04/02/02

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. When considering what action you should take, you should seek your own personal financial advice immediately from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser authorised under the Financial Services and Markets Act 2000.

UBS Warburg, Goldman Sachs International and Merrill Lynch are acting as underwriters and financial advisers and UBS Warburg is acting as sponsor for ICI and no-one else in connection with the Rights Issue and none of them will be responsible to anyone other than ICI for providing the protections offered to clients of UBS Warburg, Goldman Sachs International and Merrill Lynch respectively nor for providing advice in relation to the Rights Issue.

If you sell or have sold or otherwise transferred all of your existing ICI Shares (other than ex-rights) in certificated form before 26 February 2002 (the "ex-rights date"), please send this document and any accompanying document at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom you sell or have sold or otherwise transferred your ICI Shares for delivery to the purchaser or transferee. If you sell or have sold or otherwise transferred ICI Shares held in uncertificated form before the ex-rights date, a claim transaction will automatically be generated by CRESTCo which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

The distribution of this document and/or the accompanying documents, and/or the transfer of Nil Paid Rights or Fully Paid Rights, through CREST or otherwise, in jurisdictions other than the UK may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any of those restrictions. Any failure to comply with any of those restrictions may constitute a violation of the securities laws of any such jurisdiction.

A copy of this document, which comprises a prospectus relating to the new ICI Shares prepared in accordance with the listing rules made under section 74 of the Financial Services and Markets Act 2000, has been delivered to the Registrar of Companies in England and Wales for registration as required by section 83 of that Act. A copy of this document has also been delivered to the Registrar of Companies in Ireland, together with copies of the consents referred to in paragraph 16 of Part 6 of this document and the contracts referred to in paragraph 14 of Part 6 of this document as required by section 47 of the Irish Companies Act 1963.

ICI Shares are listed on the Official List and traded on the London Stock Exchange. ICI ADSs are traded on the New York Stock Exchange. Application has been made to the UK Listing Authority and to the London Stock Exchange for the new ICI Shares to be admitted to the Official List and to trading on the London Stock Exchange's market for listed securities. It is expected that admission of the new ICI Shares to the Official List and trading on the London Stock Exchange's market for listed securities will become effective and that dealings will commence, nil paid, in the new ICI Shares on 26 February 2002. Application will also be made for the new ICI ADSs to be listed on the New York Stock Exchange.

Imperial Chemical Industries PLC

c/no 218019

7 for 11 Rights Issue of up to 463,277,500 new ICI Shares at 180 pence per share

Subject to the passing of the Resolutions at the Extraordinary General Meeting on 25 February 2002, and the Rights Issue otherwise becoming unconditional, the latest time and date for acceptance of the Rights Issue is expected to be 9.30 a.m. on 20 March 2002. The procedures for acceptance and payment are set out in Part 3 of this document and, for Qualifying non-CREST Shareholders only, also in the Provisional Allotment Letter. Qualifying CREST Shareholders should refer to paragraph 4 of Part 3 of this document.

Your attention is drawn to the letter of recommendation from the Chairman of ICI which appears in Part 1 of this document.

This document is intended for use only in connection with offers and sales of rights to the new ICI Shares to persons outside the United States and is not to be sent or given to any person within the United States. The shares and share rights offered in this document are not being registered under the US Securities Act of 1933 (as amended) for the purpose of sales outside the US. If you have received this document and are a holder of ICI ADSs or a US Holder of ICI Shares you should have been sent a copy of the US Prospectus. For details of how to obtain a copy of the US Prospectus, you should refer to paragraph 7(c) of Part 3 of this document.

Neither this document nor any other document relating to the Rights Issue shall be provided by any means to any persons inside the Republic of France until the French Commission des Opérations de Bourse has granted its visa on the prospectus.

It is expected that Provisional Allotment Letters will be despatched to Qualifying non-CREST Shareholders other than those resident in Australia, Belgium, Canada, Japan or South Africa on 25 February 2002. Qualifying CREST Shareholders will not (except in the circumstances described below) receive a Provisional Allotment Letter. Qualifying CREST Shareholders other than those resident in Australia, Belgium, Canada, Japan or South Africa are expected to receive a credit to their appropriate stock accounts in CREST in respect of the Nil Paid Rights to which they are entitled on 26 February 2002. The Nil Paid Rights so credited are expected to be enabled for settlement by CRESTCo as soon as practicable after admission of the new ICI Shares to the Official List. If the Nil Paid Rights are for any reason not enabled by 11.00 a.m. on 26 February 2002, Provisional Allotment Letters shall, unless the Underwriters agree otherwise, be sent to each Qualifying CREST Shareholder outside such jurisdictions in substitution for the Nil Paid Rights credited to that Qualifying CREST Shareholder's stock account in CREST.

Qualifying Non-CREST Shareholders should retain this document for reference pending receipt of a Provisional Allotment Letter. Qualifying CREST Shareholders should note that they will receive no further written communication from ICI in respect of the Rights Issue. They should accordingly retain this document for, amongst other things, details of the action they should take in respect of the Rights Issue. Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Rights Issue.

The attention of Overseas Shareholders is drawn to paragraph 7 of Part 3 of this document.

Notice of an Extraordinary General Meeting of ICI to be held at Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1 on Monday, 25 February 2002 at 9.30 a.m., is set out at the end of this document. A Form of Proxy for use at the Extraordinary General Meeting is enclosed and, to be valid, should be completed and returned as soon as possible, but in any event so as to be received by Lloyds TSB Registrars not later than 9.30 a.m. on 23 February 2002.

Contents

		Page
Expected Timetable of Principal Events		3
Directors, Company Secretary and Advisers		4
Part 1	Letter from the Chairman of ICI	5
Part 2	Some Questions and Answers on the Rights Issue	11
Part 3	Further Terms and Conditions of the Rights Issue	16
Part 4	Financial Information	28
	– Chairman's Statement	28
	– Operating and Financial Review	35
	– Audited Financial Statements	63
Part 5	Investment Considerations	134
Part 6	Additional Information	140
Part 7	Definitions	165
Notice of Extraordinary General Meeting		169

WHERE TO FIND HELP

Part 2 of this document answers some of the questions most often asked by shareholders about rights issues and the procedure for acceptance and payment. If you have further questions, please telephone the Shareholder Helpline on the numbers set out below. This helpline is available from 8.00 a.m. to 8.00 p.m. Monday to Friday and from 10.00 a.m. to 4.00 p.m. on Saturday and will remain open until 15 April 2002.

Shareholder Helpline telephone numbers: **0800 096 4008 (From inside the UK)**
+44 20 7335 8757 (From outside the UK)

Note: For legal reasons, the Shareholder Helpline will only be able to provide information contained in this document (and in addition information relating to ICI's register of members) and will be unable to give advice on the merits of the Rights Issue or to provide financial or investment advice.

Cautionary statement regarding forward-looking statements

This document contains certain statements that are or may be forward-looking. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual events and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, the investment considerations described in Part 5 of this document.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2002
Record Date for the Rights Issue	Close of business on 20 February
Latest time for receipt of Forms of Proxy	9.30 a.m. on 23 February
Extraordinary General Meeting	**9.30 a.m. on 25 February**
Despatch of Provisional Allotment Letters (to Qualifying non-CREST Shareholders only)	25 February
Nil Paid Rights credited to stock accounts in CREST (Qualifying CREST Shareholders only)	26 February
Dealings in new ICI Shares, nil paid, commence on the London Stock Exchange	**8.00 a.m. on 26 February**
Recommended latest time for requesting withdrawal of Nil Paid Rights from CREST (i.e. if your Nil Paid Rights are in CREST and you wish to convert them into certificated form)	9.30 a.m. on 13 March
Latest time and date for depositing renounced Provisional Allotment Letters, nil paid, into CREST or for dematerialising Nil Paid Rights into a CREST stock account	3.00 p.m. on 15 March
Latest time and date for splitting Provisional Allotment Letters, nil paid	3.00 p.m. on 18 March
Dealings in Fully Paid Rights commence on the London Stock Exchange	8.00 a.m. on 19 March
Latest time and date for acceptance and payment in full	**9.30 a.m. on 20 March**
Recommended latest time for requesting withdrawal of Fully Paid Rights from CREST (i.e. if your Fully Paid Rights are in CREST and you wish to convert them into certificated form)	9.30 a.m. on 27 March
Latest time and date for splitting Provisional Allotment Letters, fully paid	3.00 p.m. on 3 April
Latest time for depositing renounced Provisional Allotment Letters, fully paid, into CREST or for dematerialising Fully Paid Rights into a CREST stock account	3.00 p.m. on 3 April
Latest time and date for registration of renunciation of Provisional Allotment Letters, fully paid	3.00 p.m. on 5 April
New ICI Shares credited to CREST stock accounts	8 April
Despatch of definitive share certificates for new ICI Shares in certificated form	12 April

Notes:

(i) The dates set out in the expected timetable of principal events above and mentioned throughout this document and in the Provisional Allotment Letter may be adjusted by ICI, in which event details of the new dates will be notified to the UK Listing Authority and to the London Stock Exchange and, where appropriate, to ICI Shareholders.

(ii) References to times in this document are to London time unless otherwise stated.

DIRECTORS, COMPANY SECRETARY AND ADVISERS

Directors

Lord Trotman	Chairman
Dr. Brendan R. O'Neill	Chief Executive
Paul J. Drechsler	Director
Dr. John D. G. McAdam	Director
William H. Powell	Director
Timothy A. Scott	Chief Financial Officer
Adri Baan	Non-Executive Director
Lord Butler	Non-Executive Director
Joseph T. Gorman	Non-Executive Director
Richard N. Haythornthwaite	Non-Executive Director

all of 9 Millbank, London, SW1P 3JF

Company Secretary

Debjani Jash
9 Millbank
London
SW1P 3JF

Registered and head office

Imperial Chemical House
Millbank
London
SW1P 3JF

Sponsor, underwriter, financial adviser and broker

UBS Warburg
1 Finsbury Avenue
London
EC2M 2PP

Underwriter, financial adviser and broker

Merrill Lynch International
2 King Edward Street
London
EC1A 1HQ

Legal adviser to the Underwriters on English law

Allen & Overy
One New Change
London
EC4M 9QQ

Legal adviser to the Underwriters on US law

Sullivan & Cromwell
St. Olave's House
9a Ironmonger Lane
London EC2V 8EY

Legal adviser to ICI on English law

Freshfields Bruckhaus Deringer
65 Fleet Street
London
EC4Y 1HS

Legal adviser to ICI on US law

Davis Polk & Wardwell
99 Gresham Street
London
EC2V 7NG

Underwriter and financial adviser

Goldman Sachs International
Peterborough Court
133 Fleet Street
London
EC4A 2BB

Auditors

KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB

Registrars

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Receiving agents

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

PART 1 – Letter from the Chairman of ICI

To ICI Shareholders and, for information only, to participants in the ICI Share Option Schemes

4 February 2002

7 for 11 Rights Issue of up to 463,277,500 new ICI Shares at 180 pence per share

Dear Shareholder

Introduction

Your Board announced today that ICI is proposing to raise approximately £808 million, net of expenses, by the issue of up to 463,277,500 new ICI Shares at a price of 180 pence per share. The issue is being made by way of a rights issue to Qualifying Shareholders on the basis of 7 new ICI Shares for every 11 existing ICI Shares held at the close of business on 20 February 2002. The Issue Price of 180 pence per new ICI Share represents a 44 per cent. discount to the closing middle market price of 324 pence per ICI Share on 1 February 2002, the last business day before the date of this letter. The Rights Issue is fully underwritten.

ICI also intends to divest Synetix, its catalysts business.

The purpose of this document is to provide you with details of the Rights Issue and to explain why the Directors believe that the Rights Issue is in the best interests of ICI and its shareholders as a whole.

This document also contains ICI's operating and financial review for the fourth quarter and full year and its audited results for the year ended 31 December 2001 released today, which are set out in Part 4 of this document.

Set out at the end of this document is a notice convening an Extraordinary General Meeting of ICI to be held at Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1 on Monday, 25 February 2002 at 9.30 a.m. to pass Resolutions to increase ICI's authorised share capital and to grant the Directors authority to allot shares in relation to the Rights Issue. The Rights Issue is conditional upon, amongst other things, the passing of those Resolutions.

UBS Warburg is acting as sponsor to ICI with regard to the Rights Issue. The Rights Issue is being underwritten by UBS Warburg, Goldman Sachs and Merrill Lynch. UBS Warburg, Goldman Sachs and Merrill Lynch are acting as financial advisers to ICI in relation to the Rights Issue. UBS Warburg and Merrill Lynch are acting as ICI's brokers.

Background to and reasons for the Rights Issue

The Group's strategic transformation, which began in 1997, is essentially complete. ICI has refocused its business from commodity chemicals into higher added value specialty products and paints, addressing specific and specialised customer needs. ICI's businesses are now more knowledge intensive than capital intensive and focused on delivering innovative products to customers in a wide range of sectors of the world economy.

ICI's speciality products and paint businesses, referred to as the International Businesses, comprise National Starch, Quest, Performance Specialties and Paints. These businesses serve diverse consumer and industrial markets through some 40 strategic business units, comprising close to 100 operating units with an array of market leadership positions across the world. In addition, a number of Regional and Industrial Businesses remain in the Group's portfolio.

ICI's higher growth potential businesses include electronic and engineering materials, specialty food starches, flavours and fragrances, personal care ingredients and decorative paints in Asia.

ICI's objective is to be an industry leader in its chosen markets, creating superior value for its customers and shareholders. ICI's aim is to build on the strength of the International Businesses, harnessing the Group's geographic reach and maximising its technology and creativity for the benefit of its customers.

To support this, ICI maintains a constant focus on improving its businesses' operational performance. In 2001, ICI initiated a wide ranging restructuring programme across all of its International Businesses in order to underpin future growth as well as to provide both cost savings and working capital improvements.

The Board believes that the International Businesses have a quality customer and product mix, have strong management teams and have potential for profitable growth.

The Board believes the results announced today demonstrate the quality and resilience of the business in a tough economic climate. Sales on a like-for-like basis for the International Businesses for the year ended 31 December 2001 were in line with last year despite the difficult external environment. The Group's trading profit (before goodwill amortisation and exceptional items) was only 6 per cent. lower than in 2000.

However, a consequence of the divestment of most of its commodity industrial chemicals portfolio – more than 50 businesses in the last four years – has been ICI suffering cash outflows associated with restructuring charges, pensions top-up payments and other charges.

As at 31 December 2000 ICI's net debt stood at £2,799 million, and interest cover for the 2000 financial year was 3.2 times. By 30 September 2001, net debt had risen to £3,109 million, but interest cover for the first 9 months of 2001 improved to 3.5 times as ICI benefited from lower prevailing interest rates, particularly in the United States.

In the difficult economic circumstances of 2001 divestment proceeds received in the year, which had been intended to pay down indebtedness, fell short of previous expectations. ICI had expected to receive proceeds from the sale of its investment in Huntsman International Holdings, LLC ("HIH") in 2001. However, on 21 December 2001 ICI announced that re-negotiations between the Huntsman Corporation and ICI regarding the sale of ICI's equity in HIH had concluded, and proceeds were now unlikely to be received before the third quarter 2003. In addition, in the aftermath of the tragic events of 11 September 2001, the Company believes that market interest in ICI's investment in Pakistan PTA Limited is unlikely to result in fair value being realised in the near term.

Credit markets also became more difficult generally in the latter part of 2001. Discussions with the credit rating agencies which began at the end of last year have led the Board to conclude that a credit rating downgrade is likely if action is not taken. If the Rights Issue were not to proceed, ICI's financing needs would continue to be met in the debt markets, although the likely rating downgrade would lead to reduced funding options and significantly higher financing costs, which would have a significant impact on the ongoing earnings per share of ICI.

Your Board believes that the proceeds from the Rights Issue, together with the proceeds from a future divestment of Synetix, will secure a stable BBB/Baa2 rating from the credit rating agencies. This will enable the Company to achieve debt refinancing as it is required, on significantly better terms than at a lower credit rating.

Net debt at 31 December 2001 was £2,917 million and the Rights Issue is expected, on closing, to raise approximately £808 million, net of expenses. Proceeds from the Rights Issue and the future divestment of Synetix will be used to pay down debt as it falls due.

Your Board has considered a wide range of options before reaching the conclusion that this decisive action is necessary and believes that it is in the best interests of ICI and its shareholders to take this action now, rather than suffer higher debt financing costs and potential constraints on running the business.

ICI's stated growth policy is to develop its business organically, supplemented by small strategic bolt-on acquisitions. In line with this policy, your Board is not considering any substantial acquisitions nor does it currently plan to consider such acquisitions.

In summary, your Board believes that the transformation to a specialty products and paints company has delivered resilient trading performance. The proceeds of the Rights Issue and the divestment of Synetix will strengthen ICI's balance sheet, improve ICI's financial flexibility and are expected to stabilise ICI's credit rating. Your Board believes that this action should position ICI to realise the growth potential of its technology, creativity and geographic reach, for the benefit of both its customers and shareholders.

Divestment of Synetix

As indicated above, ICI also intends to divest Synetix. In a global market of $8 billion, Synetix focuses on the sales of catalysts and service technologies in key market segments – edible oils, polymerisation, methanol, ammonia, oil

and gas, chemicals, fine chemicals and oleochemicals. Synetix has catalyst production facilities in several countries and is headquartered in the UK, with around 800 employees and 5,000 customers in 85 countries. Your Board believes that Synetix is a strong business in a consolidating industry. ICI has made a decision not to participate in this consolidation and believes Synetix is an attractive asset whose divestment would create more value for ICI's shareholders than its retention as part of the Group. For the year ended 31 December 2001, Synetix had sales of £143 million, trading profit of £24 million and at 31 December 2001 had net operating assets of £101 million.

Results, current trading and prospects

ICI today announced its audited results for the year ended 31 December 2001. These results, which are set out in Part 4 of this document, show that the International Businesses have continued to deliver resilient performance during the fourth quarter, despite difficult trading conditions. Sales for the International Businesses as reported for the fourth quarter of £1,341 million were only marginally below the fourth quarter of the previous year. On a like-for-like basis, fourth quarter sales for the International Businesses were only 1 per cent. below the prior year, and trading profits were in line.

For the full year ended 31 December 2001, turnover for continuing operations of £6,425 million was slightly ahead of the £6,415 million achieved last year. Earnings before interest, tax, depreciation and goodwill amortisation for continuing operations showed a decrease of only 4 per cent. to £782 million. Profit before tax, exceptional items and goodwill amortisation amounted to £401 million, a decrease of 11 per cent. from 2000, while earnings per share before exceptional items and goodwill amortisation of 39.6 pence was 10 per cent. lower.

Although trading figures for January 2002 are not yet available and economic conditions remain uncertain, preliminary indications are that, while results for individual businesses may vary, sales overall have started satisfactorily and the Board believes that prospects for the Group as a whole for the current financial year are satisfactory.

Investment considerations

Part 5 of this document contains certain investment considerations relating to ICI, the Rights Issue and the new ICI Shares.

Dividends

Consistent with its dividend policy announced at the time of publication of the third quarter 2000 results, ICI has announced a second interim dividend (in which the new ICI Shares will not participate) of 9.75 pence per existing ICI Share bringing the total dividend for the year to 16 pence per existing ICI Share. Going forward, as previously stated, dividends are expected to represent about one third of net profit before exceptional items and goodwill amortisation. The new ICI Shares, when issued and fully paid, will rank equally in all respects with existing issued ICI Shares including the right to receive all further dividends or other distributions made, paid or declared after the date of this document except the second interim dividend for 2001 referred to above. The second interim dividend is expected to be paid on 23 April 2002 to ICI Shareholders on the register on 8 March 2002.

Principal terms of the rights issue

Up to 463,277,500 new ICI Shares are being offered in connection with the Rights Issue, with a view to raising approximately £808 million, after expenses. The Issue Price of 180 pence per new ICI Share represents a 44 per cent. discount to the closing middle market price of 324 pence per ICI Share on 1 February 2002, the last business day before the date of this document.

Qualifying Shareholders are being offered new ICI Shares at a price of 180 pence per new ICI Share on the following basis:

7 new ICI Shares for every 11 existing ICI Shares

held and registered in their name at the close of business on 20 February 2002 and so in proportion to any other number of ICI Shares then held.

Fractions of new ICI Shares will not be allotted and Qualifying Shareholders' entitlements will be rounded down to the nearest whole number of new ICI Shares.

The Rights Issue is conditional upon:

(i) the passing of the Resolutions at the EGM, or any adjournment thereof;

(ii) Admission becoming effective by not later than 8.00 a.m. on 26 February 2002 (or such later time and/or date as the Underwriters and ICI may agree (being not later than 5 March 2002)); and

(iii) the Underwriting Agreement otherwise having become unconditional in all respects and not having terminated in accordance with its terms prior to commencement of dealings in the new ICI Shares, nil paid.

Subject, amongst other things, to the passing of the Resolutions, it is intended that Provisional Allotment Letters in respect of the new ICI Shares will be despatched on 25 February 2002 to Qualifying non-CREST Shareholders other than certain Overseas Shareholders at their own risk. It is expected that Nil Paid Rights of Qualifying CREST Shareholders will be credited to their appropriate stock accounts by 8.00 a.m. on 26 February 2002.

It is expected that Admission will become effective on 26 February 2002 and that dealings in the new ICI Shares, nil paid, will commence at 8.00 a.m. on that day.

The Rights Issue is expected to result in the issue of up to 463,277,500 new ICI Shares (representing approximately 39 per cent. of the issued ordinary share capital of ICI, as so enlarged).

UBS Warburg is acting as sponsor to ICI with regard to the Rights Issue. UBS Warburg, Goldman Sachs and Merrill Lynch are acting as financial advisers to ICI in relation to the Rights Issue. The Rights Issue, which is deeply discounted, is being underwritten by UBS Warburg, Goldman Sachs and Merrill Lynch to address ICI's desire for a high level of certainty of funds. The deeply discounted nature of the Rights Issue has also allowed the Company to reduce underwriters' commissions taken as a whole to less than those normally payable on a traditional rights issue and so none of the sub-underwriting commissions are to be offered for tender. A summary of the material terms of the Underwriting Agreement is set out in paragraph 14(h) of Part 6 of this document.

Taxation

Selected information regarding taxation in connection with the Rights Issue is set out in paragraph 11 of Part 6 of this document. ICI Shareholders who are in any doubt as to their tax position should consult an appropriate professional adviser as soon as possible.

Extraordinary General Meeting

At the end of this document, there is a Notice of the Extraordinary General Meeting to be held at Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1 on Monday, 25 February 2002 at 9.30 a.m., at which the resolutions necessary to increase ICI's authorised share capital and to grant the Directors authority to allot shares in relation to the Rights Issue will be put to ICI Shareholders for approval. The authority proposed to be granted to the Directors will not be used for any purpose except in relation to the Rights Issue and, to the extent unused, will lapse at the conclusion of the 2002 Annual General Meeting of ICI.

The Resolutions will be put to a poll rather than a show of hands at the EGM. As the adoption of resolutions at general meetings of the Company is of high importance, your Board wishes to make sure that there is an accurate record of the votes cast by all shareholders, and that the vote is not restricted to those shareholders who find themselves able to attend the EGM.

The Company has a large number of shareholders, some 175,000, and is conscious that it is not possible for them all to attend the EGM. Your Board feels strongly that a poll vote gives fairer weight to the views of all shareholders and that a broad representation of views is essential to ensure the maximum involvement on the part of all shareholders in the Company's decision-making process.

This approach to voting will be adopted by the Company for all future general meetings.

Details of the ordinary share capital of ICI and the authorities granted to the Directors to allot ICI Shares are set out in paragraph 3 of Part 6 of this document.

Action to be taken

You will find enclosed a Form of Proxy for use in relation to the EGM. Whether or not you intend to be present in person at the EGM, you are requested to complete, sign and return the Form of Proxy by post or by hand to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6BJ as soon as possible, but, in any event, so as to arrive by no later than 9.30 a.m. on 23 February 2002. Completion and return of the Form of Proxy will not preclude you from attending the EGM and voting in person should you wish.

You are not required to take any action at present in respect of the Rights Issue. It is intended that if the Resolutions are passed at the Extraordinary General Meeting and the Rights Issue proceeds:

(a) if you are a Qualifying non-CREST Shareholder (unless you have a registered address in Australia, Belgium, Canada, Japan or South Africa) you will be sent a Provisional Allotment Letter giving details of your entitlements to new ICI Shares by post on 25 February 2002; and

(b) if you are a Qualifying CREST Shareholder (unless you have a registered address in Australia, Belgium, Canada, Japan or South Africa) your CREST stock account will be credited with your entitlement to Nil Paid Rights on 26 February 2002.

Please see Part 3 of this document for further terms and conditions of the Rights Issue.

If you sell or have sold or otherwise transferred all of your existing ICI Shares before 26 February 2002 you will not be entitled to participate in the Rights Issue. However, the purchaser or transferee of your ICI Shares may be entitled to participate in the Rights Issue in your place. In this case, please send this document together with the accompanying documents immediately to the purchaser or transferee or to the bank, stockbroker or other agent through whom you sell or have sold or transferred your shares for delivery to the purchaser or transferee.

The latest time for acceptance under the Rights Issue is expected, unless otherwise announced to the Company Announcements Office of the London Stock Exchange by ICI, to be 9.30 a.m. on 20 March 2002. The procedure for acceptance and payment depends on whether, at the time at which acceptance and payment is made, the Nil Paid Rights are in certificated form (that is, are represented by a Provisional Allotment Letter) or are in uncertificated form (that is, are in CREST). The procedures for acceptance and payment are set out in Part 3 of this document. Further details will also appear in the Provisional Allotment Letters that are expected to be sent to Qualifying non-CREST Shareholders (other than certain Overseas Shareholders) in due course.

Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Rights Issue.

Overseas Shareholders and ICI ADS holders

Information for holders of ICI Shares who have registered addresses outside the UK or who are citizens or residents of countries other than the UK appears in paragraph 7 of Part 3 of this document, which sets out the restrictions applicable to such persons. If you are an Overseas Shareholder, it is important that you read that part of this document.

To comply with US securities laws, the Rights Issue is being made to holders of ICI ADSs and US Holders of ICI Shares pursuant to a registration statement expected to become effective on the date of this document. Holders of ICI ADSs and US Holders of ICI Shares should read the US Prospectus. If such holders do not receive a copy of the US Prospectus, a copy can be obtained from the US information agent, Georgeson Shareholder Communications, Inc. on +1 866 431 8984, or from ICI's registered office.

ICI employee share schemes

Details of how participants' rights under ICI's employee share schemes will be affected by the Rights Issue appear in the paragraph entitled "ICI employee share schemes" in paragraph 4 of Part 6 of this document.

Further information

Part 2 of this document answers some of the questions most often asked by shareholders about rights issues and the procedure for acceptance and payment.

If you have any further questions please telephone the Shareholder Helpline on 0800 096 4008 (or +44 20 7335 8757 if you are calling from outside the UK). This Helpline is available from 8.00 a.m. to 8.00 p.m. Monday to Friday and from 10.00 a.m. to 4.00 p.m. on Saturday and will remain open until 15 April 2002. For legal reasons, the Shareholder Helpline will only be able to provide you with information contained in this document (and in addition information relating to ICI's register of members) and will be unable to give advice on the merits of the Rights Issue or to provide financial or investment advice.

Holders of ICI ADSs and US Holders of ICI Shares should refer to paragraph 7(c) of Part 3 of this document and the US Prospectus.

Recommendation

The Directors consider that the Rights Issue is in the best interests of ICI and its shareholders as a whole and accordingly recommend that you vote in favour of the Resolutions as they intend to do in respect of the 295,196 ICI Shares which they own or otherwise control (representing approximately 0.04 per cent. of the Company's issued ordinary share capital).

Your Board has received financial advice in relation to the Rights Issue from UBS Warburg, Goldman Sachs International and Merrill Lynch. In providing their advice to the Board, UBS Warburg, Goldman Sachs International and Merrill Lynch have relied on the Directors' commercial assessment of the Rights Issue and ICI's funding requirements. The Directors intend to take up their full entitlements to new ICI Shares in respect of their own beneficial holdings of ICI Shares.

Yours sincerely

Lord Trotman

Chairman

Imperial Chemical House
Millbank
London
SW1P 3JF

Registered in England No. 218019

PART 2 – Some Questions and Answers on the Rights Issue

The questions and answers set out in this Part 2 are intended to be in general terms only and, as such, you should read Part 3 of this document for full details of what action you should take. If you are in any doubt as to what action you should take, please consult your stockbroker, bank, solicitor, accountant, fund manager or other appropriate financial adviser.

Traditionally, ICI Shares have been held in certificated form (that is, represented by share certificates). Now, many ICI Shares are held in uncertificated form (that is, through CREST). Section A below deals with general questions, and specific questions relating to shares in certificated form. Section B below deals with specific questions relating to shares held in uncertificated form (in CREST).

If you do not know whether your ICI Shares are in certificated or uncertificated form, call the Shareholder Helpline on 0800 096 4008 (or +44 20 7335 8757 if you are calling from outside the UK). For legal reasons, the Shareholder Helpline will only be able to provide information contained in this document (and in addition information relating to ICI's register of members) and will be unable to give advice on the merits of the Rights Issue or to provide financial or investment advice.

SECTION A: GENERAL QUESTIONS AND QUESTIONS FOR HOLDERS WITH SHARE CERTIFICATES

What is a rights issue?

Rights issues are a way for companies to raise money. They do this by giving their existing shareholders a right to buy shares in proportion to their existing shareholdings. This Rights Issue is an offer of 7 new ICI Shares for every 11 ICI Shares held at the close of business on 20 February 2002 (the Record Date for the Rights Issue). So, if you hold ICI Shares on the Record Date, you will be entitled to buy 7 new ICI Shares for every 11 ICI Shares you hold.

New shares are typically offered in a rights issue at a discount to the current share price at the time the offer is made. Because of this discount, the right to buy the new shares is potentially valuable. In this Rights Issue, the Issue Price represents a 44 per cent. discount to the closing middle market price of 324 pence per ICI Share on 1 February 2002, the latest practicable date before the date of this document.

If you do not want to buy the new ICI Shares to which you are entitled, you can instead sell your rights to those shares. This is referred to as dealing "nil paid".

What happens next?

The Company needs to increase its authorised share capital and the Directors need authority to allot the new ICI Shares before the Rights Issue can proceed. These matters need shareholder approval and so ICI has called an Extraordinary General Meeting of ICI Shareholders to be held at Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1 on Monday, 25 February 2002 at 9.30 a.m. Please see the Notice of Extraordinary General Meeting at the end of this document.

You will find enclosed with this document a Form of Proxy for use in relation to the Extraordinary General Meeting. Whether or not you intend to be present in person at the EGM, you are requested to complete, sign and return the Form of Proxy by post or by hand to Lloyds TSB Registrars at The Causeway, Worthing, West Sussex BN99 6BJ as soon as possible, but, in any event, so as to arrive by no later than 9.30 a.m. on 23 February 2002. Completion and return of the Form of Proxy will not preclude you from attending the meeting and voting in person should you wish.

What do I need to do in relation to the Rights Issue?

You are not required to take any action at present in respect of the Rights Issue. It is intended that if the relevant Resolutions are passed at the Extraordinary General Meeting, the Rights Issue will proceed and (assuming you hold ICI Shares in certificated form) it is expected that a Provisional Allotment Letter will be despatched to you on 25 February 2002 (unless your registered address is in Australia, Belgium, Canada, Japan or South Africa).

What are my options and what should I do with the Provisional Allotment Letter when it arrives?

When the Provisional Allotment Letter arrives, it will show:

in Box 1: how many ICI Shares you held at the close of business on 20 February 2002 (the Record Date for the Rights Issue);

in Box 2: how many new ICI Shares you are entitled to buy; and

in Box 3: how much you need to pay if you want to take up your rights in full.

(a) If you want to take up all your rights

If you want to take up all your rights to subscribe for the new ICI Shares to which you are entitled, all you need to do is send the Provisional Allotment Letter, together with your cheque for the full amount shown in Box 3, payable to "Lloyds TSB Bank Plc – ICI Rights Issue" and crossed "A/C payee only", by hand or by post to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA, or by hand only (between normal business hours) to Lloyds TSB Registrars, Antholin House, 71 Queen Street, London, EC4N 1SL to arrive before 9.30 a.m. on 20 March. You can use the reply-paid envelope that will be enclosed with the Provisional Allotment Letter. Paragraph 3(b) of Part 3 of this document has full instructions on how to accept and pay for your new ICI Shares. Instructions will also be set out in the Provisional Allotment Letter. You will be required to pay in full for all the rights you take up. A definitive share certificate will be sent to you for the new ICI Shares you buy.

You will only need your Provisional Allotment Letter to be returned to you if you want to deal in your Fully Paid Rights. Your Provisional Allotment Letter will not be returned to you unless you tick Box 4 on page 1 of the Provisional Allotment Letter. Your definitive share certificate is expected to be despatched to you by 12 April 2002.

(b) If you do not want to take up your rights at all

If you do not want to take up your rights, you do not need to do anything. If you do not return your Provisional Allotment Letter by 9.30 a.m. on 20 March, we have made arrangements under which the Underwriters will try to find investors to take up your rights and those of others who have not taken up their rights by 22 March 2002. If the Underwriters do find investors and are able to achieve a premium over the Issue Price and the related expenses of procuring those investors (including any irrecoverable value added tax) you will be sent a cheque for your share of the amount of that premium. Cheques are expected to be despatched by 2 April 2002 and will be sent to your address appearing on ICI's register of members (or to the first named holder if you hold your shares jointly).

(c) If you want to take up some but not all of your rights

If you want to take up some but not all of your rights and wish to sell some or all of those you do not want to take up, you should first apply to have your Provisional Allotment Letter split by completing Form X on page 4 of the Provisional Allotment Letter, and returning it to Lloyds TSB Registrars, Antholin House, 71 Queen Street, London EC4N 1SL, to be received by 3.00 p.m. on 18 March 2002, the last time and date for splitting Provisional Allotment Letters, nil paid, together with a covering letter stating the number of split Provisional Allotment Letters required and the number of Nil Paid Rights to be comprised in each split Provisional Allotment Letter. You should then deliver the split Provisional Allotment Letter representing the new ICI Shares you wish to accept together with your cheque to Lloyds TSB Registrars to be received by 9.30 a.m. on 20 March, the last date and time for acceptance and payment in full.

If you want only to take up some of your rights (but not sell the rest yourself), you should also follow the procedure to apply for split Provisional Allotment Letters in accordance with the previous paragraph.

How do I know if I am eligible to participate in the Rights Issue?

If you receive a Provisional Allotment Letter then you should be eligible to participate in the Rights Issue (as long as you do not sell all of your ICI Shares before 26 February 2002 (the ex-rights date)).

What if I do not receive a Provisional Allotment Letter?

If you do not receive a Provisional Allotment Letter and you do not hold your ICI Shares in CREST, this probably means that you are not eligible to participate in the Rights Issue. Some Qualifying Shareholders, however, will not receive a Provisional Allotment Letter, namely:

- Qualifying CREST Shareholders (please see section B below);

- Qualifying non-CREST Shareholders who bought ICI Shares before 26 February 2002 but were not registered as the holders of those ICI Shares at the close of business on 20 February 2002; and
- certain Overseas Shareholders.

If you do not receive a Provisional Allotment Letter (these are expected to be sent on 25 February 2002) but think that you should have received one, please contact the Shareholder Helpline on 0800 096 4008 (or +44 20 7335 8757 if you are calling from outside the UK). For legal reasons, the Shareholder Helpline will only be able to provide information contained in this document (and in addition information relating to ICI's register of members) and will be unable to give advice on the merits of the Rights Issue or to provide financial or investment advice.

How many new ICI Shares am I entitled to buy?

Box 2 on page 1 of the Provisional Allotment Letter will show the number of new ICI Shares you are entitled to buy. You are entitled to 7 new ICI Shares for every 11 ICI Shares held on 20 February 2002, the Record Date (rounding down any fractions).

If I buy ICI Shares after the Record Date for the Rights Issue (20 February 2002), will I be eligible to participate in the Rights Issue?

If you buy ICI Shares after the Record Date but prior to 26 February 2002, the date the ICI Shares start trading ex-rights (that is, without the right to participate in the Rights Issue), you will be eligible to participate in the Rights Issue. If you buy ICI Shares on or after 26 February 2002, you will not be eligible in respect of those shares.

If I take up my rights, when will I receive my new share certificate?

If you take up your rights under the Rights Issue, share certificates for the new ICI Shares are expected to be posted by 12 April 2002.

Am I entitled to fractions of the shares?

Your entitlement is calculated by multiplying your holding of ICI Shares by 7 and dividing the result by 11. If the result is not a whole number, your entitlement will be rounded down to the nearest whole number, meaning that you will not receive a new ICI Share in respect of the fractional entitlement. The new ICI Shares representing the aggregated fractional entitlements of all ICI Shareholders will not be allotted.

Will I be taxed if I take up or sell my rights or if my rights are sold on my behalf?

If you are resident in the UK for tax purposes, you will not have to pay UK tax when you take up your rights, although the Rights Issue will affect the amount of UK tax you may pay when you sell your ICI Shares. However, you may be subject to capital gains tax on any proceeds you receive from the sale of your rights (unless, generally, the proceeds do not exceed £3,000, although in that case the amount of UK tax you may pay when you sell your ICI Shares will be affected).

Further information for Qualifying Shareholders who are resident in the UK, France, the Netherlands and the Republic of Ireland for tax purposes is contained in paragraph 11 of Part 6 of this document. Qualifying Shareholders who are in any doubt as to their tax position, or who are subject to tax in any other jurisdiction, should consult an appropriate professional adviser as soon as possible.

I understand that there is a period when there is trading in the Nil Paid Rights. What does this mean?

If you do not want to buy the new ICI Shares being offered to you under the Rights Issue, you can instead sell or transfer your rights (called Nil Paid Rights) to those new ICI Shares and receive the net proceeds of the sale or transfer in cash. This is referred to as dealing "nil paid". This means that, during the Rights Issue offer period, you can either purchase ICI Shares (which will not carry any entitlement to participate in the Rights Issue) or you can trade in the Nil Paid Rights. See paragraph 3(d) of Part 3 of this document for more details.

What if I want to sell the new ICI Shares I have paid for?

Provided the new ICI Shares have been paid for and you have requested the return of the receipted Provisional Allotment Letter, you can transfer the Fully Paid Rights by completing Form X, the form of renunciation, on the back of the receipted Provisional Allotment Letter in accordance with the instructions set out on page 4 of the Provisional Allotment Letter until 3.00 p.m. on 5 April 2002. See paragraph 3(e) of Part 3 of this document for more details.

After that date, you will be able to sell your new ICI Shares in the normal way. However, the share certificate relating to your new ICI Shares is expected to be despatched to you by 12 April 2002. Pending despatch of such share certificate, instruments of transfer may be certified by Lloyds TSB Registrars against the register.

What if I am entitled to ICI Shares under an ICI Share Option Scheme?

Participants in ICI Share Option Schemes will be advised separately of adjustments (if any) to their rights under the ICI Share Schemes or as to any entitlement to participate in the Rights Issue.

What should I do if I live outside the UK?

Your ability to take up rights to new ICI Shares may be affected by the laws of the country in which you live and you should take professional advice about any formalities you need to observe. Shareholders resident outside the UK – particularly those resident in Australia, Belgium, Canada, Japan or South Africa – should refer to paragraph 7 of Part 3 of this document.

To comply with US securities laws, the Rights Issue is being made to holders of ICI ADSs and US Holders of ICI Shares pursuant to a registration statement expected to become effective on the date of this document. If you are such a holder and you have not received a copy of the US Prospectus which forms part of the registration statement, you should contact the US information agent, Georgeson Shareholder Communications, Inc., on +1 866 431 8984 to obtain a copy.

Your attention is drawn to the further terms and conditions of the Rights Issue in Part 3 of this document and (in the case of Qualifying non-CREST Shareholders) to be contained in the Provisional Allotment Letter.

SECTION B: QUESTIONS FOR HOLDERS WITH SHARES IN CREST

How do I know if I am eligible to participate in the Rights Issue?

If you are a Qualifying CREST Shareholder (save as mentioned below) and assuming the Rights Issue proceeds as planned, your CREST stock account(s) is expected to be credited with your entitlement to Nil Paid Rights on 26 February 2002. The stock account(s) to be credited will be the account(s) under the participant ID and member account ID that apply to your ICI Shares on the Record Date. If you are a CREST sponsored member, you should consult your CREST sponsor if you wish to check that your account has been credited with your entitlement to Nil Paid Rights. The CREST stock accounts of Overseas Shareholders with registered addresses in Australia, Belgium, Canada, Japan or South Africa will not be credited with Nil Paid Rights. Overseas Shareholders should refer to paragraph 7 of Part 3 of this document.

How do I take up my rights using the CREST system?

If you are a Qualifying CREST Shareholder you should refer to paragraph 4 of Part 3 of this document for details on how to take up and pay for your rights.

If you are a CREST member you can make a valid acceptance by ensuring that a Many-to-Many instruction has been input and has settled by 9.30 a.m. on 20 March 2002.

If your ICI Shares are held by a nominee or you are a CREST sponsored member you should speak directly to the stockbroker who looks after your shares or your CREST sponsor (as appropriate) who will be able to help you.

If I buy or have bought ICI Shares before 26 February 2002 (the date that trading in the Nil Paid Rights commences), will I be eligible to participate in the Rights Issue?

If you buy or have bought ICI Shares before 26 February 2002, but were not registered as the holder of those ICI Shares at the Record Date for the Rights Issue (20 February 2002), you may still be eligible to participate in the Rights Issue. CRESTCo will raise claims in the normal manner in respect of your purchase and your Nil Paid Rights will be credited to your stock account(s) on settlement of those claims.

You will not be entitled to Nil Paid Rights in respect of any ICI Shares acquired on or after 26 February 2002, the ex-rights date.

What should I do if I sell or have sold or transferred all or some of my ICI Shares before 26 February 2002?

Where you sell or have sold or transferred all of your ICI Shares, you should send this document and the accompanying documents to the purchaser or transferee or to the stockbroker, bank or other financial adviser through whom you made the sale or transfer. A claim transaction in respect of that sale or transfer will automatically be generated by CRESTCo which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

How many new ICI Shares am I entitled to acquire?

Your stock account will be credited with Nil Paid Rights in respect of the number of new ICI Shares to which you are entitled based on the number of ICI Shares you hold on the Record Date. You can also view the claim transactions in respect of purchases/sales effected after this date. If you are a CREST sponsored member, you should consult your CREST sponsor.

If I take up my rights, when will new ICI Shares be credited to my CREST stock account(s)?

If you take up your rights under the Rights Issue, new ICI Shares will be credited to the CREST stock account(s) in which you hold your Fully Paid Rights on 8 April 2002.

Your attention is drawn to the further terms and conditions of the Rights Issue in Part 3 of this document.

PART 3 – Further Terms and Conditions of the Rights Issue

1. Terms and conditions of the Rights Issue

The new ICI Shares will be offered by way of rights to Qualifying Shareholders on the following basis and otherwise on the terms and conditions set out in this document (and in the case of Qualifying non-CREST Shareholders, the Provisional Allotment Letter):

7 new ICI Shares at 180 pence per new ICI Share

for every 11 existing ICI Shares

held and registered in their name at the close of business on 20 February 2002 and so in proportion for any other number of ICI Shares then held.

Holdings of ICI Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue. Entitlements to new ICI Shares will be rounded down and the aggregated fractions will not be allotted.

The attention of Overseas Shareholders is drawn to paragraph 7 of this Part 3.

Application has been made to the UK Listing Authority and to the London Stock Exchange for the new ICI Shares to be admitted to the Official List and to trading on the London Stock Exchange's market for listed securities. It is expected that Admission will become effective on 26 February 2002 and that dealings in the new ICI Shares will commence, nil paid, at 8.00 a.m. on that date.

The Rights Issue is conditional upon:

(i) the passing of the Resolutions at the EGM, or any adjournment thereof;

(ii) Admission becoming effective by not later than 8.00 a.m. on 26 February 2002 (or such later time and/or date as the Underwriters and ICI may agree (being not later than 5 March 2002)); and

(iii) the Underwriting Agreement otherwise having become unconditional in all respects and not having terminated in accordance with its terms prior to commencement of dealings in the new ICI Shares, nil paid.

Subject, amongst other things, to the passing of the Resolutions, it is intended that Provisional Allotment Letters in respect of the new ICI Shares will be despatched on 25 February 2002 to Qualifying non-CREST Shareholders other than certain Overseas Shareholders at their own risk.

The existing ICI Shares are already admitted to CREST. Applications have been made for the Nil Paid Rights and the Fully Paid Rights to be admitted to CREST. CRESTCo requires ICI to confirm to it that the new ICI Shares have been admitted to the Official List before CRESTCo will admit any security to CREST. As soon as practicable after Admission, ICI will confirm this to CRESTCo.

It is expected that:

(a) Lloyds TSB Registrars will instruct CRESTCo to credit the appropriate stock accounts of Qualifying CREST Shareholders with such shareholders' entitlements to Nil Paid Rights, with effect from 8:00 a.m. on 26 February 2002; and

(b) the Nil Paid Rights and the Fully Paid Rights will be enabled for settlement by CRESTCo on 26 February 2002, as soon as practicable after ICI has confirmed to CRESTCo that all the conditions for admission of such rights to CREST have been satisfied.

The new ICI Shares will, when issued and fully paid, rank equally in all respects with the existing issued ICI Shares, including the right to receive all dividends or distributions made, paid or declared after the date of this document except the second interim dividend for the year 2001.

The Underwriters have agreed to underwrite the Rights Issue in accordance with the terms and subject to the conditions in the Underwriting Agreement. The Underwriting Agreement is conditional on certain matters being satisfied or not breached prior to the commencement of dealings in the new ICI Shares, nil paid, and may also be terminated by the Underwriters prior to the commencement of dealings in the new ICI Shares, nil paid upon the occurrence of certain events, in which case the Rights Issue will not proceed. The Underwriters may arrange sub-underwriting for some, all or none of the new ICI Shares. A summary of certain terms and conditions of the Underwriting Agreement is set out in paragraph 14(h) of Part 6 of this document.

All documents and cheques posted to or by Qualifying Shareholders and/or their transferees or renouncees (or their agents, as appropriate) will be posted at their own risk.

2. Action to be taken

The action to be taken in respect of new ICI Shares depends on whether, at the relevant time, the Nil Paid Rights or Fully Paid Rights in respect of which action is to be taken are in certificated form (that is, are represented by Provisional Allotment Letters) or are in uncertificated form (that is, are in CREST).

If you are a Qualifying non-CREST Shareholder and have received a Provisional Allotment Letter please refer to paragraph 3 and paragraphs 5 to 9 of this Part 3.

If you hold your ICI Shares in CREST, please refer to paragraph 4 and paragraphs 5 to 9 of this Part 3 and to the CREST Manual for further information on the CREST procedures referred to below.

CREST sponsored members should refer to their CREST sponsors, as only their CREST sponsors will be able to take the necessary actions specified below to take up the entitlements or otherwise to deal with the Nil Paid Rights or Fully Paid Rights of CREST sponsored members.

3. Action to be taken in relation to Nil Paid Rights represented by Provisional Allotment Letters

(a) General

The Provisional Allotment Letter (referred to in this paragraph 3 of Part 3 of this document as a "PAL") will set out:

(i) the holding of existing ICI Shares on which the Qualifying non-CREST Shareholder's entitlement to new ICI Shares has been based;

(ii) the number of new ICI Shares which have been provisionally allotted to the Qualifying non-CREST Shareholder;

(iii) the procedures to be followed if the Qualifying non-CREST Shareholder wishes to dispose of all or part of his entitlement or to convert all or part of his entitlement into uncertificated form; and

(iv) instructions regarding acceptance and payment, consolidation, splitting and registration of renunciation.

On the basis that PALs are posted on 25 February 2002, and that dealings commence on 26 February 2002, the latest time and date for acceptance and payment in full will be 9.30 a.m. on 20 March 2002.

(b) Procedure for acceptance and payment

(i) Qualifying non-CREST Shareholders who wish to accept in full

Holders of PALs who wish to take up all of their entitlement must return the PAL, together with a cheque or other remittance, made payable to "Lloyds TSB Bank Plc – ICI Rights Issue" and crossed "A/C payee only", for the full amount payable on acceptance, in accordance with the instructions printed on the PAL, by hand or by post, to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA or by hand only (between normal business hours) to Lloyds TSB Registrars, Antholin House, 71 Queen Street, London, EC4N 1SL, so as to arrive as soon as possible and in any event so as to be received by not later than 9.30 a.m. on 20 March 2002. A reply-paid envelope will be enclosed with the PAL. If you post your PAL within the UK by first class post, it is recommended that you allow at least four days for delivery.

(ii) Qualifying non-CREST Shareholders who wish to accept in part

Holders of PALs who wish to take up some but not all of their rights and wish to sell some or all of those which they do not want to take up, should first apply for split PALs by completing Form X on page 4 of the PAL, and returning it to Lloyds TSB Registrars, Antholin House, 71 Queen Street, London, EC4N 1SL, by 3.00 p.m. on 18 March 2002, the last date and time for splitting Nil Paid Rights, together with a covering letter stating the number of split PALs required and the number of Nil Paid Rights to be comprised in each split PAL. They should then deliver the split PAL representing the shares they wish to accept together with a cheque for the appropriate amount, payable to "Lloyds TSB Bank Plc – ICI Rights Issue" and crossed "A/C payee only" by 9.30 a.m. on 20 March 2002, the last date and time for acceptance. Qualifying non-CREST Shareholders who you wish to take up some of their rights (but not sell the remainder), should also follow the procedure to apply for split PALs in accordance with this paragraph.

(iii) Company's discretion as to validity of acceptances

If payment is not received in full by 9.30 a.m. on 20 March 2002, the provisional allotment will be deemed to have been declined and will lapse. However, the Company may, with the agreement of the Underwriters, but shall not be obliged, to treat as valid (i) PALs and accompanying remittances which are received through the post not later than 9.30 a.m. on 21 March 2002 (the cover bearing a legible postmark not later than 9.30 a.m. on 20 March 2002) and (ii) applications in respect of which remittances are received prior to 9.30 a.m. on 20 March 2002 from an authorised person (as defined in Section 31(2) Financial Services and Markets Act 2000) specifying the number of new ICI Shares to be acquired and an undertaking by that person to lodge the relevant PAL duly completed in due course.

ICI may also (in its sole discretion) treat a PAL as valid and binding on the person(s) by whom or on whose behalf it is lodged even if it is not completed in accordance with the relevant instructions or is not accompanied by a valid power of attorney where required.

(iv) Payments

All payments must be in pounds sterling and cheques or banker's drafts should be made payable to "Lloyds TSB Bank Plc – ICI Rights Issue" and crossed "A/C payee only". Cheques or banker's drafts must be drawn on a bank or building society or branch of a bank or building society in the UK or Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or a member of either of the Committees of the Scottish or Belfast Clearing Houses or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right hand corner. Cheques drawn on most major high street banks and building societies in the UK will be satisfactory. If you are in any doubt, please contact the Shareholder Helpline on 0800 096 4008 (or +44 20 7335 8757 if you are calling from outside the UK). For legal reasons, the Shareholder Helpline will only be able to provide information contained in this document (and in addition information relating to ICI's register of members) and will be unable to give advice on the merits of the Rights Issue or to provide financial or investment advice. Cheques or banker's drafts will be presented for payment upon receipt. ICI reserves the right to instruct Lloyds TSB Registrars to seek special clearance of cheques and banker's drafts to allow ICI to obtain value for remittances at the earliest opportunity. No interest will be allowed on payments made before they are due. It is a term of the Rights Issue that cheques shall be honoured on first presentation and if any cheque or other remittance is presented for payment but not honoured by 9.30 a.m. on 20 March 2002 and ICI notifies the Underwriters prior to 7.30 a.m. on 21 March 2002, any acceptance in respect of new ICI Shares to which such cheque or other remittance relates shall be treated as invalid.

