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Imperial Chemical Industries PLC

Group accounts

For the year ended 31 December 1999

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Statement by the Chairman

"We made excellent progress in 1999 with profits up and debt sharply reduced. ICI's strategy to shift its focus to Specialty Products and Paints is on course and delivering good results. There is more to come as the world economy improves."

Profit before tax in 1999 was £376m, 17% ahead of the previous year, and confirmed the benefits of the recent strategic shift in our portfolio. Indeed, the momentum quickened over the year as better trading conditions were underpinned by ICI's focus on performance improvement across all our activities.

The redirection of our portfolio was triggered by a series of major acquisitions in 1997 and 1998 that shifted our product portfolio from bulk chemicals to specialty products. As these were funded with bank debt, we made it a top priority to reduce debt and restore the health of our balance sheet by exiting most of our bulk chemical businesses. Thanks to some very successful divestments, coupled with first class cash management, our net debt has been cut from £4.2bn a year ago to £2.3bn at the end of 1999. Interest cover has improved steadily, and we enter 2000 with the balance sheet in much better shape.

Overall, sales in our core businesses were up 2.5% to £5.6bn, with operating profits rising 8% to £582m. Earnings per share for the Group were 10% higher at 37.0p. Reflecting these excellent results, the Board recommended that the dividend was maintained.

1999 saw changes in the senior team. I assumed the role of Chairman, and Brendan O'Neill succeeded me as Chief Executive. He has made a major contribution to the improvement in performance. Jim Kennedy retired as Chairman of National Starch in June, after 37 years. The Board would like to thank him for his contribution to National Starch and particularly in the last two years during the transition from Unilever to ICI.

On 2 February 2000, we announced some further changes to the ICI Board. Rob Margetts, who has had a distinguished career with ICI for over 30 years, is to retire from the Company at the end of June to take up the Chairmanship of Legal & General Group Plc. The Board would like to thank him for his enormous contribution to ICI, particularly with regard to the divestment programme. Hon-Chiu Lee is to retire following the Annual General Meeting. Again, the Board would like to thank him warmly for his contribution as a Non-Executive Director over the last three years. We announced at the same time the appointment of William H Powell, Chairman and CEO of National Starch, to the main Board.

All our employees have again shown great resourcefulness and resilience in a year of tremendous change. We would like to thank them all for their efforts. Their hard work and dedication has ensured that the transition has been carried out professionally and successfully.

I should like to pay particular tribute to all my Board colleagues for their wisdom and efforts in steering ICI through the significant transformation.

Looking ahead, there is every sign that the world economy will continue to improve in 2000. With financial markets now much more stable and an increased focus on performance within the business, I believe that we will see further improvements in underlying sales and profits in 2000. I am confident that as performance improves this will be reflected in the valuation of our shares.

The specialty products and paints industries continue to change, and ICI will play its part in any further restructuring if this can create real value for shareholders. We enter a new century with growing confidence that ICI is well placed to deliver sustained profitable growth.

Charles Miller Smith

Chairman

Review by the Chief Executive

"We're determined to lead the industry in creating value for customers and shareholders. With the skills at our disposal and the huge opportunities we face, we look forward to robust, profitable, year-on-year growth."

ICI has virtually completed its transformation – started in 1997 – from a high volume bulk chemicals company to a coherent group of high value, knowledge centred businesses with exciting opportunities for growth and margin improvement. We are now able to focus on Specialty Products and Paints, the businesses that represent our future.

Transformation

1999 saw great progress in the restructuring of the ICI portfolio, in line with our strategic transformation. In June we sold our Polyurethanes, Tioxide and selected Petrochemicals businesses to the Huntsman Corporation through the formation of a new company Huntsman ICI Holdings LLC. Later in the year we disposed of the Autocolor vehicle refinish business, Acrylics and our Fluoropolymers operation.

The quality of the businesses divested is reflected in the very attractive prices we obtained. We retain a 30% interest in Huntsman ICI Holdings, which continues to do well.

Today's ICI is far less susceptible to downturns in any particular market given the breadth and quality of our market and product coverage. In a major shift from the past, the selling prices we achieve are determined by the value we create for our customers. Moreover, we are convinced that we hold the potential for excellent profitable growth. This confidence stems from various factors: our strong market positions in key growth markets; our pipeline of technology and marketing innovations; and our close and developing relationships with key customers.

1999 performance

In 1999 we achieved significantly improved profits, both for the total Group and the Core businesses. Within our Core businesses, the growth momentum built consistently throughout the year.

Specialty Products

Quest was the star performer. Sales rose as we focused on big, multinational customers and made the most of the wider market now available to us in food and fragrances. The progress we made is best illustrated by Quest's trading margins – they are now nearly 14% – about the same as National Starch – compared to 10% just two years ago.

National Starch passed a tremendous milestone by increasing its profits for the 30th consecutive year. There were excellent performances from many parts of the business, notably adhesives and food starch worldwide and all the businesses in Asia, offset by some disappointments in emulsions and industrial starch.

In Industrial Specialties, Uniqema began the year slowly but picked up speed and produced a good performance for the year. I was particularly encouraged by the growth rate achieved in our more value added sectors. Synetix profits were similar to last year, reflecting the depressed state of the ammonia and methanol industries which use its catalysts, but it maintained its margins and produced excellent rates of return. Crosfield's recovery plan is under way and on course to meet ambitious financial targets.

Paints

The highlight in Paints was the significant recovery in the US business with improved results both from our own stores and from sales to major retailers such as The Home Depot. Europe once again performed excellently and Paints did well in Asia where markets have recovered well from the economic crisis. The amount invested in marketing increased by 13%. Recognising further opportunities, Paints has committed itself to a 10% return on sales, 20% organic growth and a 30% return on net assets in the next five years.

Industrial Chemicals

Within Industrial Chemicals losses were reduced from 1998. This was achieved by the efforts of our workforce and some aggressive cost reduction plans as the markets remained soft – albeit with some signs of recovery in the chlorine and PTA markets at the end of the year.

Rewarding shareholders

1999 was a better year in underlying performance, but disappointing in share price performance. Our aspiration is for share price performance ahead of the best of our competitors. To measure our progress, we have selected 16 competitors to our own businesses and will track our performance against this group in terms of Total Shareholder Return – the combination of dividend and stock price appreciation. We'll be disappointed not to be in the upper half and will strive for a place in the top four. Subject to our shareholders' agreement, we'll also amend the long-term incentive scheme for our top 100 people so that their rewards are linked to our relative performance.

One essential for increasing our returns is greater co-operation between our businesses on matters such as research and technology, purchasing, IT and management development. I am delighted to say that the momentum is building, helped in 1999 by the appointment of a Global Chief Information Officer, and of a Group Vice President, Supply Chain. We also are absolutely determined to take full advantage of the cost reduction and customer service benefits which are now possible using the Internet.

An entrepreneurial culture

Our success in achieving shareholder returns also depends on how well we foster the culture appropriate to today's markets. In the capital-intensive ICI of the past, investment decisions were large, few in number and mostly made at the Centre. Today's ICI depends on greater numbers of smaller decisions taken in all parts of the world by people who really know the customers. We therefore need a culture that makes people accountable, encourages new ideas and well-judged risks and rewards those who perform.

Such a culture is taking root. One of the heartening things I've noticed in my 18 months with the Group is a growing awareness and application of the principles of shareholder value. People at every level are determined to ensure that we increase working capital efficiency, that every investment earns an appropriate return, that all the measures of value keep improving. Employees everywhere are becoming more responsible for their own performance.

Review by the Chief Executive

Turning ideas into profits

I also feel the excitement generated by new ideas. In a world where yesterday's innovation can become today's commodity, we need to be introducing new and updated products – and new ways of using those products – at a rate which exceeds the trend towards commoditisation. And indeed we are. ICI is increasingly an 'ideas' company, selling not so much products as customised solutions. This report details just a few of the ideas that ICI people have turned into profitable products and services for the benefit of our customers and shareholders.

As the Group restructures, the Centre is also changing. At the half year, we announced the restructuring of our London head office to make it smaller, more efficient and more supportive of today's diversified portfolio. The changes will align the Centre's role to the needs of today's ICI family of Businesses.

One thing that will not alter is our commitment to safety, health and the environment. Five years ago, ICI set itself a demanding series of goals to be met by the year 2000. We are on course to succeed and later this year will set new targets for 2005. However good our performance, we know that we can always improve and are determined to do so.

Great people, great opportunities

As I travel the Group, my overwhelming impressions are the quality of our people and the wealth of opportunities we have to offer better solutions to our customers. Let me record here my thanks and appreciation for the skills, enthusiasm and hard work of all our employees in both our continuing and our divested businesses. It has always been true that good people are fundamental to our success. This is even more so as opportunities multiply and turning them to advantage depends on fast, informed, intelligent action by people at all levels in the business.

With our people, our market position and the tremendous opportunities available to us, ICI is powerfully placed to offer better returns to its shareholders each year, every year. We have a great story to tell – and one that is backed by tangible improvements in performance. I hope you share with me the excitement that we in ICI feel about the business and our expectation of even better things to come.

Brendan O'Neill

Chief Executive

DESCRIPTION OF BUSINESS

General

Since the incorporation of Imperial Chemical Industries PLC in 1926, the ICI Group has been one of the major industrial chemical organisations in the world with an impressive record in innovation. In 1997 the Group began a significant reshaping programme, consistent with its plans to focus its resources in specialty chemicals. This reshaping activity continued through 1998 and 1999. The core business of the Group now comprises National Starch, Quest, Industrial Specialties and Paints. The Group also has an Industrial Chemicals business (which comprises Halochemicals, Methanol and a number of Regional Businesses). The Group is actively pursuing the divestment of most of its Industrial Chemicals business consistent with its strategic shift to specialty chemicals.

The ICI Group has leading international positions in industrial adhesives, specialty starch, fragrances, flavours, food ingredients, specialty process intermediates, paints and chlorofluorocarbon (CFC) replacements. It also has strong positions in synthetic resins and polymers, chemicals based on silica and alumina, surfactants and catalysts. In addition, the Group has a strong regional position in the UK in chlor-alkali products.

Strategic Vision

The ICI Group's vision is to be the industry leader in creating value for customers and shareholders through market leadership, technological edge and a world competitive cost base. It aims to achieve this by:

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

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

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

- *exemplary performance in safety and health*
  The Group's goal is to have an exemplary performance in safety and health and become the world leader.

- *responsible care for the environment*
  Tough targets for the Group's environmental performance have been set. The guiding principle is Responsible Care, the international chemical industry's programme for continuous improvement in safety, health and environmental performance. The Group applies its standards with consistency around the world. The roll-out of new and improved products which are designed to have less impact on the environment will be a key feature.

- *relentless pursuit of operational excellence.*
  Competitive pressure is increasing and the Group has responded with a number of initiatives including a major focus on purchasing and supply chain management and several significant restructuring programmes in the last three years.

Reshaping

In the early 1990s, as part of its efforts to increase profitability and enhance shareholder value, the Group implemented two major restructuring programmes. These actions entailed focusing on those businesses and territories where it enjoyed strong market positions, a sustainable trading advantage through technology and brands and with costs which are competitive. Subsequently the Group demerged its bioscience operations in 1993.

In July 1997, ICI took the first major step to reposition itself radically as a major specialty chemical company with the acquisition of the companies and businesses comprising the specialty chemicals division ("Speciality Chemicals") of Unilever PLC and Unilever N.V. for a cash consideration of US$8bn (£4.8bn). The acquisition was an excellent fit with the Group's strategy to shift its business profile towards specialty chemicals tailored to meet specific customer needs and where leading positions in profitable growth markets can be won through the application of the Group's technology and skills. The Group continues to look for opportunities to build its capability across Specialty Products and Paints and in so doing shift the balance towards the lighter, less cyclical end of its portfolio, where it has the opportunity to build powerful leadership positions.

ICI has announced that, consistent with its strategy, it intends to divest most of its Industrial Chemicals portfolio. Since July 1997 ICI has realised £6.1bn in gross proceeds from over forty disposals.

In 1997 and 1998 the major elements of this disposal programme comprised:

1997

- the polyester polymer and intermediates business;

- the 62.4% shareholding in ICI Australia, a major manufacturer and supplier of mining explosives, chemicals, plastics, fertilisers, crop care products, paints and related consumer products in Australia for total gross proceeds of £1bn;

- the Canadian based Forest Product business for £142m;

- the UK based fertiliser business, for £200m plus a deferred, phased, market related payment;

1998

- the Group's worldwide Melinex film interests;

- a 51% interest in a South African explosives joint venture for US $117m;

- the Propafilm oriented polypropylene films business;

- explosives operations in Canada, Latin America and Europe and the explosives distribution business in the USA for US $370m;

- a methylamines and derivatives business for £67m, and

Description of business

- Teesside Utilities and Services business, which operates in the UK, for £300m.

During 1998 the Group made several acquisitions, including:

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

In 1999, ICI made further progress with its restructuring programme. At the end of June, it divested its Polyurethanes and Tioxide businesses and the majority of its UK based Petrochemicals businesses to Huntsman ICI Holdings LLC (HICI), a new company formed with Huntsman Corporation, a privately owned US chemicals group, for an aggregate consideration of £1.7bn. In addition to these businesses, HICI acquired the propylene oxide assets of Huntsman Corporation. HICI is controlled by Huntsman Corporation but ICI retains a 30% shareholding. The value ascribed of ICI's initial stake in HICI, through a combination of equity and loan notes, was £452m. As a result of this transaction over 6,000 employees transferred from ICI to HICI.

At the end of July 1999, ICI increased its emphasis on specialty chemicals for markets where it has leadership positions by divesting its automotive refinish business and some other industrial coatings interests, to PPG Industries, a corporation based in the USA, for a total value of £425m. Some 2,200 employees transferred with the business.

At the beginning of November, ICI divested its global Acrylics business to a venture capital backed company, Ineos Acrylics Ltd, for £505m. This sale, which involved the transfer of some 2,000 employees, completed the disposal of ICI's Materials businesses.

Also in November the Group completed the sale of its international Fluoropolymers business to Asahi Glass Company of Japan.

As part of its strategy the Group intends to continue to divest or dilute its interests in non-core businesses where it has no long-term competitive advantage. This includes most of Industrial Chemicals.

Performance and value based management

The Group has now established overall performance targets for Total Shareholder Return, which will be used to measure performance relative to an international peer group of companies. The Group's aim is to deliver a consistent return which is amongst the best in the industry. Internally the Group is aligning its targets with this aim, using targeted growth in economic profit as the basis of measurement. These objectives are being underpinned by changes to senior management compensation systems.

The targeted growth in the market value of the Group and its constituent businesses is used to set targets for both growth in economic profit and return on net assets (RONA). RONA has the advantage that it can readily be used at the local and regional level to track improvements. During 1999 the Group's overall RONA increased by 1.5% to 13.4%. The core portfolio of Specialty Products and Paints delivered a 20.2% RONA, up 1.1% on last year.

Geographic areas

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

The extent of the Group's activities outside the UK is indicated in the following table, which shows the turnover and trading profit (before exceptional items) from continuing operations made by Group companies located in each geographic area for the three years ended 31 December 1999 (see Operating and financial review).

	Turnover			Trading profit before exceptional items		
	1999 £m	1998 £m	1997 £m	**1999* £m**	1998* £m	1997 £m
Continuing operations						
United Kingdom						
Sales in the UK	**1,190**	983	933			
Sales overseas	**1,134**	1,198	1,480			
	2,324	2,181	2,413	**1**	31	(19)
Continental Europe	**1,511**	1,461	1,173	**140**	126	71
USA	**2,254**	2,158	1,773	**189**	154	117
Other Americas	**688**	738	693	**38**	60	54
Asia Pacific	**1,257**	1,041	946	**100**	63	94
Other countries	**67**	77	102	**6**	7	15
	8,101	7,656	7,100			
Inter-area eliminations and sales to discontinued operations	**(912)**	(835)	(1,407)			
Total	**7,189**	6,821	5,693	**474**	441	332
Discontinued operations	**1,260**	2,465	5,369	**97**	186	288
Total	**8,449**	9,286	11,062	**571**	627	620

* After amortisation of goodwill £35m (1998 £23m).

Description of business

Industry segments

The following table shows turnover and trading profit (before exceptional items) for the Group's classes of business for the three years ended 31 December 1999 (see Operating and financial review).

	Turnover			Trading profit before exceptional items		
	1999 £m	1998 £m	1997 £m	**1999 £m**	1998 £m	1997 £m
Continuing operations						
Core operations						
Specialty Products						
National Starch	**1,792**	1,646	782	**230***	219*	116
Quest	**676**	656	321	**92**	82	67
Industrial Specialties	**989**	1,027	831	**82***	84*	32
	3,457	3,329	1,934	**404**	385	215
Paints	**2,180**	2,167	2,170	**143***	132*	160
Industrial Chemicals	**1,654**	1,481	1,790	**(73)**	(76)	(43)
Inter-class eliminations and sales to discontinued operations	**(102)**	(156)	(201)			
Total	**7,189**	6,821	5,693	**474**	441	332
Discontinued operations	**1,260**	2,465	5,369	**97**	186	288
Total	**8,449**	9,286	11,062	**571**	627	620

* 1999 and 1998 results are stated after amortisation of goodwill for National Starch, Industrial Specialties and Paints of £18m (1998 £12m) £1m (1998 £nil) and £16m (1998 £11m) respectively.

Continuing Operations

Specialty Products

The Specialty Products grouping comprises the National Starch, Quest and Industrial Specialties Businesses.

National Starch

National Starch is a leading manufacturer of adhesives, sealants, specialty food and industrial starches, specialty synthetic polymers and electronic and engineering materials. The Business produces thousands of technically advanced products and operates an international network of more than 158 manufacturing and customer service centres, located in 36 countries on 6 continents.

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

The Business's overall sales, as well as its research and development spending, grew over the last 3 years at a compounded annual rate in excess of 6%. Research and development expenditure (including technical service) currently represents about 4.5% of annual sales. About 20% of National Starch products in the USA are protected by patents, and most of the selling range consists of proprietary products and services.

National Starch comprises four distinct business groupings:

Adhesives and Sealants

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

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

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

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

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

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

Food and Industrial Starch

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

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

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

Description of business

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

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

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

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

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

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

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

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

Specialty Synthetic Polymers
National Starch has broad capabilities in specialty polymers, resins and redispersible powders for markets as diverse as personal care, construction, water treatment, detergents, paper coatings and apparel. The business's binders, saturants and laminants add desirable characteristics to non-wovens (fibrefill, interlinings, disposable garments), textiles and papers.

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

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

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

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

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

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

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

- EMCA-REMEX supplies thick film materials used in hybrid circuits, multi-chip modules, and resistive components.

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

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

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

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

Business activity
In 1999, the Business acquired Environmental Packing L.P., of Delaware, USA (ENPAC). It is the largest supplier of biodegradable starch-based loosefill packing material technology in North America. The purchase of ENPAC gives National Starch licensing rights to sell non-high amylose based starches for the biodegradable packaging industry in North America, Europe and Australia and provides the ability to expand further in the biodegradables market.

Also in 1999 the Business sold its Australian emulsion polymer/resin business.

New plants and expansions
National Starch continued to pursue its policy of supporting customers locally by opening and expanding plants in countries where customers are located. Specialty Synthetic Polymers completed plant expansions in the People's Republic of China and North Carolina, USA.

Description of business

The Adhesives and Sealants Division started construction on a new plant in Brazil.

