has called for our Graduate Recruitment Programme to be rolled out in all regions. Management of these Graduate Recruitment Programmes is the responsibility of each Regional HR Manager, with the Group HR team retaining a global overview. Employee turnover is reported to the Executive Committee on a quarterly basis to monitor any potential problem areas before they have a negative impact on the business.

**Compensation & Benefits** – To ensure that our compensation and benefits packages enable us to attract, recruit and retain key talent

In a competitive recruitment marketplace we are conscious that we should not lose critical staff because of issues relating to pay or additional benefits. We realise that the remuneration package we offer plays a key part in attracting and retaining employees.

Our Regional Boards retain control over their remuneration and benefits packages. Through a series of previous employee surveys, which will be repeated regularly in the future both at regional and global level, Group HR are able to share learning’s on the expectations of our employees with these management teams, and at Group Executive Committee level to ensure that our approach is effective and consistent. Exit interviews also allow regional HR teams and Group HR to see if compensation and benefits are a problem in any part of the business, so that they can act accordingly.
HR Policies & Systems – To operate streamlined, fair and coherent employment policies and systems

Information and knowledge sharing are at the heart of making better business decisions. Streamlined systems and policies not only provide the data and trends on which to base decisions, but will in turn drive employee engagement. We believe that well defined policies and procedures allow our employees to operate without constant management intervention. It is this autonomy and freedom to act that has made our business what it is today.

We operate a global HR database and our global appraisal and development planning system will be fully rolled out during 2012, thus ensuring that Group HR can provide timely updates across all areas to our Group Executive Committee. It is the responsibility of our Regional HR Managers to ensure that our systems are used and updated efficiently. Our internal social network, ‘the hive’ continues to reap financial rewards for our technical teams around the world. The Hive has allowed communications channels to open up amongst our global workforce without constant management intervention.

Talent Management & Employee Development – To offer a wide range of development opportunities to enable our employees at all levels to gain the skills, competencies and experience necessary to attain individual, team and organisational goals and expectations

The key to the future success of any business lies in the skills and abilities of its workforce. It is only through the continual development of our workforce that we will be able to meet the future demands of our customers in relation to enhanced creativity, innovation and customer service. Being a business dependent upon a large number of specialists including engineers and scientists as well as finance, IT, HR, marketing, purchasing, sales, regulatory and legal professionals we have to place great focus on continuous development.

Our global competency framework, developed by Group HR and implemented by the regional HR teams, provides the basis for employee development plans, which are monitored through our global appraisal system, Croda Aspire. All Talent Management and Development related activities are carefully scheduled throughout the year with a programme of activities planned to 2015. The talent review process commences at site level, with regional, executive committee and board level involvement.

Performance Management – To instil a high performance culture through an integrated and consistent approach to performance management

A strong, efficient performance management culture is not only important to employees’ professional development, but also to meet the Company’s objectives and so ultimately contributing to its bottom line. In addition, a clear, robust process will lead to enhanced communications and the opportunity to address performance problems effectively, thus delivering improvements in employee morale.

Our highly trained regional HR teams provide ongoing support, coaching and development to our line managers across all business operations. This ensures that they are fully equipped and capable of having effective and constructive performance and development conversations. Our global appraisal system facilitates this process and allows Group HR to oversee performance management, so that it can offer support and guidance where and when needed. Employee underperformance is identified during the annual talent review process and carefully managed through the regional businesses to ensure that we see improved performance quickly. Our global HR database also allows performance in relation to absence to be monitored and reviewed at regional and global level.

Occupational Health & Safety – To reduce the frequency of injuries to all of those who work at our operations to a level compatible with the top quartile of peer companies, with an aspirational goal of zero harm

No one should expect to be injured when they work at any of our manufacturing sites or offices. In addition to this moral obligation, the cost to the business of an unsafe workplace can be enormous in terms of fines, compensation for injury, loss of production and loss of reputation. High workplace injury rates are often symptomatic of poor general management practices and they do not signal a sustainable business.

The reporting of incidents is actively encouraged across all areas of the business and is the responsibility of the SHE Manager in each of our operations. All significant incidents and near misses are investigated by trained SHE personnel across the Group, with the ultimate management of such reviews resting with our Group Executive Committee, which receive a quarterly report through the SHE Steering Committee. In addition to this, our Risk Management procedure ensures that all of our Regional Boards review potential health and safety risks at least twice per year.

Process Safety Management – To reduce the risks associated with all of our chemical processes to a point deemed to be as low as reasonably practicable (ALARP).
Process safety encompasses the most significant hazards associated with our operations. The consequences of poor process safety are well documented in a multitude of historical industrial disasters, for example Union Carbide in Bhopal and BP in Texas City, which not only led to many fatalities, but also significant harm to the environment and lasting material damage to the companies involved and their reputations. The moral obligation alone that every company has in this area is indisputable, and one that we have always committed significant time and resource to managing.

Every chemical process in the Group has been subject to a Process Risk Assessment through a rigorous Hazard Study Process. The Process Safety Manager at each of our manufacturing sites is responsible for reviewing and updating this assessment at least every five years, using the same rigorous process. This forms part of the Risk Management procedure that is overseen at Regional Board and Senior Board level. The completion, results and actions arising from these studies are reported to the Group Executive Committee through the SHE Steering Committee on a quarterly basis. Targets regarding the frequency, quality and timeframe for any actions are set by our Group Executive Committee.


**Human Rights**

Our Material Issues relating to Human Rights and how we manage these are:

**HR Policies & Systems** – To operate fair and coherent employment policies and systems

We believe that well defined policies and procedures allow our employees to operate without constant management intervention. It is this autonomy and freedom to act that has made our business what it is today. If correctly implemented and managed, well designed policies and procedures should help everyone to understand the Company rules and standards and the way in which we operate.

Group policies are set centrally and must be applied in all countries in which we operate. Group policies will, as a minimum, comply with the highest legislative requirement in any country in which we operate. It is the responsibility of our Regional Boards to ensure that Group Policies are communicated and that there are procedures in place to ensure compliance. Any employee whose actions constitute a breach of any policy, procedure or guideline may be liable to disciplinary action. All policies are freely available on our Company intranet and include our:

- Code of Conduct
- Code of Ethics
- Fraud Policy
- Whistle Blowing Policy and Procedure
- Anti-Bribery and Corruption Policy

In addition to Group policies, we have regional and country specific policies and procedures to reflect the employment legislation and practices in that location.

A Group policies review was conducted during 2012 by members of our senior HR team, who checked for alignment with the four fundamental principles of the ILO Declaration on Fundamental Principles and Rights at Work. The nine applicable policies were consistent with the spirit and intent of the ILO Declaration. These are accessible to all employees and are published on our company intranet.

**Ethical Supply Chain** – To continually strive to increase engagement and standards within our supply chain to ensure that it is ethical and sustainable, so as to meet the future needs of our business

It is the responsibility of all companies to act ethically, but standards can differ from one business to the next. At Croda, we apply the same high ethical and sustainability standards across all of our operations. Our suppliers are a critical part of our business and we believe that they should operate to the same standards as we do. With increasing consumer awareness and customer demands in this area, we have to work even more closely with all of our suppliers.
Within Croda we have very clearly defined policies and procedures that ensure we act ethically and sustainably across the Group. These are managed by the relevant Group functions. Our Regional Boards are ultimately responsible for our relationships with suppliers, but on a day to day basis it is our regional Purchasing Managers who own the relationships with their suppliers. They must therefore ensure that our Supplier Code of Conduct is communicated to all suppliers and then seek the most appropriate way to monitor and check their compliance. Where there are any concerns about a supplier an audit will be conducted. In addition to this, our supply chain is an area that is considered in our rigorous Risk Management Framework, ensuring that analysis of risks and mitigating measures are implemented by all business Boards across the Group.

For further details on our strategy, 2012 performance and future targets for Human Rights see the 2012 Sustainability Report, pages 25 and 31.

**Society**

Our Material Issues relating to the Society and how we manage these are:

**Community Communication** – To develop relationships with the communities in which we operate through effective communication regarding our business operations and in doing so, ensure that we consider local concerns to gain support for business growth

Operating ethically means being aware of the impact a business has and acting responsibly within the communities in which it is located and where its employees live. This can only be achieved through open dialogue with the community. The relationship we have with our local communities is extremely important to us. We take pride in ensuring that we keep our neighbours informed of activities that are planned to take place at our manufacturing sites and other key locations where health and safety is of paramount importance. As our business grows, it is vital that we develop and maintain a supportive external environment, as well as a strong brand and reputation. This will continue to reinforce our Company culture, which has community awareness and activity at its heart.

