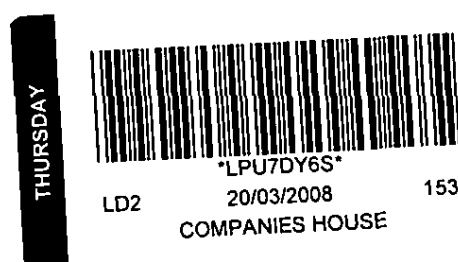




# **Imperial Chemical Industries Limited** **(formerly Imperial Chemical Industries PLC)**

## **Directors' Annual Report and Accounts**



**Registered number 218019**

**For the year ended 31 December 2007**

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# Directors' Report

The Directors of Imperial Chemical Industries Limited have pleasure in presenting their Annual Report and Accounts for the year ended 31 December 2007

## Principal activities and business review

The principal activities of the Company are research, manufacture and sale of paints and other chemical products. A review of the Company and its subsidiaries' businesses is given in the Business Review on pages 3 to 8 of this Report.

## Change of Control

With effect from 2 January 2008, Akzo Nobel NV ("Akzo Nobel") acquired the entire issued share capital of the Company by way of Scheme of Arrangement, in accordance with section 425 of the Companies Act 1985, and the Company delisted from the London Stock Exchange. Following the de-listing of its shares, the Company changed its status from a public to a private limited company with effect from 7 January 2008.

## Dividends

The Directors have declared the payment of a final dividend of 5.00 pence per Ordinary Share which was paid on 15 January 2008 to Ordinary shareholders on the Company's Share Register on 19 December 2007. A first interim dividend of 4.95 pence per Ordinary Share was paid on 5 October 2007 making a total of 9.95 pence (2006 8.90 pence) for the financial year 2007. During the year the second interim dividend for 2006 of 4.75 pence was approved and paid on 13 April 2007.

## Share capital

Changes in the Company's ordinary share capital during the year are given in note 27 relating to the Group accounts.

## Directors

The names of the Directors of the Company who held office during the year are as follows:

Peter B Ellwood, CBE, Chairman  
John D G McAdam, Chief Executive  
Alan Brown, Chief Financial Officer  
David C M Hamill, Director  
Charles F Knott, Director until 2 March 2007  
Adn Baan, Non-Executive Director  
Rt Hon Lord Butler of Brockwell, KG, GCB, CVO, Senior Independent Director  
Joseph T Gorman, Non-Executive Director  
Richard N Haythornthwaite, Non-Executive Director  
Baroness Noakes, DBE, Non-Executive Director

Peter B Ellwood, Adn Baan, Rt Hon Lord Butler of Brockwell, KG, GCB, CVO, Joseph T Gorman, Richard N Haythornthwaite and Baroness Noakes all resigned from their positions with the Company with effect from 2 January 2008.

With effect from 2 January 2008, Julie A M Shannon, Derek W Welch and Bernard J Schoordijk were appointed as Directors of the Company.

## Executive Management Team

In addition to the Executive Directors, the Executive Management Team includes Rolf Deusinger and Andy M Ransom, both of whom held office throughout the year. These two individuals are also regarded as the Officers of the Company for the purposes of the Annual Report and Accounts together with David J Gee until his retirement from the Company on 31 March 2007.

## Corporate governance

ICI is committed to high standards of corporate governance. The Group has applied the principles contained in Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council as amended and reissued in 2006 and has complied throughout 2007, and to 2 January 2008 when the Company delisted from the London Stock Exchange, with the provisions set out therein as they apply to the Group.

## ICI employment principles

ICI manages its global organisations through its businesses, each of which is responsible for determining its own employees' terms and conditions and employment policies within the framework of the following Employment Principles agreed by the ICI Executive Management Team:

These Employment Principles are fully consistent with the commitments given in both the ICI Sustainability Report and the ICI Code of Conduct.

## ICI disability discrimination policy

The working environment of a disabled person may often contain barriers that affect equal integration and participation within the workplace. These barriers may take the form of unadapted equipment, physical access, or discriminatory attitudes and behaviour. By attempting to create an accessible and non-discriminatory working environment, the Company seeks to assist disabled people to achieve equality alongside their colleagues, and to make a full and positive contribution.

Unfair discrimination of any disabled worker or visitor is unacceptable and will not be tolerated by ICI. Allegations of disability discrimination will be taken seriously at all levels and will be dealt with in a confidential manner. Appropriate disciplinary action, including summary dismissal for serious offences, may be taken against any employee who discriminates unfairly against a disabled person.

# Directors' Report continued

## **ICI disability discrimination policy (continued)**

In order to ensure that people with disabilities in ICI obtain equality of opportunity alongside others, and that they are actively encouraged to contribute and realise their potential, ICI is undertaking the commitments set out by the UK Employment Services to become a Disability Symbol (the "symbol") user and is subscribing to the initiative "positive About Disabled People", a nationally-recognised framework for developing good practice in relation to disabled people. As a company, ICI is committed to improving work and career opportunities for all its employees, and the Symbol supports this for both current and future employees, some of whom may have a disability.

## **Payment to suppliers**

The Company agrees terms and conditions for its business transactions with suppliers. Payment is then made to these terms, subject to the terms and conditions being met by the supplier. Payment terms can differ in the many markets in which ICI trades. Trade creditors of the Company at 31 December 2007 were equivalent to 55 days (2006 60 days) purchases, based on the average daily amount invoiced by suppliers to the Company during this year.

## **Charitable and political donations**

The Group's worldwide charitable donations in 2007 amounted to £1.8m (2006 £2.0m). Of this total, £0.1m was spent in the UK (2006 £0.1m).

The Group made no donations for political purposes during 2007 (2006 £nil).

## **Auditor**

KPMG Audit Plc has expressed its willingness to continue in office as Auditor of the Company.

The total audit fees of the Group were £1.3m (2006 £1.4m). Included in services other than Audit – remuneration of the Auditor and associates is £2.0m (2006 £1.9m) which relates to fees for audits of subsidiary companies in the UK and overseas, both for the purposes of consolidation into the Group accounts and to meet statutory requirements of the countries in which subsidiaries operate.

Fees paid to the Auditor (and its associates) of the Company for services other than statutory audit supplied to the Group are given on page 35 of this Report.

## **Disclosure of information to Auditors**

Each person who is a Director of the Company at the date of approval of this Report confirms that

- i) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- ii) each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any information and to establish that the Company's auditors are aware of that information.

This information is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

## **Directors' remuneration**

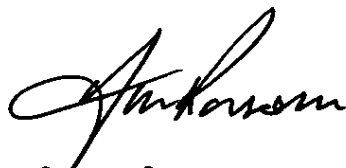
A statement of Directors' remuneration is set out in the Remuneration report on pages 9 to 17.

## **Going concern**

The operation of the Group's control procedures gives the Directors a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Group accounts. Following the acquisition of the Company by Akzo Nobel on 2 January 2008, the Directors believe that this basis continues to be appropriate.

On behalf of the Board

Registered Office  
20 Manchester Square  
London W1U 3AN



Company Secretary  
14 February 2008

Registered number 218019

# Business Review

## ICI Group

Following the acquisition of ICI by Akzo Nobel, discussion of future strategy and achievement by way of key performance indicators is not included in this document. Reference should be made to the Akzo Nobel Group accounts for appropriate forward-looking statements concerning ICI.

## Background

ICI is one of the world's leading coatings, adhesives, starch and synthetic polymer businesses with products and ingredients developed for a wide range of markets.

ICI's core coatings, adhesives, starch and synthetic polymer businesses comprise ICI Paints and the adhesives, specialty starches, specialty polymers and electronic materials operations of National Starch. These businesses serve diverse consumer and industrial markets through some 40 strategic business units, with an array of market leadership positions around the world. In addition, a number of Regional and Industrial businesses remain in ICI's portfolio.

The businesses are supported by Group functions that provide expertise in the disciplines of information technology, procurement, human resources, operations, finance, sustainability, safety, security, health and the environment (SSHE), and applied technology.

ICI is headquartered in the UK, where it also has a number of major manufacturing activities. Outside the UK, the Group's activities are geographically diverse, with Asia and Latin America accounting for 38% of sales, Europe 30%, North America 29%, and the rest of the world 3%.

## Developments in 2007

In November 2006, ICI had announced the agreed sale of Quest to Givaudan SA for £1.2bn. The sale was completed successfully in early March 2007. Charles Knott, the Chairman and Chief Executive of Quest and a Director of ICI, stepped down from the ICI Board at this time. The Board would like to thank Charles for his commitment, hard work and contribution to ICI over many years.

The transformation strategy, initiated in 2006, continued to be implemented in 2007, with its particular focus on accelerating profitable growth, improving operational effectiveness, and developing a culture of sustainable improvement. Investment and growth continued in the developing markets in Asia, Eastern Europe and Latin America, and with selected acquisitions. The restructuring programme continued to be implemented successfully, combining projects within the international businesses with functional cross business programmes.

On 13 August 2007 the Board announced that it had reached conditional agreement with the Board of Management and Supervisory Board of Akzo Nobel on the terms of a recommended cash offer by Akzo Nobel for the entire issued and to be issued share capital of ICI, including the ICI Shares underlying the ICI ADSs. Under the terms of the Transaction, ICI Shareholders would receive 670 pence in cash for every ICI Share. The offer price of 670 pence for each ICI Share valued the entire issued ordinary share capital of ICI at approximately £8.0bn.

The transaction has been completed by way of a court-sanctioned scheme of arrangement under section 425 of the Companies Act 1985. The scheme was approved at a court meeting and EGM of ICI Shareholders on 6 November 2007. On 20 December 2007 the court confirmed the reduction of capital required to effect the acquisition of ICI by Akzo Nobel and the scheme became effective on 2 January 2008.

In connection with the acquisition of ICI, Akzo Nobel entered into an agreement with Henkel to sell all assets and liabilities comprising the business divisions known within the ICI Group as the "Adhesives Division" and the "Electronic Materials Division", both of which form part of the "National Starch" business of ICI, for £2.7bn (€4.0bn) in cash (calculated on a debt and cash free basis and subject to certain adjustments).

## Financial Review

ICI had a strong performance in 2007. This performance was achieved despite a mixed trading environment. Market conditions in Asia and Latin America remained strong, conditions in Europe were mixed, and North America was challenging particularly for Paints.

Sales increased 5% on a comparable basis, trading profit for continuing operations grew 16% and adjusted earnings per share by 21%. With the £1.2bn sale of Quest completing in March 2007, net cash at year end was £304m, compared with net debt of £329m at the end of 2006. In addition, the net post-retirement benefit deficit reduced to £436m.

The following review refers to the performance of the continuing Group. In the review, references to "as reported" performance include the effects of currency translation, acquisitions and divestments. References to "comparable" performance exclude the effect of currency translation differences and the impact of acquisitions and divestments. Reconciliations between "comparable" and "as reported" performance and between operating profit and trading profit can be found on page 8. This review should be read in conjunction with the definitions on page 81 including definitions of "comparable" performance and ICI's reporting segments.

## Revenue

Sales for the continuing Group as reported were £4,899m, 1% ahead of 2006 (2006 £4,845m). Excluding the effects of foreign currency translation and acquisitions and divestments (-4%), sales were 5% ahead of 2006 on a comparable basis.

Comparable sales growth for Paints was 3%, for National Starch 8%, and for Regional and Industrial 6%. Regionally, Asia grew 12%, Latin America 12%, Europe 5% on a comparable basis, however North America fell (1)% due to difficult trading conditions for the decorative Paints business in the region.

## Trading/Operating profit

Selling price increases partially compensated for raw material cost inflation in the Adhesives, Electronic Materials and Specialty Starch businesses. Costs below gross margin increased only slightly due to further benefits from the restructuring and transformation programme. Continuing Group trading profit as reported for the year was £560m, 11% ahead of 2006 (2006 £502m). Excluding the effects of foreign currency translation and acquisitions and divestments, trading profit was 16% ahead of 2006 on a comparable basis.

After a special items charge of £96m, discussed further below, Group operating profit was £464m (2006 £431m).

Trading profit for both Paints and National Starch was ahead of last year, by 17% and 16% respectively on a comparable basis, whilst the trading profit for Regional and Industrial was 8% higher.

# Business Review continued

## Associates

The Group's share of profits from associates for the year was £4m (2006 £2m profit)

## Net finance expense

Net finance expense before special items of £3m for the year was £94m lower than last year (2006 £97m), with net interest costs substantially lower at £8m (2006 £79m) due primarily to the lower levels of debt resulting from the Quest and Uniqema divestments. Post-retirement benefit finance costs of £5m credit were lower (2006 £18m charge) due primarily to favourable movements in return on asset and discount rates, but also to the impact of additional top-up payments made into the pension funds.

## Profit before tax

Adjusted profit before tax for the continuing Group was £561m, 38% ahead of 2006 (2006 £407m). Adjusted profit before tax for continuing and discontinued operations was £573m, 19% above 2006 (£482m). After special items, continuing Group profit before tax was £364m, 3% above last year (2006 £355m).

## Taxation

The adjusted tax rate for the continuing Group for the year was 17% compared with 17% in 2006. This relatively low rate reflected a reduction in tax provisions following the settlement of various outstanding matters with tax authorities. Taxation on adjusted profit before tax for the continuing Group was £97m for the year, £27m above last year. The adjusted tax rate is calculated as taxation on continuing operations (excluding tax on special items) before special items divided by adjusted profit before tax. Including tax on special items, taxation on continuing operations was £58m (2006 £56m).

## Special items

After taxation, special items for continuing operations amounted to a loss of £158m (2006 £38m). Special items in continuing operating profit were a charge of £96m primarily related to the transformation programme announced in 2006. Special items below operating profit included a charge of £67m for costs relating to the takeover of ICI by Akzo Nobel.

Within net finance expense, special items included a £37m loss (2006 £15m gain) in respect of foreign exchange differences on debt, (mainly Euro), which did not form part of an effective net investment hedge.

Special items in operating profit for discontinued operations, a charge of £7m, included a foreign exchange loss of £6m on the fine of €91.4m imposed by the European Commission in 2006 in relation to alleged cartel activity in the European methacrylates market. ICI provided for the fine in 2006 but has filed an appeal before the European Court of First Instance.

Profit on the sale of discontinued operations after taxation of £952m primarily reflected the £940m gain (pre tax) on the sale of Quest.

## Net profit

Adjusted net profit attributable to equity holders of the parent was £451m, compared with £375m in 2006. Net profit after special items was £1,268m compared with £329m last year.

## Earnings per share

Adjusted earnings per share for the year were 37.9p, compared with 31.6p for 2006, a 20% increase. Earnings per share after special items were 103.5p, compared with 24.9p for 2006.

## Dividend

In August the Board declared a first interim dividend per £1 Ordinary Share of 4.95p and in December a second interim dividend of 5.0p was declared bringing the total dividend declared for 2007 to 9.95p (2006 8.90p).

## Cash flow

### Operating activities

Net cash from operating activities for the year was an inflow of £114m compared with £191m last year. The reduced cash inflow was due primarily to an increase in working capital outflows, higher post-retirement benefit payments, together with higher cash outflows on restructuring.

### Investing activities

Net cash from investing activities was an inflow of £569m for the year compared with an inflow of £110m last year. Net proceeds from disposal of businesses of £1,167m related primarily to the divestment of Quest, compared with net proceeds from divestments of £324m in 2006, mainly from the sale of Uniqema. The net proceeds offset capital expenditure of £162m and payments in respect of disposals prior to 2004 of £32m, compared with £150m and £41m respectively last year.

### Cash flow before acquisitions and divestments

Cash flow from operating and investing activities before acquisitions and divestments was an outflow of £76m compared with an inflow of £26m in 2006, the movement mainly reflecting higher restructuring costs and pension top-up payments.

## Net debt

Cash inflow before financing for the year was £683m, compared with £301m in 2006. Consequently, with an adverse non-cash movement of £34m mainly due to exchange movements on the Group's debt, mainly Euro, and a £69m net outflow from the purchase of own shares, net cash at the year end was £304m, a £633m improvement from the net debt of £329m at the beginning of the year.

## Financing activities

The cash flow from financing activities was an outflow of £485m (2006 outflow of £212m) principally comprising repayments of long-term loans of £441m (2006 £146m), in particular a £300m 10 year sterling bond in August 2007 and a \$250m 10 year US \$ bond in September 2007. There was a cash inflow of £12m in respect of short term borrowings compared with an inflow of £7m in 2006. Cash and cash equivalents at the end of 2007 were £802m, £213m higher than at the end of 2006.

# Business Review continued

## Balance sheet

The net assets and equity of the Group increased from £(189)m at end 2006 to £1,371m at 31 December 2007. This reflected the net profit for the year of £1,268m and net favourable other items of £443m included in the Statement of Group recognised income and expense.

The increase of £1,560m in net assets primarily appears as an £869m lower post-retirement benefit net liability and a £633m reduction in net debt following the disposal of Quest. The reduction in the post-retirement benefit deficit was mainly due to the top-up contributions to the UK pension funds, favourable actuarial gains and the Quest disposal.

## Return on capital employed (ROCE)

Higher trading profit in 2007 of £560m (2006 £502m) and the continued focus on managing working capital contributed to a 2.1% rise in return on capital employed to 20.4% for the continuing Group. See page 81 for the method of calculating this performance measure.

## Continuing businesses

### ICI Paints

#### Background

ICI Paints is a leading international paint business and accounted for 49% of the Group's continuing sales in 2007. It concentrates primarily on decorative paint (90% of ICI Paints' sales in 2007) and packaging coatings for food and beverage cans.

ICI Paints' global business headquarters is located in Slough, UK. Major manufacturing facilities are located in the USA, UK, Brazil, Argentina, Germany, the Netherlands, France, China, India and Malaysia. Additional manufacturing facilities are in 14 other countries. ICI Paints maintains its own sales distribution network in over 30 countries. The business also sells through agents and distributors.

#### Developments in 2007

ICI Paints continued vigorously to pursue growth opportunities in developing markets, particularly in Asia and Africa. The acquisition of the Dulux business in Southern Africa, completed in September 2007, consisted of the Dulux assets in South Africa, in addition to the acquisition of shares in the Dulux subsidiaries in Botswana, Zambia, Swaziland, Malawi and Namibia. In China, ICI Paints considerably extended the number of cities to which its products are distributed. ICI Paints also continued to focus on strengthening its brands and developing innovative products and services which anticipate and meet customers' needs around the world.

During 2007, ICI Paints continued to benefit from cost savings initiatives undertaken as part of the restructuring programme announced in 2006. The Paints restructuring programme includes supply chain projects in Europe and North America as well as initiatives to improve the effectiveness of the sales forces in the UK, Ireland, North America and Continental Europe.

The positive impact of the restructuring programme on the performance of the North American business was particularly evident, with the business showing an overall profit improvement in 2007 despite the continued downturn in the housing market and its effect on the retail channel.

## Financial Review

Paints sales were 3% ahead of 2006 on a comparable basis, with particularly strong growth for the Decorative business in Asia (21%) and for Decorative Latin America (13%). Decorative UK and Ireland (2%), Decorative Continental Europe (4%) and Packaging Coatings (4%) all delivered higher sales than last year. Due to persisting difficult market conditions in North America, sales for the decorative business in this region were 6% below last year. Despite increased raw material costs, gross margin percentages were higher due to supply chain efficiencies and favourable product mix effects. With the continued benefit of restructuring programme cost savings and good cost control across the businesses, trading profit was 17% ahead of 2006 on a comparable basis and 15% on an as reported basis, and the trading margin of 12.1% was well above the 2006 margin (10.6%).

### National Starch

#### Background

National Starch, which accounts for 42% of the Group's continuing sales in 2007, is a leading player in specialty chemicals, with important positions in specialty industrial adhesives, specialty food starches, specialty polymers and electronic materials. It provides many specialty ingredients and formulations to consumer-oriented markets that, with the exception of electronic industries, tend to be relatively non-cyclical in nature.

National Starch operates an international network of 145 manufacturing and customer service centres, located in 39 countries on six continents. National Starch believes that its position in these markets has been achieved through a strong combination of natural and synthetic polymer technology, application understanding and a high degree of technical support for customers.

National Starch is headquartered in Bridgewater, New Jersey, USA, with regional offices in the UK (Europe) and Singapore (Asia). Major manufacturing facilities are located in the USA, Germany, Mexico, Japan, Thailand, Korea, China and Brazil, with additional manufacturing sites in 26 other countries around the world.

#### Developments in 2007

National Starch continued to make progress in 2007 in developing the businesses through reorganisation, investments in innovation and improvements in efficiency and effectiveness.

In April 2007, the Adhesives Business Group announced its intention to implement a new organisation design in Europe as a result of a comprehensive study of its customer-facing activities and of its supply chain and manufacturing organisation. The programme includes a realignment of the Strategic Business Units and the implementation of a more functional approach to sales, technical service and marketing. The establishment of alternative, indirect routes to market such as telesales and the increased use of distributors will result in improved sales and technical service force effectiveness.

# Business Review continued

In July 2007, the Specialty Starches Group and the AVEBE Group, a Dutch-based Cooperative, announced an alliance that positions National Starch as the sole distributor of AVEBE's specialty potato starch portfolio of food ingredients in North America, South America and Asia. The alliance will allow AVEBE to enhance market presence and penetration for its specialty potato starch products in high-growth regions, while allowing National Starch to complement its portfolio of starch-based ingredients, by adding potato-based technology to its significant existing positions in corn, tapioca and other starches.

In October 2007, the Specialty Starches Group announced that it had entered into a supply agreement with Australia's Plantic Technologies Limited. As part of the agreement, National Starch will supply high amylose corn starch to Plantic for the manufacture of the eco-friendly Plantic® materials used in bioplastics. Due to their excellent functional properties, such as biodegradability and gas barrier performance, Plantic products are suitable across a wide range of conventional plastics applications. This new alliance combines Plantic's bioplastics expertise and National Starch's natural polymer expertise, providing a platform for future innovation.

Also in October 2007, the Specialty Polymers Group announced a milestone step for the growth of its Elotex business where ground was broken for a new plant in Shanghai, China. Scheduled to become operational in the fourth quarter of 2008, the Shanghai plant will be Elotex's first production site in the Asia Pacific region and its fifth in the world. Other sites are located in Switzerland, the Netherlands, Germany and the United States.

In July 2007, the Electronic Materials Group announced its intent to restructure its Acheson business, by merging Acheson Electronic Materials, a maker of thick films, conducting inks and electrical shielding paints, with its sister company, Emerson & Cuming, a global supplier of electronic materials. The integration of Acheson's Electronic Materials business will allow Emerson & Cuming to complement its existing product line of pastes and dispensed products for circuit assembly by bringing printable conductive inks and polymer thick films to the market as well.

In August 2007, ICI announced the acquisition of Advanced Applied Adhesives (AAA), an electronic materials business based in San Diego, California, USA for addition to the Electronic Materials Group. AAA, in conjunction with its sister company Designer Molecules Inc (DMI), has developed a wide range of novel patented technologies for applications in the electronic materials markets and has other promising technologies for markets including semiconductor die attach adhesives for power applications, paste and wafer backside coating materials for die stacking applications, and capillary flow underfill encapsulants. AAA will be integrated into the Electronic Materials' Ablestik unit.

## Financial Review

### *Adhesives*

Adhesives sales were 5% ahead of 2006 on a comparable basis with good growth in Europe, Asia and Latin America. Double digit growth was achieved in the Eastern Europe, Middle East and Africa region, whilst in Asia strong growth continued in China, India and Vietnam. With increased manufacturing and supply chain efficiencies and despite higher raw material costs, gross margin percentages were higher. With costs below gross margin higher than last year, trading profit was 15% ahead of 2006 on a comparable basis.

### *Specialty Starches*

Sales were 15% above 2006 on a comparable basis with double digit increases in all regions. Food starches achieved significant growth in all regions, due to increased volume and a favourable product mix. Volume growth in North America and Europe was driven by improved sales in the wholesome and nutrition food applications and was further boosted by the new potato starch alliance with AVEBE. Industrial starches delivered strong growth in North America, Asia and Latin America. With higher corn costs and tapioca costs also remaining high, gross profit percentages were lower. Despite higher costs below gross margin, the strong sales performance resulted in trading profit increasing by 29% from 2006 on a comparable basis.

### *Specialty Polymers*

Sales were 10% ahead of last year on a comparable basis with strong growth in Europe and Asia. Elotex and Personal Care delivered strong sales growth, with Elotex benefiting from the expanding thermal insulation market in Asia and Personal Care growth driven by increased demand in North America and Europe. Sales growth for Alco was due to strong biopolymer sales, partially offset by weak demand in synthetic polymers. With gross margin percentages higher than last year and costs below gross margin only slightly higher, trading profit was 22% ahead of 2006 on a comparable basis.

### *Electronic Materials*

Sales growth of 3% on a comparable basis was affected by the continuing trend of weak demand in the consumer electronics industry. Ablestik and Emerson & Cuming sales were ahead of last year. Regionally, sales growth was strong in Asia and Latin America, but sales in Europe and North America were lower. Gross margin percentages were significantly lower due to higher raw material costs, particularly for silver. Despite well controlled costs below gross profit and benefits from restructuring cost savings, trading profit was 3% lower than last year on a comparable basis.

## Regional and Industrial Background

Regional and Industrial comprises several businesses which are essentially local in their scope, the most significant of which is located in Pakistan. The businesses accounted for 9% of the Group's continuing sales in 2007. In Pakistan, ICI operates through non wholly-owned subsidiary companies, quoted on the local stock exchange.

### **Developments in 2007**

Good progress was made in 2007 in implementing a series of continuous improvement programmes across the manufacturing operations within Regional and Industrial. These have resulted in further increases in productivity, improved raw material efficiencies and reduced energy use.

ICI Pakistan continued to invest in maintaining a strong market position in the expanding domestic soda ash market. A 50,000 tonne expansion to its previous capacity of 235,000 tonnes per annum came on line in the first quarter of 2007.



# Business Review continued

## Financial Review

Sales for the Regional and Industrial businesses were 6% ahead of 2006 on a comparable basis with double digit growth for ICI Pakistan and sales for Pakistan PTA broadly in line with previous year. Gross margin percentages were impacted by a decline in margins for pure terephthalic acid (PTA), which despite some relief in the second half of the year, were lower than last year due to higher raw material costs. Higher gross margins across the other Regional and Industrial businesses offset the lower Pakistan PTA margins, leaving gross margin percentages broadly in line with 2006. Despite higher costs below gross margin, trading profit was up 8% on a comparable basis. Sales as reported were 3% lower, and trading profit as reported was 2% lower than in 2006.

## Discontinued business

### Quest

In March 2007, ICI completed the divestment of Quest to Givaudan SA. The decision to divest Quest was based on the significant shareholder value that would be delivered by the sale. Quest is a manufacturer of flavours and fragrances used in a wide variety of consumer products. The business was headquartered in Naarden, The Netherlands, and was organised around two operating divisions, Flavours and Fragrances. Sales in the first two months of 2007 were £98m compared with £588m for the full year of 2006. Trading profit for the first two months of 2007 amounted to £12m (2006 full year £61m).

## Risks

There are a number of risks to which the Group is exposed, which could adversely affect the business, results of operations, cash flow, financial condition, turnover, profits, assets, liquidity and capital resources of the Group. ICI considers the principal risks to be

- Failure to develop innovative products or to respond effectively to activities of competitors leading to a loss of customers,
- Raw materials – price volatility and reliance on key suppliers in some businesses,
- Adverse results from claims and proceedings against certain companies in the Group and in relation to previously disposed businesses,
- Fines arising from violations of environmental, health and safety and other laws, regulations and standards and corporate governance requirements,
- Risks associated with the Group's international operations, including economic, social and political risks, including those from operating in developing economies,
- The occurrence of major operational problems in manufacturing facilities,
- Poor execution and failure to complete significant Group projects,
- Loss of a significant number of key personnel,
- The level of undertakings and guarantees given to pension funds in the Group, principally the ICI UK Pension Fund,
- Foreign currency risk due to fluctuations in exchange rates,
- Counterparty credit risk due to economic factors, and
- Market risk relating to changes in market rates and prices impacting the market or fair value of the Group's financial instruments.

The Group Treasury seeks to reduce financial risk, ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably, operating within Board-approved policies and procedures.

# Business Review continued

## Reconciliation table – “as reported” to “comparable” revenue

	Revenue		“As reported” change		Foreign exchange translation effects	Divestment/ (acquisition) effects	“Comparable” change	
	2007	2006	2007 vs 2006		Adverse/ (favourable)		2007 vs 2006	
	£m	£m	£m	%	£m	£m	£m	%
Continuing operations								
Paints	2,421	2,414	7	–	77	(13)	71	3
Adhesives	1,058	1,052	6	1	48	–	54	5
Specialty Starches	550	502	48	10	25	–	73	15
Specialty Polymers	277	266	11	4	15	–	26	10
Electronic Materials	195	203	(8)	(4)	14	–	6	3
Total National Starch	2,080	2,023	57	3	102	–	159	8
Regional and Industrial	419	431	(12)	(3)	38	–	26	6
Total reporting segments	4,920	4,868	52	1	217	(13)	256	5
Corporate and other	2	3	(1)	–	–	–	(1)	–
Inter segment revenue	(23)	(26)	3	–	(3)	–	–	–
Total continuing segment revenue	4,899	4,845	54	1	214	(13)	255	5

## Reconciliation table – operating profit and trading profit

	Trading profit		Special operating items		Operating profit	
	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m
<i>Continuing operations</i>						
Paints	296	257	(36)	(17)	260	240
Adhesives	92	83	(18)	(22)	74	61
Specialty Starches	74	60	(3)	(2)	71	58
Specialty Polymers	57	48	(1)	(3)	56	45
Electronic Materials	46	51	(6)	(2)	40	49
Total National Starch	269	242	(28)	(29)	241	213
Regional and Industrial	36	37	–	(7)	36	30
Total reporting segments	601	536	(64)	(53)	537	483
Corporate and other	(41)	(34)	(32)	(18)	(73)	(52)
Total continuing segment result	560	502	(96)	(71)	464	431

## Reconciliation table – “as reported” to “comparable” trading profit

	Trading profit		"As reported" change		Foreign exchange translation effects	Divestment/ (acquisition) effects	"Comparable" change	
	2007	2006	2007 vs 2006		Adverse/ (favourable)		2007 vs 2006	
	£m	£m	£m	%	£m	£m	£m	%
<i>Continuing operations</i>								
Paints	296	257	39	15	6	–	45	17
Adhesives	92	83	9	11	3	–	12	15
Specialty Starches	74	60	14	25	3	–	17	29
Specialty Polymers	57	48	9	16	3	–	12	22
Electronic Materials	46	51	(5)	(10)	4	–	(1)	(3)
Total National Starch	269	242	27	11	13	–	40	16
Regional and Industrial	36	37	(1)	(2)	3	–	2	8
Total reporting segments	601	536	65	12	22	–	87	16
Corporate and other	(41)	(34)	(7)	(23)	(1)	–	(8)	(23)
Total continuing segment result	560	502	58	11	21	–	79	16

# Remuneration Report

This report is presented on the basis that Imperial Chemical Industries Limited (formerly Chemical Industries PLC) was an ongoing business as at 31 December 2007. As set out elsewhere in the 2007 Annual Report and Accounts, ICI was acquired by Akzo Nobel on 2 January 2008. As a result, the forward looking statements in this Remuneration Report, which are included as a requirement under statutory reporting regulations, should not be interpreted as indicative of actual practice in 2008. Whilst the Company delisted after the 2007 year end, as it was listed at 31 December 2007 it is legally required to provide disclosures in this Remuneration Report to comply with the requirements set out in Schedule 7A of the Companies Act.