(c) Money Laundering Regulations

If the value of your application exceeds £9,000 (the approximate equivalent of €15,000) (or is one of a series of linked applications, the aggregate value of which exceeds that amount) and either you do not pay by a cheque drawn on an account in your own name and/or the account from which payment is to be made is not held within an institution that is authorised in the UK by the Financial Services Authority under the Financial Services and Markets Act 2000 or by the Building Societies Commission under the Building Societies Act 1986 or that is an EU authorised credit institution, as defined in the First Banking Directive (77/780/EEC) as referred to in the verification of identity requirements of the Money Laundering Regulations 1993, the Money Laundering Regulations will apply. Lloyds TSB Registrars is entitled to require, at its absolute discretion, verification of identity from any person lodging a PAL (the applicant) including, without limitation, any person who appears to Lloyds TSB Registrars to be acting on behalf of some other person. Submission of a PAL will constitute a warranty and undertaking by the applicant to provide promptly to Lloyds TSB Registrars such information as may be specified by Lloyds TSB Registrars as being required for the purpose of the Money Laundering Regulations. Pending the provision of evidence satisfactory to Lloyds TSB

Registrars as to identity, Lloyds TSB Registrars may, after consultation with the Underwriters and having taken into account their representations, retain a PAL lodged by an applicant for new ICI Shares and/or the cheque, banker's draft or other remittance relating to it and/or not enter the new ICI Shares to which it relates on the register of members or issue any share certificate in respect of them. If satisfactory evidence of identity has not been provided within a reasonable time, then the acceptance will not be valid but will be without prejudice to the right of ICI to take proceedings to recover any loss suffered by it as a result of the failure of the applicant to provide satisfactory evidence. In that case, the application monies (without interest) will be returned to the bank or building society account from which payment was made.

The following guidance is provided in order to reduce the likelihood of difficulties, delays and potential rejection of an application (but does not limit the right of Lloyds TSB Registrars to require verification of identity as stated above).

(i) Applicants are urged if possible to make their payment by their own cheque. If this is not practicable and an applicant uses a cheque drawn by a building society or other third party or a banker's draft, the applicant should:

   (a) write the applicant's name and address on the back of the building society cheque, banker's draft third party cheque and, in the case of an individual, record his date of birth against his name; and

   (b) if a building society cheque or banker's draft is used, ask the building society or bank to print on the cheque the full name and account number of the person whose building society or bank account is being debited or to write those details on the back of the cheque and add their stamp.

(ii) If an application is delivered by hand, the applicant should ensure that he has with him evidence of identity bearing his photograph, for example, a valid full passport.

If you are making an application as agent for one or more persons and you are not a UK or EU regulated person or institution (e.g. a UK financial institution), irrespective of the value of the application, Lloyds TSB Registrars is obliged to take reasonable measures to establish the identity of the person or persons on whose behalf the application is being made. Applicants making an application as agent should specify on the PAL if they are a UK or EU regulated person or institution.

All enquiries in relation to the PALs should be addressed to the Shareholder Helpline on 0800 096 4008 (or +44 20 7335 8757 if you are calling from outside the UK). For legal reasons, the Shareholder Helpline will only be able to provide information contained in this document (and in addition information relating to ICI's register of members) and will be unable to give advice on the merits of the Rights Issue or to provide financial or investment advice.

(d) Dealings in Nil Paid Rights

Assuming the Resolutions are passed at the EGM and the Rights Issue is otherwise unconditional, dealings on the London Stock Exchange in the Nil Paid Rights are expected to commence at 8.00 a.m. on 26 February 2002. A transfer of Nil Paid Rights can be made by renunciation of the PAL in accordance with the instructions printed on it and delivery of the letter to the transferee.

(e) Dealings in Fully Paid Rights

After acceptance of the provisional allotment and payment in full in accordance with the provisions set out in this document and (in the case of Qualifying non-CREST Shareholders) the PAL, the Fully Paid Rights may be transferred by renunciation of the relevant fully paid PAL and lodging it, by hand or by post, with Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA, or by hand only (between normal business hours) to Lloyds TSB Registrars, Antholin House, 71 Queen Street, London, EC4N 1SL by not later than 3.00 p.m. on 5 April 2002, and delivery of the letter to the transferee. However, fully paid PALs will not be returned to shareholders unless their return is requested by ticking Box 4 on page 1 of the PAL.

After 5 April 2002, the new ICI Shares will be in registered form and transferable in the usual way (see paragraph 3(i) of this Part 3).

(f) Renunciation and splitting of PALs

Qualifying non-CREST Shareholders who wish to transfer all the Nil Paid Rights or, after acceptance of the provisional allotment and payment in full, Fully Paid Rights comprised in a PAL may (save as required by the laws

of certain overseas jurisdictions) renounce such allotment by completing and signing Form X on the PAL and passing the entire letter to their stockbroker or bank or other appropriate financial adviser or to the transferee. Once a PAL has been renounced, the letter will become a negotiable instrument in bearer form. The latest time and date for registration of renunciation of PALs, fully paid, is 3.00 p.m. on 5 April 2002.

If a holder of a PAL wishes to have only some of the new ICI Shares registered in his name and to transfer the remainder, or wishes to transfer all the Nil Paid Rights or (if appropriate) Fully Paid Rights but to different persons, he may have the PAL split, for which purpose he must complete and sign Form X on the PAL. The PAL must then be sent to Lloyds TSB Registrars, Antholin House, 71 Queen Street, London, EC4N 1SL by not later than 3.00 p.m. on 18 March 2002, if nil paid, or 3.00 p.m. on 3 April 2002, if fully paid, to be cancelled and exchanged for the split PALs required. The number of split letters required and the number of Nil Paid Rights or (as appropriate) Fully Paid Rights to be comprised in each split letter should be stated in an accompanying letter. Form X on split PALs will be marked "Original Duly Renounced" before issue.

(g) Registration in names of persons other than Qualifying Shareholders originally entitled

In order to register Fully Paid Rights in certificated form in the name of someone other than the Qualifying Shareholder(s) originally entitled, the renouncee or his agent(s) must complete Form Y (unless the renouncee is a CREST member who wishes to hold such shares in uncertificated form, in which case the CREST Deposit Form must be completed – see paragraph 3(h) of this Part 3) on the PAL and send the entire letter, when fully paid, by hand or by post to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA or by hand only (between normal business hours) to Lloyds TSB Registrars, Antholin House, 71 Queen Street, London, EC4N 1SL by not later than 3.00 p.m. on 5 April 2002.

(h) Deposit of Nil Paid Rights or Fully Paid Rights into CREST

The Nil Paid Rights or Fully Paid Rights represented by a PAL may be converted into uncertificated form, that is, deposited into CREST (whether such conversion arises as a result of a renunciation of those rights or otherwise). Subject as provided in the next following paragraph, normal CREST procedures apply in relation to any such conversion. You are recommended to refer to the CREST Manual for details of such procedures.

The procedure for depositing the Nil Paid Rights represented by a PAL into CREST, whether such rights are to be converted into uncertificated form in the name(s) of the person(s) whose name(s) and address appear on page 1 of the PAL or in the name of a person or persons to whom the PAL has been renounced, is as follows. Form X and the CREST Deposit Form (both on page 4 of the PAL) will need to be completed and the PAL deposited with the CCSS; in addition, the normal CREST Stock Deposit procedures will need to be carried out, except that (a) it will not be necessary to complete and lodge a separate CREST Transfer Form (prescribed under the Stock Transfer Act 1963) with the CCSS and (b) only the whole of the Nil Paid Rights, or Fully Paid Rights represented by the PAL may be deposited into CREST. If you wish to deposit some only of the Nil Paid Rights or Fully Paid Rights represented by the PAL into CREST, you must first apply for split PALs. If the rights represented by more than one PAL are to be deposited, the CREST Deposit Form on each PAL must be completed and deposited. The Consolidation Listing Form must not be used.

A holder of the Nil Paid Rights represented by a PAL who is proposing to convert those rights into uncertificated form (whether following a renunciation of such rights or otherwise) is recommended to ensure that the conversion procedures are implemented in sufficient time to enable the person holding or acquiring the Nil Paid Rights in CREST following the conversion to take all necessary steps in connection with taking up the entitlement prior to 9.30 a.m. on 20 March 2002. In particular, having regard to processing times in CREST and on the part of Lloyds TSB Registrars, the latest time for depositing a renounced PAL, with the CREST Deposit Form on page 4 of the PAL duly completed, with the CCSS (in order to enable the person acquiring the Nil Paid Rights in CREST as a result of the conversion to take all necessary steps in connection with taking up the entitlement prior to 9.30 a.m. on 20 March 2002) is 3.00 p.m. on 15 March 2002.

(i) Issue of new ICI Shares in definitive form

Definitive share certificates are expected to be despatched by post by 12 April 2002 to accepting shareholders at their registered address unless lodging agent details have been completed on page 4 of the PAL. After despatch of definitive share certificates, PALs will cease to be valid for any purpose whatsoever. Pending despatch of definitive share certificates, instruments of transfer may be certified by Lloyds TSB Registrars against the register.

4. Action to be taken in relation to Nil Paid Rights in CREST

(a) General

Subject as provided in paragraph 7 of this Part 3 in relation to certain Overseas Shareholders, each Qualifying CREST Shareholder is expected to receive a credit to his stock account in CREST of his entitlement to Nil Paid Rights on 26 February 2002. The CREST stock account to be credited will be an account under the participant ID and member account ID that apply to the existing ICI Shares held on the Record Date by the Qualifying CREST Shareholder in respect of which the Nil Paid Rights are provisionally allotted.

The Nil Paid Rights will constitute a separate security and can accordingly be transferred, in whole or in part, by means of CREST in the same manner as any other security that is admitted to CREST.

If for any reason stock accounts of Qualifying CREST Shareholders cannot be credited by, or the Nil Paid Rights cannot be enabled by 11.00 a.m. on 26 February 2002, Provisional Allotment Letters shall, unless the Underwriters agree otherwise, be sent out in substitution for the Nil Paid Rights which have not been so credited or enabled and the expected timetable as set out in this document may, with the consent of the Underwriters, be adjusted as appropriate. References to dates and times in this document should be read as subject to any such adjustment. ICI will make an appropriate announcement to the Company Announcements Office of the London Stock Exchange giving details of the revised dates.

CREST members who wish to take up their entitlements in respect of, or otherwise to transfer Nil Paid Rights or Fully Paid Rights held by them in CREST should refer to the CREST Manual for further information on the CREST procedures referred to below. If you are a CREST sponsored member you should consult your CREST sponsor if you wish to take up your entitlement as only your CREST sponsor will be able to take the necessary action to take up your entitlements or otherwise to deal with your Nil Paid Rights or Fully Paid Rights.

(b) Procedure for acceptance and payment

(i) Many-to-Many instructions

CREST members who wish to take up all or some of their entitlement in respect of Nil Paid Rights in CREST must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) a Many-To-Many (*MTM*) instruction to CRESTCo which, on its settlement, will have the following effect:

(a) the crediting of a stock account of Lloyds TSB Registrars under the participant ID and member account ID specified below, with the number of Nil Paid Rights to be taken up;

(b) the creation of a settlement bank payment obligation (as this term is defined in the CREST Manual), in accordance with the CREST RTGS payment mechanism (as this term is defined in the CREST Manual), in favour of the RTGS settlement bank of Lloyds TSB Registrars in sterling in respect of the full amount payable on acceptance in respect of the Nil Paid Rights referred to in sub-paragraph (a) above; and

(c) the crediting of a stock account of the accepting CREST member (being an account under the same participant ID and member account ID as the account from which the Nil Paid Rights are to be debited on settlement of the MTM instruction) of the corresponding number of Fully Paid Rights to which the CREST member is entitled on taking up his Nil Paid Rights referred to in sub-paragraph (a) above.

(ii) Contents of Many-to-Many instructions

The MTM instruction must be properly authenticated in accordance with CRESTCo's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- the number of Nil Paid Rights to which the acceptance relates;
- the participant ID of the accepting CREST member;
- the member account ID of the accepting CREST member from which the Nil Paid Rights are to be debited;
- the participant ID of Lloyds TSB Registrars, in its capacity as a CREST receiving agent. This is 6RA30;
- the member account ID of Lloyds TSB Registrars, in its capacity as a CREST receiving agent. This is RA261001;
- the number of Fully Paid Rights that the CREST member is expecting to receive on settlement of the MTM instruction. This must be the same as the number of Nil Paid Rights to which the acceptance relates;

- the amount payable by means of the CREST settlement bank payment obligation on settlement of the MTM instruction. This must be the full amount payable on acceptance in respect of the number of Nil Paid Rights referred to in (i) above;
- the intended settlement date. This must be on or before 20 March 2002; and
- the Corporate Action Number for the Rights Issue. This will be available by viewing the relevant corporate action details in CREST.

(iii) Valid acceptance

An MTM instruction complying with each of the requirements as to authentication and contents set out in sub-paragraph (ii) of this paragraph 4(b) above will constitute a valid acceptance where either:

(a) the MTM instruction settles by not later than 9.30 a.m. on 20 March 2002; or

(b) (i) the MTM instruction is received by CRESTCo by not later than 9.30 a.m. on 20 March 2002; and

(ii) the number of Nil Paid Rights inserted in the MTM instruction is credited to the CREST stock member account of the accepting CREST member specified in the MTM instruction at 9.30 a.m. on 20 March 2002.

An MTM instruction will be treated as having been received by CRESTCo for these purposes at the time at which the instruction is processed by the Network Providers' Communications Host (as this term is defined in the CREST Manual) at CRESTCo of the network provider used by the CREST member (or by the CREST sponsored member's CREST sponsor). This will be conclusively determined by the input time stamp applied to the MTM instruction by the Network Providers' Communications Host.

(iv) Representations, warranties and undertakings of CREST members

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with this paragraph 4(b) of Part 3 represents, warrants and undertakes to ICI that he has taken (or procured to be taken), and will take (or will procure to be taken), whatever action is required to be taken by him or by his CREST sponsor (as appropriate) to ensure that the MTM instruction concerned is capable of settlement at 9.30 a.m. on 20 March 2002 and remains capable of settlement at all times after that until 2.00 p.m. on 20 March 2002 (or until such later time and date as ICI may determine). In particular, the CREST member or CREST sponsored member represents, warrants and undertakes that at 9.30 a.m. on 20 March 2002 and at all times thereafter until 2.00 p.m. on 20 March 2002 (or until such later time and date as ICI may determine), there will be sufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account to be debited with the amount payable on acceptance to permit the MTM instruction to settle. CREST sponsored members should contact their CREST sponsor if they are in any doubt.

(v) CREST procedures and timings

CREST members and CREST sponsors (on behalf of CREST sponsored members) should note that CRESTCo does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of an MTM instruction and its settlement in connection with the Rights Issue. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that his CREST sponsor takes) the action necessary to ensure that a valid acceptance is received as stated above by 9.30 a.m. on 20 March 2002. In this connection CREST members and (where applicable) CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(vi) CREST member's undertaking to pay

A CREST member or CREST sponsored member, who makes a valid acceptance in accordance with the procedures set out in paragraph 4(b) of this Part 3, (a) undertakes to pay to ICI, or procure the payment to ICI of, the amount payable in sterling on acceptance in accordance with the above procedures or in such other manner as ICI may require (it being acknowledged that, where payment is made by means of the RTGS payment mechanism (as defined in the CREST Manual) the creation of an RTGS settlement bank payment obligation in sterling in favour of Lloyds TSB Registrars RTGS settlement bank in accordance with the RTGS payment mechanism shall, to the extent of the obligation so created, discharge in full the obligation of the CREST member (or CREST sponsored member) to pay

to ICI the amount payable on acceptance) and (b) requests that the Fully Paid Rights, and/or new ICI Shares, to which he will become entitled be issued to him on the terms set out in this document and subject to the memorandum and articles of association of ICI.

(vii) Company's discretion as to rejection and validity of acceptances

The Company may agree to:

(a) reject any acceptance constituted by an MTM instruction, which is otherwise valid, in the event of breach of any of the representations, warranties and undertakings set out or referred to in paragraph 4(b) of this Part 3. Where an acceptance is made as described in this paragraph 4(b) of Part 3 which is otherwise valid, and the MTM instruction concerned fails to settle by 2.00 p.m. on 20 March 2002 (or by such later time and date as ICI has determined), ICI shall be entitled to assume, for the purposes of its right to reject an acceptance contained in paragraph 4(b) of this Part 3, that there has been a breach of the representations, warranties and undertakings set out or referred to in paragraph 4(b) of this Part 3;

(b) with the agreement of the Underwriters, treat as valid (and binding on the CREST member or CREST sponsored member concerned) an acceptance which does not comply in all respects with the requirements as to validity set out or referred to in paragraph 4(b) of this Part 3;

(c) with the agreement of the Underwriters, accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid acceptance in substitution for, or in addition to, an MTM instruction and subject to such further terms and conditions as ICI may determine;

(d) treat a properly authenticated dematerialised instruction (in this sub-paragraph the "first instruction") as not constituting a valid acceptance if, at the time at which Lloyds TSB Registrars receives a properly authenticated dematerialised instruction giving details of the first instruction, either ICI or Lloyds TSB Registrars has received actual notice from CRESTCo of any of the matters specified in Regulation 35 (5)(a) in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and

(e) with the agreement of the Underwriters, accept an alternative instruction or notification from a CREST member or (where applicable) a CREST sponsor, or extend the time for acceptance and/or settlement of an MTM instruction or any alternative instruction or notification, if, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST sponsored member is unable validly to take up all or part of his Nil Paid Rights by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of facilities and/or systems operated by Lloyds TSB Registrars in connection with CREST.

(c) Money Laundering Regulations

If you hold your Nil Paid Rights in CREST and apply to take up all or part of your entitlement as agent for one or more persons and you are not a UK or EU regulated person or institution (e.g. a UK financial institution), then, irrespective of the value of the application, Lloyds TSB Registrars is entitled to take reasonable measures to establish the identity of the person or persons on whose behalf you are making the application. You must therefore contact Lloyds TSB Registrars before sending any MTM instruction or other instruction so that appropriate measures may be taken.

Submission of an MTM instruction which constitutes, or which may on its settlement constitute, a valid acceptance as described above constitutes a warranty and undertaking by the applicant to provide promptly to Lloyds TSB Registrars any information Lloyds TSB Registrars may specify as being required for the purposes of the Money Laundering Regulations. Pending the provision of evidence satisfactory to Lloyds TSB Registrars as to identity, Lloyds TSB Registrars, having consulted with the Underwriters, may take, or omit to take, such action as it may determine to prevent or delay settlement of the MTM instruction. If satisfactory evidence of identity has not been provided within a reasonable time, then Lloyds TSB Registrars will not permit the MTM instruction concerned to proceed to settlement but without prejudice to the right of ICI to take proceedings to recover any loss suffered by it as a result of failure by the applicant to provide satisfactory evidence.

(d) Transfers of Nil Paid Rights

Dealings in the Nil Paid Rights on the London Stock Exchange are expected to commence at 8.00 a.m. on 26 February 2002. A transfer of Nil Paid Rights can be made by means of CREST in the same manner as any other security that is admitted to CREST. The Nil Paid Rights are expected to be disabled in CREST after the close of CREST business on 18 March 2002.

(e) Transfers of Fully Paid Rights

After acceptance of the provisional allotment and payment in full in accordance with the provisions of this document, and (where appropriate) the Provisional Allotment Letter, the Fully Paid Rights may be transferred by means of CREST in the same manner as any other security that is admitted to CREST. The last date for settlement of any transfer of Fully Paid Rights in CREST is expected to be 5 April 2002. The Fully Paid Rights are expected to be disabled in CREST after the close of CREST business on 5 April 2002.

After 5 April 2002, the new ICI Shares will be registered in the name(s) of the person(s) entitled to them in ICI's register of members and will be transferable in the usual way (see paragraph 4(g) of this Part 3).

(f) Withdrawal of Nil Paid Rights or Fully Paid Rights from CREST

Nil Paid Rights or Fully Paid Rights held in CREST may be converted into certificated form, that is, withdrawn from CREST. Normal CREST procedures (including timings) apply in relation to any such conversion.

The recommended latest time for receipt by CRESTCo of a properly authenticated dematerialised instruction requesting withdrawal of Nil Paid Rights from CREST is 9.30 a.m. on 13 March 2002, so as to enable the person acquiring or (as appropriate) holding the Nil Paid Rights following the conversion to take all necessary steps in connection with taking up the entitlement prior to 9.30 a.m. on 20 March 2002.

(g) Issue of new ICI Shares in CREST

Fully Paid Rights in CREST are expected to be disabled in CREST after the close of CREST business on 5 April 2002 (the latest date for settlement of transfers of Fully Paid Rights in CREST). New ICI Shares (in definitive form) will be issued in uncertificated form to those persons registered as holding Fully Paid Rights in CREST at the close of business on that date. Lloyds TSB Registrars will instruct CRESTCo to credit the appropriate stock accounts of those persons (under the same participant ID and member account ID that applied to the Fully Paid Rights held by those persons) with the entitlements to new ICI Shares with effect from the next business day (expected to be 8 April 2002).

(h) Right to allot/issue in certificated form

Despite any other provision of this document, ICI reserves the right to allot and to issue any Nil Paid Rights, Fully Paid Rights or new ICI Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of an interruption, failure or breakdown of CREST (or on any part of CREST) or on the part of the facilities and/or systems operated by Lloyds TSB Registrars in connection with CREST.

5. Procedure in respect of Rights not taken up (whether certificated or in CREST)

If an entitlement to new ICI Shares is not validly taken up in accordance with the procedure laid down for acceptance and payment, then that provisional allotment will be deemed to have been declined and will lapse. The Underwriters will severally endeavour to procure, for all (or as many as possible) of those new ICI Shares not taken up, subscribers from whom an amount can be obtained per share which is at least equal to the aggregate of the Issue Price (at which price the new ICI Shares shall be subscribed) and the expenses of procuring the relevant subscribers (including any value added tax), such subscribers to be found by not later than 4.30 p.m. on 22 March 2002.

Notwithstanding the above, the Underwriters may cease to endeavour to procure any such subscribers if it is unlikely that any such subscribers can be so procured at such a price by such time. If and to the extent that subscribers cannot be procured on the basis outlined above, the relevant new ICI Shares will be subscribed for by the Underwriters or sub-underwriters at the Issue Price on the terms of the Underwriting Agreement.

The premium over the aggregate of the Issue Price and the expenses of procuring subscribers (including any value added tax) shall be paid (subject as provided in this paragraph 5):

(i) where the provisional allotment was, at the time it lapsed, represented by a Provisional Allotment Letter, to the person whose name and address appeared on page 1 of the Provisional Allotment Letter; and

(ii) where the Nil Paid Rights were, at the time they lapsed, in uncertificated form, to the person registered as the holder of those Nil Paid Rights at the time of their disablement in CREST.

New ICI Shares for which subscribers are procured on this basis will be allotted to the subscribers and the aggregate premium (being the amount paid by the subscribers after deducting the Issue Price and the expenses of procuring the subscribers including any value added tax) will be paid (without interest) to those persons entitled (as referred to above) pro rata to the relevant lapsed provisional allotments.

Any transactions undertaken pursuant to paragraph 5 of this Part 3 shall be deemed to have been undertaken at the request of the persons entitled to the lapsed provisional allotments and none of ICI, the Underwriters or any other person procuring the subscribers shall be responsible for any loss or damage (whether actual or alleged) arising from the terms of or timing of the subscription or the failure to procure subscribers on the basis described above. Cheques for the amount due will be sent, at the risk of the person(s) entitled, to their registered addresses (the registered address of the first named in the case of joint holders), provided that, where any entitlement concerned was held in CREST the amount due will, unless ICI (in its absolute discretion) otherwise determines, be satisfied by ICI procuring the creation of a settlement bank payment in favour of the relevant CREST member's (or CREST sponsored member's) RTGS settlement bank in respect of the cash amount concerned in accordance with the RTGS payment mechanism.

6. Taxation

Information on taxation in the UK, France, the Netherlands and the Republic of Ireland with regard to the Rights Issue is set out in paragraph 11 of Part 6 of this document. **Shareholders who are in any doubt as to their tax position or who are subject to tax in any other jurisdiction should consult an appropriate professional adviser immediately.**

7. Overseas Shareholders and ICI ADS holders

(a) General

THE OFFER OF NEW ICI SHARES TO PERSONS RESIDENT IN, OR WHO ARE CITIZENS OF, COUNTRIES OTHER THAN THE UK MAY BE AFFECTED BY THE LAW OF THE RELEVANT JURISDICTION. THOSE PERSONS SHOULD CONSULT THEIR PROFESSIONAL ADVISERS AS TO WHETHER THEY REQUIRE ANY GOVERNMENTAL OR OTHER CONSENTS OR NEED TO OBSERVE ANY OTHER FORMALITIES TO ENABLE THEM TO TAKE UP THEIR RIGHTS.

Receipt of this document and/or a Provisional Allotment Letter or the crediting of Nil Paid Rights to a stock account in CREST will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this document and/or a Provisional Allotment Letter will be sent for information only and should not be copied or redistributed. No person receiving a copy of this document and/or a Provisional Allotment Letter and/or receiving a credit of Nil Paid Rights to a stock account in CREST in any territory other than the UK may treat the same as constituting an invitation or offer to him, nor should he in any event use the Provisional Allotment Letter or deal with Nil Paid Rights or Fully Paid Rights in CREST unless, in the relevant territory, such an invitation or offer could lawfully be made to him or the Provisional Allotment Letter or Nil Paid Rights or Fully Paid Rights in CREST could lawfully be used or dealt with without contravention of any unfulfilled registration or other legal requirements.

Accordingly, persons receiving a copy of this document and/or a Provisional Allotment Letter or whose stock account in CREST is credited with Nil Paid Rights or Fully Paid Rights should not, in connection with the Rights Issue, distribute or send the same, or transfer Nil Paid Rights or Fully Paid Rights to any person in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If a Provisional Allotment Letter or credit of Nil Paid Rights or Fully Paid Rights in CREST is received by any person in any such territory, or by their agent or nominee, he must not seek to take up the rights represented thereby or renounce the Provisional Allotment

Letter except under an express written agreement between him and ICI. Any person who does forward this document or a Provisional Allotment Letter into any such territories (whether under a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this paragraph 7.

Subject to paragraph 7(d) of this Part 3, any person (including, without limitation, nominees and trustees) outside the UK wishing to take up his rights under the Rights Issue must satisfy himself as to full observance of the applicable laws of any relevant territory including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories. **The comments set out in paragraph 7 of this Part 3 are intended as a general guide only and any Qualifying Shareholder who is in doubt as to his position should consult his professional adviser without delay.**

The Company may, in consultation with the Underwriters, treat as invalid any acceptance or purported acceptance of the offer of new ICI Shares which appears to ICI or its agents to have been executed, effected or despatched in a manner which may invoke a breach of the legislation of any jurisdiction or if it believes or its agents believe that the same may violate applicable legal or regulatory requirements or if, in the case of a Provisional Allotment Letter, it provides an address for delivery of share certificates for new ICI Shares in Australia, Belgium, Canada, Japan or South Africa or any other jurisdiction outside the UK in which it would be unlawful to deliver such share certificates. The attention of Qualifying Shareholders with registered addresses in Australia, Belgium, Canada, Japan or South Africa is drawn to paragraph 7(d) of this Part 3 below.

Despite any other provision of this document or the Provisional Allotment Letter, ICI reserves the right to permit any Qualifying Shareholder to take up his rights if ICI in its sole and absolute discretion is satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restrictions in question.

Those ICI Shareholders who wish, and are permitted, to take up their entitlement should note that payments must be made as described in paragraphs 3 (Qualifying non-CREST Shareholders) and 4 (Qualifying CREST Shareholders) of this Part 3 above.

The provisions of paragraph 5 of this Part 3 will apply generally to Overseas Shareholders who do not take up new ICI Shares provisionally allotted to them.

(b) Notice in the London Gazette

In accordance with section 90(5) of the Companies Act, the offer by way of rights to Qualifying Shareholders who have no registered address within the UK and who have not given to ICI an address within the UK for the service of notices will (provided the Resolutions are passed and subject to the other conditions of the Rights Issue) be made by ICI publishing a notice in The London Gazette on the day following the date the Provisional Allotment Letters are despatched, stating where copies of this document and the Provisional Allotment Letter may be inspected, or, in certain circumstances, obtained on personal application, by or on behalf of such Qualifying Shareholders. However, in order to facilitate acceptance of the offer by way of rights made to such Qualifying Shareholders by virtue of such publication, Provisional Allotment Letters will be posted to such Qualifying Shareholders or Nil Paid Rights will be credited to the stock accounts in CREST of such Qualifying Shareholders, as appropriate (other than those Qualifying Shareholders referred to in paragraph 7(d) of this Part 3 below). Accordingly, Qualifying Shareholders who have no registered address within the UK and who have not given ICI an address within the UK for service of notices may accept the offer by way of rights either by returning the Provisional Allotment Letters posted to them in accordance with the instructions printed thereon or (subject to surrendering the original Provisional Allotment Letters so posted to them) by obtaining copies thereof (or, in the case of persons referred to in paragraph 7(d) of this Part 3 below, originals thereof) from Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA or by following the relevant procedures for acceptance in the case of Qualifying CREST Shareholders whose Nil Paid Rights have been credited to their stock accounts.

(c) United States of America

ICI's shares are listed on the New York Stock Exchange in the form of ADSs. Application will be made to the New York Stock Exchange to list the new ICI ADSs. It is expected that the existing ICI ADSs will trade ex-rights on the New York Stock Exchange from 27 February 2002, and that trading on the New York Stock Exchange in the rights to subscribe for the new ICI ADSs, will commence on a when issued basis on 26 February.

This document does not constitute an offer of any securities for sale in the United States. The Rights Issue is being made in the US pursuant to the US Prospectus which is part of a registration statement which is expected to become effective on the date of this document. US Holders and holders of ICI ADSs are advised to read the US Prospectus as it contains important information relating to the Rights Issue. These persons can inspect and obtain a copy of the US Prospectus relating to the Rights Issue at the public reference facilities maintained by the SEC at 450 Fifth Street N.W., Washington D.C. 20549. In addition, copies, of the US Prospectus are available from the US information agent, Georgeson Shareholder Communications, Inc. on +1 866 431 8984 or from ICI's registered office.

(d) Australia, Belgium, Canada, Japan and South Africa

Due to restrictions under the securities laws of Australia, Belgium, Canada, Japan and South Africa, no prospectus or Provisional Allotment Letter in relation to the new ICI Shares will be sent to, and no Nil Paid Rights will be credited to a stock account in CREST of, Qualifying Shareholders with registered addresses in, and the new ICI Shares may not be transferred or sold to or renounced or delivered in, any of those countries. Accordingly, no offer of new ICI Shares is being made by virtue of this document into Australia, Belgium, Canada, Japan or South Africa.

The provisions set out in paragraph 5 of this Part 3 will apply to the rights of Qualifying Shareholders with registered addresses in Australia, Belgium, Canada, Japan or South Africa that are not taken up.

(e) Overseas territories other than Australia, Belgium, Canada, Japan or South Africa

Provisional Allotment Letters will be posted to Qualifying non-CREST Shareholders other than those Qualifying non-CREST Shareholders who have registered addresses in Australia, Belgium, Canada, Japan or South Africa and Nil Paid Rights will be credited to the CREST accounts of Qualifying CREST Shareholders other than those Qualifying CREST Shareholders who have registered addresses in Australia, Belgium, Canada, Japan or South Africa. Such Qualifying Shareholders may, subject to the laws of their relevant jurisdiction, accept the Rights Issue in accordance with the instructions set out in this document. In cases where Overseas Shareholders do not take up Nil Paid Rights provisionally allotted to them, the provisions of paragraph 5 of this Part 3 will apply.

Persons resident in, or who are citizens of, countries other than the UK should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their rights.

If you are in any doubt as to your eligibility to accept the offer of new ICI Shares, you should contact your professional adviser immediately.

8. Times and Dates

The Company shall in its discretion and after consultation with its financial and legal advisers (and with the agreement of the Underwriters) be entitled to amend the dates that Provisional Allotment Letters are despatched or nil paid dealings commence and amend or extend the latest date for acceptance under the Rights Issue and all related dates set out in this document and in such circumstances shall notify the UK Listing Authority and the Company Announcements Office of the London Stock Exchange and, if appropriate, ICI Shareholders.

9. Governing Law

The terms and conditions of the Rights Issue as set out in this document and the Provisional Allotment Letter shall be governed by, and construed in accordance with, the laws of England.

PART 4 – FINANCIAL INFORMATION
A – Chairman's Statement

Set out in Parts A and B of this Part 4 is the full text of ICI's announcement to the London Stock Exchange dated 4 February 2002. Included in Part C of this Part 4 are the audited results referred to in that announcement.

IMPERIAL CHEMICAL INDUSTRIES PLC

FOURTH QUARTER AND FULL YEAR 2001 RESULTS,

RIGHTS ISSUE AND DIVESTMENT OF SYNETIX

PART 1

- Full year results demonstrate resilience
- Second Interim Dividend of 9.75p per share
- Proposed 7 for 11 rights issue to raise approximately £808 million (net of expenses)
- Intended divestment of Synetix.

Lord Trotman, Chairman of ICI, said:

"The transformation to a specialty products and paints company has delivered resilient trading performance. The proceeds of the Rights Issue and the divestment of Synetix will strengthen ICI's balance sheet, improve our financial flexibility and are expected to stabilise ICI's credit rating. Your Board believes that this action should position ICI to realise the growth potential of its technology, creativity and geographic reach, for the benefit of its customers and shareholders."

KEY FINANCIALS	Year 2001 £m	Year 2000 £m	Fourth Quarter 2001 £m (Unaudited)	Fourth Quarter 2000 £m (Unaudited)
Turnover				
– International Businesses*	5,645	5,570	1,341	1,364
– Continuing Operations	6,425	6,415	1,508	1,601
EBITDA				
– International Businesses*	743	764	178	184
– Continuing Operations	782	816	189	205
Trading Profit*				
– International Businesses*	569	600	134	139
– Continuing Operations	573	617	136	153
– Group	573	612	136	152
Profit before tax*	401	450	83	104
Net Profit*	286	318	58	73
EPS*	39.6p	44.0p	8.0p	10.1p
Dividends per £1 Ordinary Share	16.0p	32.0p		

TRADING HIGHLIGHTS

- Resilient comparable performance for the International Businesses:
  - Fourth quarter sales 1 per cent. lower; Paints and Quest both ahead.
  - Fourth quarter trading profit in line with 2000; National Starch ahead offsetting lower profits in Paints and Performance Specialties.
  - Full year sales in line with 2000; Asia and Europe both ahead.
  - Full year trading profit 6 per cent. lower.
- Full year Group profit before tax and earnings per share 11 per cent. and 10 per cent. below 2000, respectively.
- Full year cashflow substantially improved. Year end net debt £2.9 billion.
- Interest cover improved to 3.5 times for the year.

PROPOSED RIGHTS ISSUE TO RAISE £808 MILLION

- Up to 463.3 million new ICI shares to be offered at a price of 180 pence per new ICI share.
- Qualifying shareholders offered 7 new ICI shares for every 11 existing ICI shares.
- Decisive action to stabilise credit rating and strengthen balance sheet.
- Stabilised credit rating will facilitate refinancing of maturing debt on significantly better terms.
- Underwritten by UBS Warburg, Goldman Sachs and Merrill Lynch.

*Profit and EPS figures are quoted before goodwill amortisation and exceptional items throughout this statement unless otherwise stated. The Group's "**Continuing Operations**" comprise the "**International Businesses**" (**National Starch, Quest, Performance Specialties** and **Paints**) and the "**Regional and Industrial**" segment. References to "**Comparable**" performance excludes the effect of currency translation differences and the impact of acquisitions and divestments on the results reported by the International Businesses.

CHAIRMAN'S STATEMENT

Trading

In the fourth quarter, the International Businesses once again delivered resilient results, with total comparable trading profit in line with last year. Profits were 6 per cent. up in National Starch. This offset Paints, only 3 per cent. lower despite the difficult conditions in Latin America, and Performance Specialties, 14 per cent. lower. Quest had a good quarter, achieving trading profit in line with last year.

For the full year, the International Businesses achieved sales in line with last year, and trading profit 6 per cent. lower. Significant reductions in interest largely offset a lower contribution from Associates, principally Huntsman International, and Group profit before tax, at £401 million, was 11 per cent. lower than in 2000. Earnings per share were 10 per cent. lower, at 39.6 pence.

Cash flow

Total cash flow was more than £200 million better than in 2000, with operating cash flows almost £100 million better, and a reduction in cash flows associated with reshaping and legacy items of more than £100 million. The cash outflow of £111 million in the year resulted in net debt of £2.9 billion at the year end.

Strong cash management, lower interest rates and the resilient profit performance contributed to a significant improvement in interest cover, up from 3.2 times in 2000 to 3.5 times in 2001.

Rights Issue

Introduction

ICI is proposing to raise approximately £808 million, net of expenses, by the issue of up to 463.3 million new ICI shares at a price of 180 pence per share. The issue is being made by way of a rights issue to shareholders on the register at the close of business on 20 February 2002 ("Qualifying Shareholders") on the basis of 7 new ICI shares for every 11 existing ICI shares then held. The Issue Price of 180 pence per new ICI share represents a 44 per cent. discount to the closing middle market price of 324 pence per ICI share on 1 February 2002, the last business day before the date of this announcement. The Rights Issue is fully underwritten.

We also intend to divest Synetix, our catalysts business.

The Rights Issue requires the convening of an Extraordinary General Meeting ("EGM") of ICI to be held at Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1 on Monday, 25 February 2002 at 9.30 a.m. to pass Resolutions to increase ICI's authorised share capital and to grant the Directors authority to allot shares in relation to the Rights Issue. The Rights Issue is conditional upon, amongst other things, the passing of such Resolutions. A notice of EGM will be despatched with the UK and US Prospectuses which are to be sent to Qualifying Shareholders (other than certain overseas shareholders).

Background to and reasons for the Rights Issue

The Group's strategic transformation, which began in 1997, is essentially complete. ICI has refocused its business from commodity chemicals into higher added value specialty products and paints, addressing specific and specialised customer needs. ICI's businesses are now more knowledge intensive than capital intensive and focused on delivering innovative products to customers in a wide range of sectors of the world economy.

ICI's specialty products and paints businesses, referred to as the International Businesses, comprise National Starch, Quest, Performance Specialties and Paints. These businesses serve diverse consumer and industrial markets through some 40 strategic business units, comprising close to 100 operating units with an array of market leadership positions across the world. In addition, a number of Regional and Industrial Businesses remain in the Group's portfolio.

ICI's higher growth potential businesses include electronic and engineering materials, specialty food starches, flavours and fragrances, personal care ingredients and decorative paints in Asia.

ICI's objective is to be an industry leader in its chosen markets, creating superior value for its customers and shareholders. ICI's aim is to build on the strength of the International Businesses, harnessing the Group's geographic reach and maximising its technology and creativity for the benefit of its customers.

To support this, ICI maintains a constant focus on improving its businesses' operational performance. In 2001, ICI initiated a wide ranging restructuring programme across all of its International Businesses in order to underpin future growth as well as to provide both cost savings and working capital improvements.

The Board believes that the International Businesses have a quality customer and product mix, have strong management teams and have potential for profitable growth.

The Board believes that the results announced today demonstrate the quality and resilience of the business in a tough economic climate. Sales on a like-for-like basis for the International Businesses for the year ended 31 December 2001 were in line with last year despite the difficult external environment. The Group's trading profit (before goodwill amortisation and exceptional items) was only 6 per cent. lower than in 2000.

However, a consequence of the divestment of most of its commodity industrial chemicals portfolio — more than 50 businesses in the last four years — has been ICI suffering cash outflows associated with restructuring charges, pension top-up payments, and other charges.

As at 31 December 2000 ICI's net debt stood at £2,799 million, and interest cover for the 2000 financial year was 3.2 times. By 30 September 2001, net debt had risen to £3,109 million, but interest cover for the first 9 months of 2001 improved to 3.5 times as ICI benefited from lower prevailing interest rates, particularly in the United States.

In the difficult economic circumstances of 2001 divestment proceeds received in the year, which had been intended to pay down indebtedness, fell short of previous expectations. ICI had expected to receive proceeds from the sale of its investment in Huntsman International Holdings, LLC ("HIH") in 2001. However, on 21 December 2001 ICI announced that re-negotiations between the Huntsman Corporation and ICI regarding the sale of ICI's equity in HIH had concluded, and proceeds were now unlikely to be received before the third quarter 2003. In addition, in the aftermath of the tragic events of 11 September 2001, the Company believes that market interest in ICI's investment in Pakistan PTA Limited is unlikely to result in fair value being realised in the near term.

Credit markets also became more difficult generally in the latter part of 2001. Discussions with the credit rating agencies which began at the end of last year have led the Board to conclude that a credit rating downgrade is likely if action is not taken. If the Rights Issue were not to proceed, ICI's financing needs would continue to be met in the debt markets, although the likely rating downgrade would lead to reduced funding options and significantly higher financing costs, which would have a significant impact on the ongoing earnings per share of ICI.

Your Board believes that the proceeds from the Rights Issue, together with the proceeds from a future divestment of Synetix, will secure a stable BBB/Baa2 rating from the credit rating agencies. This will enable the Company to achieve debt refinancing as it is required, on significantly better terms than at a lower credit rating.

Net debt at 31 December 2001 was £2,917 million and the Rights Issue is expected, on closing, to raise approximately £808 million net of expenses. Proceeds from the Rights Issue and the future divestment of Synetix will be used to pay down debt as it falls due.

Your Board has considered a wide range of options before reaching the conclusion that this decisive action is necessary and believes that it is in the best interests of ICI and its shareholders to take this action now, rather than suffer higher debt financing costs and potential constraints on running the business.

ICI's stated growth policy is to develop its business organically, supplemented by small strategic bolt-on acquisitions. In line with this policy, your Board is not considering any substantial acquisitions nor does it currently plan to consider such acquisitions.

In summary, your Board believes that the transformation to a specialty products and paints company has delivered resilient trading performance. The proceeds of the Rights Issue and the divestment of Synetix will strengthen ICI's balance sheet, improve ICI's financial flexibility and are expected to stabilise ICI's credit rating. Your Board believes that this action should position ICI to realise the growth potential of its technology, creativity and geographic reach, for the benefit of both its customers and shareholders.

As indicated above, UK and US Prospectuses are shortly to be sent to Qualifying Shareholders. These will contain full details of the Rights Issue and ICI's audited results for the year ended 31 December 2001.

The principal terms of the Rights Issue are set out below.

Divestment of Synetix

As indicated above, ICI also intends to divest Synetix. In a global market of $8 billion, Synetix focuses on the sales of catalysts and service technologies in key market segments — edible oils, polymerisation, methanol, ammonia, oil and gas, chemicals, fine chemicals and oleochemicals. Synetix has catalyst production facilities in several countries and is headquartered in the UK, with around 800 employees and 5,000 customers in 85 countries. Your Board believes that Synetix is a strong business in a consolidating industry. ICI has made a decision not to participate in

this consolidation and believes Synetix is an attractive asset whose divestment would create more value for ICI's shareholders than its retention as part of the Group. For the year ended 31 December 2001, Synetix had sales of £143 million, trading profit of £24 million and at 31 December 2001 had net operating assets of £101 million.

Dividends

Consistent with its dividend policy announced at the time of publication of the third quarter 2000 results, ICI announces today a second interim dividend (in which the new ICI shares issued in connection with the Rights Issue will not participate) of 9.75 pence per existing ICI share bringing the total dividend for the year to 16 pence per existing ICI share. Going forward, as previously stated, dividends are expected to represent about one third of net profit before exceptional items and goodwill amortisation. The new ICI shares, when issued and fully paid, will rank equally in all respects with existing issued ICI shares including the right to receive all further dividends or other distributions made, paid or declared after the date of this announcement except the second interim dividend for 2001 referred to above. The second interim dividend is expected to be paid on 23 April 2002 to shareholders on the register on 8 March 2002.

Current trading and prospects

Although trading figures for January 2002 are not yet available and economic conditions remain uncertain, preliminary indications are that, while results for individual businesses may vary, sales overall have started satisfactorily and the Board believes that prospects for the Group as a whole for the current financial year are satisfactory.

Principal terms of the Rights Issue

Up to 463.3 million new ICI shares are being offered in connection with the Rights Issue, with a view to raising approximately £808 million, after expenses. The Issue Price of 180 pence per new ICI share represents a 44 per cent. discount to the closing middle market price of 324 pence per ICI share on 1 February 2002, the last business day before the date of this announcement.

Qualifying Shareholders are being offered new ICI shares at a price of 180 pence per new ICI share on the following basis:

7 new ICI shares for every 11 existing ICI shares

held and registered in their name at the close of business on 20 February 2002 and so in proportion to any other number of ICI shares then held.

To comply with US securities laws, the Rights Issue is being made to holders of ICI ADSs and US holders of ICI shares pursuant to a registration statement filed with the SEC. Holders of ICI ADSs and US holders of ICI shares should read the US Prospectus.

Fractions of new ICI shares will not be allotted and Qualifying Shareholders' entitlements will be rounded down to the nearest whole number of new ICI shares.

The Rights Issue is conditional upon:

(i) the passing of the relevant resolutions at the EGM, or any adjournment thereof;

(ii) admission of the new ICI shares to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's market for listed securities becoming effective by not later than 8.00 a.m. on 26 February 2002 (or such later time and/or date as UBS Warburg, Goldman Sachs, Merrill Lynch and ICI may agree (being not later than 5 March 2002)); and

(iii) the Underwriting Agreement otherwise having become unconditional in all respects and not having terminated in accordance with its terms prior to commencement of dealings in the new ICI shares, nil paid.

Subject, amongst other things, to the passing of the relevant resolutions, it is intended that Provisional Allotment Letters in respect of the new ICI shares will be despatched on 25 February 2002 to Qualifying non-CREST Shareholders other than certain overseas shareholders at their own risk. It is expected that Nil Paid Rights of Qualifying CREST Shareholders will be credited to their appropriate stock accounts by 8.00 a.m. on 26 February 2002.

It is expected that admission of the new ICI shares to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's market for listed securities will become effective on 26 February 2002 and that dealings in the new ICI shares, nil paid, will commence at 8.00 a.m. on that day.

The Rights Issue is expected to result in the issue of up to 463.3 million new ICI shares (representing approximately 39 per cent. of the issued ordinary share capital of ICI, as so enlarged).

UBS Warburg is acting as sponsor to ICI with regard to the Rights Issue. UBS Warburg, Goldman Sachs and Merrill Lynch are acting as financial advisers to ICI in relation to the Rights Issue. The Rights Issue, which is deeply discounted, is being underwritten by UBS Warburg, Goldman Sachs and Merrill Lynch to address ICI's desire for a high level of certainty of funds.

Participants in ICI's employee share schemes will be contacted in due course to inform them of how the Rights Issue will affect them and the actions proposed by ICI.

Further information

If you have any further questions, please telephone the Shareholder Helpline on 0800 096 4008 (or +44 20 7335 8757 if you are calling from outside the UK). This Helpline is available from 8.00 a.m. to 8.00 p.m. Monday to Friday and from 10.00 a.m. to 4.00 p.m. on Saturdays and will remain open until 15 April 2002. For legal reasons, the Shareholder Helpline will only be able to provide you with information contained in this document (other than information relating to ICI's register of members) and will be unable to give advice on the merits of the Rights Issue or to provide financial or investment advice.

Audited financial statements for the Company for the three years ended 31 December 2001 comprising the Group profit and loss account, the statement of Group total recognised gains and losses and the statement of Group cash flows and related notes for each of the three years ended 31 December 2001 together with the Group balance sheet and related notes as at 31 December 2001 and 31 December 2000 are included in the Company's prospectus of today's date and are available from the Company's registered office at Imperial Chemical House, Millbank, London, SW1P 3JF and on the Company's website.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2002
Record Date for the Rights Issue	Close of business on 20 February
Latest time for receipt of Forms of Proxy	9.30 a.m. on 23 February
Extraordinary General Meeting	**9.30 a.m. on 25 February**
Despatch of Provisional Allotment Letters (to Qualifying non-CREST Shareholders only)	25 February
Nil Paid Rights credited to stock accounts in CREST (Qualifying CREST Shareholders only)	26 February
Dealings in new ICI shares, nil paid, commence on the London Stock Exchange	**8.00 a.m. on 26 February**
Recommended latest time for requesting withdrawal of Nil Paid Rights from CREST (i.e. if your Nil Paid Rights are in CREST and you wish to convert them into certificated form)	9.30 a.m. on 13 March
Latest time and date for depositing renounced Provisional Allotment Letters, nil paid, into CREST or for dematerialising Nil Paid Rights into a CREST stock account	3.00 p.m. on 15 March
Latest time and date for splitting Provisional Allotment Letters, nil paid	3.00 p.m. on 18 March
Dealings in Fully Paid Rights commence on the London Stock Exchange	8.00 a.m. on 19 March
Latest time and date for acceptance and payment in full	**9.30 a.m. on 20 March**
Recommended latest time for requesting withdrawal of Fully Paid Rights from CREST (i.e. if your Fully Paid Rights are in CREST and you wish to convert them into certificated form)	9.30 a.m. on 27 March
Latest time and date for splitting Provisional Allotment Letters, fully paid	3.00 p.m. on 3 April
Latest time for depositing renounced Provisional Allotment Letters, fully paid, into CREST or for dematerialising Fully Paid Rights into a CREST stock account	3.00 p.m. on 3 April
Latest time and date for registration of renunciation of Provisional Allotment Letters, fully paid	3.00 p.m. on 5 April
New ICI shares credited to CREST stock accounts	8 April
Despatch of definitive share certificates for new ICI shares in certificated form	12 April

UBS Warburg is acting as sponsor to ICI with regard to the Rights Issue. UBS Warburg, Goldman Sachs International and Merrill Lynch International are acting as underwriters to ICI with regard to the Rights Issue. UBS Warburg, Goldman Sachs International and Merrill Lynch International are acting as financial advisers to ICI. The contents of Part 1 of this announcement, which has been prepared and issued by, and is the sole responsibility of Imperial Chemical Industries PLC, have been approved solely for the purposes of section 21 of the Financial Services and Markets Act 2000 by UBS Warburg Ltd, Goldman Sachs International and Merrill Lynch International.

Each of UBS Warburg, Goldman Sachs International and Merrill Lynch International is acting exclusively for ICI and no-one else in connection with the Rights Issue and will not be responsible to anyone other than ICI for providing the protections afforded to clients of UBS Warburg, Goldman Sachs International or Merrill Lynch International or for providing advice in relation to the Rights Issue or any matter referred to herein.

The address of UBS Warburg is 1 Finsbury Avenue, London, EC2M 2PP. The address of Goldman Sachs International is Peterborough Court, 133 Fleet Street, London, EC4A 2BB. The address of Merrill Lynch International is 2 King Edward Street, London, EC1A 1HQ.

Prices and values of, and income from, shares may go down as well as up and an investor may not get back the amount invested. It should be noted that past performance is no guide to future performance. Persons needing advice should consult an independent financial adviser.

A registration statement relating to these securities is expected to be filed today with the Securities and Exchange Commission but has not yet become effective. These securities may not be sold nor may offers be accepted prior to the time the registration statement becomes effective. This announcement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State. It is currently expected that the prospectus will become available on or around 4 February 2002. When the prospectus is available, copies will be sent to US holders and will also be available at the registered office of ICI at Imperial Chemical House, Millbank, London, SW1P 3JF.

Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and, by their nature, are subject to a number of risks and uncertainties that could cause actual results and performance to differ materially from any expected future results or performance, expressed or implied, by the forward-looking statement. ICI assumes no responsibility to update any of the forward-looking statements contained herein except to the extent required by law.

PART 2

	Year 2001 £m	Year 2000 £m	Fourth Quarter 2001 £m (unaudited)	Fourth Quarter 2000 £m (unaudited)
Turnover				
International Businesses	5,645	5,570	1,341	1,364
Regional and Industrial	821	892	175	251
Eliminations	(41)	(47)	(8)	(14)
Continuing Operations	6,425	6,415	1,508	1,601
Discontinued	—	1,333	—	345
Total Group	6,425	7,748	1,508	1,946
Profit (before goodwill and exceptional items)				
International Businesses	569	600	134	139
Regional and Industrial	4	17	2	14
Continuing Operations	573	617	136	153
Discontinued	—	(5)	—	(1)
Total Group trading profit	**573**	**612**	**136**	**152**
Income from associates (net of interest)	(10)	40	(20)	6
Net interest for the Group	(162)	(202)	(33)	(54)
Profit before tax	**401**	**450**	**83**	**104**
Taxation	(89)	(108)	(19)	(22)
Attributable to minorities	(26)	(24)	(6)	(9)
Net profit for the period	286	318	58	73
Earnings per £1 Ordinary Share	**39.6p**	**44.0p**	**8.0p**	**10.1p**
Key ratios				
Trading margin (International Businesses)	10.1%	10.8%	10.0%	10.2%
Trading margin (ICI Group)	8.9%	7.9%	9.0%	7.8%
Interest cover—times	3.5	3.2	3.5	2.9
Effective tax rate	22%	24%	n/a	n/a

Basis of presentation:

The Group's "**Continuing Operations**" comprise the "**International Businesses**" (**National Starch, Quest, Performance Specialties** and **Paints**) and the "**Regional and Industrial**" segment.

