

CRODA EUROPE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018



COMPANY INFORMATION

Directors	S E Breene M C Campbell S E Foots P A Newton S Arnott M W Heijbroek T M Brophy A D Fitzpatrick
Company secretary	T M Brophy
Registered number	167236
Registered office	Cowick Hall Snaith Goole East Yorkshire DN14 9AA
Independent auditor	KPMG LLP Chartered Accountants 1 Sovereign Square Sovereign Street Leeds West Yorkshire LS1 4DA
Country of incorporation	United Kingdom - England
Domiciled	United Kingdom - England
Legal form	Private company limited by shares

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**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**

Introduction

The Directors present their strategic report of the Company for the year ended 31 December 2018.

The principal activities are centred on and will continue to be centred on the manufacture, sales and distribution of speciality chemicals. The ultimate parent company is Croda International Plc, a company registered in England and Wales.

Business review

2018 was a year of consolidation for the business, adapting to the end of the North American API contract in 2017 and the strategic reshaping of the group's production footprint, both of which had an impact on the Company's turnover outside Europe. Against those, business in Europe remained robust, most notably within the core Personal Care business.

Currency headwinds at the start of the year, notably from Sterling's relative strength against the US Dollar, eased as the year progressed but for the full year still represented a significant drag on the relative value of the company's Dollar exports for the year. Brexit remained a significant source of uncertainty throughout the year and whilst the company has put in place comprehensive contingency plans against a hard, no-deal Brexit, uncertainty still prevails into 2019.

Operating margins (before exceptional items) remained broadly consistent with prior year as the company improved its product mix and continued to tightly control operating expenses in light of the lower sales and currency headwinds.

Our results include the recognition of £4.7m of exceptional costs related to our UK defined benefit pension scheme. This is in recognition of the judgement in the Lloyds Bank case in the UK High Court and the resulting assessment of the impact on past service costs.

As a consequence of the trading and exceptional headwinds noted above, and despite a significant increase in the company's net investment income, full year after-tax profits were around £5m lower than 2017. Despite this, the directors have full confidence in the underlying strength of the business and its people, confidence that is illustrated in the continued investment in new and exciting technologies during the year.

During the year we acquired Nautilus, Plant Impact Limited and Biosector (renamed Croda Denmark A/S), supporting the global strategies of the group's Personal Care and Life Sciences sectors; took a minority stake in SiSaf; and increased our ownership in Cutitronics. The combined investment of close to £90m represents a significant contribution to the Croda group's growth strategy and provides the directors with renewed confidence as we enter 2019.

Alongside this M&A activity, we invested close to £20m in our UK manufacturing site and support operations, with capacity expansion, improved efficiency and, most importantly, safety at the heart of our investment plans. We continue to set ambitious targets for safety, and in 2018 paid particular attention to the importance of safety leadership, recognising that a strong safety culture requires leaders at all levels in the organisation to be aware of the principles of an effective SHE management framework, and for these leaders to follow these principles in everything they do.

2019 continues, as 2018 did, with much political uncertainty in the UK. The Company continues to pragmatically make and adapt plans to counter this uncertainty.

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the consolidated Croda International Plc Group ('the Group'), of which it is a wholly owned subsidiary. Accordingly, the principal risks and uncertainties of the Company are discussed on pages 38 to 43 of the Group's Annual Report and Accounts, which does not form part of this report.

Financial key performance indicators

The key performance indicators used by the Company are Reported Sales Growth % and Return on Sales %, the latter defined as operating profit before exceptional items as a percentage of turnover. These were as follows:

Reported sales growth % -2.7% (2017: 10.9%)

Return on Sales % 15.1% (2017: 15.4%)

The reported sales growth % declined in the year largely due to the end of the North American API contract. Despite this, underlying profit remained robust which is reflected by the broadly flat movement in the Return on Sales KPI.

This report was approved by the board on 1 July 2019 and signed on its behalf.



M C Campbell
Director

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**

The Directors present their report and the financial statements for the year ended 31 December 2018.

Directors' responsibilities statement

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Results and dividends

The profit for the year, after taxation, amounted to £78,020,000 (2017 - £82,718,000).

During the year a dividend of £2.77 (2017: £1.39) per share amounting to a total dividend of £80,000,000 (2017: £40,000,000) was paid by the Company. The Directors do not recommend a final dividend (2017: £Nil).

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Directors

The Directors who served during the year were:

S E Breene
M C Campbell
S E Foots
P A Newton
S Arnott
M W Heijbroek
T M Brophy
A D Fitzpatrick

The Director retiring by rotation is S Arnott. None of the Directors have a service agreement with the Company.

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. These indemnities are qualifying third party indemnities (as defined in section 234 of the Companies Act 2006) and were in force during the financial year and at the date of approval of the financial statements. In addition, the Company maintained Directors' and Officers' liability insurance cover throughout the year.

Political and charitable contributions

Charitable donations made by the Company during the year amounted to £Nil (2017: £2,000). No donation was made for political purposes (2017: £Nil).

Financial risk management

The Company's operations expose it to a variety of financial risks. Croda Europe Limited's ultimate parent undertaking, has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company. This is disclosed on pages 130 and 131 of the Group's Annual Report and Accounts.

Future developments

Future developments are covered in the business review within the Strategic Report on page 1.

Independent auditor

As we reported last year, we undertook a comprehensive tender process in 2017 and the Board appointed KPMG LLP as external auditor, with Chris Hearld as Lead Audit Partner. The first year audited by KPMG LLP is the year to 31 December 2018.

Other disclosures

The Company does have branch offices outside of the UK in Russia and Korea. Details on these can be found in note 16.

Further disclosures relevant to the Company are included on pages 90 to 93 of the Group's Annual Report and Accounts.

