



Annual
Report
& Accounts

CRODA

Contents

01	Financial highlights
02	Chairman's statement
04	Chief Executive's review
08	Financial review
12	Safety, health and the environment
18	Board of directors
20	Directors' report
23	Directors' remuneration report
31	Corporate governance
37	Group independent auditor's report
38	Group income statement
38	Group statement of recognised income and expense
39	Group balance sheet
40	Group cash flow statement
41	Group cash flow notes
42	Group accounting policies
48	Notes to the Group accounts
72	Company independent auditor's report
73	Company balance sheet
74	Company accounting policies
75	Notes to the Company accounts
79	Principal subsidiary companies
80	Shareholder information
84	Five year record

Financial highlights

	2007	2006
Revenue – continuing operations	£886.1m	£480.1m
Profit before tax – continuing operations before exceptional items	£66.5m	£52.5m
Profit before tax – total before exceptional items	£74.7m	£54.5m
Profit before tax	£60.9m	£17.2m
Earnings per share – continuing operations before exceptional items	32.7p	27.7p
Earnings per share – total before exceptional items	37.1p	28.9p
Earnings per share – basic	64.8p	6.3p
Dividends per share	15.75p	14.3p
Gearing	166.6%	261.0%



* Continuing operations

Chairman's statement

This has been another exceptional year for Croda. Our ability to produce consistent earnings and margin growth underlines the strength of our core business and confirms our leadership position in the market. Record results have been achieved despite a strong currency headwind and a further rise in raw material costs.

Results

Underlying turnover² increased 3.0% on a constant currency basis with significant average price increases outweighing volume reductions as we shed low margin Uniqema business. Currency translation losses were lower in the second half at 1.7% of turnover. As a result, underlying turnover for the year after currency translation² was only 0.6% down on 2006 at £886.1m.

Continuing pre-tax profit¹ (after charging the full year's interest on last year's acquisition of Uniqema) increased by 26.7% to £66.5m (2006: £52.5m). Total pre-tax profit¹ including £8.2m contribution from disposed businesses increased 37.1% to £74.7m (2006: £54.5m).

Earnings per share¹ increased by 28.4% to 37.1p (2006: 28.9p). We sold a number of non core businesses during the year for £76.8m in total which resulted in a £41.0m profit after tax on disposal.

Uniqema

The integration of Uniqema is well ahead of schedule. The benefits of this acquisition have exceeded our expectations and we have increased our synergy forecast to at least £30m per annum from the end of 2008 onwards. This, allied to strong underlying trading across the enlarged group, has resulted in the significant uplift in pre-tax profit and earnings per share.

Dividend

The Board is recommending a final dividend of 10.8p per ordinary share, making a total for the year of 15.75p, up 10.1% on 2006. This gives a dividend cover of 2.4 times. In the past we have sought to increase dividend cover. In the future, dividend growth will be more closely aligned to the underlying growth in earnings per share.

Pricing

We increased prices by 12.3% in the year, fully recovering input cost inflation. We will continue to pass on cost increases to our customers when necessary and have already raised our selling prices in 2008.

Outlook

We have made a strong start to the year with good internal momentum driven by a sound business model and increasing synergies from the Uniqema acquisition. Whilst we expect consumer markets in the US and UK to be unexciting, the ongoing benefits of this acquisition, combined with our strong underlying business and robust demand for Croda products across the globe, mean that we are confident of delivering further progress in line with our expectations for 2008.

¹ Before exceptional items

² Continuing operations adjusted for the acquisition of Uniqema



Martin Flower
Non-executive Chairman

A handwritten signature in dark ink, appearing to read 'Martin Flower', written over a horizontal line.

Martin Flower
Non-executive Chairman

Chief Executive's review

2007 has been another year of extraordinary achievement for Croda. The business has produced record sales and profits despite one of the most challenging trading environments. The integration of Uniqema is ahead of target and delivering better than expected synergies and we introduced the highest number of product innovations in our history.

Croda's ability to deliver year-on-year growth is a testament to the leadership position we have established in the global speciality chemicals market place. The business benefits from a robust model that is not dependent upon a single market or one major customer. Our diversity, in terms of geography, product innovation, people and customers, means we can be confident in Croda's future prospects and capacity to deliver superior returns.

One of the fundamental ingredients of Croda's success is our people and the team has never been stronger or more committed. Throughout 2007, external pressures were intense, and the tenacity and resolve of our staff has enabled Croda to overcome increased raw material prices, increased energy costs and a strong currency headwind to post an outstanding set of figures.

The acquisition of Uniqema has surpassed our expectations. From the outset our principal objective was to combine the best elements of both companies and create one team united under the Croda umbrella. This has now been done, and the success of our integration and restructuring programme has enabled us to achieve our original £20m synergy target 12 months ahead of schedule. Furthermore, we have now identified additional synergies and expect to deliver more than £30m by the end of 2008. We were especially delighted that many of the newly acquired sites have

great capital projects with quick and secure returns. These initiatives also reduce our energy usage and our environmental impact and, even more importantly, make Croda a safer and better place to work all over the world.

A good part of the resilience of the Croda business model is due to having thousands of customers in hundreds of territories buying thousands of different products. Our biggest global customer represents just over 4% of turnover and our top ten customers represent less than 15%. In addition, many customers buy as many as a hundred different products from Croda, which can be used in even more formulations. They are all designed to add value and performance to our customers' products. As a result of the acquisition of Uniqema, we now have many more growing markets and many more potentially interesting technologies.

We made good progress in every area of the business as we continued our relentless focus on our customers and on getting fair value for our investments in quality and innovation. This ethos was spread across the whole business in 2007, enabling us to achieve average price increases of 12.3% across all market sectors. We continue to refine our product portfolio and reduce the proportion of low value, commodity business, in favour of adding value to our in-house feedstocks.

Corporate Social Responsibility (CSR)

Croda believes that to be successful as a company it must act responsibly and with integrity in all areas of its activities. Croda is committed to its business operations throughout the world being conducted in a manner that is consistent with relevant good practice in relation to social responsibility. The Company has published its first CSR document alongside the annual report this year. The images included on the following pages are a selection of those included in the CSR document and exemplify the Company's commitment to CSR.

In areas where we can no longer add value we have made disposals. We sold the soap and fatty acid business at Klang, Malaysia, the bakery ingredients business at Oldham, UK and also the packaged refrigeration lubricant business for a total of £76.8m. We will continue to focus our business on market sectors and products where we can add the most value for our customers and our shareholders.

For the first time, we are including a comprehensive review with our annual report on how we care for all our stakeholders and the environment. In future years we expect to include increasing amounts of data to more accurately measure our progress. As more than 70% of Croda's raw materials are from renewable sources, we start from a strong position of sustainability. Each year we must do more to reduce our impact on the ecosystem. There are some excellent examples of recent initiatives in the report, including the forest of 25,000 native trees planted at our headquarters and the new wind turbine being installed at our Hull site this year.

2007 was also a year in which we introduced our new structure of two divisions – Consumer Care and Industrial Specialities. They have different markets but one unified focus – to grow profits through constant innovation. We have consolidated the global marketing network which was enlarged by the acquisition of Uniqema and closed six offices, leaving us with a dynamic global technical sales force operating from 43 Croda offices in 36 countries. This is a truly powerful network and a key reason for our continuing success.



Mike Humphrey
Group Chief Executive

Chief Executive's review

Consumer Care

Following the full integration programme, this sector now consists of our global businesses in the following markets: Personal Care, Health Care, Home Care and Crop Care.

These are growth markets with an increasing need for innovation and sustainable ingredients. We have fully combined the various businesses with a great deal of success. Underlying growth was excellent in 2007, with sales reaching a new high of £351.1m. Operating profit was a record £71.7m, reflecting a margin of 20.4%. This is especially pleasing as it means we have significantly improved the margins of the acquired business. This was achieved by a combination of focus on value and moving away from the flawed Uniqema distribution model which gave more margin to the intermediary than to the producer. There is more margin to be gained in 2008, as we continue the return to direct selling and direct customer relationships.

The global market for Personal Care continues to grow at above 1.5 times global GDP, with emerging countries more than compensating for flatter markets in more established zones like the USA. New active ingredients from Sederma once again led the way, but our innovation pipeline is very healthy in all other areas of Personal Care, with many new product opportunities.

Health Care made good progress in the area of high purity lipids with our Puremax seal of approval now being used globally on more than 14 branded lines. We also gained new business for high quality excipients. The focus on lanolin and derivatives for wound care and medical skin care resulted in a number of successful new product introductions by our customers. The drive for ever higher standards of purity and efficacy in our Health Care products exactly mirrors the aspirations of our customers – and, more importantly, the end consumer.

In Home Care, we focused heavily on demarketing unprofitable business whilst introducing new products which will offer performance and value to our customers' brands. The consumer-led drive for sustainability and biodegradability, coupled with a desire for more "natural" raw materials parallels Croda's innate strengths.

We are delighted to have a vibrant Crop Care business. The agricultural industry's need for biodegradable adjuvants, which give enhanced active delivery and performance, fits exactly with our re-energised strategy in this fast changing market. The gestation time for business can be up to three years, due to demanding test criteria, but it does lead to long term valuable business. We have a world class team in this area and have high hopes for the future, after an excellent year in 2007.



Croda Brazil sponsored a children's book on environmental awareness that was distributed to local schools in the Amazon region.

Industrial Specialities

With our reorganisation now complete, the Industrial Specialities sector consists of: Base Oleochemicals, Lubricant Additives, Coatings Additives and Polymer Additives.

With sales at £535.0m and operating profit of £17.0m, this division's progress benefitted from our strong pricing policy and willingness to walk away from unprofitable business. Profits increased substantially over the course of the year and we expect real progress towards our long term margin target of 10% in 2008 and beyond. The large base oleochemicals business became profitable in spite of suffering the brunt of a storm of natural oil cost increases. There was a small amount of extra profit from revitalised glycerine prices towards the end of the year, which should continue into at least the first half of 2008. Our plans to reduce our base oleochemical footprint and add value to the building blocks have started to bear fruit. By walking away from loss making "plant fillers", our factories are now producing better quality products and better customer service. Relatively simple investments due on stream over the next two years will reduce our costs of production and energy considerably.

We sold a large part of the Lubricant product portfolio during 2007. Finished lubricants for refrigeration did not fit our future focus on additives and distracted the team from concentrating on the core business. Good progress was made with new additives in automotive, industrial, marine and agricultural lubricants. A number of our patented technologies are now finding favour as greener solutions to improve lubrication and reduce energy usage. Our in-house special fatty acid and dimer building blocks give us a solid platform for future progress.

We have a strong and dynamic Coatings Additives business, which was refocused in 2007. New and patented technologies based on our expertise in dimers, esters and associated chemistries were well received in many application areas. We helped major automotive manufacturers reduce their VOC emissions and we also helped to put a spring in the step of a major leisure footwear manufacturer. A strong research and development team and a new emphasis on customer needs will support profitable growth in this growing global business.

The Polymer Additives business had another good year, especially in additives for polyolefins, where Croda is the world leader. New markets are being created and new types of plastic require new types of lubricants and other additives. Croda products are overwhelmingly based on natural feedstocks, utilising and adding value to the base oleochemical building blocks.

Summary

Croda set itself tough objectives in 2007 and the fact that they have been achieved is a credit to the entire team. With Uniqema now fully integrated into our business, Croda's prospects are even brighter for the future. We will continue to challenge our own orthodoxies, and relentlessly innovate to achieve further growth in our chosen markets. The Croda story is about profitable sustainability. We are proud of our recent achievements, but there is much more to do in 2008 and beyond.

Mike Humphrey

Group Chief Executive



Croda has planted 25,000 trees on land surrounding its Cowick Hall head office.

Financial review

Turnover

Underlying turnover² increased 3.0% on a constant currency basis with significant average price increases outweighing volume reductions as we shed low margin business. We saw particularly strong turnover growth in November and December. Currency translation losses were lower in the second half at 1.7% of turnover. As a result, underlying turnover for the year after currency translation² was only 0.6% down on 2006 at £886.1m.

Selling prices increased by 9.9% in the first half for the continuing businesses. This increased to 14.8% in the second period, making the average for the year 12.3%. These increases fully recovered the inflationary costs the Company bore in the year and increased margins on products at the bottom end of the portfolio.

Underlying volumes declined 9.2% over the year as we improved the quality of the acquired business and shed unprofitable lines.

We see no change in our long term underlying revenue growth targets of 2 times global GDP for our Consumer Care business and 1.5 times global GDP for Industrial Specialities.

Operating profit

Continuing operating profit¹ increased 32.0% to £88.7m from the £67.2m pro-forma profit achieved in 2006 (£7.5m continuing pre-acquisition Uniqema profit added to last year's reported operating profit of £59.7m). This increase was achieved despite adverse currency translation of £3.0m. Like sales, profit showed an improving trend throughout the year with increasing revenues boosted by mounting levels of synergy from last year's acquisition of Uniqema.

For the year, synergies contributed £17.0m (2006: £2.0m) to profit before tax with an exit run rate over £20m. Headcount savings were the biggest element of this total at £5.6m followed by savings in distribution and logistics at £2.9m and raw material price savings of £2.4m. Lower IT, insurance, consultancy and a number of other smaller savings made up the balance.



Sean Christie
Group Finance Director

Employees at our Atlas Point site, Delaware act as mentors to local children.



Rape oil is delivered to our Hull factory by barge.



Natural and sustainable, rape seed is an important raw material source for Croda.

We now expect total synergies from the Uniqema acquisition to exceed £30m by the end of 2008 with the extra level of business brought in house from ex-Uniqema distributors, further headcount reductions, improved yields and savings in energy and logistics being the main elements.

On a divisional basis, Consumer Care's continuing operating margin passed the 20% level even including Uniqema's initially lower returns. Profit of £71.7m (2006: £50.8m) gave a 20.4% margin for the year on £351.1m turnover (2006: £264.1m) with an improving trend into the second half. Second half margins were higher than those achieved by Croda in the first half of 2006, before the Uniqema acquisition.

Our target operating margin of 20%+ for Consumer Care has been achieved.

Industrial Specialities' returns were more significantly diluted by the acquisition of Uniqema. Operating profits of £17.0m represented a 3.2% return on £535.0m turnover (2006: £8.9m and £216.0m respectively).

We have a long term target operating margin in Industrial Specialities of 10% and we expect to make further progress towards this goal in 2008.

Pre-tax profit

Continuing pre-tax profit¹ (after charging the full year's interest on last year's acquisition of Uniqema) increased by 26.7% to £66.5m (2006: £52.5m). Total pre-tax profit¹ increased 37.1% to £74.7m (2006: £54.5m).

Earnings per share

Earnings per share¹ increased by 28.4% to 37.1p (2006: 28.9p). The 33.5% tax rate on continuing operations was only marginally higher than 2006 and we are comfortable that this rate is sustainable in the medium term.

Financial review

Dividend

We propose to increase the final dividend by 11.9% to 10.8p, making a total for the year of 15.75p (2006: 14.3p), up 10.1%. Dividend cover¹ increased to 2.4x compared to 2.0x in 2006. We expect future dividend increases to be more closely aligned to earnings growth.

Disposals

We sold three businesses in 2007. Food Services was sold for £7.4m in June, Klang for £9.8m in September and Refrigerant Lubricants for £59.6m at the end of October. We made a net profit on disposal of £41.0m after tax from these businesses in addition to an operating profit pre-disposal of £8.2m.

Exceptional items

The main exceptional item was the £41.0m profit after tax on disposal discussed above.

There was an additional £5.6m exceptional operating expense, mainly relating to additional termination payments to ex-Uniqema distributors reflecting the extra turnover and profit being repatriated to Croda as part of the higher synergy expectation.

Cash flow

The main underlying driver of cash was EBITDA of £128.4m (2006: £82.1m).

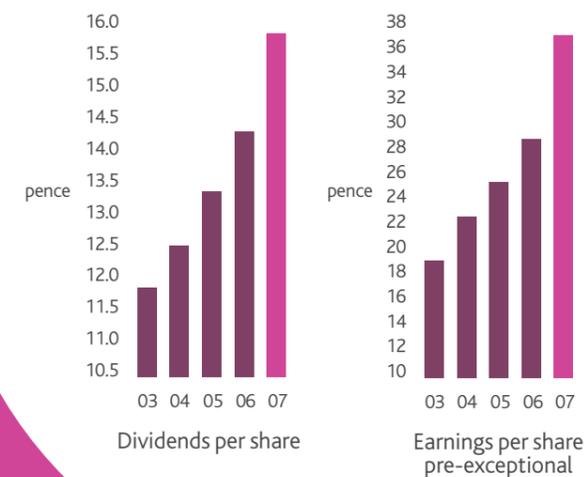
Working capital increased significantly during the year due to a number of factors including inflation and changing distribution arrangements. In addition, a very strong, sales driven performance through November into December meant that year end working capital levels were ahead of those normally associated with our quietest month. We made a number of payments into the pension scheme during the year totalling £70m following the acquisition of Uniqema. Capital expenditure was a little ahead of depreciation at £38.1m with a number of fast payback Uniqema projects being sanctioned.

We had a net cash inflow from disposals of £75.7m and spent £17.5m on restructuring post the acquisition of Uniqema. All this increased net debt by £36.1m to £366.0m.

Pensions

Our deficit has fallen sharply as we have agreed the various transfers due from ICI post the acquisition of Uniqema and we continued to contribute to the fund at a higher level than the charge to profits.

Rising bond yields reduced our liabilities leaving the year end deficit at £59.3m (2006: £159.9m). Within this total our UK final salary scheme has a deficit of only £7.5m.



Balance sheet

At £219.7m, our net assets are much higher than 2006 as the increase in net debt was outweighed by the reduction in the pension deficit.

Financial KPIs

	2007	2006	Target
Return on sales*	10.0%	7.5%	15%
EPS growth (before exceptional items)	+28.4%	+12.9%	+5-10%
ROIC (post tax)*	8.1%	6.9%	>WACC
Net debt/EBITDA*	2.8x	3.3x	<3x
EBITDA interest cover*	5.8x	4.2x	>4x

* 2006 pro-forma full year Uniqema

We have a number of demanding financial KPI targets and we have made good progress on all of these during the year.

Return on sales has increased to 10% in 2007 versus 7.5% on a like-for-like basis in 2006. Before dilution from the acquisition of Uniqema, Croda beat its 15% target and we would expect steady progress towards this goal as we re-position and integrate the acquired

business. We already exceed the target in our Consumer Care business and the biggest incremental gains should come in Industrial Specialities.

We aim to grow earnings per share at a higher rate than underlying sales growth and have comfortably beaten the 5-10% target in recent years.

Growth coupled to Return on Invested Capital (ROIC) is the driver of shareholder value. The acquisition of Uniqema reduced the ROIC, but also reduced our Weighted Average Cost of Capital (WACC) since the deal was predominantly financed through debt.

We employ two widely used ratios to measure our ability to pay our debt. Both net debt/EBITDA and EBITDA interest cover are ahead of target in 2007.

¹ Before exceptional items

² Continuing operations adjusted for the acquisition of Uniqema

Sean Christie
Group Finance Director

Safety, health and the environment

Croda International safety, health and the environment (SHE) policy

Croda International Plc is a manufacturer of speciality chemicals with business sectors for the Consumer Care and Industrial Specialities markets currently employing approximately 3,700 people worldwide. The Company operates its business in a manner which actively seeks to prevent or minimise the possibility of its operations causing harm to people, plants or animals. We strive to provide the resources to educate and involve every individual in the Company in achieving this objective.

It is my belief that aspiring to excellence in the management of safety, health and the environment is vital to ensuring the long term future and profitability of the Company.

Principles:

1. We believe that all accidents, incidents and work related ill health are preventable and we manage our business with this aim, including the provision of adequate resources for the prevention of major accident hazards.
2. Because we are human, mistakes can be made; but because we are committed, intelligent human beings, we investigate to identify the basic causes and take action to prevent these mistakes being repeated.
3. As an absolute minimum we will comply with all national regulations but in addition we set our own demanding internal corporate standards on matters relating to safety, health and the environment and endeavour to comply with them throughout our international operations.
4. Site management teams within the Company are measured for their contribution to the continuous improvement of safety, health and environmental performance in their area of responsibility. Individual employees each have a responsibility to participate in and contribute to the improvement of corporate SHE performance.
5. We will continue to search out new ways of conserving all the natural resources used in our processes.
6. We will continue to innovate in order to improve our products and processes so that their effect on safety, health and the environment is reduced.
7. We will continue to improve communication and the exchange of views with employees, employee representatives, customers, contractors, suppliers, neighbours and any other individual or organisation affected by our business.

We have assessed the significant safety, health and environmental hazards posed by the Company's activities, and an appropriate set of arrangements has been implemented to control these hazards. The effectiveness of these arrangements is monitored and reviewed on a regular basis with action taken to redress any deficiencies and ensure continuous improvement.

Mike Humphrey
Group Chief Executive
Director responsible for SHE



Tree planting in India on World Environment Day.

The Group controls its business by the delegation of much of its management responsibility, including SHE matters, to its site heads and senior managers.

The overall strategy, development of policy and review of SHE performance within the Group is controlled by the Group SHE Steering Committee. The Group SHE department assists in setting standards, providing guidance, brokering best practice and auditing the sites against international standards as well as Croda internal standards.

In 2007 a new Group SHE Manual was produced to combine the best practices available from Croda and Uniqema following the acquisition of Uniqema in September 2006. This document provides the framework upon which the individual site SHE management systems are based. Sites are regularly audited for compliance with this Manual and all Croda manufacturing sites have the objective of certification to BS EN ISO 14001 and BS OHSAS 18001 by 2010.

The results of SHE audits are used to focus the Group SHE initiatives and the annual Group SHE objectives. The audit process, used by the Group SHE department to audit the manufacturing sites, has been externally validated by BSI in 2004 as being in accordance with BS EN ISO 19011 auditing guidelines for quality environmental management systems.

Indicators of SHE performance

The Group has published annual safety, health and environmental objectives and targets since 2001.

The acquisition of Uniqema in September 2006 had a marked effect on many aspects of the Croda group.

Although there are many products and processes in common there are also significant differences such as the addition of high volume fatty acid manufacture to the product profile.

As a result the manufactured tonnage has increased more than tenfold. Since all the Croda targets are normalised to the manufactured tonnage this has a large effect on the performance target statistics.

As a result of these factors Croda has decided to rebase the targets for the combined Group on 2006 data and to review all the targets for the next four years to the end of 2010. 2007 is the first year that the former Uniqema sites have been included in the reported data.

Where necessary these objectives and targets have been re-based on current operations manufacturing at the end of 2007.

