218019

Imperial Chemical Industries PLC

Group accounts

For the year ended 31 December 1996

The Directors of Imperial Chemical Industries PLC present their Annual Report for the year ended 31 December 1996 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 24 April 1997.

Principal activities
The principal activities of the Company are research, manufacture and sale of paints, materials, explosives and industrial chemicals. A review of the Company and its subsidiaries' businesses, including research and development, is given on page 2 and pages 4 to 22 of this Report.

Dividends
The Directors have declared the payment of a second interim dividend of 19.5 pence per Ordinary Share to be paid on 21 April 1997 to Ordinary shareholders registered in the books of the Company on 7 March 1997. An interim dividend of 12.5 pence per Ordinary Share was paid on 7 October 1996 making a total of 32.0 pence (1995 – 30.0 pence).

Share capital
Changes in the Company's Ordinary share capital during the year are given in Note 23 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 brief biographical details are given on page 3.

At no time during the year has any Director had any material interest in a contract with the Company, being a contract of significance in relation to the Company's business. A statement of Directors' interests in the shares and debentures of the Company and its subsidiaries is set out in the Remuneration Committee Report on page 27.

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 streamlined 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.

Political and charitable donations
The Group's worldwide charitable donations in 1996 amounted to £1.8m. Of this total, £0.7m was spent in the UK. The Company 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 1996 amounted to £241,000 (1995: £250,000). The total figure for the Group was £3.6m (1995: £3.7m) 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.

Annual general meeting
The Notice of Annual General Meeting to be held on Thursday 24 April 1997 is contained in a separate letter from the Chairman accompanying this Annual Report and Accounts.

Corporate governance
The Company is in full compliance with the Code of Best Practice published in December 1992 by the Committee on the Financial Aspects of Corporate Governance.

Internal control
The Directors are responsible for the Group's system of internal control. The Audit Committee on behalf of the Directors has reviewed the effectiveness of the system from information provided by the management and the Group's internal 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 Directors consider the strategy for the individual businesses on approximately an annual basis. Annual plans and performance targets for each business are set by the Executive Directors 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 Chief Executive Officers of the International Businesses, the chief executives of major subsidiaries and the Regional Executives for Western Hemisphere and 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.

Directors receive 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 Directors. 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 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.

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 forseeable future. Accordingly they continue to adopt the going concern basis in preparing the Group accounts.

On behalf of the Board
K J Rushton
Secretary

12 February 1997

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
Miss Ellen R Schneider-Lenné (until 25 December 1996)
Mr G Simpson

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 regularly receives market surveys and analyses from a variety of external sources such as Hay Group and from a number of similar UK companies.

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 normally employed on rolling contracts subject to two years' notice at any time.

The Remuneration Committee considers such notice periods are reasonable and necessary to attract and retain high calibre executive directors. Sir Ronald Hampel's contract of service as Chairman is subject to one year's notice which, if given by him, cannot expire until after the Company's Annual General Meeting in 1999. Mr C Miller Smith's contract of service as Chief Executive is subject to one year's notice. The Remuneration Committee accepts and strongly endorses the principle of mitigation of damages on early termination of a service contract.

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 at competitive base levels (the salary at appointment) and are within a range of up to 130% of base level to allow the Remuneration Committee to reward the performance and experience of executive directors. No annual cost of living or inflation adjustment is made to this base level, but each year the base level is benchmarked against median salaries for comparable positions in industrial and service companies to ensure that it remains competitive. An annual assessment of each individual executive director's performance is carried out by the Remuneration Committee in consultation with the Chairman and Chief Executive, as appropriate, in order to determine their positioning on the scale.

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 is 40% and is not pensionable. For 1996 the bonus for executive directors was again related entirely to increased earnings per share after exceptional items ('EPS'). The trigger point was established at 77.6p compared with the 73.9p achieved EPS in 1995. The 37.9p achieved EPS in 1996 has resulted in no bonus being paid.

The details of the short-term benefits for individual executive directors are set out on page 26.

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 27.

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 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 1996 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 27.

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.

Remuneration of directors

	Salary		Benefits		Annual bonus (note 1)		Long-term performance bonus		Total		Pension fund contributions	
	1996 £000	1995 £000	1996 £000	1995 £000	1996 £000	1995 £000	1996 £000	1995 £000	1996 £000	1995 £000	1996 £000	1995 £000
Emoluments of executive directors												
Sir Denys Henderson		104		2		42		138		286		
Sir Ronald Hampel	200	369	9	12		57		425	209	863		
C Miller Smith	500	417	16	16		167			516	600	125	104
M E Brogden	310	268	13	11		107			323	386	38	33
R J Margetts	325	285	10	8		114			335	407	39	34
C M Short		106		5		42				153		
A G Spall	310	267	6	8		107			316	382	38	33
	1,645	1,816	54	62		636		563	1,699	3,077	240	204
Fees to non-executive directors (note 2)												
Sir Roger Hurn									30	21		
H C Lee									21			
Sir Antony Pilkington									30	24		
Miss Ellen R Schneider-Lenné									25	24		
G Simpson									25	21		
									131	90		
Pension fund contributions for executive directors									240	204		
Total remuneration									2,070	3,371		

(1) Excludes the benefit of matched shares under the Bonus Conversion Plan which will be included in emoluments in the year in which the benefit of the extra shares provided by the Company is received by the director. The directors' contingent interests in matched shares are set out in the table on page 27.

(2) 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 £190,000 (1995 £334,000).

	Salary		Benefits		Annual bonus (note 1)		Long-term performance bonus		Total		Pension fund contributions	
	1996 £000	1995 £000	1996 £000	1995 £000	1996 £000	1995 £000	1996 £000	1995 £000	1996 £000	1995 £000	1996 £000	1995 £000
Emoluments of Chairman												
Sir Denys Henderson (to 27 April 1995)		104		2		42		138		286		
Sir Ronald Hampel (from 27 April 1995)	200	133	9	8					209	141		

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.

ICI £1 Ordinary Shares		1 January 1996 or on date of appointment	31 December 1996	Contingent interests in matched shares* 1 January 1996	Contingent interests in matched shares* 31 December 1996
Sir Ronald Hampel		40,948	40,948	14,571	14,571
C Miller Smith		6,000	13,886	1,500	7,086
M E Brogden		10,918	28,851	7,645	14,818
Sir Roger Hurn		500	500		
H C Lee		–	500		
R J Margetts		37,369	49,011	8,571	16,213
Sir Antony Pilkington:	beneficial	8,400	8,400		
	non-beneficial	20,860	20,860		
G Simpson		5,000	5,000		
A G Spall		12,136	19,309	8,571	15,744

* 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 25).

During the period 1 January 1997 to 3 February 1997 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 1996 are included in the table below.

Directors at 31 December 1996	1 January 1996 Number	Options granted Number	Options granted Price £	Options exercised Number	Options exercised Weighted average exercise price £	Options exercised Weighted average market price £	31 December 1996 Number	31 December 1996 Weighted average exercise price £	31 December 1996 Date from which exercisable	31 December 1996 Expiry date
Sir Ronald Hampel	137,982						137,982	6.60	31.5.92	27.4.97
C Miller Smith	205,000						26,700	7.49	9.5.98	9.5.05
		30,600	8.98				208,900	8.02†	7.11.97	7.5.06
M E Brogden	60,360			10,760	5.26	9.03	49,600	7.28	24.6.96	9.5.05
		25,900	8.98				25,900	8.98†	7.5.99	7.5.06
R J Margetts	160,955	343	6.43	14,001	4.97	9.30	147,297	6.56	29.3.92	9.5.05
		27,100	8.98				27,100	8.98†	7.5.99	7.5.06
A G Spall	101,788	236	6.43				102,024	7.37	24.6.96	9.5.05
		25,900	8.98				25,900	8.98†	7.5.99	7.5.06

† Exercise price exceeds market price at 31 December 1996.

No options lapsed during the year. The options outstanding are exercisable at prices between £5.26 and £8.98. The market price of the shares at 31 December 1996 was £7.68½ and the range during 1996 was £7.41½ to £9.53½. The Register of Directors' Interests (which is open to shareholders' inspection) contains full details of directors' shareholdings and options to subscribe for shares.

Remuneration package (continued)
Post-retirement benefits – all executive directors, other than Sir Ronald Hampel and Mr C Miller Smith, 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 rate of 12.2% of salary in 1996.

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 £125,000 in 1996.

Mr M E Brogden, Mr R J Margetts and Mr A G Spall all 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 1996 are shown in the table on page 28. The entitlements from the ICI Pension Fund are as follows:

(a) 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 28 includes a notional pensionable bonus of 10% in respect of Mr R J Margetts' benefits.

(b) 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;

(c) 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;

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

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

Directors' pension benefits

	Age at 31 December 1996	Contributions by directors £	Amount of additional pension accrued in 1996 payable at normal retirement age £	Accrued pension at 31 December 1996 payable at normal retirement age £
M E Brogden	58	18,980	27,000	189,730
R J Margetts	50	19,960	22,720	166,350
A G Spall	52	18,980	23,120	152,200

Pensions in payment or in deferment are guaranteed to increase annually in November by the lesser of 5% or the increase in RPI. 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.

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 26.

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.

Sir Roger Hurn
12 February 1997

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 pages 23 and 24. 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 31 to 56. We have also examined the amounts disclosed relating to emoluments, interests in shares and debentures, share options and pension benefits of the directors which form part of the Remuneration Committee report on pages 25 to 28.

Respective responsibilities of Directors and Auditor
As described on page 29, 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 issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the 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.