Major new expansions for the Food and Industrial Starch Division in 1999 included new capacity in Thailand to support the growth in the tapioca starch business, expansion in Germany to support European growth in new products for the food industry and continued expansions and productivity improvements in Indianapolis, USA, which is its largest manufacturing facility, to support the global business.

The EEM Division added two new technical service laboratories to serve customers in the semi-conductor and microelectronic industry. New facilities in California and Japan are equipped to apply, cure, and test EEM adhesives and encapsulants. These capabilities allow close collaboration with customers to develop new products and applications.

New products

During 1999, the Adhesives Division expanded its 'Cool-lok' hot melt platform and introduced 'Ultra-cure' radiation curing products and 'Peta-Flex' 100% solids packaging adhesives. The Division continued to build on its leadership position in reactive hot melts with the introduction of foaming technology for the gasketing and window sealant market. In addition, joint developments with the Specialty Synthetic Polymers Division resulted in a new EVA emulsion for difficult to adhere substrates, and the new 'Micro-Lok' repositionable pressure sensitive emulsion polymer.

The Food and Industrial Starch Division introduced its new 'Dry-Tack' adhesion system, which is used to tenaciously adhere seasonings to snacks. Unlike many previously available products that were applied wet after the chip or extruded snack was dried, this adhesion system is pre-blended with seasonings and applied while the substrate is hot. The consumer gets a snack in which the seasonings remain on the snacks rather than falling to the bottom of the package and the crisp mouthfeel they prefer. The product has a lower fat content and fewer calories than fat-based foods which helps consumers to maintain a healthy lifestyle. National Starch's customer, the food manufacturer, can offer a product with a lower-fat label, one which reduces wastage of seasonings or flavours, has a less messy blending process and can be used within existing systems. For this revolutionary technological advance, 'Dry-Tack' was awarded the gold trophy at the Fi Europe Most Innovative Food Ingredient Awards and "High Honors" recognition in the Ingredients category of the 1999 Food Processing Magazine Awards.

In 1999 the Food and Industrial Starch Division also introduced 'Novation' 3600 native starch which has low hot viscosity, unique mouthfeel and light set for dairy and fruit applications and 'Ultra-Tex' 2000 food starch, a specialty cold water swelling starch that provides high instantaneous viscosity suitable for dry mixes, sauces, gravies, microwaveable cheese sauces and instant cream-style soups. It is ideally suited for food systems that are to be microwave reconstituted or kept on a steam table for long periods.

The Specialty Synthetic Polymers Division introduced structure rheology modifiers for personal care, 'Dur-O-Set' Elite emulsion polymers and 'Elotex' water-resistant construction polymers in 1999.

Also in 1999 two fundamentally new polymer chemistries for use in electronic adhesives and encapsulants were developed by the EEM Division. These are being used in new formulations by the Ablestik business to address demands for semi-conductor packaging materials with improved performance and processing characteristics.

The Acheson unit of EEM introduced 'Deltacast' Liquid Powder systems. These comprise process lubricants, application equipment and technical assistance for pressure die casting of high performance automotive components.

EMCA-REMEX introduced four new screen-printable polymer overcoats that cure at 150 °C, compared with competitors' products that cure at 200 °C. In addition, three new thick film conductors were introduced for automotive, telecommunications and RF circuitry applications; a new capacitor dielectric series called 7248U for high-reliability applications; a new series of copper conductor compositions for applications that require multiple refires at 900 °C in a nitrogen atmosphere and a platinum-silver conductor that exhibits superior solder acceptance and solder leach resistance in low-cost applications were also introduced in 1999.

The Permabond business launched 'Permabond' 4L75, a new advanced UV and visible light curable adhesive designed for medical drainage systems, reservoirs, oxygenators, heat exchangers and many other devices with and without light-absorbing plastic.

Emerson & Cuming introduced CE 3101, a new electrically conductive adhesive that replaces solder and provides ultra-fine printing capability in surface mount device (SMD) interconnect formation. This new product also has a low-temperature-cure capability, which makes it compatible with all flex substrates. In addition, a third new product was added to the CE 3100 series which provides revolutionary stability of electrical junctions on common metal solderable surface finishes.

Quest

Quest is recognised worldwide as a leader in the development, application and production of fragrances, fragrance ingredients, flavours and food ingredients for a wide variety of consumer products. Fine fragrances are created for many of the most prestigious fragrance houses in Europe and the USA while its fragrance compounds and materials can be found in the leading brands of cosmetics, soaps, household products and detergents. Its flavour and food ingredients create the special taste and texture of prepared foods, beverages, dairy foods, bakery and confectionery products marketed by many of the major global food and drinks manufacturers.

The Business operates through two Divisions. The Food Division is headquartered in Naarden, the Netherlands where the Company's corporate headquarters are also located. In 1999 the Food Division accounted for around 60% of total sales. The Fragrances Division is headquartered in Ashford, UK with creative centres for Fine Fragrances in Paris and New York. In 1999 the Fragrances Division accounted for 40% of sales.

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

Quest's flavour and fragrance products consist of compounds of blended ingredients under formulae created by its flavourists and perfumers. Fragrance ingredients are the scented building blocks of the fragrance formulae. They also contribute additional technical characteristics, such as deodorancy or insect repellancy to the finished compound.

Description of business

Food ingredients include emulsifiers, hydrocolloids, proteins and bio ingredients (enzymes, cultures and yeast) developed to meet the changing commercial requirements in taste and texture of the customers' end-products.

Quest operates in attractive markets. The demand for consumer products has been stimulated and broadened by such factors as an increase, in many countries in disposable income, the strong growth of food services and the opening of new geographical markets. In the fragrance sectors, these developments have expanded the market for colognes, deodorants, and toiletries for men. In the food area, growth has been driven by the desire of consumers for new and more sophisticated flavours as well as for foods that are compatible with a healthy lifestyle. These factors have stimulated the demand for products such as convenience foods, ethnic foods, low-cholesterol and low-fat food products and soft drinks that must also conform to expectations in taste, texture and appearance.

Innovation is at the heart of Quest's business. Development of new fragrance and flavour compounds requires a complex artistic and technical process calling upon the combined knowledge and skill of its perfumers and flavourists together with its application and research chemists. An important contribution to the creation of new fragrance and food products is the development of new ingredients. The business maintains research centres at Ashford in the UK and Naarden in the Netherlands and specific product process development at 6 other sites around the world. Approximately £37m (about 6% of annual sales value) was spent in 1999 on research, development, creation and application, of which around 40% was on fragrances and 60% on foods.

The competitive position of the Business is based on its four distinctive capabilities. These are: the quality of its customer relationships, the creative skills of its perfumers and flavourists, the technological advances resulting from its research and development and the customer service and support provided by its marketing and application groups as well as the company's global network of servicing units. In terms of sales, Quest is one of the leading organisations producing and marketing a wide range of fragrance and food products for sale to manufacturers of consumer products.

In 1999 Quest's capital expenditure programme focused on fragrance material production capabilities and automation of fragrance compounding. In the Food Division capital expenditure was directed at a selected expansion of existing capacity with particular focus on profitable growth markets.

Industrial Specialties

In 1997 the former Unilever companies of Unichema and Crosfield were combined with ICI's activities in surfactants, catalysts and lubricants to form the Industrial Specialties Group. Unichema, surfactants and lubricants have now merged to form the new business of Uniqema whilst the related catalyst operations have been combined in the new Synetix business.

Uniqema

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

Uniqema's headquarters are in London and its major operating centres are in Gouda in the Netherlands, Everberg in Belgium, Wilton in the UK, Wilmington, Delaware, USA and Klang in Malaysia. The business has 22 manufacturing sites in Europe, North America and Asia Pacific.

Process intermediates is based on natural fats and oils such as coconut, palm kernel and rape seed, which are split to yield fatty acids and glycerine. Its global coverage, economies of scale, flexible manufacturing processes and market focused research give Uniqema a strong competitive position. Further processing of fatty acids yield a range of higher added-value products, such as surfactants, soaps, lubricants and polymers. The rapidly growing global polymers business is based on the development of a range of specialty dimers which are used in adhesives, coatings and resins.

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

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

Synetix

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

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

During 1999, Synetix acquired the catalyst business of J & J Dyson plc to broaden its position in the refinery, ammonia and gas processing markets and enter the new market of DRI (Direct Reduction of Iron) and also acquired the 'Hoecat' catalyst business of Celanese which strengthens its position in the edible oils and oleochemicals markets.

Synetix is seen as highly innovative and was one of only four winners of the 1999 Queen's Award for Environmental Achievement and the only Queen's Award winner in ICI. The award was for 'Hydecat' – the unique process for treating sodium hypochlorite, a by-product formed wherever chlorine is used or produced.

Description of business

Crosfield
Crosfield is a major producer of silicas, silicates and zeolites, with plants in North America, South America, South Africa, South East Asia and Europe. Its products are focused on specialised applications using the ability of Crosfield to develop and produce tailor-made particles. These are used as ingredients in a wide range of consumer and industrial products, including detergents, toothpaste, surface coatings and plastics and as processing aids in the brewing and textile industries.

Other Specialty Businesses
The Security Systems business provides a range of security systems where bank notes and high valued goods are held. Using a variety of technologies, thefts can be quickly detected and prevented. The business has just launched a new product, 'Octopus', to protect the growing ATM (Automated Teller Machine) market.

Paints
ICI's coatings business, ICI Paints, is a leading international paint business. It has one of the widest geographic spreads of any international paint business, concentrating on decorative paint and coatings for food and beverage cans. It manufactures in 26 countries in Europe, North America, Latin America and Asia. It is headquartered in Slough in the UK.

The decorative paint business has strong, well-established brands such as 'Dulux', 'Glidden', 'Valentine', 'Coral', 'Alba' and 'Color Your World'. The acquisition in 1998 of the European Home Improvement business of Williams Plc added further strong brand names in Europe such as 'Hammerite', 'Cuprinol', 'Polyfilla', 'Polycell', 'Xyladecor', 'Molto' and 'Alabastine'. The acquisition broadens and strengthens ICI's decorative product range to include wood care, metal care, adhesives and fillers. The Decorative market in total comprised over 80% of the Business's turnover in 1998.

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

The strategy of ICI Paints is to maintain and develop branded, leading market positions in the global paints and coatings business. Key to this is the ability to understand consumers' needs for both product and services and communicate through strong brands direct to each market segment.

Technology and innovation are also important factors in the growth of ICI Paints. Success is dependent on being first to market with innovative, value adding products and services which meet real market needs. ICI Paints' international spread ensures it can maximise potential, enabling successful products and services to be rolled out around the world.

In July 1999 ICI sold its automotive refinish paints business (Autocolor) to PPG Industries for £425m.

Industrial Chemicals
The Industrial Chemicals segment comprises ICI's Halochemicals and Petrochemicals Businesses and the Group's Regional Businesses including a pure terephthalic acid (PTA) business in Pakistan.

Halochemicals
The Halochemicals Business is a major Western European producer of caustic soda, chlorine, chlorine derivatives and sulphuric acid. The Business is also a significant global producer of plasticisers and refrigerants.

Chlorine, caustic soda and a range of co-products are produced at three sites in the UK and one in Germany. In addition, chloromethanes, perchlorethylene, trichlorethylene and sulphuric acid are produced in Runcorn in the UK, where the headquarters of the Business is situated. Ethylene dichloride is produced in Runcorn and in Wilton, Teesside, in the UK.

Chlorine, hydrochloric acid and hypochlorite are sold in European markets for a wide range of industrial and sanitary applications. Caustic soda and chlorine derivatives are used widely in applications ranging from primary feedstocks to metal degreasing and are sold into geographically diverse markets, including those of Asia Pacific.

More specialised products include: 'Cereclor' chlorinated paraffins, used principally as a plasticiser for PVC and 'Klea' 134a, a replacement for CFC refrigerants. 'Cereclor' chlorinated paraffins are manufactured at Runcorn, in Baleycourt in France and by IACC, a partly owned subsidiary in Thailand (ICI 60%: East Asiatic Co. 40%). 'Klea' 134a is manufactured in St Gabriel, Louisiana, USA; through an associate in Japan (ICI 50%: Teijin Limited 50%) and in Runcorn. Certain other 'Klea' refrigerants are manufactured only at Runcorn.

Capital expenditure in the period from 1996 to 1999 has been focused on manufacturing improvement and environmental projects.

At the end of November 1999 ICI completed the sale of its international fluoropolymers business to Asahi Glass Company, a PTFE manufacturer in Japan. This follows the sale of ICI's 50% shareholding in Asahi ICI Fluoropolymers Ltd to the same company in January 1999.

Petrochemicals
ICI's Petrochemicals Business comprises a methanol business, a 50% share in the Phillips-Imperial Petroleum Ltd (PIP) oil refinery and a 49% share in Irish Fertilizer Industries Ltd, the latter two being reported as associates. Methanol is manufactured in Teesside, UK, and is sold mainly to UK customers for conversion to formaldehyde, chloromethanes, methyl methacrylate and other industrial intermediates. The PIP refinery (owned 50% by Phillips Petroleum and operated by ICI) produces naphtha, heating oils and diesel fuel. Naphtha is supplied to a nearby olefines plant owned by Huntsman ICI Petrochemicals Ltd, while the heating oils and diesel are mainly sold to customers throughout the UK and Europe. Irish Fertilizer Industries (51% owned by the Irish State) manufactures agricultural fertiliser and industrial products for a wide range of customers in Ireland and elsewhere in Europe.

In June 1999, the Group sold its Olefines and Aromatics businesses (which formed part of the Petrochemicals Business) to Huntsman ICI Holdings LLC.

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

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

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

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

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

Regional Explosives – UK and USA
The Group has limited continuing explosives related interests in the UK and North America.

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

Operations first categorised as discontinued for UK GAAP purposes in 1999 were:

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

The following businesses were, in addition, reported as discontinued operations:

In 1998

- the Group's Propafilm oriented polypropylene films business which was sold to UCB SA in February 1998,
- the explosives operations in Canada, Latin America and Europe and the explosives distribution business in the USA which were sold to Orica Ltd (formerly ICI Australia Ltd) in April 1998,
- the Group's 51% interest in its South Africa explosives joint venture which was sold to its former joint venture partner AECI Ltd early in January 1998, and
- Teesside Utilities and Services business sold to Enron for £300m in December 1998.

In 1997

- the polyester polymer and intermediates business, sold to DuPont at the end of 1997,
- the Melinex film interests of the Group which were sold to DuPont at the end of January 1998,
- the Group's 62.4% interest in ICI Australia Ltd which was disposed of by means of a global equity offering in July 1997,
- the Forest products business in Eastern Canada and Eastern USA which was sold to Pioneer Companies Inc in November 1997, and
- the UK fertiliser business which was sold to Terra Industries in December 1997.

Markets and distribution

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

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

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

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

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

Research and technology (R&T)

In 1999 expenditure on research and development by continuing operations amounted to £157m (1998 £166m; 1997 £112m). Technical service expenditure for the same businesses amounted to £45m (1998 £47m; 1997 £30m).

ICI's strategic move from bulk chemicals to a portfolio of speciality chemical businesses has required the associated reshaping of R&T resources which has been overseen by the Technology Board, chaired by the Senior Vice President (SVP) for Technology, and comprising the business senior R&T managers. The Technology Board is responsible for the development of the Group Technology Strategy and its delivery through the R&T capabilities distributed amongst the individual Businesses.

As previously stated, each business in the Group is responsible for its own R&T resources and for driving innovation to meet the needs of its customers and markets. The strengths of businesses in specific areas, e.g. coatings science in Paints, polymer chemistry in National Starch, and sensory science in Quest, support the prime technology platforms of the ICI Group, namely Biosciences, Chemistry and Catalysis, and Materials. These platforms (or Megathemes) constitute a portfolio of projects, which accelerate long-term technology development for the Group, and avoid business duplication while reducing individual business risk.

The distributed technology network draws on the considerable expertise across the ICI Group allowing new products/processes to be developed and exploited more rapidly.

Description of business

Group authorisations and expenditure on fixed assets

	Authorised 1997 £m	Authorised 1998 £m	Authorised 1999 £m	Expenditure 1997 £m	Expenditure 1998 £m	Expenditure 1999 £m
Tangible fixed assets						
United Kingdom	93	99	**99**	82	114	**101**
Continental Europe	38	50	**74**	26	46	**56**
Americas	165	124	**127**	79	146	**123**
Asia Pacific (inc. India and Pakistan)	106	45	**56**	131	81	**37**
Other countries	10	2	**4**	2	4	**2**
Total – Continuing operations	412*	320	**360**	320	391	**319**
Discontinued operations	29	200	**(26)**	397	163	**91**
Total	441	520	**334**	717	554	**410**
Total authorised but unspent at end of year				311	277	**201**

* includes £113m unspent balance transferred in with Specialty Chemicals acquisition

The SVP R&T is supported by a Group Technology Office, whose role is to facilitate cross business interactions, aid strategic research planning, co-ordinate corporately funded programmes and identify external technology opportunities.

There are two corporately sponsored programmes comprising: Business Link for cross-business technology development, and Strategic Research for cross-business technology exploration with academic partners. During the last year these programmes have identified a number of business opportunities, both for new product platforms and novel process chemistry.

Key capabilities needed for the continuing businesses, for example colloid science, polymers science and particle engineering, have been consolidated into a centrally funded group based at Wilton.

Staff with appropriate expertise have been transferred from ICI Technology to Eutech Engineering Solutions Ltd, to develop the asset management and operations improvement capabilities of this wholly owned subsidiary.

Although experiencing a reduction in a demand for its services, in line with the downturn in manufacturing industry in the UK, Eutech has maintained its portfolio of business with new accounts, which represents 20% of total turnover, with continued growth in the pharmaceuticals sector. External sales now account for 75% of total turnover.

Description of property

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

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

Capital expenditure

The table above summarises ICI's authorisations and expenditure on tangible fixed assets in the three years to 31 December 1999.

Authorisations for capital expenditure by continuing businesses totalled £360m in 1999. Expenditure by continuing businesses of £319m mainly related to minor projects with individual values of less than £5m each that totalled £282m. The expenditure on fixed capital was much lower than last year reflecting the reduced capital intensity of the Core businesses.

Safety, health and environment (SHE)

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

Expenditure on safety, health and environmental improvement in 1999 is estimated at over £130m of which about 50% was spent on the environment.

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

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

Description of business

The Group's policy is to improve its safety, health and environmental performance continuously and to have in place quantitative measures to monitor progress. For these reasons in 1995 the Group published a set of targets to be achieved by the end of the year 2000 for improvements in safety, health and environment. The latter includes halving the Group's environmental burden in four specific categories and a commitment to improve energy efficiency per tonne of production by 10% of the 1995 base level between 1995 and the end of the year 2000.

Progress during 1999 was in line with plans to meet these targets by the end of the year 2000. Detailed results are published on the ICI website and a summary in the Annual Review.

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

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

The Group works to manage and minimise the risks associated with the condition of its sites and has developed further procedures to enable the ranking of priorities for management attention. The Group is actively engaged in research aimed at more cost effective environmental remediation technologies, some of which is being done in collaboration with other companies and academic institutes.

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

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

Processes are in place for regular reviews of environmental liabilities, and provisions were established by 31 December 1999 in accordance with the accounting policy described on page 47 to the Group financial statements. Although there can be no assurance, management believes that, within the existing legislative framework and taking account of the provisions already established, the cost of addressing currently identified environmental obligations (as the Group currently views these obligations) is unlikely to have a material adverse effect on the Group's financial position or results of operations.

