218019

Imperial Chemical Industries PLC

Group Accounts

For the year ended 31 December 2000

Statement by the Chairman

Three years ago we set off on a journey of change and transformation. Our vision was to create a modern ICI by achieving growth and success in the specialty products and paints sectors on a global scale. The Group has now completed its restructuring, enabling it to concentrate on growing the business and improving its performance and margins across all activities around the world.

At the end of the 2000 financial year, I am pleased to tell you that we are firmly established in our International businesses and underlying performance is showing that our strategy was, and is, the right one for ICI in the 21st century.

Delivery

Profit before tax increased by 20% in 2000 to £450m. Conditions in the economic sectors in which ICI has chosen to compete were strong during the first half but we also did well, despite weaker demand and higher raw material prices in some countries, in the latter months of the year. Earnings per share rose by 19% to 44.0p. The dividend for the full year is maintained at 32.0p.

Transformation

Inevitably our transformation has involved some difficult decisions. The Board announced in November that the dividend for 2001 would be reduced to around half its present level and would thereafter operate at around three times dividend cover. The additional profit retained will be reinvested in the business to create value for shareholders. This was a complex decision to reach and will not be universally popular. Nevertheless the Board believes it is in the best long-term interest of your company to establish a new baseline from which dividends can rise with increasing profitability, while simultaneously improving the outlook for capital growth through the share price.

Another consequence of our strategic shift and restructuring is that many former staff now work for different employers, some jobs have gone and others have experienced dramatic change. ICI is no longer present in regions of the UK where it was formerly one of the largest employers. On behalf of the Board, I would like to thank all our employees, past and present, for their part in the success of the transition. Their professionalism, under circumstances that were often uncertain, has been in keeping with the best ethical standards of ICI.

Board changes

There have been a number of changes in the Board. As we announced last year, Rob Margetts left ICI in June to become Chairman of Legal & General Group plc. The Board would like to thank him again for his valuable contribution. The Board would also like to thank Alan Spall, who retires as Chief Financial Officer in May, and wish him well in the future. Alan joined ICI in 1970 and held several important roles before being appointed to the Board in 1994. Rob and Alan were pivotal to the restructuring of the Group and the successful completion of the divestment programme. I am delighted to confirm that Alan will be succeeded by Tim Scott who will assume the role in May.

With regard to our Non-Executive Directors, we welcomed Joseph T Gorman to the Board in September. Lord Simpson retired from the Board in February and the Board would like to thank him for his valued contribution and counsel over the past six years. I would also like to welcome Rick Haythornthwaite to the Board from February 2001.

Outlook

In just over three years ICI has transformed itself into one of the world's leading providers of specialty products, including food, flavour and fragrance ingredients, as well as remaining a world leader in paints. These are global markets in which innovative ideas, proprietary knowledge and strong customer relationships are key. It has been a tumultuous journey but ICI is now ready to fulfil its potential for growth. All our businesses have enormous scope to innovate and grow both sales and profits. Shareholders can also feel confident that we have an excellent international team of managers. We now start a new journey whose purpose will be to grow our businesses consistently over time through a single-minded focus on customers backed by outstanding innovation.

As we enter 2001, the prognosis for the US economy is uncertain and developments will impact Group performance. Nevertheless we remain confident that the resilience and growth opportunities inherent in the transformed ICI business will be reflected in our results.

Charles Miller Smith

Charles Miller Smith
Chairman

Statement by the Chief Executive

ICI has always prospered by reinventing itself to move with the times. The organisation is now very well placed to participate in the growth markets of the early 21st century with increasing success. Success builds confidence. Confidence creates an appetite for greater success. With sales up, profits up and our divestments essentially complete, I believe that ICI in its new shape is beginning to hit its stride.

Our goals are clear. We intend to achieve organic growth rates of 4-5% p.a. by driving business performance to greater heights. We will maintain tight financial controls which increase capital efficiency and use the proceeds to fund bolt-on acquisitions when attractive opportunities arise. We expect such acquisitions to accelerate growth by a further 1–2% each year.

Performance 2000

In 2000 we achieved 20% profit growth. The outstanding all-round performers were Quest and Paints, which both delivered profit growth in double figures on the back of good sales volumes in markets around the world. Performance Specialties also did well: Uniqema achieved a second year of double-digit comparable profit growth and Synetix ended the year with a strong fourth quarter performance in the polymers, chemicals, edible oils and oil and gas segments. National Starch produced a creditable result despite increasingly difficult conditions in the second half. While Electronic and Engineering Materials achieved excellent results for the year and sales in Adhesives were also ahead of 1999, the Food and Industrial Starch businesses and Specialty Synthetic Polymers were affected by slackening demand in the USA which offset growth in other regions.

The Regional and Industrial businesses improved profits. In Pakistan, the PTA business moved into profit and the other operations achieved strong sales and profit growth. The performance of our regional businesses in India was in line with 1999.

We have increased margins in most sectors despite the rapid rise in oil prices. The breadth and quality of our products and customer base limit exposure to margin pressures. Successful pursuit of innovative product development, a commercial approach to research and an absolute commitment to strengthening our customer relationships further reduce our susceptibility to economic downturn. These strengths, together with the benefits of cost reduction and tighter purchasing and procurement, underpin our belief that ICI will prosper in a world where competition is increasingly tough.

It is disappointing that we cannot report that ICI's share price performance in 2000 fully reflects this growing success. Against our chosen peer group, our current ranking in terms of Total Shareholder Return – the combination of dividend and stock price appreciation – stands at 12th of 17. A place in the top four remains our ambition and I am sure that we have the ability and drive to achieve it.

Where ICI is going

There is no shortage of opportunities to grow our businesses. In fact, there are far more than we could address adequately. Altogether ICI's businesses operate in about 150 markets. Some inevitably offer superior growth potential and sorting the best from the rest is the first task. We are getting better and better at placing our people and capital where they will achieve most. But even in mature markets, we find and take opportunities to improve our businesses by growing sales and profits. Enhancing the product mix, upping the pace of innovation, finding and winning new customers and doing more with existing customers are just a few of the ways we can build on our brand strengths to deliver profitable growth.

We also plan to grow by acquisition and strategic investments. These may be regional or technological, and will be in the sectors of highest growth, but they do not need to be big to be significant. Our consolidation of ownership of Aranal, one of Central and Latin America's leading manufacturers of modified starches, and the acquisition of 'CelActiv' catalyst business, as well as the investment in DigiScents provide textbook examples. Aranal strengthens National Starch's regional position. 'CelActiv' takes ICI Synetix a step closer towards becoming one of the world's leading catalyst companies. DigiScents complements Quest, opening up the possibility of transmitting flavours or fragrances via electronic technology.

The map of ICI now bears little resemblance to that of a decade ago. For our International businesses, the USA is our single largest market, accounting for 36% of sales. Continental Europe, Asia Pacific and Other Americas combined represent 53% with the UK contributing the remaining 11%.

The management skills are different too. Success in ICI management today requires an entrepreneurial approach – improving performance by seizing competitive advantage revolves around success at a local level. Devolved decision making is imperative and I know from my travels around ICI that people are savouring the sense of freedom and achievement that results from getting the chance to make an impact.

Doing the things that matter outstandingly well needs able and committed employees. And because many of our businesses, markets and technologies are fascinating commercially and technologically innovative, ICI attracts gifted marketeers, ambitious sales people, highly qualified scientists, and staff who enjoy the challenges of change and have the will to win.

Divestments completed

The last quarter of 2000 brought a series of divestment announcements as we moved very close to completing the transformation. Thanks to the unflagging professionalism of management and staff, these businesses maintained a steady course through unsettling times, and the very satisfactory prices we obtained bear out their quality. They deserve all our thanks.

With the divestment programme essentially complete, the Group's debt levels are on track for further reduction. The triennial valuation of the UK pension fund in March 2000 showed good performance from the fund's investments and the scheme is in a stronger position. This allows the Group to reduce its special payments into the fund by about £90m

Statement by the Chief Executive

annually. Taken with the new dividend policy, this greater financial flexibility means that the outlook for ICI is encouraging. Nevertheless running a tight ship remains a top priority.

Today we have a wonderful opportunity to make ICI exactly what we want it to be. Our intention is to cultivate a cohesive Group with distinctive identities and cultures, united by shared practices, overlapping scientific interests and common beliefs. I am determined that the brightest and most creative people across the world should view a job with ICI as a passport to an exciting and satisfying career that will stretch their talents to the full.

We will be taking the ICI name into the future. Our brand is synonymous with product innovation, superb marketing, quality people, commercial science and operational excellence. We are respected and admired for our robust approach to safety, health and environment issues. None of this will change.

During 2000 I have been struck by the buzz that I find throughout the ICI family. From Brazil to China, everywhere I went I met people who are passionately committed to finding promising new areas for growth and additional opportunities to become indispensable to their customers. This obsession with customers is the newest of ICI's strengths. The quality of our people and their ideas is as good as it has ever been, and the mixture of nationalities, cultures and experiences significantly adds to their effectiveness. My message to our staff is straightforward: thank you and press on, we're on our way.

Brendan O'Neill
Chief Executive

Description of business

DESCRIPTION OF BUSINESS

General

Since the incorporation of Imperial Chemical Industries PLC in 1926, the ICI Group has been one of the major industrial chemical organisations in the world with an impressive record in innovation. In 1997 the Group began a significant reshaping programme, consistent with its plans to focus its resources in specialty products and paints. This reshaping activity continued through 1998, 1999 and 2000. The core businesses of the Group now comprise National Starch, Quest, Performance Specialties, and Paints (together the International businesses). The Group also has a number of Regional and Industrial businesses.

The ICI Group has leading international positions in industrial adhesives, specialty starch, fragrances, flavours, food ingredients, specialty process intermediates, and paints. It also has strong positions in synthetic resins and polymers, surfactants and catalysts.

Strategic Vision

The ICI Group's vision is to be the industry leader in creating value for customers and shareholders. This will be achieved by operating at the highest levels of excellence, acquiring unrivalled knowledge of our customers and key markets, being agile enough to spot and seize opportunities and by using technology creatively. ICI expects that the result will be products and services which deliver superior benefits for our customers, higher returns for our shareholders and increased rewards for employees. In order to be successful ICI must:

- *deliver market-driven innovation in products and services*
  The Group's innovative skills are a major competitive strength which are driven by the marketplace. The Group sets out to meet the needs of its chosen customers in ways that deliver the desired effect and create value for both parties.

- *win in quality growth markets worldwide*
  The Group will invest in growth markets in which it has leading market positions. It aims to have all its businesses in such positions and it will do this by concentrating efforts on what it believes are the best quality growth opportunities around the globe.

- *inspire, develop and reward talented people*
  The Group is determined to create a way of working that attracts and retains high calibre individuals and that releases the energy and talents of everyone in the organisation. It aims to be an organisation in which all employees know what is expected of them, have the freedom to take initiatives, are accountable for the results and are properly rewarded for success.

- *maintain an uncompromising commitment to safety and health*
  The Group's goal is to have an exemplary performance in safety and health.

- *ensure responsible care for the environment*
  Tough targets for the Group's environmental performance have been set. The guiding principle is Responsible Care, the international chemical industry's programme for continuous improvement in safety, health and environmental performance. The Group applies its standards with consistency around the world. The introduction of new and improved products which contribute to an enhanced environmental performance by ICI and its customers is a key goal.

- *constantly improve its operational performance.*
  The Group is committed to continuous productivity improvement. A number of initiatives include a major focus on purchasing, manufacturing and supply chain management and several significant restructuring programmes.

Transformation

In July 1997, ICI took a major step to reposition itself radically towards the higher added value sector of the industry with the acquisition of the companies and businesses comprising the specialty chemicals division ("Speciality Chemicals") of Unilever PLC and Unilever N.V. for a cash consideration of US$8bn (£4.8bn). The acquisition was an excellent fit with the Group's strategy to shift its business profile towards products which meet specific customer needs and where leading positions in profitable growth markets can be won through the application of the Group's technology and skills. The Group continues to look for opportunities to grow its business both organically and through acquisition and thereby strengthen its portfolio and its powerful leadership positions.

Consistent with its strategy, ICI has completed the divestment of most of its Industrial Chemicals portfolio. Since July 1997 ICI has divested more than 50 businesses with gross proceeds in excess of £6bn.

The major elements of this divestment programme are set out on page 17.

Acquisitions since 1998 which have strengthened the International specialty and paints businesses have included:

1998

- Mydrin AGS GmbH, an adhesives company in Germany, from BTP plc for £22m;
- the European Home Improvement business of Williams PLC, including well known brand names such as 'Polyfilla', 'Cuprinol' and 'Hammerite', for £350m;
- the privately held US company Acheson Industries Inc, a leading producer of specialty materials for the electronics industry, for $560m;
- Mona Industries Inc, a privately held US manufacturer and marketer of innovative specialty and personal care ingredients;

1999

- the refinery, ammonia and gas processing catalyst business of JJ Dyson plc;
- the 'Hoecat' catalyst business of Celanese Chemicals Europe GmbH which services the edible oils and oleochemicals sector;

2000

- the equity interest of ICI's joint venture partner in Aranal SA de CV, a manufacturer of modified starches in Mexico.

The acquisition of Mona Industries Inc in 1998 and the three businesses acquired in 1999 and 2000 each represented less than one per cent of the book value of the ICI Group's gross assets.

Performance and value based management

The Group has established overall performance targets for Total Shareholder Return (TSR), which will be used to measure performance relative to an international peer group of companies (see pages 37 and 39 for details). The Group's aim is to deliver a consistent return in the upper quartile when compared with this group of 16 peers, and at least above the median. ICI's TSR performance in 2000 placed it 12th in the league table of peers.

Internally the Group is aligning its targets with this aim, using targeted growth in Economic Profit as the basis of measurement (see page 37 for definition). These objectives have been underpinned by recent changes to senior management compensation systems.

Description of business

Geographic areas

The Group's headquarters are in the UK, where it also has several manufacturing sites. Outside the UK, operations are conducted by locally managed subsidiary companies staffed almost entirely by nationals of the country concerned. Eighty three per cent of the employees of the continuing businesses of the Group are located outside the UK.

The extent of the Group's activities outside the UK is indicated in the following table, which shows the turnover and trading profit (before amortisation of goodwill and before exceptional items) from continuing operations made by Group companies located in each geographic area for the three years ended 31 December 2000 (see Operating and financial review).

	Turnover			Profit before tax, goodwill amortisation and exceptional items		
	2000 £m	1999 £m	1998 £m	**2000 £m**	1999 £m	1998 £m
Continuing operations						
United Kingdom						
Sales in the UK	**1,078**	970	642			
Sales overseas	**531**	576	643			
	1,609	1,546	1,285	**71**	30	94
Continental Europe	**1,410**	1,505	1,428	**126**	147	125
USA	**2,250**	2,154	2,032	**192**	211	169
Other Americas	**752**	673	720	**54**	38	60
Asia Pacific	**1,293**	1,210	1,012	**169**	103	65
Other countries	**53**	60	77	**5**	5	7
	7,367	7,148	6,554			
Inter-area eliminations and sales to discontinued operations	**(952)**	(969)	(711)			
Total	**6,415**	6,179	5,843	**617**	534	520
Discontinued operations	**1,333**	2,270	3,443	**(5)**	72	130
Total	**7,748**	8,449	9,286	**612**	606	650
Associates						
Share of profits less losses				**100**	61	3
Interest payable				**(60)**	(29)	–
Group net interest payable				**(202)**	(262)	(332)
Total	**7,748**	8,449	9,286	**450**	376	321

Industry segments

The following table shows turnover and trading profit (before exceptional items and goodwill amortisation) for the Group's classes of business for the three years ended 31 December 2000 (see Operating and financial review).

	Turnover			Profit before tax, goodwill amortisation and exceptional items		
	2000 £m	1999 £m	1998 £m	**2000 £m**	1999 £m	1998 £m
Continuing operations						
International businesses						
National Starch	**1,894**	1,792	1,646	**245**	248	231
Quest	**687**	676	656	**103**	92	82
Performance Specialties	**837**	864	901	**75**	74	73
Paints	**2,152**	2,180	2,167	**177**	159	143
	5,570	5,512	5,370	**600**	573	529
Regional and Industrial	**892**	705	517	**17**	(39)	(9)
Inter-class eliminations and sales to discontinued operations	**(47)**	(38)	(44)			
Total	**6,415**	6,179	5,843	**617**	534	520
Discontinued operations	**1,333**	2,270	3,443	**(5)**	72	130
Total	**7,748**	8,449	9,286	**612**	606	650
Associates						
Share of profits less losses				**100**	61	3
Interest payable				**(60)**	(29)	–
Group net interest payable				**(202)**	(262)	(332)
Total	**7,748**	8,449	9,286	**450**	376	321

Description of business

Continuing operations

National Starch

National Starch is a leading manufacturer of adhesives, sealants, specialty food and industrial starches, specialty synthetic polymers and electronic and engineering materials. The Business produces thousands of technically advanced products and operates an international network of more than 160 manufacturing and customer service centres, located in 37 countries on 6 continents.

National Starch's world headquarters is in Bridgewater, New Jersey, USA. Its European headquarters is in High Wycombe, UK and its Pacific operations headquarters is in Singapore.

The Business's overall sales, as well as its research and development spending, grew over the last three years at a compounded annual rate in excess of 7%. Research and development expenditure (including technical service) currently represents about 4.5% of annual sales. About 20% of National Starch products in the USA are protected by patents, and most of the selling range consists of proprietary products and services.

National Starch comprises four distinct business groupings:

Adhesives and Sealants

National Starch is one of the largest global producers of industrial adhesives. The Adhesives and Sealants Division has a strong global presence and operates over 50 manufacturing facilities around the world. It manufactures a broad range of adhesive types, including adhesives based on both natural and synthetic polymers, water-borne, hot melts, 100% solids, reactive adhesives and pressure sensitive adhesives.

The Division's products are widely used in packaging for securely sealing cases and cartons and fixing labels to bottles and cans. There are numerous paper converting applications such as laminating, bag making, tissue, paper tube winding and box manufacturing. Converting adhesives are also used in bookbinding, envelopes, magazines, and remoistenable stamps.

Adhesives are also critical components in the construction of disposable nappies/diapers, personal sanitary products and disposable hospital supplies.

National Starch's high performance curing adhesives are used to laminate plastic films, metal foils and paper for numerous flexible packaging applications. Pressure sensitive adhesives are used to manufacture self-adhesive tapes, labels, decals, and transdermal drug delivery patches.

The Division's adhesives and primers are used in the assembly of sports shoes.

The Bondmaster business unit is a major supplier of adhesives and sealants for assembly operations in the woodworking, construction and transportation industries.

Food and Industrial Starch

National Starch's food starches are a vital part of thousands of everyday foods. They enhance taste and appearance and provide effects which enable end-consumer products to withstand the rigours of ultra high temperature (UHT) processing, microwave cooking, freeze/thaw cycles and extended storage.

In the specialty food ingredients area the Starch Division manufactures products which are used for fruit preparations, meals and canned foods, binders for meat and fish products and pet foods and a range of coating agents to control texture, crispiness and appearance in battered foods.

Products for the dairy market are used to improve the quality and stability of a range of dairy foods, including yoghurts, puddings, ice cream, cheese and cream preparations.

Ingredients for cereals and snacks influence the expansion, texture and eating quality of a variety of baked, fried and extruded foods.

National Starch's stabilisers and thickeners are used to control the viscosity, stability, mouthfeel and texture of a wide variety of sauces and salad dressings.

In the bakery market the Division's ingredients are used to control the moisture retention, texture and structure of baked doughs and their fillings.

Encapsulation products encapsulate flavours and fragrances, carry flavours and spices, stabilise flavour emulsions and are used in starches that improve mouthfeel properties in beverage systems.

Products in pharmaceutical and nutrition areas include specialty starches for use as carriers, binders and disintegrants in tablets and capsules, thickeners for liquid dosage medicines, pharmaceutical grade dusting powders for surgical gloves and specialty ingredients for the nutrition industry.

In the pulp and paper industry, the Division's specialty starches provide strength and contribute to enhanced productivity in the manufacture of unbleached kraft, fine papers, bleached board, newsprint and recycled fibre stocks. Additives and liquid polymers improve the biodegradability and strength of tissue and towel products. Specialty surface size starches increase runnability in the size press and printability on the end user's printing press, while replacing more costly functional additives.

For the corrugating industry, specialty carrier starches provide bond strength for adhering board to corrugating medium and contribute to increased production and reduced waste. They improve the overall quality and water resistance of meat, fruit, vegetable and shipping cases. Specialty synthetic polymer products add increased water resistance for demanding applications.

The Division has also created a starch-based replacement for plastic packaging. 'Eco-Foam' loosefill is composed of nearly 100% starch and protects the contents of packages as effectively as polystyrene "peanuts", yet is fully degradable and decomposes in water.

Specialty Synthetic Polymers

National Starch has broad capabilities in specialty polymers, resins and redispersible powders for markets as diverse as personal care, construction, water treatment, detergents, paper coatings and apparel.

The Vinamul Polymer business's binders, saturants and laminants add desirable characteristics to non-wovens (fibrefill, interlinings, disposable garments), textiles and papers.

Specialty polymers improve the holding power in hair sprays and gels and the manageability and softness of mousses, conditioners, shampoos and other styling aids. They are also used to thicken and emulsify cosmetic and beauty products and increase the functionality of sunscreens, hand and body creams and lotions.

The Alco business's acrylate-based products include dispersants, anti-sealants and detergent builders, as well as rheology modifiers (thickeners) for the carpet, adhesive and detergent industries. Dithiocarbamate chemistry results in microbiocides and metal precipitants for process water treatment.

Description of business

Elotex redispersible powder polymers improve the adhesion, flexural strength, insulation properties and shrink-resistance of cements, grouts, adhesives and other construction products.

Electronic and Engineering Materials (EEM)
The EEM Division manufactures, markets and sells adhesives, encapsulants, specialty coatings and process lubricants used in the manufacture of electronic, automotive, medical, aerospace and other equipment and components. The Division serves customers worldwide with unique formulations and application assistance to meet demanding performance and processing requirements. Many products are based on proprietary polymer technology.

The EEM Division is comprised of five business units, each focused on specific product lines and end-use markets.

- Ablestik supplies adhesives and encapsulants used for semiconductor packaging and microelectronic assembly. Products include adhesive pastes, films, tapes, and preforms.

- Acheson supplies thick film materials and specialty coatings used in cathode ray tubes, keyboards and switches, printed circuits, and other electronic components. Specialty coatings are also used for noise reduction and wear resistance in automotive components. Acheson also supplies process lubricants and application systems used in metalworking and casting.

- Emerson & Cuming supplies adhesives, encapsulants, and coatings used in circuit assembly and in fabrication of electronic, electrical, and electromechanical components.

- Permabond supplies adhesives and sealants used in product assembly, structural bonding, and repair applications, including disposable medical devices, electric motors, automotive components and motor vehicle assembly.

- Tra-Con provides adhesives and coatings in single-use and other specialty packages serving a broad range of industrial customers through telemarketing programs.

Manufacturing facilities
Manufacturing facilities are located in Argentina, Australia, Belgium, Brazil, Canada, Chile, France, Germany, India, Indonesia, Italy, Japan, Korea, Malaysia, Mexico, the Netherlands, New Zealand, People's Republic of China, Philippines, Republic of South Africa, Saudi Arabia, Singapore, Spain, Sweden, Switzerland, Taiwan, Thailand, United Kingdom, USA, Venezuela and Vietnam.

Business activity
In 2000, the Business acquired 100% of the equity of its joint venture Aranal, S.A. de C.V., Guadalajara, Mexico, a leading manufacturer and marketer of modified starches for the food, papermaking and corrugating industries in Latin America.

It announced a marketing alliance for its papermaking chemicals starch with Hercules Inc. The agreement covers the sale of over 300 million pounds-weight of National Starch's papermaking chemicals starch product line in the USA, Canada and Europe. This includes product brands such as 'Cato', 'Cato-size', 'Optibond', 'Microcat' and 'Optiplus'.

Also in 2000, the Business sold its Emca-Remex unit to Ferro Corporation.

New plants and expansions
National Starch continued to pursue its policy of supporting customers locally by opening and expanding plants in countries where customers are located.

Vinamul Polymers, part of the Specialty Synthetic Polymers Division, opened a new headquarters building and construction started on new laboratory facilities in Geleen, the Netherlands.

The Adhesives and Sealants Division completed construction of new plants in Vietnam and Brazil, and expanded adhesive manufacturing in Memphis, Tennessee, USA.

The Starch Division's food starch business relocated its Neustadt laboratory and pilot plant to new and larger facilities in Hamburg, Germany.

The EEM Division added a new Tra-Con manufacturing and EEM technical centre in Singapore. A new Ablestik plant in Korea was completed this year. Ablestik also relocated its manufacturing facilities in Japan from Yokahama to the Emerson & Cuming site in Atsugi.

New products
During 2000, the Adhesives and Sealants Division introduced a new adhesive for shrink labelling of food and beverage containers brand named 'Contour'. The product exhibits greater shrink, has lower capital requirements and a higher production throughput when compared to other technologies. It is now being used on consumer products that are on US supermarket shelves. In addition, new 'Duro-tak' pressure sensitive adhesives were introduced for fruit and vegetable and clear bottle labelling.

In the Starch Division, 'Novation' food starches achieved OMRI (Organic Materials Review Institute) registration allowing them to be used in organic foods at levels up to 5%.

The EEM Division's Ablestik unit introduced 'Ablebond 2000', a new die attach adhesive based on patented hybrid chemistry for the attachment of semiconductors to laminate array substrates. This novel new material has excellent adhesion with substantially reduced moisture absorption compared to conventional technology. This enables customers to achieve higher levels of package reliability.

In 2000, the EEM Division's Acheson unit introduced 'Die Management Technology' (DMT) for the forging industry. It leads to a cooler die, extends die life, and reduces use of die lubricant when producing automotive and other industrial forgings.

Quest
Quest is recognised worldwide in the industry as an expert in sensory design, maximising the sensory impact in the industry of some of the most popular consumer products in food, personal and home care. The Business is a leader in the development, application and production of fragrances, flavours and food ingredients for an immense variety of market-leading consumer brands.

The competitive position of the Business is based on four distinctive capabilities. These are the quality of its customer relationships, the sensory design skills of its perfumers and flavourists, the technological advances resulting from its research and development and the customer service and support provided by its marketing and application groups as well as the global network of servicing units.

Quest operates through two Divisions: the Food Division and the Fragrance Division. The Food Division is based in Naarden, the Netherlands, where the Business's corporate headquarters are also located. In 2000, the Food Division accounted for around 60% of total sales. The Fragrances Division is headquartered in Ashford, UK and there are also creative centres for fine fragrances in Paris and New York. In 2000, the Fragrances Division accounted for 40% of the sales of the Business.

Description of business

Major manufacturing facilities are located in the Netherlands, the UK, USA, Mexico, France, Australia, Ireland and Indonesia with smaller manufacturing facilities in 11 other countries. The Business has its own sales distribution network in 38 countries and is represented elsewhere by sales agents.

Expertise of the Business
Quest's innovative flavours, food ingredients and fragrance products consist of compounds of blended ingredients under formulae created by expert flavourists, perfumers and scientists.

Food ingredients include emulsifiers, hydrocolloids, proteins and bio ingredients (enzymes, cultures and yeast), developed to meet the changing commercial requirements in taste and texture of the customers' brands. Quest has a strong presence in nature and nature-identical flavours in sweet and culinary applications.

Fragrance ingredients are the scented building blocks of the fragrance formulae. They also contribute additional technical characteristics, such as deodorancy or insect repellence, to the finished compound.

Markets
Quest operates in attractive and fast-moving markets. The business has benefited since its acquisition by ICI from customers who previously were unwilling to consider it as a supplier.

Demand for consumer products has been stimulated and broadened by factors such as an increase, in many countries, in disposable income, the strong growth of food services and the opening of new geographical markets.

In the fragrance market, these developments have expanded the sectors for colognes, deodorants, and toiletries for men. In the food area, growth has been driven by the desire of consumers for new and more sophisticated flavours as well as for foods that are compatible with a healthy lifestyle.

These factors have stimulated the demand for products such as convenience foods, ethnic foods, low-cholesterol and low-fat food products, as well as soft drinks that must also meet expectations in taste, texture and appearance.

Research and innovation
Science, innovation and creativity are the key pillars of Quest's research effort.

Innovation is at the heart of Quest's business. The Business designs and develops new fragrance and flavour compounds that hold a distinctive sensory impact. This demands a complex artistic and technical process, combining the knowledge and skill of Quest's perfumers and flavourists with the expertise of its application and research chemists.

The Business has research centres at Ashford in the UK and Naarden in the Netherlands, together with specific product process development teams at six other sites around the world. In 2000, around 6% of annual sales value was spent on research, development, creation and application.

Performance Specialties
In 1997 the former Unilever companies of Unichema and Crosfield were combined with ICI's activities in surfactants, catalysts and lubricants to form the Industrial Specialties Group. Unichema, surfactants and lubricants subsequently merged to form the Uniqema business whilst the related catalyst operations were combined to create the Synetix business. Crosfield was sold at the end of 2000 and the business grouping was renamed Performance Specialties.

Uniqema
Uniqema was formed as a global business in the beginning of 1999. Its operating sectors include, polymers, lubricants, personal and health care, process intermediates, crop protection, oilfield, textiles, polymer additives and cleaning.

The headquarters and one of the major operating centres of Uniqema are in Gouda in the Netherlands. The other major operating centres of Uniqema are in Everberg in Belgium, Wilton in the UK, Wilmington, Delaware, USA and Kuala Lumpar in Malaysia. The business has 20 manufacturing sites in Europe, North America and Asia Pacific.

Uniqema supplies innovative customised effect chemicals for purposes such as dispersion, wetting, emulsification, polymer modification, adjuvancy, lubrication, emolliency and defoaming. These effects are supplied as ingredients for personal and health care formulations, for lubricant formulations and for the production of agrochemicals, paint dispersions, resins, polymers and oilfield chemicals as well as for use in textile processing. The business has expanded in North America through the acquisition, in 1998, of Mona Industries Inc, a technology leader in mild surfactants used in personal care and household products. Additional production capacity has been brought on line at Chocques, France and Wilmington, Delaware, USA and a Technical Innovation Centre is now operational at Thane in India.

Uniqema has a strong global position in synthetic lubrication. It manufactures and markets a wide range of synthetic basestocks and ingredients which are formulated into engine, compressor, gear hydraulic and process oils and fluids, where high performance or environmental characteristics are required. Products are frequently tailored to specific customer requirements. Uniqema is also the global leader in synthetic refrigeration lubricants, where it provides worldwide technical support in application and formulation. The Mona acquisition has expanded Uniqema's position in the metal working sector.

The rapidly growing global polymers business is based on the development of a range of specialty dimers which are used in adhesives, coatings and resins, printing inks, engineering plastics, fibres and foams.

As a leader in personal care, Uniqema provides ingredients for skin care, hair care, oral care and toiletries. These include new vegetable-based products for skin care formulations, functional ingredients for cleansing formulations, skin repair products and UV protection products.

Process intermediates are based on natural fats and oils such as coconut, palm kernel and rape seed, which are split to yield fatty acids and bi-product glycerine. Global coverage, economies of scale, flexible manufacturing processes and market focused research give Uniqema a strong competitive position. Further processing of fatty acids yields a range of higher added-value products, such as surfactants, soaps, lubricants and polymers.

Description of business

Synetix

Synetix was formed in September 1998 by combining five businesses from ICI, Unichema and Crosfield. It was formed with a remit to grow in the attractive but fragmented catalysts industry and is a world-leader in the production of catalysts and catalyst technologies for a wide range of industries, including oil refining, gas processing, ammonia, methanol, edible oils, chemicals, fine chemicals, oleochemicals and polymer manufacturing. By integrating the catalyst knowledge of the combined businesses with a detailed understanding of customers processes and then adding a growing number of technical services, Synetix is able to generate increasing value for its customers.

Synetix has its headquarters in Billingham, UK with manufacturing sites in the UK, Germany and India and offices throughout the world.

During 1999, Synetix acquired the catalyst business of J & J Dyson plc to broaden its position in the refinery, ammonia and gas processing markets. The business recently acquired the 'Hoecat' and 'CelActiv' catalyst businesses of Celanese Chemical Europe GmbH which strengthened its position in the edible oils, oleochemicals and chemical catalyst markets.

Other Specialty Businesses

The Security Systems business provides a range of security systems for application where bank notes and high valued goods are held. Using a variety of technologies, thefts can be detected more quickly and prevented.

Paints

ICI's coatings business, ICI Paints, is a leading international paint business. It has one of the widest geographical spreads of any international paint business, concentrating on decorative paint and coatings for food and beverage cans. It is headquartered in Slough in the UK.

The decorative paint business has strong, well-established brands such as 'Dulux', 'Glidden', 'Valentine', 'Coral', 'Alba' and 'Color Your World'. The acquisition in 1998 of the European Home Improvement business of Williams Plc added further strong brand names in Europe such as 'Hammerite', 'Cuprinol', 'Polyfilla', 'Polycell', 'Xyladecor', 'Molto' and 'Alabastine'. The acquisition broadens and strengthens ICI's decorative product range to include wood care, metal care, adhesives and fillers. The decorative market in total comprised approximately 90% of the Business's turnover in 2000.

ICI Paints is also a world-leader in sales of internal and external coatings for food and beverage cans. ICI manufactures and distributes a broad product offering of packaging coatings and has leading market positions in both the mature markets of Europe and North America and the emerging markets of Asia and Latin America.

The strategy of ICI Paints is to maintain and develop branded leading market positions in the global paints and coatings business with a high market share in the countries in which it competes. Key to this is the ability to understand consumers' needs for both products and services and communicate through strong brands direct to each market segment.

Technology and innovation are also important factors in the growth of ICI Paints. Success is dependent on being first to the market with innovative, value-adding products and services which meet real market needs. ICI Paints benefits technologically from the colloid, polymer and particle related science base and research carried out by other parts of the ICI Group.

ICI Paints' international spread enhances its potential, enabling new products and services to be rolled out around the world.

The major manufacturing facilities are located in the USA, the UK, Brazil, Argentina, Germany, the Netherlands, France, China, India and Malaysia. Additional manufacturing facilities are located in 16 other countries. The Business maintains its own sales distribution network in 32 countries, and sells elsewhere through sales agents and distributors.