Our Regional Boards each have the responsibility for developing a community communication plan, and for ensuring that this plan is effectively delivered at all of the manufacturing sites and main offices within their region. The guidance in ISO14001 on the communication of hazards to local communities is reinforced by our Group SHE Manual, with which all of our manufacturing sites must comply. This is in addition to the legal requirements imposed on sites by local and national legislation. All local community interactions, at our manufacturing sites and offices, are ultimately managed by the most senior manager in each location. They are used as vehicles for two way communication, which can lead to interesting cooperative activities that benefit both parties. Formal records of all meetings are kept and shared with the CSR Steering Committee to review quarterly and share best practice.

**Community Involvement** – To put community communication into action in order to deliver real benefits to the communities in which we operate and, in doing so, enhance the performance of our employees and support the recruitment needs of our business

Putting talk into action is the true way of demonstrating a company’s commitment to its communities. Our Company culture is such that we have the capability to be both proactive and reactive to community needs and we have the motivation to make a positive impact in the communities in which we operate. The morale of our employees is enhanced by the goodwill that is created through community involvement. It is also very important to our business that we use this activity as an opportunity for personal and team development.

At Croda, our community involvement is facilitated through a programme called the 1% Club, which provides a great opportunity for all employees to support the local community in which they work and live. The programme allows all employees across the Group to utilise 1% of their working time to support appropriate community projects. The 1% Club is adapted to suit the local needs and legislative environment of the regions in which we operate, but in every form the guiding principle is action that supports the community through direct involvement. It is the responsibility of our Regional Boards to ensure that the 1% Club is available and managed correctly in their operations. They also manage the targets and metrics, defined annually and agreed with the Group Executive Committee, to ensure ever increasing levels of engagement and participation. Additionally, a network of 1% Club Champions, one at each of our operations, assists with the coordination of activities on a day to day basis.

**Community Education** – To raise the profile of science, technology and engineering by providing community education and training opportunities relevant to the communities in which we operate and, in doing so, enhance our brand and reputation, as well as develop employee skills
For any business operating in very specialist markets it is essential to raise awareness of the opportunities it offers and the skills it needs by educating future generations. Our rich scientific heritage and strategic reliance on delivering market led innovation means we must ensure that we play our part in developing scientists, technologists and engineers. By developing a strong external educational platform to engage with potential employees in these areas, we will also enhance our image and reputation, thus helping us to recruit appropriately educated people who will support our future technical activities.

It is the responsibility of each of our Regional Boards to define and implement a local programme of activities that is appropriate to support the teaching of science, technology and engineering across any chosen age group between the ages of 5 and 21. Our aim is to align the learning needs of individuals with the scientific knowledge and history of our organisation. Our 1% Club Champions support community education by building relationships with local schools, colleges and universities. Annual regional plans will help target the specific needs of the educational institutions we support and will also identify the employees who can enhance their personal skills through this type of activity.

**Corporate Stakeholder Engagement** – To have open ongoing engagement with all key stakeholders to identify and review the Material Issues for our business and all our partners, thus ensuring that we take appropriate action

For any company to be successful it cannot work in isolation; it must consider and take necessary action to meet the needs and expectations of its stakeholders. Our key corporate stakeholders are our customers, investors, suppliers and Non-Governmental Organisations (NGOs). We have always been committed to working with these stakeholder groups and have long standing relationships with them as we understand their importance to our success. We now want to deepen our understanding of these groups, particularly in relation to their key sustainability issues, as what will affect them will also have an impact on us.

The CSR Steering Committee member responsible for our corporate partners is leading a number of formal communication projects. Implementing those relating to our customers will then be the responsibility of the Sales Managers in the markets and regions in which we operate. NGOs are managed by the appropriate department manager, whilst our Purchasing Managers will lead projects with our supply chain. Our investor relationships will continue to be managed by Group Finance, with the Group Finance Director taking ultimate responsibility.

**Ethical Supply Chain** – To continually strive to increase engagement and standards within our supply chain to ensure that it is ethical and sustainable, so as to meet the future needs of our business

It is the responsibility of all companies to act ethically, but standards can differ from one business to the next. At Croda, we apply the same high ethical and sustainability standards across all of our operations. Our suppliers are a critical part of our business and we believe that they should operate to the same standards as we do. With increasing consumer awareness and customer demands in this area, we have to work even more closely with all of our suppliers.

Within Croda we have very clearly defined policies and procedures, such as our Conduct of Conduct, Code of Ethics, SHE Policy (Safety, Health and Environment) and Anti-Bribery and Corruption policy that ensure we act ethically and sustainably across the Group. These are managed by the relevant Group functions.

Our Regional Boards are ultimately responsible for our relationships with suppliers, but on a day to day basis it is our regional Purchasing Managers who own the relationships with their suppliers. They must therefore ensure that our Supplier Code of Conduct is communicated to all suppliers and then seek the most appropriate way to monitor and check their compliance. Where there are any concerns about a supplier an audit will be conducted. In addition to this, our supply chain is an area that is considered in our rigorous Risk Management Framework, ensuring that analysis of risks and mitigating measures are implemented by all business Boards across the Group.

For further details on our strategy, 2012 performance and future targets for the Society see the 2012 Sustainability Report, pages 29-37.

**Product Responsibility**

Our Material Issues relating to Product Responsibility and how we manage these are:

**Product Data Gathering** – To ensure that we are leaders in the quality and quantity of product data to support all future customer needs and to allow further in depth sustainability analysis of our products internally
In order to ensure that we can continue to manufacture our products and to look for opportunities to enhance their environmental profile, it is very important to the Company and its stakeholders that we have an extensive amount of data to hand on the products we make. This data goes beyond what is required for regulatory purposes. Our aim is to build a detailed picture of the sourcing of each raw material used to make our products and the impact those products have on the environment from origin to final use.

The programme that we have in place to build this database and gather the information is called Ingredient Sustainability. It relies on a number of departments within the Group working together to gather the data. The programme is sponsored by our Group Executive Committee and is being coordinated by our Product Assurance Manager who is running the collaboration between their department, the Product Safety and Regulatory Affairs department and each of our manufacturing Site Directors, who will provide detailed and accurate data relating to the resources used to make each product.

Our Product Safety and Regulatory Affairs department and Product Assurance Data team, which include customer complaints, are responsible for product and quality management. We have a number of Group (global) and regional policies that are implemented as part of our controls to ensure that we do all we can to avoid product recalls. These include:

- Substantiation of marketing claims – managed regionally
- Recall procedure – managed globally
- Analytical testing – managed globally
- Product extensions – managed globally
- Application controls – managed regionally
- Product change management – managed globally

Every product that we sell has a Material Safety Data Sheet (MSDS), which accompanies every product dispatch and are publicly available online. An MSDS is a detailed informational document that describes the physical and chemical properties of the product. Information aids the selection of safe products, helps those coming in contact with the product to understand the potential health and physical hazards of a chemical and describes how to respond effectively to exposure situations.

**Renewable Raw Materials** – To ensure that our product portfolio is sustainable and to dedicate new product development to meeting our customer needs in this area

The developing world is increasing its reliance on oil and other non-renewable material sources; it is clear that these resources are being depleted and the environment cannot support current production levels in the future. To ensure that we can continue to make the products that our customers require, we are committed to developing and manufacturing high performance products from renewable raw materials wherever reasonably practicable.

It is the responsibility of our Research and Development teams across the markets and regions in which we operate to ensure new product design and raw material selection adheres to as many of the 12 Principles of Green Chemistry as possible. This effort is shared with production teams and purchasing managers, as well as sales and marketing directors to ensure that we meet the needs of our customers. Our Group Executive Committee review our use of raw materials and our new product launches against the 12 Principals of Green Chemistry.

For further details on our strategy, 2012 performance and future targets for Product Responsibility see the 2012 Sustainability Report, pages 18-19 and 21.
Economic Performance

EC1 Direct economic value generated and distributed including revenues, operating costs, employee compensation, donations and other community investments, retained earnings and payments to capital providers and governments

Croda again achieved record sales, margins and profits in 2012. Turnover from continuing operations increased by 2.3% to £1,051.9m (2011: £1,028.0m) and operating profit grew by 7.4% to £255.4m (2011: £237.7m), a return on sales of 24.3% (2011: 23.1%). This was driven by strong underlying performance in the two principal business sectors of Consumer Care and Performance Technologies.

Pre-tax profit from continuing operations rose by 6.6% to £253.2m (2011: £237.5m), and earnings per share on the same basis increased by 8.2% to 130.0p (2011: 120.1p).

Further details on our economic value can be found throughout the 2012 Annual Report, an overview can be found in the inside front cover and on pages 1-5. The group’s financial statements can be found on pages 61-98, with our five year record on page 112.