Research and development activities

Research and development activities are undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Employees

Diversity: Croda is committed to the principle of equal opportunity in employment and to ensuring that no applicant or employee receives less favourable treatment on the grounds of gender, marital status, race, ethnic origin, religion, disability, sexuality or age, or is disadvantaged by conditions or requirements that cannot be shown to be justified. Group human resources policies are clearly communicated to all our employees and are available through the Company intranet.

Recruitment and progression: It is established policy throughout the Business that decisions on recruitment, career development, promotion and other employment related issues are made solely on the grounds of individual ability, achievement, expertise and conduct.

We give full and fair consideration to applications for employment from people with disabilities. Should an employee become disabled during their employment with the Company, they are fully supported by its Occupational Health provision. Efforts are made to continue their employment with reasonable adjustments being made to the workplace and role where feasible. Retraining is provided if necessary.

Development and learning: Croda recognises that the key to future success lies in the skills and abilities of its dedicated global workforce.

The continuous development of our employees is key to meeting the future demands of our customers, especially in relation to enhanced creativity, innovation and customer service. During 2018, 82.7% of our employees received training, totalling over 95,000 hours.

Involvement: Croda is committed to ensuring that employees share in the success of the Group. Owning shares in the Company is an important way of strengthening involvement in the development of the Business and bringing together employees' and shareholders' interests. In 2018, 82.2% of our UK employees and 60.1% of our non-UK employees participated in one of our all-employee share plans, indicating employees' continued desire to be involved in the Company.

Employees are kept informed of matters of concern to them in a variety of ways, including the Company magazine, the Croda Way; quarterly updates; the Company intranet, Connect; team briefing webinars and Croda Now email messages. These communications help achieve a common awareness of the financial and economic factors affecting the performance of Croda and of changes within the Business. Croda is also committed to providing employees with opportunities to share their views and provide feedback on issues that are important to them. In 2017 we undertook a Global Employee Culture Survey and in 2018 we held listening groups across all levels of our organisation to gain a deeper understanding of people's feelings towards our business. More details can be found on page 26 of the Group's 2018 Sustainability Report.

Disclosure of information to auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This report was approved by the board on 1 July 2019 and signed on its behalf.



M C Campbell
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CRODA EUROPE LIMITED

Opinion

We have audited the financial statements of Croda Europe Limited ("the Company") for the year ended 31 December 2018, which comprise: the balance sheet as at 31 December 2018; the profit and loss account, the statement of comprehensive income and the statement of changes in equity for the year ended 31 December 2018; and related notes including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards, including FRS 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the recoverability of goodwill, the calculation of taxation, the calculation of the retirement benefit liability and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit

Going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CRODA EUROPE LIMITED

Strategic report and directors' report

The Directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon. Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 3, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CRODA EUROPE LIMITED

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

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



Chris Hearld (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 Sovereign Square
Sovereign Street
Leeds
West Yorkshire
LS1 4DA

10 July 2019

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 £000	2017 £000
Turnover	3	630,395	647,803
Cost of sales		(473,457)	(482,759)
Gross profit		156,938	165,044
Distribution costs		(21,104)	(22,025)
Administrative expenses		(40,933)	(42,986)
Exceptional item	12	(4,658)	-
Operating profit	4	90,243	100,033
Income from shares in group undertakings		4,802	4,005
Interest receivable and similar income	8	2,082	1,116
Interest payable and similar expenses	9	(538)	(2,433)
Profit before taxation		96,589	102,721
Tax on profit	10	(18,569)	(20,003)
Profit for the financial year		78,020	82,718

The notes on pages 14 to 41 form part of these financial statements.

All amounts relate to continuing operations.

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 £000	2017 £000
Profit for the financial year		78,020	82,718
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations	23	13,944	100,017
Tax on items that will not be reclassified		(2,537)	(17,154)
Other movement in profit and loss reserve		198	13
Other comprehensive income for the year		11,605	82,876
Total comprehensive income for the year		89,625	165,594

The notes on pages 14 to 41 form part of these financial statements.

BALANCE SHEET
AS AT 31 DECEMBER 2018

	Note	2018 £000	2017 £000
Non-current assets			
Goodwill	13	61,105	61,105
Other intangible assets	14	20,560	7,714
Tangible assets	15	93,430	83,143
Investments	16	100,003	13,028
Retirement benefit assets	23	23,195	17,611
		<u>298,293</u>	<u>182,601</u>
Current assets			
Stocks	17	132,718	124,622
Debtors	18	177,382	199,262
Cash at bank and in hand		6,441	6,680
		<u>316,541</u>	<u>330,564</u>
Creditors: amounts falling due within one year	19	(252,044)	(168,914)
Net current assets		<u>64,497</u>	<u>161,650</u>
Total assets less current liabilities		<u>362,790</u>	<u>344,251</u>
Creditors: amounts falling due after more than one year	20	(11,824)	(11,088)
		<u>350,966</u>	<u>333,163</u>
Provisions for liabilities			
Deferred tax	21	(10,764)	(9,225)
Retirement benefit liabilities	23	(1,075)	(925)
		<u>(11,839)</u>	<u>(10,150)</u>
Net assets		<u>339,127</u>	<u>323,013</u>
Capital and reserves			
Called up share capital	25	6,297	6,297
Share premium account		155,216	150,000
Revaluation reserve		60	60
Profit and loss account		177,554	166,656
Total shareholders' funds		<u>339,127</u>	<u>323,013</u>

The financial statements on pages 9 to 41 were approved and authorised for issue by the board and were signed on its behalf on 1 July 2019.