The 2006 baseline data includes eight months when the Uniqema sites were under ICI control. Croda's different and, perhaps, more focused approach to the stated metrics means that the comparative data may be flawed between 2006 and 2007.

Safety, health and the environment

Indicators of SHE performance (continued)

SHE management

Objective:

To continually improve the effectiveness of our SHE management systems.

Target:

All original Croda manufacturing sites to be certified to BS OHSAS 18001 by 2009. All former Uniqema manufacturing sites to be certified to BS EN ISO 14001 and BS OHSAS 18001 by 2011.

All original Croda sites are certified to BS EN ISO 14001. Five original Croda sites (Chanac, Ditton, Hull, Mill Hall and Rawcliffe Bridge) became certified to BS OHSAS 18001 during the year. In all six sites have been certified and four remain to be certified. The former Uniqema site at Cikarang became certified to both BS EN ISO 14001 and BS OHSAS 18001 during the year. In all two former Uniqema sites have been certified and ten remain to be accredited.

Energy consumption

Objective:

To continually improve the energy efficiency of our manufacturing processes.

Target:

Based on 2006, to improve energy efficiency (GJ/tonne manufactured) at all manufacturing sites by 2% each year (8% overall) until the end of 2010.

In 2007 the Group improved its energy efficiency per tonne by 0.5%. This was achieved during the substantial restructuring of the manufacturing operations during which time Croda withdrew from some low margin business and manufacturing output fell by 4.9%. Overall energy use reduced by 5.4%.

Continued progress with energy reduction is demonstrated by our continued compliance with the energy reduction targets of UK Climate Change Agreements and the EU Emissions Trading Scheme. Croda already generates 0.6% of its own energy from sustainable sources and new initiatives in 2008 are expected to increase this substantially in the next few years.

Air emissions of Volatile Organic Compounds (VOCs)

Objective:

To minimise the mass of VOCs released to air from our processes.

Target:

Based on 2006, all manufacturing sites to reduce VOC emissions (kg/tonne manufactured) by 5% per year (20% overall) until the end of 2010.

In 2007 there was a 7.2% increase in the amount of VOCs per tonne released. The increase was due to greater demand for the remaining products which require the use of low boiling solvents in their manufacture. The VOC losses amount to less than 0.05% of our manufactured output.

Waste disposal

Objective:

To minimise the quantities of waste disposed to landfill.

Target:

Based on 2006, to reduce waste to landfill (kg/tonne manufactured) by 5% each year (20% overall) until the end of 2010.

The waste data relates to waste generated by the manufacturing operations. One off disposals of waste not directly associated with the manufacturing process, for example, construction excavations or contaminated land remediation, are excluded. In 2007 waste disposed to landfill per manufactured tonne reduced by 3.9%.

Waste water discharges

Objective:

To reduce the environmental impact the Group has on controlled waters.

Target:

All manufacturing sites to achieve greater than 97.5% compliance with their effluent discharge consents in every year and for year on year continuous improvement towards 100% compliance.

In 2007 the compliance with our effluent discharge consents improved from 91.0% to 94.5%. This represents a significant step on the way to achieving our target.

Consumption of mains water

Objective:

To reduce the Group requirements for mains water.

Target:

Based on 2006, all manufacturing sites to reduce the use of mains water (m³/tonne manufactured) by 2.5% per year (10% overall) until the end of 2010.

In 2007 the mains water used per manufactured tonne increased by 4.8%. Overall mains water used decreased by 0.3%.

Safety, health and the environment

SHE initiatives 2007

Accidents and enforcement action

In 2007 there was an increase in the reportable accident rate to 0.29 per 100,000 man hours. The Group received one notice of violation in the USA for non compliance with nickel levels in the waste water discharge and was fined \$15,000. This waste water discharge was owned by Croda but also contained waste water from a company (SPI) with whom the site was shared. SPI accepted that they caused the problem and agreed to pay the fine. There were no prosecutions in 2007.

Soil and groundwater investigations

The Group believes it has already identified its major liabilities with regard to historical contamination of the ground and groundwater. To date, remedial strategies are either in place or being developed for the most effective control of this contamination at all relevant sites.

Indicators of process safety performance

Croda recognises that whilst the personal injury accident rate is a useful indicator of SHE performance, it is also important to monitor those events which might lead to process incidents and/or loss of containment. Very infrequently these incidents can lead to catastrophic accidents and it is important that these leading indicators are recognised so that action can be taken to prevent them from recurring.

The Group has implemented a system for monitoring the performance of those engineering control measures which are critical to the safe operation of its hazardous processes. The system was extended to the former Uniqema sites in the final quarter of 2007.

The impact of REACH legislation on Croda Summary

Croda has established a process to ensure all REACH legislation requirements will be met and the operability of the business will not be affected.

The direct costs to Croda will be minimal in 2008, rising to over £1m per year between 2009 and 2018.

What is REACH

The European Commission White Paper 'Strategy for Future Chemicals Policy' was published on 27 February 2001. This policy review was prompted by criticism of the effectiveness of existing legislation for chemical control in the European Union (EU) and growing concern in some quarters about the lack of information on the hazards of chemicals and their potential impact on human health and the environment.

A new regulation known as REACH (Registration, Evaluation, Authorisation (and Restriction) of Chemicals) resulted from this policy review. It came into force on 1 June 2007.

This regulation has been adopted without modification by each of the 27 member states of the EU. It will be administered by the central European Chemicals Agency in Helsinki and enforced nationally by each country.

It is effectively a concept which says we need to know more about the properties of chemicals and how their risks are managed through their lifecycle.

Artist's impression of the wind turbine in position at our Hull site. The turbine will generate a significant proportion of the site's required electricity.



The key elements of the REACH regulation are:

- > A single regulatory system for existing and new chemicals.
- > All chemicals manufactured in the EU or imported into the EU at levels greater than 1 tonne per annum will require registration by the legal entity manufacturing or importing the chemical.
- > There will be some exemptions including polymers and other substances covered by other regulatory controls.
- > For existing chemicals, the obligations of REACH will be phased over an 11 year period.
- > Mandatory information on all chemicals – with the extent of information and testing linked to quantity of material manufactured or imported. This will require additional testing, including animal testing.
- > Strict deadlines imposed for information on chemicals and sanctions for non compliance.
- > The manufacturer or importer to demonstrate that chemicals are adequately controlled through the entire chain of manufacture and use.
- > Banning or restriction of the use for chemicals of very high concern.

Energy efficiency has been improved at our Hull site by the installation of energy monitoring equipment.



Croda's surfactants are used in the formulation of high performance crop care products, delivering both environmental safety and stability.



Board of directors



Martin Flower
Non-executive Chairman

Martin Flower was appointed to the Croda Board in May 2005 and became Chairman at the end of September 2005. He is chairman of the Nomination Committee and a member of the Remuneration Committee. He formerly held various senior executive positions over 36 years with Coats plc, culminating in a period as Chairman before his retirement in 2004, and he was Deputy Chairman and Senior Independent Director of Severn Trent Plc until June 2006. He is currently a non-executive director of The Morgan Crucible Company plc and Low & Bonar PLC, and the Chairman of Alpha Group Plc.

Mike Humphrey
Group Chief Executive

Mike Humphrey was appointed to the Croda Board in 1995 and became Group Chief Executive at the beginning of 1999. He joined Croda in 1969 as a management trainee and was appointed Managing Director of Croda Singapore in 1988, Croda Application Chemicals in 1990 and Croda Chemicals in 1991. He is a member of the Nomination Committee.

Sean Christie BSc, FCMA, FCT
Group Finance Director

Sean Christie was appointed to the Croda Board as Group Finance Director in April 2006. He previously held a number of senior finance positions in Northern Foods Plc and was Group Finance Director from 1994 to 2004. During 2007 he retired as Senior Independent Director of KCOM Group PLC. He is a non-executive director of Cherry Valley Farms Ltd.



Michael Buzzacott* BA, FCCA
Independent non-executive director

Michael Buzzacott was appointed to the Croda Board in August 2004 following his retirement from BP, where he had spent over 34 years. At BP he held a number of senior international roles including Assistant Co-ordinator Europe, Regional Finance and Control Director of Asia, Chief Executive Polymers and Olefins Division and finally Group Vice President Petrochemicals. He was Chairman of Biofuels Corporation plc from March 2006 until its re-registration in 2007 as a private company, Earls Nook Limited, of which he is still a director. He is a non-executive director of Rexam PLC and Scapa Group Plc.

David Dunn* CA
Senior Independent non-executive director

David Dunn was appointed to the Croda Board in 2000 and was appointed Senior Independent director and chairman of the Remuneration Committee at the beginning of 2002. He has held a number of senior financial and general management positions with UK plcs. He joined Scapa Group Plc in 1987 where he served as Finance Director, Chief Executive and non-executive Chairman prior to his retirement in 2002. During 2007 he retired as a non-executive director of SMG plc and is currently a non-executive director of FirstGroup Plc and the non-executive Chairman of Brammer Plc.

Stanley Musesengwa*
Independent non-executive director

Stanley Musesengwa joined the Tate & Lyle Group in 1979 as a refinery manager and subsequently performed a number of different roles in Africa, before becoming Regional Director, Tate & Lyle Africa in 1995. In December 1999 he was appointed Chief Executive Officer of Tate & Lyle Europe. He was appointed to the Tate & Lyle Board in April 2003 and took up the position of Chief Operating Officer on 1 May 2003. He joined the Croda Board in May 2007.

* Member of Audit, Remuneration and Nomination Committees.

Directors' report

The directors' report is required to include a fair review of the business of the Group during the financial year ended 31 December 2007, including an analysis of the development and performance of the Group during the year and the position of the Group at the end of the financial year, and a description of the principal risks and uncertainties facing the Group (known as a "Business Review").

The information which makes up the Business Review can be found in the following sections of the annual report and also in the Corporate Social Responsibility ("CSR") report accompanying the annual report, which is available on our website at www.croda.com, all of which are incorporated into this report by reference:

- Chairman's statement on pages 2 and 3
- Chief Executive's review on pages 4 to 7
- Financial review on pages 8 to 11
- Safety, health and environment report on pages 12 to 17
- Principal risks and uncertainties as discussed in the Group accounting policies section on pages 42 to 47.

Principal activities of the Company and subsidiaries

Croda International Plc is a holding company operating from 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.

Profit and dividends

The results for the year are set out on page 38.

The directors recommend a final dividend of 10.8p per share (2006: 9.65p). If approved by shareholders, dividends for the year will amount to 15.75p per share (2006: 14.3p per share). Details of dividends are shown in note 9 on page 54.

Acquisitions and disposals

Brief details of the acquisitions and disposals made by the Group during the year are set out below. Further details appear in note 7 on page 52.

June 2007	Sale of the Group's Food Services business to Aarhuskarlshavn UK Limited.
September 2007	Sale of the Group's manufacturing site and associated business at Klang, Malaysia to Palm-Oleo Sdn. Bhd.
October 2007	Sale of the Group's Refrigeration Lubricants business to The Lubrizol Corporation.

Directors

The Company's Articles of Association ("the Articles") give the directors power to appoint and replace directors. Under the terms of reference of the Nomination Committee, any appointment must be recommended by the Nomination Committee for approval by the board of directors. The Articles also require directors to retire and submit themselves for election at the first Annual General Meeting ("AGM") following appointment and all directors who held office at the time of the two preceding AGMs and who did not retire at either of them, to submit themselves for re-election. The present directors of the Company are shown on pages 18 and 19. Mike Ward stood down as a non-executive director immediately following the 2007 AGM and subsequently, Stanley Musesengwa was appointed as a non-executive director on 7 May 2007. He was appointed after the notice of the 2007 AGM was posted to shareholders and he is therefore standing for election at this year's AGM. Michael Buzzacott is required to retire by rotation and so will be standing for re-election at the AGM. Details of the directors' service contracts are given in the directors' remuneration report on pages 23 to 30.

Apart from the share option schemes, long term incentive schemes and service contracts, no director had any beneficial interest in any contract to which the Company or a subsidiary was a party during the year.

A statement indicating the beneficial and non-beneficial interests of the directors in the share capital of the Company, including share options, is shown in the directors' remuneration report on page 28.

The directors are responsible for managing the business of the Company and may exercise all the powers of the Company subject to the provisions of relevant statutes, to any directions given by special resolution and to the Company's Memorandum and Articles.

Share capital

At the date of this report, 139,949,969 ordinary shares of 10 pence each have been issued and are fully paid up and quoted on the London Stock Exchange. The rights and obligations attaching to the Company's ordinary shares are set out in the Articles, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary. There are no restrictions on the voting rights attaching to the Company's ordinary shares or on the transfer of securities in the Company. No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Further information which fulfils the requirements of Section 992 of the Companies Act 2006 and which should be treated as forming part of this report by reference are included in the following sections of the annual report:

- details of the structure of the Company's share capital and the rights attached to the Company's shares are set out on pages 64 and 69
- details of the employee share schemes are set out on pages 65 to 69.

Power to issue shares

At the 2007 AGM, authority was given to the directors to allot unissued relevant securities in the Company up to a maximum of an amount equivalent to the amount of its unissued share capital. No such shares have been issued. A further special resolution passed at that meeting granted authority to the directors to allot equity securities in the Company for cash, without regard to the pre-emption provisions of the Companies Act 1985. Both these authorities expire on the date of the 2008 AGM to be held on 30 April 2008 and so the directors propose to renew them for a further year.

Last year the members also renewed the Company's authority to purchase up to 10% of its ordinary shares. No purchases were made during the year. The Company will be seeking to renew its authority to purchase its own shares at the 2008 AGM. Shares will only be purchased if the Board believes that such purchases will improve earnings per share and be in the best interests of the shareholders generally. It is the Company's intention that any shares purchased will be held as treasury shares.

Dividend Reinvestment Plan

Further details of the Company's Dividend Reinvestment Plan can be found on page 81.

Articles of Association

Unless expressly specified to the contrary in the Articles, the Company's Articles may be amended by a special resolution of the Company's shareholders.

Change of control

There are no agreements providing for compensation for directors or employees on change of control. There are no significant agreements to which the Company is a party which take effect, alter or terminate in the event of a change of control of the Company.

Audit information

The directors confirm that, so far as they are aware, there is no relevant audit information of which the auditors are unaware and that each director has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Community affairs

Croda is committed to being a socially responsible neighbour and our policy is to encourage active participation in local education and community projects. We do this both through formal Company sponsored activities and also through assisting employees to work with their own local causes.

During 2007 we recorded 33 programmes of support for schools in our neighbourhoods and a further 30 instances of engaging in other academic initiatives. Our mentoring scheme for pupils at the secondary school close to our Cowick Hall head office won an Education-Business Link award in 2007 but, more importantly, has been attributed with improving exam results and the aspirations of the young people involved – and furthermore has developed the skills of the employees who were trained as mentors to take part in the scheme. This type of activity is being repeated across Europe, North and South America, and Asia. We aim to match our involvement to the local needs of our partner schools and offer work experience, careers guidance, science and enterprise activities as well as our mentoring scheme.

Our relationship with our local communities is important to Croda and we proactively engage in dialogue with community bodies. In 2007 there were 45 documented occasions when the Company met with, and talked to, local community leaders and our relationships continue to be very positive. This is enhanced by the many times (more than 65 in 2007) that our employees took part in community projects, supporting such a diverse range of needs as working with underprivileged families in the USA, literacy campaigns in South Africa, junior rugby in Singapore and the Autistic Society in the UK.

The Company has also continued to support its employees in engaging with their own local communities. Our employees give their time through the 1% Club – our scheme to give paid leave for local projects.

The voluntary participation of our employees in community affairs endorses our recognition that CSR is at the heart of the Croda culture.

Employment policies

The process of the integration of Uniqema into Croda begun in 2006 continued into 2007. In order to ensure that all employees were fairly treated, a comprehensive Code of Practice was applied which set the standard for communication, consultation, selection and outplacement. The guidance in the Code of Practice enabled a rigorous approach to managing change whilst being sensitive to individual needs. As a result we were able to move quickly and successfully to our new organisation structures.

The Code of Practice built on our long established policies and practices to have an organisation characterised by fairness of approach and enjoyment in our work environment. We are rightly proud of our employees and their achievements and this is matched by the Company's reputation as an employer of choice. Throughout our global operations our employee relationships are based on respect and dignity – and all our employment practices reflect our commitment to stimulate and encourage mutually rewarding performance.

Our recruitment procedures are thorough and exacting to achieve the right talent pool to sustain the business. Although voluntary labour turnover is moderate at 5%, the continuous need to meet the challenge of attracting the best candidates is achieved through our positive reputation in the industry and our professional approach to recruitment. We continue to have a significant graduate intake programme which gives both professional expertise in such areas as chemistry, engineering and marketing and also provides a talented group of future business managers. Apprenticeship schemes are also thriving, particularly within our European operations, thus ensuring the future of our skilled worker base. At the senior level, most positions are filled by internal moves, which is testament to our retention rates and development programmes.

Directors' report

Development and training are core to the success of the business and every manager is responsible for assessing and appraising the performance and development needs of their staff. Employees at all levels, right up to our executive directors, participated in development activities during 2007 and 9 out of every 10 were involved in a formal training activity. The range of events included qualifications for plant operators, language skills, IT skills, continuous improvement programmes, specialist management and sales courses and interpersonal effectiveness. We also continued the Leadership Development Programme for our senior leaders. Universal access to development is an example of policies in action and shows our diversity agenda is being delivered without discrimination.

Our reward policies are targeted to ensure a sensible balance of employee retention and motivation whilst reflecting market position and business sustainability. In 2007 we had record numbers joining our global Sharesave schemes, resulting in over 50% of our workforce participating in the opportunity to benefit from investment in the Company. Towards the end of the year a survey of practices in all countries in which we operate showed that in every territory we provide benefits and conditions well above the local national statutory requirements.

We continue to employ the full range of communication and consultation approaches to maintain a complete understanding of objectives, information and mood. Employee engagement is a key business driver and our managers are expected to develop local processes to seek opinions and ideas that will help build a strong future for all. Our in-house magazine, *Crodaway*, is highly regarded and attracts both a high level of employee generated articles and coverage across the globe as well as an eager readership. Throughout 2007 our consultation processes have been widely used to facilitate the achievement of our integration agenda and, where appropriate, special briefings have taken place.

Our employees have embraced considerable organisation change during 2007, supported by employee policies that encourage participation and personal growth.

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 2007, the Group had an average of 42 days (2006: 48 days) purchases outstanding in trade creditors. The Company's trade creditors are not material.

Charitable and political donations

Charitable donations made by the Group in the year amounted to £73,000 (2006: £46,000). No donations were made for political purposes (2006: £Nil).

Annual General Meeting

The AGM will be held at Carlton Towers, Carlton, Goole, East Yorkshire DN14 9LZ on Wednesday, 30 April 2008 at 12 noon. The notice of meeting and explanation of the business to be considered at the AGM are contained in a separate document issued to shareholders with this annual report.

Independent auditors

Our auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and, on the recommendation of the Audit Committee, a resolution regarding their reappointment and remuneration will be submitted to the AGM.

Substantial shareholders

Until 19 January 2007 the Company was required to keep a register of substantial shareholders recording notifiable interests disclosed under sections 198 to 208 of the Companies Act 1985. As at 19 January 2007 the register of substantial shareholders showed the following interests in 3% or more of the Company's shares:

	Ordinary shares	% of share capital
Schroders plc	9,925,801	7.29
Lansdowne Partners Limited Partnership	9,575,368	7.03
Legal & General Group Plc	4,983,906	3.66

On 20 January 2007 the Companies Act 1985 provisions in respect of substantial shareholders were repealed and the Disclosure and Transparency Rules ("DTR") of the FSA came into force.

As at 13 February 2008, the Company had been notified under DTR5 of the following significant holdings of voting rights in its shares:

	Ordinary shares	% of share capital	Nature of holding
Legal & General Group Plc	5,496,308	4.03	Direct
AEGON UK Group of Companies	4,793,158	3.52	Direct 3.4%, Indirect 0.12%

By order of the Board

Louise Scott
Secretary
18 February 2008

Directors' remuneration report

The directors present their remuneration report which covers the remuneration of both executive and non-executive directors and certain senior executives. The first section of the report contains unaudited information and the second section audited information. The report has been approved by the Board and signed on its behalf by the chairman of the Remuneration Committee. The report will be subject to approval by shareholders at the Annual General Meeting ("AGM") in April 2008.

Unaudited information

The role of the Remuneration Committee

The Committee reviews and approves the annual salaries, bonus arrangements, service agreements and other employment conditions of the executive directors and certain members of the senior executive management team designated by the Board. It also approves the design of, and determines targets for, any performance related/bonus pay schemes operated by the Group, approves the total annual payments made under such schemes, reviews the design of all share incentive plans for approval by the Board and shareholders and approves the awards of long-term incentives. The full terms of reference of the Committee are published on the Company's website.

Membership and operation

The Committee comprises all non-executive directors including the Chairman and is chaired by David Dunn, who, along with Martin Flower and Michael Buzzacott, was a member throughout the year. Stanley Musengeswa took the place of Michael Ward on the Committee when he was appointed as a director in May 2007. None of the Committee members has any day to day involvement in the running of the Company, nor do they have any business or other relationship that could affect, or appear to affect, the exercise of their independent judgement.

The Committee met five times during the year. Other directors and employees of the Company who attended some, or all, the meetings during the year and provided advice and services to the Committee were Mike Humphrey (Group Chief Executive), Pamela Broughton (Group VP Personnel), Graham Myers (Group Financial Controller/Treasurer) and Louise Scott (Company Secretary). All have the appropriate qualifications and experience to advise the Committee on aspects of the Group's policies and practices.

New Bridge Street Consultants ("NBSC") were retained to produce a benchmarking report on the base salaries of the executive directors and senior executives for use during the annual pay review carried out in December 2007.

Policy on directors' and senior executives' remuneration

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 give full consideration to the relevant principles on directors' remuneration set out in the 2006 FRC Combined Code
- to ensure a balance between fixed and performance related remuneration, the latter being related to objective measurement of the financial performance of the Company.

The Committee believes that the interests of shareholders and directors are more closely aligned to cash profitability and the control of working capital of the Group, rather than being based on performance relative to peer groups where external factors beyond the control of the directors can have a disproportionate influence on bonus payment, both favourable and adverse.

Components of executive directors' remuneration

Basic salary

The Committee considers that it is difficult to identify companies who are true comparators with the Company's operations and so the basic salaries of the executive directors are set by reference to those paid by companies comprising FTSE 250 manufacturing companies similar in size and scope of operations to those of Croda and a group of companies with comparable market capitalisations and international scope to those of Croda. The salaries are paid monthly in cash and are reviewed annually with effect from 1 January. As mentioned above, NBSC produced a benchmarking report on salary levels which was utilised by the Committee as part of its deliberations on the annual salary review for executive directors and other senior executives.