EC2 Financial implications and other risks and opportunities for the organization’s activities due to climate change

Partial Reporting

As an organisation we are aware that climate change is affecting the way that we think about business and the decisions that we make. Within our risk management framework, Group wide impacts and trends including external and emerging risks are identified, including those relating to climate change. Although no specific risks relating to climate change emerged as one our key organisational risks, the effects of climate change on our business have been identified.

As the link between emissions of combustion products such as CO\textsubscript{2} and climate change is now well established, it is essential that as a socially responsible company we reduce the impact of our emissions to a sustainable level. The expectation of all of our stakeholders is that we continue to make progress in reducing discharges of climate change gases.

We are in a strong position to exploit emerging trends related to climate change, with a significant proportion of our raw materials coming from renewable sources and our new product development having a strong focus on products that can help reduce the energy that people and industry consume during manufacture and end use.

Case study

Optimising Our Processes

During 2012, our Leek manufacturing site in the UK installed a combined heat and power plant (CHP), the first of its type at any of our operations. Whilst conventional electricity generation is inefficient, with more than half of the fuel’s energy wasted as heat, CHP plants capture this heat to improve the efficiency of the input fuel by more than 80%. 
Our CHP plant at Leek is made even more sustainable by its fuel source, which is based on renewable materials from our manufacturing processes, reducing the fossil fuel carbon emissions at this site by more than 50%.

We feel that through our emphasis on emerging markets and technologies, we are making our own small contribution, going beyond “not compromising” and actually “enhancing” the capabilities of future generations.

Further details of the Groups risk management processes can be found on pages 16-19 of the 2012 Annual Report.

Further details on how we are tackling the issue of air quality and climate change can be found in GRI Performance Indicators EN3 and EN4 and in our 2012 Sustainability Report on pages 9-10. Further details on how we are tackling the issue of water quality and supply can be found in GRI Performance Indicators EN8 and EN9 and in our 2012 Sustainability Report on page 11.

**EC3 Coverage of the organization’s defined benefit plan obligations**

Partial Reporting

Pension provision forms part of our total employment package, which is aligned to the needs of our employees and the markets in which we operate. We actively encourage employees to join our company pension schemes where available, but we realise that this is a personal choice.

Our pension deficit reduced by £33.1m to £165.8m in 2012 (2011: £198.9m). The main reason for this was a £25.2m Company contribution to the funds (including £20.4m in the UK as part of the deficit reduction schedule agreed following the triennial valuation). The value of the investments also increased due to an improvement in equity markets. We made some changes to the IAS19 assumptions to bring them in line with market norms. The net financial impact of changes in actuarial assumptions on the Group’s pension deficit, including a slight reduction in discount rates, was relatively small. We have agreed to pay £38.4m into the UK fund in 2013, falling to around £20m per annum thereafter.

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<th>Defined benefits plan coverage</th>
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<td>Number of employees covered by defined benefit Schemes</td>
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<td>Expressed as a percentage of Group</td>
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Further details regarding our retirement benefit liabilities, including our defined benefit schemes can be found in the 2012 Annual Report.

**EC4 Significant financial assistance received from government**

During 2012, no significant financial assistance was received from governments and we have no governmental shareholders.

In particular circumstances we do pursue grants from local governments in order to assist our sustainable development plans. For example, our Atlas Point manufacturing site in North America identified an opportunity to use methane gas from a nearby landfill site to generate electricity and steam. A 3.5 mile pipeline was laid in 2012 to connect the two sites, feeding gas to two 1.1 megawatt CHP units and a new multi-fuel steam boiler.

The project, which attracted a £318,000 state grant, has cost over £5.4 million, and is expected to fulfil 55% of the site’s energy needs, delivering more than 85% of its required electricity and more than 35% of its steam load. It will also lift the proportion of Group’s total energy consumption derived from non-fossil fuel sources to more than 23%.
Environmental Performance

EN1 Materials used by weight or volume

The foundation of our business rests upon natural ingredients, with a large percentage of our raw materials originating from renewable sources. Our new product developments also foster this principle, whilst meeting the demands of our customers and the stringent safety standards within our industry. This goes hand in hand with sustainable supply, which is why we continue to be strong advocates for the responsible sourcing of palm oil and its derivatives. To ensure that we make fully informed decisions, we place growing importance on the management of the increasing amounts of data regarding our products and processes.

The focus on sustainable raw materials and greener, cleaner, safer manufacturing methods is continuing to grow in the speciality chemicals industry. Our heritage in naturally derived products puts us at the forefront of this evolution, with sustainability embedded in our innovations since the launch of our first product, lanolin.

Our use of renewable raw materials continues to be industry leading, with 66.3% of the materials used to manufacture our products across the Group in 2012 originating from such sources. The purchase of IRB during the year, a company specialising in plant cell biotechnology, further strengthens our position in this area.

Throughout 2012, we have continued to monitor the percentage of renewable raw materials within the new products we launched across our market sectors, even those where demand and functionality makes this challenging.

In total, 30% of our new products originated from 99% or more renewable raw materials, with over half of these products coming from 100% renewable sources. It is often the required preservative that makes the difference between 99% and 100%, but our sustainable product innovation in this area is overcoming some of these difficulties. The average percentage of renewable materials across all of the products that we launched in 2012 was 60.2%.

New products from 100% renewable raw material sources include additions to our NatraGem™ range of solubilisers and emulsifiers, our Priplast™ polyester polyol range and our NatraSense™ range of bio-based surfactants. These all match or outperform their petrochemical equivalents.

We also continued to measure our new products against the 12 Principles of Green Chemistry. The average score for 2012 was nine, with 16% of our new products meeting all 12 principles.

We have supported the supply of sustainable palm oil (PO) through the Book & Claim route during 2012, purchasing GreenPalm Certificates for the 300 tonnes of pure PO and palm kernel oil (PKO) that we used during the year.

As our consumption of PO derivatives is much larger than that of pure PO or PKO, we have been eager to pursue sustainable sources. Therefore, we proactively engaged with all of our suppliers around the world, and as a result, we were able to work with our suppliers who are able to offer sustainable palm derivatives using the Mass Balance Process. This led to our Jurong Island manufacturing site in Singapore gaining certification under the RSPO Supply Chain standard.
Further details on our performance against the key material issues of renewable raw materials and palm oil sourcing can be found on pages 18-19 and 20 respectively of the 2012 Sustainability Report.

**EN3 Direct energy consumption by primary energy source**

At Croda, we have now carefully measured emissions of gases implicated in climate change for more than 15 years and have consistently set targets for reduction. Increasingly demanding targets have been set for 2015 by our Group Executive Committee under the guidance of the SHE Steering Committee. To ensure actions can be taken to bring about change, all major SHE targets are set over a five year time period. A strategy for further significant change beyond 2015 is already in place.

In 2012, compared to our 2010 baseline year, total energy consumption was reduced by 5.8% to 2,643 TJ (terajoules) for continuing operations. This was due to the implementation of a large number of energy saving projects, including:

- Commissioning of combined heat and power (CHP) plant at Atlas Point;
- “Gouda Goes Green” campaign; and
- process optimisation at Leek.

We have increased the amount of renewable energy that we produce considerably, with 15.2% of the Group’s energy now coming from non-fossil fuel sources. Direct energy sold from our wind turbine back to the national grid was 15.3% of the energy it produced in 2012.

Further details on how we are tackling the issue of air quality and climate change can be found in GRI Performance Indicator EN4 and in our 2012 Sustainability Report on pages 9-10.

**EN4 Indirect energy consumption by primary source**
In 2012, we calculated that indirect energy to produce products totalled 1,116 TJ (terajoules) for continuing operations. This is a 5.5% decrease in indirect energy usage compared to our 2010 baseline, and in 2012 our use of energy from non-fossil sources increased to 44.8%.

Note - These figures are calculated from data published by the IEA (International Energy Agency) for 2009 and not from individual supplier data. Details of these statistics can be found in the IEA 2011 Report, which has since been made available on their website http://www.iea.org/co2highlights/co2highlights.pdf

Further details on how we are tackling the issue of air quality and climate change can be found in GRI Performance Indicator EN3 and in our 2012 Sustainability Report on pages 9-10.
We have set targets for reducing total water usage, whether supplied or abstracted directly and have established a longer term vision for further reductions. Our current target is to reduce total Group water consumption by 10% by 2015, using 2010 the baseline.

By firstly focusing on reducing the impact of our largest consumers of water, and then turning our attentions to those who are abstracting water from depleting or stressed sources, we will underpin the sustainability of our operations. We will also minimise our impact as low as reasonably practicable and demonstrate to local stakeholders that we operate responsibly and take environmental stewardship very seriously.