Regional and Industrial

These comprise several businesses which are essentially local in their scope. The significant regionally managed businesses are located in Pakistan, India and Argentina. In addition, the Group retains small regional explosives operations in the USA and UK.

In Pakistan and India, ICI operates through non wholly-owned subsidiary companies that have a portion of their equity share capital traded on the local stock exchanges.

Pakistan

ICI Pakistan has interests across a number of different market sectors. The more important of these are the manufacture of pure terephthalic acid (PTA) for the fibre industry, polyester staple fibre for the textile industry, soda ash for soaps, detergents, glass and paper. Other businesses of ICI Pakistan include agrochemicals, pharmaceuticals and specialty chemical products.

India

ICI India's regional business comprises rubber chemicals, nitrocellulose, pharmaceuticals and explosives. The rubber chemicals business has manufacturing facilities near Calcutta. The nitrocellulose business is based in Gujarat. The pharmaceuticals business is based in Chennai. The explosives business, centred at Gomia, manufactures a wide range of modern bulk and packaged explosives.

Argentina

ICI Argentina manufactures a range of products of which wine chemicals and sulphur related products are the most important.

Regional Explosives – UK and USA

The Group has limited continuing explosives related interests in the UK and North America.

Discontinued operations

These are material operations which the Group has sold or permanently terminated either during a particular financial year or during the subsequent period to the date of signature of its annual accounts.

Operations classified as discontinued for UK GAAP purposes were first so categorised:

In 2000

- the Group's Methanol business which was sold to Methanex in December 2000,
- the Group's 50% equity holding in Phillips-Imperial Petroleum Ltd which was sold to Petroplus in December 2000, and
- the Chlor-Chemicals, Klea and Crosfield businesses which were sold to Ineos in January 2001.

Description of business

In 1999

- the Group's Polyurethanes, Tioxide and selected Petrochemicals businesses which were sold to Huntsman ICI Holdings LLC, in June 1999;
- the global Acrylics business which was sold to Ineos Acrylics Ltd at the beginning of October 1999; and
- the international Fluoropolymers business which was sold to Asahi Glass Company at the end of November 1999.

In 1998

- the Group's 51% interest in its South Africa explosives joint venture which was sold to its former joint venture partner AECI Ltd early in January 1998;
- the Group's Propafilm oriented polypropylene films business which was sold to UCB SA in February 1998;
- the explosives operations in Canada, Latin America and Europe and the explosives distribution business in the USA which were sold to Orica Ltd (formerly ICI Australia Ltd) in April 1998; and
- the Teesside Utilities and Services business sold to Enron in December 1998.

Markets and distribution

The Group sells its products through an extensive network of subsidiaries, associates and distributors.

Specialty products are sold mainly by direct sales forces, alliances and distributors. Customers are primarily other manufacturers, in a range of markets from consumer oriented manufacturers of branded goods in the food, perfume and personal care sectors to those involved in surfactants, lubricants and papermaking.

Paints are sold through a range of distribution channels. Branded architectural paints are sold through a combination of both independent retailers and stores and the Group's own retail concerns, particularly in North America. Can coatings are supplied directly to beverage and food manufacturers in Europe, the Americas and Asia.

General chemicals are sold into a wide range of industries including engineering, textiles, pharmaceuticals, aerospace, electronics and the extractive industries. These products are either marketed directly or through independent merchants, wholesalers and distributors who resell to small users.

Commodity products are sold through a direct sales force or through distributors primarily to other operators in the chemical industry.

Seasonality

Due to the diversity of their product portfolios and broad international coverage, seasonality in the National Starch, Quest and Performance Specialties Businesses is not significant. The Paints Business is, however, affected with higher sales of products used on the exterior of buildings normally during better weather conditions. With the geographic profile of the Paints Business this results in higher activity levels in the second and third quarters of the year.

Sources and availability of raw materials

Raw materials and supplies are purchased from a variety of industry sources, principally the agricultural and chemical sectors and to a lesser extent from the mining sector. They are available from multiple suppliers and alternative sources are generally available to enable the business to continue in the event of any interruption from present sources. Prices are subject to normal conditions of supply and demand.

The primary raw materials used by National Starch are corn, tapioca and chemicals. Specialty hybrid corn (high amylose and waxy seeds) is planted under contract for National Starch to guarantee supply of these special strains. Starch manufacturing facilities in Thailand are located close to the sources of production of tapioca root to ensure reliability of supply. The Business's main chemical raw material is vinyl acetate monomer, the cost and supply of which is dependent on the price of natural gas and manufacturing capacity of suppliers.

Quest purchases thousands of different raw materials from sources across the world. The main natural raw materials are extracts and concentrates from fruits, vegetables and other flora as well as animal products and essential oils. Synthetic raw material purchases are mostly organic chemicals.

The raw materials for Performance Specialties include a wide range of both renewable and petrochemical based raw materials for Uniqema and base metals (mainly nickel and copper) for use in catalyst manufacture by Synetix.

Paints purchases resins, solvents and pigments from major chemical suppliers.

Intellectual property

The Group has thousands of active patents, numerous 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.

The Group believes that the loss of patent or trademark protection on any one product of any of its Businesses would not have a material adverse effect on the respective Business.

Competition

Due to the breadth and variety of the products and end markets served, the Group encounters a wide range of competitors, from multinational companies to many small local and independent firms.

National Starch and Performance Specialties Businesses do not compete with any one competitor in all of their markets.

Quest is one of the top five flavour and fragrance manufacturers which together account for half of the total market, hence Quest's main competitors are multinational food and fragrance houses. The Business's competitive position is based on the creative skills of its perfumers and flavourists, a thorough customer understanding, state of the art technology and the expertise of its employees.

Paints encounters a high degree of competition in the marketing of its products and in practice competition is national in character. The key competitive edge of the Business comes from strong, well-established brands.

Except as otherwise stated, market information or other statements in this Report regarding the position of ICI or one or more of its businesses, as the case may be, relative to its, or their, competitors are based upon internal ICI management's assessment.

Description of business

Group expenditure on tangible fixed assets

	2000 £m	1999 £m	1998 £m
Continuing operations			
National Starch	**96**	111	115
Quest	**28**	27	27
Performance Specialties	**39**	38	52
Paints	**54**	70	78
International businesses	**217**	246	272
Regional and Industrial	**18**	21	63
Total – Continuing operations	**235**	267	335
Discontinued operations	**54**	143	219
Total	**289**	410	554

	2000 £m	1999 £m	1998 £m
Continuing operations			
United Kingdom	**52**	57	67
Continental Europe	**56**	54	43
Americas	**96**	116	143
Asia Pacific	**31**	38	78
Other countries	**–**	2	4
Total – Continuing operations	**235**	267	335
Discontinued operations	**54**	143	219
Total	**289**	410	554

Government regulations

ICI's Businesses are subject to the normal regulatory framework applicable to a chemical company, notably various health, safety and environmental rules both at national and local levels. The Businesses also voluntarily conform to international and national codes of best practice appropriate to their Business. In general, compliance with these existing regulations and codes does not and should not materially affect the operations, competitive position and earnings of any of the Group's Businesses.

Capital expenditure

The analyses in the tables above summarise the Group's capital expenditure over the three year period ending 31 December 2000. Total expenditure of £554m in 1998 fell by £265m (48%) to £289m in 2000. Of this reduction £165m related to Businesses which the Group has classified as discontinued at the end of 2000 while the remaining reduction of £100m includes £40m associated with the construction of the Group's PTA plant in Pakistan which was completed in 1998.

In 1999 and 2000 over 90% of capital expenditure by Continuing businesses has been by the International businesses. The expenditure has been incurred on a large number of relatively minor projects aimed at achieving additional capacity for specialty products, as well as for productivity improvements through increased automation of manufacturing processes and relocation and consolidation of facilities. A significant portion of expenditure relates to information technology and to the direct support of customers including technical research laboratories (National Starch), creative systems (Quest) and tinting machines (Paints).

Commitments for capital expenditure not provided in the Group's financial statements totalled £178m at 31 December 2000 compared with £184m at the end of the previous year. These are analysed further in note 41 to the financial statements between those for which contracts have been placed and those authorised but not yet contracted.

Divestment programme

The major elements of ICI's programme to divest its Industrial Chemicals and Materials Businesses during the period from July 1997 to January 2001 comprised:

1997

- the polyester polymer and intermediates business;
- the 62.4% shareholding in ICI Australia, a major manufacturer and supplier of mining explosives, chemicals, plastics, fertilisers, crop care products, paints and related consumer products in Australia for total gross proceeds of £1bn;
- the Canadian based Forest Products business for £142m; and
- the UK based fertiliser business, for £200m plus a deferred, phased, market related payment.

1998

- the Group's worldwide Melinex film interests;
- a 51% interest in a South African explosives joint venture for US $117m;
- the Propafilm oriented polypropylene films business;
- explosives operations in Canada, Latin America and Europe and the explosives distribution business in the USA for US $370m;
- a methylamines and derivatives business for £67m; and
- the Teesside Utilities and Services business, which operated in the UK, for £300m.

1999

- the Polyurethanes and Tioxide businesses and the majority of its UK based Petrochemicals businesses to Huntsman ICI Holdings LLC ("HICI"), a new company formed with Huntsman for £1.7bn. In addition to these businesses, HICI acquired the propylene oxide assets of Huntsman Corporation. HICI is controlled by Huntsman Corporation but ICI retained a 30% shareholding (which ICI subsequently agreed to sell to Huntsman in November 2000);
- the Automotive Refinish business and some other industrial coatings interests for £425m;
- the Acrylics business for £505m; and
- the Fluoropolymers business.

2000

During 2000, ICI completed its divestment programme.

In the first half of the year it sold:

- a series of small non-core interests including the Uniqema operation in Melbourne, Australia;
- the European Industrial Wood Preservation and Fire Retardant business;
- the hydrotreating catalyst business in the US which was sold to W.R. Grace; and
- its US Explosives manufacturing plants to Orica (Australia).

In November 2000, ICI reached agreement on the divestment of its Methanol business to Methanex for £15m. This has subsequently been completed.

Description of business

Also in November 2000, ICI and Huntsman agreed terms relating to the sale by ICI of its residual 30% equity ownership in HICI to Huntsman Specialty Chemicals Corporation or its nominee ("Huntsman") for $365m plus interest accruing until completion.

The sale is conditional upon a number of approvals, including regulatory approvals, and upon ICI selling the Subordinated Notes issued by HICI which it holds. Under the terms of the agreement, once the conditions have been satisfied, Huntsman can require ICI to sell its equity in HICI at any time up to 30 June 2001 or ICI can require Huntsman to purchase its equity in HICI from 1 April 2001 until 30 June 2001. The timing of exercise of either option may be extended by a maximum of 30 days in certain circumstances. These options will lapse on 1 July 2001 if they have not been exercised. The sale of both equity and bonds is likely to be completed by around mid-2001.

In December 2000, ICI agreed to terms with Ineos for the sale of its Chlor-Chemicals, Klea and Crosfield businesses. The consideration payable to ICI placed a value on these businesses of about £325m in aggregate. Completion took place in January 2001.

Finally, also in December, ICI sold its 50% equity interest in Phillips-Imperial Petroleum Ltd, a petrochemicals refiner, to Petroplus. ICI received $55m from the sale.

With agreements in place for the sale of these remaining Industrial Chemicals businesses, ICI considers that it has essentially completed its planned transformation.

Research and technology (R&T)

In 2000, expenditure on research and development by continuing operations amounted to £160m (1999 £144m; 1998 £152m). Technical service expenditure for these businesses amounted to £49m (1999 £45m; 1998 £46m).

ICI's strategic move from bulk chemicals to a portfolio of specialty products and paints businesses has required the associated reshaping of R&T resources. It has been directed by a main Board Director and implemented by the Technology Board, chaired by the Senior Vice President Research and Development (SVP R&D) and comprising the senior business R&T managers. The Technology Board is responsible for the development of the Group Technology Strategy and its delivery through the R&T capabilities distributed amongst the individual businesses.

In the last three years this reshaping has resulted in:

- the establishment of the position of the Senior Vice President Research and Development;
- the formation of the Technology Board;
- the SVP R&D is now supported by a Group Technology Office, whose role is to facilitate cross-business interactions, aid strategic research planning, co-ordinate corporately funded programmes and identify external technology opportunities;
- the consolidation of key capabilities needed for the continuing businesses, for example colloid science, polymers science modelling and particle engineering, into a centrally funded Strategic Technology Group based at Wilton, UK. Similarly a centre of excellence in measurement science is being established on the same site; and
- cessation of the operations of ICI Technology and the transfer of staff with appropriate skills to Eutech Engineering Solutions Ltd, an engineering consultancy which was subsequently sold in February 2001.

Each business in the Group is responsible for its own R&T resources and for driving innovation to meet the needs of its customers and markets. The ICI distributed technology network draws on the considerable expertise across the ICI Group allowing new products and processes to be developed and exploited by individual businesses more rapidly, and stimulating new options from the combination of the technical capabilities of the different ICI businesses.

The prime technology platforms of the ICI Group, namely Biosciences, Chemistry and Catalysis, and Materials, have been established to support the ICI Group's ambitions in selected growth markets. These platforms (or megathemes) constitute a portfolio of projects, which accelerate long-term technology development for the Group, and avoid business duplication while reducing individual business risk.

Bioscience has key areas of knowledge and expertise which ICI applies to the development of personal care, food and beverage products. Projects under way focus on the use of natural materials, linking consumer response to the molecular constituents of our products, and the development of superior product effects through improved understanding of skin science.

Chemistry and catalysis underpins much of ICI's product development and here ICI's focus is on high throughput research and development which leads to novel molecules, formulations, and processes. A recent collaborative agreement, with Symyx in the United States has significantly increased ICI's capability in this area.

Current projects in the Materials area are directed towards bio-materials and renewable resources, exploiting unique effects shown by bio-polymers and bio-molecules, and increasing ICI's ability to fabricate at the nano-scale for unique macro-scale effects.

Projects in the megathemes are supported by two corporately sponsored programmes. Business Link facilitates cross-business technology development and the Strategic Research programme oversees cross-business technology exploration with academic partners.

Description of property

ICI owns and operates production, marketing and research and development facilities worldwide. The individual Business descriptions on the preceding pages provide details of these facilities.

Substantially all of ICI's properties are held in fee, free of material encumbrances, and ICI believes such properties are adequate for their purposes and suitably utilised according to the individual nature and requirements of the relevant properties.

Safety, health and environment (SHE)

The Group attaches great importance to the safety and health of its employees, to reducing any adverse environmental impact of its activities year-on-year and to developing products and services with improved environmental features.

Aggregate capital and revenue expenditure on safety, health and environmental improvement in 2000 is estimated at £135m, of which about 50% was spent on environmental improvements.

Most aspects of the Group's business are subject to laws relating to SHE. The scope and severity of such laws vary across the different businesses and according to the jurisdiction concerned. The various manufacturing processes which are operated require consents and licences including relevant emission permits.

ICI requires full compliance by its businesses with all relevant SHE laws and regulations in each jurisdiction in which it operates.

The Group's policy is to improve its safety, health and environmental performance continuously and to have in place quantitative measures to monitor progress. For these reasons the Group published a set of targets in 1995 to be achieved by the end of the year 2000 for improvements in safety, health and environment. The last included halving the Group's environmental burden in four specific categories and a commitment to improve energy efficiency per tonne of production by 10% of the 1995 base level between 1995 and the end of the year 2000. ICI developed the measurement of environmental burden in order to take account not just of the quantity of an emission (usually defined in tonnes) but its potential impact on the environment. ICI uses the environmental burden methodology to help prioritise actions for further performance improvement.

At the end of the year 2000 ICI has achieved its safety targets, made significant progress against its health targets, and achieved four out of five of its environmental targets. This is despite wide-ranging changes in the business portfolio. These results have been independently verified by Enviros Aspinwall and their full verification statement is on the ici.com website. Detailed results are published on the ICI website and in a summary form in the Annual Review.

However, during 2000 a maintenance contractor was killed in an accident on ICI premises and two employees died in separate incidents while travelling on business. ICI sincerely regrets these incidents. Also during the year two safety incidents resulted in prosecutions and fines totalling £54,000. Each was thoroughly investigated and appropriate action taken. In addition, three former business units of ICI were prosecuted and fined a total of £180,000 for environmental incidents.

ICI has formally adopted new SHE objectives for the next five years. Challenge 2005 focuses on the effects of ICI's activities on climate change, land, water, and other potential impacts using the environmental burden concept introduced in 1995, and to achieve a further 50% reduction in employee injuries and illnesses.

The main process by which ICI manages SHE issues and seeks to meet its objectives is the Responsible Care Management System (RCMS). This sets out clear standards along with guidelines, training, auditing and procedures for reviewing and reporting performance, all of which are essential to continuous improvement. The system covers operations on site as well as product stewardship and community relations.

RCMS has been independently verified as complying with the US and UK Responsible Care Codes, the certifiable international standard for environmental management systems, ISO 14001 and the ICC (International Chamber of Commerce) Business Charter for Sustainable Development.

The Group works to manage and minimise the risks associated with the condition of its sites and has developed further procedures to enable the ranking of priorities for management attention. As part of this programme, in 1993, ICI started investigations in the village of Weston in the North West of England looking at the possible effects of over 100 years' chemical manufacturing in the area. Last year ICI found that traces of a chemical from a waste disposal site – not used for over 25 years – had the potential to affect some neighbouring properties. ICI immediately started an extensive and thorough technical investigation and introduced a range of support policies to help local residents. ICI's investigations to date indicate that the majority of Weston village is not at risk and ICI continues to work in partnership with residents, the local authority and international experts to resolve the situation.

The Group is actively engaged in research aimed at developing and implementing more cost effective environmental remediation technologies, some of which is being done in collaboration with other companies and academic institutes.

There is a growing pressure from legislators, customers and the general public to reduce the environmental and health impacts of products throughout their life-cycle. ICI is responding to this by ensuring that each Business has a "Product Stewardship" programme in place. This voluntary programme embraces, through best business practices, product regulatory requirements, societal pressures, reducing the risk of harm to people and the environment, and it provides the relevant information to enable correct use and disposal of products.

Anticipating external pressures and concerns and providing speedy, innovative solutions with lower environmental impact is becoming a key aspect of sustaining competitive advantage. ICI recognises these pressures and is responding with the introduction of new processes, products and even services which improve the efficiency of use of raw materials and utilities and reduce adverse environmental effects.

Processes are in place for regular reviews of environmental liabilities, and provisions were established by 31 December 2000 in accordance with the accounting policy described in the Group's financial statements on page 47. Although there can be no guarantees, management believes that, within the existing legislative framework and taking account of the provisions already established, the cost of addressing currently identified environmental obligations (as the Group currently views these obligations) is unlikely to have a material adverse effect on the Group's financial position or results of operations.

OPERATING AND FINANCIAL REVIEW

Recent trends

Current year
World economic growth in 2000 at 4.6% was higher than 1999 although the first half of the year was stronger than the second. The US economy again remained strong (+5.1%) but the rate of growth decelerated during the year and the fourth quarter was particularly weak. The UK economy continued to grow at a more modest rate of 3.1% and GDP growth in Western Europe was 3.3%, around 1% above last year. Whilst Japan's economy improved, growth was limited (1.4%). Outside Japan, Asia continued its recovery from the 1997-8 economic turmoil to post growth of 7% with a significant contribution coming from China, which grew at 8.3%. In the developing markets, Latin America posted 4.2% growth after a decline in 1999, while Eastern Europe experienced growth levels of 5.3%.

Consumer expenditure was strong in the USA, (+5%) and was robust in the UK (+4%) but was lower in the second half than the first in both economies. While consumer expenditure increased in both Western Europe and Japan, they remain relatively subdued with growth levels below 3% and 2% respectively. Growth in Asian consumer spending outside Japan accelerated with South Korea, Taiwan and Hong Kong each growing between 7% and 8%.

While global inflation remained under control at only 2.5% (2.4% in 1999), there is general concern about the increase in oil prices experienced in 2000 and the impact this could subsequently have on wider inflation and global economic activity.

Outlook
World GDP is forecast to grow at a rate of around 3% in 2001 with the USA experiencing a slow first half and growth for the year at a more sustainable level of around 2%. UK economic performance is expected to be below 2000 with respect to growth, inflation and interest rates. Western Europe is expecting to grow at a rate of about 2.5%, nearly 1% below 2000. Japan's slow recovery is expected to continue with growth forecast at 2% while the rest of Asia is expected to grow at a level broadly similar to 2000.

Forecasts for growth in consumer spending for the US are more subdued at 3.2%, down from the 5% growth levels of the preceeding 3 years. European growth is expected to remain in line with 2000.

While expectations are currently for global inflation to continue to 2.5% in 2001 a persistently high oil price could put upward pressure on inflation and dampen the growth in world GDP.

Group review

2000 was an important year for ICI marking effectively the end of the Group's transformation programme with conclusion of agreements for the divestment of the Methanol business, the Group's 50% equity interest in Phillips-Imperial Petroleum Ltd and the divestment of the Chlor-Chemicals, Klea and Crosfield businesses.

Group sales at £7,748m (1999 £8,449m; 1998 £9,286m) were down £701m from the previous year due to the impact of the divestment programme.

Continuing operations
Sales by continuing operations were ahead by 4% at £6,415m including the International businesses which at £5,570m were up by 1% for the full year in spite of the difficult trading conditions in the last quarter.

Trading profit before goodwill amortisation and exceptional items of the International businesses increased by 5% to £600m. Regional and Industrial moved from a loss of £39m to a profit of £17m, mainly due to a turnaround in the Pakistan PTA business.

National Starch profits finished 1% down at £245m (1999 £248m; 1998 £231m) and Performance Specialties up just 1% at £75m (1999 £74m; 1998 £73m). Paints and Quest profits were buoyant with increases of 11% and 12% respectively: Paints finishing at £177m (1999 £159m; 1998 £143m) and Quest at £103m (1999 £92m; 1998 £82m). On a comparable basis (results at constant exchange translation rates with the effects of acquisitions and divestments eliminated) the International businesses were ahead by 3% in both sales and profits.

Strong profit growth was seen in the Asian markets as well as UK and Latin America. These profit increases offset the decline in the USA and Continental Europe.

Continued improvement in trading margins both at the continuing business level and more importantly in the International businesses were achieved as margins improved by 1% point to 11%.

Associates
Income from associates and other investments was £40m (1999 £32m; 1998 £3m) comprising trading profit of £100m less interest of £60m. The significant increase over 1999 was mainly due to a full year's result from the 30% shareholding ICI retained in Huntsman ICI Holdings LLC (HICI), following the sale of ICI's Polyurethanes, Tioxide and selected Petrochemicals businesses to HICI on 30 June 1999.

Exceptional items
There were no exceptional items charged to the trading profit level in 2000 (1999 £98m; 1998 £223m).

The Group reported a pre-tax loss on sale of operations of £515m (1999 profit £368m; 1998 profit £89m). This includes provisions made for the future sale of the Chlor-Chemicals, Klea and Crosfield operations which gave rise to a loss of £503m, including £133m asset write downs, £17m transaction costs and £282m legacy and future costs.

Further fundamental reorganisation costs of £14m were charged in respect of the downsizing of the corporate head office and profits of £11m on sundry fixed assets sales were recorded.

Interest
The Group net interest charge of £202m (excluding exceptional interest) was £60m better than the previous year (1999 £262m; 1998 £332m). The reduction in interest costs arose mainly due to the full year impact of the divestments in mid-1999, and lower average working capital levels. The Group received an exceptional interest credit of £16m on tax repayments.

Profit (loss) before tax
Profit before tax, goodwill amortisation and exceptional items was £450m, 20% up on 1999 (1999 £376m; 1998 £321m).

Total pre-tax result was a loss of £87m (1999 profit £503m; 1998 profit £133m). The good performance on continuing operations was offset by the loss on disposals.

Taxation
The taxation charge on profit before goodwill amortisation and exceptional items was slightly lower than the previous year, at an effective rate of 24% (1999 26%; 1998 26%).

Earnings per share
Earnings per share before goodwill amortisation and exceptional items were 44.0p compared to 37.0p in the previous year. Total earnings per share after goodwill amortisation and exceptional items were hit by the exceptional losses creating a total loss of 31.6p per share compared with total profits of 35.0p in 1999 and 11.5p in 1998.

Dividend and dividend policy
In early November 2000, the Board recommended a second interim dividend of 19.5p per £1 Ordinary Share bringing the total dividend for 2000 to 32p.

At that time, the Board also decided to re-base the dividend. It is anticipated that the dividend for 2001 will be about half the level of that for 2000. Thereafter, the Board intends to adopt a policy whereby dividends represent about one third of the Group's net profit before exceptional items and goodwill amortisation. The growth resulting from investment in ICI's business will drive the future dividend payout.

Cash flow
The following analysis of Group cash flow distinguishes between cash flows relating to operating activities and those related to legacy issues and portfolio reshaping. Included within 'reshaping and legacy' are gross proceeds from divestments, cash expenditures following 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 and acquisition expenditure.

Operating cash flow
Underlying cash generation of the Group improved substantially during 2000. The Continuing operations generated operating cash flow after capital expenditure of £473m, an improvement of £171m over 1999. Year-end working capital efficiency was similar to 1999, with a cash outflow of £41m. Capital expenditure at £233m was £53m lower than in 1999. The operating cash outflow after capital expenditure for Discontinued operations was £71m, mainly in the Halochemicals business.

Net interest and tax payments during the year amounted to £255m. The continuing cash tax figure was unusually low with the Group benefiting from refunds in a number of territories following the favourable resolution of prior year tax assessments. Dividend payments at £238m mostly represented the final dividend for 1999 and the interim dividend for 2000.

Overall the Group's net operating cash outflow was £91m, a £249m improvement on 1999.

Operating cash flow	**2000 £m**	1999 £m
Continuing operations		
Trading cash flow	**815**	720
Movement in working capital	**(41)**	(12)
Other items including spend against restructuring provisions	**(68)**	(120)
Capital expenditure	**(233)**	(286)
Operating cash flow after capital expenditure	**473**	302
Discontinued operations		
Operating cash flow after capital expenditure	**(71)**	(48)
Total Group		
Operating cash flow after capital expenditure (note 1)	**402**	254
Interest and tax excluding tax on disposals	**(255)**	(353)
Dividends paid/received	**(238)**	(241)
Net operating cash outflow	**(91)**	(340)

Reshaping and legacy cash flows

Divestment proceeds from sale of assets and businesses (note 2)	**175**	2,585
Tax paid on divestments	**(67)**	(6)
Payments against divestment provisions	**(242)**	(319)
Special top-up pension payment	**(100)**	(100)
Acquisitions	**(13)**	(12)
Net cash inflow (outflow) due to reshaping and legacy items	**(247)**	2,148

Movement in net debt

Net debt at beginning of year	**(2,347)**	(4,177)
Net operating cash outflow	**(91)**	(340)
Net cash inflow (outflow) due to reshaping and legacy items	**(247)**	2,148
Cash flow before financing	**(338)**	1,808
Non-cash movements in net debt mainly arising on foreign currency translations	**(114)**	22
Total movement in net debt	**(452)**	1,830
Closing net debt	**(2,799)**	(2,347)

Notes

1. Reconciliation to Statement of Group Cash Flow, page 51

	2000 £m	*1999 £m*
Net cash flow from operating activities, page 51	*586*	*582*
Less: Capital expenditure		
Continuing operations	*(233)*	*(286)*
Discontinued operations	*(51)*	*(142)*
Total (note 28, page 82)	*(284)*	*(428)*
Add: Special top-up pension payment, deducted in arriving at net cash flow from operating activities, above	*100*	*100*
Operating cash flow after capital expenditure included in table above	*402*	*254*

2. Divestment proceeds

1999 includes £154m in respect of the sale of Huntsman ICI Chemicals LLC 'A' Notes. This is not included in "Disposals" in the Statement of Group Cash Flow, on page 51, but is reported as a movement in current asset investments, within movements in net debt.

Reshaping and legacy flows

Proceeds of £175m were received from the divestment of businesses and property during 2000. The proceeds from the divestment of Chlor-Chemicals, Klea and Crosfield were received in January 2001 and are therefore not included in the 2000 cash flow or reflected in closing net debt.

Payments against divestment provisions amounted to £242m, £77m less than 1999. The special top-up payment to the ICI Pension Fund was £100m. Tax payments relating to divestments were £67m.

Movement in net debt

Net debt at the end of the year of £2,799m was up £452m during the year of which £91m related to net operating cash flow, £247m to the net impact of reshaping and legacy cash flows and £114m to the non-cash movements in net debt including the impact of exchange rate movements on the sterling value of foreign currency debt.

Cash flow – UK GAAP

This commentary relates to the Statement of Group cash flow on page 51, which is prepared in accordance with Financial Reporting Standard No. 1 (revised).

The Group's net cash inflow from operating activities for 2000 of £586m was almost identical to that for the previous year. However, this included an increase of £118m from continuing businesses matched by a decrease of similar amount from discontinued operations.

Capital expenditure and financial investment was £226m in 2000 (1999 £356m), a decrease of £130m and included £103m which related to businesses disposed in 1999.

Net disposals resulted in an outflow of £125m in 2000 (1999 inflow £2,040m) and comprised £117m gross disposal proceeds less expenditure against disposal provisions of £242m. Disposals in 2000 included the Methanol business and ICI's 50% equity stake in Phillips-Imperial Petroleum Ltd. Disposals in 1999 included the Polyurethanes, Tioxide, Selected Petrochemicals, Acrylics and Automotive Refinish businesses. Proceeds from the divestment of Chlor-Chemicals, Klea and Crosfield were received in January 2001 and are therefore not included in the 2000 cash flow or reflected in net debt.

Cash outflow before the use of liquid resources in 2000 was £338m compared with an inflow of £1,654m in 1999 which was mainly dominated by the receipt of proceeds from the business disposal programme in that year.

Shareholders' funds

The fall in the year of £460m was effectively the loss for the year after dividends as other losses of £42m relating to exchange were offset by the write back of goodwill previously written off to reserves of £41m and £1m received from the issuance of shares. At the end of the year, shareholders' funds were in deficit by £216m (1999 surplus £244m; 1998 surplus £149m).

Performance and value based management

The Group is firmly committed to value based management and further progress was made in 2000 in aligning the interests of ICI's managers and staff to those of the shareholders. The focus on profitable growth, higher margins and the better utilisation of both fixed and working capital has again led to an improved return on average net assets in the International businesses to 22%. The determination to increase asset turn as well as the lower capital intensity of the changed portfolio meant the fixed capital expenditure for the year in the Continuing businesses was £53m lower than in 1999 at £233m.

Treasury policies
The Group's Treasury seeks to reduce or eliminate financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. It operates within policies and procedures approved by the Board, which include strict controls on the use of financial instruments in managing the Group's risk. The Group does not undertake any trading activity in financial instruments. The Group reviews the credit quality of counterparties and limits individual aggregate credit exposures accordingly.

Financing and interest rate risk
At 31 December 2000, the Group's net debt was £2,799m (1999 £2,347m; 1998 £4,177m).

The Group's policy is to finance the Group mainly through a mixture of retained earnings, long-term loans, medium-term notes, commercial paper and bank debt. The Group's long-term loans are primarily raised centrally by Group finance companies and onlent to operating subsidiaries on commercial terms. The Group borrows in the major global debt markets in a range of currencies at both fixed and floating rates of interest, and uses derivatives to generate the desired currency and interest rate profile of borrowings.

The Group's exposure to interest rate fluctuations on its borrowings is managed through the use of interest rate swaps, interest rate options (caps) and forward rate agreements. The Group's policy is to maintain approximately 50% of its long-term borrowings at either fixed rates for periods of up to 5 years or floating rates which are "capped" for upward movement by options struck at prevailing fixed rates. The remaining debt is held at a floating rate and protected from significant major upward fluctuations in short-term interest rates using additional interest rate caps. Note 21 to the financial statements shows the overall interest rate structure of the Group's borrowings at the end of 2000.

The Group's borrowings (after swaps and forward contracts) are denominated mainly in US dollars and European currencies, including sterling. Details of the currency mix of borrowings are shown in note 21 to the financial statements. The currency disposition of the borrowings is used as a partial, long-term hedge of the cash flows arising from investments overseas and as a hedge against future business disposal proceeds. In addition, it takes into account the availability and costs of funds, and the sensitivity of Group gearing and earnings ratios to exchange rate movements.

The maturity of borrowings is shown in note 21 to the financial statements. The Group's objective in determining borrowing maturity is to ensure a balance between flexibility, cost and the continuing availability of funds. As such, it funds in a mix of long-term and short-term maturity debt (particularly in the commercial paper markets).

To ensure continuing availability of funds, the Group has substantial committed facilities of £2.0bn with a weighted average life of 1.3 years and which provide back-stopping for the short-term borrowings as well as flexibility to supplement future cash flows.

Funding policy is aimed to produce a reasonably even maturity profile of debt up to around 10 years.

Treasury policy is to try to maintain current headroom, defined as committed bank facilities less debt maturing within the next 12 months, at over US$1bn.

Foreign currency risk
The majority of the Group's net assets are in currencies other than sterling with the result that the Group's sterling balance sheet can be significantly affected by currency movements. The Group partially hedges this effect by borrowing in currencies other than sterling. The Group does not hedge translation exposures other than by passive use of currency borrowings.

The Group requires its subsidiaries to hedge their material transaction exposures (sales and purchases in currencies other than their functional currency) fully using forward contracts. The majority of this hedging is carried out by Group Treasury.

The Group selectively hedges its anticipated future trading cash flows up to 12 months ahead using forward contracts and purchased currency options. The Group's profit before tax is adversely affected by the strength of sterling due to both translation exposure and the exporting of goods. The adverse impact on the trading results of the continuing operations of a 5% strengthening in sterling is approximately:

	£m
Against US dollar	15
Against European currencies	10

Post the divestment programme, the currency effect of exporting goods from UK operations which trade in cyclical markets, is limited.

Liquidity and investments
At 31 December 2000 the Group had at its disposal £2.0bn equivalent of committed credit facilities with varying maturities up to the year 2004. The Group believes that these facilities are sufficient for the Group's present requirements.