Performance-related annual bonus

The Company operates bonus schemes for its directors and senior executives. Bonus payments are not pensionable. The 2007 bonuses for executive directors were calculated by reference to the amount by which the income for the year, which is defined as the Group EBITDA for continuing operations before exceptional items and any charges or credits under IFRS2 'Share based payments' less a notional interest charge on working capital employed during the year (the "2007 income"), exceeded the income for 2006 calculated on the same basis (the "base income"). Bonuses are payable on a graduated scale once the 2007 income exceeds the base income by inflation (defined as the harmonised index of consumer prices ("CPI")), with maximum bonuses due at CPI plus 8%. Income is measured after providing for the cost of any bonuses. The maximum amount of bonus payable is 100% of salary with the net element of any bonus in excess of 50% of salary being compulsorily invested in the Croda International Bonus Co-investment Plan ("BCIP"). Bonuses earned by each director in respect of 2007 are included in the table of directors' remuneration on page 27 and represent 95% of basic salary.

Directors' remuneration report

Components of executive directors' remuneration (continued)

Long-term incentives

Long-term incentives are provided to executive directors through two long-term incentive plans, the BCIP and the Croda International Long-term Incentive Plan ("LTIP") which were both adopted in 2005. These replaced the Senior Executive Share Option Schemes. It is the Committee's policy, subject to unforeseen circumstances, that these will comprise the sole long-term elements of the total remuneration package of executive directors for the foreseeable future. It is also the Committee's policy to continue exercising its right to decide the number of LTIP awards to be granted to each executive director.

At last year's AGM, changes to the performance targets in the BCIP and the LTIP were approved by shareholders, details of which are described below.

BCIP

The BCIP operates in conjunction with the annual bonus schemes and allows participants to invest a proportion of their net annual cash bonus in Company shares. It is compulsory for employees whose gross bonus exceeds 50% of their annual salary to invest the excess, net of tax, in shares unless they are within three years of anticipated retirement date. Participants have to agree to hold the invested shares for three years in return for which they receive a conditional award entitling them to additional shares subject to the achievement of the BCIP's performance condition. The maximum number of shares over which an award can be granted to an employee in a single year is limited to shares having a market value not exceeding 100% of the employee's salary.

For the first awards which were made in 2006, the vesting of 100% of the award is conditional on Croda's earnings per share before exceptional items exceeding CPI over the three year performance period. The revised performance condition adopted in 2007 is structured to require the achievement of a sliding scale of adjusted earnings per share growth ("EPS") targets in excess of retail price inflation ("RPI"):

2006 Awards		Post 2006 Awards	
Adjusted EPS growth over the three year period	Proportion of award vesting	Adjusted EPS growth over the three year period	Proportion of award vesting
Less than CPI	No vesting	Less than RPI + 12%	No vesting
CPI	100%	RPI + 12%	30%
		RPI + 24%	100%
Straight-line vesting occurs between these points			

If the performance target is met the shares will be transferred automatically to the employee. If the employee does not retain their invested shares until the release date, their award lapses.

LTIP

Participation in the LTIP is limited to executive directors and the most senior executives. Annual awards of shares are made based on a percentage of salary with the maximum entitlement being shares having a market value of 100% of the employee's salary. Awards are subject to performance conditions measured over a period of not less than three years.

The target for awards made in 2005 and 2006 was set so that awarded shares will vest if the growth in Croda's EPS exceeds CPI plus 3% each year over the three year performance period with 50% vesting at this level, and the maximum 100% vesting for performance of CPI plus 9% each year. For performance between these two levels, the awards will vest on a straight-line basis.

The revised performance condition adopted last year is split into two separate parts, each with a separate performance condition. Half of any LTIP award will vest based on a condition measuring the Company's relative total shareholder return (TSR) against the constituents of the FTSE 250 (excluding investment trusts). There are a limited number of direct competitors to Croda and the Committee was mindful of the dangers inherent in operating a relative TSR-based performance condition with a comparator group comprised of only a small number of companies. Therefore, the FTSE 250 (excluding investment trusts) was considered an appropriate comparator group by the Committee. Vesting will take place on the following sliding scale:

Rank of the Company's TSR against the FTSE 250 (excluding Investment Trusts)	Vesting % (TSR part)
Below median	0%
Median	30%
Upper quartile	100%
Between median and upper quartile	30% – 100% pro rata

The remaining half of the award will vest based on the same EPS growth condition that is set for the BCIP, with 30% of this part of the award vesting for EPS growth of RPI + 12%, rising on a straight-line basis to full vesting for EPS growth of RPI + 24%.

2005 & 2006 Awards

2005 & 2006 Awards		Post 2006 Awards	
Adjusted EPS growth over the three year period	Proportion of award vesting (EPS part)	Adjusted EPS growth over the three year period	Proportion of award vesting (EPS part)
Less than CPI + 9%	No vesting	Less than RPI + 12%	No vesting
CPI + 9%	50%	RPI + 12%	30%
CPI + 21%	100%	RPI + 24%	100%
Straight-line vesting occurs between these points		Straight-line vesting occurs between these points	

If the performance target is met the shares will be transferred automatically to the employee.

Senior Executive Share Option Schemes

Following the adoption of the BCIP and the LTIP, the operation of the Senior Executive Share Option Schemes has been discontinued except in relation to options already granted. Under the terms of the schemes, options were granted subject to performance conditions.

The only options now outstanding were granted between 2000 and 2003. The options were awarded annually (in the absence of special circumstances) on a graduated scale to a value of one year's salary for the Group Chief Executive, 80% of salary for other executive directors and decreasing percentages for other senior employees. Basic EPS before exceptional items must grow at RPI plus 7% per annum for 100% of the options allocated to be exercisable. The performance period commences at the date of grant and lasts for a minimum of three years and a maximum of ten years until an average growth rate of at least RPI plus 3% per annum over the whole period has been achieved. With earnings growth at RPI plus 5% per annum, 75% of the options are exercisable and at RPI plus 3% per annum 50% of the options are exercisable. Mike Humphrey is the only director who holds these options and details of his options are shown in the table on page 29.

It is the Company's current intention to satisfy awards under the BCIP and the LTIP and the exercise of share options primarily from shares held in the Employee Share Ownership Trust and shares purchased in the market and not by the issue of new shares. Details of shares held for this purpose are given in note 25 on page 69.

Share ownership policy

In December 2006 the Company adopted revised share ownership guidelines which apply to all executive directors and members of the Group Executive Committee and the Finance Committee. Executives are required to build up a target shareholding of shares with a market value equivalent to 100% of salary from time to time through a combination of share purchases and the retention of incentive shares. On the exercise of SAYE and executive share options or the vesting of LTIP and/or BCIP awards, executives are required to retain shares from the shares awarded representing 50% of the after tax gain until the target is met or exceeded. The target is expected to be reached within 5 years.

Pension and other benefits

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. The Company is flexible in the manner in which pension provision is made for executive directors with the aim of balancing the needs of the director against the liability of the Company. Hence, it makes contributions by direct contribution to the Croda defined benefit pension scheme or by way of a cash supplement in lieu of pension benefits to enable the funding of personal pension arrangements.

Other customary benefits such as company cars or car allowances, health benefits, the UK SAYE Scheme and the Croda Share Incentive Plan (which are available to all eligible UK employees), are made available to executive directors. Benefits in kind are not pensionable. The Committee reviews the individual components and the balance of these components from time to time.

Components of senior executives' remuneration

There are nine members of the Group Executive Committee and Finance Committee in addition to the two executive directors. The reward structure for these senior executives is similar to that of the executive directors although their level of long term incentive award differs.

Directors' remuneration report

Service contracts

Policy

The Committee's policy on executive directors' service contracts is for them to contain a maximum notice period of one year. In respect of termination, the Committee's policy is to deal with each case on its merits, in accordance with the law and any further policy adopted by the Committee at the time. In the event of early termination, other than for cause, the relevant director's then current salary and contractual benefits would be taken into account in calculating any liability of the Company.

The principal contractual benefits provided in addition to salary are the provision of a car, pension and medical insurance and life assurance. Annual bonuses and long-term incentives are non-contractual and are dealt with in accordance with the rules of the relevant schemes.

Specific contracts

Mike Humphrey entered into a new service contract on 21 December 2005 which is terminable by the Company on one year's notice and by Mike Humphrey on six months' notice. The Company may also terminate the contract at any time with immediate effect and Mike Humphrey would be entitled to receive compensation equivalent to twelve months' salary plus the value of his pension benefits (valued at 20% of basic salary), bonus entitlement (50% based on the assumption that performance targets are deemed to have been achieved) and the value of other benefits, payable in equal monthly instalments for twelve months or, if less, the remaining period of any notice period not yet completed. Such payments would discontinue or reduce to the extent that he obtained alternative employment.

Sean Christie has a service contract dated 15 December 2006 with substantially the same terms as those of Mike Humphrey's contract except that there is no entitlement to bonus on termination by the Company with immediate effect.

External appointments

Executive directors are permitted to accept external non-executive appointments with the prior approval of the Board. It is normal practice for executive directors to retain fees provided for non-executive appointments. During the year Sean Christie was a non-executive director of Cherry Valley Farms Limited for which he received fees of £25,000 and, until 26 November 2007, of KCOM Group PLC, for which he received fees of £38,750.

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

Policy on non-executive directors' remuneration

The Board is responsible for determining the policy on, and level of, the remuneration of non-executive directors. The aim is to attract non-executive directors who through their experience can further the interests of the Company through their stewardship and contribution to strategic development. The Board's policy is to provide cash fees at a level commensurate with companies of Croda's size, not to grant share options to non-executive directors, and to encourage non-executive directors to establish a holding of Croda shares.

Components of non-executive directors' remuneration

Non-executives' pay comprises cash fees, paid monthly. All non-executive directors are reimbursed for travel and related business expenses reasonably incurred in performing their duties.

The Chairman's and non-executive directors' fees are determined on the basis of current fee levels in similar businesses and are reviewed by the Board at least every two years. Following a review carried out by NBSC in December 2006, the fees were increased with effect from 1 January 2007 so that the basic annual fee for a non-executive director is £37,500 with an additional £5,000 for chairing a committee and the Senior Independent director receiving an additional £2,500. The fees will be reviewed again at the end of 2008.

Terms of appointment

The Chairman and non-executive directors have letters of appointment for a fixed term as shown below, subject to earlier termination by either party on written notice. They have no entitlement to contractual termination payments.

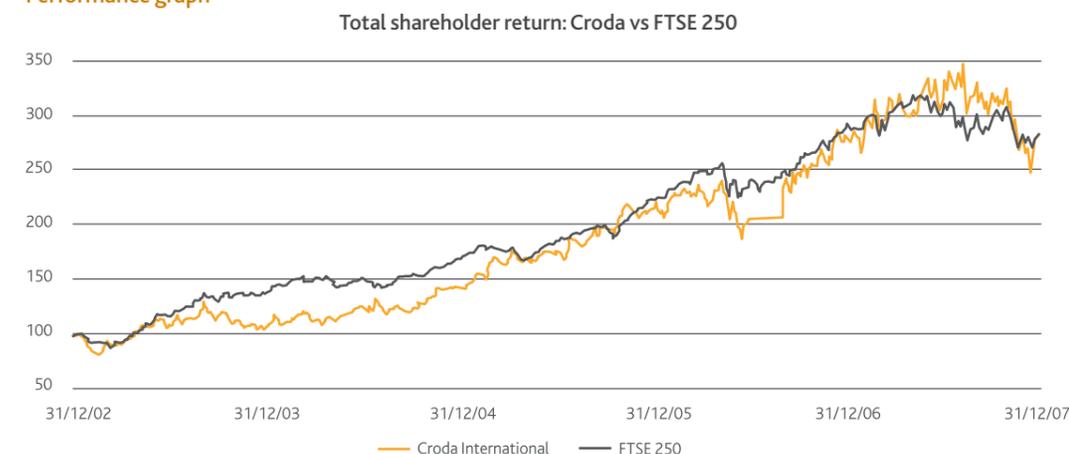
	Original appointment date	Unexpired at 31 December 2007
M C Flower	16 May 2005†	9 months
M C Buzzacott	2 August 2004††	2 years 7 months
D M Dunn	26 April 2000†††	1 year 2 months
S Musesengwa	7 May 2007	2 years 4 months

† Appointed as Chairman designate on 16 May 2005 and subsequently became Chairman on 28 September 2005 when his three year term commenced

†† Appointment extended for a second three year term to 2 August 2010

††† Appointment extended for a further three year term to 24 February 2009

Performance graph



In the opinion of the directors the FTSE 250 is the most appropriate index against which the total shareholder return of the Company should be measured because it is an index of similar sized companies to Croda International Plc.

Audited information

Directors' remuneration

	Basic salary £	Bonus £	Benefits £	Fees £	2007 Total £	2006 Total £
M Humphrey ¹	465,000	443,285	26,494	–	934,779	773,031
M S Christie (appointed 1 April 2006)	261,996	250,333	22,200	–	534,529	327,611
M C Flower	–	–	–	140,504	140,504	110,508
M C Buzzacott	–	–	–	41,416	41,416	30,000
D M Dunn	–	–	–	45,000	45,000	37,500
S Musesengwa (appointed 7 May 2007)	–	–	–	24,615	24,615	–
M A Ward (resigned 26 April 2007)	–	–	–	14,167	14,167	34,500
	726,996	693,618	48,694	265,702	1,735,010	1,313,150

Notes

- † Highest paid director.
- Benefits incorporate all assessable tax benefits arising from employment by the Company and relate in the main to the provision of a Company car, fuel allowances and private medical insurance.
- The bonuses shown relate to the year ended 31 December 2007.

Pension rights

Prior to 6 April 2006, Mike Humphrey accrued pension benefits under the Croda International Supplemental Scheme ("CISS"). He will be entitled on retirement at age 60 to a pension equal to his accrued pension at 5 April 2006 (accrued at a rate of two-thirds of his annual pensionable remuneration as at 5 April 2006, pro-rated by the ratio of his actual service accrued prior to 5 April 2006 and prospective service to age 60), increased in line with statutory increases to age 60. If directors retire before age 60 a reduced pension is payable unless retiring at the Company's request. In the event of death, a pension equal to two-thirds of the director's pension would become payable to the surviving spouse. Pensions in payment are guaranteed to increase in line with the rate of inflation up to a maximum of 10% per annum. During 2007, Mike Humphrey was paid £93,000 (2006: £63,000 for the period from 6 April 2006 to 31 December 2006) in addition to his basic salary to enable him to make independent provision for his retirement.

Sean Christie joined the Company on 27 March 2006 and joined the CISS on 1 September 2006, accruing pension benefits at an accrual rate of 1/60th with an entitlement to retire at age 65. In the event of death, a pension equal to 50% of the director's pension would become payable to the surviving spouse. Pensions in payment are guaranteed to increase in line with the rate of inflation up to a maximum of 2.5% per annum.

Both Mike Humphrey and Sean Christie are also entitled to death in service benefits equivalent to four times salary from the CISS.

Directors' remuneration report

Defined benefit schemes

	Accrued pension at 31.12.07 ¹ £000	Increase in accrued pension during the year ² £000	Increase in accrued pension during the year (excluding inflation) ³ £000	Transfer value of accrued pension at 31.12.06 ⁴ £000	Transfer value of accrued pension at 31.12.07 ⁴ £000	Increase in transfer value over the year ⁵ £000	Transfer value of the increase in the accrued pension ⁶ £000
M Humphrey	256	12	2	3,942	5,674	1,732	41
M S Christie	6	5	4	7	40	17	14

Notes

- The figures shown represent: the amount of annual pension benefits based on service to, and pensionable earnings at, 5 April 2006 for Mike Humphrey (with standard preserved increases to 31 December 2007); and the amount of annual pension benefits which would have been preserved for Sean Christie had he left service on 31 December 2007, based on service to, and pensionable earnings at, that date.
- The figure represents the difference between the total accrued pension at 31 December 2007 and the corresponding pension at the beginning of the year.
- The figure represents the difference between the total accrued pension at 31 December 2007 and the corresponding pension at the beginning of the year after an adjustment to exclude inflation was provided as required under paragraph 9.8.8 (12) (a) of the Listing Rules.
- Transfer values are quoted on the basis recommended by the scheme actuary for valuation of accrued benefits if the member had transferred benefits to another approved scheme on the relevant date. The increase in transfer value between 31 December 2006 and 31 December 2007 takes account of changes in market conditions over the period.
- The figure represents the difference between transfer values of the accrued benefits at 31 December 2007 and 31 December 2006, less contributions paid by the director.
- The figure represents the transfer value of the increase in accrued benefits over the period, adjusted for inflation, less contributions paid by the director.
- In light of new legislation, changes in market conditions and actuarial advice, the Trustees of the CISS reviewed and amended the basis for the calculation of cash equivalent transfer values from October 2007. As a result of this change in calculation basis the transfer value figures as at 31 December 2007 are around 30% higher than would otherwise have been disclosed had no change to the calculation basis occurred.

Members of the CISS have the option to pay voluntary contributions. Neither the contributions nor the resulting benefits are included in this table.

Directors' interests

The beneficial interests at 31 December 2007 of the directors of the Company and their families in the shares of the Company are:

	At 31 December 2007					At 1 January 2007 or date of appointment				
	Ordinary shares	Executive options	SAYE options	SIP† ordinary shares	LTIP	Ordinary shares	Executive options	SAYE options	SIP† ordinary shares	LTIP
M Humphrey	150,204	259,300	4,598	3,750	261,689	110,847	493,800	4,598	3,272	183,238
M S Christie	16,692	–	2,434	314	53,124	7,000	–	2,434	–	24,393
M C Flower	20,000	–	–	–	–	15,000	–	–	–	–
M C Buzzacott	9,500	–	–	–	–	6,000	–	–	–	–
D M Dunn	8,000	–	–	–	–	8,000	–	–	–	–
S Musesengwa	15,000	–	–	–	–	–	–	–	–	–

Mike Humphrey has an interest in 100 7.5% preference shares but no other director had any interest in the 5.9%, 6.6% or 7.5% preference shares of the Company.

† The SIP shares comprise 2,032 Partnership shares (2006: 1,636) and 2,032 Matching shares (2006: 1,636).

Share options

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

Executive share options

Mike Humphrey is the only director who holds options under the Senior Executive Share Option Schemes and details of his options are set out below:

Date of grant	Earliest exercise date	Exercise price	Number at 1 January 2007 (10p shares)	Exercised in year	Date of exercise	Number at 31 December 2007 (10p shares)
M Humphrey						
22 March 2000	22 March 2003	256p	109,300	–	–	109,300
7 March 2001	7 March 2004	258p	116,200	116,200	26 February 2007	–
13 March 2002	13 March 2005	261p	118,300	118,300	26 February 2007	–
5 March 2003	5 March 2006	230p	150,000	–	–	150,000
			493,800	234,500		259,300

None of the terms and conditions of the share options were varied during the year. All options are subject to performance conditions, details of which are given on page 25.

SAYE share options

Date of grant	Earliest exercise date	Expiry date	Exercise price	Number at 1 January 2007 and 31 December 2007 (10p shares)
M Humphrey				
19 Sep 2003	1 Nov 2008	30 April 2009	230p	2,215
22 Sep 2005	1 Nov 2010	30 April 2011	328p	1,410
18 Sep 2006	1 Nov 2009	30 April 2010	384p	973
				4,598
M S Christie				
18 Sep 2006	1 Nov 2009	30 April 2010	384p	2,434
				2,434

Employees are customarily invited to participate in a Save As You Earn Share Option Scheme once a year. Prior to 2006, the savings contract was traditionally for 5 years but since that time a 3 year savings contract has been offered. The option price is the value of ordinary shares at date of grant discounted by 20%. Options are normally exercisable for a 6 month period following completion of the savings contract.

Directors' remuneration report

Share options (continued)

Gains made on exercise of share options

	Exercise date	Shares exercised	Scheme	Exercise price	Market price	Gain £
M Humphrey	26 February 2007	116,200	Executive	258p	660.5p	467,705
	26 February 2007	118,300	Executive	261p	660.5p	472,608
						940,313

The gains are calculated according to the market price of Croda International Plc ordinary shares of 10p each on the date of exercise, although the shares may have been retained.

The market price of the Company's shares at 31 December 2007 was 581p and the range of market prices during the year was between 508p and 720p.

LTIP

Details of awards made under the Croda LTIP are set out below:

	Date of award	Earliest vesting date	Market price at date of award	Number at 1 January 2007 (10p shares)	Granted during the year	Number at 31 December 2007 (10p shares)
M Humphrey	25 May 2005	25 May 2008	373p	93,810	–	93,810
	23 February 2006	23 February 2009	496p	89,428	–	89,428
	22 February 2007	22 February 2010	663p	–	78,451	78,451
				183,238	78,451	261,689
M S Christie	26 April 2006	26 April 2009	495p	24,393	–	24,393
	22 February 2007	22 February 2010	663p	–	28,731	28,731
				24,393	28,731	53,124

BCIP

Details of the awards made under the Croda BCIP are set out below:

	Date of award	Earliest vesting date	Market price at date of award	Number at 1 January 2007 (10p shares)	Granted during the year	Number at 31 December 2007 (10p shares)
M Humphrey	26 April 2006	26 April 2009	495p	23,012	–	23,012
	26 April 2007	26 April 2010	633p	–	4,857	4,857
				23,012	4,857	27,869
M S Christie	26 April 2007	26 April 2010	633p	–	7,692	7,692

Share Incentive Plan

Mike Humphrey and Sean Christie participate in the plan which, as a HMRC approved arrangement, is offered to all employees on the same terms. They each save the maximum of £125 per month permitted under the regulations. Matching shares are allocated on a one for one basis for each Partnership share purchased by the employee. Shares are purchased on a monthly basis. During the year Mike Humphrey purchased 239 Partnership shares and was allocated 239 Matching shares. During the year Sean Christie purchased 157 Partnership shares and was allocated 157 Matching shares. The average purchase price was 632.2p.

Since 31 December 2007 Mike Humphrey and Sean Christie have each purchased 49 Partnership shares and have been awarded a corresponding number of Matching shares under the SIP at an average price of 507.5p per share. Otherwise there has been no change in the directors' interests in shares or options granted by the Company between the end of the financial year and 18 February 2008.