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 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
12 February 1997

AUDITOR'S REPORT ON CORPORATE GOVERNANCE MATTERS
to Imperial Chemical Industries PLC

In addition to our audit of the financial statements, we have reviewed the Directors' statements on pages 23 and 24 on the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the Listing Rules and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to any non-compliance with the disclosure requirements of 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. That guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the Company'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 23 and 24 (other than statements going beyond internal financial control which are outside the scope of our report) and going concern on page 24, 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 23 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
12 February 1997

The accounts are prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. 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.

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 26 years for buildings and 18 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
Principal amounts under currency swaps to manage currency exposures on Group net borrowings are revalued to balance sheet exchange rates and included in the sterling value of loans. The notional interest on currency, interest rate swaps and forward rate agreements to manage currency and interest rate exposures on Group net borrowings are included with the interest flows of the underlying net borrowing. These financial derivatives in the above circumstances are not revalued to their open market value. ~~The forward rate agreements are not revalued~~ but, on realisation, gains and losses are spread over the period of the hedged position. ~~as~~ from this

from this
~~are gains and losses on realisation of interest rate swaps. If interest swaps are terminated early or assigned to a third party then any gains or losses on such realisation are spread over the period of the hedged position.~~ Forward contracts hedging working capital and related forward rate agreements are revalued to balance sheet exchange rates and gains and losses are included in trading profit. Forward contracts and currency options hedging other anticipated cash flows are not revalued but, on realisation, gains and losses net of option premia are included in trading profit in the period in which the hedged transaction is accounted for.

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. UK Accounting Standards require 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 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.

Group profit and loss account
for the year ended 31 December 1996

		1996			1995		
	Notes	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Turnover	5, 6	10,520	–	10,520	10,269	–	10,269
Operating costs	4, 6	(9,959)	(137)	(10,096)	(9,366)	(94)	(9,460)
Other operating income	6	104	–	104	91	–	91
Trading profit (loss)	4, 5, 6	665	(137)	528	994	(94)	900
Share of profits less losses of associated undertakings	8	27	–	27	18	–	18
Profits less losses on sale or closure of operations	4		1	1		71	71
Profits less losses on disposal of fixed assets	4		31	31		(1)	(1)
Profit (loss) on ordinary activities before interest	5	692	(105)	587	1,012	(24)	988
Net interest payable	9	(89)		(89)	(61)		(61)
Profit (loss) on ordinary activities before taxation		603	(105)	498	951	(24)	927
Tax on profit (loss) on ordinary activities	10	(187)	29	(158)	(314)	6	(308)
Profit (loss) on ordinary activities after taxation		416	(76)	340	637	(18)	619
Attributable to minorities		(64)	(1)	(65)	(82)	(2)	(84)
Net profit (loss) for the financial year		352	(77)	275	555	(20)	535
Dividends	11			(232)			(217)
Profit retained for year	24			43			318
Earnings (loss) per £1 Ordinary Share	12	48.6p	(10.7)p	37.9p	76.7p	(2.8)p	73.9p

Statement of Group total recognised gains and losses
for the year ended 31 December 1996

	1996 £m	1995 £m
Net profit for the financial year	275	535
Currency translation differences on foreign currency net investments and related loans	(189)	27
Share of other reserve movements of associated undertakings and other items	2	4
Total gains and losses recognised since last annual report	88	566

Balance sheets
at 31 December 1996

	Notes	Group 1996 £m	Group 1995 £m	Company 1996 £m	Company 1995 £m
Assets employed					
Fixed assets					
Tangible assets	13	4,457	4,091	463	414
Investments					
Subsidiary undertakings	14			6,781	6,364
Participating and other interests	15	172	172	50	59
		4,629	4,263	7,294	6,837
Current assets					
Stocks	16	1,389	1,485	93	90
Debtors	17	2,132	2,051	2,900	2,715
Investments and short-term deposits	18	560	1,337	100	167
Cash at bank	18, 32	341	336	32	44
		4,422	5,209	3,125	3,016
Total assets		9,051	9,472	10,419	9,853
Creditors due within one year					
Short-term borrowings	19	(186)	(179)	(1)	(23)
Current instalments of loans	21	(243)	(251)	–	–
Other creditors	20	(2,523)	(2,443)	(6,838)	(5,885)
		(2,952)	(2,873)	(6,839)	(5,908)
Net current assets (liabilities)		1,470	2,336	(3,714)	(2,892)
Total assets less current liabilities		6,099	6,599	3,580	3,945
Financed by					
Creditors due after more than one year					
Loans	21	1,174	1,332	200	200
Other creditors	20	72	72	688	1,042
		1,246	1,404	888	1,242
Provisions for liabilities and charges	22	757	823	56	71
Deferred income: Grants not yet credited to profit		20	27	–	1
Minority interests – equity		470	421		
Shareholders' funds – equity					
Called-up share capital	23	725	725	725	725
Reserves					
Share premium account		576	573	576	573
Revaluation reserve		35	36		
Goodwill reserve		(1,000)	(823)		
Associated undertakings' reserves		71	59		
Profit and loss account		3,199	3,354	1,335	1,333
Total reserves	24	2,881	3,199	1,911	1,906
Total shareholders' funds (page 34)		3,606	3,924	2,636	2,631
		6,099	6,599	3,580	3,945

The accounts on pages 31 to 56 were approved by the Board of Directors on 12 February 1997 and were signed on its behalf by:

R. C. Hampel
Alan Spall.

Sir Ronald Hampel Director
A G Spall Director

Statement of Group cash flow
for the year ended 31 December 1996

	Notes	1996 £m	1995 £m
Net cash inflow from operating activities	25	1,006	1,191
Returns on investments and servicing of finance	26	(122)	(94)
Taxation		(250)	(162)
		634	935
Capital expenditure and financial investment	27	(935)	(618)
		(301)	317
Acquisitions and disposals			
Acquisitions	28	(234)	(276)
Disposals	28	74	206
		(160)	(70)
Equity dividends paid		(225)	(206)
Cash (outflow) inflow before use of liquid resources and financing		(686)	41
Management of liquid resources	29	741	210
Financing			
Issues of shares		49	17
Decrease in debt		(50)	(156)
	30	(1)	(139)
Increase in cash	32	54	112

The 1995 figures have been restated to comply with FRS 1 (Revised) Cash Flow Statements.

Reconciliation of movements in shareholders' funds
for the year ended 31 December 1996

	Notes	1996 £m	1995 £m
Net profit for the financial year		275	535
Dividends		(232)	(217)
Profit retained for year		43	318
Issues of ICI Ordinary Shares		3	5
Goodwill movement			
Acquisitions	24	(184)	(178)
Disposals	24	7	12
		(177)	(166)
Other recognised (losses) gains related to the year	24	(187)	31
Net (reduction) increase in shareholders' funds		(318)	188
Shareholders' funds at beginning of year		3,924	3,736
Shareholders' funds at end of year		3,606	3,924

1 Composition of the Group

The Group accounts consolidate the accounts of Imperial Chemical Industries PLC and its subsidiary undertakings, of which there were 380 at 31 December 1996. Owing to local conditions and to avoid undue delay in the presentation of the Group accounts, 68 subsidiaries made up their accounts to dates earlier than 31 December, but not earlier than 30 September; 4 subsidiaries made up their accounts prior to 30 September but interim accounts to 31 December were drawn up for consolidation purposes.

2 Basis of presentation of financial information

The Accounting Standards Board published Financial Reporting Standard No. 8 - "Related Party Disclosures" in October 1995 and a revision to Financial Reporting Standard No. 1 – "Cash Flow Statements" in October 1996; both Standards are adopted in these accounts.

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.

3 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 25 to 28.

4 Exceptional items before tax

	1996 £m	1995 £m
Charged in arriving at trading profit (loss)		
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)
	(137)	(94)
Credited (charged) after trading profit (loss)		
Profits less losses on sale or closure of operations		
Profits	7	99
Losses	(6)	(28)
	1	71
Profits less losses on disposal of fixed assets		
Profits	31	6
Provisions	–	(7)
	31	(1)
Exceptional items within profit (loss) on ordinary activities before taxation	(105)	(24)

Further information is provided in the Operating and Financial Review.

5 Segment information
Classes of business

	Turnover		Trading profit before exceptional items		Profit before interest and taxation after exceptional items	
	1996 £m	1995 £m	1996 £m	1995 £m	1996 £m	1995 £m
Paints	2,437	2,003	171	107	127	38
Materials	1,991	2,067	206	195	178	237
Explosives	808	778	40	49	(25)	12
Industrial Chemicals	4,045	4,250	109	496	124	552
Regional Businesses	1,682	1,604	139	146	156	130
Inter-class eliminations	(443)	(433)	–	1	–	1
Share of profits less losses of associated undertakings					27	18
	10,520	10,269	665	994	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 Materials of £157m (1995 £181m).

