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Croda International Plc

Annual Report 1997

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Our philosophy is to achieve long term growth in earnings per share by continuing to build a speciality chemical group with operations in the main market areas of the world. We will maintain a prudent financial approach with a decentralised management judged and rewarded by performance.

Each division is expected to produce a satisfactory return on capital employed, be capable of showing consistent and long term growth and achieve a significant position in its particular markets.

We intend to invest our resources in areas which offer good long term prospects and will acquire other businesses only where they fit with our current operations and will contribute to earnings growth.

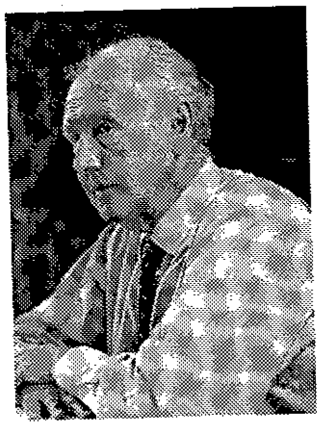
Front cover: At Croda's laboratories in New Jersey, USA, hair follicles are magnified up to 240,000 times using a scanning electron microscope to measure the effectiveness of our hair care active ingredients.

Year's highlights

- Acquisition of skin care actives group, STOA SA, based in France
- Private placement of US$55m senior loan notes
- Commissioning of new cosmetic protein plant at Widnes
- Commissioning of new surfactants plant at Rawcliffe Bridge
- Commissioning of new reactors at Croda Inc
- Opening of sales offices in Argentina and Hungary
- Sale of bitumen business

Financial highlights	1997	1996
Earnings per share	20.8p	23.8p
Dividends per share	10.35p	10.00p
Return on capital employed	15.9%	17.7%
Operating margin	11.1%	11.3%

Chairman's statement



Michael Valentine - Chairman

During 1997 Croda delivered strong underlying volume growth in the core Chemicals business. However, as a result of the strength of Sterling, particularly against the Deutschmark, Group pre-tax profits before exceptional items were £41.1m, compared with £45.8m for 1996. Croda had export sales of £129m from the UK and in total 67% of its sales were overseas so that Sterling's strength reduced export margins as well as the translation of our foreign earnings. We have calculated that on a constant currency basis 1997 pre-tax profits would have been higher by just under £10m, and indeed over 10% up on the record profits achieved in 1996.

After a slightly higher tax charge, earnings per share were 20.8p (1996: 23.8p) and the Board recommends a final dividend of 6.80p (1996: 6.55p) making 10.35p for the year, 3.5% up on 1996. The final dividend will be paid as a Foreign Income Dividend, as was the interim, in order to obtain taxation and cash flow benefits for the Group.

In our Chemical sector, sales were similar to last year at £366m with trading profits 3% lower as a result of currency effects. It is a measure of the drive and expansion of the Chemicals business that the underlying volumes increased by 7%. The profit shortfalls due to currency effects were, as expected, incurred in Europe, but in compensation our Chemicals businesses in the Americas performed outstandingly well and increased sales by 15% in local currency. Profits in Coatings were flat while our small soap business in Holland continued in loss.

The operating and financial reviews which follow on pages 6 to 19 contain more details of the year's results.

Corporate Development Our strategy to concentrate on and expand our Speciality Chemical business continued. We sold our interest in Bitumen in December (which resulted in an exceptional loss on disposal of £1.9m) and our UK Powder Paints business earlier this year for a total of £6m. We are currently negotiating the sale of the rest of our industrial paints business.

Our main engine of growth has been capital expenditure on new plants and equipment in the UK, USA, Singapore and Japan coupled with increasing R&D expenditure.

We were able to accelerate this growth in 1997 by the acquisition in August, for £49m (including £9m of debt), of the STOA group of companies mainly operating in France. These companies produce active ingredients for skin care preparations and the main operating company, Sederma, is based near Versailles. This acquisition extends our presence further into skin care ingredients and Croda's worldwide sales operation will be able to expand Sederma's sales more effectively in many other countries. Integration has gone well and the business has performed ahead of expectations.

Finance 1997 was another year of heavy capital expenditure, £34m compared to depreciation of £18m. The acquisition of STOA was financed by borrowings, including a US$55m private placement of 7.37% loan notes in the USA. Gearing at the year end stood at 75% and interest cover at 7.3 times.

The Board At the top of the company we are making a series of transitions which have been planned for some time. I shall be standing down as Chairman at the end of this year after almost 10 years at the helm. At that time Keith Hopkins will take over from me as non-executive Chairman. We are also pleased to announce that Mike Humphrey will then become Chief Executive. Mike has been with the Group for 28 years and is currently responsible for many of our oleochemical businesses. He will hand these responsibilities over to Geoff Bull. Finally, George Bates who has been on the Board for 24 years will retire at the AGM in 1999.

Review of the Group As these are the last set of annual results on which I will comment, I thought it would be helpful to review the substantial improvement to the Group brought about over roughly the past ten years by the executive team during my chairmanship.

In the eighties the Group owned a wide variety of manufacturing businesses in chemicals, coatings, adhesives, inks and soap as well as several trading companies.

It became clear these activities needed concentration, and as many markets were moving away from petrochemical products to naturally derived ingredients the outlook for oleochemicals was very good. A strategy was, therefore, developed to expand this business worldwide where we could see sustainable profitable growth.

Chairman's statement

We disposed of a string of businesses which did not fit such as edible oils, pet foods, inks, graphic supplies, honey and nut trading, and rendering. Our disposal of major businesses as well as many minor ones, raised substantial funds for reinvestment in new plant.

We have greatly improved the quality of our management through better recruitment and training and importantly by instigating and maintaining the recruitment of between ten and twenty graduates annually, directly from universities into all sections of the business.

During the decade a profound change in the attitude of investors to the Group has occurred, as they became aware that the Group had the specific objective of becoming a growing and successful speciality chemicals business and was achieving this objective. The restructuring of our distribution policies and improved results meant that the share price benefited and we were also generating more cash to invest. And invest we have with many millions spent on building new plants and improving existing ones over the last decade. This expansion of manufacturing bases has been in the UK, the US, Japan and Singapore where we now have modern factories with high productivity. Many new products have been introduced and the quality of our products nowadays reflects this great improvement in our plant and process controls.

Through all this period of great change we have carefully husbanded our equity. By a judicious control of expenditure and disposals we have maintained income and made sure we had the funds necessary for all the expenditure on expansion we wished to make, so that we have not had to have recourse to a rights issue of shares. Our guiding principle has been the enhancement of shareholder value.

We have both enhanced and co-ordinated our R&D worldwide and greatly expanded our international sales teams so that we now have a worldwide sales network with offices in 26 countries.

Industrial relations throughout the Group are better with a sense of teamwork for a mutually beneficial objective. We have improved our financial management and our relations with our majority owners, the investing institutions.

It is impossible to speak too highly of the energy, dedication and single minded determination with which Keith Hopkins has carried out his duties as Chief Executive over the last twelve years. The world-wide health and strength of Croda's business today is the best tribute to his singular achievement.

The future is rich in promise and I have every confidence that the management team, under its new Chief Executive, Mike Humphrey, will continue the forward momentum.

People None of these improvements would have occurred without the energy, dedication and initiative of the people who work in our teams all over the world. This has been sustained through a period of continuing and rapid change. The Board and shareholders owe them their continuing gratitude.

Outlook Last year at this time I wrote, all too presciently, about the unwelcome strength of Sterling affecting our export business. Since then we have had to learn to live with a much stronger pound than most commentators expected. Fortunately, as predicted, the continually improving quality, coverage and scope of our business provided an offset to this dramatic change. During the course of the year the turmoil in some South East Asian economies has dramatically slowed sales growth in this previously buoyant region, again another event unforeseen by economic forecasters. In an international business one has to live with world events and the actions of Governments. We will continue to run our business to adjust to and where possible take advantage of these. The year has started well in the Americas and Europe, but rather slowly in the UK and the Far East. The underlying growth of the core Chemicals business, its market positions and our continuing programme of operational improvements, together underpin our confidence in the Group's prospects.

CHAIRMAN

Operating review

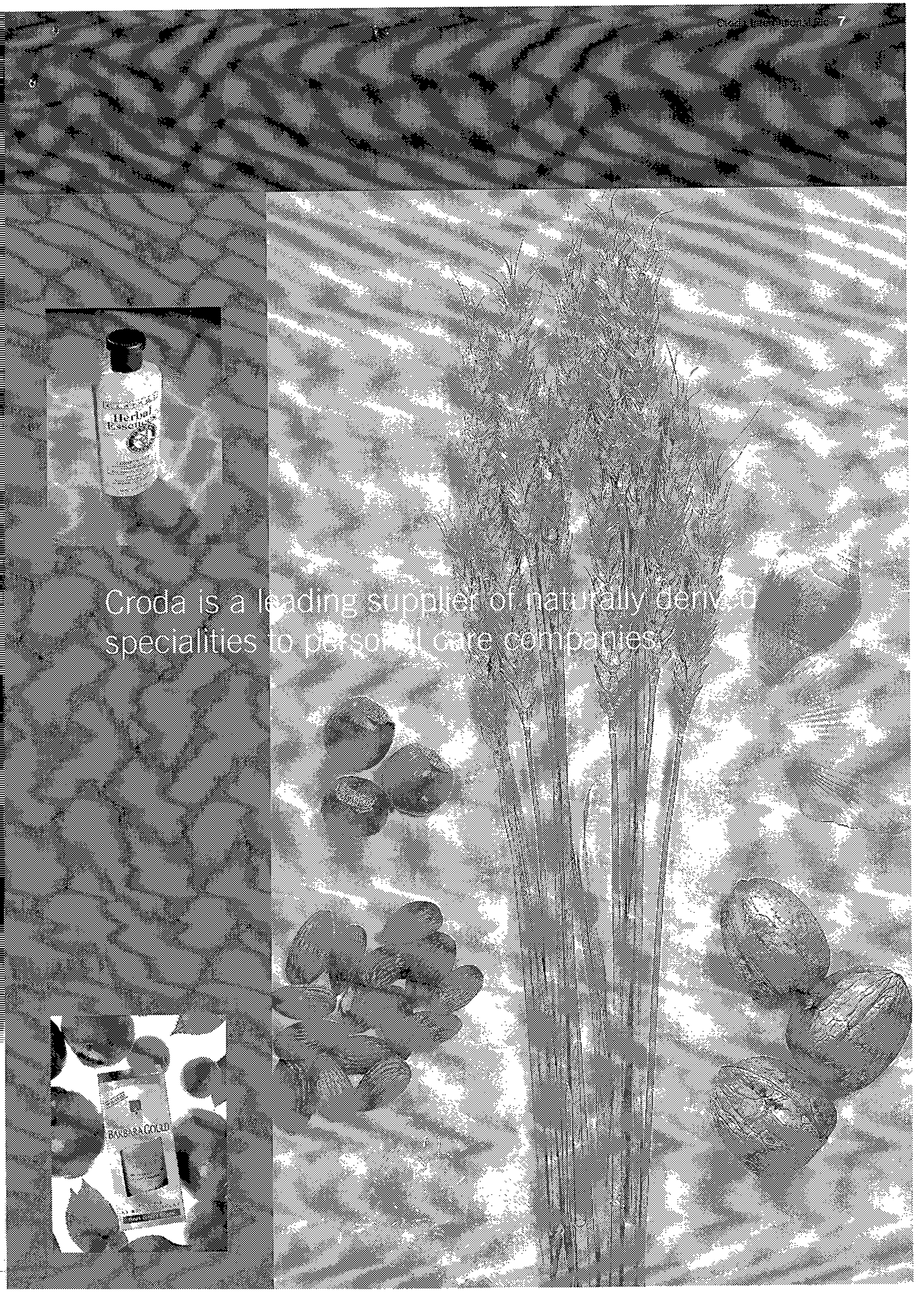
Keith Hopkins
Group Chief Executive

Group trading profits at £52.1m were slightly down on last year's record of £53.4m. This was a solid result given the effect of the strength of sterling which reduced profits by approximately £10m after taking into account related raw material price reductions.

Despite this dramatic change we remain cost competitive with European producers due to our modern plant and we continue to take the necessary action to trim costs to take account of sterling's new parity and extend the productivity gains made in recent years.

Generally demand in the Americas was once again very good and we saw during 1997 a substantial recovery in both the important German and French markets. Growth continued strongly in our newly opened subsidiaries in the old Eastern block states of Poland, Hungary and the Czech Republic. Following the turbulence in the financial markets in some countries in South East Asia we saw a sharp fall in demand which has continued into 1998. Changes in consumer demand are magnified by destocking in the chemical supply chain and it certainly appears that there will be little if any sales growth in the South East Asian region as a whole in 1998, a marked change from the rapid rates of growth we have seen in recent years.

We continued with our strategy of concentrating our activities on speciality chemicals and sold our bitumen interests at the end of 1997 and earlier this year our UK powder coatings business. We made a major acquisition in August 1997 with the purchase of the STOA group of companies whose main trading subsidiary, Sederma SA, supplies ingredients into the skin care market. There are many synergies between the technologies in Sederma and Croda and by using our worldwide sales network we will extend their sales and marketing reach. In 1997 we received £3m from the disposal of businesses and spent £49m on acquisitions as well as £34m on capital expenditure in the Group.



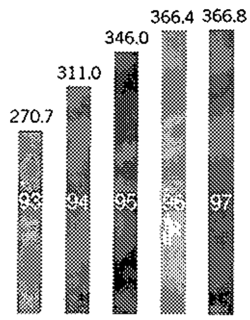
Croda is a leading supplier of naturally derived specialities to personal care companies.