OPERATING AND FINANCIAL REVIEW

Economic background

The Market
World economic growth picked up in 1999 to 2.5% from 1.8% in 1998. Strong growth continued in North America at 3.7%, recession was avoided in the UK where growth reached 1.8%, and the Western European economy recovered through the year to record 2.0% growth. There was also a sharp rebound in Asia Pacific (excluding Japan) which saw growth of 5.7%, and some pick up in Japan. In other developing markets, including Latin America and Eastern Europe, market conditions were more subdued and showed no clear direction.

Consumer expenditure was again very strong in the US and the UK and rose 5% and 4.4% respectively, fuelled by low unemployment, strong equity and property markets and low savings rates. By comparison, consumers' expenditure was relatively subdued in Western Europe, where it rose by 2.4% and where unemployment has remained high, and in Japan where it increased by 1.7%.

Inflation continued to be very low in all major markets, averaging 2% across the OECD area, despite a strong upward trend in oil and industrial commodity prices.

Outlook
World GDP is forecast to grow by 3% to 3.5% in 2000, with all OECD areas and Asia Pacific contributing positively. Following rises in short-term interest rates in 1999, it is expected that growth will slow somewhat in the US and UK, but the impact of this on world activity is expected to be offset by strong growth in Western Europe and Asia Pacific, excluding Japan. Recovery in Japan is expected to continue with growth of around 2%. Growth in the developing markets of APAC is expected to average 6% in 2000, similar to 1999 but not matching the rates achieved in the mid-1990's.

Forecasts of consumer expenditure growth in North America and Western Europe are positive at 3% and 2.8% respectively. Inflation may edge up through the year under the combined pressure of strong demand growth and rising oil and commodity prices. Increases in interest rates by central banks to head off this pressure are likely to result in some slowing in consumers' expenditure growth through the year.

Group review

1999 was a much better year for ICI, following a difficult 1998. In our Core businesses, Specialty Products increased profits with a strong second half after a slow start and Paints had a much stronger year. Losses in what remains of our Industrial Chemicals business reduced slightly, as market conditions were generally better, in the second half, though the strength of sterling continued to adversely affect the competitiveness of UK based products.

Group sales were £8,449m (1998 £9,286m; 1997 £11,062m), down £837m from 1998 principally due to the divestment programme. Reported sales in our Core businesses were up 2.5%, with the second half of the year being much stronger than the first.

Group profit before tax, goodwill amortisation and exceptional items was £376m, 17% up on 1998 (1998 £321m; 1997 £385m) Trading profits in Core operations increased by 8% with most of the improvement coming in the second half of the year. Losses in Industrial Chemicals reduced to £73m (1998 loss £76m; 1997 loss £43m). Trading profits were reduced by £89m due to the effect of the divestment programme.

Specialty Products delivered profits of £423m (1998 £397m; 1997 £215m), with record results in National Starch and Quest. Profits in Paints were £159m (1998 £143m; 1997 £160m), up £16m (11%) on 1998. On a comparable basis profits were up by 15%.

There was good profit growth in Asia across all the Core businesses and the profit recovery in decorative paints North America continued. Profits generally improved in North America and Europe whilst profits were lower in Latin America due to the devaluation of Brazil's currency, though business performance there generally held up well considering the difficulties.

Trading margins again improved, with Specialty Products margins at 12.2% (up from 11.9% in 1998) and Paints margins at 7.3% (up from 6.6% in 1998).

In Industrial Chemicals the improvement in the market for PTA in the second half helped reduce losses in Pakistan. Chlor-Chemicals experienced weak markets, with falling caustic soda prices, but the business benefited from restructuring and improved manufacturing programmes. The market for 'Klea' improved and results in this business strengthened.

Operating and financial review

Associates
Income from associates and other investments was £32m comprising trading profit of £61m less interest of £29m (1998 £3m; 1997 £16m). The significant increase over 1998 primarily resulted from six months' results from the 30% shareholding ICI retained in Huntsman ICI Holdings LLC following the sale of Polyurethanes, Tioxide and selected Petrochemicals businesses to that company on 30 June 1999. Profits in Phillips-Imperial Petroleum were higher, benefiting from stock holding gains from rising oil prices.

Interest
The interest charge of £262m (excluding exceptionals) was £70m lower than the previous year (1998 £332m; 1997 £251m). The movement in interest costs arose principally from the lowering of Group debt due to the divestment programme. The Group incurred an exceptional interest cost of £54m in the year arising from the termination of long-term hedges, which were no longer required following the Huntsman sale.

Taxation
The taxation charge on profit before exceptional items and goodwill amortisation represents an effective rate of 26% unchanged from 1998 (1997 25%).

Exceptional items
The exceptional items charged at the trading profit level in 1999 amounted to £98m comprising £52m cash; £46m asset write-offs (1998 £223m; 1997 £143m). These projects have an expected payback of around three years. The charge comprises: £32m for restructuring in Paints within the European trade business, £37m for adhesives manufacturing rationalisation in National Starch, £14m for food supply chain rationalisation in Quest and £15m to continue the rationalisation programmes in Chlor-Chemicals announced in 1997 and 1998 (see pages 75-77 for further details).

Disposals
The Group's divestment programme made substantial progress in 1999. The Group reported a pre-tax gain on sale of operations of £368m (1998 £89m; 1997 £432m). This includes profits of £100m on the sale of Polyurethanes, Tioxide and selected Petrochemicals businesses to Huntsman on 30 June 1999. A pre-tax gain of £43m was made on the sale of the Acrylics business to Ineos effective 1 October 1999. Other sales in the year included Autocolor for £425m with a pre-tax gain of £173m, the Fluoropolymers business and the Asahi-ICI Fluoropolymer joint venture.

RONA
The targeted growth in the market value of the Group and its constituent businesses is used to set targets for both growth and return on net assets (RONA). RONA has the advantage that it can readily be used at the local and regional level to track improvements. During 1999 the Group's overall RONA increased by 1.5% to 13.4%. The Core portfolio of Specialty Products and Paints delivered a 20.2% RONA, up 1.1% on last year.

Earnings and dividends
Profits after taxation and minority interests, but before goodwill amortisation and exceptional items amounted to £267m (1998 £244m; 1997 £240m), up on 1998 by 9%. Profits attributable to minorities were £10m compared to attributable losses of £8m in 1998.

Earnings per share before goodwill and exceptional items were 37.0p compared to 33.7p in 1998. Earnings per share after goodwill and exceptionals were 35.0p compared to 11.5p in 1998. The Board has decided to recommend a final dividend of 19.5p. This together with the interim dividend of 12.5p represents an unchanged dividend of 32.0p for the year.

Shareholders' funds
At the beginning of the year shareholders' funds stood at £149m. These were increased by retained profit net of dividends of £19m and goodwill adjustments of £79m representing goodwill that had previously been written-off to reserves, but reflected in the divestment effect of the Polyurethanes, Acrylics and Autocolor businesses in the profit and loss account. Translation losses were a net charge to reserves of £4m. After reflecting £1m from shares issued under employee share schemes, shareholders' funds stood at £244m.

Operating and financial review

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

Financing and interest rate risk
At 31 December 1999, the Group's net debt was £2,347m (1998 £4,177m; 1997 £3,771m).

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

The Group's exposure to interest rate fluctuations on its borrowings is managed through the use of interest rate swaps, interest rate options (caps) and forward rate agreements. The Group's policy is to maintain approximately 50% of its long-term borrowings at fixed rates for periods of up to 5 years. The remaining debt is held at a floating rate and protected from major fluctuations in short-term interest rates using interest rate caps. Note 21 shows the overall interest rate structure of the Group's borrowings at the end of 1999.

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

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

To ensure continuing availability of funds, the Group has substantial committed facilities of £1.9bn with a weighted average life of 2 years and which provide back stopping for the short-term borrowings as well as flexibility for future unknown cash flows.

Funding policy is aimed to produce a reasonably even maturity profile of debt up to around 10 years. Specific funding circumstances during the year have resulted in a current maximum maturity of around 8 years.

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

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

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

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

	£m
Against US dollar	20
Against European currencies	20

The effect of exporting goods from UK operations which trade in cyclical markets has reduced during the year, and should continue to reduce as the Group's restructuring continues, leaving primarily a translation currency exposure, mainly to the US dollar. As such, the level of cover for anticipated cash flows at the end of 1999 is relatively low.

Liquidity and investments
At 31 December 1999 the Group had at its disposal £1.9bn equivalent of committed credit facilities with varying maturities up to the year 2004.

Counterparty credit risk

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

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

YEAR 2000

The Group's Year 2000 Project, which started in 1995, is now effectively complete. It was a comprehensive programme designed to ensure that ICI's operations and relationships with its business partners were not adversely affected by problems resulting from computer programmes and equipment being unable to distinguish between the year 1900 and the year 2000. Indications to date are that the work was successful.

Responsibilities

Project teams addressed all aspects of Year 2000 issues including potential Year 2000 failures relating to:

- business critical information systems
- the information technology infrastructure
- manufacturing areas including control systems and building systems, and
- the external supply chain

Contingency plans relating to any other residual risks including, in particular, those that could have SHE (Safety, Health and Environment) or significant financial consequences were also considered.

The Project covered more than 400 sites in over 35 countries. There was a small central team which acted as a centre of expertise to support the efforts of the business-based teams, to ensure consistency of approach, to share information, and report progress to the Executive Management Team and the Audit Committee of the Board. Where appropriate, external consultants and suppliers were also engaged to review progress, manage risk and provide external benchmarking. Progress was reviewed quarterly by the Audit Committee of the Board as well as by the Executive Management Team. In addition, the Group's internal auditors periodically reviewed the Project status and progress.

Operations within ICI have been unaffected by the century date change. The situation continues to be monitored in case any related event should arise but actions taken ahead of the date change seem to have ensured that Businesses have continued to operate without interruption.

Costs

Year 2000 expenditure was funded from cash flow from the Group's operations and costs to meet Year 2000 readiness did not have a material adverse effect on the Group's financial position, results or liquidity.

The costs of the Year 2000 Project have been expensed as incurred, with the exception of capitalisable expenditure. Management estimates that the total costs for Year 2000 projects in respect of continuing operations is in the order of £120m which includes any expenditure associated with Year 2000 contingency measures. Less than 3% of the expenditure is outstanding. Internal staff costs have not been included, for example, where Year 2000 issues form only a part of the staff's activity. The costs of accelerating investment decisions, such as the introduction of packaged software for commercial reasons have not been included in the costs, although the millennium-driven upgrade costs of these systems, where not covered by maintenance contracts, have been included.

Risk management and contingency planning

ICI is unable to determine at this time whether future consequences of any Year 2000 failure may have a material impact on ICI's results of operations, liquidity or financial position. However, to date ICI is not aware of any such failures and believes that the completion of the Year 2000 Project has reduced the possibility that significant interruptions to normal operations will arise. However, due to the general uncertainty inherent in the Year 2000 problem, including the readiness of the external supply chain, there may yet be an interruption in, or a failure of, certain normal business activities or operations due to a Year 2000 problem, which may not yet have been detected . There may also be legal risks associated with discontinued products, divested businesses, or the very few products that have ever contained date dependent devices.

Readers are cautioned that forward-looking statements contained in this Year 2000 disclosure should be read in conjunction with ICI's disclosures under the heading "Cautionary Statement for the Purposes of the 'Safe Harbor' Provisions of the Private Securities Litigation Reform Act of 1995" on page 2.

Euro

On 1 January 1999, phase 3A of Economic and Monetary Union ("EMU") in Europe began. Eleven Member States (the "participating countries") of the European Union ("EU") adopted the euro as their local currency. The participating countries do not include the United Kingdom where ICI is headquartered.

The UK government has stated that the UK will not participate in EMU at this stage. It is still not clear whether or on what terms the UK would be permitted to participate at some later date. The current policy of the UK government is that any decision to join EMU will only be taken after a national referendum and, in any event, not before 2002. It is not possible to predict whether the UK will participate in EMU nor is it possible to predict the rate of exchange between the pound sterling and the euro.

The euro is initially available only for currency trading and noncash transactions. It will not appear as bills and coins until at least 1 January 2002. In the interim, the existing local ("legacy") currencies of the participating countries will remain legal tender, although technically these will circulate as expressions or denominations of the euro. During the three year transition period, in some of ICI's businesses, it may be desirable that product price lists are available in both legacy currency and euro so as to assist trading partners in determining their preferred choice of transaction currency. However, internally, for business units located in participating countries, the Group anticipates that it will not have to set pay scales and pay its wages and salaries in euros before 1 January 2002.

The Group established a cross-functional team in September 1996 to analyse the whole range of business implications of trading with and trading in the new post EMU economic environment. The team comprised senior management from key corporate functions and representatives of all of the Group's international businesses. Each of those international businesses has in turn set up local teams to address issues and develop business specific strategies to handle the euro. Plans to convert to a euro operating environment are being advanced by those of the Group's business units and subsidiary companies located or operating in the participating countries.

Operating and financial review

These plans include an analysis of both the threats and opportunities created by the introduction of the euro.

The Group decided that the appropriate strategy for trading with suppliers and customers was to facilitate the use of the euro from 1 January 1999. The Group also decided that it will, for the time being, continue to report its results in sterling and will keep under review the case for any redenomination of its share capital or the need to revisit its reporting currency. The Company will continue to monitor customer and competitor reaction to the euro and will update its strategy as needed.

The total costs for the Group associated with the transition to the euro, which are being expensed as incurred, are estimated at £15m; most of this is being invested in the relevant IT system upgrades to accommodate euro functionality. Although the introduction of the euro eliminates exchange rate risks between the legacy currencies of participating countries, while the UK remains outside of EMU, coupled with the fact that ICI continues to have a need to repatriate monies to pay the dividend, it remains exposed to potential foreign exchange fluctuations which will occur between the euro and sterling. There are other areas where the Group has identified cost saving opportunities, but none of these are able to be accurately quantified in advance and it is not likely that any will be material.

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

Cash flow

Cash inflow from the Group's operating activities was lower at £582m (1998 £856m) with the smaller number of businesses now in the Group. The expenditure on fixed capital was much lower than last year at £356m (1998 £520m), reflecting the reduced capital intensity of the Core businesses.

Net disposals amounted to £2,040m, comprising £2,359m gross disposal proceeds less expenditure against disposal provisions of £319m. Disposals included £1.2bn from the sale of the Polyurethanes, Tioxide and selected Petrochemicals businesses, £0.4bn from the Autocolor business, and £0.5bn from the Acrylics business.

Cash inflow before the use of liquid resources was £1,654m (1998 £419m outflow).

Operating and financial review

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

For long-term debt, a favourable change in fair value results in a decline in the absolute value of debt. For other financial instruments, a favourable change in fair value results in an increase in fair value.

Interest rate risk
The sensitivity analysis assumes an instantaneous 1% (100 basis points) move in interest rates of all currencies from their levels at 31 December 1999, with all other variables held constant.

	Fair value 31 December 1998 £m	Fair value 31 December 1999 £m	Fair value change +1% movement in interest rates £m	Fair value change -1% movement in interest rates £m
Long-term debt	(3,605)	(2,914)	72	(72)
Currency swaps	(4)	63	–	–
Interest rate swaps	(32)	5	–	–
Interest rate caps	(17)	8	30	(6)

The movement in fair value of debt and instruments hedging debt will not result in any immediate change to the Group's financial statements since fair values are not recognised on the Group balance sheet. An increase in short-term interest rates of all currencies of 1% would increase Group net interest payable for the year by £18m. Interest rate caps are in place to protect the Group from major fluctuations in interest rates. These are layered so that expiry dates range from end-2000 to mid-2002.

Foreign currency risk
The sensitivity analysis assumes an instantaneous 10% change in foreign currency exchange rates against sterling from their levels at 31 December 1999, with all other variables (including interest rates and currency option volatility) held constant. The +10% case assumes a 10% strengthening of sterling versus all other currencies and the -10% a weakening of sterling.

	Fair value 31 December 1998 £m	Fair value 31 December 1999 £m	Fair value change +10% movement in foreign exchange rate £m	Fair value change -10% movement in foreign exchange rate £m
Long-term debt	(3,605)	(2,914)	180	(198)
Currency swaps	(4)	63	40	(43)
Forward contracts				
hedging debt	6	(6)	(16)	7
hedging working capital	1	1	6	(5)
hedging short-term deposits	1	–	–	–
hedging anticipated cashflows	1	–	–	–

The currency mix of debt is held 11% in sterling, 58% in US dollars, 22% in euro and euro related currencies, 8% in yen and 1% other.

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

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

Operating and financial review

US GAAP results

Under US GAAP, net income in 1999 was £53m (1998 £44m loss) compared with net income of £252m (1998 £83m) under UK GAAP. Under US GAAP, shareholders' equity at 31 December 1999 was £3,373m and at 31 December 1998 was £3,557m compared to £244m and £149m respectively under UK GAAP. These differences primarily result from the differing accounting treatment of purchase accounting adjustments (including in the years prior to 1998 amortisation and write-off of goodwill), disposal accounting, capitalisation of interest, pensions, foreign exchange, deferred tax and restructuring costs.

Summary US GAAP information

The financial statements of the ICI Group are prepared in accordance with UK GAAP. UK GAAP differs in certain respects from US GAAP. Net income of continuing and discontinued operations and shareholders' equity calculated in accordance with US GAAP are set out below. Note 43 to the Group financial statements describes the significant differences between UK GAAP and US GAAP affecting the ICI Group's net income and shareholders' equity for the three years ended 31 December 1999.

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Net income (loss)					
Continuing operations	**13**	(29)	(270)	277	264
Discontinued operations	**40**	(15)	411	59	109
Net income	**53**	(44)	141	336	373
Basic and diluted earnings (loss) per Ordinary Share					
Continuing operations	**1.8p**	(4.0)p	(37.1)p	38.2p	36.5p
Discontinued operations	**5.5p**	(2.1)p	56.5p	8.1p	15.0p
Net earnings per share	**7.3p**	(6.1)p	19.4p	46.3p	51.5p
	£m	£m	£m	£m	£m
Shareholders' equity	**3,373**	3,557	4,098	4,162	4,338

Dividend

Dividends paid (including the related UK tax credit) on each ADS translated into US dollars at the rates of exchange on the respective dividend payment dates (or, in the case of the second interim dividend for the year 1999 to be paid on 25 April 2000 the rate on 3 February 2000), were:

	1999 $ per ADS	1998 $ per ADS	1997 $ per ADS	1996 $ per ADS	1995 $ per ADS
Dividend declared per ADS (each representing four Ordinary Shares)	**2.08**	2.12	2.12	2.53	2.30
Dividend paid per ADS (each representing four Ordinary Shares)	**2.07**	2.14	2.53	2.37	2.28

Ratio of earnings to fixed charges – Continuing operations

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

	1999	1998	1997	1996	1995
Ratio of earnings to fixed charges					
For the Group (under UK GAAP)	**1.4**	0.7	0.9	1.1	1.4
For the Group with estimated material adjustments to accord with US GAAP	**1.3**	0.5	–	2.8	3.9

Operating and financial review: Review of 1999 business results

Continuing operations

Specialty Products

National Starch

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

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

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

The Specialty Synthetic Polymers business reported a decline in both sales and trading profit in 1999. While the US Industrial Specialties business continued its strong growth trend, and pan-Atlantic Elotex Powders business further improved profitability, sales and profits in the US Personal Care business declined. Rising raw material costs also impacted the US and European Emulsion businesses. Latin America built on its strong 1998 performance with further sales growth particularly in Personal Care in Mexico. Asia Pacific picked up momentum throughout the year with the Japanese business showing steadily improving results and the new Emulsion Reactor in China delivering sales in the second half of the year.