Counterparty credit risk
The Group's counterparty credit risks arise mainly from non-central operating cash held on short-term bank deposit, the "mark to market" effect of swaps and counterparty risk arising from the liquidity of the Group's captive insurance company.

The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be very low.

Euro
Implementation of Economic and Monetary Union ("EMU") continues in the eleven participating member states of the European Union ("the participating countries"). These countries have agreed to adopt the euro as their only local currency with effect from 1 January 2002 and to withdraw existing local currencies from use during 2002. The participating countries do not include the United Kingdom where ICI is headquartered.

The UK government has stated that the UK will not participate in EMU at this stage. It is not possible to predict whether the

UK will participate in EMU in the future nor is it possible to predict the rate of exchange between the pound sterling and the euro.

The Group established a cross-functional team in September 1996 to analyse the whole range of business implications of trading with and trading in the new post EMU economic environment. Plans to convert to a euro operating environment are at an advanced stage for the Group's business units and subsidiary companies located or operating in participating countries.

The Group's strategy for trading with suppliers and customers has been to facilitate the use of the euro. However, it has decided that it will, for the time being, continue to report its results in sterling and that it will keep under review the case for any redenomination of its share capital.

During 2000, ICI businesses made good progress in their transition to accounting in euros in respect of their activities in participating countries. It is anticipated that, in these territories, businesses will have switched to euros as their base accounting unit and will have completed retrospective conversion of their accounts into euros by the end of 2001. It is also expected that wages and salaries in participating countries will be paid in euros by 31 December 2001 and the necessary accounting and systems work to achieve this is in progress.

Although an increasing amount of Group trade with companies in the participating countries is currently conducted in euros this is still relatively small in comparison with ICI's total trade in these countries. However, ICI expects this will rise substantially in the latter half of 2001 as an increasing number of customers and suppliers make the transition to euro accounting.

Although the introduction of the euro eliminates exchange rate risks between the former currencies of participating countries, while the UK remains outside of EMU, and while ICI continues to report in sterling and to have a need to repatriate monies to pay its dividend, it will remain exposed to potential foreign exchange fluctuations which will occur between the euro and sterling. There are other areas where the Group has identified cost saving opportunities from implementation of the euro, but none of these can be accurately quantified in advance and it is not likely that any will be material.

It has been asserted by some commentators that it may be difficult for companies to maintain pricing differentials between the national markets of participating countries and as a result companies may be compelled to lower prices in markets where their products are currently accepted at higher prices, causing a negative effect upon results. The Group analysed this expected phenomenon prior to the introduction of the euro and has concluded that the net effect of being a purchaser of commodity services and raw materials but being a seller of branded or value priced differentiated products is likely, on balance, to be positive.

Quantitative disclosure about market risk

The analysis below presents the sensitivity of the market or the fair value of the Group's financial instruments to selected changes in market rates and prices. The range of changes chosen reflects the Group's view of changes that are reasonably possible over a one year period. Fair values are quoted values or, where these are not available, values obtained by discounting cash flows at market rates or using option valuation models. The fair values for interest rate risk are calculated by using a standard zero coupon discounted cash flow pricing model.

Interest rate risk

The sensitivity analysis assumes an instantaneous 1% (100 basis points) move in interest rates of all currencies from their levels at 31 December 2000, with all other variables held constant.

	Fair value 31 December		Fair value change	
	1999 £m	2000 £m	+1% movement in interest rates £m	−1% movement in interest rates £m
Long-term debt	(2,914)	(2,739)	64	(64)
Currency swaps	63	34	1	(1)
Interest rate swaps	5	11	–	–
Interest rate caps	8	1	7	–

The movement in fair value of debt and instruments hedging debt will not result in any immediate change to the Group's financial statements since fair values are not recognised on the Group's balance sheet. An increase in short-term interest rates of all currencies of 1% would increase Group net interest payable for the year by £16m. Interest rate caps are in place to protect the Group from major fluctuations in interest rates. These are layered so that expiry dates range from mid-2001 to mid-2002.

Foreign currency risk

The sensitivity analysis below assumes an instantaneous 10% change in foreign currency exchange rates against sterling from their levels at 31 December 2000, with all other variables (including interest rates and currency option volatility) held constant.

	Fair value 31 December		Fair value change	
	1999 £m	2000 £m	+10% strengthening of sterling* £m	−10% weakening of sterling* £m
Long-term debt	(2,914)	(2,739)	159	(194)
Currency swaps	63	34	35	(35)
Forward contracts				
hedging debt	(6)	(21)	(23)	25
hedging working capital	1	–	10	(10)
hedging short-term deposits	–	–	–	–
Currency options				
hedging anticipated cash flows	–	4	6	(4)

* Against all currencies.

The currency mix of debt at the year end was held 11% in sterling, 53% in US dollars, 22% in euro and euro related currencies, 10% in yen and 4% other.

Market value changes from movements in currency rates in long-term debt, currency swaps and forward contracts hedging debt, along with similar movements in the values of the investments being hedged, are taken through the Group's statement of total recognised gains and losses in accordance with SSAP20 and FRS 3.

Market value changes due to exchange movements in forward contracts hedging working capital are recognised in trading profit immediately, but are offset by gains/losses on the working capital they are hedging.

US GAAP results

Under US GAAP, the net loss in 2000 was £456m (1999 £53m net income; 1998 £44m net loss) compared with a net loss of £228m (1999 £252m net income; 1998 £83m net income) under UK GAAP. Under US GAAP, shareholders' equity at 31 December 2000 was £2,828m, at 31 December 1999 was £3,373m and at 31 December 1998 was £3,557m compared to £216m (deficit), £244m (surplus) and £149m (surplus) 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 and restructuring costs.

Summary US GAAP information

The financial statements 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 Group's financial statements describes the significant differences between UK GAAP and US GAAP affecting the ICI Group's net income and shareholders' equity for the three years ended 31 December 2000.

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Net income (loss)					
Continuing operations	**(456)**	13	(29)	(270)	277
Discontinued operations	**–**	40	(15)	411	59
Net income (loss)	**(456)**	53	(44)	141	336
Basic and diluted earnings (loss) per Ordinary Share					
Continuing operations	**(63.2)p**	1.8p	(4.0)p	(37.1)p	38.2p
Discontinued operations	**–**	5.5p	(2.1)p	56.5p	8.1p
Net earnings per share	**(63.2)p**	7.3p	(6.1)p	19.4p	46.3p
	£m	£m	£m	£m	£m
Shareholders' equity	**2,828**	3,373	3,557	4,098	4,162

Dividends

Dividends paid (including the related UK tax credit) on each ADS translated into US dollars at the rates of exchange on the respective dividend payment dates (or, in the case of the second interim dividend for the year 2000 to be paid on 25 April 2001, the rate on 7 February 2001), were:

	2000 \$ per ADS	1999 \$ per ADS	1998 \$ per ADS	1997 \$ per ADS	1996 \$ per ADS
Dividends declared per ADS (each representing four Ordinary Shares)	**1.88**	2.08	2.12	2.12	2.53
Dividends paid per ADS (each representing four Ordinary Shares)	**1.96**	2.07	2.14	2.53	2.37

Ratio of earnings to fixed charges – Continuing operations

For the purpose of computing this ratio, earnings consist of the income from Continuing operations before taxation of Group companies and income received from companies owned 50% or less, plus fixed charges excluding capitalised interest. Fixed charges consist of interest (including capitalised interest) on all indebtedness, amortisation of debt discount and expense and that portion of rental expense representative of the interest factor.

	2000	1999	1998	1997	1996
Ratio of earnings to fixed charges					
For the Group (under UK GAAP)	**2.4**	1.6	1.2	1.1	0.4
For the Group with estimated material adjustments to accord with US GAAP	**–**	1.3	0.5	–	2.8

Review of 2000 business results

Continuing operations

National Starch

National Starch's sales of £1,894m were 6% ahead of 1999, 2% higher on a comparable basis. Trading profit, however, at £245m was £3m lower than in the previous year, equivalent to a reduction of 6% on a comparable basis. Both sales and profit were affected by weakness in the final quarter when there was a noticeable slowing in demand in the USA. Raw material price pressures affected the Adhesives and Specialty Synthetic Polymers Divisions in particular but compensating selling price increases limited the consequent reduction in gross margin in the second half of the year to around 3%. The 1999 result also benefited from precautionary stock building by customers in anticipation of potential supply chain interruption over the year end period. The extent of this only became apparent gradually in 2000.

During 2000, the Business continued to maintain a strong focus on the efficient use of capital expenditure and working capital.

The Adhesives and Sealants Division's sales grew 3% and had many encouraging signs during 2000. Despite this, trading profit was lower than in 1999. Raw material costs increased substantially during the year. The geographical diversity of the business partly insulated the business against the squeeze on margins. The business grew strongly in Asia Pacific and in Europe. Year on year cash flow was higher in 2000 despite an aggressive implementation of the 1999 restructuring plan. Geographically, performance was mixed. Compared with 1999, profits in North America were lower due to extremely difficult market conditions as the economy slowed down and an adverse trend in oil related raw material costs had to be passed on to customers. However, the Division achieved a solid performance in its key sectors of food packaging and building components. In Europe, profits were up over the previous year helped by the initial impact of the benefits of the restructuring which was completed in 1999. This favorable performance also reflects a significant gain in market share in core markets and continued expansion of the business in Central and Eastern Europe. Earnings rose in Asia Pacific in 2000. The Dongsung acquisition in Korea continued to contribute strong results in the fast growing shoe adhesive segment of the industry. There was also substantial growth both in sales and earnings in China and in developing economies in Asia. The business continued to increase its market share in Latin America and beneficial production commenced in Brazil. Additional progress was made in improving the profit margins of the Latin American business.

The Electronic and Engineering Materials Division (EEM) performed strongly during 2000 with all key financial performance indicators exceeding both 1999 levels and expectation. Ablestik led this year's good performance. Strong growth in its semi conductor packaging market was a key driver; a heavier focus on its micro assembly advanced materials business also yielded significant gains. Emerson & Cuming also had an excellent year; higher sales, particularly in its ink jet, tantalum capacitor and telecommunication markets, drove trading profits well above 1999 levels. During 2000, resources were focused on the reorganisation of Acheson and the business is well positioned for expansion and growth in 2001. Within the rest of the EEM portfolio, Tra-Con and EMCA-Remex enjoyed excellent sales and profit growth. Permabond was subject to some internal restructuring in 2000 which will benefit the business in future years. In addition to EEM's strong trading performance, the business also achieved a solid improvement in working capital efficiency.

The Specialty Synthetic Polymers Division also faced rising raw material costs which, in highly competitive markets, could only partially be offset by selling price increases and cost efficiencies. Sales figures equalled those of last year but lower margins resulted in a decline in trading profit. The hardest hit region was Europe where Vinamul polymers experienced lower margins. The Elotex powders business was impacted by a lower than expected growth in the construction market. The US economy provided a good environment for sales performance by both the Elotex and the US Vinamul polymers businesses. Alco Chemical, a provider of low molecular weight chemistries for water treatment and rheology modifiers/thickeners used in adhesives, paints and paper coatings, experienced strong growth in North America, Latin America and Asia. Significant progress was made in expanding potential for local production in Asia and South America. The Personal Care business in Europe continued to build on its strong performance in 1999 and the US business improved in the second half of the year. Personal Care in Asia Pacific and Latin America continue to show good overall growth.

The Starch Division had sales level with 1999, although trading profit declined. This was due to a rapid deterioration in sales to the paper industry in North America and Europe and a slower second half of the year in the North American food business. The Division has addressed the decline in the paper industry segment by signing an agreement with Hercules, Inc. to market its products in this highly competitive market. Higher energy costs have also affected performance in the second half of the year.

In Europe, the food business continued to progress, but results were affected by the weakness of the euro, by higher raw material costs and continued competitive pressures in the paper making business. In Asia Pacific, there was another record performance with profits benefiting from strong sales demand in the food business, lower tapioca costs and production efficiencies. Latin American operations had another encouraging year with both sales and profit growth in Brazil.

Quest

In challenging and changing market conditions, Quest achieved another year of double-digit profit growth. Trading profit for 2000 of £103m was £11m higher than in 1999, a comparable increase of 10%. This was achieved notwithstanding the effects of precautionary stock building by customers at the end of 1999, the scale of which emerged as 2000 progressed. Total sales at £687m increased by 2%, over 1% on a comparable basis and both the Food and Fragrances Divisions contributed increased profits. The overall trading profit margin for the Business rose to 15% compared with 14% in 1999 and 13% in 1998.

The continued strong performance of the Food Division in 2000 has enabled it to virtually double its profitability over the last three years. The performance in Flavours was strong across all regions, with sales growth outperforming the market and profit margins reaching a new high. Food Ingredients also delivered an encouraging increase in turnover contributing to a solid underlying sales growth for the Division. A focus on major customers with a strong taste and texture offering resulted in a strengthening of the product pipeline with leading global and regional consumer brands companies. Margins benefited from a favourable sales mix and continuing cost efficiencies. Operating expenses as a percentage of sales continued to decrease.

There was further growth in trading profit in the Fragrances Division in 2000 in spite of a difficult market environment. Good growth was recorded in sales to many of the top customers, and significant product wins were achieved from some major new accounts. Fine fragrance sales grew at a double-digit rate compared with 1999. The most successful Quest fine fragrance launched to date, J'Adore, won five prestigious FIFI awards. However, overall sales in 2000 were somewhat below the prior year due to stock building at the end of 1999, the strength of sterling, pricing pressure from major customers and declining sales volumes of some brands. In response to these more difficult trading conditions, expenses were tightly controlled. Margins increased due to a favourable product mix and accelerated improvements in operating efficiency.

Performance Specialties

Performance Specialties trading profit for 2000 of £75m was £1m higher than for 1999. On a comparable basis profits and sales were higher by 3% and 2% respectively. Reported turnover, however, at £837m was £27m lower than in 1999 reflecting the divestment of the hydrotreating catalyst business based in the USA and the fatty acids plant in Australia, both in the first quarter of 2000.

Uniqema

In its second full year since formation, Uniqema continued to demonstrate a strong performance with comparable trading profit well ahead of 1999 on improved volume performance. The business benefited from favourable prices in renewable raw materials, buoyant sales volumes in most sectors globally and higher glycerine prices offset, in part, by the impact of the continuing weakness in the euro and cost increases in some petrochemical based raw materials.

Demand in the process intermediates sector was strong, particularly in Europe with volumes well ahead of 1999 levels. Strong margin growth was evident in the polymers and synthetic lubricants sectors. The health & personal care business similarly demonstrated improved performance supported by the introduction of new products.

In March 2000 Uniqema's fatty acids manufacturing plant in Australia was sold to Symex International and in December 2000, the Business announced the sale of its ester manufacturing plant at Baleycourt, France to Ineos.

Synetix

Turnover was higher by 4% but trading profit was down.

Strong performances in the polymers, chemicals and edible oils sector and in the oil and gas sector, where sales were significantly ahead of 1999, were offset by weakness in the ammonia and methanol sector, where sales were down year on year. The ammonia and methanol sector was adversely affected by weaker product margins at the producers which provoked plant shutdowns and postponement of new capacity investments.

In February 2000 the hydrotreating catalyst business based in the USA was sold to W R Grace.

Other Specialty Businesses

Security Systems again increased its profits in 2000 and continued to perform strongly in Europe, where turnover was ahead of 1999 levels. The automated teller market continued to grow with sales ahead of 1999.

Paints

2000 was a year of further significant progress for ICI Paints. Trading profit at £177m was 11% higher than in 1999, although turnover fell by 1% to £2,152m. These results, however, understated the real progress made since 1999 as they exclude the sales and profits from the ICI Autocolor vehicle refinish paint business which was divested in July 1999. On a comparable basis, turnover increased by 4% and underlying profits were 12% ahead despite more difficult market conditions in the second half of 2000. In addition, the Business continued to invest in its key brands, with marketing expenditure 14% ahead of 1999 levels.

All regions contributed to the profit improvement, achieved against a market which began the year strongly and which weakened as the year progressed. The second half, and particularly the final quarter, saw a softening of conditions in key Decorative markets in both North America and Europe, combined with an upward movement in raw material prices.

Against this background, the improvements in performance in North America represented a significant step in its continuing recovery. Growth was particularly strong in consumer sales through the DIY/Home Centre channel for most of the year with gains in both the distribution network and a broadening of the product range on offer. The Business benefited from a series of cost-saving initiatives throughout the organisation including plant closures within the supply chain and rationalisation of distribution.

The European business continued to exploit the opportunities resulting from the acquisition of the European Home Improvements business of Williams Plc in 1998. This had led to improvements in the quality of the business in Continental Europe, though the weakness of the euro meant that the full benefits of this have not been translated back into the sterling results. Small, non-core businesses were divested in both Germany and France. The benefits of this sharpening of focus taken together with a number of internal restructuring activities resulted in a more robust performance in these key territories.

Progress in Asia was exceptionally strong. Good market growth within the region combined with gains in market share to boost performance significantly. Growth in both sales and profits were in double-digits. Particularly strong performances were achieved in China, Indonesia, Malaysia, Thailand and Singapore, driven by significant extra investment in marketing support.

Trading conditions in Latin America were generally difficult. The impact of the devaluation of the Brazilian currency in 1999 continued to ripple through the region both in terms of lower growth and of higher raw material costs. In these circumstances, the delivery of sales and profit growth was an encouraging achievement.

The growth in Packaging Coatings sales in 2000 reflected small but continuing gains in market share, particularly in Europe and Latin America. Against a background of rising raw material costs, the year on year profit improvement was largely driven by tight management control of costs and the good sales and profit growth achieved in Latin America.

Regional and Industrial

Pakistan

Trading profits continued to grow strongly. Polyester fibre sales and trading profits were substantially ahead of 1999. While the soda ash market continued to be adversely affected by the reduction in the levels of tariff protection and by low cost imports, good cost control delivered a satisfactory profit performance. The other small businesses in ICI Pakistan continued to improve their profitability.

The world PTA market continued its improvement during 2000, but due to the increase in oil prices, raw material costs were higher than expected. The ICI Pakistan PTA business moved into profit for the first time since its start-up in 1998 as a result of excellent plant performance and high production efficiencies.

India

Trading profits for the regional businesses in India were in line with 1999. The explosives, pharmaceuticals and nitrocellulose businesses continued to do well although the rubber chemicals business remained in loss. An agreement to sell the polyurethanes business was signed during the year.

Argentina

Sales improved in 2000 with increases in both the wine chemicals and industrial chemicals businesses. Trading profit was ahead of last year; the wine chemicals business improved, assisted by the expansion at the Mendoza site and the industrial chemicals business benefited from good export business to the mining industry in America.

Operating and financial review: Review of 2000 business results/Review of 1999 business results

Discontinued operations

Sales in 2000 of £1,339m and a trading loss before exceptional items of £5m comprised a full year's results from the Group's Methanol business (sold to Methanex in December 2000) and from the Chlor-Chemicals, Klea and Crosfield businesses (which were sold in January 2001 to Ineos). This compares with a full year's sales of £1,020m and a trading loss of £25m from these operations in 1999, together with sales of £1,313m and trading profit of £97m from other businesses categorised as discontinued in 1999. These latter comprised a half year's trading by the Group's Polyurethanes, Tioxide and selected Petrochemical businesses, nine month's trading by the Acrylics business and eleven month's operations by the Fluoropolymers business.

Review of 1999 business results

Continuing operations

National Starch

National Starch had another record year in 1999. Sales of £1,792m and trading profit of £248m exceeded prior year (1998 sales £1,646m; profit £231m) levels mainly due to the impact of key acquisitions (Acheson Industries, Dongsung Industries, Mydrin AG and BASF's acrylic solution pressure sensitive adhesive polymer business in Europe). Excluding the effect of acquisitions, underlying sales and profits were both up about 2%. Overall results in 1999 reflected strong performances in Asia Pacific and Latin America for both the Adhesives and Starch Divisions, improving results at Ablestik and Elotex after a poor start, a recovery at Emerson & Cuming and an excellent performance by Dongsung, the Business's latest acquisition. These gains were offset by weakness in two main business segments, US Personal Care and US and European Industrial Starch for papermaking. During 1999, management continued its focus on reducing working capital and controlling capital spending.

The Adhesives and Sealants Division achieved strong growth in operating earnings, helped by the acquisition of the Dongsung shoe adhesive business in Asia Pacific. Profits increased over 1998 before the contribution from acquisitions. The geographical diversity of the Division again produced a robust earnings performance and the business remained highly cash generative. Regional performance was mixed; profits in North America were above those of 1998 on sales growth of 4%. The business saw solid performance in core converting markets, non-wovens and the higher added value building components segments. In Europe profits were slightly ahead of those of the prior year after elimination of restructuring costs associated with the closure of the Obertshausen facility in Germany. Sales growth in the second half was much stronger than the first. Asia Pacific posted a 14% growth in earnings, excluding the positive impact of the Dongsung acquisition with headline earnings growing some 87%. The acquisition of the Dongsung business has provided an entry into a fast growing segment of the industry. Latin America more than doubled its earnings with strong growth in Mexico, Brazil and Chile. Significant progress was made in improving margins in the Division.

The Electronic and Engineering Material (EEM) Division had a challenging year although reported sales and trading profit exceeded 1998. The Division contributed approximately one quarter of National Starch's global trading profit and cash flow. After making three significant acquisitions in 1997 and 1998, the focus in 1999 was on achieving the goals and synergies set for these businesses as well as developing a clear market focus for each of the six units. Good progress was made in these areas though underlying profit was lower than expected. The results improved, however, during the year with the second half stronger than the first. The technological phase out of several large pieces of business at Acheson and Ablestik and continued slow growth in Asia held back 1999 sales. The Division has benefited from lower procurement costs resulting from Group wide purchasing initiatives and a continued reduction in fixed costs. Within the rest of the EEM portfolio Emerson & Cuming, Tra-Con and EMCA-Remex all enjoyed a good year with sales and profit growth.

The Specialty Synthetic Polymers Division reported a decline in both sales and trading profit in 1999. While the US Performance Specialties business continued its strong growth trend, and pan-Atlantic Elotex powders business further improved profitability, sales and profits in the US Personal Care business declined. Rising raw material costs also impacted the US and European Emulsion businesses. Latin America built

Operating and financial review: Review of 1999 business results

on its strong 1998 performance with further sales growth, particularly in Personal Care in Mexico. Asia Pacific picked up momentum throughout the year with the Japanese business showing steadily improving results and the new Emulsion Reactor in China delivering sales in the second half of the year.

The Starch business overall reported modest gains in trading profit in 1999, while sales were down slightly due to weaknesses within the industrial markets in North America and Europe. The weaker performance in the industrial markets masked the very good performance in Food Starch, where sales and trading profit were ahead of 1998 across all regions despite a disappointing first quarter. In North America, the food business benefited from new product sales and lower costs. Results of the industrial business were down due to the weakness in the paper industry. In Europe, the food business continued to progress, but declines in the industrial markets hampered overall growth. In Asia Pacific, sales and trading profit of tapioca-based food and industrial products continued at a record pace bolstered by strong demand, lower tapioca costs and production efficiencies. Latin America operations had a strong year due to sales and trading profit growth in Mexico and a recovery in Brazil from growth in sales and cost efficiencies.

Quest

Trading profit for 1999 of £92m was the best in the history of Quest. The underlying increase, at constant translation rates, was 18%. This was achieved on sales that were 5% higher on a comparable basis. Both the Fragrances and Food Divisions contributed to the increased profitability and strengthened their competitive position. Trading profit margins approached 14% from 13% in 1998.

The Fragrances Division sales increased despite the strength of sterling and economic problems in Brazil. Growth in sales came predominantly from a number of significant new contracts within the fine fragrances, cosmetics and toiletries and household segments. Fragrances Division sales were ahead in Europe and North America and recovered strongly in Asia but were below 1998 in South America. Fragrance margins benefited from a more favourable product mix and effective cost management. The Division continued to invest in the development of new customer opportunities. Overall, margins were well ahead of 1998.

The Food Division had another record year and increased trading profit substantially, mainly through higher margins. The overall increase in sales was almost 5%. Sales grew in Europe and North America, and were especially strong in Asia Pacific in the fourth quarter. Sales in Asia Pacific were helped by the improved economic climate in the region. Both food ingredients and flavours succeeded in increasing profitability strongly and trading margins were well up on last year. Significant progress was made in the winning of new business with the major food industry players and the portfolio of in-house projects for future developments within this segment was strengthened.

Performance Specialties

1999 was the first full year of trading for the Industrial Specialties group in its reshaped form as a federation of three main businesses: Uniqema, Synetix and Crosfield. Crosfield was subsequently sold in January 2001 and the business grouping renamed Performance Specialties. Trading profits for the continuing businesses, Uniqema and Synetix, were little changed (1999 £74m; 1998 £73m), on lower sales (1999 £864m; 1998 £901m). On an underlying basis (allowing for exchange and the impact of divestment) profits were up 4% on sales which were down 5%.

Uniqema

The new Uniqema business was launched on 1 January 1999. Trading profit was ahead of 1998 despite lower turnover, which was particularly affected by sluggish demand for process intermediates in Europe during the first half of the year. Trading margins however improved during the year through a combination of enhanced portfolio mix directed towards specialty market sectors and strong control of costs.

Demand for process intermediates remained robust in the USA throughout the year and volumes in Europe and Asia picked up markedly in the second half of the year. Overall turnover in oleochemical intermediates was lower than in 1998 due to volume effects in Europe and the tracking down of prices in response to lower raw material costs.

The integration of Mona Industries Inc helped boost sales growth of specialty products in the personal care sector, particularly in America. The rollout of Mona products to other geographical regions is also underway.

Specialty polymers and compressor lubricants showed good year on year growth offset, in part, by reduced demand for industrial surfactants in the cleaning markets and lubricants in the automotive sector.

Synetix

Year on year trading profits were maintained despite particularly difficult trading conditions, primarily in the ammonia and methanol markets which caused customers to cancel or postpone plant shutdowns and catalyst changeouts. These conditions were offset in part by new business in the refinery, inks and chemicals markets. The refinery performance was helped by the successful acquisition of the 'Dycat' catalyst business of J & J Dyson plc in July 1999.

Other Specialty Businesses

Security Systems continued to perform in 1999 with a strong performance in Europe in particular. Growth was seen in new products, particularly 'Scorpion' (formerly 'Octopus') which was launched in the third quarter of the year.

An agreement to divest the UK ethoxylation plant and the associated businesses was signed at the end of 1998 and completed in January 1999.

Saffil, a specialty ceramic fibres business, was divested in July 1999 as part of an exchange deal for the J & J Dyson 'Dycat' catalyst business.

Paints

1999 was a year of significant progress for ICI Paints. Trading profit in 1999 of £159m was 11% up on 1998. Turnover at £2.2bn was 1% up on the previous year. Both turnover and profits were impacted by the sale of the Automotive Refinish business which was sold to PPG for a sum of £425m. Underlying profits were 15% ahead in the year.

The largest contributory factor to the profit improvement was the major turnaround achieved in the North American Decorative business. The European business performed robustly ahead of the previous year, and in Asia the business benefited from economic recovery in the region. These good performances more than compensated for the short-fall in Latin America caused by the economic turbulence and the sharp devaluation of the Brazilian currency.

Operating and financial review: Review of 1999 business results

The turnaround in North America represented a significant achievement, driven by the strengthened management team put in place during 1998. Sales grew especially through increased consumer sales through the DIY/Home Centre channel. The restructuring programme put in place in 1998 has yielded substantial benefits particularly in helping create a more cost-effective supply chain, and working capital levels have been reduced as part of the overall gains in efficiency.

In Europe, the business consolidated on its excellent progress following the acquisition of the European Home Improvements business of Williams Plc in 1998. Bolstered by this, sales increased over 1998, with record sales and profits reported in Continental Europe. Benefits of the acquisition have been ahead of expectations, with increased listings from major retailers for the product portfolio of paint, woodcare, metalcare, fillers and adhesives, and cost saving synergies achieved through rationalisation of supply chain and administrative activities.

The Decorative business in Asia benefited from both economic recovery in the region and management action, yielding a faster than anticipated recovery. Sales growth of 14% reflects, in part, gains in market share with seven out of eleven markets showing double-digit growth.

In Latin America, the business suffered from the adverse economic backdrop. The economies of Brazil, Argentina and Uruguay all experienced sharp recession. In Brazil this was compounded by a 40% devaluation of the real against the dollar, forcing up the price of imported raw materials, and decreasing profits when translated back into sterling. Decorative volume sales were ahead of 1998 levels, a creditable achievement in the circumstances, but measured in sterling, sales fell by 14% and there was a negative impact on margins.

In the Packaging business, sales value grew through increased market share, particularly in Europe, and with a focused management emphasis on the tight control of fixed costs, profit margins improved. Significant progress was made during 1999 on projects designed to enhance competitive capability. In particular, the establishment of spray-liner capacity in Brazil enabled local market share in this segment to rise significantly.

During the year, the Automotive Refinish business was sold to PPG with the majority of the business transferring in July. At a price of £425m this is equivalent to 1.7 times sales and an EBIT multiple of 21.

Regional and Industrial

Pakistan
Trading profits were well ahead of 1998. Polyester fibre sales grew strongly in 1999 and margins widened with an improvement in the petrochemical chain. The soda ash market was affected by a reduction in the levels of tariff protection and by low cost imports, however, business trading profits still remained satisfactory. The other smaller businesses in ICI Pakistan improved their profitability.

The world PTA market continued under severe pressure in the first half of 1999, with the result that selling prices barely covered variable costs. However, during the second half of 1999, there was a significant improvement in the world market for PTA and gross margins increased. This coupled with a period of sustained excellent production from the new PTA plant, resulted in a significant reduction in the PTA trading loss.

India
Trading profits from the regional businesses in India increased in 1999, while rubber chemicals' profitability was severely impacted by a decline in global prices. This was offset by excellent profits from the explosives business. During the year ICI India sold its animal health business to Glaxo and the controlling interest in its explosives business to Orica Ltd.

Argentina
Sales were below the 1998 level mainly due to the impact of divested activities. In the wine chemicals business sales were well above 1998, due to the expanded plant, but profits were lower due to selling price pressure. Sales from the sulphur related businesses were similar to 1998, but profits were down. Overall profits were well below 1998 levels reflecting lower prices and further restructuring costs.

Discontinued operations
Sales by discontinued operations were £2,333m in 1999 compared with £3,556m in 1998. Trading profit was £72m in 1999 compared with £130m in the previous year.

These results reflect the substantial movements between the two years of the businesses included in this class and the period for which these results are included. The component businesses are summarised as follows:

Included in the results for year	1998	1999
Businesses sold in 1998		
• 51% interest in South Africa explosives joint venture	Until sale in January 1998	–
• Melinex film interest	Until sale in January 1998	–
• Explosives operations in Canada, Latin America and Europe and explosives distribution business in the USA	Until sale in April 1998	–
• Teesside Utilities and Services operation	Until sale in December 1998	–
Businesses sold in 1999		
• Polyurethanes Tioxide Selected Petrochemicals businesses	Full year's results	Until sale in June 1999
• Acrylics	Full year's results	Until sale in November 1999
• Fluoropolymers	Full year's results	Until sale in November 1999
Businesses sold in 2000		
• Methanol business	Full year's results	Full year's results
Businesses sold in 2001		
• Chlor-Chemicals, Klea and Crosfield businesses	Full year's results	Full year's results

Board of Directors

Charles Miller Smith Chairman
Appointed a Non-Executive Director in 1993, an Executive Director in 1994 and Chief Executive in 1995, he became Chairman in 1999. He is also Chairman of Scottish Power Plc and a Non-Executive Director of HSBC Holdings plc and was formerly a Director of Unilever PLC and Unilever N.V. Aged 61.

Brendan R O'Neill Chief Executive
Appointed a Director and Chief Operating Officer in 1998. He succeeded Charles Miller Smith as Chief Executive in 1999. He was formerly Chief Executive of Guinness Limited. He is also a Non-Executive Director of EMAP plc. Aged 52.

Paul J Drechsler Director
Appointed a Director in 1999. He is Chairman and Chief Executive of Quest International. He joined the Company in 1978 and has held senior positions in Brazil, USA and Europe. He is Chairman of ICI Pensions Trustee Ltd and a member of the Council of the World Business Council for Sustainable Development. Aged 44.

John D G McAdam Director
Appointed a Director in 1999. He is Executive Vice President – Coatings, Chairman and Chief Executive of ICI Paints and Executive Vice President of Research, Development and Technology. He oversees the Group's activities in Asia. He joined the Company 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 52.

William H Powell Director
Appointed a Director in 2000. He has Board responsibility for Group Safety, Health and the Environment in addition to his continuing responsibilities as Chairman and Chief Executive Officer of National Starch and Chemical Company. He is an Honorary Director of the Corn Refiners Association and American Institute of Chemical Engineers. He is a member of the American Institute of Food Technologists. He is also a member of the Board of Overseers of the New Jersey Institute of Technology. Aged 55.

Alan G Spall Chief Financial Officer
Appointed a Director in 1994. He is Chief Financial Officer and has responsibility for finance, planning and property. He was formerly a Non-Executive Director of Ellis & Everard Plc and is on the Main Committee of The Hundred Group of Finance Directors. He will retire in May 2001. Aged 56.

Lord Butler 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 Civil Service. Aged 63.

Joseph T Gorman Non-Executive Director
Appointed a Non-Executive Director in September 2000. He is 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 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 63.

Sir Roger Hurn Non-Executive Director
Appointed a Non-Executive Director in 1993. He is Chairman of the Remuneration and Nomination Committee. He is also Chairman of Marconi plc and of Prudential plc and Joint Deputy Chairman of GlaxoSmithKline plc. He was formerly Chairman of Smiths Industries plc. He is also Chairman of the Court of Governors at the Henley Management College. Aged 62.

Richard N Haythornthwaite* Non-Executive Director
Appointed a Non-Executive Director in February 2001. He is Group Chief Executive of Blue Circle Industries PLC and a Non-Executive Director of Cookson Group plc. He previously held senior positions with BP and Premier Oil. He is also Chairman of the Centre for Creative Communities. Aged 44.

Lord Simpson* Non-Executive Director
Appointed a Non-Executive Director in 1995. He is Chief Executive of Marconi plc and a Non-Executive Director of Nestlé S.A. and of the Bank of Scotland. He was formerly Chairman and Chief Executive of Rover Group. Aged 58.