Operating review

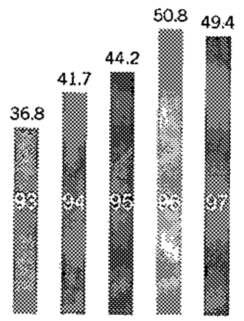
Chemicals

Results	1997	1996
	£m	£m
External turnover	**366.8**	366.4
Trading profit	**49.4**	50.8
Capital employed	**257.8**	236.9
Return on capital	**19.2%**	21.4%

Chemicals turnover £m

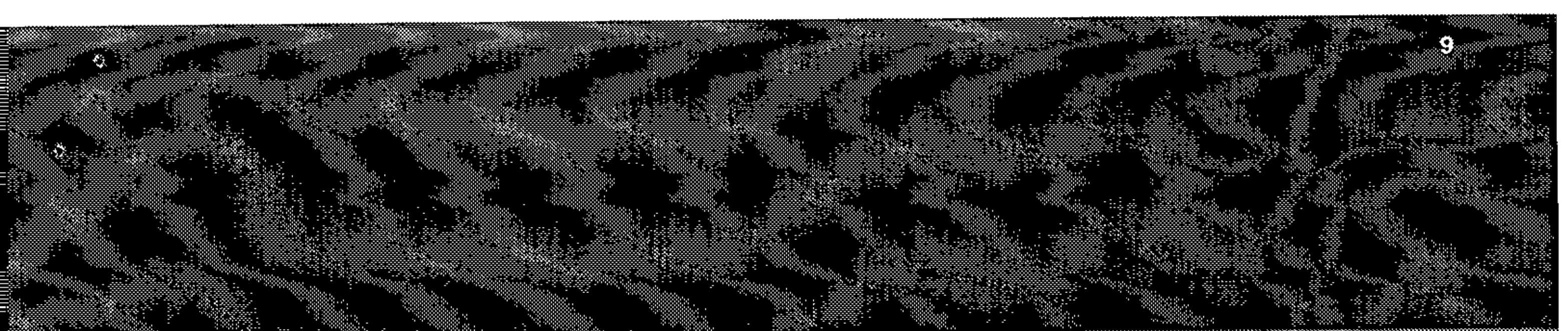


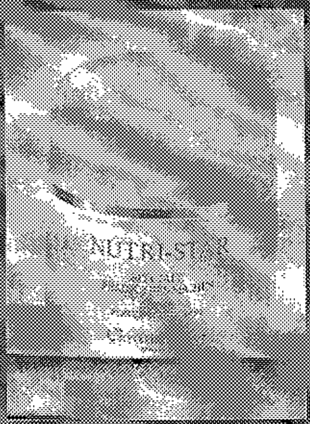
Chemicals trading profit £m

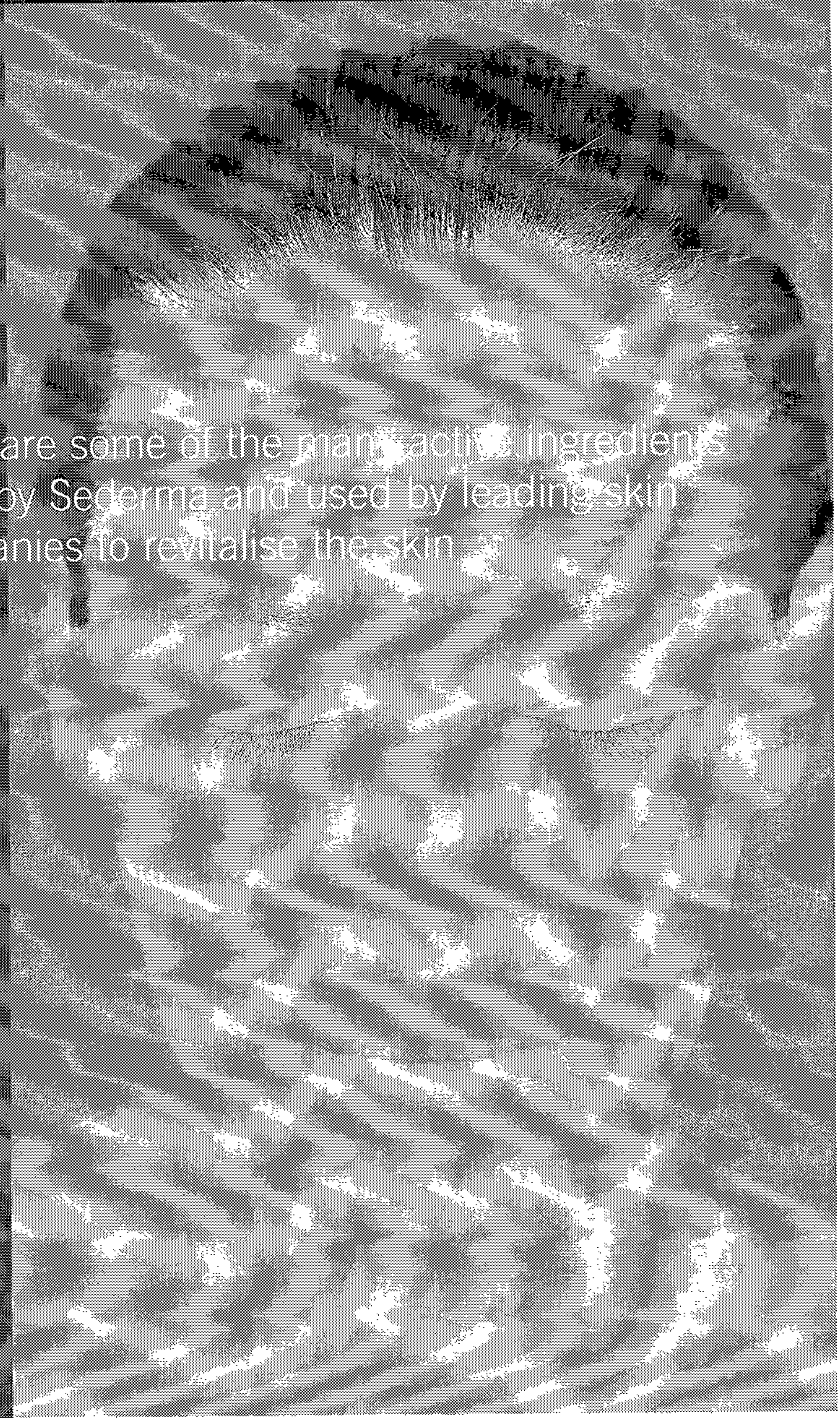


Once again our chemical operations produced an excellent result despite the buffeting due to the strength of sterling. Overall this sector makes 65% of its products in the UK and sells 69% overseas and consequently bore the brunt of the effect of the strong pound on the Group. Despite this margins held up well. Our oleochemical and resins business did well and contributed 81% of the turnover and 91% of the profit of this sector.

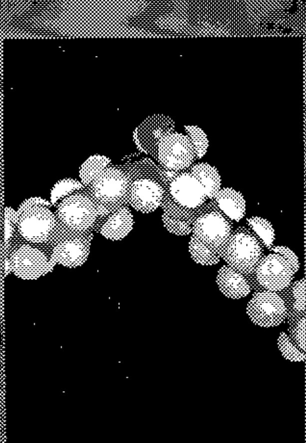
Oleochemicals and resins We had an outstanding year in the Americas with record sales and profits from the oleochemical operations. In Canada we saw a good step forward in sales of plastic additives while in recent years our South American operations, centred around our manufacturing plant in Campinas in Brazil, have gone from strength to strength. Croda Inc, based in Parsippany, New Jersey, has continued to dominate the market for speciality oleochemical ingredients for personal care products and recent capital expenditure, both at our plant in Pennsylvania and our technical centre in Edison, New Jersey, continues to develop and extend this leadership. The acquisition of Sederma will take our USA operations more fully into skin care ingredients and will be the source of further substantial growth.







Ceramides are some of the many active ingredients developed by Sederma and used by leading skin care companies to revitalise the skin



Operating review

In the UK, profits were hit primarily by currency but were also affected by a collapse in the world price of glycerine and the continuing BSE saga. Overall sales volumes were well up on last year which compensated for these negatives.

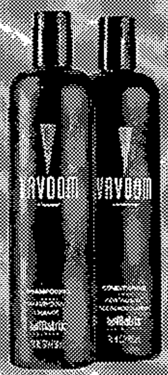
BSE affected both our gelatin operations and derivatives that we make from tallow. For the most part we were able to switch to vegetable based raw materials rather than use tallow and so the effect here was minor. In gelatin our main market is for specialised technical grades and these were largely unaffected while sales to edible and pharmaceutical markets fell, influenced by the publicity surrounding the beef ban, despite our using raw materials of non-UK origin. All of this led to our gelatin operations being barely profitable in 1997. We should see an improvement in this business in 1998 due to lower raw material costs and a recovery in confidence by the market.

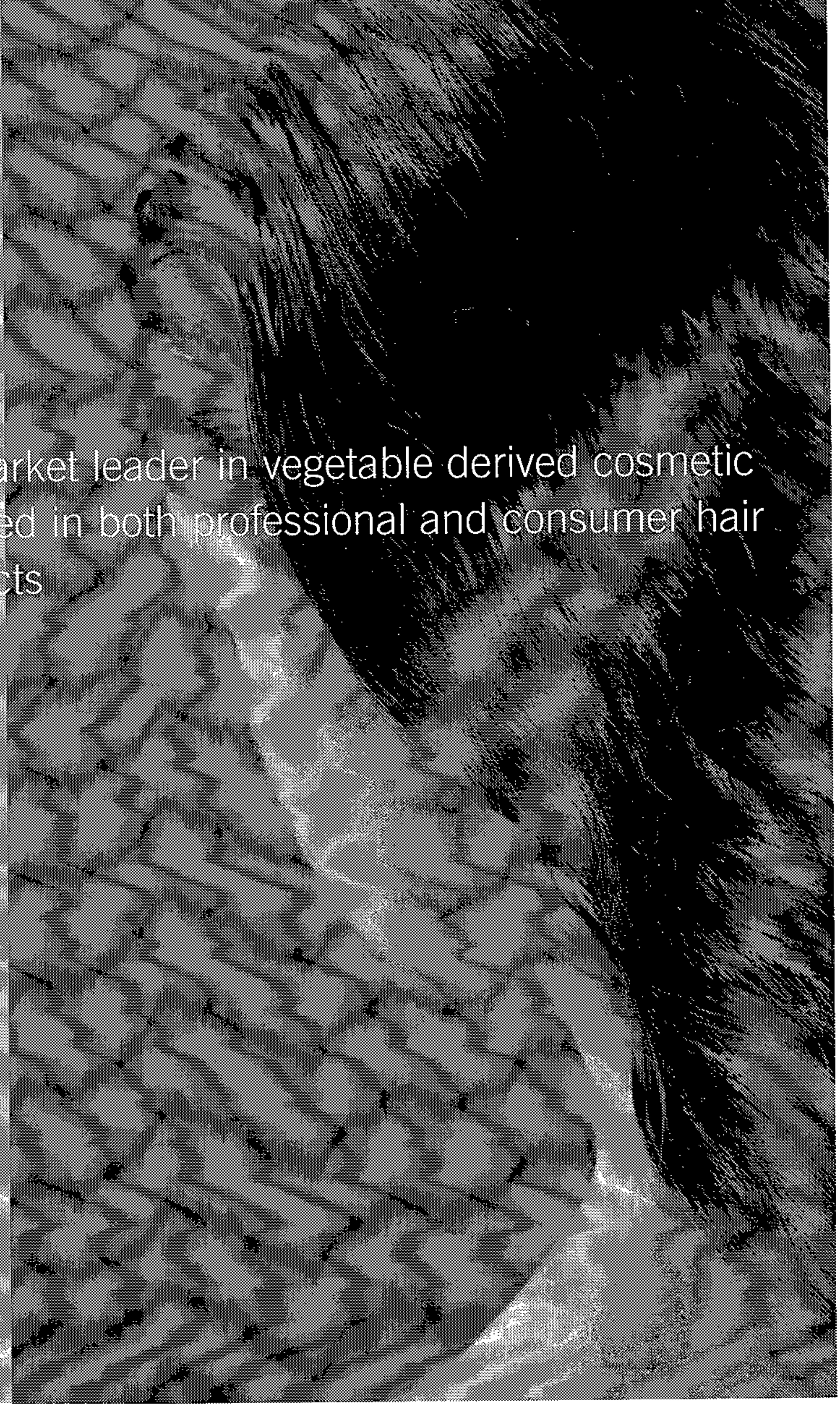
During the year we successfully commissioned a new speciality protein plant at Widnes and worldwide sales of super-refined oils and lipids increased markedly. Our new surfactant plant at Rawcliffe Bridge came on stream smoothly and initial sales volumes for these biodegradable products were very encouraging.

While in general most raw material prices were subdued, woolgrease prices rose sharply. Woolgrease is a by product from scouring wool and is an important raw material for our lanolin and lanolin derivative operations. The price rise followed a shortage in supply due to low worldwide sales of wool. Supplies of ethylene oxide, the raw material for another range of surfactants, were disrupted by problems at a supplier's plant.

In Europe we saw strong sales growth, particularly in Germany, following economic recovery there. By means of a far reaching reorganisation we significantly reduced our European selling costs and more deeply integrated our European sales operations with our UK sales forces.

"We had an outstanding year in the Americas and in Europe we saw strong sales growth."





Croda is market leader in vegetable derived cosmetic proteins used in both professional and consumer hair care products

New cosmetic protein plant

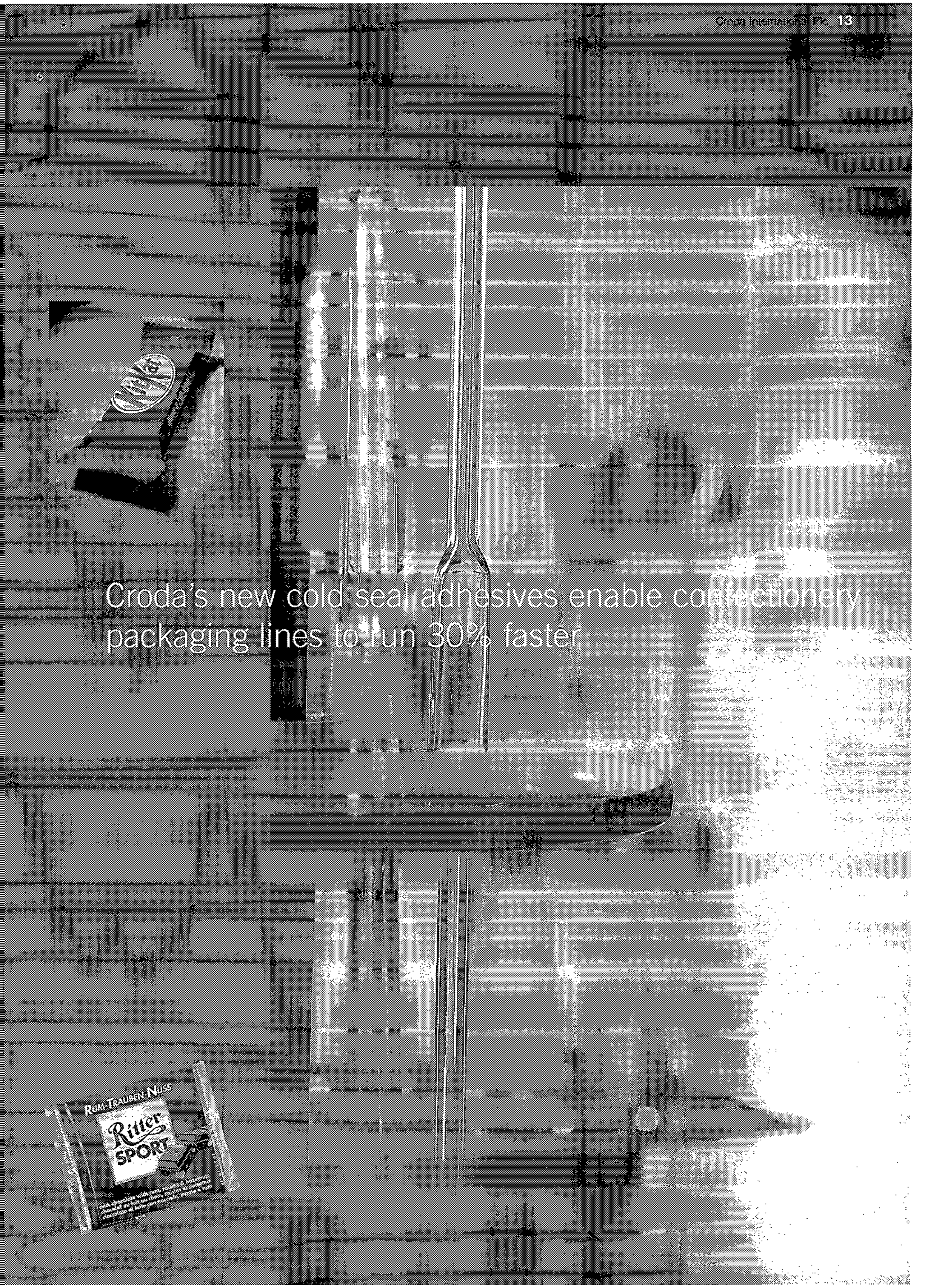
Operating review

> "New products have been launched in cold seal and labelling adhesives and market shares in these areas have risen strongly"

Sales in South East Asia fell in the second half of 1997 due to the currency problems in this region. We have built up our capacity for oleochemical derivatives in Singapore, one of the least affected areas, as strategically it is important to be present in this region for two main reasons. First, many of our international customers have set up large production facilities in the area for personal care products. Secondly, it is an important producing area for palm oil and hence a significant source of cheap vegetable based oleochemical feed-stocks which we use to make our specialities. We will continue to invest here for the longer term though it is likely in 1998 that an increased proportion of our plant's output will be switched to western markets. Our Japanese manufacturing operations, after much investment in recent years, continued to perform well and we were pleased to announce the appointment of Dr Yoshio Yamanaka as president of Croda Japan who replaced Ian Williamson on his retirement. Dr Yamanaka was previously a director of Zeneca Specialities in Japan.

