

218019



Imperial Chemical Industries PLC

Group accounts

For the year ended 31 December 1997



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.

The ICI Board currently comprises the Chairman, the Chief Executive, three other Executive Directors and five independent 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 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.

To enable them to do this all Directors have full and timely access to all relevant information. The Board meets 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 the following page. The Remuneration and Nomination Committee and the Audit Committee comprise solely Non-Executive Directors.

Remuneration and Nomination Committee

Executive Directors 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 Company 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 Company Chairman from time to time promotes discussion with the Executive Directors about Non-Executive Directors' remuneration based on full external comparisons. Any recommendations are laid before the full Board. For 1998 Non-Executive Directors are being offered for the first time the option of taking part of their remuneration in the Company's shares.

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

The Board is responsible for the Group's system of internal control. The Audit Committee on behalf of the Board has reviewed the effectiveness of the system from information provided by the management and the Group's internal and external auditors. Any system can provide only reasonable and not absolute assurance of meeting internal control objectives.

The key elements of the internal control system which have been established are as follows:-

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 biannual basis. Annual plans and performance targets for each business are set by the Executive Management Team and reviewed by the Board in the light of the overall objectives.

The processes to manage the key risks to the success of the Group are reviewed and improved as necessary. Such processes include strategic planning, the appointment of senior managers, control over capital expenditure 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 Vice Presidents and Chief Executive Officers of the International Businesses, the Chief Executives of major subsidiaries and the Vice Presidents for Western Hemisphere and for Asia. 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 reporting process.

Controls are designed to ensure that all activities operate efficiently, effectively and to high ethical standards.

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 certain 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, the nominated managers provide separate reports 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.

The Audit Committee receives reports from the internal and external auditors on a regular basis. 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.

Communications

Communications with shareholders are given a high priority. There is a succinct Annual Review and a separate safety, health and environment report both of which are sent to shareholders; a full Annual Report and Accounts is available on request. At the half year, an interim report is published. There is a regular dialogue

with individual institutional shareholders as well as general presentations after the quarterly results. There is also an opportunity for individual shareholders to question the Chairman at the AGM. The Company responds to numerous letters from individual shareholders on a wide range of issues.

The Board considers that the Company was in full compliance throughout the financial year with the Code of Best Practice published in December 1992 by the Committee on the Financial Aspects of Corporate Governance. The auditor's report on this statement is set out on page 42.

Membership of the Board Committees and a summary of their terms of reference are set out below.

Audit Committee

Members:

Sir Antony Pilkington (Chairman)
Sir Roger Hurn
Mr H C Lee
Lord Simpson

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)
Mr H C Lee
Sir Antony Pilkington
Lord Simpson
Sir Alex Trotman
Sir Ronald Hampel (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 R J Margetts (Chairman)
Sir Antony Pilkington
Lord Simpson
Mr A G Spall

Terms of reference:

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

The Directors of Imperial Chemical Industries PLC present their Annual Report for the year ended 31 December 1997 together with the Accounts of the Company for the year. These will be laid before the shareholders at the Annual General Meeting to be held on Thursday, 23 April 1998.

Principal activities

The principal activities of the Company are research, manufacture and sale of coatings, specialty chemicals, materials and industrial chemicals. 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 20 April 1998 to Ordinary shareholders registered in the books of the Company on 6 March 1998. An interim dividend of 12.5 pence per Ordinary Share was paid on 6 October 1997 making a total of 32.0 pence (1996 32.0 pence).

Share capital

Changes in the Company's Ordinary share capital during the year are given in note 22 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 statement of Directors' interests in the shares and debentures of the Company and its subsidiaries is set out in the Remuneration Report on page 39.

Employment policies

To encourage all employees to make a full contribution to business success, ICI has extensive arrangements for team and individual employee involvement in continuous improvement activities. This is backed-up by a system of consultation which makes sure that management opinion and employee views are brought together at every relevant management level.

It is ICI's policy that there should be no discrimination against any person for any reason that is not relevant to the effective performance of their job. The Group aims to attract, retain and motivate people by recognising and rewarding superior performance. Considerable efforts are made to review the learning and development activities that are essential for people to be equipped to deliver the business objectives. The Group also aims to communicate effectively within the organisation and encourages initiative and innovation.

In accordance with the Company's equal opportunity policy, disabled people are given the same consideration as others when they apply for jobs. Depending on their skills and abilities, they enjoy the same career prospects and scope for realising their potential as other employees.

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 1997 were

equivalent to 58 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 1997 amounted to £1.9m. Of this total, £0.7m 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 put 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 1997 amounted to £320,000 (1996 £241,000). The total figure for the Group was £4.7m (1996 £3.6m) 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 1997 totalled £11.4m (1996 £1.6m) of which £9.1m (1996 £0.8m) related to acquisition and divestment activities.

Annual general meeting

The Notice of Annual General Meeting to be held on Thursday 23 April 1998 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
K J Rushton
 Secretary

11 February 1998

Registered office

Imperial Chemical House
 Millbank
 London SW1P 3JF

Registered number: 218019

Remuneration policy

The Group pays competitive wages and salaries to its employees around the world. There are also incentive payments which recognise shareholder value. Levels of pay and the structure of arrangements in each country reflect the competitive environment in that country. While ICI does not have global pay scales, it has regard to its need to be able to move staff around the world.

Framework and objectives

The Remuneration Committee is composed entirely of the non-executive directors of the Company, namely:

Sir Roger Hurn (Chairman)

Mr H C Lee

Sir Antony Pilkington

Lord Simpson

Sir Alex Trotman

The Remuneration Committee determines the contracts of service and emoluments of executive directors and senior executives.

The objective of the Company's remuneration policy is to provide remuneration in form and amount which will attract, retain, motivate and reward high calibre executive directors and senior executives.

To ensure that its remuneration rates are competitive, the Remuneration Committee has access to detailed external research on market trends and professional advice from Towers Perrin, Hay Group and other independent international consultants.

The executive directors are encouraged to take one external appointment as a non-executive director. They may normally take not more than two and they are permitted to retain any payments received in respect of such appointments. All appointments are subject to the approval of both the Remuneration Committee and the Board to avoid any conflict of interest.

Service contracts

Executive directors are now normally employed on rolling contracts subject to one year's notice given at any time after an initial period of one year.

Mr R J Margetts and Mr A G Spall, who were appointed directors in 1992 and 1994 respectively, each has a service contract subject to two year's notice. The Remuneration Committee accepts and strongly endorses the principle of mitigation of damages on early termination of a service contract.

Remuneration package

The remuneration package comprises short, medium and long-term benefits and post-retirement benefits.

The short-term benefits – are an annual salary, health plan and car benefits (which are subject to income tax) and participation in the Annual Performance Related Bonus Scheme. Salaries are set within broad ranges around the median for similar positions in large, international, publicly quoted organisations. Salaries for individual directors are determined annually by the Remuneration Committee after a review of the individual's performance and experience, and of market trends.

The level of bonus (if any) under the Annual Performance Related Bonus Scheme is determined by the Remuneration Committee on the basis of criteria established at the beginning of the year to encourage performance in a manner which the Remuneration Committee considers will contribute most to increasing shareholder value for that year.

The maximum bonus available to executive directors for 1997 was 40% and is not pensionable. The Remuneration Committee set targets related to the achievement of specific levels of profit before tax which were not reached. In the case of Mr R J Margetts 10% out of the 40% bonus depended upon progress in the restructuring of the Industrial Chemicals Business.

The details of the short-term benefits for individual executive directors are set out on page 38.

The medium-term benefit – is the Bonus Conversion Plan ('the Plan') designed to encourage the conversion of any annual bonus (as described above) into shares in the Company and the holding of those shares for a minimum of three years. Under the Plan, if the Remuneration Committee so determines, the recipient of a bonus may elect in the following March to have shares purchased at market value in the Plan with part or all of his net bonus after tax. Shares purchased in the Plan are released at the end of a three year retention period and are then matched by an equal number of shares by the Company on which the participant is liable to income tax.

The details of each executive director's contingent interests in the matched shares are set out in the table on page 39.

The long-term benefit – is a Share Option Scheme ('the Scheme') under which options over the Company's Ordinary Shares may be granted each year to executive directors and senior executives under the current policy at a multiple of 0.8 times salary for directors (except on first appointment) subject to an overall maximum holding of four times salary. All options granted under the Scheme are subject to performance conditions on exercise as determined annually by the Remuneration Committee. Exercise of options granted during 1997 under the Scheme are subject to satisfaction of a performance condition related to total shareholder return being equal to or exceeding the return on the FTSE 100 Actuaries Index over three years. Options must be held for three years before they are exercisable and lapse if not exercised within ten years from grant.

The details of each executive director's interests in share options arising from the Scheme and the Company's Savings-Related Share Option Scheme are set out in the table on page 39.

The shares within both the Scheme and the Plan do not dilute shareholders' equity as they are bought in the market and held by a trust.

Sir Ronald Hampel, as Chairman, and the non-executive directors are not eligible for bonuses and do not participate in the Scheme.

J A Kennedy – Mr J A Kennedy, Chairman and Chief Executive of National Starch and Chemical Company, was appointed a Director on 23 July 1997 upon the acquisition of the Speciality Chemicals business from Unilever. The salary data for Mr Kennedy shown in the table on page 38 includes his salary as a Director of the Company, £50,000 per annum, and the balance represents his salary from National Starch. The amounts shown are those received by Mr Kennedy from the date of his appointment as a Director of the Company.

In 1997 Mr Kennedy participated in National Starch's annual performance related bonus scheme. The amount of bonus was based on targets related to the achievement of specific levels of trading profit of National Starch in 1997. This resulted in the payment of the maximum bonus of 50% of base salary.

Remuneration of directors

	Salary		Benefits		Annual bonus		Total	
	1997	1996	1997	1996	1997	1996	1997	1996
	£000	£000	£000	£000	£000	£000	£000	£000
Emoluments of executive directors								
Sir Ronald Hampel	200	200	10	9			210*	209
C Miller Smith	500	500	16	16			516*	516
M E Brogden (retired 30 June 1997)	187	310	25	13			212†	323
J A Kennedy (appointed 23 July 1997)	203		5		91		299	
R J Margetts	342	325	13	10	31		386*	335
A G Spall	325	310	10	6			335*	316
	1,757	1,645	79	54	122		1,958	1,699
Fees to non-executive directors (note 1)								
Sir Roger Hurn							30	30
H C Lee							25	21
Sir Antony Pilkington							30	30
Miss Ellen R Schneider-Lenné								25
Lord Simpson							25	25
Sir Alex Trotman (appointed 1 July 1997)							13	
							123	131
Total							2,081	1,830

† In addition, 14,818 ICI shares with a market value of £120,000 were released to Mr M E Brogden upon his retirement on 30 June 1997 by the Remuneration Committee under the Rules of the Bonus Conversion Plan. These shares are matched shares provided by the Company in respect of bonuses awarded to Mr Brogden in 1994 and 1995 and converted by him into ICI shares.

Upon the retirement of Mr Brogden, the Company entered into a consultancy agreement for his services relating to the integration of the Speciality Chemicals businesses acquired from Unilever. Payments under this agreement in 1997 amounted to £75,000.

* See also Notes 2 and 3 to Directors' interests in share options table on page 39.

(1) Non-executive directors receive an annual fee of £25,000. An additional £5,000 is paid to the Chairman of a Board Committee.

Pensions and commutations of pensions paid by the Company in respect of service of former directors amounted to £194,000 (1996 £190,000).

Remuneration package (continued)

Mr Kennedy participates in the Stock Appreciation Rights Plan of ICI American Holdings Inc. The Plan incentivises eligible key executives in the USA through the grant of Stock Appreciation Rights (SARs). In 1997 Mr Kennedy was granted 19,549 SARs. SARs granted during 1997 are subject to satisfaction of the same performance condition as applied to share options granted by the Company under the Share Option Scheme and the same rules apply with regard to exercise and lapse. On exercise, the participant receives the difference between the price at which the SAR was granted and the closing price of ICI's American Depositary Shares (ADSs) on the New York Stock Exchange on the exercise date in a combination of two-thirds cash and one-third ADSs.

Mr Kennedy also participates in National Starch's Key Executive Incentive Plan. Under the Plan, 'Performance Units' may be awarded annually to key executives. Such Performance Units entitle the holder to a cash payment after a period of four years to reflect the extent to which National Starch's profit before taxation (adjusted to reflect the cost of capital employed) has grown during the four year period, and the value of the units awarded at the start of the period. In 1997 Mr Kennedy was awarded 6,000 performance units of a maximum value of \$150 per unit.

Directors' interests in shares and debentures

The interests of directors in shares and debentures of the Company and of its subsidiaries, including the interests of their families are shown below.

	1 January 1997	31 December 1997	Contingent interests in matched shares*	
	or on date of appointment		1 January 1997	31 December 1997
ICI £1 Ordinary Shares				
Sir Ronald Hampel	40,948	40,948	14,571	14,571
C Miller Smith	13,886	18,886	7,086	7,086
Sir Roger Hum	500	500		
J A Kennedy		1,000		
H C Lee	500	500		
R J Margetts	49,011	61,944	16,213	16,213
Sir Antony Pilkington: beneficial	8,400	8,400		
non-beneficial	20,860	20,860		
Lord Simpson	5,000	5,000		
A G Spall	19,309	19,309	15,744	15,744
Sir Alex Trotman		500		

* Matched shares to be provided by the Company under the Bonus Conversion Plan in respect of 1994 and 1995 bonuses (see The medium-term benefit page 27).

During the period 1 January 1998 to 4 February 1998 there were no changes in the interests of directors.

Directors' interests in share options

Options to subscribe for Ordinary Shares granted to and exercised by directors during 1997 are included in the table below.

	1 January 1997	Options granted		Options exercised(E)/lapsed(L)			31 December 1997		
	Number	Number	Price	Number	Weighted average exercise price	Weighted average market price	Number	Weighted average exercise price	Date from which exercisable
Directors at 31 December 1997			£		£	£		£	Expiry date
Sir Ronald Hampel	137,982			137,982(L)	n.a.	n.a.			
C Miller Smith	238,279	66	7.31				238,345	7.94	7.11.97
		12,300	10.20				12,300†	10.20	4.8.00
R J Margetts	174,397			33,536(E)	6.03	9.76½	140,861	7.15	28.3.93
		25,100	10.20				25,100†	10.20	4.8.00
A G Spall	127,924	245	7.31				128,169	7.70	24.6.96
		23,900	10.20				23,900†	10.20	4.8.00

† Exercise price exceeds market price at 31 December 1997.

- (1) Gains made on exercise of options during the year totalled £125,000 (1996 £101,000). The options outstanding are exercisable at prices between £5.26 and £10.20. The market price of the shares at 31 December 1997 was £9.29 and the range during 1997 was £11.08½ to £6.88½. The Register of Directors' Interests (which is open to shareholders' inspection) contains full details of directors' shareholdings and options to subscribe for shares.
- (2) In 1997 the Remuneration Committee was unable to make the annual grant of share options at the usual time in May because they were aware of unpublished price sensitive information relating to the proposed acquisition of the Speciality Chemicals Businesses from Unilever. It was not possible for the grant to be made until August. All participants in the share option scheme received ex gratia payments of £3.19p per share to recognise the higher exercise price in respect of the options granted and the following payments were made to Directors: Mr C Miller Smith £39,237, Mr R J Margetts £80,069, Mr A G Spall £76,241.
- (3) A payment of £61,442 was made in respect of the gain foregone when Sir Ronald Hampel, acting on legal advice, was required to allow his unexercised share options to lapse on 27 April 1997. Sir Ronald was advised that he should not exercise his share options because he was aware of unpublished price sensitive information relating to the proposed acquisition of the Speciality Chemicals businesses from Unilever. The sum paid was calculated from the market price of the Company's shares on the date the options lapsed.
- (4) At 4 February 1998 options granted to directors and officers of the Company totalled 869,131 Ordinary Shares. These options are exercisable over periods up until 3 August 2007 at subscription prices between £5.26 to £10.20.

Directors' pension benefits

	Age at 31 December 1997 or date of retirement	Contributions by directors	Amount of additional pension accrued in 1997 payable at normal retirement age	Accrued pension at 31 December 1997 payable at normal retirement age or date of retirement
		£	£	£
M E Brogden (retired 30 June 1997)	59	9,980	4,280	197,150
J A Kennedy (appointed 23 July 1997)	60	—	19,480	311,700
R J Margetts	51	21,000	9,350	181,160
A G Spall	53	19,960	8,710	165,940

Remuneration package (continued)

Post-retirement benefits – Mr R J Margetts and Mr A G Spall are contributing members of the ICI Pension Fund, which is open to all eligible UK employees and which provides pensions and other benefits to members within Inland Revenue limits. The Company made a contribution for all employees, including contributing executive directors in the ICI Pension Fund, at a normal funding rate of 13.1% of salary in 1997.

Mr R J Margetts and Mr A G Spall both belong to the Senior Executive section of the ICI Pension Fund. Details of the accrued pension to which each director is entitled on leaving service and the change in 1997 are shown in the table above. The entitlements from the ICI Pension Fund are as follows:

- a pension of two-thirds of final pensionable pay at normal retirement age of 62. Mr R J Margetts, in common with any executive director of the Company appointed before 1993, has an agreement with the Company whereby part of any performance-related bonus paid to him in the last three years prior to his retirement is pensionable. The table on page 38 includes a notional pensionable bonus of 10% in respect of Mr R J Margetts' benefits.
- a spouse's or nominated dependant's pension payable on death of the member amounting to two-thirds of the member's pension and dependant's pensions for children under age 18;
- an early retirement pension based on the accrued entitlement payable on retirement at the request or with the consent of the Company from age 50 onwards;
- a pension of two-thirds of final pensionable pay on retirement due to permanent incapacity;
- a death in service benefit of four times annual pensionable pay.

Pensions in payment or in deferment are guaranteed to increase annually in November by the lesser of 5% or the increase in the retail price index. Additional increases may be paid at the discretion of the Company and Trustees.

Transfer values payable on leaving service when an immediate pension is not payable do not include any allowance for discretionary benefits.

Sir Ronald Hampel, having reached the Company's normal retirement age, is no longer a contributing member of the ICI Pension Fund. Mr C Miller Smith belongs to a personal funded unapproved pension scheme, to which the Company contributed £150,000 in 1997 (1996 £125,000).

Mr Kennedy participates in National Starch's retirement plans. Under these plans a retirement benefit is payable based on final average pay in the five consecutive highest-paid years during the last ten years of employment. The annual benefit is 3% of final average pay for each year of service up to 15 years and 1% of final average pay for each year of service exceeding 15 years but less than 36 years.

The remuneration of non-executive directors is determined by the Board within the limits set out in the Articles of Association. Details of each individual non-executive director's fees are set out in the table of remuneration of directors on page 38.

The Remuneration Committee has complied throughout the year with the Listing Rules of the London Stock Exchange and, in particular, with those rules introduced following the publication of the Report on Directors' Remuneration by a Study Group chaired by Sir Richard Greenbury. The Remuneration Committee has also given full consideration to Section B of the best practice provisions annexed to the Listing Rules.

**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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They 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.

**Auditor's responsibilities
in respect of the financial statements**

The Auditor is responsible for forming an independent opinion on the financial statements presented by the Directors, based on its audit, and to report its opinion to Members. It also has the responsibility under the Companies Act 1985 to report to Members if particular requirements are not met. These requirements are:

- that the Company has maintained proper accounting records and obtained proper returns from branches not visited by the auditor;
- that the financial statements are in agreement with the accounting records;
- that Directors' emoluments and other transactions with Directors are properly disclosed in the financial statements; and
- that it has obtained all the information and explanations which, to the best of its knowledge and belief, are necessary for the purpose of its audit.