In 2012 the amount of water used by our manufacturing sites was 7.5% lower than 2010. However, during the same period our production output has experienced a reduction, but the savings made due to a number of projects that we implemented should become clear during 2013. These include:

- equipment and process improvements at Mevisa
- equipment and process improvements at Jurong Island
- water reduction projects at Gouda site
Further details on how we are tackling the issue of water quality and supply can be found on page 11 of the 2012 Sustainability Report.

**EN9 Water sources significantly affected by withdrawal of water**

A review of our 17 manufacturing sites identified that none of our sites withdraw water from Ramsar-listed wetland areas, or any areas recognised as particularly sensitive. Nor do our withdrawals account for more than five percent of the annual average volume of a given water body.

However, whilst our operations are not in regions where resources are under immediate threat, we remain committed to reducing our impact on this depleting resource.

We measure the total volume of water used by our processes from all sources. Focusing on our sites that use the highest volumes, we strive to reduce our requirement as far as reasonably practicable. We have a target to reduce our total Group water consumption by 10% by 2015 compared to 2010, by the end of 2012 we had already achieved a 7.5% reduction.

By measuring the quantity of oxygen demand in effluent arising from our processes before treatment, we are able to gain greater insight into our process efficiency. This allows us to identify improvement projects, leading to reduced expenditure on effluent treatments and supporting our target of 100% compliance with effluent discharge consents.

A project at our Gouda manufacturing site in Holland, which currently consumes the Group’s largest volume of water using 2.75 million cubic metres in 2012, has identified an opportunity to replace the plant that treats groundwater for use as boiler feed water with new technology that purifies effluent. By using this method, and by moving cooling duty to a closed cooling tower system, the use of groundwater can be stopped completely, which will be more than a one third water saving on this site alone.

Our total water withdrawn by source is identified in Performance Indicator EN8. Further details on how we are tackling the issue of water quality and supply can be found on page 11 of the 2012 Sustainability Report.

**EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas**

A review of the locations of our 17 manufacturing sites did not identify any sites that are located in, or adjacent to protected areas, or in areas of high biodiversity according to the Ramsar Convention on Wetlands and UNESCO World Heritage Sites.

We have identified that six of our manufacturing sites are close to some areas of high biodiversity, which are Hull (UK), Rawcliffe Bridge (UK), Campinas (Brazil), Mevisa (Spain), Cikarang (Indonesia) and Shiga (Japan). We are managing the environmental impact of these sites at a local level and setting targets to ensure that we minimise our impact on the environment by effectively managing the material business risks of Air Quality and Climate Change, Water Quality and Supply and Land Impact.

Our operation at Hull is near the Humber estuary, which is designated as a Special Area of Conservation (SAC) and a Special Protection Area (SPA), as well as being designated as a UNESCO Ramsar Wetland. The river next to the site leads to the Humber estuary and we have a local team in place to continually monitor our effluent discharge. We have also instigated a number of projects on the site to encourage biodiversity including: planting indigenous trees on the boundary of the site to support local wildlife and re-establishing a marsh and pond area on site to support local biodiversity. A biodiversity study will be conducted at the site during 2013 by an independent expert.

Our operation at Shiga is near to Biwa-ko, the largest freshwater lake in Japan, which is designated as a UNESCO Ramsar Wetland. The river Uryu is next to the site and leads to Biwa-ko, but as at our Hull site, we have a local team in place that continually monitors our water usage and effluent discharge. Our management teams and SHE experts are working hard at Shiga to reduce our water usage, which will reduce our local environmental impact. A team from the site also volunteers every year to help manage the river weeds along the Urya to support local biodiversity.

Over the past five years, our Mevisa manufacturing site in Spain has gone through major expansion, requiring the site’s utilities to undergo a number of upgrades. These upgrades have included an expanded effluent treatment plant to increase the volume of water that can be treated on a daily basis, whilst maintaining a COD discharge level well below the legal limit. They have invested in improved cooling and refrigeration systems to increase the recirculation of cooling water from approximately 55% to approximately 75%. This has reduced water extraction by the site from the stressed local aquifer.

Further details on how we are tackling key environmental issues can be found on pages 8-12 of the 2012 Sustainability Report.
We understand that our operations may have an impact upon local biodiversity and we take the stewardship of our own land very seriously. Therefore, we will continue to review our impact on land, water and air.

For more than 15 years we have carefully monitored our environmental impact and set targets to reduce this at all of our manufacturing sites. Reductions in energy and water usage, emissions to air and water and waste production, which has a continuing positive effect in reducing our impact on biodiversity in the areas in which we operate.

In particular, our emissions and waste production have been carefully monitored by our Safety Health and Environment (SHE) group to ensure that we reduce our impact wherever possible and are responsible in the disposal of liquid effluent or solid waste. In 2012, our sites were 99.7% compliant with liquid effluent discharge consents and we have set a target of increasing our compliance to 100% by 2015. We also reduced our waste to landfill by 50% in 2012 compared to our 2010 baseline. In 2013, we will continue to make progress against our 2015 environmental targets, with the additional target of completing pilot biodiversity surveys at two of our operations by the end of the year.

As a specialty chemical company based on natural raw materials, we are very proactive in investing and developing new sustainable technologies and product innovations. An example of this is our use of plant cell culture at Sederma and our acquisition of IRB in 2012, where plant cells are used to produce a range of natural molecules with unique performance characteristics. The most significant benefit of this technology is the preservation of the environment as the process can start from a very small fragment of plant leaf or root. The culturing of plant cells does not require fertilisers, pesticides or land use and can take place at any time of the year.

Our new product development teams are committed to making our products as environmentally friendly as reasonably practicable and each year we measure and report new launches against the 12 Principles of Green Chemistry. A number of these principles relate to potential environmental effects that could harm biodiversity including, toxicity, hazardous by-products, persistence and chemical accidents. We aim to reduce the use of environmentally harmful chemicals by finding greener, safer alternatives and always take precautions with any chemicals that could pose a risk to the environment, often going beyond the standards required by legislation. In 2012, the average score for our new product launches was nine, with 16% meeting all 12 principles.

There are a number of key areas where we have influenced our suppliers and customers to provide sustainably sourced raw materials to ensure the preservation of biodiversity.

**Case study**

**Eradicating the use of Shark Squalane**

Squalane is a widely used and important ingredient in many prestige cosmetics. It is supplied from two sources, shark and vegetable oil. Squalane derived from sharks is unsustainable. Deep sea sharks are some of the most vulnerable species and many are classified as endangered by the International Union for Conservation of Nature (IUCN). Croda manufactures Squalane only from 100% vegetable sources.

Since it is not obvious which source of Squalane is being supplied from its profile, we have devised an analytical method, both quantitative and qualitative, which can distinguish between vegetable and shark derived Squalane. This analysis can also be used to detect traces of shark derived Squalane within that of vegetable origin and can be applied to both raw materials and finished cosmetic formulations. This method clearly identifies the source of Squalane and will prevent shark material being incorrectly traded as vegetable origin and will also prevent the blending of both types. As a result, this will serve to help remove shark Squalane from cosmetics to protect this endangered species.

**Case study**

**Sustainable Palm Oil Sourcing**

We joined the leading global body working towards a sustainable supply chain, the Roundtable on Sustainable Palm Oil (RSPO), when it was created in 2004 to do what we can to support and promote sustainable palm oil in our supply chain. We remain active members, in particular in the RSPO Derivatives Working Group, which is where our main interests lie and where we can have the greatest impact.
We have supported the supply of sustainable PO through the Book and Claim route during 2012; purchasing GreenPalm Certificates for the 300 tonnes of pure PO and PKO that we used during the year.

As our consumption of PO derivatives is much larger than that of pure PO or PKO, we have been eager to pursue sustainable sources. Therefore, we proactively engaged with all of our suppliers around the world, and as a result, we were able to work with our suppliers who are able to offer sustainable palm derivatives using the Mass Balance process. This led to our Jurong Island manufacturing site in Singapore gaining certification under the RSPO Supply Chain standard.

During 2012, we also engaged with the British Association for Chemical Specialities (BACS) on the issues surrounding sustainable PO and derivatives. Together with other members, we played a vital role in advising the UK government department, Defra, on the problems facing the derivatives market. We also provided input into a nationwide statement outlining the country’s commitment to a sustainable supply of PO products.

For our full statement on sustainable palm oil visit www.croda.com/palmoilstatement

Further details on how we are tackling specific issues of biodiversity can be found in Performance Indicators EN11 and EN15. More information about how we minimise the environmental impact of our products can be found in Performance Indicators PR1 and PR3.

Further details on how we are tackling the issues of responsible sourcing and ethical supply chain can be found on pages 8-12 and 17-21 respectively of the 2012 Sustainability Report.

EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk

We have 17 manufacturing sites located across the globe and we aim to minimise the impact of our operations on the environment and biodiversity as part of our vision to be an ethical and responsible business.

We take any local action required to combat any negative environmental impact at each of our sites. Although some of our manufacturing sites operate near areas of importance for biodiversity, we have not identified any areas of concern as a direct result of our operations; we will continue to monitor this situation.

Our Research and Development teams use the 12 Principles of Green Chemistry and measure the percentage of renewable raw materials in our new product developments. We continue to develop new more sustainable production methods and products that reduce our environmental impact and that of our customers and we work within our supply chain, with particular attention given to areas where we have significant influence such as those outlined in Performance Indicator EN12.

Further details on how we are tackling the issues of responsible sourcing and ethical supply chain can be found on pages 8-12 and 17-21 respectively of the 2012 Sustainability Report.

EN16 Total direct and indirect greenhouse gas emissions by weight

As reported in Environmental Performance Indicators EN3 and EN4, we have measured emissions of gases implicated in climate change and have consistently set targets for reduction.

In 2012 out total CO₂ emissions for continuing operations fell to 184,019 tonnes, a reduction of 7.1% compared to 2010. This is due to a reduction in total energy consumption and an increasing use of energy from non-fossil sources.

It is the responsibility of all manufacturing Site Directors to implement improvements in both plant and operational practices, which contribute to a reduction in the amount of CO₂ and other greenhouse gases produced. Our Group Executive Committee will continue to support this through the approval of relevant capital expenditure, which will also include activities at our offices where appropriate.
Further details on how we are tackling the issue of air quality and climate change can be found in GRI Performance Indicators EN3 and EN4 and in our 2012 Sustainability Report on pages 9-10.

**EN20 NO\textsubscript{x}, SO\textsubscript{x}, and other significant air emissions by type and weight**

Our primary focus is on reducing our direct CO\textsubscript{2} outputs since the contribution from our Volatile Organic Compound (VOC) emissions is much less significant, although we continue to set VOC targets and review our performance in order to minimise our impact wherever possible.

During 2012, we made further progress against our target to reduce VOC emissions with the relocation of a manufacturing process from our Rawcliffe Bridge manufacturing site in the UK to a new more efficient manufacturing plant in Leek, also in the UK.

The global figures for NO\textsubscript{x} and SO\textsubscript{x} emissions in 2012 were 507 and 1,042 tonnes respectively.

We do not directly measure emissions of NO\textsubscript{x} and SO\textsubscript{x} due to the complexity of accurate measurement, therefore CIA Responsible Care Indicators of Performance conversion factors were used to derive these figures for electricity generation and combustion fuels.

Further details on how we are tackling the issue of air quality and climate change can be found in GRI Performance Indicators EN3 and EN4 and in our 2012 Sustainability Report on pages 9-10.

**EN21 Total water discharge by quality and destination**

Our compliance with effluent discharge consents increased from 99.2% in 2011 to 99.7% in 2012. The reasons for the 0.3% of effluent that did not comply with discharge consents during 2012 are now well understood and work will continue to address each of these issues to ensure that we are able to work towards our 2015 target in this area:

- To achieve 100% compliance with effluent discharge consents by 2015
Our target to create the capability of measuring the volume of effluent arising from our processes prior to its pre-treatment and its associated content of organic material has been met ahead of schedule and is now being used to inform our further improvement plans.

Further details on how we are tackling the issue of water quality and supply can be found on page 11 of the 2012 Sustainability Report.

**EN22 Total weight of waste by type and disposal method**

We recognise that the deposition of waste to landfill is not sustainable, permanently modifying land and potentially introducing contamination to both air and water. As a result, a detailed list of all landfill waste arising from each of our manufacturing sites has been produced and the feasibility of eliminating, reducing or recycling this waste is being studied.

We are proud to announce that our five year target to reduce waste to landfill by 20% has already been surpassed, with an impressive reduction in our disposal standing at 50% by the end of 2012. Additionally, six of our manufacturing sites achieved zero waste to landfill during 2012.

We aspire to a goal of zero waste to landfill, although we know cost and feasibility will be increasingly challenging.

In 2012 the total breakdown of weight of hazardous and non-hazardous waste was 5,825.13 tonnes (14.1%) and 41,429.61 tonnes (85.9%) respectively. The total waste produced during 2012 was 1.3% less than in 2010 at 41,429.61 tonnes.
Our objective relating to waste for 2015 based on 2010 levels is:

- Based on 2010, to reduce total Group waste to landfill by 20% by 2015

Details on how we are tackling the issue of landfill waste can be found on page 12 of the 2012 Sustainability Report.

**EN23 Total number and volume of significant spills**

There were no significant or reportable spills across all of our operations in 2012.

**EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation**

Our approach to reducing our environmental impact focusses on the material issues that we have identified as most important to Croda and our stakeholders. Examples of the action that we are taking to mitigate our environmental impact are given below.

**Air Quality & Climate Change**

To reduce the emissions of greenhouse gases to the environment from our manufacturing sites to ensure that we progress towards more sustainable operations.

**Case study**

**No Such Thing as Waste**

Our Atlas Point manufacturing site in North America identified an opportunity to use methane gas from a nearby landfill site to generate electricity and steam. A 3.5 mile pipeline was laid in 2012 to connect the two sites, feeding gas to two 1.1 megawatt CHP units and a new multi-fuel steam boiler.

The project, which attracted a £318,000 state grant, has cost over £5.4 million and is expected to fulfil 55% of the site’s energy needs, delivering more than 85% of its required electricity and more than 35% of its steam load. It should also lift the proportion of the Group's total energy consumption derived from non-fossil fuel sources to more than 23%.

**Water Quality & Supply**

To minimise the environmental burden arising from water consumption and waste water discharges from our manufacturing sites
Gouda Goes Greener

Our Gouda manufacturing site in Holland currently consumes the Group’s largest volume of water, using 2.75 million cubic metres in 2012. However, the site has identified an opportunity to replace the plant that treats groundwater for use as boiler feed water with new technology that purifies effluent. By using this method, and by moving cooling duty to a closed cooling tower system, the use of groundwater can be stopped completely.

This new process purifies the effluent by separating solids through the use of membranes and removes salts by reverse osmosis. As a result, the existing calcium pre-treatment stage required when using groundwater is eliminated, reducing the amount of additional chemicals in the process and the quantity of salt discharged to the environment. Once operational at full site scale, more than one third of the current water volume used should be saved.

Landfill Impact

To mitigate the environmental burden our activities place on land, water and air by seeking to preserve biodiversity and phase out the disposal of waste to landfill.

Case study

Waste Down, Quality Up

Our Atlas Point manufacturing site in North America has seen an impressive reduction in waste disposal to landfill over the past two years, falling from 962 tonnes in 2010 to 659 tonnes in 2012. This 32% reduction has been the result of targeting improvements in the site’s first pass quality (FPQ) rate, which has increased from 82.0% to 99.4%.

This was achieved by establishing FPQ as a priority goal both for individuals and the manufacturing site. Historical data on failures was gathered and analysed by production area and product, allowing the root cause of each to be determined. Actions to address these were then agreed and any relevant upgrades to equipment, amendments to operating procedures and work instructions were made. By ensuring that all successful changes were embedded into normal operations, the site expect to sustain this performance, which delivers an environmental, economic and consequently a social benefit as manufacturing efficiency increases.

Process Safety Management

To reduce the risks associated with all of our chemical processes to a point deemed to be as low as reasonably practicable (ALARP).

Case study

Quarterly KPI Monitoring

A new comprehensive set of balanced process safety Key Performance Indicators (KPIs) was implemented across all of our manufacturing sites at the beginning of 2012, these KPIs include:

- Efficiency of the Permit to Work system on each site
- Efficiency of the Management of Change system on each site
- Efficiency of systems for inspection of safety critical equipment
- Demands on the final layers of control and protection of a process
- Rate of completion of actions arising from PRAs.

Used on a quarterly basis to highlight leading and lagging performance to the Group SHE steering committee, these indicators are designed to give an early indication of where improvements can be made to members of our Group Executive Committee and their Managing Directors of Operations.

This preventative measure has proven successful during its first year, allowing our senior business managers to react to potential areas of underperformance before they became a major issue.

Renewable Raw Materials

To ensure our product portfolio is sustainable and to dedicate new product development to meeting our customer needs in this area.
Case study

Sustainable, Efficacious Innovation

We were delighted to announce the acquisition of Italian based Istituto di Ricerche Biotecnologiche SpA (IRB) in July 2012, the world leader in developing actives for Personal Care and Health Care applications from plant stem cells. This innovative, sustainable and renewable raw material source complements the product developments of our research team at Sederma, who launched our first product in this area Resistem™, in 2011. IRB has an exclusive, versatile method to use biotechnology for sourcing plant stem cell ingredients from small amounts of leaf, flower and even seed tissue.