M C Campbell
Director



**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called up share capital	Share premium account	Revaluation reserve	Profit and loss account	Total shareholders' funds
	£000	£000	£000	£000	£000
At 1 January 2018	6,297	150,000	60	166,656	323,013
Comprehensive income for the year					
Profit for the financial year	-	-	-	78,020	78,020
Remeasurement of post-employment benefit obligations	-	-	-	13,944	13,944
Tax on items that will not be reclassified	-	-	-	(2,537)	(2,537)
Currency translation	-	-	-	198	198
Other comprehensive income for the year	-	-	-	11,605	11,605
Total comprehensive income for the year	-	-	-	89,625	89,625
Contributions by and distributions to owners					
Dividends: Equity capital	-	-	-	(80,000)	(80,000)
Shares issued during the year	-	5,216	-	-	5,216
Share-based payments	-	-	-	1,273	1,273
Total transactions with owners	-	5,216	-	(78,727)	(73,511)
At 31 December 2018	6,297	155,216	60	177,554	339,127

The notes on pages 14 to 41 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital	Share premium account	Revaluation reserve	Profit and loss account	Total shareholders' funds
	£000	£000	£000	£000	£000
At 1 January 2017	6,297	150,000	60	40,004	196,361
Comprehensive income for the year					
Profit for the financial year	-	-	-	82,718	82,718
Remeasurement of post- employment benefit obligations	-	-	-	100,017	100,017
Tax on items that will not be reclassified	-	-	-	(17,154)	(17,154)
Currency translation	-	-	-	13	13
Other comprehensive expense for the year	-	-	-	82,876	82,876
Total comprehensive income for the year	-	-	-	165,594	165,594
Contributions by and distributions to owners					
Dividends: Equity capital	-	-	-	(40,000)	(40,000)
Share-based payments	-	-	-	1,058	1,058
Total transactions with owners	-	-	-	(38,942)	(38,942)
At 31 December 2017	6,297	150,000	60	166,656	323,013

The notes on pages 14 to 41 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all years presented, unless otherwise stated. Details of new standards, amendments and interpretations can be viewed on page 106 of the Group's Annual Report and Accounts.

The Company is a wholly-owned subsidiary of Croda Investments No 3 Limited and is included in the consolidated financial statements of Croda International Plc which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

1.1 Basis of preparation of financial statements

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2015, the Company adopted FRS 101 'Reduced Disclosure Framework' and has ceased to apply all UK Accounting Standards issued prior to FRS 100. Therefore the recognition and measurement requirements of EU-adopted IFRS have been applied, with amendments where necessary in order to comply with the requirements of the Companies Act 2006 ('the Act'). The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 2).

1.2 Financial reporting standard 101 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.3 Going concern

The financial statements have been prepared on a going concern basis as, after making appropriate enquiries, including a review of forecasts, budgets and banking facilities, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

1.4 IFRS 15 'Revenue from contracts'

IFRS 15 'Revenue from contracts' requires revenue to be recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. It replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The Group has amended its accounting policy appropriately (as disclosed on page 107 of the Group's Annual Report and Accounts) but the impact of the new standard on the Group's revenue and profit is not material. This reflects the relatively non-complex and largely standardised terms and conditions applicable to the Group's revenue contracts. Accordingly, the Group has only adopted IFRS 15 from 1 January 2018 and no adjustment has been recognised in opening equity at the date of initial application.

1.5 Associates and joint ventures

Associates and Joint Ventures are held at cost less impairment.

1.6 Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Company and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before turnover is recognised:

Sale of goods

Turnover from the sale of goods is recognised on the satisfaction of performance obligations, such as the transfer of a promised good, identified in the contract between the Company and the customer.

1.7 Other intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

The asset will be written down on a straightline basis over its useful life, which range from 7 to 10 years for technology processes and trade secrets and 20 years for trade names and customer relationships. Useful lives are regularly reviewed to ensure their continuing relevance.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.8 Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued.

When a business combination agreement provides for an adjustment to the cost of the combination which is contingent on future events, the company includes the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably. However, if the potential adjustment is not recognised at the acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination. Changes in the estimated value of contingent consideration arising on business combinations completed as a consequence result in a change in the carrying value of the related goodwill.

Goodwill is capitalised as an intangible asset and is not amortised. Instead it is reviewed annually for impairment with any impairment in carrying value being charged to profit or loss. The Companies Act 2006 requires acquired goodwill to be reduced by provisions for depreciation calculated to write off the amount systematically over a period chosen by the directors, not exceeding its useful economic life. It has been deemed, however, the non-amortisation of goodwill is a departure, for the overriding purpose of giving a true and fair view. The effect of this departure has not been quantified because it is impracticable and, in the opinion of the directors, would be misleading.

1.9 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Freehold property	- 15 to 40 years
Plant & machinery	- 3 to 15 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Profit and Loss account.

1.10 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.11 Investments

Investments held as fixed assets are shown at cost less provision for impairment. Investments are subject to impairment testing at each balance sheet date or earlier upon indication of impairment.

1.12 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

1.13 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

1.14 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the Profit and Loss account

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****1. Accounting policies (continued)****1.15 Pensions**

The Company accounts for pensions and similar benefits under IAS 19 'Employee Benefits' (revised). In respect of defined benefit plans (pension plans that define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation), obligations are measured at discounted present value whilst plan assets are recorded at fair value. The assets and liabilities recognised in the balance sheet in respect of defined benefit pension plans is the net of the plan obligations and assets. A scheme surplus is only recognised as an asset in the balance sheet when the Company has the unconditional right to future economic benefits in the form of a refund or a reduction in future contributions. No allowance is made in the past service liability in respect of either the future expenses of running the schemes or for non-service related death in service benefits which may arise in the future. The operating costs of such plans are charged to operating profit and the finance costs are recognised as financial income or an expense as appropriate. Service costs are spread systematically over the lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised in the statement of comprehensive income.

1.16 Share based payments

The Company operates a number of cash and equity-settled, share-based incentive schemes. These are accounted for in accordance with IFRS2 'Share-based Payments', which requires an expense to be recognised in the profit and loss account over the vesting period of the options. The expense is based on the fair value of each instrument which is calculated using the Black-Scholes or binomial model as appropriate. Any expense is adjusted to reflect expected and actual levels of options vesting, as the Company does not use market-based performance criteria.