On behalf of the Board

D M Dunn

Chairman of the Remuneration Committee
18 February 2008

Corporate governance

This report is prepared in accordance with the 2006 FRC Combined Code ("the Code"). The Board is collectively responsible for the success of the Company and is committed to high standards of corporate governance as outlined in the Code. The Company has complied throughout the year with the provisions set out in the Code. This statement, together with the directors' remuneration report, set out on pages 23 to 30, describes how the relevant principles of governance are applied to the Company.

The Board

The Board is primarily responsible for the overall leadership of the Company and assisting in the development of a clear strategy for the Group, monitoring operational and financial performance against agreed goals and objectives and ensuring that appropriate controls and systems are in place to manage risk effectively. It comprises the Chairman, the Group Chief Executive, the Group Finance Director and three independent non-executive directors. Biographical notes appear on pages 18 and 19. These demonstrate a range of business, financial and international experience which provides an appropriate balance of authority and experience throughout the Board. The Chairman and the Group Chief Executive have written accountabilities that have been approved by the Board.

It is the Board's opinion that all non-executive directors who served throughout the period under review were independent in accordance with the Code.

The Board has a formal schedule of matters specifically reserved to it and this is posted on the Company's website. The Chairman and non-executive directors meet together without the executive directors present on an ad hoc basis and the non-executive directors meet at least annually in the absence of the Chairman in order to appraise his performance. In addition to formal Board meetings, the Chairman and the Group Chief Executive meet on a regular basis.

All members of the Board have full access to the advice and services of the Company Secretary. Where necessary the directors may take independent professional advice at the Company's expense. The Company maintained directors' and officers' liability insurance cover throughout the year.

Attendance at meetings

Details of the attendance by directors at meetings and the Committees on which they sit are set out below.

	Board		Nomination Committee		Remuneration Committee		Audit Committee	
	No. held	No. attended	No. held	No. attended	No. held	No. attended	No. held	No. attended
M C Flower	9	9	4	4	5	5	–	–
M C Buzzacott	9	9	4	4	5	5	3	3
D M Dunn	9	9	4	4	5	5	3	3
MA Ward†	3	3	2	2	3	3	1	1
S Musesengwa*	6	5	2	1	2	1	2	1
M Humphrey	9	9	4	4	–	–	–	–
M S Christie	9	9	–	–	–	–	–	–

* from date of appointment

† until date of resignation

Re-election of directors

The Company's Articles of Association require the directors to offer themselves for re-election at least once every three years. At this year's AGM, Michael Buzzacott will be retiring under Article 85 and offering himself for re-election. In addition, as Stanley Musesengwa was appointed after the notice of last year's AGM was posted to shareholders, he will be offering himself for election under Article 84. Further details about Michael Buzzacott and Stanley Musesengwa are given in the notice of the AGM which is in a separate document issued to shareholders with the annual report.

Corporate governance

Non-executive directors

Croda complies with the Code in having experienced non-executive directors who represent a source of strong independent advice and judgement. At present there are four such directors, including the Chairman, and the Senior Independent director, David Dunn, each of whom has significant commercial experience. Their understanding of the Group's operations is enhanced by regular divisional presentations and by site visits.

No non-executive director nor the Chairman:

- has been an employee of the Company or Group
- has, or has had, a material business relationship with the Group
- received, or receives remuneration (other than a director's fee) or share options or is a member of the Group pension scheme
- has close family or business ties with any of the Group's advisers, directors or senior employees
- holds cross directorship or significant links with other directors through involvement in other companies or bodies
- represents a significant shareholder
- has served on the Board for more than nine years from the date of their first election.

Details of the professional commitments of the Chairman and the non-executive directors are included in their biographies on pages 18 and 19. The Board is satisfied that these do not interfere with the performance of their respective duties to the Company.

The terms and conditions of appointment of non-executive directors can be inspected during normal business hours at the Company's registered office by contacting the Company Secretary and are available at the AGM.

Board Committees

The Board has three main Committees and their terms of reference are published on the Group's website. Other executives attend the meetings of these Committees when invited to do so by the Committee chairman.

Audit Committee

Michael Buzzacott (Chairman)
David Dunn
Stanley Musesengwa

The Audit Committee, which consists of the non-executive directors other than the Chairman, meets at least twice 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, internal audit activities and compliance procedures are in place. Terms of reference are posted on the Company's website, including its role and the authority delegated to it by the Board.

Committee members bring considerable financial and accounting experience to the Committee's work. Members have recent employment in either finance or accounting roles or comparable experience in corporate activities as set out in their biographies on pages 18 and 19. Michael Buzzacott became chairman of the Committee on Mike Ward's retirement from the Company after the 2007 AGM. Stanley Musesengwa was appointed to the Committee when he was appointed as a director in May 2007.

Audit independence

The Committee and the Board place great emphasis on the objectivity of the Group's auditors, PricewaterhouseCoopers LLP ("PwC"), in their reporting to shareholders. The PwC audit partner is present at all Audit Committee meetings to ensure full communication of matters relating to the audit.

The overall performance of the auditors is reviewed annually by the Audit Committee, taking into account the views of management, and feedback is provided to senior members of PwC unrelated to the audit. This activity also forms part of PwC's own system of quality control.

The scope of the forthcoming year's audit is discussed in advance by the Audit Committee. Audit fees are reviewed by the Committee and then referred to the Board for approval. The rotation of audit partners' responsibilities within PwC is required by their profession's ethical standards, is actively encouraged and has taken place.

Assignments awarded to PwC have been, and are, subject to controls by management that have been agreed by the Committee so that audit independence is not compromised. The chairman of the Audit Committee is required to give prior approval of work carried out by PwC and its associates in excess of predetermined thresholds; part of this review is to determine that other potential providers of the services have been adequately considered.

These controls provide the Committee with adequate confidence in the independence of PwC in their reporting on the audit of the Group.

Remuneration Committee

David Dunn (Chairman)
Michael Buzzacott
Martin Flower
Stanley Musesengwa

The Remuneration Committee, which consists of non-executive directors, is responsible for advising on remuneration policy for senior executives and for determining the remuneration packages of the executive directors. The Group Chief Executive is normally invited to attend all its meetings. The directors' remuneration report is set out on pages 23 to 30 and a resolution will be proposed at the AGM to approve the report.

Terms of reference are posted on the Company's website. The Committee met five times in 2007. A self evaluation of the effectiveness of the Committee was undertaken with no significant issues revealed.

Nomination Committee

Martin Flower (Chairman)
Michael Buzzacott
David Dunn
Mike Humphrey
Stanley Musesengwa

The Nomination Committee is responsible for nominating, for approval by the Board, candidates for appointment to the Board. It meets on an ad hoc basis. Terms of reference are posted on the Company's website.

The Committee met four times during the year. The Committee continued the effort started during 2006 to identify a suitable new non-executive director. External search consultants, Spencer Stuart, were engaged to identify initial candidates. The Chairman then met candidates before recommending a shortlist to the Committee. Subsequently, Committee members and the Group Chief Executive interviewed the candidates before recommending to the Board that Stanley Musesengwa be appointed.

During the year the Committee oversaw the development of a succession plan for the senior management team. The process involved the assessment and evaluation by external consultants, Whitehead Mann, of the members of the Group Executive Committee and the Finance Committee, other than the Group Chief Executive, against defined leadership criteria. The results of the evaluations were presented to the Committee by Whitehead Mann and then were reviewed by the Committee with the assistance of the Group VP Personnel. Consequently, development activities have been identified for, and undertaken by, the executives concerned and these will be reviewed by the Committee midway through 2008.

The Committee carried out its customary corporate governance review and was satisfied that the size, structure and composition of the Board and the required time commitment from non-executive directors remained appropriate and that all the non-executive directors continued to fulfil the criteria of independence and were able to commit the required time for the proper performance of their duties.

Training and briefings are available to all directors on appointment and subsequently, as appropriate, taking into account existing experience, qualifications and skill sets.

Board and Committee evaluation

Towards the end of the year a process of self evaluation designed to assess the effectiveness of the Board, the Chairman and each of the Committees was conducted using a questionnaire. The results were summarised and presented to the Board and were the subject of a frank and open discussion. No items of contention were identified.

Corporate governance

Other Committees

The management of the business is delegated by the Board to the Group Chief Executive. He utilises a series of Committees to assist him in this task.

Group Executive Committee

Mike Humphrey (Chairman) – Group Chief Executive
Sean Christie – Group Finance Director
David Barraclough – President – Asia Pacific
Miguel de Bellis – President – Latin America
Bryan Dobson – President – Global Operations
Steve Foots – President – Consumer Care Europe
Kevin Gallagher – President – North America
Keith Layden – President – Actives & Enterprise Technology
Kevin Nutbrown – President – Industrial Specialities Europe
Louise Scott – Company Secretary & Legal Counsel

The Group Executive Committee comprises the Group Chief Executive, the Group Finance Director and the heads of regional business and operational functions. It meets quarterly and its remit is responsibility for the development and implementation of strategy, operational plans, policies, procedures and budgets, the monitoring of operating and financial performance, the assessment and control of risk and the prioritisation and allocation of resources.

Finance Committee

The Finance Committee meets monthly to review monthly operating results, identify operational and risk issues and examine capital expenditure proposals. Its members are:

Mike Humphrey (Chairman) – Group Chief Executive
Sean Christie – Group Finance Director
Graham Myers – Group Financial Controller/Treasurer
Bryan Dobson – President – Global Operations

Risk Management Committee

Sean Christie (Chairman) – Group Finance Director
David Barraclough – President – Asia Pacific
Miguel de Bellis – President – Latin America
Bryan Dobson – President – Global Operations
Steve Foots – President – Consumer Care Europe
Kevin Gallagher – President – North America
Keith Layden – President – Actives & Enterprise Technology
Graham Myers – Group Financial Controller/Treasurer
Kevin Nutbrown – President – Industrial Specialities Europe
Louise Scott – Company Secretary & Legal Counsel

The Risk Management Committee was expanded during the year to include all members of the Group Executive Committee and the Finance Committee other than the Group Chief Executive. Its role is to evaluate, propose policies on and monitor processes to control the business, operational and compliance risks faced by the Group. It normally meets four times a year.

Routine Business Committee

The Routine Business Committee comprises the two executive directors with the Company Secretary and Group Financial Controller acting as alternates. The Committee may make decisions with one executive director and the alternate for the other executive director being present. 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 Group Executive Committee.

Investor relations

The Company recognises the importance of communicating with its shareholders. The main forum for communication with private investors is the AGM which all members of the Board attend and where they are available to answer questions raised by shareholders. The annual report and accounts including notice of AGM are sent to shareholders at least twenty working days before the meeting. The level of proxies lodged on each AGM resolution and the balance for and against each resolution is declared by the Chairman after the resolution has been dealt with on a show of hands providing there has been no call for a poll. There is a separate investor relations section on the Company's website (www.croda.com) which includes, amongst other items, presentations made to analysts.

The Board invites the Company's brokers to attend at least one meeting each year at which the economic and investment environment, Croda's performance, both generally, and in comparison with its sector peers, and investor reaction are discussed. When appropriate, meetings are held between the executive directors and institutional investors.

Internal control

The Code principle C.2.1 on internal control requires the directors to conduct, at least annually, a review of the effectiveness of the Group's system of internal control, including financial, operational, compliance and risk management controls, and report to the shareholders that they have done so. In accordance with the Turnbull guidance (2005) and in order to discharge this responsibility, the directors have utilised 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. During the year the Company has continued its formal procedures for the assessment and review of all business risks under the direction of the Risk Management Committee which reports regularly to the Board. Such procedures have been embedded into the system of internal control.

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

- confirmations from relevant senior executives and divisional directors concerning the operation of those elements of the system for which they are responsible
- internal audit work carried out by Deloitte & Touche LLP who report to the Audit Committee
- reports from the external auditors.

The Board has reviewed the effectiveness of the system of internal control in operation throughout the financial year and up to the date of approval of the annual report. The Board acknowledges its responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to mitigate rather than eliminate the risk of failure to achieve business objectives and provides reasonable but not absolute assurance against material misstatement or loss.

Going concern

The financial statements, which appear on pages 38 to 78, have been prepared on a going concern basis as, after making appropriate enquiries, including a review of forecasts, strategic plans and banking facilities, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

Compliance

The information contained in this report demonstrates that the Company has complied fully with the Code throughout 2007.

Corporate governance

Statement of directors' responsibilities in respect of the annual report, the directors' remuneration report and the financial statements

The directors are responsible for preparing the annual report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company financial statements and the directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with applicable law and IFRSs as adopted by the European Union, of the state of affairs of the Group and of the profit or loss of the Group, and a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether the Group financial statements comply with IFRSs as adopted by the European Union, and with regard to the parent company financial statements, whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the parent company financial statements and the directors' remuneration report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Louise Scott
Secretary
18 February 2008

Group independent auditor's report

Independent auditor's report to the members of Croda International Plc

We have audited the Group financial statements of Croda International Plc for the year ended 31 December 2007 which comprise the Group income statement, the Group balance sheet, the Group cash flow statement, the Group statement of recognised income and expense and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Croda International Plc for the year ended 31 December 2007 and on the information in the directors' remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the directors' report is consistent with the Group financial statements. The information given in the directors' report includes that specific information presented in the Chief Executive's review and financial review that is cross referred from the business review section of the directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the Combined Code 2006 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the Chairman's statement, the Chief Executive's review, the financial review, the corporate governance statement and the safety, health and environmental report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group'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 Group financial statements are free from material misstatement, 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 Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds
22 February 2008

Group income statement

for the year ended 31 December 2007

	Note	2007 £m	2007 £m	2007 £m	2006 £m	2006 £m	2006 £m
		Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
Continuing operations							
Revenue	1	886.1	–	886.1	480.1	–	480.1
Cost of sales		(686.9)	(7.0)	(693.9)	(352.8)	(7.3)	(360.1)
Gross profit		199.2	(7.0)	192.2	127.3	(7.3)	120.0
Net operating expenses	2, 3	(111.6)	1.4	(110.2)	(68.9)	(25.7)	(94.6)
Share of associate's post-tax profits							
Profit before tax		1.5	–	1.5	1.9	–	1.9
Tax		(0.4)	–	(0.4)	(0.6)	–	(0.6)
	16	1.1	–	1.1	1.3	–	1.3
Operating profit	1	88.7	(5.6)	83.1	59.7	(33.0)	26.7
Financial expenses	4	(31.1)	–	(31.1)	(13.3)	(2.3)	(15.6)
Financial income	4	8.9	–	8.9	6.1	–	6.1
Profit before tax		66.5	(5.6)	60.9	52.5	(35.3)	17.2
Tax	5	(22.3)	1.9	(20.4)	(17.5)	6.8	(10.7)
Profit after tax from continuing operations		44.2	(3.7)	40.5	35.0	(28.5)	6.5
Profit after tax from discontinued operations	7	5.9	41.0	46.9	1.5	–	1.5
Profit for the year	3	50.1	37.3	87.4	36.5	(28.5)	8.0
Attributable to:							
Minority interest				0.1			–
Equity shareholders				87.3			8.0
				87.4			8.0
Earnings per 10p share							
				Pence per share			Pence per share
Basic							
Total	8			64.8			6.3
Continuing operations	8			29.9			5.1
Diluted							
Total	8			63.6			6.2
Continuing operations	8			29.4			5.0

Group statement of recognised income and expense

for the year ended 31 December 2007

	2007 £m	2006 £m
		Restated
Profit for the year	87.4	8.0
Net gains not recognised in income statement:		
Net exchange adjustments offset in reserves net of tax	6.6	(3.6)
Movement in fair value of cash flow hedges	(0.4)	0.8
Actuarial movement on retirement benefit liabilities (note 12)	27.5	18.3
Deferred tax on actuarial movement on retirement benefit liabilities	(6.5)	(4.8)
	27.2	10.7
Total recognised income for the year	114.6	18.7
Attributable to:		
Minority interest	0.1	–
Equity shareholders	114.5	18.7
	114.6	18.7

Group balance sheet

at 31 December 2007

	Note	2007 £m	2006 £m
			Restated*
Assets			
<i>Non-current assets</i>			
Intangible assets	13	203.5	206.1
Property, plant and equipment	14	342.2	333.5
Investments			
Associated undertaking	16	9.2	11.0
Other	16	0.9	0.9
Deferred tax assets	6	43.1	60.0
		598.9	611.5
<i>Current assets</i>			
Inventories	17	161.4	133.5
Trade and other receivables	18	186.4	192.5
Cash and cash equivalents		43.4	48.6
Other financial assets	20	0.4	0.8
Current tax assets		–	2.6
Assets classified as held for sale		1.2	1.2
		392.8	379.2
Liabilities			
<i>Current liabilities</i>			
Trade and other payables	19	(175.5)	(195.1)
Borrowings and other financial liabilities	20	(83.5)	(54.2)
Provisions	21	(14.2)	(17.4)
Current tax liabilities		(11.5)	–
		(284.7)	(266.7)
Net current assets		108.1	112.5
<i>Non-current liabilities</i>			
Borrowings and other financial liabilities	20	(325.9)	(324.3)
Other payables		(3.3)	(3.3)
Retirement benefit liabilities	12	(59.3)	(159.9)
Provisions	21	(45.0)	(56.0)
Deferred tax liabilities	6	(53.8)	(54.1)
		(487.3)	(597.6)
Net assets		219.7	126.4
Shareholders' equity			
Preference share capital	24	1.1	1.1
Ordinary share capital	22	14.0	14.0
Called up share capital		15.1	15.1
Share premium account	25	93.3	93.3
Reserves	25	109.6	16.1
Total shareholders' equity		218.0	124.5
Minority interest in equity	26	1.7	1.9
Total equity		219.7	126.4

* 2006 figures restated following finalisation of acquired fair values (note 28).

Signed on behalf of the Board who approved the accounts on 18 February 2008

Martin Flower
Chairman

Sean Christie
Group Finance Director

Group cash flow statement

for the year ended 31 December 2007

	Note	2007 £m	2006 £m
Cash flows from operating activities			
Cash absorbed by operations	ii	(15.2)	70.3
Interest paid		(26.8)	(11.6)
Exceptional financial expenses		–	(2.3)
Tax paid		(14.2)	(19.1)
Net cash absorbed by operating activities		(56.2)	37.3
Cash flows from investing activities			
Acquisition of subsidiaries (net of cash acquired)		7.7	(356.2)
Purchase of property, plant and equipment		(37.5)	(22.6)
Purchase of computer software		(0.6)	–
Proceeds from sale of property, plant and equipment		0.2	1.5
Proceeds from sale of businesses (net of costs)		75.7	3.2
Proceeds from sale of other investment		–	0.5
Cash paid against non-operating provisions	21	(0.6)	(0.2)
Interest received		3.1	1.5
Net cash generated from investing activities		48.0	(372.3)
Cash flows from financing activities			
Additional borrowings		66.6	341.9
Repayment of borrowings		(63.9)	(27.9)
Capital element of finance lease repayments		(0.1)	(0.2)
Purchase of treasury shares		–	(21.5)
Net transactions in own shares	25	(2.4)	3.3
Proceeds from share placement		–	60.6
Dividends paid to shareholders	9	(19.8)	(17.2)
Dividends paid to minority shareholders	9	(0.2)	(0.7)
Net cash absorbed by financing activities		(19.8)	338.3
Net movement in cash and cash equivalents			
		(28.0)	3.3
Cash and cash equivalents brought forward		28.0	26.4
Exchange differences		1.2	(1.7)
Cash and cash equivalents carried forward		1.2	28.0
Cash and cash equivalents carried forward comprise			
Cash at bank and in hand		43.4	48.6
Bank overdrafts		(42.2)	(20.6)
		1.2	28.0

Group cash flow notes

for the year ended 31 December 2007

	Note	2007 £m	2006 £m
(i) Reconciliation to net debt			
Movement in cash and cash equivalents	iii	(28.0)	3.3
Movement in debt and lease financing	iii	(2.6)	(313.8)
Change in net debt from cashflows		(30.6)	(310.5)
Loans in acquired businesses		–	(0.8)
New finance lease contracts		(0.1)	(0.1)
Exchange differences		(5.4)	5.7
		(36.1)	(305.7)
Net debt brought forward		(329.9)	(24.2)
Net debt carried forward	iii	(366.0)	(329.9)

(ii) Cash absorbed by operations

	2007 £m	2006 £m
Continuing operations		
Operating profit	83.1	26.7
Adjustments for:		
Depreciation and amortisation	30.6	19.2
Loss on disposal of fixed assets	0.7	–
Share of associate's post-tax profits	(1.1)	(1.3)
Exceptional items	5.6	33.0
Other provisions	0.4	0.2
Share based payments	1.1	1.0
Cash paid against operating provisions	(17.5)	(3.5)
Pension fund contributions in excess of service cost	(70.0)	(11.3)
Movement in inventory	(33.2)	0.3
Movement in receivables	(27.5)	6.0
Movement in payables	0.7	(1.2)
Dividend from associate	2.8	–
Cash absorbed by continuing operations	(24.3)	69.1
Discontinued operations	9.1	1.2
	(15.2)	70.3

(iii) Analysis of net debt

	2007 £m	Cash flow £m	Exchange movements £m	Other non-cash £m	2006 £m
Cash and cash equivalents	43.4	(6.7)	1.5	–	48.6
Bank overdrafts	(42.2)	(21.3)	(0.3)	–	(20.6)
Movement in cash and cash equivalents		(28.0)			
Borrowings repayable within one year	(41.2)	31.7	–	(39.4)	(33.5)
Borrowings repayable after one year	(325.5)	(34.4)	(6.6)	39.4	(323.9)
Finance leases	(0.5)	0.1	–	(0.1)	(0.5)
Movement in borrowings and other financial liabilities		(2.6)			
Total net debt	(366.0)	(30.6)	(5.4)	(0.1)	(329.9)

Group accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial instruments and share based payments at fair value through profit or loss in accordance with IFRS, IFRIC interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The standards used are those published by the International Accounting Standards Board (IASB) and endorsed by the EU at the time of preparing these statements (February 2008). A summary of the more important Group accounting policies is set out below.

Accounting estimates and judgements

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

- (i) Provisions – as disclosed in note 21, the Group has made significant provision for potential environmental liabilities and for the costs of the restructuring exercise following the acquisition of Uniqema. The rationale behind these and other provisions is discussed in note 21. The directors believe that these provisions are appropriate based on information currently available.
- (ii) Goodwill and fair value of assets acquired – the Group's goodwill carrying value increased significantly in 2006 following the acquisition of Uniqema as disclosed in note 28. The Group tests annually whether goodwill has suffered any impairment and the Group's goodwill value has been supported by detailed value-in-use calculations relating to the recoverable amounts of the underlying cash generating units. These calculations require the use of estimates, however as recoverable amounts significantly exceed carrying values, including goodwill, there is no impairment within a range of assumptions.
- (iii) Retirement benefit liabilities – as disclosed in note 12, the Group's principal retirement benefit schemes are of the defined benefit type. Year end recognition of the liabilities under these schemes and the valuation of assets held to fund these liabilities require a number of significant assumptions to be made, relating to levels of scheme membership, key financial market indicators such as inflation and expectations on future salary growth and asset returns. These assumptions are made by the Group in conjunction with the schemes' actuaries and the directors are of the view that any estimation should be prudent and in line with consensus opinion.