References to "**comparable**" performance exclude the effect of currency translation differences and the impact of acquisitions and divestments on the results reported by the International Businesses. Regional and Industrial results, and the Group as a whole and financial numbers included in the tables are shown "**as reported**" in accordance with UK GAAP.

A further explanation is included in Section VIII of the Additional Sections including the definitions for key ratios.

Trading – Fourth Quarter

Sales for the International Businesses, at £1,341m, held up well in the fourth quarter in a difficult trading environment, being only 1 per cent. lower on a comparable basis than the same quarter a year ago. 4 per cent. sales growth to customers in Asia largely offset a slight decline in North America, 1 per cent., and a further slowdown in Latin America. Sales in Europe were in line with last year. Within the International Businesses, growth in the more consumer orientated Paints and Quest businesses, up 3 per cent. and 2 per cent. respectively, largely compensated for lower sales in National Starch and Performance Specialties, which were 5 per cent. and 4 per cent. lower respectively. As reported, sales for the International Businesses were 2 per cent. lower, with the offsetting 1 per cent. principally due to several small divestments. Regional and Industrial sales as reported were 30 per cent. lower as non-novated contracts were renegotiated through the year.

Group sales in the quarter, at £1,508m, were £438m lower than 2000, principally due to the impact of the divestment programme, particularly the sale of the Halochemicals (Chlor-Chemicals and Klea) and Crosfield businesses, which was completed in January 2001.

The International Businesses delivered a **trading profit** of £134m, £5m below last year, but in line with 2000 on a comparable basis before the impacts of foreign exchange, £3m, and acquisitions and disposals, £2m. Gross margin percentages held up well in the quarter, and were up slightly on the same period last year.

National Starch, benefiting from its cost reduction programme, returned to profit growth, with trading profit 6 per cent. ahead on a comparable basis. This offset lower results in Paints, only 3 per cent. lower despite the difficult conditions in Latin America, and Performance Specialties, 14 per cent. lower. Quest had a good quarter, with trading profit in line with the same quarter last year. Conditions were more challenging for the Regional and Industrial businesses, and overall Group trading profit was £16m lower, at £136m.

Income from associates, at a loss of £20m, was £26m lower than a year ago as the Polyurethanes, Propylene Oxide, Petrochemicals and Tioxide businesses of our principal associate, Huntsman International (formerly Huntsman ICI), were impacted by the economic downturn. 2000 also benefited from the contribution of Phillips-Imperial Petroleum, which was sold at the end of that year.

The **Group net interest charge** was £33m, £21m better than 2000, benefiting from lower interest rates. Interest cover in the quarter rose to 3.5 times compared to 2.9 times a year ago.

Profit before tax, goodwill and exceptionals for the quarter was £83m in 2001, compared to £104m last year.

Taxation on profits before goodwill and exceptionals in the quarter was £19m, compared to £22m last year.

Earnings per share before goodwill and exceptionals for the quarter were 8.0p, compared to 10.1p in 2000.

Exceptional items charged in the quarter were £122m to trading profit relating to the restructuring programme undertaken by the International Businesses, and £9m being the Group's share of the restructuring costs incurred by our associate, Huntsman International. Exceptional items below trading profit include £22m write down of investments, offset by profits on sale of businesses (including a release of £15m of divestment provisions) and fixed assets.

Profit before tax after goodwill and exceptionals was a loss of £58m compared to a loss of £415m a year ago. 2000 included an exceptional item providing for the loss on the sale of the Chlor-Chemicals, Klea and Crosfield operations. Tax on exceptional items was a credit of £34m, mainly due to the restructuring programme in the International Businesses.

Net profit after goodwill and exceptionals was a loss of £52m compared with a loss in the fourth quarter last year of £450m.

Total earnings per share after goodwill amortisation and exceptional items were a loss of 7.2p compared with a loss per share of 62.3p in 2000.

Trading – Year in review

Sales for the year in the International Businesses, at £5,645m, were 1 per cent. ahead as reported and in line with 2000 on a comparable basis (after allowing for the effect of foreign exchange, +2 per cent., and disposals, -1 per cent.). Growth in Asia and Europe compensated for lower sales in North and Latin America where conditions were more challenging. The more consumer orientated businesses of Quest and Paints grew comparable sales by 3 per cent. and 2 per cent. respectively, offsetting lower sales in National Starch, -4 per cent., and Performance Specialties, -2 per cent.

Total sales as reported for the Group's continuing operations for the year were £6,425m compared to £6,415m in 2000 (or £7,748m including discontinued operations sold in 2000 as part of the divestment programme).

Trading profit for the year for the Group was £573m, 6 per cent. lower than 2000. In the International Businesses gross margins were less than one percentage point lower, while fixed costs were slightly reduced, giving trading profit of £569m, 6 per cent. lower on a comparable basis, 5 per cent. lower as reported, the difference principally being currency movements. Paints, slightly ahead at £176m, and Quest, in line with last year at £107m, did not fully offset the impact of lower sales on trading profits in National Starch, at £218m, and Performance Specialties, at £68m. Regional and Industrial profits of £4m were £13m lower than 2000, with Pakistan PTA and Argentina both reporting losses for the year.

Income from associates before exceptionals was a loss of £10m, largely due to trading difficulties faced by Huntsman International, particularly in the fourth quarter. The Group result included the Group's share of trading profit from associates of £57m (2000 £100m) less net interest payable by associates of £67m (2000 £60m). In addition, 2000 benefited from the contribution of Phillips-Imperial Petroleum which was sold at the end of that year.

The Group net interest charge for the year was £162m compared to £202m a year ago as the Group benefited from falling interest rates, particularly in the United States.

Profit before tax, goodwill amortisation and exceptional items for the year was £401m, 11 per cent. lower than last year. Lower trading profits in the International Businesses £31m and Regional and Industrial businesses £13m were largely offset by interest costs which were £40m lower and the absence of £5m of losses of the discontinued operations. However, reduced profits from associates, £50m, meant that overall Group profit before tax decreased by £49m.

Taxation on profit before goodwill and exceptionals of £89m was £19m lower than last year reflecting the reduced trading profits and lower effective tax rate of 22 per cent., an improvement over the effective rate in 2000 of 24 per cent.

Earnings per share before goodwill and exceptionals for the year were 39.6p, 10 per cent. lower than in 2000.

Exceptional items charged to trading profit in the year were £143m relating to the restructuring programme in the International Businesses announced with the third quarter results, and £9m being the Group's share of the restructuring costs incurred by Huntsman International. Exceptional items charged after trading profit comprised £7m profits from sale of businesses (including a release of £20m of divestment provisions), £8m profit from the sale of fixed assets and £22m write down of investments.

The total **profit before tax after goodwill and exceptionals** was £205m compared with a loss in 2000 of £87m which included the provision for loss on the sale of the Chlor-Chemicals, Klea and Crosfield operations which completed in January 2001.

Net profit after goodwill and exceptionals was £121m compared with a loss last year of £228m.

Total earnings per share after goodwill amortisation and exceptional items were 16.8p compared with a loss per share of 31.6p in 2000.

OPERATING CASH FLOW

	Year 2001 £m	Year 2000 £m
Continuing Operations		
Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA")	782	816
Movement in working capital	(30)	(41)
Capital expenditure	(235)	(233)
Other items including exceptional outflows against restructuring provisions	(85)	(69)
Operating cash flow after capital expenditure		
– Continuing Operations	432	473
– Discontinued Operations	—	(71)
Operating cash flow after capital expenditure – Total Group	**432**	**402**
Interest and tax excluding tax on divestments	(224)	(255)
Dividends paid	(205)	(238)
Net operating cash in / (out) flow – Total Group	**3**	**(91)**
RESHAPING AND LEGACY CASH FLOWS		
Divestment proceeds from sale of assets and businesses	344	175
Tax paid on divestments	(21)	(67)
Payments against divestment provisions	(298)	(242)
Special top up pension payment	(30)	(100)
Acquisitions	(68)	(8)
Loans to associates and Ineos Chlor	(41)	(5)
Net cash in / (out) flow due to reshaping and legacy items	**(114)**	**(247)**
MOVEMENT IN NET DEBT		
Opening net debt	(2,799)	(2,347)
Net operating cash in / (out) flow	3	(91)
Net cash in / (out) flow due to reshaping and legacy items	(114)	(247)
Cash flow before financing	(111)	(338)
Non cash movements in net debt arising on foreign currency translation	(7)	(114)
Total movement in net debt	(118)	(452)
Closing net debt	(2,917)	(2,799)

Note

Section VI of the Additional Sections includes notes reconciling this presentation to the UK GAAP FRS1 cash flow statement.

Cash flow – year in review

The analysis of Group cash flow distinguishes between cash flows relating to operating activities and those related to portfolio reshaping and legacy issues. Included within "reshaping and legacy" are gross proceeds from divestments, cash expenditures relating to divestments (including tax paid and payments against divestment provisions, which, in some cases, will continue for a number of years), the ICI UK Pension Fund top-up payments, acquisition expenditure, and loans to associates and other investments.

Management believes this presentation provides important financial information relating to the continuing operating activities of the Group separate from cash flows relating to the divestment programme and the transformation of the Group. This should not be considered as an alternative but as supplementary to the presentation of cash flows in accordance with UK GAAP included in the appendices.

Operating cash flow

Earnings before interest, tax, depreciation and goodwill amortisation from continuing operations in the year, at £782m, were only 4 per cent. below 2000. A significant, and expected, seasonal working capital inflow of £215m in the fourth quarter resulted in an outflow of only £30m in the full year, slightly better than the corresponding figure for 2000 of £41m. Capital investment for continuing operations for 2001, at £235m, was at a similar level to last year, while exceptional outflows and other items increased to £85m (2000 £69m) as a result of the restructuring programme announced with the third quarter results.

Overall, operating cash flow after capital expenditure was £432m for 2001 compared to £402m for 2000 which was after an outflow of £71m from discontinued operations last year.

Net interest and tax payments (excluding tax on divestments) during 2001 amounted to £224m (2000 £255m). The Group benefited from lower interest rates during the year, and interest payments were £31m lower. Tax payments were broadly in line with the previous year. Dividend payments in 2001, at £205m, were below 2000, with the reduced interim dividend, in line with the policy announced in November 2000, partially offset by higher distributions to minority shareholders.

Overall, the net operating cashflow for the Group was an inflow of £3m, £94m better than in 2000.

Reshaping and legacy outflows

Proceeds from the divestment programme in 2001 of £344m arose principally from the sale of the Chlor-Chemicals, Klea and Crosfield businesses. The sale of these businesses resulted in tax paid on divestments of £21m reduced by £46m for the year, however higher payments were charged against divestment provisions compared to 2000. The payment to the ICI UK Pension Fund was reduced to £30m in the year from £100m in 2000, as the reduction in the assessed fund deficit reduced the required top up.

Acquisition expenditure of £68m (2000 £8m) resulted from several small bolt-on acquisitions in the International Businesses, while loans of £6m (2000 £5m) and £35m were provided to an associate and Ineos-Chlor respectively.

Overall, total cash outflow on reshaping and legacy items was £114m, a £133m improvement compared to an outflow of £247m in 2000.

Movement in Net Debt

Net debt at 31 December 2001 of £2,917m increased by £118m from £2,799m at the start of the year, a consequence of the reshaping and legacy cash outflows. Non cash foreign exchange movements were £7m, as gains and losses in different currencies largely offset each other, compared to a loss of £114m last year.

The Company's net debt position has historically changed over the course of a year, and in particular short-term debt has generally increased in the early part of a year to fund working capital requirements. These working capital needs arise principally from the seasonality of the Group's Paints business, which experiences higher sales, and thus working capital, during the North American and European summer. The Group's commercial paper programmes and other short-term borrowings are used to fund these working capital fluctuations. Principally as a result, the Company expects that its short-term debt will increase significantly, and as a result its net debt will also increase significantly over the first part of 2002.

Exceptional items

Exceptional items for the fourth quarter and the full year were as follows:

	Year		Fourth Quarter (unaudited)	
	2001	2000	2001	2000
	£m	£m	£m	£m
Exceptional operating items in trading profit	(143)	—	(122)	—
Share of associates' exceptional operating items	(9)	—	(9)	—
Profit/(loss) on sale or closure of operations	7	(515)	16	(514)
Fundamental reorganisation	—	(14)	—	—
Profit/(loss) on disposal of fixed assets	8	11	6	4
Write off of investments	(22)	—	(22)	—
Exceptional items in interest	—	16	—	—
Exceptional items before tax and minority interests	(159)	(502)	(131)	(510)
Taxation	33	(9)	34	(4)
Minority interests	(2)	—	(3)	—
Exceptional items after tax and minority interests	(128)	(511)	(100)	(514)

Fourth Quarter

Exceptional operating items in trading profit comprised the major part of the restructuring programme announced in November 2001. The £122m charge related to amounts charged by all four International Businesses.

During the fourth quarter, Huntsman International announced a major restructuring of its Polyurethanes business, including the closure of the Shepton Mallet facility and reductions in the workforce of approximately 200 employees. ICI's share of these restructuring costs was £9m.

Amounts written off investments related to shares of the Company held to hedge obligations granted prior to 1999 under the employee share ownership plans. Profit/(loss) on sale or closure of operations included the release of £15m of provisions relating to divestments completed in earlier years.

Year in review

In November 2001, the Group announced a programme to improve cost effectiveness and supply chain efficiencies across all the International Businesses. The programme resulted in an exceptional charge before tax of £143m, comprising £118m of anticipated exceptional cash expenditure (including severance costs of £78m) and non-cash asset write-offs of £25m. £30m of the cash expenditure was incurred in 2001. The programme is expected to be substantially completed within the next two years.

The exceptional charge covers expenditure associated with the restructuring programme by National Starch £46m (including severance costs of £25m and asset write downs of £9m), Quest £45m (including severance costs of £21m and asset write downs of £4m), Performance Specialties £28m (including severance costs of £23m and asset write downs of £3m) and Paints £24m (including severance costs of £9m and asset write downs of £9m).

Huntsman International recorded a restructuring exceptional charge during the fourth quarter. ICI's share of these costs was £9m.

There was no exceptional charge to trading profit in 2000.

The Group reported a pre tax profit on sales of operations of £7m (2000 loss £515m) which related primarily to gains on the divestments of the remaining Polyurethanes businesses in Japan and India, partially offset by losses on the divestment of the Eutech business and the Paints India Motors business. Profit on disposal of fixed assets amounted to £8m for 2001 (2000 £11m). Amounts written off investments related to shares of the Company held to hedge obligations granted prior to 1999 under the employee share ownership plans.

In total, exceptional items before tax and minority interests for 2001 amounted to a loss of £159m (2000 £502m loss, including £16m exceptional interest income relating to a tax repayment). Exceptional items after tax and minorities were a loss of £128m, including the benefit of a tax credit principally for restructuring costs.

OPERATIONAL AND FINANCIAL REVIEW—CONTINUING OPERATIONS

The financial numbers and tables in the following section are presented in pounds sterling and are "as reported". As reported numbers include the effects of currency translation, acquisitions and divestments and are quoted before accounting for goodwill amortisation and exceptional items.

Unless otherwise stated, the commentary on pages 41 through 46, for the International Businesses, being National Starch, Quest, Performance Specialties and Paints, refers to performance measured on a "comparable basis" excluding the effect of currency translation differences and the impact of acquisitions and divestments. Comparable numbers are unaudited.

Commentary on the Regional and Industrial businesses is "as reported" rather than "comparable".

A full description of comparable performance variances and an explanation of the Group's segmentation is set out in Section VIII of the Additional Sections.

National Starch

4th Quarter (unaudited)					Full Year			
2001	2000		Comparable		2001	2000		Comparable
£m	£m	%	%		£m	£m	%	%
451	482	(6)	(5)	Sales	1,853	1,894	(2)	(4)
76	75	1	6	EBITDA	289	309	(6)	(8)
57	57	0	6	Trading Profit	218	245	(11)	(12)

National Starch comprises four distinct business groupings: Adhesives and Sealants (42 per cent. of National Starch's sales in 2001) Food and Industrial Starch (26 per cent.), Specialty Synthetic Polymers (19 per cent.) and Electronic and Engineering Materials (13 per cent.). The geographic split of sales by destination in National Starch in 2001 was Europe 25 per cent., North America 44 per cent., Asia 24 per cent. and Latin America and Rest of World 7 per cent.

Fourth Quarter

For the quarter, National Starch's sales were 5 per cent. below the prior year, with sales continuing to be affected by the slowdown in the electronics and semiconductor markets served by the Electronic & Engineering Materials division, and by weakness in the US economy. Nevertheless, cost reduction initiatives and restructuring activities announced earlier in the year reduced fixed costs by 9 per cent., and, together with weakening raw material prices, improved gross margins over both Q3 2001 and Q4 2000. Consequently, the business delivered a 6 per cent. increase in trading profit for the quarter.

As reported profits were in line with the same quarter last year, with foreign exchange (4 per cent.) and divestments (2 per cent.) offsetting the comparable increase.

Adhesives sales were 4 per cent. lower, with weakness in the US offsetting growth in both Europe and Asia. Despite this, the benefits of cost reduction activities enabled the division to deliver strong profit growth.

Starch sales were slightly ahead of prior year, with strong growth in Asia, particularly for Industrial Starches, partially offset by the downturn in papermaking starch in the US. Profits were in line with prior year.

For **Specialty Synthetic Polymers**, profits grew strongly, particularly in Europe, on the back of the major drive for cost reduction, which delivered costs 23 per cent. below last year, and easing raw material prices improved gross margin percentages. Sales were 4 per cent. lower, with Vinamul and Elotex both experiencing shortfalls.

The environment for **Electronic and Engineering Materials** in the fourth quarter was little changed from Q3. Sales were 18 per cent. lower, and profits were also well down despite improved gross margin percentages compared to Q4 2000.

Year in review

National Starch's sales of £1,853m were 4 per cent. behind 2000 with trading profit 12 per cent. lower for the same period. Both sales and profit declines reflected the effects of the continued economic downturn in the US, and the sharp downturn in the electronics industry which impacted from early in 2001. However, profit improvement programmes, including an 8 per cent. reduction in headcount during 2001, reduced the rate of profit decline versus last year to only 3 per cent. for the second half, and improved trading margins compared with the first half of 2001. In the fourth quarter, a restructuring programme was announced that is intended to further reduce the cost base and improve competitiveness. In total, £37m is intended to be spent on restructuring programmes over the next two years, which include the closure or sale of several sites in the US, Europe, Asia and Australasia, and a further significant headcount reduction. The programme is focused on Specialty Polymers and Adhesives in North America and Europe.

Foreign exchange effects largely accounted for the difference between comparable and as reported results with as reported sales and trading profits 2 per cent. and 11 per cent. lower respectively.

Adhesives sales were 3 per cent. behind 2000, and trading profit was also lower as good performances in Europe and Asia were offset by the impact of the economic downturn in the US. In the US, price increases and aggressive cost control efforts partially offset lower sales volumes, while the European business was more robust, recovering from a slow start to deliver both sales and profit growth for the full year. The Asia Pacific region continued to be a strong performer. While the downturn in Japan had a significant impact, growth continued in other parts of Asia, most notably in China and in the Dongsung-NSC business. During the year, Dongsung-NSC expanded its shoe adhesives business into Vietnam and Mexico.

Sales for **Starch** were slightly below 2000, and trading profit also declined, as Food Starch growth was more than offset by the decline in the papermaking sector in North America. Food Starch sales were strong in all regions, including North America, with its focus on customer needs through technology application continuing to distinguish this business from its competitors. Tapioca-based starch products produced in Thailand maintained their sales growth, both in Asia and in other regions of the world, but margins were squeezed by higher tapioca costs, especially in the latter part of the year. The papermaking starch business, which is under severe pressure in North America, continued to grow in Asia.

Specialty Synthetic Polymers sales for 2001 were 2 per cent. below 2000. Margins were impacted early in the year by high raw material costs, but improved as the year progressed as a result of aggressive cost reduction efforts and more favourable raw material costs. Trading profit in 2001 was well ahead of the previous year. The Vinamul polymers business experienced lower demand in many applications, and pressure on pricing remained strong. Alco Chemical, which supplies low molecular weight chemistries for water treatment and other applications, continued its strong growth in North America and sustained its expansion in Europe and Asia. The Elotex powders business suffered from lower sales due to the decline in construction in Western Europe, especially Germany, and from high raw material costs early in the year.

The personal care business continued to progress with broad geographic sales growth, building on the recovery of sales that commenced in the second half 2000.

Electronic and Engineering Materials suffered from the effects of a major downturn in the semiconductor and electronics industry, and, as a result, sales for 2001 were 13 per cent. below 2000. Ablestik, which supplies materials for semiconductor packaging and micro-electronic assemblies, was most severely impacted by this downturn, but continued to work closely with customers throughout the period and is expected by Group management to be well positioned to benefit from a future upturn in this sector. Acheson sales of coatings for cathode ray tubes slowed, reflecting sluggish demand for computer monitors and television sets. Emerson & Cuming was also affected by the downturn, although it was able to maintain its strong relationships with key ink jet customers, while the Circuit Assembly Materials business unit developed significant new business in the aerospace sector, particularly within satellite components. Costs were reduced throughout the division to offset the industry slowdown, and, despite the decline in sales, the division generated a positive trading profit.

Quest

4th Quarter (unaudited) 2001 £m	2000 £m	%	Comparable %		Full Year 2001 £m	2000 £m	%	Comparable %
172	167	3	2	Sales	727	687	6	3
28	27	4	2	EBITDA	126	121	4	1
23	22	5	0	Trading Profit	107	103	4	0

Quest comprises two distinct business groupings: Fragrances (41 per cent. of Quest's sales in 2001) and Food (59 per cent.). The geographic split of sales in Quest by destination in 2001 was Europe 41 per cent., North America 25 per cent., Asia 18 per cent. and Latin America and Rest of World 16 per cent.

Fourth Quarter

Quest returned to sales growth in the fourth quarter, with total sales up 2 per cent. All regions other than Europe contributed to the growth. Trading profits were in line for the quarter compared to last year.

Sales as reported include the contribution of Quest India +2 per cent and foreign exchange differences, –1 per cent. Similarly, as reported profits were up 5 per cent. due to Quest India.

Fragrance delivered good growth in most sectors, but continued to be impacted by less favourable trading conditions in the fine fragrances market. Overall, sales growth was 2 per cent. Performance was strong in Asia and Latin America. Improved gross margin percentages from procurement initiatives and raw material price reductions contributed to profits being ahead in the quarter.

Food sales in the quarter were up by 1 per cent. with solid performances in most regions. 6 per cent. growth in North America, with Flavours performing strongly, offset weakness in Europe. However, continued adverse sales mix and higher raw material costs led to trading profits lower than last year.

Year in review

Quest delivered 3 per cent. overall sales growth for the year, with high single digit growth outside Europe and North America. Improvements in Fragrance offset an adverse sales mix in Food, and trading profit was in line with 2000.

As reported sales were up 6 per cent., with the effect of foreign exchange, 2 per cent. and the Quest India acquisition, 1 per cent. accounting for the improvement over comparable performance.

During the year, Quest initiated a major programme to rationalise its cost base through the closure of surplus manufacturing sites, restructuring and redesign of the supply chain and the streamlining of management and support services. In addition, business systems, processes and capabilities will be upgraded in order to drive supply chain improvements, significantly enhance customer service levels and create e-connectivity. The estimated total exceptional cash expenditure of £41m is expected to be incurred within the next three years.

During the year, ICI, mostly via ICI India, acquired a 51 per cent. stake in Quest India from Hindustan Lever Limited for $33m.

Fragrance had a strong year with 5 per cent. sales growth, despite more difficult market conditions in the second half of the year. The introduction of new products, most notably in personal care, contributed to the growth, with higher sales also achieved in fragrance ingredients. Fine fragrance sales were up significantly in the first half of the year but slowed in the second half, reflecting the market downturn. Improved sales mix and supply chain improvements contributed to improved gross margin percentages, and, as a result, trading profit was well ahead for the year. Trading profit growth was achieved in all the major regions.

Food had a more difficult year but sales grew by 2 per cent. Food ingredients grew, particularly in Asia Pacific, while Flavours did well in North America and there was continued strong sales growth with most key customers. Flavour sales were slower in Europe. Culinary sales were lower, but this was offset, in particular, by strong growth in snacks and dairy. The associated adverse sales mix effects and higher raw material prices, partially offset by cost containment programmes during the year, caused trading profits to be lower than in 2000.

Performance Specialties

4th Quarter (unaudited) 2001 £m	2000 £m	%	Comparable %		Full Year 2001 £m	2000 £m	%	Comparable %
199	209	(5)	(4)	Sales	832	837	(1)	(2)
23	26	(12)	(10)	EBITDA	98	103	(5)	(6)
16	19	(16)	(14)	Trading Profit	68	75	(9)	(10)

Performance Specialties comprises two main businesses: Uniqema (80 per cent. of Performance Specialties' sales in 2001) and Synetix (18 per cent.) together with other businesses (2 per cent.). The geographic split of sales in Performance Specialties by destination in 2001 was Europe 49 per cent., North America 30 per cent., Asia 15 per cent. and Latin America and Rest of World 6 per cent.

Fourth Quarter

The fourth quarter saw a continuation of the trend of previous quarters, with a good performance by Synetix offset by Uniqema. Overall sales were 4 per cent. lower and, despite tight cost control, profits were down by 14 per cent. for the quarter.

As reported sales and trading profit were a further 1 per cent. and 2 per cent. lower respectively due to the additional effect of foreign exchange movements.

Uniqema sales were 7 per cent. lower than last year. Low glycerine prices and weak industrial markets in North America were again the main contributors. Lubricants performed well in the quarter. Fixed costs were well down on last year, but this could not offset the sales decline, and profits were significantly lower than last year.

Synetix had a strong quarter with sales up 9 per cent. All business units contributed, but performance was particularly strong in the Polymers, Chemicals and Edible Oils business unit, and the market for catalysts for Ammonia and Methanol continued to recover. Gross margin percentages improved on last year, and, as a consequence, profits were considerably ahead for the quarter.

Year in review

Overall, the year was disappointing for Performance Specialties, with sales 2 per cent. lower and trading profit 10 per cent. lower. The extent of the profit decline was, however, considerably limited by cost saving initiatives in Uniqema.

As reported sales were 1 per cent. lower with foreign exchange effects partially offsetting the 2 per cent. lower comparable performance. As reported profits were similarly affected.

Uniqema experienced the effects of the global economic downturn, particularly in industrial sectors in North America. These were heightened by the impact of significantly lower glycerine prices after the first quarter, particularly in Europe and North America, which reduced profits by some £8.5m worldwide. Sales were down 5 per cent., although the Health and Personal Care business continued to grow. Overall, fixed costs were 3 per cent. below 2000 levels with reductions taking effect in the second half, but the savings were insufficient to make up for the sales shortfall, and profits were well down on the previous year. Demand in the process intermediates sector remained strong in Europe in the first half of the year, but weakened somewhat in the second half. Market conditions in the US were difficult throughout the year. Synthetic lubricants showed strong volume growth year on year despite competitive pressures, but the polymers sector slowed with industrial markets generally, particularly in Europe in the second half of the year.

As announced in November, at an estimated cash expenditure of £25m, Uniqema in Europe is implementing programmes to improve supply chain efficiencies and undertake site restructuring. In July 2001, Uniqema also completed the sale of its ester manufacturing plant at Baleycourt, France to Ineos Chlor.

Synetix had an excellent year. Higher sales and improved gross margins delivered significant trading profit growth and the total business sales were ahead by 13 per cent. In January 2001, Synetix completed the acquisition of the 'CelActiv' catalyst business from Celanese Chemicals Europe GmbH, and this business has performed well since acquisition.

Within other businesses, **Security Systems** increased its sales and profits in 2001.

Paints

4th Quarter (unaudited)					Full Year			
2001	2000		Comparable		2001	2000		Comparable
£m	£m	%	%		£m	£m	%	%
519	506	3	3	Sales	2,233	2,152	4	2
51	56	(9)	(3)	EBITDA	230	231	0	1
38	41	(7)	(3)	Trading Profit	176	177	(1)	1

The Paints business comprises two main businesses: the Decorative business (90 per cent. of Paints' sales in 2001) and Packaging (10 per cent.). The geographic split of sales in Paints by destination in 2001 was Europe 32 per cent., North America 47 per cent., Asia 11 per cent. and Latin America and Rest of World 10 per cent.

Fourth Quarter

Paints recovered from the slowdown in sales seen in the US and parts of Europe immediately following the events of September 11th, and sales reverted to expected levels by the middle of October. However, the increasing economic turmoil in parts of Latin America inhibited the total sales and profit performance. In total, sales were 3 per cent. ahead. Trading profit was only 3 per cent. lower, despite the Latin American shortfall, with all other regions performing well in the quarter.

As reported trading profits were 7 per cent. lower with divestments accounting for a further 7 per cent. reduction from the comparable figures, partially offset by positive foreign exchange effects of 3 per cent.

In **Europe**, sales growth was 7 per cent., with strong performances from UK Trade and Ireland somewhat offset by weakness in Germany. Profits were ahead of prior year.

Sales in **North America** recovered quickly from September 11th, and growth was 7 per cent. Sales were ahead in both the US Consumer and US Stores businesses.

The positive momentum in **Asia** was maintained, with sales up 12 per cent. and trading profits also well ahead, showing double-digit growth. Performance was particularly strong in China and India.

Sales in **Latin America** were 23 per cent. below prior year, with the economic difficulties in Argentina causing a significant sales decline, and, in Brazil, the 24 per cent. year-on-year devaluation in the Real against the US$ causing both a decline in reported sales revenue, and margin erosion. The business continued to take action to improve margins through price increases, manufacturing improvements and fixed cost management, although this could not offset the volume decline. Consequently, overall trading profits were down 42 per cent. in what has normally been the strongest quarter of the year.

The **Packaging** business experienced some softness in year-end sales, as several customers closed plants for an extended period over Christmas. As a result, sales were 2 per cent. lower for the quarter.

Year in review

For the full year, sales growth of 2 per cent. was achieved despite the slowdown in the US and economic difficulties in parts of Latin America. Performance in Asia was excellent, with 11 per cent. sales growth and trading profit well ahead over prior year. Trading profit for Paints was up 1 per cent. on prior year, with a halving of trading profits in Latin America more than offset by profit growth in all other regions.

Reported sales were up 4 per cent. with foreign exchange effects, +3 per cent., less divestments, -1 per cent., accounting for the differences from the comparable results. Trading profits as reported were 1 per cent. lower.

The worldwide spend on media and publicity for the year was up 3 per cent.

In **Europe**, sales were 1 per cent. ahead in a slowing European economy, with growth in the UK, France and Ireland offsetting lower sales in Germany. Trading profits were also ahead for the full year as a result of both the growth in sales and the benefits of successful restructuring in France.

In **North America**, the business delivered sales growth of 5 per cent. for the year, with the US Consumer business doing well, and sales from our US Stores returning to modest levels of growth towards the end of the year. The business was significantly impacted in the short-term by events of September 11th but recovered early in the fourth quarter. Profits for the year were ahead of 2000. During the fourth quarter, we announced the next phase of restructuring the North American Decorative business. Cost reduction projects include the closure of a manufacturing facility as well as a number of loss-making stores at an estimated cash expenditure of £15m. This simplification of our supply chain infrastructure is expected by management to deliver both cost and working capital reductions.

Sales growth in **Asia** of 11 per cent. was achieved despite slowing economic growth in the region. There were strong performances in China, India and Thailand. Selling and marketing resources were increased, particularly in India and China, and overall profits were still well up. The divestment of the India Motors business was completed in April 2001.

In **Latin America** sales declined 18 per cent. for the year and profit was well down. The major influence on sales was the significant devaluation of the Real in Brazil, which continued to impact results throughout the year, particularly by inflating imported raw material costs. In the second half, the deteriorating economic situation in Argentina depressed the paint market, reducing sales and causing a significant reduction in profits for the year overall.

The **Packaging** business delivered sales growth of 3 per cent. and profits in line with prior year. Sales growth was good in Europe. Investments in projects to improve the supply chain in Europe resulted in higher costs in the year, but are expected by management to deliver benefits in 2002.

Regional and Industrial

4th Quarter (unaudited)				Full Year		
2001	2000			2001	2000	
£m	£m	%		£m	£m	%
175	251	(30)	Sales	821	892	(8)
11	21	(48)	EBITDA	39	52	(25)
2	14	(86)	Trading Profit	4	17	(76)

Regional and Industrial is shown on an "as reported" basis. The Regional and Industrial segment comprises the Group's regional businesses (of which the largest operation is the pure terephthalic acid ("PTA") business in Pakistan) and some ongoing residual activity in the UK relating to legacy management. The geographic split of sales in Regional and Industrial by destination in 2001 was Europe 49 per cent., North America 3 per cent., Asia 40 per cent. and Latin America 8 per cent.

Fourth Quarter

Fourth quarter sales in the PTA business increased slightly over last year, but, as in the third quarter, the other regional businesses were below prior year. "Nil margin sales" from non-novated contracts for the quarter were £47m versus £88m in 2000 as contracts with the suppliers and customers of divested businesses continue to be novated. Trading profits fell due to the difficulties in Argentina and continued weak PTA prices.

Year in review

Regional and Industrial sales for 2001, at £821m, were 8 per cent. below 2000 due to several small disposals during the year. Trading profits were £4m, £13m below prior year. Turnover included £275m of "nil margin sales" (2000 £328m) and also included sales of Methanol under a tolling agreement which ceased in April 2001 and supply contracts involving businesses that have been divested.

Pakistan

The world and Asian PTA markets showed no improvement, and the PTA business made a small trading loss during the year. Sales and trading profits were also lower in Polyester Fibre, although the soda ash business continued to perform well. Overall, trading profits were slightly below the prior year.

India

Trading profits for the regional businesses in India were down 8 per cent. in 2001 due to the divestment of the polyurethanes business during the period, and costs associated with the restructuring of the rubber chemicals business. The explosives and nitrocellulose businesses continued to do well.

Argentina

Sales in Argentina for 2001 were significantly below 2000, with the performance of both the wine chemicals and performance chemicals businesses adversely affected by the difficult economic conditions. Consequently, a trading loss was recorded for the year.

Discontinued Operations

4th Quarter (unaudited) 2001 £m	2000 £m		Full Year 2001 £m	2000 £m
—	346	Sales	—	1,339
—	9	EBITDA	—	29
—	(1)	Trading Profit	—	(5)

Discontinued Operations comprise the following significant businesses: Halochemicals (including Chlor-Chemicals and Klea), Crosfield, Methanol, and the 50 per cent. associate, Phillips-Imperial Petroleum.

No businesses became discontinued in the year.

NEW ACCOUNTING STANDARDS

The following two standards will impact the financial statements. FRS 18 relates to the review and disclosure of accounting policies and does not impact the financial results in 2001.

FRS 17 Retirement Benefits

This standard sets out revised requirements for the accounting and disclosure of an employers retirement benefit obligations and related funding. Recognition in the primary statements is not required until 2003. The Group is following the transitional arrangements set out by the standard and related disclosures are set out in the notes to the accounts within the financial statements appended to this press release. Further disclosures will be made regarding the annual pension costs under the new standard. While the analysis has not been finalised at this stage, the 2001 P&L impact is not expected to be materially different from the current costs under SSAP 24. There is no cash flow impact. The balance sheet impact is to record the assets and obligations of the fund and exclude the prepayment recorded under SSAP 24.

FRS 19 Deferred Taxation

This standard requires full provision to be made for deferred tax assets and liabilities arising on timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. The standard is not required to be implemented until 2002.

Had FRS 19 been implemented in 2001, the effective tax rate on Profit before tax, goodwill amortisation and exceptional items would have risen from 22.2 per cent. for 2001 (2000 24.0 per cent., 1999 26.3 per cent.) to an estimated 28.9 per cent. (2000 31.6 per cent., 1999 31.1 per cent.). This would have increased the tax charge on ordinary items to an estimated £116m in 2001, (2000 £142m, 1999 £117m) and reduced earnings per share before goodwill amortisation and exceptional items from 39.6p in 2001 (2000 44.0p, 1999 37.0p) to an estimated 35.9p (2000 39.3p, 1999 34.5p).

The new standard will have no impact on cashflows.

EXTRAORDINARY GENERAL MEETING

An Extraordinary General Meeting of the Company will be held at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SWI, on Monday, 25 February 2002 at 9.30 a.m.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1, on 28 May 2002 at 11:00 a.m.

NEXT ANNOUNCEMENT

Trading results for the first quarter of 2002 will be announced on 2 May 2002.

Imperial Chemical Industries PLC
ICI Group Headquarters
9 Millbank
London SW1P 3JF

4 February 2002

PART 4B – Operating and Financial Review (Additional Sections)

Section I	Group Profit and Loss Account Full Year 2001, Full Year 2000, Q4 2001, Q4 2000
Section II	Segment Information – Turnover
Section III	Segment Information – Trading Profit before Exceptional Items
Section IV	Summary Group Balance Sheet
Section V	Statement of Group Total Recognised Gains and Losses Reconciliation of Movements in Shareholders' Funds
Section VI	Summary Group Cash Flow
Section VII	UK GAAP to US GAAP net income reconciliation
Section VIII	Additional notes

SECTION I

IMPERIAL CHEMICAL INDUSTRIES PLC

GROUP PROFIT AND LOSS ACCOUNT
YEAR 2001

The audited trading results of the Group for the year 2001, are set out below, with comparative figures for 2000 set out on the following page:

	Year 2001			
	Continuing Operations		Discontinued Operations	Total
	Before Exceptional Items	Exceptional Items		
	£m	£m	£m	£m
Turnover	6,425		—	6,425
Trading profit/(loss)	536	(143)	—	393
(after deducting goodwill amortisation)	*(37)*	—	—	*(37)*
Income from associates	57	(9)	—	48
Profit/(loss) on sale of operations		(11)	18	7
Fundamental reorganisation costs		—	—	—
Profits/(losses) on disposal of fixed assets		8	—	8
Write off of investment		(22)	—	(22)
Profit/(loss) on ordinary activities before interest	593	(177)	18	434
Net interest payable – Group	(162)	—	—	(162)
– Associates	(67)	—	—	(67)
Profit/(loss) on ordinary activities before taxation	364	(177)	18	205
Taxation	(89)	39	(6)	(56)
Attributable to minorities	(26)	(2)	—	(28)
Net profit/(loss) for the year	249	(140)	12	121
Dividends				(116)
Profit/(loss) retained				5
Profit before goodwill amortisation, taxation and exceptionals	401		—	401
Profit/(loss) before taxation and exceptionals	364		—	364
Net Profit/(loss) before exceptionals	249		—	249
Earnings/(loss) per £1 Ordinary Share:				
– before goodwill amortisation and exceptionals				39.6p
– before exceptionals				34.5p
– after exceptionals				16.8p
Weighted average number of shares				722m

SECTION I

IMPERIAL CHEMICAL INDUSTRIES PLC

GROUP PROFIT AND LOSS ACCOUNT
YEAR COMPARATIVES FOR 2000

	Year 2000			
	Continuing Operations		Discontinued Operations	Total
	Before Exceptional Items	Exceptional Items		
	£m	£m	£m	£m
Turnover	6,415		1,333	7,748
Trading profit/(loss)	582	—	(5)	577
(after deducting goodwill amortisation)	*(35)*	—	—	*(35)*
Income from associates	91	—	9	100
Profit/(loss) on sale of operations		16	(531)	(515)
Fundamental reorganisation costs		(14)	—	(14)
Profits/(losses) on disposal of fixed assets		10	1	11
Write off of investments		—	—	—
Profit/(loss) on ordinary activities before interest	673	12	(526)	159
Net interest payable – Group	(201)	16	(1)	(186)
– Associates	(60)	—	—	(60)
Profit/(loss) on ordinary activities before taxation	412	28	(527)	(87)
Taxation	(112)	(6)	1	(117)
Attributable to minorities	(24)	—	—	(24)
Net profit/(loss) for the year	276	22	(526)	(228)
Dividends				(232)
Profit/(loss) retained				(460)
Profit before goodwill amortisation, taxation and exceptionals	447		3	450
Profit/(loss) before taxation and exceptionals	412		3	415
Net Profit/(loss) before exceptionals	276		7	283
Earnings/(loss) per £1 Ordinary Share:				
– before goodwill amortisation and exceptionals				44.0p
– before exceptionals				39.2p
– after exceptionals				(31.6p)
Weighted average number of shares				722m

SECTION I

IMPERIAL CHEMICAL INDUSTRIES PLC

GROUP PROFIT AND LOSS ACCOUNT
FOURTH QUARTER 2001

The unaudited trading results of the Group for the fourth quarter 2001, are set out below, with comparative figures for 2000 set out on the following page:

	Fourth Quarter 2001			
	Continuing Operations		Discontinued Operations	Total
	Before Exceptional Items	Exceptional Items		
	£m	£m	£m	£m
Turnover	1,508		—	1,508
Trading profit/(loss)	126	(122)	—	4
(after deducting goodwill amortisation)	*(10)*	—	—	*(10)*
Income from associates	(2)	(9)	—	(11)
Profit/(loss) on sale of operations		8	8	16
Fundamental reorganisation costs		—	—	—
Profits/(losses) on disposal of fixed assets		6	—	6
Write off of investments		(22)	—	(22)
Profit/(loss) on ordinary activities before interest	124	(139)	8	(7)
Net interest payable – Group	(33)	—	—	(33)
– Associates	(18)	—	—	(18)
Profit/(loss) on ordinary activities before taxation	73	(139)	8	(58)
Taxation	(19)	34	—	15
Attributable to minorities	(6)	(3)	—	(9)
Net profit/(loss) for the quarter	48	(108)	8	(52)
Dividends				(71)
Profit/(loss) retained				(123)
Profit before goodwill amortisation, taxation and exceptionals	83		—	83
Profit/(loss) before taxation and exceptionals	73		—	73
Net Profit/(loss) before exceptionals	48		—	48
Earnings/(loss) per £1 Ordinary Share:				
– before goodwill amortisation and exceptionals				8.0p
– before exceptionals				6.7p
– after exceptionals				(7.2)p
Weighted average number of shares				722m

SECTION I

IMPERIAL CHEMICAL INDUSTRIES PLC

GROUP PROFIT AND LOSS ACCOUNT
FOURTH QUARTER COMPARATIVES FOR 2000

	Fourth Quarter 2000			
	Continuing Operations		Discontinued Operations	Total
	Before Exceptional Items	Exceptional Items		
	£m	£m	£m	£m
Turnover	1,601		345	1,946
Trading profit/(loss)	144	—	(1)	143
(after deducting goodwill amortisation)	*(9)*	—	—	*(9)*
Income from associates	19	—	4	23
Profit/(loss) on sale of operations		10	(524)	(514)
Fundamental reorganisation costs		—	—	—
Profits/(losses) on disposal of fixed assets		—	4	4
Profit/(loss) on ordinary activities before interest	163	10	(517)	(344)
Net interest payable – Group	(54)	—	—	(54)
– Associates	(17)	—	—	(17)
Profit/(loss) on ordinary activities before taxation	92	10	(517)	(415)
Taxation	(26)	(2)	2	(26)
Attributable to minorities	(9)	—	—	(9)
Net profit/(loss) for the quarter	57	8	(515)	(450)
Dividends				(142)
Profit/(loss) retained				(592)
Profit before goodwill amortisation, taxation and exceptionals	101		3	104
Profit/(loss) before taxation and exceptionals	92		3	95
Net Profit/(loss) before exceptionals	57		7	64
Earnings/(loss) per £1 Ordinary Share:				
– before goodwill amortisation and exceptionals				10.1p
– before exceptionals				8.9p
– after exceptionals				(62.3)p
Weighted average number of shares				722m

SECTION II

IMPERIAL CHEMICAL INDUSTRIES PLC

SEGMENT INFORMATION
TURNOVER

	Year		Fourth Quarter (unaudited)	
	2001	2000	2001	2000
	£m	£m	£m	£m
Continuing Operations				
National Starch	1,853	1,894	451	482
Quest	727	687	172	167
Performance Specialties	832	837	199	209
Paints	2,233	2,152	519	506
International Businesses	5,645	5,570	1,341	1,364
Regional and Industrial	821	892	175	251
Inter-class eliminations	(41)	(26)	(8)	(7)
Gross total	6,425	6,436	1,508	1,608
Sales by Continuing Operations to Discontinued Operations	—	(21)	—	(7)
Net total – Continuing Operations	6,425	6,415	1,508	1,601
Discontinued Operations				
Group total	—	1,339	—	346
Sales by Discontinued Operations to Continuing Operations	—	(6)	—	(1)
Net total – Discontinued Operations	—	1,333	—	345
Total Group External Turnover	6,425	7,748	1,508	1,946

SECTION III

IMPERIAL CHEMICAL INDUSTRIES PLC

SEGMENT INFORMATION
TRADING PROFIT

BEFORE GOODWILL AMORTISATION AND EXCEPTIONAL ITEMS

	Year		Fourth Quarter (unaudited)	
	2001 £m	2000 £m	2001 £m	2000 £m
Continuing Operations				
National Starch	218	245	57	57
Quest	107	103	23	22
Performance Specialties	68	75	16	19
Paints	176	177	38	41
International Businesses	569	600	134	139
Regional and Industrial	4	17	2	14
Total Continuing Operations	573	617	136	153
Discontinued Operations	—	(5)	—	(1)
Total Group Trading Profit	573	612	136	152

AFTER GOODWILL AMORTISATION BEFORE EXCEPTIONAL ITEMS

	Year		Fourth Quarter (unaudited)	
	2001 £m	2000 £m	2001 £m	2000 £m
Continuing Operations				
National Starch	200	227	53	52
Quest	106	103	22	22
Performance Specialties	67	74	16	19
Paints	159	161	33	37
International Businesses	532	565	124	130
Regional and Industrial	4	17	2	14
Total Continuing Operations	536	582	126	144
Discontinued Operations	—	(5)	—	(1)
Total Group Trading Profit	536	577	126	143

AFTER GOODWILL AMORTISATION AND EXCEPTIONAL ITEMS

	Year		Fourth Quarter (unaudited)	
	2001 £m	2000 £m	2001 £m	2000 £m
Continuing Operations				
National Starch	154	227	12	52
Quest	61	103	(7)	22
Performance Specialties	39	74	(12)	19
Paints	135	161	9	37
International Businesses	389	565	2	130
Regional and Industrial	4	17	2	14
Total Continuing Operations	393	582	4	144
Discontinued Operations	—	(5)	—	(1)
Total Group Trading Profit	393	577	4	143

SECTION IV

IMPERIAL CHEMICAL INDUSTRIES PLC

SUMMARY GROUP BALANCE SHEET

	At 31 December 2001 £m	At 31 December 2000 £m
ASSETS EMPLOYED		
Intangible fixed assets	613	609
Tangible fixed assets	2,186	2,398
Investments	374	327
Current assets		
Cash and short-term investments	460	670
Other current assets	2,666	3,087
	3,126	3,757
Total assets	6,299	7,091
Creditors due within one year	(3,601)	(3,508)
Total assets less current liabilities	2,698	3,583
FINANCED BY		
Creditors due after more than one year:		
Loans	1,705	2,231
Other creditors	49	63
	1,754	2,294
Provisions for liabilities and charges	1,176	1,446
Minority interests – equity	51	59
Shareholders' funds – equity:		
Share capital	728	728
Reserves	(1,011)	(944)
	(283)	(216)
	2,698	3,583

SECTION V

IMPERIAL CHEMICAL INDUSTRIES PLC

STATEMENT OF GROUP TOTAL RECOGNISED GAINS AND LOSSES

	Year	
	2001	2000
	£m	£m
Net profit (loss)		
Parent and subsidiary undertakings	113	(217)
Associates	8	(11)
	121	(228)
Currency translation differences on foreign currency net investment and related loans	(59)	(15)
Taxation and translation differences on foreign currency loans	(5)	(27)
Total gains and losses recognised since last annual report	57	(270)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year	
	2001	2000
	£m	£m
Net profit/(loss) for the financial year	121	(228)
Dividends	(116)	(232)
Retained profit/(loss) for year	5	(460)
Issues of ICI Ordinary Shares	—	1
Goodwill movement	(8)	41
Other recognised gains/(losses) relating to the year	(64)	(42)
Net increase/(reductions) to shareholders' funds	(67)	(460)
Shareholders' funds at beginning of year – equity	(216)	244
Shareholders' funds at end of year – equity	(283)	(216)

SECTION VI

IMPERIAL CHEMICAL INDUSTRIES PLC
SUMMARY GROUP CASH FLOW

	Year	
	2001	2000
	£m	£m
Net cash flow from operating activities[1]	637	586
Dividends received from associated undertakings	—	5
Returns on investments and servicing of finance	(207)	(230)
Taxation	(58)	(104)
	372	257
Capital expenditure and financial investment		
Purchase of tangible fixed assets[2]	(235)	(284)
Sale of tangible fixed assets	29	58
	(206)	(226)
	166	31
Acquisitions	(109)	(13)
Disposals[3]	17	(125)
Equity dividends paid	(185)	(231)
Cash outflow before use of liquid resources and financing	(111)	(338)
Management of liquid resources	253	(12)
Financing – Issue of shares	—	1
– (Decrease)/Increase in debt	(77)	335
(Decrease)/Increase in cash	65	(14)

Notes on the reconciliation of the FRS1 format above to the cash flow presentation on page 38

1. Reconciliation of "net cash flow from operating activities" to the subtotal "operating cash flow after capital expenditure" shown on page 38.

	Year	
	2001	2000
	£m	£m
Net cash flow from operating activities per above	637	586
Capital expenditure in continuing operations	(235)	(233)
Capital expenditure in discontinued operations	—	(51)
	(235)	(284)
Exclude top-up payment to ICI UK Pension Fund	30	100
Operating cash flow after capital expenditure per page 38	432	402

2. £nil (2000: £51m) of purchase of tangible fixed assets (capital expenditure) relates to discontinued operations.
3. The Group received gross cash consideration of £315m, (2000: £117m). Of this amount, £298m (2000: £242m) was paid against ongoing disposal costs and provisions.

Cash flow UK GAAP FRS1 Presentation – Management discussion

The Group's net cash inflow from operating activities for 2001, at £637m, was £51m higher than the £586m for 2000. 2000 included a cash outflow from discontinued operations which was absent in 2001.

Capital expenditure and financial investment at £206m in 2001 was £20m lower than 2000 due to discontinued operations, a saving of £51m compared to 2000 partly offset by lower fixed asset sales.

Net disposals resulted in a cash inflow of £17m for 2001 (2000 outflow: £125m) and comprised £315m gross disposal proceeds (2000: £117m) less expenditure against disposal provisions of £298m (2000: £242m). Disposals in 2001 mainly included the Chlor-Chemicals, Klea and Crosfield businesses and these were the main cause of the higher expenditure in the year against disposal provisions.

Cash outflow before the use of liquid resources in 2001 was £111m compared with an outflow of £338m in the same period of 2000, the reduced outflow being mainly due to the higher net disposal proceeds, combined with lower interest tax and dividend payments.

SECTION VII

IMPERIAL CHEMICAL INDUSTRIES PLC

RECONCILIATION BETWEEN UK AND US GAAP

The results of the ICI Group are prepared in accordance with UK GAAP.

UK GAAP differs in certain respects from US GAAP. Net income of continuing and discontinued operations and shareholders' equity calculated in accordance with US GAAP are set out below. Note 43 to the financial statements describes the significant differences between UK GAAP and US GAAP affecting the ICI Group's net income and shareholders' equity. Under US GAAP, net income for 2001 was a profit of £13m (2000 £(456)m) compared with a net income of £121m (2000 £(228)m) under UK GAAP. Under US GAAP, shareholders' equity at 31 December 2001 was £2,568m and at 31 December 2000 was £2,828m compared to a deficit of £(283)m, and £(216)m respectively under UK GAAP. These differences primarily result from the differing accounting treatment of purchase accounting adjustments (including, in the years prior to 1998, amortisation and write-off of goodwill), disposal accounting, capitalisation of interest, pensions, foreign exchange, deferred tax, derivative instruments and hedging activities and restructuring costs.