## Remuneration policy for Executive Directors for the 2007 financial year

The Company's remuneration policy for Executive Directors is determined by the Remuneration Committee and seeks to attract, retain, motivate and reward high calibre individuals, whilst maintaining a clear focus on shareholder value. Furthermore it requires that ICI's reward plans reflect the scale and the structure of reward available in those organisations with which ICI competes for talent.

Consequently, the remuneration package for Executive Directors is based upon the following principles:

- there should be a clear link between required performance and achievable reward. Performance related elements should form a significant proportion of the total package,
- the total package for on-target performance should be fully competitive in the relevant market,
- incentives should align the interests of executives and shareholders, and reward the delivery of business results and creation of value for ICI within a framework which enables risk to be assessed and managed (this includes consideration of performance on environmental, social and governance issues as well as financial returns), and
- there should be flexibility, within clearly defined parameters, to meet critical resource needs and to retain key executives.

The Remuneration Committee seeks to take a prudent and responsible approach when applying this policy, and takes into account reward available elsewhere within the company when setting executive salaries, incentives and benefits.

## Reward components for the 2007 financial year

### Base salary

Base salaries for all Executive Directors are reviewed each year and are adjusted, where appropriate, to recognise the individual's role, performance and position in their salary range and experience, as well as developments in the external executive pay market. The policy is to set base salaries around the mid-market level for similar large international companies in the relevant national market.

### Annual Incentive Plan

The Annual Incentive Plan is designed to motivate Executive Directors towards the achievement of the annual financial and strategic goals of the Company and its businesses. The level of annual reward opportunity for target bonus is set around the market median in the relevant national markets. The targets are agreed annually by the Remuneration Committee which also confirms performance against the targets.

### Long-term incentives

ICI's long-term incentives are designed to focus Executive Directors on the sustainable longer-term business performance of ICI and strengthening the alignment with shareholders. Long-term incentives are provided through a Performance Growth Plan (PGP) and an Executive Share Option Plan (ESOP) with performance conditions aligned to business strategy. Executives are granted a mix of options and PGP awards. There is flexibility for the Remuneration Committee to alter the mix between the two different types of long-term incentive, subject to individual limits within the PGP and option plan rules. The Committee reviews this mix annually to ensure it remains appropriate.

### Retirement and other benefits

The nature and scale of the Executive Directors' benefits packages are positioned around the median of the relevant national market. The major element is the provision of retirement benefits.

### Personal shareholdings

Executive Directors and senior executives are expected to build up personal shareholdings of ICI Ordinary Shares through the retention of shares acquired via Company share-based plans.

For Executive Directors, the target level of shareholding is as follows:

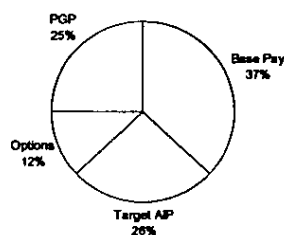
Chief Executive	Target value of shareholding
Executive Directors	Two times base salary
	One times base salary

### Structure of the package

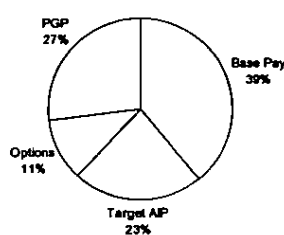
The relative values of the main elements of the remuneration packages for the Chief Executive and the other Executive Directors are illustrated in the charts below. The performance related elements, when valued at target performance levels, comprise more than 60% of the package (excluding pension and other benefits).

# Remuneration Report continued

## Chief Executive



## Other Executive Directors



### Overview of changes to application of policy

As signalled in last year's report, the following changes were made to the Group's executive remuneration approach for 2007

- to re-balance the mix of long-term incentives between share options and the PGP,
- to pay dividends in respect of vested awards under the PGP, and
- to change and simplify the PGP performance criteria for divisional executives

### Company Performance

During 2007, the Group significantly exceeded its financial targets across all the performance metrics that determined the bonus payable for the 2007 performance year. This resulted in bonus payments at or around maximum levels

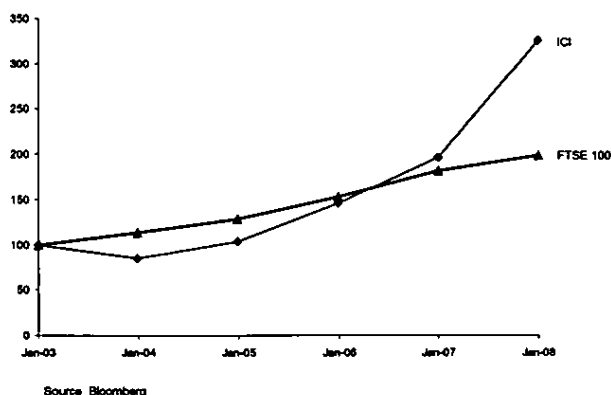
### Performance graph

As required by UK disclosure legislation, the graph illustrates the performance of ICI and a "broad equity market index" over the past five years. The index shown is the FTSE 100 as ICI has been a constituent of this index throughout the five-year period, prior to suspension of ICI shares on the London Stock Exchange on 20 December 2007 as a result of the Scheme of Arrangement for the recommended cash offer for ICI by Akzo Nobel (the "Scheme of Arrangement")

### Five-year cumulative Total Shareholder Return

#### ICI and FTSE 100 indices

1 January 2003 = 100



### Executive remuneration for the year under review

#### Base salary

As in prior years, salaries for Executive Directors have been reviewed in line with the policy set out above. The largest increases were applied to high performing executives whose salaries were substantially below the median of the external market. This was part of a multi-year program to ensure base salaries for high performing executives are appropriately positioned around the market median.

#### Annual Incentive Plan

The target bonus opportunity available to the Chief Executive for 2007 was 70% of salary with a maximum opportunity of 140% for significant over-achievement. For other Executive Directors the target and maximum annual bonus opportunity are 60% and 120% respectively. These opportunity levels are competitive with ICI's comparator group of international companies of similar size.

The 2007 performance metrics for Executive Directors were a combination of profit, cash flow, sales, return on capital employed and performance against key strategic objectives. For those executives responsible for one of ICI's businesses, the measures relate to the performance of their own business.

# Remuneration Report continued

## Long-Term Incentives

For 2007, the grant policy was as shown below

	2007 grant policy (% salary at maximum vesting)	
	Options	PGP
Chief Executive	200	160
Other Executive Directors	175	160

## Change of control

Under the plan rules for a change of control, the performance conditions are tested early by the Remuneration Committee to determine the number of shares that vested. For the PGP award made in 2007 the Remuneration Committee also has the power to pro-rate these awards for the period of the performance period elapsed at the date of vesting.

Details of the shares released to individual Executive Directors on early vesting of the 2005, 2006 and 2007 Options and PGP awards following the change of control as a result of the Court Sanction for the Scheme of Arrangement are set out on pages 13 and 14.

## Departing Directors in 2007

Mr Knott ceased to be a Director on 2 March 2007 on the divestment of the Quest business and Mr Knott's resulting transfer out of the ICI Group of companies. No compensation for loss of office was made to Mr Knott as a result of his ceasing to be an ICI Director or an ICI employee. His long-term incentives, namely his PGP and option grants, were treated entirely in accordance with the respective plan rules.

## Executive remuneration plan details

### Performance Growth Plan (PGP)

Under the PGP, conditional awards of ICI shares are granted to Executive Directors which are linked to performance over a fixed three-year period. For grants made in 2007:

- the number of shares earned under the PGP depends wholly on the Total Shareholder Return (TSR) for ICI relative to the TSR of each of the companies in ICI's peer group as set out below, and
- in addition, the Remuneration Committee must be satisfied that the underlying profit performance of ICI is sufficient to justify the receipt of shares under the PGP, notwithstanding the relative TSR achieved.

TSR has been selected as a performance measure as it will reward any relative out-performance of ICI versus its global competitors. TSR is calculated by independent external advisers and approved by the Remuneration Committee.

In previous years, those Executive Directors who had responsibility for the performance of one of ICI's international businesses had half of the PGP award subject to the TSR performance condition and half subject to a performance condition based on Economic Profit of the division. Economic Profit is based on profit after tax less a charge for the use of capital.

The peer group for the TSR element represents key competitors of ICI's businesses and companies comparable to ICI, selected on the basis of market location, size, portfolio and performance. The peer group is approved by the Remuneration Committee with advice from external independent advisers. It is reviewed annually and also on the occasion of a significant event impacting either ICI or one of the peer group companies.

The peer group companies for the conditional awards made in 2007 were Air Products and Chemicals, Akzo Nobel, BASF, Chemtura, Ciba Speciality Chemicals, Clariant, Dow Chemical, DSM, DuPont, Johnson Matthey, PPG Industries, Rohm and Haas, Sherwin-Williams and Valspar.

For the maximum awards to be paid on the TSR element of awards made in 2007, performance of ICI must be at the upper quartile or higher compared with the comparator companies in the peer group. For achieving median TSR performance, 20% of this maximum award will be paid (40% for the 2006 award). Awards are pro-rated between the median and upper quartile. No award will be paid for below-median TSR performance. There is no re-testing for any awards.

PGP awards granted in 2007 have a right to the value of dividend payments over the vesting period, to the extent that awards ultimately vest.

## Executive Share Option Plan (the Plan)

The Plan grants options that vest and become exercisable provided demanding performance conditions are met. For grants made in 2006 and 2007, an earnings per share (EPS) performance condition requires average annual growth over three years in Adjusted EPS (i.e. EPS before special items) of between RPI+4% per annum and RPI+8% per annum for between one third and 100% of the awards to be exercisable respectively. Options become exercisable three years from the date of grant, to the extent determined by the performance condition. There is no retesting.

# Remuneration Report continued

The Remuneration Committee considered that an EPS-based performance condition remained appropriate for share options awarded under the Plan, as it provided a financial underpinning to the primary performance requirement inherent in an option, that is, to grow the share price. The growth range was considered to be appropriately challenging, taking account of the reward opportunity available, industry-specific factors and the markets in which the Company operates.

The total number of shares committed under all ICI share option schemes during the two years to 31 December 2007 is set out in note 7 relating to the Group accounts. Between 1994 and 2003 all discretionary share schemes have operated using shares purchased in the market by an employee benefit trust. Details of shares held in this trust are in note 27 relating to the Group accounts.

## **Retirement benefits**

Since October 2000 (UK) and April 2002 (USA) all new employees, including Executive Directors, have retirement benefits provided on a defined contribution basis or receive an equivalent cash allowance, so that the costs to ICI are stable and predictable. Where Executive Directors participated in a defined benefit pension plan prior to these dates they retain this entitlement on equivalent terms to those prevailing at that time.

Dr McAdam participates in the ICI Specialty Chemicals Pension Fund. In the event of voluntary early retirement for Dr McAdam the accrued pension is reduced actuarially where the pension is drawn early. For early retirement at the Company's request, in certain circumstances the Company has an established practice of allowing the Executive Director to draw the full accrued pension immediately.

Mr Hamill participates in the ICI UK Retirement Plan, a defined contribution plan, in respect of base salary up to a Company specified earnings cap (currently £112,800 for 2007/8). He also receives a retirement benefit allowance as set out on page 13, payable in cash and subject to income tax, in respect of base salary above this cap.

Mr Brown participates in the ICI UK Retirement Plan only in respect of life insurance benefits for base salary up to the same Company-specified earnings cap. No pension contributions are paid on his behalf. Instead he receives a retirement benefit allowance as set out on page 13, payable in cash and subject to income tax, in respect of full base salary.

The Remuneration Committee has agreed ICI's approach in response to the UK pensions simplification legislation, which became effective on 6 April 2006, for those Executive Directors who are members of UK pension plans. Such Executive Directors were given the option of either

- maintaining the existing pension arrangement, in which case the executive would take personal responsibility for any additional taxation arising, or
- ceasing to accrue pension benefits in respect of future service and instead receiving a cash retirement benefit allowance, subject to income taxation. Past service benefits would remain linked to future salary increases.

This cash alternative is in line with ICI's defined contribution benefits policy and the level of retirement benefit allowance payable is in line with existing Company contribution rates to the ICI UK defined contribution plan. These arrangements do not increase the cost to the Group of pension provision.

Where possible, plans provide flexibility and choice to increase participant commitment, and enable executives to make their own contributions in addition to those made by ICI. In this way, the Company encourages and supports its Executive Directors to play an active role in planning for their own retirement needs. It is ICI's policy, where this is in line with local practice, to fund for its retirement benefit liabilities.

# Remuneration Report continued

## Directors' emoluments (audited)

	Notes	Base salaries and fees (note 1)		Annual incentive payments		Benefits and other emoluments (note 2)		Cash Allowances (note 3)		Total (note 4)	
		2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000
P B Ellwood	5	305	275							305	275
Dr J D G McAdam	6	868	768	1,216	518	20	19			2,104	1,305
A J Brown	2,3	470	415	564	278	14	14	135	123	1,183	830
D C M Hamill	3,6	450	430	459	200	24	24	101	97	1,034	751
C F Knott	1,7,8	67	388		252	13	88			80	728
A Baan		50	45							50	45
Lord Butler		60	55							60	55
J T Gorman		65	55							65	55
R N Haythornthwaite		60	55							60	55
Baroness Noakes		50	45							50	45
Directors in prior years	8		102		63		5				170
<b>Total</b>		<b>2,445</b>	<b>2,633</b>	<b>2,239</b>	<b>1,311</b>	<b>71</b>	<b>150</b>	<b>236</b>	<b>220</b>	<b>4,991</b>	<b>4,314</b>

- (1) Base salaries and fees for 2007, included in the table, are the same as the annual rate of base salaries and fees in payment as at 31 December 2007, except in respect of Mr Knott whose salary and benefits are included for the part year to 2 March 2007 during which he was a Director
- (2) Benefits and other emoluments include company car, medical insurance and life and long-term disability insurance (where not provided within pension benefit plans), and a car allowance paid to Mr Brown in lieu of provision of a company car
- (3) Cash allowances comprise retirement benefit allowances payable in cash to Mr Brown and to Mr Hamill. These cash allowances are not consolidated into base salary and are not included for the purpose of calculating bonus payments or long term incentive awards
- (4) During 2006 and 2007 there were no payments made to any Director for compensation for loss of office and no payments were made to Directors in respect of expense allowances
- (5) During 2007, Mr Ellwood elected to receive 30% of his fees in the form of ICI Ordinary Shares for the first three months of the year. Thereafter share dealing restrictions associated with the Akzo Nobel bid for ICI prevented this for the remainder of the year (2006 30% for full year)
- (6) Dr McAdam and Mr Hamill participate in "Pensave" which is an all-employee arrangement related to pension contributions. Base salaries for these executives are reported in the table excluding Pensave related adjustments
- (7) Prior to his transfer out of the ICI Group, Mr Knott had service agreements with Quest in both the Netherlands and in the UK. The base salary disclosed is the total Sterling equivalent. Mr Knott was also in receipt of an overseas allowance for this period which is disclosed under the column headed Benefits and other emoluments
- (8) Mr Powell stepped down as a Director on 6 April 2006 and Mr Knott ceased to be a Director from 2 March 2007 when he transferred out of the ICI Group on the divestment of the Quest business. The amounts reported for these individuals are in respect of the part of the year for which they were employed as Directors

## Awards under the Performance Growth Plan (audited)

All outstanding awards under the PGP vested during the year as set out below

In the case of Mr Knott, vesting was under the divestment provisions of the plan rules following the sale of the Quest business on 2 March 2007. The extent of vesting of these awards was subject to a combination of TSR and economic profit performance conditions assessed at that date.

In the case of the other Directors, the extent of vesting was calculated on the date of the Court Sanction of the Scheme of Arrangement on 17 December 2007. In accordance with the change of control provisions in the plan rules, vesting was determined by the Remuneration Committee based solely on TSR performance to this date (as under the plan rules, on a change of control, any element of an award subject to an economic profit performance condition, applicable to part of Mr Hamill's 2005 and 2006 awards, becomes subject instead to a TSR condition). For all awards, ICI's TSR performance was the highest of the companies in the PGP peer group which resulted in maximum vesting.

For the PGP award made in 2007 the Remuneration Committee has the power to pro-rate for the period of the performance period elapsed at the date of vesting. Accordingly for this award, the Remuneration Committee determined that the vesting was pro-rated to the one year that had elapsed of the three year performance period.

	Date of award	Share price determining award	Maximum award (number of Ordinary Shares)	Original performance period	Number of shares vested during 2007	Share price at date of vesting £
Dr J D G McAdam	18 02 05	2.81	249,110	01 01 05-31 12 07	249,110	6.70
	24 02 06	3.47	221,325	01 01 06-31 12 08	221,325	6.70
	24 05 07	5.49	252,969	01 01 07-31 12 09	84,323	6.70
A J Brown	14 11 05	3.11	88,960	01 01 05-31 12 07	88,960	6.70
	24 02 06	3.47	119,596	01 01 06-31 12 08	119,596	6.70
	24 05 07	5.49	136,976	01 01 07-31 12 09	45,659	6.70
D C M Hamill	18 02 05	2.81	129,875	01 01 05-31 12 07	129,875	6.70
	24 02 06	3.47	111,525	01 01 06-31 12 08	111,525	6.70
	24 05 07	5.49	131,147	01 01 07-31 12 09	43,716	6.70
C F Knott	18 02 05	2.81	119,626	01 01 05-31 12 07	114,016	5.01
	24 02 06	3.47	98,817	01 01 06-31 12 08	94,184	5.01

The share price at date of vesting for Dr McAdam, Mr Brown and Mr Hamill is the bid price under the Scheme of Arrangement. For Mr Knott it is the market price of ICI shares on the date of vesting.

# Remuneration Report continued

## Directors' interests in share options

(audited)

For all option grants made prior to 2004, vesting was subject to achievement of minimum EPS growth rates. All such grants have satisfied their performance conditions and vested in full.

Grants made under the Executive Share Option Plan in 2004 and 2005 are subject to the following sliding scale performance conditions, with no retesting

Percentage of shares vesting	Earnings per share in 2006 (for grants made in 2004)	Earnings per share in 2007 (for grants made in 2005)
33.3%	28.3p	31.7p
100%	34.7p	36.0p

The performance condition for the grants made in 2004 was tested in February 2007 and resulted in 67.7% of the awards becoming exercisable from their third anniversary. The balance of the awards made in 2004 lapsed.

The performance condition for the 2005, 2006 and 2007 grants required average annual growth over three years of between RPI+4% per annum and RPI+8% per annum for between one third and 100% of the options to be exercisable respectively. These awards were tested early in December 2007, shortly before the effective date of the change of control of the Company. The Remuneration Committee determined, based on the latest view of 2007 EPS available at that time, that 100% of the maximum awards should vest for each of the grants made in 2005, 2006 and 2007.

	Options outstanding at 1 January 2007 (note 2)	Options granted during 2007	Date of grant	Exercise price at which option granted £	Options exercised during 2007	Options lapsed during 2007	Options outstanding as at 31 December 2007		
	Number of shares	Number of shares (note 2)			Number of shares (note 3)	Number of shares	Number of shares	Earliest date from which exercisable	Latest expiry date
<b>Dr J D G McAdam</b>	24,545		18 05 98	10 077			24,545	18 05 2001	17 05 2008
(note 4)	108 121		29 04 99	5 454	108 121				
	90,416		21 02 00	4 242	90 416				
	138 564		05 03 01	4 292	138 564				
	149,647		13 03 02	2 840	149,647				
	465,251		17 03 03	1 340	465,251				
	654,761		11 08 03	1 680	654,761				
	831,168		30 06 04	2 310	562,701	268,467			
	747,330		18 02 05	2 810	747,330				
	662,068		03 04 06	3 480	662,068				
		362,421	26 02 07	4 790	362,421				
	8,145 <sup>†</sup>		11 12 03	1 580			8,145 <sup>†</sup>	01 02 2009	31 07 2009
<b>A J Brown</b>	357,758		03 04 06	3 480	357,758				
		171,711	26 02 07	4 790	171,711				
<b>D C M Hamill</b>	386,138		10 12 03	2 020	386,138				
	506,493		30 06 04	2 310	342,896	163,597			
	432,918		18 02 05	2 810	432,918				
	370,689		03 04 06	3 480	370,689				
		164,405	26 02 07	4 790	164,405				
<b>C F Knott</b>	10,909		18 05 98	10 077			10,909	18 05 2001	17 05 2008
	40,825		08 03 99	4 333	40,825				
	47,535		21 02 00	4 242	47,535				
	138,564		05 03 01	4 292	138,564				
(note 5)	154,448		13 03 02	2 840	154,448				
(note 5)	394,288		17 03 03	1 340	394,288				
	466,233		30 06 04	2 310	315,640	150,593			
	398,754		18 02 05	2 810		398,754			
	328,448		03 04 06	3 480	328,448				

<sup>†</sup> Grants awarded under a UK all-employee Sharesave Scheme in which UK Executive Directors could participate. No performance conditions are attached to options granted under this scheme as it is an all-employee share option scheme. The earliest exercise date shown is the date of maturity of the award although under the plan rules for change of control Dr McAdam may also exercise this option in the period 2 January 2008 to 1 July 2008, to the extent of savings accrued as at the date of exercise.

- (1) No variations were made to Directors' options or the terms and conditions of any Directors' options during the year 2007 or the period ended 14 February 2008.
- (2) No amount was paid for the award of any options.
- (3) The options exercised in 2007 by Dr McAdam, Mr Brown and Mr Hamill were all exercised under the Scheme of Arrangement at the market price per share at the date of exercise of £6.70 (i.e. the bid price under the Scheme of Arrangement). Mr Knott exercised his options during 2007 at a weighted average market share price at the dates of exercise of £4.79.
- (4) In accordance with the Listing Rules of the Financial Services Authority, the annual grant of share options made on 29 April 1999 to Executive Directors involved with the then proposed disposal of businesses to Huntsman ICI Holdings LLC was delayed. As a result of this delay, those participants were granted fewer options at a higher exercise price than would have been the case had the grants been made to them at the same time as they were made to all other participants at an exercise price of £4.33. The Remuneration Committee decided that those individuals so affected should receive the same gross gain at the time they exercise their options as if the grant had not been delayed. The gross cash sum payable to Dr McAdam under this arrangement following the exercise of his 1999 grant on 17 December 2007 will be £187,390.
- (5) These awards to Mr Knott were made under the US Stock Appreciation Rights Plan and denominated in ADRs. They have been disclosed in the table as ordinary share equivalents, at the ICI share price for share options awarded on the same date of grant.
- (6) The aggregate gain made by Directors during 2007 on the exercise of share options was £28,426,164.
- (7) As at 31 December 2007 ICI shares were suspended on the London Stock Exchange so there is no market price as at that date. Under the Scheme of Arrangement all ICI shares were subsequently purchased by Akzo Nobel subsequent to the Effective Date of the Scheme of Arrangement (2 January 2008) at £6.70 per share. The range of share prices during 2007, prior to suspension on the London Stock Exchange, was £4.47 to £6.70.



# Remuneration Report continued

## Retirement benefits

Details of the accrued pension to which each Director is entitled on leaving employment, and the transfer value of those accrued pensions, are shown in the table below. A transfer value is the present value lump sum equivalent of the accrued pension and is calculated in accordance with the Guidance Note published by the Institute and Faculty of Actuaries (GN 11)

## Directors' pension benefits (audited)

	Notes	Defined benefit pension plans				Defined contribution pension plans	
		Additional pension accrued in 2007 (note 1)	Accrued pension at 31 December 2007	Transfer value of accrued pension at 1 January 2007	Transfer value of accrued pension at 31 December 2007	Increase in transfer value of accrued pension during year (note 2)	Contributions 2007
		£000 p a	£000 p a	£000	£000	£000	£000
Dr J D G McAdam	3,4	97	688	10,653	14,777	4,074	-
D C M Hamill	3	n/a	n/a	n/a	n/a	n/a	28
C F Knott	1,4	3	216	2,773	3,516	740	-

- (1) The additional annual pension accrued during the year, payable at normal retirement age. The additional pension for Mr Knott is in respect of accrual between 1 January 2007 and his date of leaving on 2 March 2007.
- (2) The increases in transfer values are in accordance with the rules of the relevant pension fund. The transfer value calculations take into account the combined effect of notional interest and the individual's age which will typically increase transfer values by 8%-9% year on year. Additional factors that impact the transfer values (which are net of contributions by Directors) over the year are changes in pensionable pay and the service of each Director. During 2007 the assumptions used for the calculation of transfer values in the ICI Specialty Chemicals Pension Fund were revised by the Scheme Actuary. Indicatively, this change in assumptions has acted to increase the 31 December 2007 transfer values by £1.6m for Dr McAdam. These increases are reflected in the 'Increase in transfer value of accrued pension during the year' figures quoted.
- (3) Dr McAdam and Mr Hamill are participants in Pensave, which is an all employee arrangement related to pension contributions. Employer and employee contributions for these executives are on a notional basis to exclude Pensave related adjustments.
- (4) Dr McAdam participates in the ICI Specialty Chemicals Pension Fund. Pensionable salary under this plan includes annual bonus, subject to a maximum of 20% of base salary. Mr Knott also participated in this plan whilst a Director prior to his date of leaving and Mr Knott's pensionable salary included annual bonus up to 15% of base salary. The pensionable element of bonus is particular to these two Executive Directors and reflects their terms of employment and continuous pensionable service prior to their transfer from Unilever to ICI in 1997, on the acquisition of certain specialty chemicals businesses. This pensionable bonus element entitlement has been frozen since the time of transfer and has not been increased in line with promotion or increases in ICI's bonus levels.

## Directors' interests in shares

ICI Ordinary Shares Directors at 31 December 2007	2007	2006
P B Ellwood	56,154	53,484
Dr J D G McAdam	439,459	268,897
A J Brown	1,305	1,305
D C M Hamill	96,542	3,000
A Baan	18,000	18,000
Lord Butler	1,636	1,636
J T Gorman	14,624	14,624
R N Haythornthwaite	12,791	12,791
Baroness Noakes	13,600	13,600

The figures in the above table of Directors' interests for Dr McAdam, Mr Brown and Mr Hamill exclude the shares that they received on 17 and 18 December 2007 from the vesting and exercise of PGP and share option awards. The details of these shares are set out in tables on pages 13 and 14. As at 31 December 2007 these shares were held within the ICI employee benefit trust on the Directors' behalf, prior to their purchase in January 2008 by Akzo Nobel under the Scheme of Arrangement.

Consistent with the policy on personal shareholding, during 2007 no Executive Directors disposed of shares acquired via Company share-based plans except to meet consequent income tax liabilities.

All shares held by Directors are held beneficially.

Mr Gorman's interest in shares comprised 3,656 ADRs (representing 14,624 Ordinary Shares).

On 2 January 2008, the date on which the Scheme of Arrangement became effective, all shares held by the Directors were acquired by Akzo Nobel.

# Remuneration Report continued

## **Remuneration policy for Chairman and Non-Executive Directors**

(not subject to audit)

The remuneration policy for the Chairman is determined by the Remuneration Committee

The remuneration policy for Non-Executive Directors (NEDs) is determined by the Board, within the limits set out in the Articles of Association. Remuneration comprises an annual fee for acting as a NED of the Company and an additional fee for acting as the Chairman of a Board Committee or as the Senior Independent Director.

The Chairman and NEDs are not eligible to participate in incentive plans.

ICI operates a scheme which enables the Chairman and NEDs to receive payment of part of their fees in the form of ICI Ordinary Shares.

For 2007 the remuneration of Non-Executive Directors comprised an annual fee of £50,000 (2006 £45,000). An additional £15,000 per annum (2006 £10,000) was paid to the Chairman of the Audit Committee and an additional £10,000 per annum (2006 £10,000) was paid to the Chairman of the Remuneration Committee and to Lord Butler in respect of his position as Senior Independent Director. Fee levels were reviewed effective 1 January 2007 and were increased at that time to ensure they were at the market median fee level for similar UK FTSE 100 companies.

## **Remuneration Committee**

### *Role and membership*

The Remuneration Committee determines, on behalf of the Board, the Company's policy on the remuneration of the Chairman, Executive Directors and the most senior management of the Company. The Committee determines the total remuneration packages for these individuals including any compensation on termination of office.

The Committee is comprised exclusively of the independent NEDs of the Company. The members of the Remuneration Committee during 2007 were:

Mr R N Haythornthwaite (Chairman)

Mr A Baan

Lord Butler

Mr J T Gorman

Baroness Noakes

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

The constitution and operation of the Committee comply with The Combined Code. The terms of reference of the Committee are available, on request, from the Company Secretariat at the Registered Office.

## **Advisers**

To ensure that ICI's remuneration practices are market competitive, the Remuneration Committee had access to detailed external research on market data and trends from independent and experienced international consultants. Since 1 January 2007, the Committee has received material advice from Towers Perrin, New Bridge Street Consultants and Kepler Associates. These advisers have been appointed by the Remuneration Committee. In relation to their services provided to the Group, Towers Perrin also provides actuarial services in respect of the Group's pension plan in the Netherlands and all three consultants provide certain employee benefit services and/or remuneration advice to the Group below Board level.

The Chairman, Chief Executive, Executive Vice President Human Resources and Vice President Performance & Reward are normally invited to attend meetings to respond to specific questions raised by the Committee. This specifically excludes any matter concerning the detail of their own personal remuneration. The Company Secretary acts as Secretary to the Committee.

## **Directors' service agreements and letters of engagement**

(not subject to audit)

## **Executive Directors**

It is the Remuneration Committee's policy that Executive Directors are employed on contracts subject to no more than 12 months' notice, in accordance with current corporate governance best practice. The Remuneration Committee strongly endorses the principle of mitigation of damages on early termination of a service agreement.

# Remuneration Report continued

The dates of current Executive Directors' service agreements, the dates on which their appointments took effect and the current expiry dates of their agreements are as follows

Executive Directors	Date of service agreement	Effective date	Expiry date
Dr J D G McAdam	14 10 03	09 04 03	Terminable on 12 months' notice
A J Brown	02 11 05	14 11 05	Terminable on 12 months' notice
D C M Hamill	28 10 03	08 12 03	Terminable on 12 months' notice

There are no express provisions for compensation payable upon early termination of an Executive Director's contract other than as detailed above

## External directorships

Executive Directors are encouraged to take one external Non-Executive directorship. In order to avoid any conflict of interest all appointments are subject to the approval of the Remuneration Committee and the Board. Directors retain payments received in respect of these appointments.