The Auditor's opinion does not encompass the Directors' report on page 36. However, the Companies Act 1985 requires the Auditor to report to Members if the matters contained in the Directors' report are inconsistent with the financial statements.

**Auditor's report on the financial statements
to the Members of Imperial Chemical Industries PLC**

We have audited the financial statements on pages 44 to 89. We have also examined the amounts disclosed relating to emoluments, interests in shares and debentures, share options, long term incentive schemes and pension benefits of the directors which form part of the remuneration report on pages 37 to 40.

Respective responsibilities of Directors and Auditor

As described on page 41, the Company's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with auditing standards generally accepted in the United Kingdom and in 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 audits provide 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 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

United States opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 1997 and 1996 and the results of its operations and cash flows for each of the years in the three-year period ended 31 December 1997, 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 1997 and consolidated shareholders' equity at 31 December 1997 and 1996, to the extent summarised in note 42 to the Consolidated financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
11 February 1998

**Review report by KPMG Audit Plc to Imperial Chemical
Industries PLC on corporate governance matters**

In addition to our audit of the financial statements, we have reviewed the Directors' statements on pages 34 to 36 on the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with the Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. This guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures, or on the ability of the Group to continue in operational existence.

Opinion

With respect to the Directors' statements on internal control on pages 34 and 35 (other than statements going beyond internal financial control which are outside the scope of our report) and going concern on page 36, in our opinion the Directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and Officers of the Company and examination of relevant documents, in our opinion the Directors' statement on page 35 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
London
11 February 1998

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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 associated undertakings.

The accounts 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 accounts on a consistent basis.

Sales

Sales exclude 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 28 years for buildings and 19 years for plant and equipment. Depreciation of assets qualifying for grants is calculated on their full cost.

Pension costs

The pension costs relating to UK 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.

With minor exceptions, non-UK subsidiaries recognise the expected cost of providing pensions on a systematic basis over the average remaining service lives of employees in accordance with the advice of independent qualified actuaries.

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 transactions, 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 associated undertakings 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; exchange gains/losses are included in the Statement of Total Recognised Gains and Losses in accordance with SSAP20.

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

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.

Currency options

Option premia are recognised at their historic cost in the 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.

Associated undertakings

An associated undertaking is one in which the Group has a long-term interest and over which it exercises significant influence. The Group's share of the profits less losses of significant associated undertakings is normally included in the Group profit and loss account on the equity accounting basis. The holding value of significant associated undertakings in the Group balance sheet is calculated by reference to the Group's equity in the net tangible assets of such undertakings, as shown by the most recent accounts available, adjusted where appropriate. Proportional consolidation is adopted where this more accurately reflects the Group's interest in an associated undertaking which is a joint venture.

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.

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 replacement price; 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 such net assets. For the year ended 31 December 1997 and prior years, UK Accounting Standards required that purchased goodwill be eliminated from the balance sheet either upon acquisition against reserves or by amortisation over a period. Elimination against reserves has been selected as appropriate to purchased goodwill. On impairment or the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the amount of any related goodwill previously taken to reserves.

1995					1996				
Continuing operations			Discontinued operations	Total	Continuing operations			Discontinued operations	Total
Ongoing operations	Operations to be discontinued	Exceptional items			Ongoing operations	Operations to be discontinued	Exceptional items		
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
6,354	1,029	-	2,886	10,269	6,694	964	-	2,862	10,520
(5,878)	(961)	(94)	(2,527)	(9,460)	(6,340)	(962)	(137)	(2,657)	(10,096)
48	10		33	91	59	7		38	104
524	78	(94)	392	900	413	9	(137)	243	528
18	-	-	-	18	27	-	-	-	27
		41	30	71			1	-	1
		(1)		(1)			31	-	31
542	78	(54)	422	988	440	9	(105)	243	587
(45)	(6)		(10)	(61)	(73)	(3)		(13)	(89)
497	72	(54)	412	927	367	6	(105)	230	498
(167)	(40)	9	(110)	(308)	(111)	(2)	29	(74)	(158)
330	32	(45)	302	619	256	4	(76)	156	340
(20)	(9)	(2)	(53)	(84)	(20)	1	(1)	(45)	(65)
310	23	(47)	249	535	236	5	(77)	111	275
				(217)					(232)
				318					43
42.8p	3.2p	(6.5p)	34.4p	73.9p	32.6p	0.7p	(10.7p)	15.3p	37.9p

1995	1996
£m	£m
535	275
27	(189)
4	2
566	88

Group profit and loss account
for the year ended 31 December 1997

	Notes	1997			
		Continuing operations			Total
		Ongoing operations	Operations to be discontinued	Discontinued operations	
				Exceptional items	
		£m	£m	£m	£m
Turnover	4,5	7,731	984	-	11,062
<i>Including acquisitions</i>		1,402			1,402
Operating costs	3,5	(7,310)	(1,011)	(202)	(10,721)
Other operating income	5	64	1	12	77
Trading profit (loss)	3,4,5	485	(26)	(202)	418
<i>Including acquisitions</i>		180		(34)	146
Share of profits less losses of associated undertakings	7	16	-	-	16
Profits less losses on sale or closure of operations	3			(446)	331
Profits less losses on disposals of fixed assets	3			35	35
Profit (loss) on ordinary activities before interest	4	501	(26)	(613)	800
Net interest payable	8	(212)	(7)	(31)	(282)
Profit (loss) on ordinary activities before taxation		289	(33)	(644)	518
Tax on profit (loss) on ordinary activities	9	(53)	7	28	(210)
Profit (loss) on ordinary activities after taxation		236	(26)	(616)	308
Attributable to minorities		(14)	-	-	(49)
Net profit (loss) for the financial year		222	(26)	(616)	259
Dividends	10				(232)
Profit retained for the year	23				27
Earnings (loss) per £1 Ordinary Share	11	30.5p	(3.6p)	(84.7p)	35.6p

Statement of Group total recognised gains and losses
for the year ended 31 December 1997

	1997
	£m
Net profit for the financial year	259
Currency translation differences on foreign currency net investments and related loans	(259)
Share of other reserve movements of associated undertakings and other items	4
Total gains and losses recognised since last annual report	4

Balance sheets					
at 31 December 1997					
		Group		Company	
		1997	1996	1997	1996
	Notes	£m	£m	£m	£m
Assets employed					
Fixed assets					
Tangible assets	12	3,956	4,457	431	463
Investments					
Subsidiary undertakings	13			10,093	6,781
Participating and other interests	14	254	172	68	50
		4,210	4,629	10,592	7,294
Current assets					
Stocks	15	1,319	1,389	75	93
Debtors	16	2,457	2,132	3,065	2,900
Investments and short-term deposits	17	935	560	1	100
Cash at bank	32	340	341	22	32
		5,051	4,422	3,163	3,125
Total assets		9,261	9,051	13,755	10,419
Creditors due within one year					
Short-term borrowings	18	(1,105)	(186)	(1)	(1)
Current instalments of loans	20	(950)	(243)	(807)	-
Other creditors	19	(2,583)	(2,523)	(6,683)	(6,838)
		(4,638)	(2,952)	(7,491)	(6,839)
Net current assets (liabilities)		413	1,470	(4,328)	(3,714)
Total assets less current liabilities		4,623	6,099	6,264	3,580
Financed by					
Creditors due after more than one year					
Loans	20	2,975	1,174	694	200
Other creditors	19	67	72	3,262	688
		3,042	1,246	3,956	888
Provisions for liabilities and charges	21	1,342	757	218	56
Deferred income: Grants not yet credited to profit		14	20	-	-
Minority interests - equity		79	470	-	-
Shareholders' funds - equity					
Called-up share capital	22	727	725	727	725
Reserves					
Share premium account		581	576	581	576
Revaluation reserve		-	35	-	-
Goodwill reserve		(4,239)	(1,000)	-	-
Associated undertakings' reserves		26	71	-	-
Profit and loss account		3,051	3,199	782	1,335
Total reserves	23	(581)	2,881	1,363	1,911
Total shareholders' funds (page 49)		146	3,606	2,090	2,636
		4,623	6,099	6,264	3,580

Included within Group net current assets are debtors of £405m (1996 £306m) which fall due after more than one year. Included within the Company net current assets are debtors of £313m (1996 £207m) which fall due after more than one year.

The accounts on pages 44 to 89 were approved by the Board of Directors on 11 February 1998 and were signed on its behalf by:

Sir Ronald Hampel Director

R. C. Hampel

A G Spall Director

Alan Spall

Statement of Group cash flow

for the year ended 31 December 1997

		1997	1996	1995
	Notes	£m	£m	£m
Net cash inflow from operating activities	24	757	1,006	1,191
Returns on investments and servicing of finance	25	(171)	(122)	(94)
Taxation		(151)	(250)	(162)
		435	634	935
Capital expenditure and financial investment	26	(623)	(935)	(618)
		(188)	(301)	317
Acquisitions and disposals				
Acquisitions	27	(4,366)	(234)	(276)
Disposals	28	2,124	74	206
		(2,242)	(160)	(70)
Equity dividends paid		(231)	(225)	(206)
Cash (outflow) inflow before use of liquid resources and financing		(2,661)	(686)	41
Management of liquid resources	29	(249)	741	210
Financing				
Issues of shares		9	49	17
Increase (decrease) in debt		2,928	(50)	(156)
	30	2,937	(1)	(139)
Increase in cash	32	27	54	112

Reconciliation of movements in shareholders' funds

for the year ended 31 December 1997

		1997	1996	1995
	Notes	£m	£m	£m
Net profit for the financial year		259	275	535
Dividends		(232)	(232)	(217)
Profit retained for year		27	43	318
Issues of ICI Ordinary Shares		7	3	5
Goodwill movement				
Acquisitions	23	(3,516)	(184)	(178)
Disposals	23	277	7	12
		(3,239)	(177)	(166)
Other recognised (losses) gains related to the year	23	(255)	(187)	31
Net (reduction) increase in shareholders' funds		(3,460)	(318)	188
Shareholders' funds at beginning of year		3,606	3,924	3,736
Shareholders' funds at end of year		146	3,606	3,924

1 Basis of presentation of financial information

The Accounting Standards Board published Financial Reporting Standard No. 9 – Associates and Joint Ventures and Financial Reporting Standard No. 10 – Goodwill and Intangible Assets in December 1997. These standards have not been adopted in the 1997 accounts. They will be adopted in the accounts for the year ending 31 December 1998.

The segmental analysis of the Group's results has been restated to recognise the acquisition of the Speciality Chemicals businesses acquired from Unilever on 8 July 1997. The results of these businesses together with the results of ICI's existing Performance Chemicals business, which was previously part of the Industrial Chemicals segment, are reported as a new segment Specialty Products.

For UK reporting purposes, the results in these accounts differentiate between the Group's continuing and discontinued operations; continuing operations are further analysed between ongoing operations and operations to be discontinued.

Discontinued operations

As defined in Financial Reporting Standard 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 accounts. All other operations are classified as continuing operations.

Operations to be discontinued

In these accounts, the Group identifies separately, as operations to be discontinued, the results of those continuing operations which are material, clearly separate operations and which, at 31 December 1997 satisfy both of the following criteria:

- (a) they are the subject of conditional sales agreements which have been publicly announced by the Group; and
- (b) the Group anticipates that binding sales agreements relating to these disposals will be completed in the near future.

Ongoing operations

These comprise all continuing operations which do not meet the criteria for "operations to be discontinued". Ongoing operations may include operations which are the subject of management plans recommending disposal and which have been approved by the Executive Team but which are not the subject of a publicly announced sale agreement.

The definition and presentation of discontinued operations is different for US reporting purposes in a number of respects. The effects of these differences are reflected in the "Summary of material adjustments to net income which would be required if US GAAP had been applied instead of UK GAAP" (note 42).

During 1997 the Group made announcements regarding the disposal of the following material businesses which have been categorised according to the above criteria as follows:

Discontinued operations

Polyester polymer and intermediates business, excluding operations in Pakistan

'Melinex' polyester film operations

62.4% shareholding in ICI Australia Limited

Canadian based Forest products business

UK based fertiliser business

Segment(s) in which previously reported

Industrial Chemicals

Materials

principally Coatings, Materials, Explosives and Regional Businesses

Regional Businesses

Industrial Chemicals

Operations to be discontinued

Titanium dioxide business

Polyester polymer and intermediates business in Pakistan

51% shareholding in AECI Explosives Limited

International Explosives operations in Canada,

Latin America, Europe and the explosives distribution business in the USA

Industrial Chemicals

Industrial Chemicals

Explosives

Explosives

Ongoing operations

Following these transactions and the reclassification of both the retained Explosives operations and remaining Regional Businesses to the Industrial Chemicals segment, the classes of business of the Group constituting ongoing operations comprise the following businesses:

Class of business

Coatings

Specialty Products

Materials

Industrial Chemicals

Business

Paints

National Starch

Quest

Industrial Specialties (Performance Chemicals, Unichema and Crosfield)

Acrylics

Polyurethanes

Petrochemicals

Halochemicals

Explosives (manufacturing in the USA and the UK Businesses).

Regional Businesses

Comparative data has been restated in all cases. Net interest payable and tax on profit (loss) on ordinary activities have been allocated to operations to be discontinued and discontinued operations to reflect the net debt and taxation liabilities applicable to those operations and to those of the ongoing operations.

Owing to local conditions and to avoid undue delay in the presentation of the Group accounts, 6 subsidiaries made up their accounts to dates earlier than 31 December, but not earlier than 30 September; 5 subsidiaries made up their accounts prior to 30 September but interim accounts to 31 December were drawn up for consolidation purposes.

1 Basis of presentation of financial information (continued)

The results of operations in the Indian Sub-continent previously reported in the geographic segment analysis within 'other countries' is now included in the Asia Pacific segment. Comparative data has been restated.

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 in practice available within 24 hours without penalty.

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 Directors' remuneration

Information covering Directors' remuneration, interests in shares and debentures and interests in share options is included in the Remuneration Committee Report on pages 37 to 40.

3 Exceptional items before tax

	1997	1996	1995
	£m	£m	£m
Charged in arriving at trading profit (loss)			
Continuing operations			
Rationalisation of Specialty Products operations, including severance costs of £35m	(61)		
Rationalisation of Industrial Chemicals operations, including severance costs of £13m, asset write downs of £100m and site clearance costs of £21m	(141)		
Rationalisation of Paints' operations, principally severance costs of £36m (1995 £25m) and asset write downs of £7m (1995 £20m)		(44)	(69)
Rationalisation of Acrylics' operations, principally severance costs of £15m and asset write downs of £3m		(28)	
Rationalisation of Explosives' operations, principally severance costs of £22m and asset write downs of £18m		(65)	
Litigation charges in respect of the US Explosives business			(25)
	(202)	(137)	(94)
Credited (charged) after trading profit (loss)			
Continuing operations			
Loan arrangement fee written off following loan refinancing	(31)		
Profits less losses on sale or closure of operations			
Profits		7	69
Losses	(12)	(6)	(28)
Provision for future losses on sale and closure	(434)		
	(446)	1	41
Profits less losses on disposal of fixed assets			
Profits	35	31	6
Provisions			(7)
	35	31	(1)
Discontinued operations			
Profits on sale of operations	777		30
Exceptional items within profit (loss) on ordinary activities before taxation	133	(105)	(24)

Profits on sale of discontinued operations in 1997 comprise the disposal of the Group's 62.4% interest in ICI Australia Limited (£480m after goodwill write-off £25m), the polyester polymer and intermediates business (£136m), the Canadian based Forest Products business (£66m) and the UK based fertiliser business (£95m).

Provisions for future losses on sale or closure charged in 1997 comprise losses anticipated on disposal of the Titanium Dioxide business (£302m) and the Explosives business (£132m). These provisions include £153m and £92m respectively for goodwill impairment and £149m and £40m respectively for asset impairment.

The profit on the sale of the fertiliser business excludes a £50m receipt which is contingent on the future sales performance of the business.

The profit on the sale of the polyester polymer and intermediates business is stated excluding \$50m, the receipt of which is contingent upon operational targets for its Taiwan plant being achieved.

Further information is provided in the Operating and Financial Review.

Under US GAAP, exceptional items would be included in operating income, unless they relate to discontinued operations.

4 Segment information									
Classes of business									
	Turnover			Trading profit before exceptional items			Profit before interest and taxation after exceptional items		
	1997	1996	1995	1997	1996	1995	1997	1996	1995
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Continuing operations									
Ongoing operations									
Coatings									
External	2,170	2,159	1,736						
Intra-Group	-	2	-						
	2,170	2,161	1,736	160	147	76	166	103	8
Specialty Products									
External	1,901	510	554						
Intra-Group	33	36	4						
	1,934	546	558	215	28	35	155	28	58
Materials									
External	1,443	1,535	1,580						
Intra-Group	47	48	53						
	1,490	1,583	1,633	130	158	145	134	130	179
Industrial Chemicals									
External	2,217	2,490	2,484						
Intra-Group	346	404	589						
	2,563	2,894	3,073	(20)	80	268	(189)	59	225
Inter-class eliminations	(183)	(211)	(190)						
	7,974	6,973	6,810	485	413	524	266	320	470
Sales to operations to be discontinued and to discontinued operations	(243)	(279)	(456)						
	7,731	6,694	6,354	485	413	524	266	320	470
Operations to be discontinued									
Total	1,052	1,052	1,110	(26)	9	78	(420)	(3)	78
Sales to continuing operations and to discontinued operations	(68)	(88)	(81)						
	984	964	1,029	(26)	9	78	(420)	(3)	78
Discontinued operations									
Total	2,439	2,954	3,005	161	243	392	938	243	422
Sales to continuing operations and to operations to be discontinued	(92)	(92)	(119)						
	2,347	2,862	2,886	161	243	392	938	243	422
Share of profits less losses of associated undertakings							16	27	18
	11,062	10,520	10,269	620	665	994	800	587	988

The Group's policy is to transfer products internally at external market prices. Inter-class turnover affected several businesses the largest being sales from Industrial Chemicals to Discontinued operations of £172m (1996 £256m; 1995 £309m).

Corporate overheads have been allocated to each business segment on a consistent basis over the periods presented. The effect of these allocations is not material.