	Depreciation (note 13)		Capital expenditure (note 13)		Total assets less current liabilities	
	1996 £m	1995 £m	1996 £m	1995 £m	1996 £m	1995 £m
Paints	49	47	94	69	1,018	804
Materials	100	101	247	108	1,197	1,293
Explosives	49	45	77	58	377	385
Industrial Chemicals	154	153	419	297	2,275	2,306
Regional Businesses	64	66	189	125	1,001	875
Net operating assets					5,868	5,663
Net non-operating assets					231	936
	416	412	1,026	657	6,099	6,599

	Notes	1996 £m	1995 £m
Net non-operating assets comprise			
Fixed asset investments		172	172
Non-operating debtors	17	70	68
Investments and short-term deposits		560	1,337
Cash		341	336
Short-term borrowings		(186)	(179)
Current instalments of loans		(243)	(251)
Non-operating creditors	20	(483)	(547)
		231	936

	Employees 1996	Employees 1995
Average number of people employed by the Group		
Paints	19,600	17,300
Materials	7,000	7,400
Explosives	10,700	12,600
Industrial Chemicals	15,000	16,100
Regional Businesses	10,000	9,800
Corporate		
Board support	200	200
Group technical resources and other shared services	1,500	1,400
Total employees	64,000	64,800

5 Segment information (continued)

Geographic areas

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

	Turnover		Trading profit before exceptional items		Profit before interest and taxation after exceptional items	
	1996 £m	1995 £m	1996 £m	1995 £m	1996 £m	1995 £m
United Kingdom						
Sales in the UK	2,249	2,125				
Sales overseas	1,823	2,017				
	4,072	4,142	145	356	128	384
Continental Europe	1,435	1,476	39	91	33	70
The Americas	3,133	2,849	234	220	162	179
Asia Pacific	2,556	2,431	190	269	180	274
Other countries	458	462	57	59	57	64
	11,654	11,360	665	995	560	971
Inter-area eliminations	(1,134)	(1,091)	–	(1)	–	(1)
Share of profits less losses of associated undertakings					27	18
	10,520	10,269	665	994	587	988

Inter-area turnover shown above includes sales of £650m (1995 £721m) from the United Kingdom to overseas subsidiaries.

	Turnover by customer location		Net operating assets	
	1996 £m	1995 £m	1996 £m	1995 £m
United Kingdom	2,169	2,152	1,722	1,704
Continental Europe	1,977	2,117	630	696
The Americas	3,093	2,775	1,392	1,447
Asia Pacific	2,629	2,542	1,801	1,628
Other countries	652	683	323	188
	10,520	10,269	5,868	5,663

	Employees	
	1996	1995
Average number of people employed by the Group		
United Kingdom	17,700	18,900
Continental Europe	6,100	6,100
The Americas	16,600	15,600
Asia Pacific	14,200	13,400
Other countries	9,400	10,800
Total employees	64,000	64,800

The number of people employed by the Group at the end of 1996 was 63,300 (1995 63,800).

6 Trading profit (loss)

	1996			1995		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Turnover	10,520	–	10,520	10,269	–	10,269
Operating costs						
Cost of sales	(7,544)	(21)	(7,565)	(7,049)	(34)	(7,083)
Distribution costs	(667)	(1)	(668)	(625)	(3)	(628)
Research and development	(189)	(2)	(191)	(185)	–	(185)
Administrative and other expenses	(1,559)	(113)	(1,672)	(1,507)	(57)	(1,564)
	(9,959)	(137)	(10,096)	(9,366)	(94)	(9,460)
Other operating income						
Government grants	6	–	6	7	–	7
Royalties	23	–	23	12	–	12
Other income	75	–	75	72	–	72
	104	–	104	91	–	91
Trading profit (loss)	665	(137)	528	994	(94)	900
Total charge for depreciation included above	402	14	416	391	7	398
Gross profit, as defined by the Companies Act 1985	2,976	(21)	2,955	3,220	(34)	3,186

7 Note of historical cost profits and losses

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

8 Share of profits less losses of associated undertakings

	1996 £m	1995 £m
Share of profits less losses before tax		
Dividend income	22	17
Share of undistributed profits less losses before exceptional items	5	(2)
	27	15
Gains on disposal of investments	1	3
Amounts written off investments (including provisions raised £1m (1995 nil))	(1)	–
	27	18

9 Net interest payable

	1996 £m	1995 £m
Interest payable and similar charges		
Loan interest		
Bank loans	51	60
Other loans	77	79
	128	139
Interest on short-term borrowings		
Bank borrowings	19	10
Other borrowings	29	16
	48	26
	176	165
Interest receivable and similar income	(87)	(104)
Net interest payable	89	61

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

10 Tax on profit (loss) on ordinary activities

	1996			1995		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
ICI and subsidiary undertakings						
United Kingdom taxation						
Corporation tax	118	(1)	117	168	5	173
Double taxation relief	(92)	–	(92)	(73)	–	(73)
Deferred taxation	23	(6)	17	25	(3)	22
	49	(7)	42	120	2	122
Overseas taxation						
Overseas taxes	139	(14)	125	177	3	180
Deferred taxation	(4)	(8)	(12)	13	(11)	2
	135	(22)	113	190	(8)	182
	184	(29)	155	310	(6)	304
Associated undertakings	3	–	3	4	–	4
Tax on profit (loss) on ordinary activities	187	(29)	158	314	(6)	308

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 33% (1995 33%).

The exceptional tax credit in 1996 was in respect of the exceptional rationalisation costs (note 4).

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.

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

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	
	1996 £m	1995 £m	1996 £m	1995 £m
Accounted for at balance sheet date (note 22)				
Timing differences on UK capital allowances and depreciation	189	193	61	63
Miscellaneous timing differences	(85)	(92)	9	(17)
	104	101	70	46
Not accounted for at balance sheet date				
Timing differences on UK capital allowances and depreciation	–	–	–	–
Miscellaneous timing differences	44	37	–	–
	44	37	–	–
Full potential deferred taxation	148	138	70	46

11 Dividends

	1996 pence per £1 Ordinary Share	1995 pence per £1 Ordinary Share	1996 £m	1995 £m
Interim, paid 7 October 1996	12.5p	11.5p	91	83
Second interim, to be confirmed as final, payable 21 April 1997	19.5p	18.5p	141	134
	32.0p	30.0p	232	217

12 Earnings (loss) per £1 Ordinary Share

	1996 £m	1995 £m
Net profit for the financial year before exceptional items	352	555
Exceptional items after tax and minorities	(77)	(20)
Net profit for the financial year	275	535
	million	million
Average Ordinary Shares in issue during year, weighted on a time basis	725	724
	pence	pence
Earnings per £1 Ordinary Share before exceptional items	48.6	76.7
Earnings per £1 Ordinary Share	37.9	73.9

The effect on earnings per £1 Ordinary Share of the issue of shares under option (note 23) 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.

13 Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Payments on account and assets in course of construction £m	Total £m
Group				
Cost or as revalued				
At beginning of year	1,289	6,538	583	**8,410**
New subsidiary undertakings	31	39	7	**77**
Capital expenditure	–	–	1,026	**1,026**
Transfers of assets into use	55	643	(698)	
Exchange adjustments	(84)	(288)	(77)	**(449)**
Disposals and other movements	(43)	(152)	–	**(195)**
At end of year	1,248	6,780	841	**8,869**
Depreciation				
At beginning of year	492	3,827		**4,319**
Charge for year	34	382		**416**
Exchange adjustments	(28)	(143)		**(171)**
Disposals and other movements	(16)	(136)		**(152)**
At end of year	482	3,930		**4,412**
Net book value at end 1996	766	2,850	841	**4,457**
Net book value at end 1995	797	2,711	583	4,091

The Group depreciation charge of £416m, shown above, includes £14m charged as exceptional items within trading profit.

Capital expenditure in the year of £1,026m includes capitalised finance leases of £8m; creditors for capital work done but not paid for increased by £40m; the resulting cash expenditure on tangible fixed assets was £978m.

The net book value of the tangible fixed assets of the Group includes capitalised finance leases of £18m (1995 £20m) comprising cost of £29m (£69m) less depreciation of £11m (£49m). The depreciation charge for the year in respect of capitalised leases was £3m (1995 £5m) and finance charges were £1m (£3m).

Included in land and buildings is £225m (1995 £216m) in respect of the cost of land which is not subject to depreciation.

Company				
Cost				
At beginning of year	180	675	30	**885**
Capital expenditure	–	–	116	**116**
Transfers of assets into use	–	30	(30)	
Transfers from subsidiary undertakings	3	12	–	**15**
Disposals and other movements	(27)	(36)	–	**(63)**
At end of year	156	681	116	**953**
Depreciation				
At beginning of year	67	404		**471**
Transfers from subsidiary undertakings	2	12		**14**
Charge for year	5	47		**52**
Disposals and other movements	(12)	(35)		**(47)**
At end of year	62	428		**490**
Net book value at end 1996	94	253	116	**463**
Net book value at end 1995	113	271	30	414

13 Tangible fixed assets (continued)

	Group		Company	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
The net book value of land and buildings comprised				
Freeholds	**700**	729	**93**	112
Long leases (over 50 years unexpired)	**60**	57	**1**	1
Short leases	**6**	11	**–**	–
	766	797	**94**	113

	Group			
	Land and buildings		Plant and equipment	
	1996	1995	**1996**	1995
Revalued assets included in tangible fixed assets	**£m**	£m	**£m**	£m
At revalued amount	**78**	78	**80**	80
Depreciation	**(26)**	(23)	**(71)**	(69)
Net book value	**52**	55	**9**	11
At historical cost	**41**	41	**95**	94
Depreciation	**(22)**	(19)	**(88)**	(86)
Net book value	**19**	22	**7**	8

14 Investments in subsidiary undertakings

	Shares	Loans	**Total**
	£m	£m	**£m**
Cost			
At beginning of year	6,226	430	**6,656**
Transfers to subsidiary undertakings	(5)	–	**(5)**
New investments/new loans	310	283	**593**
Disposals/loans repaid/transfers	(21)	(85)	**(106)**
Exchange adjustments	(45)	(34)	**(79)**
At end of year	6,465	594	**7,059**
Provisions			
At beginning of year	(239)	(53)	**(292)**
Exchange adjustments	18	–	**18**
Other movements	(56)	52	**(4)**
At end of year	(277)	(1)	**(278)**
Balance sheet value at end 1996	6,188	593	**6,781**
Balance sheet value at end 1995	5,987	377	6,364

Cost includes scrip issues capitalised £6m (1995 £6m).

	1996	1995
Shares in subsidiary undertakings which are listed investments	**£m**	£m
Balance sheet value	**5**	5
Market value	**47**	59

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 55.