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

Operating and financial review: Review of 1999 business results

Quest

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

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

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

Industrial Specialties

1999 was the first full year of trading for the Industrial Specialties group in its reshaped form as a federation of three main businesses: Uniqema, Synetix and Crosfield. Trading profits were little changed (1999 £83m, 1998 £84m), on lower sales (1999 £989m, 1998 £1,027m). On an underlying basis (allowing for exchange and the impact of divestment) profits were up 8% on sales down 1%.

Uniqema

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

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

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

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

Synetix

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

Crosfield

Sales were flat in 1999, with declines in silicate and zeolite revenues being offset by increased sales of silicas. Overall profits were in line with 1998.

The restructuring plan agreed in 1998 has been largely implemented in 1999 and the full benefits in profitability are expected to be achieved by the end of 2001.

Other Specialty Businesses

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

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

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

Operating and financial review: Review of 1999 business results

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

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

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

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

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

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

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

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

Industrial Chemicals
The Industrial Chemicals segment comprises Halochemicals, Petrochemicals and the Group's Regional Businesses. 1999 saw more disposals as ICI continued withdrawing from cyclical, bulk-chemical operations. Losses in Industrial Chemicals reduced slightly to £73m in generally difficult markets.

Halochemicals
Sales by Ongoing Businesses were 1% down on 1998. After several years of price erosion, a substantial improvement in 'Klea' 134a prices and volumes took place during 1999 as markets tightened but this was offset by the steady decline in prices in Chlor-Chemicals markets. Weak demand in chloralkali markets resulted in the lowest overall unit prices experienced for many years. The effect of this on margins was exacerbated by the strength of sterling throughout the year. PVC sector prices showed improvement towards the end of the year but caustic soda and chlorine derivative prices remained depressed.

Manufacturing performance continued to improve throughout 1999, especially within Chlor-Chemicals, with demand rather than plant availability being the limiting factor for sales volumes. 'Klea' moved into profit during the year.

Cost management and productivity improvement remained the main priorities for improving performance. The restructuring programmes announced in 1997 and 1998 delivered substantial further benefits during 1999 and more savings are expected in 2000.

Three Businesses were divested during 1999. At the end of November 1999 ICI completed the sale of its International Fluoropolymers business to Asahi Glass Company, a PTFE manufacturer in Japan. This followed the sale of ICI's 50% shareholding in Asahi ICI Fluoropolymers Ltd to the same company in January 1999. In April, the trading subsidiary Chance & Hunt was the subject of a management buyout, backed by venture capital company Close Investment Management Limited.

Petrochemicals

Following the sale of most of the Petrochemicals business to Huntsman at the end of June, the continuing Petrochemicals business comprises principally the methanol business based at Wilton.

Trading profit, which declined in 1998, continued to be under pressure from tough market conditions in 1999. Methanol prices fell in the second half of 1998 and early 1999 due to the impact of oversupply into the market from new plants coming on stream. Some plant closures in the US helped restore the supply-demand balance and prices improved through 1999 but the business was in loss for the year.

Regional Businesses

Pakistan

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

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

India

Trading profits from the Regional Businesses in India increased in 1999, while Rubber Chemicals' profitability was severely impacted by the decline in global prices. This was offset by excellent profits from the Explosives Business. During the year ICI India sold its Animal Health Business to Glaxo and the controlling interest in its Explosives Business to Orica Ltd.

Argentina

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

Discontinued operations

Sales in 1999 of £1,260m and trading profits of £97m reflected a half years trading by the Polyurethanes, Tioxide and selected Petrochemicals businesses, sold to HICI ("Huntsman ICI Holdings LLC"), nine months' trading by the Acrylics business sold to Ineos and eleven months' results of the international Fluropolymers business sold to Asahi Glass Company. This compares with a full year's sales of £2,274m and trading profits of £149m from these operations for 1998 together with sales of £191m and trading profit of £37m from other businesses categorised as discontinued in 1998. These latter comprised principally one month's contribution by the Polyester Film and Explosives Businesses and the result for the whole of 1998 from the Teesside Utilities and Services Business.

Operating and financial review: Review of 1998 business results

1998 Business Reviews

Continuing Operations

Specialty Products

National Starch

Trading profit for 1998 of £231m was another record for National Starch in a challenging marketplace. It was also the 29th consecutive year in which trading profits have increased. The business continued to expand its global presence and technology base through growth of the underlying business and several acquisitions. Sales for the year increased by 9%, mainly from the benefit of acquisitions. Full year trading profits were up 12% on 1997, on a constant translation basis; profits excluding the benefits of acquisitions were up 5%. Despite difficult trading conditions, particularly in Asia Pacific, all divisions showed profit growth for the year.

During the year some key acquisitions were completed which positioned the Business's units well for continued growth. The largest, Acheson Industries which was acquired in May, is a global supplier of electronic materials/specialty coatings and process lubricants. Mydrin AGS in Germany, acquired in March, has expanded the Adhesives business in this key market. In the latter part of the year, the acquisition of EnPac was completed: this company holds the licensed technology for the production of lower cost corn-based biodegradable foam. In October an alliance was formed with Dongsung Industries in Korea to manufacture and market adhesives for the fast growing athletic footwear industry. Several other smaller acquisitions were also completed and these increased the Business's presence in Europe, Asia Pacific and Latin America.

The Adhesives business reported mixed results, but finished the year with sales and profits both up, before the effect of acquisitions and disposals, by about 2% in constant currency. Results benefited from aggressive marketing programmes directed towards larger customers. Sales increased in all major markets and trading profits rose from stronger gross margins and good cost control. In Europe the results of the underlying business were disappointing due in part to the negative impact of the Russian crisis on business in Central and Eastern Europe. In Asia Pacific the results in the emerging markets were encouraging, especially during the latter part of the year, as an economic rebound was evident, but profits declined in Japan. The joint venture agreement with Dongsung in Korea further expanded National Starch's presence in several key countries in the region. The Latin American operation had a good year, benefiting from an excellent performance in Mexico.

The EEM business contributes approximately one quarter of National Starch's global trading profit. The business has more than doubled in size over the last two years with the acquisition of Tra-Con and Emerson & Cuming in 1997 and Acheson Industries in June 1998. Despite this, 1998 proved to be a rough year with the Asian crisis negatively impacting the electronics markets in which this division operates. Although the larger businesses, Ablestik and Acheson, met expectations and Tra-Con performed well, the other businesses were adversely affected by the downturn in the semi-conductor and personal computer markets in the first half of the year.

The Specialty Synthetic Polymers business reported modest gains in both sales and trading profits following a difficult year in 1997. In the US, the Powders and Industrial Specialties businesses as a whole had an excellent year, but changes in the competitive dynamics in the Personal Care market adversely affected the results in this business in 1998. In Europe the Powders business performed well but, as in the US markets, both Industrial Specialties and Personal Care performed below the levels achieved in 1997. In Asia Pacific, even with the weakness in National Starch's major Japanese market, the rest of the region fared well considering the economic situation during the year. Latin American operations had an outstanding year due to strong sales and trading profit growth in Mexico.

In the Starch businesses, trading profits increased strongly, though sales were flat due mainly to a planned reduction in commodity products and to weakness in industrial markets. In North America, the food business benefited mainly from new product sales ('Novation', 'Purity-LFS', spraydried products) and from lower corn costs. Results of the industrial business were poor due to the weakness in the paper industry. In Europe, the food business continued to progress, but set-backs in the industrial markets hampered the overall growth. In Asia Pacific, sales and trading profits of tapioca food and industrial products continued at a record pace. The business's cost advantage from manufacturing in Thailand was helped by strong demand throughout the region, the weak baht and lower tapioca costs.

Quest

Trading profit for 1998 of £82m was the best in the history of Quest. The underlying increase, at constant translation rates, was 27%. Underlying sales growth was 5%. Both the Fragrances and Flavours divisions contributed to the increased profitability and strengthened their competitive position in this first full year of ICI ownership. Trading profit margins increased to 13% (full year 1997 10%).

The Fragrance division had its best ever year. Reported sales increased only slightly due to the strength of sterling and the Asian crisis. Fragrance division sales in Asia Pacific were some 20% below last year but this reduction was fully compensated by growth in other regions, particularly North America. Growth in Fragrance division sales came predominantly from a number of significant new contracts within the fine fragrances and household segments. Fragrance margins benefited from a more favourable product mix and effective cost management. The division continued to invest in the development of new customer opportunities. Overall, trading margins were well ahead of the previous year.

The Food Division had a record year and increased trading profit substantially which was delivered through higher margins and lower costs. The overall increase in sales was limited. Within this modest increase, sales grew in Europe and were well up in Latin America and South Africa. Although sales were down in Asia Pacific compared to 1997, nevertheless the region delivered an excellent profit performance. North America saw an increase in growth in the later part of the year. Both food ingredients and flavours succeeded in increasing their profitability strongly and trading margins were well up on last year.

Industrial Specialties

The Industrial Specialties Group reported trading profits of £84m and turnover of £1,027m for 1998. Industrial Specialties was formed in 1997 by combining the former Unilever companies of Unichema and Crosfield with ICI's activities in surfactants, catalysts and lubricants.

Uniqema

In spite of difficult trading conditions process intermediates continued its strong year on year performance by a combination of market development and prudent cost management. Although Europe weakened in the second half of 1998 as end-use markets slowed, resulting in marginally lower volumes than in 1997, performance in North America was strong throughout 1998 with volumes significantly up but prices slightly weaker compared with 1997. The economic turmoil in Asia impacted results in the second half of 1998, with annual volumes depressed. Despite these regional variations and the relative strength of sterling, profits for the year were ahead of 1997.

Operating and financial review: Review of 1998 business results

Turnover in specialties sectors in 1998 remained at the same level as 1997. Sales growth in the Americas was achieved through the acquisition of Mona Industries on 1 July 1998 and some volume improvements in targeted specialty sectors. However, these were offset in part by poor industrial sales as markets softened in the latter half of the year.

Lubricants performance in 1998 remained consistent with 1997 with both turnover and profit in line year-on-year.

Synetix
Synetix delivered its profit targets in 1998 despite adverse trading conditions, particularly as the ammonia, methanol and refinery markets had lower sales volumes with customers cancelling or postponing plant shutdowns and catalyst change-outs. These conditions were offset by new business in the polymers, chemicals and services sectors.

Crosfield
Profits were lower in 1998 as the silicas and catalyst operations suffered from the strength of sterling and economic turmoil in Asia. These effects were exacerbated by the uncertainty caused by the extended period during which the proposed sale to W R Grace was considered by the US Federal Trade Commission. Performance in silicates and zeolites remained robust.

A major restructuring plan is being implemented across the business to improve profit performance.

Security Systems
Good profits continued to be delivered by the business as it remained one of the world's leading suppliers in its respective field.

Paints
Trading profit in 1998 of £143m was down 11% on the previous record year. The deterioration in profit was caused primarily by the poor performance of the North American Decorative business. In addition, in Asia, the continuing economic crisis resulted in a shrinking market and a significant decrease in volume compared to 1997. The high value of sterling also had an adverse impact on trading profit in 1998. Good management of costs helped mitigate these difficulties. Turnover in 1998 of £2.2bn was in line with the previous year despite the strength of sterling. The sales figure was helped by acquisition and robust volume growth from the European businesses.

Overall, 1998 was a mixed year for Paints. The European Decorative business had a strong year, helped by the buoyant markets of the UK and the Irish Republic. The Automotive Refinish business also had a strong year with continued growth in both sales and profit over 1997. Sales growth was driven by improved market share in Europe, Asia and Latin America. The Asian Decorative business was hit by the financial crisis through both currency devaluation and the resulting reduction in real local demand, particularly in ASEAN countries. The North American Decorative business had a poor year with growth in the lower margin consumer business offset by market share losses in company owned stores and independent dealers. A turnaround plan for the American Decorative business is now well in place.

The European Decorative business had an excellent year in 1998 with volumes up 17% over the previous year. This continued the growth trend as volumes in 1997 were 12% better than 1996. However, problems persist in France and Poland where competition is fierce. During 1998, ICI Paints acquired the European Home Improvement business of Williams Plc. The acquisition broadens and strengthens the European product range to include woodcare, metalcare, adhesives and fillers. During its first year of operation the Home Improvement business exceeded expectations. The integration of this business into the European Decorative business will continue during 1999.

The Decorative business in North America faced severe competition throughout the year resulting in lower prices and margins. Volumes in 1998 were level with 1997, however, value was down 5% due to price erosion and sales mix. Gross margin in 1998 was down 9% caused by higher raw material costs, price and mix variance. The management team in the North American Decorative business has been changed and strengthened and a restructuring programme is underway to improve profitability.

The Decorative business in Asia was adversely affected by the economic crisis in the region. Volumes in 1998 were down 17% on the previous year, which in turn had a negative impact on margins. There were some signs of volumes stabilising in a number of countries in the second half of the year. During the year two new plants were opened in Asia continuing ICI's expansion in this region.

The Latin American Decorative businesses also experienced harsh trading conditions as the region's economies slowed down. The business which was acquired in 1996, benefited significantly from improvements to customer service, purchasing, branding, quality and safety. This is reflected in the improved market share position of ICI's prominent brand 'Coral'. Despite this, volumes overall in 1998 were down 3% over 1997. However, due to prudent management of the cost base profits were higher.

The Automotive Refinish business had a good year with a strong performance in Europe and improved results from the North American business. In Latin America the business gained market share but volumes were down due to depressed market conditions. Volumes in Asia with the exception of the Indian sub-continent were severely affected by the economic crisis in the region. Total turnover in 1998 was 2% up on 1997 and despite the adverse impact of the strength of sterling, gross margins in 1998 were 3% up on the previous year. Tight control over costs resulted in a substantial improvement in trading profit of 26%.

Sales volumes in the Packaging business grew by 5% in 1998. However, sales value fell by 4% due to continued price competition in Europe. 1998 was another year of consolidation in the Metal Packaging and Packaging Coating market, resulting in lower prices but business gains and improved market share for ICI Packaging Coatings. The business responded to price pressure and the strength of sterling by tight control of fixed costs, enabling the Packaging business to partially offset the adverse impact of falling prices on trading profit.

Industrial Chemicals
The Industrial Chemicals segment comprises Halochemicals, Petrochemicals and the Group's Regional Businesses. Losses increased to £76m in 1998 (1997 loss £43m) in generally difficult markets.

Halochemicals
Sales declined again in 1998, 9% down on 1997; 1997 sales were 6% lower than 1996. The overall sales decline in 1997 was primarily due to the appreciating value of sterling, which more than off-set the benefits of price recoveries in the important caustic soda and PVC market sectors. In 1998 sterling's strength continued to put pressure on prices realised for exported products and had an increasing impact on volumes as domestic customers were unable to sustain their own export sales. The Asian crisis directly reduced sales of chlorine derivatives throughout the region as well as contributing to the global economic slowdown, affecting the

Operating and financial review: Review of 1998 business results

PVC sector, an important outlet for this business: chlorine prices to this sector declined steadily from the high point reached at the end of 1997. Caustic soda prices, however, remained on an improving trend for most of the year.

Manufacturing performance continued to restrict sales in the first half of the year, but plant availability improved markedly in the second half as the benefits of a major manufacturing improvement programme began to bear fruit. Whilst 'Klea' 134a prices remained weak through most of the year, the market showed signs of tightening in the latter part of the year, halting the trend of declining prices. The 'Fluon' PTFE business remained profitable in line with targets but Halochemicals, as a whole, remained in substantial loss.

Cost management and productivity improvement remain the main priority for improving performance. Restructuring programmes were announced in 1997. Further restructuring was announced in 1998. During the year a major boost was the commissioning of the new InterGen power station at Runcorn during the first half of 1998; substantial net reductions in electricity costs were realised throughout the remainder of the year.

Petrochemicals
Petrochemicals trading results were significantly lower than in 1997 and the business operated at a loss.

Methanol margins which had held up in 1997 were depressed in 1998. The overall results in 1998 were also affected by the strength of sterling and by the effects of a major overhaul of the Phillips-Imperial Petroleum refinery.

Efforts were intensified in 1998 to reduce operating costs, to improve plant performance and to reduce input costs.

Regional Businesses

Pakistan
Trading profits (excluding PTA) were ahead of 1997 in local currency terms although the increase in sterling reported profits was reduced due to a weakening local currency. Most businesses showed improved profits.

Polyester fibre sales grew strongly in 1998 but margins remained under severe pressure due to local overcapacity and the effect of the Asian currency crisis led to competitors lowering import prices into Pakistan. The soda ash market moved back into growth following the pause in 1997. Profits were similar to 1997 with improved volumes and lower costs through efficiency improvements offset by price competition due to lower import tariff levels. The other smaller ICI business in Pakistan improved their profitability.

In 1998, the world PTA business was under severe pressure due to cyclically low selling prices. The new PTA plant in Pakistan started up successfully in the third quarter. The business was, however, adversely affected by low selling prices and recorded substantial losses for the year, which more than exceeded the trading profit from the other businesses of ICI Pakistan.

India
Trading profits from the Regional Businesses in India increased in 1998 due to the inclusion of Explosives as a Regional activity and the absence of restructuring costs incurred in 1997. These benefits were partially offset by a sharp decline in rubber chemical profits due to a lower selling price for intensified import competition.

Argentina
Sales were below the 1997 level mainly due to lower polythene and phthalic anhydride prices caused by low priced imports from Asia and Europe. The Wine Chemicals business made sales at a similar level to 1997. The sulphur related businesses continued to grow. Overall profits were below 1997 levels reflecting lower prices and restructuring costs which will deliver future cost reductions.

Discontinued Operations
Sales by discontinued operations were £2,666m in 1998 compared with £5,691m in 1997. Trading profit was £186m in 1998 compared with £288m in the previous year.

These results reflect the substantial movements in population between the two years which is summarised as follows:

	Included in results for year 1997	1998
Businesses sold in 1997		
• The Group's 62.4% interest in ICI Australia Ltd	Sold July 1997	–
• The Canadian based Forest products business	Sold July 1997	–
• The UK fertiliser business	Sold December 1997	–
• Polyester polymers and intermediate business	Sold December 1997	–
Businesses sold in 1998		
• 51% interest in South Africa explosives joint venture	➡	Sold January 1998
• Melinex film interest	➡	Sold January 1998
• Explosives operations in Canada, Latin America and Europe and explosives distribution business in the USA	➡	Sold April 1998
• Teesside Utilities and Services operation	➡	Sold December 1998
Businesses sold in 1999		
• Polyurethanes Tioxide Selected Petrochemicals businesses	➡	➡
• Acrylics	➡	➡
• Fluoropolymers	➡	➡

Board of Directors

Charles Miller Smith **Chairman**
Appointed a Non-Executive Director in 1993, an Executive Director in 1994 and Chief Executive, he succeeded Sir Ronald Hampel as Chairman in April 1999. He was formerly a Director of Unilever PLC and is Deputy Chairman of Scottish Power Plc and a Non-Executive Director of HSBC Holdings plc. Aged 60.