New IFRS standards, amendments and interpretations effective in 2007

The IASB and IFRIC have issued additional standards which are effective for this accounting period. The following standards and interpretations have been adopted by the Group:

- (i) IFRS 7 (Financial Instruments: Disclosures) and amendment to IAS 1 (Presentation of financial statements – Capital disclosures) – These standards introduce new disclosures relating to financial instruments. The Group's accounting policies and notes to the financial statements have been expanded to cover the required disclosures.
- (ii) IFRIC 8 (Scope of IFRS 2) – This standard requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This interpretation was not relevant to the Group in 2007.
- (iii) IFRIC 10 (Interim financial reporting and impairment) prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation was not applicable to the Group in 2007.

New IFRS standards and interpretations not applied

The IASB and IFRIC have issued additional standards and interpretations which are effective for periods starting after the date of these financial statements. The following standards and interpretations have yet to be adopted by the Group:

- (i) IFRS 8 (Operating Segments) – This standard will be applicable in 2009 and replaces IAS 14, aligning segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009 but it is not expected to have any impact on the Group accounts.
- (ii) IAS 23 (Amendment), (Borrowing Costs) – This amendment to the standard is still subject to European Union endorsement but will be applicable to Croda in 2009. It requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing these borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009, subject to endorsement by the EU, but the standard is currently not applicable to the Group as there are no qualifying assets.

- (iii) IFRIC 14 (IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction) – This interpretation provides guidance on assessing the limit in IAS 19 on the amount of surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Group accounts.
- (iv) IFRIC 11 (IFRS 2 – Group and treasury share transactions) – IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. The Group will apply IFRIC 11 from 1 January 2008, but it is not expected to have any impact on the Group accounts.

Interpretations of existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- (i) IFRIC 12 (Service concession arrangements) – IFRIC 12 is effective from 1 January 2008 and applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Group's operations as none of the Group's companies provide for public sector services.
- (ii) IFRIC 13 (Customer loyalty programmes) – IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations as none of the Group's companies operate any loyalty programmes. The standard is effective from 1 July 2008.

Group accounts

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the Group's share of identifiable net assets acquired is recorded as goodwill.

Associates

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 income statement includes the Group's share of post-acquisition profits after tax, the consolidated statement of recognised income and expense includes the Group's share of other recognised gains and losses, and the consolidated balance sheet includes the Group's share of the underlying net tangible assets of associated undertakings.

Intangible assets

Goodwill

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds such net assets. Goodwill arising on acquisitions is capitalised and subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable. Goodwill is allocated to cash generating units for the purpose of this impairment testing. Goodwill arising on acquisitions after 31 December 1997 and prior to 1 January 2004 was amortised over its estimated useful life; such amortisation ceased on 31 December 2003. Goodwill arising on acquisitions made prior to 31 December 1997 was written off directly to reserves in the year of acquisition, as a matter of accounting policy, and under IFRS 1 and IFRS 3 such goodwill will remain eliminated against reserves and will not be written back to the income statement in the event of disposal.

Research and development

Research expenditure, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is charged to income in the year in which it is incurred. Internal development expenditure, whereby research findings are applied to a plan for the production of new or substantially improved products or processes, is charged to income in the year in which it is incurred unless it meets the recognition criteria of IAS 38 'Intangible Assets'. Measurement and other uncertainties generally mean that such criteria are not met. Where, however, the recognition criteria are met, intangible assets are capitalised and amortised over their useful economic lives from product launch. Intangible assets relating to products in development are subject to impairment testing at each balance sheet date or earlier upon indication of impairment. Any impairment losses are written off immediately to income.

Group accounting policies

Computer software

Acquired computer software licences covering a period of greater than one year are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Revenue recognition

Sales of goods

Revenue comprises the fair value for the sale of goods, excludes inter-company sales and value-added taxes and represents net invoice value less estimated rebates, returns and settlement discounts. Group sales are recognised as revenue in the period in which the significant risks and rewards of ownership have been transferred to a third party.

Interest and dividend income

Interest income is recognised on a time-proportion basis using the effective interest method. Dividend income is recognised when the right to receive payment is established.

Segmental reporting

A business segment is a group of assets and operations engaged in providing products and services that are subject to risks or returns that are different from those of other segments. A geographical segment operates within a particular economic environment that is subject to different risks and returns from other economic environments.

Employee benefits

Pension obligations

The Group accounts for pensions and similar benefits under IAS 19 'Employee Benefits'. In respect of defined benefit plans (pension plans that define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation), obligations are measured at discounted present value whilst plan assets are recorded at fair value. The liability recognised in the balance sheet in respect of defined benefit pension plans is the net of the plan obligations and assets. No allowance is made in the past service liability in respect of either the future expenses of running the schemes or for non-service related death in service benefits which may arise in the future. The operating costs of such plans are charged to operating profit and the finance costs are recognised as financial income or expense as appropriate. Service costs are spread systematically over the lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense. Payments to defined contribution schemes (pension plans under which the Group pays fixed contributions into a separate entity) are charged as an expense as they fall due.

Other post-retirement benefits

Some Group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense. These obligations are valued annually by independent qualified actuaries.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Share based payments

The fair value of employee share option plans is calculated using the Black-Scholes or binomial model as appropriate. In accordance with IFRS 2 'Share-based Payments' the resulting cost is charged to the income statement over the vesting period of the options. The value of the charge is adjusted to reflect expected and actual levels of options vesting as the Group does not use market-based performance criteria.

Currency translations

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in sterling, which is the Company's functional and presentation currency.

Transactions and balances

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 income statement except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges, which, along with other exchange differences arising from non-trading items are dealt with through reserves.

Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Taxation

The charge for taxation is based on the profits for the year and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and for accounting purposes. Temporary differences arise from the inclusion of profits and losses in the accounts in different periods from which they are recognised in tax assessments and primarily arise as a result of the difference between tax allowances on tangible fixed assets and the corresponding depreciation charge, and upon the pension fund deficit. Full provision is made for the tax effects of these differences. No provision is made for unremitted earnings of foreign subsidiaries where there is no commitment to remit such earnings. Similarly, no provision is made for temporary differences relating to investments in subsidiaries since realisation of such differences can be controlled and is not probable in the foreseeable future. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Exceptional items

Exceptional items are non-recurring material items which are outside the normal scope of the Group's ordinary activities such as liabilities and costs arising from a fundamental restructuring of the Group's operations. Such items are disclosed separately within the financial statements.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation, with the exception of assets acquired as part of a business combination which are recorded at fair value. The Group's policy is to write off the difference between the cost of all property, plant and equipment, except freehold land, and their residual value on a straight line basis over their estimated useful lives. Reviews are made annually of the estimated remaining lives and residual values of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear, and adjustments are made where appropriate. Under this policy it becomes impractical to calculate average asset lives exactly. However, the total lives range from approximately 15 to 40 years for buildings, and 3 to 15 years for plant and equipment. All individual assets are reviewed for impairment when there are indications that the carrying value may not be recoverable. By far the bulk of the Group's 'plant and equipment' asset class relates to the value of plant and equipment at the Group's manufacturing facilities, consequently the Group does not seek to analyse out of this class other items such as motor vehicles and office equipment.

Impairment of non-financial assets

The Group assesses at each year end whether an asset may be impaired. If any evidence exists of impairment, the estimated recoverable amount is compared to the carrying value of the asset and an impairment loss is recognised where appropriate. In addition to this, goodwill is tested for impairment at least annually.

Non-current assets held for sale and discontinued operations

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale.

Leases

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 and are depreciated over the shorter of the lease term and their estimated useful lives. The capital element of future lease rentals is included in creditors. Finance charges are allocated to the income statement each year in proportion to the capital element outstanding. The cost of operating leases is charged to the income statement as incurred.

Financial risk factors

The Group's activities expose it to a variety of financial risks: currency risk, interest-rate risk, liquidity risk and credit risk. The Group's overall risk management strategy is approved by the Board and implemented and reviewed by the risk management committee. Detailed financial risk management is then delegated to the Group Finance department which has a specific policy manual that sets out guidelines to manage financial risk. Regular reports are received from all operating companies to enable prompt identification of financial risks so that appropriate action may be taken.

Currency risk

The Group operates internationally and is exposed to currency risk arising from various currency exposures, primarily with respect to the US Dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Entities in the Group use forward contracts and foreign currency bank balances to manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities. The Group's risk management policy is to hedge transactional risk up to three months forward. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is not specifically hedged but is reduced primarily through borrowings denominated in the relevant foreign currencies where it is efficient to do so.

Group accounting policies

Currency risk (continued)

For 2007, had the Group's basket of reporting currencies been 10% weaker/stronger against Sterling than the actual rates experienced, post-tax profit for the year would have been £7m (2006: £6m) lower/higher than reported, primarily as a result of the translation of the profits of the Group's overseas entities, and equity would have been £9m (2006: £9m) lower/higher.

Interest rate risk

The Group has both interest bearing assets and liabilities. The Group has a policy of maintaining at least 50% of its gross borrowings at floating interest rates and at 31 December 2007 over 70% of Group borrowings were at floating rates. The Group uses interest rate swaps where appropriate and currently has a number of interest rate swaps in place as fair value and cash flow hedges of a proportion of borrowings. The swaps are settled on a six monthly basis with the Group paying or receiving interest based on the differential between market rates at the start of each period and the fixed rate.

Based on the above, had interest rates moved by 10 basis points in the territories where the Group has substantial borrowings, post tax profits would have moved by £0.6m (2006: £0.3m) due to increased interest expense on the Group's floating rate borrowings.

Liquidity risk

The Group actively maintains a mixture of long-term and short-term committed facilities designed to ensure the Group has sufficient funds available for operations and planned investments. The Group also has a share buyback programme which is managed to ensure the efficiency of the Group's funding structure.

On a regular basis, management monitors forecasts of the Group's cashflows against both internal targets and those targets imposed by external lenders. As shown in note 27, the Group has substantial committed, unused facilities and the directors are confident this situation will remain the case for the foreseeable future.

Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, as well as maintaining an optimal capital structure to reduce overall cost of capital.

In order to maintain this optimal structure, the Group may adjust the amount of dividends paid, issue new shares, return capital to shareholders or dispose of assets to reduce net debt.

Underlying growth coupled to Return on Invested Capital (ROIC) is the key perceived driver of shareholder value within the Group. The acquisition of Uniqema reduced the ROIC, but also reduced Weighted Average Cost of Capital (WACC) since the deal was predominantly financed through debt. The Group's target is to maintain the ROIC at a higher level than the WACC, a target achieved in 2007. In addition, the Group employs two widely used ratios to measure our ability to service our debt. Both net debt/EBITDA and EBITDA interest cover were ahead of target in 2007.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to interest rates and short-term currency rate fluctuations.

Financial instruments are recorded initially at cost. Subsequent measurement depends on the designation of the instrument as either: (i) a hedge of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (ii) a hedge of highly probable forecast transactions (cash flow hedge);

(i) Fair value hedge

Changes in the fair value of derivatives, for example interest rate swaps and foreign exchange contracts, that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Inventories

Inventories 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 inventory to its location and condition at the balance sheet date. Net realisable amount is the estimated selling price in the ordinary course of business less any applicable variable selling costs. Provision is made for obsolete, slow moving and defective inventory where appropriate. Profits arising on intra Group sales are eliminated in so far as the product remains in Group inventory at the year end.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances and short term deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Environmental and restructuring provisions

The Group is exposed to environmental liabilities relating to its operations and liabilities arising from the restructuring of its operations following the acquisition of Uniqema. Provisions are made immediately where a constructive or legal obligation is identified, can be quantified and it is regarded as more likely than not that an outflow of resources will be required to settle the obligation. The Group does consider the impact of discounting when establishing provisions and provisions are discounted when the impact is material and the timing of cash flows can be estimated with reasonable certainty.

Share capital

Investment in own shares

(i) Employee Share Ownership Trusts

Shares acquired by the Trustees, funded by the Company and held for the continuing benefit of the Company are shown as a reduction in shareholders' funds. Movements in the year arising from additional purchases by the Trustees of shares or the receipt of funds due to the exercise of options by employees are accounted for within reserves and shown as a movement in shareholders' funds in the year. Administration expenses of the trusts are charged to the Company's income statement as incurred.

(ii) Treasury shares

Where any Group company purchases the Company's equity share capital as treasury shares, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Preference share capital

Preference share capital is classified as equity as the Group has full discretion over the transfer of benefits associated with the shares.

Dividends

Dividends on preference shares are recognised as a liability on an accruals basis. Other dividends are recognised as a liability when the liability is irrevocable. Accordingly, final dividends are recognised when approved by shareholders and interim dividends are recognised when paid.

Investments

Investments in quoted securities are stated at fair value, being the appropriate quoted market value, with movements in the fair value passing through the income statement. Investments in unquoted securities are carried at fair value unless such value cannot be reliably measured, in which case the investments are carried at cost. Investments are subject to impairment testing at each balance sheet date or earlier upon indication of impairment.

Notes to the Group accounts

1. Segmental analysis

Primary reporting format – business segments

At 31 December 2007 the Group was organised on a worldwide basis into two main business segments, relating to the manufacture and sale of the Group's products which are destined for either the Consumer Care market or the market for Industrial Specialities. There is no material trade between segments. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment assets consist primarily of property, plant and equipment, inventories and trade and other receivables, whilst segment liabilities are mainly trade and other payables. Uniqema has been fully integrated into the Group's pre-acquisition structure and is no longer reported as a stand alone segment.

	Consumer Care		Industrial Specialities		Group	
	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m
Income statement						
Continuing operations						
Revenue	351.1	264.1	535.0	216.0	886.1	480.1
Expenses	(279.4)	(213.3)	(518.0)	(207.1)	(797.4)	(420.4)
Operating profit before exceptional items	71.7	50.8	17.0	8.9	88.7	59.7
Exceptional items					(5.6)	(35.3)
Operating profit after exceptional items					83.1	24.4
Profit after tax from discontinued operations	–	–	46.9	1.5	46.9	1.5
Net financial expenses					(22.2)	(7.2)
Tax					(20.4)	(10.7)
Profit for the year					87.4	8.0
Balance sheet						
Segment assets	240.7	228.4	462.1	448.3	702.8	676.7
Goodwill					199.9	199.9
Assets classified as held for sale					1.2	1.2
Tax assets					43.1	62.6
Cash, other financial assets and other investments					44.7	50.3
Total Group assets					991.7	990.7
Segment liabilities	(56.6)	(73.2)	(122.2)	(125.2)	(178.8)	(198.4)
Tax liabilities					(65.3)	(54.1)
Borrowings and other financial liabilities					(409.4)	(378.5)
Provisions					(59.2)	(73.4)
Retirement benefit liabilities					(59.3)	(159.9)
Total Group liabilities					(772.0)	(864.3)
Group net assets					219.7	126.4
Other segmental disclosures						
Capital expenditure (notes 13 & 14)	18.8	15.2	19.4	7.4	38.2	22.6
Depreciation (notes 13 & 14)	12.2	10.4	19.3	9.9	31.5	20.3

1. Segmental analysis (continued)

Secondary reporting format – geographical segments

The Group manages its business segments on a global basis. The operations are based in three main geographical areas as follows: Europe, with manufacturing sites in the UK (the home country of the Company), France, Holland, Germany, Italy and Spain; the Americas, with manufacturing sites in the USA and Brazil; and Asia, with manufacturing sites in Singapore, Japan, India, Korea and Indonesia.

	Revenue		Segment assets		Capital expenditure	
	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m
Analysis by geographical origin						
Continuing operations						
Europe	488.5	243.3	436.4	430.9	21.1	11.5
Americas	292.5	162.4	193.8	166.7	12.1	9.0
Asia	80.9	57.4	56.7	67.1	4.6	1.9
Rest of World	24.2	17.0	15.9	12.0	0.4	0.2
	886.1	480.1	702.8	676.7	38.2	22.6
Analysis by geographical destination						
Continuing operations						
Europe	419.2	218.7				
Americas	309.0	171.6				
Asia	116.5	61.2				
Rest of World	41.4	28.6				
	886.1	480.1				

2. Net operating expenses

	2007	2007	2007	2006	2006	2006
	£m	£m	£m	£m	£m	£m
	Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
Analysis of net operating expenses by function:						
Distribution costs	49.5	–	49.5	24.4	0.7	25.1
Administrative expenses	62.1	(1.4)	60.7	44.6	25.0	69.6
Other operating income						
Income from investments and properties	–	–	–	(0.1)	–	(0.1)
	111.6	(1.4)	110.2	68.9	25.7	94.6

Additional information on the nature of operating expenses, including depreciation and employee benefits expense, is provided in note 3.

3. Profit for the year

	2007	2006
	£m	£m
The Group profit for the year is stated after charging		
Depreciation (note 13 & 14)		
Owned assets	30.9	19.8
Leased assets	0.6	0.5
Staff costs (note 10)	142.6	102.5
Redundancy costs		
Non-exceptional	0.1	0.4
Exceptional	2.0	12.5
Inventories		
Cost recognised as expense in cost of sales	622.4	319.9
Net write down in year	4.5	1.0
Loss on disposal and write off of fixed assets	0.7	0.8
Research and development	14.1	12.1
Hire of plant and machinery	1.6	1.2
Other operating lease rentals	2.6	2.2

Notes to the Group accounts

3. Profit for the year (continued)	2007 £m	2006 £m
Services provided by the Group's auditors		
Audit services		
Fees payable to Company auditor for the audit of parent company and consolidated accounts	0.5	0.6
Non audit services		
Fees payable to Company auditor and its associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	0.1	0.2
Tax services	0.3	0.1
All other services	–	0.8
	0.9	1.7

The fees for all other services of £0.8m paid to the Group's auditors in 2006 relate to the acquisition of Uniqema.

Exceptional items

The income statement includes net exceptional charges of £5.6m relating to the ongoing integration and restructuring of the Group following the acquisition of Uniqema in 2006. The main components of the exceptional charges in 2007 are in respect of further provision for employee termination payments (£3.1m), payments due to distributors on termination of distribution agreements (£4.2m) and a release of £3.0m of the provision relating to onerous leases.

4. Net financial expenses	2007 £m	2006 £m
Financial expenses		
Syndicated acquisition funding	26.5	8.0
7.37% guaranteed senior loan notes due 2008	1.7	1.8
Other bank loans and overdrafts	2.9	3.5
	31.1	13.3
Financial income		
Expected return on pension scheme assets less interest on scheme liabilities (note 12)	(5.0)	(3.0)
Bank interest receivable and similar income	(3.9)	(3.1)
	(8.9)	(6.1)
Net financial expenses	22.2	7.2

5. Tax	2007 £m	2006 £m
(a) Analysis of tax charge for the year		
Continuing operations		
United Kingdom current tax		
Corporation tax	5.7	9.1
Relief for overseas taxes on dividends remitted to UK	(9.4)	(10.2)
	(3.7)	(1.1)
Overseas current corporate taxes	17.8	12.4
Current tax	14.1	11.3
Deferred tax	6.3	(0.6)
	20.4	10.7

Included in the 2007 figures is a deferred tax credit on exceptional items of £1.9m (2006: £6.8m) principally relating to redundancy payments and distributor agreement termination costs.

	2007 £m	2006 £m
(b) Tax on items charged to equity		
Deferred tax on actuarial movement on retirement benefit liabilities	6.5	4.7
Deferred tax on share based payments	(0.1)	0.1
	6.4	4.8

5. Tax (continued)	2007 £m	2006 £m
(c) Factors affecting the tax charge for the year		
Profit before tax from continuing operations	60.9	17.2
Tax at the standard rate of corporation tax in the UK, 30% (2006: 30%).	18.3	5.2
Effect of:		
Prior years' under/(over) provisions	0.1	(0.6)
Reduction in rate of deferred taxation	(1.0)	–
Tax cost of remitting overseas income to the UK	0.1	0.5
Expenses and write offs not deductible for tax purposes	1.1	4.2
Effect of higher overseas tax rates	2.1	1.8
Tax on profit after tax of associate	(0.3)	(0.4)
	20.4	10.7

6. Deferred tax	2007 £m	2006 £m
The deferred tax balances included in these accounts are attributable to the following:		
Deferred tax assets		
Retirement benefit obligations	23.0	41.0
Restructuring provisions	4.6	6.8
Other provisions	15.5	12.2
	43.1	60.0
Deferred tax liabilities		
Excess of capital allowances over depreciation	50.5	50.8
Revaluation gains	1.9	1.9
Other	1.4	1.4
	53.8	54.1

The movement on deferred tax balances during the year is summarised as follows:

Deferred tax charged through income statement		
Continuing operations (note 5a)	(6.3)	0.6
Discontinued operations	(3.7)	–
Deferred tax charged directly to equity (note 5b)	(6.4)	(4.8)
Deferred tax balances assumed on acquisition of Uniqema (note 28)	–	(10.0)
Business disposals	1.1	–
Exchange differences	(1.3)	0.3
	(16.6)	(13.9)
Net balance brought forward	5.9	19.8
Net balance carried forward	(10.7)	5.9

Deferred tax charged through the income statement relates to the following:

Restructuring provisions	(2.2)	6.8
Retirement benefit obligations	(11.6)	(4.5)
Excess of capital allowances over depreciation	0.7	(1.4)
Reduction in rate of deferred taxation	1.0	–
Other	2.1	(0.3)
	(10.0)	0.6

Deferred tax is calculated in full on temporary differences under the liability method at a rate of 28% in the United Kingdom and at rates appropriate to each overseas subsidiary.

Deferred tax assets have been recognised in all cases where such assets arise, as it is probable the assets will be recovered.

Deferred tax is only recognised on the unremitted earnings of overseas subsidiaries to the extent that remittance is expected in the foreseeable future. If all earnings were remitted, an additional £3.6m of tax would be payable.

All movements on deferred tax balances have been recognised in income with the exception of the charges shown in note 5(b), which have been recognised directly in equity, the balances acquired with Uniqema as shown in note 28 and the balances transferred with business disposals in the year.

Notes to the Group accounts

7. Discontinued operations

During 2007, in line with the Group's strategic restructuring following the acquisition of Uniqema, the Group disposed of three businesses; Food Services, Refrigeration Lubricants and its Malaysian manufacturing operation.