	Depreciation (note 12)			Capital expenditure (note 12)		
	1997	1996	1995	1997	1996	1995
	£m	£m	£m	£m	£m	£m
Continuing operations						
Ongoing operations						
Coatings	43	45	40	65	83	55
Specialty Products	62	14	14	103	20	19
Materials	61	74	67	142	192	90
Industrial Chemicals	220	72	88	93	132	93
Total	386	205	209	403	427	257
Operations to be discontinued	244	80	83	164	232	82
Discontinued operations	139	131	120	150	367	318
	769	416	412	717	1,026	657

4 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			Trading profit before exceptional items			Profit before interest and taxation after exceptional items		
	1997 £m	1996 £m	1995 £m	1997 £m	1996 £m	1995 £m	1997 £m	1996 £m	1995 £m
Continuing operations									
Ongoing operations									
United Kingdom									
Sales in the UK									
External	1,720	1,745	1,699						
Intra-Group	356	97	341						
	2,076	1,842	2,040						
Sales overseas									
External	1,000	883	918						
Intra-Group	410	642	611						
	1,410	1,525	1,529						
	3,486	3,367	3,569	52	101	269	(101)	84	286
Continental Europe									
External	1,241	965	954						
Intra-Group	269	320	499						
	1,510	1,285	1,453	68	63	53	49	57	32
The Americas									
External	2,782	2,286	2,010						
Intra-Group	283	194	288						
	3,065	2,480	2,298	254	170	127	196	110	78
Asia Pacific									
External	919	759	702						
Intra-Group	79	75	187						
	998	834	889	92	79	75	103	69	74
Other countries									
External	69	56	71						
Intra-Group	-	-	11						
	69	56	82	19	-	-	19	-	-
	9,128	8,022	8,291	485	413	524	266	320	470
Inter-area eliminations	(1,154)	(1,049)	(1,481)						
Sales to operations to be discontinued and to discontinued operations	(243)	(279)	(456)						
	7,731	6,694	6,354	485	413	524	266	320	470
Operations to be discontinued									
Total	1,052	1,052	1,110	(26)	9	78	(420)	(3)	78
Sales to continuing operations and to discontinued operations	(68)	(88)	(81)						
	984	964	1,029	(26)	9	78	(420)	(3)	78
Discontinued operations									
Total	2,439	2,954	3,005	161	243	392	938	243	422
Sales to continuing operations and to operations to be discontinued	(92)	(92)	(119)						
	2,347	2,862	2,886	161	243	392	938	243	422
Share of profits less losses of associated undertakings							16	27	18
	11,062	10,520	10,269	620	665	994	800	587	988

Turnover by operations to be discontinued and discontinued operations is primarily in the following geographic areas:

Operations to be discontinued: Americas £564m (1996 Americas £471m, 1995 Americas £397m)

Discontinued operations: Asia Pacific £1,614m (1996 Asia Pacific £1,995m, 1995 Asia Pacific £1,813m)

4 Segment information (continued)

Classes of business

	Total assets			Total assets less current liabilities		
	1997	1996	1995	1997	1996	1995
	£m	£m	£m	£m	£m	£m
Operating assets/Net operating assets						
Continuing operations						
Ongoing operations						
Coatings	1,284	1,209	1,045	783	724	676
Specialty Products	2,522	287	311	1,946	189	193
Materials	1,181	1,170	1,197	964	928	962
Industrial Chemicals	1,345	1,584	1,486	763	963	900
Intra-Group eliminations	(95)	(170)	(133)			
	6,237	4,080	3,906	4,456	2,804	2,731
Operations to be discontinued	1,076	1,368	1,332	867	1,071	1,094
Intra-Group eliminations	(22)	(19)	(15)			
	1,054	1,349	1,317	867	1,071	1,094
Discontinued operations	308	2,519	2,367	209	1,993	1,838
Intra-Group eliminations	(1)	(40)	(31)			
	307	2,479	2,336	209	1,993	1,838
Total operating assets	7,598	7,908	7,559			
Total net operating assets				5,532	5,868	5,663
Non-operating assets/Net non-operating assets (liabilities)	1,663	1,143	1,913	(909)	231	936
	9,261	9,051	9,472	4,623	6,099	6,599

	Notes	Non-operating assets			Net non-operating assets		
		1997	1996	1995	1997	1996	1995
		£m	£m	£m	£m	£m	£m
Non-operating assets/Net non-operating assets							
Non-operating assets							
Fixed asset investments		254	172	172			
Non-operating debtors	16	134	70	68			
Investments and short-term deposits		935	560	1,337			
Cash		340	341	336			
		1,663	1,143	1,913	1,663	1,143	1,913
Non-operating liabilities							
Short-term borrowings					(1,105)	(186)	(179)
Current instalments of loans					(950)	(243)	(251)
Non-operating creditors	19				(517)	(483)	(547)
Non-operating liabilities					(2,572)	(912)	(977)
		1,663	1,143	1,913	(909)	231	936

Employees

	1997	1996	1995
Average number of people employed by the Group			
Continuing operations			
Ongoing operations			
Coatings	18,700	17,100	14,800
Specialty Products	10,700	2,400	2,100
Materials	4,700	4,700	5,100
Industrial Chemicals	11,900	13,700	15,400
Corporate			
Board support	200	200	200
Group technical resources and other shared services	1,700	1,500	1,400
	47,900	39,600	39,000
Operations to be discontinued	10,600	10,500	12,500
Discontinued operations	11,000	13,900	13,300
Total employees	69,500	64,000	64,800

4 Segment information (continued)

Geographic areas

	Total assets			Total assets less current liabilities		
	1997	1996	1995	1997	1996	1995
	£m	£m	£m	£m	£m	£m
Operating assets/Net operating assets						
Continuing operations						
Ongoing operations						
United Kingdom	2,102	1,154	1,323	1,415	1,136	1,126
Continental Europe	1,106	646	738	722	343	363
The Americas	2,287	1,560	1,343	1,770	917	926
Asia Pacific	801	606	607	528	278	300
Other countries	36	196	71	21	130	16
Intra-Group eliminations	(95)	(82)	(176)			
	6,237	4,080	3,906	4,456	2,804	2,731
Operations to be discontinued	1,076	1,368	1,332	867	1,071	1,094
Intra-Group eliminations	(22)	(19)	(15)			
	1,054	1,349	1,317	867	1,071	1,094
Discontinued operations	308	2,519	2,367	209	1,993	1,838
Intra-Group eliminations	(1)	(40)	(31)			
	307	2,479	2,336	209	1,993	1,838
Total operating assets	7,598	7,908	7,559			
Total net operating assets				5,532	5,868	5,663
Non operating assets/Net non-operating assets	1,663	1,143	1,913	(909)	231	936
	9,261	9,051	9,472	4,623	6,099	6,599

Total assets by operations to be discontinued and discontinued operations are primarily in the following geographic areas:

Operations to be discontinued: Asia Pacific £332m (1996 Continental Europe £360m, 1995 Continental Europe £402m)

Discontinued operations: UK £175m (1996 Asia Pacific £1,750m, 1995 Asia Pacific £1,621m)

Turnover by customer location

	1997	1996	1995
	£m	£m	£m
Continuing operations			
Ongoing operations			
United Kingdom	1,761	1,763	1,704
Continental Europe	1,803	1,509	1,507
The Americas	2,844	2,347	2,068
Asia Pacific	1,004	816	661
Other countries	319	259	414
	7,731	6,694	6,354
Operations to be discontinued	984	964	1,029
Discontinued operations	2,347	2,862	2,886
	11,062	10,520	10,269

Turnover by customer location for operations to be discontinued and discontinued operations are primarily in the following geographic areas:

Operations to be discontinued: Americas £423m (1996 Americas £333m, 1995 Americas £332m)

Discontinued operations: Asia Pacific £1,533m (1996 Asia Pacific £1,886m, 1995 Asia Pacific £1,777m)

Employees

	Ongoing operations			Total		
	1997	1996	1995	1997	1996	1995
Average number of people employed by the Group						
United Kingdom	14,500	14,000	15,400	18,100	17,700	18,900
Continental Europe	6,400	4,400	4,400	8,100	6,100	6,100
The Americas	16,700	12,400	10,500	20,900	16,600	15,600
Asia Pacific	10,000	8,600	8,500	18,000	19,200	19,000
Other countries	300	200	200	4,400	4,400	5,200
Total employees	47,900	39,600	39,000	69,500	64,000	64,800
Number of people employed by the Group at the year end						
Continuing operations						
Ongoing operations				55,600	39,500	38,400
Operations to be discontinued				10,100	10,200	11,700
Discontinued operations				1,800	13,600	13,700
Total employees				67,500	63,300	63,800

1995				1996			
Continuing operations		Discontinued operations	Total	Continuing operations		Discontinued operations	Total
Ongoing operations	Operations to be discontinued			Ongoing operations	Operations to be discontinued		
£m	£m	£m	£m	£m	£m	£m	£m
6,354	1,029	2,886	10,269	6,694	964	2,862	10,520
(4,327)	(711)	(2,011)	(7,049)	(4,713)	(729)	(2,102)	(7,544)
(441)	(65)	(119)	(625)	(466)	(76)	(125)	(667)
(122)	(32)	(31)	(185)	(113)	(30)	(46)	(189)
(988)	(153)	(366)	(1,507)	(1,048)	(127)	(384)	(1,559)
(5,878)	(961)	(2,527)	(9,366)	(6,340)	(962)	(2,657)	(9,959)
4	1	2	7	5	-	1	6
5	-	7	12	7	1	15	23
39	9	24	72	47	6	22	75
48	10	33	91	59	7	38	104
524	78	392	994	413	9	243	665
(189)	(83)	(119)	(391)	(202)	(76)	(124)	(402)
2,027	318	875	3,220	1,981	235	760	2,976
6,354	1,029	2,886	10,269	6,694	964	2,862	10,520
(4,361)	(711)	(2,011)	(7,083)	(4,734)	(729)	(2,102)	(7,565)
(444)	(65)	(119)	(628)	(467)	(76)	(125)	(668)
(122)	(32)	(31)	(185)	(115)	(30)	(46)	(191)
(1,045)	(153)	(366)	(1,564)	(1,149)	(139)	(384)	(1,672)
(5,972)	(961)	(2,527)	(9,460)	(6,465)	(974)	(2,657)	(10,096)
4	1	2	7	5	-	1	6
5	-	7	12	7	1	15	23
39	9	24	72	47	6	22	75
48	10	33	91	59	7	38	104
430	78	392	900	288	(3)	243	528
(196)	(83)	(119)	(398)	(216)	(76)	(124)	(416)
1,993	318	875	3,186	1,960	235	760	2,955

5 Trading profit (loss)

	1997					Total
	Continuing operations			Discontinued operations		
	Ongoing operations		Total	Operations to be discontinued		
	Acquisitions	Other ongoing				
	£m	£m		£m	£m	
Trading profit (loss) before exceptional items						
Turnover	1,402	6,329	7,731	984	2,347	11,062
Operating costs						
Cost of sales	(940)	(4,499)	(5,439)	(733)	(1,723)	(7,895)
Distribution costs	(112)	(423)	(535)	(82)	(135)	(752)
Research and development	(38)	(124)	(162)	(26)	(41)	(229)
Administrative and other expenses	(136)	(1,038)	(1,174)	(170)	(299)	(1,643)
	(1,226)	(6,084)	(7,310)	(1,011)	(2,198)	(10,519)
Other operating income						
Government grants	1	8	9	-	-	9
Royalties	1	6	7	-	5	12
Other income	2	46	48	1	7	56
	4	60	64	1	12	77
Trading profit (loss)	180	305	485	(26)	161	620
Total charge for depreciation included above	(47)	(199)	(246)	(77)	(111)	(434)
Gross profit, as defined by Companies Act 1985	462	1,830	2,292	251	624	3,167

Trading profit (loss) after exceptional items

Turnover	1,402	6,329	7,731	984	2,347	11,062
Operating costs						
Cost of sales	(940)	(4,499)	(5,439)	(733)	(1,723)	(7,895)
Distribution costs	(112)	(423)	(535)	(82)	(135)	(752)
Research and development	(38)	(124)	(162)	(26)	(41)	(229)
Administrative and other expenses	(170)	(1,206)	(1,376)	(170)	(299)	(1,845)
	(1,260)	(6,252)	(7,512)	(1,011)	(2,198)	(10,721)
Other operating income						
Government grants	1	8	9	-	-	9
Royalties	1	6	7	-	5	12
Other income	2	46	48	1	7	56
	4	60	64	1	12	77
Trading profit (loss)	146	137	283	(26)	161	418
Total charge for depreciation included above	(47)	(299)	(346)	(77)	(111)	(534)
Gross profit, as defined by Companies Act 1985	462	1,830	2,292	251	624	3,167

6 Note of historical cost profits and losses

There were no material differences between reported profits and losses and historical cost profit and losses on ordinary activities before tax in 1997, 1996 and 1995.

1995				1996			
Continuing operations		Discontinued operations	Total	Continuing operations		Discontinued operations	Total
Ongoing operations	Operations to be discontinued			Ongoing operations	Operations to be discontinued		
£m	£m	£m	£m	£m	£m	£m	£m
17			17	22			22
(2)			(2)	5			5
15			15	27			27
3			3	1			1
				(1)			(1)
18			18	27			27

46	5	9	60	38	7	6	51
79			79	89	(10)	(2)	77
125	5	9	139	127	(3)	4	128
8	2		10	14	4	1	19
11	1	4	16	13	6	10	29
19	3	4	26	27	10	11	48
144	8	13	165	154	7	15	176
(99)	(2)	(3)	(104)	(81)	(4)	(2)	(87)
45	6	10	61	73	3	13	89

1995					1996				
Continuing operations			Discontinued operations	Total	Continuing operations			Discontinued operations	Total
Ongoing operations	Operations to be discontinued	Exceptional items			Ongoing operations	Operations to be discontinued	Exceptional items		
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
134	(1)	2	38	173	73	21	(1)	24	117
(65)	(7)		(1)	(73)	(71)	(19)		(2)	(92)
(2)	21	(3)	6	22	9	2	(6)	12	17
67	13	(1)	43	122	11	4	(7)	34	42
98	4	3	75	180	96	(2)	(14)	45	125
(2)	23	(11)	(8)	2	1		(8)	(5)	(12)
96	27	(8)	67	182	97	(2)	(22)	40	113
163	40	(9)	110	304	108	2	(29)	74	155
4				4	3				3
167	40	(9)	110	308	111	2	(29)	74	158

7 Share of profits less losses of associated undertakings

	1997			Total
	Continuing operations		Discontinued operations	
	Ongoing operations	Operations to be discontinued		
	£m	£m	£m	
Share of profits less losses before tax				
Dividend income	56	-	-	56
Share of undistributed profits less losses before exceptional items	(40)	-	-	(40)
	16	-	-	16
Gains on disposal of investments	-	-	-	-
Amounts written off investments (including provisions raised £ nil (1996 £1m; 1995 £nil))	-	-	-	-
	16	-	-	16

8 Net interest payable**Interest payable and similar charges****Loan interest**

Bank loans	19	17	11	47
Other loans	118	(8)	13	123
	137	9	24	170
Interest on short-term borrowing				
Bank borrowings	119	2	1	122
Other borrowings	42	-	7	49
	161	2	8	171
	298	11	32	341
Interest receivable and similar income	(86)	(4)	-	(90)
Net interest payable before exceptional items	212*	7	32	251

Net gains/losses on realised forward rate agreements deferred at the year end were not material.

* Includes interest attributable to acquisitions £4m: (Bank loans £1m, other loans £1m, bank borrowings £1m, other borrowings £1m) less interest receivable and similar income £2m.

In addition to the above, there was an exceptional item of £31m relating to the write-off of a loan arrangement fee following the refinancing of debt raised to finance the Speciality Chemicals acquisition, the last tranche of which was refinanced on 23 October 1997. Total interest including this exceptional cost was £282m.

9 Tax on profit (loss) on ordinary activities

	1997			Total
	Continuing operations		Discontinued operations	
	Ongoing operations	Operations to be discontinued	Exceptional items	
	£m	£m	£m	£m
ICI and subsidiary undertakings				
United Kingdom taxation				
Corporation tax	(61)	(2)	(10)	139
Double taxation relief	(75)	-	-	(6)
Deferred taxation	127	(2)	(45)	(53)
	(9)	(4)	(55)	80
Overseas taxation				
Overseas taxes	78	(1)	-	114
Deferred taxation	(20)	(2)	27	(2)
	58	(3)	27	112
	49	(7)	(26)	192
Associated undertakings	4	-	-	4
Tax on profit (loss) on ordinary activities	53	(7)	(28)	192

UK and overseas taxation has been provided on the profits (losses) earned for the periods covered by the Group accounts. UK corporation tax has been provided at the rate of 31.5% (1996 33%, 1995 33%).

The 1997 charge in respect of ongoing operations benefited from adjustments to past years' provisions.

The exceptional tax credit in 1997 was in respect of the disposal and rationalisation programmes as discussed in note 3.

The exceptional tax credit in 1996 was in respect of the exceptional rationalisation costs as discussed in note 3.

The exceptional tax credit in 1995 was in respect of the Grow Group Inc. and Fuller-O'Brien restructuring costs partially offset by tax on disposals of operations in the UK, USA and India.

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

	1997	1996	1995
	£m	£m	£m
Profit (loss) on ordinary activities before taxation is analysed as follows:			
United Kingdom	(100)	85	375
Overseas	608	386	534
Associated undertakings	10	27	18
	518	498	927

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

Taxation charge at UK corporation tax rate (1997 31.5%; 1996 33%; 1995 33%)	163	164	306	
Provisions not allowable		10	(5)	38
Local taxes		35	18	18
Capital gains not taxable or rolled-over		(42)	(17)	(18)
Taxable intra-Group dividend income		32	9	9
Depreciation – tax versus book		(12)	(15)	(39)
Overseas tax rates		4	2	5
Current year tax losses not relieved		50	21	11
Prior year tax losses utilised		(15)	(9)	(18)
Other		(15)	(10)	(4)
Tax on profit (loss) on ordinary activities	210	158	308	

To the extent that dividends remitted from overseas subsidiaries and associated undertakings are expected to result in additional taxes, appropriate amounts have been provided. No taxes have been provided for unremitted earnings of subsidiaries and associated undertakings when such amounts are considered permanently re-invested. Cumulative unremitted earnings of overseas subsidiaries and associated undertakings totalled approximately £2,467m at 31 December 1997 (1996 £1,709m, 1995 £1,779m); the remittance of these amounts would incur tax at substantially lower than statutory rates after giving effect to foreign tax credits.

Deferred taxation

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

	Group			Company		
	1997	1996	1995	1997	1996	1995
	£m	£m	£m	£m	£m	£m
Accounted for at balance sheet date (note 21)						
Timing differences on UK capital allowances and depreciation	213	189	193	68	61	63
Miscellaneous timing differences	(70)	(85)	(92)	25	9	(17)
	143	104	101	93	70	46
Not accounted for at balance sheet date						
Timing differences on UK capital allowances and depreciation	–	–	–	–	–	–
Miscellaneous timing differences	90	44	37	–	–	–
	90	44	37	–	–	–
Full potential deferred taxation	233	148	138	93	70	46

9 Tax on profit (loss) on ordinary activities (continued)**Deferred taxation**

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

	1997	1996
	£m	£m
Deferred tax liabilities		
UK fixed assets	213	189
Non-UK fixed assets	291	213
Others	168	52
	672	454
Deferred tax (assets)		
Rationalisation provisions	(56)	(58)
Pensions	(66)	(70)
Employee liabilities	(89)	(73)
Maintenance provisions	(13)	(14)
Business provisions	(41)	(25)
Inter-company inventory transfers	(1)	(2)
Stock valuation	(9)	(6)
Disposal of businesses	(59)	
Losses	(45)	(4)
Other	(60)	(54)
	(439)	(306)
Full deferred tax provision	233	148
Not accounted for at the balance sheet date	(90)	(44)
Deferred tax accounted for at the balance sheet date	143	104
Analysed as:		
Current	(93)	(26)
Non-current	236	130
	143	104

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 the 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 42.

10 Dividends

	1997	1996	1995	1997	1996	1995
	Pence per £1 Ordinary Share			£m	£m	£m
Interim, paid 6 October 1997	12.5	12.5	11.5	91	91	83
Second interim, to be confirmed as final, payable 20 April 1998	19.5	19.5	18.5	141	141	134
	32.0	32.0	30.0	232	232	217

No withholding tax is deducted from payments to UK residents. However, the shareholder, when receiving a dividend, unless the dividend is paid as a Foreign Income Dividend, receives an imputed tax credit against his personal tax liability. This imputed tax credit is paid by the Company to UK tax authorities as Advance Corporation Tax. The equivalent gross rates of dividends, including the imputed tax credit, were 40p in 1996 and 37.5p in 1995. As the 1997 dividend of 32.0p is being paid as a Foreign Income Dividend there is no attaching tax credit although a UK individual shareholder has no liability to tax on the dividend at the basic rate of income tax. The first 1997 interim dividend paid on 6 October was paid as a Foreign Income Dividend. The final 1997 dividend to be paid on 20 April 1998 will also be paid as a Foreign Income Dividend.