Lord Trotman Non-Executive Director
Appointed a Non-Executive Director in 1997. 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 67.

Tim Scott Chief Financial Officer (designate)
To be appointed a Director in May 2001. He joined Unilever in 1983 and held a variety of senior roles in their Speciality Chemicals business and group headquarters. He worked subsequently as Chief Administrative Officer for ICI Paints in North America and is currently Vice President, Strategy and Performance. Aged 38.

**On 20 February 2001 Lord Simpson retired as a Non-Executive Director and Richard Haythornthwaite was appointed as a Non-Executive Director, both with immediate effect.*

Company Secretary

Debjani Jash
Appointed Company Secretary in January 2000. She joined ICI as a solicitor in 1995 and was previously with the law firms Rowe & Maw and Gouldens in the City of London specialising in Corporate Finance and Mergers and Acquisitions. Aged 36.

At each Annual General Meeting of the Company's shareholders one third of the Directors (being those longest in office since their last election) retire and are eligible for re-election. New Directors appointed between Annual General Meetings to fill casual vacancies or as additional Directors retire at the Annual General Meeting following their appointment and are also eligible for election.

Lord Butler, Lord Trotman and Dr J D G McAdam retire under Article 96 of the Company's Articles of Association. All are recommended for re-election.

Mr J T Gorman, Mr R N Haythornthwaite and Mr T A Scott will retire under Article 76 of the Company's Articles of Association. They are recommended for election.

All Executive Directors are employed on rolling contracts subject to one year's notice.

No Director or officer has a family relationship with any other Director or officer.

Executive Management Team

The Executive Management Team comprises the Executive Directors and the following:

	Date first appointed as an Officer*
Leonard J Berlik Appointed a member of the Executive Management Team in April 2000. He is Executive Vice President Performance Specialties. He also has regional oversight responsibilities for Group activities in Europe, the Middle East and Africa. He joined National Starch and Chemical Company in 1972 and, prior to his appointment with Industrial Specialties (now Performance Specialties) in April 2000, served as Executive Vice President of the Adhesives Division. He represents ICI on the Consultative Assembly of Member Companies of the European Chemical Industry Council. Aged 53.	1 April 2000
Rona A Fairhead Appointed a member of the Executive Management Team in 1999. She is Executive Vice President Strategy and Group Control. She joined the Company in 1996 and was formerly with Bombardier Aerospace, Inc. and Bain and Company, Inc. She is the ICI Member on the Council of the Chemical Industries Association. She is Chairman of the Investment Committee of the ICI Pension Fund and, until March 2000, was Non-Executive Director of The Laganside Corporation, Northern Ireland. Aged 39.	14 July 1997
Mike Gardner Appointed a member of the Executive Management Team in July 2000. He is Executive Vice President, Regional and Industrial Businesses. He joined the Company in 1968 and was formerly Chief Executive Officer of the Petrochemicals Business. Aged 54.	1 July 2000
Michael H C Herlihy Appointed a member of the Executive Management Team in 1996. He was appointed General Counsel in 1996 and Executive Vice President Mergers and Acquisitions in July 2000. He joined the Company in 1979. Aged 47.	1 January 1996
Alex Wilson Appointed a member of the Executive Management Team in April 2000, when he joined the Company. He is Senior Vice President, Human Resources for the Group. He was formerly Human Resources Director for Guinness Limited and Head of Guinness Europe. Previously he worked in the Food, Brewery, Eye Care, International Drinks Divisions, and Corporate Centre of Grand Metropolitan PLC and in the Ford Motor Company. Aged 47.	3 April 2000

*The persons listed above and the Company Secretary, who was first appointed on 1 January 2000 and whose biographical details are set out on the previous page, are regarded as the Officers of the Company for the purposes of the Annual Report and Accounts and Form 20-F.

Corporate governance

Corporate governance

The Group is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good governance and this statement describes how the relevant principles of governance are applied to the Company. Throughout the year the Company has been in compliance with the provisions set out in the Combined Code for Corporate Governance appended to the Listing Rules of the UK Listing Authority.

The ICI Board currently comprises the Chairman, the Chief Executive, four other Executive Directors and five Non-Executive Directors. Their biographies appear on page 32. These demonstrate a range of business, financial and global experience, which is vital to the successful direction of a multi-national company. All the Non-Executive Directors are independent of management. The Board is balanced both numerically and in experience.

All Directors are equally accountable under the law for the proper stewardship of the Company's affairs. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by Executive Directors are fully discussed and critically examined, not only against the best long-term interests of shareholders, but also to ensure that they take proper account of the interests of employees, customers, suppliers and the many communities within which ICI is represented. The Non-Executive Directors also test fully the operational performance of the whole Group. The Board has prescribed reserved powers which reinforce its control of the Company. There is a procedure for Directors to obtain independent professional advice at the Company's expense in the performance of their duties as Directors.

To enable them to do this all Directors have full and timely access to all relevant information. The Board meets at least eight times a year and there is frequent contact between meetings to progress the Company's business.

The Non-Executive Directors fulfil a vital role in corporate accountability. The remits and memberships of the three relevant Board Committees are set out on page 35. The Remuneration and Nomination Committee and the Audit Committee comprise solely Non-Executive Directors and report regularly to the Board.

Remuneration and Nomination Committee

The Chairman and Chief Executive are in attendance at the Remuneration and Nomination Committee for appropriate items but are always excluded when their own performance and remuneration are under review. The Chairman is not a member of the Remuneration and Nomination Committee except when it meets as the Nomination Committee. He attends all remuneration discussions except when his own position is being discussed. The Chairman from time to time promotes discussion with the Executive Directors about Non-Executive Directors' remuneration based on external comparisons. Any recommendations are tabled to the full Board. Non-Executive Directors have the option of taking part of their remuneration in the Company's shares.

The Remuneration Report, on pages 37 to 43, includes details on remuneration policy and practices, and on the remuneration of Directors.

The Chairman of the Remuneration and Nomination Committee, currently Sir Roger Hurn, acts as the Company's lead Non-Executive Director. In this position he promotes discussion at appropriate times about the Company chairmanship and succession to it.

The Non-Executive Directors normally meet twice a year with the Chairman and Chief Executive to discuss Board and individual Directors' performance and succession plans. At appropriate times the Chief Executive and then the Chairman absent themselves so their performance can be assessed. The final discussion is led by the Chairman of the Remuneration and Nomination Committee and there is feedback to individuals.

Appointments to Executive Director are fully discussed by the Chairman and Chief Executive with the Remuneration and Nomination Committee before a proposal is formally made to the Board by the Chairman of that Committee. Possible new Non-Executive Directors are suggested by all members of the Board against the requirements of the Company's business and the need to have a balanced Board. In appropriate cases recruitment consultants are used to assist the process. Possible candidates are discussed with all Directors before any approach is made to them. All Directors are subject to re-election at least every three years.

Audit and internal control

Following publication of guidance for directors on internal control (The Turnbull Guidance), the Board confirm that there is a process for identifying, evaluating and managing the significant risks to the achievement of the Group's strategic objectives. The process has been in place throughout 2000 and up to the date of approval of the Annual Report and Accounts and Form 20-F, and accords with The Turnbull Guidance. The effectiveness of this process has been reviewed regularly by the Audit Committee who report their findings for consideration by the Board. The processes used by the Audit Committee to review the effectiveness of the system of internal control include:

- Discussions with management on risk areas identified by management and/or the audit process;
- The review of internal and external audit plans;
- The review of significant issues arising from internal and external audits; and
- The review of significant Group risks reported by the Group Risk Committee.

The Audit Committee reports to the Board the results of their review of the risk assessment process. The Board then draws its collective conclusion as to the effectiveness of the system of internal control.

The Group Risk Committee (GRC) was established during the year to consolidate and prioritise for the Board the inputs received from management of the businesses and corporate functions. The GRC is chaired by the Executive Vice President, Strategy and Group Control, and comprises the heads of major corporate functions, the Chief Internal Auditor and General Counsel. The GRC meets on a regular basis to review updated input from business and corporate management and to report its conclusions to the Audit Committee.

The internal audit function reviews internal controls in all key activities of the ICI Group, typically over a three year cycle. It acts as a service to the Businesses by assisting with the continuous improvement of controls and procedures. Actions are agreed in response to its recommendations and these are followed up to ensure that satisfactory control is maintained. Quarterly reviews are also conducted between internal audit management and the senior management of Businesses and major functions to assess their current control status and to identify and address any areas of concern.

The Board is responsible for the effectiveness of the Group's system of internal controls. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable but not absolute assurance against misstatement or loss.

Corporate governance

The Group's strategic direction is regularly reviewed by the Board, and the Executive Management Team considers the strategy for the individual Businesses through an integrated disciplined process on a biennial basis. Annual plans and performance targets for each Business are set by the Chief Executive and are reviewed in total by the Board in the light of the Group's overall objectives.

The processes to identify and manage the key risks to the success of the Group are an integral part of the internal control environment. Such processes, which are reviewed and improved as necessary, include strategic planning, the appointment of senior managers, the regular monitoring of performance, control over capital expenditure and investments and the setting of high standards and targets for safety, health and environmental performance.

Within the financial and overall objectives for the Group, agreed by the Board, the management of the Group as a whole is delegated to the Chief Executive and the Executive Directors. The conduct of ICI's individual Businesses is delegated to the Executive Management Team. They are accountable for the conduct and performance of their Businesses within the agreed Business strategy. They have full authority to act subject to the reserved powers and sanctioning limits laid down by the Board and to Group policies and guidelines.

Businesses are responsible for meeting the defined reporting timetables and compliance with Group accounting manuals which set out accounting policies, controls and definitions.

The Executive Management Team receives a monthly summary of financial results from each Business, and the Group's published quarterly financial information is based on a standardised and timely reporting process.

On completion of all major investments, post event reviews are carried out by the relevant businesses and reviewed by the Executive Management Team. This process helps improve the quality of business judgements through the understanding and experience gained.

Responsibility for ensuring compliance with selected Group policies and guidelines has been delegated by the Board to nominated senior functional managers. These nominated managers receive annual compliance reports from Executive Vice Presidents, Chief Executive Officers of Businesses and from other senior managers. In turn, there is an annual report to the Audit Committee, on behalf of the Board, on the degree of compliance with Group policies and guidelines. Corrections to any weaknesses found are monitored and controls are developed to match changing circumstances.

Principles of business conduct
As a leading international company, ICI's reputation for high ethical standards is central to its business success. A new Code of Business Conduct has been developed to replace the previous Business Ethics Statement and is now being communicated throughout the Group.

Communications
Communications with shareholders are given a high priority. There is a succinct Annual Review which is sent to shareholders; a full Annual Report and accounts and Form 20-F is available on request. At the half year, an interim report is published and the quarterly results are published via the Stock Exchange and by press release. The Company also has a website (www.ici.com) which contains up to date information on Group activities and published financial results. There is a regular dialogue with individual institutional shareholders as well as presentations to analysts after the quarterly results. There is also an opportunity for individual shareholders to question the Chairman at the AGM. As an alternative, shareholders can leave written questions for response by the Company. Directors meet informally with shareholders after the meeting. The Company responds throughout the year to numerous letters from individual shareholders on a wide range of issues.

Membership of the Board Committees and a summary of their terms of reference are as follows:

Audit Committee

Members:

Lord Trotman (Chairman)
Lord Butler
Mr J T Gorman
Mr R N Haythornthwaite
Sir Roger Hurn

Terms of reference:

To assist the Board in the discharge of its responsibilities for corporate governance, financial reporting and corporate control.

Remuneration and Nomination Committee

Members:

Sir Roger Hurn (Chairman)
Lord Butler
Mr J T Gorman
Mr R N Haythornthwaite
Lord Trotman
Mr C Miller Smith (when meeting as the Nomination Committee)

Terms of reference:

To recommend to the Board the remuneration policies for Executive Directors and the most senior management in the Company. To determine the remuneration of these executives and to exercise the powers of the Directors under the Share Option Schemes. To propose to the Board new appointments of Directors.

Appeals Committee

Members:

Mr A G Spall (Chairman)
Lord Butler
Mr R N Haythornthwaite

Terms of reference:

To determine the policy and practice for the making of charitable donations in the UK.

Directors' report

The Directors of Imperial Chemical Industries PLC have pleasure in presenting their Annual Report and Accounts for the year ended 31 December 2000.

Principal activities
The principal activities of the Company are research, manufacture and sale of specialty products and paints. A review of the Company and its subsidiaries' businesses, including research and development, is given on pages 7 to 31 of this Report.

Dividends
The Directors have declared the payment of a second interim dividend of 19.5 pence per £1 Ordinary Share to be paid on 25 April 2001 to Ordinary shareholders on the Company's Register on 9 March 2001. A first interim dividend of 12.5 pence per £1 Ordinary Share was paid on 4 October 2000 making a total of 32.0 pence (1999 32.0 pence).

Share capital
Changes in the Company's Ordinary share capital during the year are given in note 24 to the Accounts.

Purchase of own shares
The Directors are authorised by the shareholders to purchase, in the market, the Company's own shares, as is permitted under the Company's Articles of Association. Although no such purchases have been made, the Directors will seek to renew the authority from its shareholders at the Annual General Meeting.

Directors
The names of the Directors of the Company at the date of this Report and biographical details are given on page 32. A complete list of directors who served during the year is shown within the Remuneration Report, on page 38.

Directors' remuneration and interests
A statement of Directors' remuneration and their interests in the shares, debentures and options of the Company and its subsidiaries is set out in the Remuneration Report on pages 37 to 43.

Employment policies
ICI's vision is based on inspiring and developing outstanding people and the Company is committed to cultural diversity and equal opportunities.

Respect for the individual is enshrined in the Company's new Code of Business Conduct, launched in October 2000, which states that: "ICI's policy is to treat individuals in all aspects of employment solely on the basis of ability irrespective of race, religion, colour, age, disability, gender, sexual orientation or marital status". The practical application of this policy is a matter for individual ICI businesses throughout the world.

As part of the Company's commitment to the employment and development of people with disabilities in the UK, all ICI businesses have achieved the "Positive About Disability" Two Ticks Symbol.

ICI also believes that knowledgeable and well informed employees are essential to its success and that there should be clear channels of communication and opportunities for consultation and dialogue on issues which affect both business performance and employees' working lives. The mechanisms for achieving this aim vary between different countries and between different businesses in the ICI Group.

During 2000 ICI increased the frequency of its European Consultative Forum (ECF) meetings from one to two per year and, as part of the new ECF constitution, the Chief Executive now attends one meeting per year to discuss Company strategy with employee representatives.

ICI has a mixture of unionised and non-unionised operations across the world and is committed to fostering a positive employee relations environment at all its locations.

Payment to suppliers
The Company agrees terms and conditions for its business transactions with suppliers. Payment is then made to these terms, subject to the terms and conditions being met by the supplier. Payment terms can differ in the many markets in which ICI trades. Trade creditors of the Company at 31 December 2000 were equivalent to 62 days (1999 56 days) purchases, based on the average daily amount invoiced by suppliers to the Company during this year.

Political and charitable donations
The Group's worldwide charitable donations in 2000 amounted to £2.7m. Of this total, £0.6m was spent in the UK. The Group made no donations for political purposes.

Auditor
KPMG Audit Plc has expressed its willingness to continue in office as auditor of the Company and a resolution to propose its re-appointment and to authorise the Directors to agree its remuneration will be submitted to the Annual General Meeting.

The remuneration and expenses of the Auditor in respect of the statutory report to the members of the Company for the year 2000 amounted to £60,000 (1999 £79,000). The total figure for the Group was £2.9m (1999 £3.5m) which includes charges for audits of subsidiary companies in the UK and overseas, both for the purposes of consolidation into the Group accounts and to meet statutory requirements of the countries in which subsidiaries operate.

Fees paid to the Auditor (and its associates) of the Company for services other than statutory audit supplied to the Group during 2000 totalled £5.1m (1999 £6.3m) of which £1.4m (1999 £4.7m) related to the acquisition and divestment activities associated with the Group's portfolio changes. These fees have been fully reviewed by the Audit Committee.

Annual General Meeting
The Notice of Annual General Meeting to be held on Wednesday, 23 May 2001 is contained in a separate letter from the Chairman accompanying this Annual Report and Accounts.

Going concern
The operation of the Group's control procedures gives the Directors a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the Group accounts.

On behalf of the Board
Debjani Jash
Company Secretary

14 February 2001

Registered office
Imperial Chemical House
Millbank
London SW1P 3JF

Registered number: 218019

Remuneration report

Introduction
As a key element of the major shift in ICI's business portfolio and the drive for future growth, ICI has refined and strengthened its remuneration policy in order to:

- create a strong focus on Total Shareholder Return (TSR) for the Executive Directors;
- provide a clear link to the key performance measure of Economic Profit (referred to internally as Net Contribution to Value) which is used widely through the Group's incentive framework;
- ensure that, relative to performance, ICI is market competitive in the total compensation package that it offers;
- create a common global framework of incentives.

Economic Profit
Economic Profit is ICI's key internal financial measure and encourages both profitable growth and the efficient use of capital to generate sustainable shareholder value. Economic Profit is based on profit after tax less a charge for the use of capital. Within ICI Economic Profit is referred to as Net Contribution to Value (NCV).

Reward philosophy
The Group's objective is to provide remuneration in a form and amount which will attract, retain, motivate and reward high calibre Executive Directors and senior executives. To achieve this, the remuneration package is based upon the following principles:

- the total remuneration package for on-target performance should be fully competitive in the relevant market;
- reward elements should be designed to reinforce the link between performance and reward;
- incentives should align the interests of executives and shareholders, and reward the creation of long-term value for shareholders;
- packages can be structured flexibly to meet unique needs and business priorities.

Remuneration package
The remuneration package for Executive Directors comprises five elements:

- base salary;
- annual incentive plan;
- Performance Growth Plan;
- share option scheme; and
- post-retirement and other benefits.

Each of the above elements is explained in the pages which follow.

During 2000 the Company obtained shareholder approval to implement the Performance Growth Plan, a long-term incentive plan designed to encourage the delivery of sustained profitable growth. This replaced the Bonus Conversion Plan within the framework of incentives, and further strengthens the link between executive reward and the creation of long-term shareholder value.

Service contracts
All Executive Directors are employed on rolling contracts subject to one year's notice.

The Remuneration Committee accepts and strongly endorses the principle of mitigation of damages on early termination of a service contract.

Personal shareholdings
Executive Directors and senior executives are expected over a five year period to build up personal shareholdings of ICI Ordinary Shares as follows:

	Target value of Shareholding
Chief Executive	Two times base salary
Executive Directors	One times base salary
Other senior executives	One-half times base salary

External directorships
Executive Directors are encouraged to become Non-Executive Directors for one or two external organisations. In order to avoid any conflict of interest all appointments are subject to the approval of the Remuneration Committee and the Board. Payments received in respect of these appointments are retained by Directors.

The Remuneration Committee

Role
The Remuneration Committee's role is to determine, on behalf of the Board, the service contracts and emoluments of the Chairman, Executive Directors and the Executive Management Team. This provides the framework for remunerating all senior executives.

Membership
The Remuneration Committee is composed of the following Non-Executive Directors of the Company:

Sir Roger Hurn (Chairman)
Lord Butler
Mr J T Gorman
Mr R N Haythornthwaite
Lord Trotman

The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided.

Advisers
To ensure that ICI's remuneration practices are competitive, the Remuneration Committee has access to detailed external research on market data and trends from Towers Perrin Inc, William M Mercer Ltd, Watson Wyatt Ltd and other independent international consultants.

Compliance
The constitution and operation of the Committee comply with the Combined Code for Corporate Governance of the UK Listing Authority.

Remuneration report

Annual Remuneration

Executive Directors

Base salaries
Base salaries are a fixed annual sum recognising ongoing market value. The Company's policy is to set the salaries of Executive Directors in ranges around the market median for those in similar positions in large, international, publicly quoted companies. Salaries for individual Directors are set each year by the Remuneration Committee, recognising the individual's performance and experience, and developments in the market place.

Annual Incentive Plan
The Annual Incentive Plan motivates and rewards the achievement of annual financial and tactical goals of ICI and its businesses. During 2000, bonus targets focused on Economic Profit growth, the delivery of cash and the achievement of personal strategic objectives. Financial targets are established by the Board and approved by the Remuneration Committee.

No bonus is earned under this plan unless threshold performance goals are attained. The bonus paid to Executive Directors for achieving on-target performance is 25% of base salary (50% in the case of US Directors). A maximum bonus of 50% of base salary can be paid for significant over-achievement of goals (100% in the case of US Directors).

During 2000, the Group achieved further significant improvements in Economic Profit as well as another excellent year of cash delivery. This resulted in above target bonuses for a majority of senior executives.

Non-Executive Directors

Policy
The remuneration of Non-Executive Directors is determined by the Board, within the limits set out in the Articles of Association. It comprises an annual fee of £30,000 (1999 £25,000). An additional £10,000 (1999 £7,500) per annum is paid to the Chairman of a Board Committee.

Non-Executive Directors are not eligible for incentive payments.

ICI operates a scheme which enables Non-Executive Directors to receive payment of part of their fees in the form of ICI Ordinary Shares. Lord Simpson elected to receive 50% of his fees for both 2000 and 1999 in the form of Ordinary Shares and Mr H C Lee elected similarly in respect of his fees for 1999.

Directors' emoluments

		Base salary and fees		Annual incentive payments		Benefits and other emoluments		Total	
	Notes	**2000 £000**	1999 £000	**2000 £000**	1999 £000	**2000 £000**	1999 £000	**2000 £000**	1999 £000
Sir Ronald Hampel	1		67				3		70
C Miller Smith	2	**326**	493	**74**	237	**12**	11	**412**	741
Dr B R O'Neill		**575**	514	**268**	263	**18**	17	**861**	794
R J Margetts	1,3	**217**	416	**101**	199	**10**	11	**328**	626
P J Drechsler	1,4	**295**	237	**95**	109	**32**	26	**422**	372
J A Kennedy	1		293		135		13		441
Dr J D G McAdam	1	**313**	253	**143**	120	**27**	20	**483**	393
W H Powell	1	**393**		**172**		**16**		**581**	
A G Spall		**385**	369	**179**	177	**14**	13	**578**	559
Lord Butler		**30**	25					**30**	25
J T Gorman	1	**8**						**8**	
Sir Roger Hurn		**40**	33					**40**	33
H C Lee	1	**10**	25					**10**	25
Lord Simpson		**40**	33					**40**	33
Lord Trotman		**30**	25					**30**	25
Total		**2,662**	2,783	**1,032**	1,240	**129**	114	**3,823**	4,137

(1) Mr P J Drechsler and Dr J D G McAdam were appointed on 1 March 1999 and Mr W H Powell was appointed on 2 February 2000. Mr J T Gorman joined the Board on 20 September 2000. Sir Ronald Hampel retired on 22 April 1999, Mr J A Kennedy retired on 30 June 1999, Mr H C Lee retired on 28 April 2000, and Mr R J Margetts retired, as a Director, on 30 June 2000. All amounts paid to these individuals are in respect of the part year for which they were employed as Directors.

(2) From 1 May 2000, Mr C Miller Smith was appointed part-time Chairman and his base salary was reduced to £250,000 pa, other than for pension purposes. From this date Mr Miller Smith ceased to participate in the Annual Incentive Plan and his Annual Incentive payment for 2000 is in respect of the part of the year prior to this date. Mr Miller Smith does not participate in the Performance Growth Plan and no longer receives grants under the executive Share Option Scheme.

(3) Following the retirement of Mr R J Margetts as a Director, he continued to provide services to 31 December 2000 as a senior adviser to the Board on ICI's divestment programme. Payments in this capacity in 2000 amounted to £45,000.

(4) In addition, Mr P J Drechsler received 729 ICI Ordinary Shares of £1 each, with a market value of £3,295 (1999 four directors received Ordinary Shares with a market value of £165,308). These were provided by the Company as matched shares under the Bonus Conversion Plan in respect of the 1996 bonus (1999 in respect of 1995 bonus). This plan operated for the last time in respect of the 1999 financial year. A bonus recipient could elect to have shares purchased with part or all of their net bonus after tax. After three years, shares purchased in the plan are released, and matched by an equal number of shares by the Company, provided the individual remains employed by ICI.

Remuneration report

Performance Growth Plan

The Performance Growth Plan (PGP) was launched to drive and reward longer-term business performance improvement. The Plan strengthens the alignment with shareholders by placing a greater emphasis on sustained long-term value creation. It is an important component of ICI's framework of incentives, and its principles are widely used throughout the business.

For the Executive Directors and Executive Management Team, this is a share-based plan under which PGP shares may be earned based on performance over a three year period as follows:

- for the Chief Executive and those Executive Directors with functional responsibilities, the number of shares earned under the PGP will depend on how the Total Shareholder Return (TSR) for a £1 Ordinary Share in ICI over the performance period compares with the TSR of an ordinary share in each of the companies in ICI's peer group (see across). TSR is the change in the Company's share price plus reinvested dividends;
- for those Executive Directors who are primarily responsible for the performance of ICI's International businesses, reward will also be based on the performance of their own areas; ie
  - 50% of their award will be based on the relative TSR performance of the Company, and
  - the other 50% of their award will depend on the Economic Profit performance over three years of the business for which the Executive Director is responsible;
- in addition, the Remuneration Committee must be satisfied that the underlying performance of ICI justifies the receipt of any shares.

The shares required to make awards under this plan are provided via a trust funded by ICI. There is no dilution of ICI's issued share capital.

The maximum conditional award will be 100% of base salary per annum (200% in the case of US Directors). For the maximum awards to be paid on the TSR element, performance must be at least upper quartile versus the peer group. For achieving median TSR performance 40% of this maximum award will be paid and no award will be paid for below median performance.

The targets which relate to Economic Profit growth are set at a level consistent with achieving the Company's TSR goals and ICI's strategic targets.

Target Setting Process
ICI's financial objectives derive from a combination of top down goals set by market expectations and a biennial strategic planning process. These strategic financial objectives then form the basis of all financial targets set under the PGP.

The peer group for the TSR element represents ICI's key global competitors and has been selected on the basis of market location, size, diversity and performance. The initial peer group of companies for the conditional awards made in 2000 is: Cytec Industries Inc, Engelhard Process Chemicals GmbH, H B Fuller Company, W R Grace & Co, Hercules Inc, International Flavors and Fragrances Inc, Rohm and Haas Company, The Sherwin-Williams Company, Crompton Corporation (formerly C K Witco Corporation), Danisco A/S, Rhodia SA, Henkel Kgaa-Vorzug, Ciba Specialty Chemicals Holding Inc, Clariant AG, Akzo Nobel NV and Laporte PLC.

Details of the Ordinary Shares of the Company that have been conditionally awarded to Executive Directors in 2000 under the Performance Growth Plan are in the table below.

Awards under PGP

		Shares that would be awarded for median TSR/on target Economic Profit performance		Maximum number of Shares that could be awarded		Performance period
	Notes	TSR Measure	Economic Profit Measure	TSR Measure	Economic Profit Measure	
Dr B R O'Neill		36,682	n/a	91,706	n/a	1.01.00-31.12.02
P J Drechsler		9,123	9,123	22,809	18,246	1.01.00-31.12.02
Dr J D G McAdam		9,793	9,793	24,484	19,586	1.01.00-31.12.02
W H Powell	1	29,016	29,016	70,936	58,032	1.01.00-31.12.02
A G Spall		24,561	n/a	61,403	n/a	1.01.00-31.12.02

(1) Mr W H Powell's award is in the form of ADRs, but for the purpose of this table has been disclosed in terms of £1 Ordinary Share equivalents.

Prior to his appointment as a Director Mr Powell participated in the cash based long-term incentive plan operated by National Starch Company (NSC). Under this plan Mr Powell received performance units which deliver a cash sum after four years to reflect the extent to which NSC's performance meets a pre-defined performance condition. At 31 December 2000 Mr Powell had rights to 10,900 Performance Units with a weighted average on target value of $100 per unit and a weighted average maximum value of $188 per unit.

Remuneration report

Share Option Scheme

The Share Option Scheme rewards Executive Directors and senior executives for longer-term corporate performance and is aligned with returns to shareholders.

Options to purchase the Company's £1 Ordinary Shares may be granted each year to Executive Directors and senior executives. Individual option grants are based on individual performance and potential impact on longer-term business results.

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 annum.

The shares to meet rights granted do not dilute ICI's issued share capital as they are bought in the market.

Options must be held for a minimum of three years from grant before they can be exercised and lapse if not exercised within ten years.

In the USA, grants are made as stock appreciation rights (SARs) and, on exercise, the gain is delivered in the form of American Depositary Receipts (ADRs). Each ADR represents four ICI Ordinary Shares. The grants are subject to similar rules.

Options to subscribe for Ordinary Shares granted to and exercised by Directors during 2000 are included in the table below.

Directors' interests in share options

	1 January 2000 or on date of appointment	Options granted during 2000		Options exercised during 2000	Options outstanding at 31 December 2000 (note 6)			
Directors at 31 December 2000	Number	Number	Price £	Number	Number	Weighted average exercise price £	Date from which earliest option exercisable	Date latest option expires
C Miller Smith	526,705	1,788	3.66*	–	1,788	3.66	1.2.06	31.7.06
					526,705	8.35†	7.11.97	28.4.09
Dr B R O'Neill	356,214	225,048	5.11	–	227,567	5.11	21.2.03	20.2.10
					353,695	8.19†	18.5.01	28.4.09
P J Drechsler	173,902	69,960	5.11	–	73,253	5.09	21.2.03	20.2.10
		774	3.66*		171,383	7.38†	22.3.96	28.4.09
Dr J D G McAdam	130,029	75,097	5.11	–	78,679	5.09	21.2.03	20.2.10
		442	3.66*		126,889	7.94†	4.8.00	28.4.09
W H Powell (note 5)	217,176	160,048	5.11	–	236,776	5.20	8.3.02	20.2.10
					140,448	8.61†	4.8.00	27.5.09
A G Spall (note 2)	312,348	94,178	5.11	(1,400)	94,178	5.11	21.2.03	20.2.10
					310,948	8.30†	24.6.96	28.4.09

* Options granted under UK Sharesave Plan.

† Exercise price exceeds market price at 31 December 2000.

(1) No options were granted to Mr R J Margetts during 2000.

(2) During 2000 Mr A G Spall exercised 1,400 options, with a weighted average exercise price of £6.36, at no gain; there were no gains on exercise of options by Directors during 1999. The options outstanding are exercisable at prices between £3.66 and £12.14. The market price of the shares at 31 December 2000 was £5.52 and the range during 2000 was £3.54 to £6.74. The Register of Directors' Interests (which is open to shareholders' inspection) contains full details of Directors' shareholdings and options to subscribe for shares.

(3) Non-Executive Directors are not eligible for share option grants.

(4) In accordance with the UK Listing Authority 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 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) Mr W H Powell's options are awarded in the form of SARs, denominated in ADRs, but for the purpose of this table have been disclosed in terms of Ordinary Share option equivalents.

(6) During the period 1 January 2001 to 7 February 2001 there were no changes in the interests of Directors in options.

Remuneration report

Directors' interests in shares

ICI £1 Ordinary Shares	Notes	1 January 2000 or on date of appointment	31 December 2000	Contingent interest in matched shares (note 4) 1 January 2000 or on date of appointment	Contingent interest in matched shares (note 4) 31 December 2000
C Miller Smith	1	27,737	27,737	–	–
Dr B R O'Neill	1	26,000	69,193	–	31,193
P J Drechsler	1, 2	30,937	49,201	8,458	23,280
Dr J D G McAdam	1	3,052	20,178	–	17,126
W H Powell	1, 3	10	25,258	–	–
A G Spall	1	35,053	57,409	–	20,956
Lord Butler		1,000	1,000		
J T Gorman		–	–		
Sir Roger Hurn		5,000	10,000		
Lord Simpson		10,238	12,453		
Lord Trotman	5	40,500	40,500		

In addition, certain Directors have a conditional interest in Ordinary Shares under the Performance Growth Plan, see page 39.

(1) These Directors are potential beneficiaries of the Company's employee benefit trust, which are used to hedge share option grants, and are therefore treated as interested in the 5,705,880 shares (including ADRs expressed as Ordinary Shares equivalents) held by the trustees.

(2) Mr P J Drechsler's interests in shares at 1 January 2000 comprised 20,529 Ordinary Shares and 2,602 ADRs. At 31 December 2000 these comprised 38,793 Ordinary Shares and 2,602 ADRs. Mr Drechsler also had an entitlement at 1 January 2000, and throughout 2000 to receive 1,190 ADRs together with a corresponding contingent interest in a like number of matched ADRs.

(3) Mr W H Powell's interests in shares at 2 February 2000, his date of appointment, comprised 10 Ordinary Shares. At 31 December 2000, these comprised 10 Ordinary Shares and 6,312 ADRs, (representing 25,248 Ordinary Shares).

(4) Certain Executive Directors have a contingent interest in matched shares under the Bonus Conversion Plan provided in respect of 1997, 1998 and 1999 bonuses. This plan was operated for the last time in respect of the 1999 financial year. A bonus recipient could elect to have shares purchased at market value with part or all of the net bonus after tax. After three years, shares purchased in the plan are released and matched by an equal number of shares by the Company, provided the individual remains employed by ICI.

(5) Lord Trotman's interests in shares at 1 January 2000 and at 31 December 2000 comprised 500 £1 Ordinary Shares and 10,000 ADRs.

During the period 1 January 2001 to 7 February 2001 there were no changes in the interests of Directors in shares.

Remuneration report

Retirement benefits

ICI encourages and supports its executives to save for their retirement by providing retirement benefit plans in accordance with local practice in the countries in which it operates. Such plans are designed, as part of the total remuneration package, to attract the quality of staff needed by the business and to aid mobility between countries where necessary. In keeping with the Group's philosophy on "fixed" elements of reward, they are normally positioned around the median of the local market. Where possible they provide flexibility and choice to increase employee commitment, and are based on executives making their own contributions as well as the Company.

Except where Defined Benefit plans already exist for current employees, they are of a Defined Contribution nature so that Company costs are stable and predictable. It is ICI's policy to match retirement benefit liabilities where possible by external funds rather than by Company assets.