Adhesives Our adhesive business which contributed 13% of the sales and 7% of the profits of the sector, saw a small rise in sales but profits were lower. In Australia we make rock anchors for mining and here we made good progress, but profits were lower in the UK due to reduced export margins and down in the USA due to rather disappointing sales and rationalisation costs. The benefits of new manufacturing plants and a lower cost base following the consolidation of operations will come through this year. A number of new products have been launched in cold seal and labelling adhesives and market shares in these areas have risen strongly. New investment in Brazil has followed a rapid rise in sales in this region.

Other Operations We sold our bitumen operation at the end of the year and have substantially reorganised the remaining solvent recovery operation. Some modest capital expenditure at our small colours operation will lead to substantial productivity and quality gains, and some innovative work has led to a number of technical breakthroughs in ink-jet products.

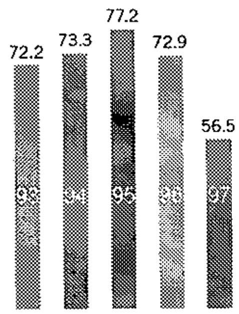

Croda's new cold seal adhesives enable confectionery packaging lines to run 30% faster
RUM-TRAUBEN-NUSS
Ritter SPORT

Operating review

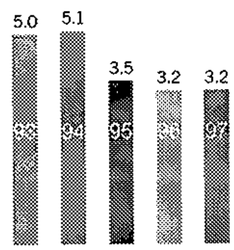
Coatings

Results	1997 £m	1996 £m
External turnover	56.5	72.9
Trading profit	3.2	3.2
Capital employed	36.6	43.5
Return on capital	8.7%	7.4%

Coatings turnover £m



Coatings trading profit £m

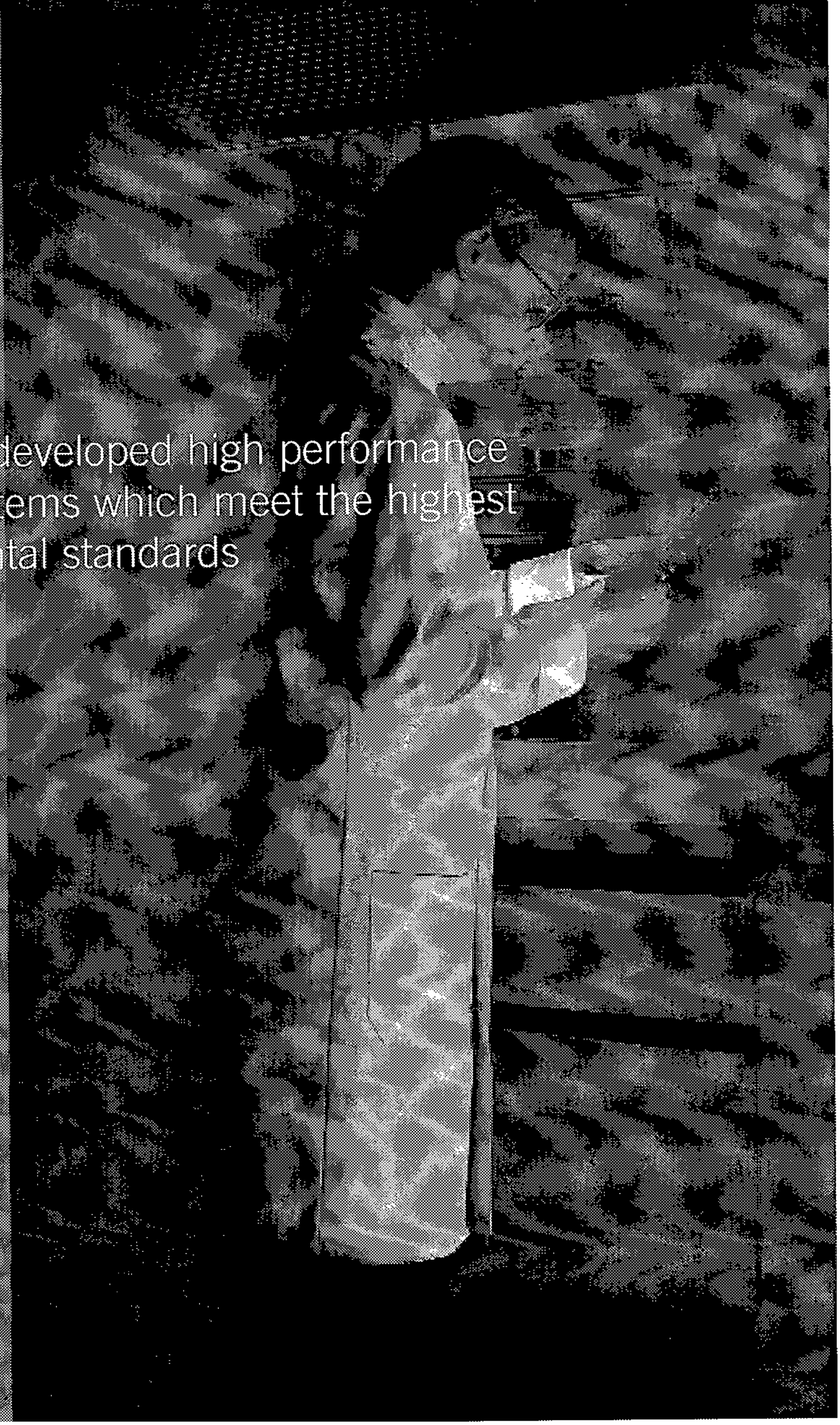


In 1996 we completed the sale of our ink business to Manders Plc and we continue to exit this sector. In January 1998 we sold our UK powder coatings business to the Becker Group and we are currently in negotiation for the sale of our liquid paints business.

Overall in 1997 profits in this sector were flat with UK and New Zealand profits well up, balanced by stock write-offs due to falling sales volumes in Australia.

Cosmetics & Toiletries

Our small soap operation in Holland continued in loss. A new management team have, however, made progress following a cost reduction exercise and we view the outlook with guarded optimism.



Croda has developed high performance coating systems which meet the highest environmental standards

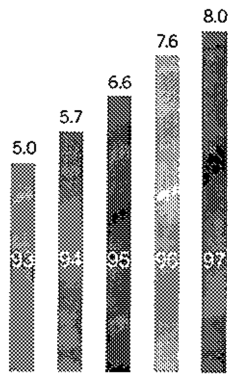
Operating review

Research & development

Our investment in R&D continued with £8m being spent in 1997, 5% higher than last year's £7.6m spend in continuing businesses. R&D employees now form 10% of the Group. Our R&D programmes continue to be the source of a good flow of new products in our chemical sector that enable us (exchange rate permitting!) to maintain good margins. Over the past decade Croda has become well known for its innovative chemistry which an increasing proportion of our customers rely on to develop and improve their own products. Often it seems the case that we are becoming an extension of our customers own R&D departments and we aim to maintain a very responsive approach to all customer requests. The continued consolidation in the personal care industry has strengthened our position in the industry with even closer relationships being formed with the major players in this sector. Similarly, in our fast growing sales to the pharmaceutical industry, our innovative approach with oleochemical products has led to good rewards.

We were very pleased to welcome Sederma to our Group where the R&D philosophy is so similar to that in Croda. Their very talented people have brought a range of new techniques and technology to the Group, and their participation in our international technical meetings will be highly significant.

R&D expenditure £m



Croda has become well known for its innovative chemistry which customers use to develop and improve their own products

Financial review

Barbara Richmond
Group Finance Director

Operating results Sales in 1997 were £18.5m below 1996 at £429.1m and pre-tax profits, before exceptional items, were £4.7m lower at £41.1m. The biggest financial influence on the results was the effect of the strengthening of Sterling, particularly against the Deutschmark and as a consequence the Group's results were reduced by both transaction and translation effects. The transaction effect was the reduction in our export margins of products manufactured in the UK and sold to overseas markets in foreign currencies. The impact of this was approximately £15m on sales and £8m on operating profits. The second effect was the translation into sterling of profits earned at our overseas operations.
The impact of this was £13m on sales and £2m on operating profits.

Note 1 on page 40 shows that central costs have risen from £3.0m to £4.5m. The primary reason for this was that, due to a larger number of claims, our captive insurance company made a small loss in 1997 compared with a substantial profit in 1996.

Included in the results for 1997 is an exceptional loss of £1.9m on the sale of our bitumen business in December.

Taxation The tax charge for the year at 30.5% is just under one percentage point above that for 1996. This is due to the increasing proportion of our earnings being generated overseas where comparative tax rates are generally significantly higher than in the UK. As the Group continues to grow and develop overseas the tax charge can be expected to increase.

Included in the 1997 tax charge is a one-off benefit of £1.0m because we have declared our interim and proposed our final dividends as Foreign Income Dividends, thus enabling the write-back of surplus Advance Corporation Tax previously written-off. The payment of Foreign Income Dividends also has cash flow benefits to the Group.

Treasury A thorough review of our treasury policy has been undertaken in 1997. The main conclusions of this were:

- the focus of hedging will be cash flow based rather than balance sheet based
- tax and treasury policies will be linked to minimise our after tax cost of capital
- the debt profile of the Group will be made more uniform

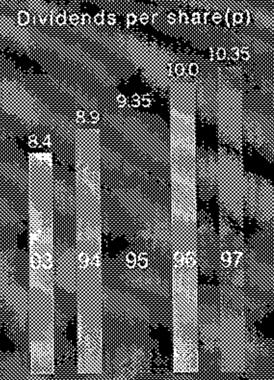
The initial outcome of the review was the successful private placement in July 1997 by our US business of US$55m senior loan notes with an average maturity of 10 years and an actual maturity of 9 to 11 years. The proceeds of this placement provided the major part of the consideration for the STOA acquisition.

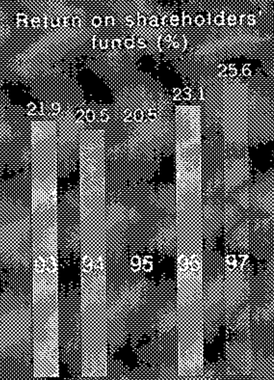
A further result of the review has been the combination of tax and treasury into one head office function.

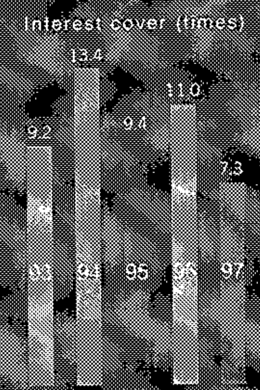
Following the STOA acquisition our net gearing at the end of 1997 stood at 75% and our net interest expense rose by £1.9m to £6.5m. However our interest cover at 7.3 times for the year remains strong. As a result of lower interest rates and therefore the lower cost of debt capital, we currently stand to benefit from a level of gearing higher than in the past.

Dividend Following the final dividend of 6.8p, the full year's dividend of 10.35p is covered 2 times in terms of pre-exceptional earnings per share. This is consistent with the cover in recent years of 2 to 2.5 times.

Pension obligations Following the most recent actuarial review of Croda's two UK pension funds, in accordance with SSAP 24 a non-cash credit amounting to £1.5m was included in our profit and loss account, compared to the £1.9m credit in 1996. Following the abolition by the Government of the ability of pension funds to reclaim tax credits on UK dividend income, the Group and UK employees will recommence contributions to the UK funds in 1998. Initially this will be at the rate of 2% each for both employer and employee.







Board of Directors

1 **M R Valentine*** *MA, FCA (Cambridge, classics and law). Chairman, aged 70.*
With Coopers & Lybrand from 1951-1960. Joined S G Warburg & Co Ltd in 1960, executive director in 1967, head of corporate finance division from 1972-1986, vice-chairman from 1986-1988 and non-executive director from 1991-1995. Was a director of S G Warburg Group Plc from 1974-1991. Chairman RBSTB Trust Co Ltd since 1993. Appointed non-executive director RBS Trust Bank Limited in 1997. Has been a non-executive director of Reckitt & Colman Plc since 1986. Appointed a non-executive director of Croda in 1983 and became Chairman in 1989.