The following is a summary of the material adjustments to net income which would have been required if US GAAP had been applied not UK GAAP:

	Year	
	2001	2000
	£m	£m
Net income after exceptionals – UK GAAP		
Continuing operations	109	298
Discontinued operations	12	(526)
	121	(228)
Adjustments to conform with US GAAP		
Pension expense	(37)	(108)
Capitalisation of interest less amortisation and disposals	(2)	(18)
Purchase accounting adjustments		
Amortisation of goodwill and intangibles	(127)	(123)
Disposals and other adjustments	10	(3)
Reversal of write down of investment	22	2
Derivative instruments and hedging activities	49	(8)
Restructuring costs	5	(19)
Foreign exchange	—	(14)
Share compensation expense	1	(5)
Others	2	2
Deferred taxation		
Arising on UK GAAP results	(41)	21
Arising on US GAAP adjustments	10	45
	(108)	(228)
Net income after exceptionals – US GAAP		
Continuing operations	13	(456)
Discontinued operations	—	—
	13	(456)

SECTION VIII

IMPERIAL CHEMICAL INDUSTRIES PLC

NOTES

1. Basis of Presentation

The Group's financial statements are prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. The Group's accounting policies conform with UK Generally Accepted Accounting Principles ("UK GAAP"). The main policies are set out in the accounts section of the annual report.

The financial data presented in this document is for the fourth quarter 2001, being the three months ended 31 December 2001, and the 2001 full year being the 12 months ended 31 December 2001. These periods are compared to the corresponding periods in the previous year being the fourth quarter 2000 (three months ended 31 December 2000) and 2000 full year (12 months ended 31 December 2000) respectively.

References to "Comparable" performance excludes the effect of currency translation differences and the impact of acquisitions and divestments on the results reported by the International Businesses. Performance is measured on a consistent basis over two or more financial periods. Comparable results for both 2001 and 2000 are translated at constant exchange rates, which equate to the annual average exchange rates for 2000, and exclude the results of divested businesses and the impact of acquired businesses from the relevant periods.

2. Basis of segmentation

Segmental data in this statement is analysed as follows:

Continuing Operations comprising the International Businesses (being National Starch, Quest, Performance Specialties and Paints) and Regional and Industrial. The Regional and Industrial segment comprises the Group's Regional businesses (of which the largest operation is the pure terephthalic acid business in Pakistan) and some ongoing residual activity in the UK relating to legacy management.

Discontinued Operations comprising the following significant businesses: Halochemicals (including Chlor-Chemicals and Klea), Crosfield, Methanol, and the 50 per cent. associate, Phillips-Imperial Petroleum.

3. Forward looking statements

Certain statements in this press release may be forward-looking statements as that term is defined in the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. These factors include, among other things, the impact of competitive products and pricing, changes in the price of raw materials, the occurrence of major operational problems, the loss of major customers, limitations imposed by our indebtedness and leverage, a credit downgrade by the ratings agencies, contingent liabilities arising in connection with recently disposed businesses, risks associated with our international operations, risks of litigation and other factors described in our filings with the SEC.

4. Segmental allocation of interest and tax

Net interest payable and taxation have been allocated to Discontinued Operations to reflect the legal entity incidence of these items within the businesses divested.

5. Relationship to Statutory Accounts and Audit Status

The information in this announcement does not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. The statutory accounts for the year ended 31 December 2000, on which the auditors have given an unqualified opinion, have been filed with the Registrar of Companies.

The statutory accounts for the year ended 31 December 2001 have been completed and signed on behalf of the Board of Directors on 3 February 2002. The auditors have given an unqualified audit opinion on the statutory accounts. The financial information included relating to the fourth quarters 2001 and 2000 is unaudited.

6. Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA")

EBITDA is defined as trading profit before interest, tax, depreciation and goodwill amortisation. The depreciation charged by the businesses in 2001 (excluding exceptional asset write-downs) was as follows: National Starch £71m (2000 £64m); Quest £19m (2000 £18m); Performance Specialties £30m (2000 £28m); Paints £54m (2000 £54m) and Regional and Industrial £35m (2000 £35m). Total depreciation for the Group before exceptional asset write-downs was £209m (2000 continuing operations £199m and discontinued operations £34m). Management believe EBITDA and related measures of cash flow serve as important financial indicators, however, EBITDA should not be considered in isolation, or as an alternative to operating or net income or cash flows from operating activities, in each case, determined in accordance with UK or US GAAP as appropriate.

7. Interest Cover

Calculations of interest cover are based on the sum of Group trading profit before goodwill and exceptionals and net associate company income (associate trading profit less associate interest) divided by Group interest cost (excluding associate interest).

8. Trading margin

Trading margin is calculated as trading profit (before goodwill amortisation, exceptionals, interest and share of profits of associates) expressed as a percentage of sales.

9. Effective tax rate

Effective tax rate is calculated as taxation (excluding tax on exceptional items) divided by profit before tax before goodwill amortisation and exceptionals.

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Nature of Financial Information

The financial information set out below has been extracted without material adjustment from the audited consolidated financial statements of ICI for the three years ended 31 December 2001. The financial information comprises the Group profit and loss account, the statement of Group total recognised gains and losses and the statement of Group cash flows and related notes for each of the three years ended 31 December 2001 and the Group balance sheet and related notes as at 31 December 2001 and 31 December 2000.

The financial information concerning ICI does not constitute statutory accounts within the meaning of section 240(5) of the Companies Act. Audited statutory accounts for the two years ended 31 December 2000 have been delivered to the Registrar of Companies in England and Wales. Statutory accounts for the year ended 31 December 2001 have not yet been delivered to the Registrar of Companies in England and Wales.

The Company's auditors, KPMG Audit Plc, Chartered Accountants and Registered Auditors, has made a report under section 235 of the Companies Act on the consolidated financial statements for the three years ended 31 December 2001.

accounting policies

As used in the financial statements and related notes, the term 'Company' refers to Imperial Chemical Industries PLC; the terms 'ICI' and Group' refer to the Company and its consolidated subsidiaries but not to associates.

The financial statements are prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. Accounting policies conform with UK Generally Accepted Accounting Principles ("UK GAAP"). The following paragraphs describe the main accounting policies. The accounting policies of some overseas subsidiaries do not conform with UK Accounting Standards and, where appropriate, adjustments are made on consolidation in order to present the Group financial statements on a consistent basis.

Turnover

Turnover excludes Intra-Group sales and value added taxes. Revenue is recognised at the point at which title passes.

Depreciation

The Group's policy is to write-off the book value of each tangible fixed asset to its residual value evenly over its estimated remaining life. Reviews are made annually of the estimated remaining lives of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear. Under this policy it becomes impracticable to calculate average asset lives exactly; however, the total lives approximate to 37 years for buildings and 16 years for plant and equipment. Depreciation of assets qualifying for grants is calculated on their full cost.

Pension costs

The pension costs relating to Group retirement plans are assessed in accordance with the advice of independent qualified actuaries. The amounts so determined include the regular cost of providing the benefits under the plans which should be a level percentage of current and expected future earnings of the employees covered under the plans. Variations from the regular pension cost are spread on a systematic basis over the estimated average remaining service lives of current employees in the plans.

Research and development

Research and development expenditure is charged to profit in the year in which it is incurred.

Foreign currencies

Profit and loss accounts in foreign currencies are translated into sterling at average rates for the relevant accounting periods. Assets and liabilities are translated at exchange rates ruling at the date of the Group balance sheet. Exchange differences on short-term foreign currency borrowings and deposits are included with net interest payable. Exchange differences on all other balances, except relevant foreign currency loans, are taken to trading profit. In the Group accounts, exchange differences arising on consolidation of the net investments in overseas subsidiary undertakings and associates are taken to reserves, as are differences arising on equity investments denominated in foreign currencies in the Company accounts. Differences on relevant foreign currency loans are taken to reserves and offset against the differences on net investments in both Group and Company accounts.

Financial derivatives

Hedge accounting

The Group uses various derivative financial instruments to reduce exposure to foreign exchange risks. These include currency swaps, forward currency contracts and currency options. The Group also uses interest rate swaps, forward rate agreements and interest rate caps derivatives to adjust interest rate exposures. The Group considers its derivative financial instruments to be "hedges" (i.e. an offset of foreign exchange and interest rate risks) when certain criteria are met. Under hedge accounting for currency options, the Group defers the instrument's impact on profit until it recognises the underlying hedged item in profit. Other material instruments do not involve deferral since the profit impact they offset occurs during the terms of the contracts.

Foreign currency derivative instruments:

The Group's criteria to qualify for hedge accounting are:

- The instrument must be related to a foreign currency asset or liability that is probable and whose characteristics have been identified;
- It must involve the same currency as the hedged item; and
- It must reduce the risk of foreign currency exchange movements on the Group's operations.

Interest rate derivative instruments:

The Group's criteria to qualify for hedge accounting are:

- The instrument must be related to an asset or a liability; and
- It must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa.

Derivative financial instruments reported in the financial statements:

- The unamortised premium paid on purchased currency options is included in debtors in the balance sheet.

Cash flows related to foreign currency derivative transactions are reported along with related transactions in net cash inflow from operating activities or returns on investment and servicing of finance, as appropriate, in the Statement of Group cash flow.

Currency swaps

Principal amounts are revalued at exchange rates ruling at the date of the Group balance sheet and included in the sterling value of loans. In accordance with SSAP20 and FRS 3 exchange gains/losses are included in the Statement of Group total recognised gains and losses along with similar movements in the values of the investments being hedged.

Forward currency contracts

Those forward currency contracts hedging transaction exposures (purchases and sales held in the books of account) are revalued to balance sheet rates with net unrealised gains/losses being shown as trade receivables/payables. Both realised gains and losses on purchases/sales and unrealised gains/losses on forward contracts are recognised in trading profit.

accounting policies

Financial derivatives (continued)

Those contracts used to change the currency mix of net debt are revalued to balance sheet rates with net unrealised gains/losses being shown as part of the debt they are hedging. The difference between spot and forward rate for these contracts is recognised as part of net interest payable over the period of the contract. Realised and unrealised exchange gains/losses are shown in the financial statements in the same place as the underlying borrowing/deposit.

Currency options

Option premia are recognised at their historic cost in the Group balance sheet as 'other receivables'. At maturity, the option premia net of any realised gains on exercise, are taken to the financial statements as trading profit.

Interest rate swaps and forward rate agreements

Interest payments/receipts are accrued with net interest payable. They are not revalued to fair value or shown on the Group balance sheet at period end. If they are terminated early, the gain or loss is spread over the remaining maturity of the original instrument.

Interest rate caps

The option premia are recognised on the Group balance sheet as 'other receivables'. The option premia, net of any realised gains on individual caplets, are taken to net interest payable and spread evenly over the lifetime of the cap.

Associates

Associates are undertakings in which the Group holds a long-term interest and over which it actually exercises significant influence. The Group's share of the profits less losses from associates are included in the Group profit and loss account on the equity accounting basis. The holding value of associates in the Group balance sheet is calculated by reference to the Group's equity in the net assets of such undertakings, as shown by the most recent accounts available. Interests in joint arrangements that are not entities are included proportionately in the accounts of the investing entity.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items, including post-retirement benefits, for taxation and for accounting purposes. However, no provision is made for taxation deferred by reliefs unless there is reasonable evidence that such deferred taxation will be payable in the future. Taxation on exchange differences on relevant foreign currency loans used to finance net investments in subsidiary undertakings and associates is taken to reserves to be consistent with the treatment of the underlying exchange differences on the loans and net investments.

Stock valuation

Finished goods are stated at the lower of cost and net realisable value, raw materials and other stocks at the lower of cost and net realisable value; the first in, first out or an average method of valuation is used. In determining cost for stock valuation purposes, depreciation is included but selling expenses and certain overhead expenses are excluded.

Environmental liabilities

The Group is exposed to environmental liabilities relating primarily to its past operations, principally in respect of soil and groundwater remediation costs. Provisions for these costs are made when expenditure on remedial work is probable and the cost can be estimated within a reasonable range of possible outcomes.

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 the fair value of such net assets. For purchased goodwill arising on acquisitions after 31 December 1997 goodwill is capitalised and amortised through the profit and loss account over a period of 20 years unless the Directors consider it has a materially different useful life, either on acquisition or subsequently, if a shorter life is indicated. For goodwill arising on acquisitions prior to 31 December 1997 purchased goodwill was charged directly to reserves in the year of acquisition. On subsequent disposal or termination of a previously acquired business, the profit or loss recognised on disposal or termination is calculated after charging the amount of any related goodwill previously taken to reserves.

Employee Share Ownership Plan "ESOP"

The financial statements of the Group include the assets and related liabilities of Imperial Chemical Industries PLC Employee Benefits Trust and Impkemix Trustees Limited, a subsidiary company of the Group, which acts as trustee for the Group's employee share ownership plan. The shares held by the ESOP are stated at the lower of cost and estimated net realisable value.

group profit and loss account

for the year ended 31 December 2001

		2001			
		Continuing operations		Discontinued operations	Total
	notes	Before exceptional items £m	Exceptional items £m	£m	£m
Turnover	5,6	6,425		–	6,425
Operating costs	4,6	(5,935)	(143)	–	(6,078)
Other operating income	6	46	–	–	46
Trading profit (loss)	4,5,6	536	(143)	–	393
After deducting goodwill amortisation	*5*	*(37)*	–	–	*(37)*
Share of operating profits less losses of associates	4,7	57	(9)	–	48
		593	(152)	–	441
Fundamental reorganisation costs	4		–	–	–
Profits less losses on sale or closure of operations	4		(11)	18	7
Profits less losses on disposals of fixed assets	4		8	–	8
Amounts written off investments	4		(22)	–	(22)
Profit (loss) on ordinary activities before interest	5	593	(177)	18	434
Net interest payable	4,8				
Group		(162)	–	–	(162)
Associates		(67)	–	–	(67)
		(229)	–	–	(229)
Profit (loss) on ordinary activities before taxation		364	(177)	18	205
Taxation on profit (loss) on ordinary activities	9	(89)	39	(6)	(56)
Profit (loss) on ordinary activities after taxation		275	(138)	12	149
Attributable to minorities		(26)	(2)	–	(28)
Net profit (loss) for the financial year		249	(140)	12	121
Dividends	10				(116)
Profit (loss) retained for the year	25				5
Earnings (loss) per £1 Ordinary Share	11				
Basic		34.5p	(19.4)p	1.7p	16.8p
Diluted		34.5p	(19.4)p	1.7p	16.8p

statement of group total recognised gains and losses

for the year ended 31 December 2001

	2001 £m
Net profit (loss) for the financial year	
Parent and subsidiary undertakings	113
Associates	8
	121
Currency translation differences on foreign currency net investments and related loans	(59)
Taxation on translation differences on foreign currency loans	(5)
	(64)
Other items	–
Total gains and (losses) recognised since last annual report	57

2000				1999			
Continuing operations		Discontinued operations	Total	Continuing operations		Discontinued operations	Total
Before exceptional items £m	Exceptional items £m	£m	£m	Before exceptional items £m	Exceptional items £m	£m	£m
6,415		1,333	7,748	6,179		2,270	8,449
(5,876)	–	(1,350)	(7,226)	(5,710)	(83)	(2,225)	(8,018)
43	–	12	55	30	–	12	42
582	–	(5)	577	499	(83)	57	473
(35)	–	–	*(35)*	*(35)*	–	–	*(35)*
91	–	9	100	54	–	7	61
673	–	4	677	553	(83)	64	534
	(14)	–	(14)		(74)	–	(74)
	16	(531)	(515)		171	197	368
	10	1	11		29	(9)	20
	–	–	–		–	–	–
673	12	(526)	159	553	43	252	848
(201)	16	(1)	(186)	(261)	(54)	(1)	(316)
(60)	–	–	(60)	(29)	–	–	(29)
(261)	16	(1)	(246)	(290)	(54)	(1)	(345)
412	28	(527)	(87)	263	(11)	251	503
(112)	(6)	1	(117)	(69)	(39)	(136)	(244)
300	22	(526)	(204)	194	(50)	115	259
(24)	–	–	(24)	(10)	3	–	(7)
276	22	(526)	(228)	184	(47)	115	252
			(232)				(233)
			(460)				19
38.2p	3.0p	(72.8)p	(31.6)p	25.5p	(6.5)p	16.0p	35.0p
38.2p	3.0p	(72.8)p	(31.6)p	25.4p	(6.5)p	16.0p	34.9p

2000 £m	1999 £m
(217)	236
(11)	16
(228)	252
(15)	(22)
(27)	18
(42)	(4)
–	–
(270)	248

balance sheets

at 31 December 2001

	notes	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Assets employed					
Fixed assets					
Intangible assets – goodwill	12	613	609	–	–
Tangible assets	5, 13	2,186	2,398	69	58
Investments					
Subsidiary undertakings	14			9,072	10,095
Participating and other interests	15	374	327	58	12
		3,173	3,334	9,199	10,165
Current assets					
Stocks	16	753	843	29	27
Debtors	17	1,913	2,244	3,985	3,395
Investments and short-term deposits	18	159	415	–	–
Cash	34	301	255	13	16
		3,126	3,757	4,027	3,438
Total assets		6,299	7,091	13,226	13,603
Creditors due within one year					
Short-term borrowings	19	(418)	(765)	–	–
Current installments of loans	21	(1,250)	(466)	(1)	(27)
Other creditors	20	(1,933)	(2,277)	(8,458)	(8,119)
		(3,601)	(3,508)	(8,459)	(8,146)
Net current assets (liabilities)		(475)	249	(4,432)	(4,708)
Total assets less current liabilities	5	2,698	3,583	4,767	5,457
Financed by					
Creditors due after more than one year					
Loans	21	1,705	2,231	420	279
Other creditors	20	49	63	884	1,337
		1,754	2,294	1,304	1,616
Provisions for liabilities and charges	22	1,176	1,446	193	254
Minority interests – equity		51	59	–	–
Shareholders' funds – equity					
Called-up share capital	24	728	728	728	728
Reserves					
Share premium account		589	589	589	589
Associates' reserves		22	14	–	–
Profit and loss account		(1,622)	(1,547)	1,953	2,270
Total reserves	25	(1,011)	(944)	2,542	2,859
Total shareholders' funds (page 69)		(283)	(216)	3,270	3,587
		2,698	3,583	4,767	5,457

Included within Group net current liabilities are debtors of £552m (2000 £538m) which fall due after more than one year. Included within the Company net current liabilities are debtors of £312m (2000 £305m) which fall due after more than one year.

The accounts on pages 64 to 133 were approved by the Board of Directors on 3 February 2002 and were signed on its behalf by:

Lord Trotman Director TA **Scott** Director

statement of group cash flow

for the year ended 31 December 2001

	notes	2001 £m	2000 £m	1999 £m
Net cash inflow from operating activities	26	637	586	582
Dividends received from associates		–	5	4
Returns on investments and servicing of finance	27	(207)	(230)	(307)
Taxation		(58)	(104)	(65)
		372	257	214
Capital expenditure and financial investment	28	(206)	(226)	(356)
		166	31	(142)
Acquisitions and disposals				
Acquisitions	29	(109)	(13)	(12)
Disposals	31	17	(125)	2,040
		(92)	(138)	2,028
Equity dividends paid		(185)	(231)	(232)
Cash inflow (outflow) before use of liquid resources and financing		(111)	(338)	1,654
Management of liquid resources	30	253	(12)	215
Financing				
Issues of shares		–	1	1
Increase (decrease) in debt		(77)	335	(1,910)
	32	(77)	336	(1,909)
Increase (decrease) in cash	34	65	(14)	(40)

reconciliation of movements in shareholders' funds

for the year ended 31 December 2001

	notes	2001 £m	2000 £m	1999 £m
Net profit (loss) for the financial year		121	(228)	252
Dividends		(116)	(232)	(233)
Profit (loss) retained for year		5	(460)	19
Issues of ICI Ordinary Shares		–	1	1
Goodwill movement				
Acquisitions	25	(8)	–	10
Disposals	25	–	41	69
		(8)	41	79
Other recognised losses related to the year	25	(64)	(42)	(4)
Net increase (reduction) in shareholders' funds		(67)	(460)	95
Shareholders' funds at beginning of year – equity		(216)	244	149
Shareholders' funds at end of year – equity		(283)	(216)	244

notes relating to the accounts

1. Basis of presentation of financial information

New UK Accounting Standards

During 2000, the ASB published the following Standards:

FRS No. 17 *Retirement benefits*

This Standard sets out revised requirements for the accounting and disclosure of an employer's retirement benefit obligations and related funding. Increasing levels of disclosure of amounts measured in accordance with the Standard, is required over the years 2001 and 2002, with recognition in the primary statements for accounting periods ending on or after 23 July 2003. The Group is following the transitional arrangements under which information on financial assumptions to calculate the projected benefit obligations of Group schemes and details of scheme assets, expected rates of return, liabilities and net (liabilities) assets are disclosed by way of note (note 38). In 2002 further analysis covering amounts charged to trading profit, other finance income and the Statement of Group Total Recognised Gains and Losses will be provided. Upon full adoption in 2003, comparative financial statement information will be restated. Whilst the analysis has not been finalised at this stage, the 2001 profit and loss impact is not expected to be materially different from the current costs under SSAP24.

FRS No. 18 *Accounting Policies*

This Standard sets out the principles to be followed in selecting accounting policies and the required disclosures regarding their adoption and how they have been applied. The Standard has been adopted in the accounts for the year ended 31 December 2001. The adoption of this Standard did not have a material impact on the financial statements.

FRS No. 19 *Deferred Tax*

This Standard requires full provision to be made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations. The Standard is required to be implemented for periods ending on or after 23 January 2002. Upon adoption, comparative financial statement information will be restated.

Had FRS No. 19 been implemented in 2001, the effective tax rate on profit before tax, goodwill amortisation and exceptional items would have risen from 22.2 per cent. for 2001 (2000 24.0 per cent., 1999 26.3 per cent.) to an estimated 28.9 per cent. (2000 31.6 per cent., 1999 31.1 per cent.). This would have increased the tax charge on ordinary items to an estimated £116m in 2001, (2000 £142m, 1999 £117m) and reduced earnings per share before goodwill amortisation and exceptional items from 39.6p in 2001 (2000 44.0p, 1999 37.0p) to an estimated 35.9p (2000 39.3p, 1999 34.5p).

The new standard will have no impact on cash flows.

No new Standards were published in 2001.

Continuing and Discontinued Operations and Classes of Business

For UK reporting purposes, the results in these accounts differentiate between the Group's continuing and discontinued operations. As defined in FRS No. 3 – *Reporting Financial Performance*, discontinued operations are material, clearly separate operations which have been sold or permanently terminated either during the financial year or during the subsequent period up to the date of approval of the financial statements. All other operations are classified as continuing operations.

Discontinued operations, in these financial statements, comprise

- Polyurethanes business
- Tioxide business
- Selected Petrochemicals businesses (Olefines and Aromatics)
- Acrylics business
- Fluoropolymers business
- Chlor-Chemicals, Klea and Crosfield businesses
- Methanol business
- 50 per cent. equity shareholding in Phillips-Imperial Petroleum Ltd

notes relating to the accounts

Where businesses have been reclassified as discontinued operations, comparative segmental data has been restated in all cases. Net interest payable and tax on profit (loss) on ordinary activities have been allocated to discontinued operations to reflect the legal entity incidence of these items within the businesses divested.

Non co-terminous year ends

Owing to local conditions and to avoid undue delay in the presentation of the Group financial statements, four subsidiaries made up their financial statements to dates earlier than 31 December, but not earlier than 30 September; additionally six subsidiaries made up their financial statements prior to 30 September but interim financial statements to 31 December were drawn up for consolidation purposes.

Estimates

The preparation of the Consolidated financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates.

2. Post balance sheet events

On 31 January 2002 the Group announced that it was in the advanced stages of preparation for a rights issue to raise approximately £800 million, net of expenses, and that it intended to divest Synetix. The rights issue is subject to shareholder approval.

3. Directors' and Officers' remuneration and interests

The aggregate remuneration paid to or accrued for all Directors and Officers of the Company for services in all capacities during the year ended 31 December 2001 was £4.8m (2000 £6.4m; 1999 £6.1m); Directors £3.2m (2000 £3.9m; 1999 £4.3m); Officers £1.6m (2000 £2.5m; 1999 £1.8m). The aggregate amount set aside or accrued to provide pension, retirement and similar benefits for Directors and Officers of the Company during the year ended 31 December 2001 was £1.0m (2000 £0.8m; 1999 £0.6m); Directors £0.7m (2000 £0.6m; 1999 £0.5m); Officers £0.3m (2000 £0.2m; 1999 £0.1m). At 3 February 2002 shares held by and options granted to Directors and Officers to subscribe for £1 Ordinary Shares in the Company were as follows:

	£1 Ordinary Shares†	Options granted†		
	Number	Options outstanding at 3 February 2002 Number	Subscription prices £	Date latest option expires
Directors	322,933	2,836,832	£2.85 to £12.14	05.03.11
Officers	27,287	1,042,013	£2.85 to £12.14	05.03.11

† Includes ADRs disclosed in terms of £1 Ordinary Share equivalents/Ordinary Share option equivalents.

No individual director or officer had interests in shares or options exceeding one per cent of the issued Ordinary Share capital of the Company.

notes relating to the accounts

4. Exceptional items before tax

	2001 £m	2000 £m	1999 £m
Charged in arriving at trading profit (loss)[a]			
Continuing operations			
Rationalisation of operations			
National Starch, including severance costs of £25m (2000 £nil; 1999 £8m) and asset write-downs of £9m (2000 £nil; 1999 £26m)	(46)	–	(37)
Quest, including severance costs of £21m (2000 £nil; 1999 £9m), asset write-downs of £4m (2000 £nil; 1999 £nil) and restructuring and redesign cost of £12m (2000 £nil; 1999 £nil)	(45)	–	(14)
Performance Specialties, principally severance costs of £23m (2000 £nil; 1999 £nil) and asset write-downs of £3m (2000 £nil; 1999 £nil)	(28)	–	–
Paints, principally severance costs of £9m (2000 £nil; 1999 £11m) and asset write-downs of £9m (2000 £nil; 1999 £11m); 1999 includes a release of £6m relating to 1998	(24)	–	(32)
	(143)	–	(83)
Discontinued operations			
Rationalisation of operations			
Regional and Industrial, including severance costs of £nil (2000 £nil; 1999 £10m), site clearance costs of £nil (2000 £nil; 1999 £5m)	–	–	(15)
Credited (charged) after trading profit (loss)			
Continuing operations			
Profits less losses on sale or closure of operations			
Profits	16	17	174[b]
Losses	(27)[c]	(1)	(3)
	(11)	16	171
Fundamental reorganisation costs	–	(14)[d]	(74)[d]
Profits less losses on disposal of fixed assets	8	10	29
Share of associates exceptional operating items	(9)[e]	–	–
Interest exceptional (see note 8)	–	16	(54)
Amounts written off investments	(22)[f]	–	–
Discontinued operations			
Profits less losses on sale or closure of operations			
Profits	21	10	212[g]
Losses	(3)	(38)[h]	(15)
Provision for losses on future sale	–	(503)[i]	–
	18	(531)	197
Profits less losses on disposal of fixed assets	–	1	(9)
Exceptional items within profit (loss) on ordinary activities before taxation	(159)	(502)	162

(a) A detailed description of those exceptional items charged/credited in arriving at trading profit (loss) is provided in note 23.

(b) Profits on sale or closure of continuing operations in 1999 were principally the profit on the sale of the Group's Autocolor automotive refinish business (£173m).

(c) The losses on sale or closure of continuing operations in 2001 relate primarily to the loss on disposal of Eutech (£19m).

(d) Fundamental reorganisation costs relate to the reorganisation of the corporate centre during 1999 and 2000 as a consequence of the changing business portfolio.

(e) The share of associates exceptional operating items relates to the major restructuring of the Polyurethanes business of Huntsman International Holdings, LLC.

notes relating to the accounts

(f) The write-down of investments related to shares of the Company held to hedge obligations granted prior to 1999 under the employee share ownership plans. A provision has been made to write-down these shares to estimated net realisable value having regard to the period over which the related options are exercisable.

(g) Profits on sale of discontinued operations in 1999 principally included the disposal of Polyurethanes, Tioxide and selected Petrochemicals businesses (£100m), the Acrylics business (£43m) and the Fluoropolymers business and the Asahi-ICI Fluoropolymer joint venture (£29m).

(h) Losses on the sale of discontinued operations in 2000 comprised the disposal of the Group's Methanol business and the 50 per cent. interest in Phillips-Imperial Petroleum Ltd.

(i) The provision for losses on future sale in 2000 relates to the disposal of the Chlor-Chemicals, Klea and Crosfield operations completed in January 2001. The charge comprises £133m for fixed asset write-downs, a £41m goodwill write-off and £329m as a provision for the anticipated loss.

Under UK GAAP, exceptional items are material items which derive from events or transactions that fall within the ordinary activities of the Group and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view. Under US GAAP, exceptional items would be included in operating income, unless they relate to discontinued operations.

5. Segment information

The Group is managed in five business segments, or classes, differentiated primarily by the nature of products manufactured in each, together with a segment for discontinued operations. An explanation of the basis on which operations are classified as discontinued is set out in note 1.

The major products of each business segment are as follows:

Business	Products
National Starch	adhesives, sealants, specialty synthetic polymers, specialty food and industrial starches, electronic and engineering materials, specialty coatings and process lubricants
Quest	flavours, food ingredients, fragrances, fragrance materials
Performance Specialties	oleochemicals (process intermediates), polymers, base stocks and additives for lubricants, personal care, performance specialties for the manufacture of agrochemicals and coatings, oilfield chemicals, textile auxiliaries, spin finish, polymer additives, specialty cleaning and catalyst and support services
Paints	decorative paint, and coatings for food and beverage cans
Regional and Industrial	polyester staple fibre, pure terephthalic acid, soda ash, agrochemicals, pharmaceuticals, rubber chemicals and tartaric acid

The accounting policies for each segment are the same as those appearing on pages 64 and 65. The Group's policy is to transfer products internally at external market prices. Corporate overheads are allocated to each business segment on a consistent basis over the periods presented.

notes relating to the accounts

5. Segment information (continued)

Classes of business

	Turnover			Profit before taxation, goodwill amortisation and exceptional items			Profit before interest and taxation after exceptional items*		
	2001 £m	2000 £m	1999 £m	2001 £m	2000 £m	1999 £m	2001 £m	2000 £m	1999 £m
Continuing operations									
International businesses									
National Starch	1,853	1,894	1,792	218	245	248	154	238	193
Quest	727	687	676	107	103	92	61	103	78
Performance Specialties	832	837	864	68	75	74	39	76	70
Paints	2,233	2,152	2,180	176	177	159	136	164	284
	5,645	5,570	5,512	569	600	573	390	581	625
Regional and Industrial	821	892	705	4	17	(39)	–	13	(83)
Inter-class eliminations	(41)	(26)	(24)						
	6,425	6,436	6,193	573	617	534	390	594	542
Sales to discontinued operations	–	(21)	(14)						
	6,425	6,415	6,179	573	617	534	390	594	542
Discontinued operations									
Total	–	1,339	2,333	–	(5)	72	18	(535)	245
Sales to continuing operations	–	(6)	(63)						
	–	1,333	2,270	–	(5)	72	18	(535)	245
Associates									
Share of profits less losses				57	100	61	48	100	61
Interest payable				(67)	(60)	(29)			
Group net interest charge				(162)	(202)	(262)			
Amounts written off investments							(22)	–	–
	6,425	7,748	8,449	401	450	376	434	159	848
*Goodwill amortisation charged in arriving at the results									
National Starch							18	18	18
Quest							1	–	–
Performance Specialties							1	1	1
Paints							17	16	16
							37	35	35

Inter-class turnover affected several businesses, 2000 Regional and Industrial to Discontinued operations £17m; 1999 Discontinued operations to Paints £35m.

	Depreciation (note 13)			Capital expenditure (note 13)		
	2001 £m	2000 £m	1999 £m	2001 £m	2000 £m	1999 £m
Continuing operations						
International businesses						
National Starch	78	64	79	85	96	111
Quest	23	18	18	34	28	27
Performance Specialties	31	28	29	43	39	38
Paints	59	54	60	55	54	70
	191	164	186	217	217	246
Regional and Industrial	35	37	34	21	18	21
	226	201	220	238	235	267
Discontinued operations	–	167	95	–	54	143
	226	368	315	238	289	410

notes relating to the accounts

5. Segment Information (continued)

Geographical areas

The information opposite is re-analysed in the table below by geographic area. The figures for each geographic area show the turnover and profit made by, and the net operating assets owned by, companies located in that area; export sales and related profits are included in the areas from which those sales were made.

	Turnover			Profit before taxation, goodwill amortisation and exceptional items			Profit before interest and taxation after exceptional items		
	2001 £m	2000 £m	1999 £m	2001 £m	2000 £m	1999 £m	2001 £m	2000 £m	1999 £m
Continuing operations									
United Kingdom									
Sales in the UK									
External	932	994	856						
Intra-Group	122	84	114						
	1,054	1,078	970						
Sales overseas									
External	348	338	353						
Intra-Group	155	193	223						
	503	531	576						
	1,557	1,609	1,546	71	71	30	24	64	48
Continental Europe									
External	1,165	1,087	1,187						
Intra-Group	368	323	318						
	1,533	1,410	1,505	142	126	147	82	120	142
USA									
External	2,120	2,094	2,008						
Intra-Group	156	156	146						
	2,276	2,250	2,154	168	192	211	115	183	178
Other Americas									
External	671	678	619						
Intra-Group	77	74	54						
	748	752	673	36	54	38	28	51	36
Asia Pacific									
External	1,136	1,171	1,095						
Intra-Group	127	122	115						
	1,263	1,293	1,210	150	169	103	142	171	132
Other countries									
External	53	53	60						
Intra-Group	–	–	–						
	53	53	60	6	5	5	(1)	5	6
	7,430	7,367	7,148	573	617	534	390	594	542
Inter-area eliminations	(1,005)	(931)	(955)						
Sales to discontinued operations	–	(21)	(14)						
	6,425	6,415	6,179	573	617	534	390	594	542
Discontinued operations	–	1,333	2,270	–	(5)	72	18	(535)	245
Associates									
Share of profits less losses				57	100	61	48	100	61
Interest payable				(67)	(60)	(29)			
Group interest payable				(162)	(202)	(262)			
Amounts written off investments							(22)	–	–
	6,425	7,748	8,449	401	450	376	434	159	848
After amortisation of goodwill							37	35	35

Turnover by Discontinued operations is primarily in the following geographic areas:

2001 £nil; (2000 United Kingdom £1,113m, USA £92m and Continental Europe £52m; 1999 United Kingdom £1,131m, USA £564m and Continental Europe £406m).

notes relating to the accounts

5. Segment information (continued)

Classes of business

	Total assets less current liabilities		
	2001 £m	2000 £m	1999 £m
Net operating assets			
Continuing operations			
International businesses			
National Starch	1,604	1,590	1,531
Quest	398	360	342
Performance Specialties	577	552	545
Paints	918	945	948
	3,497	3,447	3,366
Regional and Industrial	365	475	518
	3,862	3,922	3,884
Discontinued operations	–	251	408
Total net operating assets	3,862	4,173	4,292
Net non-operating liabilities	(1,164)	(590)	(219)
	2,698	3,583	4,073

	Goodwill included above		
	2001 £m	2000 £m	1999 £m
Goodwill			
National Starch	294	309	311
Quest	22	–	–
Performance Specialties	21	21	22
Paints	273	276	293
Regional and Industrial	3	3	–
	613	609	626

		Net non-operating liabilities		
	notes	2001 £m	2000 £m	1999 £m
Net non-operating liabilities				
Non-operating assets				
Fixed asset investments	15	374	327	292
Non-operating debtors	17	217	299	150
Investments and short-term deposits	18	159	415	394
Cash at bank	34	301	255	270
		1,051	1,296	1,106
Non-operating liabilities				
Short-term borrowings	19	(418)	(765)	(102)
Current instalments of loans	21	(1,250)	(466)	(647)
Non-operating creditors	20	(547)	(655)	(576)
		(2,215)	(1,886)	(1,325)
		(1,164)	(590)	(219)

notes relating to the accounts

5. Segment information (continued)

Geographic areas

	Tangible fixed assets			Total assets less current liabilities		
	2001 £m	2000 £m	1999 £m	2001 £m	2000 £m	1999 £m
Tangible fixed assets/Net operating assets						
Continuing operations						
United Kingdom	312	300	301	933	983	958
Continental Europe	380	383	360	706	630	679
USA	815	801	758	1,197	1,312	1,121
Other Americas	178	184	168	326	290	301
Asia Pacific	497	544	596	691	694	809
Other countries	4	8	9	9	13	16
	2,186	2,220	2,192	3,862	3,922	3,884
Discontinued operations	–	178	282	–	251	408
Total net operating assets				3,862	4,173	4,292
Net non-operating liabilities				(1,164)	(590)	(219)
	2,186	2,398	2,474	2,698	3,583	4,073

Total assets less current liabilities of Discontinued operations are primarily in the following geographic areas:

2001 £nil; (2000 United Kingdom £83m, Continental Europe £33m, USA £130m; 1999 United Kingdom £209m, Continental Europe £46m, USA £153m).

Turnover by customer location

	2001 £m	2000 £m	1999 £m
Continuing operations			
United Kingdom	943	952	834
Continental Europe	1,325	1,291	1,372
USA	2,058	2,012	1,948
Other Americas	720	727	656
Asia Pacific	1,270	1,312	1,234
Other countries	109	121	135
	6,425	6,415	6,179
Discontinued operations	–	1,333	2,270
	6,425	7,748	8,449

Turnover by customer locations for Discontinued operations is primarily in the following geographic areas:

2001 £nil; (2000 United Kingdom £864m, Continental Europe £201m and USA £97m; 1999 United Kingdom £783m, Continental Europe £578m and USA £557m).

notes relating to the accounts

6. Trading profit (loss)

	2001		
	Continuing operations £m	Discontinued operations £m	Total £m
Trading profit (loss) before exceptional items			
Turnover	6,425	–	6,425
Operating costs			
Cost of sales	(4,336)	–	(4,336)
Distribution costs	(598)	–	(598)
Research and development	(153)	–	(153)
Administration and other expenses	(848)	–	(848)
	(5,935)	–	(5,935)
Other operating income			
Royalties	4	–	4
Other income	42	–	42
	46	–	46
Trading profit (loss)	536	–	536
Total charge for depreciation and amortisation of goodwill included above	(246)	–	(246)
Gross profit, as defined by Companies Act 1985	2,089	–	2,089
Trading profit (loss) after exceptional items			
Turnover	6,425	–	6,425
Operating costs			
Cost of sales	(4,352)	–	(4,352)
Distribution costs	(607)	–	(607)
Research and development	(158)	–	(158)
Administration and other expenses	(961)	–	(961)
	(6,078)	–	(6,078)
Other operating income			
Royalties	4	–	4
Other income	42	–	42
	46	–	46
Trading profit (loss)	393	–	393
Total charge for depreciation and amortisation of goodwill included above	(263)	–	(263)
Gross profit, as defined by Companies Act 1985	2,073	–	2,073

notes relating to the accounts

	2000			1999		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
	6,415	1,333	7,748	6,179	2,270	8,449
	(4,260)	(1,074)	(5,334)	(4,134)	(1,756)	(5,890)
	(565)	(118)	(683)	(483)	(217)	(700)
	(160)	(16)	(176)	(144)	(37)	(181)
	(891)	(142)	(1,033)	(949)	(200)	(1,149)
	(5,876)	(1,350)	(7,226)	(5,710)	(2,210)	(7,920)
	4	1	5	3	1	4
	39	11	50	27	11	38
	43	12	55	30	12	42
	582	(5)	577	499	72	571
	(234)	(34)	(268)	(224)	(95)	(319)
	2,155	259	2,414	2,045	514	2,559
	6,415	1,333	7,748	6,179	2,270	8,449
	(4,260)	(1,074)	(5,334)	(4,162)	(1,756)	(5,918)
	(565)	(118)	(683)	(503)	(217)	(720)
	(160)	(16)	(176)	(146)	(37)	(183)
	(891)	(142)	(1,033)	(982)	(215)	(1,197)
	(5,876)	(1,350)	(7,226)	(5,793)	(2,225)	(8,018)
	4	1	5	3	1	4
	39	11	50	27	11	38
	43	12	55	30	12	42
	582	(5)	577	416	57	473
	(234)	(34)	(268)	(255)	(95)	(350)
	2,155	259	2,414	2,017	514	2,531

notes relating to the accounts

7. Share of operating profits less losses of associates

	2001		
	Continuing operations before exceptional items £m	Discontinued operations £m	Total £m
Share of operating profits less losses before interest and tax			
Dividend and other income	–	–	–
Share of operating profits less losses before exceptional items	57	–	57
	57	–	57

8. Net interest payable

Interest payable and similar charges			
Group			
Loan interest			
Bank loans	28	–	28
Other loans	173	–	173
	201	–	201
Interest on short-term borrowings			
Bank borrowings	25	–	25
Other borrowings	52	–	52
	77	–	77
	278	–	278
Amortisation of discounted provisions	10	–	10
Associates	67	–	67
Interest receivable and similar income			
Group	(126)	–	(126)
Net interest payable before exceptional items	229	–	229

notes relating to the accounts

2000			1999		
Continuing operations before exceptional items £m	Discontinued operations £m	Total £m	Continuing operations before exceptional items £m	Discontinued operations £m	Total £m
1	5	6	6	3	9
90	4	94	48	4	52
91	9	100	54	7	61
42	1	43	25	1	26
74	–	74	95	–	95
116	1	117	120	1	121
27	–	27	35	–	35
150	–	150	205	–	205
177	–	177	240	–	240
293	1	294	360	1	361
6	–	6	3	–	3
60	–	60	29	–	29
(98)	–	(98)	(102)	–	(102)
261*	1	262*	290†	1	291†

* In 2000 there was exceptional interest income of £16m relating to interest received on tax repayments. The total interest charge, including exceptional items, was £246m.

† In 1999 there was an exceptional interest charge of £54m relating to the costs associated with unwinding long-term swaps, put in place at the Speciality Chemicals acquisition to protect the Group against the upward movement of interest rates. These hedges were no longer required as the underlying borrowings have been repaid from the proceeds of the disposal programme. The total interest charge, including exceptional items, was £345m.

notes relating to the accounts

9. Taxation on profit (loss) on ordinary activities

	Continuing operations		Discontinued operations	Total
	Before exceptional items £m	Exceptional items £m	£m	£m
2001				
ICI and subsidiary undertakings				
United Kingdom taxation				
Corporation tax	34	(15)	(16)	3
Double taxation relief	(13)	–	–	(13)
Deferred taxation	41	9	20	70
	62	(6)	4	60
Overseas taxation				
Overseas taxes	56	(22)	4	38
Deferred taxation	(22)	(8)	(2)	(32)
	34	(30)	2	6
Associates	(7)	(3)	–	(10)
Taxation on profit (loss) on ordinary activities	89	(39)	6	56
2000				
ICI and subsidiary undertakings				
United Kingdom taxation				
Corporation tax	24	(8)	(28)	(12)
Double taxation relief	(4)	–	–	(4)
Deferred taxation	–	10	6	16
	20	2	(22)	–
Overseas taxation				
Overseas taxes	82	(5)	23	100
Deferred taxation	(4)	9	(2)	3
	78	4	21	103
Associates	14	–	–	14
Taxation on profit (loss) on ordinary activities	112	6	(1)	117
1999				
ICI and subsidiary undertakings				
United Kingdom taxation				
Corporation tax	(47)	54	(56)	(49)
Double taxation relief	(1)	–	–	(1)
Deferred taxation	52	(25)	5	32
	4	29	(51)	(18)
Overseas taxation				
Overseas taxes	76	7	182	265
Deferred taxation	(18)	3	5	(10)
	58	10	187	255
Associates	7	–	–	7
Taxation on profit (loss) on ordinary activities	69	39	136	244

UK and overseas taxation has been provided on the profits (losses) earned for the periods covered by the Group accounts. UK corporation tax has been provided at the rate of 30 per cent. (2000 30 per cent.; 1999 30.25 per cent.).

The exceptional tax charges (credits), in 2001, 2000 and 1999 were in respect of disposal and restructuring programmes, as discussed in note 4.

notes relating to the accounts

9. Taxation on profit (loss) on ordinary activities (continued)

	2001 £m	2000 £m	1999 £m
Profit (loss) on ordinary activities before taxation is analysed as follows:			
United Kingdom	73	(355)	36
Overseas	151	228	435
Associates	(19)	40	32
	205	(87)	503

The table below reconciles the tax charge (credit) at the UK corporation tax rate to the Group's tax on profit (loss) on ordinary activities.

Taxation charge (credit) at UK corporation tax rate (2001 30 per cent.; 2000 30 per cent.; 1999 30.25 per cent.)	62	(26)	152
Movement on (credit) provisions	(32)	50	49
Local taxes	9	(3)	5
Capital (gains) losses not taxable/deductible	–	26	(11)
Taxable Intra-Group dividend income	21	20	31
Depreciation – tax versus book	(4)	35	9
Overseas tax rates	(3)	11	(2)
Current year tax losses not relieved	22	16	32
Prior year tax losses utilised	(9)	(8)	(21)
Goodwill amortisation	9	19	18
Other	(19)	(23)	(18)
Taxation on profit (loss) on ordinary activities	56	117	244

To the extent that dividends remitted from overseas subsidiaries and associates are expected to result in additional taxes, appropriate amounts have been provided. No taxes have been provided for unremitted earnings of subsidiaries and associates when such amounts are considered permanently re-invested. Cumulative unremitted earnings of overseas subsidiaries and associates totalled approximately £887m at 31 December 2001 (2000 £828m; 1999 £1,164m); the remittance of these amounts would incur tax at substantially lower than statutory rates after giving effect to foreign tax credits.

Deferred taxation

The amounts of deferred taxation accounted for at the balance sheet date and the potential amounts of deferred taxation are disclosed below.

	Group			Company		
	2001 £m	2000 £m	1999 £m	2001 £m	2000 £m	1999 £m
Accounted for at balance sheet date (notes 17 and 22)						
Timing differences on UK capital allowances and depreciation	57	60	29	7	9	2
Miscellaneous timing differences	(47)	(92)	(80)	46	–	(14)
	10	(32)	(51)	53	9	(12)
Not accounted for at balance sheet date						
Timing differences on UK capital allowances and depreciation	–	–	–	–	–	–
Miscellaneous timing differences	81	33	42	–	(47)	–
	81	33	42	–	(47)	–
Full potential deferred taxation	91	1	(9)	53	(38)	(12)

notes relating to the accounts

9. Taxation on profit (loss) on ordinary activities (continued)

Deferred taxation

Deferred taxation accounted for in the Group financial statements and the potential amounts of deferred taxation were:

	2001 £m	2000 £m
Deferred tax liabilities		
UK fixed assets	57	60
Non-UK fixed assets	155	181
Others	303	304
	515	545
Deferred tax (assets)		
Restructuring provisions	(36)	(36)
Pensions	(65)	(75)
Employee liabilities	(75)	(62)
Business provisions	(44)	(33)
Inter-company inventory transfers	–	(2)
Stock valuation	(7)	(5)
Provisions on disposal of businesses	(84)	(157)
Losses	(12)	(15)
Intangibles	(22)	(22)
Other	(79)	(137)
	(424)	(544)
Full potential deferred tax liability/(asset)	91	1
Not accounted for at the balance sheet date	(81)	(33)
Deferred tax accounted for at the balance sheet date	10	(32)
Analysed as:		
Current	74	(6)
Non-current	(64)	(26)
	10	(32)

Under UK GAAP, deferred taxes are accounted for to the extent that it is considered probable that a liability or asset will crystallise in the foreseeable future. Under US GAAP, in accordance with SFAS No.109, deferred taxes are accounted for on all timing differences, including, those arising from US GAAP adjustments, and a valuation allowance is established in respect of those deferred tax assets where it is more likely than not that some portion will not be realised. The deferred tax adjustments to net income and net equity to conform with US GAAP are disclosed in note 43.

10. Dividends

	2001	2000	1999	2001	2000	1999
	Pence per £1 Ordinary Share			£m	£m	£m
First interim, paid 4 October 2001	6.25	12.5	12.5	45	90	91
Second interim, payable on 23 April 2002	9.75	19.5	19.5	71	142	142
	16.00	32.0	32.0	116	232	233

No withholding tax is deducted from payments to UK residents. However, the shareholder, when receiving a dividend, receives an imputed tax credit against his personal tax liability. With effect from 6 April 1999 significant changes were made to the mechanisms for taxing UK resident individuals on dividends from UK companies. The Company is no longer required to pay Advance Corporation Tax to effectively compensate the UK tax authorities for imputing a tax credit to shareholders. The level of tax credit has been reduced to one-ninth of the amount of the dividend. This credit satisfies the tax liability of shareholders who are not subject to tax at rates higher than the basic rate. To the extent that shareholders' income exceeds the basic rate limit a further liability equivalent to 25 per cent. of the dividend received will be due. The first interim dividend for 1998 was paid as a Foreign Income Dividend with no attaching tax credit although a UK individual shareholder had no liability to tax on the dividend at the basic rate of income tax. The second interim dividend for 1998 and all subsequent dividends were paid under the regime described above.

Impkemix Trustees Limited, a wholly owned subsidiary which acts as a trustee for Imperial Chemical Industries PLC Employee Benefit Trust (the Trust) has waived the right to receive dividends on shares held by the Trust in its own name. Dividends on shares allocated to beneficiaries and shares held in the form of American Depositary Shares (ADSs) are distributed, respectively, to beneficiaries and ADS holders.

notes relating to the accounts

11. Earnings (loss) per £1 Ordinary Share

	Continuing operations £m	Discontinued operations £m	Total £m
2001			
Net profit (loss) for the financial year before exceptional items	249	–	249
Exceptional items after tax and minorities	(140)	12	(128)
Net profit (loss) for the financial year	109	12	121
	million	**million**	**million**
Weighted average Ordinary Shares in issue during year	728	728	728
Weighted average shares held by Group's employee share ownership plan	(6)	(6)	(6)
Basic weighted average Ordinary Shares in issue during year	722	722	722
Dilutive effect of share options	–	–	–
Diluted weighted average Ordinary Shares	722	722	722
	pence	**pence**	**pence**
Basic earnings (loss) per £1 Ordinary Share			
before exceptional items	34.5	–	34.5
after exceptional items	15.1	1.7	16.8
Diluted earnings (loss) per £1 Ordinary Share			
before exceptional items	34.5	–	34.5
after exceptional items	15.1	1.7	16.8
2000	£m	£m	£m
Net profit (loss) for the financial year before exceptional items	276	7	283
Exceptional items after tax and minorities	22	(533)	(511)
Net profit (loss) for the financial year	298	(526)	(228)
	million	million	million
Weighted average Ordinary Shares in issue during year	728	728	728
Weighted average shares held by Group's employee share ownership plan	(6)	(6)	(6)
Basic weighted average Ordinary Shares in issue during year	722	722	722
Dilutive effect of share options	–	–	–
Diluted weighted average Ordinary Shares	722	722	722
	pence	pence	pence
Basic earnings (loss) per £1 Ordinary Share			
before exceptional items	38.2	1.0	39.2
after exceptional items	41.2	(72.8)	(31.6)
Diluted earnings (loss) per £1 Ordinary Share			
before exceptional items	38.2	1.0	39.2
after exceptional items	41.2	(72.8)	(31.6)

notes relating to the accounts

11. Earnings (loss) per £1 Ordinary Share (continued)

	Continuing operations £m	Discontinued operations £m	Total £m
1999			
Net profit (loss) for the financial year before exceptional items	184	48	232
Exceptional items after tax and minorities	(47)	67	20
Net profit (loss) for the financial year	137	115	252
	million	million	million
Weighted average Ordinary Shares in issue during year	728	728	728
Weighted average shares held by Group's employee share ownership plan	(7)	(7)	(7)
Basic weighted average Ordinary Shares in issue during year	721	721	721
Dilutive effect of share options	2	2	2
Diluted weighted average Ordinary Shares	723	723	723
	pence	pence	pence
Basic earnings (loss) per £1 Ordinary Share			
before exceptional items	25.5	6.7	32.2
after exceptional items	19.0	16.0	35.0
Diluted earnings (loss) per £1 Ordinary Share			
before exceptional items	25.4	6.7	32.1
after exceptional items	18.9	16.0	34.9

There are no options, warrants or rights outstanding in respect of unissued shares except for the share option scheme for employees (note 24).

Earnings per £1 Ordinary Share before exceptional items have been calculated to show the impact of exceptional items as these can have a distorting effect on earnings and therefore warrant separate consideration.