## Chairman and Non-Executive Directors

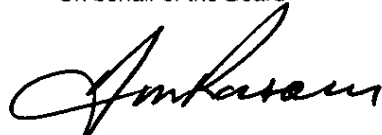
The dates of the Chairman's and current Non-Executive Directors' (NEDs) letters of engagement, the date on which their appointment took effect and the current expiry dates are as follows

Chairman and Non-Executive Directors	Date of letter of engagement	Effective date	Expiry date
P B Ellwood	15 12 03	01 01 04	Terminable on 12 months' notice
A Baan	24 07 01	25 06 01	(note 1)
Lord Butler	12 06 98	01 07 98	(note 1)
J T Gorman	25 10 00	20 09 00	(note 1)
R N Haythornthwaite	22 02 01	20 02 01	(note 1)
Baroness Noakes	06 02 04	01 03 04	(note 1)

- (1) Subject to satisfactory performance, NEDs are normally expected to serve two three-year terms commencing with the first Annual General Meeting after the date of their appointment. However, there may be circumstances where NEDs are invited to remain on the Board after the expiry of their second three-year term for a further period of up to three years. Any such invitation will be subject to the Director in question standing for annual re-election by shareholders. NEDs have no right to compensation on the early termination of their appointment.

On 2 January 2008, following the completion of the acquisition of ICI by Akzo Nobel, the Chairman and the Non-Executive Directors resigned and their appointments terminated with immediate effect. Akzo Nobel subsequently appointed Julie A M Shannon, Derek W Welch and Bernard J Schoordijk as Directors of Imperial Chemical Industries Limited, as set out on page 1.

On behalf of the Board



Company Secretary  
14 February 2008

# Directors' responsibilities

## Statement of Directors' responsibilities in respect of the Annual Report and Accounts

The Directors are responsible for preparing the Annual Report and the Group and parent company accounts, in accordance with applicable law and regulations

Company law requires the Directors to prepare Group and parent company accounts for each financial year. Under that law they are required to prepare the Group accounts in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group accounts are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company accounts are required by law to give a true and fair view of the state of affairs of the parent company. In preparing each of the Group and parent company accounts, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- for the Group accounts, state whether they have been prepared in accordance with IFRSs as adopted by the EU,
- for the parent company accounts, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company accounts, and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report and a Directors' Remuneration Report that comply with that law and those regulations.

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

# Independent Auditor's Report to the Members of Imperial Chemical Industries Limited (formerly Imperial Chemical Industries PLC)

We have audited the Group accounts of Imperial Chemical Industries Limited for the year ended 31 December 2007 which comprise the Group income statement, the Group balance sheet, the Group cash flow statement, the Statement of Group recognised income and expense and the related notes. These Group accounts have been prepared under the accounting policies set out therein. We have reported separately on the parent company accounts of Imperial Chemical Industries Limited for the year ended 31 December 2007 and on the information in the Directors' Remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Group accounts in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 18.

Our responsibility is to audit the Group accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group accounts give a true and fair view and whether the Group accounts have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the Group accounts. The information given in the Directors' report includes that specific information presented in the Business review that is cross-referred from the Business review section of the Directors' report.

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Group accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group accounts. Our responsibilities do not extend to any other information.

## Basis of audit opinion

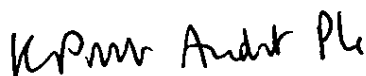
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group accounts. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion:

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



KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London

14 February 2008

# Accounts

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# Group accounting policies

## Group accounting policies

As used in the financial statements and related notes, the term "Company" refers to Imperial Chemical Industries Limited (formerly Imperial Chemical Industries PLC), the terms "ICI" and "Group" refer to the Company, its consolidated subsidiaries and its proportionally consolidated joint ventures but not to its associates

The financial statements are prepared and approved by the directors in accordance with International Financial Reporting Standards, as adopted by the European Union ("adopted IFRS") and those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The following paragraphs describe the main accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these accounts. The accounts have been prepared on a historic cost basis other than where assets or liabilities are required, under IFRS, to be recorded at fair value

## Basis of consolidation

The Group accounts include the accounts of the parent undertaking, subsidiaries, joint ventures and associates. The results of businesses acquired during the year are included from the effective date of acquisition. The results of businesses disposed of during the year are included up to the date of relinquishing control. A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operation, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operation, and which has been sold, permanently terminated or classified as held for sale at the period end. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale if earlier. Prior year's income statements are restated to reflect that business as discontinued

## Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies

The consolidated financial statements include the Group's share of the total recognised income and expense of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate

## Joint ventures

Joint ventures are those undertakings over which the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the entities' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases

## Revenue

Revenue represents the fair value of consideration received or receivable for goods supplied to customers, excluding intergroup income and after deducting sales allowances, rebates and value added taxes. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the customer, the revenue and costs incurred in respect of the transaction can be measured reliably and collectability is reasonably assured

Revenue includes the Group share of the revenue of joint ventures, net of the Group share of any sales to the joint ventures already included in the Group figures, but does not include the Group's share of the revenue of associates

## Operating leases

The cost of operating leases is charged on the straight-line basis over the period of the lease

## Depreciation and amortisation

The Group's policy is to write off the book value of property, plant and equipment, excluding land, and intangible assets other than goodwill to their residual value evenly over their estimated remaining life. Residual values are reviewed on an annual basis. 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, the lives approximate to 29 years for buildings, 13 years for plant and equipment and 3 to 5 years for computer software. Depreciation of assets qualifying for grants is calculated on their full cost. No depreciation has been provided on freehold land. Impairment reviews are performed where there is an indication of potential impairment. If the carrying value of an asset exceeds the higher of the discounted estimated future cash flows from the asset and net realisable value of the asset, the resulting impairment is charged to the income statement

## Foreign currencies

Income statements of foreign operations are translated into Sterling at average rates for the relevant accounting periods where it is a good approximation of the actual rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Sterling at exchange rates ruling at the date of the Group balance sheet

Foreign exchange differences on borrowings, except foreign currency loans accounted for as net investment hedges, and deposits are included within net finance expense. Exchange differences on all other balances are taken to the income statement within operating profit

In the Group accounts, exchange differences arising on consolidation of the net investments in overseas subsidiary undertakings and associates together with those on foreign currency loans accounted for as net investment hedges, are taken to equity

An intergroup monetary item that forms part of the Company's investment in a foreign entity for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the Group's net investment in the foreign operation. Exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation is recognised in a separate component of equity and is recognised in profit and loss on disposal of the net investment

One of the requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates* is that on disposal of an operation, the cumulative amount of exchange differences previously recognised directly in equity for that foreign operation are to be transferred to the income statement as part of the profit or loss on disposal. The Group adopted the exemption allowing these cumulative translation differences to be reset to zero at the transition date to IFRS (1 January 2004)

## Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years

Deferred tax is provided using the balance sheet liability method, providing for tax on any temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes using tax rates enacted or substantially enacted at the balance sheet date

# Group accounting policies continued

No deferred tax is provided on temporary differences arising on investments in subsidiaries where the Group is able to control the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilised.

## Special items

Special items are those items of financial performance that should be separately disclosed to assist in the understanding of the financial performance achieved by the Group and in making projections of future results, as explained in IAS 1 *Presentation of Financial Statements*. Special items include items relating to both continuing and discontinued businesses. ICI thus believes that the detailed disclosure of special items and of profit measures both before and after special items enables shareholders to obtain greater understanding of the overall and underlying performance of the Group. Profit measures before special items should be considered in addition to, and not as a substitute for or as superior to, measures of financial performance including special items.

Management judgment is required to determine which items of pre-tax expense or income are classified as special items, with consideration being given to size, frequency of incidence and nature, particularly in respect of their relation to the underlying trading performance of the Group and/or the reporting segments. Specific items which have been treated in these financial statements as special include the following:

- gains or losses on disposal of businesses and any subsequent revision to divestment provisions, since these are not part of ongoing activities,
- gains or losses on disposal of property, plant and equipment where significant,
- major Group restructuring programmes,
- the fine imposed by the European Commission for alleged cartel activity,
- foreign exchange gains or losses arising on foreign currency loans and derivatives which did not form part of an effective net investment hedge due to insufficient net assets in the balance sheet,
- takeover related costs, and
- income tax relating to the above items.

ICI uses the term "trading profit", defined as operating profit before special items, as the key measure of profit performance by its businesses at all levels within the Group. Trading profit is also the primary profit measure used in other internal and external performance measures such as trading margin and return on capital employed.

## Business combinations and goodwill

On the acquisition of a business, fair values are attributed to the net assets, liabilities and contingent liabilities acquired. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such assets, liabilities and contingent liabilities. The Group has chosen not to restate business combinations prior to the transition date on an IFRS basis. Goodwill arising on acquisitions is capitalised and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of profit or loss on disposal. Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amount, subject to being tested for impairment at that date. Goodwill taken to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

## Non-current assets and disposal groups held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

## Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses (see accounting policy on depreciation). Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

## Intangible assets other than goodwill

### Research and development

Research expenditure is charged to income in the year in which it is incurred.

Development expenditure is charged to income in the year in which it is incurred unless it meets the recognition criteria of IAS 38 *Intangible Assets*.

Regulatory and other uncertainties generally mean that such criteria are not met. Intangible assets, if capitalised, are amortised on a straight-line basis over the period of the expected benefit.

### Other intangible assets

Other intangible assets that are acquired by the Group, principally computer software, are stated at cost less accumulated amortisation and impairment losses (see accounting policy on amortisation). Expenditure on internally generated brands is recognised in the income statement as an expense when incurred. Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

## Valuation of inventories

Finished goods, raw materials and other inventories are stated at the lower of cost and net realisable value, the first in, first out or an average cost method of valuation is used consistently across inventory classes of a similar nature. In determining cost for inventory valuation purposes, depreciation is included but selling expenses and certain overhead expenses are excluded.

## Securitisation of receivables

The Group runs two receivables securitisation programmes in the USA under which funds are borrowed from a financial institution, secured on receivables up to the value of the borrowings. Depending on Group cash flows and working capital requirements, the extent of use of these securitisation programmes to borrow funds fluctuates on a short-term basis. As the Group retains the risks in respect of the receivables, it recognises separately on the balance sheet the trade receivables as assets and the short-term borrowings as liabilities.

## Environmental liabilities

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



# Group accounting policies continued

## Disposal provisions

The Group is exposed to certain liabilities when businesses are divested and disposal provisions are created as part of the gain or loss on disposal calculation. Typical costs include post-retirement benefit liabilities, environmental costs, transaction costs and separation costs. Provisions are only established when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The Group reviews its disposal provisions regularly to determine whether they continue to reflect accurately the present obligations of the Group based on the latest available facts.

## Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Group's control or are present obligations arising from past events that are not recognised as it is not probable that a transfer of economic benefits will occur or the amount cannot be measured with sufficient certainty.

The Group reviews its obligations regularly and provides disclosures of its contingent liabilities in note 33 relating to the Group accounts.

## Employee benefits

The Group accounts for pensions and similar benefits (principally healthcare) under IAS 19 (revised) *Employee Benefits*. The Group's net obligation in respect of defined benefit plans is calculated by independent, qualified actuaries and updated at least annually. Additional updates are performed when one-time events or market fluctuations, which do not include regular, ongoing changes in actuarial assumptions, indicate that the benefit obligation and pension assets differ significantly from the most recent valuation.

These events could occur as the result of a change in benefits, a redundancy exercise or a disposal. Material settlements or curtailments are examples of the one-time events that would trigger such an update. Obligations are measured at discounted present value whilst plan assets are recorded at fair value. The operating and financing costs of such plans are recognised separately in the income statement, service costs are spread systematically over the lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised in full in the period in which they occur and presented in the statement of recognised income and expense. Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Cumulative actuarial gains and losses at 1 January 2004 were fully recognised in equity at the transition date to IFRS.

## Employee Share Ownership Plan (ESOP)

The financial statements of the Group include the assets and related liabilities of the Imperial Chemical Industries PLC Employee Benefits Trust and Impkemix Trustees Limited, a subsidiary company of the Group, which acts as trustee for the Group's employee share ownership plan. The cost of shares held by the ESOP is deducted from equity.

## Share-based payments

The Group has applied the requirements of IFRS 2 *Share-based Payment* and elected not to adopt the exemption to apply IFRS 2 only to awards made after 7 November 2002. Instead a full retrospective approach has been followed on all grants not fully vested at the date of transition to maintain consistency across reporting periods.

The Group issues equity and cash settled share-based payments to certain employees. Fair value is measured using the Black-Scholes model, taking into account the terms and conditions upon which the instruments were granted, excluding the impact of any non-market vesting conditions. Equity settled share-based payments are measured at fair value at grant date.

Cash settled share-based payments are issued to certain US participants. Cash settled share-based payments are measured at fair value at inception and at each reporting date a corresponding liability equivalent to the fair value payable on outstanding cash settled share-based payments is recognised on the balance sheet until the liability is settled.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the equity instruments granted and the number of equity instruments which eventually vest. At each balance sheet date, the Group revises its estimates of the number of equity instruments that are expected to vest other than in relation to the satisfaction of market conditions. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity or net assets depending on whether equity or cash settled.

## Financial assets

Investments and current asset investments are classified as held-to-maturity financial assets and other loan investments are classified as loans and receivables in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Both these classes of financial assets are recognised at amortised cost using the effective interest method.

## Financial derivatives

### Hedge accounting

The Group uses various derivative financial instruments to manage exposure to foreign exchange risks. These include currency swaps and forward currency contracts. The Group also uses interest rate swaps to manage interest rate exposures. The Group does not use derivative financial instruments for speculative purposes.

The accounting for the Group's various hedging activities is detailed below.

### Transaction exposure hedging

Forward currency contracts hedging transaction exposures are fair valued through the income statement. No hedge accounting is applied.

### Cash flow hedging

Derivatives used to hedge economically the currency risks associated with forecast cash flows are fair valued through the income statement. Where these derivatives form part of designated, effective cash flow hedges, the portion of the gain or loss that is determined to be an effective hedge under IAS 39 *Financial Instruments: Recognition and Measurement* is recognised directly in equity as a separate component of reserves. Amounts that have been recognised directly in equity are recognised in the income statement in the same period or periods during which the hedged forecast transaction impacts the income statement.

For effective hedges that include a purchase of a forecast non-monetary item, the gain or loss on the derivative, at the end of the hedge relationship, is capitalised into the carrying value of that non-monetary item.

### Interest rate hedging

Interest rate derivatives are fair valued through the income statement. Where interest rate derivatives form part of designated, effective fair value hedge relationships, the gain or loss from remeasuring the hedging instrument at fair value is recognised in income or expense, and the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in income or expense. Where interest rate derivatives form part of designated, effective cash flow hedge relationships, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. Amounts that have been recognised directly in equity are recognised in the income statement in the same period or periods during which the hedged forecast transaction impacts the income statement. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the income statement.

# Group accounting policies continued

## *Net investment hedging (currency hedging)*

Currency derivatives are fair valued through the income statement except, where currency derivatives and foreign currency loans form part of designated, effective net investment hedge relationships, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in income or expense. For net investment hedges, the gain or loss on the hedging instrument that has been recognised in equity is recognised in income or expense on the disposal of the foreign operation.

## *Commodity hedging*

Derivatives used to manage commodity price exposures are fair valued through the income statement. Where these derivatives form part of designated, effective hedge relationships, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity until the underlying hedged item is recognised. At this point any deferred gain or loss adjusts the carrying value of the underlying hedged item.

## *Discontinuance of hedge accounting*

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At the time, the following accounting treatment will be adopted:

## *Fair value hedges*

Any adjustment made to the carrying amount of the hedged item, as a consequence of the fair value hedge relationship, shall be amortised to profit or loss through the income statement over the remaining life of the hedged item.

## *Cash flow hedges*

Any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs or impacts the income statement. If a forecast transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period through the income statement.

## **Fair values**

The fair value of the Group's debt and derivatives has been estimated using discounted anticipated cash flows utilising zero-coupon yield curves for the relevant currencies.

# Group income statement

for the year ended 31 December 2007

		2007			2006		
	Notes	Before special items £m	Special items £m	Total £m	Before special items £m	Special items £m	Total £m
<b>Continuing operations</b>							
Revenue	4,6	4,899		4,899	4,845		4,845
Operating costs	3,6	(4,368)	(96)	(4,464)	(4,382)	(80)	(4,462)
(including special items of restructuring costs)	3		(96)	(96)		(80)	(80)
Other operating income	6	29	—	29	39	—	39
Profits less losses on disposal of property, plant and equipment	3		—	—		9	9
Operating profit (loss)	3,4,6	560	(96)	464	502	(71)	431
Profits less losses on sale of continuing operations	3		3	3		4	4
Takeover related costs	3		(67)	(67)		—	—
Share of profits less losses of associates	8	4	—	4	2	—	2
Interest expense	9	(86)	—	(86)	(123)	—	(123)
Interest income	9	78	—	78	44	—	44
Foreign exchange (losses) gains on ineffective portion of net investment hedge	3,9		(37)	(37)		15	15
Post-retirement benefit interest cost	9	(451)	—	(451)	(422)	—	(422)
Post-retirement benefit expected return on assets	9	456	—	456	404	—	404
Net finance expense	9	(3)	(37)	(40)	(97)	15	(82)
Profit (loss) before taxation		561	(197)	364	407	(52)	355
Income tax expense	10	(97)	39	(58)	(70)	14	(56)
Net profit (loss) for the year from continuing operations		464	(158)	306	337	(38)	299
<b>Discontinued operations</b>							
Profit (loss) for the year from discontinued operations		17	(7)	10	62	(69)	(7)
(including special items of fine restructuring costs)	3		(9)	(9)		(62)	(62)
	3		(7)	(7)		(7)	(7)
Profit less losses on disposal of discontinued operations			952	952		37	37
Net profit (loss) for the year from discontinued operations	11	17	945	962	62	(32)	30
Net profit (loss) for the year		481	787	1,268	399	(70)	329
Attributable to equity holders of the parent		451	779	1,230	375	(80)	295
Attributable to minority interests		30	8	38	24	10	34
<b>Earnings per £1 Ordinary Share</b>							
Basic	12						
– Continuing operations				23.2p			23.3p
– Discontinued operations				80.3p			1.6p
– Total				103.5p			24.9p
Diluted							
– Continuing operations				23.2p			23.0p
– Discontinued operations				80.2p			1.5p
– Total				103.4p			24.5p
<b>Dividend per £1 Ordinary Share</b>							
	28			9.95p			8.90p

See accompanying notes to consolidated financial statements

## Statement of Group recognised income and expense

for the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Net profit for the year		1,268	329
Exchange differences on translating foreign operations		28	(88)
Recycling of cumulative exchange differences		9	6
Actuarial gains and losses		344	58
Changes in fair value of cash flow hedges		–	1
Tax on items taken directly to equity		62	101
Total income and expense recognised directly in equity		443	78
Total recognised income and expense for the year		1,711	407
Attributable to equity holders of the parent	27	1,669	385
Attributable to minority interests	27	42	22

See accompanying notes to consolidated financial statements

# Group balance sheet

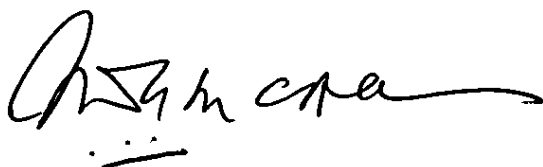
at 31 December 2007

	Notes	2007 £m	2008 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	13	592	523
Property, plant and equipment	14	1,109	1,069
Investments in associates	15	39	21
Financial assets	16	29	28
Deferred tax assets	17	275	229
Other receivables	19	26	35
Post-retirement benefit assets	26	53	12
		2,123	1,917
<b>Current assets</b>			
Inventories	18	533	486
Trade and other receivables	19	855	791
Current tax debtor		15	17
Financial assets	16	96	110
Cash and cash equivalents	20	804	596
Assets classified as held for sale		-	372
		2,303	2,372
<b>Total assets</b>	4	<b>4,426</b>	<b>4,289</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	21	(1,329)	(1,272)
Financial liabilities	23	(318)	(487)
Current tax liabilities	22	(147)	(217)
Provisions	24	(200)	(193)
Liabilities classified as held for sale		-	(201)
		(1,994)	(2,370)
<b>Non-current liabilities</b>			
Financial liabilities	23	(280)	(548)
Other creditors	21	(23)	(28)
Provisions	24	(239)	(277)
Deferred tax liabilities	17	(30)	(18)
Post-retirement benefit liabilities	26	(489)	(1,237)
		(1,061)	(2,108)
<b>Total liabilities</b>	4	<b>(3,055)</b>	<b>(4,478)</b>
<b>Net assets</b>		<b>1,371</b>	<b>(189)</b>
<b>Equity</b>			
Called-up share capital	27	1,208	1,193
Share premium account	27	939	936
Retained earnings and other reserves	27	(896)	(2,442)
Attributable to equity holders of the parent	27	1,251	(313)
Minority interests	27	120	124
<b>Total equity</b>	27	<b>1,371</b>	<b>(189)</b>

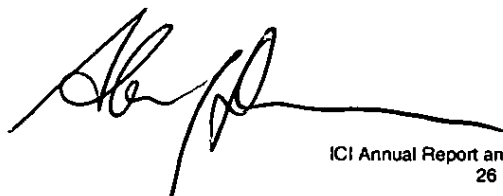
See accompanying notes to consolidated financial statements

The accounts on pages 21 to 70 were authorised for issue by the Board of Directors on 14 February 2008 and were signed on its behalf by

J D G McAdam Director



A J Brown Director



# Group cash flow statement

for the year ended 31 December 2007

	Notes	2007 £m	2006 £m
<b>Cash flows from operating activities</b>			
Net profit for the year		1,268	329
Adjusted for			
Net finance expense		3	99
Depreciation and amortisation		119	150
Post-retirement benefit charges		39	46
Special items after taxation	3	(787)	70
Taxation (including taxation on associates)		94	84
Increase in inventories		(34)	(32)
Increase in receivables		(16)	(47)
Increase in payables		16	74
Outflows relating to operating special items		(91)	(68)
Post-retirement benefit payments	26	(260)	(238)
Interest paid		(112)	(118)
Interest received		78	42
Tax paid excluding tax on disposal of businesses		(76)	(84)
Dividends paid to equity holders of the parent		(115)	(96)
Dividends paid to minority interests		(21)	(21)
Other items		9	1
<b>Net cash inflow from operating activities</b>		114	191
<i>(including net cash flows from discontinued operating activities)</i>		2	29
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(162)	(150)
Proceeds from sale of property, plant and equipment		4	26
Purchase of businesses, net of cash acquired	30	(104)	(31)
Net proceeds from disposal of businesses <sup>†</sup>	30	1,167	324
Legacy payments*		(32)	(41)
Tax on disposal of businesses		(13)	(1)
Post retirement benefit payments relating to disposals	26	(226)	-
Takeover related costs		(9)	-
Increase in current asset investments	29	(56)	(17)
<b>Net cash inflow from investing activities</b>		569	110
<i>(including net cash flows from discontinued investing activities)</i>		1,112	243
<b>Cash flows from financing activities</b>			
Increase in loans	29	7	4
Repayment of loans	29	(441)	(146)
Net increase in short-term borrowings	29	12	7
Movement in non-operating derivatives	29	13	(70)
Capital repayment of finance leases	29	(2)	(13)
ESOP share purchase		(102)	-
Proceeds from exercise of share options		28	6
<b>Net cash outflow from financing activities</b>		(485)	(212)
<i>(including net cash flows from discontinued financing activities)</i>		-	-
<b>Cash and cash equivalents at beginning of the year</b>	29	589	516
Net cash inflow from all activities	29	198	89
Movement arising on foreign currency translation	29	5	(25)
Other	29	10	9
<b>Cash and cash equivalents at end of the year</b>	20 29	802	589

<sup>†</sup> Includes payments in respect of disposals in 2004 and later (see note 30)

\* Payments in respect of disposals prior to 2004

See accompanying notes to consolidated financial statements

# Notes relating to the Group accounts

## 1 Basis of presentation of financial information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and related IFRIC interpretations in issue, that have been adopted by the European Commission and are effective at 31 December 2007, or where ICI has chosen to adopt early at 31 December 2007 ('adopted IFRS')

In accordance with IAS 10 *Events after the Balance Sheet Date*, note 37 explains the post-balance sheet event of the acquisition of ICI by Akzo Nobel, these accounts have been prepared without reflecting changes which may occur as a result of the takeover

### New accounting policies and future requirements

The following standards or interpretations, issued by the IASB or the IFRIC, that have been adopted by the European Commission, came into effect during the year and have been applied by the Group

Amendment to IAS 1 *Presentation of Financial Statements Capital Disclosures*  
IFRS 7 *Financial Instruments Disclosures*  
IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*  
IFRIC 8 *Scope of IFRS 2*  
IFRIC 9 *Re-assessment of Embedded Derivatives*  
IFRIC 10 *Interim Financial Reporting and Impairment*

The standards and interpretations listed above did not have a significant effect on the consolidated results or financial position of the Group. However, IFRS 7 has had an impact on the Group disclosures. IFRS 7 revises and enhances disclosures previously contained with IAS 30 *Disclosures in the Financial Statements of Banks and similar Financial Institutions* and IAS 32 *Financial Instruments Disclosure and Presentation*.

The following standards or interpretations, issued by the IASB or the IFRIC, have been adopted by the European Commission, but only become effective for accounting periods beginning after 31 December 2007

IFRS 8 *Operating Segments*  
IFRIC 11 *Group and Treasury Share Transactions*

The Group does not currently believe the adoption of these standards or interpretations, which are not yet effective, will have a significant effect on the consolidated results or financial position of the Group

The following standards or interpretations, issued by the IASB or the IFRIC, have not yet been adopted by the European Commission and only become effective for accounting periods beginning after 31 December 2007

Amendment to IAS 23 *Borrowing Costs*  
Amendment to IAS 1 *Presentation of Financial Statements A Revised Presentation*  
IFRS 11 *Group Treasury and Share Transactions*  
IFRIC 12 *Service Concession Arrangements*  
IFRIC 13 *Customer Loyalty Programmes*  
IFRIC 14 *IAS 19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The Group has not assessed the impact of these standards or interpretations, which are not yet effective as it is not expecting to prepare separate Group accounts in future periods

### Continuing and Discontinued Operations

For reporting purposes, the results in these financial statements differentiate between the Group's continuing and discontinued operations. Discontinued operations are components of the Group representing separate major lines of business or geographical areas of operations, or are part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operation and which have been sold, permanently terminated or classified as held for sale at the period end. A component of the Group comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. All other operations are classified as continuing operations. Transactions in these financial statements which are identified as relating to discontinued operations comprise items (and associated tax effects) in respect of the following operations, Quest (sold in March 2007), Uniqema (sold in September 2006), and the Polyurethanes business, Tioxide business, selected Petrochemicals businesses, Acrylics business, Chlor-Chemicals business, Polyester business and Explosives business, all of which were sold or terminated before 1 January 2006.

### Non co-terminous year ends

One subsidiary made up its statutory accounts to a date earlier than 31 December, but not earlier than 30 September; additionally three subsidiaries made up their local statutory accounts prior to 30 September. All subsidiaries, including those with non co-terminous year ends, are required to prepare and submit their financial information for inclusion in the Group consolidated accounts in line with the Group's accounting period 1 January to 31 December. There are consequently no adjustments to be made for the effects of significant transactions or events that occur between the date of the subsidiaries' financial information and the date of the parent's financial statements.

### Critical accounting policies, judgments and estimates

The preparation of the consolidated financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period and related disclosures. Actual results could differ from those estimates. Judgments made by management on the application of IFRS that have had a significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in note 36.

# Notes relating to the Group accounts continued

## 2 Directors' and Officers' remuneration and interests

The Directors and Officers are regarded as the key management personnel of the ICI Group. Information covering Directors' remuneration, interests in shares, debentures, share options and pension benefits is included in the Remuneration Report on pages 9 to 17.

Charges in relation to remuneration received by key management personnel for services in all capacities during the years ended 31 December are as follows:

	2007			2006		
	Directors £m	Officers £m	Total £m	Directors £m	Officers £m	Total £m
Short-term employee benefits	5.0	1.7	6.7	4.3	1.8	6.1
Post-retirement benefits	0.3	0.1	0.4	0.3	0.2	0.5
Termination benefits	–	0.3	0.3	–	–	–
Share-based payments*	5.0	1.7	6.7	1.3	0.6	1.9
	10.3	3.8	14.1	5.9	2.6	8.5

\* Fair value charge in respect of Directors and Officers, as described in note 7.

	£1 Ordinary Shares at 31 December 2007	Options outstanding at 31 December 2007	Options granted Subscription prices	Date latest option expires
	Number	Number	£	
Directors (for further details see Remuneration Report page 14 and 15)	654,111	32,690 <sup>†</sup>	1.580 to 10.077	31.07.09
Officers	168,807	16,066*	10.077	17.05.08

<sup>†</sup> Options for Charles Knott have not been included as he left the Company on 2 March 2007 and therefore was not a Director as at the year end.

\* Options for David Gee have not been included as he retired from the Company on 31 March 2007 and therefore was not an Officer as at the year end.

# Notes relating to the Group accounts continued

## 3 Special items before taxation

		2007 £m	2006 £m
<b>Credited (charged) in arriving at continuing operating profit (loss)</b>			
Restructuring	(a)	(96)	(80)
Profits less losses on disposal of fixed assets	(b)	–	9
		(96)	(71)
<b>Profits less losses on sale of continuing operations</b>			
Profits	(c)	3	6
Losses		–	(2)
		3	4
Takeover related costs	(d)	(67)	–
Foreign exchange (losses) gains on ineffective portion of net investment hedge	(e)	(37)	15
<b>Special items within continuing (loss) before taxation</b>		<b>(197)</b>	<b>(52)</b>
<b>(Charged) In arriving at discontinued profit (loss)</b>			
Fine	(f)	(6)	(62)
Restructuring	(a)	(1)	(10)
		(7)	(72)
<b>Profits less losses on sale of discontinued operations</b>			
Profits	(g)	977	72
Losses	(h)	(32)	(40)
		945	32
<b>Special items within discontinued profit (loss) before taxation</b>		<b>938</b>	<b>(40)</b>

- (a) The 2007 charge of £96m for continuing operations relates to the restructuring and transformation programme announced in 2006, comprising Paints £36m, Adhesives £18m charge, Specialty Starches £3m charge, Specialty Polymers £1m charge, Electronic Materials £6m charge, Regional and Industrial Enil and Corporate £32m charge. Included in the restructuring charges are amounts relating to accelerated depreciation, Paints £4m and Adhesives £2m. The 2007 charge for discontinued operations of £1m relates to restructuring costs for Quest.
- The 2006 charge of £80m for continuing operations includes £70m primarily relating to the restructuring and transformation programme announced in 2006 and £10m relating to earlier restructuring programmes, comprising Paints £26m charge, Adhesive £22m charge, Specialty Starches £2m charge, Specialty Polymers £3m charge, Electronic Materials £2m charge, Regional and Industrial £7m charge and Corporate £18m charge. Included in the restructuring charge for Adhesives are amounts relating to accelerated depreciation of £11m. 2006 charge for discontinued operations of £10m includes restructuring for Quest £7m charge and Uniqema £3m charge (including £2m of accelerated depreciation).
- (b) Other items included within special operating items in 2006 relate to profit arising from the disposal of fixed assets.
- (c) The profits on sale of continuing operations in 2006 include a release of provisions of £5m relating to the disposal of Quest Food Ingredients.
- (d) Takeover related costs are in relation to the takeover of ICI by Akzo Nobel and comprise £32m in relation to transaction costs, £11m in relation to accelerated share based payment charges consisting of £9m for share based payments and £2m for related UK National Insurance, £21m in relation to accelerated charges for other long term incentive plans and £3m in relation to employee retention payments.
- (e) Under IFRS, the ineffective portion of the net investment hedge calculation has introduced volatility to the income statement. This results from the impact of foreign exchange rate movements on that part of the debt that cannot be considered a part of the hedge. The £37m charge (2006 £15m credit) arising in the income statement from this treatment is included within the net finance expense and presented as a special item.
- (f) The charge of £62m (£91m) in 2006 relates to a fine imposed by the European Commission following an investigation into alleged cartel activity in the European methacrylates markets. The charge of £6m in 2007 relates to the retranslation of the fine.
- (g) The profits on sale of discontinued operation in 2007 primarily relate to £940m on sale of Quest, £7m for Uniqema in relation to working capital settlements and release of disposal provisions. A £4m receipt from the Ineos Group and a release of £23m of disposal provisions due to adjusted estimates primarily in relation to long term residual provisions. The profits on sale of discontinued operations in 2006 include the £48m gain arising from the divestment of Uniqema, a release of provisions of £18m following resolution of an environmental issue and £4m receipt from the Ineos Group.
- (h) The losses on sale of discontinued operations for 2007 relate primarily to £27m of adjusted disposal provision estimates in relation to direct disposal provisions and long term residual provisions. The losses on sale of discontinued operations in 2006 include additional pension administration cost of £14m, increased employer liability costs of £9m and a further provision of £8m relating to the Polyurethanes, Tioxide and selected Petrochemical businesses.