Brendan R O'Neill **Chief Executive**
Appointed a Director and Chief Operating Officer in 1998. He succeeded Charles Miller Smith as Chief Executive in April 1999. He was formerly Chief Executive of Guinness Limited. He is also a Non-Executive Director of EMAP plc. Aged 51.

Rob J Margetts, CBE **Vice Chairman**
Appointed a Director in 1992 and Vice Chairman in 1998. He is responsible for Industrial Chemicals and Regional Businesses, as well as Technology and Safety, Health and the Environment. He is also Chairman of Legal & General Group Plc and a Non-Executive Director of Anglo American PLC.

He is Chairman of ICI Pension Fund Trustee Ltd, a member of the Council of Science and Technology, the Government's Advisory Committee on Business and the Environment and a Governor of Imperial College of Science, Technology and Medicine. Aged 53.

Sir Roger Hurn **Non-Executive Director**
Appointed a Non-Executive Director in 1993. He is Chairman of the Remuneration and Nomination Committee. He is also Chairman of Marconi plc and Deputy Chairman of Glaxo Wellcome plc. He was formerly Chairman of Smiths Industries plc. He is also Chairman of the Court of Governors at the Henley Management College. Aged 61.

Alan G Spall **Chief Financial Officer**
Appointed a Director in 1994. He is Chief Financial Officer and has responsibility for finance, planning and property. He joined the Company in 1970. Aged 55.

Lord Simpson **Non-Executive Director**
Appointed a Non-Executive Director in 1995. He is Chief Executive of Marconi plc and a Non-Executive Director of Nestlé S.A. He was formerly Chairman and Chief Executive of Rover Group. Aged 57.

Hon-Chiu Lee **Non-Executive Director**
Appointed a Non-Executive Director in 1996. He is Chairman of Hysan Development Company Ltd, Deputy Chairman of the Garden Hotel, Guangzhou and a Non-Executive Director of Cathay Pacific Airways Ltd and Hang Seng Bank Ltd. He is also Chairman of the Hong Kong Stock Exchange and President of the International Federation of Stock Exchanges. Aged 71.

Lord Trotman **Non-Executive Director**
Appointed a Non-Executive Director in 1997. He was Chairman and Chief Executive Officer of Ford Motor Company until his retirement in 1998. He joined Ford in the UK in 1955 and was appointed to the Board of Directors in 1993. He is a member of the Board of Directors of IBM and of the New York Stock Exchange. Aged 66.

Lord Butler **Non-Executive Director**
Appointed a Non-Executive Director in 1998. He is Master of University College, Oxford and a Non-Executive Director of HSBC Holdings plc. He was formerly Secretary of the Cabinet and Head of the UK Civil Service. Aged 62.

Paul J Drechsler **Director**
Appointed a Director in March 1999. He is Chairman and Chief Executive of Quest International. He joined the Company in 1978 and was formerly Chief Executive Officer of the Polyester Business. He is a member of the Council of the World Business Council for Sustainable Development. Aged 43.

John D G McAdam **Director**
Appointed a Director in March 1999. He is Executive Vice President – Coatings and, Chairman and Chief Executive of ICI Paints. He oversees the Group's activities in Asia. He joined the Company in 1997 following the acquisition of the Speciality Chemicals Businesses from Unilever, where he held a number of senior positions. Aged 51.

William H Powell **Director**
Appointed a Director in February 2000. He is Chairman and Chief Executive Officer of National Starch. He is a Director of the Corn Refiners Association and a member of the American Institute of Food Technologists. He is on the Industrial Advisory Board of the Chemical Engineering department at New Jersey Institute of Technology and the Industrial Advisory Board of the Chemical and Biochemical Engineering department at Rutgers University. Aged 54.

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

Mr R J Margetts, Mr A G Spall, Sir Roger Hurn and Lord Simpson retire under Article 96 of the Company's Articles of Association. All are recommended for re-election.

Mr W H Powell will retire under Article 76 of the Company's Articles of Association. He is recommended for election.

Following the retirement of Mr R J Margetts, all Executive Directors will be employed on rolling contracts subject to one year's notice.

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

Executive Management Team

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

	Date first appointed as an Officer *
Rona A Fairhead Executive Vice President – Strategy and Group Control. Aged 38.	14 July 1997
Michael H C Herlihy General Counsel. Aged 46.	1 January 1996
Richard N Stillwell Executive Vice President – Industrial Specialties. Aged 50.	1 May 1995

COMPANY SECRETARY

Debjani Jash Aged 35.	1 January 2000

* The persons listed above are regarded as the Officers of the Company for the purposes of the annual report on Form 20-F.

Corporate governance

Corporate governance

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

The ICI Board currently comprises the Chairman, the Chief Executive, five other Executive Directors and five Non-Executive Directors. Their biographies appear on page 34. These demonstrate a range of business, financial and global experience, which is vital to the successful direction of a multinational company. All the Non-Executive Directors are independent of management. The Board is balanced both numerically and in experience.

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

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

The Non-Executive Directors fulfil a vital role in corporate accountability. The remits and memberships of the three relevant Board Committees are set out on page 37. The Remuneration and Nomination Committee and the Audit Committee comprise solely Non-Executive Directors and report regularly to the Board.

Remuneration and Nomination Committee

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

The Remuneration Report, which is contained in the Chairman's letter accompanying the Notice of Annual General Meeting includes details on remuneration policy and practices, and on the remuneration of Directors.

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

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

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

Audit and internal control

The Combined Code introduced a requirement that directors review the effectiveness of the Group's system of internal controls. This requirement extends the Directors' review to cover all controls including operational, compliance and risk management, as well as financial. Guidance for directors *Internal Control Guidance for Directors on the Combined Code* (the Turnbull guidance) was published in September 1999. However, the Directors have taken advantage of the London Stock Exchange's transitional rules and have continued to review and report upon internal financial controls in accordance with the ICAEW's 1994 guidance *Internal Control and Financial Reporting.*

The Board have modified existing risk management and internal control processes necessary to implement the Turnbull guidance, such that they can fully comply with it for the accounting period ending on 31 December 2000.

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

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

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

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

Corporate governance

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

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

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

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

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

Principles of business conduct

As a leading international company, ICI's reputation for high ethical standards is central to its business success. The Statement of Principles and Business Conduct is being revised and will be communicated throughout the Group to direct our behaviour and decisions.

Communications

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

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

Audit Committee

Members:

Lord Simpson (Chairman)
Lord Butler
Sir Roger Hurn
Mr H C Lee
Lord Trotman

Terms of reference:

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

Remuneration and Nomination Committee

Members:

Sir Roger Hurn (Chairman)
Lord Butler
Mr H C Lee
Lord Simpson
Lord Trotman
Mr C Miller Smith (when meeting as the Nomination Committee)

Terms of reference:

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

Appeals Committee

Members:

Mr R J Margetts (Chairman)
Lord Butler
Lord Simpson
Mr A G Spall

Terms of reference:

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

Directors' report

The Directors of Imperial Chemical Industries PLC have pleasure in presenting their Annual Report and Accounts for the year ended 31 December 1999.

Principal activities
The principal activities of the Company are research, manufacture and sale of specialty products, paints and industrial chemicals. A review of the Company and its subsidiaries' businesses, including research and development, is given on pages 7 to 33 of this Report.

Dividends
The Directors have declared the payment of a second interim dividend of 19.5 pence per £1 Ordinary Share to be paid on 25 April 2000 to Ordinary shareholders registered in the books of the Company on 10 March 2000. An interim dividend of 12.5 pence per £1 Ordinary Share was paid on 4 October 1999 totalling 32.0 pence (1998 32.0 pence).

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

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

Directors
The names of the Directors of the Company at the date of this Report and biographical details are given on page 34.

Directors' remuneration and interests
A statement of Directors' remuneration and their interests in the shares, debentures and options of the Company and its subsidiaries is set out in the Remuneration Report on pages 39 to 42.

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

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

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

Payment to suppliers
The Company agrees terms and conditions for its business transactions with suppliers. Payment is then made to these terms, subject to the terms and conditions being met by the supplier. Payment terms can differ in the many markets in which ICI trades.

Trade creditors of the Company at 31 December 1999 were equivalent to 56 days purchases, based on the average daily amount invoiced by suppliers to the Company during this year.

Political and charitable donations
The Group's worldwide charitable donations in 1999 amounted to £1.6m. Of this total, £0.8m was spent in the UK. The Group made no donations for political purposes.

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

The remuneration and expenses of the Auditor in respect of the statutory report to the members of the Company for the year 1999 amounted to £79,000 (1998 £115,000). The total figure for the Group was £3.5m (1998 £4.7m) which includes charges for audits of subsidiary companies in the UK and overseas, both for the purposes of consolidation into the Group accounts and to meet statutory requirements of the countries in which subsidiaries operate.

Fees paid to the Auditor (and its associates) of the Company for services other than statutory audit supplied to the Group during 1999 totalled £6.3m (1998 £5.3m) of which £4.7m (1998 £3.0m) related to the acquisition and divestment activities associated with the Group's portfolio changes. These fees have been fully reviewed by the Audit Committee.

Annual General Meeting
The Notice of Annual General Meeting to be held on Friday, 28 April 2000 is contained in a separate letter from the Chairman accompanying this Annual Report and Accounts.

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

On behalf of the Board
Debjani Jash
Company Secretary

9 February 2000

Registered office
Imperial Chemical House
Millbank
London SW1P 3JF

Registered number: 218019

Remuneration policy
The Group pays competitive salaries and incentives to its employees around the world. Levels of pay and the structure of arrangements in each country reflect the competitive environment in that country. While ICI does not have global pay scales, it has regard to its need to be able to move staff around the world.

Framework and objectives
The Remuneration Committee is composed entirely of the Non-Executive Directors of the Company, namely:
Sir Roger Hurn (Chairman)
Lord Butler
Mr H C Lee
Lord Simpson
Lord Trotman

The Remuneration Committee determines the contracts of service and emoluments of the Chairman, Executive Directors and the Executive Management Team.

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

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

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

Remuneration package
The Remuneration package comprises base salary, short, medium and long-term incentives and post-retirement and other benefits.

Salaries are set within ranges around the median for similar positions in large, international, publicly quoted organisations. Salaries for individual Directors are determined annually by the Remuneration Committee recognising the individual's performance and experience and market trends.

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

The target bonus available to Executive Directors for 1999 was 25% of base salary (50% at maximum). The Remuneration Committee set targets related to the achievement of specific levels of net contribution to value (the Company's measure of economic profit) and delivery of cash. The Group made excellent progress during 1999 in the area of cash delivery, both operating cash and cash from divestments, as well as growing its earnings and managing down levels of capital employed across all businesses. This has resulted in bonuses being paid above the target level. The level of bonus paid to each director is shown in the table on page 40.

The medium-term incentive – is currently the Bonus Conversion Plan ("the Plan") designed to encourage the conversion of any annual bonus (as described above) into shares in the Company and the holding of those shares for a minimum of three years.

Under the Plan, if the Remuneration Committee so determines, the recipient of a bonus may elect, in the March following the performance year to which it relates, to have shares purchased at market value in the Plan with part or all of the net bonus after tax. Shares purchased in the Plan are released at the end of a three-year retention period and are then matched by an equal number of shares by the Company on which the participant is liable to income tax.

The details of each Executive Director's contingent interests in the matched shares are set out in the table on page 41. The Bonus Conversion Plan will be operated for the last time in respect of the 1999 financial year.

For 2000 and subsequent years it is proposed that the Executive Directors and the most senior executives will participate in the Performance Growth Plan which will be put to Shareholders for their approval at the Annual General Meeting in 2000 and which is more fully described in the Chairman's letter to Shareholders accompanying the Annual Report.

The long-term incentive – is a Share Option Scheme ("the Scheme") under which options over the Company's Ordinary Shares may be granted each year to Executive Directors and senior executives. Under the policy approved by Shareholders at the Annual General Meeting in 1998, the guidelines for options granted to Executive Directors during the year were a multiple of base salary reflecting performance. Exercise of options granted during 1999 under the Scheme are subject to satisfaction of a performance condition related to the increase in the Company's earnings per share being equal to or greater than the increase in the UK Retail Price Index plus 3% per annum over the level three years earlier. Options must be held for three years before they are exercisable and lapse if not exercised within ten years from grant.

In the USA grants are made as stock appreciation rights (SARs) under the Stock Appreciation Rights Plan of ICI American Holdings Inc (the SARP). These are subject to the same performance condition as applies to the Scheme and are subject to similar rules with regard to exercise and lapse. On exercise the appreciation is delivered in the form of ADRs.

The details of each Executive Director's interests in share options arising from the Scheme and the Company's Savings-Related Share Option Scheme are set out in the table on page 41.

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

Service contracts
Following the retirement of Mr R J Margetts, all Executive Directors will be employed on rolling contracts subject to one year's notice.

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

J A Kennedy – The salary data shown in the table on page 40 includes his salary as a Director of the Company, at the rate of £50,000 per annum, and the balance represents his salary from National Starch and Chemical Company.

Due to his retirement in 1999 Mr Kennedy was not granted any Performance Units under National Starch's Key Executive Incentive Plan nor did he receive a SARP award.

Remuneration report

Remuneration of Directors

	Salary 1999 £000	Salary 1998 £000	Allowances and benefits Ø 1999 £000	Allowances and benefits Ø 1998 £000	Annual bonus 1999 £000	Annual bonus 1998 £000	Total 1999 £000	Total 1998 £000
Emoluments of Executive Directors								
Sir Ronald Hampel (retired 22 April 1999)	**67**	200	**3**	10			**70**	210
C Miller Smith	**493◆**	550	**11**	16	**237**		**741**	566
Dr B R O'Neill (appointed 11 May 1998)	**514**	277	**17**	8	**263**		**794**	285
R J Margetts	**416**	390	**11**	10	**199**		**626**	400
P J Drechsler (appointed 1 March 1999)	**237**		**26**		**109**		**372**	
J A Kennedy (retired 30 June 1999)	**293**	472	**13**	16	**135**	139	**441**	627
Dr J D G McAdam (appointed 1 March 1999)	**253***		**20**		**120**		**393**	
A G Spall	**369**	355	**13**	12	**177**		**559**	367
	2,642	2,244	**114**	72	**1,240**	139	**3,996**	2,455
Fees to Non-Executive Directors (note 2)								
Lord Butler (appointed 1 July 1998)							**25**	12
Sir Roger Hurn							**33**	33
H C Lee							**25†**	25†
Sir Antony Pilkington (retired 23 April 1998)								11
Lord Simpson							**33†**	30†
Lord Trotman							**25**	25
							141	136
Total							**4,137**	2,591

Ø Allowances and benefits include payments related to working overseas, for example the provision of accommodation and education support.

◆ With effect from 22 April 1999, Mr C Miller Smith was appointed Chairman of the Company, working four days per week, and his salary of £572,000 was reduced pro-rata to £457,600, other than for pension purposes.

* Long service award scheme: Dr J D G McAdam received an additional payment under an obligation of ICI to recognise his entitlement under the Unilever long service award scheme. The total amount of this payment was £41,000 of which £2,100 is apportioned to his period of service as a director.

† Under a scheme for Non-Executive Directors, Mr H C Lee and Lord Simpson elected to receive 50% of their fees for 1999 (and 1998) in the form of ICI shares.

(1) In addition, matched shares were provided by the Company under the Bonus Conversion Plan in respect of 1995 bonuses (see The medium-term incentive page 39), as follows:

	Ordinary Shares of £1 each	Market value at date provided £
C Miller Smith	5,586	36,700
R J Margetts	7,642	50,208
P J Drechsler	4,760✧	31,273
A G Spall	7,173	47,127
		165,308

✧ In the form of 1,190 American Depositary Receipts; entitlement relates to period prior to becoming a director.

(2) The remuneration of Non-Executive Directors is determined by the Board within the limits set out in the Articles of Association. It comprises an annual fee of £25,000 (1998 £25,000). An additional £7,500 (1998 £7,500) is paid to the Chairman of a Board Committee. Non-Executive Directors are not eligible for bonuses.

Remuneration report

Directors' interests in shares and debentures

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

ICI £1 Ordinary Shares	1 January 1999 or on date of appointment	31 December 1999	Contingent interest in matched shares 1 January 1999 or on date of appointment	Contingent interest in matched shares 31 December 1999*
C Miller Smith	24,386	27,737	5,586	
Dr B R O'Neill	21,000	26,000		
R J Margetts	69,063	73,648	9,619	1,977
Lord Butler	500	1,000		
P J Drechsler (note 1)	16,272	30,937	2,683	8,458
Sir Roger Hurn	5,000	5,000		
H C Lee	1,478	2,877		
Dr J D G McAdam	–	3,052		
Lord Simpson	8,821	10,238		
A G Spall	27,880	35,053	7,173	
Lord Trotman (note 2)	40,500	40,500		

* Matched shares to be provided by the Company under the Bonus Conversion Plan in respect of 1996, 1997 and 1998 bonuses (see *The medium-term incentive* page 39).

(1) *Mr P J Drechsler's interests in shares at date of appointment comprised 11,576 Ordinary Shares of £1 each, and 1,174 American Depositary* Receipts (ADRs) each representing four underlying £1 Ordinary Shares. Also at that date, under a scheme similar to the Bonus Conversion Plan, Mr Drechsler had an entitlement to receive 1,190 ADRs together with a corresponding contingent interest in a like number of matched ADRs. At 31 December 1999, his holdings comprised 20,529 Ordinary Shares and 2,602 ADRs. Contingent interests in matched shares at date of appointment and at 31 December 1999 are in respect of Ordinary Shares.

(2) Lord Trotman's interests in shares at 1 January 1999 and 31 December 1999 comprised 10,000 ADRs and 500 £1 Ordinary Shares.

During the period 1 January 2000 to 2 February 2000 there were no changes in the interests of Directors.

Directors' interests in share options

Options to subscribe for Ordinary Shares granted to and exercised by Directors during 1999 are included in the table below.

	1 January 1999 or on date of appointment	Options granted during 1999		Options outstanding at 31 December 1999			
Directors at 31 December 1999	Number	Number	Price £	Number	Weighted average exercise price £	Date from which earliest option exercisable	Date latest option expires
C Miller Smith	352,581	174,124	6.57	524,026	8.36†	7.11.97	28.4.09
				2,679	6.25	1.2.01	31.7.02
Dr B R O'Neill	102,554	251,141	6.57	353,695	8.19†	18.5.01	28.4.09
R J Margetts	227,740	118,721	6.57	317,707	8.30†	28.5.95	28.4.09
				28,754	5.47	28.3.93	9.5.05
P J Drechsler	87,670	83,713	6.57	133,547	7.75†	24.6.96	28.4.09
				37,836	6.07	22.3.96	21.3.03
Dr J D G McAdam	39,091	89,802	6.57	126,889	7.94†	4.8.00	28.4.09
				2,004	4.75	1.12.03	31.5.04
A G Spall	206,898	105,450	6.57	310,124	8.30†	24.6.96	28.4.09
				2,224	6.29	24.6.96	9.5.05

† Exercise price exceeds market price at 31 December 1999.

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

(2) There were no gains made on exercise of options during 1998 or 1999. The options outstanding are exercisable at prices between £4.75 and £12.14. The market price of the shares at 31 December 1999 was £6.55½ and the range during 1999 was £4.59½ to £8.23½. The Register of Directors' Interests (which is open to shareholders' inspection) contains full details of Directors' shareholdings and options to subscribe for shares.