Details of the accrued pension to which each Director is entitled on leaving service, and the changes in 2000 are shown in the table below.

Directors' pension benefits

	Defined benefit plans			
	Age at 31 December 2000 or date of retirement	Contributions by Directors £	Additional pension accrued in 2000 payable at normal retirement age £	Accrued pension at 31 December 2000 payable at normal retirement age or date of retirement £
Dr B R O'Neill	52	4,590	1,480	4,080†
R J Margetts (retired 30 June 2000)	53	13,390	6,230	246,390
P J Drechsler	44	14,310	5,510	107,170
Dr J D G McAdam	52	7,370	8,620	192,370
W H Powell	55	–	45,418	233,160
A G Spall	56	23,610	9,060	218,020

† Accrued pension entitlement under the ICI Pension Fund, at 31 December 1999 was £2,520.

Payments in 2000 to defined contribution plans were £352,700 (1999 £298,730). These were made in respect of: Mr C Miller Smith £179,400 (1999 £171,600), Dr B R O'Neill £145,050 (1999 £127,130) and Mr W H Powell £28,250.

Pensions and commutations of pensions paid by the Company in respect of service of former Directors amounted to £228,000 (1999 £227,000).

Pension fund membership, benefits, rights and options of individual Directors are as follows:

Mr C Miller Smith belongs to a personal funded unapproved benefit scheme.

Dr B R O'Neill belongs to a personal funded unapproved benefit scheme. He is also a member of the Senior Executive Rules (1996) Section of the ICI Pension Fund. This provides Inland Revenue approved retirement benefits, based on final salary. The Company's contribution to this fund in 2000 was at the normal funding rate of 13.4% of salary to 31 March 2000 and 16.8% thereafter.

The Senior Executive Rules Section provides pensions in respect of salary up to the Inland Revenue Earnings Cap (currently £91,800 for the fiscal year 2000/2001), as follows:

(a) a pension of 1/60th of final pensionable pay up to the Earnings Cap for each year of pensionable service, payable at the normal retirement age of 62;

(b) a spouse's or nominated dependant's pension payable on death of the member of two-thirds of the member's pension and dependant's pensions for children under age 18;

(c) an early retirement pension payable from age 50 onwards based on accrued entitlement and subject to actuarial abatement;

(d) a pension on termination of employment due to serious incapacity, based on prospective service until normal retirement age;

(e) a death in service benefit of four times salary up to the Earnings Cap;

(f) pensions being paid or deferred are guaranteed to increase annually in November each year by the lesser of 5% or the increase in the UK Retail Price Index. Additional increases may be paid at the discretion of the Company and Trustees;

(g) the transfer value payable on leaving service when an immediate pension is not payable does not include any allowance for discretionary benefits.

Until the date of his retirement, Mr R J Margetts was a contributing member of the Senior Executive Section of the ICI Pension Fund.

He retired on 30 June 2000 and in accordance with the Rules of the Fund was paid an immediate pension. Under the terms of his service agreement, this pension was based on his final pensionable salary together with an allowance of 10% in respect of performance-related bonuses paid to him in the last three years prior to his retirement.

Remuneration report

Mr P J Drechsler and Mr A G Spall belong to the Senior Executive Section of the ICI Pension Fund. Their entitlements are as follows:

(a) a pension of two thirds of final pensionable pay, payable at a normal retirement age of 62. Bonuses awarded to Directors appointed after 1993 are not pensionable;

(b) a spouse's or nominated dependant's pension payable on death of the member of two-thirds of the member's pension and dependant's pensions for children under age 18;

(c) an early retirement pension payable from age 50 onwards on retirement at the request or with the consent of the Company based on accrued entitlement;

(d) a pension of two-thirds of final pensionable pay on the event of retirement due to permanent incapacity;

(e) a death in service benefit of four times pensionable pay;

(f) pensions being paid or deferred are guaranteed to increase annually in November each year by the lesser of 5% or the increase in the UK Retail Price Index. Additional increases may be paid at the discretion of the Company and Trustees;

(g) the transfer value payable on leaving service when an immediate pension is not payable does not include any allowance for discretionary benefits.

Dr J D G McAdam is entitled to Senior Executive benefits from the ICI Specialty Chemicals Pension Fund. The ICI Specialty Chemicals Pension Fund was established for the employees of the Speciality Chemicals Businesses purchased from Unilever in 1997. This offers Inland Revenue approved retirement benefits, based on final salary. The Company's contribution to this fund in 2000 was at the normal funding rate of 12.7% of salary to 31 March 2000 and 14.3% thereafter. Dr McAdam is entitled to the following benefits:

(a) a pension (including any social security pension) of two-thirds of final pensionable pay, payable at a normal retirement age of 60, or later;

(b) a spouse's or nominated dependant's pension payable on death of one half of the member's pension and dependant's pensions for children under age 18;

(c) an early retirement pension payable from age 50 on leaving the Company on being given one year's notice, based on the accrued entitlement. This may be actuarially reduced, but will not be less than 25% of final pensionable pay at age 50 and pro-rata up to two-thirds at age 60;

(d) a pension (including any social security pension) of two-thirds of final pensionable pay on the event of early retirement due to serious failure of health;

(e) a death in service benefit of four times pensionable pay;

(f) in calculating pensionable pay, an allowance up to a maximum of 20% of salary is included in respect of bonus paid over the last seven years prior to retirement. In calculating the figures shown in the table on page 42 for Dr McAdam, a notional pensionable bonus of 20% has been used;

(g) pensions being paid are guaranteed to increase annually in October by the increase in the UK Retail Price Index up to 5% pa. Any increase in excess of 5% requires the consent of the Company;

(h) the transfer value payable on leaving service when an immediate pension is not payable does not include any allowance for discretionary benefits.

Mr W H Powell participates in the National Starch and Chemical Company Pension Plan for Salaried Employees (the "NSC Pension Plan"), which is the funded tax qualified defined benefit plan covering the US salaried employees of the National Starch Business.

He also participates in the Supplementary Retirement and Savings Plan of National Starch and Chemical Company (SRSP) which provides an unfunded pension benefit equal to the difference between pension provided under the NSC Pension Plan and the pension determined in accordance with the following formula:

An annual benefit at Normal Retirement Age (age 65) equal to 3% of Final Average Compensation for each year of service up to 15 years and 1% of Final Average Compensation for each year of service exceeding 15 years but less than 36 years. The maximum pension is 65% of Final Average Compensation.

Other benefits and conditions attaching to these plans are as follows:

(a) in the event of death prior to Mr Powell's annuity starting date, his beneficiary may elect payment of accrued benefit in the form of an annuity or a lump sum;

(b) an unreduced early retirement pension at age 60 or when age plus service equals 85 if earlier (age 58 in Mr Powell's case). On earlier retirement the benefit is equal to normal retirement benefit reduced by 4% for each year of retirement prior to age 60;

(c) pensionable compensation includes salary, and, in line with US practice, short-term incentive payments;

(d) no automatic cost of living increase is provided under these plans.

Mr Powell also participates in two defined contribution plans:

(a) a US tax qualified Internal Revenue Code section 401(k) plan covering the majority of US Employees; and

(b) the Executive Retirement Plan (ERP) which is an unfunded, non-qualified plan. Company contributions that could not be made to the 401(k) plan by reason of US Internal Revenue Code limits are credited to Mr Powell's ERP account.

Directors' responsibilities in respect of the financial statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. These financial statements also present additional information for US shareholders. Accordingly they are presented to meet both UK and US requirements, including those of the United States Securities and Exchange Commission, to give a consistent picture to all shareholders.

The Directors have a general responsibility for taking such steps as are reasonably open to them for safeguarding the assets of the Group and to prevent and detect fraud and other irregularities.

Independent Auditors' report to the Members of Imperial Chemical Industries PLC

We have audited the financial statements on pages 46 to 101.

Respective responsibilities of Directors and Auditors
The Directors are responsible for preparing the Annual report and accounts and Form 20-F. As described on page 44 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards; the Directors have also presented additional information under United States requirements. Our responsibilities, as independent auditors, are established by statute in the United Kingdom, generally accepted auditing standards in the United Kingdom and the United States, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 34 to 35 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion
We conducted our audit in accordance with auditing standards generally accepted in the United Kingdom and the United States. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

United Kingdom opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2000 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Independent Auditors' report (continued)

United States opinion
In our opinion, the consolidated financial statements on pages 46 to 101 present fairly, in all material respects, the financial position of the Group at 31 December 2000 and 1999 and the results of its operations and cash flows for each of the years in the three-year period ended 31 December 2000, in conformity with generally accepted accounting principles in the United Kingdom.

Generally accepted accounting principles in the United Kingdom vary in certain significant respects from generally accepted accounting principles in the United States. Application of generally accepted accounting principles in the United States would have affected results of operations for each of the years in the three year period ended 31 December 2000 and consolidated shareholders' equity at 31 December 2000 and 1999, to the extent summarised in note 43 to the consolidated financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
14 February 2001

KPMG Audit Plc

Contents to the accounts

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 34 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.

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.

Financial derivatives (continued)
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/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 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 net realisable value using a weighted average method of valuation.

Group profit and loss account for the year ended 31 December 2000

	Notes	2000 Continuing operations Before exceptional items £m	Exceptional items £m	Discontinued operations £m	Total £m
Turnover	5,6	6,415		1,333	7,748
Operating costs	4,6	(5,876)	–	(1,350)	(7,226)
Other operating income	6	43	–	12	55
Trading profit (loss)	4,5,6	582	–	(5)	577
After deducting goodwill amortisation	5	*(35)*			*(35)*
Share of operating profits less losses of associates	7	91	–	9	100
		673	–	4	677
Fundamental reorganisation costs	4		(14)	–	(14)
Profits less losses on sale or closure of operations	4		16	(531)	(515)
Profits less losses on disposals of fixed assets	4		10	1	11
Amounts written off investments	4		–		–
Profit (loss) on ordinary activities before interest	5	673	12	(526)	159
Net interest payable	4, 8				
Group		(201)	16	(1)	(186)
Associates		(60)	–	–	(60)
		(261)	16	(1)	(246)
Profit (loss) on ordinary activities before taxation		412	28	(527)	(87)
Taxation on profit (loss) on ordinary activities	9	(112)	(6)	1	(117)
Profit (loss) on ordinary activities after taxation		300	22	(526)	(204)
Attributable to minorities		(24)	–	–	(24)
Net profit (loss) for the financial year		276	22	(526)	(228)
Dividends	10				(232)
Profit (loss) retained for the year	25				(460)
Earnings (loss) per £1 Ordinary Share	11				
Basic		38.2p	3.0p	(72.8)p	(31.6)p
Diluted		38.2p	3.0p	(72.8)p	(31.6)p

There were no material differences between reported profits and losses and historical cost profit and losses on ordinary activities before tax in 2000, 1999 and 1998.

Statement of Group total recognised gains and losses for the year ended 31 December 2000

	2000 £m
Net profit (loss) for the financial year	
Parent and subsidiary undertakings	(217)
Associates	(11)
	(228)
Currency translation differences on foreign currency net investments and related loans	(15)
Taxation on translation differences on foreign currency loans	(27)
	(42)
Other items	–
Total gains and (losses) recognised since last annual report	(270)

	1999				1998 (as restated – note 1)			
	Continuing operations		Discontinued operations	Total	Continuing operations		Discontinued operations	Total
	Before exceptional items	Exceptional items			Before exceptional items	Exceptional items		
	£m	£m	£m	£m	£m	£m	£m	£m
	6,179		2,270	8,449	5,843		3,443	9,286
	(5,710)	(83)	(2,225)	(8,018)	(5,413)	(119)	(3,443)	(8,975)
	30	–	12	42	67	–	26	93
	499	(83)	57	473	497	(119)	26	404
	(35)			*(35)*	*(23)*			*(23)*
	54	–	7	61	5	–	(2)	3
	553	(83)	64	534	502	(119)	24	407
		(74)	–	(74)				
		171	197	368		18	71	89
		29	(9)	20		(4)	7	3
		–		–			(34)	(34)
	553	43	252	848	502	(105)	68	465
	(261)	(54)	(1)	(316)	(326)	–	(6)	(332)
	(29)	–	–	(29)	–	–	–	–
	(290)	(54)	(1)	(345)	(326)	–	(6)	(332)
	263	(11)	251	503	176	(105)	62	133
	(69)	(39)	(136)	(244)	(46)	23	(39)	(62)
	194	(50)	115	259	130	(82)	23	71
	(10)	3	–	(7)	10	4	(2)	12
	184	(47)	115	252	140	(78)	21	83
				(233)				(232)
				19				(149)
	25.5p	(6.5)p	16.0p	35.0p	19.3p	(10.8)p	3.0p	11.5p
	25.4p	(6.5)p	16.0p	34.9p	19.3p	(10.7)p	2.8p	11.4p

	1999 £m	1998 (as restated – note 1) £m
	236	93
	16	(10)
	252	83
	(22)	(59)
	18	16
	(4)	(43)
	–	–
	248	40

Balance sheets at 31 December 2000

	Notes	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Assets employed					
Fixed assets					
Intangible assets – goodwill	12	**609**	626	**–**	–
Tangible assets	5, 13	**2,398**	2,474	**58**	64
Investments					
Subsidiary undertakings	14			**10,095**	9,791
Participating and other interests	15	**327**	292	**12**	6
		3,334	3,392	**10,165**	9,861
Current assets					
Stocks	16	**843**	853	**27**	27
Debtors	17	**2,244**	2,070	**3,395**	3,247
Investments and short-term deposits	18	**415**	394	**–**	–
Cash	34	**255**	270	**16**	18
		3,757	3,587	**3,438**	3,292
Total assets		**7,091**	6,979	**13,603**	13,153
Creditors due within one year					
Short-term borrowings	19	**(765)**	(102)	**–**	–
Current instalments of loans	21	**(466)**	(647)	**(27)**	(108)
Other creditors	20	**(2,277)**	(2,157)	**(8,119)**	(7,124)
		(3,508)	(2,906)	**(8,146)**	(7,232)
Net current assets (liabilities)		**249**	681	**(4,708)**	(3,940)
Total assets less current liabilities	5	**3,583**	4,073	**5,457**	5,921
Financed by					
Creditors due after more than one year					
Loans	21	**2,231**	2,252	**279**	247
Other creditors	20	**63**	71	**1,337**	1,256
		2,294	2,323	**1,616**	1,503
Provisions for liabilities and charges	22	**1,446**	1,456	**254**	321
Minority interests – equity		**59**	50	**–**	–
Shareholders' funds – equity					
Called-up share capital	24	**728**	728	**728**	728
Reserves					
Share premium account		**589**	588	**589**	588
Associates' reserves		**14**	26	**–**	–
Profit and loss account		**(1,547)**	(1,098)	**2,270**	2,781
Total reserves	25	**(944)**	(484)	**2,859**	3,369
Total shareholders' funds (page 51)		**(216)**	244	**3,587**	4,097
		3,583	4,073	**5,457**	5,921

Included within Group net current assets are debtors of £538m (1999 £647m) which fall due after more than one year. Included within the Company net current liabilities are debtors of £305m (1999 £269m) which fall due after more than one year.

The accounts on pages 46 to 101 were approved by the Board of Directors on 14 February 2001 and were signed on its behalf by:

C Miller Smith Director
A G Spall Director

Statement of Group cash flow for the year ended 31 December 2000

	Notes	2000 £m	1999 £m	1998 £m
Net cash inflow from operating activities	26	**586**	582	856
Dividends received from associated undertakings		**5**	4	5
Returns on investments and servicing of finance	27	**(230)**	(307)	(350)
Taxation		**(104)**	(65)	(220)
		257	214	291
Capital expenditure and financial investment	28	**(226)**	(356)	(520)
		31	(142)	(229)
Acquisitions and disposals				
Acquisitions	29	**(13)**	(12)	(860)
Disposals	31	**(125)**	2,040	902
		(138)	2,028	42
Equity dividends paid		**(231)**	(232)	(232)
Cash inflow (outflow) before use of liquid resources and financing		**(338)**	1,654	(419)
Management of liquid resources	30	**(12)**	215	529
Financing				
Issues of shares		**1**	1	8
Increase (Decrease) in debt		**335**	(1,910)	(143)
	32	**336**	(1,909)	(135)
(Decrease) in cash	34	**(14)**	(40)	(25)

Reconciliation of movements in shareholders' funds for the year ended 31 December 2000

	Notes	2000 £m	1999 £m	1998 (as restated – note 1) £m
Net profit (loss) for the financial year		**(228)**	252	83
Dividends		**(232)**	(233)	(232)
Profit/(loss) retained for the year		**(460)**	19	(149)
Issues of ICI Ordinary Shares		**1**	1	7
Goodwill movement				
Acquisitions	25	**–**	10	(48)
Disposals	25	**41**	69	126
		41	79	78
Other recognised gains and (losses) related to the year	25	**(42)**	(4)	(43)
Net increase/(reduction) in shareholders' funds		**(460)**	95	(107)
Shareholders' funds at beginning of year – equity		**244**	149	256
Shareholders' funds at end of year – equity		**(216)**	244	149

1 Basis of presentation of financial information

Implementation of Accounting Standards

During 1998, the UK Accounting Standards Board (ASB) published the following Financial Reporting Standards (FRSs):

FRS No.11 Impairment of Fixed Assets and Goodwill
The FRS requires that where events or circumstances indicate that the carrying value of a fixed asset or goodwill may have been reduced, an impairment review must be performed to discover the true net realisable value. The review is performed using pre-tax discounted cash flows. If no such events or circumstances arise, the usual depreciation or amortisation should be charged. Whether such a change in situation has occurred is judgemental, but may be suggested by market, economic or local conditions.

FRS No.12 Provisions, Contingent Liabilities and Contingent Assets
This Standard provides a much more stringent definition of provisions. A provision should only be recognised when there is a present obligation as a result of a past event and a reliable estimate can be made of the resulting liability. The obligation may be legal or constructive.

FRS No.13 Derivatives and Other Financial Instruments: Disclosures
This FRS requires much fuller disclosure of financial instruments held as well as an explanation of the role that financial instruments play in managing the Group's risks.

FRS No.14 Earnings per Share
This Standard has limited differences from the original Standard on Earnings per Share, SSAP 3, principally relating to the calculation and disclosure of diluted earnings per share.

During 1999, the ASB published the following Standards:

FRS No.15 Tangible Fixed Assets
The FRS sets out the principles of accounting for the initial measurement, valuation and depreciation of tangible fixed assets, with the exception of investment properties. Its objective is to ensure that tangible fixed assets are accounted for on a consistent basis.

FRS No.16 Current Tax
The FRS specifies how current tax, in particular withholding tax and tax credits, should be reflected in financial statements. Its objective is to ensure that entities recognise current taxes in a consistent and transparent manner.

The provisions of FRS No.12 and FRS No.13 were adopted in the financial statements for the year ended 31 December 1999 and the provisions of FRS No.15 and FRS No.16 are adopted in these financial statements.

The results reported in these financial statements were restated last year to reflect the requirements of FRS No. 12. The effect of this Standard was to reduce the Group's exceptional costs in 1997 by £160m with a consequent increase in the taxation charge of £50m (an increase in profit of £110m, net of tax). In consequence shareholders' funds at 1 January 1998, originally reported in the accounts to 31 December 1998 at £146m, have been restated in these financial statements at £256m. Exceptional costs originally reported for 1998 have been restated and increased by £160m to £165m; the tax charge originally reported has been decreased by £50m to £62m. Shareholders' funds at 31 December 1998 of £149m remain unchanged from the amount originally reported.

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. Early implementation is permitted but the Group has not yet evaluated the likely timetable it will adopt for implementation or the impact on its financial statements.

FRS No. 18 Accounting Policies
This Standard sets out the principles to be followed in selecting accounting policies and the disclosures needed to understand the accounting policies adopted and how they have been applied. The Standard will be adopted in the accounts for the year ended 31 December 2001. The review of accounting policies is not expected to 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 a tax computation. The Group has not yet evaluated the likely impact on its financial statements.

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.

1 Basis of presentation of financial information (continued)

Class of business	Business
Continuing operations	
International businesses	
National Starch	National Starch
Quest	Quest
Performance Specialties	Performance Specialties (Uniqema, Synetix and other Specialty businesses)
Paints	Paints
Regional and Industrial	Including: Regional operations in Pakistan (including pure terephthalic acid and polyester staple fibre business) India and Argentina Explosives (manufacturing in the USA and the UK Businesses) Petrochemicals
Discontinued operations	Melinex polyester film operations 51% shareholding in AECI Explosives Limited Propafilm oriented polypropylene films business International Explosives operations in Canada, Latin America and Europe and the explosives distribution business in the USA Teesside Utilities and Services business Polyurethanes business Tioxide business Selected Petrochemicals businesses (Olefines and Aromatics) Acrylics business Fluoropolymers business Chlor-Chemicals, Klea and Crosfield businesses Methanol business 50% equity shareholding in Phillips-Imperial Petroleum Ltd

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, five subsidiaries made up their financial statements to dates earlier than 31 December, but not earlier than 30 September; additionally five subsidiaries made up their financial statements prior to 30 September but interim financial statements to 31 December were drawn up for consolidation purposes.

Cash

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.

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 10 January 2001 the Group announced the completion of the sale of its Chlor-Chemicals, Klea and Crosfield businesses to Ineos, a major global producer of acrylics, ethylene oxide and derivatives. At 31 December 2000, the Group provided for the estimated loss on disposal of £503m before a tax charge of £2m.

3 Directors' and Officers' remuneration and interests

Information covering Directors' remuneration, interests in shares, debentures, share options and pension benefits is included in the Remuneration report on pages 37 to 43.

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 2000 was £6.4m (1999 £6.1m; 1998 £4.5m). 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 2000 was £0.8m (1999 £0.6m; 1998 £0.6m). At 7 February 2001 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 7 February 2001 Number	Subscription prices £	Date latest option expires
Directors (for further details see Remuneration Report pages 40-41)	312,929	2,342,309	£3.66 to £12.14	20.2.10
Officers	30,246	810,934	£3.66 to £12.14	8.5.10

No individual director or officer had interests in shares or options exceeding one per cent of the issued Ordinary Share capital of the Company.
† Includes ADRs disclosed in terms of £1 Ordinary Share equivalents/Ordinary Share option equivalents.

4 Exceptional items before tax

	2000 £m	1999 £m	1998 £m
Charged in arriving at trading profit (loss)[a]			
Continuing operations			
Rationalisation of operations			
National Starch, including severance costs of £nil (1999 £8m; 1998 £nil) and asset write-downs of £nil (1999 £26m; 1998 £nil)	–	(37)	–
Paints, principally severance costs of £nil (1999 £11m; 1998 £26m) and asset write-downs of £nil (1999 £11m; 1998 £27m); 1999 includes a release of £6m relating to 1998	–	(32)	(71)
Performance Specialties, principally severance costs of £nil, (1999 £nil; 1998 £6m)	–	–	(24)
Quest, principally severance costs of £nil (1999 £9m; 1998 £20m)	–	(14)	(24)
	–	(83)	(119)
Discontinued operations			
Rationalisation of operations			
Regional and Industrial, including severance costs of £nil (1999 £10m; 1998 £48m), site clearance costs of £nil (1999 £5m; 1998 £nil) and asset write-downs of £nil (1999 £nil; 1998 £42m)	–	(15)	(90)
Crosfield, principally severance costs of £nil (1999 £nil; 1998 £14m)	–	–	(14)
	–	(15)	(104)
Credited (charged) after trading profit (loss)			
Continuing operations			
Profits less losses on sale or closure of operations			
Profits	**17**	174[b]	18
Losses	**(1)**	(3)	–
	16	171	18
Fundamental reorganisation costs	**(14)[c]**	(74)[c]	–
Profits less losses on disposal of fixed assets	**10**	29	(4)
Interest exceptional (see note 8)	**16**	(54)	–
Discontinued operations			
Profits less losses on sale or closure of operations			
Profits	**10**	212[f]	237[g]
Losses	**(38)[d]**	(15)	(166)[h]
Provision for losses on future sale	**(503)[e]**	–	–
	(531)	197	71
Profits less losses on disposal of fixed assets	**1**	(9)	7
Amounts written off investments	–	–	(34)[i]
Exceptional items within profit (loss) on ordinary activities before taxation	**(502)**	162	(165)

(a) A detailed description of those exceptional items charged 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) Fundamental reorganisation costs relate to the reorganisation of the corporate centre during 1999 and 2000 as a consequence of the changing business portfolio.

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

(e) The provision for losses on future sale relates to the disposal of the Chlor-Chemicals, Klea and Crosfield operations completed in January 2001 as described in note 2. The charge comprises £133m for fixed asset write-downs, a £41m goodwill write-off and £329m as a provision for the anticipated loss.

(f) 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).

(g) Profits on sale of discontinued operations in 1998 comprised the disposal of the Group's Teesside Utilities and Services business (£185m) and the Melinex polyester film business (£59m).

(h) The losses on sale of discontinued operations in 1998 include the Explosives business in Canada, Latin America, Europe and the explosives distribution business in the USA (£44m) and losses on the disposal of the Propafilm business.

(i) The amounts written off investments relate to the write-down of the Group's investment in EVC International N.V. to its market value as at 31 December 1998.

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, tartaric acid and explosives

The accounting policies for each segment are the same as those appearing on pages 46 and 47. 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.

5 Segment information (continued)

Classes of business

	Turnover 2000 £m	Turnover 1999 £m	Turnover 1998 £m	Profit before taxation, goodwill amortisation and exceptional items 2000 £m	1999 £m	1998 £m	Profit before interest and taxation after exceptional items* 2000 £m	1999 £m	1998† £m
Continuing operations									
International businesses									
National Starch	**1,894**	1,792	1,646	**245**	248	231	**238**	193	219
Quest	**687**	676	656	**103**	92	82	**103**	78	58
Performance Specialties	**837**	864	901	**75**	74	73	**76**	70	67
Paints	**2,152**	2,180	2,167	**177**	159	143	**164**	284	57
	5,570	5,512	5,370	**600**	573	529	**581**	625	401
Regional and Industrial	**892**	705	517	**17**	(39)	(9)	**13**	(83)	(9)
Inter-class eliminations	**(26)**	(24)	(27)						
	6,436	6,193	5,860	**617**	534	520	**594**	542	392
Sales to discontinued operations	**(21)**	(14)	(17)						
	6,415	6,179	5,843	**617**	534	520	**594**	542	392
Discontinued operations									
Total	**1,339**	2,333	3,556	**(5)**	72	130	**(535)**	245	104
Sales to continuing operations	**(6)**	(63)	(113)						
	1,333	2,270	3,443	**(5)**	72	130	**(535)**	245	104
Associates									
Share of profits less losses				**100**	61	3	**100**	61	3
Interest payable				**(60)**	(29)	–			
Group net interest charge				**(202)**	(262)	(332)			
Amounts written off investments							**–**	–	(34)
	7,748	8,449	9,286	**450**	376	321	**159**	848	465

	2000 £m	1999 £m	1998 £m
*Goodwill amortisation charged in arriving at the results			
National Starch	**18**	18	12
Performance Specialties	**1**	1	–
Paints	**16**	16	11
	35	35	23

† As restated – note 1.

Inter-class turnover affected several businesses the largest being sales from Regional and Industrial to Discontinued operations of £17m (1999 Discontinued operations to Paints £35m; 1998 £64m).

	Depreciation (note 13) 2000 £m	1999 £m	1998 £m	Capital expenditure (note 13) 2000 £m	1999 £m	1998 £m
Continuing operations						
International businesses						
National Starch	**64**	79	51	**96**	111	115
Quest	**18**	18	19	**28**	27	27
Performance Specialties	**28**	29	29	**39**	38	52
Paints	**54**	60	53	**54**	70	78
	164	186	152	**217**	246	272
Regional and Industrial	**37**	34	22	**18**	21	63
	201	220	174	**235**	267	335
Discontinued operations	**167**	95	189	**54**	143	219
	368	315	363	**289**	410	554

5 Segment information (continued)

Geographic 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		
	2000 £m	1999 £m	1998 £m	**2000 £m**	1999 £m	1998 £m	**2000 £m**	1999 £m	1998† £m
Continuing operations									
United Kingdom									
Sales in the UK									
External	**994**	856	608						
Intra-Group	**84**	114	34						
	1,078	970	642						
Sales overseas									
External	**338**	353	461						
Intra-Group	**193**	223	182						
	531	576	643						
	1,609	1,546	1,285	**71**	30	94	**64**	48	80
Continental Europe									
External	**1,087**	1,187	1,227						
Intra-Group	**323**	318	201						
	1,410	1,505	1,428	**126**	147	125	**120**	142	93
USA									
External	**2,094**	2,008	1,879						
Intra-Group	**156**	146	153						
	2,250	2,154	2,032	**192**	211	169	**183**	178	102
Other Americas									
External	**678**	619	672						
Intra-Group	**74**	54	48						
	752	673	720	**54**	38	60	**51**	36	59
Asia Pacific									
External	**1,171**	1,095	919						
Intra-Group	**122**	115	93						
	1,293	1,210	1,012	**169**	103	65	**171**	132	51
Other countries									
External	**53**	60	77						
Intra-Group	**–**	–	–						
	53	60	77	**5**	5	7	**5**	6	7
	7,367	7,148	6,554	**617**	534	520	**594**	542	392
Inter-area eliminations	**(931)**	(955)	(694)						
Sales to discontinued operations	**(21)**	(14)	(17)						
	6,415	6,179	5,843	**617**	534	520	**594**	542	392
Discontinued operations	**1,333**	2,270	3,443	**(5)**	72	130	**(535)**	245	104
Associates									
Share of profits less losses				**100**	61	3	**100**	61	3
Interest payable				**(60)**	(29)	–			
Group interest payable				**(202)**	(262)	(332)			
Amounts written off investments							**–**	–	(34)
	7,748	8,449	9,286	**450**	376	321	**159**	848	465
After amortisation of goodwill							**35**	35	23

† As restated – note 1.

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

United Kingdom £1,113m, USA £92m and Continental Europe £52m (1999 United Kingdom £1,131m, USA £564m and Continental Europe £406m; 1998 United Kingdom £1,535m, USA £936m, Continental Europe £689m).

5 Segment information (continued)

Classes of business

	Total assets less current liabilities 2000 £m	1999 £m	1998 £m
Net operating assets			
Continuing operations			
International businesses			
National Starch	**1,590**	1,531	1,451
Quest	**360**	342	336
Performance Specialties	**552**	545	558
Paints	**945**	948	1,114
	3,447	3,366	3,459
Regional and Industrial	**475**	518	601
	3,922	3,884	4,060
Discontinued operations	**251**	408	1,974
Total net operating assets	**4,173**	4,292	6,034
Net non-operating liabilities	**(590)**	(219)	(1,387)
	3,583	4,073	4,647

	Goodwill included above 2000 £m	1999 £m	1998 £m
Goodwill			
National Starch	**309**	311	311
Performance Specialties	**21**	22	17
Paints	**276**	293	324
Regional and Industrial	**3**	–	–
	609	626	652

	Notes	Net non-operating liabilities 2000 £m	1999 £m	1998 £m
Net non-operating liabilities				
Non-operating assets				
Fixed asset investments	15	**327**	292	170
Non-operating debtors	17	**299**	150	137
Investments and short-term deposits	18	**415**	394	455
Cash at bank	34	**255**	270	367
		1,296	1,106	1,129
Non-operating liabilities				
Short-term borrowings	19	**(765)**	(102)	(1,445)
Current instalments of loans	21	**(466)**	(647)	(585)
Non-operating creditors	20	**(655)**	(576)	(486)
		(1,886)	(1,325)	(2,516)
		(590)	(219)	(1,387)

5 Segment information (continued)

Geographic areas

	Tangible fixed assets			Total assets less current liabilities		
	2000 £m	1999 £m	1998 £m	**2000 £m**	1999 £m	1998 £m
Tangible fixed assets/Net operating assets						
Continuing operations						
United Kingdom	**300**	301	275	**983**	958	1,019
Continental Europe	**383**	360	411	**630**	679	720
USA	**801**	758	743	**1,312**	1,121	1,251
Other Americas	**184**	168	173	**290**	301	287
Asia Pacific	**544**	596	586	**694**	809	764
Other countries	**8**	9	9	**13**	16	19
	2,220	2,192	2,197	**3,922**	3,884	4,060
Discontinued operations	**178**	282	1,619	**251**	408	1,974
Total net operating assets				**4,173**	4,292	6,034
Net non-operating liabilities				**(590)**	(219)	(1,387)
	2,398	2,474	3,816	**3,583**	4,073	4,647

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

United Kingdom £83m, Continental Europe £33m, USA £130m (1999 United Kingdom £209m, Continental Europe £46m, USA £153m; 1998 United Kingdom £700m, Continental Europe £513m, USA £630m).

Turnover by customer location

	2000 £m	1999 £m	1998 £m
Continuing operations			
United Kingdom	**952**	834	712
Continental Europe	**1,291**	1,372	1,350
USA	**2,012**	1,948	1,911
Other Americas	**727**	656	678
Asia Pacific	**1,312**	1,234	970
Other countries	**121**	135	222
	6,415	6,179	5,843
Discontinued operations	**1,333**	2,270	3,443
	7,748	8,449	9,286

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

United Kingdom £864m, Continental Europe £201m and USA £97m (1999 United Kingdom £783m, Continental Europe £578m and USA £557m; 1998 United Kingdom £1,051m, Continental Europe £992m, and USA £848m).