This process allows a truly sustainable path to plant based active ingredients and ensures a total absence of environmental contaminants. Comparative data against conventional agriculture shows a 99.9% decrease in water consumption, guaranteed purity with negligible soil occupation and the total absence of pesticides or other contaminants.

Case study

Bio-Based Building Blocks

Our Coatings and Polymers team launched another 100% bio-based polyester polyols to our Priplast™ range. Like other products in the range, Priplast 3293 which can be used in adhesives, coatings, foams, elastomers and engineering plastics. It can also be included in polyurethane, offering protection against high temperatures and UV rays. Priplast’s impart excellent hydrolytic stability for resistance against degradation caused by acid, alkali and alcohol, allowing for countless application possibilities.

Case study

Sustainable Construction

During 2012, a unique carbon neutral masonry brick was developed by Encos using a product from our BioStack range. Offering the ability to produce a high performing binder based on renewable biopolymer chemistry, this range provides an innovative route to sustainable new products for the construction industry. Combined with Encos’ patented method of manufacture, the production of these new bricks consumes no water, eliminates waste and uses 80% less energy compared to the construction of traditional clay bricks and brick slips.

Responsible Palm Oil Sourcing

To fully support sustainable Palm Oil and Palm Kernel Oil and to keep working with the industry to secure a sustainable source of derivatives

Case study

Leading the Way to Sustainable Derivatives

During 2012, we elected to have the management system at our Jurong Island manufacturing site in Singapore certified under the Mass Balance module of the RSPO Supply Chain standard. As a result, we are now able to offer a wide range of products that support sustainable PO and PKO according to RSPO guidelines. We consider Mass Balance to be a very important advancement on Book and Claim, because it involves the actual supply chain through the processing of PO and PKO derivatives from sustainably certified plantations.

We have set a number of targets in these areas to help to reduce the environmental impact from our operations and products. Details of these targets can be found on pages 6-7 of the 2012 Sustainability Report.

Further details on how we are reducing our environmental impact can be found throughout the 2012 Sustainability Report.
EN28 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations

In 2012 there were no prosecutions against the Group and no non-monetary sanctions to report.
Human Rights Performance

HR5 Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights

We ensure our policies are consistent with the spirit and intent of ILO’s Declaration on Fundamental Principles and Rights at work, where applicable to business. Our Group Policy on Trade Union Membership states that Croda International Plc recognises that all its employees have the right to freedom of association. The Company will not interfere in the legitimate activities of Trades Unions at Croda sites.

The Company recognises that every employee has the right to join or remain a member of a Trade Union if they wish to do so. Equally the Company recognises that every employee has the right not to join or to leave a Trade Union if they wish to do so. The Company will not seek to persuade any employee, potential or otherwise, to join or leave any Trade Union or other workers’ association.

Unless local legislation or legitimate collective agreement requires an alternative approach, the Company will operate as follows:

- During the recruitment process, the Company will not refuse employment on the grounds of Trade Union membership or non-membership nor will it stipulate that membership or non-membership is a condition of employment. The Company will not specify union membership requirements in recruitment adverts, and will not require or expect employment agencies acting on our behalf to do so;
- During employment, the Company will not dismiss, select for redundancy, or allow the detrimental treatment of any employee based solely on the grounds of whether they are a member of a Trade Union or not. Members of Trade Unions will also not be dismissed, selected for redundancy, or suffer any other form of detriment for taking part in union activities or making use of union services; and
- Where local accounting and social security procedures and legislation allow, the Company will enable union members to pay their union subscriptions by deduction from their wages. Employees who wish to take advantage of this should make their request in writing to their local pay department, requesting the deduction be made. Similarly adequate notice must be given to change this arrangement. The individual will then be responsible for ensuring their membership subscriptions are continued.

Whilst all employees have the right to choose whether to be a member of a Trade Union or not, only where there is a specific current local agreement are unions recognised to communicate, negotiate, or consult on behalf of their members.

The above policy is not applicable to our operations in the United States of America, as local legislation requires us to take a different approach.

Further information on how we are tackling human rights issues internally and in our supply chain can be found on pages 25 and 31 of the 2012 Sustainability Report.

HR6 Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour

We ensure our policies are consistent with the spirit and intent of ILO’s Declaration on Fundamental Principles and Rights at work, where applicable to business.

Utilising the Child Labour Index and Map, produced by global risks advisory firm Maplecroft, we have been able to evaluate risks relating to child labour within our operations. This coupled with an audit of the global HR database (HR Pro) identified that in 2011 our youngest employee was 17 years old and is employed as Site Services Operative in Indonesia.

Further information on how we are tackling human rights issues internally and in our supply chain can be found on pages 25 and 31 of the 2012 Sustainability Report.

HR7 Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour

We ensure our policies are consistent with the spirit and intent of ILO’s Declaration on Fundamental Principles and Rights at work, where applicable to business. At Croda we comply with the labour laws of the countries in which we operate and would never endure forced or compulsory labour anywhere in the world.
Further information on how we are tackling human rights issues internally and in our supply chain can be found on pages 25 and 31 of the 2012 Sustainability Report.
Labour Practices & Decent Work Performance

LA1 Total workforce by employment type, employment contract, and region

Like all successful businesses, we recognise that our future depends on our ability to attract and retain individuals who are passionate about personal and business growth and want to make a significant contribution to the future of our business.

In 2012, 60.5% of our workforce was based at manufacturing sites, sales offices and administration centres in Europe. With the remaining 39.5% split between the Americas and Asia Pacific. Within this period only 1.28% of our global workforce was employed on temporary contracts. Many within this group are undergraduate interns or apprentices to whom permanent employment is normally offered upon successful completion of a training period.

<table>
<thead>
<tr>
<th>Total workforce by region</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Europe</td>
<td>1,989</td>
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<tr>
<td>Americas</td>
<td>680</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>619</td>
</tr>
<tr>
<td>Total</td>
<td>3,288</td>
</tr>
</tbody>
</table>

LA1 Total Workforce by Employment Type

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>15%</td>
</tr>
<tr>
<td>2009</td>
<td>10%</td>
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<td>2010</td>
<td>10%</td>
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<tr>
<td>2011</td>
<td>10%</td>
</tr>
<tr>
<td>2012</td>
<td>10%</td>
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</tbody>
</table>

Partial Reporting

Employee turnover across the Group continues to remain low with our voluntary turnover averaging 7% (with 4% from resignations), which is comparable to the industry average.

<table>
<thead>
<tr>
<th>Year</th>
<th>Resignation</th>
<th>Voluntary Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
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<tr>
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<tr>
<td>2010</td>
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</tr>
<tr>
<td>2011</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>2012</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>
Further details on how we are tackling the issue of recruitment and retention can be found on pages 23 of the 2012 Sustainability Report.

LA6 Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs

The reporting of incidents is actively encouraged across all areas of the business and is the responsibility of the SHE Manager in each of our operations. All significant incidents and near misses are investigated by SHE officers across the Group, with the ultimate management of such reviews resting with our Group Executive Committee, which receive a quarterly report through the SHE Steering Committee. In addition to this, our Risk Management procedure ensures that all of our Regional Boards review potential health and safety risks at least twice per year.

Health and safety committees operate at each of our manufacturing sites and offices with representation from all employee levels on each site. Formal consultation is a requirement laid down in our Group Safety Health & Environment Manual, and there is a requirement for regular meetings to take place at each of our manufacturing sites and offices. Each of our operations is required to refresh its safety awareness and behavioural safety programmes regularly.

As such, all of our 3,288 employees worldwide should be represented on a joint management and labour health and safety committee, more than 75% of the total.

Further details on how we are tackling health and safety issues can be found on page 15-16 of the 2012 Sustainability Report.

LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region

No one should expect to be injured when they work at any of our manufacturing sites or offices; this includes our contractors as well as our employees. As we continually strive to improve upon our injury rate, we have implemented a three point management approach: we focus our attention on the manufacturing sites that consistently show a below Group average performance; we are improving incident investigation methodology; and we ensure that each site has an active behavioural safety programme.

In order to meet our target in this area, there must be sustained year on year improvement in the frequency of injuries to ultimately reduce the lost time injury rate to 0.2 per 100,000 hours worked on a sustainable basis.

Our injury rate remains below the industry average at 0.30 injuries per 100,000 hours worked during 2012. Considering the lost time injury measures of one day or more, employee injury numbers have been sustained at 15 during 2011 and 2012. Looking at the more traditional measure of a lost time injury rate of three or more days, employee injury numbers were at a new low of 11, equivalent to a frequency of 0.19 injuries per 100,000 hours worked. It is disappointing that contractor injury numbers have not consistently fallen, this remains an area of continued focus.