# Notes relating to the Group accounts continued

## 4 Segment information

The Group is managed in six reporting segments, differentiated by business, primarily by the nature of products manufactured in each, together with a segment for discontinued operations. Discontinued includes Uniqema, which was divested in September 2006 and Quest, which was divested in March 2007. An explanation of this basis on which operations are classified as discontinued is set out in note 1.

The major products of each business segment are as follows:

Business segments	Products
<i>Continuing operations</i>	
Paints	decorative paint and packaging coatings for food and beverage cans
Adhesives	industrial adhesives, including waterborne, hot melt and pressure sensitive adhesives and process lubricants
Specialty Starches	specialty food and industrial starches
Specialty Polymers	redispersible powder polymers, rheology modifiers and other specialty polymers for water treatment and personal care
Electronic Materials	specialty coatings, conductive adhesives and encapsulants for circuit assembly
Regional and Industrial	pure terephthalic acid, polyester staple fibre, soda ash, seeds, pharmaceuticals, sulphur-related products and wine chemicals
<i>Discontinued operations</i>	
Quest	flavours, fragrance products and fragrance ingredients
Uniqema	oleochemicals (process intermediates), polymers, base stocks and additives for lubricants, personal care, performance specialties for the manufacture of agrochemicals and coatings, oilfield chemicals, textile auxiliaries, spin finish, polymer additives and specialty cleaning

Corporate and other represents the costs that are not directly attributable to individual segments.

The geographical segments of the Group are the United Kingdom, Continental Europe, North America (USA and Canada), Latin America (Central and South America), Asia and the other countries (principally Australia).

The accounting policies for each segment are the same as those appearing on pages 21 to 24. The Group's policy is to transfer products internally between legal entities at external market prices.

### Business segments

	Segment Revenue					
	External £m	2007 Inter- segment £m	Total segment £m	External £m	2006 Inter- segment £m	Total segment £m
<i>Continuing operations</i>						
Paints	2,419	2	2,421	2,411	3	2,414
Adhesives	1,055	3	1,058	1,048	4	1,052
Specialty Starches	540	10	550	493	9	502
Specialty Polymers	276	1	277	265	1	266
Electronic Materials	194	1	195	201	2	203
<i>Total National Starch</i>	<i>2,065</i>	<i>15</i>	<i>2,080</i>	<i>2,007</i>	<i>16</i>	<i>2,023</i>
Regional and Industrial	413	6	419	425	6	431
Total reporting segments	4,897	23	4,920	4,843	25	4,868
Corporate and other	2	–	2	3	–	3
	4,899	23	4,922	4,846	25	4,871
Inter-segment revenue		(23)	(23)	–	(26)	(26)
<b>Total continuing segment revenue</b>	<b>4,899</b>	<b>–</b>	<b>4,899</b>	<b>4,846</b>	<b>(1)</b>	<b>4,845</b>
<i>Discontinued operations</i>						
Quest	98	–	98	588	–	588
Uniqema	–	–	–	434	1	435
<b>Total discontinued segment revenue</b>	<b>98</b>	<b>–</b>	<b>98</b>	<b>1,022</b>	<b>1</b>	<b>1,023</b>
<b>Total Group revenue</b>	<b>4,997</b>	<b>–</b>	<b>4,997</b>	<b>5,868</b>	<b>–</b>	<b>5,868</b>

# Notes relating to the Group accounts continued

## 4 Segment information (continued)

	Segment profit before special items		Segment profit after special items	
	2007 £m	2006 £m	2007 £m	2006 £m
<b>Continuing operations</b>				
Paints	296	257	260	240
Adhesives	92	83	74	61
Specialty Starches	74	60	71	58
Specialty Polymers	57	48	56	45
Electronic Materials	46	51	40	49
Total National Starch	269	242	241	213
Regional and Industrial	36	37	36	30
Total reporting segments	601	536	537	483
Corporate and other	(41)	(34)	(73)	(52)
Total continuing segment result	560	502	464	431
<b>Reconciliations</b>				
Segment result	560	502	464	431
Profit less losses on sale of continuing operations			3	4
Takeover related costs			(67)	–
Share of profits less losses of associates	4	2	4	2
Net finance expense	(3)	(97)	(40)	(82)
Income tax expense	(97)	(70)	(58)	(56)
<b>Continuing operations net profit</b>	<b>464</b>	<b>337</b>	<b>306</b>	<b>299</b>
<b>Discontinued operations</b>				
Quest	12	61	11	54
Uniqema	–	16	–	13
Other	–	–	(6)	(62)
Total discontinued segment result	12	77	5	5
<b>Reconciliations</b>				
Segment result	12	77	5	5
Profit less losses on sale of discontinued operations	–	–	945	32
Net finance expense	–	(2)	–	(2)
Income tax expense	5	(13)	12	(5)
<b>Discontinued operations net profit</b>	<b>17</b>	<b>62</b>	<b>962</b>	<b>30</b>
<b>Total Group net profit</b>	<b>481</b>	<b>399</b>	<b>1,268</b>	<b>329</b>

## Business segments

	Depreciation (note 14)*		Amortisation (note 13)		Capital Expenditure** (note 13 and note 14)		Significant non-cash expenses #	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
<b>Continuing operations</b>								
Paints	50	45	3	3	65	61	1	2
Adhesives	18	28	1	1	22	22	1	(1)
Specialty Starches	20	21	1	1	23	17	–	–
Specialty Polymers	6	6	1	1	6	8	–	–
Electronic Materials	5	5	1	1	8	7	–	–
Total National Starch	49	60	4	4	59	54	1	(1)
Regional and Industrial	16	18	–	–	15	15	(4)	(1)
Total reporting segments	115	123	7	7	139	130	(2)	–
Corporate and other	2	3	1	1	21	1	–	–
Total continuing operations	117	126	8	8	160	131	(2)	–
<b>Discontinued operations</b>								
Quest	–	12	–	3	2	15	–	(1)
Uniqema	–	12	–	2	–	10	–	–
Total discontinued operations	–	24	–	5	2	25	–	(1)
<b>Total Group</b>	<b>117</b>	<b>150</b>	<b>8</b>	<b>13</b>	<b>162</b>	<b>156</b>	<b>(2)</b>	<b>(1)</b>

\* Includes depreciation relating to special items

\*\* Capital expenditure relates to the cost incurred during the year to acquire segment assets that are expected to be used during more than one period (property plant and equipment and intangible assets)

# Significant non-cash expenses consist mainly of fair value gains/losses on derivatives and foreign exchange movements

# Notes relating to the Group accounts continued

## 4 Segment information (continued)

### Business segments

	Segment assets		Segment liabilities		Goodwill included in segment assets	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Paints	1,308	1,186	576	528	275	252
Adhesives	702	649	240	217	170	163
Specialty Starches	434	409	89	71	7	7
Specialty Polymers	152	138	48	40	6	5
Electronic Materials	157	148	28	24	55	55
<i>Total National Starch</i>	<b>1,445</b>	<b>1,344</b>	<b>405</b>	<b>352</b>	<b>238</b>	<b>230</b>
Regional and Industrial	259	270	83	91	18	12
Quest	–	366	–	98	–	18
Total reporting segments	3,012	3,166	1,064	1,069	531	512
Corporate and other	73	68	137	150	–	–
	3,085	3,234	1,201	1,219		
Unallocated†	1,341	1,055	1,854	3,259		
Total Group	4,426	4,289	3,055	4,478	531	512

† Unallocated assets mainly comprise post-retirement benefit assets, financial assets, deferred tax assets, investments in associates, cash and cash equivalents and other non-operating debtors. Unallocated liabilities mainly comprise post-retirement benefit liabilities, provisions, tax liabilities, financial liabilities, current tax liabilities and other non-operating creditors.

### Geographical segments

The figures for each geographic area show the revenue earned, and the total assets and liabilities owned, by companies located in that area, export sales are included in the areas from which those sales were made.

	Revenue					
	External £m	2007 Inter- segment £m	Total £m	External £m	2006 Inter- segment £m	Total £m
United Kingdom*	672	169	841	858	221	1,079
Continental Europe	877	291	1,168	1,099	313	1,412
North America	1,541	172	1,713	1,927	186	2,113
Latin America	454	36	490	472	49	521
Asia	1,322	193	1,515	1,363	183	1,546
Other countries	131	3	134	149	2	151
	4,997	864	5,861	5,868	954	6,822
Inter-segment eliminations		(864)	(864)		(954)	(954)
Total Group revenue	4,997	–	4,997	5,868	–	5,868

\* The total export sales made by ICI companies located in the United Kingdom was £158m in 2007 (2006 £375m).

### Geographical segments

	Capital expenditure* (note 13 and note 14)		Revenue by location of customer**	
	2007 £m	2006 £m	2007 £m	2006 £m
United Kingdom	36	18	577	690
Continental Europe	28	29	907	1,145
North America	43	54	1,460	1,861
Latin America	11	8	499	502
Asia	43	45	1,394	1,467
Other countries	1	2	160	203
Total Group capital expenditure and revenue	162	156	4,997	5,868

\* Capital expenditure relates to the cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant and equipment and intangible assets).

\*\* Revenue by location relating to discontinued operations: United Kingdom £8m (2006 £87m), Continental Europe £31m (2006 £351m), North America £21m (2006 £263m), Latin America £11m (2006 £80m), Asia £14m (2006 £148m) and other countries £13m (2006 £94m).

# Notes relating to the Group accounts continued

## 4 Segment information (continued)

### Geographical segments

	Segment assets		Segment liabilities	
	2007 £m	2006 £m	2007 £m	2006 £m
United Kingdom	392	502	267	308
Continental Europe	577	592	180	194
North America	1,007	1,080	289	304
Latin America	260	250	140	124
Asia	737	752	302	272
Other countries	112	58	23	17
	3,085	3,234	1,201	1,219
Unallocated†	1,341	1,055	1,854	3,259
Total Group	4,426	4,289	3,055	4,478

† Unallocated assets mainly comprise post-retirement benefit assets, deferred tax assets, investments in associates, cash and cash equivalents, financial assets and other non-operating debtors. Unallocated liabilities mainly comprise post-retirement benefit liabilities, provisions, tax liabilities, financial liabilities, current tax liabilities and other non-operating creditors.

## 5 Employee numbers and costs

### Average number of people employed by the Group

#### Classes of business

	2007	2006
<i>Continuing operations</i>		
Paints	15,040	15,010
Adhesives	4,660	4,860
Specialty Starches	2,230	2,200
Specialty Polymers	750	690
Electronic Materials	1,240	1,170
Total National Starch	8,880	8,920
Regional and Industrial	1,720	1,890
Corporate		
Board support and parent company activities	120	110
Group technical resources and other shared services	210	140
Total continuing operations	25,970	26,070
<i>Discontinued operations</i>		
Quest	540	3,340
Uniqema	–	1,660
Total discontinued operations	540	5,000
<b>Total Group</b>	<b>26,510</b>	<b>31,070</b>

#### Geographical areas

	2007	2006
United Kingdom	3,440	4,210
Continental Europe	3,380	4,880
North America	8,990	10,280
Latin America	2,580	2,960
Asia	7,640	8,170
Other countries	480	570
<b>Total employees</b>	<b>26,510</b>	<b>31,070</b>

	2007	2006
Number of people employed by the Group at 31 December	26,380	29,130
Continuing operations	26,380	25,850
Discontinued operations	–	3,280

# Notes relating to the Group accounts continued

## 5 Employee numbers and costs (continued)

### Total Group employee costs

	2007 £m	2006 £m
Salaries	684	863
Social security costs	75	91
Pension costs		
Defined benefit plans	39	62
Defined contribution plans	18	20
Post-retirement healthcare plans	—	(9)
Other employment costs	12	13
	828	1,040
Less amounts allocated to capital	(9)	(6)
Severance costs charged in arriving at profit before tax	41	38
Post-retirement benefit finance expense	(5)	20
<b>Total Group employee costs charged in arriving at profit before tax</b>	<b>855</b>	<b>1,092</b>

## 6 Operating profit

### (a) Operating profit by function

	Continued operations				Total Group			
	Before special items 2007 £m	2006 £m	After special items 2007 £m	2006 £m	Before special items 2007 £m	2006 £m	After special items 2007 £m	2006 £m
<i>Continuing operations</i>								
Revenue	4,899	4,845	4,899	4,845	4,997	5,868	4,997	5,868
Operating costs								
Cost of sales	(3,101)	(3,084)	(3,117)	(3,104)	(3,154)	(3,731)	(3,170)	(3,751)
Distribution costs	(759)	(774)	(773)	(784)	(769)	(880)	(783)	(890)
Research and development	(84)	(88)	(84)	(88)	(94)	(153)	(94)	(153)
Administration and other expenses	(424)	(436)	(490)	(486)	(437)	(565)	(510)	(687)
	(4,368)	(4,382)	(4,464)	(4,462)	(4,454)	(5,329)	(4,557)	(5,481)
Other operating income								
Royalties	2	2	2	2	2	2	2	2
Other income	27	37	27	37	27	38	27	38
	29	39	29	39	29	40	29	40
<b>Profits less losses on disposal of fixed assets</b>			—	9			—	9
<b>Operating profit from continuing operations</b>	<b>560</b>	<b>502</b>	<b>464</b>	<b>431</b>	<b>572</b>	<b>579</b>	<b>469</b>	<b>436</b>
<b>Gross profit</b>	<b>1,798</b>	<b>1,761</b>	<b>1,782</b>	<b>1,741</b>	<b>1,843</b>	<b>2,137</b>	<b>1,827</b>	<b>2,117</b>

### (b) Total Group operating costs have been arrived at after (charging) crediting

	Before special items 2007 £m	2006 £m	After special items 2007 £m	2006 £m
Employee benefit costs	(816)	(1,051)	(855)	(1,092)
Depreciation expense	(111)	(137)	(117)	(150)
Amortisation expense	(8)	(13)	(8)	(13)
Expense for share-based payments	(8)	(6)	(17)	(6)
Foreign exchange (loss) gain	(2)	1	(2)	1
Auditor remuneration	(4)	(8)	(4)	(8)
	2007 £m	2006 £m		
<b>Statutory audit of the Group and parent company accounts – Remuneration of Auditor</b>	<b>(1 3)</b>	<b>(1 4)</b>		

### Services other than audit of the Group and parent company accounts – Remuneration of Auditor and associates

Auditing of accounts of subsidiaries pursuant to legislation	(2 0)	(1 9)
Other services supplied pursuant to such legislation <sup>†</sup>	(0 3)	(3 5)
Other services relating to taxation*	(0 3)	(0 4)
Employee benefit plan audits	(0 3)	(0 4)
All other services	(0 1)	(0 5)
	(3 0)	(6 7)
<b>Total Auditor Remuneration</b>	<b>(4 3)</b>	<b>(8 1)</b>

<sup>†</sup> Other services supplied pursuant to such legislation included an amount of £3 1m in 2006 relating to audits under Sarbanes-Oxley s404

\* Tax services for 2007 related to advisory services £0 1m (2006 £0 1m) and compliance services £0 2m (2006 £0 3m)

# Notes relating to the Group accounts continued

## 7 Share-based payments

As explained in note 37 Post-balance sheet events, on 2 January 2008, ICI was acquired by Akzo Nobel who acquired 100% of the issued share capital of ICI. Based on the share option and share award scheme rules, upon a change of control, options and awards granted under ICI Share option schemes and share award plans which were not already exercisable or which had not already vested became exercisable or vested on the Scheme sanction date of 17 December, with the exception of options under the UK Sharesave Scheme which became exercisable on the acquisition effective date of 2 January 2008.

To take into account this early vesting, the IFRS 2 *Share-based Payment* charge in respect of all share option and award schemes was accelerated to ensure that they had been fully charged by the effective date for the UK Sharesave Scheme and the Scheme sanction date for all other schemes. The element of the charge relating to this acceleration has been reported as a takeover related cost and classified as a special item in the income statement.

The Group has three share option schemes and three share award schemes. The principal features of these schemes are as follows:

### Share option schemes

#### 2004 Executive Share Option Plan

Options granted under this scheme are principally made to Executive Directors and members of the Executive Management Team. This scheme grants options that vest and become exercisable providing earnings per share targets over a three-year period are satisfied. Vesting levels will vary based on earnings per share levels achieved. There is no retesting after the three-year performance period. Options under the plan must be held for a minimum of three years from date of grant before they can be exercised and lapse if not exercised within ten years. The prices at which options are granted under the 2004 Executive Share Option Plan must not be less than the nominal value of an Ordinary Share nor less than the average of the middle market quotation of an ICI Ordinary Share on the London Stock Exchange on the three business days immediately preceding the date on which the option is granted. For US participants the awards are made as Stock Appreciation Rights (SARs) denominated in American Depository Receipts (ADRs).

#### 1994 Share Option Scheme

The last options granted under this scheme were in 2003. Share options outstanding under the 1994 Share Option Scheme were granted subject to performance conditions over a three-year period, which are retested each year until the 10 year terms of the grants are reached. Earnings per share was used as the performance condition. The prices at which options were granted under the scheme must not be less than the nominal value of an Ordinary Share nor less than the average of the middle market quotation of an ICI Ordinary Share on the London Stock Exchange on the five business days immediately preceding the date on which the option is offered. Grants under the 1994 Stock Appreciation Rights Plan are made on the same terms as the 1994 Share Option Scheme. For US participants the awards are made as SARs denominated in ADRs.

#### UK Savings-related Share Option Scheme (UK – Sharesave)

Under the UK Sharesave scheme, the price at which options were granted could not be less than the greater of the nominal value of an Ordinary Share, or 80% of the average market value of an Ordinary Share on the three business days preceding the day on which the offer of options was made. The options may normally be exercised within a period of six months, after a vesting period of three or five years, depending on the length of the option period chosen by the employee. The total purchase cost in respect of options granted under the UK Sharesave Scheme is deducted from salary over a period of three or five years at the choice of the employee, and vest subject to employees meeting minimum service requirements. Grants are no longer made under this scheme.

The grants to non-US participants under both the 1994 Share Option Scheme and the 2004 Executive Share Option Plan have been referred to collectively in the following tables as "Senior Staff" and grants to US participants as "SARP".

### Share award plans

#### Performance Growth Plan

Awards under the Performance Growth Plan are made to Executive Directors and members of the Executive Management Team, and are described on page 13. The Performance Growth Plan makes conditional awards of ICI shares or for US-based participants ADRs, and is linked to performance over a fixed three-year period.

#### Performance Share Plan

The first award under this plan was made in the year ended 31 December 2004, to senior staff below the level of the Executive Management Team. These awards are conditional on preset earnings per share targets over a three-year period. Awards are delivered in ICI shares or for US-based participants, ADRs.

#### Restricted Share Plan

Awards under the Restricted Share Plan are made to a small number of senior executives below the level of the Executive Management Team. The length of retention period before awards vest is flexible, and may vest in annual tranches. The scheme involves awards of ICI shares or, for US-based participants, ADRs, with the release being conditional upon achievement of certain conditions which vary by employee.

### Share-based expense

As a result of de-registering from the SEC in September 2007, ICI de-listed from the New York Stock Exchange and the registration of ICI ADRs was terminated. As it is no longer possible to issue ADRs to US participants, all remaining share options and awards issued to US participants and denominated in ADRs are settled in cash and are accounted for as cash settled schemes. The date of transition to cash settlement was the date the participants were informed of the modification to the scheme. On transition, the ADRs were re-measured to fair value and a corresponding liability recognised. The additional fair value charge of £16m, being the difference between the cumulative income statement charge to date and the re-measurement at fair value, was recognised directly in reserves. The change in any subsequent fair value revaluation has been recognised to the income statement. The Group recognised expenses in relation to share-based payment transactions of:

	2007 £m	2006 £m
Equity settled schemes	16	6
Cash settled schemes	1	–
<b>Total share-based payment expense</b>	<b>17</b>	<b>6</b>

The above share based payment expense includes £8m and £1m in relation to the acceleration of the equity settled and cash settled schemes respectively, which have been reported as takeover related costs and classified as a special item in the income statement. At 31 December 2007 there was £nil (2006 £6m) of unrecognised compensation cost related to non-vested options and awards granted over a weighted average period of nil months (2006 22 months). The fair value balance sheet liability on all outstanding cash settled ADRs at 31 December 2007 amounted to £16m, this was also the intrinsic value of the liability at that date.

# Notes relating to the Group accounts continued

## 7 Share-based payments (continued)

### Fair value assumptions of share-based payments

The fair value of all options and share awards granted is determined using the Black-Scholes valuation model, and the following weighted average assumptions

	2007		2006	
	Share options	Share awards	Share options	Share awards
Weighted average fair value	£0 79	£3 61	£0 79	£3 23
Weighted average share price	£4 80	£5 22	£3 49	£3 46
Weighted average exercise price	£4 79	£0 00	£3 49	£0 00
Dividend yield	1 7%	0 9%	2 1%	2 2%
Expected volatility	18%	18%	31%	33%
Expected life	4 years	3 years	4 years	3 years
Risk-free interest rate	5 3%	5 5%	4 5%	4 4%

The Group uses historical volatility figures as an input to the Black-Scholes valuation model. For each new grant, the historical volatility is considered for a period in line with the expected life of the option or equity instrument granted. The Group assumes an expected life of one year after vesting for options and for other equity instruments the expected life is equal to the vesting period. The risk-free interest rate is based on the UK gilt yield curve in effect at the time of grant, for the expected life of the option.

Participants in the Group's 2007 performance growth plan were entitled to receive dividends during the vesting period. Therefore, the awards granted under this scheme have been valued as if no dividends will be paid on the underlying shares. However, participants in the Group's other share-based incentive schemes are not entitled to receive dividends during the vesting period. Therefore, dividends expected on the underlying shares during this period must be taken into account in determining the fair value of share options and other equity instruments granted. The Group assumes that until each share-based incentive award vests, the dividends per share will follow the same pattern as for the previous two years. The Group then considers whether any adjustments are required to the expected dividends based on the knowledge of the Group.

A proportion of equity instruments awarded to members of the Executive Management Team is based on the TSR performance of the Company relative to a peer group. This market-based performance condition is taken into account in determining the fair value of these awards. It is assumed the market is efficient and hence all available information about the peer group performance is already reflected in its share price. ICI therefore assumes that each company within the peer group has equal probabilities of attaining each ranking within the peer group.

### Transactions on Option Schemes

	Senior Staff Scheme		UK – Sharesave		SARP	
	Number of options 000	Weighted average exercise price £	Number of options 000	Weighted average exercise price £	Number of options in ADRs 000	Weighted average exercise price \$
<b>Outstanding</b>						
At 1 January 2006	27,468	2 91	6,559	1 93	5,089	18 48
Granted	2,228	3 48	–	–	243	24 19
Forfeited/Expired	(2,576)	5 19	(355)	2 26	(683)	23 19
Exercised	(3,121)	1 62	(1,135)	2 32	(1,107)	16 21
At 31 December 2006	23,999	2 89	5,069	1 82	3,542	18 67
Granted	936	4 79	–	–	–	–
Forfeited/Expired	(1,524)	3 25	(429)	1 68	(222)	28 59
Exercised	(23,084)	2 84	(2,934)	1 88	(3,061)	17 05
At 31 December 2007	327	10 08	1,706	1 74	259	29 50
<b>Number of options exercisable at</b>						
31 December 2006	3,175	4 90	845	1 83	690	31 22
31 December 2007	327	10 08	23	1 67	259	29 50

# Notes relating to the Group accounts continued

## 7 Share-based payments (continued)

### Summary of share options outstanding at 31 December 2007

Exercise price range	Total options outstanding at 31 December 2007			Exercisable options at 31 December 2007	
	Number outstanding 000	Weighted average remaining contractual life Years	Weighted average exercise price £/\$	Number exercisable 000	Weighted average exercise price £/\$
<b>Senior Staff Scheme</b>					
£0 – £5	–	–	–	–	–
£5 – £10	–	–	–	–	–
£10 – £15	327	0.38	10.08	327	10.08
	327		10.08	327	10.08
<b>UK – Sharesave</b>					
£0 – £5	1,706	1.12	1.74	23	1.67
	1,706		1.74	23	1.67
<b>SARP (ADRs)</b>					
\$0 – \$20	113	0.00	10.74	113	10.74
\$20 – \$40	80	0.00	26.42	80	26.42
\$40 – \$60	–	–	–	–	–
\$60 – \$80	66	0.38	65.49	66	65.49
	259		29.50	259	29.50

The remaining 193,000 options outstanding under the SARP scheme that have an exercise price below the acquisition purchase price of £6.70 were exercised on the effective date of the takeover by Akzo Nobel on 2 January 2008. The remaining options that have an exercise price in excess of the acquisition purchase price of £6.70 (327,000 under the senior staff scheme and 66,000 under the SARP scheme), will remain exercisable until the scheme expiry date of 18 May 2008 at which point they will lapse.

Under the scheme of arrangement, participants of the UK Sharesave Scheme are able to continue to hold their options until maturity of the related scheme. The remaining options are exercisable during the period 2008-2009. On exercise the participant will receive £6.70 per share.

The weighted average share price for options exercised during the year ended 31 December 2007 for the Senior Staff, UK Sharesave and SARP schemes was £5.83 (2006 £3.86), £4.94 (2006 £3.76), and \$39.07 (2006 \$28.93) respectively.

### Transactions on Award Schemes

	Performance Growth Plan		Other share awards*	
	Number of awards 000	Weighted average fair value at grant date £	Number of awards 000	Weighted average fair value at grant date £
<b>Outstanding</b>				
At 1 January 2006	4,060	2.11	3,974	2.28
Granted	1,142	3.16	1,618	3.27
Vested	(726)	1.94	(34)	2.24
Forfeited	(1,016)	2.31	(304)	2.59
At 31 December 2006	3,460	2.44	5,254	2.57
Granted	711	2.21	968	4.74
Vested	(3,444)	2.42	(5,698)	2.89
Forfeited	(727)	2.29	(524)	3.10
At 31 December 2007	–	–	–	–

\* Other share awards consist of Performance Share Plan awards and Restricted Share Plan awards.

The weighted average share price for the Performance Growth Plan and Other share awards vested during the year ended 31 December 2007 was £5.84 (2006 £3.51) and £6.04 (2006 £4.16) respectively.

Cash received from the exercise of options under the share options schemes was £28m (2006 £6m).

Shares used to satisfy the Group's obligations under the employee share plans can be newly issued shares, or shares purchased in the open market by the employee share trust. The number of Ordinary shares issued during the year, wholly in respect of the exercise of options, totalled 14.9 million (2006 11 million). The cash used to settle exercises of options and vesting of awards denominated in ADRs during the year totalled £1m (2006 £nil).



# Notes relating to the Group accounts continued

## 8 Share of profits less losses of associates

	2007 £m	2006 £m
<b>Continuing operations</b>		
Share of operating profits less losses	5	2
Associates net finance income	1	1
Taxation on profits less losses of associates	(2)	(1)
	4	2

## 9 Net finance expense

	2007 £m	2006 £m
<b>Continuing operations</b>		
<b>Interest expense and similar charges</b>		
Loan interest		
Bank loans	(2)	(3)
Other loans	(61)	(89)
Interest on obligations under finance leases	(1)	(3)
	(64)	(95)
Interest on short-term borrowings		
Bank borrowings	(9)	(11)
Other borrowings	(2)	(2)
	(11)	(13)
Amortisation of discounted provisions	(9)	(9)
Foreign exchange losses	(2)	(6)
	(86)	(123)
<b>Interest income and similar income</b>		
Interest income on financial assets	75	42
Fair value gains	3	2
Foreign exchange gains	-	-
	78	44
<b>Post-retirement benefit finance</b>		
Interest cost	(451)	(422)
Expected return on assets	456	404
	5	(18)
<b>Net finance expense before special items for continuing operations</b>	<b>(3)</b>	<b>(97)</b>
Foreign exchange (losses) gains on ineffective portion of net investment hedge	(37)	15
<b>Net finance expense after special items for continuing operations</b>	<b>(40)</b>	<b>(82)</b>
Net finance expense after special items for discontinued operations (see note 11)	-	(2)
<b>Total net finance expense after special items</b>	<b>(40)</b>	<b>(84)</b>

# Notes relating to the Group accounts continued

## 10 Income tax expense

	2007 £m	2006 £m
Profit before taxation is analysed as follows		
United Kingdom	260	90
Overseas	1,054	300
	1,314	390
Discontinued operations (see note 11)	950	35

	Before special items £m	Continuing operations Special items £m	Total Continuing Operations £m	Discontinued operations £m	Total £m
<b>2007</b>					
<b>Recognised in the income statement</b>					
<b>Current tax expense</b>					
Current year corporation tax	249	(22)	227	35	262
Adjustments for prior years	(96)	–	(96)	(7)	(103)
Double taxation relief	(36)	–	(36)	–	(36)
	117	(22)	95	28	123
<b>Deferred tax expense</b>					
Origination and reversal of temporary differences	(20)	17	(37)	(40)	(77)
Changes in tax rates	–	–	–	–	–
Benefit of tax losses recognised	–	–	–	–	–
Write-down of deferred tax assets	–	–	–	–	–
	(20)	17	(37)	(40)	(77)
<b>Total income tax expense in income statement</b>	<b>97</b>	<b>(39)</b>	<b>58</b>	<b>(12)</b>	<b>46</b>
<b>2006</b>					
<b>Recognised in the income statement</b>					
<b>Current tax expense</b>					
Current year corporation tax	186	(4)	182	(1)	181
Adjustments for prior years	(150)	–	(150)	(1)	(151)
Double taxation relief	(26)	–	(26)	–	(26)
	10	(4)	6	(2)	4
<b>Deferred tax expense</b>					
Origination and reversal of temporary differences	(31)	(10)	(41)	7	(34)
Changes in tax rates	(4)	–	(4)	–	(4)
Benefit of tax losses recognised	(10)	–	(10)	–	(10)
Write-down of deferred tax assets	105	–	105	–	105
	60	(10)	50	7	57
<b>Total income tax expense in income statement</b>	<b>70</b>	<b>(14)</b>	<b>56</b>	<b>5</b>	<b>61</b>

The tax expense for 2007 consists of UK taxation of £5m credit (2006 £7m) and an overseas tax expense of £51m (2006 £68m). The UK taxation credit of £5m (2006 £7m) is calculated after applying double taxation relief of £36m (2006 £26m). The UK taxation credit consists of £17m credit in respect of special items (2006 £1m charge), £18m credit in respect of discontinued operations (2006 £nil charge) and £30m charge in respect of continuing operations before special items (2006 £8m credit).