11 Earnings (loss) per £1 Ordinary Share

	Continuing operations			Discontinued operations	Total
	Ongoing operations	Operations to be discontinued	Total		
	£m	£m	£m	£m	£m
1997					
Net profit (loss) for the financial year before exceptional items	222	(26)	196	44	240
Exceptional items after tax and minorities			(616)	635	19
Net profit (loss) for the financial year			(420)	679	259
	million	million	million	million	million
Average Ordinary Shares in issue during year, weighted on a time basis	727	727	727	727	727
	pence	pence	pence	pence	pence
Earnings (loss) per £1 Ordinary Share – before exceptional items	30.5	(3.6)	26.9	6.1	33.0
Earnings (loss) per £1 Ordinary Share – after exceptional items			(57.8)	93.4	35.6
1996					
	£m	£m	£m	£m	£m
Net profit for the financial year before exceptional items	236	5	241	111	352
Exceptional items after tax and minorities			(77)		(77)
Net profit for the financial year			164	111	275
	million	million	million	million	million
Average Ordinary Shares in issue during year, weighted on a time basis	725	725	725	725	725
	pence	pence	pence	pence	pence
Earnings per £1 Ordinary Share – before exceptional items	32.6	0.7	33.3	15.3	48.6
Earnings per £1 Ordinary Share – after exceptional items			22.6	15.3	37.9
1995					
	£m	£m	£m	£m	£m
Net profit for the financial year before exceptional items	310	23	333	222	555
Exceptional items after tax and minorities			(47)	27	(20)
Net profit for the financial year			286	249	535
	million	million	million	million	million
Average Ordinary Shares in issue during year, weighted on a time basis	724	724	724	724	724
	pence	pence	pence	pence	pence
Earnings per £1 Ordinary Share – before exceptional items	42.8	3.2	46.0	30.7	76.7
Earnings per £1 Ordinary Share – after exceptional items			39.5	34.4	73.9

There are no options, warrants or rights outstanding in respect of unissued shares except for the share option schemes for employees (note 22). The effect on earnings per £1 Ordinary Share of the issue of shares under option would not be material.

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

12 Tangible fixed assets

	Land and buildings	Plant and equipment	Payments on account and assets in course of construction	Total
	£m	£m	£m	£m
Group				
Cost or as revalued				
At beginning of year	1,248	6,780	841	8,869
New subsidiary undertakings	368	778	123	1,269
Capital expenditure	-	-	717	717
Transfers of assets into use	59	458	(517)	
Exchange adjustments	(90)	(331)	(74)	(495)
Disposals and other movements	(374)	(2,141)	(233)	(2,748)
At end of year	1,211	5,544	857	7,612
Depreciation				
At beginning of year	482	3,930		4,412
Charge for year	69	700		769
Exchange adjustments	(17)	(125)		(142)
Disposals and other movements	(124)	(1,259)		(1,383)
At end of year	410	3,246		3,656
Net book value at end 1997	801	2,298	857	3,956
Net book value at end 1996	766	2,850	841	4,457

The Group depreciation charge of £769m, shown above, comprises £434m charged in arriving at trading profit and £335m charged to exceptional items relating to provisions for impairment and losses on sale.

Capital expenditure in the year of £717m includes capitalised finance leases of £5m; creditors for capital work done but not paid for decreased by £38m; the resulting cash expenditure on tangible fixed assets was £750m.

The net book value of the tangible fixed assets of the Group includes capitalised finance leases of £18m (1996 £18m) comprising cost of £28m (1996 £29m) less depreciation of £10m (1996 £11m). The depreciation charge for the year in respect of capitalised leases was £3m (1996 £3m) and finance charges were £1m (1996 £1m).

Included in land and buildings is £211m (1996 £225m) in respect of the cost of land which is not subject to depreciation.

Company				
Cost				
At beginning of year	156	681	116	953
Capital expenditure			92	92
Transfers of assets into use		25	(25)	
Transfers from subsidiary undertakings	9	9		18
Disposals and other movements	(85)	(56)		(141)
At end of year	80	659	183	922
Depreciation				
At beginning of year	62	428		490
Transfers from subsidiary undertakings		5		5
Charge for year	5	42		47
Disposals and other movements	(19)	(32)		(51)
At end of year	48	443		491
Net book value at end 1997	32	216	183	431
Net book value at end 1996	94	253	116	463

12 Tangible fixed assets (continued)

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
The net book value of land and buildings comprised				
Freeholds	736	700	32	93
Long leases (over 50 years unexpired)	60	60	-	1
Short leases	5	6	-	-
	801	766	32	94

	Group			
	Land and buildings		Plant and equipment	
	1997	1996	1997	1996
	£m	£m	£m	£m
Revalued assets included in tangible fixed assets				
At revalued amount	-	78	-	80
Depreciation	-	(26)	-	(71)
Net book value	-	52	-	9
At historical cost	-	41	-	95
Depreciation	-	(22)	-	(88)
Net book value	-	19	-	7

13 Investments in subsidiary undertakings

	Shares	Loans	Total
	£m	£m	£m
Cost			
At beginning of year	6,465	594	7,059
Transfers to (from) subsidiary undertakings	569	(889)	(320)
New investments/new loans	1,079	2,970	4,049
Disposals/loans repaid/transfers	(90)	(8)	(98)
Exchange adjustments	(66)	26	(40)
At end of year	7,957	2,693	10,650
Provisions			
At beginning of year	(277)	(1)	(278)
Transfers to subsidiary undertakings	92	-	92
Additions	(367)	-	(367)
Exchange adjustments	(4)	-	(4)
At end of year	(556)	(1)	(557)
Balance sheet value at end 1997	7,401	2,692	10,093
Balance sheet value at end 1996	6,188	593	6,781

Cost includes scrip issues capitalised £1m (1996 £6m).

	1997	1996
	£m	£m
Shares in subsidiary undertakings which are listed investments	5	5
Balance sheet value	56	47
Market value		

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 88.

14 Investments in participating and other interests

	Associated undertakings			Other investments		Total
	Equity	Non equity	Loans	Shares	Loans	
	accounted	shares				
	shares					
	£m	£m	£m	£m	£m	£m
Group						
Cost						
At beginning of year	25	16	10	120	-	171
Additions	14	-	6	36	204	260
Disposals and repayments	(6)	(5)	-	(7)	(97)	(115)
Exchange adjustments	1	-	(2)	(16)	(15)	(32)
At end of year	34	11	14	133	92	284
Share of post-acquisition reserves less losses						
At beginning of year	71					71
Retained profits less losses	(44)					(44)
Exchange adjustments	(1)					(1)
At end of year	26					26
Provisions						
At beginning of year	-	(3)	-	(67)	-	(70)
Exchange adjustments	-	2	-	12	-	14
At end of year	-	(1)	-	(55)	-	(56)
Balance sheet value at end 1997	60	10	14	78	92	254
Balance sheet value at end 1996	96	13	10	53	-	172
The above investments included						
1997						
Listed investments	- balance sheet value	-	-	43		43
	- market value	-	-	31		31
1996						
Listed investments	- balance sheet value	-	-	53		53
	- market value	-	-	46		46

Information on principal associated undertakings is given on page 89.

The results of Louisiana Pigment Company, L.P. (LPC) have been proportionately consolidated in the financial statements. Under US GAAP, the results would be equity accounted. LPC is a partnership and is managed through a supervisory committee on which the Group and the Group's joint venture partner, NL Kronos, are represented.

The fair values of the investments which are not listed, are not materially different from their carrying values. The difference between fair value and book value of non-equity accounted non-current investments has been included as a US GAAP adjustment to shareholders' equity (note 42).

14 Investments in participating and other interests (continued)

Company	Associated undertakings Shares £m	Other investments Shares £m	Total £m
Cost			
At beginning of year	5	136	143
Additions	-	23	23
Exchange adjustments	-	(15)	(15)
At end of year	5	146	151
Provisions			
At beginning of year	(1)	(92)	(93)
Exchange adjustments	1	9	10
At end of year	-	(83)	(83)
Balance sheet value at end 1997	5	63	68
Balance sheet value at end 1996	4	46	50
The above investments included			
1997			
Listed investments	-	43	43
- balance sheet value	-	31	31
- market value	-		
1996			
Listed investments	-	46	46
- balance sheet value	-	43	43
- market value	-		

15 Stocks

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Raw materials and consumables	450	471	29	28
Stocks in process	66	69	1	4
Finished goods and goods for resale	803	849	45	61
	1,319	1,389	75	93

16 Debtors

	Group		Non-operating debtors included in Group		Company	
	1997	1996	1997	1996	1997	1996
	£m	£m	£m	£m	£m	£m
Amounts due within one year						
Trade debtors	1,666	1,402			63	76
Less: amounts set aside for doubtful accounts	(71)	(70)				
	1,595	1,332			63	76
Amounts owed by subsidiary undertakings					2,637	2,554
Amounts owed by associated undertakings	5	4			-	-
Prepaid pension costs	1	9			-	-
Taxation recoverable	82	46	82	46	23	-
Other prepayments and accrued income	124	137	15	24	4	33
Other debtors	245	298	1	-	25	30
	2,052	1,826	98	70	2,752	2,693
Amounts due after more than one year						
Advance corporation tax recoverable	36	-	36	-	77	20
Prepaid pension costs	243	174	-	-	203	154
Other debtors	126	132	-	-	33	33
	405	306	36	-	313	207
	2,457	2,132	134	70	3,065	2,900

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

17 Current asset investments and short-term deposits

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Listed investments	48	116	-	50
Unlisted investments and short-term deposits	887	444	1	50
	935	560	1	100
Included in cash and cash equivalents	263	314	-	-
Market value of listed investments	56	116	-	50

Included in unlisted investments and short-term deposits and cash are amounts totalling £206m (1996 £191m) held by the Group's insurance subsidiaries. In 1997 £24m (1996 £14m) was readily available for the general purposes of the Group. The increase in unlisted investments and short-term deposits is due to the timing of disposal cashflows.

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

18 Short-term borrowings

	Group		Company		Average interest rate - Group*	
	1997	1996	1997	1996	1997	1996
	£m	£m	£m	£m	%	%
Bank borrowings						
Secured by floating charge	5	4	-	-		
Unsecured	58	39	1	1		
	63	43	1	1	6.8	8.7
Other borrowings (unsecured)	1,042	143	-	-	6.3	7.7
	1,105	186	1	1		
Maximum short-term borrowings outstanding during year	1,500	324				

* 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.

The carrying values approximate to fair values due to the short maturity of these borrowings

19 Other creditors

	Group		Non-operating creditors included in Group		Company	
	1997	1996	1997	1996	1997	1996
	£m	£m	£m	£m	£m	£m
Amounts due within one year						
Trade creditors	1,142	1,093			93	90
Amounts owed to subsidiary undertakings					6,237	6,401
Amounts owed to associated undertakings	4	4			-	-
Corporate taxation	273	233	273	233	122	109
Value added and payroll taxes and social security	54	64			-	6
Dividends to Ordinary Shareholders	141	141	141	141	141	141
Environmental liabilities	20	15			-	-
Pension liabilities	24	10			-	-
Accruals	341	224	96	77	40	51
Other creditors*	584	739	7	32	50	40
	2,583	2,523	517	483	6,683	6,838
Amounts due after more than one year						
Corporate taxation	1	12			-	-
Amounts owed to subsidiary undertakings					3,252	674
Environmental liabilities	9	10			-	4
Pension liabilities	14	7			-	-
Other creditors*	43	43			10	10
	67	72			3,262	688

* Includes obligations under finance leases (note 34).

Under US GAAP, provisions for liabilities and charges (note 21) would be shown under accounts payable and accrued liabilities due after more than one year.

The fair values of financial instruments included above are not materially different from their carrying values.

20 Loans

	Repayment dates	Group		Company	
		1997	1996	1997	1996
		£m	£m	£m	£m
Secured loans					
US dollars	1998/2001	31	85		
Taiwanese dollars	1998/2001	9	96		
Other currencies	1998/2001	61	55		
Total secured		101	236	-	-
Secured by fixed charge - bank loans		75	202		
- other		16	18		
Secured by floating charge - bank loans		10	16		
Unsecured loans					
Sterling					
9¾% and 10% Bonds	2003/2005	200	200	200	200
7.625% Bonds	2007	297			
Variable rate medium term notes	1998/2003	272	53	208	
Others	1998/1999	68	28	40	
		837	281	448	200
US dollars					
8¾% Debentures	2006	151	147		
8.8% to 8.9% medium-term notes	1998/2002	27	27		
8¾% Notes	2001	151	147		
7¾% Notes	1997	-	133		
9½% Notes	2000	181	177		
7½% Notes	2002	121	118		
6¾% Notes	2002	150			
6½% Notes	2004	450			
7.05% Notes	2007	150			
6¾% Bonds	2002	301			
Variable rate medium term notes	1998/1999	906		906	
Variable rate medium term notes	1998/2003	150		102	
Others	1998/2008	119	86	6	
		2,857	835	1,014	
German Marks (variable rate)	1998/2002	55		17	
Swiss francs (4½% to 6¾%)	1998/1999	-	65		
Other currencies	1998/2002	80	15	22	
Total unsecured		3,829	1,196	1,501	200
Total loans - excluding financial derivatives		3,930	1,432		
Financial derivatives		(5)	(15)		
Total loans		3,925	1,417	1,501	200

An analysis reflecting the effects of financial instruments on the Group's borrowings at 31 December 1997 is set out in note 39.

The following analysis reflects the effects of financial derivatives on the Group's borrowings at 31 December 1997.

	Before financial derivatives	After financial derivatives
	£m	£m
Sterling	837	865
US dollars and US dollar related currencies	2,888	2,001
Swiss francs	6	168
German marks and other EMS currencies	71	627
Japanese yen	37	100
Others	91	164
Fixed rate loans	3,930	3,925
Floating rate loans	2,471	1,764
	1,459	2,161
	3,930	3,925

The secured debt referred to in this note and the secured short-term borrowings referred to in note 18 were secured by property, plant and other assets with a net book value at 31 December 1997 of £1,499m.

New borrowings during the year were primarily used to fund the acquisition of the Speciality Chemicals businesses from Unilever Group on 8th July 1997.

20 Loans (continued)

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Loan maturities				
Bank loans				
Loans or instalments thereof are repayable				
After 5 years from balance sheet date	532	78		
From 2 to 5 years	447	224		
From 1 to 2 years	87	50		
Total due after more than one year	1,066	352		
Total due within one year	136	108		
	1,202	460	-	-
Other loans				
Loans or instalments thereof are repayable				
After 5 years from balance sheet date	781	475	212	200
From 2 to 5 years	674	360	51	-
From 1 to 2 years	454	(13)†	431	-
Total due after more than one year	1,909	822	694	200
Total due within one year	814	135	807	-
	2,723	957	1,501	200
Total loans				
Loans instalments thereof are repayable				
After 5 years from balance sheet date	1,313	553	212	200
From 4 to 5 years	641	205	-	-
From 3 to 4 years	219	244	24	-
From 2 to 3 years	261	135	27	-
From 1 to 2 years	541	37	431	-
Total due after more than one year	2,975	1,174	694	200
Total due within one year	950	243	807	-
Total loans	3,925	1,417	1,501	200
Aggregate amount of loans any instalment of which falls due after 5 years	1,553	715	212	200

† Gain arising from appreciation of sterling against the yen in respect of a cross-currency swap creating a yen liability.

21 Provisions for liabilities and charges

	At beginning of year	Profit and loss account	Net amounts paid or becoming current and disposals	Movements due to acquisitions	Exchange and other movements	At end of year
	£m	£m	£m	£m	£m	£m
Group						
Deferred taxation	104	30	-	19	(10)	143
Advance corporation tax recoverable	(64)	-	21	-	21	(22)
Unfunded pensions (note 37)	155	37	(6)	84	(9)	261
Employee benefits	203	23	(15)	38	-	249
Environmental provisions	95	1	(13)	23	(5)	101
Reorganisation and other provisions	264	356*	(92)	102	(20)	610
	757	447	(105)	266	(23)	1,342
Company						
Deferred taxation	70	23	-	-	-	93
Advance corporation tax recoverable	(43)	-	21	-	-	(22)
Other provisions	29	132	(17)	-	3	147
	56	155	4	-	3	218

* Includes £244m related to disposals announced in 1997 and £108m related to exceptional items included in arriving at net profit.

No provision has been released or applied for any purpose other than that for which it was established.

Under US GAAP provisions for liabilities and charges would be shown under other creditors (note 19).

22 Called-up share capital of parent company

	Authorised	Allotted, called-up and fully paid		
		1997	1996	1995
	£m	£m	£m	£m
Ordinary Shares (£1 each)	850	727	725	725

The number of Ordinary Shares issued during the year, wholly in respect of the exercise of options, totalled 1.1m (1996 0.7m; 1995 0.9m).

Movements in the number of shares under option during 1997 comprised new options 4.0m, options exercised 1.1m, and options lapsed or waived 0.7m. At the end of 1997 there were 4.8m shares available for the granting of options (1996 8.0m).

Employees' share option schemes

ICI operates a share option scheme for Directors and senior staff (Senior Staff Scheme) and another scheme for all UK employees meeting minimum service requirements (Sharesave Scheme). Under the Sharesave scheme the maximum number of shares made available for issue under option during a ten year period is 5 per cent of the Company's Ordinary Share Capital in issue on 21 March 1994. Shares required for the Senior Staff Scheme are purchased in the market by a trust.

The prices at which options under the Senior Staff Scheme are granted must not be less than the nominal value of an Ordinary Share nor less than the average of the middle market quotations of ICI Ordinary Shares 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.

Under the Sharesave Scheme the price at which options are granted must not be less than the greater of the nominal value of an Ordinary Share, or 80 per cent of the average market value of an Ordinary Share on the three dealing days preceding the day on which the offer of options is made. The total purchase cost in respect of options granted under the Sharesave Scheme in 1994 and 1995 is deducted from salary over a period of 5 years, and in respect of options granted in 1996 over a period of 3 or 5 years at the choice of the employee.

Options outstanding

At 31 December 1997 there were options outstanding in respect of 16.3m Ordinary Shares of £1 under the Company's Share Option Schemes for staff (1996 14.1m) normally exercisable in the period 1998 to 2007 (1997 to 2006) at subscription prices of £4.92 to £12.26 (£4.32 to £12.26). The weighted average subscription price of options outstanding at 31 December 1997 was £6.86.

At 4 February 1998 there were options outstanding in respect of 16.2 million Ordinary Shares of £1 normally exercisable in the period 1998 to 2007 (1997 to 2006) at subscription prices of £4.92 to £12.26 (£4.32 to £12.26). The weighted average subscription price of options outstanding at 4 February 1998 was £6.86.

Options granted to directors and officers are shown in the Remuneration Committee report on page 40.