6 Trading profit (loss)

	2000 Continuing operations £m	Discontinued operations £m	Total £m
Trading profit (loss) before exceptional items			
Turnover	6,415	1,333	7,748
Operating costs			
Cost of sales	(4,260)	(1,074)	(5,334)
Distribution costs	(565)	(118)	(683)
Research and development	(160)	(16)	(176)
Administration and other expenses	(891)	(142)	(1,033)
	(5,876)	(1,350)	(7,226)
Other operating income			
Royalties	4	1	5
Other income	39	11	50
	43	12	55
Trading profit (loss)	582	(5)	577
Total charge for depreciation and amortisation of goodwill included above	(234)	(34)	(268)
Gross profit, as defined by Companies Act 1985	2,155	259	2,414

Trading profit (loss) after exceptional items			
Turnover	6,415	1,333	7,748
Operating costs			
Cost of sales	(4,260)	(1,074)	(5,334)
Distribution costs	(565)	(118)	(683)
Research and development	(160)	(16)	(176)
Administration and other expenses	(891)	(142)	(1,033)
	(5,876)	(1,350)	(7,226)
Other operating income			
Royalties	4	1	5
Other income	39	11	50
	43	12	55
Trading profit (loss)	582	(5)	577
Total charge for depreciation and amortisation of goodwill included above	(234)	(34)	(268)
Gross profit, as defined by Companies Act 1985	2,155	259	2,414

	1999			1998 (as restated – note 1)		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
	6,179	2,270	8,449	5,843	3,443	9,286
	(4,134)	(1,756)	(5,890)	(3,915)	(2,593)	(6,508)
	(483)	(217)	(700)	(462)	(298)	(760)
	(144)	(37)	(181)	(152)	(71)	(223)
	(949)	(200)	(1,149)	(884)	(377)	(1,261)
	(5,710)	(2,210)	(7,920)	(5,413)	(3,339)	(8,752)
	3	1	4	11	4	15
	27	11	38	56	22	78
	30	12	42	67	26	93
	499	72	571	497	130	627
	(224)	(95)	(319)	(187)	(163)	(350)
	2,045	514	2,559	1,928	850	2,778

	6,179	2,270	8,449	5,843	3,443	9,286
	(4,162)	(1,756)	(5,918)	(3,984)	(2,593)	(6,577)
	(503)	(217)	(720)	(462)	(298)	(760)
	(146)	(37)	(183)	(152)	(71)	(223)
	(982)	(215)	(1,197)	(934)	(481)	(1,415)
	(5,793)	(2,225)	(8,018)	(5,532)	(3,443)	(8,975)
	3	1	4	11	4	15
	27	11	38	56	22	78
	30	12	42	67	26	93
	416	57	473	378	26	404
	(255)	(95)	(350)	(223)	(163)	(386)
	2,017	514	2,531	1,859	850	2,709

7 Share of operating profits less losses of associates

	2000 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	1	5	6
Share of operating profits less losses before exceptional items	90	4	94
	91	9	100

8 Net interest payable

	Continuing operations before exceptional items £m	Discontinued operations £m	Total £m
Interest payable and similar charges			
Group			
Loan interest			
Bank loans	42	1	43
Other loans	74	–	74
	116	1	117
Interest on short-term borrowings			
Bank borrowings	27	–	27
Other borrowings	150	–	150
	177	–	177
	293	1	294
Amortisation of discounted provisions	6	–	6
Associates	60	–	60
Interest receivable and similar income			
Group	(98)	–	(98)
Net interest payable before exceptional items	261*	1	262*

* 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.

9 Taxation on profit (loss) on ordinary activities

	2000 Continuing operations Before exceptional items £m	Continuing operations Exceptional items £m	Discontinued operations £m	Total £m
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
Tax on profit (loss) on ordinary activities	112	6	(1)	117

UK and overseas taxation has been provided on the profits (losses) earned for the periods covered by the Group accounts. UK corporation tax has bee provided at the rate of 30% (1999 30.25%; 1998 31%).

The exceptional tax charge in 2000 and 1999 was in respect of disposal programmes, as discussed in note 4.

The exceptional tax credit in 1998 was in respect of the disposal and rationalisation programmes, as discussed in note 4.

	1999 Continuing operations before exceptional items £m	1999 Discontinued operations £m	1999 Total £m	1998 Continuing operations before exceptional items £m	1998 Discontinued operations £m	1998 Total £m
	6	3	9	6	2	8
	48	4	52	(1)	(4)	(5)
	54	7	61	5	(2)	3
	25	1	26	28	3	31
	95	–	95	187	1	188
	120	1	121	215	4	219
	35	–	35	11	2	13
	205	–	205	180	2	182
	240	–	240	191	4	195
	360	1	361	406	8	414
	3	–	3	–	–	–
	29	–	29	–	–	–
	(102)	–	(102)	(80)	(2)	(82)
	290†	1	291†	326	6	332

† 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.

	1999 Continuing operations Before exceptional items £m	1999 Continuing operations Exceptional items £m	1999 Discontinued operations £m	1999 Total £m	1998 (as restated – note 1) Continuing operations Before exceptional items £m	1998 (as restated – note 1) Continuing operations Exceptional items £m	1998 (as restated – note 1) Discontinued operations £m	1998 (as restated – note 1) Total £m
	(47)	54	(56)	(49)	98	5	103	206
	(1)	–	–	(1)	(69)	–	–	(69)
	52	(25)	5	32	(24)	(5)	(106)	(135)
	4	29	(51)	(18)	5	–	(3)	2
	76	7	182	265	(2)	(4)	78	72
	(18)	3	5	(10)	39	(19)	(37)	(17)
	58	10	187	255	37	(23)	41	55
	7	–	–	7	4	–	1	5
	69	39	136	244	46	(23)	39	62

9 Tax on profit (loss) on ordinary activities (continued)

	2000 £m	1999 £m	1998 (as restated – note 1) £m
Profit (loss) on ordinary activities before taxation is analysed as follows:			
United Kingdom	**(355)**	36	(51)
Overseas	**228**	435	181
Associates	**40**	32	3
	(87)	503	133

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

	2000 £m	1999 £m	1998 £m
Taxation charge (credit) at UK corporation tax rate (2000 30%; 1999 30.25%; 1998 31%)	**(26)**	152	41
Movement on provisions	**50**	49	(21)
Local taxes	**(3)**	5	4
Capital gains (losses) not taxable/deductible	**26**	(11)	(47)
Taxable Intra-Group dividend income	**20**	31	56
Depreciation – tax versus book	**35**	9	(15)
Overseas tax rates	**11**	(2)	8
Current year tax losses not relieved	**16**	32	39
Prior year tax losses utilised	**(8)**	(21)	(29)
Goodwill amortisation	**19**	18	2
Other	**(23)**	(18)	24
Tax on profit (loss) on ordinary activities	**117**	244	62

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 £828m at 31 December 2000 (1999 £1,164m; 1998 £3,573m); 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 2000 £m	Group 1999 £m	Group 1998 £m	Company 2000 £m	Company 1999 £m	Company 1998 £m
Accounted for at balance sheet date (notes 17 and 22)						
Timing differences on UK capital allowances and depreciation	**60**	29	180	**9**	2	65
Miscellaneous timing differences	**(92)**	(80)	(146)	**–**	(14)	(37)
	(32)	(51)	34	**9**	(12)	28
Not accounted for at balance sheet date						
Timing differences on UK capital allowances and depreciation	**–**	–	–	**–**	–	–
Miscellaneous timing differences	**33**	42	109	**(47)**	–	–
	33	42	109	**(47)**	–	–
Full potential deferred taxation	**1**	(9)	143	**(38)**	(12)	28

9 Tax 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:

	2000 £m	1999 £m
Deferred tax liabilities		
UK fixed assets	**60**	29
Non-UK fixed assets	**181**	237
Others	**304**	328
	545	594
Deferred tax (assets)		
Restructuring provisions	**(36)**	(66)
Pensions	**(75)**	(57)
Employee liabilities	**(62)**	(70)
Business provisions	**(33)**	(52)
Inter-company inventory transfers	**(2)**	(1)
Stock valuation	**(5)**	(7)
Provisions on disposal of businesses	**(157)**	(187)
Losses	**(15)**	(13)
Intangibles	**(22)**	(29)
Other	**(137)**	(121)
	(544)	(603)
Full potential deferred tax provision/(asset)	**1**	(9)
Not accounted for at the balance sheet date	**(33)**	(42)
Deferred tax accounted for at the balance sheet date	**(32)**	(51)
Analysed as:		
Current	**(6)**	(38)
Non-current	**(26)**	(13)
	(32)	(51)

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

	2000	1999	1998	2000	1999	1998
	Pence per £1 Ordinary Share			£m	£m	£m
First interim, paid 4 October 2000	**12.5**	12.5	12.5	**90**	91	91
Second interim, payable 25 April 2001	**19.5**	19.5	19.5	**142**	142	141
	32.0	32.0	32.0	**232**	233	232

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% 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 Trustee 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 received on shares allocated to beneficiaries and shares held in the form of American Depositary Shares (ADS) are distributed, respectively, to beneficiaries and ADS holders.

11 Earnings (loss) per £1 Ordinary Share

	Continuing operations £m	Discontinued operations £m	Total £m
2000			
Net profit 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 per £1 Ordinary Share			
before exceptional items	**38.2**	**1.0**	**39.2**
after exceptional items	**41.2**	**(72.8)**	**(31.6)**
1999	£m	£m	£m
Net profit 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
1998 (as restated – note 1)	£m	£m	£m
Net profit for the financial year before exceptional items	140	81	221
Exceptional items after tax and minorities	(78)	(60)	(138)
Net profit for the financial year	62	21	83
	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	(4)	(4)	(4)
Basic weighted average Ordinary Shares in issue during year	724	724	724
Dilutive effect of share options	2	2	2
Diluted weighted average Ordinary Shares	726	726	726
	pence	pence	pence
Basic earnings (loss) per £1 Ordinary Share			
before exceptional items	19.3	11.2	30.5
after exceptional items	8.5	3.0	11.5
Diluted earnings (loss) per £1 Ordinary Share			
before exceptional items	19.3	11.1	30.4
after exceptional items	8.6	2.8	11.4

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	**684**
Acquisitions	**12**
Disposals	**(4)**
Exchange adjustments	**10**
At end of year	**702**
Amortisation	
At beginning of year	**58**
Charge for year	**35**
At end of year	**93**
Net book value at end 2000	**609**
Net book value at end 1999	626

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.

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	988	3,112	291	**4,391**
New subsidiary undertakings	–	2	3	**5**
Capital expenditure	–	–	289	**289**
Transfers of assets into use	34	265	(299)	**–**
Exchange adjustments	29	78	(1)	**106**
Disposals and other movements	(59)	(97)	(59)	**(215)**
At end of year	992	3,360	224	**4,576**
Depreciation				
At beginning of year	235	1,682		**1,917**
Charge for year	37	331		**368**
Exchange adjustments	3	27		**30**
Disposals and other movements	(27)	(110)		**(137)**
At end of year	248	1,930	–	**2,178**
Net book value at end 2000	**744**	**1,430**	**224**	**2,398**
Net book value at end 1999	753	1,430	291	2,474

The Group depreciation charge of £368m, shown above, comprises £233m charged in arriving at trading profit and £135m charged to exceptional items which relates to asset write-downs, including £133m relating to the assets of the Chlor-Chemicals business.

Capital expenditure in the year of £289m includes capitalised finance leases of £1m; creditors for capital work done but not paid for increased by £4m; the resulting cash expenditure on tangible fixed assets was £284m.

The net book value of the tangible fixed assets of the Group includes capitalised finance leases of £7m (1999 £11m) comprising cost of £13m (1999 £15m) less depreciation of £6m (1999 £4m). The depreciation charge for the year in respect of capitalised leases was £2m (1999 £2m) and finance charges were £1m (1999 £1m).

Included in land and buildings is £165m (1999 £192m) in respect of the cost of land which is not subject to depreciation.

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	28	149	12	**189**
Capital expenditure			13	**13**
Transfers of assets into use		13	(13)	**–**
Transfers (to)/from subsidiary undertakings		(1)		**(1)**
Disposals and other movements	(7)	(15)		**(22)**
At end of year	21	146	12	**179**
Depreciation				
At beginning of year	13	112		**125**
Charge for year	1	11		**12**
Disposals and other movements	(2)	(14)		**(16)**
At end of year	12	109	–	**121**
Net book value at end 2000	**9**	**37**	**12**	**58**
Net book value at end 1999	15	37	12	64

	Group 2000 £m	Group 1999 £m	**Company 2000 £m**	Company 1999 £m
The net book value of land and buildings comprises:				
Freeholds	**670**	702	**9**	15
Long leases (over 50 years unexpired)	**64**	46		–
Short leases	**10**	5		–
	744	753	**9**	15

14 Investments in subsidiary undertakings

	Shares £m	Loans £m	**Total £m**
Cost			
At beginning of year	7,791	2,187	**9,978**
New investments/new loans	673	2	**675**
Disposals/loans repaid/transfers	(276)	(10)	**(286)**
Exchange adjustments	30	152	**182**
At end of year	8,218	2,331	**10,549**
Provisions			
At beginning of year	(186)	(1)	**(187)**
Exchange adjustments	(13)	–	**(13)**
Additions	(405)	–	**(405)**
Disposals/loans repaid/transfers	151	–	**151**
At end of year	(453)	(1)	**(454)**
Balance sheet value at end 2000	**7,765**	**2,330**	**10,095**
Balance sheet value at end 1999	7,605	2,186	9,791

Cost includes scrip issues capitalised £nil (1999 £1m).

	2000 £m	1999 £m
Shares in subsidiary undertakings which are listed investments		
Balance sheet value	**4**	4
Market value	**27**	66

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 101.

15 Investments in participating and other interests

	Associates: Equity accounted shares £m	Associates: Non equity accounted shares £m	Associates: Loans £m	Other investments: Own* shares £m	Other investments: Other shares £m	Other investments: Loans £m	Total £m
Group							
Cost							
At beginning of year	40	1	150	54	107	–	**352**
Additions	9	–	5	2	4	–	**20**
Disposals and repayments	(2)	–	–	(1)	–	–	**(3)**
Reclassifications	–	–	–	(1)	(8)	–	**(9)**
Exchange adjustments	1	–	35	–	3	–	**39**
At end of year	48	1	190	54	106	–	**399**
Share of post-acquisition reserves less losses							
At beginning of year	26						**26**
Retained profits less losses	12						**12**
Disposals and repayments	(23)						**(23)**
Exchange adjustments	(1)						**(1)**
At end of year	14						**14**
Provisions							
At beginning of year	–	(1)	–	–	(85)	–	**(86)**
Exchange adjustments	–	–	–	–	–	–	**–**
At end of year	–	(1)	–	–	(85)	–	**(86)**
Balance sheet value at end 2000	**62**	**–**	**190**	**54**	**21**	**–**	**327**
Balance sheet value at end 1999	66	–	150	54	22	–	292

		Own* shares	Other shares	Total
The above investments included:				
2000				
Listed investments	– balance sheet value	54	6	60
	– market value	34	6	40
1999				
Listed investments	– balance sheet value	54	11	65
	– market value	38	9	47

* "Own shares" relates to 6.2m (1999 5.8m) shares of the Company held by Impkemix Trustee Limited, a Group subsidiary company for the purposes of the Group's employee share ownership plan.

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 ICI 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 ICI Holdings LLC in the USA and Europe.

Shareholding rights and restrictions

Huntsman ICI Holdings LLC

Under the terms of the limited liability company agreement for Huntsman ICI Holdings LLC ("HICI"), Huntsman Specialty Chemical Corporation (HSCC) has the option to purchase, and ICI Alta Inc. ("ICI Alta": the subsidiary of the Company which holds the equity interest in HICI) has the right to require HSCC to purchase ICI Alta's 30% interest in HICI between 30 June 2002 and 30 June 2003. The exercise price for each of these put and call options will be based partially upon an agreed formula and the parties' agreed value of the Company's businesses or based upon a third party valuation at the time of the exercise of a put or call option. If the put or call option is exercised and HSCC does not purchase ICI Alta's interests in accordance with the terms of the put and call option, then ICI Alta has the right to sell its interest in HICI in a public offering or a private sale and, if the proceeds of the sale are less than the put or call option exercise price, ICI Alta has the right to require HSCC to sell, for the benefit of ICI Alta, sufficient equity interests in HICI owned by HSCC as are necessary to provide ICI Alta with proceeds equal to the shortfall.

During the period prior to when the obligations relating to these put and call options have been satisfied or have expired, there are constraints on members of HICI transferring any interest in HICI to third parties without the consent of other members.

15 Investments in participating and other interests (continued)

In addition to those original option arrangements, further arrangements were put in place by an agreement entered into between the Company ICI Alta Inc and HSCC on 2 November 2000. Under that agreement, ICI Alta has the right to require HSCC to purchase its 30% interest. It can exercise that right by serving notice during an option period that expires on 29 July 2001. Separately, HSCC has the right to require ICI Alta to sell the 30% interest to it by serving notice on ICI Alta by 29 July 2001, but it can only serve such a notice if ICI Finance PLC has sold the Subordinated Discount Notes issued by HICI which it presently holds (unless ICI Alta waives this requirement). HSCC has rights under the agreement to arrange for the interest to be acquired by certain prescribed categories of alternative purchasers. The price at which the interest would be transferred would be US$365m, subject to certain adjustments. The completion would be subject to the satisfaction of certain conditions relating to regulatory matters and the obtaining of consents required under the terms of relevant loan facilities and public debt instruments, certain of which were obtained prior to the end of 2000.

In general, HICI 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, HICI may not make a distribution to its members if, after such distribution, HICI's liabilities would exceed the fair value of its assets. Second, with certain exceptions (including for tax distributions), the terms of HICI's outstanding indebtedness (which mature in 2009) generally prohibit HICI from making any distributions or payments on or with respect to HICI's equity while such indebtness is outstanding.

		Associates Shares £m	Other investments Shares £m	**Total £m**
Company				
Cost				
At the beginning of year		–	91	**91**
Additions		–	6	**6**
Exchange adjustments		–	1	**1**
At end of year		–	98	**98**
Provisions				
At the beginning of year		–	(85)	**(85)**
Additions		–	–	**–**
Exchange adjustments		–	(1)	**(1)**
At end of year		–	(86)	**(86)**
Balance sheet value at end 2000		**–**	**12**	**12**
Balance sheet value at end 1999		–	6	6
The above investments included:				
2000				
Listed investments	– balance sheet value		6	6
	– market value		6	6
1999				
Listed investments	– balance sheet value		11	11
	– market value		9	9

16 Stocks

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Raw materials and consumables	**287**	325	**6**	5
Stocks in process	**42**	17	**1**	1
Finished goods and goods for resale	**514**	511	**20**	21
	843	853	**27**	27

17 Debtors

	Group 2000 £m	Group 1999 £m	*Non-operating debtors included in Group 2000 £m*	*Non-operating debtors included in Group 1999 £m*	Company 2000 £m	Company 1999 £m
Amounts due within one year						
Trade debtors	**1,229**	1,195			**13**	16
Less: amounts set aside for doubtful accounts	**(60)**	(80)			**–**	–
	1,169	1,115			**13**	16
Amounts owed by subsidiary undertakings					**2,996**	2,900
Amounts owed by associates	**5**	7			**–**	–
Prepaid pension costs	**12**	7			**–**	–
Deferred tax asset	**6**	38	***6***	*38*	**–**	12
Taxation recoverable	**121**	75	***121***	*75*	**–**	–
Other prepayments and accrued income	**161**	99	***71***	*23*	**68**	34
Other debtors	**232**	82	***48***	*–*	**13**	16
	1,706	1,423	***246***	*136*	**3,090**	2,978
Amounts due after more than one year						
Deferred tax asset	**26**	13	***26***	*13*	**–**	–
Prepaid pension costs	**475**	375	***–***	*–*	**305**	251
Other debtors	**37**	259	***27***	*1*	**–**	18
	538	647	***53***	*14*	**305**	269
	2,244	2,070	***299***	*150*	**3,395**	3,247

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 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Listed investments	**35**	139	**–**	–
Unlisted investments and short-term deposits	**380**	255	**–**	–
	415	394	**–**	–
Included in cash and cash equivalents	**317**	184	**–**	–
Market value of listed investments	**35**	139	**–**	–

Included in unlisted investments and short-term deposits and cash are amounts totalling £224m (1999 £147m) held by the Group's insurance subsidiaries. In 2000 £24m (1999 £12m) was readily available for the general purposes of the Group.

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

19 Short-term borrowings

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m	Average interest rate – Group* 2000 %	Average interest rate – Group* 1999 %
Bank borrowings						
Secured						
by fixed charge	**1**	1	**–**	–		
by floating charge	**13**	–	**–**	–		
Unsecured	**52**	72	**–**	–		
	66	73	**–**	–	**7.5**	6.1
Other borrowings (unsecured)	**699**	29	**–**	–	**6.9**	6.2
	765	102	**–**	–		
Maximum short-term borrowings outstanding during year	**936**	2,279	**–**	–		

* 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 2000 £m	Group 1999 £m	*Non-operating creditors included in Group 2000 £m*	*Non-operating creditors included in Group 1999 £m*	Company 2000 £m	Company 1999 £m
Amounts due within one year						
Trade creditors	**917**	833			**56**	54
Amounts owed to subsidiary undertakings					**7,678**	6,749
Amounts owed to associates	**7**	9			**–**	–
Corporate taxation	**374**	332	***374***	*332*	**166**	119
Value added and payroll taxes and social security	**42**	30			**–**	–
Dividends to Ordinary Shareholders	**142**	142	***142***	*142*	**142**	142
Environmental liabilities	**4**	11	***–***	*2*	**–**	–
Accruals	**444**	445	***125***	*86*	**44**	20
Other creditors*	**347**	355	***14***	*14*	**33**	40
	2,277	2,157	***655***	*576*	**8,119**	7,124
Amounts due after more than one year						
Corporate taxation	**2**	2				
Amounts owed to subsidiary undertakings					**1,331**	1,250
Environmental liabilities	**6**	6			**4**	4
Pension liabilities	**12**	11			**–**	–
Other creditors*	**43**	52			**2**	2
	63	71			**1,337**	1,256

* 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.

21 Loans

		Repayment dates	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Secured loans						
US dollars		2001/2016	**4**	6		
Other currencies		2001/2004	**100**	86		
Total secured			**104**	92	**–**	–
Secured by fixed charge	– bank loans		**73**	78		
	– other		**10**	13		
Secured by floating charge	– bank loans		**21**	1		
Unsecured loans						
Sterling						
9¾% and 10% Bonds		2003/2005	**200**	200	**200**	200
7.625% Bonds		2007	**297**	297		
5.635% to 7.65% medium-term notes		2003	**5**	130	**5**	5
5.136% to 5.177% short-term notes		2001	**200**	–		
Variable rate medium-term notes		2003	**6**	27	**6**	27
Others		2001/2002	**39**	42	**15**	13
			747	696	**226**	245
US dollars						
8⅞% Debentures		2006	**168**	155		
8.9% medium-term notes		2002	**10**	9		
8¾% Notes		2001	**168**	155		
9½% Notes		2000	**–**	186		
7½% Notes		2002	**134**	124		
6¾% Notes		2002	**168**	155		
6 19/20% Notes		2004	**504**	464		
7 1/20% Notes		2007	**168**	155		
6¾% Bonds		2002	**335**	309		
Variable rate medium-term notes		2001/2010	**73**	160	**73**	36
Others		2001/2008	**92**	109		
			1,820	1,981	**73**	36
Other currencies		2001/2005	**32**	143	**6**	62
Total unsecured			**2,599**	2,820	**305**	343
Total loans – excluding financial derivatives			**2,703**	2,912	**305**	343
Financial derivatives			**(6)**	(13)	**1**	12
Total loans			**2,697**	2,899	**306**	355

An analysis reflecting the effects of financial instruments on the Group's financial liabilities at 31 December 2000 is set out in note 39.

The following analysis reflects the effects of financial derivatives on the Group's borrowings at 31 December 2000.

	Before financial derivatives £m	After financial derivatives £m
Sterling	747	395
US dollars and US dollar related currencies	1,824	1,769
Euro and Euro related currencies	–	223
Japanese yen	27	205
Others	105	105
	2,703	2,697
Fixed rate loans	2,594	658
Floating rate loans	109	2,039
	2,703	2,697

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 2000 of £235m. Of the £2,039m floating rate debt, £1,000m is protected by caps originally struck at prevailing fixed interest rates.

21 Loans (continued)

Loan maturities	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Bank loans				
Loans or instalments thereof are repayable:				
After 5 years from balance sheet date	**20**	125	**–**	–
From 2 to 5 years	**242**	175	**–**	–
From 1 to 2 years	**74**	57	**–**	–
Total due after more than one year	**336**	357	**–**	–
Total due within one year	**56**	41	**–**	–
	392	398	**–**	–
Other loans				
Loans or instalments thereof are repayable:				
After 5 years from balance sheet date	**664**	613	**34**	100
From 2 to 5 years	**562**	1,090	**230**	120
From 1 to 2 years	**669**	192	**15**	27
Total due after more than one year	**1,895**	1,895	**279**	247
Total due within one year	**410**	606	**27**	108
	2,305	2,501	**306**	355
Total loans				
Loans or instalments thereof are repayable:				
After 5 years from balance sheet date	**684**	738	**34**	100
From 4 to 5 years	**114**	494	**106**	–
From 3 to 4 years	**535**	151	**–**	120
From 2 to 3 years	**155**	620	**124**	–
From 1 to 2 years	**743**	249	**15**	27
Total due after more than one year	**2,231**	2,252	**279**	247
Total due within one year	**466**	647	**27**	108
Total loans	**2,697**	2,899	**306**	355
Aggregate amount of loans any instalment of which falls due after 5 years	**783**	793	**34**	100

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 2000	–	216	229	71	600	215	125	1,456
Profit and loss account	19	23	13	(9)	350	14	4	414
Increase due to effluxion of time					6			6
Net amounts paid or becoming payable	–	(25)	(23)	(35)	(200)	(100)	(13)	(396)
Movements due to acquisitions and disposals	1	(3)	(2)	1	–	–	(3)	(6)
Exchange and other movements	(20)*	(6)	8	3	10	(10)	(13)	(28)
At end of 2000	**–**	**205**	**225**	**31**	**766**	**119**	**100**	**1,446**
Company								
At the beginning of 2000	–	–	–	–	253	50	18	321
Profit and loss account	21	–	–	–	71	12	–	104
Net amounts paid or becoming payable	–	–	–	–	(122)	(37)	(3)	(162)
Movements due to acquistions and disposals								
Exchange and other movements	(12)	–	–	–	3	–	–	(9)
At end of 2000	**9**	**–**	**–**	**–**	**205**	**25**	**15**	**254**

* Deferred tax asset balances are disclosed in note 17.

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

23 Disposal and restructuring provisions

	Disposal provisions			Restructuring provisions		
	2000	1999	1998 (as restated – note 1)	2000	1999	1998 (as restated – note 1)
	£m	£m	£m	£m	£m	£m
At beginning of year	**605**	421	162	**237**	191	71
Exceptional items before tax						
Rationalisation of operations (note 4)	–	–	–	–	98	223
Fundamental reorganisation costs (note 4)	–	–	–	**14**	74	–
Profit and loss account	**489**	515	406	–	–	–
Asset write-offs	**(133)**	(27)	–	–	(31)	(36)
Amounts paid	**(200)**	(302)	(156)	**(112)**	(93)	(58)
Exchange and other adjustments	**5**	(2)	9	**(12)**	(2)	(9)
At end of year	**766**	605	421	**127**	237	191
Provisions	**766**	600	421	**119**	215	176
Creditors	–	5	–	**8**	22	15
	766	605	421	**127**	237	191
Comprising						
Severance costs	**141**	132	192	**67**	116	105
Other	**625**	473	229	**60**	121	86
	766	605	421	**127**	237	191

Disposal provisions

As outlined under "Divestment Programme" in the Description of Business on page 17, ICI commenced reshaping its portfolio of businesses in 1997 consistent with plans to focus its resources on Paints and Specialty Chemicals. In pursuit of this strategy the Group announced that it intended to divest most of its Industrial Chemicals business.

Prior to 1998

Divestments in 1997 included the Polyester polymer and intermediates business excluding the operations in Pakistan and the Forest Products and Fertiliser businesses. At 31 December 2000 provisions remaining to be spent were £62m including termination costs (£21m), long-term residual costs (£18m) and environmental and site clearance costs (£13m). With the exception of the environmental, site clearance and long-term residual costs the provisions are expected to be substantially utilised over the next two years.

1998

In the period from 1 January 1998 to 31 December 1998, the Group disposed of the following major businesses:

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

In April 1998, the Group sold its explosives operations in Canada, Latin America and Europe and the explosives distribution business in the USA to Orica Limited. Provisions of £90m were set up in respect of environmental remediation (£12m), site clearance (£9m), termination costs (£9m) and other costs (£60m). At 31 December 2000, £23m remained to be spent mainly on environmental remediation and other costs. With the exception of environmental costs the provisions are expected to be substantially utilised over the next two years.

(ii) Polyester film business

In January 1998, the Group sold its polyester film business to DuPont. Provisions of £72m were set up in respect of termination costs (£22m), pension costs relating to employees transferring to the purchaser (£20m), corporate relocation (£9m) and other costs (£21m). During 1999, revisions were made to the estimated costs from this disposal resulting in £3m of provisions being released and £3m of further costs being provided. At 31 December 2000, £21m remained to be spent mainly on termination costs (£8m), and long-term residual costs (£8m). With the exception of the long-term residual costs, the provisions are expected to be substantially utilised over the next two years.

(iii) Other disposals

The Group also divested its Propafilm oriented polypropylene films business, its Methylamines and derivatives business and its Teesside Utilities and Services business. Provisions of £133m were raised for these three divestments comprising termination costs (£46m) for 440 employees, pension costs relating to employees transferring to the purchaser (£32m), environmental remediation (£14m) and other related costs (£41m).

During 1999, revisions were made to the estimated costs from these disposals resulting in the release of £4m of provisions as an exceptional profit. At the end of 2000, provisions unspent relating to the Propafilm, Methylamines and Teesside Utilities and Services businesses totalled £48m principally comprising termination costs (£18m) where some 150 jobs are still to be terminated, and environmental remediation costs (£14m). With the exception of the environmental remediation costs, the balance of these provisions is expected to be substantially utilised over the next two years.

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 ICI 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). During 2000, revisions were made to the estimated costs of this disposal resulting in £5m being released as an exceptional profit. At 31 December 2000, £161m remained to be spent relating to the cost of long-term employee benefits (£18m), termination costs (£14m) where some 200 jobs are still to be terminated, site clearance costs (£9m), transaction and related legal costs (£7m), IT related costs (£7m) and long-term residual costs (£90m). With the exception of the long-term residual costs, the provisions are expected to be substantially utilised over the next two years.

(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). At 31 December 2000, £29m remained to be spent mainly on termination costs (£6m) where some 200 jobs are yet to be terminated, IT related costs (£5m), separation costs (£4m), environmental costs (£3m), transaction and related legal costs (£2m), and long-term residual costs (£5m). The majority of the provisions are expected to be substantially utilised over the next two years.

(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 for 45 employees (£5m), pension costs relating to employees transferring to the purchaser (£25m), transaction costs (£18m), IT related costs (£7m) and long-term residual costs (£10m). During 2000, revisions were made to the estimated costs of this disposal resulting in £6m being released as an exceptional profit. At 31 December 2000, £18m remained to be spent principally on termination costs (£3m) where some 8 jobs are still to be terminated, and long-term residual costs (£10m). With the exception of the long-term residual costs, the provisions are expected to be substantially utilised over the next two years.

(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). At the end of 2000, unspent provisions relating to these disposals totalled £36m principally comprising termination costs (£7m) for 47 employees, site clearance costs (£9m), and long-term residual costs (£12m). With the exception of the long-term residual costs these provisions are expected to be substantially utilised over the next two years.

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. The total pre-tax loss for the divestment is £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 are 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). With the exception of the long-term residual costs of £121m the provisions are expected to be substantially utilised over the next three years.

(ii) Other disposals

The Group also divested some smaller businesses including its 50% interest in Phillips-Imperial Petroleum Ltd and its Methanol business. Provisions of £37m were raised for these disposals including termination costs (£9m) for 73 employees. The provisions are expected to be substantially utilised over the next three years.

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

23 Disposal and restructuring provisions (continued)

Restructuring provisions

Prior to 1998

Restructuring provisons set up prior to 1998 and remaining unspent at 31 December 2000 were £46m. £31m of the total relates to the Chlor-Chemicals and Crosfield businesses divested in January 2001. £10m of these provisions will be retained by the Group as they relate to operations outside the sale agreement; most of the provisions are expected to be spent in 2001. The remaining £15m relates to restructuring programmes in the Paints and Quest Businesses.

1998

In 1998 the Group undertook a series of further rationalisations across its portfolio comprising:

(i) Paints – the Paints Business commenced three restructuring programmes:

In the USA, a project was implemented to downsize operations to align capacity to market demand including plant closures, closure of stores and warehouses and reduction in corporate research and central administrative functions.

In Europe, the European Home Improvements business of Williams, which was acquired in the year, was integrated with existing ICI operations with the closure of duplicate facilities.

In Asia Pacific, the Business restructured in reaction to the economic crisis with the closure of its Philippines operations and a territory-wide redundancy programme.

(ii) Performance Specialties – During late 1997 the Group incurred a restructuring charge to integrate ICI's existing businesses with the Unichema and Crosfield businesses acquired from Unilever. In 1998 further costs were incurred to integrate the acquired businesses and restructure the surfactants, catalysts and lubricant activities.

(iii) Discontinued operations – restructuring included:

The Klea business operated at a loss in 1998 and at the end of that year it was forecast that its UK assets would generate insufficient cash flow to justify their carrying values. An asset impairment of £42m, before tax, was recognised in the year as an exceptional charge against trading profit.

The Chlor-Chemicals business continued to operate unprofitably in 1998. A project to reduce the business's cost base by restructuring Research, Technology, Engineering and Manufacturing was instituted.

The Crosfield business reduced its UK site infrastructure and downsized its operations in Latin America, (particularly Brazil, in line with market demand).

The total exceptional provision before tax of £164m for these restructuring programmes was charged against 1998 trading profits of which £68m related to anticipated terminations of some 1,700 employees, £36m to asset write-downs and £60m for other costs including £27m for provisions against assets and £6m for site clearance and closure.

At the end of 2000, £17m of these provisions remained to be spent including £13m of termination costs in respect of some 190 employees. The provisions are expected to be substantially utilised over the next year.

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 of which £80m related 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 the end of 2000, £61m of these provisions, remained to be spent including £41m relating to the termination of some 210 employees. Most of the provisions are expected to be utilised over the next two years.

2000

The £14m restructuring charge in 2000 relates to additional restructuring of the Group's Corporate Centre announced in 1999. At the end of 2000, £3m of these provisions remained unspent. These provisions are expected to be substantially utilised over the next two years.