As in previous years, it is worth noting that very few of the injuries sustained in 2012 were of a serious nature or related to chemical handling, therefore our strategy is to focus on training and changing the behaviours of our people.

The injury rate does not include minor injuries and refers to recordable injuries that are defined under RIDDOR.

<table>
<thead>
<tr>
<th></th>
<th>Lost Time and Restricted Work Injuries of One Day or More</th>
<th>Lost Time and Restricted Work Injuries of Three or More Days</th>
<th>Lost Time Injury Rate per 100,000 hours worked</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Employee Injuries</td>
<td>Number of Contractor Injuries</td>
<td>Number of Employee Injuries</td>
<td>Number of Contractor Injuries</td>
</tr>
<tr>
<td>2010</td>
<td>21</td>
<td>18</td>
<td>3</td>
</tr>
<tr>
<td>2011</td>
<td>16</td>
<td>14</td>
<td>2</td>
</tr>
<tr>
<td>2012</td>
<td>15</td>
<td>11</td>
<td>6</td>
</tr>
</tbody>
</table>

There were no work related fatalities during the reporting period.
During 2012 the cost of absence increased to £1.69m from £1.6m in 2011, which is just under a 3% rise when you take into account an average 3% pay increase during the year.

Further details on how we are tackling the issue of health and safety, compensation and benefits and performance management can be found on pages 15-16, 24 and 28 respectively in the 2012 Sustainability Report.

**LA10 Average hours of training per year per employee by employee category**

Partial Reporting

It is only through the continual development of our workforce that we will be able to meet the future demands of our customers in relation to enhanced creativity, innovation and service.

Our global competency framework and appraisal system, Croda Aspire, allows us to monitor the development, performance and potential of each of our employees. To help grow and retain our talented people, we must continue to invest both internally and externally in training programmes, graduate and apprenticeship schemes, coaching, leadership development and supporting those studying for formal qualifications.

<table>
<thead>
<tr>
<th>Average hours of training per employee</th>
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<tr>
<td>Total hours of training for all employees</td>
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<tr>
<td>Employees receiving training (as percentage of group)</td>
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<tr>
<td>(85.6%)</td>
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<tr>
<td>Average hours of training per employee</td>
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<tr>
<td>Average hours of training for those who received training</td>
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</table>

**LA10 Average Hours of Training per Year**

- To make personal skills development accessible to all through the development of a comprehensive online learning zone by the end of 2013.
- During 2013, support our talent management procedures by coaching and actively involving senior managers, and their teams, in the identification and effective management of talent.

Further details on how we are tackling the issue of talent management and employee development can be found on pages 26-27 of the 2012 Sustainability Report.

**LA11 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings**

Partial Reporting
At Croda we promote learning and training at all levels of our organisations, with 85.6% of our employees receiving training during 2012. We offer a variety of training options including internal training courses delivered by our human resources department, funding for external training courses where relevant training cannot be provided internally, as well as funding and support for educational development. A number of our employees have completed part-time or distance learning degree programmes relevant to their position or career development, both funded and supported by Croda.

In particular we offer a New Manager Development Programme, which has been externally accredited through the University of Derby, with managers now receiving a Higher Education Diploma in Managing People upon completion of the programme.

Where applicable we also bring in the expertise of external training providers to enhance the skills and behaviours of our employees.

The quality and relevance of training and development activities became more focused in 2012, through improvements in the identification of personal development needs. We have brought forward the launch of our online learning zone to the end of 2013, which will take our performance development, learning delivery and accessibility to the next level, allowing all employees to have access to the training that is most relevant to them.

Further details on how we are tackling the issue of talent management and employee development can be found on page 26-27 of the 2012 Sustainability Report.
Society Performance

SO1 Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting

Interaction with local communities has always been a major part of our culture. We are aware that our activities have a direct impact on the communities surrounding our operations, particularly our manufacturing sites and large offices. Our mission is to ensure that our proactive, engaging approach to community communication, involvement and education enhances our relationships and supports our local communities, whilst also improving employee morale and skills.

The 'Croda in the Community' policy statement describes our intent to be a good neighbour, not only by managing our own affairs in a proper manner, but by also reaching out to support and relate to the local community. Specifically, we are committed to four elements of engagement with our neighbours:

- protecting the community;
- employment for the community;
- standards within the community; and
- engaging with the community.

It is our aim to ensure that the positive manner in which we communicate with our neighbours has a number of benefits for both parties. Activities should focus on enhancing trust, increasing knowledge of our activities, helping our employees to plan effectively, motivate others and generate goodwill. Consequently, the continual development of local community communication plans will support our growth targets.

Our involvement in the local community aims to deliver against a broad array of objectives. Firstly, it satisfies our corporate desire “to do the right thing”, ensuring that we invest in our communities and play our part in ensuring they are appropriately supported. Secondly, it is a great way to motivate employees, helping them to feel that they are part of a business that values the communities in which it operates.

Our strategy is to ensure that our employee volunteering programme, the 1% Club, will continue to play a significant role in meeting many of our employee development targets, and will continue to be a means by which we can illustrate our commitment to supporting many local issues in the areas in which we operate and those where our employees live.

Since the global launch of the 1% Club in 2010, we have seen a significant increase in activity and participation, largely through our network of 1% Club Champions. These Champions work at every site that we operate which allows our community activity to be meeting local needs and ensures that all of our operations take ownership of their engagement activities.

We believe that enhancing our investment in community education will only serve to further improve our external reputation, thus leading to a positive impact on our ability to recruit new personnel. Our business is steeped in scientific heritage and our business model is based on the delivery of market led innovation. Also, with the number of students studying science, engineering and technology in decline, we feel that we have a duty to encourage and educate young people about the benefits of a scientific education.

Further details on how we are tackling the issue of community engagement, involvement and education can be found on pages 32-37 of the 2012 Sustainability Report.

SO2 Percentage and total number of business units analysed for risks related to corruption

Identification of organisational risks relating to corruption was undertaken by overlaying the territorial analysis of turnover with the risk corruption index map from a recognised provider (Transparency International). Territories identified as being at higher risk of corruption and which generated material turnover were discussed in more detail with locally knowledgeable management to identify any specific areas of concern.

Further details on Croda’s risk management can be found on pages 16-19 of the 2012 Annual Report.

SO3 Percentage of employees trained in organization’s anti-corruption policies and procedures

Following implementation of the Bribery Act 2010 in 2011, and as part of a wide ranging compliance review, we instituted a Group wide training programme incorporating issues raised by this legislation.
Employees who are most likely to be exposed to bribery related issues due to their function or location are required to complete online training. The course involves employees being taken through numerous scenarios relevant to our business and it cannot be completed successfully without passing a test.

In 2011, training was completed by all managers and non-managers who were identified, which was a total of 1,405 employees including 420 managers. In 2012, further 597 employees completed the course and all relevant new employees will be required to take and pass the test in the future.

In addition to the online training, senior management received further guidance in respect of the Act, detailing how the Company's policies and procedures work to ensure compliance.

Further information on Croda's approach to countering bribery and corruption can be found on the company website www.croda.com under company policies.

SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country

Our Code of Ethics states that "We will not make political donations anywhere in the world." The full Code of Ethics can be found on www.croda.com under company policies. No donations were made for political purposes in 2012 in accordance with our Code of Ethics.

SO7 Total number of legal actions for anticompetitive behaviour, anti-trust, and monopoly practices and their outcomes

In 2012, there were no legal actions initiated under national or international laws against Croda for the purposes of regulating anti-competitive behaviour, anti-trust, or monopoly practices.
Product Responsibility Performance

PR1 Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures

The chemical industry is, in general, a heavily regulated industry; we ensure that we adhere to existing and new regulations as well as adhering to relevant voluntary codes. We are also members of a number of associations and committees that advise on chemical legislation and voluntary codes, and have a number of key roles in these associations and committees.

We aim to address potential health and safety impacts across our product ranges throughout their lifecycle, from our new product development through to the ultimate disposal/consumption of our products. As a business to business company our products are not available directly to consumers, but are incorporated into many thousands of products that are used every day worldwide. As such, we have a responsibility to not only our customers, but also end consumers regarding the health and safety of the products that we develop and manufacture.

Assessment of product risk starts at the product development stage. Product concepts come from a variety of sources, including customer interaction, market awareness and emerging product trends. In all these areas our research teams liaise with our product safety and regulatory affairs department from the beginning of new product development to ensure that products are assessed for their health, safety and environmental effects. Additional screening tests and modelling may be carried out depending on the expected end use of the product to enable safety assessments to be completed by our customers.