The overseas tax expense of £51m (2006 £68m) consists of £22m credit in respect of special items (2006 £15m), £6m charge in respect of discontinued operations (2006 £5m) and £67m charge in respect of continuing operations before special items (2006 £78m).

UK and overseas taxation has been provided on the profits (losses) earned for the periods covered by the Group accounts. UK corporation tax has been provided at the rate of 30% (2006 30%).

The benefit in the period arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense is £1m, and to reduce deferred tax expense £3m.

The tax charge (credit) in 2007 and 2006 in relation to special items was in respect of disposal and restructuring programmes, as discussed in note 25.

The tax credit of £12m for discontinued operations (2006 £5m charge) relates to the profit on disposal of an operation and profit made by a discontinued operation, net of the creation of deferred tax assets on provisions.

# Notes relating to the Group accounts continued

## 10 Income tax expense (continued)

The table below reconciles the total tax charge (credit) at the UK corporation tax rate to the Group's income tax expense

	2007 £m	2006 £m
<b>Profit before tax</b>		
Continuing operations	364	355
Discontinued operations	950	35
	<b>1,314</b>	<b>390</b>
<b>Taxation charge at UK corporation tax rate (2007 30%, 2006 30%)</b>	<b>394</b>	<b>117</b>
Movement on provisions permanently disallowed or not deferred tax effected	13	17
Local taxes	(3)	(4)
Capital (gains) losses not taxable/deductible	(266)	(22)
Taxable intergroup dividend income	40	23
Overseas tax rates	(19)	(18)
Current year tax losses not relieved	1	5
Prior year tax losses utilised	-	(10)
Tax holidays/manufacturing exemptions	(7)	(7)
Adjustments for prior years – deferred tax	(46)	1
Adjustments for prior years – current tax	1	(17)
Write-down of deferred tax assets	-	105
Adjustment for prior years – tax exposures	(104)	(134)
Adjustments for current year – tax exposures	26	15
Other	16	(10)
<b>Income tax expense</b>	<b>46</b>	<b>61</b>

In 2007, due to government enactments, there were changes to national income tax rates in UK from 30% to 28%, India from 33.7% to 33.9%, Malaysia 28% to 27%, Mexico from 29% to 28%, Netherlands from 29.6% to 25.5%, Singapore from 20% to 18%, Spain from 35% to 32.5%, Switzerland from 20% to 10.5% and Vietnam 25% to 28%. The combined effect of these changes in income tax rates is insignificant.

In 2006, "utilised prior year tax losses" primarily arose in Germany. The net tax losses utilised in Germany amounted to £7m representing losses for which no deferred tax benefit had previously been recognised.

## 11 Discontinued operations

In March 2007, ICI completed the sale of Quest, to Givaudan SA for a gross consideration of £1,200m, subject to closing balance sheet adjustments, including working capital and net debt. The disposal gave rise to a post tax gain of £929m, which has been accounted for as a special item in 2007.

In September 2006, Uniqema was sold to Croda International PLC for a gross consideration of £410m. The transaction gave rise to a profit after taxation of £41m which has been accounted for as a special item in 2006.

The operations of Quest and Uniqema have been classified as discontinued. The results of Uniqema and Quest which have been included in the consolidated income statement are as follows:

	Uniqema £m	Quest £m	Other £m	Total Discontinued operations £m
<b>2007</b>				
<b>Revenue</b>	-	98	-	98
<b>Operating costs</b>	-	(87)	(6)	(93)
<b>Other operating income</b>	-	-	-	-
<b>Operating profit*</b>	-	11	(6)	5
<b>Profits less losses on sale of operations</b>	7	940	(2)	945
<b>Interest expense</b>	-	-	-	-
<b>Interest income</b>	-	-	-	-
<b>Post-retirement benefit finance</b>				
Interest cost	-	(3)	-	(3)
Expected return on assets	-	3	-	3
<b>Profit before taxation</b>	7	951	(8)	950
<b>Income tax expense – taxation before special items</b>	7	(2)	-	5
<b>- taxation on special items†</b>	-	(11)	18	7
<b>Profit for the year</b>	<b>14</b>	<b>938</b>	<b>10</b>	<b>962</b>

\* Operating profit includes a special items charge of £7m, relating to a Quest restructuring charge of £1m and the revaluation of the fine imposed by the European Commission of £6m.

† Income tax on special items all relates to profits less losses on sale of operations.

# Notes relating to the Group accounts continued

## 11 Discontinued operations (continued)

	Uniqema £m	Quest £m	Other £m	Total Discontinued operations £m
<b>2006</b>				
Revenue	435	588	–	1,023
Operating costs	(422)	(535)	(62)	(1,019)
Other operating income	–	1	–	1
Operating profit*	13	54	(62)	5
Profits less losses on sale of operations	48	–	(16)	32
Interest expense	–	(1)	–	(1)
Interest income	–	1	–	1
Post-retirement benefit finance				
Interest cost	(10)	(19)	–	(29)
Expected return on assets	9	18	–	27
Profit before taxation	60	53	(78)	35
Income tax expense – taxation before special items	(2)	(11)	–	(13)
– taxation on special items†	(6)	2	12	8
Profit for the year	52	44	(66)	30

\* Operating profit includes a special items charge of £72m, relating to a restructuring charge of £10m (Uniqema £3m charge, Quest £7m charge) and the fine of £62m imposed by the European Commission

† Income tax on special items includes a tax credit on exceptional operating items of £3m (Uniqema £1m credit and Quest £2m credit) and a tax credit on profits less losses on sale of operations of £5m (Uniqema £7m charge and other £12m credit)

## 12 Earnings per £1 Ordinary Share

	2007			2006		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	million	million	million	million	million	million
Weighted average Ordinary Shares in issue during year	1,196	1,196	1,196	1,193	1,193	1,193
Weighted average shares held by Group's employee share ownership plan	(8)	(8)	(8)	(4)	(4)	(4)
Basic weighted average Ordinary Shares in issue during year	1,188	1,188	1,188	1,189	1,189	1,189
Dilutive effect of share options	1	1	1	15	15	15
Diluted weighted average Ordinary Shares	1,189	1,189	1,189	1,204	1,204	1,204
	£m	£m	£m	£m	£m	£m
Adjusted earnings*	434	17	451	315	60	375
Special items after tax and minorities	(158)	937	779	(38)	(42)	(80)
Earnings†	276	954	1,230	277	18	295
	pence	pence	pence	pence	pence	pence
Basic adjusted earnings per £1 Ordinary Share	36.5	1.4	37.9	26.5	5.1	31.6
Total basic earnings per £1 Ordinary Share	23.2	80.3	103.5	23.3	1.6	24.9
	£m	£m	£m	£m	£m	£m
Diluted adjusted earnings per £1 Ordinary Share	36.5	1.4	37.9	26.2	5.0	31.2
Total diluted earnings per £1 Ordinary Share	23.2	80.2	103.4	23.0	1.5	24.5

\* Adjusted earnings is the net profit (loss) for the financial year before special items attributable to equity holders of the parent.

† Earnings is the net profit (loss) for the financial year attributable to equity holders of the parent

There are no options, warrants or rights outstanding in respect of unissued shares in all years presented except for the share option schemes for employees (see note 7). Adjusted earnings per £1 Ordinary Share has been presented in order to show separately the impact of special items and assist in understanding underlying performance of the Group earnings as these can have a distorting effect on earnings and therefore warrant separate consideration.

# Notes relating to the Group accounts continued

## 13 Intangible assets

	Goodwill £m	Computer software £m	Other £m	Total £m
<b>Cost</b>				
<b>At 1 January 2006</b>	556	112	15	683
Additions	–	4	1	5
Acquired as part of business combinations	10	–	11	21
Disposals	(20)	(27)	(1)	(48)
Classified as held for sale	(18)	(17)	(6)	(41)
Exchange and other adjustments	(34)	(1)	(1)	(36)
<b>At 31 December 2006</b>	494	71	19	584
Additions	–	24	–	24
Acquired as part of businesses combinations	32	–	15	47
Disposals	–	–	–	–
Exchange and other adjustments	5	(3)	4	6
<b>At 31 December 2007</b>	531	92	38	661
<b>Amortisation</b>				
<b>At 1 January 2006</b>		75	7	82
Amortisation for the year		11	2	13
Disposals		(20)	(1)	(21)
Classified as held for sale		(11)	–	(11)
Exchange and other adjustments		(1)	(1)	(2)
<b>At 31 December 2006</b>		54	7	61
Amortisation for the year		6	2	8
Disposals		–	–	–
Exchange and other adjustments		(1)	1	–
<b>At 31 December 2007</b>		59	10	69
<b>Net book value</b>				
<b>At 31 December 2007</b>	531	33	28	592
<b>At 31 December 2006</b>	494	17	12	523

Substantially all of the Group's goodwill arose on the purchases of Acheson Industries Inc and the European Home Improvement business of Williams Plc in 1998

### Impairment tests for cash-generating units containing goodwill

Significant amounts of goodwill have been allocated for impairment testing purposes to the following cash-generating units

	2007 £m	2006 £m
Paints Decorative UK and Republic of Ireland	164	164
National Starch Adhesives	170	163
	334	327
Multiple units without significant goodwill	197	185
	531	512*

\* Includes £18m classified as held for sale

The recoverable amount of both units is based on value in use calculations and is higher than the carrying value of the assets and goodwill allocated to those units. The calculations use cash flow projections based on actual operating results and a business plan. A growth rate of 2.2% (2006 2.75%) has been used for both Paints Decorative UK and Republic of Ireland and a growth rate of 2.5% (2006 2.75%) has been used for National Starch Adhesives to extrapolate beyond the most recent forecasts representing the long-term average growth rate for the countries in which the entities operate. A discount rate of 8.0% has been used for Paints Decorative UK and Republic of Ireland and National Starch Adhesives in discounting the projected cash flows.

The key assumptions and approach to determining their value are

Cash generating unit	Assumption	How determined
Paints Decorative UK and Republic of Ireland	Sales growth	Forecast GDP growth and forecast paint market growth
	Cost growth	Forecast inflation and the impact of restructuring programmes
National Starch Adhesives	Sales growth	In line with industry expectations
	Cost growth	Expected to grow in line with business growth

# Notes relating to the Group accounts continued

## 14 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Payments on account and assets in course of construction £m	Total £m
<b>Cost</b>				
<b>At 1 January 2006</b>	842	2,173	90	3,105
New subsidiary undertakings	–	1	–	1
Capital expenditure	9	51	91	151
Transfers of assets into use	20	64	(84)	–
Disposals	(111)	(487)	(11)	(609)
Classified as held for sale	(98)	(153)	(12)	(263)
Exchange and other adjustments	(63)	(152)	(8)	(223)
<b>At 31 December 2006</b>	599	1,497	66	2,162
New subsidiary undertakings	7	3	–	10
Capital expenditure	6	54	76	136
Transfers of assets into use	17	40	(57)	–
Disposals	(14)	(66)	–	(80)
Exchange and other adjustments	8	24	4	36
<b>At 31 December 2007</b>	623	1,552	89	2,264
<b>Depreciation</b>				
<b>At 1 January 2006</b>	268	1,225	–	1,493
Charge for year	30	120	–	150
Disposals	(50)	(300)	–	(350)
Classified as held for sale	(26)	(78)	–	(104)
Exchange and other adjustments	(20)	(76)	–	(96)
<b>At 31 December 2006</b>	202	891	–	1,093
Charge for year	21	96	–	117
Disposals	(12)	(62)	–	(74)
Exchange and other adjustments	5	14	–	19
<b>At 31 December 2007</b>	216	939	–	1,155
<b>Net book value</b>				
<b>At 31 December 2007</b>	407	613	89	1,109
<b>At 31 December 2006</b>	397	606	66	1,069

The net book value of land and buildings comprises

	2007 £m	2006 £m
Freeholds	389	379
Long leases (over 50 years unexpired)	5	5
Short leases	13	13
	407	397

The Group depreciation charge of £117m (2006 £150m) comprises £111m (2006 £137m) charged in arriving at operating profit before special items and £6m (2006 £13m) charged to special items relating to restructuring programmes (see note 3)

In 2007, there is no property, plant and equipment classified as held for sale. As at 31 December 2006, net book value of land and buildings (excluded from the table above) comprising £70m in freeholds, £1m in long leases and £1m in short leases was included within assets held for sale.

Capital expenditure in the year includes capitalised finance leases of £3m, creditors for capital work done but not paid decreased by £3m, the resulting cash expenditure on property, plant and equipment, including computer software of £24m and £2m relating to discontinued operations was £162m.

The net book value of the property, plant and equipment of the Group includes capitalised finance leases of £11m (2006 £9m) comprising cost of £16m (2006 £16m) less depreciation of £5m (2006 £7m). The depreciation charge for the year in respect of capitalised leases was £1m (2006 £2m) and finance charges were £1m (2006 £3m).

# Notes relating to the Group accounts continued

## 15 Investments in associates

	Equity accounted shares	
	2007 £m	2006 £m
<b>Cost</b>		
At 1 January	5	5
Additions*	13	-
Exchange and other adjustments	1	-
At 31 December	19	5
<b>Share of post-acquisition profits less losses</b>		
At 1 January	16	14
Retained profits less losses	4	2
At 31 December	20	16
<b>Balance sheet value at 31 December</b>	<b>39</b>	<b>21</b>
<b>Balance sheet value at 1 January</b>	<b>21</b>	<b>19</b>

\* The additions relate to the acquisition of a 49% interest in Metlac Holdings

The Group's material associates at 31 December 2007 are

	Issued share capital at date of latest available audited accounts Class of capital	Percentage held by a subsidiary of ICI %	Principal activities	Incorporation
<b>IC Insurance Ltd</b>	Ordinary	49	Insurance and reinsurance underwriting	England
<b>Metlac Spa</b>	Ordinary	44	Packaging coatings	Italy
<b>Metlac Holdings</b>	Ordinary	49	Holding Company	Italy

	2007 £m	2006 £m
<b>Investments in associates</b>		
Financial information is given based on 100% holding		
<b>Assets</b>	<b>89</b>	<b>84</b>
<b>Liabilities</b>	<b>(28)</b>	<b>(32)</b>
<b>Equity</b>	<b>61</b>	<b>52</b>
<b>Revenues</b>	<b>51</b>	<b>44</b>
<b>Profit</b>	<b>8</b>	<b>3</b>

The Group's associates have the same annual reporting date as the Group

## 16 Financial assets

	Notes	2007 £m	2006 £m
<b>Current assets</b>			
Current asset investments	31(a)	94	47
Derivative assets less than 1 year	31(a)	2	63
		<b>96</b>	<b>110</b>
<b>Non-current assets</b>			
Other investments	16(a)	27	28
Derivative assets greater than 1 year	31(a)	2	-
		<b>29</b>	<b>28</b>

# Notes relating to the Group accounts continued

## 16 Financial assets (continued)

### (a) Other investments

	2007			2006		
	Investments £m	Loans £m	Total £m	Investments £m	Loans £m	Total £m
<b>Cost</b>						
At 1 January	20	9	29	21	20	41
Additions	2	–	2	2	–	2
Disposals	–	–	–	–	–	–
Reclassifications*	–	–	–	–	(10)	(10)
Exchange and other adjustments	(1)	(2)	(3)	(3)	(1)	(4)
At 31 December	21	7	28	20	9	29
<b>Provisions</b>						
At 1 January	(1)	–	(1)	(1)	–	(1)
Additions	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Exchange and other adjustments	–	–	–	–	–	–
At 31 December	(1)	–	(1)	(1)	–	(1)
<b>Balance sheet value at 31 December</b>	<b>20</b>	<b>7</b>	<b>27</b>	<b>19</b>	<b>9</b>	<b>28</b>

\* In 2006, £9m was reclassified to cash and cash equivalents

## 17 Deferred taxation assets and liabilities

### Deferred taxation

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

	Balance at 1 Jan 2006 £m	Recognised in income £m	Recognised in equity £m	Other movements £m	Balance at 1 Jan 2007 £m	Recognised in income £m	Recognised in equity £m	Other movements £m	Balance at 31 Dec 2007 £m
<b>Deferred taxation assets</b>									
Restructuring provisions	5	7	–	(2)	10	9	–	(1)	18
Post-retirement benefits	144	(13)	29	23	183	7	(37)	4	157
Employee liabilities	63	9	(7)	(50)	15	(14)	(9)	10	2
Other provisions	22	(30)	(4)	17	5	5	1	(11)	–
Stock valuation	17	(1)	(1)	(11)	4	2	–	(1)	5
Provisions on disposal of businesses	16	(3)	(2)	15	26	12	1	4	43
Losses	26	(5)	(4)	52	69	52	14	(2)	133
Intangibles	50	(4)	(2)	(26)	18	(4)	–	1	15
Foreign tax credits	59	(31)	(8)	–	20	1	–	–	21
Other	105	10	(9)	(48)	58	(19)	2	(27)	14
	507	(61)	(8)	(30)	408	51	(28)	(23)	408
Reclassified as assets held for sale	–	–	–	–	(7)	–	–	–	–
Offset with deferred taxation liabilities	(253)	–	–	–	(172)	–	–	–	(133)
Amount recognised on the balance sheet	254	–	–	–	229	–	–	–	275
<b>Deferred taxation liabilities</b>									
UK property, plant and equipment	(22)	1	–	6	(15)	–	–	4	(11)
Non-UK property, plant and equipment	(186)	(13)	20	43	(136)	6	1	8	(121)
Others	(66)	16	4	(7)	(53)	20	–	2	(31)
	(274)	4	24	42	(204)	26	1	14	(163)
Reclassified as liabilities held for sale	–	–	–	–	14	–	–	–	–
Offset with deferred taxation assets	253	–	–	–	172	–	–	–	133
Amount recognised on the balance sheet	(21)	–	–	–	(18)	–	–	–	(30)

The table set out above shows each type of temporary difference, unused tax loss and credit which has been recognised at the balance sheet date, and amounts taken to income during the year. The amount recognised in equity includes a £30m charge (2006 £44m credit) in respect of tax on items taken directly to equity and £3m credit (2006 £28m charge) in respect of the retranslation of foreign currency deferred tax assets and liabilities. Other movements relate to amounts disposed of during the year and reclassifications between the line items.

In a number of jurisdictions (primarily UK, Netherlands and the US) there are insufficient taxable temporary differences to allow recognition of all assets, and forecasts in these jurisdictions support the recognition of some, but not all assets. Operating losses of £990m (2006 £460m) are carried forward and available to reduce future taxable income in a number of jurisdictions. These losses have given rise to deferred tax assets of £303m (2006 £145m) of which £170m (2006 £76m) are not recognised, £14m (2006 £22m) of these losses have expiration dates through to 2016 and the balance can be carried forwards indefinitely. In addition, other deductible temporary differences of £188m (2006 £410m) are not recognised. Of these, £33m are foreign tax credits with expiry dates through to 2017. There are also potential deferred tax assets related to certain capital loss carry forwards under discussion with relevant taxing authorities, £520m, which will give rise to potential deferred tax assets of £146m, have been agreed but are not recognised and the extent of other losses is uncertain.



# Notes relating to the Group accounts continued

## 17 Deferred taxation assets and liabilities (continued)

### Deferred taxation (continued)

No taxes have been provided for liabilities which may arise on the distribution of unremitted earnings of subsidiaries on the basis of control, except where distributions of such profits are planned. Cumulative unremitted earnings of overseas subsidiaries and associates totalled approximately £823m at 31 December 2007 (2006 £1,071m). It is not practicable to calculate the tax which would arise on remittance of these amounts: it would be substantially lower than statutory rates after giving effect to foreign tax credits.

## 18 Inventories

	2007 £m	2006 £m
Raw materials and consumables	152	142
Stocks in process	10	10
Finished goods and goods for resale	371	334
	<b>533</b>	<b>486</b>
	2007 £m	2006 £m
Analysis of inventory write-downs recognised in the year		
Write-down of inventory	14	15
Reversal of inventory write-downs	(6)	(6)
	<b>8</b>	<b>9</b>

Reversals of inventory write-downs relate to the inventory provisions no longer required primarily due to sale of inventory at a higher value than the estimated net realisable value.

## 19 Trade and other receivables

	2007 £m	2006 £m
<b>Current</b>		
Trade debtors	709	646
Less: amounts set aside for doubtful accounts	(30)	(28)
	<b>679</b>	<b>618</b>
Other prepayments and accrued income	58	62
Other debtors	118	111
	<b>855</b>	<b>791</b>
<b>Non-current</b>		
Other debtors	25	29
Other prepayments and accrued income	1	6
	<b>26</b>	<b>35</b>
	<b>881</b>	<b>826</b>

Trade debtors include amounts which have been securitised with a financial institution. Accordingly the financial institution has the rights over amounts included with trade debtors of £166m at 31 December 2007 (2006 £177m) (up to a maximum of its loan). However, at 31 December 2007, the amount borrowed and included within short-term borrowings as liabilities under the securitisation programme was £nil (2006 £nil).

The Company has also provided an asset-backed guarantee, via a wholly owned subsidiary, ICI Receivables Funding Ltd ("the SPV") specifically incorporated to provide the guarantee, for £250m to support the Company's commitments to the ICI Pension Fund (see note 34). The asset-backed guarantee is secured by way of fixed and floating charges over certain trade debtors and cash of Group companies, which have been assigned to the SPV. At 31 December 2007, £189m (2006 £228m) of trade debtors included above were assigned to the SPV and £108m (2006 £57m) of cash and cash equivalents.

The ageing of trade receivables at the reporting date was:

	2007			2006		
	Gross Trade Receivables £m	Impairment provision £m	Net £m	Gross Trade Receivables £m	Impairment provision £m	Net £m
<b>Not past due</b>	<b>593</b>	<b>(5)</b>	<b>588</b>	<b>543</b>	<b>(3)</b>	<b>540</b>
Past due 0-30 days	134	(1)	133	118	(1)	117
Past due 31-120 days	70	(7)	63	62	(13)	49
Past due 121-365 days	28	(17)	11	20	(11)	9
	<b>825</b>	<b>(30)</b>	<b>795</b>	<b>743</b>	<b>(28)</b>	<b>715</b>
Less: provisions, rebates and allowances	(116)		(116)	(97)		(97)
	<b>709</b>	<b>(30)</b>	<b>679</b>	<b>646</b>	<b>(28)</b>	<b>618</b>

The above balances (at gross) relate to a wide range of customers. Based on the historic trend and expected performance of the customers, the Group believes that an amount of £30m (2006 £28m) being carried as allowance for impairment against different customers sufficiently covers the risk of default.

# Notes relating to the Group accounts continued

## 20 Cash and cash equivalents

	2007 £m	2006 £m
Cash at bank	489	491
Investments and short-term deposits*	315	105
<b>Cash and cash equivalents per balance sheet</b>	<b>804</b>	<b>596</b>
Overdrafts	(2)	(7)
<b>Cash and cash equivalents per cash flow statement</b>	<b>802</b>	<b>589</b>

\* Investments and short-term deposits had a maturity of three months or less on acquisition

The amount of cash and cash equivalent balances that is not available for use by the Group is £108m (2006 £75m) and relates to balances held by the insurance captive and by the subsidiary, ICI Receivables Funding Limited (see note 34)

## 21 Trade and other payables

	2007 £m	2006 £m
<b>Current</b>		
Trade creditors	699	677
Value added taxes, payroll taxes and social security	25	25
Accruals	181	199
Dividends payable to external shareholders	68	5
Other creditors	356	366
	<b>1,329</b>	<b>1,272</b>
<b>Non-current</b>		
Accruals	7	10
Other creditors	16	18
	<b>23</b>	<b>28</b>
	<b>1,352</b>	<b>1,300</b>

## 22 Current tax liability

The current tax liability of £147m (2006 £217m) represents the amount of income taxes payable in respect of current and prior periods. Included within this balance is the provision for potential liabilities for taxation arising in prior and current years and various tax exposures and tax due to revenue authorities of £73m (2006 £148m).

In particular, a provision of £19m (2006 £82m) exists for the exposures arising from the Group's reshaping and disposal programme and a provision of £48m (2006 £54m) to cover exposures in respect of transfer pricing issues in various jurisdictions around the world and further provisions totalling £6m (2006 £12m) in respect of various other tax exposures.

## 23 Financial liabilities

	Notes	2007 £m	2006 £m
<b>Current liabilities</b>			
Short-term borrowings	23(a)	27	16
External loans less than 1 year	23(b)	269	457
Derivative liabilities less than 1 year	31(a)	20	12
Obligations under finance lease	32	2	2
		<b>318</b>	<b>487</b>
<b>Non-current liabilities</b>			
External loans greater than 1 year	23(b)	273	524
Derivative liabilities greater than 1 year	31(a)	—	18
Obligations under finance lease	32	7	6
		<b>280</b>	<b>548</b>

### (a) Short-term borrowings

	2007 £m	2006 £m	Weighted average interest rate*	
			2007 %	2006 %
<b>Bank borrowings</b>				
Secured – by floating charge	6	3		
Unsecured	19	13		
	<b>25</b>	<b>16</b>	<b>4.6</b>	<b>2.6</b>
<b>Other borrowings</b>				
Secured – by fixed charge	2	—		
Unsecured	—	—		
	<b>2</b>	<b>—</b>	<b>9.0</b>	<b>—</b>
	<b>27</b>	<b>16</b>		
<b>Maximum short-term borrowings outstanding during the year</b>	<b>360</b>	<b>277</b>		

\* Based on borrowings outstanding at 31 December

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

# Notes relating to the Group accounts continued

## 23 Financial liabilities (continued)

### (b) Loans

	Repayment dates	2007 £m	2006 £m
<b>Secured loans</b>			
Other currencies	2008 – 2013	1	1
<b>Total secured</b>		1	1
Secured by fixed charge – bank loans		1	–
Secured by floating charge – bank loans		–	1
<b>Unsecured loans</b>			
Sterling			
7 625% Bonds	2007	–	304
Others	2008	15	10
		15	314
US dollars			
7 <sup>1</sup> / <sub>20</sub> % Notes	2007	–	127
5 <sup>5</sup> / <sub>8</sub> % Notes	2013	250	245
4 <sup>3</sup> / <sub>8</sub> % Notes	2008	247	247
Variable rate medium-term notes	2010	20	20
Others	2008	6	18
		523	657
Other currencies	2008 – 2012	3	9
<b>Total unsecured</b>		541	980
<b>Total loans – before financial derivatives (see below)</b>		542	981

The financial instruments disclosures in note 31 detail the fair value hedge relationships between the Group's fixed rate loans and interest rate swaps

The secured debt referred to in this note and the secured short-term borrowings referred to above were secured by property, plant and other assets with a net book value at 31 December 2007 of £111m (2006 £5m)

		Repayment dates	Currency	Rate %	Amount £m
<b>New finance</b>	<b>Bank loan</b>	2008	Various	Various	19
	Euro commercial paper	2007	Various	Various	162
	Money market loans	2007	Various	Various	717
					898
<b>Finance repaid</b>	<b>Bank loan</b>		Various	Various	(18)
	Euro commercial paper		Various	Various	(165)
	Money market loans		Various	Various	(717)
	Bonds		Various	Various	(423)
					(1,323)

### Effects of financial derivatives

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

	Before financial derivatives		After financial derivatives	
	2007 £m	2006 £m	2007 £m	2006 £m
Sterling	15	314	15	11
US dollar	523	657	524	925
Euro	2	5	2	5
Brazilian real	2	–	2	–
Other currencies	–	5	–	5
	542	981	543	946
Fixed rate loans	501	923	–	–
Floating rate loans	41	58	543	946
	542	981	543	946

# Notes relating to the Group accounts continued

## 23 Financial liabilities (continued)

### (b) Loans (continued)

	Bank Loans		Other Loans		Total Loans	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
<b>Loan maturities</b>						
Loans or instalments thereof are repayable						
After 5 years from balance sheet date	–	–	250	246	250	246
From 4 to 5 years	–	1	–	1	–	2
From 3 to 4 years	–	–	1	21	1	21
From 2 to 3 years	–	–	21	1	21	1
From 1 to 2 years	1	6	–	248	1	254
Total due after more than one year	1	7	272	517	273	524
Total due within one year	6	15	263	442	269	457
	7	22	535	959	542	981
Aggregate amount of loans any instalment of which falls due after 5 years					251	261

## 24 Provisions for liabilities and charges

	Environmental provisions*	Disposal provisions (note 25)	Restructuring provisions (note 25)	Other provisions <sup>†</sup>	Total
	£m	£m	£m	£m	£m
<b>At 1 January 2007</b>	16	317	35	102	470
Provisions made during the year	–	86	61	9	156
Provisions used during the year	(3)	(112)	(55)	(4)	(174)
Provisions reversed during the year	–	(31)	(4)	–	(35)
Increase due to effluxion of time	–	9	–	–	9
Transfers	–	9	–	(9)	–
Exchange and other movements	–	5	1	7	13
<b>At 31 December 2007</b>	13	283	38	105	439
Current	–	92	32	76	200
Non-current	13	191	6	29	239
	13	283	38	105	439

\* Other than arising on disposal

<sup>†</sup> Included in other provisions at 31 December 2007 is a fine imposed by the European Commission, relating to ICI's ownership of ICI Acrylics, following an investigation into alleged cartel activity in the European methacrylates markets, which has been provided for in full €91.4m (£62m) of this was charged to other provisions in 2006, and a retranslation of £6m relating to the fine was charged in 2007

## 25 Disposal and legacy, and restructuring provisions

	Disposal and legacy provisions		Restructuring provisions	
	2007 £m	2006 £m	2007 £m	2006 £m
<b>At 1 January</b>	317	295	35	33
Provisions made during the year	86	162	61	62
Provisions used during the year	(112)	(118)	(55)	(45)
Provisions reversed during the year	(31)	(26)	(4)	(2)
Increase due to effluxion of time	9	9	–	–
Reduction due to disposal of subsidiaries	–	(1)	–	(5)
Classified as held for sale	–	–	–	(6)
Transfers	9	–	–	–
Exchange and other movements	5	(4)	1	(2)
<b>At 31 December</b>	283	317	38	35
<b>Comprising</b>				
Severance costs	9	12	26	26
Direct disposal provisions (other than severance)	76	89	–	–
Long-term residual provisions	198	216	–	–
Other	–	–	12	9
	283	317	38	35

### Disposals and legacy provisions

#### Severance costs

At 31 December 2007, £9m remained to be spent on severance costs and this is expected to be utilised by the end of 2008

# Notes relating to the Group accounts continued

## 25 Disposal and legacy, and restructuring provisions (continued)

### Direct disposal provisions

On 2 March 2007 the Group completed the sale of the Quest business. Provisions of £52m were recognised in respect of transaction costs (£22m) and post retirement benefit liabilities for employees transferring to the purchaser (£30m). During 2007 £29m was spent. At 31 December, £23m remained to be spent including transaction costs (£4m) and post retirement liabilities of (£19m), this is expected to be substantially utilised by the end of 2008.