1.17 Financial risk factors

The Group accounting policy for financial risk factors is also relevant to the preparation of the Company financial statements and is disclosed on pages 130 and 131 of the Group's Annual Report and Accounts.

1.18 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.

2. Accounting estimates and judgements

The significant accounting policies of the Croda International Plc Group have been set by management with the approval of the Audit Committee. The application of these policies requires estimates and assumptions to be made concerning the future and judgements to be made on the applicability of policies to particular situations. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Under IFRS an estimate or judgement may be considered critical if it involves matters that are highly uncertain or where different estimation methods could reasonably have been used, or if changes in the estimate that would have a material impact on the Group's results are likely to occur from period to period.

These judgements can be viewed on page 105 of the Group's Annual Report and Accounts, however only those relating to goodwill, retirement benefit liabilities and taxation are relevant to the financial statements of Croda Europe Limited.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

3. Turnover

Analysis of turnover by country of destination:

	2018	2017
	£000	£000
Europe	409,397	404,064
Americas	103,712	116,713
Asia	85,150	92,731
Rest of World	32,136	34,295
	630,395	647,803

4. Operating profit

The operating profit is stated after charging:

	2018	2017
	£000	£000
Research and development	9,200	11,863
Depreciation of tangible fixed assets	7,765	7,866
Amortisation of intangible assets	1,763	1,712
Exchange differences	(15)	128
Share based payments	1,273	1,058
Other pension costs	10,213	10,505
Operating lease payments	1,636	1,506

5. Auditor's remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company:

	2018	2017
	£000	£000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	146	141

The Company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the group accounts of the parent Company.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

6. Employees

Staff costs, including Directors' remuneration, were as follows:

	2018	2017
	£000	£000
Wages and salaries	38,720	38,223
Social security costs	3,993	3,179
Other pension costs	10,213	10,505
Share based payments	1,273	1,058
	54,199	52,965

The average monthly number of employees, including the Directors, during the year was as follows:

	2018	2017
	No.	No.
Production	616	585
Administration	193	151
Selling and Distribution	162	182
	971	918

7. Directors' remuneration

Of the eight Directors named on page 4, only one (2017: one) was remunerated by Croda Europe Limited during the current and prior year. The remainder were remunerated by the ultimate parent undertaking, Croda International Plc, as their time spent working specifically for Croda Europe Limited was not material to the accounts.

	2018	2017
	£	£
Directors' emoluments	179,327	190,431
Company contribution to defined benefit pension scheme	17,342	17,551
	196,669	207,982

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

8. Interest receivable and similar income

	2018	2017
	£000	£000
Interest receivable from group companies	1,594	1,106
Other interest receivable	488	10
	<u>2,082</u>	<u>1,116</u>

9. Interest payable and similar expenses

	2018	2017
	£000	£000
Bank interest payable	538	587
Other interest payable	-	1,809
Loans from group undertakings	-	37
	<u>538</u>	<u>2,433</u>

10. Tax on profit

	2018	2017
	£000	£000
Corporation tax		
UK corporation tax charge on profit for the financial year	17,584	18,786
Foreign tax on income for the year	1,983	2,273
Total current tax	<u>19,567</u>	<u>21,059</u>
Deferred tax		
Origination and reversal of timing differences	(998)	(1,056)
Taxation on profit on ordinary activities	<u>18,569</u>	<u>20,003</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

10. Tax on profit (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2017 - higher than) the standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%). The differences are explained below:

	2018 £000	2017 £000
Profit on ordinary activities before tax	96,589	102,721
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%)	18,352	19,774
Effects of:		
Higher rate taxes on overseas earnings	252	224
Adjustments to tax charge in respect of prior periods	84	-
Short term timing differences leading to a decrease in taxation	(1,503)	(786)
Other differences leading to an increase (decrease) in taxation	301	-
Disallowed expenses	171	20
Dividends covered from substantial shareholder exemption	912	771
Total tax charge for the year	18,569	20,003

Factors that may affect future tax charges

The main rate of UK corporation tax reduced from 20% to 19% from 1 April 2017. Further reductions to the UK tax rate have been announced that will reduce the rate to 17% by 1 April 2020, although for 2018 the rate is 19%. The future changes to rates were substantively enacted on 6 September 2016.

11. Dividends

	2018 £000	2017 £000
Dividend paid on equity capital of £2.77 per share (2017: £1.39)	80,000	40,000

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

12. Exceptional item

	2018	2017
	£000	£000
Past service cost	4,658	-

The exceptional item during the year relates to the UK defined benefit pension scheme, being a past service cost to equalise benefits for the effects of unequal Guaranteed Minimum Pensions following the precedent set by the High Court judgement in the Lloyds Bank case.

13. Goodwill

	£000
Cost	
At 1 January 2018	86,511
Additions	-
At 31 December 2018	86,511
Amortisation	
At 1 January 2018	25,406
Charge for the year	-
At 31 December 2018	25,406
Net book value	
At 31 December 2018	61,105
<i>At 31 December 2017</i>	<i>61,105</i>

The goodwill relates predominantly to the value of commercial and other synergies arising from the acquisition of Uniqema in 2006, with Croda's established global sales, marketing and R&D networks.

Impairment is considered at a Group level on page 111 of the Group's Annual Report and Accounts.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

14. Other intangible assets

	£000
Cost	
At 1 January 2018	20,172
Additions	14,292
Reclassification from tangible assets	317
	<hr/>
At 31 December 2018	34,781
	<hr/>
Amortisation	
At 1 January 2018	12,458
Charge for the year	1,763
	<hr/>
At 31 December 2018	14,221
	<hr/>
Net book value	
At 31 December 2018	20,560
	<hr/> <hr/>
At 31 December 2017	7,714
	<hr/> <hr/>

Of the additions figure stated above, £11.4m relates to the intangible assets acquired from Plant Impact Plc following its acquisition on 28 March 2018. The remaining additions relate to software and other intangibles.