23 Reserves							
	Share premium account	Retained earnings					Total
		Revaluation	Goodwill	Associated under- takings	Profit and loss account	Total	
	£m	£m	£m	£m	£m	£m	£m
Group							
Reserves attributable to parent company							
At beginning of 1995	569	37	(657)	60	3,003	2,443	3,012
Net profit (loss) for the financial year				(6)	541	535	535
Dividends (note 10)					(217)	(217)	(217)
Transfer of goodwill on disposals			12			12	12
Amounts taken direct to reserves							
Share premiums – share option schemes	4						4
Goodwill			(178)			(178)	(178)
Exchange adjustments		(1)		1	27	27	27
Share of other reserve movements of associated undertakings and other items				4		4	4
	4	(1)	(178)	5	27	(147)	(143)
At beginning of 1996	573	36	(823)	59	3,354	2,626	3,199
Net (loss) profit for this financial year				7	268	275	275
Dividends (note 10)					(232)	(232)	(232)
Transfer of goodwill on disposals			7			7	7
Amounts taken direct to reserves							
Share premiums – share option schemes	3						3
Goodwill			(184)			(184)	(184)
Exchange adjustments		(1)		3	(191)	(189)	(189)
Share of other reserve movements of associated undertakings and other items				2		2	2
	3	(1)	(184)	5	(191)	(371)	(368)
At beginning of 1997	576	35	(1,000)	71	3,199	2,305	2,881
Net (loss) profit for the financial year				(44)	303	259	259
Dividends (note 10)					(232)	(232)	(232)
Transfer of goodwill on disposals			32			32	32
Impairment of goodwill on future disposals			245			245	245
Amounts taken direct to reserves							
Share premiums – share option schemes	5						5
Goodwill			(3,516)			(3,516)	(3,516)
Exchange adjustments		(4)		(1)	(254)	(259)	(259)
Share of other reserve movements of associated undertakings and other items		(31)			35	4	4
	5	(35)	(3,516)	(1)	(219)	(3,771)	(3,766)
At end of 1997	581	-	(4,239)	26	3,051	(1,162)	(581)

In the Group accounts, £62m of net exchange gains on foreign currency loans (1996 gains £154m; 1995 losses £33m) have been offset in reserves against exchange losses (1996 losses; 1995 gains) on the net investment in overseas subsidiaries and associated undertakings.

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:

	1997	1996	1995
	£m	£m	£m
At beginning of year	29	218	191
Exchange adjustments	(259)	(189)	27
At end of year	(230)	29	218

The cumulative amount of negative goodwill included in the goodwill reserve is £1m at 31 December 1997 (1996 £14m; 1995 £14m).

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

23 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 £3,015m at 31 December 1997 (1996 £3,744m; 1995 £3,957m).

	Share premium account £m	Profit and loss account £m	1997 Total £m	1996 Total £m
Company				
Reserves				
At beginning of year	576	1,335	1,911	1,906
Net profit for year		(226)	(226)	255
Dividends		(232)	(232)	(232)
Amounts taken direct to reserves				
Share premiums	5		5	3
Exchange adjustments		(95)	(95)	(21)
	5	(95)	(90)	(18)
At end of year	581	782	1,363	1,911

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

24 Net cash inflow from operating activities

	1997 £m	1996 £m	1995 £m
Trading profit	418	528	900
Exceptional charges within trading profit	202	137	94
Trading profit before exceptional items	620	665	994
Depreciation	434	402	391
Stocks decrease (increase)	18	62	(203)
Debtors increase	(31)	(86)	(97)
Creditors (decrease) increase	(42)	93	105
Other movements, [including exchange]	(83)	(7)	87
	916	1,129	1,277
Outflow related to exceptional items	(159)	(123)	(86)
	757	1,006	1,191

Outflow related to exceptional items includes expenditure charged to exceptional provisions relating to business rationalisation and restructuring and for sale or closure of operations, including severance and other employee costs, plant demolition and site clearance. The major part of the 1997 expenditure relates to provisions raised in 1996.

25 Returns on investments and servicing of finance

	1997 £m	1996 £m	1995 £m
Dividends received from equity accounted associates	56	21	13
Other dividends received	16	2	3
Interest received	66	81	94
Interest paid	(272)	(179)	(163)
Dividends paid by subsidiary undertakings to minority shareholders	(37)	(47)	(41)
	(171)	(122)	(94)

26 Capital expenditure and financial investment

	1997 £m	1996 £m	1995 £m
Purchase of tangible fixed assets	(750)	(978)	(641)
Purchase of fixed asset investments other than associated undertakings or joint ventures	(23)		
Sale of tangible fixed assets	142	43	12
Sale of fixed asset investments other than associated undertakings or joint ventures	8	-	11
	(623)	(935)	(618)

27 Acquisitions

	Notes	Specialty Chemicals			Other	1997	1996
		Book value	Fair value adjustments		Fair value	Total	Total
		at acquisition	Revaluations	Alignment to Group accounting policies	Fair value	Fair value	Fair value
		£m	£m	£m	£m	£m	£m
Subsidiary undertakings and operations							
Tangible fixed assets	12	1,161	96	(5)	1,252	17	1,269
Intangible fixed assets		5	(1)	(4)	-	-	-
Investments in participating interests		11	6	-	17	-	17
Net current assets/liabilities		(134)	(16)	(12)	(162)	44	(118)
Creditors due after more than one year		(22)	(3)	1	(24)	-	(24)
Provisions for liabilities and charges		(200)	(205)	31	(374)	(1)	(375)
Minority interests					-	(2)	(2)
Fair value of net assets acquired		821	(123)	11	709	58	767
Goodwill acquired	23				3,470	46	3,516
Consideration for subsidiary undertakings and operations acquired					4,179*	104	4,283
Investments in participating interests						108	108
					4,179	212	4,391
Less							
Net borrowings (cash) included in undertakings acquired					39	(2)	37
Deferred consideration					(55)	(7)	(62)
Cash consideration					4,163	203	4,366
Comprising outflow arising on:							
current year's acquisitions						4,366	232
previous year's acquisitions						-	2
						4,366	234

* Comprises payments to vendor £4,134m and acquisition expenses £45m.

Specialty Chemicals

The Group acquired the Specialty Chemicals businesses of Unilever PLC and Unilever N.V. on 8 July 1997. The acquisition has been accounted for by the acquisition method of accounting. Given the size and the complexity of the acquisition the fair values currently established are provisional.

Fair value adjustments

The material fair value adjustments were determined as follows:

(a) Revaluations – Freehold land and buildings

Fair values have been based, wherever possible, on current market prices which reflect local factors and conditions. In other cases historic valuation figures have been used after the application of appropriate inflation or scaling factors. External property consultants have advised on local valuations.

(b) Revaluations – Plant and equipment

Where available, market prices for assets of similar age, type, and condition have been used to determine fair values. Alternatively, fair values have been derived from current replacement costs taking account of the revised remaining life of each asset. In other instances where current replacement costs are not ascertainable an indexed historical cost was used to simulate replacement cost. Where impairment of assets have been indicated, tests have been applied and, as appropriate, carrying values have been applied and, as appropriate, carrying values have been written down to recoverable amount.

(c) Revaluations – Provisions

Provisions for liabilities and charges of £205m, principally in respect of pension liabilities.

(d) Alignment to Group accounting policies

The accounting policies of the acquired companies have been brought into line with those of the ICI Group. The most significant adjustment relates to the change from full to partial provisions for deferred taxation in accordance with current UK Accounting Standards.

27 Acquisitions (continued)**Impact of acquisitions on cash flows**

Speciality Chemicals contributions to Group cash flow since the date of acquisition is summarised as follows:

Net cash inflow from operating activities	£m
Returns on investment and servicing of finance	241
Taxation	(4)
Capital expenditure and financial investment	(13)
Acquisitions and disposals	(71)
Cash inflow before use of liquid resources and financing	11
The post acquisition cash flows of other acquisitions were not material.	164

Unaudited information on Speciality Chemicals acquisition**Results**

The last financial statements of Speciality Chemicals were prepared for the year to 31 December 1996. The summarised profit and loss account and statement of total recognised gains and losses for Speciality Chemicals for the period from 1 January 1997 to 7 July 1997, the period prior to effective date of acquisition, and for the preceding year are set out below:

Unaudited summarised profit and loss account

	1 January to 7 July 1997	1996
	£m	£m
Turnover	1,467	3,007
Trading profit	166	361
Share of profits less losses of associated undertakings	1	2
Net interest payable*		(5)
Profit on ordinary activities before taxation	167	358
Tax on profit on ordinary activities	(67)	(142)
Profit on ordinary activities after taxation	100	216
Attributable to minorities	(2)	(2)
Net profit for the period	98	214

Unaudited statement of total recognised gains and losses

	1 January to 7 July 1997	1996
	£m	£m
Net profit for the period	98	214
Currency retranslation	-	(124)
Total recognised gains and losses for the period	98	90

*The net interest charge has been based on the net interest charge (or credit) incurred (or received) by individual operations on specific external borrowings or central financing by or with Unilever, or directly attributable to Speciality Chemicals based on an appropriate allocation of the interest charge or credit incurred by the Unilever Group business in the relevant country.

The following unaudited pro forma summary combines the consolidated results of the Group and Speciality Chemicals as if the acquisition of the latter had taken place at the beginning of 1996 and of 1997, after giving effect to certain adjustments, including increased interest expense on the acquisition debt and related income tax effects. The pro forma summary does not necessarily reflect the results of operations as they would have been if the Group and Speciality Chemicals had constituted a single entity during such periods.

	1997	1996
	£m	£m
Turnover	12,529	13,527
Net profit for the financial year	262	297
Earnings per £1 Ordinary Share	pence	pence
	36.1	40.9

Other acquisitions

During the year the Group has made no other material acquisitions where the fair values require to be disclosed or explained in line with FRS No 7 - Fair Values in Acquisition Accounting. The post acquisition cash flows of these were not material.

28 Disposals

	1997	1996
	£m	£m
Subsidiary undertakings and operations		
Tangible fixed assets	1,287	1
Net current assets/liabilities	139	42
Creditors due after more than one year	(138)	-
Provisions for liabilities and charges	(105)	-
Minority interests	(253)	-
Book value of net assets disposed	930	43
Disposal costs and provisions	333	6
Goodwill written back on disposal	32	7
Investments in participating interests	4	-
Repayment of loans	97	-
Profits less losses on disposals		
Trading activities	9	5
Exceptional items	771	19
	2,176	80
Less		
Cash included in undertakings disposed	(46)	(1)
Deferred consideration	(6)	(5)
Cash consideration	2,124	74
Comprising Inflow (outflow) arising on		
current year's disposals	2,134	73
previous year's disposals	(10)	1
	2,124	74

The cash consideration for disposals comprises £2,020m (1996 £53m) in respect of disposals of operations, £7m (1996 £21m) in respect of investments in participating interests and £97m (1996 £nil) in respect of repayment of fixed asset investment loans.

Impact of disposals on cash flows

The contribution to Group cash flow by ICI Australia Ltd, polyester polymer and intermediates, Forest products and UK Fertilisers business disposals from 1 January 1997 to their respective dates of disposal are summarised as follows:

	Discontinued businesses (specified above) £m
Net cash inflow from operating activities	147
Returns on investment and servicing of finance	(43)
Taxation	(39)
Capital expenditure and financial investment	(115)
Acquisitions and disposals	(7)
Cash outflow before use of liquid resources and financing	(57)

The cash flows of other disposals from 1 January 1997 to their respective dates of disposal were not material.

29 Management of liquid resources

	1997	1996	1995
	£m	£m	£m
Commercial paper	-	465	119
Bank deposits and certificates of deposit	(538)	156	2
Floating rate notes, medium term notes, treasury bills	45	62	138
Asset backed securities	66	23	(79)
Corporate bonds	66	13	28
Other	112	22	2
	(249)	741	210

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 17).

30 Financing

Notes	Financing – shares				Financing – debt			Total	
	Shares issued		Minorities*	Total	Loans	Short-term borrowings other than overdrafts	Finance leases		
	by Company								
	Share capital	Share premium							
	£m	£m	£m	£m	£m	£m	£m	£m	
At beginning of 1995	(724)	(569)	(109)	(1,402)	(1,703)	(56)	(53)	(1,812)	(3,214)
Exchange adjustments			4	4	(33)	(1)	2	(32)	(28)
Financing									
New finance	(1)	(4)	(12)	(17)	(24)	(141)		(165)	(182)
Finance repaid					195	85	41	321	321
Cash flow	(1)	(4)	(12)	(17)	171	(56)	41	156	139
Acquisitions and disposals			(32)	(32)	(25)	–	–	(25)	(57)
Other movements			1	1	7	–	–	7	8
At beginning of 1996	(725)	(573)	(148)	(1,446)	(1,583)	(113)	(10)	(1,706)	(3,152)
Exchange adjustments			8	8	154			154	162
Financing									
New finance	–	(3)	(46)	(49)	(327)	(198)		(525)	(574)
Finance repaid					408	163	4	575	575
Cash flow	–	(3)	(46)	(49)	81	(35)	4	50	1
Acquisitions and disposals			1	1	(69)	–	(1)	(70)	(69)
Other movements			3	3	–	–	(8)	(8)	(5)
At beginning of 1997	(725)	(576)	(182)	(1,483)	(1,417)	(148)	(15)	(1,580)	(3,063)
Exchange adjustments			15	15	63	29	–	92	107
Financing									
New finance	(2)	(5)	(2)	(9)	(5,614)	(5,267)		(10,881)†	(10,890)
Finance repaid					3,400	4,550	3	7,953	7,953
Cash flow	(2)	(5)	(2)	(9)	(2,214)	(717)	3	(2,928)	(2,937)
Acquisitions and disposals			94	94	(357)	(200)	1	(556)	(462)
Other movements			35	35	–	(11)	(5)	(16)	19
At end of 1997	(727)	(581)	(40)	(1,348)	(3,925)	(1,047)	(16)	(4,988)	(6,336)

* Share capital element of minority interests.

		Repayment dates	Currency	Rate %	Amount
					£m
† New finance	US dollar bonds	2002-2007	US\$	various	764
	Bank loan	1997	various	various	4,714
	Euro dollar bonds	1998-2007	GBP & US\$	various	1,547
	Euro dollar medium term notes	1999-2002	US\$	7.5-9.5	466
	US commercial paper	1997	US\$	various	3,108
	Speciality Chemicals debt acquired	1997	various	various	261
	Others				21
					10,881
ø Finance repaid	Guaranteed notes		US\$	7.6	138
	Bank loan		various	various	4,747
	US commercial paper		US\$	various	2,464
	Speciality Chemicals debt acquired		various	various	207
	Others				397
					7,953

31 Analysis of net debt

	Cash	Financing – debt				Current asset investments	Net debt
		Loans		Short-term borrowings	Finance leases	Total	
		Due after one year	Due within one year	other than overdrafts			
Notes	£m	£m	£m	£m	£m	£m	£m
At beginning of 1995	149	(1,522)	(181)	(56)	(53)	(1,812)	1,524
Exchange adjustments	9	(35)	2	(1)	2	(32)	(7)
Cash flow	112	(23)	194	(56)	41	156	(210)
Acquisitions and disposals		–	(25)	–	–	(25)	30
Other non-cash changes		248	(241)	–	–	7	–
At beginning of 1996	270	(1,332)	(251)	(113)	(10)	(1,706)	1,337
Exchange adjustments	(21)	114	40	–	–	154	(4)
Cash flow	54	(221)	302	(35)	4	50	(741)
Acquisitions and disposals		(4)	(65)	–	(1)	(70)	(32)
Other non-cash changes		269	(269)	–	(8)	(8)	–
At beginning of 1997	303	(1,174)	(243)	(148)	(15)	(1,580)	560
Exchange adjustments	(59)	63	–	29	–	92	8
Cash flow	27	(2,062)	(152)	(717)	3	(2,928)	249
Acquisitions and disposals		115	(472)	(200)	1	(556)	118
Other non-cash changes	11	83	(83)	(11)	(5)	(16)	–
At end of 1997	282	(2,975)	(950)	(1,047)	(16)	(4,988)	935

32 Cash and short-term borrowings

	Cash at bank	Short-term borrowings (note 18)			Net total	Cash (at bank and overdrafts)
		Overdrafts	Other	Total		
	£m	£m	£m	£m	£m	£m
At beginning of 1995	235	(86)	(56)	(142)	93	149
Exchange adjustments	9	–	(1)	(1)	8	9
Cash flow	92	20	(56)	(36)	56	112
At beginning of 1996	336	(66)	(113)	(179)	157	270
Exchange adjustments	(27)	6	–	6	(21)	(21)
Cash flow	32	22	(35)	(13)	19	54
At beginning of 1997	341	(38)	(148)	(186)	155	303
Exchange adjustments	(63)	4	29	33	(30)	(59)
Cash flow	62	(35)	(717)	(752)	(690)	27
Acquisitions and disposals	–	–	(200)	(200)	(200)	–
Other non-cash changes	–	11	(11)	–	–	11
At end of 1997	340	(58)	(1,047)	(1,105)	(765)	282

33 Statement of Group cash flow: Basis of preparation

The Statement of Group cash flow is prepared in accordance with UK Financial Reporting Standard 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 and borrowings repayable on demand without penalty. In the US the definition in SFAS No. 95 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 1995, 1996 and 1997 and the movements during the years ending on those dates were as follows.

	1997	1996	1995
	£m	£m	£m
Cash and cash equivalents			
Cash	340	341	336
Investments and short-term deposits which were within 3 months of maturity when acquired	263	314	650
	603	655	986
Change in the balance of cash and cash equivalents			
At beginning of year	655	986	1,176
Exchange adjustments	(98)	(40)	7
Cash outflow during year	(49)	(291)	(197)
Acquisitions and disposals	95	–	–
At end of year	603	655	986

The format of the UK statement employs some 8 headings compared with 3 in SFAS No. 95. The cash flows within the UK headings of "Operating activities", "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.

34 Leases

	Total rentals under operating leases, charged as an expense in the profit and loss account		
	Hire of plant and machinery	Other	Total
	£m	£m	£m
1997			
Ongoing operations	22	43	65
Operations to be discontinued	2	7	9
Discontinued operations	–	–	–
Total	24	50	74
1996			
Ongoing operations	29	34	63
Operations to be discontinued	2	9	11
Discontinued operations	12	11	23
Total	43	54	97
1995			
Ongoing operations	31	23	54
Operations to be discontinued	2	7	9
Discontinued operations	10	15	25
Total	43	45	88

34 Leases (continued)

	Land and buildings		Other assets	
	1997	1996	1997	1996
	£m	£m	£m	£m
Commitments under operating leases to pay rentals during the year following the year of these accounts, analysed according to the period in which each lease expires				
Expiring within 1 year	7	8	7	8
Expiring in years 2 to 5	22	23	21	22
Expiring thereafter	17	7	1	1
	46	38	29	31
	Operating leases		Finance leases	
	1997	1996	1997	1996
	£m	£m	£m	£m
Obligations under leases comprise				
Rentals due within 1 year	75	70	6	3
Rentals due after more than 1 year				
After 5 years from balance sheet date	152	53	3	4
From 4 to 5 years	27	19	1	1
From 3 to 4 years	37	28	1	2
From 2 to 3 years	48	40	2	2
From 1 to 2 years	60	52	3	3
	324	192	10	12
	399	262	16	15
Less amounts representing interest			-	-
Present value of net minimum lease payments			16	15
Less current lease obligations			(6)	(3)
Non current lease obligations			10	12

Obligations under finance leases are included in other creditors (note 19).