At 31 December 2006, £53m of provisions remained in relation to the sale of Uniqema on 1 September 2006. During the year £41m was spent and £5m of provisions were released due to revisions in estimates. At 31 December 2007, £7m remained to be spent and this is expected to be utilised by the end of 2008.

During 2007, £23m of provisions were charged in relation to revised estimates for disposals made prior to 2004 (£16m) and the disposal of the Measurement Sciences Group (£7m). During the year £15m was spent and £9m of other provisions were transferred to direct disposal provisions. At 31 December 2007, £46m remained to be spent and this is expected to be substantially utilised by the end of 2008.

### Long term residual provisions

Between 1997 and 2004 the Group sold over 25 businesses as part of the reshaping of its portfolio, consistent with plans to focus its resources on Paints and Specialty Chemicals. Long term residual provisions were created to cover legacy management, legal, estates, pensions administration and environmental costs. During 2007 revisions in estimates have resulted in releases of £23m and additional charges of £11m in relation to legacy management costs. During the year £8m of direct disposal costs have been reclassified to long term residual provisions due to the nature and timing of expected future cash flows. Expenditure in the year amounted to £26m. At 31 December 2007, £198m remained to be spent. The nature of the provisions is such that expenditure is expected to occur over the period from 2008 to at least 2030.

### Restructuring

In 2006 the Group initiated an extensive new restructuring and transformation programme. This programme included a number of key activities:

- separate projects to integrate many of the human resource and finance activities across the Group,
- manufacturing plant improvement and plant network restructuring activities to create significant efficiency and supply chain performance improvements,
- improvements in sales force effectiveness and customer service projects across ICI, and
- general efficiency and overhead reduction initiatives.

Charges of £61m relating to the 2006 programme were incurred in 2007. At 31 December 2007 £26m of severance cost provisions remained outstanding. Paints £9m, National Starch £11m, Regional and Industrial £5m and Corporate and other £1m.

## 26 Post-retirement benefits

The Group operates retirement schemes which cover the majority of employees (including Directors) of the Group. ICI policy, where practicable, is to provide retirement benefits for new employees on a defined contribution basis. The Company pays pension contributions for each employee into an individual retirement account which is used to provide pension benefits at retirement. This policy is now in place in the majority of countries in which ICI operates. However, retirement plans for many existing employees are 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-administrated funds.

Full funding valuations of the Group's main defined benefit schemes are undertaken regularly, by independent qualified actuaries, normally at least triennially and adopting the projected unit method. The last full funding valuations of the ICI Pension Fund and the ICI Specialty Chemicals Pension Fund, commissioned by the respective trustees of these funds, were obtained as at 31 March 2005. In addition to this, full accounting valuations as at 31 December are obtained each year under IAS 19. In accordance with the Group's accounting policy for employee benefits on page 23 additional updates are performed when one-time events or significant market fluctuations occur. At 30 June 2007 such an update was performed because of the significant fluctuation in bond yields during the first half of the year. The update also included the Company's revised view of longevity in the UK following its discussions with the Trustee of the ICI Pension Fund.

The largest pension plan in the Group is the ICI Pension Fund in the UK which represents 84% of the Group's pension plan defined benefit obligations. There are also other large, funded pension plans in the UK, US, Canada, the Netherlands and Belgium that account for approximately 14% of the Group's pension plan defined benefit obligations and other large, unfunded pension plans in the US, Canada and Germany that account for approximately 1% of the Group's pension plan defined benefit obligations. The remaining 1% of the Group's pension plan defined benefit obligations comprises a large number of small plans, funded and unfunded, located in the other countries in which ICI operates.

The Group provides in North America, and to a lesser extent in some other countries, unfunded healthcare and life assurance benefits for retired employees. At 31 December 2007 at least 16,000 (2006 16,000) current and retired employees were eligible to benefit from these schemes. The liabilities in respect of these benefits are fully accrued over the expected working lifetime of the existing members.

# Notes relating to the Group accounts continued

## 26 Post-retirement benefits (continued)

### Key financial assumptions – Group

The principal weighted average rates used at 31 December were

	2007 % p.a.	2006 % p.a.
Discount rate	5.8	5.1
Inflation rate	3.1	2.9
Long-term rate of increase in future earnings	4.6	4.4
Increase in pensions in payment	2.9	2.7
Post-retirement healthcare cost inflation rate	9.0	9.0
Expected rates of return on plan assets		
Equities	8.5	8.3
Bonds	5.0	5.2
Other	8.1	8.3
Expected rate of return on reimbursement rights	–	–

The overall expected long-term rate of return on asset assumption is determined on a country-by-country (and Euro-zone) basis. The rates are based on market expectations by asset classes, at the beginning of the period, for returns over the entire life of the related obligations. The assumption setting process is based on short and long-term historical analysis and investment managers' forecasts for equities, hedge funds and private equity, and the available market yields for bonds.

### Mortality assumptions – UK

The Group analyses the mortality experience in the two main UK funds ("Funds") both in terms of the current mortality table applied and the allowance for future improvements in longevity. The mortality tables were PMA92C07MC with a +1.5 year age-rating for male members retiring in normal health and PFA92C07MC with a +2 age-rating for female members retiring in normal health, with allowance for future mortality improvements in line with the medium cohort, subject to a 1% minimum rate of improvement. Shorter longevity assumptions are used for members who retire on the grounds of ill health.

The table below illustrates the effect of this change on the expected age at death of an average member retiring currently at age 62 and one who retires at age 62 in 10 years time. The figures at 31 December 2006 were derived from the last full actuarial funding valuation at 31 March 2005. The figures at 31 December 2007 have been updated to reflect emerging views of longevity in 2007 and are consistent with the longevity assumptions used to produce the figures published in the ICI Interim Report 2007.

	At 31 Dec 2007 In years	At 31 Dec 2006 In years
Retiring today at age 62		
Male	85.7	85.1
Female	88.4	87.6
Retiring in 10 years at age 62		
Male	86.8	85.8
Female	89.5	88.3

### Sensitivities

Assumed inflation rates have a significant effect on the amounts recognised in the Group income statement and balance sheet. A 0.1% movement in the assumed inflation rate would have the following effects:

	0.1% increase £m	0.1% decrease £m
Effect on the aggregate of the current service cost and interest cost (increase) decrease	(6)	6
Effect on the total post-retirement benefit obligation (increase) decrease	(91)	90

Assumed discount rates have a significant effect on the amounts recognised in the Group income statement and balance sheet. A 0.1% movement in the assumed discount rate would have the following effects:

	0.1% increase £m	0.1% decrease £m
Effect on the aggregate of the current service cost and interest cost (increase) decrease	(1)	2
Effect on the total post-retirement benefit obligation decrease (increase)	104	(112)

Assumed healthcare cost trend rates have an effect on the amounts recognised in the Group income statement and balance sheet. A 1.0% movement in assumed healthcare cost trend rates would have the following effects:

	1.0% increase £m	1.0% decrease £m
Effect on the aggregate of the current service cost and interest cost	–	–
Effect on the other post-retirement defined benefit obligation (increase) decrease	(4)	3

# Notes relating to the Group accounts continued

## 26 Post-retirement benefits (continued)

### Defined benefit plans – pensions and other post-retirement plan disclosures

#### Amounts recognised on the Group balance sheet

	Pension Plans		Other post-retirement plans		Total	
	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m
<b>Plan assets</b>						
Equities	1,212	1,246	–	–	1,212	1,246
Bonds	6,831	6,407	–	–	6,831	6,407
Other	301	386	4	4	305	390
<b>Total fair value of plan assets</b>	<b>8,344</b>	<b>8,039</b>	<b>4</b>	<b>4</b>	<b>8,348</b>	<b>8,043</b>
<b>Present value of defined benefit obligation</b>	<b>(8,604)</b>	<b>(9,198)</b>	<b>(124)</b>	<b>(144)</b>	<b>(8,728)</b>	<b>(9,342)</b>
<b>Net (deficit) in the plans</b>	<b>(260)</b>	<b>(1,159)</b>	<b>(120)</b>	<b>(140)</b>	<b>(380)</b>	<b>(1,299)</b>
Unvested past service costs	–	–	(5)	(6)	(5)	(6)
Restrictions on assets recognised <sup>†</sup>	(51)	–	–	–	(51)	–
<b>Liability recognised in the Group balance sheet</b>	<b>(311)</b>	<b>(1,159)</b>	<b>(125)</b>	<b>(146)</b>	<b>(436)</b>	<b>(1,305)</b>
<b>Represented by</b>						
(Deficits)*	(364)	(1,171)	(125)	(146)	(489)	(1,317)*
Surpluses	53	12	–	–	53	12

#### Analysis of net recognised liability

ICI UK Pension Fund	(122)	(697)	–	–	(122)	(697)
Other funded pension plans	(43)	(287)	–	–	(43)	(287)
<b>Total funded plans</b>	<b>(165)</b>	<b>(984)</b>	<b>–</b>	<b>–</b>	<b>(165)</b>	<b>(984)</b>
<b>Total unfunded plans</b>	<b>(146)</b>	<b>(175)</b>	<b>(125)</b>	<b>(146)</b>	<b>(271)</b>	<b>(321)</b>
<b>Liability recognised in the Group balance sheet</b>	<b>(311)</b>	<b>(1,159)</b>	<b>(125)</b>	<b>(146)</b>	<b>(436)</b>	<b>(1,305)</b>

<sup>†</sup> The £51m restriction on assets recognised in 2007 resulted in a £51m actuarial loss in the year which partially offset the £391m experience gain on plan liabilities and the £4m experience gain on plan assets within the £344m total actuarial gain in the Statement of Group recognised income and expense

\* 2006 includes a net liability of £80m classified as held for sale in the Group balance sheet at 31 December 2006

#### Analysis of the amounts recognised in the Group income statement

	Pension Plans		Other post-retirement plans		Total	
	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m
<b>Amounts in net operating costs</b>						
Current service costs	39	58	3	4	42	62
Past service cost	–	3	–	(7)	–	(4)
Curtailments	–	–	(3)	(6)	(3)	(6)
Settlements	–	1	–	–	–	1
	<b>39</b>	<b>62</b>	<b>–</b>	<b>(9)</b>	<b>39</b>	<b>53</b>
<b>Amounts in profits less losses on disposal of operations</b>						
Past service cost	–	–	–	–	–	–
Curtailments	(8)	2	–	–	(8)	2
Settlements	(60)	(80)	(7)	(9)	(67)	(89)
	<b>(68)</b>	<b>(78)</b>	<b>(7)</b>	<b>(9)</b>	<b>(75)</b>	<b>(87)</b>
<b>Amounts in net finance expense</b>						
Expected return on plan assets	(459)	(431)	–	–	(459)	(431)
Interest cost	447	443	7	8	454	451
	<b>(12)</b>	<b>12</b>	<b>7</b>	<b>8</b>	<b>(5)</b>	<b>20</b>
<b>Total amounts credited to the income statement</b>	<b>(41)</b>	<b>(4)</b>	<b>–</b>	<b>(10)</b>	<b>(41)</b>	<b>(14)</b>

# Notes relating to the Group accounts continued

## 26 Post-retirement benefits (continued)

### Defined benefit plans – pensions and other post-retirement plan disclosures (continued)

#### Analysis of the amounts recognised in the Statement of Group recognised income and expense

	2007		2006	
	Pension plans £m	Other post-retirement plans £m	Pension plans £m	Other post-retirement plans £m
(Excess) Shortfall of actual return over expected return on plan assets	(4)	–	40	–
as % of plan assets	–	–	0.5%	–
Shortfall of actual return over expected return on reimbursement rights	–	–	–	1
as % of plan reimbursement rights	–	–	–	–
Experience gains arising on plan liabilities	(385)	(6)	(94)	(5)
as % of plan liabilities	(4.5)%	(4.5)%	(1.0)%	(3.5)%
Net actuarial gains recognised in the Statement of Group recognised income and expense	(389)	(6)	(54)	(4)
as % of plan liabilities	(4.5)%	(4.5)%	(0.6)%	(2.9)%
Cumulative amount of actuarial losses recognised in the Statement of Group recognised income and expense	254	10	643	16

#### History of experience adjustments – pension plans

	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligation	8,604	9,198	9,680	8,569
Fair value of plan assets	8,344	8,039	8,189	7,632
Deficit in the plan	260	1,159	1,491	937
Experience (gains) losses on plan liabilities	(385)	(94)	1,130	291
Experience gains (losses) on plan assets	4	(40)	495	229

#### History of experience adjustments – other post-retirement plans

	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligation	124	144	202	252
Fair value of plan assets	4	4	5	5
Deficit in the plan	120	140	197	247
Experience (gains) losses on plan liabilities	(6)	(5)	(10)	30
Experience gains (losses) on plan assets	–	–	–	–

The history of experience adjustments starts from 1 January 2004, the date of transition to IFRS

#### Movements in present value of defined benefit obligation during the year

	Pension Plans		Other post-retirement plans		Total	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Opening defined benefit obligation	9,198	9,680	144	202	9,342	9,882
Movement in year						
Current service cost	39	58	3	4	42	62
Past service cost – vested	11	3	–	(7)	11	(4)
Past service cost – unvested	–	–	–	(2)	–	(2)
Effect of curtailments	(8)	2	(3)	(6)	(11)	(4)
Effect of settlements	(175)	(190)	(7)	(9)	(182)	(199)
New subsidiary undertakings	–	–	1	–	1	–
Interest cost	447	443	7	8	454	451
Contributions by plan participants	1	1	–	–	1	1
Benefits paid	(565)	(594)	(12)	(17)	(577)	(611)
Actuarial (gains) losses	(385)	(94)	(6)	(5)	(391)	(99)
Exchange adjustments	41	(111)	(3)	(24)	38	(135)
Closing defined benefit obligation	8,604	9,198	124	144	8,728	9,342
Split between						
Funded	8,448	8,955	–	–	8,448	8,955
Unfunded	156	243	124	144	280	387



# Notes relating to the Group accounts continued

## 26 Post-retirement benefits (continued)

### Defined benefit plans – pensions and other post-retirement plan disclosures (continued)

#### Movements in fair value of plan assets during the year

	Pension Plans		Other post-retirement plans		Total	
	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m
Opening fair value of plan assets	8,039	8,189	4	5	8,043	8,194
Movement in year						
Effect of settlements	(115)	(111)	–	–	(115)	(111)
Expected return on plan assets	459	431	–	–	459	431
Contributions by plan participants	1	1	–	–	1	1
Contributions by employer <sup>†</sup>	485	235	12	17	497	252
Benefits paid	(565)	(594)	(12)	(17)	(577)	(611)
Actuarial gains (losses)	4	(40)	–	–	4	(40)
Exchange adjustments	36	(72)	–	(1)	36	(73)
Closing fair value of plan assets	8,344	8,039	4	4	8,348	8,043

<sup>†</sup> Includes amounts paid against restructuring and divestment provisions of £11m (2006 £14m) included in the Group cash flow statement on lines other than the post-retirement benefit payment lines

#### Movements in reimbursement rights during the year

	Other post-retirement plans	
	2007	2006
	£m	£m
Opening reimbursement rights	–	1
Movement in year		
Effect of plan amendment	–	–
Actuarial gains (losses)	–	(1)
Exchange adjustments	–	–
Closing reimbursement rights	–	–

#### Estimated future benefit payments

*Benefits expected to be paid, reflecting future service, as appropriate*

	£m
Payable in the year to 31 December	
2008	(573)
2009	(571)
2010	(572)
2011	(573)
2012	(574)
2013 to 2017	(2,920)

#### Expected contributions

The Group expects to contribute £226m to its defined benefit pension plans in 2008, and £9m to the other post-retirement healthcare plans. The £226m contribution to the defined benefit pension plans includes a £172m "top-up" to the ICI UK Pension Fund.

#### Investment policies and strategies

ICI has established a set of best practice principles for pension fund investment so as to ensure a globally consistent approach. These principles, which have been determined and adopted by the fiduciaries of ICI's pension funds worldwide, include guidelines in the areas of governance, risk budgeting, strategic asset allocation and benchmarks, manager structure and selection, monitoring and other investment issues (such as derivatives and self investment). The over-arching principle clearly states that strategic asset allocation should be determined through explicit consideration of each plan's specific liability profile and funding level and not by local common practice. Furthermore, all plans must establish a strategic asset allocation benchmark, a relevant total plan performance benchmark and a process for controlling deviations from the strategic asset allocation benchmark. Pension funds are expected to invest in a diversified range of asset classes and investment managers. These assets may include derivatives up to a maximum of 10% of the individual fund unless a higher percentage is agreed after consultation with the Company. However, no self-investment is permitted. Whilst the Company expects to be consulted on these strategic (and other) matters, it recognises that final responsibility for establishing investment strategy often rests with local fiduciaries, who do not publish target allocations to asset classes.

# Notes relating to the Group accounts continued

## 27 Reconciliation of changes in equity

	Share capital £m	Share premium account £m	Translation reserve £m	Associate reserve £m	Hedging reserve £m	Retained earnings £m	Equity holders of the parent £m	Minority interests £m	Total equity £m
At 1 January 2006	1,192	934	44	14	1	(2,801)	(616)	126	(490)
Total recognised income and expense			(70)	2	1	452	385	22	407
Dividends						(96)	(96)	(19)	(115)
Share-based payments						6	6		6
Shares issued/movement in respect of own shares	1	2				6	9		9
Acquisition of additional minority interests								(6)	(6)
Other movements						(1)	(1)	1	
At 31 December 2006	1,193	936	(26)	16	2	(2,434)	(313)	124	(189)
Total recognised income and expense			33	4		1,632	1,669	42	1,711
Dividends						(175)	(175)	(24)	(199)
Share-based payments									
Shares issued/movement in respect of own shares	15	3				50	68		68
Acquisition of additional minority interests								(20)	(20)
Other movements						2	2	(2)	
At 31 December 2007	1,208	939	7	20	2	(925)	1,251	120	1,371

### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of foreign operations as well as from the translation of liabilities that hedge the Group's net investment in foreign subsidiaries

### Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred

### Associate reserve

The associate reserve comprises profits less losses of the Group's associated undertakings (see note 15)

### Retained earnings

Retained earnings includes the charge for share-based payments which consists of £16m in respect of equity settled share-based payments and £(16)m relating to the transition adjustment for cash settled share-based payments. In addition, retained earnings include the reserves relating to own shares

At 31 December 2007 the Group owns 1.9 million (2006 2.5 million) shares of the Company held by the Imperial Chemical Industries PLC Employee Benefit Trust which are under option to, or conditionally gifted to, employees under the arrangements described in note 7

As explained in note 37 Post Balance Sheet Events on 2 January 2008, ICI was acquired by Akzo Nobel who acquired 100% of the issued share capital of ICI, including the own shares held by the trust for £6.70 per share

### Called up £1 Ordinary share capital of the Parent Company

	Authorised £m	Allotted called-up and fully paid £m
At 1 January 2006	1,400	1,192
Employee share option schemes – options exercised		1
At 31 December 2006	1,400	1,193
New issue		12
Employee share option schemes – options exercised		3
At 31 December 2007	1,400	1,208

On 12 December 2007, the Company issued 12 million new ordinary shares to settle commitments under the share option and award schemes generated by the change in control. The shares had a nominal value of £12m and £12m of consideration for these shares has been received. The remaining £3m increase in share capital relates to the issue of shares in respect of exercises under the UK Sharesave scheme. Consideration of £6m was received in respect of these exercises

The Company has one class of ordinary shares which carries no right to fixed income

### Limitation of borrowings

The Articles of Association of the Company state that borrowings after deducting cash, current asset investments and short-term deposits must not exceed two and a half times the shareholders' equity after adding back sums, equivalent to the unamortised balance of goodwill arising on acquisitions made after 1 January 1986. Any borrowings, cash or short-term investments held by subsidiaries in their capacity as trustee of a Group pension fund are excluded from the calculation. For the purposes of calculating the basis of the borrowings limits, in accordance with the Articles of Association, the total of the sums standing to the credit of capital and revenue reserves of the Company and its subsidiary undertakings, to be added to the nominal amount of the share capital of the Company, was £2,261m at 31 December 2007 (2006 £1,245m)

# Notes relating to the Group accounts continued

## 28 Dividends

	2007 Pence per £1 Ordinary Share	2006 Pence per £1 Ordinary Share	2007 £m	2006 £m
2006 second interim, paid 13 April 2007	4 75	3 95	56	47
2007 first interim, paid 5 October 2007	4 95	4 15	59	49
2007 second interim, paid 15 January 2008	5 00	–	60	–
Amounts recognised as distributions to equity holders in the period	14 70	8 10	175	96

As part of the scheme of arrangement with Akzo Nobel, on 17 December 2007 the Directors declared and approved the payment of a final dividend of 5 0p per ordinary share which has been paid on 15 January 2008

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

## 29 Analysis of net debt

	Financing – debt								
	Loans		Derivatives £m	Short-term borrowings other than overdrafts £m	Finance leases† £m	Total £m	Cash and cash equivalents* £m	Current asset investments £m	Net cash / (Net debt) £m
	Due after one year £m	Due within one year £m							
At 1 January 2006	(1,072)	(166)	(41)	(8)	(20)	(1,307)	516	28	(763)
Exchange adjustments	81	29	(1)	6	2	117	(25)	(4)	88
Cash flow	–	142	70	(7)	16	221	108	17	346
Acquisitions and disposals	–	–	–	1	–	1	(19)	–	(18)
Fair value movements	15	(7)	17	–	–	25	–	–	25
Other non-cash changes	452	(455)	(12)	(1)	(6)	(22)	9	6	(7)
At 31 December 2006	(524)	(457)	33	(9)	(8)	(965)	589	47	(329)
Exchange adjustments	17	(1)	(59)	(4)	–	(47)	5	8	(34)
Cash flow	–	434	(13)	(12)	2	411	222	56	689
Acquisitions and disposals	1	(1)	–	–	–	–	(24)	(6)	(30)
Fair value movements	(19)	6	18	–	–	5	–	–	5
Other non-cash changes	252	(250)	5	–	(3)	4	10	(11)	3
At 31 December 2007	(273)	(269)	(16)	(25)	(9)	(592)	802	94	304

Reflected in the Group balance sheet at 31 December 2007

	Financing – debt								
	Loans		Derivatives £m	Short-term borrowings other than overdrafts £m	Finance leases† £m	Total £m	Cash and cash equivalents* £m	Current asset investments £m	Net cash / (Net debt) £m
	Due after one year £m	Due within one year £m							
Current financial assets	–	–	2	–	–	2	–	94	96
Non-current financial assets	–	–	2	–	–	2	–	–	2
Cash and cash equivalents	–	–	–	–	–	–	804	–	804
Current financial liabilities	–	(269)	(20)	(25)	(2)	(316)	(2)	–	(318)
Non-current financial liabilities	(273)	–	–	–	(7)	(280)	–	–	(280)
At 31 December 2007	(273)	(269)	(16)	(25)	(9)	(592)	802	94	304

\*Cash and cash equivalents\* in the analysis of net debt includes cash at bank, deposits repayable on demand, overdrafts and investments and short-term deposits which had a maturity of three months or less

† Cash flow on finance leases includes an interest element of £1m (2006 £3m) included within interest paid in cash flows from operating activities

# Notes relating to the Group accounts continued

## 30 Acquisitions and disposals

### Acquisitions

In August 2007, the Group acquired the Advanced Applied Adhesives Business in the US for £6m and in September 2007 acquired the Dulux business of South Africa for £52m in order to support the ongoing strategy of accelerating profitable growth and grow revenues in developing markets

In December 2007, the Group completed the acquisition of the remaining minority interest in the Dongsung NSC footwear adhesives business in Asia at a value of £15m, and acquired the Vioxol business in South Korea for £3m

ICI also invested £15m in the buy-back of shares in ICI India in the second half of the year, and invested £13m to increase the Group's holding in Metlac by means of acquiring a 49% holding in Metlac Holdings, an intermediary holding company, in December 2007

The results in the year include £2m of profit attributable to the Dulux business acquisition. The revenue and profit after tax for 2007 for the same acquisition, assuming the acquisition occurred on 1 January 2007, would have been £74m and £6m respectively

The acquisitions had the following effect on the Group's assets and liabilities

### Net assets at the acquisition date

	Book value £m	Fair value adjustments £m	Fair values £m
Property, plant and equipment	10	—	10
Intangible assets	—	15	15
Inventories	12	—	12
Other net assets	3	—	3
<b>Net identifiable assets and liabilities</b>			<b>40</b>
Minority interest acquired			20
Goodwill on acquisition			32
Cash acquired			(1)
			<b>91</b>
Investments in associates			13
<b>Net cash outflow</b>			<b>104</b>

Intangible assets in the table above primarily relate to customer lists, research and development, and intellectual property acquired. Goodwill relates to the anticipated synergies arising from the above acquisitions

### Disposals

On 2 March 2007, ICI completed the sale of its flavours and fragrance business, Quest, to Givaudan SA for a gross consideration of £1,200m subject to closing balance sheet adjustments, including working capital and net debt. The disposal gave rise to a pre-tax gain of £940m and an associated tax charge of £11m

On 1 September 2006, ICI completed the sale of its oleochemicals and surfactants business, Uniqema, to Croda International Plc for a gross consideration of £410m, subject to closing balance sheet adjustments. The disposal was effected in view of other investment opportunities available across the Group, with the prospect of greater strategic and financial returns

The reconciliations of the profit on sale of Quest and Uniqema disclosed on page 30 with the cash proceeds and net assets disposed of are set out in the tables below

	2007 Quest £m	2006 Uniqema £m
Consideration received (see below)	1,200	410
Less: Net assets at completion (see below)	(199)	(235)
Less: Transaction costs and other increases in provisions as disclosed in note 25	(52)	(121)
Other	(9)	(6)
<b>Pre tax gain on sale as disclosed in note 3</b>	<b>940</b>	<b>48</b>

# Notes relating to the Group accounts continued

## 30 Acquisitions and disposals (continued)

	2007 Quest £m	2006 Uniqema £m
Consideration received, satisfied in cash	1,200	410
Cash disposed of	(25)	(19)
<b>Net cash inflow</b>	<b>1,175</b>	<b>391</b>
<b>Net assets at completion</b>		
Property, plant and equipment	160	250
Intangible assets	31	21
Inventories	74	88
Trade and other receivables and other assets	130	116
Cash and cash equivalents	25	19
Trade and other payables and other liabilities	(146)	(164)
Post-retirement benefit liabilities	(74)	(95)
Less minority interest share of assets and liabilities	(1)	
<b>Net identifiable assets and liabilities (at date of completion)</b>	<b>199</b>	<b>235</b>
	2007 £m	2006 £m
<b>Reconciliation to Group cash flow statement</b>		
Net cash inflow from material disposals	1,175	391
Cash inflow from other disposals	16	6
Net debt and working capital settlement	52	—
Payments in respect of disposals	(76)	(73)
<b>Total cash inflow from disposals</b>	<b>1,167</b>	<b>324</b>

## 31 Financial instruments

Exposure to credit, interest rate, commodity price and currency risks arise in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates, interest rates and commodity price movements. The Group's treasury objectives are referenced in the Business review on page 7.

The financial instruments note discloses in full the Group's financial assets and financial liabilities.

### (a) Interest rate risk

The interest rate profile of the Group's financial assets and financial liabilities at 31 December 2007, after taking into account the effect of interest rate swaps, is set out in the tables below.

#### Hedging

Interest rate swaps, denominated in US dollars, have been executed to hedge the Group's exposure to interest rate risks in accordance with its interest rate policy. These swaps are matched in maturity to the underlying debt. At 31 December 2007, the Group had interest rate swaps with a notional contract amount of £498m (2006 £1,957m). The maturity profile of the fixed rate loans is spread between 2008 and 2013 to reduce re-financing and re-pricing risk. Hedge documentation is prepared for all fair value hedges at inception and effectiveness testing is carried out quarterly. All designated hedges have remained effective throughout the current financial year.

The fair value of interest rate swaps recognised as hedges at 31 December 2007 is a net liability of £1m (2006 £13m), comprised of assets of £1m (2006 £7m) and liabilities of £2m (2006 £20m).

# Notes relating to the Group accounts continued

## 31 Financial instruments (continued)

### (a) Interest rate risk (continued)

#### Financial assets

	2007				2006			
	At fixed interest rates £m	At floating interest rates £m	Interest free £m	Total £m	At fixed interest rates £m	At floating interest rates £m	Interest free £m	Total £m
<b>Cash and cash equivalents</b>								
Sterling	–	391	5	396	–	66	20	86
US dollar	4	43	2	49	–	60	31	91
Canadian dollar	–	34	–	34	–	50	–	50
Indian Rupee	–	8	2	10	–	40	3	43
Euro	–	23	5	28	–	3	19	22
Japanese yen	–	2	7	9	–	1	13	14
Chinese renminbi	–	62	–	62	–	17	7	24
Other currencies	1	131	31	163	–	94	59	153
	5	694	52	751	–	331	152	483
<b>Other financial assets</b>								
Sterling				74				107
US dollar				253				242
Canadian dollar				34				29
Indian Rupee				104				21
Euro				137				171
Japanese yen				20				25
Chinese renminbi				45				46
Other currencies				269				285
				936				926
<b>Total financial assets</b>				<b>1,687</b>				<b>1,409</b>

The financial assets of the Group comprised

	2007 £m	2006 £m
<b>Non-current assets</b>		
Financial assets – investments (1)	20	19
Financial assets – loans (2)	7	9
Trade and other receivables (2)	25	30
	52	58
<b>Current assets</b>		
Trade and other receivables (2)	800	834
Financial assets (1)	94	47
Cash and cash equivalents	804	596
Less financial assets of insurance subsidiaries*	(63)	(126)
	1,635	1,351
	1,687	1,409

\* Includes cash and cash equivalents of £53m (2006 £113m) and trade and other receivables of £10m (2006 £13m)

Applying the categorisation rules of financial assets in accordance with IAS 39 the above classes of assets are (1) held-to-maturity investments and (2) loans and receivables. None of the Group's financial assets, with the exception of derivative assets, is held at fair value.

Floating rate financial assets comprise bank deposits bearing interest at rates fixed in advance for periods ranging from 1 day to 6 months by reference to the relevant inter-bank rate. The weighted average interest rates for fixed asset investment loans are 3.0% and for cash and cash equivalents 5.4%.

Purchases or sales of financial assets are accounted for at settlement date.