Other intangible asset amortisation is recorded in administrative expenses within the profit and loss account on page 7.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

15. Tangible assets

	Freehold property £000	Plant & machinery £000	Total £000
Cost or valuation			
At 1 January 2018	31,087	217,875	248,962
Additions	123	18,402	18,525
Disposals	-	(359)	(359)
Reclassifications	2,115	(2,559)	(444)
Exchange adjustments	-	(1)	(1)
At 31 December 2018	33,325	233,358	266,683
Depreciation			
At 1 January 2018	18,345	147,474	165,819
Charge for the year	696	7,069	7,765
Disposals	-	(205)	(205)
Reclassifications	(185)	58	(127)
Exchange adjustments	-	1	1
At 31 December 2018	18,856	154,397	173,253
Net book value			
At 31 December 2018	14,469	78,961	93,430
At 31 December 2017	12,742	70,401	83,143

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

16. Investments

	Investments in subsidiary companies £000	Investments in associates £000	Other investments £000	Total £000
Cost or valuation				
At 1 January 2018	11,628	1,400	-	13,028
Additions	85,407	1,250	1,905	88,562
At 31 December 2018	97,035	2,650	1,905	101,590
Impairment				
Charge for the period	1,587	-	-	1,587
At 31 December 2018	1,587	-	-	1,587
Net book value				
At 31 December 2018	95,448	2,650	1,905	100,003
At 31 December 2017	11,628	1,400	-	13,028

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

16. Investments (continued)

Investments in subsidiary companies

On 28 March 2018, the Company acquired Plant Impact Plc, an innovative crop enhancement business which researches and develops chemical biostimulants to sustainably improve crop yield and quality, headquartered in the UK. The acquisition represents an exciting opportunity in combination with the Group's existing Crop Protection and Seed Enhancement businesses (Life Sciences sector), bringing together technical and marketing expertise which will deliver an enhanced portfolio of products to our global customer base.

On 28 December 2018, the Company acquired Brenntag Biosector A/S, a market leading specialist in the manufacture and supply of adjuvants for the human and veterinary vaccine markets, based in Frederikssund, Denmark. Biosector's adjuvant platforms are a complementary extension to the Group's existing pharmaceutical excipients portfolio within our Health Care business (Life Sciences sector). The acquisition will enable the Group to better support our existing customers through an increased breadth of offering and additional technical expertise, and we will leverage our dedicated global sales network to accelerate Biosector's growth. Following the acquisition the Company was renamed Croda Denmark A/S.

For details on the consideration paid in respect of Plant Impact Plc and Biosector A/S, and the fair value of assets acquired and liabilities assumed, please refer to page 137 of the Group's Annual Report and Accounts.

During the year the Company also increased its investment in Croda RUS LLC and Enza Biotech AB.

The additions to investments in subsidiary companies are as follows -

Plant Impact Plc - £14,284k
Croda Denmark A/S - £64,976k
Other - £6,147k

Investments in participating interests

On 17 December 2018, the Company increased its minority shareholding in Cutitronics Limited from 24.9% to 38.6%. This additional investment will enable Cutitronics to develop and test design updates for its innovative CutiTron™ device, which is anticipated to result in the first customisable commercial device. This investment continues to be recognised as an associate on the Company balance sheet.

Other investments

On 30 July 2018, the Company acquired a 4.0% minority shareholding in SiSaf Limited. SiSaf is a pioneering UK based bio-pharmaceutical company and this investment is part of a wider strategic partnership to use and develop SiSaf's patented bio-courier, ProSilic®, a novel drug delivery technology.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**
16. Investments (continued)
Subsidiary undertakings

The following were subsidiary undertakings of the Company: Those marked with a * are directly owned.

Name	Registered office	Class of shares	Holding
Croda Canada Limited *	1700 Langstaff Road, Suite 1000, Vaughan, Ontario, L4K 3S3	Ordinary	100%
Croda Nordica AB *	Geijersgatan 2B, 216 18 Limhamn	Ordinary	100%
Croda Russia (Branch Office) *	Raketnyi Boulevard 16, BC "Alekseevskaya Tower", Office 1301, 129164 Moscow	Ordinary	100%
Croda GmbH *	Herrenpfad Süd 33, 41334 Nettetal	Ordinary	15%
Croda Kimya Ticaret Limited Sirketi *	Nidakule Göztepe Is, Merkezi, Merdivenköy Mahallesi, Bora Sokak, No: 1 Kat:2/5 Kadiköy 34732, Istanbul	Ordinary	1%
Croda Korea (Branch Office) *	Rm. 1201, 12th Floor, 42, Hwang Sae UI-Ro 360 Beon-Gil, Bun Dang- Gu, Seong Nam-Si, Gyeong Gi-Do, 13591	Ordinary	100%
Croda Middle East FZE *	P. O. BOX 17916, Office 2112, 2113, 21st Floor, Jafza One, Jebel Ali Free Zone, Dubai	Ordinary	100%
Croda RUS LLC *	Raketnyi Boulevard 16, BC "Alekseevskaya Tower", Office 1301, 129164 Moscow	Ordinary	100%
Enza Biotech AB *	Scheelevägen 22, 22363 Lund	Ordinary	88%
Croda Chemicals Limited *	See Company Information page	Ordinary	100%
Croda Application Chemicals Limited *	See Company Information page	Ordinary	100%
Croda Universal Limited *	See Company Information page	Ordinary	100%
Croda (Goole) Limited *	See Company Information page	Ordinary	100%
Croda Leek Limited *	See Company Information page	Ordinary	100%
Croda JDH Limited *	See Company Information page	Ordinary	100%
Croda Limited *	See Company Information page	Ordinary	100%

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**
16. Investments (continued)
Subsidiary undertakings (continued)