12. Intangible fixed assets – goodwill

	£m
Group	
Cost	
At beginning of year	702
Acquisitions	43
Disposals	–
Exchange adjustments	(2)
At end of year	743
Amortisation	
At beginning of year	93
Charge for year	37
At end of year	130
Net book value at end 2001	613
Net book value at end 2000	609

Substantially all of the Group's goodwill arose on the purchase of Acheson Industries Inc. and of the European Home Improvement business of Williams Plc in 1998. The Directors estimate that the useful economic life of this goodwill is at least 20 years and it is amortised over 20 years in accordance with FRS 10.

notes relating to the accounts

13. Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Payments on account and assets in course of construction £m	Total £m
Group				
Cost				
At beginning of year	992	3,360	224	4,576
New subsidiary undertakings	1	10	–	11
Capital expenditure	–	–	238	238
Transfers of assets into use	47	207	(254)	–
Exchange adjustments	7	(2)	(1)	4
Disposals and other movements	(108)	(1,134)	(37)	(1,279)
At end of year	939	2,441	170	3,550
Depreciation				
At beginning of year	248	1,930		2,178
Charge for year	32	194		226
Exchange adjustments	1	(1)		–
Disposals and other movements	(69)	(971)		(1,040)
At end of year	212	1,152		1,364
Net book value at end 2001	727	1,289	170	2,186
Net book value at end 2000	744	1,430	224	2,398

The Group depreciation charge of £226m, shown above, comprises £209m charged in arriving at trading profit and £17m charged to exceptional items relating to the restructuring programmes (see note 23).

Capital expenditure in the year includes capitalised finance leases of £1m; creditors for capital work done but not paid for increased by £2m; the resulting cash expenditure on tangible fixed assets was £235m.

The net book value of the tangible fixed assets of the Group includes capitalised finance leases of £4m (2000 £7m) comprising cost of £6m (2000 £13m) less depreciation of £2m (2000 £6m). The depreciation charge for the year in respect of capitalised leases was £1m (2000 £2m) and finance charges were £nil (2000 £1m).

Included in land and buildings is £146m (2000 £165m) in respect of the cost of land which is not subject to depreciation.

notes relating to the accounts

13. Tangible fixed assets (continued)

	Land and buildings £m	Plant and equipment £m	Payments on account and assets in course of construction £m	Total £m
Company				
Cost				
At beginning of year	21	146	12	179
Capital expenditure			23	23
Transfers of assets into use		18	(18)	–
Transfers (to)/from subsidiary undertakings		1		1
Disposals and other movements	(1)	(2)		(3)
At end of year	20	163	17	200
Depreciation				
At beginning of year	12	109		121
Charge for year		12		12
Disposals and other movements		(2)		(2)
At end of year	12	119		131
Net book value at end 2001	8	44	17	69
Net book value at end 2000	9	37	12	58

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
The net book value of land and buildings comprises:				
Freeholds	694	705	8	9
Long leases (over 50 years unexpired)	26	29	–	–
Short leases	7	10	–	–
	727	744	8	9

notes relating to the accounts

14. Investments in subsidiary undertakings

	Shares £m	Loans £m	**Total £m**
Cost			
At beginning of year	8,218	2,331	10,549
New investments/new loans	187	97	284
Disposals/loans repaid	(530)	(787)	(1,317)
Exchange adjustments	(1)	13	12
At end of year	7,874	1,654	9,528
Provisions			
At beginning of year	(453)	(1)	(454)
Exchange adjustments	(2)	–	(2)
Disposals/loans repaid	–	–	–
At end of year	(455)	(1)	(456)
Balance sheet value at end 2001	7,419	1,653	9,072
Balance sheet value at end 2000	7,765	2,330	10,095

	2001 £m	2000 £m
Shares in subsidiary undertakings which are listed investments		
Balance sheet value	4	4
Market value	19	27

The Company's investment in its subsidiary undertakings consists of either equity or long-term loans, or both. Normal trading balances are included in either debtors or creditors. Information on principal subsidiary undertakings is given on page 133.

notes relating to the accounts

15. Investments in participating and other interests

	Associates			Other investments			Total
	Equity accounted shares £m	Non equity accounted shares £m	Loans £m	Own* shares £m	Other shares £m	Loans £m	£m
Group							
Cost							
At beginning of year	48	1	190	54	106	–	399
Additions	8	–	33	–	2	61	104
Disposals and repayments	(15)	–	(17)	(1)	(92)	–	(125)
Reclassifications	(5)	–	–	(1)	(1)	–	(7)
Exchange adjustments	(1)	–	4	–	2	–	5
At end of year	35	1	210	52	17	61	376
Share of post-acquisition reserves less losses							
At beginning of year	14						14
Retained profits less losses	8						8
Disposals and repayments	–						–
Exchange adjustments	–						–
At end of year	22						22
Provisions							
At beginning of year	–	(1)	–	–	(85)	–	(86)
Additions	–	–	–	(22)	–	–	(22)
Disposals	–	–	–	–	85	–	85
Exchange adjustments	–	–	–	–	(1)	–	(1)
At end of year	–	(1)	–	(22)	(1)	–	(24)
Balance sheet value at end 2001	57	–	210	30	16	61	374
Balance sheet value at end 2000	62	–	190	54	21	–	327
The above investments included:							
2001							
Listed investments – balance sheet value				30	–		30
– market value				23	–		23
2000							
Listed investments – balance sheet value				54	6		60
– market value				34	6		40

* "Own shares" relate to 6.1m (2000 6.2m) shares of the Company held by Imperial Chemical Industries PLC Employee Benefits Trust which are under option to, or conditionally gifted to, employees under the arrangements described in note 24. A provision has been made to write-down these shares to estimated net realisable value having regard to the period over which the options are exercisable.

The fair values of unlisted investments are not materially different from their carrying values.

The Group's principal associates are as follows:

	Issued share and loan capital at date of latest available audited accounts Class of capital	£m	Held by ICI %	Principal activities
IC Insurance Ltd England	Ordinary	20	49†	Insurance and reinsurance underwriting
Huntsman International Holdings LLC USA	Membership units (voting)	2,126	30†	Manufacture of specialty and commodity chemicals: polyurethane chemicals, propylene oxide, petrochemicals and titanium dioxide

†Held by subsidiaries

The country of registration or incorporation is stated below each company. The principal operations of IC Insurance Ltd are carried out in the UK and those of Huntsman International Holdings LLC in the USA and Europe.

notes relating to the accounts

15. Investments in participating and other interests (continued)

Shareholding rights and restrictions

Huntsman International Holdings LLC

Under the terms of an option agreement dated 2 November 2000, ICI Alta Inc., the subsidiary of the Company which holds the equity interest in Huntsman International Holdings LLC ("HIH") had the right to require Huntsman Specialty Chemicals Corporation ("HSCC") to acquire its 30 per cent. equity interest in HIH for a basic purchase price of $365m (together with interest from November 2000 until completion). ICI served notice of exercise of that right on 30 October 2001. By an agreement entered into as of 20 December 2001, certain terms of that option agreement relating to the completion of the option and the price payable by HSCC were then amended. Subject to the satisfaction of certain conditions (principally regulatory), HSCC will acquire the 30 per cent. equity interest for a basic purchase price of $365m (together with an amount equivalent to interest from December 2001 until completion), payable in the third quarter of 2003. An additional amount of $32.7m will be payable by HSCC unless it exercises its right to complete the purchase prior to the date completion is otherwise due to take place in the third quarter of 2003. The amount payable may separately be reduced by up to $20m if HSCC makes advance payments.

During the period prior to when the completion of the transfer of ICI's 30 per cent.equity interest has taken place, there are constraints on members of HIH transferring any interest in HIH to third parties without the consent of other members.

In general, HIH is required to make certain distributions in respect of taxes payable by its members ("tax distributions"), and may make other distributions upon approval of a majority of its board of directors, subject to two restrictions. First, under Delaware law, HIH may not make a distribution to its members if, after such distribution, HIH's liabilities would exceed the fair value of its assets. Second, with certain exceptions (including for tax distributions), the terms of HIH's outstanding indebtedness (which mature in 2009) generally prohibit HIH from making any distributions or payments on or with respect to HIH's equity while such indebtedness is outstanding.

notes relating to the accounts

15. Investments in participating and other interests (continued)

	Loans £m	Other shares £m	Total £m
Company			
Cost			
At the beginning of year	5	93	98
Additions	55	–	55
Disposals	(3)	(92)	(95)
Exchange adjustments	–	1	1
At end of year	57	2	59
Provisions			
At the beginning of year	–	(86)	(86)
Additions	–	–	–
Disposals	–	85	85
Exchange adjustments	–	–	–
At end of year	–	(1)	(1)
Balance sheet value at end 2001	57	1	58
Balance sheet value at end 2000	5	7	12
The above investments included:			
2001			
Listed investments – balance sheet value		–	–
– market value		–	–
2000			
Listed investments – balance sheet value		6	6
– market value		6	6

16. Stocks

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Raw materials and consumables	261	287	6	6
Stocks in process	28	42	1	1
Finished goods and goods for resale	464	514	22	20
	753	843	29	27

notes relating to the accounts

17. Debtors

	Group		Non-operating debtors included in Group		Company	
	2001 £m	2000 £m	*2001 £m*	*2000 £m*	2001 £m	2000 £m
Amounts due within one year						
Trade debtors	985	1,229			14	13
Less: amounts set aside for doubtful accounts	(67)	(60)			–	–
	918	1,169			14	13
Amounts owed by subsidiary undertakings					3,607	2,996
Amounts owed by associates	–	5			–	–
Prepaid pension costs	15	12			–	–
Deferred tax asset	–	6	–	*6*	–	–
Taxation recoverable	108	121	*108*	*121*	–	–
Other prepayments and accrued income	145	161	*72*	*71*	46	68
Other debtors	175	232	*35*	*48*	6	13
	1,361	1,706	*215*	*246*	3,673	3,090
Amounts due after more than one year						
Deferred tax asset	–	26	–	*26*	–	–
Prepaid pension costs	495	475	–	–	312	305
Other debtors	57	37	*2*	*27*	–	–
	552	538	*2*	*53*	312	305
	1,913	2,244	*217*	*299*	3,985	3,395

Trade debtors include amounts which have been securitised with a financial institution. An amount of £97m is included within the current instalment of loans as the Group retains the risks in relation to this amount. Accordingly the financial institution has rights over amounts included within trade debtors of £200m at 31 December 2001 (up to a maximum of its loan).

Under US GAAP, the amounts due after more than one year would be shown as non-current.

18. Current asset investments and short-term deposits

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Listed investments	–	35	–	–
Unlisted investments and short-term deposits	159	380	–	–
	159	415	–	–
Included in cash and cash equivalents	135	317	–	–
Market value of listed investments	–	35	–	–

Included in unlisted investments and short-term deposits and cash are amounts totalling £104m (2000 £224m) held by the Group's insurance subsidiaries. In 2001 £38m (2000 £24m) was readily available for the general purposes of the Group.

The management of current asset investments is discussed in note 39.

notes relating to the accounts

19. Short-term borrowings

	Group		Company		Average interest rate – Group*	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 %	2000 %
Bank borrowings						
Secured						
by fixed charge	–	1	–	–		
by floating charge	13	13	–	–		
Unsecured	54	52	–	–		
	67	66	–	–	5.7	7.5
Other borrowings (unsecured)	351	699	–	–	3.5	6.9
	418	765	–	–		
Maximum short-term borrowings outstanding during year	878	936	–	–		

* Based on borrowings outstanding at 31 December.

Various short-term lines of credit, both committed and uncommitted, are available to the Group and are reviewed regularly. There are no facility fees payable on uncommitted lines nor is there a requirement for an equivalent deposit to be maintained with any of the banks.

20. Other creditors

	Group		*Non-operating creditors included in Group*		Company	
	2001 £m	2000 £m	*2001 £m*	*2000 £m*	2001 £m	2000 £m
Amounts due within one year						
Trade creditors	804	917			53	56
Amounts owed to subsidiary undertakings					8,096	7,678
Amounts owed to associates	–	7			–	–
Corporate taxation	327	374	*327*	*374*	189	166
Value added and payroll taxes and social security	17	42			–	–
Dividends to Ordinary Shareholders	71	142	*71*	*142*	71	142
Environmental liabilities	3	4	–	–	–	–
Accruals	365	444	*129*	*125*	19	44
Other creditors*	346	347	*20*	*14*	30	33
	1,933	2,277	*547*	*655*	8,458	8,119
Amounts due after more than one year						
Corporate taxation	2	2			–	–
Amounts owed to subsidiary undertakings					879	1,331
Environmental liabilities	5	6			4	4
Pension liabilities	11	12			–	–
Other creditors*	31	43			1	2
	49	63			884	1,337

* Includes obligations under finance leases (note 36).

Under US GAAP, provisions for liabilities and charges (note 22) would be shown under other creditors – amounts due after more than one year.

notes relating to the accounts

21. Loans

	Repayment dates	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Secured loans					
US Dollars	2002	106	4	–	–
Other currencies	2002/2006	103	100	–	–
Total secured		209	104	–	–
Secured by fixed charge – bank loans		77	73	–	–
– other		28	10	–	–
Secured by floating charge – bank loans		104	21	–	–
Unsecured loans					
Sterling					
9¾% and 10% Bonds	2003/2005	200	200	200	200
7.625% Bonds	2007	298	297		
6.375% to 6.52% medium-term notes	2003	130	5	130	5
3.649% to 5.054% short-term notes	2002	400	200		
Variable rate medium-term notes	2003	16	6	16	6
Others	2002/2003	27	39	10	15
		1,071	747	356	226
US dollars					
8⅞% Debentures	2006	173	168		
8.9% medium-term notes	2002	10	10		
8¾% Notes	2001	–	168		
7½% Notes	2002	138	134		
6¾% Notes	2002	173	168		
6 19/20% Notes	2004	518	504		
7 1/20% Notes	2007	173	168		
6¾% Bonds	2002	345	335		
Variable rate medium-term notes	2003/2010	49	73	49	73
Others	2002/2008	67	92		
		1,646	1,820	49	73
Other currencies	2002/2005	37	32	15	6
Total unsecured		2,754	2,599	420	305
Total loans – before financial derivatives (see table on page 96)		2,963	2,703	420	305
Financial derivatives		(8)	(6)	1	1
Total loans – after financial derivatives (see table on page 96)		2,955	2,697	421	306

The secured debt referred to in this note and the secured short-term borrowings referred to in note 19 were secured by property, plant and other assets with a net book value at 31 December 2001 of £185m.

An analysis reflecting the effects of financial instruments on the Group's financial liabilities at 31 December 2001 is set out in note 39.

notes relating to the accounts

21. Loans (continued)

Effects of financial derivatives

The following analysis reflects the effects of financial derivatives on the Group's borrowings at 31 December 2001.

	Before financial derivatives £m	After financial derivatives £m
Sterling	1,071	614
US dollar	1,752	1,899
Euro and Euro related currencies	10	127
Japanese yen	24	162
Others	106	153
	2,963	2,955
Fixed rate loans	2,772	1,216
Floating rate loans	191	1,739
	2,963	2,955

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Loan maturities				
Bank loans				
Loans or instalments thereof are repayable:				
After 5 years from balance sheet date	12	20	–	–
From 2 to 5 years	126	242	100	–
From 1 to 2 years	138	74	100	–
Total due after more than one year	276	336	200	–
Total due within one year	176	56	–	–
	452	392	200	–
Other loans				
Loans or instalments thereof are repayable:				
After 5 years from balance sheet date	503	664	35	34
From 2 to 5 years	734	562	5	230
From 1 to 2 years	192	669	180	15
Total due after more than one year	1,429	1,895	220	279
Total due within one year	1,074	410	1	27
	2,503	2,305	221	306
Total loans				
Loans or instalments thereof are repayable:				
After 5 years from balance sheet date	515	684	35	34
From 4 to 5 years	187	114	–	106
From 3 to 4 years	120	535	105	–
From 2 to 3 years	553	155	–	124
From 1 to 2 years	330	743	280	15
Total due after more than one year	1,705	2,231	420	279
Total due within one year	1,250	466	1	27
Total loans	2,955	2,697	421	306
Aggregate amount of loans any instalment of which falls due after 5 years	569	783	35	34

Within the total loans due within one year of £1,250m, £74m represents loans maturing in overseas operations primarily in Pakistan and India.

notes relating to the accounts

22. Provisions for liabilities and charges

	Deferred taxation £m	Unfunded pensions (note 38) £m	Employee Benefits £m	Environmental provisions £m	Disposal provisions (note 23) £m	Restructuring provisions (note 23) £m	Other provisions £m	Total £m
Group								
At the beginning of 2001	–	205	225	31	766	119	100	1,446
Profit and loss account	38	13	12	–	3	126	(4)	188
Increase due to effluxion of time					10			10
Net amounts paid or becoming payable	–	(19)	(19)	(2)	(282)	(79)	(9)	(410)
Movements due to acquisitions and disposals	–	(14)	(1)	(5)	–	(17)	(6)	(43)
Exchange and other movements	(28)	(6)	16	19	4	(9)	(11)	(15)
At end of 2001	10	179	233	43	501	140	70	1,176
Company								
At the beginning of 2001	9	–	–	–	205	25	15	254
Profit and loss account	44	–	–	–	13	–	13	70
Net amounts paid or becoming payable	–	–	–	–	(52)	(14)	(23)	(89)
Movements due to acquisitions and disposals	–	–	–	–	–	–	–	–
Exchange and other movements	–	–	–	–	(51)	–	9	(42)
At end of 2001	53	–	–	–	115	11	14	193

Under US GAAP, provisions for liabilities and charges would be shown under other creditors (note 20).

notes relating to the accounts

23. Disposal and restructuring provisions

	Disposal provisions			Restructuring provisions		
	2001 £m	2000 £m	1999 £m	2001 £m	2000 £m	1999 £m
At beginning of year	766	605	421	127	237	191
Exceptional items before tax						
Rationalisation of operations (note 4)	–	–	–	143	–	98
Fundamental reorganisation costs (note 4)	–	–	–	–	14	74
Profit and loss account	3	489	515	–	–	–
Asset write-offs	–	(133)	(27)	(17)	–	(31)
Amounts paid	(282)	(200)	(302)	(79)	(112)	(93)
Movements due to acquisitions and disposals	–	–	–	(21)	–	–
Exchange and other adjustments	14	5	(2)	(9)	(12)	(2)
At end of year	501	766	605	144	127	237
Reported as						
Provisions	501	766	600	140	119	215
Creditors	–	–	5	4	8	22
	501	766	605	144	127	237
Comprising						
Severance costs	51	141	132	82	67	116
Other	450	625	473	62	60	121
	501	766	605	144	127	237

Disposal provisions

ICI commenced reshaping its portfolio of businesses in 1997 consistent with plans to focus its resources on Paints and Specialty Products. In pursuit of this strategy, the Group announced that it intended to divest most of its Industrial Chemicals businesses.

Prior to 1999

Major disposal prior to 1999, where provisions remain, included the sale of:

(i) the Polyester polymer and intermediates business excluding operations in Pakistan in 1997;

(ii) the Explosives operations in Canada, Latin America and Europe and the explosives distribution business in the USA in 1998;

(iii) the Polyester film business in 1998.

Other significant disposals prior to 1999, where provisions remain, include the Forest Products business based in Canada, the UK based Fertiliser business, the Teesside Utilities and Services business and the Methylamines and derivatives businesses.

Disposal provisions of £601m were made for these disposals in 1997 and 1998. During 2001, revisions were made to the estimated costs of these disposals resulting in £14m being released as an exceptional profit.

At 31 December 2001 provisions remaining to be spent were £114m, including termination costs (£21m), where some 80 jobs are still to be terminated, environmental and the site clearance costs (£30m) and long-term residual costs (£36m). With the exception of the environmental, site clearance and long-term residual costs, the majority of the provisions are expected to be utilised by the end of 2003.

notes relating to the accounts

23. Disposal and restructuring provisions (continued)

1999

In the period from 1 January 1999 to 31 December 1999, the Group disposed of the following major businesses:

(i) Polyurethanes, Tioxide and selected Petrochemicals businesses

In June 1999 the Group sold its Polyurethanes, Tioxide and selected Petrochemicals businesses (aromatics, hydrogen and North Tees Logistics businesses, together with the Olefines supply business) to Huntsman International Holdings LLC. Total provisions charged were £312m mainly in respect of termination costs (£38m) for 360 employees, pension costs relating to employees transferring to the purchaser (£35m), transaction costs (£42m), separation costs (£23m), IT related costs (£26m), site clearance costs (£13m), asset write-downs (£13m) and long-term residual costs (£91m). At 31 December 2001, £122m remained to be spent relating to the cost of long-term employee benefits (£13m), site clearance costs (£9m), transaction and related legal costs (£5m), IT related costs (£5m) and long-term residual costs (£82m). With the exception of the long-term residual costs and long-term employee benefits, the provisions are expected to be substantially utilised by the end of 2003.

(ii) Automotive Refinish business

The Group sold its Automotive Refinish business outside the Indian sub-continent to PPG Industries. The sale of the business in Europe and the Americas was completed in July 1999 and the sale of the Asian business outside the Indian sub-continent was completed in December 1999. Total provisions charged were £90m including termination costs (£6m) for 220 employees, pension costs relating to employees transferring to the purchaser (£21m), transaction costs (£13m), asset write-downs (£12m), separation costs (£6m) and IT related costs (£5m). During 2001, revisions were made to the estimated costs of this disposal resulting in £2m being released as an exceptional profit. At 31 December 2001, £17m remained to be spent including IT related costs (£4m), separation costs (£3m), environmental costs (£3m), and long-term residual costs (£5m). With the exception of long-term residual costs, the majority of the provisions are expected to be substantially utilised by the end of 2003.

(iii) Acrylics business

In November 1999 the Group sold its Acrylics business to Ineos Acrylics Ltd. Total provisions of £76m were set up, including termination costs (£5m) for 45 employees, pension costs relating to employees transferring to the purchaser (£25m), transaction costs (£18m), IT related costs (£7m) and long-term residual costs (£10m). During 2001, revisions were made to the estimated costs of this disposal resulting in £1m being charged as an exceptional cost. At 31 December 2001, £18m remained to be spent principally on long-term residual costs (£10m).

(iv) Other disposals

The Group also divested some smaller businesses including Fluoropolymers and Ethylene Oxide. Provisions of £63m were raised for these disposals including termination costs (£11m) for 110 employees, pension costs associated with employees transferring to the purchaser (£8m), site clearance costs (£9m) and long-term residual costs (£12m). During 2001, revisions were made to the estimated costs of this disposal resulting in £4m being credited as an exceptional profit. At 31 December 2001, £31m remained to be spent principally comprising separation costs (£11m) and long-term residual costs (£12m). With the exception of the long-term residual costs these provisions are expected to be substantially utilised by the end of 2003.

2000

(i) Chlor-Chemicals, Klea and Crosfield businesses

The Group announced the divestment of its Chlor-Chemicals, Klea and Crosfield businesses in December 2000 and completed the divestment in January 2001 (see note 41). The total pre-tax loss for the divestment was £503m, recorded as a fixed asset write-down of £133m, goodwill of £41m charged as a loss and £329m as a provision for the anticipated loss. Included in the calculation of the anticipated loss were disposal provisions of £305m. These provisions include long-term residual costs (£121m), pension transfer costs (£55m), termination costs (£39m) relating to 230 employees, transition and separation costs (£33m), transaction costs (£17m) and environmental costs (£15m). At 31 December 2001, £176m remained to be spent principally on transition and separation costs (£20m), pension costs relating to employees transferring to the purchaser (£14m), termination costs (£13m) relating to some 50 employees, and long-term residual costs (£123m). With the exception of the long-term residual costs these provisions are expected to be substantially utilised by the end of 2003.

(ii) Other disposals

The Group also divested some smaller businesses including its 50% interest in Phillips-Imperial Petroleum and its Methanol business. Provisions of £37m were raised for these disposals including termination costs (£9m) for 73 employees. At 31 December 2001, £17m remained to be spent principally on separation costs (£8m) and termination costs (£6m) for some 20 employees. The provisions are expected to be substantially utilised by the end of 2003.

notes relating to the accounts

23. Disposal and restructuring provisions (continued)

2001

In addition to completing the disposal of Chlor-Chemicals, Klea and Crosfield businesses as described above, the Group completed several other disposals in 2001, principally its Eutech engineering consultancy subsidiary. Provisions of £23m were raised for these disposals including pension costs relating to employees transferring to the purchaser (£19m). At 31 December 2001, £5m remained to be spent. The majority of the provisions are expected to be utilised by the end of 2002.

The long-term residual costs noted above arise directly from the disposals and comprise pension administration, environmental and site maintenance.

Restructuring provisions

Prior to 1999

Restructuring provisions set up prior to 1999 and remaining unspent at 31 December 2001 were £21m including £8m relating to termination costs for some 80 employees. The provisions are expected to to be spent in 2002.

1999

In 1999 the Group undertook a series of restructuring actions across its portfolio affecting the following segments:

(i) *National Starch* – reorganisation of adhesives production facilities in the USA and Europe, the reorganisation of certain Specialty Synthetic Polymers operations in the UK and the Netherlands and four smaller restructuring projects in the Adhesives and Electronics and Engineering Materials businesses.

(ii) *Quest* – three programmes worldwide to improve supply chain efficiency and reduce costs.

(iii) *Paints* – rationalisation of the French Decorative business, including exiting the trade operation and five projects to improve and rationalise the European supply chain including exiting the UK retail wallcoverings business, and the rationalisation of woodcare production facilities.

(iv) *Discontinued operations* – additional costs associated with the reduction of the Chlor-Chemicals business cost base and the restructuring of electricity and steam supplies at the Group's Runcorn site.

(v) *Reorganisation of the Group's Corporate Centre* – as a result of the changed business portfolio which requires a smaller and more focused Corporate Centre, the Group has provided for a fundamental reorganisation of the Corporate Centre.

The total exceptional provisions before tax of £172m for these restructuring programmes was charged against 1999 profits. The total included £80m relating to termination of 1,030 employees, £31m to asset write-downs and £61m for other costs. During 2000, revisions were made to the estimated costs of the Paints restructuring resulting in £8m of these provisions being released with additional costs of £8m being incurred and charged to profit and loss. At 31 December 2001, £28m of these provisions remained to be spent, including £14m relating to the termination of some 70 employees. Most of the provisions are expected to be substantially utilised by the end of 2003.

2000

The £14m restructuring charge in 2000 relates to additional restructuring of the Group's Corporate Centre announced in 1999. At 31 December 2001, £2m of these provisions remained unspent. Most of the provisions are expected to be utilised in 2002.

2001

In 2001 the Group initiated a series of restructuring actions in the following business segments:

(i) *National Starch* – staff reductions and the closure and sale of several sites in the USA, Europe and Asia Pacific. Most of the restructuring relates to the Specialty Polymers and Adhesives business groups in North America and Europe.

(ii) *Quest* – the rationalisation of manufacturing sites, restructuring and redesign of the supply chain and streamlining of management and support services.

(iii) *Performance Specialties* – programmes to improve supply chain efficiencies and undertake site restructuring in Uniqema Europe.

(iv) *Paints* – restructuring the North American decorative business including the closure of a manufacturing facility and the closure of loss making stores.

The total exceptional charge before tax for these restructuring programmes was £143m, which has been charged against 2001 profits. The total included £78m relating to the termination of some 1,300 employees, £17m to asset write-downs and £48m for other costs. At 31 December 2001, £88m remained to be spent including £59m relating to termination of some 1,000 employees. The majority of the provisions are expected to be utilised by the end of 2003.

notes relating to the accounts

24. Called-up share capital of parent company

	Authorised £m	Allotted, called-up and fully paid £m
Ordinary Shares of £1 each		
At beginning of 1999	850	728
Employee share option schemes – options exercised		–
At end of 1999	850	728
Employee share option schemes – options exercised		–
At end of 2000	850	728
Employee share option schemes – options exercised		–
At end of 2001	850	728

Employees' share option schemes and other share based plans

ICI granted share options and other market based units to Executive Directors, senior executives and certain key employees under four main plans: the Performance Growth Plan and other share based plans, the Share Option Scheme (Senior Staff Scheme), the Bonus Conversion Plan (which operated for the last time in respect of the 1999 performance year) and the Stock Appreciation Rights Plan (SARP). The Company also operates a savings related share option scheme (UK – Sharesave) for all UK employees meeting minimum service requirements.

At 31 December 2001 the maximum number of ordinary share equivalents which could be awarded under the Performance Growth Plan was 1,243,072 (2000 551,076). The maximum number awarded in 2001 was 733,842 with lapses during the year of 41,846. 540,073 (2000 238,825) would be awarded for achieving median TSR/on target Economic Profit performance.

The prices at which options are granted under the Senior Staff Scheme must not be less than the nominal value of an Ordinary Share nor less than the average of the middle market quotation of an ICI Ordinary Share on the London Stock Exchange on the five business days immediately preceding the date on which the option is offered. Options under this scheme expire after 10 years. Grants under the SARP are made on the same terms as the Senior Staff Scheme. On exercise the participant receives the gain payable in American Depositary Shares – ADSs (for grants prior to 1998 paid two-thirds in cash and one-third in ADSs).

At 31 December 2001 there were 440,788 shares representing the matched shares under the Bonus Conversion Plan to be delivered as the Company's Ordinary Shares or in the form of ADSs.

The Group has acquired, or is committed to acquire under forward contracts, 27.9 million shares or ADSs to hedge its obligations under the Senior Staff Scheme, the Performance Growth Plan, the Bonus Conversion Plan and the Stock Appreciation Rights Plan. 6.1m shares have been purchased in the market by a trust (see note 15). In addition, the trust has entered into forward commitments to purchase 21.8 million shares at a weighted average cost of £5.81 per share in the period 2002 to 2004. These shares are intended to satisfy requirements for share options exercisable in the period 2009 to 2011.

Under the UK – Sharesave Scheme the price at which options are granted must not be less than the greater of the nominal value of an Ordinary Share, or 80 per cent. of the average market value of an Ordinary Share on the three business days preceding the day on which the offer of options is made. The total purchase cost in respect of options granted under the UK – Sharesave Scheme in 1994 and 1995 is deducted from salary over a period of five years, and in respect of options granted thereafter over a period of three or five years at the choice of the employee. The maximum number of shares made available under this scheme for issue under option during a 10 year period is 5 per cent. of the Company's Ordinary Share Capital in issue on 21 March 1994.

notes relating to the accounts

24. Called-up share capital of parent company (continued)

a) Transactions on Option Schemes

	Senior Staff Scheme		UK – Sharesave		SARP	
	Number of options 000	Weighted average exercise price £	Number of options 000	Weighted average exercise price £	Number of options in ADSs 000	Weighted average exercise price $
Outstanding						
At beginning of 1999	4,465	9.61	12,596	6.05	374	68.71
Granted	5,125	5.81	2,996	4.93	547	35.66
Exercised	(119)	5.73	(147)	5.94	(3)	34.70
Cancelled	(360)	8.58	(3,476)	6.29	(16)	45.49
At beginning of 2000	9,111	7.56	11,969	5.71	902	48.98
Granted	3,537	5.10	2,975	3.66	619	32.41
Exercised	–	–	(220)	5.98	(15)	34.70
Cancelled	(464)	7.19	(4,351)	5.92	(19)	57.14
At beginning of 2001	**12,184**	**6.87**	**10,373**	**5.03**	**1,487**	**42.07**
Granted	**4,678**	**5.12**	**5,042**	**2.85**	**772**	**29.87**
Exercised	**–**	**–**	**(47)**	**3.94**	**–**	**–**
Cancelled	**(1,543)**	**7.52**	**(5,368)**	**5.26**	**(167)**	**50.70**
At end of 2001	**15,319**	**6.27**	**10,000**	**3.81**	**2,092**	**36.88**
Number of options exercisable at:						
31 December 1999	2,353	7.46	–	–	173	47.48
31 December 2000	2,221	7.47	–	–	280	56.60
31 December 2001	4,182	8.48	365	4.75	403	57.22

notes relating to the accounts

24. Called-up share capital of parent company (continued)

b) Summary of share options outstanding at 31 December 2001

	Total options outstanding at 31 December 2001			Exercisable options at 31 December 2001	
	Number outstanding 000	Weighted average remaining contractual life Years	Weighted average exercise price £/$	Number exercisable 000	Weighted average exercise price £/$
Exercise price range					
Senior Staff Scheme					
£0 – £10	13,584	7.78	5.57	2,625	6.42
£10 – £20	1,735	6.26	11.78	1,557	11.96
	15,319		6.27	4,182	8.48
UK – Sharesave					
£0 – £10	10,000	3.69	3.81	365	4.75
£10 – £20	–	–	–	–	–
	10,000		3.81	365	4.75
SARP (ADSs)					
$20 – $40	1,786	8.39	31.83	148	33.46
$40 – $60	79	6.31	44.56	28	47.22
$60 – $80	227	6.16	73.95	227	73.95
	2,092		36.88	403	57.22

At 31 December 2001 there were options outstanding in respect of 25.3m (2000 22.6m) Ordinary Shares of £1 each under the Senior Staff and UK – Sharesave Option Schemes normally exercisable in the period 2002 to 2011 (2001 to 2010) at subscription prices of £2.85 to £12.14 (2000 £3.66 to £12.14). Movements in the number of shares under option during 2001 comprised new options 9.7m, options exercised 0.05m, and options lapsed or waived 6.9m. The number of Ordinary Shares issued during the year, wholly in respect of the exercise of options, totalled 0.05m (2000 0.2m; 1999 0.2m). The weighted average subscription price of options outstanding at 31 December 2001 was £5.30.

At 3 February 2002 there were options outstanding in respect of 25.3m Ordinary Shares of £1 normally exercisable in the period 2002 to 2011 (2001 to 2010) at subscription prices of £2.85 to £12.14 (2000 £3.66 to £12.14). The weighted average subscription price of options outstanding at 3 February 2002 was £5.30.

notes relating to the accounts

25. Reserves

	Share premium account	Retained earnings			Total
		Associates	Profit and loss account	Total	
	£m	£m	£m	£m	£m
Group					
Reserves attributable to parent company shareholders					
At beginning of 1999	587	15	(1,181)	(1,166)	(579)
Net profit (loss) for the financial year		16	236	252	252
Dividends (note 10)			(233)	(233)	(233)
Transfer of goodwill on disposals			69	69	69
Amounts taken direct to reserves					
Share premiums – share option schemes	1				1
Goodwill relating to 1997 acquisitions			10	10	10
Exchange adjustments		(5)	1	(4)	(4)
	1	(5)	11	6	7
At beginning of 2000	588	26	(1,098)	(1,072)	(484)
Net profit (loss) for the financial year	–	(11)	(217)	(228)	(228)
Dividends (note 10)			(232)	(232)	(232)
Transfer of goodwill on disposals			41	41	41
Amounts taken direct to reserves					
Share premiums – share option schemes	1				1
Exchange adjustments	–	(1)	(41)	(42)	(42)
	1	(1)	(41)	(42)	(41)
At beginning of 2001	**589**	**14**	**(1,547)**	**(1,533)**	**(944)**
Net profit (loss) for the financial year	**–**	**8**	**113**	**121**	**121**
Dividends (note 10)			**(116)**	**(116)**	**(116)**
Transfer of goodwill			**(8)**	**(8)**	**(8)**
Amounts taken direct to reserves					
Share premiums – share option schemes	**–**				**–**
Exchange adjustments	**–**	**–**	**(64)**	**(64)**	**(64)**
	–	**–**	**(64)**	**(64)**	**(64)**
At end of 2001	**589**	**22**	**(1,622)**	**(1,600)**	**(1,011)**

At the end of 2001, the cumulative goodwill offset against profit and loss account amounted to £4,049m (2000 £4,041m; 1999 £4,082m). The transfer of goodwill in 2001 relates to adjustments to the purchase price of the 1997 acquisitions. Included in this figure was negative goodwill the cumulative amount of which at 31 December 2001 was £1m (2000 £1m; 1999 £1m).

In the Group accounts, £8m of net exchange gains on foreign currency loans (2000 losses £128m; 1999 gains £28m) have been offset in reserves against exchange losses (2000 gains; 1999 losses) on the net investment in overseas subsidiaries and associates.

notes relating to the accounts

25. Reserves (continued)

The cumulative exchange gains and losses on the translation of foreign currency financial statements into pounds sterling are taken into account in the above statement of Group reserves. US GAAP – SFAS No.52, *Foreign Currency Translation*, requires the separate disclosure of the cumulative amount of the foreign currency translation effects on shareholders' funds, as follows:

	2001 £m	2000 £m	1999 £m
At beginning of year	**(319)**	(277)	(273)
Exchange adjustments	**(64)**	(42)	(4)
At end of year	**(383)**	(319)	(277)

There are no significant statutory or contractual restrictions on the distribution of current profits of subsidiary undertakings or associates except as regards Huntsman International Holdings LLC, see note 15; undistributed profits of prior years are, in the main, permanently employed in the businesses of these companies. The undistributed profits of Group companies overseas may be liable to overseas taxes and/or UK taxation (after allowing for double taxation relief) if they were to be distributed as dividends. No provision has been made in respect of potential taxation liabilities on realisation of assets at restated or revalued amounts or on realisation of associates at equity accounted value.

The Articles of Association of Imperial Chemical Industries PLC state that borrowings after deducting cash, current asset investments and short-term deposits, must not exceed two and a half times the shareholders' equity after adding back sums, calculated in accordance with US GAAP, equivalent to the unamortised balance of goodwill arising on acquisitions made after 1 January 1986. Any borrowings, cash or short-term investments held by subsidiaries in their capacity as trustee of a Group pension fund are excluded from the calculation. For the purpose of calculating the basis of the borrowing limits, in accordance with the Articles of Association, the total of the sums standing to the credit of capital and revenue reserves of the Company and its subsidiary undertakings, to be added to the nominal amount of the share capital of the Company, was £2,756m at 31 December 2001 (2000 £2,713m; 1999 £3,313m).

	Share premium account £m	Profit and loss account £m	2001 Total £m	2000 Total £m
Company				
Reserves				
At beginning of year	589	2,270	**2,859**	3,369
Net profit (loss) for year		(191)	**(191)**	(300)
Dividends		(116)	**(116)**	(232)
Amounts taken direct to reserves				
Share premiums – share option schemes	–		–	1
Exchange and other adjustments	–	(10)	**(10)**	21
	–	(10)	**(10)**	22
At end of year	589	1,953	**2,542**	2,859

By virtue of S230 of the Companies Act 1985, the Company is exempt from presenting a profit and loss account.

notes relating to the accounts

26. Net cash inflow from operating activities

	2001 £m	2000 £m	1999 £m
Trading profit	393	577	473
Exceptional charges within trading profit	143	–	98
Trading profit before exceptional items	536	577	571
Depreciation and amortisation of goodwill	246	268	319
Stocks (increase)/decrease	7	(6)	21
Debtors (increase)/decrease	65	(111)	(191)
Creditors increase/(decrease)	(120)	(12)	30
Other movements	(23)	(21)	(75)
	711	695	675
Outflow related to exceptional items	(74)	(109)	(93)
	637	586	582

Outflow related to exceptional items includes expenditure charged to exceptional provisions relating to business rationalisation and restructuring. The major part of the 2001 expenditure relates to the restructuring programme as described in note 4 and note 23.

27. *Returns on investments and servicing of finance*

	2001 £m	2000 £m	1999 £m
Dividends received from other investments	–	3	4
Interest received	93	38	82
Interest paid	(280)	(256)	(376)
Dividends paid by subsidiary undertakings to minority shareholders	(20)	(15)	(17)
	(207)	(230)	(307)

28. Capital expenditure and financial investment

	2001 £m	2000 £m	1999 £m
Purchase of tangible fixed assets	(235)	(284)	(428)
Purchase of fixed asset investments other than associates or joint ventures	–	–	–
Sale of fixed assets	29	58	72
	(206)	(226)	(356)

notes relating to the accounts

29. Acquisitions

	2001 Total Fair value £m	2000 Total Fair value £m
Subsidiary undertakings and operations		
Fair value of net assets acquired	12	14
Goodwill acquired	43	11
Consideration for subsidiary undertakings and operations acquired	55	25
Investments in participating interests	41	5
	96	30
Less		
Cash included in undertakings acquired	–	–
Cash consideration – current year	96	30
– deferred consideration	(4)	(17)
– previous year's acquisitions	17	–
	109	13

30. Management of liquid resources

	2001 £m	2000 £m	1999 £m
Commercial paper	1	89	89
Bank deposits and certificates of deposit	254	(115)	126
Floating rate notes, medium rate notes, treasury bills	(2)	14	–
	253	(12)	215

Liquid resources are current asset investments held as readily disposable stores of value. In these accounts they comprise current asset investments and short-term deposits (note 18).

notes relating to the accounts

31. Disposals

	2001 £m	2000 £m
Subsidiary undertakings and operations		
Tangible fixed assets and investments	243	53
Intangible fixed assets	–	4
Net current assets	104	36
Creditors due after more than one year	–	–
Provisions for liabilities and charges	(43)	(9)
Minority interests	(22)	–
Book value of net assets disposed	282	84
Disposal costs and provisions	22	19
Goodwill written back on disposal	–	–
Investments in participating interests	–	1
Repayment of loans	3	–
Profits less losses on disposals	(11)	(12)
Consideration received on prior year disposals	41	25
Non cash consideration	(22)	–
	315	117
Outflow on divestment provisions	(298)	(242)
Cash consideration	17	(125)
Comprising inflow (outflow) arising on		
current year's disposals	96	34
previous year's disposals	(79)	(159)
	17	(125)

During 2001 the Group received gross cash consideration of £315m (2000 £117m), primarily for disposals of operations £312m (2000 £117m) and £3m (2000 £nil) in respect of repayment of fixed asset investment loans. Of this amount, £298m (2000 £242m) was paid against ongoing disposal costs and provisions.

Disposals by the Group during 2001 included the sale of the Chlor-Chemicals, Klea and Crosfield businesses and Eutech Engineering Solutions Ltd.

notes relating to the accounts

32. Financing

	Financing – shares				Financing – debt				Total
	Shares issued by Company		Minorities*	Total	Loans	Short-term borrowings other than overdrafts	Finance leases	Total	
	Share capital	Share premium							
notes		25			21	34	36		
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At beginning of 1999	(728)	(587)	(40)	(1,355)	(3,539)	(1,350)	(15)	(4,904)	(6,259)
Exchange adjustments					24	–	–	24	24
Financing									
New finance	–	(1)	–	(1)	(161)	(11,383)		(11,544)	(11,545)
Finance repaid					773	12,679	2	13,454	13,454
Cash flow	–	(1)	–	(1)	612	1,296	2	1,910	1,909
Acquisitions and disposals			4	4	–	1	5	6	10
Other movements			2	2	4	(1)	(2)	1	3
At beginning of 2000	(728)	(588)	(34)	(1,350)	(2,899)	(54)	(10)	(2,963)	(4,313)
Exchange adjustments					(128)	8	(1)	(121)	(121)
Financing									
New finance	–	(1)	–	(1)	(308)	(2,619)		(2,927)	(2,928)
Finance repaid					642	1,947	3	2,592	2,592
Cash flow	–	(1)	–	(1)	334	(672)	3	(335)	(336)
Acquisitions and disposals			(4)	(4)	(4)	(1)	1	(4)	(8)
Other movements	–	–	–	–	–	–	–	–	–
At beginning of 2001	(728)	(589)	(38)	(1,355)	(2,697)	(719)	(7)	(3,423)	(4,778)
Exchange adjustments					(34)	42	(1)	7	7
Financing									
New finance	–	–	–	–	(512)	(4,625)		(5,137)†	(5,137)
Finance repaid					288	4,925	1	5,214ø	5,214
Cash flow	–	–	–	–	(224)	300	1	77	77
Acquisitions and disposals			8	8	–	4	3	7	15
Other movements	–	–	(1)	(1)	–	(4)	–	(4)	(5)
At end of 2001	(728)	(589)	(31)	(1,348)	(2,955)	(377)	(4)	(3,336)	(4,684)

* Share capital element of minority interests.

		Repayment dates	Currency	Rate %	Amount £m
† New finance	Bank loan	2002 – 2006	Various	Various	344
	Euro dollar medium-term notes	2003	Various	Various	145
	Euro commercial paper	2002	Various	Various	1,599
	US commercial paper	2002	US$	Various	2,961
	Others				88
					5,137
ø Finance repaid					
	Euro dollar medium-term notes		US$	Various	26
	Euro commercial paper		Various	Various	1,704
	US commercial paper		US$	Various	3,042
	Others				442
					5,214

notes relating to the accounts

33. Analysis of net debt

	Cash	Financing – debt					Current asset investment	Net debt
		Loans		Short-term borrowings other than overdrafts	Finance leases	Total		
		Due after one year	Due within one year					
notes	34	21	21	34	36		18	
	£m	£m	£m	£m	£m	£m	£m	£m
At beginning of 1999	272	(2,954)	(585)	(1,350)	(15)	(4,904)	455	(4,177)
Exchange adjustments	(7)	(27)	51	–	–	24	–	17
Cash flow	(40)	41	571	1,296	2	1,910	(215)	1,655
Acquisitions and disposals	–	–	–	1	5	6	154	160
Other non-cash changes	(3)	688	(684)	(1)	(2)	1	–	(2)
At beginning of 2000	222	(2,252)	(647)	(54)	(10)	(2,963)	394	(2,347)
Exchange adjustments	(2)	(132)	4	8	(1)	(121)	1	(122)
Cash flow	(14)	(99)	433	(672)	3	(335)	12	(337)
Acquisitions and disposals	–	–	(4)	(1)	1	(4)	3	(1)
Other non-cash changes	3	252	(252)	–	–	–	5	8
At beginning of 2001	209	(2,231)	(466)	(719)	(7)	(3,423)	415	(2,799)
Exchange adjustments	(8)	(32)	(2)	42	(1)	7	(2)	(3)
Cash flow	65	(161)	(63)	300	1	77	(253)	(111)
Acquisitions and disposals	(11)	–	–	4	3	7	–	(4)
Other non-cash changes	5	719	(719)	(4)	–	(4)	(1)	–
At end of 2001	260	(1,705)	(1,250)	(377)	(4)	(3,336)	159	(2,917)

34. Cash and short-term borrowings

	Cash at bank	Short-term borrowings (note 19)			Net Total	Cash (at bank and overdrafts)
		Overdrafts	Other	Total		
	£m	£m	£m	£m	£m	£m
At beginning of 1999	367	(95)	(1,350)	(1,445)	(1,078)	272
Exchange adjustments	(6)	(1)	–	(1)	(7)	(7)
Cash flow	(91)	51	1,296	1,347	1,256	(40)
Acquisitions and disposals	–	–	1	1	1	–
Other non-cash changes	–	(3)	(1)	(4)	(4)	(3)
At beginning of 2000	270	(48)	(54)	(102)	168	222
Exchange adjustments	(4)	2	8	10	6	(2)
Cash flow	(14)	–	(672)	(672)	(686)	(14)
Acquisitions and disposals	–	–	(1)	(1)	(1)	–
Other non-cash changes	3	–	–	–	3	3
At beginning of 2001	255	(46)	(719)	(765)	(510)	209
Exchange adjustments	(4)	(4)	42	38	34	(8)
Cash flow	62	3	300	303	365	65
Acquisitions and disposals	(14)	3	4	7	(7)	(11)
Other non-cash changes	2	3	(4)	(1)	1	5
At end of 2001	301	(41)	(377)	(418)	(117)	260

In the Statement of Group cash flow and related notes, "cash" includes cash at bank, deposits repayable on demand and overdrafts; deposits are repayable on demand if they are available within 24 hours without penalty.

notes relating to the accounts

35. Statement of Group cash flow: Basis of preparation

The Statement of Group cash flow is prepared in accordance with UK FRS No.1 (Revised 1996) – *Cash Flow Statements*, the objective of which is similar to that set out in the US Standard SFAS No. 95 – *Statements of Cash Flows*. The two statements differ, however, in their definitions of cash and their presentation of the main constituent items of cash flow.

The definition of cash in the UK Standard is limited to cash plus deposits less overdrafts/borrowings repayable on demand without penalty. In the US, the definition in SFAS No. 95 excludes overdrafts but is widened to include cash equivalents, comprising short-term highly liquid investments that are both readily convertible to known amounts of cash and so near their maturities that they present insignificant risk of changes in value: generally, only investments with original maturities of 3 months or less qualify for inclusion. Calculated in accordance with SFAS No. 95, cash and cash equivalents at 31 December 1999, 2000 and 2001 and the movements during the years ending on those dates were as follows:

	2001 £m	2000 £m	1999 £m
Cash and cash equivalents			
Cash	**301**	255	270
Investments and short-term deposits which were within 3 months of maturity when acquired	**135**	317	184
	436	572	454
Change in the balance of cash and cash equivalents			
At beginning of year	**572**	454	609
Exchange adjustments	**(3)**	1	(8)
Cash inflow (outflow) during year	**(119)**	114	(147)
Acquisitions and disposals	**(14)**	3	–
At end of year	**436**	572	454

The format of the UK statement employs some nine headings compared with three in SFAS No. 95. The cash flows within the UK headings of "Operating activities", "Dividends received from associates", "Returns on investments and servicing of finance" and "Taxation" would all be included within the heading of "Net cash provided by operating activities" under SFAS No. 95. Likewise, the UK headings of "Capital expenditure and financial investment" and "Acquisitions and disposals" correspond with "Cash flows from investing activities" under SFAS No. 95, and "Equity dividends paid", "Management of liquid resources" and "Financing" in the UK, subject to adjustments for cash equivalents, correspond with "Cash flows from financing activities" in the USA.

notes relating to the accounts

36. Leases

	Total rentals under operating leases, charged as an expense in the profit and loss account		
	Hire of plant and machinery £m	Other £m	Total £m
2001			
Continuing operations	11	58	69
Discontinued operations	–	–	–
Total	11	58	69
2000			
Continuing operations	10	55	65
Discontinued operations	2	–	2
Total	12	55	67
1999			
Continuing operations	11	45	56
Discontinued operations	2	1	3
Total	13	46	59

	Land and buildings		Other assets	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Commitments under non-cancellable operating leases to pay rentals during the year following the year of these accounts, analysed according to the period in which each lease expires				
Expiring within 1 year	7	8	4	7
Expiring in years 2 to 5	18	17	14	19
Expiring thereafter	20	21	4	3
	45	46	22	29

	Operating leases		Finance leases	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Obligations under leases comprise				
Rentals due within 1 year	67	75	2	2
Rentals due after more than 1 year				
From 1 to 2 years	56	57	1	2
From 2 to 3 years	43	45	1	1
From 3 to 4 years	33	33	–	1
From 4 to 5 years	26	25	–	1
After 5 years from balance sheet date	146	143	–	–
	304	303	2	5
	371	378	4	7
Less amounts representing interest			–	–
Present value of net minimum lease payments			4	7
Less current lease obligations			(2)	(2)
Non current lease obligations			2	5

Obligations under finance leases are included in other creditors (note 20).

The Group had no commitments under finance leases at the balance sheet date which were due to commence thereafter.

notes relating to the accounts

37. Employee numbers and costs

Average number of people employed by the Group

Classes of business

	2001	2000	1999
Continuing operations			
International businesses			
National Starch	10,110	10,570	10,490
Quest	4,720	4,580	4,450
Performance Specialties	4,120	4,140	4,370
Paints	15,900	16,760	18,200
	34,850	36,050	37,510
Regional and Industrial	4,490	4,970	5,290
Corporate			
Board support	150	180	220
Group technical resources and other shared services	290	380	1,160
	39,780	41,580	44,180
Discontinued operations	–	4,350	9,270
	39,780	45,930	53,450

Geographic areas

	Continuing operations			Total		
	2001	2000	1999	2001	2000	1999
United Kingdom	6,710	7,170	8,310	6,710	10,490	13,570
Continental Europe	6,550	6,850	7,390	6,550	7,250	9,140
USA	10,930	11,510	11,440	10,930	11,750	12,560
Other Americas	5,710	5,930	6,390	5,710	6,070	6,640
Asia Pacific	9,590	9,830	10,320	9,590	10,020	10,980
Other countries	290	290	330	290	350	560
Total employees	39,780	41,580	44,180	39,780	45,930	53,450

Number of people employed by the Group at the year end

	2001	2000	1999
Continuing operations	38,600	40,960	42,360
Discontinued operations	–	4,170	4,300
Total employees	38,600	45,130	46,660

notes relating to the accounts

37. Employee numbers and costs (continued)

Employee costs

	Continuing operations			Total		
	2001 £m	2000 £m	1999 £m	2001 £m	2000 £m	1999 £m
Salaries	**1,016**	1,001	1,038	**1,016**	1,124	1,298
Social security costs	**101**	99	109	**101**	110	138
Pension costs	**70**	70	93	**70**	85	132
Other employment costs	**31**	29	24	**31**	31	30
	1,218	1,199	1,264	**1,218**	1,350	1,598
Less amounts allocated to capital and to provisions set up in previous years	**(1)**	(2)	(37)	**(1)**	(2)	(38)
Severance costs charged in arriving at profit (loss) before tax	**104**	15	50	**104**	54	70
Employee costs charged in arriving at profit (loss) before tax	**1,321**	1,212	1,277	**1,321**	1,402	1,630

38. Retirement benefits

The Group continues to report on employee retirement benefits in accordance with the UK Standard SSAP 24 – *Accounting for pension costs* and, in respect of post-retirement healthcare in compliance with the sixth Abstract of the Urgent Issues Task Force – *Accounting for post-retirement benefits other than pensions.* In 2001 additional analysis is also provided in accordance with the Accounting Standard, FRS No. 17 – *Retirement benefits,* which is being implemented, progressively, during the years ending 31 December 2001 to 31 December 2003.