# Notes relating to the Group accounts continued

## 31 Financial instruments (continued)

### (a) Interest rate risk (continued)

#### Financial liabilities

	2007				2006			
	At fixed interest rates £m	At floating interest rates £m	Interest free £m	Total £m	At fixed interest rates £m	At floating interest rates £m	Interest free £m	Total £m
Sterling	–	(715)	337	(378)	–	(335)	436	101
US dollar	1	445	369	815	–	584	303	887
Euro	2	530	163	695	–	491	200	691
Japanese yen	–	123	39	162	–	95	35	130
Chinese renminbi	–	12	74	86	–	13	34	47
Other currencies	11	190	357	558	–	122	383	505
	14	585	1,339	1,938	–	970	1,391	2,361

The financial liabilities table above shows the Group's exposure to currency movements, disclosing interest bearing debt after liquidity forwards (as part of the net investment hedge – see section (c)) and other mainly interest free liabilities

Floating rate financial liabilities bear interest based upon short-term inter-bank rates

Interest rate swaps have been used to create floating debt in line with Group policy. The impact on loans, post interest rate swaps, is that interest rates will be refixed every 3 months. Interest rates on short-term borrowings are refixed at intervals of less than 3 months.

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

The financial liabilities of the Group comprised

	2007 £m	2006 £m
<b>Non-current liabilities</b>		
Loans	273	524
Derivative liabilities	–	18
Derivative assets (*)	(2)	–
Finance leases	7	6
Other creditors	23	32
	301	580
<b>Current liabilities</b>		
Short-term borrowings	27	16
Current instalments of loans	269	457
Derivative liabilities	20	12
Derivative assets (*)	(2)	(63)
Trade and other payables	699	732
Finance leases	2	2
Other creditors	622	625
	1,637	1,781
	1,938	2,361

(\*) Note: Derivative assets (relating to interest rate swaps and liquidity forwards) are included within the financial liabilities table as the majority arise through the management of the debt book. The fair value of the underlying loans and related derivative liabilities are also presented in the financial liabilities table above and to understand the fair value of financial liabilities it is appropriate to also include derivative assets.

#### Market risk – Interest rate sensitivity

The sensitivity analysis in the table below assumes an instantaneous 1% movement in interest rates of all currencies from their levels at 31 December 2007, with all other variables held constant.

	Fair value		Fair value change	
	31 December 2007 £m	2006 £m	+1% movement in interest rates £m	-1% movement in interest rates £m
Loans	(543)	(1,001)	16	(16)
Interest rate swaps	(1)	(15)	(2)	2

An increase in short-term interest rates of all currencies of 1% would increase Group net interest payable for the year by £4m.

# Notes relating to the Group accounts continued

## 31 Financial instruments (continued)

### (a) Interest rate risk (continued)

#### Income statement and equity

In 1999 the Group entered a US\$1bn interest rate swap that was used to manage its interest rate exposure. When the underlying item was removed from the Group's balance sheet as a result of a divestment transaction, the swap was no longer performing as a hedge. To manage this exposure, the Group elected to trade a new "equal and opposite" swap that effectively closed out its exposure to the original US\$1bn swap. By trading this "equal and opposite" swap, the Group was in substance terminating the US\$1bn swap. This transaction did, however, lock in a negative carrying value (i.e. a fixed interest expense) until the maturity of both swaps in 2007. At 1 January 2005, as a result of the transition to IAS 39, these two swaps were fair valued through the hedge reserve. They are fair valued through the income statement from this date onwards, giving rise to very minimal interest rate risk for the Group. This has resulted in a gain of £1m during the year (2006 £2m). Interest is paid and received in US dollars each quarter.

### (b) Liquidity risk

The maturity profile of the Group's financial liabilities, as defined in section (a) of this note, at 31 December 2007 was as follows

	2007 £m	2006 £m
In one year or less	1,637	1,781
In more than one year but not more than two years	19	301
In more than two years but not more than three years	7	1
In more than three years but not more than four years	1	21
In more than four years but not more than five years	1	2
In more than five years	273	255
	<b>1,938</b>	<b>2,361</b>

The Group had committed undrawn borrowing facilities of \$700m at 31 December 2007 expiring in more than two years (2006 \$700m). These facilities were cancelled on 17 January 2008.

### (c) Foreign currency risk

The Group is mainly exposed to foreign currency risk arising on sales, purchases and borrowings outside of Group functional currencies. All derivatives managing currency exposures are stated in the balance sheet at fair value.

#### Transaction exposure hedging

The Group does not hedge all exposures arising from sales and purchases except where they are significant and markets exist to hedge working capital exposure in line with foreign currency policy. The Group uses forward exchange contracts to hedge its foreign currency risk. All of the forward contracts have maturities of less than one year at the balance sheet date. Hedge accounting is not applied for derivatives used to manage these currency exposures. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the underlying monetary items are recognised as part of operating profit. The fair value of forward exchange contracts used to manage transaction exposure is £nil at 31 December 2007 (2006 £nil).

#### Cash flow hedging

The Group also hedges foreign exchange exposures arising from significant firm commitments and forecast transactions. After 1 January 2005, these transactions are accounted for as cash flow hedges in accordance with the defined accounting policy and hedge documentation is prepared for all cash flow hedges at inception and effectiveness testing is carried out quarterly.

Gains and losses on cash flow hedges that have been deferred in the cash flow hedge reserve during the year, in addition to those that have been recycled through the income statement, are shown in the table on page 63.



# Notes relating to the Group accounts continued

## 31 Financial instruments (continued)

### (c) Foreign currency risk (continued)

#### Cash flow hedge reserve movements

	£m
Brought forward cash flow hedge reserve at 1 January 2006	1
Amounts deferred in the period on effective cash flow hedges	3
Amounts removed from the reserve and recognised in the income statement	—
Amounts removed from the reserve and capitalised in the balance sheet	(2)
Carried forward cash flow hedge reserve at 31 December 2006	2
Brought forward cash flow hedge reserve at 1 January 2007	2
Amounts deferred in the period on effective cash flow hedges	2
Amounts removed from the reserve and recognised in the income statement	—
Amounts removed from the reserve and capitalised in the balance sheet	(2)
Carried forward cash flow hedge reserve at 31 December 2007	2

The above table also includes effective commodity price hedges where gains and losses have been deferred to future periods (see section (d) of this note)

The cash flows relating to firm commitments and forecast transactions are all expected to occur in the next 15 months

#### Hedge of net investment in foreign subsidiaries

The Group hedges its net investment in foreign entities by denominating external debt in a mix of foreign currencies and through the use of liquidity forwards. Section (a) of this note shows the currency mix of debt at 31 December 2007 after taking into account the impact of derivatives. The Group applies hedge accounting, in accordance with the defined accounting policy, for all net investment hedges. Hedge documentation is prepared for all net investment hedges at inception and effectiveness testing is carried out quarterly.

The Group recognises gains and losses on debt, cross currency swaps and liquidity forwards in equity, up to the level of net assets in accordance with Group Policy. For all or part of the year the borrowings have exceeded the net assets on a currency-by-currency basis. For the portion that has exceeded the net assets, the gains and losses are recognised in the income statement. This has resulted in a loss of £37m (2006 gain of £15m) for the year which has been disclosed on the face of the income statement within special items.

#### Market risk – Foreign currency sensitivity

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

	Fair value		Fair value change	
	31 December		+10% strengthening of Sterling*	-10% weakening of Sterling*
	2007 £m	2006 £m	£m	£m
Loans	(543)	(1,001)	46	(57)
Forward contracts hedging debt	(14)	6	68	(83)

\* Against all currency

The Group's gross debt after financial derivatives at the 2007 year end was held 34% in US dollars and related currencies, 41% in Euro and related currencies, 9% in Yen and 16% in other currencies.

Changes from movements in currency rates in loans, currency swaps and forward contracts hedging debt, and similar movements in the values of the investments being hedged, are taken through the Statement of Group recognised income and expense in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 39 *Financial Instruments: Recognition and Measurement*.

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

#### (d) Commodity price risk

The Group purchases corn futures and call options in the US and corn futures in Europe to hedge its price exposure to this commodity. These futures and call options are accounted for as hedges in accordance with the defined accounting policy from 1 January 2005. Hedge documentation is prepared for all hedge relationships at inception and effectiveness testing is carried out quarterly.

The option programme was closed out during 2007 with no open positions at 31 December 2007. The fair value gains and losses on both put and call options were less than £1m during the year.

The fair value of unrealised futures and call options is recognised on the balance sheet. Once realised, all gains and losses on futures and call options are capitalised into the carrying value of the raw materials.

The hedges have been fully effective during the period and at 31 December 2007 a gain of £2m (2006 £3m) has been deferred in the cash flow hedge reserve. The movements in the cash flow hedge reserve are included in the table in section (c) of this note.

# Notes relating to the Group accounts continued

## 31 Financial instruments (continued)

### (e) Fair values

The fair value of external loans is £543m at 31 December 2007 (2006 £1,001m) which is different to the carrying value of £542m at 31 December 2007 (2006 £981m) due to credit risk. The decrease in the fair value of loans for the year ended 31 December 2007 arose principally on the repayment of loans (£441m) and favourable movements on foreign exchange (£17m).

The carrying value of all other financial assets and liabilities are equivalent to their fair value.

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

Loans that are part of fair value hedge relationships (see section (a) of this note) are held in the balance sheet at fair value and at 31 December 2007 amounted to £497m (2006 £923m). All other loans are held at amortised cost and the carrying value in the balance sheet is £45m (2006 £58m) at 31 December 2007.

### (f) Estimation of fair values

The following summarises the major methods and assumptions used, applied consistently, in estimating the fair value of financial instruments reflected in section (e).

#### Derivatives

The fair value of all derivatives are estimated from discounted anticipated cash flows utilising a risk-adjusted zero coupon yield curve in the relevant currencies.

#### Interest-bearing loans and borrowings

The fair value of all the loans is estimated from discounted anticipated cash flows utilising a risk-adjusted zero coupon yield curve in the relevant currencies. A credit spread is added to yield curves to obtain an accurate basis for fair valuation to compare to a market valuation.

#### Trade and other receivables/payables

For all receivables and payables, the notional amount is deemed to reflect the fair value.

#### Securities

Where available fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date.

### (g) Credit risk

Surplus funds are deposited with highly rated banks or invested in high quality liquid marketable investments, including money market instruments, government securities and asset backed securities in line with Group policy. Investments are of a plain vanilla nature with no embedded interest rate options. The majority of asset-backed securities have some risk of early redemption, but are of a floating rate nature and hence have minimal fixed interest rate risk. There are no investments of a fixed rate nature with maturity greater than one year and consequently the fair value of investments is considered to be materially the same as the value in the Group's balance sheet. Of the £315m (2006 £105m) investments in short-term deposits, the central funds on deposit at the balance sheet date were £268m (2006 £41m).

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

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

The notional amounts of financial instruments used in debt and currency management do not represent amounts exchanged by the parties and, thus, are not a measure of the credit risk to the Group arising through the use of these instruments. The immediate credit exposure of financial instruments is represented by those financial instruments that have a positive fair value at the balance sheet date. At 31 December 2007 the aggregate value of all financial instruments with a positive fair value (assets) was £nil for currency swaps (2006 £51m), £2m for interest rate swaps (2006 £7m) and £2m for forward contracts (2006 £8m).

### (h) Collateral

Details of debtor securitisation is provided in note 19 on page 47.

# Notes relating to the Group accounts continued

## 32 Leases

	2007 £m	2006 £m
Total rentals under operating leases, charged as an expense in the income statement		
Minimum lease payments	61	58
Contingent rental payments	1	—
Sub-lease payments received	(3)	(2)
Total	59	56

Future minimum sub-lease payments of £1m (2006 £2m) are expected to be received under non-cancellable sub-leases at the balance sheet date. Of the total leases above £nil (2006 £2m) relates to discontinued operations.

	2007 £m	2006 £m
Commitments under non-cancellable operating leases to pay rentals during the year following the year of these accounts, analysed according to the period in which each lease expires		
Expiring within 1 year	10	9
Expiring in years 2 to 5	30	30
Expiring thereafter	16	17
	56	56

	Operating leases		Finance leases	
	2007 £m	2006 £m	2007 £m	2006 £m
Obligations under leases comprise				
Rentals due within 1 year	56	56	2	2
Rentals due after more than 1 year				
From 1 to 2 years	47	47	2	1
From 2 to 3 years	39	38	1	1
From 3 to 4 years	31	28	2	1
From 4 to 5 years	27	21	2	1
After 5 years from balance sheet date	87	84	—	2
	231	218	7	6
	287	274	9	8
Present value of net minimum lease payments			9	8
Less current lease obligations			(2)	(2)
Non-current lease obligations			7	6

The difference between the future minimum lease payments at the balance sheet date and the present value is not significant. Obligations under finance leases are included in financial liabilities (note 23). The Group had no commitments under finance leases at the balance sheet date which were due to commence thereafter.

The Group leases items of land and buildings under operating leases, which are used in ongoing business activities. The lease terms vary and are subject to renewal clauses upon expiry.

# Notes relating to the Group accounts continued

## 33 Commitments and contingent liabilities

	2007 £m	2006 £m
Commitments for capital expenditure not provided for in these accounts (including acquisitions)		
Contracts placed for future expenditure	34	26
Expenditure authorised but not yet contracted	101	89
	135	115

Contingent liabilities existed at 31 December 2007 in connection with guarantees of borrowings and uncalled capital relating to subsidiary and other undertakings and guarantees relating to pension funds, including the solvency of pension funds. On a consolidated basis, the Group had no contingent liability in respect of guarantees of borrowings and uncalled capital for the Group at 31 December 2007 (31 December 2006: £nil).

The Group is subject to contingencies pursuant to requirements that it complies with relevant laws, regulations and standards. Failure to comply, in particular with environmental, health and safety laws and regulations (including spills or other releases of hazardous substances to the environment) and permit or approval requirements, could result in restrictions on the operation of the Group's facilities, damages, fines, increased costs of compliance or reputational damage. ICI is also subject to environmental laws and regulations, principally in respect of soil and groundwater remediation, that in the future may require it to take action to correct effects on the environment of prior disposal or release of chemical substances by the Group or other parties.

ICI has established provisions in respect of future environmental, health and safety liabilities that are not covered by enforceable indemnities from third parties, for which expenditure is probable and the cost of which can be estimated within a reasonable range of outcomes. These actual and potential liabilities, however, are inherently difficult to predict and to quantify. Existing provisions could therefore be inadequate to cover these liabilities, and additional costs to meet such actual and potential obligations could have an adverse effect on the Group's results of operations, cash flow and financial condition.

The Glidden Company ("Glidden"), a wholly owned subsidiary of ICI, is a defendant, along with former producers of lead pigment and former producers of lead pigment-based paint as well as other lead product manufacturers and their trade associations, in a number of lawsuits in the United States. These lawsuits seek damages for alleged personal injury caused by lead pigment-based paint or the costs of removing lead pigment-based paint. An alleged predecessor of Glidden manufactured lead pigments until the 1950s and lead pigment-based consumer paint until the 1960s. Glidden is currently a defendant in two active suits (The City of New York v. Lead Industries Association, Inc., et al (1989) and Smith v. Lead Industries Association, Inc., et al (1999)). Glidden continues to believe that it has strong defences to the pending cases, has denied all liability and will continue to defend all such actions. With respect to these proceedings, ICI is unable to quantify meaningfully the loss to which the proceedings may give rise.

In 1986, a subsidiary of ICI purchased a newly formed company, now Glidden, from a predecessor of Millennium Holdings LLC (the "Seller"), now a subsidiary of Lyondell Chemical Company. Under the sale agreement, the Seller agreed to indemnify Glidden against certain claims relating to certain pre-completion liabilities, and Glidden also gave certain indemnities to the Seller. Whilst Glidden did not acquire any assets or liabilities for the manufacture or sale of lead pigments, the Seller, however, has previously asserted that it is entitled to indemnification under the sale agreement for certain liabilities it may have relating to lead pigment and/or lead pigment-based paint litigation. Glidden, which has assumed all of the purchaser's rights and obligations under the sale agreement, believes that it has no such obligation to indemnify the Seller. The above indemnity claims have not been ruled on by any court. With respect to these claims, ICI is unable to quantify meaningfully the loss to which the claims may give rise.

On 31 May 2006, ICI was informed of the European Commission's decision to fine ICI €91.4m following an investigation into cartel activity in the European methacrylates market. The fine was in respect of ICI's period of ownership of ICI Acrylics, which ended in 1999 when that business was sold. The fine was provided for in 2006, as detailed in note 24. ICI has filed an appeal before the European Court of First Instance. It is not yet known when the hearing will take place.

Since the beginning of 2006, purported class action lawsuits were filed in various jurisdictions in the USA on behalf of purchasers of methyl methacrylate who claim to have suffered anti-trust injury as a result of cartel activity in the European methacrylates market. All of the lawsuits were transferred to the US District Court for the Eastern District of Pennsylvania and consolidated into two class actions, one on behalf of direct purchasers and the other on behalf of indirect purchasers. Three purported class actions were also filed in Canada. In November 2006, ICI filed motions to dismiss the US lawsuits. Those motions are currently pending before the court. With respect to these proceedings, ICI is unable to quantify meaningfully the loss to which the proceedings may give rise.

From the early 1970s until 1999, ICI Americas Inc. ("ICIA"), a subsidiary, operated and maintained, on behalf of the US Army, two manufacturing facilities. Employees at each facility were employed by ICIA and were members of ICIA pension schemes. The US Army reimbursed to ICIA the cost of contributions to each pension scheme. Upon termination of the contract in 1999, each of the schemes earned a surplus. In September 2004, the US Army Contracting Officer issued a final determination holding that termination of the contract triggered a refund to the US Government of an amount equal to the value of the 1999 pension surplus. ICIA filed an appeal of the final determination to the Armed Services Board of Contract Appeals ("Appeals Board") on 26 January 2005. On 22 April 2005, the US Army re-issued its final determination, amended to include an additional theory of liability. ICIA filed an appeal of the new final determination on 14 July 2005. A four-day hearing was held in January 2006. In a decision dated 24 May 2007, the Board ruled in favour of the US Army on liability. The Appeals Board has not received evidence on damages and has agreed to stay further proceedings while the parties discuss settlement. ICI does not believe that the outcome of this matter will have a material effect on the Group's financial position.

Save as disclosed above, neither the Company nor any member of the ICI Group is, or has been, engaged in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which ICI is aware) during the 12 months prior to the date of this document which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Company and/or the ICI Group.

The Directors do not believe that the outcome of these other claims or proceedings will have a material effect on the Group's results of operations, cash flows or financial position.

# Notes relating to the Group accounts continued

## 34 Related party transactions

The following information is provided in accordance with IAS 24 *Related Party Disclosures*, as comprising material transactions with related parties during 2007

### Related party ICI Insurance Limited and its subsidiaries

Transaction Funds on deposit with ICI Finance PLC amounting to £15m (2006 £10m)

### Related party ICI Pensions Trustee Limited

Transaction In recognition of a deficit for funding purposes of £657m and a funding ratio of 90.9% as at 31 March 2005 identified as a result of the completion of the valuation of the ICI UK Pension Fund (the "Fund"), the Company agreed to make "top-up" contributions to the Fund over nine years, comprising annual payments of £122m for the first four years, from 2006 to 2009, and annual payments of £62m for the following five years, from 2010 to 2014. Following extra "top-up" contributions relating to the Quest disposal offset by emerging views on increasing longevity in 2007, the total "top-up" contributions have now been reduced to £520m in total over a three year period from 2008 to 2010 (2008 £172m, 2009 £172m, 2010 £176m)

As from September 2004, the Company has also provided an asset-backed guarantee, via a wholly owned subsidiary, ICI Receivables Funding Limited (the "SPV") specifically incorporated to provide the guarantee, for £250m to be secured by way of fixed and floating charge over the receivables of certain Group companies which have been assigned to the SPV and by way of cash and cash equivalents deposited with the SPV. At 31 December 2007, £189m (31 December 2006 £228m) of trade debtors and £108m (31 December 2006 £57m) of cash and cash equivalents were assigned to the SPV.

### Related party ICI Specialty Chemicals Pensions Trustee Limited (the "Trustee")

Transaction In recognition of a deficit for funding purposes of £95m and a funding ratio of 71.2% as at 31 March 2005 identified as a result of the completion of the valuation of the ICI UK Specialty Chemicals Pension Fund (the "Fund"), the Company agreed to make "top-up" contributions to the Fund over ten years, comprising annual payments of £12.3m, from 2006 to 2015.

Key terms have been agreed between the Company and the Trustee as to the re-apportionment of any debt arising by virtue of section 75 of the Pensions Act 2004 relating to the sale of Quest International Flavours and Fragrances Ltd ("Quest Ltd"). Both parties have agreed that the Fund Trust Deed will be amended to permit the Trustee to re-apportion section 75 debts arising on the cessation of membership of the Fund by participating employers. An amount of £1,000 has been paid by Quest Ltd as it has ceased to be a participating employer, and the remaining section 75 debt arising on the sale of Quest Ltd has been re-apportioned between the Company and the remaining participating employers. The section 75 debt arising on the divestment of Quest Ltd was £130m. In consideration of the agreement, the Company has provided the Fund with an amount to increase the Fund's assets up to full funding on an IAS 19 *Employee Benefits* basis (after allowing for liabilities corresponding to the active members employed by Unichema Chemicals Limited, Uniqema Limited and Quest Ltd) in the sum of £34.8m (the "Funding Amount"). The Company has paid an additional amount of £5.2m which the Company and the Trustee have agreed will be treated as payment on account for future regular and any special contributions.

After the year end, as described in note 37, the Company has signed an agreement, providing the Trustee with a letter of credit for £95.2m representing the difference between the Funding Amount and the section 75 debt replacing the requirement for the Company to make the remaining £98.4m of "top-up" contributions to the Fund over the period 2008-2015.

## 35 Interest in joint ventures

The Group's joint ventures at 31 December 2007 are

	Percentage held by a subsidiary of ICI %	Principal activities
Arkem (PTY) Limited	50	Sale of speciality chemicals
Purbond AG	50	Manufacturer of polyurethane adhesive products
National Starch Turkey	50	Local solutions provider for emulsion polymers
Purbond International Holdings Limited	50	Holding Company

### Interest in joint ventures

Included in the consolidated financial statements are the following items that represent the Group's interest in the assets and liabilities, revenues and expenses of the joint ventures

	2007 £m	2006 £m
Non-current assets	3	3
Current assets	6	3
<b>Total assets</b>	<b>9</b>	<b>6</b>
Current liabilities	(2)	(2)
Non-current liabilities	-	-
<b>Total liabilities</b>	<b>(2)</b>	<b>(2)</b>
<b>Net assets</b>	<b>7</b>	<b>4</b>
Revenue	11	9
Expense	(9)	(8)
<b>Profit before taxation</b>	<b>2</b>	<b>1</b>

# Notes relating to the Group accounts continued

## 36 Critical accounting policies, judgments and estimates

The Group's main accounting policies affecting its results of operations and financial condition are set out on pages 21 to 24. Judgments and assumptions have been required by management in applying the Group's accounting policies in many areas. Actual results may differ from the estimates calculated using these judgments and assumptions. Key sources of estimation uncertainty and critical accounting judgments are as follows:

### Disposal provisions

As at 31 December 2007, the Group had disposal provisions of £283m. These disposal provisions have arisen as a result of the reshaping of the Group's portfolio of businesses and include amounts relating to long-term residual obligations such as legacy management, pension administration, environmental costs and direct disposal costs such as termination costs, transaction costs and severance costs. The initial determination of the size of these provisions, and the subsequent timing and amounts of the expenditure in relation to these provisions, is inherently difficult to estimate and is based on best management judgment at the time. The provisions are regularly reviewed in the light of the most current information available.

### Post-retirement benefits

The Group operates a number of defined benefit retirement plans. The Group's total obligation in respect of defined benefit plans totals £8.7bn, plan assets total £8.3bn, giving a net deficit position of £0.4bn for the Group.

### Assumptions

Key financial assumptions are set and agreed based on advice from independent, qualified actuaries on an annual basis in respect of all the Group's major defined benefit plans. These assumptions are then used to calculate the present value of the defined benefit obligation for each plan. Appropriate discount rates to be used are derived from selected indices of high quality corporate bonds in each of the countries relevant to those plans, having regard to the average duration of the pension plan liabilities. Long-term rates of return on plan assets are agreed after consideration of trends and recent experience with the fund investment managers and the actuaries. The weighted average rate of return calculation takes account of any planned changes in the investment portfolio.

The price inflation assumption is derived, for the most significant component of the calculation (i.e. that relating to the UK funds) from published Bank of England inflation curves. The long-term rate of increase of future earnings is based on discussions within the operating businesses in each country, also taking account of recent experience. Increases in pension payments are based on local legislation or scheme requirements.

Mortality and longevity assumptions are set and agreed based on advice from the actuaries with regard to the demographics of each scheme. In respect of the ICI UK Pension Fund, which represented 84% of the total Group's defined benefit pension obligations at the end of 2007, the mortality assumptions are formally reviewed at least every 3 years. The current assumptions are disclosed in note 26 on page 52. This disclosure shows the mortality table used together with a table showing the expected age at death of an average member retiring at the current date compared with one retiring in ten years time, in order to communicate the impact of assumed improvements in longevity. The other material assumptions are those concerning healthcare cost trend rates and these are also disclosed in note 26 on page 52.

For the ICI Pension Fund, the actuarial assumptions employed in the last full funding valuation at 31 March 2005 would have been resulted in an interim funding deficit at 31 March 2007 in the region of £350m. However, evidence of subsequent improvements in longevity since those assumed in 2005 lead the Trustees of the Fund to a view that the funding deficit at 31 March 2007 would have increased by a further £350m to a figure in the region of £700m. The Company, based on separate actuarial advice, believed the judgement to be too conservative at the time and that it should instead be reviewed more fully as part of the next full funding valuation due as at 31 March 2008. On the basis of this advice, whilst accepting that the assumptions could be superseded following the next full funding valuation, the Company amended its mortality assumptions as described on page 52, inserting a 1% "floor" into the future mortality improvement allowance. As a result, the Company has agreed to extra "top-up" payments totalling £175m in net present value terms as part of the £520m total "top-up" payments to be paid to the fund between 2008-2010 as described in the contributions paragraphs on this page.

Average remaining life expectancy and remaining service assumptions are based on demographic assumptions reflecting the Group's pension plan populations, as advised by the actuaries. These are considered annually as part of the accounting valuations but tend to be revised less frequently based on whether a change in mortality table is considered appropriate during a full fund valuation.

The size of the total obligation is sensitive to actuarial assumptions. These include demographic assumptions covering mortality and longevity, and economic assumptions covering price and medical costs inflation, benefit and salary increase rates together with the discount rate used. A 0.1% decrease in the discount rate would increase the Group's total obligation in respect of defined benefit plans by approximately £112m, and, independently, a 0.1% decrease in the inflation rate would decrease the Group's total obligation in respect of defined benefit plans by approximately £90m, with all other assumptions unchanged. As required under IAS19 *Employee Benefits*, the sensitivity of a 1% change in the healthcare cost trend rate on service and interest cost, as well as on the defined benefit obligation, is shown in note 26.

### Asset returns

Actual rates of return on assets will vary from the expected rates of return used to calculate the post-retirement benefit finance income. A comparison between the expected and actual long-term rates of return is disclosed in note 26, showing the actual less expected return on plan assets and reimbursement rights separately, in both absolute and percentage terms.

### Contributions

The regular Company contributions to post-retirement benefit plans relating to active members of the funds are expected to be approximately £60m each year, subject to changes in contribution rates determined from updated actuarial assumptions, changes in numbers of employees and the numbers of early retirements.

In addition, extra contributions are required to address funding shortfalls. As a result of the most recent actuarial funding valuation of the ICI Pension Fund, updated to reflect emerging views on longevity in 2007, additional "top-up" contributions totalling £520m have been agreed to be paid over the following three years (£172m in 2008, £172m in 2009 and £176m in 2010). These contributions are subject to review at the next triennial funding valuation due as at 31 March 2008, and could vary up or down depending on the outcome.

### Taxation

Provisions for tax contingencies require management to make judgments and estimates in relation to tax issues and exposures. Amounts provided are based on management's interpretation of country specific tax law and the likelihood of settlement. In arriving at this position, management reviews each material tax exposure to assess whether a provision should be made on the basis of full disclosure to any relevant taxing authority and potential settlement through negotiation and/or litigation. All such provisions are included in current tax liabilities.

The current tax liability of £147m (2006 £217m) represents the amount of income taxes payable in respect of current and prior periods. It includes total provisions for uncertain tax positions of £73m (2006 £148m). These 2007 exposures arise principally in the US where the Group conducts a significant part of its business and where significant assets are located. Lesser exposures exist in a number of other jurisdictions including the Netherlands, Pakistan, Germany, Spain, Italy, Belgium and Mexico.

# Notes relating to the Group accounts continued

## 36 Critical accounting policies, judgments and estimates (continued)

The Group has significant unrecognised deferred tax assets. Gross deferred tax assets of £669m have been reduced by deferred tax liabilities of £133m arising on taxable temporary differences. Of the remaining potential deferred tax assets of £536m only £275m have been recognised. The calculation of the recognised portion involves considerable management judgment as to the likelihood of realisation of these deferred tax assets. The jurisdictions most impacted are the UK and US. Other jurisdictions where uncertainties have caused unrecognised deferred tax assets include to a lesser extent the Netherlands, Germany, Spain and Canada.

Management's judgment is based on a number of factors, which seek to assess the expectation that the benefit of deferred tax assets will be realised. In a number of jurisdictions (UK, Netherlands, Germany, Spain, Canada and the USA) there are insufficient taxable temporary timing differences to allow full recognition of these assets and either forecasts in these jurisdictions show recurring taxable losses or our forecasts do not indicate that it is probable that there will be sufficient taxable profits in future periods to support full recognition. In assessing the sufficiency of future taxable income the Group takes account of tax planning strategies which it believes to be prudent and appropriate.

Both recognition and non-recognition of deferred tax assets are dependent on an ongoing review by management of assumptions in forecasting future profits and trading conditions. Changes in conditions may lead to both increases or decreases in forecast profits and in such circumstances continued or increased recognition of deferred tax assets will be reviewed.

Further detail on the Group's deferred taxation position is included in note 17.

### Contingent liabilities

The Group is exposed to a variety of events which might result in liabilities arising. No provision has been made for these contingent liabilities since either the obligations have been evaluated as "possible" and their existence will be confirmed by uncertain future events, or they have not been recognised because either a transfer of economic benefits is not "probable" or the amount cannot be measured with sufficient reliability. Details of the Group's contingent liabilities are set out in note 33.

## 37 Post-balance sheet events

The acquisition of ICI by Akzo Nobel was completed on 2 January 2008 by way of a court-sanctioned Scheme of Arrangement under section 425 of the Companies Act 1985. On that date, the entire share capital of the Group was disposed of to Akzo Nobel for a consideration of £8,092m. This was satisfied by the issue of £105m of Akzo Nobel loan notes issued on 15 January 2008 and £7,987m of cash.

In connection with the acquisition of ICI, Akzo Nobel entered into an agreement with Henkel KGaA to sell the assets and liabilities of the business divisions known within ICI as the "Adhesives Division" and the "Electronic Materials Division" both of which formed part of the "National Starch" business, for £2.7bn (€4.0bn).

The listing of ICI shares on the Official List was cancelled and consequently ICI shares ceased to be admitted to trading on the London Stock Exchange with effect from start of business on 3 January 2008.