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

35 Employee costs

	Ongoing operations			Total		
	1997	1996	1995	1997	1996	1995
	£m	£m	£m	£m	£m	£m
Salaries	1,066	880	857	1,517	1,423	1,390
Social security costs	120	109	91	159	152	129
Pension costs	126	106	131	171	141	164
Other employment costs	39	44	40	43	54	53
	1,351	1,139	1,119	1,890	1,770	1,736
Less amounts allocated to capital and to provisions set up in previous years	(9)	(7)	(10)	(14)	(11)	(14)
Severance costs charged in arriving at profit before tax	53	77	56	76	101	69
Employee costs charged in arriving at profit before tax	1,395	1,209	1,165	1,952	1,860	1,791

The average number of people employed by the Group in 1997 was 69,500 (1996 64,000; 1995 64,800). Segmental analysis of employee numbers appears in note 4.

36 Post-retirement benefits other than pensions

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 1997 approximately 30,000 (1996 25,000) 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 1997 was £16m (1996 £14m; 1995 £17m) and the provision at the year end was £187m (1996 £150m).

	1997	1996	1995
	£m	£m	£m
The net periodic post-retirement benefit cost includes the following components:			
Service cost	5	3	4
Interest cost	11	11	13
Net periodic post-retirement benefit cost	16	14	17
	1997	1996	
	£m	£m	
The Group balance sheet includes the following components:			
Accumulated post-retirement benefit obligations:			
Retirees			
Fully eligible active plan participants	103	82	
Other active plan participants	32	21	
	58	35	
	193	138	
Unrecognised net gain	1	2	
	194	140	

In respect of the Group's major US plans for health care and life insurance benefits, the SFAS No.106 – 'Employers' Accounting for Post retirement benefits other than provisions', cost and provisions were determined on an actuarial basis using a discount rate of 7.1% (1996 7.7%). Health care cost rate increases range from 8.5% to 9.5% for 1997 (1996 8.5% to 9.5%) and are assumed to gradually decrease to 5.0% by the year 2005 and remain at that level thereafter. The dental care cost rate increase was 6.0% in 1997 (1996 6%) and is assumed to gradually decrease to 5.0% by the year 2040 and remain at that level thereafter.

The health care cost trend has a significant effect on the amounts reported. For the Group, increasing the assumed health care cost rates by one per cent in every year would increase the accumulated post-retirement benefit obligation at 31 December 1997 by £5m (1996 £8m) and the aggregate of the service and interest cost components of net periodic post-retirement benefit cost for the year ended 31 December 1997 by £3m (1996 £1m).

37 Pension costs**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 8.2% (1996 8.8%). The weighted average expected long-term rate of return on investments was 8.3% (1996 8.9%). The weighted average rate of increase of future earnings was 5.5% (1996 6.0%).

The actuarial value of the fund assets of these plans at the date of the latest actuarial valuations was sufficient to cover 93% (1996 94%) of the benefits that had accrued to members after allowing for expected future increases in earnings; their market value was £6,525m (1996 £6,281m).

The total pension cost for the Group for 1997 was £171m (1996 £141m). Accrued pension costs amounted to £38m (1996 £17m) and are included in other creditors (note 19); provisions for the benefit obligation of a small number of unfunded plans amounted to £261m (1996 £155m) and are included in provisions for liabilities and charges – unfunded pension (note 21). Prepaid pension costs amounting to £244m (1996 £183m) are included in debtors (note 16).

ICI Pension Fund

The ICI Pension Fund accounts for approximately 85% 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. In addition, the Company agreed to make accelerated contributions to the Fund over the subsequent six years. A Funding Review as at 31 March 1997 disclosed a solvency ratio on a current funding level basis, which assumes a cessation of operation, of 95%. The deficit of £261m in market value terms is planned to be eliminated by the year 2000. The solvency ratio, on an ongoing basis, is 92% and this 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.

37 Pension costs (continued)

Pensions (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. The actuarial liabilities of these plans comprise a substantial portion of the Group total.

The funded status of the Group's major retirement plans, covering both continuing and discontinued operations, under SFAS No.87 is as follows:

	1997		1996	
	Assets exceed accumulated benefits	Accumulated benefits exceed assets	Assets exceed accumulated benefits	Accumulated benefits exceed assets
	£m	£m	£m	£m
Actuarial present value of				
Vested benefit obligations	929	6,347	785	5,584
Accumulated benefit obligations	941	6,426	794	5,663
Projected benefit obligations	1,008	6,588	847	6,024
Plan assets at fair value	1,109	6,211	933	5,578
Projected benefit obligations (in excess of) or less than plan assets	101	(377)	86	(446)
Unrecognised net (gain) or loss	(20)	(18)	(7)	(68)
Prior service cost not yet recognised	(2)	178	(3)	221
Unrecognised net (asset) obligation on implementation	(8)	48	(60)	67
Adjustment to recognise minimum liability		7	-	(4)
(Pension liability) prepaid pension cost	71	(162)	16	(230)

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

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 main plan for SFAS No.87 purposes in the Group were as follows:

	1997	1996	1995
	%	%	%
Discount rate	7.0	7.9	8.2
Long-term rate of increase in remuneration	4.8	5.2	5.5
Expected long-term rate of return on assets	8.0	8.9	9.1

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

	1997	1996	1995
	£m	£m	£m
Service cost – present value of benefits earned during the year *	111	106	104
Interest cost on projected benefit obligations	523	518	540
Actual return on assets	(596)	(584)	(973)
Net amortisation and deferral	80	86	484
Net periodic pension cost	118	126	155

* The service cost for 1997 is net of £9m (1996 £9m; 1995 £9m) contributed by employees.

The above table excludes pension costs for 1997 of £53m (1996 £17m; 1995 £30m) in respect of minor retirement plans that have not been recalculated in accordance with the requirements of SFAS No.87.

38 Related party transactions

The following information is provided in accordance with Financial Reporting Standard No. 8 – Related Party Transactions as being material transactions with related parties during 1997.

Related party: IC Insurance Ltd and its subsidiaries disclosed as a principal associated undertaking on page 89.

Transactions: Insurance claims settled by IC Insurance Ltd with ICI amounted to £2m.

Related party: Phillips-Imperial Petroleum Ltd (PIP), disclosed as a principal associated undertaking on page 89.

Transactions: a) Sales of crude oil and refined products to PIP amounted to £190m.
b) Purchase of refined oil and refining costs from PIP amounted to £43m.
c) Site services and other charges to PIP amounted to £20m.

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

Transaction: Loans totalling Yen 5.0 billion have been provided to the joint venture by its parent companies under a five year floating rate committed facility (ICI's share Yen 2.5 billion (£11.6m)). These have been used to repay existing fixed rate loans.

39 Financial risk management**(a) 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 forward rate agreements to manage overall currency and interest rate risks. Forward rate agreements are used to hedge short-term (less than one year) interest rate exposure.

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 page 44.

There were no material gains/losses deferred at 31 December, 1997 (1996 nil).

The notional principal amounts and fair values of the Group's long-term debt net of associated hedges are as follows:

	Notional principal amounts		Carrying values*		Fair values*	
	At 31 December		At 31 December		At 31 December	
	1997	1996	1997	1996	1997	1996
	£m	£m	£m	£m	£m	£m
Loans	3,930	1,432	(3,930)	(1,432)	(4,049)	(1,513)
Currency swaps	941	87	5	15	27	17
Interest rate swaps	2,501	1,403	–	–	(34)	(23)
Interest rate caps	2,777	–	–	–	(20)	–
Forward rate agreements	–	597	–	–	–	–
Total	–	–	(3,925)	(1,417)	(4,076)	(1,519)

* () = liability

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

The total increase in the fair value of long-term debt net of associated hedges for the year ended 31 December 1997 of £2,557m arose from the net addition to loans (£2,571m), adverse movements on foreign exchange (£63m) and movements due to changes in fixed interest rates (£49m).

The Group does not match interest rate swaps and currency swaps with specific loans. 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. By adopting this approach the notional principal of interest rate swaps does not have a one-to-one relationship with the Group's underlying loans.

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 1997.

At 31 December 1997 the aggregate value of all financial instruments with a positive fair value (assets) was £27m for currency swaps, £13m for interest rate swaps, £30m for forward contracts, nil for forward rate agreements, nil for interest rate caps and nil for currency options.

39 Financial Risk Management (continued)**(b) Currency management**

The Group hedges its net transactional currency exposure arising on inventories, trade receivables and payables (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.

The Group uses forward rate agreements (up to one year) to manage the interest rate exposure created by forward foreign exchange contracts.

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 page 44.

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

	Notional principal amounts		Carrying values*		Fair values*	
	At 31 December		At 31 December		At 31 December	
	1997	1996	1997	1996	1997	1996
	£m	£m	£m	£m	£m	£m
Hedging working capital						
Forward contracts to buy currency	176	117	(5)	(2)	(5)	(2)
Forward contracts to sell currency	439	315	8	13	8	13
Hedging anticipated cash flows						
Forward contracts	16	116	-	-	-	5
Currency options	109	24	-	-	-	-
Hedging debt	874	-	14	-	14	-
Hedging current asset investments and short-term deposits						
Forward contracts	82	642	2	15	2	15

* () = liability

Quoted market prices are used to estimate fair values of currency hedging instruments.

(c) 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 Consolidated Balance Sheet value. Investments are classified as 'available for sale'.

At 31 December, 1997 current asset investments of £nil had contractual maturities between one and five years. All other current asset investments had contractual maturities less than one year. Over 68% of the Group's cash and short-term investments (£1,275m) is located in the UK.

The Group's exposure to credit risk is controlled by setting a policy for limiting credit exposure to counterparties, which is reviewed annually, and continuously 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 1997 was £4.7m (1996 £3.6m; 1995 £3.7m); fees paid to the auditor (and its associates) of the parent Company for services other than statutory audit supplied to the Group during 1997 totalled £11.4m (1996 £1.6m; 1995 £1.7m) of which £9.1m (1996 £0.8m) related to acquisition and divestment activities.

Included in debtors are interest free loans totalling £30,000 (1996 £50,000) to two officers (1996 one officer) of the Company.

41 Commitments and contingent liabilities

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Commitments for capital expenditure not provided for in these accounts (including acquisitions)				
Contracts placed for future expenditure	138	234	12	16
Expenditure authorised but not yet contracted	173	353	15	73
	311	587	27	89

Contingent liabilities existed at 31 December 1997 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 1997 (1996 £2m); the maximum contingent liability for the Company, mainly on guarantees of borrowing by subsidiaries, was £1,620m (1996 £984m).

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 1997 in accordance with the Group's accounting policy noted on page 45. 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.

The Glidden Company (Glidden), a wholly owned subsidiary, is a defendant, along with four former lead pigment manufacturers and a trade association, in a number of suits in the United States, several of which purport to be class actions, seeking damages for alleged personal injury caused by lead-based paint 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 City of New York in the Supreme Court of the State of New York seeking the removal of all lead-based paints from all buildings owned or managed by the City of New York and related entities. Purported class action suits on behalf of all children alleged to be affected by lead-based paints are pending in the state courts of Ohio and Louisiana, and in the federal court in New York, filed in August 1992, November 1995 and January 1996, respectively. Several personal injury suits are also pending in state courts, two in New York and one each in Maryland, Pennsylvania and West Virginia, filed in November 1993, March 1996, December 1994, March 1992 and October 1996 respectively. Although none are currently pending, several US State legislatures have considered bills 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 intends to continue to deny all liability and to defend all actions vigorously.

In 1995 ICI Explosives USA Inc. and a former employee each admitted to a single offence in breach of US antitrust laws relating to the sale of certain commercial explosives between 1988 and 1992 and, as a result ICI Explosives USA Inc. paid a fine of US\$10m. Subsequently, ICI Explosives USA Inc. has been named as a defendant in a number of lawsuits including eleven proposed class action lawsuits, by parties claiming unquantified damages from a number of explosives companies in the United States. The Company and ICI Canada Inc. have also been named as parties in, respectively, two and three of the non-class action lawsuits. The eleven Federal Court class action suits and seven Federal Court non-class action suits have been consolidated before the Federal Court in Salt Lake City, Utah. The single state court case will not be prosecuted as a class action. In September 1996 ICI Explosives USA Inc settled the class action lawsuits for US\$18m, payable over three years. Actions arising from the violation of US antitrust laws, if established, can result in the payment of substantial penalties and damages.

The Company, as well as several other ICI companies have been named as defendants in lawsuits, including proposed class action lawsuit, relating to the bombing of the A P Murrah Building in Oklahoma City, Oklahoma. The lawsuits allege, inter alia, that the ICI companies were negligent in relation to the sale, through a distributor, of fertiliser allegedly used to prepare the bomb, to a farmers' co-operative in Kansas. Lawsuits were commenced on 10 May 1995 in the US District, Western District of Oklahoma, on 15 May 1995 in the District Court, 134th Judicial District, Dallas County, Texas and on 23 August 1995 in the District Court, Oklahoma County, Oklahoma. The US District Court granted ICI's motion to dismiss the complaint, holding that the ICI companies have no case to answer. Judgement to this effect was entered on 18 November 1996. The judgement has been appealed to the United States Court of Appeals for the Tenth Circuit. The parties' oral arguments were heard by the US Court of Appeals on 22 January 1998, and the appeal should be decided in 1998. Concurrently with the US District Court's dismissal, the plaintiffs in the Oklahoma state court case voluntarily stayed their case pending the outcome of the appeal to the U.S. Court of Appeals. Similarly, the plaintiffs in the Texas state court action have voluntarily non-suited their action, without prejudice. On 18 April 1997, three additional actions were filed in the District Court, Oklahoma County, Oklahoma, and on 21 April 1997 another action was filed in the District Court, Oklahoma County, Oklahoma. Two of those actions were removed to the US District Court, Western District of Oklahoma and the plaintiffs voluntarily stayed both actions pending the outcome of the appeal before the US Court of Appeals and agreed to dismiss their claims if that federal District Court's dismissal of the earlier lawsuit against the ICI companies is upheld on appeal by the U.S. Court of Appeals. In the two remaining 1997 Oklahoma state court actions, the plaintiffs in one case non-suited their action, without prejudice, and ICI has moved to stay all proceedings in the other case pending the outcome of the appeal to the U.S. Court of Appeals in the earlier lawsuit. The ICI companies concerned in the actions have strong defences, have denied all liability and will vigorously contest any appeal or further court proceedings in this matter.

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 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. These and other guarantees and contingencies arising in the ordinary course of business, for which no security has been given, are not expected to result in any material financial loss.

The Group's 50% interest in Teesside Gas Transportation Ltd (TGT) was sold, during 1996, to its other shareholders, 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 Imperial Chemical Industries PLC (Company) and Enron (the present value of the commitment guaranteed by the Company is estimated at £177m). The Company received the benefit of a counter guarantee from Enron's parent, Enron Corp.

Significant take-or-pay contracts entered into by subsidiaries are as follows:

- (i) the purchase of electric power which commenced April 1993 for 15 years. The present value of the remaining commitment is estimated at £688m.
- (ii) the purchase of electric power, which will commence in the second quarter of 1998, for 15 years. The present value of this commitment is estimated at £141m.

42 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 four significant differences between the UK GAAP and US GAAP in accounting for pension costs:

- i) SFAS No. 87, Employers' Accounting for Pensions, requires that 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.
- 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.

b) *Purchase accounting adjustments, including the amortisation and impairment of goodwill and intangibles*

In the Group financial statements, goodwill arising on acquisitions accounted for under the purchase method has been eliminated against retained earnings. Values are 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 shareholder's equity is then charged in the income statement against the income or loss on disposal or closure. Under US GAAP 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 accounting standard in the UK regarding the capitalisation of 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*

US GAAP requires a number of specific criteria to be met before restructuring costs can be recognised as an expense. Among these criteria is the requirement that all the significant actions arising from the restructuring plan and their completion dates must be identified by the balance sheet date. Under UK GAAP, when a decision has been taken to restructure, the necessary provisions are made for impairment of asset values together with severance and other costs. Accordingly, timing differences, between UK GAAP and US GAAP, arise on the 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 investment in any particular currency then the exchange differences arising are included in the income statement.

f) *Deferred taxation*

Deferred taxation is provided on a full provision basis under US GAAP; 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.

For US GAAP reporting, the Group adopted from 1 January 1993 SFAS No. 109 "Accounting for Income Taxes" in respect of deferred taxation (Note 9).

g) *Newly adopted US accounting principles*

SFAS No. 123, "Accounting for stock-based compensation", has been adopted by the Group in respect of the year ending 31 December 1995 as required by the statement. It requires equity instruments used in compensation plans to be valued at fair value and establishes new financial accounting and reporting requirements. Under UK GAAP, new equity is valued at the issue price (which, in the case of employee share options, is the exercise price).

The effect of adopting SFAS No. 123 on the net income of the years ending 31 December 1995, 1996 and 1997 was not material.

Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share (EPS), was issued in February 1997 and is effective for financial periods ending after 15 December, 1997. This statement simplifies the standards for computing earnings per share previously found in APB Opinion No. 15, Earnings Per Share, and makes them more comparable to international EPS standards. SFAS No. 128 replaces the presentation of primary EPS with a presentation of basic EPS. In addition, the statement requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation.

42 Differences between UK and US GAAP (continued)**h) New US Accounting Standards and pronouncements not yet effective**

Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income, was issued in June 1997 and is effective for fiscal years beginning after 15 December 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. It requires that all items that are required to be recognised under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. It requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The Company has not yet evaluated the likely impact on its financial statements.

Statement of Financial Accounting Standards (SFAS) No. 131, Disclosure about Segments of an Enterprise and Related Information, was issued in June 1997 and is effective for fiscal years beginning after 15 December 1997. In the initial year of application, comparative information for earlier years is to be restated. It requires that companies disclose segment data based on how management makes decisions about allocating resources to segments and measuring their performance. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenues and its major customers. The Company has not yet evaluated the likely impact on the level of disclosure provided.

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.

	1997	1996	1995
	£m	£m	£m
Net income - UK GAAP after exceptional items	259	275	535
Continuing operations	(420)	164	286
Discontinued operations	679	111	249
Adjustments to conform with US GAAP			
Pension expense	(41)	(5)	(12)
Purchase accounting adjustments			
Amortisation of goodwill and intangibles	(83)	(25)	(16)
Disposals and other adjustments	112	5	(88)
Other disposal adjustments	(114)	—	—
Capitalisation of interest less amortisation and disposals	(113)	28	(11)
Restructuring costs	50	2	10
Foreign exchange	12	73	(46)
Deferred taxation			
Arising on UK GAAP results	(12)	(29)	(15)
Arising on other US GAAP adjustments	54	10	16
Others	17	2	—
Total US GAAP adjustments	(118)	61	(162)
Net income - US GAAP	141	336	373
Continuing operations	169	207	174
Discontinued operations	(28)	129	199
Basic and diluted net earnings per Ordinary Share in accordance with US GAAP	pence	pence	pence
Continuing operations	19.4	46.3	51.5
Discontinued operations	23.2	28.5	21.0
	(3.8)	17.8	30.5

The effect on earnings per £1 Ordinary Share of the exercise of all outstanding options (note 22) 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. Under APB 30 requirement, the UK GAAP segments of Discontinued, Operations to be discontinued and Industrial Chemicals are classified as Discontinued for US GAAP purposes.

For the purposes of segmental disclosures under UK GAAP, reference should be made to page 50 where there is a description of each class of business.

42 Differences between UK and US GAAP (continued)

	1997	1996
	£m	£m
Shareholders' equity, as shown in the Group Balance Sheets - UK GAAP	146	3,606
Adjustments to conform with US GAAP		
Purchase accounting adjustments, including goodwill and intangibles	3,985	638
Disposal accounting adjustments	33	-
Deferred consideration	-	6
Capitalisation of interest less amortisation and disposals	152	266
Restructuring provision	97	13
Pension expense	(281)	(254)
Deferred taxation	(156)	(59)
Other	(19)	(54)
Total US GAAP adjustments	3,811	556
Total shareholders' equity in accordance with US GAAP	3,957	4,162

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.