15 Investments in participating and other interests

	Associated undertakings		Other investments	Total
	Shares £m	Loans £m	Shares £m	£m
Group				
Cost				
At beginning of year	51	2	148	201
Additions	1	17	–	18
Disposals and repayments	(1)	(6)	(1)	(8)
Exchange adjustments	(10)	(3)	(27)	(40)
At end of year	41	10	120	171
Share of post-acquisition reserves less losses				
At beginning of year	59			59
Retained profits less losses	7			7
Exchange adjustments	3			3
Other movements	2			2
At end of year	71			71
Provisions				
At beginning of year	(4)	–	(84)	(88)
Additions	(1)	–	–	(1)
Exchange adjustments	2	–	17	19
At end of year	(3)	–	(67)	(70)
Balance sheet value at end 1996	**109**	**10**	**53**	**172**
Balance sheet value at end 1995	106	2	64	172
The above investments included				
1996				
Listed investments – balance sheet value	–	–	53	53
– market value	–	–	46	46
1995				
Listed investments – balance sheet value	–	–	62	62
– market value	–	–	43	43

Information on principal associated undertakings is given on page 56.

15 Investments in participating and other interests (continued)

	Associated undertakings		Other investments	Total
	Shares £m	Loans £m	Shares £m	£m
Company				
Cost				
At beginning of year	5	–	164	169
Exchange adjustments	–	–	(26)	(26)
At end of year	5	–	138	143
Provisions				
At beginning of year	(1)	–	(109)	(110)
Exchange adjustments	–	–	17	17
At end of year	(1)	–	(92)	(93)
Balance sheet value at end 1996	4	–	46	50
Balance sheet value at end 1995	4	–	55	59
The above investments included				
1996				
Listed investments – balance sheet value	–	–	46	46
– market value	–	–	43	43
1995				
Listed investments – balance sheet value	–	–	55	55
– market value	–	–	39	39

16 Stocks

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Raw materials and consumables	471	470	28	29
Stocks in process	69	65	4	5
Finished goods and goods for resale	849	950	61	56
	1,389	1,485	93	90

17 Debtors

	Group		*Non-operating debtors included in Group*		Company	
	1996 £m	1995 £m	*1996 £m*	*1995 £m*	1996 £m	1995 £m
Amounts due within one year						
Trade debtors	1,332	1,376			76	95
Amounts owed by subsidiary undertakings					2,554	2,420
Amounts owed by associated undertakings	4	5			–	–
Prepaid pension costs	9	8			–	–
Taxation recoverable	46	40	*46*	*40*	–	–
Other prepayments and accrued income	137	146	*24*	*28*	33	66
Other debtors	298	272			30	20
	1,826	1,847	*70*	*68*	2,693	2,601
Amounts due after more than one year						
Advance corporation tax recoverable	–	–	–	–	20	6
Prepaid pension costs	174	102	–	–	154	76
Other debtors	132	102	–	–	33	32
	306	204	–	–	207	114
	2,132	2,051	*70*	*68*	2,900	2,715

18 Current asset investments and short-term deposits

	Group 1996 £m	Group 1995 £m	Company 1996 £m	Company 1995 £m
Listed investments	116	238	50	84
Unlisted investments and short-term deposits	444	1,099	50	83
	560	1,337	100	167
Market value of listed investments	116	238	50	84

Included in unlisted investments and short-term deposits and cash are amounts totalling £191m (1995 £114m) held by the Group's insurance subsidiaries. In 1996 £14m was readily available for the general purposes of the Group; in 1995 none of the £114m was readily available for the general purposes of the Group.

19 Short-term borrowings

	Group 1996 £m	Group 1995 £m	Company 1996 £m	Company 1995 £m
Bank borrowings				
Secured by floating charge	4	–	–	–
Unsecured	39	96	1	23
	43	96	1	23
Other borrowings (unsecured)	143	83	–	–
	186	179	1	23

20 Other creditors

	Group 1996 £m	Group 1995 £m	*Non-operating creditors included in Group 1996 £m*	*Non-operating creditors included in Group 1995 £m*	Company 1996 £m	Company 1995 £m
Amounts due within one year						
Trade creditors	1,093	1,059			90	85
Amounts owed to subsidiary undertakings					6,401	5,522
Amounts owed to associated undertakings	4	5			–	–
Corporate taxation	233	301	*233*	*301*	109	64
Value added and payroll taxes and social security	64	90			6	9
Dividends to Ordinary Shareholders	141	134	*141*	*134*	141	134
Environmental liabilities	15	24			–	–
Pension liabilities	10	14			–	–
Accruals	224	224	*77*	*82*	51	47
Other creditors*	739	592	*32*	*30*	40	24
	2,523	2,443	*483*	*547*	6,838	5,885
Amounts due after more than one year						
Amounts owed to subsidiary undertakings					674	1,033
Environmental liabilities	10	12			4	4
Pension liabilities	7	10			–	–
Other creditors*	55	50			10	5
	72	72			688	1,042

* Includes obligations under finance leases (note 33).

21 Loans

	Repayment dates	Group 1996 £m	Group 1995 £m	Company 1996 £m	Company 1995 £m
Secured loans					
US dollars	1997/2001	85	46		
Taiwanese dollars	1997/2001	96	76		
Other currencies	1997/2001	55	29		
Total secured		236	151		
Secured by fixed charge – bank loans		202	107		
– other		18	1		
Secured by floating charge – bank loans		16	43		
Unsecured loans					
Sterling					
9¾% and 10% Bonds	2003/2005	200	200	200	200
Others	1997/2003	81	89		
		281	289	200	200
US dollars					
8% eurodollar Bonds		–	65		
8⅞% Debentures	2006	147	161		
8.8% to 8.9% medium-term notes	1997/2002	27	29		
8¾% Notes	2001	147	161		
7⅝% Notes	1997	133	145		
9½% Notes	2000	177	194		
7½% Notes	2002	118	129		
Others	1997/2008	86	14		
		835	898		
Swiss francs (4½% to 6¾%)	1997/1999	65	224		
Other currencies	1997/2002	15	7		
Total unsecured		1,196	1,418	200	200
Total loans – excluding financial derivatives		1,432	1,569	200	200
Financial derivatives		(15)	14		
Total loans		1,417	1,583	200	200

The following analysis reflects the effects of financial derivatives on the Group's borrowings at 31 December 1996:

	Before financial derivatives £m	After financial derivatives £m
Sterling	281	222
US dollars and US dollar related currencies	1,025	981
Swiss francs	65	112
Japanese yen	–	41
Others	61	61
	1,432	1,417
Fixed rate loans	1,220	620
Floating rate loans	212	797
	1,432	1,417

21 Loans (continued)

Loan maturities	Group 1996 £m	Group 1995 £m	Company 1996 £m	Company 1995 £m
Bank loans				
Loans or instalments thereof are repayable				
After 5 years from balance sheet date	**78**	29		
From 2 to 5 years	**224**	133		
From 1 to 2 years	**50**	49		
Total due after more than one year	**352**	211		
Total due within one year	**108**	46		
	460	257	**–**	–
Other loans				
Loans or instalments thereof are repayable				
After 5 years from balance sheet date	**475**	674	**200**	200
From 2 to 5 years	**360**	206	**–**	–
From 1 to 2 years	**(13)†**	241	**–**	–
Total due after more than one year	**822**	1,121	**200**	200
Total due within one year	**135**	205	**–**	–
	957	1,326	**200**	200
Total loans				
Due after more than one year	**1,174**	1,332	**200**	200
Due within one year	**243**	251	**–**	–
Total loans	**1,417**	1,583	**200**	200
Aggregate amount of loans any instalment of which falls due after 5 years	**715**	766	**200**	200

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

22 Provisions for liabilities and charges

	At beginning of year £m	Profit and loss account £m	Net amounts paid or becoming current £m	Exchange and other movements £m	At end of year £m
Group					
Deferred taxation (note 10)	101	5		(2)	**104**
Advance corporation tax recoverable	(49)	–	39	(54)	**(64)**
Unfunded pensions (note 36)	139	33	(24)	7	**155**
Employee benefits	210	18	(11)	(14)	**203**
Environmental provisions	96	9	(3)	(7)	**95**
Reorganisation and other provisions	326	122	(165)	(19)	**264**
	823	187	(164)	(89)	**757**
Company					
Deferred taxation (note 10)	46	24		–	**70**
Advance corporation tax recoverable	(28)	–	39	(54)	**(43)**
Other provisions	53	19	(21)	(22)	**29**
	71	43	18	(76)	**56**

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

23 Called-up share capital of parent company

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

The number of Ordinary Shares issued during the year, wholly in respect of the exercise of options, totalled 0.7m.

At 31 December 1996 there were options outstanding in respect of 14.1m Ordinary Shares of £1 under the Company's Share Option Schemes for staff (1995 11.2m) normally exercisable in the period 1997 to 2006 (1996 to 2005) at subscription prices of £4.32 to £12.26 (£4.32 to £12.26). The weighted average subscription price of options outstanding at 31 December 1996 was £6.59.

Options granted to directors are shown in the Remuneration Committee report on page 27.

During 1996 movements in the number of shares under option comprised new options 4.1m, options exercised 0.6m, and options lapsed or waived 0.6m. At the end of 1996 there were 8.0m shares available for the granting of options (1995 11.5m).