The Company changed its status from a public to a private limited company with effect from 7 January 2008.

On 31 January 2008 the Company signed an agreement providing ICI Specialty Chemicals Pension Trustee Limited with a letter of credit for £95.2m, representing the difference between the funding amount of £34.8m and the £130m of section 75 debt arising on the divestment of Quest International Flavours and Fragrances Ltd. This replaces the obligation to make the remaining £98.4m of "top-up" contributions to the ICI Specialty Chemicals Pension Fund over the period 2008 to 2015, at an annual rate of £12.3m, as described in note 34.

# Principal subsidiary undertakings

at 31 December 2007

	Class of capital	Held by ICI %	Principal activities in 2007
<b>UNITED KINGDOM</b>			
ICI Finance PLC England	Ordinary	100 <sup>†</sup>	Financial services
J P McDougall & Co Limited England	Ordinary	100 <sup>†</sup>	Merchanting of paints, wall coverings and allied products
National Starch & Chemical Ltd England	Ordinary	100 <sup>†</sup>	Manufacture of adhesives, electronic materials, specialty starches and specialty polymers
<b>CONTINENTAL EUROPE</b>			
Deutsche ICI GmbH Germany	Ordinary	100 <sup>†</sup>	Manufacture of paints and adhesives
Elotex AG Switzerland	Ordinary	100 <sup>†</sup>	Manufacture of redispersible emulsion powder polymers
<b>THE AMERICAS</b>			
ICI American Holdings Inc USA	Common	100 <sup>†</sup>	Holding company
The Glidden Company USA	Common	100 <sup>†</sup>	Manufacture of paints
Indopco Inc USA	Common	100 <sup>†</sup>	Manufacture of adhesives, specialty starches, electronic materials and specialty polymers
ICI Canada Inc Canada	Common	100 <sup>†</sup>	Manufacture of paints, merchanting of ICI and other products
Tintas Coral Ltda Brazil	Ordinary	100 <sup>†</sup>	Manufacture of paints
<b>ASIA PACIFIC</b>			
ICI India Ltd India (Accounting date 31 March, reporting date 31 December)	Equity*	54	Manufacture of paints and adhesives
ICI Pakistan Limited Pakistan	Ordinary*	76 <sup>†</sup>	Manufacture of polyester staple fibre, soda ash, paints, specialty chemicals, sodium bicarbonate and polyurethanes, marketing of seeds, toll manufactured and imported pharmaceuticals and animal health products, merchanting of general chemicals
Pakistan PTA Limited Pakistan	Ordinary*	75 <sup>†</sup>	Manufacture of pure terephthalic acid
National Starch and Chemical (Thailand) Ltd Thailand	Ordinary	100 <sup>†</sup>	Manufacture of specialty starches and adhesives
Nippon NSC Ltd Japan	Common	100 <sup>†</sup>	Manufacture of adhesives and specialty polymers, merchanting of specialty starches

\* Listed

† Held by subsidiaries

The country of principal operations and registration or incorporation is stated below each company. The accounting dates of the 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 net assets of the Group.



# Independent Auditor's Report to the Members of Imperial Chemical Industries Limited (formerly Imperial Chemical Industries PLC)

We have audited the parent company accounts of Imperial Chemical Industries Limited for the year ended 31 December 2007 which comprise the balance sheet and related notes. These parent company accounts have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group accounts of Imperial Chemical Industries Limited for the year ended 31 December 2007.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report, and the parent company accounts in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities on page 18.

Our responsibility is to audit the parent company accounts and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company accounts give a true and fair view and whether the parent company accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company accounts. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross-referred from the business review section of the Directors' Report.

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited parent company accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company accounts. Our responsibilities do not extend to any other information.

## Basis of audit opinion

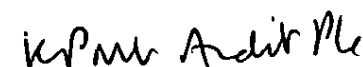
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company accounts and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the parent company accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company accounts and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company accounts and the part of the Directors' Remuneration Report to be audited.

## Opinion

In our opinion:

- the parent company accounts give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007,
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the parent company accounts.



KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London

14 February 2008

# Company accounting policies

As used in the financial statements and related notes, the term 'Company' refers to Imperial Chemical Industries Limited (formerly Imperial Chemical Industries PLC). The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by the Act, the separate financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles ("UK GAAP").

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below. By virtue of Section 230 of the Companies Act 1985, the Company is exempt from presenting a profit and loss account. The Company has taken the exemption not to prepare a cash flow statement under the terms of FRS 1 (Revised 1996) *Cash Flow Statements*.

The following paragraphs describe the main accounting policies. These policies have been consistently applied to all the years presented.

## Turnover

Turnover represents the fair value of consideration received and receivable for goods supplied to customers after deducting sales allowances, rebates and value added taxes. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the customer, the revenue can be measured reliably and collectability is reasonably assured.

## Depreciation

The Company's policy is to write off the book value of each tangible fixed asset excluding land 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, the lives approximate to 30 years for buildings, 13 years for plant and equipment and 4 to 5 years for computer software. Depreciation of assets qualifying for grants is calculated on their full cost. No depreciation has been provided on freehold land. Impairment reviews are performed where there is an indication of potential impairment. If the carrying value of an asset exceeds the higher of the discounted estimated future cash flows and net realisable value of the assets, the resulting impairment is charged to the profit and loss account.

## Retirement benefits

Retirement benefits are accounted for under FRS 17 *Retirement Benefits*. The Company operates defined contribution and benefit schemes for its employees. The Company is unable to identify its share of assets of the underlying assets and liabilities of its defined benefit schemes, in accordance with FRS 17, the Company accounts for them as though they were defined contribution schemes.

## Research and development

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

## Foreign currencies

Assets and liabilities are translated at exchange rates ruling at the date of the Company balance sheet. Exchange differences on foreign currency borrowings and deposits are included within net interest expenses. Exchange differences on all other balances are taken to operating profit.

## Financial instruments

Financial instruments are reported in accordance with FRS 26 *Financial Instruments: Recognition and Measurement*. The accounting policies are presented below.

### Financial derivatives

The Company uses various derivative financial instruments to manage exposure to foreign exchange risks. The Company does not use derivative financial instruments for speculative purposes.

### Hedge accounting

The accounting for the Company's various hedging activities are detailed below.

#### Transaction exposure hedging

Forward currency contracts hedging transaction exposures are fair valued through the income statement. No hedge accounting is applied.

#### Cash flow hedging

Derivatives used to economically hedge the currency risks associated with forecast cash flows are fair valued through the income statement. Where these derivatives form part of designated, effective cash flow hedges, the portion of the gain or loss that is determined to be an effective hedge in terms of FRS 26 is recognised directly in equity as a separate component of reserves. Amounts that have been recognised directly in equity are recognised in the income statement in the same period or periods during which the hedged forecast transaction impacts the income statement.

#### Discontinuation of hedge accounting

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At the time, the following accounting treatment will be adopted:

##### Fair value hedges

Any fair value adjustment made to the carrying amount of the hedged item, as a consequence of the fair value hedge relationship, shall be amortised to profit or loss through the income statement over the remaining life of the hedged item.

##### Cash flow hedges

Any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a forecast transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period through the income statement.

## Investments

Investments in subsidiaries and associates are held at cost less provisions for impairment.

## Operating leases

The cost of operating leases is charged on the straight line basis over the period of the lease.

## Taxation

Full provision for deferred tax is made for timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation, using current tax rates except as otherwise required by FRS 19 *Deferred Tax*. The Company does not discount these balances. No deferred tax is provided in respect of any future remittance of earnings of foreign subsidiaries or associates where no commitment has been made to remit such earnings.

## Stock valuation

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

# Company accounting policies continued

## **Environmental liabilities**

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

## **Disposal provisions**

The Company is exposed to certain liabilities when businesses are divested and disposal provisions are created as part of the gain or loss on disposal calculation. Typical costs include pension liabilities, environmental costs, transaction costs and separation costs. Provisions are only established when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The Company reviews its disposal provisions regularly to determine whether they accurately reflect the present obligations of the Company based on the latest available facts.

## **Contingent liabilities**

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Company's control or are present obligations arising from past events that are not recognised as it is not probable a transfer of economic benefits will occur or the amount cannot be measured with sufficient certainty. The Company reviews its obligations regularly.

## **Share-based payments**

The Company has applied the requirements of FRS 20 *Share-based Payment* and has elected not to adopt the exemption to apply FRS 20 only to awards made after 7 November 2002, instead a full retrospective approach has been followed on all grants not fully vested at the date of adoption to maintain consistency across reporting periods.

The Company issues equity and cash settled share-based payments to certain employees. Fair value is measured using the Black-Scholes model, taking into account the terms and conditions upon which the instruments were granted, excluding the impact of any non-market vesting conditions. Equity settled share-based payments are measured at fair value at grant date.

Cash settled share-based payments are issued in respect of awards in US ADR denominations. Cash settled share-based payments are measured at fair value at inception and at each reporting date a corresponding liability equivalent to the fair value payable on outstanding cash settled share-based payments is recognised on the balance sheet until such time as the liability is settled.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the equity instruments granted and the number of equity instruments which eventually vest. At each balance sheet date, the Company revises its estimates in respect of non-market conditions of the number of equity instruments that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity or net assets depending on whether equity or cash settled.

# Company balance sheet

at 31 December 2007

	Notes	2007 £m	2008 £m
<b>Assets employed</b>			
<b>Fixed assets</b>			
Tangible assets	(ii)	72	56
Investments			
Subsidiary undertakings	(iii)	9,141	11,965
Participating and other interests	(iv)	1	1
		<b>9,214</b>	<b>12,022</b>
<b>Current assets</b>			
Stocks	(v)	38	37
Debtors	(vi)	7,388	3,355
Cash		10	11
		<b>7,436</b>	<b>3,403</b>
<b>Total assets</b>		<b>16,650</b>	<b>15,425</b>
<b>Creditors due within one year</b>			
Trade and other payables	(vii)	(8,573)	(8,311)
<b>Net current liabilities</b>		<b>(1,137)</b>	<b>(4,908)</b>
<b>Total assets less current liabilities</b>		<b>8,077</b>	<b>7,114</b>
<b>Financed by</b>			
<b>Creditors due after more than one year</b>			
Loans	(viii)	20	20
Other creditors	(vii)	3,289	2,390
		<b>3,309</b>	<b>2,410</b>
<b>Provisions for liabilities</b>	(ix)	<b>136</b>	<b>126</b>
<b>Shareholders' funds – equity</b>			
Called-up share capital	(xi)	1,208	1,193
Share premium account	(xii)	939	936
Profit and loss account	(xii)	2,485	2,449
<b>Total shareholders' funds</b>		<b>4,632</b>	<b>4,578</b>
		<b>8,077</b>	<b>7,114</b>

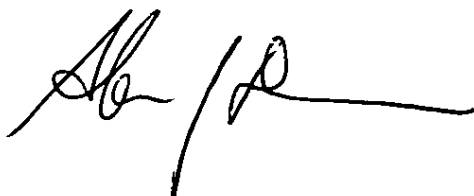
See accompanying notes to parent company financial statements

The accounts on pages 72 to 80 were authorised for issue by the Board of Directors on 14 February 2008 and were signed on its behalf by

J D G McAdam Director



A J Brown Director



# Notes relating to the Company accounts

## (i) Basis of presentation

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by the Act, the separate financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles ("UK GAAP"). The accounting policies under UK GAAP are presented on pages 72 to 73.

In accordance with FRS 21 *Events after the Balance Sheet Date*, note (xix) explains the post-balance sheet event of the acquisition of ICI by Akzo Nobel, these accounts have been prepared without reflecting changes which may occur as a result of the takeover.

A list of principal subsidiary undertakings is presented on page 70.

## Implementation of UK Accounting Standards New accounting standards

The following standards issued by the ASB came into effect during the year:

Amendment to FRS 26 *Financial Instruments: Measurement – Recognition and Derecognition* (effective for periods commencing on or after 1 January 2007)  
FRS 29 *Financial Instruments: Disclosures* (effective for periods beginning on or after 1 January 2007)

UITF Abstract 42 *Reassessment of Embedded Derivatives* (should be adopted in financial statements related to accounting periods beginning on or after 1 June 2006)

UITF Abstract 41 *Scope of FRS 20 (IFRS 2)* (effective for periods beginning on or after 1 May 2006)

Amendment to FRS 3 *Reporting Financial Performance* (effective for periods beginning on or after 1 January 2007)

UITF Abstract 45 *Waste electrical and electronic equipment* (effective for periods ending on or after 22 June 2007)

UITF Abstract 43 *Interpretation of equivalence of section 2 28A exemption* (effective as soon as practicable)

The adoption of the above standards did not have a significant effect on the results or financial position of the Company.

The following standards issued by the ASB only become effective for periods ending after 31 December 2007:

Amendment to FRS 17 *Retirement Benefits* (effective for periods beginning on or after 6 April 2007)

UITF Abstract 44 *Group and Treasury Share Transactions* (effective for periods beginning on or after 1 March 2007)

The Company is currently assessing the impact of these standards, which are not yet effective.

## (ii) Tangible assets

	Land and buildings £m	Plant and equipment £m	Payments on accounts and assets in course of construction £m	Total £m
<b>Cost</b>				
At beginning of year	30	194	7	231
Capital expenditure	–	20	9	29
Transfers of assets into use	–	9	(9)	–
Disposals and other movements	–	(9)	–	(9)
At end of year	30	214	7	251
<b>Depreciation</b>				
At beginning of year	16	159	–	175
Charge for year	1	12	–	13
Disposals and other movements	–	(9)	–	(9)
At end of year	17	162	–	179
<b>Net book value at end 2007</b>	<b>13</b>	<b>52</b>	<b>7</b>	<b>72</b>
<b>Net book value at end 2006</b>	<b>14</b>	<b>35</b>	<b>7</b>	<b>56</b>

The net book value of land and buildings of £13m (2006 £14m), comprises freeholds of £4m (2006 £4m) and short leases of £9m (2006 £10m).

# Notes relating to the Company accounts continued

## (iii) Investments in subsidiary undertakings

	Shares £m	Loans £m	Total £m
<b>Cost</b>			
At beginning of year	4,217	7,898	12,115
New investments/new loans	–	1,601	1,601
Disposals/loans repaid/transfers†	(7)	(4,443)	(4,450)
Exchange adjustments	1	17	18
At end of year	4,211	5,073	9,284
<b>Provisions</b>			
At beginning of year	(149)	(1)	(150)
Exchange adjustments/others	7	–	7
At end of year	(142)	(1)	(143)
<b>Balance sheet value at end 2007</b>	<b>4,069</b>	<b>5,072</b>	<b>9,141</b>
<b>Balance sheet value at end 2006</b>	<b>4,068</b>	<b>7,897</b>	<b>11,965</b>

† Movement includes £4.4bn relating to loans transferred to less than one year (see (vi) below) due to changes in terms of loan agreements

In the opinion of the Directors, the value of investments in subsidiary undertakings is not less than the amount at which they are stated in the balance sheet

Shares in subsidiary undertakings which are listed investments have a balance sheet value of £4m (2006 £4m) and a market value of £147m (2006 £103m)

The Company's investments in its subsidiary undertakings consist 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 70.

## (iv) Investments in participating and other interests

Other shares at the end of the year total £1m (2006 £1m), comprising a cost of £2m (2006 £2m) and provisions of £(1)m (2006 £(1)m)

## (v) Stocks

	2007 £m	2006 £m
Raw materials and consumables	5	7
Stocks in process	1	–
Finished goods and goods for resale	32	30
	<b>38</b>	<b>37</b>

## (vi) Debtors

	2007 £m	2006 £m
<b>Amounts due within one year</b>		
Amounts owed by subsidiary undertakings†	7,324	3,317
Other prepayments and accrued income	10	8
Deferred tax assets	13	2
Other debtors	7	15
	<b>7,354</b>	<b>3,342</b>
<b>Amounts due after more than one year</b>		
Deferred tax assets	34	13
	<b>7,388</b>	<b>3,355</b>

† Balance includes £4.4bn relating to loans transferred from investments in subsidiary undertakings (see (iii) above) due to changes in terms of loan agreements

The Company has also provided an asset-backed guarantee, via a wholly owned subsidiary, ICI Receivables Funding Ltd ("the SPV") specifically incorporated to provide the guarantee, for £250m to support its commitments for the ICI Pension Fund (see note 34 relating to the Group accounts). The asset-backed guarantee is secured by way of fixed and floating charges over the trade debtors of certain Group companies, which have been assigned to the SPV. At 31 December 2007, £41m of the Company's gross trade debtors (2006 £41m) were assigned to the SPV.

# Notes relating to the Company accounts continued

## (vii) Trade and other payables

	2007 £m	2006 £m
<b>Amounts due within one year</b>		
Trade creditors	75	77
Amounts owed to subsidiary undertakings	8,352	8,068
Corporate taxation	11	100
Accruals	12	34
Other creditors	123	32
	<b>8,573</b>	<b>8,311</b>
<b>Amounts due after more than one year</b>		
Amounts owed to subsidiary undertakings	3,287	2,385
Other creditors	2	5
	<b>3,289</b>	<b>2,390</b>

## (viii) Loans

Unsecured loans at the end of the period consist of US Dollar variable rate medium-term notes with a repayment date of 2010, of £20m (2006 £20m)

## (ix) Provisions for liabilities

	Disposal and legacy provisions £m	Restructuring provisions £m	Other provisions £m	Total £m
At beginning of 2007	47	13	66	126
Profit and loss account	22	8	6	36
Net amounts paid or becoming payable	(15)	(10)	(1)	(26)
At end of 2007	54	11	71	136

### Disposal and legacy provisions

Provisions relate to disposals, long term residual activities and environmental costs. The nature of these provisions are such that the related expenditure is expected to occur over the period from 2008 to at least 2030.

### Restructuring provisions

In 2006, the Group initiated an extensive new restructuring and transformation programme which has continued into 2007. This programme includes a number of key activities:

- separate projects to integrate many of ICI's Human Resource and Finance activities across the Group,
- manufacturing plant improvement and plant network restructuring activities to create significant further efficiencies and supply chain performance improvements,
- improvement in sales force effectiveness and customer service projects across ICI, and
- general efficiency and overhead reduction initiatives.

### Other provisions

Other provisions include a fine of €91m (£62m) imposed by the European Commission relating to ICI's ownership of ICI Acrylics in 2006, which has been provided for in full.

## (x) Deferred tax

	2007 £m	2006 £m
<b>Deferred tax liabilities</b>		
UK fixed assets	(5)	(3)
<b>Deferred tax assets</b>		
Restructuring provisions / business provisions / other	19	18
Post-retirement benefits	33	–
	<b>47</b>	<b>15</b>
<b>Deferred tax (liabilities) assets accounted for at the balance sheet date</b>		
Analysed as		
Current	13	2
Non-current	34	13
	<b>47</b>	<b>15</b>

# Notes relating to the Company accounts continued

## (xi) Called-up share capital

	Authorised £m	Allotted called-up and fully paid £m
At 1 January 2006	1,400	1,192
Employee share option schemes – options exercised	–	1
At 31 December 2006	1,400	1,193
New issue	–	12
Employee share option schemes – options exercised	–	3
At 31 December 2007	1,400	1,208

Refer to note 27 Reconciliation of changes in equity, called up £1 Ordinary share capital of the parent company

## (xii) Share capital and reserves

	Share capital £m	Share premium account £m	Profit and loss account £m	Total £m
At 1 January 2007	1,193	936	2,449	4,578
Net profit for the year			205	205
Dividends			(175)	(175)
Share-based payments			6	6
Amounts taken direct to reserves			–	–
Shares issued	15	3	–	18
At 31 December 2007	1,208	939	2,485	4,632

By virtue of s230(4) of the Companies Act 1985, the Company is exempt from presenting a profit and loss account

For details on dividends paid and payable during the year, see note 28 relating to the Group accounts

## (xiii) Commitments and contingencies

	2007 £m	2006 £m
Commitments for capital expenditure not provided for in these accounts		
Contracts placed for future expenditure	4	2
Expenditure authorised but not yet contracted	31	4
	35	6

Contingent liabilities existed at 31 December 2007 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 for the Company, mainly on guarantees of borrowings by subsidiaries, was £504m (2006 £955m). In particular, the Company has fully and unconditionally guaranteed the debt securities of its wholly owned subsidiary ICI Wilmington Inc. From time to time, the Company, in the ordinary course of business, also provides guarantees to its wholly owned subsidiaries.

From 1 January 2006, the Company adopted the amendments to FRS 26 in relation to financial guarantee contracts. Where the Company enters into financial guarantee contracts and guarantees the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time that it becomes probable that the Company will be required to make a payment under the guarantee.

## (xiv) Post-retirement benefits

The Company operates defined contribution and multi-employer defined benefit schemes for its employees. The cost recognised in the period amounted to £288m in 2007 (2006 £85m). Outstanding contributions at the balance sheet date amounted to £nil (2006 £nil). The principal multi-employer defined benefit schemes in operation in the UK are the ICI Pension Fund and the ICI Specialty Chemicals Pension Fund. The date of the most recent full funding valuation for the ICI Pension Fund and the ICI Specialty Chemicals Pension Fund was 31 March 2005. The Company is unable to identify its share of the underlying assets and liabilities of these funds. The deficit on the ICI Pension Fund amounted to £122m (2006 £697m) and the surplus on the ICI Specialty Chemicals Pension Fund amounted to £42m (2006 deficit £111m) at 31 December 2007. Under FRS 17, the company treats its contributions into these schemes as though they were defined contributions and has consequently not recognised any deficit/surplus on the balance sheet relating to these schemes.

The Company agreed to make "top-up" contributions to the ICI UK Pension Fund totalling £520m to be paid over the following three years (£172m in 2008, £172m in 2009 and £176m in 2010). These contributions are subject to review at the next triennial funding valuation as at 31 March 2008 and could vary up or down depending on the outcome. After the year end, on 31 January 2008 the Company signed an agreement providing ICI Specialty Chemicals Pension Trustee Limited with a letter of credit for £95.2m, representing the difference between the funding amount of £34.8m and the £130m of section 75 debt arising on the divestment of Quest Ltd. This replaces the previous requirement for the Company to make £98.4m of "top-up" contributions to the ICI Specialty Chemicals Pension Fund over the period 2008 to 2015, at an annual rate of £12.3m.



# Notes relating to the Company accounts continued

## (xv) Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the year was 1,188 (2006 1,139)

The aggregate payroll costs of these persons were as follows

	2007 £m	2006 £m
Wages and salaries	76	69
Share-based payments (see note xvii)	6	2
Social security costs	8	7
Other pension costs	288	85
	378	163

## (xvi) Directors' remuneration

Information covering Directors' remuneration, interests in shares, debentures, share options and pension benefits is included in note 2 relating to the Group accounts and in the Remuneration Report on pages 9 to 17

## (xvii) Share-based payments

For details of ICI's employee share option schemes and other share-based plans refer to note 7 relating to the Group accounts

The Company has applied the requirement of FRS 20 *Share-based Payment* and has elected not to adopt the exemption to apply FRS 20 only to awards made after 7 November 2002, instead a full retrospective approach has been followed on all grants not fully vested at the date of transition in order to maintain consistency across the reporting periods

The fair value of share options granted is determined using the Black-Scholes valuation model, refer to note 7 relating to the Group accounts for the fair value assumptions used

### Transactions on Option Schemes

	Senior Staff Scheme		UK – Sharesave		SARP	
	Number of options 000	Weighted average exercise price £	Number of options 000	Weighted average exercise price £	Number of options in ADRs 000	Weighted average exercise price \$
<b>Outstanding</b>						
At beginning of 2006	13,711	2.89	1,623	1.93	963	17.55
Granted	2,228	3.48	–	–	140	24.19
Exercised	(840)	2.88	(281)	2.32	(406)	15.14
Forfeited/expired	(581)	5.19	(88)	2.26	(560)	22.63
At beginning of 2007	14,518	2.49	1,254	1.82	137	10.77
Granted	936	4.79	–	–	–	–
Exercised	(14,109)	2.92	(726)	1.88	(137)	10.77
Forfeited/expired	(1,157)	2.72	(106)	1.68	–	–
At end of 2007	188	10.08	422	1.74	–	–
Number of options exercisable at						
At 31 December 2007	188	10.08	6	1.67	–	–
At 31 December 2006	1,272	5.25	209	1.83	–	–

### Summary of options outstanding at 31 December 2007

	Number of options outstanding 000	Weighted average contractual remaining life Years	Weighted average exercise price £
<b>Exercise price range</b>			
<b>Senior Staff Scheme</b>			
£0-£5	–	–	–
£5-£10	–	–	–
£10-£15	188	0.38	10.08
	188		10.08
<b>UK Sharesave</b>			
£0-£5	422	1.12	1.74
	422		1.74

## (xviii) Auditors' remuneration

Remuneration of the Auditor for the audit of the Group in note 6 relating to the Group accounts includes fees and expenses of the Auditor in respect of the statutory report to the members of the Company for the year 2007 amounting to £74,000 (2006 £69,000)

# Notes relating to the Company accounts continued

## **(xix) Post Balance Sheet Events**

The acquisition of ICI by Akzo Nobel was completed on 2 January 2008 by way of a court-sanctioned scheme of arrangement under section 425 of the Companies Act 1985. On that date, the entire share capital of the Group was disposed of to Akzo Nobel for a consideration of £8,092m. This was satisfied by the issue of £105m of Akzo Nobel loan notes issued on 15 January 2008 and £7,987m of cash.

In relation to the share options outstanding at the year end those under the senior staff scheme have an exercise price higher than the amount receivable on exercise and therefore are expected to elapse. Those outstanding options under the UK share scheme were exercised on 2 January 2008.

In connection with the acquisition of ICI, Akzo Nobel NV entered into an agreement with Henkel KGaA to sell the assets and liabilities of the business divisions known within ICI as the "Adhesives Division" and the "Electronic Materials Division" both of which formed part of the "National Starch" business, for £2.7bn (€4.0bn). These divisions were held through various holding companies the directors are currently reviewing the expected result on disposal and do not anticipate that the divestments will give rise to any losses that would indicate that the carrying values of investments held by the Company are impaired.

The listing of ICI shares on the Official List was cancelled and consequently ICI shares ceased to be admitted to trading on the London Stock Exchange with effect from start of business on 3 January 2008.

The Company changed its status from a public to a private limited company with effect from 7 January 2008.

On 31 January 2008 the Company signed an agreement providing ICI Specialty Chemicals Pension Trustee Limited with a letter of credit for £95.2m, representing the difference between the funding amount of £34.8m and the £130m of section 75 debt arising on the divestment of Quest Ltd. This replaces the obligation to make the remaining £98.4m of "top-up" contributions to the ICI Specialty Chemicals Pension Fund over the period 2008 to 2015, at an annual rate of £12.3m, as described in note 34.

# Definitions

In this document the following words and expressions shall, unless the context otherwise requires, have the following meanings

Adjusted earnings per share	Net profit before special items attributable to the equity holders of the parent, divided by weighted average number of shares in issue (less weighted average number of shares held by the Group's employee share plans) during the period
Adjusted net profit	Net profit before special items attributable to equity holders of the parent
Adjusted profit before tax	Profit of continuing and discontinued operations before taxation and special items
Adjusted tax rate	Taxation on continuing operations (excluding taxation on special items) divided by adjusted profit before taxation
ADR	American Depositary Receipt evidencing title to an ADS
ADS	American Depositary Share representing four underlying Ordinary Shares of the Company
As reported	Performance including the effects of currency translation differences and the impact of acquisitions and divestments
bn	billion – 1,000 million
Cash flow before acquisitions and divestments*	Cash flow from operating activities after capital expenditure and proceeds from sale of property, plant and equipment less payments made in respect of disposals prior to 2004
Company	Imperial Chemical Industries Limited (formerly Imperial Chemical Industries PLC)
Comparable*	Results excluding the effects of currency translation differences and the impact of acquisitions and divestments At a Group level this refers to continuing operations only Comparable profits and losses are quoted before accounting for special items
Directors	The Directors of the Company
Earnings per share	Net profit after special items attributable to the equity holders of the parent, divided by the weighted average number of shares in issue (less the weighted average number of shares held by the Group's employee share plans) during the period
ESOP	Employee share ownership plans, of which the principal plans are the 2004 Executive Share Option Plan, the 1994 Senior Staff Share Option Scheme, the 1994 Stock Appreciation Rights Plan, the Performance Growth Plan and the Performance Share Plan
Gross margin*	Sales value less the variable and fixed costs directly associated with the manufacture and distribution of the goods sold
ICI, ICI Group or the Group	Imperial Chemical Industries Limited (formerly Imperial Chemical Industries PLC), its consolidated subsidiaries and its proportionally consolidated joint ventures but not its associates
Net cash	Cash (including overdrafts), cash equivalents and current asset investments less the borrowings of ICI (comprising loans and short-term borrowings other than overdrafts together with related derivatives and obligations under finance leases)
Net debt	The borrowings of ICI – comprising loans and short-term borrowings other than overdrafts together with related derivatives, obligations under finance leases and the liabilities associated with the forward contracts for the acquisition of own shares (to the extent that the contracts are "out of the money") – less cash (including overdrafts), cash equivalents and current asset investments
Ordinary Shares	Ordinary shares of £1 each in the capital of the Company
Reporting segments	The Reporting segments comprise the Group's Paints, Adhesives, Specialty Starches, Specialty Polymers, Electronic Materials and Regional and Industrial businesses
Return on capital employed (ROCE)	Trading profit after amortisation of intangibles, before special items, after restructuring amortisation* and after a tax charge† for the last twelve months divided by the average of capital employed for this current period end and that of the twelve months previously, expressed as a percentage
Notes	
* Cash expenditure on restructuring is capitalised in each year that expenditure occurs and is then amortised over three years starting on 1 January following the year of the expenditure	
† A tax charge is applied to the trading profit (before amortisation of intangibles and after restructuring amortisation) in view of the potential volatility in the Group's adjusted tax rate, a rate of 20% has been used in 2007 (2006 20%)	
Capital employed Net operating assets plus net operating special items	
Net operating assets Property, plant and equipment plus goodwill on acquisitions* plus operating working capital	
* Goodwill on acquisitions relates to goodwill capitalised on the balance sheet and, therefore, excludes goodwill arising prior to 31 December 1997 (largely that arising on the acquisition of the Unilever Specialty Chemical businesses) which has been charged directly to reserves	
Net operating special items For financial ratio calculation purposes only, this is defined as	
Asset write downs arising on restructuring plus cash cost of restructuring before tax and after amortisation for financial ratio purposes only, cash expenditure is capitalised in each year that expenditure occurs and is then amortised over three years starting on 1 January following the year of expenditure	
Special items	Special items are those items of financial performance that should be separately disclosed to assist in the understanding of the financial performance achieved by the Group and in making projections of future results, as explained in IAS 1 <i>Presentation of Financial Statements</i> Special items include items relating to both continuing and discontinued operations (see also Group Accounting Policies, page 22)
Trading margin*	Trading profit, expressed as a percentage of sales
Trading profit	Operating profit before special items At a Group level this refers to continuing operations only

\* Management believes these measures are important financial indicators. However, they should not be considered in isolation, or as an alternative to operating profit or net profit or cash flow from operating activities, in each case, determined in accordance with IFRS