(3) *In accordance with the London Stock Exchange Listing Rules, the 1999 annual grant of share options to Executive Directors and certain* individuals involved with the proposed disposal of businesses to Huntsman ICI Holdings LLC was delayed. As a result of this delay, those participants were granted fewer options at a higher exercise price than would have been the case had the grants been made to them at the same time as they were made to all other participants at an exercise price of £5.22. The Remuneration 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.

Remuneration report

Directors' pension benefits

	Age at 31 December 1999 or date of retirement	Contributions by Directors £	Amount of additional pension accrued in 1999 payable at normal retirement age £	Accrued pension at 31 December 1999 payable at normal retirement age £
Dr B R O'Neill*	51	4,530	1,530	2,520†
R J Margetts	53	25,710	19,280	236,260
P J Drechsler (appointed 1 March 1999)	43	13,780	3,860	98,420
J A Kennedy (retired 30 June 1999)	61	–	18,800	397,930
Dr J D G McAdam (appointed 1 March 1999)	51	7,080	5,810	177,870
A G Spall	55	22,690	12,180	202,280

* Dr O'Neill also belongs to a personal funded unapproved pension scheme (see *Post-retirement benefits* below).

† Accrued pension entitlement under the ICI Pension Fund, at 31 December 1998 was £970.

Remuneration package (continued)

Post-retirement benefits – The ICI Pension Fund is open to all eligible UK employees and provides pensions and other benefits to members within Inland Revenue limits. The Company made a contribution for all employees, including contributing Executive Directors in the ICI Pension Fund, at a normal funding rate of 13.4% of salary in 1999. The Company also paid contributions to the ICI Specialty Chemicals Pension Fund (established for employees of the Specialty Chemicals Businesses purchased from Unilever) at a normal funding rate of 12.7% of salaries in 1999.

Sir Ronald Hampel, having reached the Company's normal retirement age, was no longer a contributing member of the ICI Pension Fund. He ceased to be a Director on 22 April 1999. In November 1999 the Trustees of the ICI Pension Fund agreed, at the Company's request, to increase his pension from £300,600 to £320,600. The cost of this increase was £332,000 and was paid to the ICI Pension Fund by the Company.

Mr C Miller Smith belongs to a personal funded unapproved pension scheme, to which the Company contributed £171,600 in 1999 (1998 £165,000).

Dr B R O'Neill belongs to a personal funded unapproved pension scheme, to which the Company contributed £127,130 in 1999 (1998 £62,840).

Dr O'Neill is also a member of the Senior Executive Rules (1996) Section of the ICI Pension Fund. This section provides pensions in respect of salary up to the Earnings Cap (currently £90,600 for the fiscal year 1999/2000) as follows:

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

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

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

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

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

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

(a) a pension of two-thirds of final pensionable pay at normal retirement age of 62. Bonuses awarded to Directors appointed after 1993 are not pensionable. Mr R J Margetts, who was appointed before 1993, has an agreement with the Company whereby part of any performance-related bonus paid to him in the last three years prior to his retirement is pensionable. The table above includes a notional pensionable bonus of 10% in respect of Mr R J Margetts' benefits;

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

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

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

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

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

Dr J D G McAdam is entitled to Senior Executive benefits from the ICI Specialty Chemicals Pension Fund as follows:

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

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

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

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

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

(f) in the calculation of pensionable pay an allowance of up to a maximum of 20% of salary is included in respect of the average percentage bonus paid over the last seven years. 20% is included in the figures in the table. Pensions in payment increase annually in October by up to 5% per annum. Any increase in excess of the UK Retail Price Index requires the consent of the Company.

In both Funds, transfer values payable on leaving service when an immediate pension is not payable do not include any allowance for discretionary benefits.

Details of the accrued pension to which each Director is entitled on leaving service and the change in 1999 (since being appointed in the case of Mr Drechsler and Dr McAdam) are shown in the table above.

Pensions and commutations of pensions paid by the Company in respect of service of former Directors amounted to £227,000 (1998 £211,000).

Directors' responsibilities

Directors' responsibilities in respect of the financial statements

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

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

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

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

Independent Auditors' report

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

We have audited the financial statements on pages 46 to 99.

Respective responsibilities of Directors and Auditor
The Directors are responsible for preparing the Annual Report. As described on page 43 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards; the Directors have also presented additional information under US requirements. Our responsibilities, as independent auditors, are established by statute in the United Kingdom, auditing standards generally accepted in the United Kingdom and the United States, the Listing Rules of the London Stock Exchange, the United States Securities and Exchange Commission, and by our profession's ethical guidance.

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

We review whether the statement on page 36 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

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

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

United Kingdom opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

United States opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 1999 and 1998 and the results of its operations and cash flows for each of the three-year period ended 31 December 1999, in conformity with generally accepted accounting principles in the United Kingdom.

As discussed in note 1 to the consolidated financial statements the Group has adopted the provisions of Financial Reporting Standard 12 Provisions, Contingent Liabilities and Contingent Assets. As a result the Group has restated its results of operations for the years ended 31 December 1997 and 1998.

Generally accepted accounting principles in the United Kingdom vary in certain significant respects from generally accepted accounting principles in the United States. Application of generally accepted accounting principles in the United States would have affected results of operations for each of the years in the three year period ended 31 December 1999 and consolidated shareholders' equity at 31 December 1999 and 1998, to the extent summarised in note 43 to the consolidated financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
9 February 2000

Contents to the accounts

Accounting policies

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

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

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

Depreciation
The Group's policy is to write-off the book value of each tangible fixed asset to its residual value evenly over its estimated remaining life. Reviews are made annually of the estimated remaining lives of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear. Under this policy it becomes impracticable to calculate average asset lives exactly; however, the total lives approximate to 33 years for buildings and 16 years for plant and equipment. Depreciation of assets qualifying for grants is calculated on their full cost.

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

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

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

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

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

Foreign currency derivative instruments:
The Group's criteria to qualify for hedge accounting are:

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

Interest rate derivative instruments:
The Group's criteria to qualify for hedge accounting are:

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

Derivative financial instruments reported in the financial statements:

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

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

Currency swaps
Principal amounts are revalued at exchange rates ruling at the date of the Group balance sheet and included in the sterling value of loans; exchange gains/losses are included in the Statement of Group total recognised gains and losses in accordance with SSAP20.

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

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

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

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

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

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

Taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items, including post-retirement benefits, for taxation and for accounting purposes. However, no provision is made for taxation deferred by reliefs unless there is reasonable evidence that such deferred taxation will be payable in the future.

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

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

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

1997 (as restated – note 1) Continuing operations Before exceptional items £m	1997 Continuing operations Exceptional items £m	1997 Discontinued operations £m	1997 Total £m	1998 (as restated – note 1) Continuing operations Before exceptional items £m	1998 Continuing operations Exceptional items £m	1998 Discontinued operations £m	1998 Total £m
5,693		5,369	11,062	6,821		2,465	9,286
(5,420)	(143)	(5,099)	(10,662)	(6,456)	(223)	(2,296)	(8,975)
59		18	77	76		17	93
332	(143)	288	477	441	(223)	186	404
				(23)			*(23)*
16			16	2		1	3
348	(143)	288	493	443	(223)	187	407
	(52)	484	432		11	78	89
	31	4	35		3		3
					(34)		(34)
348	(164)	776	960	443	(243)	265	465
(216)	(31)	(35)	(282)	(329)	–	(3)	(332)
–	–	–	–	–	–	–	–
(216)	(31)	(35)	(282)	(329)	–	(3)	(332)
132	(195)	741	678	114	(243)	262	133
(24)	44	(280)	(260)	(30)	48	(80)	(62)
108	(151)	461	418	84	(195)	182	71
(4)	–	(45)	(49)	10	4	(2)	12
104	*(151)*	*416*	*369*	*94*	*(191)*	*180*	*83*
			(232)				(232)
			137				(149)
14.3p	(20.8)p	57.4p	50.9p	13.0p	(26.4)p	24.9p	11.5p
14.3p	(20.7)p	57.1p	50.7p	12.9p	(26.3)p	24.8p	11.4p

1997 (as restated – note 1) £m	1998 (as restated – note 1) £m
413	93
(44)	(10)
369	83
(255)	(59)
(4)	16
(259)	(43)
4	–
114	40

Group profit and loss account for the year ended 31 December 1999

	Notes	1999 Continuing operations Before exceptional items £m	Exceptional items £m	Discontinued operations £m	Total £m
Turnover	4,5	7,189		1,260	8,449
Operating costs	3,5	(6,753)	(98)	(1,167)	(8,018)
Other operating income	5	38		4	42
Trading profit (loss)	3,4,5	474	(98)	97	473
After deducting goodwill amortisation	4	*(35)*			*(35)*
Share of operating profits less losses of associates	7	61			61
		535	(98)	97	534
Fundamental reorganisation costs	3		(74)		(74)
Profits less losses on sale or closure of operations	3		170	198	368
Profits less losses on disposals of fixed assets	3		20		20
Amounts written off investments	3				
Profit (loss) on ordinary activities before interest	4	535	18	295	848
Net interest payable	3, 8				
Group		(262)	(54)	–	(316)
Associates		(29)	–	–	(29)
		(291)	(54)	–	(345)
Profit (loss) on ordinary activities before taxation		244	(36)	295	503
Taxation on profit (loss) on ordinary activities	9	(66)	(19)	(159)	(244)
Profit (loss) on ordinary activities after taxation		178	(55)	136	259
Attributable to minorities		(10)	3		(7)
Net profit (loss) for the financial year		168	(52)	136	252
Dividends	10				(233)
Profit (loss) retained for the year	25				19
Earnings (loss) per £1 Ordinary Share	11				
Basic		23.3p	(7.2)p	18.9p	35.0p
Diluted		23.2p	(7.2)p	18.9p	34.9p

Statement of Group total recognised gains and losses for the year ended 31 December 1999

	1999 £m
Net profit for the financial year	
Parent and subsidiary undertakings	236
Associates	16
	252
Currency translation differences on foreign currency net investments and related loans	(22)
Taxation on foreign currency loans	18
	(4)
Other items	–
Total gains and losses recognised since last annual report	248

Balance sheets at 31 December 1999

	Notes	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Assets employed					
Fixed assets					
Intangible assets – goodwill	12	**626**	652	**–**	–
Tangible assets	4, 13	**2,474**	3,816	**64**	320
Investments					
Subsidiary undertakings	14			**9,791**	10,025
Participating and other interests	15	**292**	170	**6**	24
		3,392	4,638	**9,861**	10,369
Current assets					
Stocks	16	**853**	1,213	**27**	62
Debtors	17	**2,070**	2,360	**3,247**	2,834
Investments and short-term deposits	18	**394**	455	**–**	–
Cash at bank	34	**270**	367	**18**	25
		3,587	4,395	**3,292**	2,921
Total assets		**6,979**	9,033	**13,153**	13,290
Creditors due within one year					
Short-term borrowings	19	**(102)**	(1,445)	**–**	–
Current instalments of loans	21	**(647)**	(585)	**(108)**	(493)
Other creditors	20	**(2,157)**	(2,356)	**(7,124)**	(7,421)
		(2,906)	(4,386)	**(7,232)**	(7,914)
Net current assets (liabilities)		**681**	9	**(3,940)**	(4,993)
Total assets less current liabilities	4	**4,073**	4,647	**5,921**	5,376
Financed by					
Creditors due after more than one year					
Loans	21	**2,252**	2,954	**247**	360
Other creditors	20	**71**	55	**1,256**	2,784
		2,323	3,009	**1,503**	3,144
Provisions for liabilities and charges	22	**1,456**	1,440	**321**	210
Minority interests – equity		**50**	49	**–**	–
Shareholders' funds – equity					
Called-up share capital	24	**728**	728	**728**	728
Reserves					
Share premium account		**588**	587	**588**	587
Associates' reserves		**26**	15	**–**	–
Profit and loss account		**(1,098)**	(1,181)	**2,781**	707
Total reserves	25	**(484)**	(579)	**3,369**	1,294
Total shareholders' funds (page 51)		**244**	149	**4,097**	2,022
		4,073	4,647	**5,921**	5,376

Included within Group net current assets are debtors of £647m (1998 £406m) which fall due after more than one year. Included within the Company net current assets are debtors of £269m (1998 £247m) which fall due after more than one year.

The accounts on pages 46 to 99 were approved by the Board of Directors on 9 February 2000 and were signed on its behalf by:

C. Miller Smith

Alan Spall

C Miller Smith Director
A G Spall Director

Statement of Group cash flow for the year ended 31 December 1999

	Notes	1999 £m	1998 £m	1997 £m
Net cash inflow from operating activities	26	**582**	856	757
Dividends received from associated undertakings		**4**	5	56
Returns on investments and servicing of finance	27	**(307)**	(350)	(227)
Taxation		**(65)**	(220)	(151)
		214	291	435
Capital expenditure and financial investment	28	**(356)**	(520)	(623)
		(142)	(229)	(188)
Acquisitions and disposals				
Acquisitions	29	**(12)**	(860)	(4,366)
Disposals	31	**2,040**	902	2,124
		2,028	42	(2,242)
Equity dividends paid		**(232)**	(232)	(231)
Cash inflow/(outflow) before use of liquid resources and financing		**1,654**	(419)	(2,661)
Management of liquid resources	30	**215**	529	(249)
Financing				
Issues of shares		**1**	8	9
(Decrease)/increase in debt		**(1,910)**	(143)	2,928
	32	**(1,909)**	(135)	2,937
(Decrease)/increase in cash	34	**(40)**	(25)	27

Reconciliation of movements in shareholders' funds for the year ended 31 December 1999

	Notes	1999 £m	1998 (as restated – note 1) £m	1997 (as restated – note 1) £m
Net profit for the financial year		**252**	83	369
Dividends		**(233)**	(232)	(232)
Profit retained for year		**19**	(149)	137
Issues of ICI Ordinary Shares		**1**	7	7
Goodwill movement				
Acquisitions	25	**10**	(48)	(3,516)
Disposals	25	**69**	126	277
		79	78	(3,239)
Other recognised losses related to the year	25	**(4)**	(43)	(255)
Net increase/(reduction) in shareholders' funds		**95**	(107)	(3,350)
Shareholders' funds at beginning of year		**149**	256	3,606
Shareholders' funds at end of year		**244**	149	256

Notes relating to the accounts

1 Basis of presentation of financial information

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

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

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

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

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

During 1999, the ASB published the following Standards:

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

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

The provisions of FRS No.12 and FRS No.13 have been adopted in these accounts and the provisions of FRS No.15 and FRS No.16 will be adopted in the accounts for the year ending 31 December 2000.

The results for the two years 1997 and 1998 have been restated to reflect the requirements of FRS No.12; as a consequence, shareholders' funds at 31 December 1997 increased by £110m. Exceptional costs for 1997 were reduced by £160m before tax of £50m (£110m net of tax) and those for 1998 were increased by like amounts.

For UK reporting purposes, the results in these accounts differentiate between the Group's continuing and discontinued operations.

Discontinued operations
As defined in FRS No.3 – Reporting Financial Performance, discontinued operations are material, clearly separate operations which have been sold or permanently terminated either during the financial year or during the subsequent period up to the date of approval of the accounts. All other operations are classified as continuing operations.

Notes relating to the accounts

1 Basis of presentation of financial information (continued)

Class of business	Business
Continuing operations	
Specialty Products	
National Starch	National Starch
Quest	Quest
Industrial Specialties	Industrial Specialties (Uniqema, Synetix, Crosfield, and other Specialty businesses)
Paints	Paints
Industrial Chemicals	Petrochemicals
	Halochemicals
	Regional Businesses including
	Pure terephthalic acid and polyester staple fibre business in Pakistan
	Explosives (manufacturing in USA and the UK Businesses)
Discontinued operations	Polyester polymer and intermediates, excluding operations in Pakistan
	Melinex polyester film operations
	Propafilm oriented polypropylene films business
	62.4% shareholding in ICI Australia Limited
	Canadian based Forest Products business
	UK based fertiliser business
	51% shareholding in AECI Explosives Limited
	International Explosives operations in Canada, Latin America and Europe and the explosives distribution business in the USA
	Teesside Utilities and Services business
	Polyurethanes
	Tioxide
	Selected Petrochemicals Businesses (Olefines and Aromatics)
	Acrylics
	Fluoropolymers

Core operations comprise Specialty Products and Paints.

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

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

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

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

2 Directors' and Officers' remuneration and interests

Information covering Directors' remuneration, interests in shares, debentures, share options and pension benefits is included in the Remuneration report on pages 39 to 42.

The aggregate remuneration paid to or accrued for all Directors and Officers of the Company for services in all capacities during the year ended 31 December 1999 was £6.1m (1998 £4.5m). The aggregate amount set aside or accrued to provide pension, retirement and similar benefits for Directors and Officers of the Company during the year ended 31 December 1999 was £0.6m (1998 £0.6m). At 2 February 2000, options granted to Directors and Officers of the Company totalled 2,436,552 Ordinary Shares. These options are exerciseable over periods up until 28 May 2009 at subscription prices between £4.75 and £12.14.

Notes relating to the accounts

3 Exceptional items before tax

	1999 £m	1998 (as restated – note 1) £m	1997 (as restated – note 1) £m
Charged in arriving at trading profit (loss)			
Continuing operations			
Rationalisation of operations			
National Starch, including severance costs of £8m and asset write-downs of £26m	**(37)**		
Paints, principally severance costs of £11m (1998 £26m) and asset write-downs of £11m (1998 £27m); 1999 includes a release of £6m relating to 1998	**(32)**	(71)	
Industrial Chemicals, including severance costs of £10m (1998 £48m, 1997 £8m), *site clearance costs of £5m (1998 £nil, 1997 £21m) and asset write-downs of* £nil (1998 £42m, 1997 £100m)	**(15)**	(90)	(121)
Industrial Specialties, principally severance costs of £nil (1998 £20m, 1997 £9m)		(38)	(22)
Quest, principally severance costs of £9m (1998 £20m)	**(14)**	(24)	
	(98)	(223)	(143)
Credited (charged) after trading profit (loss)			
Continuing operations			
Profits less losses on sale or closure of operations			
Profits	**174**	11	
Losses	**(4)**		(12)
Provision for losses on future sale			(40)
	170	11	(52)
Fundamental reorganisation costs	**(74)**		
Profits less losses on disposal of fixed assets	**20**	3	31
Amounts written off investments		(34)	
Loan arrangement fee written off			(31)
Costs associated with unwinding long term swaps following loan refinancing	**(54)**		
Discontinued operations			
Profits on sale of operations			
Profits	**212**	244	872
Losses	**(14)**	(166)	(86)
Provision for losses on future sale			(302)
	198	78	484
Profits less losses on disposal of fixed assets			4
Exceptional items within profit (loss) on ordinary activities before taxation	**162**	(165)	293

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

Profits on sale or closure of continuing operations was principally the profit on the sale of Autocolor (£173m).

Fundamental reorganisation cost relates to the reorganisation of the corporate centre during 1999 as a consequence of the changing business portfolio.

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

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

Profits on sale of discontinued operations in 1998 comprised the disposal of the Group's Teesside Utilities and Services business (£185m) and the Melinex Polyester film business (£59m). The losses include the Explosives business in Canada, Latin America, Europe and the explosives distribution business in the USA (£44m) and losses on the disposal of the Propafilm business.