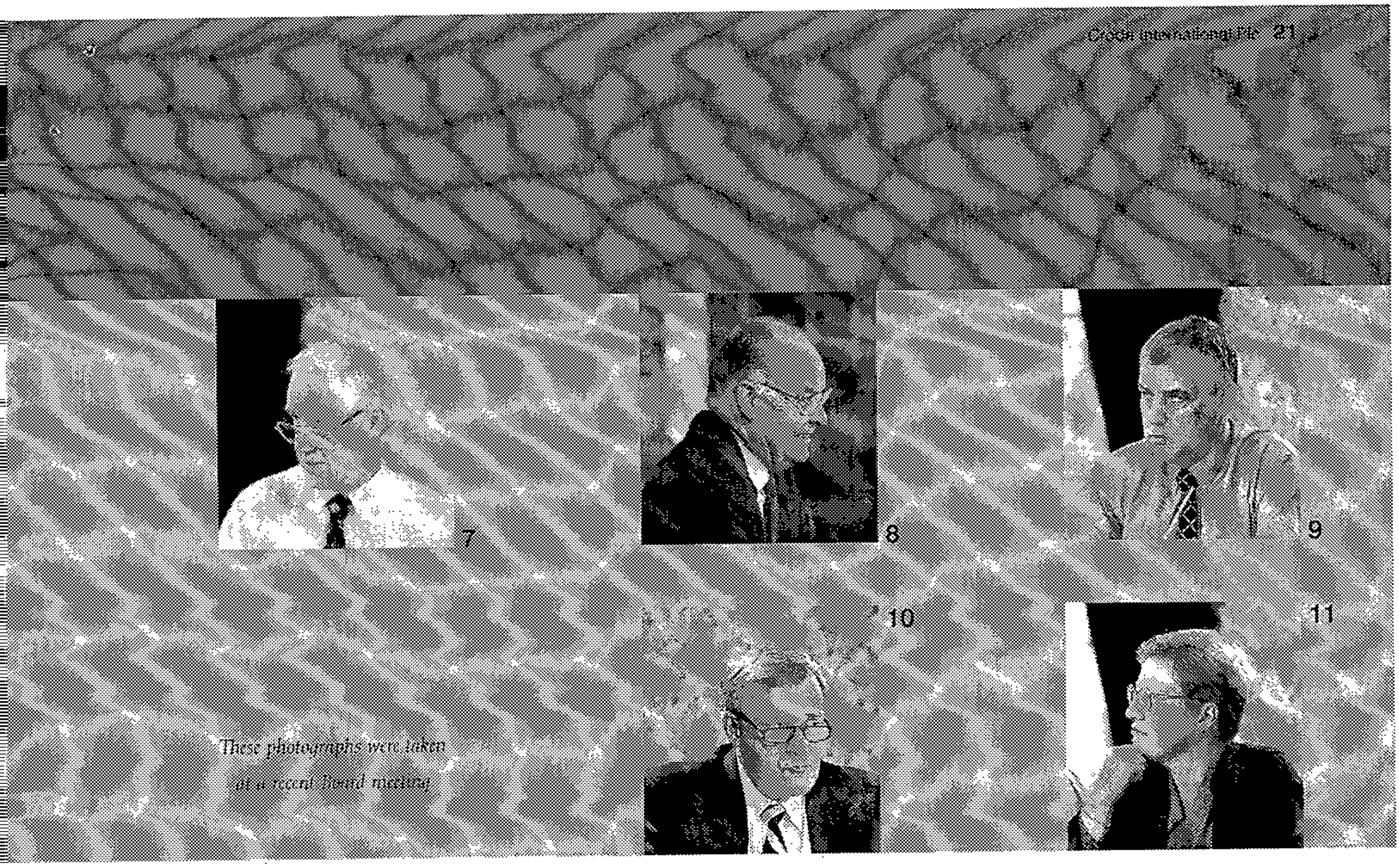
2 **K G G Hopkins** *PhD, BSc (Hull, chemistry). Group Chief Executive, aged 53.*
Joined Croda from Unilever in 1976. Director of Croda Chemicals International Ltd in 1981. Was appointed to the Croda Board in 1985 and became Group Chief Executive in 1987. Non-executive director of Tate & Lyle Plc.

3 **G E Bates** *MA (Cambridge, modern languages). Director of Administration and Group Secretary, aged 60.*
Joined Croda in 1968 and was appointed Croda Group secretary in 1969 and to the Croda Board in his present position in 1974. He is responsible for all corporate governance, legal, secretarial, pension and property matters within the Group.

4 **A R Beevor*** *BA (Oxford, politics, philosophy and economics). Non-executive Director, aged 57.*
A solicitor with Ashurst Morris Crisp from 1962-1972. Joined Hambros Bank Ltd in 1972, head of corporate finance division 1990-1995. Director-General of Takeover Panel 1987-1989 (on secondment). He is currently a managing director of S G Hambros and a non-executive director of The Rugby Group Plc and Gerrard Group Plc. Was appointed to the Croda Board in 1996.

5 **G D Bull** *BA (Coventry, modern languages). Sector Managing Director, aged 48.*
Joined RHM in Germany in 1974 and subsequently Croda GmbH as sales manager in 1976. Appointed sales director of London Oil Medina in 1980 and managing director of Croda Bakery Services 1981-1986. Managing director of Croda Food Services 1987-1990 and managing director of Croda Colloids since 1991. Was appointed to the Croda Board in 1997.

6 **S Everard*** *TD, DL, BA (Cambridge, history). Non-executive Director, aged 69.*
Joined Ellis & Everard in 1952, becoming deputy chairman in 1977, executive chairman 1980-1990, non-executive chairman 1992-1993, now honorary president. Chairman of Alliance & Leicester Plc. Was appointed to the Croda Board in 1990.



These photographs were taken at a recent board meeting

7 A R Fenney *FCMA. Sector Managing Director, aged 55.*
Joined Croda Food Ingredients as management accountant in 1970 and was appointed financial director of the Gelatin division in 1974. Seconded to South Africa as financial director in 1976. In 1979 became deputy managing director of Colloids division and managing director in 1984. Was appointed to the Croda Board in 1988.

8 J T Harrison* *BA, FCA (Birmingham, modern languages). Non-executive Director, aged 58.*
Joined ICI Fibres in 1965, worked in textile associated companies in Germany 1966-1970, became financial director of ICI plastics division in 1977, financial controller of ICI in 1979, treasurer in 1985 and general manager planning in 1989. He retired from ICI in 1993 and was appointed to the Croda Board in 1994. Chairman of Croda's audit committee. Chairman of The Hollas Group Plc and a non-executive director of Phone Link Plc and the Chelsea Building Society.

9 M Humphrey *Sector Managing Director, aged 47.*
Joined Croda in 1969 as a management trainee. Managing director Croda Singapore 1988, Croda Application Chemicals 1990 and Croda Chemicals 1991. Was appointed to the Croda Board in 1995.

10 C Irace *Director responsible for the Americas, aged 55.*
Joined Croda Inc in 1962 as plant operator, becoming assistant plant manager in 1963, general manager in 1971 and vice president of manufacturing in 1986. Named president of Croda Inc in 1989. Appointed chief executive officer of North and South America in 1995 and to the Croda Board in 1997.

11 B M Richmond *BSc, FCA (UMIST, management sciences). Group Finance Director, aged 37.*
Joined Croda as Group finance director in February 1997 from Whessoe Plc, where she was group finance director 1994-1997 and group financial controller from 1992-1994.

*Member of audit, remuneration and appointments committees

Directors' report

The directors present their annual report and financial statements for the year ended 31 December 1997. The report should be read in conjunction with information recorded on pages 2 to 21.

Activities of the Company and subsidiaries

Croda International Plc is a holding company operating from its headquarters at Cowick Hall, Snaith, Goole, East Yorkshire, and providing central direction for a speciality chemical group with operations in the main market areas of the world.

Review of business activities

A review of the activities of the three business sectors comprising the Group is given on pages 6 to 17. An analysis of turnover and profits is shown in note 1 on page 40. This report should be read in conjunction with the Chairman's statement and the operating and financial reviews, which include information about Group businesses, the financial performance during the year and likely developments.

Profit and appropriations

	1997 £m	1996 £m
The profit attributable to the ordinary shares of the Company after providing for taxation, the interests of minority shareholders and dividends on the preference shares, amounts to	26.1	28.9
From which dividends paid and proposed on the ordinary shares total	14.0	13.5
Leaving amount transferred to reserves	12.1	15.4

The directors recommend a final dividend of 6.80p per share. If approved by shareholders, dividends for the year will amount to 10.35p per share (1996: 10p per share). Details of dividends are shown in note 9 on page 43. The 1997 interim dividend was paid as a Foreign Income Dividend (FID) and the 1997 final dividend will be proposed as a FID.

Acquisition and disposals

The following table shows the acquisition and disposals made by the Group. Further details are shown in notes 27 and 28 on page 51.

Date	Nature of Interest
Acquisition	
1 August 1997	Issued share capital of STOA SA.
Disposals	
31 December 1997	Bitumen business to Total Oil Great Britain Limited.
31 January 1998	UK powder coatings business to the Becker Group of Sweden.

Directors

The present directors of the Company are shown on pages 20 and 21. The directors retiring by rotation are K G G Hopkins, M Humphrey and M R Valentine. They will be proposed for re-election at the Annual General Meeting. Details of the directors' service contracts are given in the report of the remuneration committee. M R Valentine, aged 70, will retire on reaching age 71.

Apart from the share option schemes no director had any beneficial interest, other than in the ordinary course of business, in any contract to which the Company or a subsidiary was a party during the period.

A statement indicating the beneficial interests of the directors in the capital of the Company is shown on page 29.

During the year the Company maintained insurance providing liability cover for directors and officers of the Company.

Directors' report

Corporate governance

Directors' responsibilities in relation to financial statements The following statement, which should be read in conjunction with the report of the auditors set out on page 32, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

Following discussions with the auditors, the directors consider that, in preparing the financial statements on pages 34 to 51 inclusive, the Company has used appropriate accounting policies, applied in a consistent manner and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors 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.

Compliance The Board supports the principle of corporate governance outlined in the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate Governance in December 1992 (the Code). The Board confirms that the Company complies with the requirements of the Code and has done so throughout the year. The auditors' report concerning such compliance appears on page 32.

In furtherance of the principles of good corporate governance, the Board has appointed the following committees. Other executives attend the meetings of these committees when requested to do so by the committee chairman.

Executive committee

Keith Hopkins (Chairman)
George Bates
Geoff Bull
Roy Fenney
Mike Humphrey
Charles Irace
Bob Poskitt
Barbara Richmond

The executive committee meets every month to deal with all executive business of the Group not specifically reserved to the Board, or to any of the committees mentioned below. Among other matters, it reviews capital and revenue investment proposals below certain designated levels agreed by the Board.

Audit committee

Trevor Harrison (Chairman)
Antony Beevor
Simon Everard
Michael Valentine

The audit committee, which consists of the non-executive directors and the Group Chairman, meets at least two times a year. It assists the Board in observing its responsibility for ensuring that the Group's financial systems provide accurate and up to date information on its financial position and that the Group's published financial statements represent a true and fair reflection of this position. It also assists the Board in ensuring that appropriate accounting policies, internal financial controls and compliance procedures are in place. The auditors, Price Waterhouse, attend these meetings.

Directors' report

Remuneration committee

Simon Everard (Chairman)
Antony Beevor
Trevor Harrison
Michael Valentine

The remuneration committee, which consists of the non-executive directors and the Group Chairman, meets, on average, four times a year and is responsible for advising on remuneration policy for senior executives and for determining the remuneration packages of the executive directors. The Chief Executive normally attends its meetings. The report of the remuneration committee is set out on pages 27 to 31.

Appointments committee

Michael Valentine (Chairman)
Keith Hopkins
Antony Beevor
Simon Everard
Trevor Harrison

The appointments committee is responsible for nominating, for the approval of the Board, candidates for appointment to the Board.

Routine business committee

The routine business committee comprises any two executive directors. It attends to business of a routine nature and to the administration of matters, the principles of which have been agreed previously by the Board or the executive committee.

Non-executive directors Croda complies with the Code in having experienced non-executive directors who represent a source of strong independent advice and judgement. There are three such directors, each of whom has significant commercial experience. Their understanding of the Group's operations is enhanced by regular divisional presentations and by visits to the divisions.

The remuneration of non-executive directors takes the form of fees, which are set by the executive directors in line with market levels and are agreed by the Board.

Internal financial control The Board of directors is responsible for the Group's system of internal financial control. In order to discharge that responsibility in a manner which ensures compliance with laws and regulations and promotes effective and efficient operations, the directors have established an organisational structure with clear operating procedures, lines of responsibility, and delegated authority.

In particular there are clear procedures for

- capital investment, with detailed appraisal, authorisation and post-investment review
- financial reporting, within a comprehensive financial planning and accounting framework
- monitoring of business risks, with key risks identified and reported to the Board and audit committee.

There are also clear procedures for monitoring the system of internal financial control. This is a process which involves

- certificated reports from relevant senior executives and divisional directors concerning the operation of those elements of the system for which they are responsible, and a report from the head of Group internal audit concerning the operation of the system as a whole
- reports from the head of Group internal audit on the work carried out under the annual internal audit plan and
- reports from the external auditors.

The Board has reviewed the effectiveness of the system of internal financial control in operation during the financial year. It must be recognised that such a system can provide only reasonable and not absolute assurance.

Going concern The financial statements, which appear on pages 34 to 51, have been prepared on a going concern basis as, after making appropriate enquiries, the directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

Directors' report

Community affairs

We have continued to support many community projects both with donations and with practical help and advice. Many of our employees also devote much of their own time to working with local community groups and to fund raising projects for deserving causes.

Our work with schools, colleges and other educational establishments is ongoing. Students learn how our products are used and gain direct experience of product formulation and plant processes.

Centres for children with severe learning difficulties benefit particularly from practical help, while work experience and job shadowing are undertaken as part of our commitment to the various schemes linking education to business.

Employment policies

The Group operates in many parts of the world. Its employment policies may vary to meet local conditions but generally are established on the basis of best practices in any given country. These policies provide employment opportunities for racial minorities, people with disabilities and other disadvantaged groups.

Employees in the UK with more than three years' service have the opportunity to participate in a Save As You Earn linked share option scheme. Both general and single company PEPs have been established and are open to all employees who wish to invest in Croda shares in this way.

The Group house magazine, Croda Way, is published three times a year and is circulated to all employees. It contains articles of general interest about Group activities and comments on both the full and half year results.

Environmental policy

The Group recognises environmental management as an important responsibility.

Environmental matters are not only a prime duty of management but an area where each employee has a contribution to make. The Group will train and encourage all employees to operate in an environmentally responsible manner.

Our policy is to take practical measures to

- comply with all relevant environmental laws and regulations as a minimum standard and exceed such requirements where reasonably practicable. We will adopt responsible standards where we believe the regulations are inadequate
- develop a programme to achieve continual improvement in environmental performance and prevention of pollution and set objectives and standards which can be audited and reviewed
- develop products and processes which seek to minimise environmental impact and effects. We will seek to eliminate all wastes and where this is not practical will dispose of them in a safe and responsible manner
- communicate with employees, the public, customers, distributors and contractors on environmental matters including actual and potential environmental effects of processes, products or wastes and will seek to work with industry and official bodies to gain and spread relevant knowledge
- run our business so that incidents or emergencies are rare events but continue to maintain procedures to deal quickly and effectively with such occurrences.