24 Called-up share capital of parent company

Ordinary Shares of £1 each	Authorised £m	Allotted, called-up and fully paid £m
At beginning of 1998	850	727
Employee share option schemes – options exercised		1
At end of 1998	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**

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). These schemes are described on pages 38 to 40. The Company also operates a savings related share option scheme (UK – Sharesave) for all UK employees meeting minimum service requirements.

At 31 December 2000 the maximum number of shares which could be awarded under the Performance Growth Plan was 551,076 (Ordinary Share equivalents). Of this 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). Shares and ADSs required for these Schemes are satisfied by a trust using shares purchased in the market.

At 31 December 2000 there were 494,761 shares outstanding representing the matched shares under the Bonus Conversion Plan to be delivered as the Company's Ordinary Shares or in the form of ADSs. Shares and ADSs required for this Plan are purchased in the market by a trust.

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% 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% of the Company's Ordinary Share Capital in issue on 21 March 1994.

Options granted to Directors and Officers are shown in the Remuneration report on page 40.

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 1998	2,915	7.86	13,380	6.64	182	58.63
Granted	1,825	12.02	3,480	4.75	201	77.05
Exercised	(275)	6.92	(789)	6.42	(8)	47.97
Cancelled	–	–	(3,475)	6.91	(1)	78.90
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 end of 2000	12,184	6.87	10,373	5.03	1,487	42.07
Number of options exercisable at:						
31 December 1998	1,540	7.48	–	–	45	49.61
31 December 1999	2,353	7.46	–	–	173	47.48
31 December 2000	2,221	7.47	–	–	280	56.60

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

b) Summary of share options outstanding at 31 December 2000

	Total options outstanding at 31 December 2000			Exercisable options at 31 December 2000	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
	000	Years	£/$	000	£/$
Exercise price range					
Senior Staff Scheme					
£0 – £10	10,087	7.87	5.85	1,813	6.52
£10 – £20	2,097	7.26	11.78	408	11.71
	12,184		6.87	2,221	7.47
UK – Sharesave					
£0 – £10	10,373	3.25	5.03	–	–
£10 – £20	–	–	–	–	–
	10,373		5.03	–	–
SARP (ADSs)					
$20 – $40	1,090	8.75	33.39	65	34.70
$40 – $60	112	6.89	45.06	62	46.69
$60 – $80	285	7.12	74.08	153	69.92
	1,487		42.07	280	56.60

At 31 December 2000 there were options outstanding in respect of 22.6m (1999 21.1m) Ordinary Shares of £1 under the Senior Staff and UK – Sharesave Option Schemes normally exercisable in the period 2001 to 2010 (2000 to 2009) at subscription prices of £3.66 to £12.14 (1999 £4.75 to £12.14). Movements in the number of shares under option during 2000 comprised new options 6.5m, options exercised 0.2m, and options lapsed or waived 4.8m. The number of Ordinary Shares issued during the year, wholly in respect of the exercise of options, totalled 0.2m (1999 0.2m; 1998 1.0m). The weighted average subscription price of options outstanding at 31 December 2000 was £6.02.

At 7 February 2001 there were options outstanding in respect of 22.5m Ordinary Shares of £1 normally exercisable in the period 2001 to 2010 (2000 to 2009) at subscription prices of £3.66 to £12.14 (1999 £4.75 to £12.14). The weighted average subscription price of options outstanding at 7 February 2001 was £6.02.

Notes relating to the accounts

25 Reserves

	Share premium account £m	Retained earnings: Associates £m	Retained earnings: Profit and loss account £m	Retained earnings: Total £m	Total £m
Group					
Reserves attributable to parent company shareholders					
At beginning of 1998	581	26	(1,078)†	(1,052)	(471)
Net (loss) profit for the financial year		(10)	93†	83	83
Dividends (note 10)			(232)	(232)	(232)
Transfer of goodwill on disposals			126	126	126
Amounts taken direct to reserves					
Share premiums – share option schemes	6				6
Goodwill relating to 1997 acquisitions			(48)	(48)	(48)
Exchange adjustments		(1)	(42)	(43)	(43)
	6	(1)	(90)	(91)	(85)
At beginning of 1999	587	15	(1,181)	(1,166)	(579)
Net profit 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 (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 end of 2000	**589**	**14**	**(1,547)**	**(1,533)**	**(944)**

† As restated – note 1.

At the end of 2000, the cumulative goodwill offset against profit and loss account amounted to £4,041m (1999 £4,082m; 1998 £4,161m). Included in this figure was negative goodwill the cumulative amount of which at 31 December 2000 was £1m (1999 £1m; 1998 £1m).

In the Group accounts, £128m of net exchange losses on foreign currency loans (1999 gains £28m; 1998 losses £63m) have been offset in reserves against exchange gains (1999 losses; 1998 gains) on the net investment in overseas subsidiaries and associates.

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:

	2000 £m	1999 £m	1998 £m
At beginning of year	**(277)**	(273)	(230
Exchange adjustments	**(42)**	(4)	(4
At end of year	**(319)**	(277)	(27

There are no significant statutory or contractual restrictions on the distribution of current profits of subsidiary undertakings or associates except as regards Huntsman ICI Holdings LLC, see note 15; undistributed profits of prior years are, in the main, permanently employed in the business 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.

25 Reserves (continued)

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 £2,713m at 31 December 2000 (1999 £3,313m; 1998 £3,435m).

	Share premium account £m	Profit and loss account £m	**2000 Total £m**	1999 Total £m
Company				
Reserves				
At beginning of year	588	2,781	**3,369**	1,294
Net profit (loss) for year		(300)	**(300)**	2,361
Dividends		(232)	**(232)**	(233)
Amounts taken direct to reserves				
Share premiums – share option schemes	1		**1**	1
Exchange and other adjustments		21	**21**	(54)
	1	21	**22**	(53)
At end of year	589	2,270	**2,859**	3,369

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

26 Net cash inflow from operating activities

	2000 £m	1999 £m	1998 (as restated – note 1) £m
Trading profit	**577**	473	404
Exceptional charges within trading profit	**–**	98	223
Trading profit before exceptional items	**577**	571	627
Depreciation and amortisation of goodwill	**268**	319	350
Stocks (increase)/decrease	**(6)**	21	40
Debtors (increase)/decrease	**(111)**	(191)	168
Creditors increase/(decrease)	**(12)**	30	(148)
Other movements	**(21)**	(75)	(76)
	695	675	961
Outflow related to exceptional items	**(109)**	(93)	(105)
	586	582	856

Outflow related to exceptional items includes expenditure charged to exceptional provisions relating to business rationalisation and restructuring. The major part of the 2000 expenditure relates to provisions raised in prior years.

27 Returns on investments and servicing of finance

	2000 £m	1999 £m	1998 £m
Dividends received from other investments	**3**	4	3
Interest received	**38**	82	75
Interest paid	**(256)**	(376)	(419)
Dividends paid by subsidiary undertakings to minority shareholders	**(15)**	(17)	(9)
	(230)	(307)	(350)

28 Capital expenditure and financial investment

	2000 £m	1999 £m	1998 £m
Purchase of tangible fixed assets	**(284)**	(428)	(516)
Purchase of fixed asset investments other than associates or joint ventures	**–**	–	(48)
Sale of fixed assets	**58**	72	44
	(226)	(356)	(520)

29 Acquisitions

	2000 Total Fair value £m	1999 Total Fair value £m
Subsidiary undertakings and operations		
Fair value of net assets acquired	**14**	(1)
Goodwill acquired	**11**	6
Consideration for subsidiary undertakings and operations acquired	**25**	5
Investments in participating interests	**5**	–
	30	5
Less		
Cash included in undertakings acquired	**–**	–
Cash consideration – current year	**30**	5
– deferred consideration	**(17)**	–
– previous years' acquisitions of: Specialty Chemicals business		(7)
Others		14
	13	12

30 Management of liquid resources

	2000 £m	1999 £m	1998 £m
Commercial paper	**89**	89	–
Bank deposits and certificates of deposit	**(115)**	126	529
Floating rate notes, medium rate notes, treasury bills	**14**	–	–
	(12)	215	529

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).

31 Disposals

	2000 £m	1999 £m
Subsidiary undertakings and operations		
Tangible fixed assets and investments	**53**	1,358
Intangible fixed assets	**4**	–
Net current assets	**36**	497
Creditors due after more than one year	**–**	(24)
Provisions for liabilities and charges	**(9)**	(135)
Minority interests	**–**	(4)
Book value of net assets disposed	**84**	1,692
Disposal costs and provisions	**19**	499
Goodwill written back on disposal	**–**	69
Investments in participating interests	**1**	17
Repayment of loans	**–**	(3)
Profits less losses on disposals	**(12)**	368
Consideration received on prior year disposals	**25**	–
Non cash consideration	**–**	(283)
	117	2,359
Outflow on divestment provisions	**(242)**	(319)
Cash consideration	**(125)**	2,040
Comprising inflow (outflow) arising on		
current year's disposals	**34**	2,138
previous year's disposals	**(159)**	(98)
	(125)	2,040

During 2000 the Group received gross cash consideration of £117m (1999 £2,359m), primarily for disposals of operations £117m (1999 £2,362m) and £nil (1999 £(3)m) in respect of repayment of fixed asset investment loans. Of this amount, £242m (1999 £319m) was paid against ongoing disposal costs and provisions.

Disposals by the Group during 2000 comprised its UK based Methanol business and its 50% equity shareholding in Phillips-Imperial Petroleum Ltd.

32 Financing

	Notes	Financing – shares: Shares issued by Company: Share capital £m	Share premium £m	Minorities* £m	Total £m	Financing – debt: Loans £m	Short-term borrowings other than overdrafts £m	Finance leases £m	Total £m	Total £m
			25			21	34	36		
At beginning of 1998		(727)	(581)	(40)	(1,348)	(3,925)	(1,047)	(16)	(4,988)	(6,336)
Exchange adjustments					–	(44)	(19)	–	(63)	(63)
Financing										
New finance		(1)	(6)	(1)	(8)	(527)	(9,322)		(9,849)	(9,857)
Finance repaid						951	9,038	3	9,992	9,992
Cash flow		(1)	(6)	(1)	(8)	424	(284)	3	143	135
Acquisitions and disposals				(1)	(1)	8	(2)	1	7	6
Other movements				2	2	(2)	2	(3)	(3)	(1)
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	2,592ø	**2,592**
Cash flow		–	(1)	–	(1)	334	(672)	3	(335)	**(336)**
Acquisitions and disposals		–	–	(4)	(4)	(4)	(1)	1	(4)	**(8)**
Other movements		–	–	–	–	–	–	–	–	**–**
At end of 2000		**(728)**	**(589)**	**(38)**	**(1,355)**	**(2,697)**	**(719)**	**(7)**	**(3,423)**	**(4,778)**

* Share capital element of minority interests.

		Repayment dates	Currency	Rate %	Amount £m
† New finance	Bank loan	2000 – 2002	Various	Various	296
	Euro dollar medium-term notes	2003 – 2010	Various	Various	47
	Euro commercial paper	2000 – 2001	Various	Various	249
	US commercial paper	2000 – 2001	US$	Various	2,132
	Others				203
					2,927
ø Finance repaid					
	Euro dollar medium-term notes		Various	Various	409
	US commercial paper		US$	Various	1,891
	Others				292
					2,592

33 Analysis of net debt

	Cash	Financing – debt					Current asset investments	Net debt
		Loans Due after one year	Loans Due within one year	Short-term borrowings other than overdrafts	Finance leases	Total		
Notes	1,34	21	21	34	36		18	
	£m	£m	£m	£m	£m	£m	£m	£m
At beginning of 1998	282	(2,975)	(950)	(1,047)	(16)	(4,988)	935	(3,771)
Exchange adjustments	5	(51)	7	(19)	–	(63)	(1)	(59)
Cash flow	(25)	(390)	814	(284)	3	143	(529)	(411)
Acquisitions and disposals	–	(1)	9	(2)	1	7	11	18
Other non-cash changes	10	463	(465)	2	(3)	(3)	39	46
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 end of 2000	**209**	**(2,231)**	**(466)**	**(719)**	**(7)**	**(3,423)**	**415**	**(2,799)**

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 1998	340	(58)	(1,047)	(1,105)	(765)	282
Exchange adjustments	–	5	(19)	(14)	(14)	5
Cash flow	27	(52)	(284)	(336)	(309)	(25)
Acquisitions and disposals	–	–	(2)	(2)	(2)	–
Other non-cash changes	–	10	2	12	12	10
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 end of 2000	**255**	**(46)**	**(719)**	**(765)**	**(510)**	**209**

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 1998, 1999 and 2000 and the movements during the years ending on those dates were as follows:

	2000 £m	1999 £m	1998 £m
Cash and cash equivalents			
Cash	**255**	270	367
Investments and short-term deposits which were within 3 months of maturity when acquired	**317**	184	242
	572	454	609
Change in the balance of cash and cash equivalents			
At beginning of year	**454**	609	603
Exchange adjustments	**1**	(8)	–
Cash inflow (outflow) during year	**114**	(147)	15
Acquisitions and disposals	**3**	–	(9)
At end of year	**572**	454	609

The format of the UK statement employs some 9 headings compared with 3 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.

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
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
1998			
Continuing operations	10	45	55
Discontinued operations	8	2	10
Total	18	47	65

	Land and buildings		Other assets	
	2000 £m	1999 £m	**2000 £m**	1999 £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	**8**	7	**7**	5
Expiring in years 2 to 5	**17**	20	**19**	18
Expiring thereafter	**21**	17	**3**	4
	46	44	**29**	27

	Operating leases		Finance leases	
Obligations under leases comprise	**2000 £m**	1999 £m	**2000 £m**	1999 £m
Rentals due within 1 year	**75**	71	**2**	4
Rentals due after more than 1 year				
From 1 to 2 years	**57**	57	**2**	3
From 2 to 3 years	**45**	47	**1**	2
From 3 to 4 years	**33**	36	**1**	1
From 4 to 5 years	**25**	31	**1**	1
After 5 years from balance sheet date	**143**	125	**–**	–
	303	296	**5**	7
	378	367	**7**	11
Less amounts representing interest			**–**	(1)
Present value of net minimum lease payments			**7**	10
Less current lease obligations			**(2)**	(4)
Non current lease obligations			**5**	6

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.

37 Employee numbers and costs

Average number of people employed by the Group

Classes of business

	2000	1999	1998
Continuing operations			
International businesses			
National Starch	**10,570**	10,490	9,880
Quest	**4,580**	4,450	4,360
Performance Specialties	**4,140**	4,370	4,450
Paints	**16,760**	18,200	19,190
	36,050	37,510	37,880
Regional and Industrial	**4,970**	5,290	5,970
Corporate			
Board support	**180**	220	240
Group technical resources and other shared services	**380**	1,160	1,480
	41,580	44,180	45,570
Discontinued operations	**4,350**	9,270	14,980
	45,930	53,450	60,550

Geographic areas

	Continuing operations			Total		
	2000	1999	1998	2000	1999	1998
United Kingdom	**7,170**	8,310	8,980	**10,490**	13,570	16,880
Continental Europe	**6,850**	7,390	7,490	**7,250**	9,140	10,610
USA	**11,510**	11,440	11,580	**11,750**	12,560	13,340
Other Americas	**5,930**	6,390	6,680	**6,070**	6,640	7,520
Asia Pacific	**9,830**	10,320	10,420	**10,020**	10,980	11,450
Other countries	**290**	330	420	**350**	560	750
Total employees	**41,580**	44,180	45,570	**45,930**	53,450	60,550

Number of people employed by the Group at the year end

	2000	1999	1998
Continuing operations	**40,960**	42,360	45,560
Discontinued operations	**4,170**	4,300	13,170
Total employees	**45,130**	46,660	58,730

Employee costs

	Continuing operations			Total		
	2000 £m	1999 £m	1998 £m	2000 £m	1999 £m	1998 £m
Salaries	**1,001**	1,038	1,008	**1,124**	1,298	1,408
Social security costs	**99**	109	119	**110**	138	168
Pension costs	**70**	93	95	**85**	132	162
Other employment costs	**29**	24	24	**31**	30	33
	1,199	1,264	1,246	**1,350**	1,598	1,771
Less amounts allocated to capital and to provisions set up in previous years	**(2)**	(37)	(3)	**(2)**	(38)	(6)
Severance costs charged in arriving at profit (loss) before tax	**15**	50	51	**54**	70	102
Employee costs charged in arriving at profit (loss) before tax	**1,212**	1,277	1,294	**1,402**	1,630	1,867

38 Pensions and other post-retirement benefits

Pensions

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 6.0% (1999 8.0%). The weighted average expected long-term rate of return on investments was 6.1% (1999 8.3%). The weighted average rate of increase of future earnings was 4.4% (1999 5.3%).

The actuarial value of the fund assets of these plans at the date of the latest actuarial valuations was sufficient to cover 99% (1999 93%) of the benefits that had accrued to members after allowing for expected future increases in earnings; their market value was £8,240m (1999 £8,166m).

The total pension cost for the Group for 2000 was £85m (1999 £132m; 1998 £162m). Accrued pension costs amounted to £13m (1999 £11m) and are included in other creditors (note 20); provisions for the benefit obligation of a small number of unfunded plans amounted to £205m (1999 £216m) and are included in provisions for liabilities and charges – unfunded pension (note 22). Prepaid pension costs amounting to £487m (1999 £382m) are included in debtors (note 17).

ICI Pension Fund

The ICI Pension Fund accounts for approximately 86% of the Group's plans in asset valuation and projected benefit terms.

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% and the Company has agreed to make a further six annual payments 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 2000 this gave rise to a charge of £10m.

Healthcare

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 2000 approximately 23,000 (1999 24,000) 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 2000 was £13m (1999 £3m; 1998 £15m) and the provision at the year end was £199m (1999 £190m).

The Group has adopted the measurement bases of the US Standard, SFAS 106 – *Employer's 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 below.

The healthcare cost trend has a significant effect on the amounts reported. For the Group, increasing the assumed healthcare cost rates by 1% in every year would increase the accumulated post-retirement benefit obligation at 31 December 2000 by £12m (1999 £13m) and the aggregate of the service and interest cost components of net periodic post-retirement benefit cost for the year ended 31 December 2000 by £2m (1999 £1m).

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	
	2000 %	1999 %	**2000** %	1999 %
Discount rate	**5.9**	6.1	**7.5**	7.1
Expected long-term rate of return on assets	**6.2**	7.2		
Long-term rate of increase in remuneration	**3.6**	4.0		
Initial post-retirement benefits trend rate ø			**8.0 – 4.5**	8.5 – 4.5

ø Assumed to decrease gradually to 4.5% by the year 2007 and remain at that level thereafter.

38 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	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Change in benefit obligations				
Benefit obligation at beginning of year	**7,656**	8,332	**166**	176
Service cost	**75**	101	**4**	6
Interest cost	**452**	437	**12**	11
Participants' contributions	**7**	8	**–**	–
Plan amendments	**1**	11	**(2)**	2
Actuarial loss (gain)	**383**	(200)	**(12)**	(13)
Business combinations	**–**	100	**10**	–
Divestitures	**(4)**	(504)	**(1)**	(10)
Curtailments	**(3)**	(1)	**(2)**	–
Settlements	**(202)**	(200)	**–**	–
Termination benefits	**127**	128	**2**	–
Exchange	**54**	(25)	**13**	4
Benefit payments	**(501)**	(531)	**(12)**	(10)
Benefit obligation at end of year	**8,045**	7,656	**178**	166
Change in plan assets				
Fair value of plan assets at beginning of year	**8,169**	8,039	**–**	–
Actual return on plan assets	**328**	954	**1**	–
Business combinations	**–**	99	**10**	–
Divestitures	**(3)**	(479)	**–**	–
Settlements	**(198)**	(213)	**–**	–
Employer's contributions	**298**	318	**10**	10
Participants' contributions	**7**	8	**–**	–
Exchange	**59**	(26)	**1**	–
Benefit payments	**(501)**	(531)	**(12)**	(10)
Fair value of plan assets at end of year	**8,159**	8,169	**10**	–
Funded status				
Funded status at end of year	**114**	513	**(168)**	(166)
Unrecognised net actuarial loss	**(197)**	(759)	**(31)**	(30)
Unrecognised transition amount	**44**	54	**–**	1
Unrecognised prior service cost	**67**	110	**–**	3
Adjustment to recognise minimum liability	**(5)**	(5)	**–**	2
Intangible assets	**(2)**	(3)	**–**	–
Other	**2**	1	**–**	–
Net amount recognised	**23**	(89)	**(199)**	(190)
Prepaid benefit cost	**88**	83	**–**	–
Accrued benefit cost	**(65)**	(172)	**(199)**	(190)
Net liability recognised	**23**	(89)	**(199)**	(190)

Plan assets consist primarily of investments in UK and overseas equity and fixed interest securities.

The total benefit obligation at the end of the year for the major pension plans where the benefit obligations exceed plan assets was £440m (1999 £494m) and the fair value of plan assets for such plans was £336m (1999 £337m). 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 £80m (1999 £76m) and the fair value of plan assets for such plans was £34m (1999 £38m).

38 Pensions and other post-retirement benefits (continued)

The net periodic benefit cost for the major retirement plans under SFAS No.87 comprised:

	Pension benefits 2000 £m	Pension benefits 1999 £m	Pension benefits 1998 £m	Other post-retirement benefits 2000 £m	Other post-retirement benefits 1999 £m	Other post-retirement benefits 1998 £m
Components of net periodic benefit cost						
Service cost	**75**	101	107	**4**	6	5
Interest cost	**452**	437	511	**12**	11	10
Expected return on plan assets for period	**(540)**	(471)	(576)	**–**	–	–
Amortisation of prior service cost	**23**	30	29	**–**	–	–
Amortisation of transition amount	**3**	4	6	**–**	–	–
Recognised net actuarial loss	**7**	44	25	**(1)**	(1)	–
Recognised on termination/curtailment/settlement benefits	**144**	171	38	**(2)**	(13)	–
Net periodic benefit cost	**164**	316	140	**13**	3	15

The net periodic benefit cost includes £129m (1999 £128m) for contractual terminations which are included within the relevant UK GAAP statutory headings.

39 Financial risk management

(a) Interest rate risk

The interest rate profile of the Group's financial assets and financial liabilities at 31 December 2000, after taking into account the effect of interest rate and currency swaps, is set out in the tables below. Further quantitative analysis of the sensitivity to movements in interest rates is reported in the Operating and financial review on page 24.

Financial assets	2000 At fixed interest rates £m	2000 At floating interest rates £m	2000 Interest free £m	2000 Total £m	1999 At fixed interest rates £m	1999 At floating interest rates £m	1999 Interest free £m	1999 Total £m
Current assets investments, short-term deposits and cash								
Sterling	**–**	**116**	**29**	**145**	–	89	40	129
US dollars and US dollar related currencies	**–**	**39**	**67**	**106**	89	56	93	238
Euro and Euro related currencies	**–**	**21**	**53**	**74**	–	6	39	45
Japanese yen	**–**	**–**	**3**	**3**	–	–	3	3
Other currencies	**–**	**17**	**101**	**118**	–	10	92	102
	–	**193**	**253**	**446**	89	161	267	517
Fixed asset investments and debtors due after more than one year								
Sterling				**46**				254
US dollars and US dollar related currencies				**185**				160
Euro and Euro related currencies				**5**				5
Other currencies				**6**				2
Total financial assets				**688**				938

At 31 December 2000 the financial assets of the Group comprised:

	2000 £m	1999 £m
Investments in participating and other investments		
Loans to associates	**190**	150
Other investments		
Shares	**21**	22
Loans	**–**	–
Debtors due after more than one year	**31**	249
Current asset investments and short-term deposits	**415**	394
Cash	**255**	270
Less financial assets of insurance subsidiaries	**(224)**	(147)
	688	938

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.

The applicable weighted average interest rate for fixed rate financial assets in US dollars and US dollar related currencies was 6.2% in 1999 (2000 n.a.).

39 Financial risk management (continued)

Financial liabilities

	2000 At fixed interest rates £m	2000 At floating interest rates £m	2000 Total £m	1999 At fixed interest rates £m	1999 At floating interest rates £m	1999 Total £m
Sterling	**350**	**64**	**414**	–	330	330
US dollars and US dollar related currencies	**179**	**1,682**	**1,861**	380	1,399	1,779
Euro and Euro related currencies	**–**	**767**	**767**	22	642	664
Japanese yen	**27**	**296**	**323**	22	213	235
Other currencies	**102**	**42**	**144**	–	47	47
	658	**2,851**	**3,509**	424	2,631	3,055

At 31 December 2000 the financial liabilities of the Group comprised:

	2000	1999
Short-term borrowings	**765**	102
Current instalments of loans	**466**	647
Loans	**2,231**	2,252
Other creditors due after more than one year		
Environmental liabilities	**6**	6
Other creditors	**36**	42
Finance leases	**5**	6
Less financial liabilities of insurance subsidiaries	**–**	–
	3,509	3,055

Floating rate financial liabilities comprise bank 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 8.0% (1999 nil); US dollar and US dollar related currencies 7.0% (1999 7.0%); Euro and Euro related currencies nil (1999 4.9%); Japanese yen 3.6% (1999 4.3%); other currencies 15.5% (1999 nil).

The applicable weighted average period for which rates are fixed are: Sterling 5 years (1999 nil); US dollar and US dollar related currencies 6 years (1999 5 years); Euro and Euro related currencies nil (1999 1 year); Japanese yen 4 years (1999 4 years) and other currencies 2 years (1999 nil).

Further protection from interest rate movements is provided by interest rate caps on £2,071m. Of these, £1,668m US dollar and Euro denominated caps were struck at the money, in compliance with the Group's fixed/floating policy.

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

(b) Currency exposures on monetary assets and liabilities
As explained in the Operating and financial review, on page 23, 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 2000 was as follows:

	2000 £m	1999 £m
In one year or less on demand	**1,231**	749
In more than one year but not more than two years	**790**	303
In more than two years but not more than five years	**804**	1,265
In more than five years	**684**	738
	3,509	3,055

(d) Borrowing facilities
Committed facilities available to the Group at 31 December 2000 in respect of which all conditions precedent had been met at that date were as follows:

	2000 £m	1999 £m
Expiring in one year or less	**600**	100
Expiring in more than one year	**671**	500
Expiring in more than two years	**738**	1,300
	2,009	1,900

39 Financial risk management (continued)

(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, interest rate swaps and interest rate caps.

The most significant consequences of this approach are:

- to reduce 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 46 and 47.

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	
	2000 £m	1999 £m	**2000 £m**	1999 £m	**2000 £m**	1999 £m
Interests in participating and other investments – other investments†	**296**	172	**211**	172	**211**	172
Current asset investments and short-term deposits†	**191**	247	**191**	247	**191**	247
Cash†	**255**	270	**255**	270	**255**	270
Other financial assets†	**26**	249	**26**	249	**26**	249
Short-term borrowings†	**(765)**	(102)	**(765)**	(102)	**(765)**	(102)
Loans	**(2,703)**	(2,912)	**(2,703)**	(2,912)	**(2,739)**	(2,914)
Other financial liabilities†	**(47)**	(54)	**(47)**	(54)	**(47)**	(54)
Currency swaps	**(751)**	1,358	**6**	13	**34**	63
Interest rate swaps	**2,780**	3,372	**–**	–	**11**	5
Interest rate caps	**2,071**	1,868	**5**	–	**1**	8
Total net liabilities			**(2,821)**	(2,117)	**(2,822)**	(2,056)
Financial assets			**688**			
Financial liabilities			**(3,509)**			
			(2,821)			

* ( ) = liability

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

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 has been assumed to approximate to the carrying value. All swaps and caps have fair values estimated from discounted anticipated cash flows utilising a zero coupon yield curve.

The total decrease in the fair value of long-term debt net of associated hedges for the year ended 31 December 2000 of £175m arose from the net repayment of loans (£371m), adverse movements on foreign exchange (£158m) and movements due to changes in interest rates (£38m).

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.

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 2000.

At 31 December 2000 the aggregate value of all financial instruments with a positive fair value (assets) was £46m for currency swaps, £35m for interest rate swaps, £24m for forward contracts, £1m for interest rate caps and £4m for currency options.

There were no net material gains/losses deferred at 31 December 2000 (1999 nil).

(f) Hedges

Gains and losses on instruments used to hedge financial asset and liabilities during the year were as follows:

	2000			1999		
	Gains £m	**Losses £m**	**Total net gains/losses £m**	Gains £m	Losses £m	Total net gains/losses £m
Unrecognised gains and losses on hedges at 1 January 2000	**142**	**(66)**	**76**	86	(139)	(53)
Gains and losses arising in previous years that were recognised in 2000	**(68)**	**61**	**(7)**	(42)	92	50
Gains and losses arising before 1 January 2000 that were not recognised in 2000	**74**	**(5)**	**69**	44	(47)	(3)
Gains and losses arising in 2000 that were not recognised in 2000	**33**	**(74)**	**(41)**	98	(19)	79
Unrecognised gains and losses on hedges at 31 December 2000	**107**	**(79)**	**28**	142	(66)	76
Of which:						
Gains and losses expected to be recognised in 2001	**23**	**(7)**	**16**	64	(30)	34
Gains and losses to be recognised in 2002 or later	**84**	**(72)**	**12**	78	(36)	42
	107	**(79)**	**28**	142	(66)	76

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 (typically pound sterling or US dollars).

The financial instruments used in currency management are accounted for as described in the Group's accounting policies on pages 46 and 47.

The notional principal amounts and fair values of financial instruments used in currency management are as follows:

	Notional principal amounts At 31 December		Carrying values* At 31 December		Fair values* At 31 December	
	2000 £m	1999 £m	**2000 £m**	1999 £m	**2000 £m**	1999 £m
Hedging working capital			**–**	1	**–**	1
Forward contracts to buy currency	**198**	168				
Forward contracts to sell currency	**(198)**	(167)				
Hedging anticipated cash flows			**–**	–	**4**	–
Forward contracts	**–**	–				
Currency contracts to buy currency	**(102)**	37				
Currency contracts to sell currency	**101**	(37)				
Hedging debt			**(21)**	(6)	**(21)**	(6)
Forward contracts to buy currency	**1,375**	879				
Forward contracts to sell currency	**(1,390)**	(885)				
Hedging current asset investments and short-term deposits			**–**	–	**–**	–
Forward contracts to buy currency	**–**	–				
Forward contracts to sell currency	**–**	–				

* ( ) = 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'.

At 31 December 2000 no current asset investments had contractual maturities between one and five years. All other current asset investments had contractual maturities less than one year.

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 2000 was £2.9m (1999 £3.5m; 1998 £4.7m); fees paid to the Auditor (and its associates) of the parent Company for services other than statutory audit supplied to the Group during 2000 totalled £5.1m (1999 £6.3m; 1998 £5.3m) of which £1.4m (1999 £4.7m; 1998 £3.0m) 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 2000 amounted to £60,000 (1999 £79,000; 1998 £115,000).

Included in debtors is an interest free loan totalling £7,000 (1999 £7,000; 1998 £8,000) 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 2000.

41 Commitments and contingent liabilities

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Commitments for capital expenditure not provided for in these accounts (including acquisitions)				
Contracts placed for future expenditure	**36**	52	**2**	2
Expenditure authorised but not yet contracted	**142**	132	**4**	10
	178	184	**6**	12

Contingent liabilities existed at 31 December 2000 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 2000 (1999 £nil); the maximum contingent liability for the Company, mainly on guarantees of borrowing by subsidiaries, was £2,488m (1999 £2,382m).

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 2000 in accordance with the Group's accounting policy noted on page 47. 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, 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 seek damages for alleged personal injury caused by lead related products or for the costs of removing lead-based paint. An alleged predecessor of Glidden manufactured lead pigments until the 1950's and lead-based consumer paints until the 1960's. The suits involve substantial claims for damages, and 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 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 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. 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. Another personal injury lawsuit on behalf of a minor was filed in Milwaukee, Wisconsin in late 1999. 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. Finally, four other individual personal injury actions have been 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. Glidden believes that it has strong defences and has denied all liability and will continue to vigorously defend all actions.

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 for alleged fraud, deceit, misrepresentation and concealment, allegations which the subsidiary 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.

The Company has given certain indemnities in the course of disposing of companies. The Company believes that these and other guarantees and contingencies arising in the ordinary course of business, for which no security has been given, are unlikely to impair materially the Group's financial position.

The Group's 50% interest in Teesside Gas Transportation Ltd (TGT) was sold, during 1996, to its other shareholder, Enron Europe Ltd (Enron). 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 by the Company and Enron (the present value of the commitment guaranteed by the Company is estimated at £148m). 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.

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% and 30% respectively.

On the sale of the Group's interest in TPL to ETOL, the Company received the benefit of a guarantee from Enron Corp. in respect of the Company's 30% guarantee commitment to the gas sellers. The present value of this commitment at the year end is estimated at £270m.

ICI has a number of long term contracts for up to 3 years, which were entered into in the normal course of business. Some of these contracts relate to activities which ICI has exited as part of its disposal programme, which have not been novated to the purchaser. In relation to such contracts ICI has back to back contracts to supply the raw materials to the purchaser of the business.

Under the terms of the Chlor-Chemicals sale and purchase agreement, the Group has agreed to defer £50m of the consideration in the form of unsecured loan notes (Notes) to be issued by the acquiring company, Ineos Chlor. Any outstanding balance owing on the Notes in 2010 will convert pro rata into warrants representing up to an additional 34% of Ineos Chlor's share capital if no repayment under the Notes had been made.

41 Commitments and contingent liabilities

ICI currently assesses the value of the Notes at £25m.

The Group has also agreed to provide or guarantee up to £100m of future financing to the Chlor-Chemicals business. These facilities will be available at market related rates, for 5 years and may, if necessary, be extended for a further 2 years. The facilities together with Ineos Chlor's obligation to assume various Chlor-Chemicals contracts will be 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% shareholding in Chlor-Chemicals, which it intends to hold for at least 5 years, will be 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 £167m.

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 2000.

Related party: Huntsman ICI Holdings LLC (HICI), disclosed as a principal associate on page 69.