24 Reserves

	Share premium account £m	Revaluation £m	Goodwill £m	Associated under-takings £m	Profit and loss account £m	**1996 Total £m**	1995 Total £m
Group							
Reserves attributable to parent company							
At beginning of year	573	36	(823)	59	3,354	**3,199**	3,012
Profit retained for year				7	36	**43**	318
Transfer of goodwill on disposals			7			**7**	12
Amounts taken direct to reserves							
Share premiums	3					**3**	4
Goodwill			(184)			**(184)**	(178)
Exchange adjustments		(1)		3	(191)	**(189)**	27
Share of other reserve movements of associated undertakings and other items				2		**2**	4
	3	(1)	(184)	5	(191)	**(368)**	(143)
At end of year	576	35	(1,000)	71	3,199	**2,881**	3,199

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

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

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 £3,744m at 31 December 1996.

	Share premium account £m	Profit and loss account £m	**1996 Total £m**	1995 Total £m
Company				
Reserves				
At beginning of year	573	1,333	**1,906**	1,858
Net profit for year		255	**255**	262
Dividends		(232)	**(232)**	(217)
Share premiums	3		**3**	4
Exchange adjustments		(21)	**(21)**	(1)
	3	(21)	**(18)**	3
At end of year	576	1,335	**1,911**	1,906

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

25 Net cash inflow from operating activities

	1996 £m	1995 £m
Trading profit	528	900
Exceptional charges within trading profit	137	94
Trading profit before exceptional items	665	994
Depreciation	402	391
Stocks decrease (increase)	62	(203)
Debtors increase	(86)	(97)
Creditors increase	93	105
Other movements, including exchange	(7)	87
	1,129	1,277
Outflow related to exceptional items	(123)	(86)
	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 1996 expenditure relates to provisions raised in 1995 and prior years.

26 Returns on investments and servicing of finance

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

27 Capital expenditure and financial investment

	1996 £m	1995 £m
Purchase of tangible fixed assets	(978)	(641)
Sale of tangible fixed assets	43	12
Sale of fixed asset investments other than associated undertakings or joint ventures	–	11
	(935)	(618)

28 Acquisitions and disposals

	Notes	Acquisitions 1996 £m	Acquisitions 1995 £m	Disposals 1996 £m	Disposals 1995 £m
Subsidiary undertakings and operations					
Tangible fixed assets	13	(77)	(49)	1	50
Investments in participating interests		–	–	–	(2)
Net current assets/liabilities		10	(66)	42	20
Creditors due after more than one year		3	–	–	–
Provisions for liabilities and charges		26	3	6	(8)
Minority interests		2	–	–	44
Fair value of net assets acquired		(36)	(112)		
Book value of net assets disposed				49	104
Goodwill acquired/written back on disposal	24	(184)	(178)	7	12
Consideration for subsidiary undertakings and operations acquired		(220)	(290)		
Investments in participating interests		(18)	–	–	2
Profits less losses on disposals					
Trading activities				5	1
Exceptional items				19	89
		(238)	(290)	80	208
Less					
Cash included in undertakings acquired/disposed		(1)	11	(1)	–
Deferred consideration		5	3	(5)	(2)
Cash consideration		(234)	(276)	74	206
Comprising					
(Outflow) inflow arising on					
current year's acquisitions/disposals		(232)	(276)	73	214
previous year's acquisitions/disposals		(2)	–	1	(8)
		(234)	(276)	74	206

The cash consideration for disposals comprises £53m (1995 £204m) in respect of disposals of operations and £21m (£2m) in respect of participating interests.

Apart from the disposal proceeds, the contribution of the businesses and subsidiary undertakings divested in 1996 to the cash flows for the year was not material.

On 3 April 1996 the Group acquired the whole share capital of Bunge Paints Ltd, which has been accounted for by the acquisition method of accounting. Apart from the consideration, the effect of this acquisition on the Group results was not material.

29 Management of liquid resources

	1996 £m	1995 £m
Commercial paper	465	119
Bank deposits and certificates of deposit	156	2
Floating rate notes, medium term notes, treasury bills	62	138
Asset backed securities	23	(79)
Corporate bonds	13	28
Other	22	2
	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 18).

30 Financing

	Financing – shares				Financing – debt				Total
	Shares issued by Company								
	Share capital	Share premium	Minorities*	Total	Loans	Short-term borrowings other than overdrafts	Finance leases	Total	
Notes		24			21	32	33		
	£m	£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 ø	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 end of 1996	**(725)**	**(576)**	**(182)**	**(1,483)**	**(1,417)**	**(148)**	**(15)**	**(1,580)**	**(3,063)**

* Share capital element of minority interests

			Repayment dates	Currency	Rate %	Amount £m
†	New finance	Bank loan	1998-2008	US$	6.6	74
		Bank loan	from 1998	NT$	7.0	51
		Bank loan	from 1998	US$	7.0	48
		Bank loan	1996-1999	Rupees	variable	20
		Bunge Paints and other loans		various	various	134
						327
ø	Finance repaid	Swiss franc bonds		SF	4.5	137
		Euro dollar bonds		US$	8.0	67
		Bunge Paints loans		various	various	64
		Others				140
						408

31 Analysis of net debt

	Cash	Financing – Debt					Current asset investments	Net debt
		Loans						
		Due after one year	Due within one year	Short-term borrowings other than overdrafts	Finance leases	Total		
Notes	2, 32	21	21	32	33		18	
	£m	£m	£m	£m	£m	£m	£m	£m
At beginning of 1995	149	(1,522)	(181)	(56)	(53)	(1,812)	1,524	(139)
Exchange adjustments	9	(35)	2	(1)	2	(32)	(7)	(30)
Cash flow	112	(23)	194	(56)	41	156	(210)	58
Acquisitions and disposals		–	(25)	–	–	(25)	30	5
Other non-cash changes		248	(241)	–	–	7	–	7
At beginning of 1996	270	(1,332)	(251)	(113)	(10)	(1,706)	1,337	**(99)**
Exchange adjustments	(21)	114	40	–	–	154	(4)	**129**
Cash flow	54	(221)	302	(35)	4	50	(741)	**(637)**
Acquisitions and disposals		(4)	(65)	–	(1)	(70)	(32)	**(102)**
Other non-cash changes		269	(269)	–	(8)	(8)	–	**(8)**
At end of 1996	**303**	**(1,174)**	**(243)**	**(148)**	**(15)**	**(1,580)**	**560**	**(717)**

32 Cash and short-term borrowings

	Cash at bank	Short-term borrowings (note 19)			Net total	Cash (at bank and overdrafts)
		Overdrafts	Other	Total		
	£m	£m	£m	£m	£m	£m
At beginning of 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 end of 1996	**341**	**(38)**	**(148)**	**(186)**	**155**	**303**

33 Leases

Total rentals under operating leases, charged as an expense in the profit and loss account	1996 £m	1995 £m
Hire of plant and machinery	**43**	43
Other	**54**	45
	97	88

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	Land and buildings 1996 £m	Land and buildings 1995 £m	Other assets 1996 £m	Other assets 1995 £m
Expiring within 1 year	**8**	9	**8**	11
Expiring in years 2 to 5	**23**	25	**22**	22
Expiring thereafter	**7**	8	**1**	1
	38	42	31	34

Obligations under finance leases comprise	1996 £m	1995 £m
Rentals due within 1 year	**3**	3
Rentals due in years 2 to 5	**12**	7
	15	10

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

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

34 Employee costs

	1996 £m	1995 £m
Salaries	**1,423**	1,390
Social security costs	**152**	129
Pension costs	**141**	164
Other employment costs	**54**	53
	1,770	1,736
Less amounts allocated to capital and to provisions set up in previous years	**(11)**	(14)
Severance costs charged in arriving at profit before tax	**101**	69
Employee costs charged in arriving at profit before tax	**1,860**	1,791

The average number of people employed by the Group in 1996 was 64,000 (1995 64,800). Segmental analysis of employee numbers appears in note 5.

35 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 1996 approximately 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 existing members.

The total post-retirement healthcare cost for the Group for 1996 was £12m (1995 £17m) and the provision at the year end was £150m (£161m).

In respect of the Group's major US plans the costs and provisions were determined on an actuarial basis using a discount rate of 7.7% (1995 7.9%). Healthcare cost rate increases range from 8.5% to 9.5% for 1996 (1995 9.5% to 13.5%) and are assumed to gradually decrease to 5.5% (5%).

36 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 8.8% (1995 8.8%). The weighted average expected long-term rate of return on investments was 8.9% (1995 8.9%). The weighted average rate of increase of future earnings was 6.0% (1995 5.8%).

The actuarial value of the fund assets of these plans at the date of the latest actuarial valuations was sufficient to cover 94% (1995 92%) of the benefits that had accrued to members after allowing for expected future increases in earnings; their market value was £6,281m (1995 £5,558m).

The total pension cost for the Group for 1996 was £141m (1995 £164m). Accrued pension costs amounted to £17m (1995 £24m) and are included in other creditors (note 20); provisions for the benefit obligation of a small number of unfunded plans amounted to £155m (1995 £139m) and are included in provisions for employee benefits (note 22). Prepaid pension costs amounting to £183m (1995 £110m) are included in debtors (note 17).

ICI Pension Fund

The ICI Pension Fund accounts for approximately 83% 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 1996 disclosed a solvency ratio on a current funding level basis, which assumes a cessation of operation, of 99%. The deficit of £64m in market value terms is planned to be eliminated by 1997. The solvency ratio, on an ongoing basis, is 94% and this deficit, together with the prepayment, is taken into account in arriving at the employers' pension cost charged in the accounts by being amortised as a percentage of pensionable emoluments over the expected working lifetime of existing members.

37 Related party transactions

The following information is provided in accordance with Financial Reporting Standard No. 8 as being material transactions with related parties during 1996.

Related party: IC Insurance Ltd and its subsidiaries (IC Insurance), disclosed as a principal associated undertaking on page 56.

Transactions:
a) Insurance claims settled by IC Insurance with ICI amounted to £11m.
b) Insurance for employee liability risks has been transferred from IC Insurance to ICI involving the transfer of assets amounting to £38m together with provisions of the same amount.