Analysis is also provided in note 43 of the aggregate net periodic benefits cost and funded status of the Group's major post-retirement schemes restated in accordance with US GAAP and in compliance with the requirements of SFAS No. 87 – *Employers' Accounting for Pensions,* SFAS No. 88 *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* SFAS No. 106 – *Employers' Accounting for Post-Retirement Benefits other than Pensions* and SFAS No. 132 – *Employers' Disclosures about Pensions and Other Post-Retirement Benefits.*

Pensions (SSAP 24)

Group

The Company and most of its subsidiaries operate retirement plans which cover the majority of employees (including directors) in the Group. These plans are generally of the defined benefit type under which benefits are based on employees' years of service and average final remuneration and are funded through separate trustee-administered funds. Formal independent actuarial valuations of the Group's main plans are undertaken regularly, normally at least triennially and adopting the projected unit method.

The actuarial assumptions used to calculate the projected benefit obligation of the Group's pension plans vary according to the economic conditions of the country in which they are situated. The weighted average discount rate used in determining the actuarial present values of the benefit obligations was 6.1 per cent. (2000 6.0 per cent.). The weighted average expected long-term rate of return on investments was 6.3 per cent. (2000 6.1 per cent.). The weighted average rate of increase of future earnings was 4.1 per cent. (2000 4.4 per cent.).

The market value of the fund assets of these plans at the date of the latest actuarial valuations was sufficient to cover 99 per cent. (2000 99 per cent.) of the benefits that had accrued to members, after allowing for expected future increases in earnings; their market value was £7,843m (2000 £8,240m).

The total pension cost for the Group for 2001 was £70m (2000 £85m; 1999 £132m). Accrued pension costs amounted to £11m (2000 £13m) and are included in other creditors (note 20); provisions for the benefit obligation of a small number of unfunded plans amounted to £179m (2000 £205m) and are included in provisions for liabilities and charges – unfunded pension (note 22). Prepaid pension costs amounting to £510m (2000 £487m) are included in debtors (note 17).

ICI Pension Fund

The ICI Pension Fund accounts for approximately 85 per cent. of the Group's plans in asset valuation and projected benefit terms.

notes relating to the accounts

From the date of the actuarial valuation of the ICI Pension Fund as at 31 March 1994 the Company has been making payments into the Fund to reflect the extra liabilities arising from early retirement as retirements occur. Based on a Funding Review as at 31 March 1997, the Company agreed to make six annual payments into the Fund of £100m per annum from 1998 through 2003, subject to a review in 2000. The latest actuarial valuation of the Fund, as at 31 March 2000, disclosed a solvency ratio of 98 per cent. and the Company has agreed to make a further six annual payments into the Fund of £30m per annum from 2001 to 2006, subject to review in 2003. The deficit, together with the prepayment, is taken into account in arriving at the employers' pension costs charged in the accounts by being amortised as a percentage of pensionable emoluments over the expected working lifetime of existing members. In 2001 this gave rise to a charge of £13m.

Healthcare (UITF Abstract 6)

The Group provides in North America, and to a lesser extent in some other countries, certain unfunded healthcare and life assurance benefits for retired employees. At 31 December 2001 approximately 20,000 (2000 23,000) current and retired employees were eligible to benefit from these schemes. The liabilities in respect of these benefits are fully accrued over the expected working lifetime of the existing members.

The total post-retirement healthcare cost for the Group for 2001 was £10m (2000 £13m; 1999 £3m) and the provision at the year end was £199m (2000 £199m).

The Group has adopted the measurement bases of the US Standard, SFAS No. 106 – *Employers' Accounting for Post-Retirement Benefits other than Pensions* as the basis of its UK GAAP reporting. Costs and provisions were determined on an actuarial basis. The assumptions relating to the US plans, which represent a substantial portion of the Group total, are set out in the table in note 43.

The healthcare cost trend has a significant effect on the amounts reported. For the Group, increasing the assumed healthcare cost rates by 1 per cent. in every year would increase the accumulated post-retirement benefit obligation at 31 December 2001 by £8m (2000 £12m) and the aggregate of the service and interest cost components of net periodic post-retirement benefit cost for the year ended 31 December 2001 by £1m (2000 £2m).

Retirement benefits – Pensions and Healthcare (FRS No. 17)

The most recent actuarial valuations of the Group's major retirement benefit schemes, including post-retirement healthcare schemes, have been updated to 31 December 2001 to take account of the requirements of FRS No. 17.

Financial assumptions to calculate the projected benefit obligations of Group schemes

The principal, weighted average rates used were:

	% p.a.
Discount rate	6.0%
Inflation rate	2.5%
Long-term rate of increase in future earnings	3.9%
Increase in pensions in payment	2.2%
Post-retirement healthcare cost inflation rate	7.4%

notes relating to the accounts

Scheme assets, expected rates of return, liabilities and net (liabilities) assets

	Long-term rate of return expected at 31 Dec 2001	Valued 31 Dec 2001
Assets in schemes		
Equities	7.8%	2,329
Bonds	5.4%	5,191
Other	6.9%	59
Total fair value of assets		7,579
Present value of scheme liabilities		8,078
Net (deficit) in the schemes		(499)
Less Unrecognisable surpluses		(12)
Net recognised (deficit)		(511)
Deferred tax asset (liability)		58
Net (liabilities)		(453)
Deficits		
Pension schemes		(352)
Post retirement healthcare schemes		(109)
		(461)
Surpluses		
Pension schemes		8
		(453)
Analysis of net recognised (deficit)		
Deficits		
ICI UK Pension Fund		(161)
Other pension schemes		(207)
Post retirement healthcare schemes (included in Provisions for liabilities and charges – Employee Benefits: note 22)		(156)
		(524)
Surpluses		
Other pension schemes		13
		(511)

notes relating to the accounts

39. Financial risk management

(a) Interest rate risk

The interest rate profile of the Group's financial assets and financial liabilities at 31 December 2001, after taking into account the effect of interest rate and currency swaps, is set out in the tables below.

Financial assets

	2001				2000			
	At fixed interest rates £m	At floating interest rates £m	Interest free £m	Total £m	At fixed interest rates £m	At floating interest rates £m	Interest free £m	Total £m
Current assets investments, short-term deposits and cash								
Sterling	–	21	23	44	–	116	29	145
US Dollar	–	13	77	90	–	39	67	106
Euro and Euro related currencies	–	7	79	86	–	21	53	74
Japanese Yen	–	–	5	5	–	–	3	3
Other currencies	–	14	117	131	–	17	101	118
	–	55	301	356	–	193	253	446
Fixed asset investments and debtors due after more than one year								
Sterling				70				46
US dollar				264				185
Euro and Euro related currencies				5				5
Other currencies				2				6
Total financial assets				697				688
At 31 December 2001 the financial assets of the Group comprised:								
Investments in participating and other investments								
Loans to associates				210				190
Other investments								
Shares				16				21
Loans				61				–
Debtors due after more than one year				54				31
Current asset investments and short-term deposits				159				415
Cash				301				255
Less financial assets of insurance subsidiaries				(104)				(224)
Total financial assets				697				688

Floating rate financial assets comprise bank deposits bearing interest at rates fixed in advance for periods ranging from 1 month to 6 months by reference to the relevant inter-bank rate.

notes relating to the accounts

39. Financial risk management (continued)

Financial liabilities

	2001 At fixed interest rates £m	2001 At floating interest rates £m	2001 Total £m	2000 At fixed interest rates £m	2000 At floating interest rates £m	2000 Total £m
Sterling	170	(283)	(113)	350	64	414
US Dollars	661	1,449	2,110	179	1,682	1,861
Euro and Euro related currencies	61	585	646	–	767	767
Japanese Yen	227	176	403	27	296	323
Other currencies	97	266	363	102	42	144
	1,216	2,193	3,409	658	2,851	3,509

At 31 December the financial liabilities of the Group comprised:

Short-term borrowings	418	765
Current instalments of loans	1,250	466
Loans	1,705	2,231
Other creditors due after more than one year		
Environmental liabilities	5	6
Other creditors	29	36
Finance leases	2	5
Less financial liabilities of insurance subsidiaries	–	–
	3,409	3,509

Floating rate financial liabilities comprise borrowings bearing interest at rates fixed in advance for periods up to 12 months.

The applicable weighted average interest rates for fixed rate financial liabilities are: Sterling 7.8 per cent. (2000 8.0%); US dollar 6.7 per cent. (2000 7.0 per cent.); Euro and Euro related currencies 4.4 per cent. (2000 nil); Japanese yen 0.7% (2000 3.6 per cent.); other currencies 15.6 per cent. (2000 15.5 per cent.).

The applicable weighted average period for which rates are fixed are: Sterling 4 years (2000 5 years); US dollar 3 years (2000 6 years); Euro and Euro related currencies 5 years (2000 nil); Japanese yen 3 years (2000 4 years) and other currencies 2 years (2000 2 years).

The figures shown above take into account various interest rate swaps, currency swaps and forward exchange contracts used to manage the interest rate and currency profile of financial assets and liabilities.

(b) Currency exposures on monetary assets and liabilities

The Group's policy is, where practicable, to hedge all exposures on monetary assets and liabilities. As a result there are no significant non functional currency exposures.

(c) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, as defined in section (a) above, at 31 December 2001 was as follows:

	2001 £m	2000 £m
In one year or less on demand	1,668	1,231
In more than one year but not more than two years	366	790
In more than two years but not more than five years	860	804
In more than five years	515	684
	3,409	3,509

notes relating to the accounts

39. Financial risk management (continued)

(d) Borrowing facilities

Committed facilities available to the Group at 31 December 2001 in respect of which all conditions precedent had been met at that date were as follows:

	2001 £m	2000 £m
Expiring in one year or less	512	600
Expiring in more than one year	–	671
Expiring in more than two years	1,232	738
	1,744	2,009

(e) Net debt management

The Group manages the currency and interest rate exposure which arises on borrowings and cash not immediately required by the business on a net basis through the use of currency swaps, forward exchange contracts, interest rate swaps and interest rate caps.

The most significant consequences of this approach are:

- to manage the US dollar currency exposure arising from US dollar loans by holding US dollar cash and through currency swaps.
- to reduce the proportion of the Group's fixed interest rate liabilities arising from US dollar loans through the use of fixed to floating rate swaps.

The financial instruments used in debt management are accounted for as described in the Group's accounting policies on pages 64 and 65.

The notional principal amounts and fair values, net of associated hedges, of the Group's financial assets and financial liabilities were as follows:

	Notional principal amounts At 31 December		Carrying values* At 31 December		Fair values* At 31 December	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Interests in participating and other investments – other investments†	287	296	287	211	287	211
Current asset investments and short-term deposits†	55	191	55	191	55	191
Cash†	301	255	301	255	301	255
Other financial assets†	54	26	54	26	54	26
Short-term borrowings	(418)	(765)	(418)	(765)	(425)	(765)
Loans	(2,965)	(2,703)	(2,963)	(2,703)	(3,077)	(2,739)
Other financial liabilities†	(36)	(47)	(36)	(47)	(36)	(47)
Currency swaps	(849)	(751)	8	6	38	34
Interest rate swaps	4,377	2,780	–	–	68	11
Interest rate caps	1,945	2,071	–	5	–	1
Total net liabilities			(2,712)	(2,821)	(2,735)	(2,822)
Financial assets			697			
Financial liabilities			(3,409)			
			(2,712)			

*( )=liability

† The Group has assumed that the fair value approximates to the carrying value.

notes relating to the accounts

39. Financial risk management (continued)

(e) Net debt management (continued)

The fair value of the Group's long-term publicly quoted debt is based upon quoted market prices. The fair value of the Group's non-publicly quoted debt, all swaps, and caps have been estimated from discounted anticipated cash flows utilising a zero coupon yield curve.

The total increase in the fair value of long-term debt net of associated hedges for the year ended 31 December 2001 of £338m arose from the new loans (£189m), adverse movements on foreign exchange (£43m) and movements due to changes in interest rates (£106m).

A portfolio approach is adopted to create the Group's target proportion of fixed and floating rate debt by currency. The maturity profile of the net fixed rate exposure is spread over several years to reduce re-pricing risk. Short term borrowings include balances relating to forward exchange contracts. These balances are further analysed in section (g).

Where interest rate and currency instruments are designated to a group of borrowings or cash and cash equivalents with similar characteristics, altering their interest rate or currency profile, the net cash amounts to be received or paid on the agreements are accrued in current assets or liabilities and recognised as an adjustment to interest income or expense ("accrual accounting").

The Group is exposed to credit related losses in the event that counterparties to off-balance-sheet financial instruments do not perform according to the terms of the contract. In the opinion of management, the counterparties to the financial instruments are creditworthy parties and the Group does not expect any significant loss to result from non-performance. The immediate credit exposure of financial instruments is represented by those financial instruments that have a positive fair value at 31 December 2001.

At 31 December 2001 the aggregate value of all financial instruments with a positive fair value (assets) was £51m for currency swaps, £342m for interest rate swaps, £36m for forward contracts, nil for interest rate caps and nil for currency options.

There were no net material gains or losses deferred at 31 December 2001 (2000 nil).

(f) Hedges

The table below analyses movements in the fair values of derivatives used to hedge financial assets and liabilities:

	2001			2000		
	Fair value assets £m	Fair value liabilities £m	Total net assets/ liabilities £m	Fair value assets £m	Fair value liabilities £m	Total net assets/ liabilities £m
Unrecognised gains and losses on hedges at 1 January 2001	107	(79)	28	142	(66)	76
Gains and losses arising in previous years that were recognised in 2001	(23)	7	(16)	(68)	61	(7)
Gains and losses arising before 1 January 2001 that were not recognised in 2001	84	(72)	12	74	(5)	69
Gains and losses arising in 2001 that were not recognised in 2001	345	(217)	128	33	(74)	(41)
Unrecognised gains and losses on hedges at 31 December 2001	429	(289)	140	107	(79)	28
Of which:						
Gains and losses expected to be recognised in 2002	102	(3)	99	23	(7)	16
Gains and losses to be recognised in 2003 or later	327	(286)	41	84	(72)	12
	429	(289)	140	107	(79)	28

notes relating to the accounts

39. Financial risk management (continued)

(g) Currency management

The Group hedges its net transactional currency exposure arising on stocks, trade debtors and creditors (trade working capital) fully through the use of forward foreign exchange contracts. The Group selectively hedges its anticipated currency cash flow exposures for up to 12 months ahead through the use of forward foreign exchange contracts and selective purchase of currency options.

Surplus funds are invested in instruments in a variety of currencies. Forward foreign exchange contracts are used to hedge these back to the currencies that are appropriate for the net debt portfolio.

The financial instruments used in currency management are accounted for as described in the Group's accounting policies on pages 64 and 65.

The notional principal amounts and fair values of forward exchange contracts used in currency management are as follows:

	Notional principal amounts At 31 December		Carrying values* At 31 December		Fair values* At 31 December	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Hedging working capital			**1**	–	**1**	–
Forward contracts to buy currency	**86**	198				
Forward contracts to sell currency	**(85)**	(198)				
Hedging anticipated cash flows			**1**	–	**1**	4
Forward contracts	–	–				
Currency contracts to buy currency	**135**	102				
Currency contracts to sell currency	**(133)**	(101)				
Hedging debt			**39**	(21)	**32**	(21)
Forward contracts to buy currency	**1,445**	1,375				
Forward contracts to sell currency	**(1,409)**	(1,390)				

* ( ) = liability

The carrying values of currency hedging instruments do not materially differ from the fair values based on quoted market prices.

(h) Management of current asset investments

Surplus funds are invested in high quality liquid marketable investments, including money market instruments, government securities and asset backed securities. Investments are of a plain vanilla nature with no embedded interest rate options. The majority of asset backed securities have some risk of early redemption, but are of a floating rate nature and hence have minimal fixed interest rate risk. There are no investments of a fixed rate nature with maturity greater than one year and consequently the fair value of investments is considered to be materially the same as the value in the Group's balance sheet. Investments are classified as 'available for sale'.

The Group's exposure to credit risk is controlled by setting a policy for limiting credit exposure to counterparties, which is reviewed annually, and reviewing credit ratings and limiting individual aggregate credit exposures accordingly. The Group considers the possibility of material loss in the event of non-performance by a financial counterparty to be unlikely.

The notional amounts of financial instruments used in debt and currency management do not represent amounts exchanged by the parties and, thus, are not a measure of the credit risk to the Group arising through the use of these instruments. The immediate credit risk of these instruments is represented by the fair value of contracts with a positive fair value.

40. Statutory and other information

Remuneration of auditors charged in the Group accounts for 2001 was £2.8m (2000 £2.9m; 1999 £3.5m); fees paid to the Auditor (and its associates) of the parent Company for services other than statutory audit supplied to the Group during 2001 totalled £3.1m (2000 £5.1m; 1999 £6.3m) of which £0.4m (2000 £1.4m; 1999 £4.7m) related to divestment and acquisition activities.

The remuneration and expenses of the Auditor in respect of the statutory report to the members of the Company for the year 2001 amounted to £66,000 (2000 £60,000; 1999 £79,000).

notes relating to the accounts

Included in debtors is an interest free loan totalling £7,000 (2000 £7,000; 1999 £7,000) to Dr J D G McAdam. This relates to the potential exercise of share options under a Company scheme and the amount, in currency, has remained unchanged throughout 2001.

41. Commitments and contingent liabilities

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Commitments for capital expenditure not provided for in these accounts (including acquisitions)				
Contracts placed for future expenditure	**28**	36	**1**	2
Expenditure authorised but not yet contracted	**118**	142	**11**	4
	146	178	**12**	6

Contingent liabilities existed at 31 December 2001 in connection with guarantees and uncalled capital relating to subsidiary and other undertakings and guarantees relating to pension funds, including the solvency of pension funds. There was no contingent liability in respect of guarantees of borrowings and uncalled capital for the Group at 31 December 2001 (2000 £nil); the maximum contingent liability for the Company, mainly on guarantees of borrowing by subsidiaries, was £2,308m (2000 £2,488m).

The Group is also subject to contingencies pursuant to environmental laws and regulations that in the future may require it to take action to correct the effects on the environment of prior disposal or release of chemical substances by the Group or other parties. The ultimate requirement for such actions, and their cost, is inherently difficult to estimate, however provisions have been established at 31 December 2001 in accordance with the Group's accounting policy noted on page 65. It is believed that, taking account of these provisions, the cost of addressing currently identified environmental obligations is unlikely to impair materially the Group's financial position and results of operations.

The Glidden Company ("Glidden"), a wholly owned subsidiary of ICI, is a defendant, along with former lead paint and pigment producers as well as other lead product manufacturers and their trade associations, in a number of suits in the United States, four of which purport to be class actions. These suits divide into two categories, first those seeking damages for alleged personal injury caused by lead related products and second those seeking the costs of removing lead-based paint.

Suits have been served on Glidden because an alleged predecessor company of Glidden manufactured lead pigments until the 1950's and lead-based consumer paints until the 1960's. Due to the nature of the suits, Glidden is unable to quantify the amount being claimed although the suits are likely to involve substantial claims for damages. Rulings adverse to Glidden could lead to additional claims.

The cases pending include a suit filed in 1989 by the New York Housing Authority in New York State court seeking the removal of all lead-based paints from all buildings in two of the New York Housing Authority projects. A purported personal injury class action suit filed in August 1992 on behalf of all children alleged to be affected by lead-based paints is pending in the State court of Ohio, and a purported personal injury class action on behalf of all children in the State of New York was filed in New York State court in 1998. In 1999, the State of Rhode Island filed a suit seeking lead paint abatement and other monetary damages including costs of related governmental programmes, and similar suits were filed by the City of St Louis, Missouri and the County of Santa Clara, California in early 2000. Glidden is awaiting a decision from the Judge in the Rhode Island case on a number of procedural matters. This decision is currently expected in early February 2002. The judge's decision will be significant in determining the likely overall timetable for the Rhode Island case and could advance the likely trial date. In addition, two suits were filed in Maryland in 1999. One of these is a purported class action seeking abatement of lead paint in Maryland and the other is a personal injury suit on behalf of six allegedly injured minors. In mid 2000, two Texas school districts filed separate suits seeking the costs of removing lead-based paint and an individual action was filed in Chicago, Illinois seeking medical monitoring and damages for lead related illnesses. In the later part of 2000, two personal injury actions were filed in San Francisco, California and Jefferson, Mississippi. Four other individual personal injury actions were filed in Baltimore, Maryland against Glidden and other members of the lead industry, however, these actions have not been served on any of the defendants and no activity is expected for the foreseeable future. Several US State legislatures have considered or are considering proposed legislation that could adversely affect Glidden's position in pending or possible future cases, including proposals that could add additional grounds for legal liability or that would permit suits otherwise time-barred.

notes relating to the accounts

41. Commitments and contingent liabilities (continued)

In 2001, two Mississippi school districts filed separate suits seeking the costs of removing lead-based paint. The county of Harris, Texas filed suit seeking lead paint abatement and other monetary damages, and a suit was also recently filed by the City of Newark, New Jersey. One further individual personal injury action, in addition to the existing four, was filed in Baltimore, Maryland against Glidden and other members of the lead industry, however, these Maryland actions have not been served on any of the defendants and no activity is expected for the foreseeable future.

Glidden is aware that around 22 new cases were filed recently in New Jersey. Glidden is not currently named as a defendant in those cases though it could be named in those or other cases in due course.

Glidden believes that it has strong defences to all these claims and has denied all liability and will continue to vigorously defend all actions.

ICI Chemicals and Polymers Limited ("CAP"), a subsidiary is involved in arbitration proceedings in Singapore regarding PTA technology exchange and licence arrangements with PT Polyprima Karyareksa (Polyprima). Fees due under these arrangements are being claimed against Polyprima who, in response, has claimed damages totalling up to US$130m for alleged fraud, deceit, misrepresentation and concealment, allegations which CAP rejects and intends to resist vigorously.

The Group is also involved in various other legal proceedings, principally in the United Kingdom and United States, arising out of the normal course of business. The Directors do not believe that the outcome of these other proceedings will have a material effect on the Group's financial position.

In recent years, the Group has carried out a programme of strategic disposals, in the course of which we have given to other parties in these transactions certain indemnities, warranties and guarantees, including indemnities, warranties and guarantees relating to known and potential latent environmental, health and safety liabilities. There are also a number of contracts relating to businesses which we exited as part of our disposal programme which have not been novated to the purchasers of these businesses.

In connection with the disposal of the Group's Chlor-Chemicals business to Ineos Chlor, Ineos Chlor have made a £65 million claim against the Group relating to expenditure allegedly required in relation to the Runcorn site, which the Group is disputing. As yet, legal proceedings have not been commenced by Ineos Chlor but it is possible that they will be in the near future. Ineos Chlor has also approached the UK Department of Trade and Industry to seek Regional Selective Assistance for certain capital projects and is also seeking financial support from its parent company and the Group. ICI has recently received reports that Ineos Chlor may seek to close part or all of its business if this financial support is not forthcoming. If such a closure was to occur, a number of Chlor-Chemicals contracts in the Group's name which have not yet been novated to Ineos Chlor and certain environmental liabilities could revert to the Group or be accelerated.

The Group's 50 per cent. interest in Teesside Gas Transportation Ltd (TGT) was sold, during 1996, to its other shareholder, Enron Europe Ltd (Enron) which is currently in administration. TGT contracted with the owners of a distribution network (the CATS parties) for pipeline capacity for North Sea gas and the commitment is guaranteed severally on a 50:50 basis by the Company and Enron (the present value of the commitment guaranteed by the Company is estimated at £174m). On the sale of the Group's interest in TGT to Enron the Company received the benefit of a counter guarantee from Enron's parent, Enron Corp. Enron Corp. sought Chapter 11 bankruptcy protection in the USA on 2 December 2001.

The Group's interest in Teesside Power Ltd (TPL) was sold on 31 December 1998 to Enron Teesside Operations Ltd (ETOL). TPL had previously contracted with certain gas sellers for the purchase of gas. Enron Corp. and the Company had guaranteed on a several basis the liability of TPL to the gas sellers in the proportions 70 per cent. and 30 per cent. respectively.

On the sale of the Group's interest in TPL to ETOL, the Company received the benefit of a counter indemnity from ETOL and a guarantee from Enron Corp. in respect of the Company's 30 per cent. guarantee commitment to the gas sellers. The present value of this commitment at the year end is estimated at £308m. The subsidiaries from which the Company has indemnities are currently operating. The numbers quoted above are current estimates of the Company's maximum potential liability.

The Group has agreed to provide or guarantee up to £100m of future financing to the Chlor-Chemicals business. These facilities are available at market related rates, for 5 years and may, if necessary, be extended for a further 2 years. As at 31 December 2001 Ineos Chlor had borrowed £35 million from the Company under these facilities. Subsequently, in January 2002, Ineos Chlor

notes relating to the accounts

41. Commitments and contingent liabilities (continued)

borrowed a further £15 million under this facility. The facilities together with Ineos Chlor's obligation to assume various Chlor-Chemicals contracts are secured in favour of the Group. While any of these liabilities remain outstanding, the Group has certain rights under a shareholders' agreement including, in the event of an Ineos Chlor default, the right, for no consideration, to take control of Ineos Chlor if the Group judges that it is in its best interests to do so. The Group's 15 per cent. shareholding in Chlor-Chemicals, which it intends to hold for at least 5 years, is subject to put and call options in certain circumstances.

The only significant take-or-pay contract entered into by subsidiaries is the purchase of electric power, which commenced in the second quarter of 1998, for 15 years. The present value of this commitment at the year end is estimated at £155 m.

The ultimate outcome of the matters described above is subject to many uncertainties, including future events and the uncertainties inherent in litigation. The Group has made provision in its financial statements for such matters to the extent losses are presently considered probable and estimable. However, these matters involve substantial sums, and an unfavourable outcome of one or more of these matters could have a material effect on the Group's results of operations, liquidity and financial position.

42. Related party transactions

The following information is provided in accordance with FRS No. 8 – *Related Party Transactions*, as being material transactions with related parties during 2001.

Related party: Huntsman International Holdings LLC (HIH), disclosed as a principal associate on page 90.

Transactions:

a) Sales of naphtha and condensate to HIH amounted to £152m (2000 £201m; 1999 £128m).

b) Purchases of ethylene and titanium dioxide from HIH amounted to £177m (2000 £153m; 1999 £97m).

c) Amounts owed to the Group relating to the above transactions at year end amounted to £1m (2000 debtor £1m; 1999 debtor £10m).

Related party: Irish Fertilizer Industries, an equity accounted associate in Ireland.

Transactions: Loans totalling £5m (2000 £5m; 1999 £nil) have been provided to the associate by ICI. The maximum amount outstanding during 2001 was £5m. Interest is payable at a rate of 72.37 basis points above the prevailing 2 year fixed rate.

ICI has also provided the associate with a revolving credit facility under which £3.1m has been borrowed. Interest is payable at a rate of 150 basis points above the prevailing 1 month Euro LIBOR rate. The maximum amount outstanding during 2001 was £3.1m.

Related party: IC Insurance Ltd and its subsidiaries, disclosed as a principal associate on page 90.

Transactions:

a) Insurance claims settled by IC Insurance Ltd with ICI amounted to £nil (2000 £0.2m; 1999 £1m).

b) Funds on deposit with ICI Finance PLC amounted to £10m (2000 £10m; 1999 £10m).

43. Differences between UK and US accounting principles

The accompanying Group financial statements included in this report are prepared in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP). The significant differences between UK GAAP and US Generally Accepted Accounting Principles (US GAAP) which affect the Group's net income and shareholders' equity are set out below:

(a) Accounting for pension costs

There are five significant differences between UK GAAP and US GAAP in accounting for pension costs:

(i) SFAS No. 87, *Employers' Accounting for Pensions*, requires that pension plan assets are valued by reference to their fair or market related values, whereas UK GAAP permits an alternative measurement of assets, which, in the case of the main UK retirement plans, is on the basis of the discounted present value of expected future income streams from the pension plan assets.

(ii) SFAS No. 87, requires measurements of plan assets and obligations to be made as at the date of financial statements or a date not more than three months prior to that date. Under UK GAAP, calculations may be based on the results of the latest actuarial valuation.

notes relating to the accounts

43. Differences between UK and US accounting principles (continued)

(iii) SFAS No. 87, mandates a particular actuarial method – the projected unit credit method – and requires that each significant assumption necessary to determine annual pension cost reflects best estimates solely with regard to that individual assumption. UK GAAP does not mandate a particular method, but requires that the method and assumptions, taken as a whole, should be compatible and lead to the actuary's best estimate of the cost of providing the benefits promised.

(iv) Under SFAS No. 87, a negative pension cost may arise where a significant unrecognised net asset or gain exists at the time of implementation. This is required to be amortised on a straight-line basis over the average remaining service period of employees. Under UK GAAP, the Group's policy is not to recognise pension credits in its financial statements unless a refund of, or reduction in, contributions is likely.

(v) SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, requires immediate recognition of previously unrecognised gains or losses when certain events meeting the definition of a plan settlement or curtailment occur. Under UK GAAP, such gains or losses are recognised over the expected service life of the remaining employees.

(b) Purchase accounting adjustments, including the amortisation and impairment of goodwill and intangibles

In the Group's financial statements, prepared in accordance with UK GAAP, goodwill arising on acquisitions accounted for under the purchase method after 1 January 1998 is capitalised and amortised, as it would be in accordance with US GAAP. Prior to that date such goodwill arising on acquisitions was and remains eliminated against retained earnings. Values were not placed on intangible assets. Additionally, UK GAAP requires that on subsequent disposal or closure of a previously acquired asset, any goodwill previously taken directly to shareholders' equity is then charged in the income statement against the income or loss on disposal or closure. Under US GAAP all goodwill would be capitalised in the Group balance sheet and amortised through the income statement over its estimated life not exceeding 40 years. Also, under US GAAP, it is normal practice to ascribe fair values to identifiable intangibles. For the purpose of the adjustments to US GAAP, included below, identifiable intangible assets are amortised to income over the lower of their estimated lives or 40 years. Provision is made where there is a permanent impairment to the carrying value of capitalised goodwill and intangible assets based on a projection of future undiscounted cash flows.

(c) Capitalisation of interest

There is no requirement in the UK to capitalise interest and the Group does not capitalise interest in its Group financial statements. Under US GAAP, SFAS No. 34 *Capitalization of Interest Cost* requires interest incurred as part of the cost of constructing fixed assets to be capitalised and amortised over the life of the asset.

(d) Derivative instruments and hedging activities

In June 1998 the Financial Accounting Standards Board (FASB) issued SFAS No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities.* In June 2000 the FASB issued SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of SFAS 133.* SFAS No. 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values. SFAS No. 133 and SFAS No. 138 are effective for all fiscal quarters of all fiscal years beginning after June 30, 2000; the Group adopted SFAS No. 133 and SFAS No. 138 on January 1, 2001. In accordance with the transition provisions of SFAS 133, the Group recorded, at January 1 2001, a net-of-tax cumulative-effect-type increase of £4m in accumulated other comprehensive income within shareholders' equity to recognize at fair value all derivatives that were previously designated as cash flow hedging instruments. A fair value adjustment increased debt by £35m which was offset by a corresponding amount to record derivatives previously designated as fair value hedging instruments. All of the transition adjustment that was recorded in accumulated other comprehensive income has been reclassified into earnings as of 31 December 2001. The fair value adjustment to debt is being amortised over the period of the debt in accordance with the transitional rules. Upon adoption, the Group's management decided not to designate any of its derivative instruments as hedges for US GAAP accounting purposes. Derivatives previously designated as cash flow and fair value hedges are now marked to market. Consequently, the Group's earnings under US GAAP may be more volatile because of the effect of derivative instruments. Under US GAAP the forward contracts to purchase the Company's Ordinary Shares by the employee share trust in order to hedge obligations in respect of options issued under certain employee share option schemes, are recognised in the balance sheet at fair value with changes in the fair value, recognised in net income.

notes relating to the accounts

43. Differences between UK and US accounting principles (continued)

(e) Restructuring costs

Under UK GAAP, provisions are made for restructuring costs once a detailed formal plan is in place and valid expectations have been raised in those affected that the restructuring will be carried out. Provision is made for voluntary redundancy payments to the extent that it is expected that volunteers will come forward. US GAAP requires a number of specific criteria be met before restructuring costs can be recognised as an expense. Among these criteria is the requirement that all significant actions arising from the restructuring plan and their completion dates must be identified by the balance sheet date. Under US GAAP voluntary severance benefits are accrued when the terms are accepted by the individual employee. Also, to the extent restructuring costs are related to the activities of the acquired company, US GAAP allows them to be recognised as a liability upon acquisition provided certain specific criteria are met whereas UK GAAP does not. Accordingly, timing differences arise between the UK GAAP and US GAAP recognition of such costs.

(f) Foreign exchange

Under UK GAAP, on the sale of a foreign enterprise cumulative foreign exchange differences within reserves are not considered in arriving at a gain or loss on disposal. Under US GAAP, on the sale of a foreign enterprise the cumulative foreign currency differences within reserves are taken to net income in arriving at the gain or loss on disposal within net income.

(g) Discontinued operations

Prior to the adoption of SFAS No. 144 as described below, the criteria for treatment of a disposal as a discontinued operation under US GAAP is different from the criteria under UK GAAP. A description of the UK GAAP criteria and a list of businesses which have been treated as discontinued operations under UK GAAP is included in note 1. Only the disposal of Melinex polyester film operations, made prior to 1999 with final adjustments in 1999, met the criteria for discontinued operations under US GAAP. For the purpose of the US GAAP reconciliation, net income has been allocated between continuing operations and discontinued operations based on the classification described in note 1 of the Group's financial statements after taking into account the above differences. US GAAP Staff Accounting Bulletin (SAB) Topic 5E requires that, inter alia, where material lender risk exists following disposal the entity is not deconsolidated under US GAAP. US GAAP accounting for the Chlor-Chemicals business may therefore differ from that under UK GAAP and may involve applying an equity method of accounting for any future losses that may arise. The approximate gross assets and gross liabilities of Chlor-Chemicals are £150m and £150m respectively under UK GAAP.

(h) Employee share trust arrangements

An employee share trust has been established in order to hedge obligations in respect of options issued under certain employee share option schemes. Under UK GAAP the Company's Ordinary Shares held by the employee share trust are included at the lower of cost and estimated net realisable value in fixed asset investments. Under US GAAP, such shares are treated as treasury stock and included in shareholders' equity at historic cost.

(i) Ordinary dividends

Under UK GAAP, the proposed dividends on Ordinary Shares, as recommended by the Directors, are deducted from shareholders' equity and shown as a liability in the balance sheet at the end of the period to which they relate. Under US GAAP, such dividends are only deducted from shareholders' equity at the date of declaration of the dividend.

(j) Deferred taxation

Deferred taxation is provided on a full provision basis under US GAAP which requires deferred tax assets to be recognised if their realisation is more likely than not. Under UK GAAP no provision is made for taxation deferred by reliefs unless there is reasonable evidence that such deferred taxation will be payable in the foreseeable future.

notes relating to the accounts

43. Differences between UK and US accounting principles (continued)

(k) Share compensation expense

In the Group's consolidated financial statements prepared under UK GAAP no compensation expense is recognised in respect of the Group's share option schemes. Under US GAAP compensation cost has been recognised for all options including arrangements under the Group's UK Sharesave scheme. The cost is calculated as the difference between the option price and the market price at the end of the reporting period for all option plans including performance related criteria but excluding the UK Sharesave scheme. In the Group's UK Sharesave scheme, the cost is calculated as the difference between the option price and the market price at date of grant. The cost is amortised over the period from the date the options are granted to the date they are first exercisable, that is, the vesting date. At 31 December 2001, the Group had a number of share-based compensation plans, which are described in note 24 of the Group's financial statements. The Group recognises compensation costs for US GAAP purposes in accordance with the requirements of APB Opinion No. 25. Had compensation costs for the Group's share option plans been determined based on the fair value at the grant date for awards under those plans consistent with the method of SFAS No. 123 *Accounting for Stock-Based Compensation*, the Group's profit of £13m would have been reduced to a profit of £4m. The basic earnings per ADS share as reported of 1.8p would be 0.6p on a proforma basis (1999 and 2000 no material difference).

(l) New US Accounting Standards implemented in the period

In June 2001, the FASB issued SFAS No. 141, *Business Combinations* which supersedes APB 16, *Business Combinations*. SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase accounting method. The elimination of the pooling-of-interests method is effective for transactions initiated after 30 June 2001. The remaining provisions of SFAS No. 141 will be effective for transactions accounted for using the purchase method that are completed after 30 June 2001. There were no businesses combinations completed after 30 June 2001 and hence the adoption of this standard did not have an impact on the financial statements.

(m) New US Accounting Standards and pronouncements not yet effective

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Intangible Assets*, which supersedes APB 17, Intangible Assets. SFAS No. 142 eliminates the current requirement to amortize goodwill and indefinite lived intangible assets, addresses the amortization of intangible assets with a defined life and the annual impairment testing and recognition for goodwill and intangible assets. SFAS No. 142 will apply to goodwill and intangible assets arising from transactions completed before and after the effective date. SFAS No. 142 is effective for 2002. The Group has goodwill of £613m under UK GAAP and £3,757m under US GAAP. The Group has not yet evaluated the effect of this Standard on the financial statements. Were an impairment to arise from such an evaluation it could be significant. US GAAP net income for the year ended 31 December 2001 and 2000 includes a charge of £164 million and £158 million, respectively, of goodwill and intangible asset amortisation.

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. SFAS No. 143 is applicable for 2003. The Group has not yet evaluated the effect of this Standard on the financial statements.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires long-lived assets to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to future net cash flows expected to be generated by the asset. SFAS No. 144 requires companies to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. SFAS No. 144 is applicable for 2002. This standard will impact the presentation of any operations which are discontinued after January 1 2002 and recognition of future impairment of long-lived assets.

In May 2000, the Emerging Issues Task Force (EITF) reached a consensus on Issue 00-14, *Accounting for Certain Sales Incentives*. EITF 00-14 addresses the recognition and income statement classification of various sales incentives. Among its requirements, the consensus will require the costs related to consumer coupons currently classified as marketing costs to be classified as a reduction of revenue. In April 2001, the EITF delayed the effective date for this consensus to 2002. The impact of this consensus on the financial statements has not been evaluated. However, any impact will be limited to a reduction of revenue and operating costs by like amounts, there will be no effect on net income.

notes relating to the accounts

In April 2001, the EITF reached a consensus on Issue 00-25, *Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products.* EITF 00-25 addresses the income statement classification of consideration, other than that directly addressed in Issue 00-14, from a vendor to a reseller, or another party that purchases the vendor's products. The consensus requires most of the Group's customer promotional incentives currently classified as marketing costs to be classified as a reduction of revenue. The impact of this consensus, effective in 2002, on the financial statements has not been evaluated. However, any impact will be limited to a reduction of revenue and operating costs by like amounts, there will be no effect on net income.

43. Differences between UK and US accounting principles (continued)

The following is a summary of the material adjustments to net income and shareholders' equity which would have been required if US GAAP had been applied instead of UK GAAP:

	2001 £m	2000 £m	1999 £m
Net income (loss) after exceptional items – UK GAAP	121	(228)	252
Continuing operations	109	298	137
Discontinued operations	12	(526)	115
Adjustments to conform with US GAAP			
Pension expense	(37)	(108)	(100)
Purchase accounting adjustments			
Amortisation of goodwill and intangibles	(127)	(123)	(124)
Disposals and other adjustments	–	6	14
Other disposal adjustments	10	(9)	2
Employee share trust arrangements	22	2	–
Capitalisation of interest less amortisation and disposals	(2)	(18)	(65)
Derivative instruments and hedging activities	49	(8)	–
Restructuring costs	5	(19)	(33)
Foreign exchange	–	(14)	(50)
Share compensation expense	1	(5)	–
Others	2	2	2
Deferred taxation			
Arising on UK GAAP results	(41)	21	79
Arising on US GAAP adjustments	10	45	76
Total US GAAP adjustments	(108)	(228)	(199)
Net income (loss) – US GAAP	13	(456)	53
Continuing operations	13	(456)	13
Discontinued operations	–	–	40
	pence	pence	pence
Basic and diluted net earnings (net loss) per Ordinary Share in accordance with US GAAP	1.8	(63.2)	7.3
Continuing operations	1.8	(63.2)	1.8
Discontinued operations	–	–	5.5

For US GAAP, the segmentation follows that of UK GAAP with the exception of adjustments made between Continuing and Discontinued operations so that the segmentation under US GAAP satisfies APB 30.

For the purposes of segmental disclosures under UK GAAP, reference should be made to page 73 where there is a description of each class of business.

notes relating to the accounts

43. Differences between UK and US accounting principles (continued)

	Balance sheet line item notes*	2001 £m	2000 £m
Shareholders' funds – equity, as shown in the Group Balance Sheet – UK GAAP		(283)	(216)
Adjustments to conform with US GAAP			
Pension expense	2	(510)	(487)
Pension costs	4	(26)	(12)
Purchase accounting adjustments, including goodwill and intangibles	1	3,320	3,417
Disposal accounting adjustments	4	(28)	(38)
Capitalisation of interest less amortisation and disposals	1	43	45
Derivative instruments and hedging activities	2	41	(8)
Restructuring provision	4	7	2
Employee share trust arrangements	1	(30)	(54)
Ordinary dividends	3	72	142
Share compensation expense	3	–	(5)
Other	3	(4)	(6)
Deferred taxation	4	(349)	(292)
Deferred taxation	2	315	340
Total US GAAP adjustments		2,851	3,044
Shareholders' equity in accordance with US GAAP		2,568	2,828

** Relevant balance sheet line items included above to facilitate comparison between UK GAAP and US GAAP: 1. Tangible fixed assets 2. Debtors 3. Creditors 4. Provision for liabilities and charges*

The effect of applying US GAAP to items other than those directly affecting net income or shareholders' equity is dealt with in other notes relating to the accounts. The disclosures required by SFAS No. 130 *Reporting Comprehensive Income* have been made in the Group's financial statements in the statement of total recognised gains and losses and note 25.

Pensions and other post-retirement benefits (US GAAP)

For the purposes of the disclosure in accordance with US GAAP, the pension cost of the major UK retirement plans and of the retirement plans of the major non-UK subsidiaries have been restated in the following tables, on a Group basis, in accordance with the requirements of SFAS No. 87 – *Employers' Accounting for Pensions* and of SFAS No. 132 – *Employers' Disclosures about Pensions and Other Post-Retirement Benefits.* The actuarial liabilities of these plans comprise a substantial portion of the Group total.

Assumed discount rates and rates of increase in remuneration used in calculating the projected benefit obligations together with long-term rates of return on plan assets vary according to the economic conditions of the country in which the retirement plans are situated. The weighted average rates used in the Group's major pension plans for SFAS No.87 purposes in the Group are shown in the table below, together with the assumptions relating to other post-retirement benefit plans.

	Pension benefits		Other post-retirement benefits	
	2001 %	2000 %	2001 %	2000 %
Discount rate	5.9	5.9	7.4	7.5
Expected long-term rate of return on assets	5.9	6.2		
Long-term rate of increase in remuneration	4.0	3.6		
Initial post-retirement benefits trend rate(ø)			7.5 – 4.0	8.0 – 4.5

ø Assumed to decrease gradually to 4.0 per cent. by the year 2008 and remain at that level thereafter.

notes relating to the accounts

43. Differences between UK and US accounting principles (continued)

The net periodic benefit cost for the major retirement plans under SFAS No. 87 and SFAS No. 88, and in respect of other post-retirement benefits SFAS No. 106, comprised:

	Pension benefits			Other post-retirement benefits		
	2001 £m	2000 £m	1999 £m	**2001 £m**	2000 £m	1999 £m
Components of net periodic benefit cost						
Service cost	**61**	75	101	4	4	6
Interest cost	**462**	452	437	12	12	11
Expected return on plan assets for period	**(487)**	(540)	(471)	(1)	–	–
Amortisation of prior service cost	**15**	23	30	(1)	–	–
Amortisation of transition amount	**3**	3	4	–	–	–
Recognised net actuarial loss	**18**	7	44	(1)	(1)	(1)
Recognised on termination/curtailment/settlement benefits	**49**	144	171	(3)	(2)	(13)
Net periodic benefit cost	**121**	164	316	**10**	13	3

The net periodic benefit cost includes £51m (2000 £129m) for contractual terminations which are included within the relevant UK GAAP statutory headings.

notes relating to the accounts

43. Differences between UK and US accounting principles (continued)

Pensions and other post-retirement benefits (continued)

The funded status of the Group's major post-retirement plans, covering both continuing and discontinued operations, under SFAS No.87 and SFAS No. 106 is as follows:

	Pension benefits		Other post-retirement benefits	
	2001 £m	2000 £m	2001 £m	2000 £m
Change in benefit obligations				
Benefit obligation at beginning of year	8,045	7,656	178	166
Service cost	61	75	4	4
Interest cost	462	452	12	12
Participants' contributions	5	7	–	–
Plan amendments	1	1	(5)	(2)
Actuarial loss (gain)	(86)	383	3	(12)
Business combinations	–	–	–	10
Divestitures	(8)	(4)	(3)	(1)
Curtailments	–	(3)	–	(2)
Settlements	(32)	(202)	–	–
Termination benefits	51	127	–	2
Exchange	6	54	3	13
Benefit payments	(535)	(501)	(14)	(12)
Benefit obligation at end of year	7,970	8,045	178	178
Change in plan assets				
Fair value of plan assets at beginning of year	8,159	8,169	10	–
Actual return on plan assets	(162)	328	2	1
Business combinations	–	–	–	10
Divestitures	(6)	(3)	–	–
Settlements	(27)	(198)	–	–
Employer's contributions	124	298	12	10
Participants' contributions	5	7	–	–
Exchange	11	59	–	1
Benefit payments	(535)	(501)	(14)	(12)
Fair value of plan assets at end of year	7,569	8,159	10	10
Funded status				
Funded status at end of year	(401)	114	(168)	(168)
Unrecognised net actuarial loss (gain)	327	(197)	(23)	(31)
Unrecognised transition amount	35	44	–	–
Unrecognised prior service cost	48	67	(8)	–
Adjustment to recognise minimum liability	(37)	(5)	–	–
Intangible assets	(8)	(2)	–	–
Other	3	2	–	–
Net amount recognised	(33)	23	(199)	(199)
Prepaid benefit cost	8	88	–	–
Accrued benefit cost	(234)	(65)	(199)	(199)
Intangible assets	45	–	–	–
Accumulated other comprehensive income	148	–	–	–
Net (liability) asset recognised	(33)	23	(199)	(199)

Plan assets consist primarily of investments in UK and overseas equity and fixed interest securities.

The total benefit obligation at the end of 2001 for the major pension plans where the benefit obligations exceed plan assets was £7,622m and the fair value of the plan assets for such plans was £7,237m. The total accumulated benefit obligation at the end of the year for major pension plans with accumulated benefit obligations in excess of plan assets was £7,304m and the fair value of plan assets for such plans was £7,080m.

At the end of 2000, the total benefit obligation for the major pension plans where the benefit obligations exceed plan assets was £440m and the fair value of the plan assets for such plans was £336m. The total accumulated benefit obligation at the end of 2000 for major pension plans with accumulated benefit obligations in excess of plan assets was £80m and the fair value of assets for such plans was £34m.

notes relating to the accounts

44. Valuation and qualifying accounts

	Balance at 1 January	Additions charged to		Deductions	Balance at 31 December
		Cost and expenses	Other accounts		
	£m	£m	£m	£m	£m
1999					
Allowance for stocks	39	9		(5)	43
Allowance for doubtful accounts	87	16	–	(23)	80
Allowance for losses (deducted from investments)	–	–	–	–	–
	126	25	–	(28)	123
2000					
Allowance for stocks	43	11		(9)	45
Allowance for doubtful accounts	80	9	–	(29)	60
Allowance for losses (deducted from investments)	–	–	–	–	–
	123	20	–	(38)	105
2001					
Allowance for stocks	45	12		(14)	43
Allowance for doubtful accounts	60	19	–	(12)	67
Allowance for losses (deducted from investments)	–	–	–	–	–
	105	31	–	(26)	110

principal subsidiary undertakings

at 31 December 2001

	Class of capital	Held by ICI %	Principal activities
UNITED KINGDOM			
ICI Chemicals & Polymers Ltd England	Ordinary	100†	Manufacture of surfactants and catalysts
ICI Finance PLC England	Ordinary	100†	Financial services
Quest International Flavours, Food Ingredients and Fragrances UK Ltd England	Ordinary	100†	Manufacture of flavours, food ingredients and fragrances
CONTINENTAL EUROPE			
Deutsche ICI GmbH Germany	Ordinary	100†	Manufacture of catalysts, paints, specialty starch, adhesives and oleochemicals
Quest International Nederland BV The Netherlands	Ordinary	100†	Manufacture of flavours and food ingredients
Unichema Chemie BV The Netherlands	Ordinary	100†	Manufacture of specialty oleochemicals and derivatives
THE AMERICAS			
ICI American Holdings Inc USA	Common	100†	Holding company
The Glidden Company USA	Common	100†	Manufacture of paints
Indopco Inc USA	Common	100†	Manufacture of adhesives, specialty starches, electronic materials, food ingredients and flavourings, fragrances, oleochemicals, resins and specialty chemicals
ICI Canada Inc Canada	Common Preference	100† 100†	Manufacture of paints; merchanting of ICI products
Tintas Coral Ltda Brazil	Ordinary	100†	Manufacture of paints
ASIA PACIFIC			
ICI India Ltd India (Accounting date 31 March; reporting date 31 December)	Equity*	51	Manufacture of paints, surfactants, catalysts, adhesives, industrial explosives, rubber chemicals, nitrocellulose and pharmaceuticals
ICI Pakistan Ltd Pakistan	Ordinary*	76†	Manufacture of polyester staple fibre, soda ash, paints, specialty chemicals, formulation of agrochemicals and polyurethanes; marketing of toll manufactured and imported pharmaceuticals and animal health products; merchanting of general chemicals
Pakistan PTA Ltd Pakistan	Ordinary*	76†	Manufacture of pure terephthalic acid
Nippon NSC Ltd Japan	Common	100†	Manufacture of adhesives and specialty synthetic polymers; sale of specialty starches
National Starch and Chemical (Thailand) Ltd Thailand	Ordinary	100†	Manufacture of specialty starches

* Listed †Held by subsidiaries

The country of principal operations and registration or incorporation is stated below each company. The accounting dates of principal subsidiary undertakings are 31 December unless otherwise stated.

The companies listed above are those whose results, in the opinion of the Directors, principally affected the profits or assets of the Group. A full list of subsidiary undertakings and associates at 31 December will be annexed to the next annual return of the Company to be filed with the Registrar of Companies.

PART 5 – Investment Considerations

An investment in ICI Shares involves risks. ICI Shareholders should carefully consider all of the information in this document and, in particular, the investment considerations described below before deciding to invest in new ICI Shares.

The following describes some of the significant risks that could affect ICI. Additionally, some risks may be unknown to ICI and other risks, currently believed to be immaterial, could turn out to be material. All of these could materially adversely affect ICI's business, results of operations, cash flow, financial condition, turnover, profits, assets, liquidity and capital resources. Furthermore, the trading price and liquidity of ordinary shares could decline, in which case ICI Shareholders may lose part or all of their investment. The investment considerations described below should also be considered in connection with the warning regarding forward-looking statements on page 2 of this document.

Risks Relating to ICI's Business

The Group operates in competitive markets. If the Group does not continue to compete in its markets effectively by developing innovative products and responding effectively to the activities of its competitors, the Group could lose customers and its results of operations could be adversely affected.

The Group has a wide portfolio of business units competing across a diverse range of geographic and product markets. The Group's business may be adversely affected if it does not continue to develop innovative products that satisfy customer needs and preferences, develop new technology or enhance existing technology that supports product development or provides cost or other advantages over its competitors, and attract and retain skilled employees that are key to creating new products. Because the Group is subject to price competition from its competitors, it must also continue to satisfy these objectives while maintaining a competitive cost base.

In addition, some of the Group's competitors in certain markets are larger and have greater financial resources than the Group, which may enable them to deliver products on more attractive terms or to invest larger amounts of capital into their businesses, including expenditures for research and development. If any of the Group's current or future competitors develop proprietary technology that enables them to produce new products or services or to deliver existing products or services at a significantly lower cost, the Group's products and services could be rendered uneconomical or obsolete.