Health and safety policy

It is the policy of the Group to achieve high standards of health and safety in all parts of the Group and to provide efficient management and resources to improve its performance in this function. The maintenance and monitoring of safe and healthy systems of work which comply with or exceed current legislation will be provided for the protection of our employees, others working on our sites, our customers and our neighbours.

The Group believes that it is essential to provide information in all matters of health and safety to employees through safety representatives and joint safety committees, as well as to representatives of communities who live near its factories and laboratories.

Supplier payment policy

Group policy concerning the payment of suppliers is that each operating unit agrees terms of payment at the beginning of business or makes the supplier aware of the standard payment terms, and pays in accordance with those terms or other legal obligations. At 31 December 1997, the Group had an average of 45 days purchases outstanding in trade creditors.

Directors' report

Charitable and political donations
Charitable donations made by the Group in the year amounted to £33,026 (1996: £29,665). No donation was made for political purposes.

Annual General Meeting
The Annual General Meeting will be held at Carlton Towers, Carlton, Goole, East Yorkshire DN14 9LZ on Thursday 7 May 1998 at 12 noon. The notice of meeting is on pages 56 and 57. An ordinary resolution will be proposed at the AGM to renew the directors' authority to allot securities without the prior consent of shareholders and a special resolution will be proposed to disapply statutory pre-emption rights.

Auditors
Price Waterhouse have indicated their willingness to continue in office and resolutions concerning their re-appointment and remuneration will be submitted to the Annual General Meeting.

Substantial shareholders
At 13 March 1998 the Company had been notified of the following substantial interests in its ordinary share capital

	Shares	%
Schroder Investment Management Ltd	16,031,399	11.81
Royal & SunAlliance Insurance Group plc	12,629,600	9.30
Prudential Corporation group of companies	6,338,002	4.67
B.A.T. Industries plc*	5,777,323	4.25
Britannic Assurance PLC	5,360,000	3.95

* Managed by Threadneedle Investment Managers Ltd, on behalf of Allied Dunbar Assurance Plc and Eagle Star Holdings Plc. These companies are part of the B.A.T. Industries plc Group.

Close company status
The Company is not a close company as defined in the Income and Corporation Taxes Act 1988.

By order of the Board

G E Bates
Secretary
24 March 1998

Remuneration committee report

Composition of the remuneration committee

The remuneration committee was established in 1983. Its present members are given on page 24 in the Directors' report.

Compliance

The Company has adopted the provisions of the Code of Best Practice (the Code) issued by the Study Group on Directors' Remuneration (the Greenbury Committee). The auditors' report set out on page 32 confirms that the scope of this report covers the disclosures that are specified for audit by the Listing Rules of the London Stock Exchange. Throughout the year under review the Company has complied with Section A of the Best Practice provisions annexed to the Listing Rules.

Directors' remuneration policy

The remuneration of executive directors and senior executives is determined by the committee. The key objectives of Croda's executive remuneration policy 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 keep the Company fully aligned with Section B of the Best Practice provisions annexed to the Listing Rules

Basic Salary and Benefits Basic salary and benefits are established with the aid of comparisons with annual surveys from external consultants and the remuneration of directors of comparable companies. Individual salaries of directors and other senior executives are reviewed annually by the committee. Remuneration of overseas executives is paid in local currency.

Performance-related Bonus Scheme The Company operates bonus schemes for its directors and senior executives. Executive directors are paid a performance-related bonus in respect of the previous financial year. The bonus for UK directors is calculated in accordance with a formula which is linked to the increase in Group profit before tax. From the current year the bonus for individual directors will be calculated to take account also of their achievement of personal objectives. The maximum bonus payable is 50% of basic salary, achievable when the increase in Group profit before tax is 30% higher than the previous highest figure. Bonuses are paid in cash and included in directors' emoluments in the year to which they relate.

No bonus was earned by the UK directors in respect of 1997. C Irace earned a bonus based on the performance of the Group's North American oleochemicals subsidiary.

Share Options Senior Executive Share Option Schemes are in place. Options, which may be exercised between 3 and 10 years from the date of issue, are granted to directors and senior executives both in the UK and overseas. The share options are based on market prices of the Company's ordinary shares at the time of grant. The aim of the option schemes is to identify closely the interests of the directors and senior executives of the Company with those of its shareholders. To this end the options granted under the option schemes which were extended by a resolution passed at the Company's 1995 Annual General Meeting will be subject to satisfaction of performance conditions before they can be exercised. Briefly, options granted since 1995 cannot be exercised for a minimum period of three years after the date of grant, but are then exercisable at any time during the following seven years, provided the Company's earnings per share have increased in total by more than 6% plus the rate of UK inflation in any period of three consecutive years following the date of grant.

Pension and other benefits Pensions, company cars, medical insurance, annual leave and other benefits are in line with those provided to executive directors in similar businesses.
Croda has a number of different pension plans in countries in which it operates. Pension entitlements for Croda's executives are tailored to local market practice, the length of service and age of the participants. The principal pension plans in the UK are defined benefit schemes which provide a pension based on a proportion of final salary.

Remuneration committee report

Service contracts and external appointments All the executive directors have service agreements with the Company which are terminable on either side on six months' notice. In addition, if the service agreements are terminated by the Company without just cause, a terminal payment equivalent to eighteen months' remuneration is payable by the Company.
Executive directors are permitted to accept non-executive appointments by prior agreement. It is normal practice for executive directors to retain fees provided for non-executive appointments. Throughout 1997 K G G Hopkins was a non-executive director of Tate & Lyle Plc.

The Chairman's and non-executive directors' fees These fees are determined on the basis of current fee levels in similar businesses. Fees are reviewed every two years. With effect from January 1997 the basic fee for the Chairman is £90,000 and for the non-executive directors £21,000. Supplementary fees may be paid for committee chairmanship and for special duties beyond the norm expected of a non-executive director.
The Chairman is a member of the Croda International Supplemental Pension Scheme. Non-executive directors are not eligible for pensions, incentives or any similar payments other than out-of-pocket travel and accommodation costs in connection with the performance of their duties.

Directors' remuneration

	Nationality	Basic salary £	Bonus £	Benefits £	Pension £	Fees £	1997 Total £	1996 Total £
G E Bates	British	150,117	–	12,539	–	–	162,656	164,396
G D Bull	British	110,117	–	11,181	–	–	121,298	–
A R Fenney	British	150,117	–	11,353	–	–	161,470	160,957
R M H Heseltine	British	22,500	–	959	–	–	23,459	159,904
K G G Hopkins	British	240,000	–	12,355	–	–	252,355	257,635
M Humphrey	British	140,117	–	12,315	–	–	152,432	141,639
C Irace	American	166,178	54,546	15,632	149,064	–	385,420	–
B M Richmond	British	145,514	–	10,732	–	–	156,246	–
M R Valentine	British	90,000	–	–	–	–	90,000	82,500
A R Beevor*	British	–	–	–	–	21,000	21,000	11,860
S Everard*	British	–	–	–	–	24,000	24,000	21,500
J T Harrison*	British	–	–	–	–	26,000	26,000	23,500
J D Lloyd*	British	–	–	–	–	–	–	6,665
		1,214,660	54,546	87,066	149,064	71,000	1,576,336	1,030,556

* Non-executive director
G D Bull and C Irace were appointed on 1 January 1997 and B M Richmond was appointed on 3 February 1997.
R M H Heseltine resigned on 28 February 1997 and received an ex gratia payment of £67,500.
Benefits incorporate all assessable tax benefits arising from employment by the Company and relate in the main to the provision of a company car.

Pension rights

G E Bates, G D Bull, A R Fenney, K G G Hopkins, M Humphrey and M R Valentine: Pension benefits funded under the Croda International Supplemental Scheme. On retirement at age 60 they will be entitled to a pension of two-thirds of their final annual pensionable remuneration. Because of their length of service with the Group they are not subject to the limitation on the level of final remuneration (known as the earnings cap). In the case of M R Valentine retirement will be at age 71. B M Richmond is responsible for providing her own pension arrangements. C Irace's pension benefits are funded under the Croda Inc Retirement Plan for Salaried Employees.

Emoluments of Chairman and highest paid director

M R Valentine was Chairman throughout 1997. His remuneration was £90,000.
The remuneration of the highest paid director (excluding pension contributions) in 1997, K G G Hopkins, was £252,355. He was also the highest paid director in 1996. No pension provision was required in either year as the UK pension schemes are currently enjoying a contribution holiday.

Remuneration committee report

Pension provision

Defined benefit schemes

	Increase in accrued pension for the year[1] £000	Transfer value of increase in accrued pension £000	Accumulated total accrued pension at year end[2] £000
G E Bates	8	154	92
G D Bull	3	38	38
A R Fenney	9	137	77
R M H Heseltine[3]	30	451	92
K G G Hopkins	12	170	110
M Humphrey	13	136	58
C Irace[4]	10	57	90
M R Valentine	4	33	23

1 For each director the figure represents the difference between the total accrued pension at 31 December 1997 and the corresponding pension one year earlier. The figures quoted include an adjustment for inflation as provided for under paragraph 12.43(x)(x)(a) of the Listing Rules of the London Stock Exchange.

2 The figure shown represents the amount of pension benefits based on service and pensionable earnings which would have been preserved for each director had he left service on 31 December 1997.

3 R M H Heseltine commenced to draw his pension from 1 March 1997 when he retired.

4 C Irace's benefits are accrued in the Croda Inc Retirement Plan for Salaried Employees. In the absence of a transfer basis in the USA pension plans, the increase in the accrued pension has been valued using the plan prescribed interest and mortality assumptions.

5 Members of the Croda International Supplemental Scheme have the option to pay voluntary contributions; neither the contributions nor the resulting benefits are included in this table.

Directors' interests

Interests at 31 December 1997

The directors of the Company and their families had the following beneficial interests in the Company's securities and rights under the Senior Executive and SAYE share option schemes.

	At 31 December 1997			At 1 January 1997 or date of appointment		
	Ordinary shares	Executive options	SAYE options	Ordinary shares	Executive options	SAYE options
G E Bates*	87,878	110,000	6,143	86,675	50,000	6,143
G D Bull	4,308	135,000	6,143	4,219	75,000	4,946
A R Fenney	151,447	184,000	6,187	144,219	124,000	12,139
K G G Hopkins*	179,148	160,000	6,160	112,086	222,000	6,160
M Humphrey	10,495	160,000	6,117	6,082	100,000	8,486
C Irace	67,813	160,000	–	46,825	120,000	–
B M Richmond	1,766	50,000	–	–	–	–
M R Valentine	3,000	–	–	3,000	–	–
A R Beevor	1,500	–	–	1,500	–	–
S Everard	5,016	–	–	4,913	–	–
J T Harrison	1,099	–	–	1,077	–	–

*G E Bates and K G G Hopkins had holdings of 5.25% preference shares of £1 each of 4,131 and 3,564 shares respectively throughout 1997.

No director has any interest in the 5.9% or 6.6% preference shares of the Company.

Since the end of the year there has been no change in the directors' shareholdings in the Company.

Apart from the above and service agreements, no director has had any material interest in any contract with the Company or its subsidiaries requiring disclosure under the Companies Act 1985.

Remuneration committee report

Share options

Options are granted over ordinary shares of 10p each under the Senior Executive Share Option Schemes and the SAYE Share Option Scheme.

Executive share options

	A	B	C	D	E	F	G	Granted in 1997 H
G E Bates	–	–	–	20,000	–	–	30,000	60,000
G D Bull	–	–	–	–	40,000	20,000	15,000	60,000
A R Fenney	40,000	25,000	–	25,000	–	–	30,000	60,000
	*4,000	–	–	–	–	–	–	–
K G G Hopkins	–	–	–	40,000	–	–	40,000	80,000
M Humphrey	–	–	–	–	50,000	20,000	30,000	60,000
C Irace	–	–	20,000	–	40,000	20,000	20,000	60,000
B M Richmond	–	–	–	–	–	–	–	50,000

* Formerly deferred shares

A Options exercisable at 188p per share during the period 6 April 1991 to 5 April 1998 plus formerly deferred at 181p each.
B Options exercisable at 166p per share during the period 3 May 1993 to 2 May 2000.
C Options exercisable at 184p per share during the period 6 May 1994 to 5 May 2001.
D Options exercisable at 160p per share during the period 8 April 1995 to 7 April 2002.
E Options exercisable at 184p per share during the period 12 October 1995 to 11 October 2002.
F Options exercisable at 367p per share during the period 18 October 1997 to 17 October 2004.
G Options exercisable at 337p per share during the period 3 April 1999 to 2 April 2006.
H Options exercisable at 307p per share during the period 4 April 2000 to 3 April 2007.

Gains made on executive share options

	Exercise date	Shares exercised	Exercise price(p)	Gain £000
R M Heseltine	10.04.97	60,000	211	63
		6,000	189	8
		50,000	166	76
		15,000	160	24
K G G Hopkins	06.05.97	70,000	211	61
		7,000	189	7
		65,000	166	86
C Irace	12.12.97	20,000	199	40

The gains are calculated according to the market price of Croda International Plc ordinary shares on the date of exercise, although the shares may have been retained. Directors' beneficial interests in shares are shown on page 29.

The market price of the Company's ordinary shares of 10p on 31 December 1997 was 420.5p and the high and low share prices during the year were 424p and 246p respectively.

Remuneration committee report

SAYE share options

				Granted in 1997	Exercised in 1997	Exercised in 1997
	A	B	C	D	E	F
G E Bates	2,438	1,241	2,464	–	–	–
G D Bull	–	2,482	2,464	1,197	–	–
A R Fenney	–	3,723	2,464	–	5,952	–
K G G Hopkins	–	–	6,160	–	–	–
M Humphrey	–	1,737	2,464	1,916	–	4,285

A Options exercisable at 283p per share during the period 1 November 1999 to 30 April 2000.
B Options exercisable at 278p per share during the period 1 November 2000 to 30 April 2001.
C Options exercisable at 280p per share during the period 1 November 2001 to 30 April 2002.
D Options exercisable at 288p per share during the period 1 November 2002 to 30 April 2003.
E Options exercised at 126p per share during the period 1 November 1996 to 26 March 1997.
F Options exercised at 140p per share during the period 1 November 1997 to 31 December 1997.

Gains made on SAYE share options

	Exercise date	Shares exercised	Exercise price(p)	Gain £000
A R Fenney	26.03.97	5,952	126	11
M Humphrey	25.11.97	4,285	140	10

The gains are calculated according to the market price of Croda International Plc ordinary shares on the date of exercise, although the shares may have been retained. Directors' beneficial interests in shares are shown on page 29.

The Company's register of directors' interests, which is open to inspection at the registered office, contains full details of directors' shareholdings and share options.