Related party: Phillips-Imperial Petroleum Ltd (PIP), disclosed as a principal associated undertaking on page 56.

Transactions:
a) Sales of crude oil and refined products to PIP amounted to £213m.
b) Purchase of refined oil and refining costs from PIP amounted to £47m.
c) Site services and other charges to PIP amounted to £7m.

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 (£12.7m)). These have been used to repay existing fixed rate loans.

38 Commitments and contingent liabilities

	Group		Company	
	1996 £m	1995 £m	**1996 £m**	1995 £m
Commitments for capital expenditure not provided for in these accounts (including acquisitions)				
Contracts placed for future expenditure	**234**	371	**16**	27
Expenditure authorised but not yet contracted	**353**	747	**73**	136
	587	1,118	**89**	163

Contingent liabilities existed at 31 December 1996 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. The maximum contingent liability in respect of guarantees of borrowings and uncalled capital at 31 December 1996 was £2m (1995 £18m) for the Group; the maximum contingent liability for the Company, mainly on guarantees of borrowings by subsidiaries, was £984m (1995 £1,214m).

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 1996 in accordance with the accounting policy noted on page 31. 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 seven former lead pigment manufacturers and a trade association, in a number of suits in the USA, 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 paint 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. (EUSA) and a former officer 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, EUSA paid a fine of US$10m. Subsequently, EUSA has been named as a defendant in a number of lawsuits, including several proposed class action lawsuits, by parties claiming unquantified damages from a number of explosives companies in the USA. The Company and ICI Canada Inc. have also been named as parties to one of the lawsuits. On 12 September 1996, EUSA entered into a settlement agreement for US$18m (payable over three years) which has been approved by the US District Court for the District of Utah. The settlement does not include a number of class members who chose to opt out of the class nor the plaintiffs in four non-class suits which are at a relatively early stage and for which damages have not been quantified. 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 a 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 Court, 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 Oklahoma County District Court. The Oklahoma Federal 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. Concurrent with the Federal Court's dismissal, the plaintiffs in the Oklahoma State court case voluntarily stayed their case pending the outcome of the appeal in the Federal case. Similarly, the plaintiffs in the Texas state court action have voluntarily non-suited their action, without prejudice. The ICI companies concerned in the actions have strong defences, have denied all liability and will vigorously contest any appeal or further trial court proceedings in this matter.

ICI Australia Ltd and a number of its subsidiaries are parties in proceedings involving claims brought by a number of plaintiffs in Australia relating to the use of an insecticide. The proceedings are continuing. Liability has not been admitted. ICI Australia is not yet in a position to assess the exposure, if any, to damages should the action proceed. ICI Australia has an insurance policy designed to cover such a claim. On the basis of the information currently available to the insurers, they have confirmed to ICI Australia that indemnity is provided to ICI Australia in accordance with the terms of the policy.

The Group is also involved in various other legal proceedings, principally in the UK, and the USA, 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 the year, to its other shareholder, Enron Europe Ltd (Enron). TGT contracted with the owners of a distribution network (the CATS parties) for pipeline capacity for North Sea gas and the commitment is guaranteed severally by Imperial Chemical Industries PLC (Company) and Enron (the present value of the commitment guaranteed by the Company is estimated at £175m). Litigation has now been commenced between the CATS parties and Enron. The Company has been joined as a defendant under its guarantee.
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 £704m.

(ii) the purchase of electric power, which will commence in the first quarter of 1998, for 15 years. The present value of this commitment is estimated at £167m.

(iii) the supply of ethane, which commenced May 1996, for 10 years. The present value of this commitment is estimated at £125m.

39 Statutory and other information
Remuneration of auditors charged in the Group accounts for 1996 was £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 Company and its UK subsidiaries during 1996 totalled £1.6m (1995 £1.7m).

Included in debtors are interest free loans totalling £50,000 (1995 £81,000) to one officer (1995 two officers) of the Company.

Principal subsidiary undertakings
at 31 December 1996

	Class of capital	Held by ICI %	Principal activities
UNITED KINGDOM			
ICI Chemicals & Polymers Ltd England	Ordinary	100†	Manufacture of chemicals, plastics and fertilisers; merchanting of ICI and other products
ICI Finance PLC England	Ordinary	100†	Financial services
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 chlor-chemicals; 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 acrylics, films, paints, polyurethanes and chemicals; merchanting of other ICI products
ICI Canada Inc Canada	Common Preference	100† 100†	Manufacture of industrial explosives and initiating systems, paints, chlor-alkali and other chemicals; merchanting of ICI and other products
ICI Explosives USA Inc USA	Common	100	Manufacture of industrial explosives and initiating systems
Tintas Coral SA Brazil	Ordinary	100†	Manufacture of paints
ASIA PACIFIC			
ICI Australia Ltd Australia (Accounting and reporting date 30 September)	Ordinary*	62†	Manufacture and distribution of fertilisers and crop care products, chemicals, mining services, plastics, consumer products, and advanced sciences services and products
ICI China Ltd Hong Kong and China	Ordinary	100†	Merchanting of ICI and other products
ICI Far Eastern Ltd Republic of China	Ordinary Special	39 31† 39 31†	Manufacture of pure terephthalic acid
ICI Japan Ltd Japan	Ordinary	100†	Manufacture of polyester films and acrylics compounds; merchanting of ICI and other products
OTHER COUNTRIES			
AECI Explosives Ltd Republic of South Africa	Ordinary	51†	Manufacture of industrial explosives and initiating systems
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 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.

Principal associated undertakings
at 31 December 1996

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

† 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
for the year ended 31 December 1996

	Notes	1996 £m	1995 £m	1994 £m
Sources of income				
Turnover	6	**10,520**	10,269	9,189
Royalties and other trading income	6	**98**	84	82
Less materials and services		**(7,820)**	(7,271)	(6,556)
Value added by manufacturing and trading activities		**2,798**	3,082	2,715
Share of profits less losses of associated undertakings	8	**27**	18	14
Value added related to exceptional items taken below trading profit		**32**	84	(37)
Total value added		**2,857**	3,184	2,692
Disposal of total value added				
Employees				
Employee costs charged in arriving at profit before tax	34	**1,860**	1,791	1,791
Governments				
Corporate taxes	10	**158**	308	164
Less grants	6	**(6)**	(7)	(8)
		152	301	156
Providers of capital				
Interest cost of net borrowings	9	**89**	61	88
Dividends to shareholders	11	**232**	217	199
Minority shareholders in subsidiary undertakings		**65**	84	56
		386	362	343
Re-investment in the business				
Depreciation	13	**416**	412	413
Profit (loss) retained	24	**43**	318	(11)
		459	730	402
Total disposal		**2,857**	3,184	2,692

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 1996

Strong performances in Paints and Materials segments during 1996 have been masked by cyclical price reductions in Industrial Chemicals. Tight controls on costs and working capital have been maintained and with a strong balance sheet, an increased dividend of nearly 7% signals the Board's commitment and confidence in its ability to create value for its shareholders.

Economic background

Although the economies in the OECD grew a little faster in 1996, industrial production rose by just over 2% compared with 3% in 1995 and 4.7% in 1994. Chemical demand in ICI's markets slowed further to a growth rate of 2.2% compared with 3% in 1995. In the OECD area, growth was only 1.7% and in Continental Western Europe 1%. Chemical prices generally remained flat or fell in 1996 in most markets and excess capacity forced prices down in a number of bulk chemical sectors.

Group turnover and profit

The hard won benefits from the reshaping of the Group, which are reflected in the improved performances of some Businesses, especially Paints, have been masked in the 1996 Group results by the cyclical downturn in certain of the Industrial Chemicals operations. Despite the difficulties faced by the global chemical industry, the Group's turnover at £10,520m was 2.4% higher than the previous year assisted by acquisitions in the Paints Business. The Group experienced an average volume increase nearing 2% for the year as a whole. Although average prices were higher than 1995 in some Businesses, price reductions principally in Industrial Chemicals, resulted in overall prices down by 3.4%. Sales were 1% up on last year as a result of exchange rate movements.

By geographic segment, turnover was 11% higher in the Americas principally due to the Paints acquisitions and a 2% volume increase. Sales in Asia Pacific were up 3% mainly from higher sales volumes. Turnover in Continental Europe was down by over 6% due mainly to both volume and price weakness in Industrial Chemicals. Sales to UK customers were 1% higher with a 6% sales volume increase offset by lower prices especially in Industrial Chemicals.

Trading profit before exceptional items at £665m was down 33% on 1995. Reduced selling prices were the principal cause partly offset by the additional profits generated from the Paints acquisitions and by lower variable costs. Exchange rates had little net effect across the year as a whole. Profits in the final quarter of 1996 were 36% down on the corresponding period in 1995 reflecting the fall in prices particularly in the Industrial Chemicals and Materials segments. The strength of sterling and higher oil prices also affected profits in the final quarter.

Exceptional items charged at trading profit level amounted to £137m in respect of rationalisation measures in Paints (£44m), Acrylics (£28m) and Explosives (£65m).

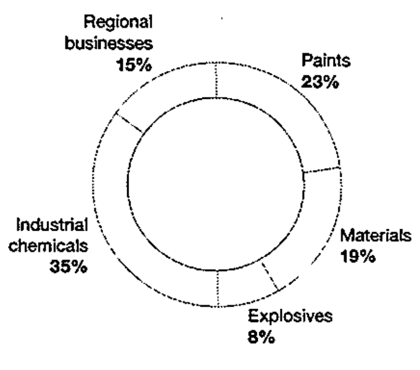
Income from associated companies of £27m includes ICI's share of the profits of its principal investments of which the largest contributors were IC Insurance Ltd, Phillips-Imperial Petroleum Ltd.and Irish Fertilizer Industries Ltd.