While some of the Group's product range comprises products and services that are protected by proprietary knowledge or patents, some of the Group's businesses use technology that is widely available. Accordingly, certain product segments of the Group's business may be vulnerable to new competitors and may be adversely affected by increased price competition. Any of these developments could lead to a loss of customers and could adversely affect its results of operations.

The price volatility of some of the Group's raw materials could adversely affect its results of operations.

The Group uses significant amounts of various chemicals and other materials as raw materials in manufacturing its products. Prices for some of these raw materials are volatile and are affected by cyclical movements in commodity prices, availability of such raw materials, demand for a variety of products which are produced using these raw materials, levels of price competition among local and global suppliers and general economic conditions. The Group's diverse portfolio of value added products provides some ability to pass on higher input prices to its customers, but this ability is, to a large extent, dependent upon market conditions. There may be periods of time in which the Group is not able to recover increases in the cost of raw materials for some products due to weakness in demand for such products or the actions of its competitors. This may adversely affect the Group's results of operations.

The occurrence of major operational problems could have an adverse effect on its results of operations and cash flow.

The Group's revenues are dependent on the continued operation of its various manufacturing facilities. Operational risks include:

- equipment failure,
- failure to comply with applicable regulations and standards and to maintain necessary permits and approvals,
- raw material supply disruptions,
- labour force shortages or work stoppages,

- events impeding or increasing the cost of transporting the Group's products,
- natural disasters, and
- terrorist attacks.

While the Group maintains insurance at levels that it believes are typical for its industry, some of these operational risks and problems could result in uninsured losses or liabilities or in losses and liabilities in excess of the Group's insurance coverage. The occurrence of major operational problems resulting from the above or other events may have an adverse effect on the results of operations of a particular manufacturing facility, or with respect to certain of these risks, the results of operations and cash flow of the Group as a whole.

The Group derives a significant percentage of its revenue in some of its businesses from sales to major customers, and if it is unable to retain these customers, its results of operations could be adversely affected.

While no single customer accounted for more than 5 per cent. of the Group's sales in 2001, sales to major customers in some of the Group's businesses, particularly in the Paints and Quest businesses, are significant. The Group believes, that the wide selling range and nature of the specialty products it supplies reduce the potential adverse consequences of the loss of business from any one customer for any one of its products or in any one of its businesses. Nevertheless, the loss of major customers, without replacement, could have an adverse effect on the Group's results of operations.

The Group's reliance on key suppliers in some of its businesses could result in an adverse effect on its results of operations.

Some of the Group's business units rely on a small number of suppliers for their key raw materials. If any of these suppliers is unable to meet its obligations or increases its prices, the Group may not be able to find a replacement supplier that is able to provide such raw materials on similar terms. Consequently, we may be forced to pay higher prices to obtain raw materials, which it may not be able to pass on to its customers in the form of increased prices for its finished products. In addition, some of the raw materials the Group uses may become unavailable, and there can be no assurance that the Group will be able to obtain suitable and cost effective substitutes. Furthermore, any consolidation in the industries that supply the Group's raw materials could further reduce the number of available suppliers. Any interruption of supply or price increases caused by these or other factors, which the Group is not able to mitigate by securing satisfactory replacement suppliers, could have an adverse effect on its results of operations.

The Group's indebtedness and leverage could reduce its operational and competitive flexibility, increase its vulnerability to adverse economic and industry conditions, increase its interest costs and adversely affect its results of operations and cash flow.

The Group's outstanding net indebtedness amounted to £2.9 billion as of 31 December 2001. The Group's indebtedness could affect it in adverse ways, in particular by requiring it to dedicate a significant portion of its operational cash flow to service payments on such indebtedness, and by limiting its ability to borrow additional funds or refinance existing indebtedness on attractive terms. Furthermore, the Group's indebtedness could increase its vulnerability to adverse economic and industry conditions, limit its ability to fund future capital expenditures, research and development and other general corporate requirements and limit its flexibility to react to changes in its business and the industries in which it operates.

In addition, like many other companies, the Group is dependent on its ability to obtain short-term financing to fund a portion of its financing requirements. Whilst, at 1 February 2002, the latest practicable date prior to publication of this document, the Group had access to £1.5 billion in committed and undrawn bank facilities, any limitation on its ability to access short-term financing could increase its interest costs and could adversely affect its results of operations and cash flow.

A decision by the rating agencies to downgrade the Group's credit rating would reduce its funding options, increase its cost of borrowings and have an adverse impact on its results of operations and cash flow.

The Group is currently rated investment grade by the major US rating agencies. However, certain of these ratings agencies have recently indicated to the Group that its credit rating could be downgraded in the future if it does not

take action to reduce its indebtedness. The Group has therefore undertaken this rights offering and decided to divest Synetix in order to maintain its investment grade credit rating. Nevertheless, a number of factors, some of which are not within the Group's control, may, individually or in combination, affect the rating agencies' view of its credit profile and lead them to place it on credit watch or downgrade its credit rating, including:

- the failure to receive sales proceeds from the disposal of Synetix or other non-core businesses or assets within a time period that is acceptable to the rating agencies,
- a significant deterioration in the Group's trading position,
- a significant deterioration in the economic environment in which the Group operates,
- the incurrence of substantial costs arising from the Group's contingent liabilities, or
- the occurrence of any of the events described in the other risk factors contained in this prospectus.

While the Group expects to maintain its investment grade credit rating, it cannot assure shareholders that this will occur. Any downgrade of the Group's credit rating would reduce its funding options, including a loss of access to the major commercial paper and money markets, significantly increase its cost of borrowings and have an adverse effect on its results of operations and cash flow.

Recently disposed businesses may expose the Group to costs that could have an adverse effect on its results of operations, cash flow and financial condition.

In recent years, the Group has carried out a programme of strategic disposals, in the course of which it has given to other parties in those transactions certain indemnities, warranties and guarantees, including indemnities, warranties and guarantees relating to known and potential latent environmental, health and safety liabilities. There are also a number of contracts relating to businesses that the Group exited as part of its disposal programme which have not been novated to the purchasers of these businesses.

In connection with the Group's disposal of its Chlor-Chemicals business to Ineos Chlor, Ineos Chlor has made a £65 million claim against the Group relating to expenditure allegedly required on the Runcorn site, which ICI is disputing. As yet, legal proceedings have not been commenced by Ineos Chlor but it is possible that they will be in the near future. Ineos Chlor has also approached the UK Department of Trade and Industry to seek Regional Selective Assistance for certain capital projects and is also seeking financial support from its parent company and the Group. The Group has recently received reports that Ineos Chlor may seek to close part or all of its business if this financial support is not forthcoming. If such a closure were to occur, a number of Chlor-Chemicals contracts in the Group's name which have not yet been novated to Ineos Chlor and certain environmental liabilities could revert to the Group or be accelerated.

In connection with the sale of the Group's interests in Teesside Gas Transportation Ltd and Teesside Power Ltd to Enron Teesside Operations Ltd, the Group received counter guarantees from Enron Corp. for guarantees that it had given (and which currently remain in place) for certain pipeline capacity and gas purchase contracts. While the two businesses for which the Group has provided these guarantees continue to operate normally, Enron Corp. has filed for Chapter 11 bankruptcy protection in the United States. As of 31 December 2001, the estimate of the Group's maximum potential liability under these guarantees was £482 million.

The extent to which the Group will be required in the future to incur costs under any of the indemnifications, warranties, guarantees or contracts discussed above or any similar contractual provision which the Group entered into in connection with its disposal programme, is not predictable and, if the Group should incur such costs, the costs could have an adverse effect on its results of operations, cash flow and financial condition.

In December 2001, the Group agreed new arrangements with Huntsman Specialty Chemicals Corporation ("HSCC") relating to the completion of the sale of the Group's shareholding in Huntsman International Holdings LLC, or HIH, to HSCC, under which HSCC is required to pay the Group the sale proceeds in the third quarter of 2003. Any delay or failure by HSCC in completing this purchase could have an adverse effect on the Group's cash flow and financial condition.

Risks associated with the Group's international operations could adversely affect its results of operations.

The Group is an international business with operations located in over 50 countries and conducts business in many currencies. These operations are subject to the risks associated with international operations which include:

- slowdown or recession in global, regional or national economic growth,

- tariffs and trade barriers,
- exchange controls,
- fluctuations in national currencies,
- social and political risks,
- national and regional labour disputes,
- required compliance with a variety of foreign laws, regulations and standards, and
- the difficulty of enforcing legal claims and agreements through some foreign legal systems.

Furthermore, the Regional and Industrial Businesses are subject to cyclical fluctuations in the industries and economies in which they operate. Finally, like all international businesses the Group faces the risk of exposure when costs arise in a different currency than sales and the risk arising from the need to translate foreign currency denominated profits into pounds sterling, its reporting currency. Any of the risks discussed above could adversely affect the Group's results of operations.

Economic, social and political conditions in developing economies could adversely affect the Group's results of operations and future growth.

The Group has operations in many developing economies in Asia and Latin America, and its strategy includes continuing to expand its business in these regions. However, many developing economies have recent histories of economic, social and political instability brought about by a number of factors, including:

- unexpected changes in local laws, regulations and standards,
- substantial depreciation and volatility in national currencies,
- the imposition, of trade barriers, and
- wage and price controls.

Any of these factors could adversely affect the Group's results of operations and future growth. In particular, our businesses in Argentina and Brazil have been, and may continue to be, affected by recent economic conditions in those countries. Any of these factors could adversely affect the Group's results of operations and future growth.

The Group's exposure to consumer markets exposes it to legal risks, regulation and potential liabilities from product liability claims asserted by consumers which could have an adverse effect on its results of operations and financial condition.

A significant proportion of the Group's products is sold directly or indirectly to end-user consumers, even if the Group does not itself provide these products directly to consumers. This exposure to consumer markets exposes the Group to legal risks, regulation by relevant authorities and potential liabilities to consumers of these products, which may not be covered by the Group's existing insurance coverage or may exceed its insurance coverage. Any of these factors could have an adverse effect on the Group's results of operations and financial condition.

Certain companies in the Group are defendants in various lawsuits which, if successfully asserted against them could have an adverse effect on the Group's results of operations and financial condition.

Certain companies in the Group are defendants in various lawsuits. These lawsuits concern issues such as alleged product liability, contract disputes and property damage matters. For a more detailed discussion of these lawsuits, see "Litigation" in paragraph 13 of Part 6 of this document. One of the Group's subsidiaries, Glidden, is a defendant, along with other former lead paint and pigment producers as well as other lead related products manufacturers and their trade associations, in a number of lawsuits in the United States, including class action lawsuits and lawsuits by state and municipal authorities. Lawsuits have been served on Glidden because an alleged predecessor company of Glidden manufactured lead pigments until the 1950's and lead-based consumer paints until the 1960's. Due to the nature of the suits, Glidden is unable to quantify the amount being claimed although the suits are likely to involve substantial claims for damages. These lawsuits mainly relate to alleged injury caused by lead related products or for the costs of removing lead based paint. Rulings adverse to Glidden could lead to additional claims. Glidden is currently awaiting a decision from the judge in a lawsuit filed by the State of Rhode Island in 1999 seeking lead paint abatement and other monetary damages. This decision is currently expected in early February 2002. This decision will be significant in determining the likely overall timetable for the Rhode Island case and could advance the likely trial date. Glidden is also aware of approximately 23 new cases that were filed recently in New Jersey, including a lawsuit filed by the City of Newark seeking lead paint abatement and other monetary damages. While Glidden has only been named in the City of Newark case, and is not currently named as a defendant in the other 22 cases it could be named in those or other cases in due course. The successful assertion of claims made under these or other current or future lawsuits could have an adverse effect on the Group's results of operations and financial condition.

Violations of environmental, health and safety and other laws, regulations and standards could restrict the Group's operations, expose it to liability, increase its costs and have an adverse effect on its results of operations, cash flow and financial condition.

The Group is subject to a broad range of laws, regulations and standards in each of the jurisdictions where it operates, relating to pollution, the health and safety of employees, protection of the public, protection of the environment and the generation, storage, handling, transportation, treatment, disposal and remediation of hazardous substances and waste materials. These regulations and standards are becoming increasingly stringent. For example, the U.S. Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, imposes liability, without regard to fault or the legality of a party's conduct, on certain categories of persons (known as "potentially responsible parties") who are considered to have contributed to the release of hazardous substances into the environment. In the ordinary course of business, the Group is subject to inspections and monitoring by the appropriate enforcement authorities. The Group also requires relevant permits and approvals for its operations which require compliance with their terms and which may be subject to renewal, modification and, in some circumstances, revocation.

It is the Group's policy to require that all of its subsidiaries comply with relevant laws, regulations and standards. However, violations of applicable laws, regulations and standards, in particular, provisions of environmental, health and safety laws (including spills or other releases of hazardous substances to the environment) or of permit or approval requirements, could result in restrictions on the operation of the Group's facilities, damages, fines or other sanctions, increased costs of compliance as well as reputational damage. The Group is also subject to environmental laws and regulations, principally in respect of soil and groundwater remediation, that in the future may require it to take action to correct effects on the environment of prior disposal or release of chemical substances by the Group or other parties.

The Group has established provisions in respect of future environmental, health and safety liabilities that are not covered by enforceable indemnities from third parties, for which expenditure is probable and the cost of which can be estimated within a reasonable range of outcomes. These actual and potential liabilities, however, are inherently difficult to predict and to quantify. Existing provisions could therefore be inadequate to cover these liabilities and additional costs to meet such actual and potential obligations could have an adverse effect on the Group's results of operations, cash flow and financial condition.

The Group has given undertakings and guarantees relating to pension funds, including the solvency of the ICI UK Pension Fund, which could have an adverse effect on its results of operations and cash flow.

The Group provides retirement benefits for the majority of its former and current employees through a variety of defined benefit and defined contribution schemes. These include the ICI UK Pension Fund, which is the Group's largest defined benefit scheme and which, at 31 December 2001, had liabilities of approximately £6.7 billion. This fund accounts for approximately 85 per cent. of the Group's retirement benefit schemes by asset value and projected benefit terms and covers approximately 84,000 former and current employees in the UK. The Group has guaranteed the solvency of the ICI UK Pension Fund and is currently making additional contributions to it of £30 million per year until 31 March 2006 to cover past funding shortfalls. These funding shortfalls were identified at the last actuarial valuation at 31 March 2000 and at that date amounted to 2 per cent. of the liabilities. At 31 December 2001, over 70 per cent. of the fund's assets were invested in fixed-income securities, which should reduce volatility in the market value of the fund. The balance of the fund's assets was invested almost exclusively in equities. Accordingly, the Group is exposed to the financial performance of its retirement benefit schemes and particularly to the financial performance of the ICI UK Pension Fund. In the event that the market value of ICI UK Pension Fund's assets declines in relation to its liabilities, the Group may be required to increase its additional contributions to cover any further funding shortfalls in the ICI UK Pension Fund. This could have an adverse impact on the Group's results of operations and cash flow.

Risks Relating to the Offering

A shareholder may not revoke his acceptance of the offer.

Once a shareholder accepts the offer, he may not revoke his acceptance of those rights.

If a shareholder does not accept the offer of Nil Paid Rights, he may not be entitled to any consideration in certain circumstances.

The Group has made arrangements under which the Underwriters, within the two-day period following the expiration of the offer period, will attempt to find investors for shares not taken up by shareholders. However, if the Underwriters are unable to find investors for such shares or are unable to achieve a specified premium over the Issue Price and the related expenses of procuring such investors, the shareholder will not receive any consideration for the Nil Paid Rights he has not taken up. Furthermore, any consideration that ADS holders may receive in such circumstances could be reduced as a result of the currency fluctuations described below.

The Group may offer additional ordinary shares or ADSs in the future and these and other sales may adversely affect the market price of outstanding ordinary shares and ADSs.

The Group has no current plans for a subsequent offering of its ordinary shares or ADSs or of rights to subscribe for its ordinary shares or ADSs. However, it is possible that the Group may decide to offer additional ordinary shares in the future, including ordinary shares in the form of ADSs, for example to effect an acquisition. In addition, the granting of employee stock options in respect of ordinary shares or ADSs is an integral element of the Group's compensation policies. An additional offering of ordinary shares or ADSs by the Group, significant sales of ordinary shares or ADSs by employees or major shareholders, or the public perception that an offering or sales may occur, could have an adverse effect on the market price of outstanding ordinary shares or ADSs.

Currency fluctuations may adversely affect the trading prices of the Group's ordinary shares and ADSs and the value of any distributions it makes.

Because the Group's ordinary shares are traded in pounds sterling and the ADSs are traded in U.S. dollars, fluctuations in the exchange rate between pounds sterling and the U.S. dollar may affect the U.S. dollar value of a shareholder's investment. In addition, when the Group makes distributions on its ordinary shares in pounds sterling, the ADS depositary converts these distributions to U.S. dollars. If exchange rates fluctuate before the ADS depositary converts the currencies, a shareholder may lose some of the value of the distribution.

PART 6 – Additional Information

1. Responsibility

The Directors, whose names appear on page 4 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation and activities

(a) ICI is incorporated in England and Wales.

(b) The registered and head office of ICI is Imperial Chemical House, Millbank, London SW1P 3JF. It is intended that in March 2002, the registered office will be changed to 20 Manchester Square, London, W1U 3AN.

(c) ICI is the parent company of the Group.

3. Share capital

(a) Pursuant to resolutions passed at ICI's Annual General Meeting held on 23 May 2001:

(i) the Directors were authorised generally in accordance with section 80 of the Companies Act to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £122,047,325 such authority to expire at the close of the Annual General Meeting of ICI to be held in 2002; and

(ii) the Directors were authorised to allot equity securities (as defined in section 94(2) of the Companies Act) for cash as if section 89(1) of the Companies Act did not apply to any allotment of equity securities up to an aggregate nominal amount of £122,047,325, such power to:

(a) expire at the close of the Annual General Meeting of ICI to be held in 2002; and

(b) be limited to: (i) the allotment of equity securities of ICI in proportion (as nearly as may be) to existing holdings of ICI Shares, but subject to such exclusions or other arrangements as the Directors deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of a regulatory body or stock exchange; and (ii) the allotment of equity securities for cash otherwise than pursuant to (i) up to an aggregate nominal amount equal to £36,397,634.

(b) The Resolutions are in addition to the existing authority of ICI in paragraph (a) above. Following the passing of the Resolutions, the Directors will have authority to allot relevant securities up to an aggregate amount of £585,280,103, representing approximately 80 per cent. of the then issued share capital of ICI. Up to £463,277,500 of this authority is expected to be used in connection with the Rights Issue. The authority proposed to be granted to the Directors pursuant to the Resolutions will not be used for any purpose except in relation to the Rights Issue and, to the extent unused, will lapse at the conclusion of the 2002 Annual General Meeting of ICI.

(c) The authorised and issued share capital of ICI (i) on 1 February 2002, the latest practicable date prior to the publication of this document, and (ii) immediately following the Rights Issue (assuming that 10,000 ICI Shares may be issued pursuant to the Company's employee share schemes between 4 February 2002 and 20 February 2002, the Record Date, and as a result, up to 463,277,500 new ICI Shares are issued pursuant to the Rights Issue) are as follows:

	Authorised		Issued	
	Number	Amount	Number	Amount
(i)	850,000,000	£850,000,000	727,997,500	£727,997,500
(ii)	1,400,000,000	£1,400,000,000	1,191,285,000	£1,191,285,000

(d) The Rights Issue is expected to result in the issue of up to 463,277,500 new ICI Shares, leading to an increase in ICI's issued share capital of £463,277,500.

(e) The new ICI Shares will, when issued, be in registered form and will be capable of being held in certificated or uncertificated form.

(f) None of the new ICI Shares have been marketed or are available in whole or in part to the public otherwise than pursuant to the Rights Issue.

(g) The provisions of section 89 of the Companies Act (which confers on shareholders rights of pre-emption in respect of the allotment of equity securities which are to be paid up in cash) apply to the authorised but unissued ordinary share capital of ICI. The Rights Issue will be effected in accordance with the pre-emption provisions of section 89 of the Companies Act. Fractions of ICI Shares resulting from the Rights Issue will not be allotted.

(h) The closing mid market quotations for an ICI Share as derived from the Daily Official List of the London Stock Exchange for the first dealing day in each of the six months prior to the date of this document and for the last dealing days before the announcement of the Rights Issue and the date of this document were as follows:

Date	Share price/pence
3 September 2001	421.75
1 October 2001	290.00
1 November 2001	362.00
3 December 2001	395.00
2 January 2002	390.00
30 January 2002	371.00
1 February 2002	324.00

(i) As at 1 February 2002 (being the latest practicable date prior to the publication of this document), the following options and awards over ICI Shares have been granted to Directors and employees:

Summary of share options

Outstanding share options under the ICI Share Option Schemes are as follows:

	Grant Date	Exercise Price £	Exercisable from	Number of ICI Shares under outstanding options
1984 UK Senior Staff Share Option Scheme[1, 2] and Senior Staff Share Option Scheme 1994	01-Apr-92	6.52	01-Apr-95	39,625
	28-May-92	7.01	28-May-95	43,444
	22-Mar-93	6.07	22-Mar-96	58,300
	24-Jun-93	6.66	24-Jun-96	153,400
	25-Nov-93	7.23	25-Nov-96	62,900
	22-Mar-94	7.55	22-Mar-97	94,900
	08-Aug-94	8.54	08-Aug-97	8,800
	07-Nov-94	7.85	07-Nov-97	187,600
	09-May-95	7.49	09-May-98	218,000
	07-Aug-95	7.91	07-Aug-98	20,900
	06-Nov-95	7.77	06-Nov-98	11,900
	07-May-96	8.98	07-May-99	262,200
	05-Aug-96	7.52	05-Aug-99	10,000
	04-Nov-96	7.93	04-Nov-99	32,100
	04-Aug-97	10.20	04-Aug-97	16,700
	04-Aug-97	10.20	04-Aug-00	313,800
	03-Nov-97	8.99	03-Nov-00	23,000
	18-May-98	12.14	18-May-98	57,300
	18-May-98	12.14	18-May-01	1,373,859
	03-Aug-98	7.52	03-Aug-01	14,361
	02-Nov-98	5.62	02-Nov-01	17,696
	08-Mar-99	5.22	08-Mar-99	141,141
	08-Mar-99	5.22	08-Mar-02	2,191,550
	29-Apr-99[4]	6.57	29-Apr-02	1,756,323
	28-May-99	6.91	28-May-02	35,817
	02-Aug-99	7.28	02-Aug-99	7,686
	29-Nov-99	6.63	29-Nov-02	81,446
	21-Feb-00	5.11	21-Feb-00	21,740
	21-Feb-00	5.11	21-Feb-03	3,807,932
	09-May-00	5.20	09-May-03	131,507
	05-Sep-00	4.67	05-Sep-03	73,873
	05-Mar-01	5.17	05-Mar-04	4,472,192
	13-Jun-01	4.57	13-Jun-04	28,063
	06-Aug-01	4.39	06-Aug-04	95,981
	03-Dec-01	4.12	03-Dec-04	124,982

	Grant Date	Exercise Price £	Exercisable from	Number of ICI Shares under outstanding options
1994 UK Sharesave Scheme	22-Nov-96	6.43	01-Feb-02	513,023
	21-Nov-97	7.31	01-Feb-03	356,589
	02-Oct-98	4.75	01-Dec-01	363,711
	02-Oct-98	4.75	01-Dec-03	838,832
	26-Nov-99	4.93	01-Feb-03	864,410
	26-Nov-99	4.93	01-Feb-05	764,976
	08-Dec-00	3.66	01-Feb-04	648,903
	08-Dec-00	3.66	01-Feb-06	1,051,758
	12-Dec-01	2.85	01-Feb-05	2,100,210
	12-Dec-01	2.85	01-Feb-07	2,932,932
	Grant Date	**Exercise Price $**	**Exercisable from**	**Number of ADSs under outstanding options**
ICI US SAR Scheme (ADSs)[3]	30-Mar-92	45.65	30-Mar-95	4,118
	30-Jul-93	39.60	30-Jul-96	30,000
	15-Aug-94	53.02	15-Aug-97	11,900
	19-May-95	48.35	19-May-98	18,609
	14-Aug-96	46.75	14-Aug-99	5,867
	04-Aug-97	65.50	04-Aug-00	83,911
	18-May-98	78.90	18-May-01	141,979
	02-Nov-98	33.90	02-Nov-01	8,296
	08-Mar-99	34.70	08-Mar-02	390,803
	29-Apr-99[4]	42.69	29-Apr-02	27,379
	28-May-99	43.91	28-May-02	20,496
	29-Nov-99	41.52	29-Nov-02	6,200
	21-Feb-00	32.49	21-Feb-03	598,103
	09-May-00	32.59	09-May-03	1,956
	12-Dec-00	29.74	12-Dec-03	19,065
	05-Mar-01	30.12	05-May-04	729,463
	13-Jun-01	25.50	13-Jun-04	1,900
	06-Aug-01	25.10	06-Aug-04	36,294

Notes:

(1) Since 1998, grants are made subject to a performance condition that, over a three year period, the growth in ICI's earnings per share must be equal to or greater than the increase in the UK Retail Price Index, plus 3 per cent. per annum.

(2) The table includes stock appreciation rights which are also subject to the performance condition described above.

(3) The awards disclosed include stock appreciation rights which have, since 1998, been subject to the performance conditions described above.

(4) In accordance with the Listing Rules, the 1999 annual grant of share options to Executive Directors and certain individuals involved with the proposed disposal of businesses to Huntsman ICI Holdings LLC was delayed. As a result of this delay, those participants were granted fewer options at a higher exercise price than would have been the case had the grants been made to them at the same time as they were made to all other participants at an exercise price of £5.22. The Remuneration and Nomination Committee decided that those individuals so affected should receive the same gross gain at the time they exercise their options as if the grant had not been delayed.

(5) The options disclosed in the table above were granted for no consideration.

Summary of share awards

Outstanding awards under the ICI UK Bonus Conversion Plan, the ICI Performance Growth Plan, the ICI US Restricted Stock Plan, the ICI UK Restricted Share Awards, and the ICI US Bonus Conversion Plan are as follows:

Scheme	Award Date	Awarded	Released
ICI UK Bonus Conversion Plan	29-Mar-99	33,483	29-Mar-02
	29-Apr-99	15,752	29-Apr-02
	24-Feb-00	301,053	24-Feb-03
ICI Performance Growth Plan	2000	551,076	2003
	2001	691,996	2004
ICI US Restricted Stock Plan	n/a	26,708	n/a
ICI UK Restricted Share Awards	2000	35,000	2002
ICI US Bonus Conversion Plan	15-Mar-99	25,388	15-Mar-02
	15-Mar-00	65,112	15-Mar-03

Notes:

(1) Under the ICI UK Bonus Conversion Plan (superseded by the ICI Performance Growth Plan in 2000), participants elected to receive all or part of a performance-related after tax bonus in ICI Shares. The ICI Shares are held in a trust for a three year restricted period. At the end of the period, provided that the participant remains in employment of the ICI Group (or has left employment for a specified reason), the ICI Shares will be released together with matching ICI Shares on a one-for-one basis. This plan operated for the last time in respect of the 1999 financial year.

(2) The ICI Performance Growth Plan is a share-based plan, under which ICI Shares may be earned over a three year period based on ICI's relative Total Shareholder Return ("TSR") and, for certain Executive Directors, a mixture of TSR and economic profit of the relevant business. The maximum conditional award is 100 per cent. of base salary per annum (200 per cent. in the case of US Directors).

4. ICI employee share schemes

In the case of the ICI Share Option Schemes, the Board proposes (subject to local legal restrictions) to adjust the number of ICI Shares (and where appropriate ADSs) in respect of which ICI share options or stock appreciation rights may be exercised and the price at which those ICI Shares (and where appropriate ADSs) may be acquired to take account of the Rights Issue. The Board proposes to make similar adjustments to stock appreciation rights granted under the ICI US SAR Scheme and the ICI International SAR Scheme. The adjustments will, where necessary, be subject to written confirmation from the auditors of the Company that the adjustments are, in their opinion, made in accordance with the rules of the relevant scheme and in respect of UK Inland Revenue tax approved schemes, will also be subject to the prior approval of the Inland Revenue.

Participants in the ICI Profit Sharing Schemes (under which the ICI Shares to which they are beneficially entitled are held in a trust on their behalf) will be able to participate in the Rights Issue in respect of their ICI Shares, either by taking up the rights allocated to them in full, by selling their rights or by selling sufficient rights nil paid to enable the balance of their rights to be taken up. Any new ICI Shares acquired as a result will be held in the trust and released at the same time as the current shareholding to which they relate will be released. Participants in the ICI North American Stock Purchase Plan will similarly be able to participate in the Rights Issue.

Participants in the ICI UK Bonus Conversion Plan for whom awards of ICI Shares are held in trust will be able to participate in the Rights Issue in respect of the award of ICI Shares to which they are beneficially entitled by taking up the rights allocated to them in full, or by selling sufficient rights nil paid to enable the balance of their rights to be taken up. The new ICI Shares acquired as a result will be held in trust, and be released on the same basis as the awards of ICI Shares to which they relate. A participant will be entitled to receive matching shares on a one for one basis for every ICI Share in the original award and every new ICI Share acquired as a result of the Rights Issue provided he or she remains in employment and the original award and the new shareholding is retained in trust for three years from the original award date.

In the case of the ICI Performance Growth Plan, the ICI US Bonus Conversion Plan, the ICI UK Restricted Share Awards and the ICI US Restricted Stock Plan, the Board proposes to make appropriate adjustments to the number of ICI Shares which may be acquired by a participant pursuant to the contingent share awards granted under these plans to take account of the Rights Issue.

5. Summary of share rights

The following is a summary of certain of the provisions of the ICI Articles, which are available for inspection as provided in paragraph 18 of this Part 6. The rights attaching to ICI Shares are defined in the relevant legislation and in its articles of association and may only be amended pursuant to 75 per cent. vote in favour by shareholders in a general meeting.

"Shareholder" or "holder" is, in each case, a reference to the person whose name is entered on ICI's register of shareholders as the holder of the relevant shares.

(a) Registration and objects

ICI is incorporated under the name Imperial Chemical Industries PLC. It was incorporated and registered in England and Wales pursuant to the Companies Acts, 1908 to 1917, and re-registered as a public limited company under the Companies Acts, 1948 to 1980 with company number 218019. ICI's objects and purposes are set out in the fifth clause of its memorandum of association and contemplate the conduct of a wide range of industrial and other businesses and activities.

The following is a summary of the rights under the ICI articles relating to voting, dividends and transfers which attach to the ICI Shares and with which the new ICI Shares under the Rights Issue will rank *pari passu* in all respects (except in respect of the second interim dividend for the year 2001) when unconditionally allotted and fully paid.

ICI's ordinary shares are represented in certificated form and also in uncertificated form under CREST. CREST is an electronic settlement system in the United Kingdom which enables ICI's ordinary shares to be evidenced other than by a physical certificate and transferred electronically rather than by delivery of a written stock transfer form. Shareholders can choose whether their shares are to be evidenced by share certificates (i.e., in certificated form) or held in electronic (i.e., uncertificated) form in CREST.

(b) Voting rights

Voting at any general meeting of shareholders is by a show of hands unless a poll, which is a written vote, is duly demanded. On a show of hands, every shareholder present in person at a general meeting, including the duly authorised representative of a corporate holder of ICI's shares which is not itself a shareholder entitled to vote, has one vote regardless of the number of shares held. On a poll, every shareholder who is present in person or by proxy has one vote for every share held by that shareholder.

A poll may be demanded by any of the following:

- the chairman of the meeting;
- at least five shareholders entitled to vote and present in person, by proxy or by duly authorised representative at the meeting:
- any shareholder or shareholders representing in the aggregate not less than one-tenth of the total voting rights of all shareholders entitled to vote at the meeting and present in person, by proxy or by duly authorized representative; or
- any shareholder or shareholders holding shares conferring a right to vote at the meeting on which there have been paid-up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A proxy also has the authority to demand a poll, or to join others in demanding one.

The Chairman has indicated in his letter in Part 1 of this document that each of the Resolutions at the EGM will be put to a vote on a poll rather than a show of hands.

(c) Variation of rights

If, at any time, ICI's share capital is divided into different classes of shares, the rights attached to any class may be varied, subject to the provisions of the Companies Act, either with the written consent of the holders of not less than 75 per cent. in nominal value of the issued shares of that class or upon the adoption of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class.

At every such separate meeting, all of the provisions of the articles of association relating to proceedings at a general meeting apply, except that (a) the quorum is to be the number of persons (which must be at least two) who hold or represent by proxy not less than one-third in nominal value of the issued shares of the class or, if such quorum is not present on an adjourned meeting, one person who holds shares of the class regardless of the number of shares he holds; (b) any person present in person or by proxy may demand a poll; and (c) each shareholder will have one vote per share held in that particular class in the event a poll is taken.

Class rights are deemed not to have been varied by the creation or issue of new shares ranking equally with or subsequent to that class of shares in all respects or by the purchase by ICI of its own shares in accordance with the Companies Act and the articles of association.

(d) Dividends

No dividend may be paid other than out of profits available for distribution. The Directors may declare interim dividends. ICI Shareholders may declare dividends by ordinary resolution but may not declare dividends in excess of the amount recommended by the Directors.

If a dividend is unclaimed for 12 years after the date such dividend became due for payment, it will be forfeited and will revert to ICI.

ICI's articles of association permit payment or satisfaction of a dividend wholly or partly by distribution of specific assets, including fully paid shares or debentures of any other company. Such action must be directed by the general meeting which declared the dividend and upon the recommendation of the Directors.

(e) Distribution of assets on winding up

In the event of the liquidation of ICI, after payment of all liabilities and deductions in accordance with English law, the balance of assets available for distribution will be distributed among the holders of ordinary shares according to the amounts paid-up on the shares held by them. This distribution is generally made in cash.

A liquidator may, with the sanction of an extraordinary resolution of the shareholders and any other sanction required by the UK Insolvency Act 1986, divide among the shareholders in kind the whole or any part of ICI's assets, whether they consist of property of the same kind or not.

(f) Transfer of shares

Except as described in this paragraph, ICI's memorandum and articles of association do not restrict the transferability of ICI's ordinary shares. ICI's ordinary shares may be transferred by any instrument in any usual form or in any form acceptable to the Directors. The Directors may refuse, in their absolute discretion and without giving any reason, to register a transfer if the shares to be transferred are not fully paid or ICI has a lien on them.

They may also refuse to register a transfer if it is:

- not duly stamped, if so required, and accompanied by any other evidence as the Directors may reasonably require;
- in respect of more than one class of shares;
- in favour of more than four persons jointly;
- made by or in favour of an infant;
- made by or in favour of a patient within the meaning of the Mental Health Act 1983.

If the Directors refuse to register a transfer, they must send notice of the refusal to the applicant within two months of the date on which the transfer was lodged with ICI.

6. Directors of ICI

(a) The Directors of ICI their functions in the Group are as follows:

Lord Alexander James Trotman of Osmotherley – Chairman

Appointed a Non-Executive Director in 1997, he became Chairman in January 2002. He was Chairman and Chief Executive Officer of Ford Motor Company until his retirement in 1998. He joined Ford in the UK in 1955 and was appointed to the Board of Directors in 1993. He is a member of the Board of Directors of IBM and of the New York Stock Exchange. Aged 68.

Dr. Brendan Richard O'Neill – Chief Executive

Appointed a Director and Chief Operating Officer in 1998 and Chief Executive in 1999. He was formerly Chief Executive of Guinness Limited. He is also a Non-Executive Director of EMAP plc. Aged 53.

Timothy Alexander Scott – Chief Financial Officer

Appointed a Director and Chief Financial Officer in 2001. He is Chairman of the ICI Charity Trust and Appeals Committee. He joined Unilever in 1983 and held a variety of senior roles in their Speciality Chemicals business and group headquarters. He worked subsequently for ICI as Chief Administrative Officer for ICI Paints in North America and Vice President, Strategy and Performance. Aged 39.

Paul Joseph Drechsler – Director

Appointed a Director in 1999. He is Chairman and Chief Executive of Quest International. He joined ICI in 1978 and has held senior positions in Brazil, USA and Europe. He is Chairman of ICI Pensions Trustee Limited, has Board responsibility for Sustainable Development within ICI and is a member of the Council of the World Business Council for Sustainable Development. Aged 45.

Dr. John David Gibson McAdam – Director

Appointed a Director in 1999. He is Chairman and Chief Executive of ICI Paints and has Board responsibility for Research, Development and Technology. He joined ICI in 1997 following the acquisition of the Speciality Chemicals business from Unilever, where he held a number of senior positions. He is also a Non-Executive Director of Severn Trent Plc. Aged 53.

William Howard Powell – Director

Appointed a Director in 2000. He is Chairman and Chief Executive Officer of National Starch and Chemical Company and has Board responsibility for Group Safety, Health and the Environment. He joined ICI in 1997 following the acquisition of the Speciality Chemicals business from Unilever, where he held a number of senior positions. He is a past Chairman of the Corn Refiners Association and currently an Honorary Director. He is a member of the Institute of Food Technologists and the American Institute of Chemical Engineers. He is also a member of the Board of Overseers of the New Jersey Institute of Technology and a member of the Board of Trustees of the State Theater of New Jersey. Aged 56.

Adri Baan – Non-Executive Director

Appointed a Non-Executive Director in 2001. He is a Director of PSA Corporation Limited (Port of Singapore Authority), ASM International N.V., Koninklijke Volker Wessels Stevin nv, Integrated Production and Test Engineering NV, NPM Capital and KAS BANK NV. Until his retirement in March 2001 he was Executive Vice President of Royal Philips Electronics and President and Chief Executive Officer of their Consumer Electronics Division. Aged 59.

Lord Frederick Edward Robin Butler of Brockwell, GCB, CVO – Non-Executive Director

Appointed a Non-Executive Director in 1998. He is Master of University College, Oxford and a Non-Executive Director of HSBC Holdings plc. He was formerly Secretary of the Cabinet and Head of the UK Home Civil Service. Aged 64.

Joseph Tolle Gorman – Non-Executive Director

Appointed a Non-Executive Director in 2000. He is Chairman of the ICI Audit Committee. He was formerly Chairman and Chief Executive Officer of TRW Inc. He is also a Director of Alcoa, Inc., The Procter & Gamble Company and National City Corporation. He is a past Chairman and current member of the US-Japan Business Council and serves on the Boards of the US-China Business Council and The Prince of Wales Business Leaders Forum. He is active in numerous business and community organisations. Aged 64.

Richard Neil Haythornthwaite – Non-Executive Director

Appointed a Non-Executive Director in 2001. He is Chairman of the ICI Remuneration and Nomination Committee. He is Group Chief Executive of Invensys plc and a Non-Executive Director of Lafarge S.A. and Cookson Group plc. He previously held senior positions with Blue Circle Industries plc, BP plc and Premier Oil plc. He is also Chairman of the Centre for Creative Communities and the Almeida Theatre Company. Aged 45.

The business address of each of the Directors is 9 Millbank, London SW1P 3JF.

(b) The details of those companies and partnerships outside the Group of which the Directors have been directors or partners at any time during the five years prior to the date of this document are as follows:

Name of Director	Current directorships and partnerships	Previous directorships and partnerships
Lord Trotman	IBM New York Stock Exchange, Inc. The Cambridge-MIT Institute Limited The Hakluyt Foundation The Shakespeare Globe Trust	Ford Motor Company
Dr. Brendan R. O'Neill	Emap PLC	Diageo plc G.U.D. Pension Trustee Limited
Paul J. Drechsler	World Business Council for Sustainable Development ICI Pensions Trustee Limited	Chemicals Industries Association Limited
Dr. John D. G. McAdam	Severn Trent plc	
William H. Powell	American Institute of Chemical Engineers American Institute of Food Technologists Board of Overseers of the New Jersey Institute of Technology Corn Refiners Association	
Timothy A. Scott	None	None
Adri Baan	PSA Corporation Limited (Port of Singapore Authority) ASM International N.V. Koninklijke Volker Wessels Stevin nv Integrated Production and Test Engineering NV NPM Capital KAS BANK NV	Royal Philips Electronics nv Medquist
Lord Butler	HSBC Holdings plc The Shakespeare Globe Trust	
Joseph T. Gorman	Alcoa Inc National City Corporation The Procter & Gamble Co Moxehela Enterprises, LLC. Hydro Partners LLC. Resilient Capital Hummer Whole Health Management, Inc.	TRW Inc. The Prince of Wales International Business Leaders Forum
Richard N. Haythornthwaite	Invensys plc Cookson Group plc Lafarge S.A. Almeida Theatre Company British American Arts Association	Blue Circle Industries plc Premier Oil plc Whitechapel Art Gallery Construction Products Association

(c) At the date of this document no Director:

(i) has any unspent convictions in relation to any indictable offences;

(ii) has been bankrupt or entered into an individual voluntary arrangement;

(iii) was a director with an executive function of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors;

(iv) has been a partner in a partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership;

(v) has had his assets the subject of any receivership or has been a partner of a partnership at the time of or within 12 months preceding any assets thereof being the subject of a receivership; or

(vi) has been subject to any public criticism by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

7. Directors' and others' interests

(a) At 1 February 2002, the latest practicable date prior to the publication of this document, the interests of the Directors (and persons connected with them within the meaning of section 346 of the Companies Act) in the share capital of ICI (a) which are required to be notified by each Director to ICI pursuant to section 324 or section 328 of the Companies Act or (b) are required to be entered in the register referred to in section 325 of the Companies Act or (c) are interests of a connected person of a Director which would, if the connected person were a Director, be required to be disclosed under (a) or (b), and the existence of which is known, or which could, with reasonable diligence, be ascertained by that Director, were as follows:

Directors' Interests

(i) ICI Shares and Share Options

	ICI Shares[1]		Options over ICI Shares	Contingent Interest in matched ICI Shares[3]
	Beneficial[2]	Non-Beneficial		
Lord Trotman	46,500	–	–	–
Dr. Brendan R. O'Neill	104,193	–	852,199	31,193
Paul J. Drechsler	59,542	–	353,386	21,326
Dr. John D.G. McAdam	20,178	–	322,764	17,126
William H. Powell	45,720	–	603,816	–
Timothy A. Scott	8,365	–	178,135	7,921
Adri Baan	–	–	–	–
Lord Butler	1,000	–	–	–
Joseph T. Gorman	8,000	–	–	–
Richard N. Haythornthwaite	1,698	–	–	–

In addition, certain Directors have a conditional interest in ICI Shares under the ICI Performance Growth Plan set out under (ii) below.

Notes:

(1) For the purpose of this table, interests in ADSs have been disclosed as share equivalents; each ADS represents four ICI Shares.

(2) In addition, all Directors (other than Non-Executive Directors) are deemed to have an interest in the ICI Shares and ADRs held by Impkemix Trustee Limited, a company which holds ICI Shares in trust to hedge senior staff share schemes. As at 1 February 2002 these interests related to 5,634,706 ICI Shares (including ADSs expressed as ICI Share equivalents);

(3) Certain Executive Directors have a contingent interest in matched ICI Shares under the ICI UK Bonus Conversion Plan provided in respect of 1998 and 1999 bonuses. This plan operated for the last time in respect of the 1999 financial year. A bonus recipient could elect to have ICI Shares purchased at market value with part or all of the net bonus after tax. After three years, ICI Shares purchased in the plan are released and matched by an equal number of ICI Shares by ICI, provided the individual remains an employee of the Group.

(ii) Share Awards

The following Directors have been granted the following conditional awards over ICI Shares under the ICI Performance Growth Plan:

	Year of award	ICI Shares that would be awarded for median TSR/on target Economic Profit performance		Maximum number of ICI Shares that could be awarded		Performance Period
		TSR Measure	Economic Profit Measure	TSR Measure	Economic Profit Measure	
Dr. Brendan R. O'Neill	2001	46,680	n/a	116,698	n/a	1.01.01-31.12.03
	2000	36,682	n/a	91,706	n/a	1.01.00-31.12.02
Paul J. Drechsler.....	2001	11,955	11,955	29,888	23,910	1.01.01-31.12.03
	2000	9,123	9,123	22,809	18,246	1.01.00-31.12.02
Dr. John D. G. McAdam.....	2001	12,904	12,904	32,260	25,808	1.01.01-31.12.03
	2000	9,793	9,793	24,484	19,586	1.01.00-31.12.02
William H. Powell[1]	2001	39,848	39,848	97,404	79,696	1.01.01-31.12.03
	2000	29,016	29,016	70,936	58,032	1.01.00-31.12.02
Timothy A. Scott	2001	18,976	n/a	47,438	n/a	1.01.01-31.12.03

Notes:

(1) Mr William H. Powell's award is in the form of ADSs, but for the purposes of this table has been disclosed in terms of ICI Share equivalents.

(b) (i) Save as disclosed above, none of the Directors (nor any person connected with them) will have a beneficial or non-beneficial interest in the share capital of ICI. Save as disclosed above, none of the Directors (nor any person connected with them) holds an interest in any other securities of ICI.

(ii) No Director has or has had any interests in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of ICI or the Group and which was effected by ICI during the current or immediately preceding financial year of the Group or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

(iii) The aggregate of the remuneration paid and benefits in kind granted to the Directors by any member of the Group in respect of the year ended 31 December 2001 was approximately £3,083,000 including, without limitation, benefits from car schemes, loans and health insurance arrangements.

(iv) Dr. McAdam has an interest free loan of £7,000 relating to the grant of share options under a ICI Share Scheme whilst tax resident in the Netherlands and prior to becoming a Director of ICI. There are no other outstanding loans granted by ICI or any member of the Group to any Director nor are there any guarantees provided by any member of the Group for the benefit of any Director.

(v) None of the Directors has waived or agreed to waive any future emoluments during the past financial year.

8. Directors' service agreements and terms of appointment

Details of the Directors' service contracts are as follows:

Lord Trotman

Lord Trotman was appointed as a Non-Executive Director on 1 July 1997 and, by an agreement dated 31 January 2002 between ICI and Lord Trotman, as Non-Executive Chairman of ICI with effect from 1 January 2002. Either party may terminate the agreement by giving not less than 12 months' notice in writing. He receives an annual fee of £200,000. Lord Trotman does not participate in any of the Company's incentive arrangements.

Dr. Brendan R. O'Neill

By an agreement entered into in January 1998 between ICI and Dr. Brendan O' Neill, Dr. O'Neill was appointed as an Executive Director of ICI, with effect from 11 May 1998. Either party may terminate the agreement by giving not less than 12 months' notice in writing. Dr. O'Neill's current salary is £615,000 per annum. In addition, Dr O'Neill receives a company car, private health care, medical insurance, life insurance and pension benefits.

Paul J. Drechsler

By an agreement dated 10 March 1999 between ICI and Paul Joseph Drechsler, Mr Drechsler was appointed as an Executive Director of ICI, with effect from 1 March 1999. Either party may terminate the agreement by giving not less than 12 months' prior notice in writing. Mr Drechsler's current salary is £315,000 per annum. In addition, Mr Drechsler receives a company car, private health care, medical insurance, life insurance and pension benefits.

Dr. John D. G. McAdam

By an agreement dated 10 March 1999 between ICI and John David Gibson McAdam, Dr. McAdam was appointed as an Executive Director of ICI, with effect from 1 March 1999. Either party may terminate the agreement by giving not less than 12 months' notice in writing. Dr. McAdam's current salary is £340,000 per annum. In addition, Dr. McAdam receives a company car, private health care, medical insurance, life insurance and pension benefits.

William H. Powell

By an agreement dated 11 February 2000 between ICI and William Howard Powell, Mr Powell was appointed as an Executive Director of ICI, with effect from 2 February 2000. Either party may terminate the agreement by giving not less than 12 months' notice in writing. Mr Powell's current salary with National Starch and Chemical Company is at the rate of US$682,500 per annum and the appointment with ICI is non-remunerative. Mr Powell receives a company car, private health care, medical insurance, life insurance and pension benefits.

Timothy A. Scott

By an agreement dated 11 May 2001 between ICI and Timothy Alexander Scott, Mr Scott was appointed as an Executive Director of ICI, with effect from 23 May 2001. Either party may terminate the agreement by giving not less than 12 months' notice in writing. Mr Scott's current salary is £250,000 per annum. In addition, Mr Scott receives a company car, private health care, medical insurance, life insurance and pension benefits.

Executive Directors are eligible to participate in the following incentive arrangements:

(i) Annual Incentive Plan, which rewards the achievement of annual financial and tactical goals of ICI and its businesses. For the 2002 financial year, the on-target bonus opportunity has been positioned at 50 per cent. for both US and UK Directors, in order to create sharp focus on a number of critical business imperatives for the coming year, and against the background of zero annual salary increases. The goals for the achievement of an on-target award are highly challenging and have been set by the Remuneration and Nomination Committee of the Board. A maximum bonus of 100 per cent. (UK and US) is theoretically possible for the significant over-achievement of these goals.

(ii) Performance Growth Plan ("PGP"), which drives and rewards longer-term business performance improvement, strengthens the alignment of participants' interests with shareholders by placing a greater emphasis on sustained long-term value creation.

For Executive Directors, the PGP makes conditional awards of ICI Shares linked to performance over a three year period as follows:

- Chief Executive/Chief Financial Officer: ICI's relative TSR
- other Executive Directors: a mix of ICI's relative TSR and economic profit of the participant's own business.

In addition, the Remuneration and Nomination Committee must be satisfied that the underlying performance of ICI justifies the receipt of any ICI Shares.

The maximum conditional award, which is 100 per cent. of base salary per annum (200 per cent. in the case of US Directors), is linked to at least upper quartile performance versus the peer group. For median TSR performance, only 40 per cent. of the maximum award will be paid. No payment is made for a below median TSR performance. Where awards are based on a mixture of TSR and economic profit of the relevant business, the economic profit measure is broadly aligned with ICI's relative TSR performance.

(iii) Share Option Scheme, which rewards longer-term corporate performance as reflected in share price appreciation. Option grants may be made annually, and are based on individual performance and potential impact on longer-

term business results. The target annual grant for the Chief Executive is a face value of 150 per cent. of base salary, and for other UK based Directors is 125 per cent. of base salary. (For US based Directors, it is 200 per cent. of salary and grants are made as Share Appreciation Rights). The Remuneration and Nomination Committee has the discretion to make individual grants in a zero to 150 per cent. range around these target levels.

The Non-Executive Directors (other than Lord Trotman who is Chairman and the details of whose terms of appointment are set out above) receive annual fees of the following amounts:

Lord Butler	£30,000
Joseph T. Gorman	£40,000
Richard N. Haythornthwaite	£40,000
Adri Baan	£30,000

9. Substantial Shareholders

So far as ICI is aware, no person exercises or could exercise, directly or indirectly, jointly or severally, control over ICI.

As at 1 February 2002 (being the latest practicable date prior to the publication of this document) the Directors were aware of the following persons who were directly or indirectly, interested in 3 per cent. or more of the existing ordinary share capital of ICI:

Identity group	Amount owned (number of shares) Millions	Percentage of Class
Brandes Investment Partners LP	80.852	11.11
Barclays Bank PLC	22.309	3.06
Franklin Resources Inc.	35.361	4.86
JP Morgan Chase Bank[1]	95.597	13.13

Note:

(1) The interest relates to ADRs issued by JP Morgan Chase Bank, as depositary, which evidence ADSs.

Save as aforesaid, the Directors are not aware of any person who is interested, whether directly or indirectly, in 3 per cent. or more of the Issued Ordinary Share Capital of ICI.

The voting rights of the major shareholders, listed in the table above, do not differ from those of any other holder of ICI Shares.

10. Intellectual Property

The Group has numerous active patents, trademark registrations and applications and trade secrets which help protect its know-how and technology. In addition, it derives substantial competitive advantage from proprietary business knowledge relating to formulae, products, processes and technical know-how which are in the public domain and are not patented. Intellectual property agreements are in force with many of the Group's employees and there are a number of confidentiality agreements in force with customers and suppliers to protect the Group's know-how.

11. Taxation

(a) UK Taxation

General

The comments below are based on existing UK law and current Inland Revenue practice, both of which are subject to change at any time, possibly with retrospective effect. They are intended only as a general guide and apply only to

ICI Shareholders who are resident or (in the case of capital gains tax) ordinarily resident for tax purposes in (and only in) the UK (except insofar as express reference is made to the treatment of non-UK residents), who hold existing and new ICI Shares as an investment and who are the absolute beneficial owners of them. The taxation position of certain ICI Shareholders who are subject to special rules, such as dealers in securities, insurance companies and collective investment schemes is not considered. Persons who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the UK, should consult their own professional advisers.

Capital gains tax

For the purposes of UK taxation of capital gains ("CGT"), the issue of the new ICI Shares will be regarded as a reorganisation of the share capital of ICI.