The Food Services business was sold to AAK in June 2007 for £7.4m cash consideration, with the sale including all current and non-current assets of the business. The Refrigeration Lubricants business was sold to Lubrizol in October 2007 for a total cash consideration of £59.6m, with inventory, customer lists and product formulations passing across as part of the sale. No fixed assets were disposed of as part of this transaction. The Group's Malaysian manufacturing operation, Uniqema Malaysia SDN BHD, was sold to KLK for £9.8m in September 2007 with all assets associated with the site and its bulk oleochemicals manufacturing operations being transferred.

The impact of the operations discontinued in 2007 which, aside from a small part of the Malaysian operation, resided within the Industrial Specialities segment, is as follows:

	2007 £m	2006 £m
Revenue	64.0	42.9
Expenses	(55.8)	(40.9)
Pre tax operating results from discontinued operations	8.2	2.0
Tax	(2.3)	(0.5)
Post tax operating results from discontinued operations	5.9	1.5
Profit or loss on disposal and provision for closure	51.8	–
Tax	(10.8)	–
Net exceptional gain on disposal	41.0	–
Total profit after tax from discontinued operations	46.9	1.5
Cash flows from discontinued operations		
Net cash flows from operating activities	9.1	1.2

The aggregate amount of assets and liabilities in disposed businesses, along with net consideration received on sales of the businesses and consequent profit on sale, is as follows:

	2007 £m
Fixed assets	10.5
Net current assets	10.6
	21.1
Profit on disposal	51.8
Net proceeds	72.9

£2.8m of costs and disposal adjustments were accrued but not paid at year end, hence the higher cash received on disposal of business figure in the cash flow statement.

8. Earnings per share

	Total 2007 £m	Continuing operations 2007 £m	Discontinued operations 2007 £m	Total 2006 £m	Continuing operations 2006 £m	Discontinued operations 2006 £m
Profit for the year before exceptional items	50.1	44.2	5.9	36.5	35.0	1.5
Exceptional items	37.3	(3.7)	41.0	(28.5)	(28.5)	–
Minority interests and preference dividend	(0.2)	(0.2)	–	(0.1)	(0.1)	–
	87.2	40.3	46.9	7.9	6.4	1.5
	Number m	Number m	Number m	Number m	Number m	Number m
Weighted average number of 10p ordinary shares in issue for basic calculation	134.6	134.6	134.6	126.0	126.0	126.0
Deemed issue of potentially dilutive shares	2.4	2.4	2.4	2.4	2.4	2.4
Average number of 10p ordinary shares for diluted calculation	137.0	137.0	137.0	128.4	128.4	128.4
	Pence	Pence	Pence	Pence	Pence	Pence
Basic earnings per share	64.8			6.3		
Basic earnings per share before exceptional items	37.1			28.9		
Basic earnings per share from continuing operations		29.9			5.1	
Basic earnings per share from continuing operations before exceptional items		32.7			27.7	
Basic earnings per share from discontinued operations			34.9			1.2
Diluted earnings per share	63.6			6.2		
Diluted earnings per share before exceptional items	36.4			28.3		
Diluted earnings per share from continuing operations		29.4			5.0	
Diluted earnings per share from continuing operations before exceptional items		32.1			27.1	
Diluted earnings per share from discontinued operations			34.2			1.2

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the employee share trusts (note 25) and those held as treasury shares (note 22) which are treated as cancelled as, except for a nominal amount, dividends have been waived.

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares.

Additional earnings per share measures are included above to give a better indication of the Group's underlying performance.

Notes to the Group accounts

9. Dividends	Pence per share	2007 £m	Pence per share	2006 £m
Ordinary				
Interim				
2006 interim, paid October 2006	–	–	4.65	6.2
2007 interim, paid October 2007	4.95	6.7	–	–
Final				
2005 final, paid June 2006	–	–	9.00	10.9
2006 final, paid June 2007	9.65	13.0	–	–
	14.60	19.7	13.65	17.1
Preference (paid June and December)		0.1		0.1
Dividends paid to minority shareholders		0.2		0.7
		20.0		17.9

The directors are proposing a final dividend of 10.8p per share, amounting to a total dividend of £14.6m, in respect of the financial year ending 31 December 2007. It will be paid on 5 June 2008 to shareholders registered on 2 May 2008 and has not been accrued in these financial statements. The total dividend for the year ending 31 December 2007 is 15.75p per share (£21.3m).

10. Employees	2007 £m	2006 £m
Group employment costs including directors		
Wages and salaries	108.9	78.8
Share based payments (note 23)	2.6	1.8
Social security costs	17.0	11.6
Other retirement benefit costs (note 12)	14.1	10.3
	142.6	102.5

Redundancy costs of £2.1m (2006: £12.9m) are excluded from the above analysis.

	2007 Number	2006 Number
Average employee numbers		
Consumer Care	1,717	1,289
Industrial Specialities	2,041	1,028
Discontinued operations	142	68
	3,900	2,385

As required by the Companies Act 1985, the figures disclosed above are weighted averages based on the number of employees at each month end.

At 31 December 2007, the Group had 3,736 (2006: 3,990) employees in total.

	2007 £m	2006 £m
Key management compensation including directors		
Wages and salaries	4.6	2.8
Share based payments	0.5	0.3
Social security costs	0.7	0.4
Other pension costs	0.5	0.2
	6.3	3.7

Key management comprise the members of the main Board, Executive Committee and Finance Committee.

11. Directors' remuneration

Detailed information concerning directors' remuneration, interests and options is shown in the parts of the directors' remuneration report subject to audit on pages 27 to 30 which form part of the annual report and accounts.

12. Retirement benefit liabilities

The Group operates a number of retirement benefit schemes throughout the world. The principal schemes are in the UK and cover the vast majority 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 the US, the Group operates a funded defined benefit scheme as well as providing unfunded post-retirement medical benefits for employees. In other countries benefits are determined in accordance with local practice and regulations and funding is provided on several bases. The acquisition of Uniqema resulted in the Group inheriting that business' retirement benefit obligations and associated funding. These obligations are grouped with the obligations of the existing Croda schemes in the relevant region in the analyses below.

Defined benefit schemes

The amounts recognised in the balance sheet in respect of these schemes are as follows:

	2007 £m	2006 £m
Present value of retirement benefit liabilities		
UK – pension schemes	(483.4)	(506.7)
US – pension and medical schemes	(76.5)	(71.4)
Rest of World	(83.7)	(81.2)
	(643.6)	(659.3)
Fair value of scheme assets		
UK – pension schemes	475.9	421.0
US – pension schemes	56.2	45.4
Rest of World	52.2	33.0
	584.3	499.4
Net liability	(59.3)	(159.9)

The gross and net liability above includes an amount of £45.9m in respect of unfunded schemes (2006: £47.4m).

	2007 £m	2006 £m
Movement in present value of retirement benefit liabilities in the year:		
Opening balance	659.3	463.2
Liabilities acquired with new subsidiaries (note 28)	–	194.4
Current service cost	10.8	7.9
Interest cost	32.9	24.9
Actuarial gain	(42.8)	(9.0)
Contributions paid in		
Employee	1.8	1.5
Benefits paid	(23.2)	(19.3)
Exchange differences on overseas schemes	4.8	(4.3)
	643.6	659.3
Movement in fair value of schemes' assets in the year:		
Opening balance	499.4	356.1
Assets acquired with new subsidiaries (note 28)	–	106.9
Expected return	37.9	27.9
Shortfall of actual compared to expected return	(15.3)	9.3
Contributions paid in		
Employee	1.8	1.5
Employer	80.8	19.2
Benefits paid out	(23.2)	(19.3)
Exchange differences on overseas schemes	2.9	(2.2)
	584.3	499.4

The actual return on scheme assets in the year was £22.6m (2006: £37.2m).

Notes to the Group accounts

12. Retirement benefit liabilities (continued)

	2007 £m	2006 £m
Cumulative actuarial gains recognised in equity:		
Opening balance	(4.5)	9.0
Net actuarial gains credited in year	(21.0)	(13.5)
	(25.5)	(4.5)

Total contributions to the schemes in 2008 are expected to be £16.8m.

Analysis of amounts recognised in income statement:

Charged to operating profit		
Current service cost	10.8	7.9
Charged to net financial expenses		
Interest on scheme liabilities	32.9	24.9
Expected return on assets	(37.9)	(27.9)
	(5.0)	(3.0)
Net charge to income statement before tax	5.8	4.9

Of the amount charged to operating profit, £8.2m (2006: £5.6m) was included in cost of sales and £2.6m (2006: £2.3m) was included in administrative expenses.

UK pension schemes

The financial assumptions used to assess the UK scheme liabilities were:

	2007	2006
Valuation method	Projected unit	Projected unit
Discount rate	5.8%	5.1%
Inflation rate	3.4%	3.1%
Rate of increase in salaries	4.6%	4.1%
Rate of increase for pensions in payment	3.4%	3.1%
Expected return on scheme assets	7.1%	7.1%

In all territories, including the UK, assumptions regarding future mortality experience are set based on advice from the Group's actuaries, published statistics and experience in each territory. The following mortality tables have been used in respect of the Group's key schemes: UK: PA92 Calendar year 2005 -3 for current non-pensioners and PA92 Calendar year 2005 -2 for pensioners; USA: UP 1994 Projected to 2002 by Scale AA; Netherlands: AG Prognosetafel 2008-2050; Germany: Heubeck RT 2005G.

The assets in the schemes comprised:

	2007 % of fair value	2006 % of fair value
Equities	67.3	69.5
Bonds	10.3	22.5
Property	13.5	4.4
Other	8.9	3.6
	100.0	100.0

For funded schemes throughout the Group, the expected return on scheme assets has been derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each class reflects a combination of historical performance analysis, the forward looking views of the financial markets (as suggested by the yields available) and the views of investment organisations.

History of UK schemes' deficits and experience gains and losses:	2007 £m	2006 £m	2005 £m	2004 £m
Present value of retirement benefit liabilities	(483.4)	(506.7)	(443.8)	(392.0)
Fair value of scheme assets	475.9	421.0	347.8	297.2
Net liability	(7.5)	(85.7)	(96.0)	(94.8)
Experience loss on assets	(12.1)	9.4	33.2	8.5
Experience loss on liabilities	(8.9)	0.3	(18.2)	(0.6)

12. Retirement benefit liabilities (continued)

US pension and post-retirement medical schemes

The financial assumptions used to assess the US scheme liabilities were:

	2007	2006
Valuation method	Projected unit	Projected unit
Discount rate	6.5%	6.0%
Rate of increase in salaries	4.0%	4.2%
Expected return on scheme assets	8.2%	8.0%
Medical cost inflation rate	7.0%	6.0%

A 1% change in the assumed medical cost inflation rate would alter the charge to the income statement by £0.1m.

The assets in the schemes comprised:

	2007 % of fair value	2006 % of fair value
Equities	54.1	44.2
Government bonds	37.7	43.3
Other	8.2	12.5
	100.0	100.0

History of US schemes' deficits and experience gains and losses:	2007 £m	2006 £m	2005 £m	2004 £m
Present value of retirement benefit liabilities	(76.5)	(71.4)	(17.6)	(14.2)
Fair value of scheme assets	56.2	45.4	7.3	5.9
Net liability	(20.3)	(26.0)	(10.3)	(8.3)
Experience loss on assets	(2.4)	0.2	(0.3)	-
Experience loss on liabilities	(9.5)	1.6	-	(0.5)

Other defined benefit schemes

The Group has retirement benefit liabilities in a number of other territories, notably Germany and Holland, and all schemes have been established in line with local custom and practice. The main German scheme is unfunded and has a closing obligation of £25.7m (2006: £24.3m), whilst the Dutch scheme is largely funded and has a net asset of £3.0m (2006: net liability £13.8m) comprising a gross liability of £47.3m and assets of £50.3m.

The financial assumptions used to assess the Dutch and German scheme liabilities were:

	2007 Holland	2006 Holland	2007 Germany	2006 Germany
Valuation method	Projected unit	Projected unit	Projected unit	Projected unit
Discount rate	5.7%	4.8%	5.4%	4.5%
Inflation rate	2.3%	1.9%	2.0%	1.8%
Rate of increase in salaries	3.0%	2.0%	2.5%	2.5%
Rate of increase for pensions in payment	2.3%	1.9%	2.0%	1.8%
Expected return on scheme assets	5.2%	5.2%	n/a	n/a

Defined contribution schemes

	2007 £m	2006 £m
Contributions paid charged to operating profit	3.3	2.4

Notes to the Group accounts

13. Intangible assets

Opening goodwill at 1 January 2006 arose on the Group's acquisition of the trading assets of Westbrook Lanolin in 1998 and has been allocated in full to the Group's UK manufacturing operation and to the Consumer Care segment.

The goodwill arising during 2006 resulted from the acquisition of Uniqema as discussed in note 28. The provisional goodwill on this acquisition as disclosed in last year's financial statements was £177.7m. As disclosed in note 28, finalisation of the fair value exercise during the course of 2007 has increased the goodwill on acquisition of Uniqema to £193.4m. As Uniqema has now been embedded into the Group's pre-acquisition structure, it is not possible to allocate the goodwill on acquisition to any individual cash-generating unit (CGU) other than the total group.

Goodwill is tested at each year end for impairment with reference to the relevant CGU's recoverable amount compared to the unit's carrying value including goodwill. As disclosed above, the relevant CGU when testing the Uniqema goodwill is the Group as a whole. The recoverable amount is based on value in use calculations using pre-tax discounted cash flow projections based on the Group's strategic plan for the first three years and a growth rate thereafter of 3%.

The cashflows have been discounted using the Group's weighted average cost of capital, which for these purposes has been calculated to be approximately 8% before tax.

The key assumptions underpinning the strategic plan employed in the value in use calculation are that market share will not change significantly and that gross and operating margins will remain broadly constant.

	Goodwill £m	Computer software £m	Total £m
Cost			
At 1 January 2006	6.5	–	6.5
Exchange differences	–	(0.1)	(0.1)
Acquisitions (note 28)	193.4	6.9	200.3
At 31 December 2006	199.9	6.8	206.7
At 1 January 2007	199.9	6.8	206.7
Exchange differences	–	0.4	0.4
Additions	–	0.6	0.6
Business disposals	–	(0.5)	(0.5)
Disposals and write offs	–	(3.3)	(3.3)
At 31 December 2007	199.9	4.0	203.9
Depreciation and impairment losses			
At 1 January 2006	–	–	–
Charge for the year	–	0.6	0.6
At 31 December 2006	–	0.6	0.6
At 1 January 2007	–	0.6	0.6
Exchange differences	–	0.3	0.3
Charge for the year	–	1.9	1.9
Business disposals	–	(0.3)	(0.3)
Disposals and write offs	–	(2.1)	(2.1)
At 31 December 2007	–	0.4	0.4
Net carrying amount			
At 31 December 2007	199.9	3.6	203.5
At 31 December 2006	199.9	6.2	206.1

14. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 January 2006	57.9	209.1	267.0
Exchange differences	(2.4)	(8.4)	(10.8)
Additions	3.7	18.9	22.6
Disposals	(1.8)	(1.7)	(3.5)
Acquisitions (note 28)	57.7	159.4	217.1
At 31 December 2006	115.1	377.3	492.4
At 1 January 2007	115.1	377.3	492.4
Exchange differences	5.5	20.0	25.5
Additions	5.5	32.1	37.6
Business disposals	(4.8)	(22.5)	(27.3)
Other disposals and write offs	(1.6)	(10.1)	(11.7)
At 31 December 2007	119.7	396.8	516.5
Depreciation and impairment losses			
At 1 January 2006	22.5	122.1	144.6
Exchange differences	(0.6)	(2.9)	(3.5)
Charge for the year	3.8	15.9	19.7
Disposals	(0.5)	(1.4)	(1.9)
At 31 December 2006	25.2	133.7	158.9
At 1 January 2007	25.2	133.7	158.9
Exchange differences	2.4	11.1	13.5
Charge for the year	4.2	25.4	29.6
Business disposals	(1.9)	(15.1)	(17.0)
Other disposals and write offs	(1.6)	(9.1)	(10.7)
At 31 December 2007	28.3	146.0	174.3
Net book amount			
At 31 December 2007	91.4	250.8	342.2
At 31 December 2006	89.9	243.6	333.5

The net book value of assets held by the Group under finance leases at 31 December 2007 was £0.5m (2006: £0.5m). The leased equipment secures the lease obligations in note 20.

15. Future commitments

	2007 £m	2006 £m
Group capital projects		
At 31 December 2007 the directors had authorised the following expenditure on capital projects:		
Contracted but not provided for	10.8	5.2
Authorised but not contracted for	25.4	14.7
	36.2	19.9
Operating leases – minimum lease payments		
At 31 December 2007 the Group's future minimum lease commitments were due as follows:		
Within one year	5.2	4.7
From one to five years	13.8	13.9
After five years	8.7	5.3
	27.7	23.9

The group leases various buildings, vehicles and other plant and equipment under non-cancellable operating lease arrangements. The leases have various terms typical of lease agreements for the particular class of asset.

Notes to the Group accounts

16. Investments

	2007 £m	2006 £m
Investment in associated undertaking	9.2	11.0
Other investments	0.9	0.9
	10.1	11.9

Investment in associated undertaking

Details of the associated undertaking and the Group's share of its issued share capital are as follows:

	Principal country of operation	Share capital held %
Baxenden Chemicals Limited	England	46.5

The Group's share of total recognised profit in the above associate for the year was £1.1m (2006: £1.3m). Summarised financial information in respect of the associate as a whole is as follows:

	2007 £m	2006 £m
Assets	26.1	28.4
Liabilities	(12.7)	(14.4)
	13.4	14.0
Revenue	36.6	36.3
Expenses	(33.3)	(32.1)
Tax	(0.9)	(1.3)
	2.4	2.9

Other than dividends received there were no other material transactions with the associated undertaking.

Other investments

Other investments of £0.9m (2006: £0.9m) comprise equity securities classified as available-for-sale and are included at cost, as fair value cannot be measured reliably, or, if quoted on an active market, at market value.

17. Inventories

	2007 £m	2006 £m
Raw materials	36.4	31.5
Work in progress	6.0	3.3
Finished goods	119.0	98.7
	161.4	133.5

The Group consumed £622.4m (2006: £319.9m) of inventories during the period.

18. Trade and other receivables

	2007 £m	2006 £m
Amounts falling due within one year		
Trade receivables	154.0	134.3
Less: provision for impairment of receivables	(1.9)	(2.0)
Trade receivables – net	152.1	132.3
Other receivables	24.3	50.4
Prepayments	10.0	9.8
	186.4	192.5

The significant reduction in the Group's other receivables is due in large part to the settlement of specific items outstanding at 31 December 2006 in respect of the acquisition of Uniqema.

18. Trade and other receivables (continued)

The ageing of the Group's year end overdue receivables is as follows:

	2007 £m	2006 £m
Impaired		
Less than 3 months	0.4	0.2
3 to 6 months	0.2	0.2
Over 6 months	1.3	1.6
	1.9	2.0
Not impaired		
Less than 3 months	21.1	17.0
3 to 6 months	0.3	0.3
	21.4	17.3

The individually impaired receivables relate to customers in unexpectedly difficult economic circumstances. The overdue receivables against which no provision has been made relate to a number of customers for whom there is no recent history of default nor any other indication that settlement will not be forthcoming.

The carrying amounts of the Group's receivables are denominated in the following currencies:

	2007 £m	2006 £m
Sterling	19.2	49.5
US Dollar	46.6	42.1
Euro	89.3	76.0
Other	31.3	24.9
	186.4	192.5

Movements on the Group's provision for impairment of trade receivables are as follows:

At 1 January	2.0	1.2
Charged to income statement	0.6	0.4
Net write off of uncollectible receivables	(0.7)	(1.0)
Acquisitions	–	1.4
At 31 December	1.9	2.0

Amounts charged to the income statement are included within administrative expenses. The other classes of receivables do not contain impaired assets.

19. Trade and other payables

	2007 £m	2006 £m
Amounts falling due within one year		
Trade payables	75.9	88.1
Other taxation and social security	5.1	8.1
Other payables	38.8	49.8
Accruals and deferred income	55.7	49.1
	175.5	195.1

As with other receivables, the reduction in the Group's other payables is due in large part to the settlement of specific acquisition related items.

Notes to the Group accounts

20. Borrowings, other financial liabilities and other financial assets	2007 £m	2006 £m
Current		
<i>Assets</i>		
Interest rate swaps	0.4	0.8
<i>Liabilities</i>		
Syndicated acquisition funding	30.0	23.8
US\$55m 7.37% guaranteed senior loan notes	9.2	9.4
Other unsecured bank loans and overdrafts due within one year or on demand	44.2	20.9
Obligations under finance leases	0.1	0.1
	83.5	54.2
Non-current		
<i>Liabilities</i>		
Syndicated acquisition funding	325.2	313.9
US\$55m 7.37% guaranteed senior loan notes	–	9.4
Other unsecured bank loans	0.3	0.6
Obligations under finance leases	0.4	0.4
	325.9	324.3

Elements of the acquisition facility are due for repayment over the five year term of the facility, however the bulk of the facility falls due for repayment upon expiry of the agreement in June 2011. Interest is charged at a floating rate based on LIBOR or EURIBOR, depending upon the drawdown currency, plus a variable margin. The margin the Group pays on its borrowings over and above standard rates is determined by the Group's net debt to EBITDA ratio.

	2007 £m	2006 £m
Maturity profile of financial liabilities		
Repayments fall due as follows:		
Within one year		
Bank loans and overdrafts	83.4	54.1
Obligations under finance leases	0.1	0.1
	83.5	54.2
After more than one year		
Loans repayable		
Within one to two years	75.0	39.5
Within two to five years	250.5	284.4
Obligations under finance leases payable between years two and five	0.4	0.4
	325.9	324.3
The minimum lease payments under finance leases fall due as follows:		
Within one year	0.2	0.2
Within two to five years	0.5	0.5
	0.7	0.7
Future finance charges on finance leases	(0.2)	(0.2)
Present value of finance lease liabilities	0.5	0.5

20. Borrowings, other financial liabilities and other financial assets (continued)

	Total £m	Fixed £m	Floating £m	Fixed rate Weighted average	
				Interest rate (%)	Fixed period (years)
Sterling	195.2	100.0	95.2	6.44	2.0
US Dollar	102.2	4.6	97.6	7.37	0.5
Euro	109.8	–	109.8	–	–
Other	2.2	–	2.2	–	–
At 31 December 2007	409.4	104.6	304.8	6.48	1.9
Sterling	188.2	100.0	88.2	6.44	3.0
US Dollar	94.7	8.5	86.2	7.37	1.5
Euro	94.3	–	94.3	–	–
Other	1.3	–	1.3	–	–
At 31 December 2006	378.5	108.5	270.0	6.51	2.9

Interest rate risk

Since 2002, the Group has held an interest rate swap with a notional value of US\$30m. The swap is a designated fair value hedge of \$30m of the US\$ fixed rate debt above and results in the Company receiving or paying interest on a six monthly basis based on the differential between US LIBOR plus margin and the fixed rate at the commencement of each six month period.