Profits on sale of discontinued operations in 1997 comprised the disposal of the Group's 62.4% interest in ICI Australia Limited (£480m after goodwill write-off £25m), the polyester polymer and intermediates business (£221m), the Canadian based Forest Products business (£66m) and the UK based fertiliser business (£105m). Losses comprised the goodwill impairment of the Explosives business (£86m). The profit on the sale of the fertiliser business excludes a £50m receipt which is contingent on the future sales performance of the business.

The discontinued operations provision for losses on future sale charged in 1997 was a provision for losses anticipated on disposal of the Tioxide business (£302m).

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

Notes relating to the accounts

4 Segment information

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

The major products of each business segment are as follows:

Business	**Products**
National Starch	adhesives, sealants, specialty chemicals, specialty synthetic polymers, specialty food and industrial starches, electronic and engineering materials, specialty process lubricants
Quest	flavours, food ingredients, fragrances, fragrance materials
Industrial Specialties	*oleochemicals (process intermediates), polymers, base stocks and additives for lubricants, personal care, industrial specialties for the manufacture of agrochemicals and coatings, oilfield chemicals, textile auxiliaries, spin finish, polymer additives, specialty cleaning, catalyst and support services, alumina fibre, silicas, silicates and zeolites*
Paints	decorative paint, and coatings for food and beverage cans
Industrial Chemicals	
Petrochemicals	*methanol*
Halochemicals	chlorine, caustic soda, chlorinated derivatives, refrigerants and mineral acids
Regional businesses	polyester staple fibre, pure terephthalic acid, soda ash, agrochemicals, pharmaceuticals, rubber *chemicals, tartaric acid and explosives*

The accounting policies for each segment are the same as those appearing on pages 46 and 47. The Group's policy is to transfer *products internally at external market prices. Corporate overheads are allocated to each business segment on a consistent basis over* the periods presented.

Notes relating to the accounts

4 *Segment information (continued)*

Classes of business

	Turnover			Trading profit before exceptional items*			Profit before interest and taxation after exceptional items*		
	1999 £m	1998 £m	1997 £m	**1999 £m**	1998 £m	1997 £m	**1999 £m**	1998† £m	1997† £m
Continuing operations									
Core operations									
Specialty Products									
National Starch	**1,792**	1,646	782	**230**	219	116	**193**	219	116
Quest	**676**	656	321	**92**	82	67	**78**	58	32
Industrial Specialties	**989**	1,027	831	**82**	84	32	**78**	57	46
	3,457	3,329	1,934	**404**	385	215	**349**	334	194
Paints	**2,180**	2,167	2,170	**143**	132	160	**284**	57	166
Industrial Chemicals	**1,654**	1,481	1,790	**(73)**	(76)	(43)	**(141)**	(159)	(192)
Inter-class eliminations	**(28)**	(31)	(67)						
	7,263	6,946	5,827	**474**	441	332	**492**	232	168
Sales to discontinued operations	**(74)**	(125)	(134)						
	7,189	6,821	5,693	**474**	441	332	**492**	232	168
Discontinued operations									
Total	**1,313**	2,666	5,691	**97**	186	288	**295**	264	776
Sales to continuing operations	**(53)**	(201)	(322)						
	1,260	2,465	5,369	**97**	186	288	**295**	264	776
Share of profits less losses of associates							**61**	3	16
Amounts written off investments							**–**	(34)	–
	8,449	9,286	11,062	**571**	627	620	**848**	465	960

	1999 £m	1998 £m	1997 £m
*Goodwill amortisation charged in arriving at the results			
National Starch	**18**	12	–
Industrial Specialties	**1**	–	–
Paints	**16**	11	–
	35	23	–

† As restated – note 1.

Inter-class turnover affected several businesses the largest being sales from Industrial Chemicals to Discontinued operations of £67m (1998 Industrial Chemicals to Paints £64m; 1997 Industrial Chemicals to Discontinued operations of £194m).

	Depreciation (note 13)			Capital expenditure (note 13)		
	1999 £m	1998 £m	1997 £m	**1999 £m**	1998 £m	1997 £m
Continuing operations						
Core operations						
Specialty Products						
National Starch	**79**	51	23	**111**	115	44
Quest	**18**	19	12	**27**	27	11
Industrial Specialties	**38**	39	28	**46**	62	47
	135	109	63	**184**	204	102
Paints	**60**	53	43	**70**	78	65
Industrial Chemicals	**55**	79	182	**65**	109	153
	250	241	288	**319**	391	320
Discontinued operations	**65**	122	481	**91**	163	397
	315	363	769	**410**	554	717

Notes relating to the accounts

4 Segment information (continued)

Geographic areas

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

	Turnover			Trading profit before exceptional items*			Profit before interest and taxation after exceptional items*		
	1999 £m	1998 £m	1997 £m	**1999 £m**	1998 £m	1997 £m	**1999 £m**	1998† £m	1997† £m
Continuing operations									
United Kingdom									
Sales in the UK									
External	**1,145**	947	828						
Intra-Group	**45**	36	105						
	1,190	983	933						
Sales overseas									
External	**874**	936	1,010						
Intra-Group	**260**	262	470						
	1,134	1,198	1,480						
	2,324	2,181	2,413	**1**	31	(19)	**6**	(74)	(141)
Continental Europe									
External	**1,236**	1,236	759						
Intra-Group	**275**	225	414						
	1,511	1,461	1,173	**140**	126	71	**143**	98	69
USA									
External	**2,095**	1,994	1,502						
Intra-Group	**159**	164	271						
	2,254	2,158	1,773	**189**	154	117	**172**	92	90
Other Americas									
External	**633**	689	612						
Intra-Group	**55**	49	81						
	688	738	693	**38**	60	54	**34**	60	31
Asia Pacific									
External	**1,139**	943	885						
Intra-Group	**118**	98	61						
	1,257	1,041	946	**100**	63	94	**130**	49	104
Other countries									
External	**67**	77	97						
Intra-Group	**–**	–	5						
	67	77	102	**6**	7	15	**7**	7	15
	8,101	7,656	7,100	**474**	441	332	**492**	232	168
Inter-area eliminations	**(838)**	(710)	(1,273)						
Sales to discontinued operations	**(74)**	(125)	(134)						
	7,189	6,821	5,693	**474**	441	332	**492**	232	168
Discontinued operations	**1,260**	2,465	5,369	**97**	186	288	**295**	264	776
Share of profits less losses of associates							**61**	3	16
Amounts written off investments							**–**	(34)	–
	8,449	9,286	11,062	**571**	627	620	**848**	465	960

* *After amortisation of goodwill of £35m (1998 £23m).*

† As restated – note 1.

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

United Kingdom £322m, USA £476m and Continental Europe £357m (1998 United Kingdom £721m, USA £821m and Continental Europe £681m; 1997 United Kingdom £1,185m, USA £1,153m, Asia Pacific £1,658m).

Notes relating to the accounts

4 Segment information (continued)

Classes of business

	Total assets less current liabilities 1999 £m	1998 £m	1997 £m
Net operating assets			
Continuing operations			
Core operations			
Specialty Products			
National Starch	**1,531**	1,451	961
Quest	**342**	336	339
Industrial Specialties	**668**	674	646
	2,541	2,461	1,946
Paints	**948**	1,114	783
Industrial Chemicals	**803**	768	842
	4,292	4,343	3,571
Discontinued operations	**–**	1,691	1,961
Total net operating assets	**4,292**	6,034	5,532
Net non-operating liabilities	**(219)**	(1,387)	(909)
	4,073	4,647	4,623

	Notes	Net non-operating liabilities 1999 £m	1998 £m	1997 £m
Net non-operating liabilities				
Non-operating assets				
Fixed asset investments	15	**292**	170	254
Non-operating debtors	17	**150**	137	134
Investments and short-term deposits	18	**394**	455	935
Cash at bank		**270**	367	340
		1,106	1,129	1,663
Non-operating liabilities				
Short-term borrowings	19	**(102)**	(1,445)	(1,105)
Current instalments of loans	21	**(647)**	(585)	(950)
Non-operating creditors	20	**(576)**	(486)	(517)
		(1,325)	(2,516)	(2,572)
		(219)	(1,387)	(909)

Notes relating to the accounts

4 Segment information (continued)

Geographic areas

	Tangible fixed assets			Total assets less current liabilities		
	1999 £m	1998 £m	1997 £m	**1999 £m**	1998 £m	1997 £m
Tangible fixed assets/Net operating assets						
Continuing operations						
United Kingdom	**439**	442	483	**1,173**	1,136	917
Continental Europe	**396**	455	394	**724**	774	529
USA	**861**	845	777	**1,272**	1,350	1,061
Other Americas	**167**	178	185	**301**	294	316
Asia Pacific	**601**	588	574	**806**	770	707
Other countries	**10**	9	23	**16**	19	41
	2,474	2,517	2,436	**4,292**	4,343	3,571
Discontinued operations		1,299	1,520		1,691	1,961
Total net operating assets				**4,292**	6,034	5,532
Net non-operating liabilities				**(219)**	(1,387)	(909)
	2,474	3,816	3,956	**4,073**	4,647	4,623

Total assets of discontinued operations are primarily in the following geographic areas:

1998 UK £583m, Continental Europe £459m, USA £532m; 1997 UK £757m, USA £532m.

	Goodwill included above		
	1999 £m	1998 £m	1997 £m
Goodwill			
National Starch	**311**	311	–
Industrial Specialties	**22**	17	–
Paints	**293**	324	–
	626	652	–

Turnover by customer location

	1999 £m	1998 £m	1997 £m
Continuing operations			
United Kingdom	**1,318**	1,057	968
Continental Europe	**1,627**	1,743	1,410
USA	**2,083**	2,017	1,476
Other Americas	**684**	721	661
Asia Pacific	**1,321**	1,029	922
Other countries	**156**	254	256
	7,189	6,821	5,693
Discontinued operations	**1,260**	2,465	5,369
	8,449	9,286	11,062

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

United Kingdom £298m, Continental Europe £322m and USA £422m (1998 United Kingdom £706m, Continental Europe £599m and USA £742m; 1997 United Kingdom £1,111m, Continental Europe £770m, USA £1,145m and Asia Pacific £1,704m).

Notes relating to the accounts

	1997 (as restated – note 1)			1998 (as restated – note 1)		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
	5,693	5,369	11,062	6,821	2,465	9,286
	(3,954)	(3,941)	(7,895)	(4,698)	(1,810)	(6,508)
	(408)	(344)	(752)	(564)	(196)	(760)
	(112)	(117)	(229)	(166)	(57)	(223)
	(946)	(697)	(1,643)	(1,028)	(233)	(1,261)
	(5,420)	(5,099)	(10,519)	(6,456)	(2,296)	(8,752)
	7	5	12	12	3	15
	52	13	65	64	14	78
	59	18	77	76	17	93
	332	288	620	441	186	627
	(175)	(259)	(434)	(228)	(122)	(350)
	1,739	1,428	3,167	2,123	655	2,778

	5,693	5,369	11,062	6,821	2,465	9,286
	(4,054)	(3,941)	(7,995)	(4,767)	(1,810)	(6,577)
	(408)	(344)	(752)	(564)	(196)	(760)
	(112)	(117)	(229)	(166)	(57)	(223)
	(989)	(697)	(1,686)	(1,182)	(233)	(1,415)
	(5,563)	(5,099)	(10,662)	(6,679)	(2,296)	(8,975)
	7	5	12	12	3	15
	52	13	65	64	14	78
	59	18	77	76	17	93
	189	288	477	218	186	404
	(275)	(259)	(534)	(264)	(122)	(386)
	1,639	1,428	3,067	2,054	655	2,709

Notes relating to the accounts

5 Trading profit

	1999 Continuing operations £m	1999 Discontinued operations £m	1999 Total £m
Trading profit before exceptional items			
Turnover	7,189	1,260	8,449
Operating costs			
Cost of sales	(4,944)	(946)	(5,890)
Distribution costs	(593)	(107)	(700)
Research and development	(157)	(24)	(181)
Administration and other expenses	(1,059)	(90)	(1,149)
	(6,753)	(1,167)	(7,920)
Other operating income			
Royalties	4	–	4
Other income	34	4	38
	38	4	42
Trading profit	474	97	571
Total charge for depreciation and amortisation of goodwill included above	(254)	(65)	(319)
Gross profit, as defined by Companies Act 1985	2,245	314	2,559
Trading profit after exceptional items			
Turnover	7,189	1,260	8,449
Operating costs			
Cost of sales	(4,972)	(946)	(5,918)
Distribution costs	(613)	(107)	(720)
Research and development	(159)	(24)	(183)
Administration and other expenses	(1,107)	(90)	(1,197)
	(6,851)	(1,167)	(8,018)
Other operating income			
Royalties	4	–	4
Other income	34	4	38
	38	4	42
Trading profit	376	97	473
Total charge for depreciation and amortisation of goodwill included above	(285)	(65)	(350)
Gross profit, as defined by Companies Act 1985	2,217	314	2,531

6 Note of historical cost profits and losses

There were no material differences between reported profits and losses and historical cost profit and losses on ordinary activities before tax in 1999, 1998 and 1997.

Notes relating to the accounts

	1997 Continuing operations before exceptional items £m	1997 Discontinued operations £m	1997 Total £m	1998 Continuing operations before exceptional items £m	1998 Discontinued operations £m	1998 Total £m
	56	–	56	7	1	8
	(40)	–	(40)	(5)	–	(5)
	16	–	16	2	1	3
	34	13	47	31	–	31
	110	13	123	187	1	188
	144	26	170	218	1	219
	7	4	11	11	2	13
	152	8	160	180	2	182
	159	12	171	191	4	195
	303	38	341	409	5	414
	(87)	(3)	(90)	(80)	(2)	(82)
	216*	35	251*	329	3	332

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

	1997 (as restated – note 1) Continuing operations Before exceptional items £m	Exceptional items £m	Discontinued operations £m	Total £m	1998 (as restated – note 1) Continuing operations Before exceptional items £m	Exceptional items £m	Discontinued operations £m	Total £m
	(53)	(10)	129	66	139	6	61	206
	(75)	–	(6)	(81)	(69)	–	–	(69)
	88	(50)	7	45	(82)	(31)	(22)	(135)
	(40)	(60)	130	30	(12)	(25)	39	2
	30	–	161	191	–	(4)	76	72
	30	16	(11)	35	37	(19)	(35)	(17)
	60	16	150	226	37	(23)	41	55
	4	–	–	4	5	–	–	5
	24	(44)	280	260	30	(48)	80	62

Notes relating to the accounts

7 Share of operating profits less losses of associates

	1999 Continuing operations before exceptional items £m	Discontinued operations £m	Total £m
Share of operating profits less losses before interest and tax			
Dividend and other income	9	–	9
Share of operating profits less losses before exceptional items	52	–	52
	61	–	61

8 Net interest payable

	1999 Continuing operations before exceptional items £m	Discontinued operations £m	Total £m
Interest payable and similar charges			
Group			
Loan interest			
Bank loans	26	–	26
Other loans	95	–	95
	121	–	121
Interest on short-term borrowing			
Bank borrowings	35	–	35
Other borrowings	205	–	205
	240	–	240
	361	–	361
Amortisation of discounted provisions	3	–	3
Associates	29	–	29
Interest receivable and similar income			
Group	(102)	–	(102)
Net interest payable before exceptional items	291†	–	291†

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

9 Taxation on profit (loss) on ordinary activities

	1999 Continuing operations Before exceptional items £m	Continuing operations Exceptional items £m	Discontinued operations £m	Total £m
ICI and subsidiary undertakings				
United Kingdom taxation				
Corporation tax	(54)	29	(24)	(49)
Double taxation relief	(1)	–	–	(1)
Deferred taxation	55	(20)	(3)	32
	–	9	(27)	(18)
Overseas taxation				
Overseas taxes	78	7	180	265
Deferred taxation	(19)	3	6	(10)
	59	10	186	255
Associates	7	–	–	7
Tax on profit (loss) on ordinary activities	66	19	159	244

UK and overseas taxation has been provided on the profits (losses) earned for the periods covered by the Group accounts. UK corporation tax has been provided at the rate of 30.25% (1998 31%, 1997 31.5%).

The exceptional tax credits in 1998 and 1997 were in respect of the disposal and rationalisation programmes, as discussed in note 3.

The exceptional tax charge in 1999 was in respect of disposal programmes in note 3.

Notes relating to the accounts

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

	1999 £m	1998 (as restated – note 1) £m	1997 (as restated – note 1) £m
Profit (loss) on ordinary activities before taxation is analysed as follows:			
United Kingdom	**36**	(51)	1
Overseas	**435**	181	661
Associated undertakings	**32**	3	16
	503	133	678

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

	1999 £m	1998 £m	1997 £m
Taxation charge at UK corporation tax rate (1999 30.25%; 1998 31%; 1997 31.5%)	**152**	41	213
Movement on provisions	**49**	(21)	10
Local taxes	**5**	4	35
Capital gains not taxable or rolled-over	**(11)**	(47)	(42)
Taxable Intra-Group dividend income	**31**	56	32
Depreciation – tax versus book	**9**	(15)	(12)
Overseas tax rates	**(2)**	8	4
Current year tax losses not relieved	**32**	39	50
Prior year tax losses utilised	**(21)**	(29)	(15)
Goodwill amortisation	**18**	2	–
Other	**(18)**	24	(15)
Tax on profit (loss) on ordinary activities	**244**	62	260

To the extent that dividends remitted from overseas subsidiaries and associated undertakings are expected to result in additional taxes, appropriate amounts have been provided. No taxes have been provided for unremitted earnings of subsidiaries and associated undertakings when such amounts are considered permanently re-invested. Cumulative unremitted earnings of overseas subsidiaries and associated undertakings totalled approximately £1,164m at 31 December 1999 (1998 £3,573m, 1997 £2,467m); the remittance of these amounts would incur tax at substantially lower than statutory rates after giving effect to foreign tax credits.

Deferred taxation

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

	Group			Company		
	1999 £m	1998 £m	1997 (as restated – note 1) £m	1999 £m	1998 £m	1997 (as restated – note 1) £m
Accounted for at balance sheet date (notes 17 and 22)						
Timing differences on UK capital allowances and depreciation	**29**	180	213	**2**	65	68
Miscellaneous timing differences	**(80)**	(146)	(20)	**(14)**	(37)	25
	(51)	34	193	**(12)**	28	93
Not accounted for at balance sheet date						
Timing differences on UK capital allowances and depreciation	–	–	–	–	–	–
Miscellaneous timing differences	**42**	109	90	–	–	–
	42	109	90	–	–	–
Full potential deferred taxation	**(9)**	143	283	**(12)**	28	93

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

Deferred taxation

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

	1999 £m	1998 £m
Deferred tax liabilities		
UK fixed assets	**29**	180
Non-UK fixed assets	**237**	336
Others	**328**	200
	594	716
Deferred tax (assets)		
Restructuring provisions	**(66)**	(36)
Pensions	**(57)**	(60)
Employee liabilities	**(70)**	(90)
Business provisions	**(52)**	(53)
Inter-company inventory transfers	**(1)**	(2)
Stock valuation	**(7)**	(5)
Provisions on disposal of businesses	**(187)**	(73)
Losses	**(13)**	(65)
Intangibles	**(29)**	(45)
Other	**(121)**	(144)
	(603)	(573)
Full potential deferred tax provision/(asset)	**(9)**	143
Not accounted for at the balance sheet date	**(42)**	(109)
Deferred tax accounted for at the balance sheet date	**(51)**	34
Analysed as:		
Current	**(38)**	31
Non-current	**(13)**	3
	(51)	34

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

10 Dividends

	1999	1998	1997	1999 £m	1998 £m	1997 £m
	Pence per £1 Ordinary Share					
Interim, paid 4 October 1999	**12.5**	12.5	12.5	**91**	91	91
Second interim, to be confirmed as final, payable 25 April 2000	**19.5**	19.5	19.5	**142**	141	141
	32.0	32.0	32.0	**233**	232	232

No withholding tax is deducted from payments to UK residents. However, the shareholder, when receiving a dividend, receives an imputed tax credit against his personal tax liability. With effect from 6 April 1999 significant changes were made to the mechanisms for taxing UK resident individuals on dividends from UK companies. The Company is no longer required to pay Advance Corporation Tax to effectively compensate the UK tax authorities for imputing a tax credit to shareholders. The level of tax credit has been reduced to one-ninth of the amount of the dividend. This credit satisfies the tax liability of shareholders who are not subject to tax at rates higher than the basic rate. To the extent that shareholders' income exceeds the basic rate limit a further liability equivalent to 25% of the dividend received will be due. The first 1998 interim dividend was paid as a *Foreign Income Dividend (as was the 1997 dividend) with no attaching tax credit although a UK individual shareholder had no liability to* tax on the dividend at the basic rate of income tax. The second 1998 interim was paid under the regime described above.