Transactions:

a) Sales of naphtha and ethylene to HICI amounted to £201m (1999 £128m; 1998 £nil).

b) Purchases of ethylene and titanium dioxide from HICI amounted to £153m (1999 £97m; 1998 £nil).

c) Amounts owed to the Group relating to the above transactions at the year end amounted to £1m (1999 £10m; 1998 £nil).

Related party: Phillips-Imperial Petroleum Ltd (PIP), a principal associate during 2000 and sold in December 2000.

Transactions:

a) Sales of crude oil and refined products to PIP amounted to £334m (1999 £168m; 1998 £98m).

b) Purchase of refined oil and refining costs from PIP amounted to £55m (1999 £23m; 1998 £29m).

c) Site services and other charges to PIP amounted to £13m (1999 £15m; 1998 £23m).

d) Amounts owed to the Group related to the above transactions at the year end amounted to £33m (1999 £29m; 1998 £5m).

Related party: ICI Teijin Fluorochemicals Ltd, a 50/50 joint venture in Japan with Teijin Ltd.

Transaction:

Loans totalling Yen 5 billion (1999 Yen 5bn; 1998 Yen 5bn) have been provided to the joint venture by its parent companies under a five year floating rate facility (ICI's share Yen 2.5 billion (1999 Yen 2.5bn; 1998 Yen 2.5bn) (£15m; 1999 £15m; 1998 £13.2m)). These have been used to repay existing fixed rate loans. The maximum amount outstanding during 2000 was £16m. Interest is payable at a rate of 50 basis points above the 12 month Japanese yen LIBOR.

Related party: IC Insurance Ltd and its subsidiaries disclosed as a principal associate on page 69.

Transactions:

a) Insurance claims settled by IC Insurance Ltd with ICI amounted to £0.2m (1999 £1m; 1998 £0.8m).

b) Funds on deposit with ICI Finance PLC amounted to £10m (1999 £10m; 1998 £nil).

Related party: Irish Fertilizer Industries Ltd, an equity accounted associate in Ireland.

Transactions: Loans totalling £5m (1999 £nil; 1998 £nil) have been provided to the associate by ICI. The maximum amount outstanding during 2000 was £5m. Interest is payable at a rate of 72.37 basis points above the prevailing 2 year fixed rate.

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.

(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) 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.

(e) Foreign exchange

Under UK GAAP, foreign currency differences arising on foreign currency loans are taken to reserves and offset against differences arising on net investments (if they act as a hedge). US GAAP is more restrictive in that currency loans may only hedge net investments in the same currency. If currency loans exceed net investments in any particular currency then the exchange differences arising are included in the income statement. Additionally, 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.

(f) Discontinued operations
US and UK GAAP have different criteria for determining discontinued operations. As a result the Propafilm business, the Teesside Utilities and Services business, the Polyurethanes business, the Tioxide business, the selected Petrochemicals business sold to HICI, the Acrylics business, the Methanol business, the Halochemicals business, and the Crosfield business which are discontinued operations for UK GAAP would qualify as continuing operations for US GAAP. In addition, UK GAAP only allows discontinued accounting disclosure for operations which either ceased or left the Group prior to the approval of the financial statements. Under US GAAP discontinued operations also include those operations where management have committed to a formal plan of disposal. 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. Future 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.

(g) 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 historic net book value in fixed asset investments. Under US GAAP, such shares are treated as treasury stock and included in shareholders' equity.

43 Differences between UK and US accounting principles (continued)

(h) 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.

(i) 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.

(j) 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 2000, 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.

(k) New US Accounting Standards and pronouncements not yet effective
SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137 and SFAS No. 138, is effective for fiscal years beginning after 15 June 2000. The Standard requires all derivatives to be recognised in the balance sheet as either assets or liabilities and measured at fair value. The indicative effect of adopting SFAS 133, as amended, is to record an increase in shareholders' equity of £4m. Upon adoption, the Group's management decided not to designate any of its derivative instruments as hedges for US GAAP accounting purposes. Consequently, the earnings under US GAAP may be more volatile because of the effect of derivative instruments.

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:

	2000 £m	1999 £m	1998 £m
Net income after exceptional items – UK GAAP	**(228)**	252	83
Continuing operations	**298**	137	62
Discontinued operations	**(526)**	115	21
Adjustments to conform with US GAAP			
Pension expense	**(108)**	(100)	(10)
Purchase accounting adjustments			
Amortisation of goodwill and intangibles	**(123)**	(124)	(134)
Disposals and other adjustments	**6**	14	31
Other disposal adjustments	**(7)**	2	43
Capitalisation of interest less amortisation and disposals	**(18)**	(65)	(24)
Restructuring costs	**(19)**	(33)	(22)
Foreign exchange	**(14)**	(50)	(1)
Discontinued operations	**–**	–	8
Deferred taxation			
Arising on UK GAAP results	**21**	79	(16)
Arising on US GAAP adjustments	**45**	76	(5)
Share compensation expense	**(5)**	–	–
Others	**(6)**	2	3
Total US GAAP adjustments	**(228)**	(199)	(127)
Net income (loss) – US GAAP	**(456)**	53	(44)
Continuing operations	**(456)**	13	(29)
Discontinued operations	**–**	40	(15)
	pence	pence	pence
Basic and diluted net earnings (net loss) per Ordinary Share in accordance with US GAAP	**(63.2)**	7.3	(6.1)
Continuing operations	**(63.2)**	1.8	(4.0)
Discontinued operations	**–**	5.5	(2.1)

The effect on earnings per £1 Ordinary Share of the exercise of all outstanding options (note 24) would not be material.

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 55 where there is a description of each class of business.

43 Differences between UK and US accounting principles (continued)

	2000 £m	1999 £m
Shareholders' funds – equity, as shown in the Group Balance sheets – UK GAAP	**(216)**	244
Adjustments to conform with US GAAP		
Pension expense	**(499)**	(391)
Purchase accounting adjustments, including goodwill and intangibles	**3,417**	3,390
Disposal accounting adjustments	**(38)**	(29)
Capitalisation of interest less amortisation and disposals	**45**	63
Restructuring provision	**2**	21
Employee share trust arrangements	**(54)**	(54)
Ordinary dividends	**142**	142
Deferred taxation	**48**	(5)
Share compensation expense	**(5)**	–
Other	**(14)**	(8)
Total US GAAP adjustments	**3,044**	3,129
Shareholders' equity in accordance with US GAAP	**2,828**	3,373

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.

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
1998					
Allowance for stocks	44	–		(5)	39
Allowance for doubtful accounts	71	25	–	(9)	87
Allowance for losses (deducted from investments)	–	–	–	–	–
	115	25	–	(14)	126
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**

Principal subsidiary undertakings

at 31 December 2000

	Class of capital	Held by ICI %	Principal activities
UNITED KINGDOM			
ICI Chemicals & Polymers Ltd England	Ordinary	100†	Manufacture of surfactants, catalysts and other chemicals
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, 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, industrial 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 and other 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 pure terephthalic acid, 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
Nippon NSC Ltd Japan	Common	100†	Manufacture of adhesives and specialty synthetic polymers; merchanting of starch products
National Starch and Chemical (Thailand) Ltd Thailand	Ordinary	100†	Manufacture of food and industrial 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.

Trading market for Ordinary Shares; defaults, dividend arrearages and delinquencies

Trading market for Ordinary Shares

The authorised share capital of the Company comprises 850,000,000 Ordinary Shares of £1 each. At the close of business on 31 December 2000, 727,949,551 Ordinary Shares were in issue.

The principal trading market for the Company's Ordinary Shares is the London Stock Exchange. ADSs (each representing four Ordinary Shares) evidenced by ADRs issued by Morgan Guaranty Trust Company of New York, as depositary, are listed on the New York Stock Exchange. Ordinary Shares are also listed on the New York Stock Exchange (NYSE) and in Frankfurt, Paris, Amsterdam, Basle, Geneva, Zurich, Brussels and Antwerp.

	Total	In the United States
Number of record holders of:		
Ordinary Shares as at 1 January 2001	185,805	694
ADSs as at 7 February 2001	2,595	2,532

As of 7 February 2001 the proportion of Ordinary Shares represented by ADSs was 18.4% of the Ordinary Shares in issue.

The following table shows, for the years and months indicated, the reported high and low middle market values for the Company's Ordinary Shares on the London Stock Exchange, based on its Daily Official List and the reported high and low sale prices of ADSs, as reported by Dow Jones (ADR Quotations):

	£1 Ordinary Shares		ADSs	
	Year/month high £	Year/month low £	Year/month high US$	Year/month low US$
Year				
1996	9.53½	7.41½	60	45⅞
1997	11.08½	6.88½	71⅜	45
1998	12.40	4.46	80½	30⅜
1999				
First quarter	5.87½	4.59½	38⅞	31
Second quarter	7.36½	5.50½	48	35⅝
Third quarter	8.23½	5.95	52⅝	38¾
Fourth quarter	6.99	5.68½	45⅜	36⅜
Year	8.23½	4.59½	52⅝	31
2000				
First quarter	6.74	4.40	45$^{3}/_{16}$	27⅜
Second quarter	6.03¼	5.00	38$^{9}/_{16}$	30¼
Third quarter	5.15	3.56	31$^{3}/_{16}$	20$^{7}/_{16}$
Fourth quarter	5.72	3.54	34¾	20$^{7}/_{16}$
Year	6.74	3.54	45$^{3}/_{16}$	20$^{7}/_{16}$
2000				
July	5.15	4.74½	31$^{3}/_{16}$	28⅛
August	4.90	4.61	29$^{9}/_{16}$	27
September	4.66	3.56	27$^{5}/_{16}$	20$^{7}/_{16}$
October	4.23	3.54	25½	20$^{7}/_{16}$
November	4.85	4.17	27⅝	23¾
December	5.72	4.84	34¾	27⅛
2001				
January	5.55	4.63	33¼	27$^{3}/_{16}$
February, through 7 February 2001	5.26	5.14	30$^{13}/_{16}$	30⅛

Defaults, dividend arrearages and delinquencies

(a) There has been no material default in the payment of principal, interest, a sinking or purchase fund instalment, or any other material default with respect to any indebtedness for or in respect of monies borrowed or raised by whatever means of the Company or any of its significant subsidiaries.

(b) There have been no arrears in the payment of dividends on and no material delinquency with respect to any class of preferred stock of any significant subsidiary of the Company.

Shareholder information

Analyses of shareholdings

The following tables analyse the holdings of £1 Ordinary Shares at the end of 2000:

By size of account

Size of holding	Number of Ordinary shareholders' accounts	Number of shares millions	%
1-250	85,305	10	1
251-500	42,214	16	2
501-1,000	34,133	26	4
1,001-5,000	21,864	40	6
5,001-10,000	881	6	1
10,001-50,000	727	17	2
50,001-1,000,000	589	140	19
Over 1,000,000	92	473	65
All holdings	185,805	728	100

By category

	%
UK	
Pension funds	14
Life assurance	6
Index funds	6
Individuals	15
Others	18
	59
Overseas	41
	100

In addition to the number of registered shareholders shown, there are approximately 24,000 holders of ADRs. The ADRs, each of which evidences one ADS, which represents four £1 Ordinary Shares, are issued by Morgan Guaranty Trust Company of New York.

Control of Company

(a) So far as the Company is aware, it is neither directly nor indirectly owned or controlled by one or more corporations

(b) (i) Set out below is information regarding interests in the Company's £1 Ordinary Shares appearing in the Register of Interests in Shares maintained by the Company:

Identity of Group	As at 3 February 1999		As at 2 February 2000		As at 7 February 2001	
	Amount owned (number of shares) millions	Per cent of class	Amount owned (number of shares) millions	Per cent of class	Amount owned (number of shares) millions	Per cent of class
Morgan Guaranty Trust Company of New York (Morgan Guaranty)*	162.4	22.32	156.6	21.52	137.0	18.82
Prudential Corporation group of companies	23.9	3.28	n/a	n/a	n/a	n/a
The Capital Group Companies**	50.5	6.94	58.2	8.00	48.0	6.60
Brandes Investment Partners LP	n/a	n/a	24.1	3.31	41.0	5.64
Franklin Resources Inc	n/a	n/a	n/a	n/a	29.2	4.01

* This interest relates to ADRs issued by Morgan Guaranty, as depositary, which evidence ADSs.

** Held on behalf of its affiliates including Capital Research and Management Company which holds 48.0m (1999 58.2m) Ordinary Shares 6.60% (1999 7.99%; 1998 6.08%).

No other person held an interest in shares, comprising 3% or more of the issued Ordinary Share Capital of the Company, appearing in the Register of Interests in shares maintained under the provisions of Section 211 of the Companies Act 1985.

The voting rights of the major shareholders, listed in the table above, do not differ from those of any other shareholder of the Company's £1 Ordinary Shares.

(ii) As of 7 February 2001 the total amount of the Company's voting securities owned by Directors and Officers of ICI, as a group, was:

Title of class	Amount owned (number of shares)	Per cent of class
Ordinary Shares	343,175	0.47%

(c) The Company does not know of any arrangements the operation of which might result in a change in control of the Company.

Exchange controls and other limitations affecting security holders

(a) There are no governmental laws, decrees or regulations in the UK restricting the import or export of capital or affecting the remittance of dividends, interest or other payments to non-resident holders of the Company's Ordinary Shares or ADSs. However, a 1.5% stamp duty reserve tax is payable upon the deposit of ICI Ordinary Shares in connection with the creation of, but not subsequent dealing in, ADRs. This is in lieu of the normal 0.5% stamp duty on all purchases of Ordinary Shares.

(b) There are no limitations under English Law or the Company's Memorandum and Articles of Association on the right of non-resident or foreign owners to be the registered holders of and to vote Ordinary Shares of Imperial Chemical Industries PLC.

Shareholder information (continued)

Taxation

The following summary of the principal UK and certain US tax consequences of ownership of Ordinary Shares or ADSs, held as capital assets by US resident shareholders is based on current UK and US Federal tax law and practice and in part on representations of Morgan Guaranty Trust Company of New York as Depositary for ADSs and assumes that each obligation in the deposit agreement among the Company, the Depositary and the holders from time to time of ADSs and any related agreement will be performed in accordance with its terms. The US Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming, by US holders of ADSs, of foreign tax credits for US federal income tax purposes. Accordingly, the analysis of the creditability of UK taxes described below could be affected by future actions that may be taken by the US Treasury.

UK income taxes and tax treaties affecting remittance of dividends

No effective repayment of any part of the tax credit associated with a dividend paid on or after 6 April 1999 is available under the current Double Taxation (Income) Convention ("the Convention") between the United Kingdom and the United States. Under the Convention, which is currently being renegotiated, US resident individuals who are the beneficial owners of dividends on Ordinary Shares or ADSs in UK Corporations are, with the exceptions mentioned below, entitled to a payment from the UK tax authorities of an amount equal to the tax credit which attaches to dividends paid to UK resident shareholders under the system of corporation tax currently in force in the UK less a withholding of 15% of the sum of the dividend and related tax credit. Since the associated tax credit is, from 6 April 1999, one-ninth (1/9) of the dividend paid, the withholding at 15% (never being greater than the associated tax credit) eliminates the repayment due.

US resident corporate shareholders are generally treated in the same way as individuals, provided that either alone, or together with associated corporations, they do not control directly or indirectly 10% or more of the voting shares of the UK company and do not constitute investment or holding companies, 25% or more of the capital of which is owned, directly or indirectly, by persons that are not individuals resident in, and are not nationals of, the US.

For US federal income tax purposes, the sum of the dividend paid and any associated tax credit or UK withholding tax considered to have been paid with respect to the dividend is includable in gross income by US resident shareholders that claim the benefits of the Convention and, for foreign tax credit limitation purposes, is foreign source income treated separately, together with other items of "passive income" (or, in the case of certain holders, "financial services income"). The withholding is treated as a foreign income tax which may, subject to certain restrictions and limitations, be eligible for credit against a US resident shareholder's US federal income tax liability (or deductible by such shareholder in computing taxable income). As noted above, changes to UK tax law in relation to dividends paid on or after 6 April 1999 result in no effective repayment being available. However, US resident shareholders that claim the benefits of the US-UK income tax treaty are entitled to include in gross income the tax credit of one-ninth of the cash dividend paid and, subject to certain restrictions and limitations, claim a foreign tax credit for the equal amount of withholding tax.

No dividends received deduction is allowed to US resident corporate shareholders with respect to dividends paid by the Company. Shareholders whose holdings are effectively connected with a permanent establishment or fixed base in the UK, or who are corporations also resident in the UK for the purpose of the Convention, are not entitled to payment of the tax credit nor are they subject to any deductions from the dividend. Special rules may apply if the shareholder is exempt from tax in the US on dividends paid by the Company.

Taxation on capital gains

In certain circumstances, when a shareholder in the UK sells shares, liability to tax in respect of capital gains is computed by reference to the market value of the shares on 31 March 1982. The market value of ICI Ordinary Shares at 31 March 1982, for t purposes of capital gains tax, was 309p. The computation of th chargeable gain takes into account inflation from the later of the date of acquisition and 31 March 1982 until the earlier of 5 April 1998 and the date of disposal. For disposals after 5 April 1998 t calculation is further adjusted to reflect the period of ownership after 5 April 1998.

ICI and Zeneca demerged on 1 June 1993. Post-demerger ICI shares will inherit a base cost equivalent to 0.50239 of their pre-demerger base cost.

Under the Convention each contracting state may, in general, tax capital gains in accordance with the provisions of its domestic la Under present UK law, individuals who are neither resident nor ordinarily resident in the UK, and companies which are not reside in the UK will not be liable to UK tax on capital gains made on the disposal of their Ordinary Shares or ADSs, unless such Ordinary Shares or ADSs are held in connection with a trade, profession o vocation carried on in the UK through a branch or agency.

A US resident shareholder will recognise capital gain or loss for US federal income tax purposes on the sale or exchange of the Ordinary Shares or ADSs in the same manner as such holder would on the sale or exchange of any other shares held as capit assets. As a result, a US resident shareholder will generally recognise capital gain or loss for US federal income tax purpose equal to the difference between the amount realised and such holder's adjusted basis in the Ordinary Shares or ADSs. The gai or loss will generally be US source income or loss. US resident shareholders should consult their own tax advisors about the treatment of capital gains, which may be taxed at lower rates th ordinary income for non-corporate taxpayers, and capital losses the deductibility of which may be limited.

UK inheritance tax

Under the current Double Taxation (Estates) Convention (the "Estate Tax Convention"), between the US and the UK, Ordinary Shares or ADSs held by an individual shareholder who is domiciled for the purposes of the Estate Tax Convention in the US, and is not for the purposes of the Estate Tax Convention a national of the United Kingdom, nor resident in the UK for the la seven out of ten tax years, will generally not be subject to the U inheritance tax on the individual's death nor on a chargeable gift of the Ordinary Shares or ADSs during the individual's lifetime provided that any applicable US federal gift or estate tax liability paid, unless the Ordinary Shares or ADSs are part of the busine property of a permanent establishment of the individual in the UK or, in the case of a shareholder who performs independent personal services, pertain to a fixed base situated in the UK. Where the Ordinary Shares or ADSs have been placed in trust by a settlor who, at the time of settlement, was a US resident shareholder, the Ordinary Shares or ADSs will generally not be subject to UK inheritance tax unless the settlor, at the time of settlement, was not domiciled in the US and was a UK national. In the exceptional case where the Ordinary Shares or ADSs are subject both to UK inheritance tax and to US federal gift or esta tax, the Estate Tax Convention generally provides for double taxation to be relieved by means of credit relief.

Shareholder information (continued)

Risk factors

Competition and demand
The Group maintains a wide portfolio of business units competing across a diverse range of geographic and product markets. In some markets the Group's competitors are larger and have greater financial resources, which may enable them 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 generation products or similar products and services at a significantly lower cost, the Group's technology could be rendered uneconomical or obsolete. Whilst much of the Group's product range comprises products and services which are protected by patent or proprietory knowledge some of the Group's businesses use technology that is widely available. Accordingly, certain product segments of the Group's business are frequently exposed to new competitors who may eliminate or reduce the Group's ability to increase profit margins. Any of these developments could have an adverse impact on the Group's ability to enjoy higher profit margins during periods of increased demand.

Price volatility of raw materials
Some of the Group's raw materials are subject to movements in cyclical commodity prices. The Group's portfolio of proprietary and branded value added products provides some ability to pass through higher input prices but the Group's ability to pass on increases in the cost of raw materials to its customers 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 the Group's products or the actions of competitors, which may adversely affect the Group's results of operations.

Operating risks
The Group's revenues are dependent on the continued operation of its various manufacturing facilities. Operational risks include the failure of equipment, natural disasters, compliance with customer quality control requirements and the need to comply with directives of, and maintain all necessary permits from, government agencies. In addition, the Group's operations may be adversely affected by raw material supply disruptions, labour force shortages or work stoppages and events impeding or increasing the cost of transporting the Group's products. The occurrence of major operational problems, including but not limited to the above events, may have a material adverse effect on the results of operations, productivity and profitability of a particular manufacturing facility, or with respect to certain of these risks, the Group as a whole.

Dependence on key customers
Sales to large customers are significant in some of the Group's businesses. The wide selling range and the nature of the speciality products supplied, however, reduce the scope and timing consequence of the loss of business to any one customer. Nevertheless, the loss of a small number of major customers could have an adverse effect on the Group's business and results of operations.

International operations and fluctuations in currency exchange rates
The Group has significant international operations and conducts business in many currencies. These operations are subject to risks normally associated with international operations. These risks include the need to translate foreign currency denominated profits into ICI's reporting currency as well as the economic exposure where costs arise in a different currency than sales.

Other risks of international operations include trade barriers, tariffs, exchange controls, national and regional labour strikes, social and political risks, general economic risks, required compliance with a variety of foreign laws, including tax laws, and the difficulty of enforcing agreements and collecting receivables through foreign legal systems.

Dependence on key suppliers
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 be forced to pay higher prices to obtain raw materials and may not be able to increase 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. A sustained interruption of supply or widespread price increases could have an adverse effect on the Group's business, results of operations, cash flow or financial condition.

Product liabilities
As a consequence of the Group's recently completed reshaping programme, a greater proportion of the Group's products is sold directly or indirectly to consumers. This increased exposure to consumer markets exposes the Group to legal risks, regulations by UK and foreign authorities and potential liabilities to consumers of these products, even if the Group does not itself provide these products directly to consumers.

Litigation risks
The Group is a defendant in various lawsuits that arise out of, and are incidental to, the conduct of its current or predecessor businesses. These suits concern issues such as product liability, contract disputes and property damage matters. For a further discussion of the Group's contingent liabilities relating to litigation see note 42 to the Group's audited Accounts. The successful assertation of claims made under these lawsuits could have an adverse affect on the Group's results of operations and financial condition.

Environmental and safety risks
The Group is subject to applicable laws and regulations, in all the territories in which it operates, relating to pollution, the protection of the environment and the generation, storage, handling, transportation, treatment, disposal and remediation of hazardous substances and waste materials. In the ordinary course of business, the Group is subject to inspections and monitoring by the appropriate enforcement authorities. The Group requires relevant permits for its operations which are subject to renewal, modification and, in some circumstances, revocation. Violations of permit requirements or other provisions of environmental laws, including spills or other releases of hazardous substances to the environment, could, if they were to occur, result in restrictions on plant operations, damages, fines or other sanctions as well as increased costs arising from the requirement to comply with the terms of such permits or laws, as the case may be. The Group requires that all ICI companies comply fully with all relevant laws and regulations. For a description of the Group's safety, health and environmental compliance policy, see "Safety, health and environment (SHE)" on page 18.

Risks arising from divestitures and acquisitions
In recent years the Group has carried out a program of strategic divestitures and acquisitions, in the course of which it has given certain indemnities and warranties to the other parties to these transactions. Whether the Group will be required to incur cost under these obligations is not predictable and, if this were the case, it could have an adverse affect on the Group's results of operations and financial condition.

Shareholder information (continued)

Material contracts

The following material contracts (not being contracts entered into in the ordinary course of business nor documents which have been available for inspection in the last two years) have been entered into by a member of the Group within the period of two years to 7 February 2001:

(i) an agreement dated 12 December 2000 between the Company and Phillips Petroleum United Kingdom Limited to sell their joint venture company Phillips-Imperial Petroleum Ltd to Petroplus of Rotterdam. The total value of the transaction was $110m of which ICI received one half.

(ii) an agreement dated 5 December 2000 between the Company and Ineos under which the Company agreed to sell its Chlor-Chemicals, Klea and Crosfield businesses. The consideration payable to ICI places a value on these businesses of about £325m in aggregate.

(iii) an agreement dated 2 November 2000 between the Company and Huntsman Specialty Chemicals Corporation under which the Company agreed to sell its 30% equity ownership in Huntsman ICI Holdings LLC (HICI) for $365m plus interest accruing until completion. The sale is conditional upon a number of approvals, including regulatory approvals, and upon ICI selling its remaining HICI Subordinated Notes. The sale of both equity and bonds is likely to be completed by around mid-2001. ICI expects that the total gross proceeds from the disposal of its investments in HICI will be more than £400m.

(iv) an agreement dated 2 November 1999, between the Company and Ineos Acrylics Limited under which the Company agreed to sell its global acrylics business for £505m.

(v) the Contribution Agreement (including the form of the LLC Agreement) dated 30 June 1999 and the Co-operation Agreement, dated 15 April 1999 under which the Company disposed of its Polyurethanes and Tioxide businesses and the majority of its UK based Petrochemicals businesses to Huntsman ICI Holdings LLC (HICI), a new company formed with Huntsman Corporation, a privately owned US chemicals group, for an aggregate consideration of £1.7bn.

(vi) an agreement dated 27 April 1999 between the Company and PPG Industries Inc. under which the Company agreed to sell its automotive refinish paints business outside India, Sri Lanka and Pakistan for £425m.

Incorporation of the Company

Imperial Chemical Industries PLC was originally incorporated in the United Kingdom, and registered in England, under the Companies Acts, 1908 to 1917 on 7 December 1926 as a limited company. It was re-registered under the Companies Acts 1948 to 1980 as a public limited company on 30 June 1981.

Memorandum and Articles of Association

A summary of certain provisions of the Company's Memorandum and Articles of Association will be filed with the Company's report to the United States Securities and Exchange Commission on Form 20-F.

Registered Office

Imperial Chemical House
Millbank
London SW1P 3JF
Telephone +44 (0)20 7834 4444

Shareholder information (continued)

Quarterly results

Unaudited trading results of the ICI Group for 2001 are expected to be announced as follows:

First quarter	3 May 2001
Half year	26 July 2001
Nine months	1 November 2001
Full year	7 February 2002

Dividend payments

A second interim dividend for the year 2000, which the Annual General Meeting will be asked to confirm, is payable on 25 April 2001 to Ordinary shareholders registered in the books of the Company on 9 March 2001. Dividends are normally paid as follows:

First interim: Announced with the Half year results and paid in early October;
Second interim: Announced with the Full year results and paid in late April.

Registrar and Transfer Office

Lloyds TSB Registrars, The Causeway, Worthing,
West Sussex BN99 6DA
Telephone: 0870 600 3993

Dividend mandate

Any shareholder wishing dividends to be paid directly into a bank or building society account should contact the Registrar for a dividend mandate form. Dividends paid in this way will be paid through the Bankers Automated Clearing System (BACS).

Low-cost share dealing service

The Share Centre Ltd provides a simple share dealing service which allows existing and potential shareholders to purchase or sell ICI Ordinary Shares at an attractive commission rate.

Further information can be obtained from:
The Share Centre Ltd, PO Box 1000, Tring, Herts HP23 5AN
Telephone: 01442 890844

ADR Depositary

Morgan Guaranty Trust Company of New York is Depositary for ICI's American Depositary Receipts. Shareholder enquiries may be directed to:

Morgan Guaranty Trust Company of New York
PO Box 842006
Boston, MA 02284 – 2006
Telephone: (781) 575 4328

Documents on display – Securities and Exchange Commission

The Company is subject to the informational requirements of the US Securities Exchange Act of 1934 as amended. In accordance with these requirements, the Company files reports and other information with the US Securities and Exchange Commission. These materials, including this annual report may be inspected during normal business hours at the offices of the Company at 9 Millbank, London SW1P 3JF or at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the SEC's regional offices at 7 World Trade Center, 13th Floor, New York, New York 10048 and at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330.

Exchange rates

The following table sets forth, for the year's, months and dates indicated, the noon buying rate in New York City for cable transfers in pounds sterling as certified by the Federal Reserve Bank of New York for customs purposes (the "noon buying rate"):

US$ to pound sterling (£) (1)	Highest rate during period	Lowest rate during period	Average rate during period	At 31 Dec
Year			(2) (3)	(2)
1996	1.71	1.49	1.57	1.71
1997	1.70	1.58	1.64	1.64
1998	1.72	1.61	1.66	1.66
1999	1.68	1.55	1.62	1.62
2000	**1.65**	**1.40**	**1.51**	**1.50**

2000		
July	1.52	1.49
August	1.51	1.45
September	1.48	1.40
October	1.47	1.43
November	1.45	1.40
December	1.50	1.44

The noon buying rate on 21 February 2001 was $1.4385 = £1

(1) All figures have been taken directly or derived from figures released through the Public Information Office of the Federal Reserve in Washington, D.C. or New York City.

(2) The noon buying rate on such dates differed from the rates used in preparation of the Group's financial statements as of such dates.

(3) The average is the average of the noon buying rate on the last day of each month during the period indicated.

Fluctuations in the exchange rate between the pound sterling and the US dollar will affect the US dollar equivalent of the pound sterling prices of the Ordinary Shares of Imperial Chemical Industries PLC on the London Stock Exchange and, as a result, will affect the market prices of ADSs on the New York Stock Exchange. Cash dividends, if any, will be paid by the Company in respect of Ordinary Shares in pounds sterling, and exchange rate fluctuations will affect the US dollar amounts received by holders of ADSs on conversion by the Depositary of such dividends.

A substantial proportion of the Group's assets, liabilities, revenues and expenses are denominated in currencies other than pounds sterling. Accordingly, fluctuations in the value of the pound sterling relative to other currencies can have a significant effect on the translation into sterling of non-sterling assets, liabilities, revenues and expenses (see Operating and financial review page 23).

Definitions

In this document the following words and expressions shall, unless the context otherwise requires, have the following meanings:

ADR	American Depositary Receipt evidencing title to an ADS
ADS	American Depositary Share representing four underlying Ordinary Shares of Imperial Chemical Industries PLC
bn	billion – 1,000 million
Business	Any of the following ICI businesses as indicated by the accompanying text: National Starch, Quest, Performance Specialties, Paints and, Regional and Industrial
Company	Imperial Chemical Industries PLC
Demerger	The Demerger of Zeneca Limited and its subsidiaries from the ICI Group
Depositary	Morgan Guaranty Trust Company of New York, as depositary under the deposit agreement pursuant to which the ADRs are issued
Directors	The Directors of Imperial Chemical Industries PLC
DuPont	E. I. du Pont de Nemours and Company
EBIT	Profit on ordinary activities before interest and taxation
ESOP	Employee Share Ownership Plan
FID	Foreign Income Dividend
FRS	Financial Reporting Standard (UK)
ICI, ICI Group or the Group	Imperial Chemical Industries PLC and its subsidiaries
London Stock Exchange	London Stock Exchange plc
m	million
Ordinary Shares	Ordinary shares of £1 each in the capital of Imperial Chemical Industries PLC
pound sterling, £, pence or p	Refers to units of UK currency
SEC	The United States Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards (US)
UK or United Kingdom	United Kingdom of Great Britain and Northern Ireland
US dollar, dollar, US$ or $	Refers to units of US currency
USA or US or United States	United States of America
Zeneca	(a) in relation to the period prior to the Demerger becoming effective, the pharmaceuticals, agricultural chemicals, seeds, specialty chemical and biological products businesses and companies transferred by the ICI Group to Zeneca Limited; and (b) in relation to the period after the Demerger becoming effective, Zeneca Group PLC and its subsidiaries

Figures in parentheses in tables and financial statements are used to represent negative numbers.

Glossary

Term used in annual report	US equivalent or brief description
Accounts	Financial statements
Acquisition accounting	Purchase accounting
Allotted	Issued
Associate	20–50% owned investee
Called-up share capital	Ordinary shares, issued and fully paid
Capital allowances	Tax term equivalent to US tax depreciation allowances
Class of business	Industry segment
Closing rate method	Current rate method
Creditors	Accounts payable/payables
Creditors: Amounts falling due after more than one year	Long-term debt liabilities
Creditors: Amounts falling due within one year	Current liabilities
Debtors	Accounts receivable/receivables
Finance lease	Capital lease
Financial year	Fiscal year
Fixed tangible assets	Property, plant and equipment
Freehold	Ownership with absolute rights in perpetuity
Freehold land	Land owned
Gearing	Leverage
Group, or consolidated accounts	Consolidated financial statements
Interest receivable	Interest income
Interest payable	Interest expense
Loan capital	Long-term debt
Net asset value	Book value
Nominal value	Par value
Pension scheme	Pension plan
Profit	Income (or earnings)
Profit and loss account (reserve)	Retained earnings
Profit and loss account	Income statement
Profit attributable to ordinary shareholders	Net income
Reconciliation of movements in shareholders' funds	Statement of changes in stockholders' equity
Reserves	Stockholders' equity other than capital stock
Share capital	Ordinary shares, capital stock or common stock issued and fully paid
Share premium account	Additional paid-in capital relating to proceeds of sale of stock in excess of par value or paid-in surplus (not distributable)
Shares in issue	Shares outstanding
Shareholders' funds	Stockholders' equity
Stocks	Inventories
Tangible fixed assets	Property, plant and equipment
Turnover	Revenues (or sales)

Cross reference guide for Form 20-F

The information in this document that is referenced below is included in the Annual Report on Form 20-F for 2000 (2000 Form 20-F) filed with the SEC. The 2000 Form 20-F is the only document intended to be incorporated by reference into any filings by ICI under the Securities Act of 1933, as amended. References below to major headings include all information under such major headings, including subheadings. References below to subheadings include only the information contained under such subheadings. Graphs are not included unless specifically identified below. The 2000 Form 20-F filed with the SEC may contain modified information and may be updated from time to time. The 2000 Form 20-F has not been approved or disapproved by the SEC nor has the SEC passed upon the accuracy or adequacy of the 2000 Form 20-F.

Cross reference guide for Form 20-F (continued)

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