During 2006, the Group took out interest rate swaps with a notional value of £100m. These swaps are designated cash flow hedges of the floating rate acquisition funding drawn down in 2006 and result in an interest payment or receipt as above based on the differential between the floating rate of the acquisition funding (UK Sterling LIBOR) plus margin and the fixing rate of 5.19% plus margin.

As at 31 December 2007, aside from the elements of the Group's debt not left fixed as a result of the swaps described above, all Group debt and cash was exposed to repricing within 12 months of the balance sheet date.

At 31 December 2007, the Group's fixed rate debt was at a weighted average rate of 6.48% (2006: 6.51%). The Group's floating rate liabilities are predominantly based on LIBOR and its overseas equivalents.

Fair values

The table below details a comparison of the book and fair values of the Group's financial assets and liabilities. Where there are no readily available market values to determine fair values, cash flows relating to the various instruments have been discounted at prevailing interest and exchange rates to give an estimate of fair value.

	Book value 2007 £m	Fair value 2007 £m	Book value 2006 £m	Fair value 2006 £m
Cash deposits	43.4	43.4	48.6	48.6
Other investments	0.9	0.9	0.9	0.9
Syndicated acquisition funding	(355.2)	(355.2)	(337.7)	(337.7)
US\$55m 7.37% guaranteed senior loan notes due 2008	(9.2)	(9.2)	(18.8)	(19.0)
Other bank borrowings	(44.5)	(44.5)	(21.5)	(21.5)
Obligations under finance leases	(0.5)	(0.5)	(0.5)	(0.5)
Interest rate swaps	0.4	0.4	0.8	0.8

For financial instruments with a remaining life of greater than one year, fair values are based on cash flows discounted at prevailing interest rates. Accordingly, the fair value of cash deposits and short term borrowings approximates to the book value due to the short maturity of these instruments. The same applies to trade and other receivables and payables excluded from the above analysis.

As noted in the accounting policies note on page 45, the Group's management of its currency risk includes the use of forward foreign currency contracts. The fair value of the contracts in place at 31 December 2007 was £nil (2006: £0.1m).

Borrowing facilities

As at 31 December 2007 the Group had undrawn committed facilities of £24.4m (2006: £19.0m) expiring in more than two years, and £15.0m (2006: £91.2m) expiring within one year. In addition the Group had other undrawn facilities of £59.7m (2006: £41.5m) available.

Notes to the Group accounts

21. Provisions for liabilities and charges

	Environmental £m	Restructuring £m	Other £m	Total £m
At 1 January 2007 as previously stated	10.7	34.7	5.0	50.4
Finalisation of acquisition fair value adjustments (note 28)	5.0	–	18.0	23.0
At 1 January 2007 as restated	15.7	34.7	23.0	73.4
Charged to income statement	–	5.6	0.4	6.0
Cash paid against provisions	(0.6)	(16.7)	(0.8)	(18.1)
Non-cash utilisation of provisions	–	(2.1)	–	(2.1)
At 31 December 2007	15.1	21.5	22.6	59.2

Analysis of total provisions	2007 £m	2006 £m
Current	14.2	17.4
Non-current	45.0	56.0
	59.2	73.4

The environmental provision relates to soil and potential ground water contamination on a number of sites, both currently in use and previously occupied, in Europe and the Americas. Restructuring provisions relate to the ongoing plans to integrate the acquired Uniqema business with the existing Croda businesses. Other provisions relate primarily to potential amounts payable in respect of ongoing legal claims against the Group. Provisions are made where a constructive or legal obligation can be quantified and where the timing of the transfer of economic benefits relating to the provisions cannot be ascertained with any degree of certainty.

In relation to the environmental and other provisions, the directors consider that the balance will be utilised within 20 years. With regard to the restructuring provision, significant utilisation has occurred in 2007 and the directors' view is that there will be further significant elements, notably in respect of the termination of distributor agreements, that will be utilised in 2008 and that the balance will be largely utilised by 2011. Based on information currently available and on the detailed plans established for the restructuring of the Group, this level of provision is considered appropriate by the directors. Other provisions introduced following finalisation of the fair value exercise relate to the fair value adjustments in respect of onerous contracts and fixed asset decommissioning. These provisions will be largely utilised by 2011. The Group has considered the impact of discounting on its provisions and has concluded that, as a consequence of the significant utilisation expected in a relatively short timescale, the impact is immaterial.

Non cash utilisation of the restructuring provision relates to the write down of fixed and current assets required as a result of restructuring activity.

22. Ordinary share capital

Ordinary shares of 10p	2007 £m	2006 £m
Authorised at 1 January and 31 December	17.3	17.3
Issued		
At 1 January	14.0	13.6
Issued in year	–	1.3
Cancelled in year	–	(0.9)
At 31 December	14.0	14.0

In 2007 options were granted to employees under the Croda Savings-Related Share Option Scheme 1983 to subscribe for 319,241 ordinary shares at an option price of 520p per share and under the International Sharesave Scheme to subscribe for 680,655 shares at an option price of 520p per share. No options were granted in 2007 under the Senior Executive Share Option Scheme. No-cost options to subscribe for 229,901 ordinary shares were granted under the Long Term Incentive Plan during the year and no-cost options over a further 84,777 shares were granted under the Bonus Co-Investment Plan.

During the year consideration of £2.4m was received on the exercise of options over 998,858 shares. The options were satisfied with shares transferred from the Group's employee share trusts. Since the year end a further 7,505 shares have been transferred from the schemes.

22. Ordinary share capital (continued)

There are outstanding options to subscribe for ordinary shares as follows:

	Year option granted	Number of shares	Price	Options exercisable from
Croda Savings-Related Share Option Scheme	2002	8,529	194p	1 November 2007 to 30 April 2008
	2003	152,816	230p	1 November 2008 to 30 April 2009
	2004	165,296	226p	1 November 2009 to 30 April 2010
	2005	144,424	328p	1 November 2010 to 30 April 2011
	2006	147,906	384p	1 November 2009 to 30 April 2010
	2007	311,105	520p	1 November 2010 to 30 April 2011
Croda International Overseas Sharesave Scheme	2003	64,714	230p	1 November 2008 to 30 November 2008
	2004	160,616	226p	1 November 2009 to 30 November 2009
	2005	186,863	328p	1 November 2010 to 30 November 2010
	2006	177,667	384p	1 November 2009 to 30 November 2009
	2007	671,012	520p	1 November 2010 to 30 November 2010
Croda International Senior Executive Share Option Schemes	2000	321,919	256p	22 March 2003 to 21 March 2010
	2001	61,397	258p	7 March 2004 to 6 March 2011
	2002	86,900	261p	13 March 2005 to 12 March 2012
	2003	363,845	230p	5 March 2006 to 4 March 2013
Croda International Long Term Incentive Plan	2005	253,523	Nil	25 May 2008 to 24 May 2009
	2006	203,172	Nil	23 February 2009 to 22 February 2010
	2006	24,393	Nil	26 April 2009 to 25 April 2010
	2007	229,901	Nil	22 February 2010 to 21 February 2011
Croda International Bonus Co-Investment Plan	2006	182,156	Nil	26 April 2009
	2007	84,777	Nil	27 April 2010

23. Share based payments

The impact of share based payment transactions on the Group's financial position is as follows:

	2007 £m	2006 £m
Analysis of amounts recognised in income statement:		
Charged in respect of equity-settled share based payment transactions	1.1	1.2
Charged in respect of cash-settled share based payment transactions	1.5	0.6
	2.6	1.8
Analysis of amounts recognised in balance sheet:		
Liability in respect of cash-settled share based payment transactions	1.4	0.8

Notes to the Group accounts

23. Share based payments (continued)

The key elements of each scheme along with the assumptions employed to arrive at the charge in the income statement are set out below.

Croda Savings-Related Share Option Scheme ("SAYE")

The SAYE scheme, established in 1999, grants options annually in September to employees of the Group at a fixed exercise price, being the market price of the Company's shares at the grant date discounted by 20%. Employees then enter into a savings contract over 3 to 5 years and, subject to continued employment, purchase options at the end of the period based on the amount saved. Options are then exercisable for a 6 month period following completion of the savings contract. As the option is equity settled, under IFRS 2 charges are only made in respect of options granted after 7 November 2002. For options granted in the year, the fair value per option granted and the assumptions used in the calculation of the value are as follows:

Grant date	2007
Share price at grant date	650p
Exercise price	520p
Number of employees	499
Shares under option	319,241
Vesting period	3 years
Expected volatility	30%
Option life	6 months
Expected life	–
Risk free rate	5.1%
Dividend yield	2.3%
Possibility of forfeiture	7.5% p.a.
Fair value per option at grant date	196p

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

	Number	2007 Weighted average exercise price (p)	Number	2006 Weighted average exercise price (p)
Outstanding at 1 January	964,255	250	1,192,962	221
Granted	319,241	520	159,200	384
Forfeited	(47,642)	308	(73,826)	217
Exercised	(293,098)	197	(314,081)	187
Outstanding at 31 December	942,756	364	964,255	250
Exercisable at 31 December	18,593		13,425	
For options exercised in year, weighted average share price at date of exercise		616		529
Weighted average remaining life at 31 December (years)	2.6		2.7	

Croda International Overseas Sharesave Scheme ("International")

The International Scheme, established in 1999, has the same option pricing model, savings contract and vesting period as the SAYE scheme.

At exercise, employees are paid a cash equivalent for each option purchased, being the difference between the exercise price and market price at the exercise date. As the scheme is cash settled, IFRS 2 applies to all options in existence during the year, regardless of grant date.

23. Share based payments (continued)

For options granted in the year, the fair value per option granted and the assumptions used in the calculation of the value are as follows:

Grant date	2007
Share price at grant date	650p
Exercise price	520p
Number of employees	1,092
Shares under option	680,655
Vesting period	3 years
Expected volatility	30%
Option life	1 month
Expected life	–
Risk free rate	4.6%
Dividend yield	2.5%
Possibility of forfeiture	7.5% p.a.
Fair value per option at 31 December	146p

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

	Number	2007 Weighted average exercise price (p)	Number	2006 Weighted average exercise price (p)
Outstanding at 1 January	750,887	289	676,295	249
Granted	680,655	520	193,859	384
Forfeited	(53,685)	311	(30,514)	297
Exercised	(120,160)	196	(88,753)	186
Outstanding at 31 December	1,257,697	419	750,887	289
For options exercised in year, weighted average share price at date of exercise		634		534
Weighted average remaining life at 31 December (years)	2.5		2.8	

Croda International Senior Executive Share Option Schemes ("Executive")

The Group previously granted options to senior employees each year which are subject to satisfaction of performance conditions before they can be exercised. The performance conditions are discussed in detail in the directors' remuneration report (page 25).

As with the SAYE scheme, the Executive Scheme is equity settled and as a consequence only the options granted in 2003 fall within the scope of IFRS 2. No further options will be granted under this scheme.

	Number	2007 Weighted average exercise price (p)	Number	2006 Weighted average exercise price (p)
Outstanding at 1 January	1,544,545	250	2,692,378	246
Forfeited	(4,724)	256	(108,075)	256
Exercised	(705,760)	256	(1,039,758)	239
Outstanding at 31 December	834,061	245	1,544,545	250
Exercisable at 31 December	642,333		1,332,145	
For options exercised in year, weighted average share price at date of exercise		640		487
Weighted average remaining life at 31 December (years)	3.8		4.5	

Notes to the Group accounts

23. Share based payments (continued)

Croda International Long-term Investment Plan ("LTIP")

The LTIP was established in 2005 and grants no cost options to senior employees which vest after 3 years dependent upon an EPS performance related sliding scale (non-market condition) and the Group's total shareholder return (market condition). The LTIP is discussed in detail in the directors' remuneration report (pages 24 to 25). For options granted in the year, the fair value per option granted and the assumptions used in the calculation of the value are as follows:

	Market condition 22 February 2007	Non-market condition 22 February 2007
Grant date		
Share price at grant date	663p	663p
Number of employees	11	11
Shares under option	114,950	114,951
Vesting period	3 years	3 years
Option life	1 year	1 year
Expected life	–	–
Dividend yield	2.3%	2.2%
Possibility of forfeiture	3.45% p.a.	3.45% p.a.
Fair value per option at grant date	367p	622p

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

	Number	2007 Weighted average exercise price (p)	Number	2006 Weighted average exercise price (p)
Outstanding at 1 January	481,058	–	314,373	–
Granted	229,901	–	227,535	–
Forfeited	–	–	(60,850)	–
Outstanding at 31 December	710,959	–	481,058	–
Weighted average remaining life at 31 December (years)	2.3		1.8	

Bonus Co-Investment Plan ("BCIP")

The BCIP was established in 2005 and grants no cost options to senior employees which vest after 3 years dependent upon a performance related condition. For options granted in the year, the fair value per option granted and the assumptions used in the calculation of the value are as follows:

	26 April 2007
Grant date	
Share price at grant date	633p
Number of employees	34
Shares under option	84,777
Vesting period	3 years
Dividend yield	2.3%
Possibility of forfeiture	5%
Fair value per option at grant date	592p

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

	Number	2007 Weighted average exercise price (p)	Number	2006 Weighted average exercise price (p)
Outstanding at 1 January	186,480	–	–	–
Granted	84,777	–	186,480	–
Forfeited	(4,324)	–	–	–
Outstanding at 31 December	266,933	–	186,480	–
Weighted average remaining life at 31 December (years)	1.7		2.3	

23. Share based payments (continued)

Croda International Share Incentive Programme ("SIP")

The SIP was established in 2003 and has similar objectives to the SAYE scheme in terms of increasing employee retention and share ownership. Under the SIP scheme, employees enter into an agreement to purchase shares in the Company each month. For each share purchased by an employee, the Company awards a matching share which passes to the employee after 3 years' service. The matching shares are allocated each month at market value with this fair value charge being recognised in the income statement in full in the year of allocation.

24. Preference share capital

	2007 £000	2006 £000
The authorised, issued and fully paid preference share capital comprises		
5.9% preference shares of £1	616	616
6.6% preference shares of £1	499	499
7.5% preference shares of £1	22	22
	1,137	1,137

The preference shares have no redemption rights and 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. Shareholders' funds and statement of changes in shareholders' equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Translation reserve £m	Retained earnings £m	Total £m
At 1 January 2006	14.7	34.0	–	4.0	27.0	79.7
Shares issued in year	1.3	59.3	–	–	–	60.6
Shares cancelled in year	(0.9)	–	0.9	–	–	–
Total recognised income in the year	–	–	–	(3.6)	22.3	18.7
Dividends (note 9)	–	–	–	–	(17.2)	(17.2)
Share based payments	–	–	–	–	0.9	0.9
Consideration paid for purchase of treasury shares	–	–	–	–	(21.5)	(21.5)
Consideration received for sale of own shares (held in trust)	–	–	–	–	3.3	3.3
At 31 December 2006	15.1	93.3	0.9	0.4	14.8	124.5
At 1 January 2007	15.1	93.3	0.9	0.4	14.8	124.5
Total recognised income in the year	–	–	–	6.6	107.9	114.5
Dividends (note 9)	–	–	–	–	(19.8)	(19.8)
Share based payments	–	–	–	–	1.2	1.2
Consideration paid for purchase of own shares (held in trust)	–	–	–	–	(4.8)	(4.8)
Consideration received for sale of own shares (held in trust)	–	–	–	–	2.4	2.4
At 31 December 2007	15.1	93.3	0.9	7.0	101.7	218.0

Investments in own shares represent the Croda International Plc Qualifying Share Ownership Trust (QUEST), the Croda International Plc Employee Benefit Trust (CIPEBT) and the Croda International Plc AESOP Trust (AESOP), which each hold shares purchased on the open market to satisfy the future issue of shares under the Group's share option schemes. As at 31 December 2007 the QUEST was financed by a repayable on demand loan from the Company of £3.4m (2006: £1.7m) and held 0.7m (2006: 0.5m) shares at a cost of £3.4m (2006: £1.7m) with a market value of £3.8m (2006: £3.1m). As at 31 December 2007 the CIPEBT was financed by a repayable on demand loan from the Company of £5.9m (2006: £5.3m) and held 1.4m (2006: 1.6m) shares at a cost of £5.9m (2006: £5.3m) with a market value of £7.9m (2006: £9.5m).

As at 31 December 2007 the AESOP had issued all its previously held shares, as financed by the Company, and thus had no residual loan balance with the Company. All of the shares held by the QUEST and CIPEBT were under option at 31 December 2007 and, except for a nominal amount, the right to receive dividends has been waived.

Notes to the Group accounts

26. Minority interests

	2007 £m	2006 £m
At 1 January	1.9	0.9
Exchange differences	(0.1)	0.1
Profit for the year	0.1	–
Minority interest in acquired companies (note 28)	–	1.6
Dividend paid to minority shareholders	(0.2)	(0.7)
At 31 December	1.7	1.9

27. Contingent liabilities

The Company has guaranteed loan capital and bank overdrafts of subsidiary undertakings amounting to £110.6m (2006: £93.6m).

28. Acquisition of Uniqema

On 1 September 2006, the Group completed the purchase of the Uniqema business from ICI plc and the Group's 2006 financial statements included provisional information on the fair values of assets acquired and consideration. By 31 August 2007, the Group had completed its review of the acquired asset base and had finalised the fair values of all acquired assets and liabilities. Additionally during 2007, the final adjustments were agreed with respect to purchase consideration. The table below shows the carrying value of Uniqema's net assets immediately prior to acquisition along with the final fair values and consideration.

	Carrying values pre-acquisition £m	Provisional fair value at 31 December 2006 £m	Final fair value adjustments in 2007 £m	Final fair values £m
Intangible assets	6.9	6.9	–	6.9
Property, plant and equipment	248.2	217.1	–	217.1
Inventories	82.9	82.9	–	82.9
Receivables	111.6	111.6	–	111.6
Cash and cash equivalents	18.1	18.1	–	18.1
Loans acquired	(0.8)	(0.8)	–	(0.8)
Payables	(118.3)	(131.3)	5.2	(126.1)
Taxation	(23.2)	(22.2)	12.2	(10.0)
Provisions	(8.5)	(8.5)	(23.0)	(31.5)
Retirement benefit liabilities	(68.1)	(68.1)	(19.4)	(87.5)
Minority interest	(1.6)	(1.6)	–	(1.6)
Net assets acquired	247.2	204.1	(25.0)	179.1
Goodwill		177.7	15.7	193.4
Total consideration		381.8	(9.3)	372.5

The key fair value adjustments relate to (1) property, plant and equipment – in recognition of management's assessment of the valuation of the acquired asset base; (2) taxation – recognising the appropriate value of net tax liabilities under new ownership, with the adjustment relating principally to the tax effect of the other fair value adjustments; (3) provisions – being full provision for onerous contracts and environmental liabilities based on available information; and (4) retirement benefit liabilities – to fully recognise the acquired pensions liability in line with IAS 19 valuations.

As disclosed last year, after a rigorous review in the twelve months after acquisition, there were found to be no material separately identifiable and quantifiable intangible assets, other than computer software. Consequently, the whole excess of consideration over net assets acquired is recognised as goodwill in the financial statements. The goodwill is supported principally by the cost saving synergies arising as a result of bringing Uniqema within Croda's existing structure. Other factors supporting the goodwill include (i) the acquisition of a skilled workforce; (ii) the fact that Uniqema's product portfolio complements Croda's existing product offering; and (iii) further expected growth as a result of rationalising and improving Uniqema's existing distribution network through utilisation of Croda's outstanding sales and marketing network.

Croda International Plc

Parent company financial statements

Pages 72 to 78 represent the separate financial statements of Croda International Plc as required by the Companies Act 1985 ('the Act'). These financial statements have been prepared in accordance with the Act and UK accounting standards and are thus presented separately to the Group financial statements which have been prepared in accordance with International Accounting Standards.

Company independent auditor's report

Independent auditor's report to the members of Croda International Plc

We have audited the parent company financial statements of Croda International Plc for the year ended 31 December 2007 which comprise the Company balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Croda International Plc for the year ended 31 December 2007.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the parent company financial statements. The information given in the directors' report includes that specific information presented in the Chairman's statement, the Chief Executive's review and financial review that is cross referred from the business review section of the directors' report. We also report to you if, in our opinion we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the Chairman's statement, the Chief Executive's review, the financial review, the corporate governance statement and the safety health and environmental report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company 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 parent company financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, 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 parent company financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007;
- the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds
22 February 2008

Company balance sheet

at 31 December 2007

	Note	2007 £m	2006 £m
Fixed assets			
Tangible assets	D	2.1	1.6
Investments			
Subsidiary undertakings	E	438.8	415.2
Associated undertaking	F	1.6	1.6
Other	F	0.6	0.6
		443.1	419.0
Current assets			
Debtors	G	12.4	28.0
Cash at bank and in hand		36.4	34.6
Financial assets	I	0.4	0.8
		49.2	63.4
Creditors			
Falling due within one year	H	(93.2)	(71.1)
		(44.0)	(7.7)
Net current liabilities			
		(258.2)	(260.8)
Creditors			
Falling due after one year	H	(258.2)	(260.8)
		140.9	150.5
Net assets			
		140.9	150.5
Capital and reserves			
Preference share capital	24	1.1	1.1
Ordinary share capital	22	14.0	14.0
Called up share capital		15.1	15.1
Share premium account	K	93.3	93.3
Reserves	K	32.5	42.1
		140.9	150.5
Shareholders' funds (including non-equity interests)			
		140.9	150.5

Signed on behalf of the Board who approved the accounts on 18 February 2008.

Martin Flower
Chairman

Sean Christie
Group Finance Director

Company accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. They have all been applied consistently throughout the year and the preceding year, unless otherwise stated.

Accounting basis

The financial statements are prepared under the historical cost convention, as modified by the previous revaluation of properties, in compliance with the provisions of the Companies Act 1985, the requirements of the Listing Rules of the Financial Services Authority and applicable United Kingdom Accounting Standards. Whilst the consolidated accounts have been prepared under IFRS, as required by European law, the Company's accounts continue to be prepared under UK GAAP as permitted.