Profits less losses on the sale of assets of £32m comprises the sale of Teesside Gas Transportation Ltd., the final proceeds received from the disposal of the polypropylene business in 1994 which contained a performance related clause giving rise to additional receipts in 1995 and 1996, the disposal of a sector of the US based Surfactants textile business and other disposals in India, China and Taiwan.

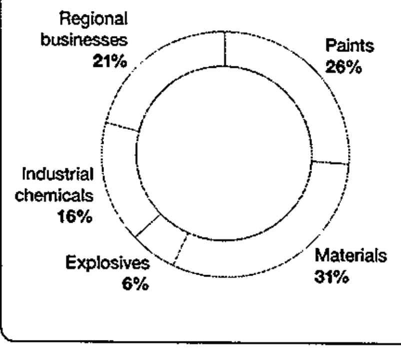
The net interest charge of £89m is £28m higher than the previous year reflecting the higher level of net debt required to finance loan repayments, acquisitions and the increased level of capital expenditure referred to later. Interest rates have remained relatively stable and currency movements have had little affect on the year's charge compared to 1995.

The taxation charge on profits before exceptional items represents a rate of 31.0% compared to the more normal 33.0% for the previous year. The lower tax rate is due partly to the lower tax rates in the USA arising from additional tax depreciation, and the benefit of tax relief in Australia from expenditure provided in earlier years. Taxation credits on exceptional items relate primarily to the rationalisation costs.

Turnover by business sector – 1996



Trading profit before exceptional items by business sector – 1996



Earnings and dividends

Profits after taxation but before exceptional items amounted to £416m, a 35% reduction from the previous year. Profits attributable to minority interests were down by 23% reflecting lower profits in non-wholly owned subsidiaries including ICI Pakistan Ltd and ICI Far Eastern Ltd.

Earnings per share before exceptional items has fallen by 37% to 48.6p and after exceptional items by 49% to 37.9p.

The Board's stated dividend policy is to distribute about 50% of earnings on average through the trade cycle. The difficult conditions, particularly in Industrial Chemicals, were in evidence at the half year when the Board agreed to raise the interim dividend by 1p. The Board remains confident of its ability to create value for its shareholders. It has therefore decided to raise the second interim dividend by 1p to 19.5p, which with the interim dividend of 12.5p per £1 Ordinary Share paid in October, makes a total dividend for 1996 of 32p, an increase of almost 7%. Dividend cover in 1996 before exceptional items is 1.5 and 1.2 after exceptional items.

Productivity

The Group has set a demanding financial objective of achieving an aggregate Business RONA of 20% through the trade cycle. The effect of cyclical price reductions, referred to earlier, are the principal reasons for the reduction in the 1996 return to 11.5%, displayed by Business in the chart below. The RONA in ICI's lighter end businesses (Paints, Acrylics, Polyurethanes and Performance Chemicals) in 1996 was 18%. Sales volumes per employee rose last year by a further 8% and contributed to the impressive 8% per annum improvement in the real average growth in sales volume per employee since demerger. In addition to the rationalisation measures within exceptional items, the Group is well under way with many other initiatives within its value opportunity programme which has targeted, in total, savings of £400m a year by the end of 1997. The total cost of severance in 1996 charged to trading profits, was £101m.

Cash flows

Cash inflow from operating activities at £1,006m was down 16% compared to the previous year with the fall in operating profits being partly compensated by a positive cash flow of £69m from a reduction in working capital. The Group's working capital to sales ratio improved by 2% in 1996. Cash outflow on exceptional items was £37m higher at £123m due to the acceleration of the Value Opportunity Programme.

Net interest payments at £98m were £29m higher than 1995 reflecting the higher levels of net debt. Dividend income was also higher at £23m. Taxation payments were significantly up at £250m due principally to the increase in taxable profits in 1995. The expenditure on fixed assets of £978m contained within the net cash outflow of £935m includes £220m spent on the PTA plants in Taiwan and Pakistan, £70m on the MDI plant in Holland, £50m on the ethane pipeline in Australia, £40m on the polyester fibre plant in Pakistan, £40m on 'Melinar' PET in the UK, £30m on the aniline and nitrobenzene operations in the UK and £30m on 'Melinex' in the UK.

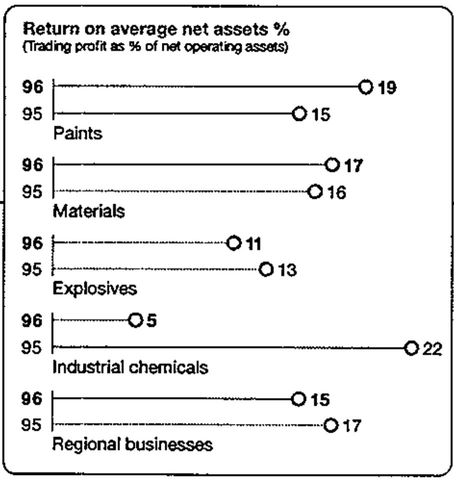
Acquisitions amounting to £234m related principally to the cost of the investment in Bunge Paints. Other acquisitions included Thai Poly Acrylic and a loan to an associated company, Teijin Fluorochemicals.

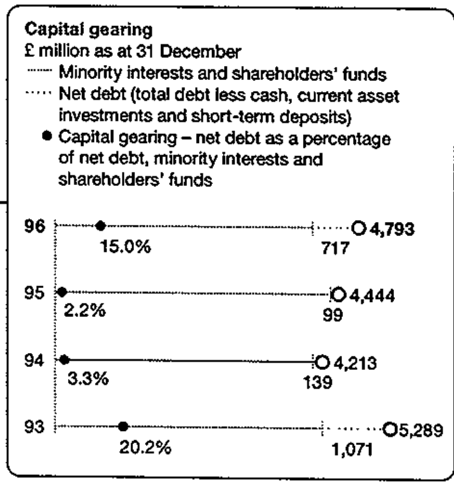
Disposals amounting to £74m included £44m in respect of household chemicals and marine products acquired within the Grow Group purchase in 1995, £13m for Teesside Gas Transportation Ltd. and a final £7m receipt in respect of the 1994 polypropylene disposal.

In order to fund the increased expenditure during the year, current asset investments have been liquidated giving rise to a cash inflow of £741m. Loans have been reduced by £81m and short-term borrowings have been increased by £35m. These debt movements, together with subscriptions for shares issued by the Company of £3m and share issues in subsidiaries to minority interests amounting to £46m, have resulted in a cash outflow from financing of £1m.

The balance sheet remains strong with capital gearing at the year end of 15%.

Alan G Spall
Finance Director





Summary Group profit and loss account
for the year ended 31 December 1996

		1996			1995		
	Notes	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Turnover	1	10,520	–	10,520	10,269	–	10,269
Trading profit (loss)	1	665	(137)	528	994	(94)	900
Share of profits less losses of associated undertakings		27	–	27	18	–	18
Profits less losses on sale of fixed assets			32	32		70	70
Profit (loss) before interest	1	692	(105)	587	1,012	(24)	988
Net interest payable		(89)		(89)	(61)		(61)
Profit (loss) before taxation		603	(105)	498	951	(24)	927
Taxation		(187)	29	(158)	(314)	6	(308)
Profit (loss) after taxation		416	(76)	340	637	(18)	619
Attributable to outside shareholders		(64)	(1)	(65)	(82)	(2)	(84)
Earnings (loss) for the financial year		352	(77)	275	555	(20)	535
Dividends	2			(232)			(217)
Earnings retained for year				43			318
Earnings (loss) per £1 Ordinary Share	3	48.6p	(10.7)p	37.9p	76.7p	(2.8)p	73.9p

Note: Directors' emoluments are set out in the statement on page 21.

Summary Group balance sheet
at 31 December 1996

	Notes	1996 £m	1995 £m
Assets employed			
Fixed assets		4,629	4,263
Current assets		4,422	5,209
Total assets		9,051	9,472
Creditors due within one year		(2,952)	(2,873)
Net current assets		1,470	2,336
Total assets less current liabilities		6,099	6,599
Financed by			
Creditors due after more than one year		1,246	1,404
Provisions for liabilities and charges		757	823
Deferred income: Grants not yet credited to profit		20	27
Interests of outside shareholders in subsidiaries - equity		470	421
Shareholders' funds – equity			
Called-up share capital		725	725
Reserves		2,881	3,199
Total shareholders' funds	4	3,606	3,924
		6,099	6,599

This Summary Financial Statement was approved by the Directors on 12 February 1997 and signed on their behalf by:

Sir Ronald Hampel Director
A G Spall Director

R. C. Hampel
Alan Spall.

Summary Group cash flow
for the year ended 31 December 1996

	Notes	1996 £m	1995 £m
Net cash inflow from operating activities		1,006	1,191
Interest payments and dividends to outside shareholders, less dividend income		(122)	(94)
Taxation		(250)	(162)
Capital expenditure		(935)	(618)
		(301)	317
Acquisitions		(234)	(276)
Disposals		74	206
Dividends paid		(225)	(206)
Cash (outflow) inflow before use of liquid resources and financing		(686)	41
Management of liquid resources		741	210
Financing		(1)	(139)
Increase in cash		54	112

The 1995 figures have been restated to comply with FRS 1 (Revised) Cash Flow Statements.