Simon Everard
Chairman, remuneration committee
24 March 1998

Auditors' reports

Auditors' report to the directors of Croda International Plc on corporate governance matters

In addition to our audit of the financial statements we have reviewed your statement concerning the Group's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

Basis of opinion

We carried out our review having regard to guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion, your statements on internal financial controls and on going concern on page 24 have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the Company and examination of relevant documents, your statement on page 23 appropriately reflects the Group's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Auditors' report to the members of Croda International Plc

We have audited the financial statements on pages 34 to 51 (including the additional disclosures on pages 27 to 31 relating to the remuneration of the directors specified for our review by the London Stock Exchange) which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on page 39.

Respective responsibilities of directors and auditors

As stated on page 23, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 December 1997 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse Price Waterhouse

Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge Street
London SE1 9SY

24 March 1998

Financial statements

Group profit and loss account

for the year ended 31 December 1997

	Notes	1997 £m	1996 £m
Turnover	1	429.1	447.6
Cost of sales		338.7	350.6
Gross profit		90.4	97.0
Net operating expenses	2	42.8	46.6
Operating profit	3	47.6	50.4
Exceptional items	4	1.9	2.9
Net interest payable	5	6.5	4.6
Profit on ordinary activities before taxation		39.2	42.9
Tax on profit on ordinary activities	6	12.6	13.6
Profit on ordinary activities after taxation		26.6	29.3
Minority interests		0.4	0.3
Profit attributable to Croda International Plc	8	26.2	29.0
Preference dividend	9	0.1	0.1
Ordinary dividend	9	14.0	13.5
Retained profit for the financial year	25	12.1	15.4

Earnings per share	10	19.4p	21.6p
Earnings per share before exceptional items	10	20.8p	23.8p

Group and Company balance sheets

at 31 December 1997

	Notes	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Fixed assets					
Tangible assets	14	170.0	161.3	2.9	2.8
Investments					
Subsidiary undertakings	17	–	–	124.1	109.3
Other	16	9.5	9.7	2.7	2.7
		179.5	171.0	129.7	114.8
Current assets					
Stock	18	71.5	73.2	–	–
Debtors	19	89.5	83.4	9.3	3.6
Pension fund prepayment	19	25.5	24.0	–	–
Cash at bank and in hand		11.1	8.7	59.7	59.4
		197.6	189.3	69.0	63.0
Creditors					
Falling due within one year	20	121.7	117.8	29.4	26.6
Net current assets		75.9	71.5	39.6	36.4
Total assets less current liabilities		255.4	242.5	169.3	151.2
Creditors					
Falling due after one year	21	93.8	43.1	51.8	50.1
		161.6	199.4	117.5	101.1
Capital and reserves					
Preference share capital	24	1.1	1.1	1.1	1.1
Ordinary share capital	23	13.6	13.5	13.6	13.5
Called up share capital		14.7	14.6	14.7	14.6
Share premium account	25	32.3	30.0	32.3	30.0
Revaluation reserve	25	11.7	11.7	2.1	2.1
Profit and loss account	25	102.0	142.2	68.4	54.4
Shareholders' funds		160.7	198.5	117.5	101.1
Minority interests (equity)	26	0.9	0.9	–	–
		161.6	199.4	117.5	101.1

Shareholders' funds include non-equity interests of £1.1m (1996: £1.1m).

Signed on behalf of the Board who approved the accounts on 24 March 1998

Michael Valentine

Michael Valentine Chairman
Barbara Richmond Group Finance Director

Group cash flow statement

for the year ended 31 December 1997

	Notes	£m	1997 £m	£m	1996 £m
Net cash inflow from operating activities	B		56.7		59.0
Returns on investments and servicing of finance					
Interest received		0.6		0.4	
Interest paid		(6.8)		(5.0)	
Interest element of finance lease rental payments		(0.1)		(0.1)	
Dividends paid on non-equity shares		(0.1)		(0.1)	
Dividends paid to minority shareholders		(0.3)		(0.1)	
			(6.7)		(4.9)
Taxation			(15.3)		(11.6)
Capital expenditure					
Purchase of tangible fixed assets		(33.7)		(33.2)	
Sale of tangible fixed assets and investments		1.9		1.3	
			(31.8)		(31.9)
Acquisitions and disposals					
Acquisitions	27	(49.0)		(6.0)	
Disposals	28	3.5		4.6	
Exceptional insurance proceeds		–		1.4	
Exceptional costs		(1.0)		(2.1)	
Loans to associated undertakings		0.4		1.0	
			(46.1)		(1.1)
Equity dividends paid			(13.4)		(12.3)
Financing					
Issue of ordinary share capital		1.7		1.6	
Issue of 7.37% guaranteed senior notes due 2008		33.3		–	
Loans acquired	27	10.7		–	
Addition to unsecured loan due 2000		10.0		5.0	
Addition to medium term unsecured loans overseas		1.2		6.3	
Repayment of amounts borrowed		(2.4)		(8.5)	
Capital element of finance lease rental payments		(0.3)		(0.4)	
			54.2		4.0
Decrease in cash			(2.4)		1.2

Group cash flow statement

for the year ended 31 December 1997

A. Reconciliation to net debt

	Notes	1997 £m	1996 £m
Decrease in cash	C	(2.4)	1.2
Increase in debt and lease financing	C	(41.8)	(2.4)
Change in net debt from cash flows		(44.2)	(1.2)
Loans acquired	C	(10.7)	–
New finance lease contracts		(0.3)	(0.2)
Exchange differences		1.1	1.0
Movement in net debt in the period		(54.1)	(0.4)
Net debt at 1 January		(66.8)	(66.4)
Net debt at 31 December	C	(120.9)	(66.8)

B. Net cash inflow from operating activities

	1997 £m	1996 £m
Operating profit	47.6	50.4
Depreciation	18.3	16.6
Profit on sale of tangible fixed assets and investments	(0.2)	0.1
Share of profit of associated undertakings	(3.8)	(3.9)
Dividends received from associated undertakings	1.9	0.9
Pension fund prepayment	(1.5)	(1.9)
Decrease in stock	0.6	(6.3)
Increase in debtors	(1.0)	0.2
Decrease in creditors	(5.2)	2.9
Net cash inflow from operating activities	56.7	59.0

C. Analysis of net debt

	1997 £m	Cash flow £m	Exchange movements £m	Other non-cash £m	Loans acquired £m	1996 £m
Cash at bank and in hand	11.1	2.9	(0.5)			8.7
Bank loans and overdrafts	(40.9)	(5.3)	0.4			(36.0)
Decrease in cash		(2.4)				
Loans repayable within one year	(2.9)	0.6	(0.1)	(0.1)	(2.7)	(0.6)
Loans repayable after one year	(87.6)	(42.7)	1.3	0.1	(8.0)	(38.3)
Finance leases	(0.6)	0.3		(0.3)		(0.6)
Increase in debt and lease financing		(41.8)				
Total net debt	(120.9)	(44.2)	1.1	(0.3)	(10.7)	(66.8)

Other primary financial statements

for the year ended 31 December 1997

Statement of total recognised gains and losses

	1997 £m	1996 £m
Profit attributable to shareholders	26.2	29.0
Currency translation differences	(5.4)	(8.1)
Total gains recognised in the financial year	20.8	20.9

Note of historical cost profit and loss

There is no material difference between the result as disclosed in the profit and loss account and the result on a historical cost basis.

Movement in shareholders' funds

	1997 £m	1996 £m
Profit attributable to shareholders	26.2	29.0
Dividends	(14.1)	(13.6)
Other recognised losses as above	(5.4)	(8.1)
New share capital issued	1.8	2.1
Goodwill written off on acquisitions	(46.3)	(3.6)
Goodwill written back on disposals	–	0.2
Net reduction in shareholders' funds	(37.8)	6.0
Shareholders' funds at 1 January	198.5	192.5
Shareholders' funds at 31 December	160.7	198.5

Accounting policies

Accounting basis
The Group accounts are prepared under the historical cost convention, as modified by the periodic revaluation of properties, in compliance with the provisions of the Companies Act 1985, the requirements of the Stock Exchange and applicable United Kingdom Accounting Standards.

Group accounts
The Group profit and loss account consolidates the results of Croda International Plc and its subsidiary undertakings and includes the Group's share of the results of associated undertakings.
When businesses are acquired or sold during the year, their results are included from or to the date on which control passes. Goodwill, representing the excess of purchase consideration over the fair value of the net tangible assets acquired, is written off directly to reserves in the year of acquisition. Goodwill previously written off to reserves is included in the calculation of profit or loss on disposal.
Associated undertakings are those companies in which the Group has a beneficial interest of between 20% and 50% in the equity capital and where the Group exercises significant influence over commercial and financial policy decisions. The consolidated balance sheet includes the Group's share of the underlying net tangible assets of associated undertakings.

Land and buildings
In order to reflect the current value of land and buildings in the accounts, the Group's principal properties are valued periodically by professional valuers on an open market, existing use basis.
The profit or loss on the disposal of land and buildings included in the profit and loss account represents the difference between the net proceeds of sale and the net book amount.

Depreciation
Tangible fixed assets are stated at cost or valuation less depreciation.
Depreciation is provided at rates calculated to write down the cost of all tangible fixed assets, except freehold land, over their estimated useful lives on a straight line basis. The estimated average life for each major asset category is

Freehold buildings	40 years
Leasehold land and buildings	lesser of term of lease and 40 years
Plant and equipment	10 years
Vehicles	
cars	3 years
lorries and other vehicles	5 years

Leased assets
Assets acquired under finance leases are included in the balance sheet under tangible fixed assets at an amount reflecting the fair value of the asset. Depreciation is provided in accordance with the Group's accounting policy for the class of asset concerned. The capital element of future lease rentals is included in creditors.
Finance charges are allocated to the profit and loss account each year in proportion to the capital element outstanding.
The cost of operating leases is charged to the profit and loss account as incurred.

Pensions
The pension obligations of the Company and its major subsidiaries are financed by contributions to separate funds. The contributions, which are made on the basis of actuarial advice, together with the surpluses or deficits arising from actuarial valuations, are taken to the profit and loss account so as to spread the cost of pensions over the estimated remaining service lives of current employees.

Stocks
Stocks are stated at the lower of cost and net realisable amount on a first in first out basis. Cost comprises all expenditure, including related production overheads, incurred in the normal course of business in bringing the stock to its location and condition at the balance sheet date. Profits arising on inter Group sales are eliminated in so far as the product remains in Group stock at the year end.

Research and development
Expenditure on R&D, other than on tangible fixed assets, is written off against profits as incurred.

Currency translations
Profit and loss accounts in foreign currencies are translated into sterling at the average rates for the period unless local economic conditions make the closing rate more appropriate. Assets and liabilities are translated at the exchange rates ruling at the end of the financial period. Exchange profits or losses on trading transactions are included in the Group profit and loss account. Other exchange differences arising from non-trading items and from the translation of the opening net investment in subsidiaries are dealt with through reserves.

Deferred taxation
No provision is made for taxation deferred because of timing differences between profits computed for taxation purposes and profits as stated in the accounts except to the extent that such taxation is likely to be payable in the foreseeable future. Timing differences are due primarily to the difference between tax allowances on tangible fixed assets and the corresponding depreciation charged in the accounts. Deferred tax is provided on the pension fund prepayment.

Notes to the accounts

1. Segmental analysis

	Turnover 1997 £m	1996 £m	Profit 1997 £m	1996 £m	Net assets 1997 £m	1996 £m
Analysis by business sector						
Chemicals	366.8	366.4	49.4	50.8	257.8	236.9
Coatings	56.5	72.9	3.2	3.2	36.6	43.5
Cosmetics & Toiletries	5.8	8.3	(0.5)	(0.6)	2.3	2.9
Group turnover	429.1	447.6				
Trading profit			52.1	53.4		
Central costs			(4.5)	(3.0)		
Operating profit			47.6	50.4		
Exceptional items			(1.9)	(2.9)		
Net interest payable			(6.5)	(4.6)		
Group profit before taxation			39.2	42.9		
Sector net assets					296.7	283.3
Central net assets					2.0	2.2
Capital employed					298.7	285.5
Net debt					(120.9)	(66.8)
Dividends and taxation payable					(16.2)	(19.3)
Group net assets					161.6	199.4

The Chemicals sector includes turnover of £5.6m and trading profit of £3.0m relating to companies acquired in 1997.

	Turnover 1997 £m	1996 £m	Profit 1997 £m	1996 £m	Net assets 1997 £m	1996 £m
Analysis by geographical origin						
United Kingdom	220.1	225.2	26.9	32.0	205.1	195.4
Rest of Europe	57.9	59.3	5.6	2.4	19.3	16.9
Americas	81.6	85.6	14.6	13.2	34.5	28.2
Australasia	45.9	51.0	2.6	3.8	22.4	27.3
Africa & Asia	23.6	26.5	2.4	2.0	15.4	15.5
	429.1	447.6	52.1	53.4	296.7	283.3

Exports from the United Kingdom were £129m (1996: £133m), including £50m (1996: £52m) exported to Croda's overseas operations.

	1997 £m	1996 £m
Analysis by geographical destination		
United Kingdom	142.2	145.9
Rest of Europe	97.6	98.4
Americas	91.2	96.9
Australasia	46.0	51.2
Africa & Asia	52.1	55.2
	429.1	447.6

Notes to the accounts

2. Net operating expenses

	£m	1997 £m	£m	1996 £m
Distribution costs		21.3		22.5
Administrative expenses		25.7		28.7
Other operating income				
Loss on disposal of investments and properties	–		(0.1)	
Income from investments and properties	0.4		0.1	
Share of profits of associated undertakings	3.8	(4.2)	4.6	(4.6)
		42.8		46.6

Dividend income from associated undertakings amounted to £1.9m (1996: £1.0m).

3. Operating profit

	1997 £m	1996 £m
The operating profit is stated after charging		
Depreciation (note 14)	18.3	16.6
Staff costs (note 11)	76.2	78.3
Redundancy payments	1.1	0.9
Research and development	8.0	8.4
Hire of plant and machinery	1.3	1.0
Other operating lease rentals	1.5	1.5
Auditors - audit fee	0.4	0.4
- other services	0.2	0.1

Included in the Group audit fee disclosed above is £0.1m (1996: £0.1m) in respect of the parent company.

4. Exceptional items

	1997 £m	1996 £m
Business disposals		
Loss on disposal of businesses (note 28)	1.9	2.5
Goodwill written back	–	0.2
Operations terminated in prior years	–	1.0
Insurance recovery in respect of plant	–	(0.8)
	1.9	2.9

5. Net interest payable

	1997 £m	1996 £m
Bank loans and overdrafts	5.9	5.1
7.37% guaranteed senior notes due 2008	1.2	–
Other loans and finance leases	0.1	0.1
Total interest payable	7.2	5.2
Interest receivable	(0.7)	(0.6)
	6.5	4.6

Notes to the accounts

6. Taxation

	1997 £m	1996 £m
United Kingdom taxation		
Corporation tax	22.2	8.0
Advance corporation tax on dividends for the year	3.5	3.1
	25.7	11.1
Advance corporation tax utilised	(4.5)	(3.4)
Relief for overseas taxes on dividends remitted to UK	(17.0)	(1.3)
	4.2	6.4
Overseas corporate taxes	8.4	7.2
	12.6	13.6

	1997 £m	1996 £m
The Group's UK tax charge benefited by		
Advance corporation tax written back	1.0	0.3
Excess of capital allowances over depreciation	1.2	1.5
	2.2	1.8

United Kingdom corporation tax has been provided at the rate of 31.5% (1996: 33%). The total tax charge includes £1.3m (1996: £1.3m) in respect of associated undertakings. No provision has been made for any additional tax which may arise on the distribution of the retained profits of overseas subsidiary undertakings.