Schedule II

43 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
1995					
Allowance for doubtful accounts	51	16	28	(24)	71
Allowance for losses (deducted from investments)	11	-	(2)	(3)	6
	62	16	26	(27)	77
1996					
Allowance for doubtful accounts	71	15	3	(19)	70
Allowance for losses (deducted from investments)	6	1	(1)	(2)	4
	77	16	2	(21)	74
1997					
Allowance for doubtful accounts	70	18	-	(17)	71
Allowance for losses (deducted from investments)	4	-	-	(4)	-
	74	18	-	(21)	71

	Class of capital	Held by ICI %	Principal activities
UNITED KINGDOM			
ICI Chemicals & Polymers Ltd England	Ordinary	100†	Manufacture of petrochemicals, halochemicals, surfactants, catalysts and other chemicals; merchanting of ICI and other products
ICI Finance PLC England	Ordinary	100†	Financial services
Quest International Flavours, Food Ingredients and Fragrances UK Ltd England	Ordinary	100†	Manufacture of flavours and fragrances
Tioxide Group Ltd England	Ordinary	100†	Manufacture of titanium dioxide pigments
CONTINENTAL EUROPE			
Deutsche ICI GmbH Germany	Ordinary	100†	Manufacture of chlorine, caustic soda, paints, acrylics and polyurethanes; merchanting of other ICI products
ICI France SA France	Ordinary	100†	Manufacture of paints and acrylics, toll conversion of lubricants and chlorchemicals; merchanting of other ICI products
ICI Holland BV The Netherlands	Ordinary	100†	Manufacture of bulk and specialty plastics, films, and polyester polymers and polyurethane chemicals; merchanting of other ICI products
THE AMERICAS			
ICI American Holdings Inc USA	Common	100†	Manufacture of films, polyurethanes and chemicals; merchanting of other ICI products
ICI Acrylics Inc USA	Ordinary	100†	Manufacture of acrylics
The Glidden Company USA	Ordinary	100†	Manufacture of paints
Indopco Inc USA	Ordinary	100†	Manufacture of adhesives, industrial starches, food ingredients and flavourings, fragrances, oleochemicals, resins and specialty chemicals
ICI Canada Inc Canada	Common Preference	100†	Manufacture of industrial explosives and initiating systems and paints; merchanting of ICI and other products
Tintas Coral Ltda Brazil	Ordinary	100†	Manufacture of paints
ASIA PACIFIC			
ICI China Ltd Hong Kong and China	Ordinary	100†	Merchanting of ICI and other products
ICI India Ltd India (Accounting date 31 March; reporting date 31 December)	Equity*	51	Manufacture of industrial explosives, paints, pharmaceuticals, polyurethanes, catalysts, rubber chemicals and surfactants
ICI Japan Ltd Japan	Ordinary	100†	Manufacture of polyester films and acrylics compounds; merchanting of ICI and other products
ICI Pakistan Ltd Pakistan	Ordinary*	61†	Manufacture of polyester staple fibre, soda ash, paints, specialty chemicals, formulation of agrochemicals and polyurethanes; marketing of toll manufactured and imported pharmaceuticals and animal health products; merchanting of general chemicals

* 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 and associated undertakings at 31 December will be annexed to the next annual return of the Company to be filed with the Registrar of Companies.

	Issued share and loan capital at date of latest available audited accounts	Held by ICI	Principal activities
	Class of capital	£m	%
IC Insurance Ltd England	Ordinary	58	49†
Louisiana Pigment Company, LP USA	Partnership		50†
Phillips-Imperial Petroleum Ltd England	Ordinary Loan	— 17	50† —
			Refining crude oil and marketing petroleum products

† Held by subsidiaries

The accounting and reporting date of principal associated undertakings is 31 December.

The country of registration or incorporation is stated below each company. The principal operations of IC Insurance Ltd and Phillips-Imperial Petroleum Ltd are carried out in the UK and those of Louisiana Pigment Company, LP in the USA.

The principal place of business of Louisiana Pigment Company, LP (LPC) is 3300 Bayou d'Inde Road, Westlake, Louisiana 70669-9438, USA. The Group's share of the results of LPC is proportionately consolidated in the Group profit and loss account and balance sheet. LPC is managed through a supervisory committee on which the Group and the Group's joint venture partner, NL Kronos, are represented.

Sources and disposal of value added (unaudited) for the year ended 31 December 1997

	Notes	1997 £m	1996 £m	1995 £m
Sources of income				
Turnover	5	11,062	10,520	10,269
Royalties and other trading income	5	68	98	84
Less materials and services		(8,335)	(7,820)	(7,271)
Value added by manufacturing and trading activities		2,795	2,798	3,082
Share of profits less losses of associated undertakings	7	16	27	18
Value added related to exceptional items taken below trading profit		670	32	84
Total value added		3,481	2,857	3,184
Disposal of total value added				
Employees				
Employee costs charged in arriving at profit before tax	35	1,952	1,860	1,791
Governments				
Corporate taxes	9	210	158	308
Less grants	5	(9)	(6)	(7)
		201	152	301
Providers of capital				
Interest cost of net borrowings	8	251	89	61
Dividends to shareholders	10	232	232	217
Minority shareholders in subsidiary undertakings		49	65	84
		532	386	362
Re-investment in the business				
Depreciation	12	769	416	412
Profit (loss) retained	23	27	43	318
		796	459	730
Total disposal		3,481	2,857	3,184

This table is based on the audited accounts; it shows the total value added to the cost of materials and services purchased from outside the Group and indicates the ways in which this increase in value has been disposed.

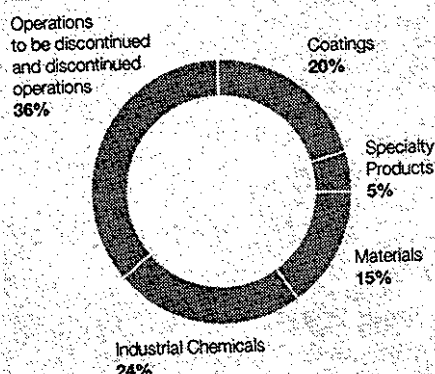


Imperial Chemical Industries PLC

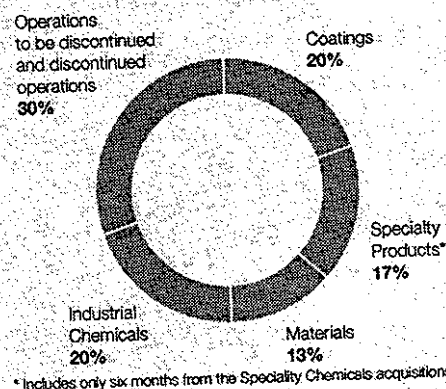
Summary financial statement

For the year ended 31 December 1997

Turnover by business sector - 1996



Turnover by business sector - 1997



Economic background

The world's economy grew at a respectable 3.8% in 1997. Improvements in Europe and America were however offset by a sharp slowing in Asia Pacific. This deceleration occurred in the second half year as a direct result of the turbulence in the region. After a buoyant first half, chemical production flattened, but still rose by over 4% on average. Chemical prices broadly remained flat in North America and the UK but improved a little in Japan and Europe, after the falls of 1996.

Group turnover and profit

The tough market conditions experienced in 1996 continued in 1997, particularly for commodity chemicals and this was exacerbated by the strength of sterling. Against this background, the Group's sales at £11,062m increased by 5% from the previous year with acquisitions (net of divestments) contributing 11% and volume growth adding 3%. The strength of sterling reduced Group turnover by some 7% and the effect of continuing price pressure in commodity chemicals caused average prices for the Group to fall by 2%.

Sales by geographic area were up 18% in the Americas, 10% in Continental Europe and 7% in Asia Pacific, demonstrating the increased international spread of ICI's portfolio following the mid-year Specialty Chemicals acquisitions. UK volumes were down 6% and Australasian sales were affected by divestments.

Trading profit before exceptional items was £620m, down 7% from 1996. Results were adversely affected by the strength of sterling by some £190m. The newly acquired Specialty Products businesses contributed £180m to trading profit in the second half year.

Trading profit in Coatings was a record £160m. The new Specialty Products businesses produced second half results in line with expectations and, whilst they were not part of the Group in 1996, total profits from these businesses were ahead of the same period last year. The Materials Businesses had a more difficult year and were affected by price pressures and the

strong pound, though volumes grew well in most markets and profits were on an improving trend during 1997, with the final quarter results ahead of the same period in 1996.

Profits in commodity chemicals were significantly lower. Industrial Chemicals recorded losses of £20m, down from 1996 profits of £80m. Profits reported for businesses to be discontinued and discontinued operations were almost £120m lower than 1996. The commodity businesses have suffered from further margin erosion since 1996 and the effect of the strong pound. Many of these businesses have either been sold, or are in the process of being sold.

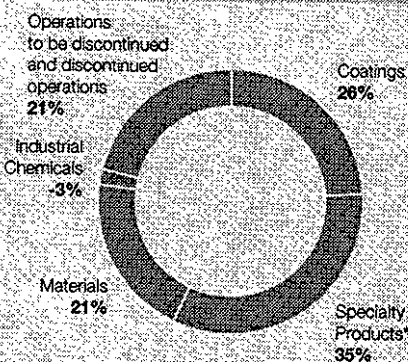
Exceptional items charged at the trading profit level amounted to £202m. These include rationalisation measures in Industrial Chemicals (£41m) and Specialty Products (£61m), and a write down of £100m of the fixed assets of the Chlorochemicals operations in Industrial Chemicals as a result of its continuing losses.

Income from associated companies of £16m, includes ICI's share of profit of its principal investments, of which the largest contributors were IC Insurance Ltd, Phillips - Imperial Petroleum Ltd and Irish Fertilizer Industries Ltd (IFI). Income is down from £27m in 1996 mainly due to the effect of a weaker fertiliser market on IFI's results.

Profits less losses on the sale of businesses arising from the divestment programme totalled £331m. This included gains on the sale of the ICI shareholding in ICI Australia (£480m), PTA and PET businesses (£136m), Forest Products (£66m) and Fertilisers (£95m). Also included are losses on the announced sales of TiOxide (£302m) and Explosives (£132m), both of which are expected to be completed in 1998.

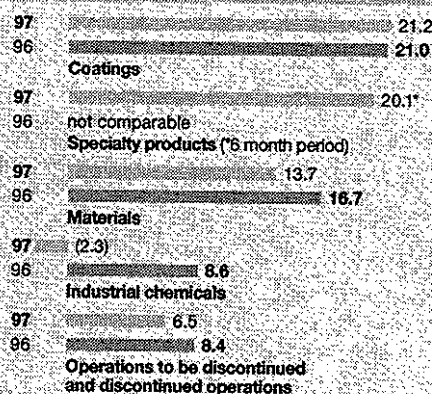
The net interest charge of £282m is significantly higher than 1996, reflecting the increased debt required to finance the Specialty Chemicals acquisition. It includes an exceptional cost of £31m associated with the initial financing of the acquisition.

Trading profit before exceptional items
by business sector - 1997



* Includes only six months from the Specialty Chemicals acquisitions

Return on average net assets %
(Trading profit as % of net operating assets)



The taxation charge on profits before exceptional items represents a rate of 25%, down from the more normal 1996 rate of 31%, and reflects a number of non-recurring benefits.

Earnings and dividends

Profits after taxation, including exceptional items was £308m, a 9% reduction on the previous year. Profits attributable to minorities were down by 25%, reflecting the mid-year sale of the shareholding in ICI Australia.

Earnings per share before exceptional items fell by 32% to 33.0p and after exceptional items by 6% to 35.6p.

The Board signalled, with the unaltered interim dividend, that it would not be appropriate to raise the dividend during a year of such major reshaping. The Board has decided that the second interim dividend will therefore also be unchanged at 19.5p per £1 Ordinary Share, making a total dividend for 1997 of 32.0p. Dividend cover in 1997 before exceptional items is 1.0 and 1.1 after exceptional items.

Productivity

The Group has set a financial objective of achieving an aggregate pre-tax return on net assets (RONA) of 20% on average through the trade cycle. The weakness in commodity chemical prices which had caused the fall in Group RONA from 18.4% in 1995 to 11.5% in 1996 continued and, together with the strength of sterling in 1997 offset the improvement in earnings from the rest of the portfolio. RONA in 1997 was 10.9%. The RONA in ICI's lighter end businesses (Coatings, Specialty Products and Materials) however rose to 19%, from 18% in 1996.

Sales volume per employee rose 7% in 1997. The average growth in sales volume per employee since demerger has been 8%. The Group's value opportunity programme, which started in 1995, targeted savings at over £400m by 1997. The results of the programme have exceeded its original objectives.

Cash flow

Cash inflow from operating activities at £757m was down 25% compared to the previous year principally due to a reduction in trading profits of £45m and an increase in working capital of £124m. This decrease was matched by a reduction in capital expenditure of £312m. Net capital expenditure was £623m in 1997 and includes the proceeds received on the sale and leaseback of the Group headquarters building.

Interest payments and dividends to outside shareholders less dividend income received at £171m was £49m higher than 1996. This reflected the increased interest charge on the debt taken out to finance the acquisition of the Specialty Chemicals businesses. This was partly offset by an increase in dividends received from associates. Taxation payments have decreased by £99m due principally to lower taxable profits.

Acquisitions amounted to £4,366m of which £4,163m related to the purchase of the Specialty Chemicals businesses. The total purchase price of the Specialty Chemicals businesses comprised this amount plus £610m of assumed debt reported as an increase in debt.

Disposals amounting to £2,124m included £902m from the sale of shares in ICI Australia Ltd., £711m from the disposal of the polyester polymer and intermediates businesses, £200m from the sale of the UK fertilizers business, £142 million from the sale of the Canadian Forest Products business and £97m from the repayment of a loan by ICI Australia Ltd.

Current assets investments of £249m were purchased during the year as short term investments from proceeds received on disposal. The cash inflow from financing of £2,937m is primarily due to the increase in short-term borrowings (£717m) and loans (£2,214m) to fund the acquisition of the Specialty Chemicals business.

Basis of presentation

Trading results have been analysed between the Group's ongoing operations; discontinued operations (significant businesses sold as at 11 February 1998) and operations to be discontinued (significant businesses where the sale has been announced as at 11 February 1998 and the sale is expected to complete in the near future).

1996				
Continuing operations			Discontinued operations	Total
Ongoing operations	Operations to be discontinued	Exceptional items		
£m	£m	£m	£m	£m
6,694	964		2,862	10,520
413	9	(137)	243	528
27				27
		1		1
		31		31
440	9	(105)	243	587
(73)	(3)		(13)	(89)
367	6	(105)	230	498
(111)	(2)	29	(74)	(158)
256	4	(76)	156	340
(20)	1	(1)	(45)	(65)
236	5	(77)	111	275
				(232)
				43
32.6p	0.7p	(10.7)p	15.3p	37.9p

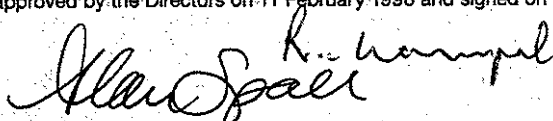
Summary Group balance sheet
at 31 December 1997

	Notes	1997 £m	1996 £m
Assets employed			
Fixed assets		4,210	4,629
Current assets		5,051	4,422
Total assets		9,261	9,051
Creditors due within one year		(4,638)	(2,952)
Net current assets		413	1,470
Total assets less current liabilities		4,623	6,099
Financed by			
Creditors due after more than one year		3,042	1,246
Provisions for liabilities and charges		1,342	757
Deferred income: Grants not yet credited to profit		14	20
Interests of outside shareholders in subsidiaries – equity		79	470
Shareholders' funds – equity			
Called-up share capital		727	725
Reserves		(581)	2,881
Total shareholders' funds	4	146	3,606
		4,623	6,099

This Summary Financial Statement was approved by the Directors on 11 February 1998 and signed on their behalf by:

Sir Ronald Hampel Director

A G Spall Director



Summary Group profit and loss account

for the year ended 31 December 1997

	Notes	1997			
		Continuing operations		Discontinued operations	Total
		Ongoing operations	Operations to be discontinued	Exceptional items	
		£m	£m	£m	£m
Turnover	1	7,731	984		11,062
<i>Including acquisitions</i>		1,402			1,402
Trading profit (loss)	1	485	(26)	(202)	418
<i>Including acquisitions</i>		180		(34)	146
Share of profits/less losses of associated undertakings		16			16
Profits/less losses on sale or closure of operations				(446)	331
Profits/less losses on disposals of fixed assets				35	35
Profit (loss) before interest		501	(26)	(613)	800
Net interest payable		(212)	(7)	(31)	(282)
Profit (loss) before taxation		289	(33)	(644)	518
Taxation		(53)	7	28	(210)
Profit (loss) after taxation		236	(26)	(616)	308
Attributable to outside shareholders		(14)		(35)	(49)
Earnings (loss) for the financial year		222	(26)	(616)	259
Dividends	2				(232)
Earnings retained for the year					27
Earnings (loss) per £1 Ordinary Share	3	30.5p	(3.6)p	(64.7)p	93.4p
					35.6p

Note: Directors' remuneration is set out in note 5 to these financial statements.

Summary Group cash flow

for the year ended 31 December 1997

	1997	1996
	£m	£m
Net cash inflow from operating activities	757	1,006
Interest payments and dividends to outside shareholders, less dividend income	(171)	(122)
Taxation	(151)	(250)
Capital expenditure	(623)	(935)
Acquisitions	(188)	(301)
Disposals	(4,366)	(234)
Dividends paid	2,124	74
Cash outflow before use of liquid resources and financing	(231)	(225)
Management of liquid resources	(2,661)	(686)
Financing	(249)	741
Increase in cash	2,937	(1)
	27	54

Notes relating to the summary financial statements

1 Segment information

	Turnover		Trading profit before exceptional items		Profit before interest and taxation after exceptional items		Total assets less current liabilities	
	1997	1996	1997	1996	1997	1996	1997	1996
	£m	£m	£m	£m	£m	£m	£m	£m
Classes of business								
Continuing operations								
Ongoing operations								
Coatings	2,170	2,161	160	147	166	103	783	724
Specialty Products	1,934	546	215	28	155	28	1,946	189
Materials	1,490	1,583	130	158	134	130	964	928
Industrial Chemicals	2,563	2,894	(20)	80	(189)	59	763	963
Inter-class eliminations	(183)	(211)						
	7,974	6,973	485	413	266	320	4,456	2,804
Sales to operations to be discontinued and to discontinued operations	(243)	(279)						
	7,731	6,694						
Operations to be discontinued								
Total	1,052	1,052	(26)	9	(420)	(3)	867	1,071
Sales to continuing operations and to discontinued operations	(68)	(88)						
	984	964						
Discontinued operations								
Total	2,439	2,954	161	243	938	243	209	1,993
Sales to continuing operations and to operations to be discontinued	(92)	(92)						
	2,347	2,862						
Share of profits less losses of associated undertakings					16	27		
Net operating assets							5,532	5,868
Net non-operating assets							(909)	231
	11,062	10,520	620	665	800	587	4,623	6,099

Turnover by
customer
locationNet
operating
assets

1997 1996 1997 1996
£m £m £m £m

Geographic areas**Continuing operations**

Ongoing operations				
United Kingdom	1,761	1,763	1,415	1,136
Continental Europe	1,803	1,509	722	343
The Americas	2,844	2,347	1,770	917
Asia Pacific	1,004	816	528	278
Other countries	319	259	21	130
	7,731	6,694	4,456	2,804
Operations to be discontinued	984	964	867	1,071
Discontinued operations	2,347	2,862	209	1,993
	11,062	10,520	5,532	5,868

Dividends	1997	1996	1997	1996
	pence per £1	pence per £1		
	Ordinary	Ordinary		
	Share	Share	£m	£m
Interim paid 6 October 1997	12.5p	12.5p	91	91
Second interim, to be confirmed as final, payable 20 April 1998	19.5p	19.5p	141	141
	32.0p	32.0p	232	232

Earnings (loss) per £1 Ordinary Share

	1997	1996
Earnings (loss) per £1 Ordinary Share - before exceptional items	33.0p	48.6p
- after exceptional items	35.6p	37.9p

Movements in shareholders' funds during the year

	1997	1996
	£m	£m
Shareholders' funds at beginning of year	3,606	3,924
Movements in funds during the year		
Earnings after dividends	27	43
Goodwill purchased and charged to reserves, less goodwill previously charged on businesses disposed of in year	(3,239)	(177)
Change in value in overseas net assets due to exchange movements	(259)	(189)
Other items	4	2
Value attributed to new shares issued	7	3
	(3,460)	(318)
Shareholders' funds at end of the year	146	3,606

Directors' remuneration

Directors' remuneration comprised the following

	1997	1996
	£000	£000
Aggregate emoluments	2,081	1,830
Gains on exercise of share options during the year	125	101
Contribution to defined contribution pension scheme	150	125

Full details of directors' remuneration are included in the Chairman's letter to shareholders dated 2 March 1998.