Name	Registered office	Class of shares	Holding
Croda Colloids Limited *	See Company Information page	Ordinary	100%
Croda CE Limited *	See Company Information page	Ordinary	100%
Croda Trustees Limited *	See Company Information page	Ordinary	100%
Plant Impact Limited *	See Company Information page	Ordinary	100%
Croda Denmark A/S *	Elsensbakken 23, 3600 Frederikssund, Denmark	Ordinary	100%
MX Adjuvac AB	Box 50121, 202 11, Malmo, Sweden	Ordinary	100%
Croda Pars Trading Co	Apt. 305, 3rd Floor, No 14 Golestan Avenue, Alikhani Avenue, Southern Shiraz Street, Tehran, Iran	Ordinary	100%
P.I. Bioscience Limited	See Company Information page	Ordinary	100%
Bio Futures Limited	See Company Information page	Ordinary	100%
Plant Impact Argentina SA	Peru 590, Piso 8, Buenos Aires, Argentina	Ordinary	100%
Plant Impact Technolgia em Nutricao Ltda	Avenida das Nações Unidas 18801, Sala 501, Chacara Sto Antonio, São Paulo, Estate of São Paulo, CEP 04795-100, Brazil	Ordinary	100%
Croda Japan KK	4-3 Hitotsubashi 2- chome, Chiyoda-ku, Tokyo 101-0003, Japan	Ordinary	18%
Cutitronics Ltd	Torus Building, Rankine Avenue, East Kilbride, Scotland, G75 0QF	Ordinary	38.55%
SiSaf Ltd	3 Huxley Road, Surrey Research Park, Guildford, GU2 7RE	Ordinary	4.01%

The Directors have assessed that the carrying value of each investment is supported by their underlying net assets and ongoing trade.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

17. Stocks

	2018	2017
	£000	£000
Raw materials and consumables	18,624	24,185
Work in progress (goods to be sold)	35,073	31,422
Finished goods and goods for resale	79,021	69,015
	132,718	124,622

The Company consumed £440,487,000 (2017: £492,309,000) of stock during the year.

18. Debtors

	2018	2017
	£000	£000
Trade debtors	27,027	23,152
Amounts owed by group undertakings	136,568	165,715
Other debtors	7,371	7,572
Prepayments and accrued income	6,416	2,823
	177,382	199,262

Of the amounts owed by group undertakings, £122,180,000 (2017: £160,558,000) attracts interest of 1.2169% (2017: 1.10515%) per annum, is unsecured and has no fixed repayment terms. The remaining amount is non-interest bearing, unsecured and has no set date for repayment. It is not expected that the full amount will be collected within 12 months.

19. Creditors: amounts falling due within one year

	2018	2017
	£000	£000
Bank overdrafts	11,065	509
Trade creditors	23,974	27,762
Amounts owed to group undertakings	155,895	61,020
Corporation tax	37,811	52,064
Other creditors	3,732	8,375
Accruals and deferred income	19,567	19,184
	252,044	168,914

Amounts owed to group undertakings are unsecured, non-interest bearing and repayable on demand.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

20. Creditors: amounts falling due after more than one year

	2018	2017
	£000	£000
Bank loans	11,824	11,088

Analysis of the maturity of loans is given below:

	2018	2017
	£000	£000
Amounts falling due 2-5 years		
2014 Club facility due 2021	11,824	11,088

The Club facility was put in place in June 2014 and falls due for repayment upon expiry of the agreement in July 2021. Interest is charged at a floating rate based on ICE GBP LIBOR, ICE LIBOR or EURIBOR, depending on the drawdown currency, plus a variable margin.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**
21. Deferred taxation

	2018 £000	2017 £000
At 1 January	(9,225)	6,873
Charged to total comprehensive income	(1,539)	(16,098)
At 31 December	<u>(10,764)</u>	<u>(9,225)</u>

The provision for deferred taxation is made up as follows:

	2018 £000	2017 £000
Accelerated capital allowances	(6,821)	(6,231)
On net pension position	(3,943)	(2,994)
	<u>(10,764)</u>	<u>(9,225)</u>

Comprising:

	2018 £000	2017 £000
Liability - accelerated capital allowances	(6,821)	(6,231)
Liability - retirement benefit obligations	(3,943)	(2,994)
	<u>(10,764)</u>	<u>(9,225)</u>

22. Capital commitments

At 31 December the Company had capital commitments as follows:

	2018 £000	2017 £000
Contracted for but not provided in these financial statements	<u>7,073</u>	<u>7,898</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**
23. Post retirement benefits

The Company participates in the defined benefit pension scheme operated by its ultimate parent undertaking, Croda International Plc.

The UK scheme operated on a final salary basis until the 31 March 2016, following which the scheme changed to a Career Average Revalued Earnings (CARE) defined benefit scheme, with annual pensionable earnings capped at £65,000 and indexation of pensions in payment based on CPI (previously RPI), for service accrued from 1 April 2016. This change is expected to reduce the future comparable cost and risk attached to the UK scheme.

In accordance with FRS 101, the Company now recognises its share of the UK pension fund assets and liabilities. A full reconciliation of the Group retirement benefit obligation can be found in note 11 on pages 118 to 121 of the Group's Annual Report and Accounts. The table below shows the movement in the above obligation during the year.

	2018	2017
	£000	£000
Assets	961,515	908,885
Liabilities	(943,904)	(984,625)
Opening retirement benefit asset/(liability)	17,611	(75,740)
Service cost	(14,734)	(10,090)
Net interest income/(cost)	475	(1,809)
Contributions	5,899	5,233
Actuarial movement	13,944	100,017
Closing retirement benefit asset	23,195	17,611

As well as participating in the aforementioned scheme, there is a further local scheme that operates in Korea, which had a net retirement benefit liability of £1,075,000 (2017: £925,000).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

24. Commitments under operating leases

At 31 December the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £000	2017 £000
Land and buildings		
Not later than 1 year	876	1,167
Later than 1 year and not later than 5 years	979	1,193
Later than 5 years	182	455
Total land and buildings	<u>2,037</u>	<u>2,815</u>
	2018 £000	2017 £000
Other		
Not later than 1 year	1,009	1,061
Later than 1 year and not later than 5 years	435	461
Total other	<u>1,444</u>	<u>1,522</u>

25. Called up share capital

	2018 £000	2017 £000
Allotted, called up and fully paid		
31,483,803 (2017 - 28,858,803) Ordinary shares of £0.20 each	6,297	5,772
- (2017 - 525,000) 5.6% cumulative preference shares of £1.00 each	-	525
	<u>6,297</u>	<u>6,297</u>

On 6 November 2018 the following ordinary resolutions were passed:

1. That the 525,000 preference shares of £1.00 each of the Company be divided so as to become 2,625,000 preference shares of £0.20 each.
2. That the 2,625,000 preference shares of £0.20 each of the Company be reclassified so as to become 2,625,000 ordinary shares of £0.20 each.