7. Deferred taxation

	1997 £m	1996 £m
Potential amount for all timing differences due to		
Excess of capital allowances over depreciation	17.7	17.6
Other	1.5	0.7
	19.2	18.3
Advance corporation tax recoverable	–	(1.0)
	19.2	17.3

United Kingdom potential deferred taxation is based on a rate of corporation tax of 30% (1996: 33%). Overseas potential deferred taxation is based on tax rates appropriate to each overseas subsidiary. Included within corporate taxation (note 21) is a provision for deferred taxation of £3.8m (1996: £3.1m) in respect of the pension fund prepayment.

Notes to the accounts

8. Profit attributable to Croda International Plc

Of the profit attributable to Croda International Plc £29.2m (1996: £14.1m) is dealt with in the profit and loss account of the holding company which was approved by the Board on 24 March 1998 but which is not presented, as permitted by S230(3) Companies Act 1985.

9. Dividends

	1997 pence per share	1997 £m	1996 pence per share	1996 £m
Ordinary				
Interim (paid December)	3.55	4.8	3.45	4.6
Proposed final (payable July)	6.80	9.2	6.55	8.9
	10.35	14.0	10.00	13.5
Preference (paid June and December)		0.1		0.1

10. Earnings per share

	1997 £m	1997 £m	1996 £m	1996 £m
Profit on ordinary activities before taxation	39.2	39.2	42.9	42.9
Exceptional items	–	1.9	–	2.9
Taxation	(12.6)	(12.6)	(13.6)	(13.6)
Minority interests and preference dividend	(0.5)	(0.5)	(0.4)	(0.4)
	26.1	28.0	28.9	31.8
	number m	number m	number m	number m
Average number of 10p ordinary shares	135	135	134	134
	pence	pence	pence	pence
Earnings per share	19.4		21.6	
Earnings per share before exceptional items		20.8		23.8

The issue of shares under the employee share option schemes would not result in any material dilution of earnings per share.

Notes to the accounts

11. Employees

	1997 £m	1996 £m
Group employment costs including directors		
Wages and salaries	69.2	70.6
Social security costs	7.4	8.0
Other pension costs	(0.4)	(0.3)
	76.2	78.3

	number	number
Average employee numbers		
Chemicals	2,479	2,406
Coatings	606	703
Cosmetics & Toiletries	69	76
Central	69	66
	3,223	3,251

12. Directors' remuneration

	1997 £	1996 £
Aggregate remuneration of the directors of the Company was as follows		
Salaries and benefits (Chairman and executive directors)	1,301,726	809,271
Bonuses	54,546	157,760
Pension contributions	149,064	–
Fees to non-executive directors	71,000	63,525
	1,576,336	1,030,556

More detailed information concerning directors' remuneration, interests and options is shown in the report of the remuneration committee on pages 27 to 31.

13. Pension obligations

The Group operates a number of pension schemes throughout the world. The principal schemes are in the UK and cover 94% of the Group's UK employees. These schemes are of the defined benefit type with assets held in separate trustee administered funds and are funded. In other countries benefits are determined in accordance with local practice and regulations and funding is provided on several bases.

The credit to the profit and loss account for the year in respect of pensions was £0.4m (1996: £0.3m). Contributions to the schemes were £1.1m for the year (1996: £1.6m).

The latest actuarial valuation of the principal UK schemes was carried out by Watson Wyatt Partners, independent consulting actuaries, as at 5 October 1996 using the projected unit method.

The assumptions used for assessing the pension costs under SSAP24 were reviewed and revised with effect from July 1997 to reflect the Budget at that time which removed the ability of pension schemes to reclaim tax credits on UK equity dividends. The most significant of these revised long-term assumptions are that the annual rate of return on investments will be 8.75%, the annual increase in general salaries will be 6.5%, and annual pension increases will be between 4% and 4.5%. The rate of annual increase in dividend income from UK equities is assumed to be 5.25%.

At 5 October 1996 the market value of the assets in the UK schemes was £233m and the actuarial value of these assets was sufficient to cover 132% of the benefits that had accrued to members, after allowing for expected future increases in earnings and equalisation of benefits for males and females. The actuarial surplus in excess of the prepayment at 1 January 1997, which has been calculated by adjusting the surplus shown by the 5 October 1996 valuation, is being taken to the profit and loss account over the average remaining service lives of current employees.

Notes to the accounts

14. Tangible fixed assets

	Group Land and buildings £m	Plant and equipment £m	Total £m	Company Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation						
At 1 January 1997	71.8	196.5	268.3	2.1	3.3	5.4
Currency realignments	(2.2)	(3.8)	(6.0)	–	–	–
Acquisition of businesses	1.5	1.4	2.9	–	–	–
Additions	4.5	29.5	34.0	–	0.7	0.7
Disposals	(1.1)	(9.6)	(10.7)	–	(0.3)	(0.3)
At 31 December 1997	74.5	214.0	288.5	2.1	3.7	5.8
Depreciation						
At 1 January 1997	7.6	99.4	107.0	0.4	2.2	2.6
Currency realignments	(0.2)	(2.1)	(2.3)	–	–	–
Acquisition of businesses	0.5	1.0	1.5	–	–	–
Charge for year	1.5	16.8	18.3	0.1	0.5	0.6
Disposals	(0.2)	(7.3)	(7.5)	–	(0.3)	(0.3)
Permanent diminution	1.5	–	1.5	–	–	–
At 31 December 1997	10.7	107.8	118.5	0.5	2.4	2.9
Net book amount						
At 31 December 1997	63.8	106.2	170.0	1.6	1.3	2.9
At 31 December 1996	64.2	97.1	161.3	1.7	1.1	2.8

The net book value of leased plant and equipment held by the Group at 31 December 1997 was £0.6m (1996: £0.6m).

	Group	Company
Net book amounts of land and buildings		
Freehold	60.4	1.5
Long leasehold	2.2	–
Short leasehold	1.2	0.1
	63.8	1.6
Historical cost of land and buildings		
Cost	50.6	0.3
Valuations 1989	1.9	–
1988	21.8	1.8
earlier	0.2	–
At 31 December 1997	74.5	2.1
Revaluation surpluses	3.2	1.1
Restated to historical cost	71.3	1.0
Depreciation	15.9	0.4
Historical net book amount		
At 31 December 1997	55.4	0.6
At 31 December 1996	56.0	0.6

Notes to the accounts

15. Future commitments

	1997 £m	1996 £m
Group capital projects		
At 31 December 1997 the directors had authorised the following expenditure on capital projects		
Contracted but not provided for	7.9	6.4
Authorised but not contracted for	19.0	14.2
	26.9	20.6

	Land and buildings £m	Other £m
Operating leases		
At 31 December 1997 the Group's annual commitments were		
Operating leases which expire		
Within one year	0.1	0.2
From one to five years	1.0	0.3
After five years	0.2	–
	1.3	0.5

16. Investments

	Associated undertakings £m	Loans to associated undertakings £m	Other investments £m	Total £m
Group				
Cost or valuation of net equity				
At 1 January 1997	8.2	0.4	1.1	9.7
Share of retained profit	0.6	–	–	0.6
Goodwill in associated undertakings	(0.5)	–	–	(0.5)
Repayment	–	(0.4)	–	(0.4)
Currency realignments	0.1	–	–	0.1
At 31 December 1997	8.4	–	1.1	9.5
Company				
Cost or valuation				
At 31 December 1997	1.6	–	1.1	2.7

Other investments are included at directors' valuation based on appropriate attributable net assets.

Associated undertakings and their issued share capital are	Principal country of operation	Share capital held %
Baxenden Chemicals Ltd	England	
1,800,000 ordinary shares of £1 each		46.5
Croda Herberts Pty Ltd	Australia	
6,000 'A' ordinary shares of $1 each		-
6,000 'B' ordinary shares of $1 each		100
12,000 'C' ordinary shares of $1 each		50
Quimica Croda SA de CV	Mexico	
2,494,117 nominative shares of 10 peso each		49

Other than dividends received from associated undertakings (note 2) and loans to associated undertakings (above), there were no material transactions with associated undertakings or other related parties.

Notes to the accounts

17. Subsidiary undertakings

	Shares £m	Loans £m	Total £m
Company			
Cost less amounts written off			
At 1 January 1997	31.0	78.3	109.3
Currency realignments	–	(0.9)	(0.9)
Amounts repaid	–	(31.7)	(31.7)
Additions	47.0	0.6	47.6
Disposals	(0.2)	–	(0.2)
At 31 December 1997	77.8	46.3	124.1

The principal subsidiary undertakings are listed on pages 54-55.

18. Stock

	1997 £m	1996 £m
Group		
Raw materials	22.1	25.8
Work in progress	4.5	2.7
Finished goods	44.9	44.7
	71.5	73.2

The replacement cost of stock held at 31 December 1997 was not materially different from the amounts shown above.

19. Debtors

	Group 1997 £m	1996 £m	Company 1997 £m	1996 £m
Trade debtors	74.2	74.3	–	–
Amounts owed by Group undertakings	–	–	2.8	2.8
Corporate taxation	5.4	–	5.4	–
Other debtors	6.3	4.6	0.3	0.3
Proceeds due from the sale of businesses	0.3	0.8	–	–
Prepayments	3.3	3.7	0.8	0.5
	89.5	83.4	9.3	3.6
Pension fund prepayment	25.5	24.0	–	–
Total debtors	115.0	107.4	9.3	3.6
Amounts falling due after more than one year included above				
Pension fund prepayment	25.5	24.0	–	–
Corporate taxation	2.3	–	2.3	–
	27.8	24.0	2.3	–

Notes to the accounts

20. Creditors

	Group 1997 £m	1996 £m	Company 1997 £m	1996 £m
Amounts falling due within one year				
Borrowings (note 22)	44.1	36.8	12.2	14.2
Trade creditors	37.3	41.3	0.2	0.2
Bills of exchange payable	1.4	1.2	–	–
Corporate taxation	7.3	7.0	3.6	0.2
Other taxation and social security	2.7	2.5	0.8	0.7
Other creditors	6.7	7.6	0.7	0.5
Accruals and deferred income	13.0	12.5	2.7	1.9
Dividends payable to ordinary shareholders	9.2	8.9	9.2	8.9
	121.7	117.8	29.4	26.6

21. Creditors

	Group 1997 £m	1996 £m	Company 1997 £m	1996 £m
Amounts falling due after one year				
Borrowings (note 22)	87.9	38.7	40.0	30.1
Corporate taxation	5.1	3.4	–	–
Other creditors	0.8	1.0	–	–
Amounts owed to Group undertakings	–	–	11.8	20.0
	93.8	43.1	51.8	50.1

22. Borrowings

	Group 1997 £m	1996 £m	Company 1997 £m	1996 £m
Bank loans and overdrafts repayable on demand	40.9	36.0	12.0	14.0
Other bank loans and overdrafts	57.1	38.8	40.0	30.0
Variable rate loan notes	0.1	0.1	0.1	0.1
US$55m 7.37% guaranteed senior notes due 2008	33.3	–	–	–
Obligations under finance leases	0.6	0.6	0.1	0.2
	132.0	75.5	52.2	44.3
Amounts included above repayable by instalments	43.3	1.2	0.1	0.3
Repayments fall due as follows				
Within one year				
– Bank loans and overdrafts	43.8	36.6	12.0	14.1
– Obligations under finance leases	0.3	0.2	0.2	0.1
	44.1	36.8	12.2	14.2
After more than one year				
Loans repayable				
– Within one to two years	3.2	2.5	–	–
– Within two to five years	51.1	35.8	40.0	30.0
– After five years	33.3	–	–	–
Obligations under finance leases payable between two and five years	0.3	0.4	–	0.1
	87.9	38.7	40.0	30.1

Other bank loans and overdrafts include £9.8m (1996: £nil) secured on the shares of Sederma SA.

Notes to the accounts

23. Ordinary share capital

	Authorised 1997 £m	1996 £m	Issued and fully paid 1997 £m	1996 £m
Ordinary shares of 10p	17.3	17.3	13.6	13.5

Details of changes in the issued ordinary share capital are shown below

	Number of shares 000	Nominal value £m
At 1 January 1997	134,586	13.5
Share options exercised	996	0.1
Scrip dividends	43	–
At 31 December 1997	135,625	13.6

The consideration received for the share options exercised during the year was £1.7m.

In 1997 options were granted to employees under the Croda Savings-Related Share Option Scheme 1983 to subscribe for 506,672 ordinary shares at an option price of 288p per share and options were granted to Senior Executives under the Croda International Senior Executive Share Option Schemes to subscribe for 1,430,000 ordinary shares at an option price of 307p per share.

Since the end of the year 50,391 ordinary shares have been issued on the exercise of options under the Croda Savings-Related Share Option Scheme and 113,000 have been issued on the exercise of options under the Croda International Senior Executive Share Option Schemes.

There are outstanding options to subscribe for ordinary shares as follows

Croda Savings-Related Share Option Scheme

Year option granted	Number of shares	Option price	Options exercisable from
1992	16,603	140p	1 November 1997 to 30 April 1998
1993	223,254	265p	1 November 1998 to 30 April 1999
1994	301,433	283p	1 November 1999 to 30 April 2000
1995	289,531	278p	1 November 2000 to 30 April 2001
1996	456,188	280p	1 November 2001 to 30 April 2002
1997	496,910	288p	1 November 2002 to 30 April 2003

Croda International Senior Executive Share Option Scheme

Year option granted	Number of shares	Option price	Options exercisable from
1988	80,000	188p	6 April 1991 to 5 April 1998
1988	8,000*	181p	6 April 1991 to 5 April 1998
1990	25,000	166p	3 May 1993 to 2 May 2000
1991	44,000	184p	6 May 1994 to 5 May 2001
1992	105,000	160p	8 April 1995 to 7 April 2002
1992	408,000	184p	12 October 1995 to 11 October 2002
1994	305,000	367p	18 October 1997 to 17 October 2004
1996	685,000	337p	3 April 1999 to 2 April 2006
1997	1,430,000	307p	4 April 2000 to 3 April 2007

* Formerly deferred ordinary shares

Notes to the accounts

24. Preference share capital

	1997 £000	1996 £000
The authorised, issued and fully paid preference share capital comprises		
5.25% preference shares	22	22
5.90% preference shares	616	616
6.60% preference shares	499	499
	1,137	1,137

The preference shares carry 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. The three classes of preference shares rank pari passu with each other but ahead of the ordinary shares on winding up. Rights on a winding up are limited to repayment of capital and any arrears of dividends.