Accordingly, you will not be treated as making a disposal of all or part of your holding of existing ICI Shares by reason of taking up all or part of your rights to new ICI Shares. No liability to CGT in respect of the issue of the *new ICI Shares should arise to the extent that you take up your entitlement to new ICI Shares.*

Your new ICI Shares will be treated as the same asset as, and as having been acquired at the same time as, your existing holdings of ICI Shares. The subscription money for your new ICI Shares will be added to the base cost of your existing holding(s) of ICI Shares.

In the case of an ICI Shareholder within the charge to corporation tax, indexation allowance will apply to the amount paid for the new ICI Shares only from, generally, the date the money for the new ICI Shares is paid.

In the case of other ICI Shareholders, indexation allowance will not be given for any month after April 1998. Accordingly, if you are such a shareholder, indexation allowance on your original holding of ICI Shares will be given for months up to April 1998, but not after that, and indexation allowance will not be given in respect of amounts paid for the new ICI Shares. Instead, indexation allowance has been replaced by a taper relief which will reduce the amount of any chargeable gain realised on a subsequent disposal of your shareholding according to how long the shares have been held since 6 April 1998 or since the shares were acquired, whichever is the later.

If you dispose of some of the new ICI Shares allotted to you, or your rights to subscribe for them, or if you allow, or are deemed to have allowed, your rights to lapse and receive a cash payment in respect of them you may, depending on your circumstances, incur a liability to CGT.

If you dispose of all or part of your rights to subscribe for new ICI Shares or allow or are deemed to allow them to lapse in return for a cash payment and the proceeds resulting from the disposal or lapse of rights are "small" as compared to the value of the ICI Shares in respect of which the rights arose, you will not normally be treated as making a disposal for CGT purposes. No liability to CGT will then arise on the disposal or lapse of the rights, but the cash amount received will be deducted from the base cost for CGT purposes of your existing holding of ICI Shares for the purposes of computing any chargeable gain or allowable loss on a subsequent disposal of your ICI Shares. The Inland Revenue currently regard a receipt as "small" if its amount or value is 5 per cent. or less of the value of the ICI Shares in respect of which the entitlement to the receipt arose, or if its amount or value is £3,000 or less, regardless of whether or not it is more than 5 per cent. of the value of the ICI Shares in respect of which the rights arose.

An ICI Shareholder not resident in the UK for tax purposes but who carries on a trade, profession or vocation in the UK through a branch or an agency to which the new ICI Shares are attributable may be subject to CGT on a disposal of such shares.

Individuals who are temporarily non-UK resident may, in certain circumstances, be subject to tax in respect of gains realised whilst they are not resident in the UK.

Dividends

The Company will not be required to withhold tax at source when paying a dividend.

An individual ICI Shareholder who is resident in the UK for tax purposes and who receives a dividend from ICI will be entitled to a tax credit which such shareholder may set off against his total income tax liability on the dividend. The tax credit will be equal to 10 per cent. of the aggregate of the dividend and the tax credit (the "gross dividend"),

which is also equal to one-ninth of the cash dividend received. A UK resident individual ICI Shareholder whose total income does not exceed the threshold for higher rate tax will be subject to tax on the dividend at the rate of 10 per cent. of the gross dividend, so that the tax credit will satisfy in full such ICI Shareholder's liability to income tax in respect of the gross dividend. Generally, a UK resident individual shareholder who is not liable to income tax in respect of the gross dividend will not be entitled to repayment of the tax credit. In the case of a UK resident individual ICI Shareholder who is liable to income tax at the higher rate, the tax credit will be set against but not fully match his tax liability on the gross dividend and he will have to account for additional tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the cash dividend received) to the extent that the gross dividend when treated as the top slice of his income falls above the threshold for higher rate income tax.

UK resident taxpayers who are not liable to UK tax on dividends, including pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to dividends paid by ICI, although charities will be entitled to limited compensation in lieu of repayment tax credits for dividends paid before 6 April 2004.

Tax credits on dividends paid by ICI in respect of shares held in PEPs or ISAs will be repayable for dividends paid before 6 April 2004.

UK resident corporate shareholders will generally not be subject to corporation tax on dividends paid by ICI. Those shareholders will not be able to claim repayment of tax credits attaching to dividends.

An individual shareholder who is a Commonwealth citizen, a national of a European Economic Area State, a resident of the Isle of Man or the Channel Islands, or falls into certain other categories, and who otherwise has a liability to UK income tax, is entitled to a tax credit, as if he or she were resident for tax purposes in the UK, which he or she may set off against his or her total UK income tax liability. In general, the right of other non-UK resident holders of ICI Shares to claim tax credits attaching to dividend payments will depend upon the terms of any applicable double tax treaty which exists between the jurisdiction in which they are resident and the UK. In most cases, the amount of tax credit that can be paid to non-UK resident holders of ICI Shares in respect of any dividend payment will be nil as a result of the terms of the relevant treaty. A shareholder resident outside the UK may also be subject to foreign taxation on dividend income under local law. A shareholder who is not resident in the UK should consult his own tax adviser concerning his tax liabilities on dividends received from ICI.

Stamp duty and stamp duty reserve tax ("SDRT")

No stamp duty or SDRT will be payable on the issue of PALs or the crediting of Nil Paid Rights to accounts in CREST. Where new ICI Shares represented by such documents or rights are registered in the name of the shareholder entitled to such shares or new ICI Shares are credited in uncertificated form to CREST accounts, no liability to stamp duty or SDRT will arise.

The purchaser of rights to new ICI Shares represented by PALs (whether nil paid or fully paid) or Nil Paid Rights or Fully Paid Rights held in CREST on or before the latest time for registration of renunciation will not generally be liable to pay stamp duty, but the purchaser will normally be liable to pay SDRT at the rate of 0.5 per cent. of the actual consideration paid. Where such a purchase is effected through a stockbroker or other financial intermediary that person will normally account for the SDRT and will indicate that this has been done in any contract note issued to a purchaser. In other cases, the purchaser of the rights to the new ICI Shares represented by PALs or Nil Paid Rights or Fully Paid Rights is liable to pay the SDRT and must account for it to the Inland Revenue. SDRT arising on the transfer of Nil Paid Rights or Fully Paid Rights held in CREST will be collected and accounted for to the Inland Revenue by CRESTCo.

No stamp duty or SDRT will be payable on the registration of PALs or Nil Paid Rights, whether by the original holders or their renouncees.

Any dealings in new ICI Shares after the latest time for registration of renunciation of PALs fully paid will be subject to stamp duty or SDRT in the normal way. The transfer on sale of new ICI Shares will be liable to ad valorem stamp duty, generally at the rate of 0.5 per cent. (rounded up to the next multiple of £5.00) of the consideration paid. Stamp duty is normally paid by the purchaser or transferee of the new ICI Shares. An agreement to transfer such shares will normally give rise to SDRT, at the rate of 0.5 per cent. of the amount or value of the consideration paid for such shares, but such liability will be cancelled, or any SDRT paid refunded, if the agreement is completed by a duly stamped transfer within six years of either the agreement or (if the agreement is conditional) the date when the agreement became unconditional. SDRT is normally the liability of the purchaser or transferee of the new ICI Shares.

Under the CREST system for paperless share transfers, no stamp duty or SDRT will arise on a transfer of shares into the system, unless the transfer into CREST is itself for consideration in money or money's worth, in which case a liability to SDRT will arise, usually at the rate of 0.5 per cent. of the amount or value of consideration given. Transfers of shares within CREST are generally liable to SDRT (at a rate of 0.5 per cent. of the consideration paid) rather than stamp duty, and SDRT on relevant transactions settled within the system or reported through it for regulatory purposes will be collected and accounted for to the Inland Revenue by CRESTCo.

Where new ICI Shares are issued or transferred (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depository receipts, stamp duty or SDRT will generally be payable at a higher rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, the value of the new ICI Shares.

The above statements are intended only as a general guide to the current stamp duty and SDRT position. Transfers to certain categories of person are not liable to stamp duty or SDRT.

(b) Dutch Taxation

General

The comments below are based on existing Dutch tax law and practice, which is subject to change, possibly with retrospective effect. They are intended only as a general guide and do not refer to all information which may be necessary in making the decision to take up your rights. The comments apply only to shareholders who are resident for tax purposes in (and only in) the Netherlands and who hold existing and new ICI Shares as an investment. Persons considering the Rights Issue are therefore recommended to consult an independent tax adviser on the specific implications of the purchase, holding and transfer of ICI Shares.

The summary of certain Dutch taxes set out below is only intended for the following investors:

(a) individuals who are residents of or are or deemed to be residents of the Netherlands and, with respect to individual income taxation, individuals who have elected to be taxed as a resident of the Netherlands for the purposes of Dutch taxation ("Dutch Individuals"), excluding individuals:

  (i) who derive benefits from the existing or new ICI Shares that are taxable as income from miscellaneous activities (*resultaat uit overige werkzaamheden*), which, for instance would be the case where the activities with respect to the ICI Shares exceed normal active asset management (*normaal, actief vermogensbeheer*);

  (ii) for whom the existing or new ICI Shares or any payment connected therewith may constitute employment income or a deemed benefit from employment; and

  (iii) who have a substantial interest, or a deemed substantial interest, in the Company; and

(b) corporate entities that are resident or are deemed to be resident in the Netherlands for purposes of Dutch taxation ("Dutch Corporate Entities"), and which are either:

  (i) a corporation;

  (ii) another entity with a capital divided into shares;

  (iii) a cooperative (association); or

  (iv) another legal entity that has an enterprise or an interest in an enterprise to which the existing or new ICI Shares are attributable,

  but which are not:

  (i) a qualifying pension fund (*pensioenfonds*);

  (ii) a qualifying investment fund (*beleggingsinstellingen*);

  (iii) a corporate entity for whom the existing or new ICI Shares qualify as a participation, the benefits derived from which are exempt under the participation exemption (as laid down in the Dutch Corporate Income Tax Act 1969 ("CITA"). Generally, the participation exemption applies if an ICI Shareholder (a) holds an interest of at least 5 per cent. in the issued and paid up nominal share capital of ICI, and (b) is not an investment fund benefiting from the provisions under article 28 of the CITA); or

(iv) another entity that is exempt from Dutch corporate income tax.

For purposes of paragraph (a) (iii), an ICI Shareholder will not generally have a substantial interest in the Company if such shareholder (and his partner and/or certain other close relatives), does not hold, alone or together, directly or indirectly:

(a) (x) the ownership of, (y) certain other rights (such as usufruct) over or (z) rights to acquire (whether or not already issued), ICI Shares representing five per cent. or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of ICI; or

(b) (x) the ownership of, or (y) certain other rights (such as usufruct) over profit participating certificates (*winstbewijzen*) that relate to five per cent. or more of the annual profit of ICI or to five per cent. or more of the liquidation proceeds of ICI.

In addition, the shareholder has a substantial interest in ICI if he and, if applicable, his partner and/or certain other close relatives, have ownership of, or other rights over, shares in, or profits certificates issued by ICI, as described above, which represent less than five per cent. of the relevant aggregate as set forth above but that either formed part of a substantial interest that has been partially disposed of, or is deemed to have been partially disposed of, or that has been acquired, on a non-recognition basis.

Dutch tax treatment of the Rights Issue

Under the Rights Issue, an ICI Shareholder may acquire new ICI Shares at a discount to market price. Alternatively, a current holder of ICI Shares, not acquiring new ICI Shares under the Rights Issue, may dispose of all or part of the rights to subscribe for new ICI Shares or allow or be deemed to allow them to lapse in return for a cash payment ("Cash Payment").

Under Dutch individual and corporate income tax rules, the acquisition of new ICI Shares at a discount pursuant to the Rights Issue or a Cash Payment either pursuant to the disposal of the Rights or when the Rights lapse, may result in the realisation of income for the ICI Shareholder, which would then be taxable in the Netherlands.

Individual and corporate income tax

Dutch Individuals not engaged or deemed to be engaged in an enterprise

Generally, a Dutch Individual who holds ICI Shares that are not attributable to an enterprise from which he derives profits as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net worth of such enterprise (other than as an entrepreneur or a shareholder), will not be subject to tax in the Netherlands on the realisation of income pursuant to the acquisition of new ICI Shares at a discount or receipt of a Cash Payment under the Rights Issue.

Dutch Individuals engaged or deemed to be engaged in an enterprise and Dutch Corporate Entities

The benefits derived or deemed to be derived from the acquisition of new ICI Shares at a discount pursuant to the Rights Issue, that are attributable to an enterprise from which a Dutch Individual derives profits, whether as an entrepreneur or pursuant to a co-entitlement to the net worth of such enterprise (other than as an entrepreneur or shareholder), or that are derived by a Dutch Corporate Entity, will generally not lead to recognition of income or gain in an individual's hands or an entity's hands at the time of acquisition. The receipt of a Cash Payment pursuant to the disposal of the Rights or when the Rights lapse will generally lead to recognition of income or gain for the individual or entity at the time of disposal of the Rights or when the Rights lapse.

Dutch tax aspects of holding of ICI Shares

Individual and corporate income tax

Dutch Individuals not engaged or deemed to be engaged in an enterprise

Generally, a Dutch Individual who holds existing or new ICI Shares that are not attributable to an enterprise from which he derives profits as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net worth of such enterprise (other than as an entrepreneur or a shareholder), will not be subject to taxes on income and capital gains with respect to the ICI Shares in the Netherlands. Instead, the individual is taxed at a flat rate of 30 per cent. on deemed

income from savings and investments (*sparen en beleggen*). This deemed income amounts to 4 per cent. of the average of the individual's yield basis (*rendementsgrondslag*), generally, at the beginning of the calendar year and the individual's "yield basis" at the end of the calendar year (minus a tax-free amount). The yield basis would include the fair market value of the existing or new ICI Shares.

Dutch Individuals engaged or deemed to be engaged in an enterprise and Dutch Corporate Entities

Any benefits derived or deemed to be derived from the existing or new ICI Shares (including any capital gains realised on the disposal thereof), that are attributable to an enterprise from which a Dutch Individual derives profits, whether as an entrepreneur or pursuant to a co-entitlement to the net worth of such enterprise (other than as an entrepreneur or a shareholder), or that are derived by a Dutch Corporate Entity, are generally subject to (corporate) income tax on the individual or entity at statutory rates.

Gift and inheritance taxes

A liability to gift tax will arise in the Netherlands with respect to an acquisition of existing or new ICI Shares by way of a gift by a Dutch Individual or a Dutch Corporate Entity.

A liability to inheritance tax will arise in the Netherlands with respect to an acquisition or deemed acquisition of the existing or new ICI Shares by way of an inheritance or bequest on the death of a Dutch Individual.

For the purposes of Dutch gift and inheritance taxes, an individual who holds Dutch nationality will be deemed to be resident in the Netherlands if he has been resident in the Netherlands at any time during the ten years preceding the date of the gift or his death. Inheritance tax will be due in the case of a gift of the existing or new ICI Shares by an individual who, at the time of the gift, was a non-Dutch resident ICI Shareholder, if such an individual dies within 180 days of the date of the gift while (at the time of his death) being resident or deemed to be resident in the Netherlands. For the purposes of Dutch gift tax, an individual not holding Dutch nationality will be deemed to be resident in the Netherlands if he has been resident in the Netherlands at any time during the twelve months preceding the date of the gift.

Other taxes and duties

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty will be payable in the Netherlands in respect of or in connection with the subscription, issue, placement, allotment or delivery of the existing or new ICI Shares.

See the section "UK Taxation—Stamp duty and stamp duty reserve tax" for further information on potential UK liabilities arising on transfers of ICI Shares or Nil Paid Rights.

(c) French Taxation

General

The comments below are based on existing French law and the published rulings as well as current practice of the French tax authorities, all of which are subject to change at any time, possibly with retrospective effect. They are intended only as a general guide and do not constitute tax or legal advice. These comments apply only to ICI Shareholders who are resident for tax purposes in (and only in) France. The taxation position of certain ICI Shareholders who are subject to special rules, such as dealers in securities, pension funds, and collective investment schemes, is not considered. Persons who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside France, should consult their own professional advisers.

French tax treatment of the Rights Issue

Take-up of rights

The acquisition of new ICI Shares under the Rights Issue by French resident ICI Shareholders (either corporate or individual) should not result in any income tax liability in France.

However, on a future sale of ICI Shares, the tax basis of the newly acquired ICI Shares would equal the subscription price (and not the market value at the time of the acquisition).

Sale of rights

The receipt of a cash payment by an ICI Shareholder in consideration for the sale of his or its Nil Paid Rights will trigger French personal income tax for French individuals and corporate income tax for French corporate shareholders.

As far as individuals are concerned, and pursuant to section 150-0 D of the French Tax Code, the profit, if any, realised upon the sale of Nil Paid Rights equals the sale price of such Nil Paid Rights (as the base cost is deemed equal to zero).

This profit is taxed as a capital gain under the conditions set forth in section 150-0 A of the French Tax Code (as described below).

The tax basis, for the seller, of the ICI Shares from which said Nil Paid Rights derived is not affected.

For a French acquirer of Nil Paid Rights and thus new ICI Shares under the Offer, the acquisition price of such new ICI Shares equals the sum of the acquisition price of the Nil Paid Rights and the subscription price of the new ICI Shares.

As far as corporations subject to French corporate income tax are concerned, the sale of Nil Paid Rights may trigger a profit equal to the difference between the sale price of such Nil Paid Rights and their book value. For those purposes, the book value is the acquisition cost of the ICI Shares multiplied by the ratio, as at the date of sale, of the sale price of Nil Paid Rights to the sum of such sale price and the value of the ICI Shares.

The profit, if any, is treated as either a short-term or a long-term capital gain depending on which regime would have been applicable to a sale of the ICI Shares from which the sold Nil Paid Rights were derived.

The acquisition cost, for the seller, of the ICI Shares from which such Nil Paid Rights arose is treated as reduced by the book value of the sold Nil Paid Rights, determined as described above.

Lapse of rights

Where an ICI Shareholder allows his or her or its Nil Paid Rights to lapse and receives a cash payment in respect of that lapse, the receipt of such cash payment will trigger French personal income tax for French individuals and corporate income tax for French corporate shareholders.

The cash payment received by the existing ICI Shareholder may be treated as standard "distributed income" (*revenus mobiliers*) and not as capital gain (because it is not received in exchange for a sale of any type of securities).

In such a case, individuals would be subject, on the whole amount of the cash payment, to personal income tax at the progressive rate plus CSG, CRDS and the 2 per cent. social levy (each as defined below).

Similarly, corporate shareholders would be taxed at the standard rate of corporate income tax (33⅓ per cent.) plus the additional social levies (3 per cent. and 3.3 per cent., as the case may be) mentioned below.

Individuals holding ICI Shares as an item of their personal estate

Dividends

UK Taxation

Pursuant to the provisions of the France-UK Tax Treaty currently in force (the "Treaty"), where an individual who is a resident of France for tax purposes within the meaning of the Treaty, receives dividends from a UK company which are subject to tax in France, he or she is entitled to a UK tax credit amounting to 1/9th of the net amount of the dividends.

However, where an individual who is resident of France for tax purposes is entitled to the benefit of such UK tax credit, a withholding tax is levied in the UK equal to the amount of that credit. Accordingly, the UK tax credit is set-off against the withholding tax and it is not payable by the Inland Revenue to the French resident individual shareholder.

Dividends paid to an individual who is not entitled to the benefit of such UK tax credit are exempt from withholding tax in the UK.

French Taxation

The gross amount of the dividends (i.e. including the UK tax credit, as the case may be) is included in the global taxable income of the individual and subject to income tax at a progressive rate, to *Contribution Sociale Généralisée* (CSG) at a rate of 7.5 per cent. (out of which 5.1 per cent. are deductible from the taxable income for the following year), to *Contribution au Remboursement de la Dette Sociale* (CRDS) at a rate of 0.5 per cent. and to a 2 per cent. social levy.

The UK tax credit may be offset against the French income tax liability, to the extent of the French income tax liability due with respect to such dividends. The excess over the French income tax liability is not refunded.

Dividends paid by non-French companies do not entitle the recipient to the annual standard allowances of €1,220 for a single person or €2,440 for married people nor to the French tax credit on dividends (*avoir fiscal*).

Capital Gains

Pursuant to the provisions of the Treaty, capital gains realised by individuals, resident in France within the meaning of the Treaty, upon sale of shares of UK companies are in principle exclusively taxable in France.

Pursuant to section 150-0 A of the French Tax Code ("FTC"), capital gains realised upon the sale of listed securities are taxable at the global rate of 26 per cent. (including income tax, CSG, CRDS and 2 per cent. social levy) provided however that the proceeds of the sale of securities, shares, interest in companies and assimilated rights earned during the taxable year by the family taxpayer (*foyer fiscal*) exceed €7,650 for the year 2002.

Pursuant to section 150-0 D of the FTC, capital losses suffered during a year may only be offset against capital gains of a similar nature realised during the same year or during the following five years.

Legal entities subject to corporate income tax

Dividends

UK Taxation

Pursuant to the Treaty, where a legal entity which is resident in France for tax purposes within the meaning of the Treaty, receives dividends from a UK company which are subject to tax in France, it is entitled to a UK tax credit amounting to 1/9th of the net amount of the dividends, provided it holds less than 10 per cent. of the share capital of the UK distributing company.

However, where a legal entity which is resident in France for tax purposes is entitled to the benefit of such UK tax credit, a withholding tax is levied in the UK equal to the amount of the credit. Accordingly, the UK tax credit is set-off against the withholding tax and it is not payable by the Inland Revenue to the French resident corporate shareholder.

Dividends paid to a legal entity which is not entitled to the benefit of such UK tax credit are exempt from withholding tax in the UK.

French Taxation

The gross amount of the dividends (i.e. including the UK tax credit, as the case may be) is subject to corporate income tax at the standard rate of 33⅓ per cent. to which an additional levy at the rate of 3 per cent. assessed on the corporate income tax liability is added. Another 3.3 per cent. social levy, computed on the basis of the corporate income tax liability less €763,000 at the maximum, may be due unless the French receiving entity has a turnover below €7,630,000 and at least 75 per cent. of its share capital is held by individuals or by companies which meet the same conditions.

Pursuant to sections 145, 146 and 216 of the FTC, the dividends received by French legal entities which hold at least 5 per cent. of the share capital of the distributing company may benefit from the so-called parent-subsidiary regime under which dividends are tax-exempt, except for 5 per cent. of their gross amount (i.e. including tax credit if any) which are added back to the income subject to corporate income tax and which are deemed to correspond to the expenses borne by the legal entity for the management of its participation in the distributing company. This standard recapture may, however, be capped to the whole amount of all the expenses of any nature borne by the parent company for the taxable year during which the dividends are received.

French legal entities may elect to be under such particular regime provided they have subscribed the participation shares upon issuance or, provided they undertake to retain the participation shares for at least two years from their acquisition.

The tax credit which may be attached to the dividends received by the parent company may not offset the corporate income tax liability but may be used to offset any equalisation tax (*précompte*) liability arising, during the following five years, in case the parent company redistributes the tax-exempt dividends to its own shareholders.

Capital gains

Pursuant to the provisions of the Treaty, capital gains realised by legal entities, resident of France within the meaning of the Treaty, upon sale of shares of UK companies are in principle exclusively taxable in France.

Capital gains are subject to corporate income tax at the standard rate of 33⅓ per cent. to which an additional levy at the rate of 3 per cent. assessed on the corporate income tax liability is added. Another 3.3 per cent. social levy, computed on the basis of the corporate income tax liability less €763,000 at the maximum, may be due unless the French receiving entity has a turnover below €7,630,000 and its share capital is held for at least 75 per cent. by individuals or by companies which meet the same conditions.

However, pursuant to section 219-1 a ter of the FTC, if the shares have been regularly booked in a special account for participations or a special sub-account, as the case may be, for more than two years, capital gains realised upon their sale may benefit from the so-called long-term capital gains special regime and thus be subject to corporate income tax at the reduced rate of 19 per cent. (plus the above-mentioned social levy and contribution), provided nevertheless that the after-tax amount of the capital gain is booked to a long-term capital gain special reserve account.

This special regime only applies to shares which may be characterised as participations from an accounting viewpoint or which are deemed to constitute participations from a tax viewpoint.

Long-term capital losses may only offset long-term capital gains realised during the same year or the following ten years.

Other taxes and duties

No French registration tax, stock-exchange tax, transfer tax, stamp duty or any other similar documentary tax or duty will be payable in France in respect of or in connection with the subscription, issue, placement, allotment or delivery of the ICI Shares.

See the section "UK Taxation—Stamp duty and stamp duty reserve tax" for further information on potential UK liabilities arising on transfers of ICI Shares or Nil Paid Rights.

(d) Irish Taxation

General

The following is a general summary of certain Irish tax consequences applicable to Irish Shareholders in respect of the purchase, ownership and disposition of new or existing ICI Shares and the rights to subscribe for new ICI Shares. It is based on Irish taxation laws currently in force, regulations promulgated thereunder, the current provisions of the Ireland-UK Double Taxation Convention (the "Treaty"), specific proposals to amend any of the foregoing publicly announced prior to the date hereof and the currently published administrative practices of the Irish Revenue Commissioners, all as of the date hereof, and all of which are subject to change. This summary is of a general nature only and does not discuss all aspects of Irish taxation that may be relevant to any particular Irish

Shareholder. Persons who are in any doubt as to their position should take appropriate professional advice. It applies only to Irish Shareholders that legally and beneficially hold their ICI Shares as capital assets and does not address special classes of shareholders including, but not limited to, persons who hold more than 10 per cent. of the issued share capital of ICI, dealers in securities, insurance companies, pension schemes, employee share ownership trusts, collective investment undertakings, charities, tax-exempt organisations, financial institutions and close companies, each of which may be subject to special rules not discussed below. For the purposes of this section, an "Irish Shareholder" means a holder of new or existing ICI Shares or the right to subscribe for new ICI Shares, that: (i) beneficially owns the ICI Shares or the right to subscribe for new ICI Shares registered in their name; (ii) in the case of an individual shareholder, is resident, ordinarily resident and domiciled in Ireland under Irish taxation laws; (iii) in the case of a corporate shareholder, is resident in Ireland under Irish taxation laws; and (iv) is not also resident in any other country under the terms of any double taxation agreement entered into by Ireland.

Capital Gains Tax ("CGT")

Disposal of ICI Shares

Irish Shareholders that dispose of their ICI Shares will be subject to CGT to the extent that the proceeds realised from such disposition exceed the indexed base cost of the ICI Shares disposed of and any incidental expenses. The current rate of CGT is 20 per cent.

The issue of the new ICI Shares to Irish Shareholders pursuant to the Rights Issue in proportion to their existing shareholding in ICI will be treated as a reorganisation of ICI's share capital for the purposes of Irish CGT. To the extent that an Irish Shareholder takes up all or part of his rights under the Rights Issue, he will not be treated as making a disposal of all or part of his holding of existing ICI Shares. No liability to Irish CGT in respect of the new ICI Shares shall arise as a result of an Irish Shareholder taking up his entitlement to new ICI Shares in full.

The amount paid for the new ICI Shares will be added to the base cost for the Irish Shareholder's existing holding or holdings of ICI Shares. In general, on subsequent disposals, ICI Shares acquired at an earlier time will be treated, for Irish tax purposes, to be disposed of on a "first in first out" basis. For this purpose the new ICI Shares will be treated as having been acquired at the same time as the existing ICI Shares. Where an individual's holding of existing ICI Shares is treated as consisting of more than one asset for tax purposes, the new ICI Shares acquired will be attributed pro rata to those existing ICI Shares.

Indexation relief will apply to the amount paid for the new ICI Shares provided such new ICI Shares are held for a period in excess of twelve months.

Irish Shareholders that realise a loss on the disposition of ICI Shares will generally be entitled to offset such allowable losses against capital gains realised from other sources in determining their CGT liability in a year. Allowable losses, which remain unrelieved in a year, may generally be carried forward indefinitely for Irish CGT purposes and applied against capital gains in future years.

Where disposal proceeds are received in pounds sterling they will be translated into Euro amounts to calculate the amount of any chargeable gain or loss. Similarly, acquisition costs denominated in a currency other than Euro will be translated at the date of acquisition to Euro amounts.

Disposal of Rights to Subscribe for New ICI Shares

If you sell all or some of your rights to subscribe for new ICI Shares, or if you allow or are deemed to have allowed your rights to lapse and receive a cash payment in respect of them, you may, depending on your circumstances, incur a liability to Irish CGT on any capital gain realised.

Dividends

Individual Irish Shareholders will be subject to income tax on the amount of any dividend received at their marginal rate of tax (currently either 20 per cent. or 42 per cent. depending on the individual's circumstances).

Individual Irish Shareholders may, depending on their circumstances, also be subject to the Irish health levy of 2 per cent. and pay related social insurance contribution of up to 3 per cent. in respect of their dividend income.

Individual Irish Shareholders who are ordinarily resident but not resident in Ireland, will only be liable to Irish income tax on dividends where they are in receipt of non-Irish income in excess of €3,810.

Corporate Irish Shareholders will be liable to corporation tax in respect of dividends received from ICI at the rate of 25 per cent.

Stamp Duty

Neither the allotment nor issue of new ICI Shares pursuant to the Rights Issue, nor any future dealing in existing or new ICI Shares, will be subject to Irish stamp duty.

Capital Acquisitions Tax ("CAT")

A gift or inheritance of new or existing ICI Shares or a right to subscribe for ICI Shares will not be within the charge to Irish CAT unless the donor and/or the beneficiary is resident or ordinarily resident in Ireland. CAT is charged at the rate of 20 per cent. above a tax-free threshold, which is determined by the amount of the benefit, and of previous benefits within the charge to CAT, and the relationship between the disponer and the successor or donee. CAT is primarily payable by the person who receives the gift or inheritance. Credit against any liability may be available in respect of an inheritance under the relevant Ireland/UK Double Taxation Treaty.

12. Significant change

There has been no significant change in the financial or trading position of the Group since 31 December 2001, being the date to which the most recent audited financial statements (as set out in Part 4 of this document) were drawn up.

13. Litigation

Save as disclosed below, neither ICI nor any of its subsidiaries is involved in any legal or arbitration proceedings which may have, or have had, during the 12 months preceding the date of this document, a significant effect on the financial position of the Group, nor are any such proceedings pending or threatened involving ICI or any of its subsidiaries:

(a) The Glidden Company ("Glidden"), a wholly owned subsidiary of ICI, is a defendant, along with former lead paint and pigment producers as well as other lead product manufacturers and their trade associations, in a number of suits in the United States, four of which purport to be class actions. These suits divide into two categories, first those seeking damages for alleged personal injury caused by lead related products and second those seeking the costs of removing lead-based paint.

Suits have been served on Glidden because an alleged predecessor company of Glidden manufactured lead pigments until the 1950's and lead-based consumer paints until the 1960's. Due to the nature of the suits, Glidden is unable to quantify the amount being claimed although the suits are likely to involve substantial claims for damages. Rulings adverse to Glidden could lead to additional claims.

The cases pending include a suit filed in 1989 by the New York Housing Authority in New York State court seeking the removal of all lead-based paints from all buildings in two of the New York Housing Authority projects. A purported personal injury class action suit filed in August 1992 on behalf of all children alleged to be affected by lead-based paints is pending in the State court of Ohio, and a purported personal injury class action on behalf of all children in the State of New York was filed in New York State court in 1998. In 1999, the State of Rhode Island filed a suit seeking lead paint abatement and other monetary damages including costs of related governmental programmes, and similar suits were filed by the City of St Louis, Missouri and the County of Santa Clara, California in early 2000. Glidden is awaiting a decision from the Judge in the Rhode Island case on a number of procedural matters. This decision is currently expected in early February 2002. The judge's decision will be significant in determining the likely overall timetable for the Rhode Island case and could advance the likely trial date. In addition, two suits were filed in Maryland in 1999. One of these is a purported class action seeking abatement of lead paint in Maryland and the other is a personal injury suit on behalf of six allegedly injured minors. In mid 2000, two Texas school districts filed separate suits seeking the costs of removing lead-based paint and an individual action was filed in Chicago, Illinois seeking medical monitoring and damages for lead related illnesses. In the later part of 2000, two personal injury actions were filed in San Francisco, California and Jefferson, Mississippi. Four other individual personal injury actions were

filed in Baltimore, Maryland against Glidden and other members of the lead industry, however, these actions have not been served on any of the defendants and no activity is expected for the foreseeable future. Several US State legislatures have considered or are considering proposed legislation that could adversely affect Glidden's position in pending or possible future cases, including proposals that could add additional grounds for legal liability or that would permit suits otherwise time-barred.

In 2001, two Mississippi school districts filed separate suits seeking the costs of removing lead-based paint. The county of Harris, Texas filed suit seeking lead paint abatement and other monetary damages, and a suit was also recently filed by the City of Newark, New Jersey. One further individual personal injury action, in addition to the existing four, was filed in Baltimore, Maryland against Glidden and other members of the lead industry, however, these Maryland actions have not been served on any of the defendants and no activity is expected for the foreseeable future.

Glidden is aware that around 22 new cases were filed recently in New Jersey. Glidden is not currently named as a defendant in those cases though it could be named in those or other cases in due course.

Glidden believes that it has strong defences to all these claims and has denied all liability and will continue to vigorously defend all actions.

(b) ICI Chemicals and Polymers Limited ("CAP"), a subsidiary, is involved in arbitration proceedings in Singapore regarding PTA technology exchange and licence arrangements with PT Polyprima Karyareksa ("Polyprima"). Fees due under these arrangements are being claimed against Polyprima who, in response, has claimed damages totalling up to US$130 million for alleged fraud, deceit, misrepresentation and concealment, allegations which CAP rejects and intends to resist vigorously.

(c) Pursuant to the sale agreement referred to in paragraph 14 of this Part 6, Ineos Chlor has made a claim for approximately £65m relating to expenditure allegedly required in relation to the Runcorn site. ICI has responded denying all liability. As of 1 February 2002, proceedings have not yet been commenced by Ineos Chlor but it is possible that they will be in the near future.

14. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into in the two years immediately preceding the date of this document by ICI or any other member of the Group and are, or may be, material to the Group or have been entered into at any time by ICI or another member of the Group and contain any provision under which any member of the Group has any obligations or entitlements which are, or may be, material to ICI or such other member of the Group:

(a) a Contribution Agreement (including a form of LLC Agreement) dated as of 15 April 1999 (as amended) between (1) ICI (2) Huntsman Specialty Chemicals Corporation ("HSCC") (3) Huntsman ICI Holdings LLC (now HIH) and (4) Huntsman ICI Chemicals LLC (now Huntsman International Chemicals LLC ("HIC") under which ICI disposed of its Polyurethanes and Tioxide businesses and the majority of its UK based Petrochemicals businesses to HIH, a new company jointly formed with HSCC, for an aggregate consideration of £1.7bn. The Contribution Agreement contains various warranties and indemnities. The period for general claims under the warranties has expired;

(b) an agreement dated 27 April 1999 between (1) ICI and (2) PPG Industries Inc. under which ICI agreed to sell its automotive refinish paints and industrial paint and powder coatings businesses outside India, Sri Lanka and Pakistan for £425m. The agreement contains various warranties, undertakings and indemnities made by ICI for the benefit of PPG Industries Inc;

(c) an agreement dated 3 October 1999, between (1) ICI, (2) Ineos Acrylics UK Parentco2 Limited and (3) Ineos Acrylics Trader Limited under which ICI agreed to sell its global acrylics business for £505m. The agreement contains various warranties made by the ICI for the benefit of the Purchasers;

(d) an option agreement dated 2 November 2000 between (1) ICI (2) ICI Alta Inc., and (3) HSCC under which ICI Alta Inc. had the right to require HSCC to acquire its 30 per cent. equity interest in HIH, and HSCC had the right to require ICI Alta Inc. to sell its 30% equity interest in HIH to HSCC, in each case for a basic purchase price of $365m (together with interest from November 2000 until completion). Completion of the option agreement was subject to the satisfaction of certain conditions (principally regulatory);

(e) an agreement dated 5 December 2000 between (1) ICI and (2) Valueclip Limited (3) Totalalpha Limited (4) Webrate Limited and (5) Mawlaw 519 Limited under which ICI agreed to sell its Chlor-Chemicals, Klea and Crosfield businesses for an approximate consideration of £325m. The agreement contains various warranties made by ICI for the benefit of the purchasers;

(f) an agreement dated 12 December 2000 between (1) ICI (2) Phillips Petroleum United Kingdom Limited (together "the Sellers") and (3) Petroplus Refining Teeside Limited ("the Purchaser") for the sale of Phillips-Imperial Petroleum Ltd (a joint venture company in which ICI owned a 50 per cent. interest) to Petroplus of Rotterdam. The total value of the transaction was $110m and ICI received a total consideration of $55m. The agreement contains various warranties and tax covenants made by the Sellers for the benefit of the Purchaser;

(g) an agreement dated 20 December 2001 between (1) ICI (2) ICI Alta Inc., and (3) HSCC amending certain terms of the option agreement dated 2 November 2000 (the "Option Agreement") in relation to the completion of ICI's put option and providing that, subject to the satisfaction of certain conditions (principally regulatory), HSCC will acquire the 30 per cent. equity interest held by ICI Alta Inc. in HIH for a basic purchase price of $365m (together with an amount equivalent to interest from December 2001 until completion), payable in the third quarter of 2003. An additional amount of $32.7m will be payable unless HSCC exercises its right to complete the purchase at the begining of the third quarter of 2003. The amount payable may separately be reduced by up to $20m if HSCC makes advance payments; and

(h) an Underwriting Agreement dated 4 February 2002 between ICI and the Underwriters, pursuant to which the Underwriters have agreed, subject to certain conditions, to underwrite the new ICI Shares to be issued pursuant to the Rights Issue up to a maximum amount of 463,277,500 new ICI Shares. The obligations of the Underwriters to subscribe for the new ICI Shares are several, each Underwriter being responsible for its proportionate share of the new ICI Shares underwritten under the Underwriting Agreement as follows: UBS Warburg 50 per cent., Goldman Sachs 30 per cent., and Merrill Lynch 20 per cent. In consideration of the underwriting, ICI has agreed to pay to the Underwriters (together with any relevant value added tax) (1) a commission of 0.9 per cent. of £833,899,500, being the maximum amount of their underwriting commitment (which commission will be reduced to 0.6 per cent. of £833,899,500 if the Underwriting Agreement does not become unconditional), (2) a commission of 0.075 per cent. of £833,899,500 in respect of each period of seven days or part thereof (if any) from and including 6 March 2002 to (and including) the earlier of (a) the second business day after the last date for acceptance of the offer and (b) the date on which the Underwriters' obligations to subscribe for new ICI Shares under the Underwriting Agreement cease, and (3) a fee of £2 million (which fee will be reduced to £0.8 million if the Underwriting Agreement does not become unconditional). Out of the commissions, the Underwriters will pay sub-underwriting commissions (to the extent that sub-underwriters are or have been procured).

The Underwriting Agreement contains warranties, undertakings and indemnities given by ICI in favour of the Underwriters and provisions in favour of the Underwriters permitting its termination in certain circumstances. The Underwriting Agreement is conditional on, amongst other things, the passing of the Resolutions of the EGM, or any adjournment thereof and Admission becoming effective by not later than 8.00 a.m. on 26 February 2002 (or such later time and/or date as the Underwriters and ICI may agree (being not later 5 March 2002)).

15. Working capital

ICI is of the opinion that taking into account the net proceeds of the Rights Issue the Group has sufficient working capital for its present requirements, that is at least for the next 12 months from the date of the publication of this document.

16. Consents

(a) UBS Warburg has given and has not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.

(b) Goldman Sachs has given and has not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.

(c) Merrill Lynch has given and has not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.

(d) KPMG Audit Plc has given and has not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.

17. Miscellaneous

(a) The total costs and expenses of, or incidental to, the Rights Issue are estimated to be approximately £24.4 million (exclusive of VAT). In addition, ICI may, at its sole discretion, pay a performance related fee of up to £2 million in aggregate to UBS Warburg, Goldman Sachs and Merrill Lynch, as financial advisers.

(b) The auditor of ICI, KPMG Audit Plc, Chartered Accountants and Registered Auditors, whose address is 8 Salisbury Square, London EC4Y 8BB has audited the consolidated financial statements of ICI for the three years ended 31 December 2001.

(c) The Issue Price of 180 pence represents a premium of 80 pence to the nominal value of an ICI Share.

(d) The financial information set out in this document relating to ICI does not constitute statutory accounts of ICI within the meaning of section 240(5) of the Companies Act. Statutory accounts for ICI for each of the two years ended 31 December 2000 have been delivered to the Registrar of Companies in England and Wales. The auditors of ICI have made reports under section 235 of the Companies Act in respect of the consolidated financial accounts for the three years ended 31 December 2001 and each such report was an unqualified report and did not contain a statement under section 237(2) or (3) of the Companies Act.

(e) ICI Shares are already listed or traded on Euronext Paris S.A. and the SWX Swiss Exchange. Application will be made to both these exchanges for the new ICI Shares to be listed and admitted to trading.

(f) This prospectus constitutes the offer, subject to and upon the terms and conditions set out herein, of new ICI Shares to Qualifying CREST Shareholders with registered addresses in the UK and to those who have given ICI an address within the UK for service of notices for the purposes of section 90(2) of the Companies Act.

(g) Certain of the Underwriters and their respective affiliates have performed, or may in the future engage in commercial banking and investment banking transactions with the Company, including serving as dealers in connection with the Company's commercial paper programmes or as lenders of debt to be repaid with interest, for which they have received and may in the future receive customary compensation. In the ordinary course, some of the proceeds from the Rights Issue may be used to repay amounts outstanding under such debt programmes or facilities. Shortly prior to the announcement of the Rights Issue, each of UBS Warburg Ltd and Goldman Sachs International agreed with the Company to make available, for 18 months, funding facilities each in the amount of £250 million. The Company does not expect to draw on these facilities.

18. Documents available for inspection

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of ICI and at the offices of Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS until the end of the Rights Issue offer period:

(a) the memorandum and articles of association of ICI;

(b) the audited consolidated financial statements of ICI for the years ended 31 December 1998, 1999, 2000 and the audited results for the year ended 31 December 2001;

(c) the letters of consent referred to in paragraph 16 of this Part 6;

(d) the US Prospectus dated 4 February 2002, including documents incorporated by reference therein;

(e) the service agreements referred to in paragraph 8 of this Part 6;

(f) the material contracts referred to in paragraph 14 of this Part 6; and

(g) this document.

PART 7 – Definitions

The following definitions apply throughout this document, except where the context requires otherwise:

"Admission and Disclosure Standards"	means the requirements contained in the publication "Admission and Disclosure Standards" dated May 2001 containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange's market for listed securities;
"Admission"	means admission of the new ICI Shares, nil paid, (i) to the Official List and (ii) to trading on the London Stock Exchange's market for listed securities becoming effective in accordance with, respectively, the Listing Rules and the Admission and Disclosure Standards;
"ADR Depositary" or "ICI ADR Depositary"	means JP Morgan Chase Bank in its capacity as the ICI ADR Depositary under the ICI ADS Deposit Agreement;
"Board"	means the directors of ICI, whose names are set out on page 4 of this document;
"business day"	means a day (excluding Saturdays and Sundays or public holidays in England and Wales) on which banks generally are open for business in London for the transaction of normal banking business;
"certificated" or "in certificated form"	means where a share or other security is not in uncertificated form;
"Companies Act"	means the Companies Act 1985, as amended;
"CREST"	means the relevant system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by CRESTCo in accordance with the Regulations;
"CRESTCo"	means CRESTCo Limited, the operator of CREST;
"CREST Courier and Sorting Service or CCSS"	means the CREST Courier and Sorting Service established by CRESTCo to facilitate, inter alia, the deposit and withdrawal of securities;
"CREST Manual"	means the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure and CREST Glossary of Terms (all as defined in the CREST Glossary of Terms promulgated by CRESTCo on 15 July 1996 and as amended since);
"CREST member"	means a person who has been admitted to CRESTCo as a system-member (as defined in the Regulations);
"CREST participant"	means a person who is, in relation to CREST, a system-participant (as defined in the Regulations);
"CREST sponsor"	means a CREST participant admitted to CREST as a CREST sponsor;
"CREST sponsored member"	means a CREST member admitted to CREST as a sponsored member;
"Directors"	means the directors of ICI, whose names appear on page 4 of this document;

"EGM or Extraordinary General Meeting"	means the Extraordinary General Meeting of ICI to be held on Monday, 25 February 2002, notice of which is set out at the end of this document;
"EU"	means the European Union;
"Form of Proxy"	means the form of proxy for use in connection with the EGM enclosed with this document;
"Fully Paid Rights"	means rights to acquire the new ICI Shares, fully paid;
"Goldman Sachs"	means Goldman Sachs International;
"Great Britain"	means England, Scotland and Wales;
"Group"	means ICI and its subsidiary undertakings;
"HIH"	means Huntsman International Holdings, LLC, a limited liability company formed under the laws of the State of Delaware;
"ICI" or "the Company"	means Imperial Chemical Industries PLC, incorporated and registered in England and Wales under the Companies Acts 1908 to 1917 and re-registered as a public company under the Companies Acts 1948 to 1980 with registered number 218019;
"ICI ADR"	means an American Depositary Receipt evidencing ICI ADSs;
"ICI ADS"	means an American Depositary Share, representing 4 ICI Shares, issued by the ADR Depositary in accordance with the ICI ADS Deposit Agreement;
"ICI ADS Deposit Agreement"	means the Deposit Agreement dated as of 1 October 1983 and amended on 30 April 1990 between ICI, the ADR Depositary and holders from time to time of ICI ADSs issued under it;
"ICI Articles"	means the articles of association of ICI;
"ICI International SAR Scheme"	means the ICI Senior Staff Share Appreciation Rights Scheme 1994;
"ICI Profit Sharing Schemes"	means the ICI UK Profit Sharing Scheme and the Quest International Ireland Share Participation Scheme;
"ICI Share Option Schemes"	means the 1984 United Kingdom Senior Staff Share Option Scheme of ICI PLC, the ICI Senior Staff Share Option Scheme 1994 and the 1994 UK Sharesave Scheme of ICI PLC;
"ICI Share or Shares"	means ordinary share(s) with a nominal value of £1 each in the share capital of ICI;
"ICI Shareholder or Shareholders"	means holders of ICI Shares;

"ICI UK Bonus Conversion Plan"	means the ICI Senior Staff Bonus Conversion Plan 1994;
"ICI UK Restricted Share Awards"	means any outstanding restricted shares awarded by ICI to employees;
"ICI US Bonus Conversion Plan"	means the Bonus Conversion Plan of ICI American Holdings Inc.;
"ICI US Restricted Stock Plan"	means the Restricted Share Plan of ICI America Holdings Inc.;
"ICI US SAR Scheme"	means the Senior Staff Share Appreciation Rights Plan of ICI American Holdings Inc.;
"International Businesses"	means National Starch, Quest, Performance Specialties and Paints;
"ISAs"	means Individual Savings Accounts;
"Issue Price"	means 180 pence per new ICI Share;
"Listing Rules"	means the rules and regulations made by the UK Listing Authority under section 74 of the Financial Services and Markets Act 2000 as amended from time to time;
"London Stock Exchange"	means London Stock Exchange plc;
"member account ID"	means the identification code or number attached to any member account in CREST;
"Merrill Lynch"	means Merrill Lynch International;
"new ICI ADS"	means an American Depositary Share representing 4 new ICI Shares, issued by the ADR Depositary in accordance with the provisions of the ICI ADR Deposit Agreement;
"new ICI Share or Shares"	means the ICI Shares to be issued in connection with the Rights Issue;
"Nil Paid Rights"	means the rights to acquire the new ICI Shares, nil paid;
"Official List"	means the Official List of the UK Listing Authority;
"Overseas Shareholders"	means ICI Shareholders with registered addresses outside the UK or who are citizens or residents of countries outside the UK;
"participant ID"	means the identification code or membership number used in CREST to identify a particular CREST member or other CREST participant;
"PEPs"	means Personal Equity Plans;
"Provisional Allotment Letters" or "PALs"	means the renounceable Provisional Allotment Letters expected to be sent to Qualifying non-CREST Shareholders (other than certain Overseas Shareholders) in respect of the new ICI Shares to be provisionally allotted to them pursuant to the Rights Issue;
"PTA"	means pure terephthalic acid;
"Qualifying CREST Shareholders"	means Qualifying Shareholders holding ICI Shares in uncertificated form;
"Qualifying non-CREST Shareholders"	means Qualifying Shareholders holding ICI Shares in certificated form;

"Qualifying Shareholders"	means holders of ICI Shares on the register of members of ICI at the Record Date;
"Record Date"	means close of business on 20 February 2002;
"Regional and Industrial Businesses"	means the Group's businesses other than the International Businesses;
"Regulations"	means the Uncertificated Securities Regulations 2001 (SI 2001/3755), as amended;
"Resolutions"	means the resolutions contained in the notice of Extraordinary General Meeting set out at the end of this document;
"Rights Issue"	means the proposed issue by way of rights of new ICI Shares to Qualifying Shareholders on the basis described in this document and, in the case of Qualifying non-CREST Shareholders, in the Provisional Allotment Letters;
"SEC"	means the US Securities and Exchange Commission;
"Securities Act"	means the US Securities Act of 1933, as amended;
"Shareholder Helpline"	means the helpline set up for ICI Shareholders that will advise shareholders about how to complete the Provisional Allotment Letter (if they are Qualifying non-CREST Shareholders) and answer questions about the Rights Issue;
"stock account"	means an account within a member account in CREST to which a holding of a particular share or other security in CREST is credited;
"subsidiary undertakings"	has the meaning given in section 258 of the Companies Act;
"UBS Warburg"	means UBS AG, acting through its business group UBS Warburg or, where appropriate, its subsidiary UBS Warburg Ltd;
"UK Listing Authority"	means the Financial Services Authority in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 and in the exercise of its functions in respect of the admission to the Official List otherwise than in accordance with Part VI of the Financial Services and Markets Act 2000;
"UK or United Kingdom"	means the United Kingdom of Great Britain and Northern Ireland;
"uncertificated" or "in uncertificated form"	means recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST, and title to which, by virtue of the Regulations, may be transferred by means of CREST;
"Underwriters"	means UBS Warburg, Goldman Sachs and Merrill Lynch acting in their capacity as underwriters;
"Underwriting Agreement"	means the conditional agreement dated 4 February 2002 between ICI and the Underwriters relating to the Rights Issue;
"US Holders"	means ICI Shareholders with US registered addresses;
"US or United States"	means the United States of America, its territories and possessions; and
"US Prospectus"	means the prospectus forming part of an effective registration statement on Form F-3 filed by ICI with the SEC in connection with the Rights Issue.

Notice of Extraordinary General Meeting

IMPERIAL CHEMICAL INDUSTRIES PLC
(Registered in England No. 218019)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Imperial Chemical Industries PLC (the "Company") will be held at Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1 on Monday, 25 February 2002 at 9.30 a.m. to consider and, if thought fit, to pass the following Resolutions, which will be proposed as Ordinary Resolutions:

ORDINARY RESOLUTIONS

1. THAT the authorised share capital of the Company be and is hereby increased from £850,000,000 to £1,400,000,000 by the creation of an additional 550,000,000 ordinary shares of £1 each; and

2. THAT, subject to the passing of the Resolution numbered 1 in the Notice of the Meeting and in addition to all existing authorities, the Directors be and are hereby specifically authorised in accordance with section 80 of the Companies Act 1985 (the "Act") to exercise the powers of the Company to allot relevant securities (as defined in section 80 of the Act) up to a maximum nominal amount of £463,277,500 in connection with a rights issue on the terms and subject to the conditions described in the circular to shareholders dated 4 February 2002, a copy of which has been produced to the Meeting and initialled by the Chairman for the purposes of identification provided that this authority (unless previously revoked or varied by the Company in general meeting) shall expire at the close of the Annual General Meeting of the Company to be held in 2002, save that the Directors may allot relevant securities pursuant to this authority after that date pursuant to an offer or agreement made by the Company on or before that date as if such authority had not expired.

Registered Office:
Imperial Chemical House
Millbank
London
SW1P 3JF

By Order of the Board
Debjani Jash
Company Secretary
4 February 2002

Notes:

(1) A Member of the Company is entitled to attend and vote or be represented at the Meeting.

(2) A Member of the Company may appoint one or more proxies (whether Members or not) to attend and, on a poll, to vote instead of the Member.

(3) The form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must be deposited with the Company's Registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6BJ, no later than 9.30 a.m. on Saturday, 23 February 2002.

(4) Completion and return of a form of proxy does not preclude a Member from attending the Meeting and voting in person should he/she so wish.