Our scientists ensure that our products meet as many of the 12 Principles of Green Chemistry as is reasonably practical. A number of these relate to reducing harm to human health during development, manufacture and end use. Wherever practically possible we stick to the principles relating to health and safety from the 12 Principles of Green Chemistry:

- Wherever reasonably practicable, synthetic methodologies should be designed to use and generate substances that possess little or no toxicity to human health and the environment.
- Chemical products should be designed to preserve efficacy of function while reducing toxicity.
- Chemical products should be designed so that at the end of their function they do not persist in the environment, but do break down into innocuous degradation products.
- Analytical methodologies need to be further developed to allow for real-time, in-process monitoring and control prior to the formation of hazardous substances.
- Substances and the form of a substance used in a chemical process should be chosen to minimize potential for chemical accidents, including releases, explosions, and fires.

These principles are embedded in our new product development processes.

Our product safety and regulatory affairs department ensure that all of our products meet the regulatory requirements of the region or country in which our products are sold. Recently two pieces of legislation namely, Registration, Evaluation, Authorisation and Restriction of Chemical substances (REACH) and United Nations Globally Harmonized System of Classification and Labelling of Chemicals (GHS) have been a particular focus for us and we continue to be fully compliant with both of these pieces of legislation. Under the REACH programme a risk assessment is completed to ensure that any hazard associated with a product is adequately controlled from the manufacture of the product through to its end use and associated service life. This is an on-going process with our higher volume products being assessed first.

Our Product Assurance department will supply certification of our product where required legally or directly requested by our customers. Examples of some of the certificates we provide include product safety information, BSE statements, GMO statements, allergen free statements, residual free statements and product origin.

We have controls in place within our master database system to ensure that a safety data sheet is produced for all products prior to manufacture to ensure that the health and safety aspects can be considered for manufacturing, production, storage, distribution, supply and end product use.

During the manufacture of our products the risks to health and safety are managed by the Safety Health and Environment (SHE) department at each of our manufacturing sites. There are policies and procedures in place to ensure process safety and quality control. 16 manufacturing sites around the world are certified to the ISO 14001 standard and accredited to the OHSAS 18001 standard for Safety Management. We are committed to Responsible Care®, which underlines our commitment to HSE improvement. There are procedures and systems in place to ensure the safe storage of hazardous chemicals; this information is passed on to our customers where applicable. We have systems and
procedures in place to deal with any transportation issue or emergency situation that may affect surrounding communities.

Our sales and marketing teams work closely with our research teams and regulatory department to ensure that any details that are provided to customers relating to health and safety are accurate and reflect the information that is sent out with the products that we supply.

We ensure that all of the products that we supply are accompanied by a material safety data sheet (MSDS), which details any health and safety issues with the product as well as environmental effects such as persistence and bioaccumulation. This goes beyond our legal requirements, where MSDSs are only required in specific circumstances and all of our products are labelled according to regulatory requirement in the regions in which they are sold.

In general our products comprise a small percentage of the final product, so it is a challenge for us to manage the health and safety implications in finished products. By providing good quality information and data to our customers we allow them to make informed decisions and accurately determine if there could be any potential issues for end consumers.

Our control over the ultimate disposal of the goods that contain our products is also limited, however we control what we can by ensuring that our products are as environmentally friendly as possible by examining biodegradability and persistence, and have minimal potential impact to human health in terms of toxicity and bioaccumulation.

Further information on our key material issues can be found throughout the 2012 Sustainability Report.

Further information on associations and committees of which Croda is a member can be found in Profile Disclosure 4.13.

PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes

We have formal procedures in place to capture any non-compliance with regulations or codes relating to the health and safety of our products. We have a formal complaints procedure and all of our customers have at least one sales contact within the business. It is our intention to enhance this procedure to further embed it within our business to capture any issues or areas of potential risk.

During 2012 we were not aware of any incidents relating to non-compliance in this area.

PR3 Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements

Due to strict legislation within the chemical industry in the area of product labelling, we ensure that we conform to all regulations in the regions in which we operate and we aim to exceed these standards where possible.

We require information related to health and safety and the labelling of products from all of our suppliers, this information is collected at each manufacturing site and is passed on to our product safety and regulatory affairs department. In general, this information is received in the form of a material safety data sheet (MSDS), but where we require more information for regulatory purposes we work with our suppliers to gain the data that we require.

All products are assessed against the relevant national and international chemical labelling legislation to ensure that the health, safety and environmental hazards of the product are assessed and the appropriate hazard and precautionary statements are used. Information about safe handling and use of our products is passed on to our customers in MSDSs and product safety information statements.

We work closely with our customers to ensure that our chemicals are sufficiently assessed for safe use in end consumer products and ensure that any environmental or health impacts of our products are identified. As our products are generally used as a small percentage of end consumer goods, the information that we provide to our customers is vital for them to accurately determine any potentially harmful effects of their formulations for consumers or the environment.

Any potentially hazardous effects of our products to human health or the environment are identified and clearly shown on our product labels and in the MSDSs that we provide to our customers. These include, amongst others, biodegradation, persistence, bioaccumulation and toxicity.

Further information about the health and safety of our products can be found in the Performance Indicator PR1.

PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes
We continue to monitor and adapt to any changes in national and international chemical labelling legislation across the world.

During 2012 we were aware of seven isolated incidents where labelling did not meet local requirements as legislative boundaries changed between regions. We rectified these issues as soon as they were identified and at no time was health and safety compromised. It is Croda policy that all products are supplied with a Material Safety Data Sheet (MSDS), which is a detailed informational document that describes the physical and chemical properties of the product.

PR6 Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship

As a business to business organisation we are not required to comply with the marketing standards that would apply to consumer facing companies.

However, we strive to maintain an awareness and conformance, where appropriate, to national and local laws and voluntary codes or guidelines, from entities such as the Food and Drug Administration (FDA), the European Food Safety Authority (EFSA), the European Commission, Cosmetics Europe, United States Environmental Protection Agency and Personal Care Products Council (formerly CTFA).

Claims made in our marketing communications and promotional material are based on data obtained from the testing of our products by our research teams, external institutions or are based on commonly accepted scientific principles or knowledge within the industry. Croda marketing materials do not wilfully contain false information, and Croda does not present statistics in such a way to exaggerate the validity of the product claims. To remind customers that evaluation of their finished goods is still required, product literature, such as technical datasheets or marketing sheets, contains statements to clearly communicate that “users are responsible for determining the suitability of these products for their own particular purpose.”

Our marketing teams receive product validation documentation from our research and development teams, outlining the product benefits and the evidence to support the promotion of them. Marketing materials are reviewed by relevant technical and research teams to ensure claims are represented clearly and appropriately.

The marketing teams have processes and procedures to update any errors in marketing literature, or changes to any data, and changes are recorded through a version control procedure, which ensures that the latest version of any marketing material is sent to our customers.

Croda has its own positioning guidelines and selection processes on imagery, designed to verify that the images contained in our marketing material will not cause offense in the regions where our products are marketed. We aim to select, when possible, imagery that has global appeal, so that we are able to market our products consistently in every country across the world. The procedure includes globally approved style briefs, which not only covers imagery, but also the marketing position and other aspects of the product to ensure that it is understood correctly throughout the world.

Our Intellectual Property Department obtains, manages, and defends Croda patents to ensure Croda products are protected where appropriate around the world. Croda also works closely with our IP Department to ensure that our products do not infringe other patents. The IP Department works with the marketing teams to obtain legal protection for our product trade names.

We observe and respect the privacy of our customers and prospects, in accordance with the legislations of the countries in which we operate. We therefore distribute marketing material in accordance with local laws or to those who have registered to receive it or to those who have specifically requested it from us.

PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes

We will continue to comply with regulations and voluntary codes relating to marketing communication and promotion and will continue to monitor and improve our processes and procedures in this area.

During 2012 we were not aware of any incidents relating to non-compliance in this area.

PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data
We respect the privacy of our customers and our aim is to ensure the highest levels of accuracy, security and confidentiality. Our company website contains details of our Privacy Policy and at any time we can be contacted with questions or concerns with respect to this policy. Contact details can be found in the Privacy Policy itself.

During 2012 we were not aware of any breaches of customer privacy and we continue to apply good practice as defined in our Privacy Policy.

**PR9 Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services**

During 2012 there were no prosecutions against the Group.
This is the fifth consecutive year that we have provided a Global Reporting Initiative (GRI) Report using the G3 sustainability reporting guidelines. We have continued to report at a self-declared Level B for the reporting period 1 January 2012 to 31 December 2012.

For further details, please contact our.responsibility@croda.com

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Report Externally Assured

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