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	
	1996 £m	1995 £m	1996 £m	1995 £m	1996 £m	1995 £m	1996 £m	1995 £m
Classes of business								
Paints	2,437	2,003	171	107	127	38	1,018	804
Materials	1,991	2,067	206	195	178	237	1,197	1,293
Explosives	808	778	40	49	(25)	12	377	385
Industrial Chemicals	4,045	4,250	109	496	124	552	2,275	2,306
Regional Businesses	1,682	1,604	139	146	156	130	1,001	875
Inter-class eliminations	(443)	(433)	–	1	–	1		
Share of profits less losses of associated undertakings					27	18		
Net operating assets							5,868	5,663
Net non-operating assets							231	936
	10,520	10,269	665	994	587	988	6,099	6,599
Geographic areas								
United Kingdom								
Sales in the UK	2,249	2,125						
Sales overseas	1,823	2,017						
	4,072	4,142	145	356	128	384	1,722	1,704
Continental Europe	1,435	1,476	39	91	33	70	630	696
The Americas	3,133	2,849	234	220	162	179	1,392	1,447
Asia Pacific	2,556	2,431	190	269	180	274	1,801	1,628
Other countries	458	462	57	59	57	64	323	188
	11,654	11,360	665	995	560	971		
Inter-area eliminations	(1,134)	(1,091)	–	(1)	–	(1)		
Share of profits less losses of associated undertakings					27	18		
Net operating assets							5,868	5,663
Net non-operating assets							231	936
	10,520	10,269	665	994	587	988	6,099	6,599

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.

2 Dividends

	1996 pence per £1 Ordinary Share	1995 pence per £1 Ordinary Share	1996 £m	1995 £m
Interim, paid 7 October 1996	12.5p	11.5p	91	83
Second interim, to be confirmed as final, payable 21 April 1997	19.5p	18.5p	141	134
	32.0p	30.0p	232	217

3 Earnings (loss) per £1 Ordinary Share

Earnings (loss) per £1 Ordinary Share has been calculated based on the average Ordinary Shares in issue during year, weighted on a time basis	million 725	million 724

4 Movements in shareholders' funds during the year

	1996 £m	1995 £m
Shareholders' funds at beginning of the year	3,924	3,736
Movements in funds during the year		
Earnings after dividends	43	318
Goodwill purchased and charged to reserves, less goodwill previously charged on businesses disposed of in the year	(177)	(166)
Change in value in overseas net assets due to exchange movements	(189)	27
Other items	2	4
Value attributed to new shares issued	3	5
	(318)	188
Shareholders' funds at end of the year	3,606	3,924

5 Auditor's Report

The Auditor's Report on the full accounts for the year ended 31 December 1996, which includes the tables in the Remuneration Committee Report on pages 21 to 23 of this document, 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 15 to 19.

Respective responsibilities of the directors and auditors

The Summary Financial Statement is the responsibility of the Directors. Our responsibility is to issue an independent opinion on the Summary Financial Statement.

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 1996 and complies with the requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

KPMG Audit Plc

London
12 February 1997

KPMG Audit Plc
Chartered Accountants
Registered Auditor

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
Miss Ellen R Schneider-Lenné (until 25 December 1996)
Mr G Simpson

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 regularly receives market surveys and analyses from a variety of external sources such as Hay Group and from a number of similar UK companies.

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 normally employed on rolling contracts subject to two years' notice at any time.

The Remuneration Committee considers such notice periods are reasonable and necessary to attract and retain high calibre executive directors. Sir Ronald Hampel's contract of service as Chairman is subject to one year's notice which, if given by him, cannot expire until after the Company's Annual General Meeting in 1999. Mr C Miller Smith's contract of service as Chief Executive is subject to one year's notice. The Remuneration Committee accepts and strongly endorses the principle of mitigation of damages on early termination of a service contract.

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 at competitive base levels (the salary at appointment) and are within a range of up to 130% of base level to allow the Remuneration Committee to reward the performance and experience of executive directors. No annual cost of living or inflation adjustment is made to this base level, but each year the base level is benchmarked against median salaries for comparable positions in industrial and service companies to ensure that it remains competitive. An annual assessment of each individual executive director's performance is carried out by the Remuneration Committee in consultation with the Chairman and Chief Executive, as appropriate, in order to determine their positioning on the scale.

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 is 40% and is not pensionable. For 1996 the bonus for executive directors was again related entirely to increased earnings per share after exceptional items ('EPS'). The trigger point was established at 77.6p compared with the 73.9p achieved EPS in 1995. The 37.9p achieved EPS in 1996 has resulted in no bonus being paid.

The details of the short-term benefits for individual executive directors are set out on page 21.

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 22.

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 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 1996 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 22.

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.

Remuneration of directors

	Salary		Benefits		Annual bonus (note 1)		Long-term performance bonus		Total		Pension fund contributions	
	1996 £000	1995 £000	**1996 £000**	1995 £000	**1996 £000**	1995 £000	**1996 £000**	1995 £000	**1996 £000**	1995 £000	**1996 £000**	1995 £000
Emoluments of executive directors												
Sir Denys Henderson		104		2		42		138		286		
Sir Ronald Hampel	**200**	369	**9**	12		57		425	**209**	863		
C Miller Smith	**500**	417	**16**	16		167			**516**	600	**125**	104
M E Brogden	**310**	268	**13**	11		107			**323**	386	**38**	33
R J Margetts	**325**	285	**10**	8		114			**335**	407	**39**	34
C M Short		106		5		42				153		
A G Spall	**310**	267	**6**	8		107			**316**	382	**38**	33
	1,645	1,816	**54**	62		636		563	**1,699**	3,077	**240**	204

Fees to non-executive directors (note 2)	**1996 £000**	1995 £000
Sir Roger Hurn	**30**	21
H C Lee	**21**	
Sir Antony Pilkington	**30**	24
Miss Ellen R Schneider-Lenné	**25**	24
G Simpson	**25**	21
	131	90
Pension fund contributions for executive directors	**240**	204
Total remuneration	**2,070**	3,371

(1) Excludes the benefit of matched shares under the Bonus Conversion Plan which will be included in emoluments in the year in which the benefit of the extra shares provided by the Company is received by the director. The directors' contingent interests in matched shares are set out in the table on page 22.

(2) 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 £190,000 (1995 £334,000).

	Salary		Benefits		Annual bonus		Long-term performance bonus		Total		Pension fund contributions	
	1996 £000	1995 £000	**1996 £000**	1995 £000	**1996 £000**	1995 £000	**1996 £000**	1995 £000	**1996 £000**	1995 £000	**1996 £000**	1995 £000
Emoluments of Chairman												
Sir Denys Henderson (to 27 April 1995)		104		2		42		138		286		
Sir Ronald Hampel (from 27 April 1995)	**200**	133	**9**	8					**209**	141		

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.

ICI £1 Ordinary Shares		1 January 1996 or on date of appointment	31 December 1996	Contingent interests in matched shares* 1 January 1996	Contingent interests in matched shares* 31 December 1996
Sir Ronald Hampel		40,948	40,948	14,571	14,571
C Miller Smith		6,000	13,886	1,500	7,086
M E Brogden		10,918	28,851	7,645	14,818
Sir Roger Hurn		500	500		
H C Lee		–	500		
R J Margetts		37,369	49,011	8,571	16,213
Sir Antony Pilkington:	beneficial	8,400	8,400		
	non-beneficial	20,860	20,860		
G Simpson		5,000	5,000		
A G Spall		12,136	19,309	8,571	15,744

* 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 20).

During the period 1 January 1997 to 3 February 1997 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 1996 are included in the table below.

Directors at 31 December 1996	1 January 1996 Number	Options granted Number	Options granted Price £	Options exercised Number	Options exercised Weighted average exercise price £	Options exercised Weighted average market price £	31 December 1996 Number	31 December 1996 Weighted average exercise price £	Date from which exercisable	Expiry date
Sir Ronald Hampel	137,982						137,982	6.60	31.5.92	27.4.97
C Miller Smith	205,000						26,700	7.49	9.5.98	9.5.05
		30,600	8.98				208,900	8.02†	7.11.97	7.5.06
M E Brogden	60,360			10,760	5.26	9.03	49,600	7.28	24.6.96	9.5.05
		25,900	8.98				25,900	8.98†	7.5.99	7.5.06
R J Margetts	160,955	343	6.43	14,001	4.97	9.30	147,297	6.56	29.3.92	9.5.05
		27,100	8.98				27,100	8.98†	7.5.99	7.5.06
A G Spall	101,788	236	6.43				102,024	7.37	24.6.96	9.5.05
		25,900	8.98				25,900	8.98†	7.5.99	7.5.06

† Exercise price exceeds market price at 31 December 1996.

No options lapsed during the year. The options outstanding are exercisable at prices between £5.26 and £8.98. The market price of the shares at 31 December 1996 was £7.68½ and the range during 1996 was £7.41½ to £9.53½. The Register of Directors' Interests (which is open to shareholders' inspection) contains full details of directors' shareholdings and options to subscribe for shares.

Remuneration package (continued)

Post-retirement benefits – all executive directors, other than Sir Ronald Hampel and Mr C Miller Smith, 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 rate of 12.2% of salary in 1996.

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 £125,000 in 1996.

Mr M E Brogden, Mr R J Margetts and Mr A G Spall all 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 1996 are shown in the table on page 23. The entitlements from the ICI Pension Fund are as follows:

(a) 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 23 includes a notional pensionable bonus of 10% in respect of Mr R J Margetts' benefits.

(b) 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;

(c) 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;

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

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

Directors' pension benefits

	Age at 31 December 1996	Contributions by directors £	Amount of additional pension accrued in 1996 payable at normal retirement age £	Accrued pension at 31 December 1996 payable at normal retirement age £
M E Brogden	58	18,980	27,000	189,730
R J Margetts	50	19,960	22,720	166,350
A G Spall	52	18,980	23,120	152,200

Pensions in payment or in deferment are guaranteed to increase annually in November by the lesser of 5% or the increase in RPI. 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.

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 21.

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.

Sir Roger Hurn
12 February 1997