25. Reserves

	Share premium account £m	Revaluation reserve £m	Profit and loss account £m
Group			
At 1 January 1997	30.0	11.7	142.2
Profit retained	–	–	12.1
Premiums on share issues	1.7	–	–
Adjustment for shares issued through QUEST	0.6	–	(0.6)
Unrealised exchange losses	–	–	(5.4)
Goodwill written off on acquisitions (note 27)	–	–	(46.3)
At 31 December 1997	32.3	11.7	102.0
Company			
At 1 January 1997	30.0	2.1	54.4
Profit retained	–	–	15.1
Premiums on share issues	1.7	–	–
Adjustment for shares issued through QUEST	0.6	–	(0.6)
Unrealised exchange losses	–	–	(0.5)
At 31 December 1997	32.3	2.1	68.4

During the year the Company received £1.1m from the issue of shares arising from the exercise of options under the Save As You Earn Scheme. Employees paid £0.5m with the balance of £0.6m comprising Company contributions to a Qualifying Employee Share Ownership Trust (QUEST).

Group reserves at 31 December 1997 include £8.4m (1996: £8.2m) retained in associated undertakings.

26. Minority interests

	1997 £m	1996 £m
At 1 January 1997	0.9	0.7
Profit for the year	0.4	0.3
Dividend paid to minority shareholders	(0.3)	(0.1)
Unrealised exchange loss	(0.1)	–
At 31 December 1997	0.9	0.9

27. Acquisitions

During the year the Group acquired the STOA group of companies, a French based group whose main trading subsidiary, Sederma SA, supplies ingredients into the skin care market.

	1997 Total £m	1996 Total £m
Assets acquired comprised		
Fixed assets	1.4	0.6
Stock	1.0	0.9
Net current assets	0.8	0.9
Cash at bank and in hand	2.1	–
Bank loans	(10.7)	–
Book and fair value of assets acquired	(5.4)	2.4
Purchased goodwill written off	45.8	3.6
Cash paid	40.4	6.0

The operation and integration of businesses acquired during the year had no significant effect on Group cash flows.

Cumulative amount of goodwill written off in respect of the Group's acquisitions since 1984

At 1 January 1997	38.9	35.5
Goodwill written off on acquisitions	45.8	3.6
Goodwill written off on acquisition by associated undertaking	0.5	–
Goodwill written back on disposals	–	(0.2)
At 31 December 1997	85.2	38.9

28. Disposals

During the year the Group disposed of its bitumen business to Total Oil Great Britain Limited.

	£m	1997 £m
Assets leaving the Group were as follows		
Fixed assets		3.0
Stock		0.3
		3.3
Loss on disposal of business (note 4)	(1.9)	
Disposal costs	1.7	(0.2)
Cash receivable on disposal of business		3.1

The operation of the above business had no significant effect on Group cash flows.

29. Contingent liabilities

The Company has guaranteed loan capital and bank overdrafts of subsidiary undertakings amounting to £62.0m (1996: £15.5m) and a further £4.0m (1996: £4.6m) in respect of the borrowings of associated undertakings.

Shareholder information

Analysis of ordinary shareholders as at 1 March 1998

By size of holding	Number of holders	Number of shares 000	% of issued capital
1 - 1,000	2,572	1,094	0.81
1,001 - 5,000	2,157	4,743	3.49
5,001 - 10,000	266	1,844	1.36
10,001 - 50,000	182	4,414	3.25
50,001 - 100,000	54	4,005	2.95
100,001 - 500,000	80	19,069	14.05
500,001 upwards	55	100,549	74.09
	5,366	135,718	100.00

By category of shareholder			
Private shareholders	4,632	9,846	7.25
Insurance companies	36	20,025	14.75
Pension funds	132	43,034	31.71
Investment companies	91	39,287	28.95
Nominee and other companies	434	20,002	14.74
Others	41	3,524	2.60
	5,366	135,718	100.00

Share price information
For the latest ordinary share price, available on the Financial Times Cityline service, telephone 0336 432278 or 0891 432278 (calls are charged at 50p per minute).

The middle market values of the listed share capital at 31 December 1997 were as follows

Ordinary shares	420.5p
5.9% preference shares	92.0p
6.6% preference shares	99.0p
5.25% preference shares (estimated)	65.0p

Income tax on dividends
Tax credits accompanied the 1996 final dividend paid to shareholders in July 1997. The value of the tax credit, as shown on the dividend tax vouchers, was 20% of the dividend plus the tax credit.

The 1997 interim dividend was paid as a Foreign Income Dividend (FID), with the 1997 final dividend proposed as such. FID's do not carry a refundable tax credit, though lower and basic rate tax payers incur no further income tax liability. However, higher rate tax payers will be liable to a further 20% income tax on the dividend as grossed up for a notional 20% tax credit.

The tax position of private shareholders varies according to their personal circumstances and level of income. However, individuals with a low income may be entitled to claim all or part of the tax credit on the 1996 final dividend from the Inland Revenue. Leaflet IR110 explains the tax position in more detail and is available free of charge from local Tax Offices, the address and telephone number of which can be found in the telephone directory under "Inland Revenue".

If in any doubt as to how your income tax position may be affected by the payment of FID's you are recommended to obtain professional advice.

Capital gains tax
The market values of the listed share capital at 31 March 1982 were as follows

Ordinary shares	77.5p
Deferred ordinary shares	40.5p
5.9% preference shares	42.5p
6.6% preference shares	47.5p
5.25% preference shares (estimated)	45.0p

Corporate calendar

1998 Annual General Meeting	7 May 1998
1998 Half year results announcement	4 August 1998
1998 Full year results announcement	March 1999
1997 Final ordinary dividend payment	1 July 1998
1998 Interim ordinary dividend payment	1 December 1998
1998 Preference dividend payments	30 June 1998
	31 December 1998

Secretary and registered office
G E Bates (Secretary)
J R Ainger (Assistant secretary)
Cowick Hall, Snaith, Goole DN14 9AA

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Registrars
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Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU

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Auditors
Price Waterhouse

Merchant bankers
S B C Warburg Dillon Read

Solicitors
Slaughter and May
Heptonstalls

Stockbrokers
Kleinwort Benson Securities Ltd
S B C Warburg Dillon Read

Pension fund managers
PDFM Ltd

Consulting actuaries
Watson Wyatt Partners

Principal operating companies

Chemicals

	Incorporated and/or principally operating in	Managing director/ Executive in charge	Group beneficial interest %
Croda Adhesives Ltd, Newark	UK	C Holt	100
Croda Application Chemicals Ltd, Doncaster	UK	S Harker	100
Baxenden Chemicals Ltd*, Accrington & Droitwich	UK	A Taylor	46
Croda Chemicals Ltd, Rawcliffe Bridge	UK	K M Nutbrown	100
Croda Colloids Ltd, Widnes, Luton & Plymouth	UK	G D Bull	100
Croda Colours Ltd, Brighouse & Colne Vale	UK	D M Morgan	100
Croda Food Services Ltd*, Oldham	UK	J Littlewood	100
Croda Hydrocarbons Ltd, Knottingley	UK	C B Murtough	100
Croda Kerr Ltd, Liverpool	UK	E S Ashworth	100
ABC Powder Co Ltd, Buckley	UK	E S Ashworth	100
Croda Leek Ltd, Leek	UK	K Layden	100
Croda Resins Ltd, Belvedere & Speke	UK	I W Brogan	100
Croda Solvents Ltd, Knottingley	UK	C B Murtough	100
Croda Universal Ltd, Hull	UK	K R Gregersen	100
John L Seaton & Co Ltd, Hull	UK	M Coverdale	100
Celtite Pty Ltd, Sydney	Australia	L V Grantham	60
Croda Adhesives, Melbourne	Australia	D A Stell	100
Croda Surfactants, Melbourne	Australia	D Dowdell	100
Croda Adhesives Europe nv, Kapellen	Belgium	J W Cork	100
Croda do Brasil Ltda, Sao Paulo	Brazil	M de Bellis	100
Croda Canada Ltd, Toronto	Canada	D Jagger	100
Croda s.r.o., Prague	Czech Republic	V Karlach	100
Croda Food Services (Ireland) Ltd, Dublin	Eire	R Sweetman	100
Croda France SA, Paris	France	J L Pellé	100
Croda Uniser SA, Lille	France	A Viricel	100
Sederma SA, Versailles	France	K Lintner	100
Croda GmbH, Nettetal	Germany	K Helmdach	100
Croda Hong Kong, Hong Kong	Hong Kong	F Cheung	100
Croda Hungary Kft*, Budapest	Hungary	Á Orosz	100
Croda Chemicals (India) Pvt Ltd*, Mumbai	India	S G Waller	100
Croda Italiana SpA, Milan	Italy	P G Johnson	100
Croda Japan KK, Osaka & Tokyo	Japan	Y Yamanaka	100
Quimica Croda SA de CV, Mexico City	Mexico	J Greenham	49
Croda Poland Sp z o o*, Krakow	Poland	P Huczkowski	100
Croda Singapore Pte Ltd*, Singapore	Singapore	D E Barraclough	100
Croda Chemicals (SA) Pty Ltd, Johannesburg	South Africa	J E Horne	100
Croda Nordica AB, Malmo	Sweden	S C Kennerley	100
Croda Middle East, Dubai	UAE	J G Raeside	100
Croda Inc, Parsippany & Mill Hall	USA	C Irace	100
Croda Adhesives Inc, Chicago	USA	F Bozich	100
Croda Universal Inc, Houston	USA	R E Marquis	100
Sederma Inc, Parsippany	USA	K F Gallagher	100
Croda Zimbabwe (Pvt) Ltd, Harare	Zimbabwe	J E Horne	100

Coatings

Croda Paints Ltd, Huthwaite & Hull	UK	C D Humberstone	100
Croda Coatings, Sydney & Melbourne	Australia	L V Grantham	100
Croda Herberts Pty Ltd, Sydney	Australia	A van Dijk	50
Croda Lusteroid Paints Ltd, Auckland	New Zealand	R G Southam	100

Principal holding companies

Principal holding companies

	Incorporated in	Group beneficial interest %
Croda Chemicals International Ltd*	UK	100
Croda Cosmetics & Toiletries Ltd*	UK	100
Croda Overseas Holdings Ltd*	UK	100
Croda Polymers International Ltd*	UK	100
Croda World Traders Ltd*	UK	100
Croda Investments BV	Netherlands	100

On pages 54 and 55
* Companies owned directly by Croda International Plc.
Companies incorporated in the UK are registered in England.

Full details of investments in subsidiary and associated undertakings will be attached to the Company's annual return made to the Registrar of Companies. Those not listed above were either not trading or not material.

Notice of Annual General Meeting

Notice is hereby given that the seventy-third Annual General Meeting of the Company will be held at Carlton Towers, Carlton, Goole, East Yorkshire DN14 9LZ on Thursday 7 May 1998 at 12 noon.

1 To receive and consider the directors' report and the audited accounts for the year ended 31 December 1997.

2 To declare dividends.

3 To re-elect directors.
The directors to retire by rotation are K G G Hopkins, M Humphrey and M R Valentine, (aged 70).

4 To re-appoint Price Waterhouse as auditors of the Company.

5 To authorise the directors to determine the remuneration of Price Waterhouse.

6 To transact any other ordinary business.

7 As special business to consider and if thought fit to pass the following resolutions:

Ordinary resolution

(a) That the directors be and they are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (as defined in the Act) up to an aggregate nominal amount of £3,658,500 provided that this authority shall expire on the date of the next Annual General Meeting of the Company after the passing of this Resolution but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Special resolution

(b) That the directors be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 ("the Act") to allot equity securities (within the meaning of section 94 of the Act) for cash pursuant to the authority conferred by Resolution 7(a) as if sub-section (1) of section 89 of the Act did not apply to any such allotment provided that this power shall be limited:

(i) to the allotment of equity securities in connection with any rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory); and

(ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £679,238

and shall expire on the date of the next Annual General Meeting of the Company save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By Order of the Board

G E Bates
Secretary
Cowick Hall, Snaith, Goole, DN14 9AA
8 April 1998

Notice of Annual General Meeting

Any member of the Company entitled to attend and vote at the meeting may appoint another person or persons as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.

To be valid, instruments appointing proxies and powers of attorney, or other authorities under which they are signed must be deposited at the office of the Company's registrars, IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the meeting.

The register of the transactions (if any) of each director and of his family interests in each class of the share capital of the Company and copies of directors' contracts of service, other than of those expiring or determinable without payment of compensation within one year, are available for inspection at the registered office of the Company during the usual business hours and will be available for fifteen minutes prior to and during the meeting.

Subject to confirmation by the members at the Annual General Meeting, dividend vouchers and warrants for the final dividend on the ordinary shares will be posted on Tuesday 30 June 1998 for payment on Wednesday 1 July 1998 to shareholders whose names are on the share register on Friday 15 May 1998.

Five year record

Earnings	1997	1996	1995	1994	1993
	£m	£m	£m	£m	£m
Turnover	429.1	447.6	458.8	423.0	415.1
Operating profit	47.6	50.4	44.1	43.0	43.2
Profit before tax	41.1	45.8	39.4	39.8	38.5
Profit after tax	28.5	32.2	27.8	27.7	26.8
Profit attributable to ordinary shareholders	28.0	31.8	27.5	27.3	26.3
	%	%	%	%	%
Operating profit as a % of turnover	11.1	11.3	9.6	10.2	10.4
Return on capital employed	15.9	17.7	15.9	16.1	16.5
Effective tax rate	30.5	29.7	29.4	30.4	30.4
	pence	pence	pence	pence	pence
Earnings per share	20.8	23.8	20.7	20.7	20.1
Dividends per share	10.35	10.0	9.35	8.9	8.4

Summarised balance sheet					
	£m	£m	£m	£m	£m
Fixed assets	179.5	171.0	162.9	152.8	135.5
Stock	71.5	73.2	71.7	72.1	63.6
Debtors	109.6	107.4	108.8	105.8	120.7
Creditors	(61.9)	(66.1)	(65.6)	(63.4)	(58.6)
Capital employed	298.7	285.5	277.8	267.3	261.2
Taxation and dividends	(16.2)	(19.3)	(18.2)	(17.3)	(15.2)
	282.5	266.2	259.6	250.0	246.0
Shareholders' funds	160.7	198.5	192.5	193.8	175.4
Minority interests	0.9	0.9	0.7	1.8	1.5
	161.6	199.4	193.2	195.6	176.9
Net debt	120.9	66.8	66.4	54.4	69.1
	282.5	266.2	259.6	250.0	246.0
Net debt to equity (%)	75.8	33.8	34.7	28.2	39.3

The above earnings exclude exceptional items in order to present a clearer year on year comparison.

Notes

Notes

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