Auditor's Report

The Auditor's Report on the full accounts for the year ended 1997, which includes the tables in the Remuneration Report (included in the letter to Shareholders dated 2 March 1998) was unqualified and did not include a statement under Sections 237(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 237(3) (failure to obtain necessary information and explanations) of the Companies Act 1985.

Auditor's statement

to the members of Imperial Chemical Industries PLC

We have examined the Summary Financial Statements on pages 22 to 27.

Respective responsibilities of the Directors and auditors

The Summary Financial Statement is the responsibility of the Directors. Our responsibility is to report to you on its preparation and consistency with the full financial statements and Directors' Report.

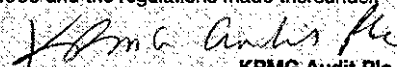
Basis of opinion

We conducted our examination in accordance with guidelines issued by the Auditing Practices Board and carried out such procedures as we considered necessary to support our opinion. Our report on the Group's full annual accounts describes the basis of our audit opinion on those accounts.

Opinion

In our opinion the Summary Financial Statement is consistent with the Annual Accounts and Directors' Report of Imperial Chemical Industries PLC for the year ended 31 December 1997 and complies with the requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

London
11 February 1998


KPMG Audit Plc
Chartered Accountants
Registered Auditor

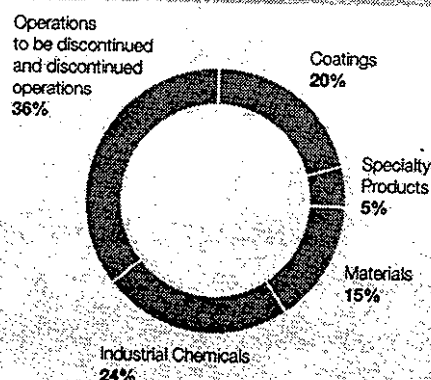


Imperial Chemical Industries PLC

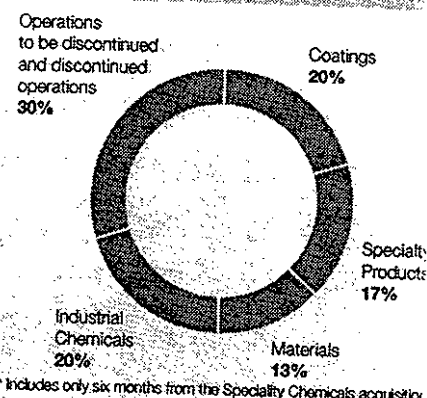
Summary financial statement

For the year ended 31 December 1997

Turnover by business sector - 1996



Turnover by business sector - 1997



Economic background

The world's economy grew at a respectable 3.8% in 1997. Improvements in Europe and America were however offset by a sharp slowing in Asia Pacific. This deceleration occurred in the second half year as a direct result of the turbulence in the region. After a buoyant first half, chemical production flattened, but still rose by over 4% on average. Chemical prices broadly remained flat in North America and the UK but improved a little in Japan and Europe, after the falls of 1996.

Group turnover and profit

The tough market conditions experienced in 1996 continued in 1997, particularly for commodity chemicals and this was exacerbated by the strength of sterling. Against this background, the Group's sales at £11,062m increased by 5% from the previous year with acquisitions (net of divestments) contributing 11% and volume growth adding 3%. The strength of sterling reduced Group turnover by some 7% and the effect of continuing price pressure in commodity chemicals caused average prices for the Group to fall by 2%.

Sales by geographic area were up 18% in the Americas, 10% in Continental Europe and 7% in Asia Pacific, demonstrating the increased international spread of ICI's portfolio following the mid-year Specialty Chemicals acquisitions. UK volumes were down 6% and Australasian sales were affected by divestments.

Trading profit before exceptional items was £620m, down 7% from 1996. Results were adversely affected by the strength of sterling by some £190m. The newly acquired Specialty Products businesses contributed £180m to trading profit in the second half year.

Trading profit in Coatings was a record £160m. The new Specialty Products businesses produced second half results in line with expectations and, whilst they were not part of the Group in 1996, total profits from these businesses were ahead of the same period last year. The Materials Businesses had a more difficult year and were affected by price pressures and the

strong pound, though volumes grew well in most markets and profits were on an improving trend during 1997, with the final quarter results ahead of the same period in 1996.

Profits in commodity chemicals were significantly lower. Industrial Chemicals recorded losses of £20m, down from 1996 profits of £80m. Profits reported for businesses to be discontinued and discontinued operations were almost £120m lower than 1996. The commodity businesses have suffered from further margin erosion since 1996 and the effect of the strong pound. Many of these businesses have either been sold, or are in the process of being sold.

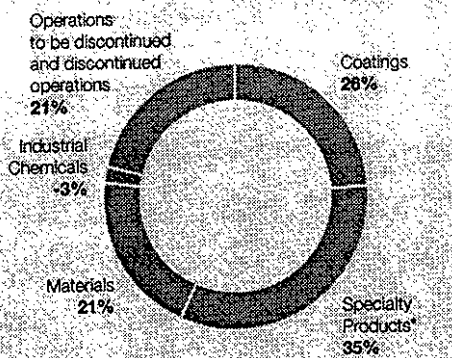
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Income from associated companies of £16m, includes ICI's share of profit of its principal investments, of which the largest contributors were IC Insurance Ltd, Phillips - Imperial Petroleum Ltd and Irish Fertilizer Industries Ltd (IFI). Income is down from £27m in 1996 mainly due to the effect of a weaker fertiliser market on IFI's results.

Profits less losses on the sale of businesses arising from the divestment programme totalled £331m. This included gains on the sale of the ICI shareholding in ICI Australia (£480m), PTA and PET businesses (£136m), Forest Products (£66m) and Fertilisers (£95m). Also included are losses on the announced sales of Tioxide (£302m) and Explosives (£132m), both of which are expected to be completed in 1998.

The net interest charge of £282m is significantly higher than 1996, reflecting the increased debt required to finance the Specialty Chemicals acquisition. It includes an exceptional cost of £31m associated with the initial financing of the acquisition.

Trading profit before exceptional items
by business sector – 1997



* Includes only six months from the Specialty Chemicals acquisitions

The taxation charge on profits before exceptional items represents a rate of 25%, down from the more normal 1996 rate of 31%, and reflects a number of non-recurring benefits.

Earnings and dividends

Profits after taxation, including exceptional items was £308m, a 9% reduction on the previous year. Profits attributable to minorities were down by 25%, reflecting the mid-year sale of the shareholding in ICI Australia.

Earnings per share before exceptional items fell by 32% to 33.0p and after exceptional items by 6% to 35.6p.

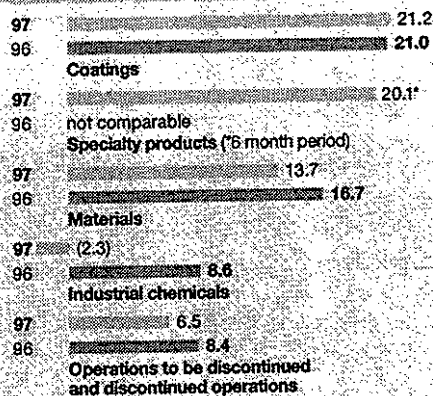
The Board signalled, with the unaltered interim dividend, that it would not be appropriate to raise the dividend during a year of such major reshaping. The Board has decided that the second interim dividend will therefore also be unchanged at 19.5p per £1 Ordinary Share, making a total dividend for 1997 of 32.0p. Dividend cover in 1997 before exceptional items is 1.0 and 1.1 after exceptional items.

Productivity

The Group has set a financial objective of achieving an aggregate pre-tax return on net assets (RONA) of 20% on average through the trade cycle. The weakness in commodity chemical prices which had caused the fall in Group RONA from 18.4% in 1995 to 11.5% in 1996 continued and, together with the strength of sterling in 1997 offset the improvement in earnings from the rest of the portfolio. RONA in 1997 was 10.9%. The RONA in ICI's lighter end businesses (Coatings, Specialty Products and Materials) however rose to 19%, from 18% in 1996.

Sales volume per employee rose 7% in 1997. The average growth in sales volume per employee since demerger has been 8%. The Group's value opportunity programme, which started in 1995, targeted savings at over £400m by 1997. The results of the programme have exceeded its original objectives.

Return on average net assets %
(Trading profit as % of net operating assets)



Cash flow

Cash inflow from operating activities at £757m was down 25% compared to the previous year principally due to a reduction in trading profits of £45m and an increase in working capital of £124m. This decrease was matched by a reduction in capital expenditure of £312m. Net capital expenditure was £623m in 1997 and includes the proceeds received on the sale and leaseback of the Group headquarters building.

Interest payments and dividends to outside shareholders less dividend income received at £171m was £49m higher than 1996. This reflected the increased interest charge on the debt taken out to finance the acquisition of the Specialty Chemicals businesses. This was partly offset by an increase in dividends received from associates. Taxation payments have decreased by £99m due principally to lower taxable profits.

Acquisitions amounted to £4,366m of which £4,163m related to the purchase of the Specialty Chemicals businesses. The total purchase price of the Specialty Chemicals businesses comprised this amount plus £610m of assumed debt reported as an increase in debt.

Disposals amounting to £2,124m included £902m from the sale of shares in ICI Australia Ltd., £711m from the disposal of the polyester polymer and intermediates businesses, £200m from the sale of the UK fertilizers business, £142 million from the sale of the Canadian Forest Products business and £97m from the repayment of a loan by ICI Australia Ltd.

Current assets investments of £249m were purchased during the year as short term investments from proceeds received on disposal. The cash inflow from financing of £2,937m is primarily due to the increase in short-term borrowings (£717m) and loans (£2,214m) to fund the acquisition of the Specialty Chemicals business.

Basis of presentation

Trading results have been analysed between the Group's ongoing operations; discontinued operations (significant businesses sold as at 11 February 1998) and operations to be discontinued (significant businesses where the sale has been announced as at 11 February 1998 and the sale is expected to complete in the near future).

1996				
Continuing operations			Discontinued operations	Total
Ongoing operations	Operations to be discontinued	Exceptional items		
£m	£m	£m	£m	£m
6,694	964		2,862	10,520
413	9	(137)	243	528
27				27
		1		1
		31		31
440	9	(105)	243	587
(73)	(3)		(13)	(89)
367	6	(105)	230	498
(111)	(2)	29	(74)	(158)
256	4	(76)	156	340
(20)	1	(1)	(45)	(65)
236	5	(77)	111	275
				(232)
				43
32.6p	0.7p	(10.7)p	15.3p	37.9p

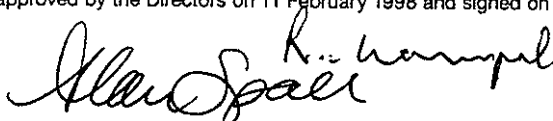
Summary Group balance sheet
 at 31 December 1997

	Notes	1997 £m	199 £
Assets employed			
Fixed assets		4,210	4,62
Current assets		5,051	4,42
Total assets		9,261	9,05
Creditors due within one year		(4,638)	(2,95
Net current assets		413	1,47
Total assets less current liabilities		4,623	6,09
Financed by			
Creditors due after more than one year		3,042	1,24
Provisions for liabilities and charges		1,342	75
Deferred income: Grants not yet credited to profit		14	2
Interests of outside shareholders in subsidiaries – equity		79	47
Shareholders' funds – equity			
Called-up share capital		727	72
Reserves		(581)	2,88
Total shareholders' funds	4	146	3,60
		4,623	6,09

This Summary Financial Statement was approved by the Directors on 11 February 1998 and signed on their behalf by:

Sir Ronald Hampel Director

A G Spall Director



Summary Group profit and loss account
for the year ended 31 December 1997

	Notes	1997				Total
		Continuing operations			Discontinued operations	
		Ongoing operations	Operations to be discontinued	Exceptional items		
		£m	£m	£m	£m	£m
Turnover	1	7,731	984		2,347	11,062
<i>Including acquisitions</i>		1,402				1,402
Trading profit (loss)	1	485	(26)	(202)	161	418
<i>Including acquisitions</i>		180		(34)		146
Share of profits less losses of associated undertakings		16				16
Profits less losses on sale or closure of operations				(446)	777	331
Profits less losses on disposals of fixed assets				35		35
Profit (loss) before interest		501	(26)	(613)	938	800
Net interest payable		(212)	(7)	(31)	(32)	(282)
Profit (loss) before taxation		289	(33)	(644)	906	518
Taxation		(53)	7	28	(192)	(210)
Profit (loss) after taxation		236	(26)	(616)	714	308
Attributable to outside shareholders		(14)			(35)	(49)
Earnings (loss) for the financial year		222	(26)	(616)	679	259
Dividends	2					(232)
Earnings retained for the year						27
Earnings (loss) per £1 Ordinary Share	3	30.5p	(3.6)p	(84.7)p	93.4p	35.6p

Note: Directors' remuneration is set out in note 5 to these financial statements.

Summary Group cash flow
for the year ended 31 December 1997

	1997	1996
	£m	£m
Net cash inflow from operating activities	757	1,006
Interest payments and dividends to outside shareholders, less dividend income	(171)	(122)
Taxation	(151)	(250)
Capital expenditure	(623)	(935)
	(188)	(301)
Acquisitions	(4,366)	(234)
Disposals	2,124	74
Dividends paid	(231)	(225)
Cash outflow before use of liquid resources and financing	(2,661)	(686)
Management of liquid resources	(249)	741
Financing	2,937	(1)
Increase in cash	27	54

Notes relating to the summary financial statements

1 Segment information

	Turnover		Trading profit before exceptional items		Profit before interest and taxation after exceptional items		Total assets less current liabilities	
	1997	1996	1997	1996	1997	1996	1997	1996
	£m	£m	£m	£m	£m	£m	£m	£m
Classes of business								
Continuing operations								
Ongoing operations								
Coatings	2,170	2,161	160	147	166	103	783	72
Specialty Products	1,934	546	215	28	155	28	1,946	18
Materials	1,490	1,583	130	158	134	130	964	92
Industrial Chemicals	2,563	2,894	(20)	80	(189)	59	763	96
Inter-class eliminations	(183)	(211)						
	7,974	6,973	485	413	266	320	4,456	2,80
Sales to operations to be discontinued and to discontinued operations	(243)	(279)						
	7,731	6,694						
Operations to be discontinued								
Total	1,052	1,052	(26)	9	(420)	(3)	867	1,07
Sales to continuing operations and to discontinued operations	(68)	(88)						
	984	964						
Discontinued operations								
Total	2,439	2,954	161	243	938	243	209	1,99
Sales to continuing operations and to operations to be discontinued	(92)	(92)						
	2,347	2,862						
Share of profits less losses of associated undertakings					16	27		
Net operating assets							5,532	5,86
Net non-operating assets							(909)	23
	11,062	10,520	620	665	800	587	4,623	6,09

	Turnover by customer location		Net operating assets	
	1997	1996	1997	1996
	£m	£m	£m	£m
Geographic areas				
Continuing operations				
Ongoing operations				
United Kingdom	1,761	1,763	1,415	1,13
Continental Europe	1,803	1,509	722	34
The Americas	2,844	2,347	1,770	91
Asia Pacific	1,004	816	528	27
Other countries	319	259	21	13
	7,731	6,694	4,456	2,80
Operations to be discontinued	984	964	867	1,07
Discontinued operations	2,347	2,862	209	1,99
	11,062	10,520	5,532	5,86

2 Dividends	1997	1996	1997	1996
	pence per £1	pence per £1		
	Ordinary	Ordinary		
	Share	Share	£m	£m
Interim paid 6 October 1997	12.5p	12.5p	91	91
Second interim, to be confirmed as final, payable 20 April 1998	19.5p	19.5p	141	141
	32.0p	32.0p	232	232

3 Earnings (loss) per £1 Ordinary Share

	1997	1996
Earnings (loss) per £1 Ordinary Share - before exceptional items	33.0p	48.6p
- after exceptional items	35.6p	37.9p

4 Movements in shareholders' funds during the year

	1997	1996
	£m	£m
Shareholders' funds at beginning of year	3,606	3,924
Movements in funds during the year	27	43
Earnings after dividends	(3,239)	(177)
Goodwill purchased and charged to reserves, less goodwill previously charged on businesses disposed of in year	(259)	(189)
Change in value in overseas net assets due to exchange movements	4	2
Other items	7	3
Value attributed to new shares issued	(3,460)	(318)
Shareholders' funds at end of the year	146	3,606

5 Directors' remuneration

Directors' remuneration comprised the following

	1997	1996
	£000	£000
Aggregate emoluments	2,081	1,830
Gains on exercise of share options during the year	125	101
Contribution to defined contribution pension scheme	150	125

Full details of directors' remuneration are included in the Chairman's letter to shareholders dated 2 March 1998.

6 Auditor's Report

The Auditor's Report on the full accounts for the year ended 1997, which includes the tables in the Remuneration Report (included in the letter to Shareholders dated 2 March 1998) was unqualified and did not include a statement under Sections 237(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 237(3) (failure to obtain necessary information and explanations) of the Companies Act 1985.

Auditor's statement

to the members of Imperial Chemical Industries PLC

We have examined the Summary Financial Statements on pages 22 to 27.

Respective responsibilities of the Directors and auditors

The Summary Financial Statement is the responsibility of the Directors. Our responsibility is to report to you on its preparation and consistency with the full financial statements and Directors' Report.

Basis of opinion

We conducted our examination in accordance with guidelines issued by the Auditing Practices Board and carried out such procedures as we considered necessary to support our opinion. Our report on the Group's full annual accounts describes the basis of our audit opinion on those accounts.

Opinion

In our opinion the Summary Financial Statement is consistent with the Annual Accounts and Directors' Report of Imperial Chemical Industries PLC for the year ended 31 December 1997 and complies with the requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

London
11 February 1998

KPMG Audit Plc
KPMG Audit Plc
Chartered Accountants
Registered Auditor