The above share transactions resulted in a share premium of £5,216,443.29.

In the prior year, the preference shares carried no voting rights other than in certain circumstances affecting the rights of the preference shareholders, details of which are set out in the Company's Articles of Association. In a winding up, preference shareholders had priority among members to the assets of the Company available for distribution. Rights on a winding up were limited to repayment of capital and any arrears of dividends. Preference dividends had been waived.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**
26. Share-based payments

The total charge for Croda Europe Limited for the year relating to share based remuneration schemes was £1,273,000 (2017: £1,058,000). The key elements of each scheme, along with the assumptions employed to arrive at the charge in the profit and loss account, are set out below. The reconciliation of the number of shares is included in the financial statements of the Company's ultimate parent undertaking, Croda International Plc.

Croda International Plc Sharesave Scheme ('Sharesave')

The Sharesave scheme, established in 1983 and renewed in 2013, grants options annually in September to employees of the Group at a fixed exercise price, being the market price of the Company's shares at the grant date discounted by up to 20%. Employees then enter into a savings contract over three to five years and, subject to continued employment, purchase options at the end of the period based on the amount saved. Options are then exercisable for a six month period following completion of the savings contract. For options granted in the year, the fair value per option granted and the assumptions used in the calculation of the value are as follows:

Grant date	27 Sep 2018	13 Sep 2017
Share price at grant date	5200p	3777p
Exercise price	4144p	3092p
Number of employees	634	594
Shares under option	71,178	84,674
Vesting period	Three years	Three years
Expected volatility	20%	20%
Option life	Six months	Six months
Risk free rate	1.0%	0.3%
Dividend yield	1.6%	2.0%
Possibility of forfeiture	7.5% p.a	7.5% p.a.
Fair value per option at grant date	1186.2p	765.3p
Option pricing model	Black Scholes	Black Scholes

A reconciliation of option movements over the year is as follows:

	Weighted average exercise price (pence) 2018	Number 2018	Weighted average exercise price (pence) 2017	Number 2017
Outstanding at the 1 January	2659	266,481	2275	267,091
Granted during the year	4144	71,178	3092	84,674
Forfeited during the year	2785	(7,859)	2469	(12,018)
Exercised during the year	2201	(66,689)	1791	(73,266)
Outstanding at 31 December	3174	263,111	2659	266,481
Exercisable at 31 December	2232	5,321	1763	6,510
For options exercisable in year, weighted average share price at date of exercise	4754	-	4156	-
Weighted average remaining life at 31 December (years)	-	2.2	-	2.3

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

26. Share-based payments (continued)

Croda International Plc International Sharesave Scheme ('International')

The International scheme, established in 1999 and renewed in 2009, has the same option pricing model, savings contract and vesting period as the Sharesave scheme. At exercise, employees are paid a cash equivalent for each option purchased, being the difference between the exercise price and market price at the exercise date. For options granted in the year, the fair value per option granted and the assumptions used in the calculation of the value are as follows:

Grant date	27 Sep 2018	13 Sep 2017
Share price at grant date	5200p	3777p
Exercise price	4144p	3092p
Number of employees	2,082	1,891
Shares under option	225,581	279,032
Vesting period	Three years	Three years
Expected volatility	20%	20%
Option life	One month	One month
Risk free rate	0.7%	0.4%
Dividend yield	1.8%	1.7%
Possibility of forfeiture	7.5% p.a	7.5% p.a.
Fair value per option at 31 December	791.8p	1274.1p
Option pricing model	Black Scholes	Black Scholes

A reconciliation of option movements over the year is as follows:

	Weighted average exercise price (pence) 2018	Number 2018	Weighted average exercise price (pence) 2017	Number 2017
Outstanding at the 1 January	2723	782,416	2280	804,182
Granted during the year	4144	225,581	3092	279,032
Forfeited during the year	2783	(54,328)	2271	(62,876)
Exercised during the year	2254	(143,567)	1779	(237,922)
Outstanding at 31 December	3197	810,102	2723	782,416
For options exercisable in year, weighted average share price at date of exercise	4780	-	4179	-
Weighted average remaining life at 31 December (years)	-	1.7	-	2.1

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

26. Share-based payments (continued)

Croda International Plc Performance Share Plan ('PSP')

The PSP scheme was established in 2014 and replaced the Company's previous Executive long term incentive plans. The PSP provides for awards of free shares (ie either conditional shares or nil-cost options) normally made annually which vest after three years dependent upon an EPS performance related sliding scale (non-market condition), an NPP growth measure (non-market condition) and the Group's total shareholder return (market condition). The PSP is discussed in detail in the Directors' Remuneration Report (pages 69 to 89 of the Group Annual Report and Accounts). Shares (on an after tax basis) are subject to a one year post vesting holding period for awards granted in 2014 and a two year post vesting holding period for awards granted in subsequent years. For options granted in the year, the fair value per option granted and the assumptions used in the calculation of the value are as follows:

2018	Market condition	Non-market condition
Grant date	13 March 2018	13 March 2018
Share price at grant date	4580p	4580p
Number of employees	68	68
Shares under conditional award	62,936	94,404
Vesting period	Three years	Three years
Expected volatility	20%	20%
Dividend yield	1.8%	1.8%
Possibility of forfeiture	3.45%	3.45%
Fair value per option at grant date	2794p	4345p
Option pricing model	Closed form valuation	Closed form valuation
2017	Market condition	Non-market condition
Grant date	9 March 2017	9 March 2017
Share price at grant date	3636p	3636p
Number of employees	94	94
Shares under conditional award	93,312	139,968
Vesting period	Three years	Three years
Expected volatility	20%	20%
Dividend yield	2.0%	2.0%
Possibility of forfeiture	3.45%	3.45%
Fair value per option at grant date	1767p	3423p
Option pricing model	Closed form valuation	Closed form valuation

A reconciliation of option movements over the year can be seen on the next page:

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FOR THE YEAR ENDED 31 DECEMBER 2018**

26. Share-based payments (continued)

Croda International Plc Performance Share Plan ('PSP') continued

	Weighted average exercise price (pence) 2018	Number 2018	Weighted average exercise price (pence) 2017	Number 2017
Outstanding at the 1 January	-	798,825	-	917,914
Granted during the year	-	157,340	-	233,280
Forfeited during the year	-	(26,802)	-	(235,164)
Exercised during the year	-	(272,679)	-	(117,205)
Outstanding at 31 December	-	656,684	-	798,825
For options exercisable in year, weighted average share price at date of exercise	4459	-	3924	-
Weighted average remaining life at 31 December (years)	-	1.0	-	1.1

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

26. Share-based payments (continued)

Croda International Plc Deferred Bonus Share Plan ('DBSP')

The DBSP scheme was established in 2014. Under the DBSP, one third of any annual bonuses due to certain senior executives are deferred. The size of award is determined by the amount of the total bonus divided by one third and converted into a number of Croda shares using the market value of shares at the time the award is granted. Awards are increased by the number of shares equating to the equivalent value of any dividend paid during the option period. The awards vest on the third anniversary of the date of grant, unless the recipient has been dismissed for cause. There are no performance conditions applied to the award. The DBSP is also discussed in the Directors' Remuneration Report (pages 69 to 89 of the Group Annual Report and Accounts).

2018

Grant date	13 March 2018
Share price at grant date	4580p
Number of employees	10
Shares under conditional award	18,392
Vesting period	Three years

2017

Grant date	9 March 2017
Share price at grant date	3636p
Number of employees	109
Shares under conditional award	94,908
Vesting period	Three years

A reconciliation of option movements over the year is as follows:

	Weighted average exercise price (pence) 2018	Number 2018	Weighted average exercise price (pence) 2017	Number 2017
Outstanding at the 1 January	-	175,340	-	74,828
Granted during the year	-	18,392	-	94,908
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Dividend enhancement	-	3,076	-	5,604
Outstanding at 31 December	-	196,808	-	175,340
For options exercisable in year, weighted average share price at date of exercise	-	-	-	-
Weighted average remaining life at 31 December (years)	-	0.9	-	1.7

Croda International Plc Deferred Bonus Discretionary Arrangement

In addition to the awards under the DBSP, a no cost option over 1,728 shares have been awarded to similarly defer bonus entitlement where the DBSP could not be used due to employment having ceased before the grant date. These options will be deemed to be exercised automatically on the date falling three years after the date of grant. As of 31 December 2018, the weighted average remaining life was 0.9 years.

**NOTES TO THE FINANCIAL STATEMENTS
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26. Share-based payments (continued)
Croda International Plc Restricted Share Plan ('RSP')

The RSP scheme was established in 2018 and provides for awards of free shares or cash equivalent to a limited number of employees not eligible for the PSP scheme, based on a percentage of salary. The awards vest on the third anniversary of the date of grant, subject to the condition that the employee remains employed by the Group. There are no performance conditions applied to the award. On the vesting date, UK employees will be awarded free shares and non-UK employees will be paid a cash equivalent based on the market price.

Grant date	20 Mar 2018
Share price at grant date	4590p
Number of employees	31
Shares under conditional award	7,188
Vesting period	Three years
Expected volatility	20%
Dividend yield	1.8%
Possibility of forfeiture	3.45% p.a
Fair value per option at grant date	4356p
Option pricing model	Closed form valuation

A reconciliation of option movements over the year is as follows:

	Weighted average exercise price (pence) 2018	Number 2018	Weighted average exercise price (pence) 2017	Number 2017
Outstanding at the 1 January	-	-	-	-
Granted during the year	-	7,188	-	-
Forfeited during the year	-	(437)	-	-
Exercised during the year	-	-	-	-
	-	6,751	-	-
Outstanding at 31 December				
For options exercisable in year, weighted average share price at date of exercise	-	-	-	-
Weighted average remaining life at 31 December (years)	-	2.2	-	-

Croda International Plc Share Incentive Plan ('SIP')

The SIP was established in 2003 and has similar objectives to the Sharesave scheme in terms of increasing employee retention and share ownership. Under the SIP scheme, employees enter into an agreement to purchase shares in the Company each month. For each share purchased by an employee, the Company awards a matching share which passes to the employee after three years' service. The matching shares are allocated each month at market value with this fair value charge being recognised in the income statement in full in the year of allocation.

**NOTES TO THE FINANCIAL STATEMENTS
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27. Related party transactions

The Company has taken advantage of the exemption available under FRS 101 from disclosing transactions with other Group undertakings. There were no other related party transactions during the year.

28. Ultimate parent undertaking and controlling party

The immediate parent undertaking is Croda Investments No 3 Limited, a company registered in England. The ultimate parent undertaking and controlling party is Croda International Plc, a company registered in England. Croda International Plc Group is the largest and smallest group of which the Company is a member and for which consolidated financial statements are prepared. Copies of the Group financial statements can be obtained from the Company Secretary at the registered office of the Company detailed on the Company information page.