Land and buildings

In the past the Company's principal properties have been valued periodically by professional valuers on an open market, existing use basis. Following the Company's adoption of FRS 15 in 2001, no further revaluations will be carried out and previous book values will be retained. Notwithstanding the requirements of FRS 15 all fixed assets are written down to their recoverable amount in the event that any impairment review carried out in accordance with FRS 11 indicates that the recoverable amount is less than the carrying value. 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 15 to 40 years
- Computers and office equipment 3 to 5 years
- Cars 3 years
- Plant and machinery 10 to 15 years

Leased assets

The cost of operating leases is charged to the profit and loss account as incurred.

Pensions

The defined benefit pension obligations of the Company are financed by contributions to separate funds. As the Company is unable to reliably and consistently measure its share of the underlying assets and liabilities of the funds, the Company accounts as though the funds were defined contribution funds and charges contributions paid directly to the profit and loss account.

Currency translations

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 profit and loss account. Other exchange differences arising from non-trading items are dealt with through reserves.

Financial instruments

The Company uses derivative financial instruments to hedge its exposure to interest rates and short-term currency rate fluctuations. Receipts and payments on interest rate instruments are recognised on an accruals basis in the profit and loss account over the life of the instrument. Instruments accounted for as hedges are designated as a hedge at the inception of the contract. Gains or losses are recognised on maturity of the underlying transaction.

Employee Share Ownership Trusts

Shares acquired by the Trustees, funded by the Company and held for the continuing benefit of the Company are shown as a reduction in shareholders' funds. Movements in the year arising from additional purchases by the Trustees of shares or the receipt of funds due to the exercise of options by employees are accounted for within reserves and shown as a movement in shareholders' funds in the year. Administration expenses of the trusts are charged to the Company's profit and loss account as incurred.

Share based payments

The fair value of employee share option plans is calculated using the Black-Scholes or binomial model as appropriate. In accordance with FRS 20 'Share-based Payment' the resulting cost is charged to the income statement over the vesting period of the options. The value of the charge is adjusted to reflect expected and actual levels of options vesting as the Company does not use market-based performance criteria.

Dividends

Dividends on preference shares are recognised as a liability on an accruals basis. Other dividends are recognised as a liability when the liability is irrevocable. Accordingly, final dividends are recognised when approved by shareholders and interim dividends are recognised when paid.

Additional accounting policies

The following Group accounting policies, as disclosed on pages 42 to 47, are also relevant to the preparation of the Company financial statements:

- Borrowings
- Taxation
- Trade and other receivables
- Investments
- Financial risk factors

Notes to the Company accounts

A. Profit and loss account

Of the Group's profit for the year £8.4m (2006: £2.1m) is dealt with in the profit and loss account of the Company which was approved by the Board on 18 February 2008 but which is not presented as permitted by s.230(3) Companies Act 1985. Included in the Company profit and loss account is a charge of £0.1m (2006: £0.1m) in respect of the Company's audit fee.

B. Employees

	2007 £m	2006 £m
Company employment costs including directors		
Wages and salaries	3.4	2.8
Share based payments (note J)	1.1	0.6
Social security costs	0.6	0.6
Other pension costs	0.8	0.7
	5.9	4.7
	Number	Number
Average employee numbers		
Management and administration	49	49

C. Retirement benefit obligations

The Company's employees are members of the UK defined benefit schemes, details of which are disclosed in note 12 to the Group accounts. Whilst the Group reports under IFRS, the UK GAAP equivalent figures for the UK schemes would not be significantly different. As the Company is unable to identify its share of the underlying assets and liabilities of the schemes, due mainly to changes in the Group's corporate structure over the years, the Company has accounted as though the schemes were defined contribution schemes and has charged the contributions paid each year to the profit and loss account.

D. Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 January 2007	2.0	1.4	3.4
Additions	–	0.7	0.7
Disposals	–	(0.9)	(0.9)
At 31 December 2007	2.0	1.2	3.2
Depreciation			
At 1 January 2007	0.7	1.1	1.8
Charge for year	–	0.2	0.2
Disposals	–	(0.9)	(0.9)
At 31 December 2007	0.7	0.4	1.1
Net book amount			
At 31 December 2007	1.3	0.8	2.1
At 31 December 2006	1.3	0.3	1.6

	2007 £m	2006 £m
Net book amount of land and buildings		
Freehold	1.3	1.3
Historical cost of land and buildings		
Cost	0.2	0.2
1988 valuations	1.9	1.9
At 31 December	2.1	2.1
Revaluation surpluses	(1.1)	(1.1)
Restated to historical cost	1.0	1.0
Depreciation	(0.6)	(0.6)
Historical net book amount		
At 31 December	0.4	0.4

Notes to the Company accounts

E. Subsidiary undertakings

	Shares £m	Loans £m	Total £m
Cost less amounts written off			
At 1 January 2007	140.6	274.6	415.2
Exchange differences	–	3.5	3.5
Redemption of preference shares	(1.8)	–	(1.8)
Additions	120.9	–	120.9
Amounts repaid	–	(124.8)	(124.8)
Amounts invested	–	25.8	25.8
At 31 December 2007	259.7	179.1	438.8

The principal subsidiary undertakings are listed on page 79.

F. Investments

	Associated undertaking £m	Other investments £m	Total £m
Cost or valuation of net equity			
At 1 January 2007 and 31 December 2007	1.6	0.6	2.2

Details of the associated undertaking are provided in note 16.

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

G. Debtors

	2007 £m	2006 £m
Amounts owed by Group undertakings	2.1	3.4
Corporate taxation	4.7	3.1
Other debtors	1.3	20.8
Prepayments	4.3	0.7
	12.4	28.0

H. Creditors

	2007 £m	2006 £m
Amounts falling due within one year		
Borrowings (note I)	72.6	34.2
Trade creditors	0.4	0.3
Other taxation and social security	1.3	0.8
Other creditors	6.3	27.1
Accruals and deferred income	6.8	1.8
Amounts owed to Group undertakings	5.8	6.9
	93.2	71.1
Amounts falling due after one year		
Borrowings (note I)	243.8	247.2
Amounts owed to Group undertakings	14.4	13.6
	258.2	260.8

I. Financial instruments

The Company's objectives, policies and strategies in respect of financial instruments are outlined in the accounting policies note on page 74 which forms part of the annual report and accounts. Short term debtors and creditors have been excluded from all of the following disclosures.

	2007 £m	2006 £m
Maturity profile of financial liabilities		
Syndicated acquisition funding	273.8	271.4
Bank loans and overdrafts repayable on demand	42.6	10.0
	316.4	281.4
Preference share capital	1.1	1.1
	317.5	282.5
Repayments fall due as follows		
Within one year		
Syndicated acquisition funding	30.0	24.2
Bank loans and overdrafts	42.6	10.0
	72.6	34.2
After more than one year		
Loans repayable		
Within one to two years	75.0	30.0
Within two to five years	168.8	217.2
Preference share capital repayable after five years	1.1	1.1
	244.9	248.3

Financial assets

The Company holds interest rate swaps to hedge against the Group's US\$ fixed rate debt and against the floating rate acquisition funding. Details are given in note 20. As required under UK GAAP, the fair value of the swaps has been recognised on the Company balance sheet.

J. Share based payments

The total charge for the year in respect of share based remuneration schemes was £1.1m (2006: £0.6m). In addition, as the Company has issued options over its own shares to employees of its subsidiary companies, the Company has to increase the cost of its investment in the relevant subsidiary by the fair value of the options granted.

The key elements of each scheme are disclosed in note 23.

Notes to the Company accounts

K. Reserves

	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account £m	Total £m
At 1 January 2007	93.3	0.9	2.1	39.1	135.4
Total recognised income in year	–	–	–	11.1	11.1
Dividends	–	–	–	(19.8)	(19.8)
Share based payments	–	–	–	1.5	1.5
Consideration paid for purchase of own shares (held in trust)	–	–	–	(4.8)	(4.8)
Consideration received for sale of own shares (held in trust)	–	–	–	2.4	2.4
At 31 December 2007	93.3	0.9	2.1	29.5	125.8

Details of investments in own shares are disclosed in note 25.

Principal subsidiary companies

	Incorporated and/or principally operating in	Group beneficial interest %
Principal operating companies		
Croda Europe Ltd	UK	100
John L Seaton & Co Ltd	UK	100
Baxenden Chemicals Ltd*	UK	46
Uniqema UK Ltd*	UK	100
Uniqema Limited*	UK	100
Croda Argentina SA	Argentina	100
Croda Australia	Australia	100
Croda Belgium NV	Belgium	100
Croda do Brasil Ltda	Brazil	100
Croda Canada Ltd	Canada	100
Croda Chile	Chile	100
Croda Colombia	Colombia	100
Croda Trading (Shanghai) Co Ltd	China	100
Croda France SAS	France	100
Crodarom SAS	France	100
Sederma SAS	France	100
Croda Chocques SAS	France	100
Uniqema GmbH & Co KG	Germany	100
Croda GmbH	Germany	100
Croda Hong Kong	Hong Kong	100
Croda Chemicals (India) Pvt Ltd*	India	100
PT Croda Indonesia Ltd	Indonesia	60
Croda Italiana SpA	Italy	100
Uniqema Italia SRL	Italy	100
Croda Japan KK	Japan	100
Croda Asia Pacific Sdn Bhd	Malaysia	100
Croda Mexico SA de CV	Mexico	100
Uniqema BV	Netherlands	100
Uniqema Nederland BV	Netherlands	100
Croda Poland Sp z o o*	Poland	100
Croda Russia	Russia	100
Croda Singapore Pte Ltd*	Singapore	100
Croda (SA) Pty Ltd	South Africa	100
Croda Woobang Co Ltd	South Korea	60
Croda Ibérica SA	Spain	100
Croda Nordica AB	Sweden	100
Croda Thailand Co Ltd*	Thailand	100
Croda Inc	USA	100
Uniqema Americas LLC	USA	100
Croda Zimbabwe (Pvt) Ltd	Zimbabwe	100
Principal holding companies		
Croda Chemicals International Ltd*	UK	100
Croda Overseas Holdings Ltd*	UK	100
Croda Holdings SAS	France	100
Croda Investments Inc	USA	100

* 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.

Shareholder information

Operating heads

David Barraclough	President – Asia Pacific
Miguel De Bellis	President – Latin America
Bryan Dobson	President – Global Operations
Steve Foots	President – Consumer Care Europe
Kevin Gallagher	President – North America
Keith Layden	President – Actives & Enterprise Technology
Kevin Nutbrown	President – Industrial Specialities Europe

Corporate calendar

2008 Annual General Meeting	30 April 2008
2007 Final ordinary dividend payment	5 June 2008
2008 Half year results announcement	29 July 2008
2008 Interim ordinary dividend payment	9 October 2008
2008 Preference dividend payments	30 June 2008
	31 December 2008
2008 Full year results announcement	February 2009

Analysis of ordinary shareholders as at 20 February 2008	No. of holders	No. of shares	% of issued capital
By size of holding			
1 – 1,000	2,403	1,084,546	0.77
1,001 – 5,000	1,848	4,162,858	2.97
5,001 – 10,000	239	1,709,213	1.22
10,001 – 50,000	231	5,127,221	3.66
50,001 – 100,000	57	4,007,179	2.86
100,001 – 500,000	116	26,250,584	18.76
500,001 – upwards	54	97,608,368	69.76
	4,948	139,949,969	100.00
By type of holder			
Private holders	3,468	8,589,614	6.14
Institutional and corporate holders	1,476	125,581,007	89.74
Treasury shares	1	3,757,589	2.68
Shares held in Croda trusts	3	2,021,759	1.44
	4,948	139,949,969	100.00

Investor relations

Shareholders can now get up to date information on Stock Exchange announcements, key dates in the corporate calendar, the Croda share price and brokers' estimates by visiting our corporate web site at www.croda.com and clicking on the section called "Investor Centre".

Shareholders can receive shareholder communications electronically by registering on our corporate website www.croda.com. To register click on Company, Investor Centre followed by "Investor alerts by email". Receiving corporate communications by email has a number of benefits including being more environmentally friendly, reducing unnecessary waste, faster notification of information to shareholders and eventually leading to a reduction in Company costs.

Shareholders can check their shareholdings on the Registrars' website, www.capitaregistrars.com. Please note that in order to gain access to this information, shareholders will require their investor reference. This is an 11 digit number starting with either five or six zeros and is printed on each dividend warrant.

Share price information

As well as being available on our website, the latest ordinary share price is available on the Financial Times Cityline service (0906 003 2278) or via the BBC's broadcast teletext service.

The middle market values of the listed share capital at 31 December 2007, or last date traded*, were as follows:

Ordinary shares	581p
5.9% preference shares	92p*
6.6% preference shares	100p*

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
7.5% preference shares (estimated)	45.0p

Dividend Reinvestment Plan

Ordinary shareholders may have their dividends reinvested in Croda ordinary shares by participating in the Dividend Reinvestment Plan. The plan is available to all ordinary shareholders provided that they do not live in, and are not subject to the jurisdiction of, any country where their participation in the plan would require the Company or the plan administrator to take action to comply with local government or regulatory procedures or any similar formalities. Any shareholder wishing to obtain details of the plan and a mandate form should contact:

Capita Registrars
Dividend Reinvestment Plans
The Registry
34 Beckenham Road
BECKENHAM
BR3 4BR

Those wishing to participate for the first time in the plan should send their completed mandate form to Capita Registrars so as to be received by 12 May 2008 for it to be applicable to the payment of the final dividend on 5 June 2008. Existing participants should take no action unless they wish to alter their current mandate instructions, in which case they should contact Capita Registrars.

Shareholder information

International payment of dividends

Our registrar, Capita Registrars, has introduced an International Payment Service that allows you to receive your dividend payments in your local currency, sent directly to your local bank account – potentially saving you time and money. Further details are available from Shareholder Administration, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; telephone UK: 0871 664 0386 (Calls cost 10 pence per minute plus network extras) or +44 20 8639 3405 (from outside the UK) or by logging on to www.capitaregistrars.com/international.

Share dealing

Share dealing services are available for shareholders to either sell or buy Croda ordinary shares. For further information on these services, please contact:

UK shareholders only - Capita Share Dealing Services
www.capitadeal.com (on-line dealing)
0871 664 0446 (telephone dealing) - calls cost 10p per minute plus network extras

UK & overseas shareholders - Stocktrade
Telephone dealing 0845 601 0995 (non UK +44 131 240 0414) quoting reference Low Co0238
For further information visit www.stocktrade.co.uk/Croda

Warning to shareholders

In recent years many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based "brokers" who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive and a 2006 survey by the Financial Services Authority ("FSA") has reported that the average amount lost by investors is around £20,000. It is not just the novice investor that has been duped in this way; many of the victims have been investing successfully for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

If you receive any unsolicited investment advice:

- Make sure that you get the correct name of the person and organisation
- Check that they are properly authorised by the FSA before getting involved. You can check at www.fsa.gov.uk/register
- The FSA also maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted, UK investors and any approach from such organisations should be reported to the FSA so that this list can be kept up to date and any other appropriate action can be considered. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation scheme. The FSA can be contacted by completing an on line form at www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml
- Inform our Registrar's compliance department on 020 8639 2041 or email compliance@capitaregistrars.com

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FSA website www.fsa.gov.uk/consumer.

Secretary and registered office

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Registered in England number 206132

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+ 44 20 8639 3399 (from overseas)
Fax: 01484 601512 (from UK)
+ 44 1484 601512 (from overseas)
Website: www.capitaregistrars.com
E-mail: shareholder.services@capitaregistrars.com

Auditors

PricewaterhouseCoopers LLP

Merchant bankers

UBS Limited

Solicitors

Eversheds LLP
Heptonstalls LLP

Stockbrokers

UBS Limited
Morgan Stanley & Co. International plc

Pension fund managers

UBS Global Asset Management (UK) Limited
Schroder Investment Management Limited
Legal & General Investment Management
Macquarie Capital Funds (Europe) Limited
CB Richard Ellis Collective Investors Limited
Edinburgh Partners Limited
Babcock & Brown
Innisfree Limited

Consulting actuaries

Watson Wyatt Limited

Five year record

In 2005 the Group adopted IFRS and in accordance with the requirements of IFRS, 2004 figures were restated. Restatement of earlier years is not required under IFRS and accordingly the information presented below for 2003 is as prepared under UK GAAP. The main adjustment that would be required to comply with IFRS would be with regard to the recognition of pension fund liabilities on the balance sheet. The pension fund prepayment shown on the summarised balance sheet in 2003 would have been replaced with a net liability as measured under IAS 19.

Earnings	2007	2006	IFRS	2004	UK GAAP
	£m	£m	2005	£m	2003
			£m		£m
Turnover	886.1	480.1	289.9	265.5	303.4
Operating profit	88.7	59.7	51.4	45.1	41.6
Profit before tax	66.5	52.5	49.4	43.1	38.7
Profit after tax	44.2	35.0	32.2	27.9	25.0
Profit attributable to ordinary shareholders *	87.2	7.9	32.6	30.5	25.0
	%	%	%	%	%
Operating profit as a % of turnover **	10.0	7.5	17.7	17.0	13.7
Return on invested capital (ROIC) **	8.1	6.9	12.5	11.4	11.1
Effective tax rate	33.5	33.3	34.8	35.3	35.4
	pence	pence	pence	pence	pence
Earnings per share *	37.1	28.9	25.6	22.2	19.2
Dividends per share	15.75	14.30	13.35	12.5	11.85
	times	times	times	times	times
Net debt/EBITDA **	2.8	3.3	0.4	0.2	0.5
EBITDA interest cover **	5.8	4.2	35.1	32.3	19.4

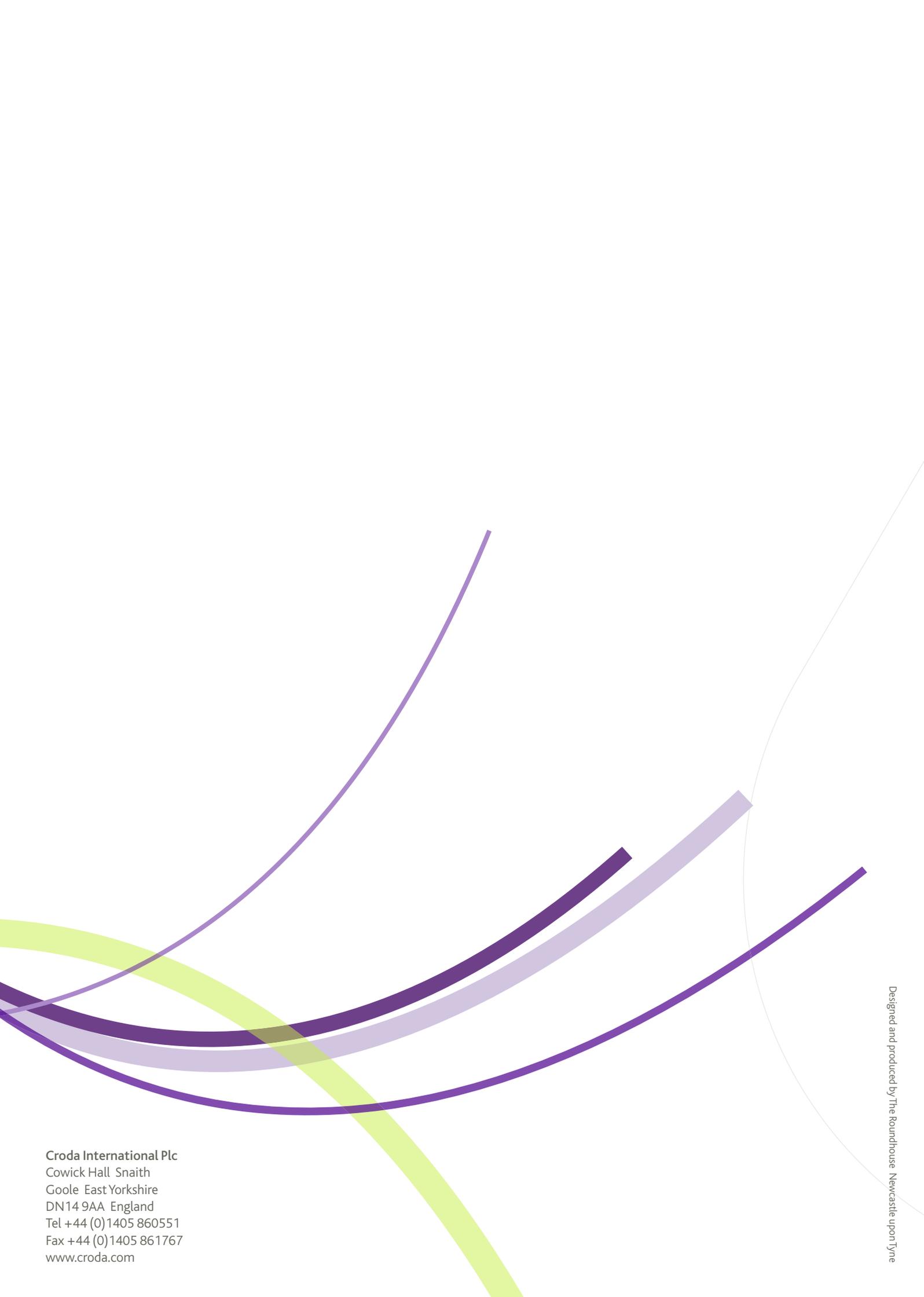
* Total Group figures, all other IFRS figures are continuing operations only.

** 2006 pro-forma full year Uniqema.

Earnings exclude exceptional items in order to present a clearer year on year comparison.

Summarised balance sheet	2007	2006	2005	2004	2003
	£m	£m	£m	£m	£m
Fixed assets	555.8	551.5	130.3	144.8	150.3
Stock	161.4	133.5	53.4	52.0	51.8
Debtors	186.4	192.5	55.7	54.9	57.3
Creditors	(178.8)	(198.4)	(44.6)	(41.9)	(47.0)
Other	1.6	2.0	15.4	-	-
Capital employed	726.4	681.1	210.2	209.8	212.4
Dividends, tax and provisions	(81.4)	(64.9)	1.7	(0.9)	(52.9)
Pension fund liability	(59.3)	(159.9)	(107.1)	(104.1)	33.1
	585.7	456.3	104.8	104.8	192.6
Shareholders funds	218.0	124.5	79.7	88.8	162.4
Minority interests	1.7	1.9	0.9	0.8	1.2
Net debt	219.7	126.4	80.6	89.6	163.6
	366.0	329.9	24.2	15.2	29.0
	585.7	456.3	104.8	104.8	192.6
Gearing (%)	166.6	261.0	30.0	17.0	17.7





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