Notes relating to the accounts

11 Earnings (loss) per £1 Ordinary Share

	Continuing operations £m	Discontinued operations £m	Total £m
1999			
Net profit for the financial year before exceptional items	**168**	**64**	**232**
Exceptional items after tax and minorities	**(52)**	**72**	**20**
Net profit for the financial year	**116**	**136**	**252**
	million	***million***	***million***
Weighted average Ordinary Shares in issue during year	**728**	**728**	**728**
Weighted average shares held by Group's employee share ownership plan	**(7)**	**(7)**	**(7)**
Basic weighted average Ordinary Shares in issue during year	**721**	**721**	**721**
Dilutive effect of share options	**2**	**2**	**2**
Diluted weighted average Ordinary Shares	**723**	**723**	**723**
	pence	**pence**	**pence**
Basic earnings per £1 Ordinary Share			
before exceptional items	**23.3**	**8.9**	**32.2**
after exceptional items	**16.1**	**18.9**	**35.0**
Diluted earnings per £1 Ordinary Share			
before exceptional items	**23.2**	**8.9**	**32.1**
after exceptional items	**16.0**	**18.9**	**34.9**
1998 (as restated – note 1)	£m	£m	£m
Net profit for the financial year before exceptional items	94	127	221
Exceptional items after tax and minorities	(191)	53	(138)
Net profit (loss) for the financial year	(97)	180	83
	million	*million*	*million*
Weighted average Ordinary Shares in issue during year	728	728	728
Weighted average shares held by Group's employee share ownership plan	(4)	(4)	(4)
Basic weighted average Ordinary Shares in issue during year	724	724	724
Dilutive effect of share options	2	2	2
Diluted weighted average Ordinary Shares	726	726	726
	pence	pence	pence
Basic earnings (loss) per £1 Ordinary Share			
before exceptional items	13.0	17.5	30.5
after exceptional items	(13.4)	24.9	11.5
Diluted earnings (loss) per £1 Ordinary Share			
before exceptional items	12.9	17.5	30.4
after exceptional items	(13.4)	24.8	11.4
1997 (as restated – note 1)	£m	£m	£m
Net profit for the financial year before exceptional items	104	136	240
Exceptional items after tax and minorities	(151)	280	129
Net profit for the financial year	(47)	416	369
	million	million	million
Weighted average Ordinary Shares in issue during year	727	727	727
Weighted average shares held by Group's employee share ownership plan	(2)	(2)	(2)
Basic weighted average Ordinary Shares in issue during year	725	725	725
Dilutive effect of share options	3	3	3
Diluted weighted average Ordinary Shares	728	728	728
	pence	pence	pence
Basic earnings per £1 Ordinary Share			
before exceptional items	14.3	18.8	33.1
after exceptional items	(6.5)	57.4	50.9
Diluted earnings per £1 Ordinary Share			
before exceptional items	14.3	18.7	33.0
after exceptional items	(6.4)	57.1	50.7

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

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

Notes relating to the accounts

12 Intangible fixed assets – goodwill

	£m
Group	
Cost	
At beginning of year	675
Acquisitions	6
Exchange adjustments	3
At end of year	**684**
Amortisation	
At beginning of year	23
Charge for year	35
At end of year	58
Net book value at end 1999	**626**
Net book value at end 1998	652

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

13 Tangible fixed assets

	Land and *buildings* £m	Plant and *equipment* £m	Payments on *account and* assets in course of construction £m	**Total** **£m**
Group				
Cost				
At beginning of year	1,136	5,366	454	**6,956**
New subsidiary undertakings	5	2	1	**8**
Capital expenditure			410	**410**
Transfers of assets into use	56	353	(409)	
Exchange adjustments	(12)	(45)	1	**(56)**
Disposals and other movements	(197)	(2,564)	(166)	**(2,927)**
At end of year	988	3,112	291	**4,391**
Depreciation				
At the beginning of the year	331	2,809		**3,140**
Charge for year	47	268		**315**
Exchange adjustments	(7)	(30)		**(37)**
Disposals and other movements	(136)	(1,365)		**(1,501)**
At end of year	235	1,682		**1,917**
Net book value at end 1999	**753**	**1,430**	**291**	**2,474**
Net book value at end 1998	805	2,557	454	3,816

The Group depreciation charge of £315m, shown above, comprises £284m charged in arriving at trading profit and £31m charged to exceptional items, within trading profit, relating to impairments.

Capital expenditure in the year of £410m includes capitalised finance leases of £5m; creditors for capital work done but not paid for decreased by £23m; the resulting cash expenditure on tangible fixed assets was £428m.

The net book value of the tangible fixed assets of the Group includes capitalised finance leases of £11m (1998 £18m) comprising cost of £15m (1998 £24m) less depreciation of £4m (1998 £6m). The depreciation charge for the year in respect of capitalised leases was £2m (1998 £3m) and finance charges were £1m (1998 £1m).

Included in land and buildings is £192m (1998 £212m) in respect of the cost of land which is not subject to depreciation.

Notes relating to the accounts

13 Tangible fixed assets (continued)

	Land and buildings £m	Plant and equipment £m	Payments on account and assets in course of construction £m	Total £m
Company				
Cost				
At beginning of year	55	558	47	**660**
Capital expenditure			24	**24**
Transfers of assets into use	1	53	(53)	**1**
Transfers (to)/from subsidiary undertakings	(7)	(12)		**(19)**
Disposals and other movements	(21)	(450)	(6)	**(477)**
At end of year	28	149	12	**189**
Depreciation				
At beginning of year	28	312		**340**
Transfers (to)/from subsidiary undertakings	(4)	(4)		**(8)**
Charge for year	1	24		**25**
Disposals and other movements	(12)	(220)		**(232)**
At end of year	13	112		**125**
Net book value at end 1999	**15**	**37**	**12**	**64**
Net book value at end 1998	27	246	47	320

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
The net book value of land and buildings comprises:				
Freeholds	**702**	734	**15**	27
Long leases (over 50 years unexpired)	**46**	54	**–**	–
Short leases	**5**	17	**–**	–
	753	805	**15**	27

14 Investments in subsidiary undertakings

	Shares £m	Loans £m	Total £m
Cost			
At beginning of year	7,631	2,951	**10,582**
New investments/new loans	846	–	**846**
Disposals/loans repaid/transfers	(690)	(780)	**(1,470)**
Exchange adjustments	4	16	**20**
At end of year	7,791	2,187	**9,978**
Provisions			
At beginning of year	(556)	(1)	**(557)**
Exchange adjustments	(5)	–	**(5)**
Disposals/loans repaid/transfers	375	–	**375**
At end of year	(186)	(1)	**(187)**
Balance sheet value at end 1999	**7,605**	**2,186**	**9,791**
Balance sheet value at end 1998	7,075	2,950	10,025

Cost includes scrip issues capitalised £1m (1998 £1m).

	1999 £m	1998 £m
Shares in subsidiary undertakings which are listed investments		
Balance sheet value	**4**	4
Market value	**66**	56

The Company's investment in its subsidiary undertakings consists of either equity or long-term loans, or both. Normal trading balances are included in either debtors or creditors. Information on principal subsidiary undertakings is given on page 99.

Notes relating to the accounts

15 Investments in participating and other interests

	Associates			Other investments			Total
	Equity accounted shares	Non equity shares	Loans	Own* shares	Other shares	Loans	
	£m	£m	£m	£m	£m	£m	£m
Group							
Cost							
At beginning of year	36	7	10	62	135	–	**250**
Additions	11	–	138	–	(1)	1	**149**
Disposals and repayments	(4)	(6)	3	(1)	(20)	(5)	**(33)**
Reclassifications	2	–	–	(7)	8	4	**7**
Exchange adjustments	(5)	–	(1)	–	(15)	–	**(21)**
At end of year	40	1	150	54	107	–	**352**
Share of post-acquisition reserves less losses							
At beginning of year	15						**15**
Retained profits less losses	16						**16**
Exchange adjustments	(5)						**(5)**
At end of year	26						**26**
Provisions							
At beginning of year	–	(1)	–	–	(94)	–	**(95)**
Exchange adjustments	–	–	–	–	9	–	**9**
At end of year	–	(1)	–	–	(85)	–	**(86)**
Balance sheet value at end 1999	**66**	**–**	**150**	**54**	**22**	–	**292**
Balance sheet value at end 1998	51	6	10	62	41		170

The above investments included:

		Own* shares	Other shares	Total
1999				
Listed investments	– balance sheet value	54	11	65
	– market value	38	9	47
1998				
Listed investments	– balance sheet value	62	11	73
	– market value	32	11	43

*'Own shares' relates to 5.8m (1998 6.2m) shares of the Company held by Impkemix Trustee Limited, a Group subsidiary company for the purposes of the Group's employee share ownership plan.

The fair values of the investments which are not listed, are not materially different from their carrying values.

The Group's principal associates are as follows:

	Issued share and loan capital at date of latest available audited accounts Class of capital	£m	Held by ICI %	Principal activities
IC Insurance Ltd England	Ordinary	20	49†	Insurance and reinsurance underwriting
Huntsman ICI Holdings LLC USA	Membership units (voting)	*	30†	Manufacture of specialty and commodity chemicals: polyurethane chemicals, propylene oxide, petrochemicals and titanium dioxide
Phillips-Imperial Petroleum Ltd England	Ordinary	–	50†	Refining crude oil and marketing petroleum products

† Held by subsidiaries * Incorporated 23 March 1999

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

Shareholding rights and restrictions

Huntsman ICI Holdings LLC

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

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

Notes relating to the accounts

15 Investments in participating and other interests (continued)

The Group's share of the turnover of its equity accounted associates was £701m (1998 £286m). The Group's share of the assets and liabilities of associates comprised:

	1999 £m	1998 £m
Fixed assets	733	91
Current assets	377	130
Creditors due within one year		
Loans and short term borrowings	68	62
Other	223	69
Creditors due only after more than one year		
Loans	563	19
Other	71	2

	1999 £m	1998 £m
Loans, or instalments thereof, and short-term borrowings are repayable as follows:		
After 5 years from balance sheet date	455	–
From 4 – 5 years	27	–
From 3 – 4 years	25	–
From 2 – 3 years	23	16
From 1 – 2 years	33	3
Total due after more than one year	563	19
Total due within one year	68	62
Total loans and short-term borrowings	631	81

Restrictions on distributions

There are no significant statutory or contractural rights on the distribution of current profits of associates.

Notes relating to the accounts

15 Investments in participating and other interests (continued)

	Associates Shares £m	Other investments Shares £m	Total £m
Company			
Cost			
At the beginning of year	4	118	**122**
Disposals	(4)	(12)	**(16)**
Exchange adjustments	–	(15)	**(15)**
At end of year	–	91	**91**
Provisions			
At the beginning of year	–	(98)	**(98)**
Disposals	–	3	**3**
Exchange adjustments	–	10	**10**
At end of year	–	(85)	**(85)**
Balance sheet value at end 1999	**–**	**6**	**6**
Balance sheet value at end 1998	4	20	24

The above investments included:

		Other investments	Total
1999			
Listed investments	– balance sheet value	11	11
	– market value	9	9
1998			
Listed investments	– balance sheet value	11	11
	– market value	11	11

16 Stocks

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Raw materials and consumables	**325**	471	**5**	21
Stocks in process	**17**	15	**1**	1
Finished goods and goods for resale	**511**	727	**21**	40
	853	1,213	**27**	62

17 Debtors

	Group 1999 £m	Group 1998 £m	*Non-operating debtors included in Group 1999 £m*	*Non-operating debtors included in Group 1998 £m*	Company 1999 £m	Company 1998 £m
Amounts due within one year						
Trade debtors	**1,195**	1,473			**16**	38
Less: amounts set aside for doubtful accounts	**(80)**	(87)			**–**	–
	1,115	1,386			**16**	38
Amounts owed by subsidiary undertakings					**2,900**	2,481
Amounts owed by associates	**7**	5			**–**	–
Prepaid pension costs	**7**	–			**–**	–
Deferred tax asset	**38**	–	***38***	*–*	**12**	–
Taxation recoverable	**75**	122	***75***	*122*	**–**	–
Other prepayments and accrued income	**99**	145	***23***	*15*	**34**	58
Other debtors	**82**	296	***–***	*–*	**16**	10
	1,423	1,954	***136***	*137*	**2,978**	2,587
Amounts due after more than one year						
Deferred tax asset	**13**	–	***13***	*–*	**–**	–
Prepaid pension costs	**375**	281	***–***	*–*	**251**	213
Other debtors	**259**	125	***1***	*–*	**18**	34
	647	406	***14***	*–*	**269**	247
	2,070	2,360	***150***	*137*	**3,247**	2,834

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

Notes relating to the accounts

18 Current asset investments and short-term deposits

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Listed investments	**139**	48	**–**	–
Unlisted investments and short-term deposits	**255**	407	**–**	–
	394	455	**–**	–
Included in cash and cash equivalents	**184**	242	**–**	–
Market value of listed investments	**139**	48	**–**	–

Included in unlisted investments and short-term deposits and cash are amounts totalling £147m (1998 £188m) held by the Group's insurance subsidiaries. In 1999 £12m (1998 £36m) was readily available for the general purposes of the Group.

The management of current asset investments is discussed in note 40.

19 Short-term borrowings

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m	Average interest rate – Group* 1999 %	Average interest rate – Group* 1998 %
Bank borrowings						
Secured						
by fixed charge	**1**	–	**–**	–		
by floating charge	**–**	30	**–**	–		
Unsecured	**72**	89	**–**	–		
	73	119	**–**	–	**6.1**	10.3
Other borrowings (unsecured)	**29**	1,326	**–**	–	**6.2**	6.4
	102	1,445	**–**	–		
Maximum short-term borrowings outstanding during year	**2,279**	1,445	**–**	–		

* Based on borrowings outstanding at 31 December.

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

20 Other creditors

	Group 1999 £m	Group 1998 £m	*Non-operating creditors included in Group* 1999 £m	*Non-operating creditors included in Group* 1998 £m	Company 1999 £m	Company 1998 £m
Amounts due within one year						
Trade creditors	**833**	1,070			**54**	82
Amounts owed to subsidiary undertakings					**6,749**	6,995
Amounts owed to associates	**9**	6			**–**	–
Corporate taxation	**332**	223	***332***	*223*	**119**	129
Value added and payroll taxes and social security	**30**	25			**–**	–
Dividends to Ordinary Shareholders	**142**	141	***142***	*141*	**142**	141
Environmental liabilities	**11**	12	***2***	*2*	**–**	–
Accruals	**445**	376	***86***	*91*	**20**	34
Other creditors*	**355**	503	***14***	*29*	**40**	40
	2,157	2,356	***576***	*486*	**7,124**	7,421
Amounts due after more than one year						
Corporate taxation	**2**	1				–
Amounts owed to subsidiary undertakings					**1,250**	2,774
Environmental liabilities	**6**	8			**4**	4
Pension liabilities	**11**	14			**–**	–
Other creditors*	**52**	32			**2**	6
	71	55			**1,256**	2,784

* Includes obligations under finance leases (note 36).

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

Notes relating to the accounts

21 Loans

	Repayment dates	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Secured loans					
US dollars	2000/2016	6	25		
Taiwanese dollars	2000/2001	–	5		
Other currencies	2000/2004	86	89		
Total secured		92	119	–	–
Secured by fixed charge – bank loans		78	85		
– other		13	27		
Secured by floating charge – bank loans		1	7		
Unsecured loans					
Sterling					
$9\frac{3}{4}$% and 10% Bonds	2003/2005	200	200	200	200
7.625% Bonds	2007	297	297		
5.635% to 7.65% medium-term notes	2000/2003	130	121	5	–
Variable rate medium-term notes	2000	27	127	27	127
Others	2000/2003	42	63	13	15
		696	808	245	342
US dollars					
$8\frac{7}{8}$% Debentures	2006	155	151		
8.85% to 8.9% medium-term notes	2000/2002	9	27		
$8\frac{3}{4}$% Notes	2001	155	151		
$9\frac{1}{2}$% Notes	2000	186	181		
$7\frac{1}{2}$% Notes	2002	124	121		
$6\frac{3}{4}$% Notes	2002	155	150		
$6\frac{19}{20}$% Notes	2004	464	450		
$7\frac{1}{20}$% Notes	2007	155	150		
$6\frac{3}{4}$% Bonds	2002	309	301		
Variable rate medium-term notes	1999	–	301	–	301
Variable rate medium-term notes	2000/2003	160	200	36	67
Others	2000/2008	109	170	–	9
		1,981	2,353	36	377
German marks (variable rate)	2000/2002	–	40	–	–
Other currencies	2000/2004	143	158	62	134
Total unsecured		2,820	3,359	343	853
Total loans – excluding financial derivatives		2,912	3,478	343	853
Financial derivatives		(13)	61	12	–
Total loans		2,899	3,539	355	853

An analysis reflecting the effects of financial instruments on the Group's borrowings at 31 December 1999 is set out in note 40.

The following analysis reflects the effects of financial derivatives on the Group's borrowings at 31 December 1999.

	Before financial derivatives £m	After financial derivatives £m
Sterling	696	252
US dollars and US dollar related currencies	2,075	1,755
Euro and Euro related currencies	70	657
Japanese yen	71	235
Others	–	–
	2,912	2,899
Fixed rate loans	2,718	424
Floating rate loans	194	2,475

The secured debt referred to in this note and the secured short-term borrowings referred to in note 19 were secured by property, plant and other assets with a net book value at 31 December 1999 of £319m.

Notes relating to the accounts

21 Loans (continued)

Loan maturities	Group 1999 £m	1998 £m	Company 1999 £m	1998 £m
Bank loans				
Loans or instalments thereof are repayable:				
After 5 years from balance sheet date	**125**	113		
From 2 to 5 years	**175**	265		
From 1 to 2 years	**57**	43		
Total due after more than one year	**357**	421		
Total due within one year	**41**	87		
	398	508	**–**	–
Other loans				
Loans or instalments thereof are repayable:				
After 5 years from balance sheet date	**613**	1,068	**100**	100
From 2 to 5 years	**1,090**	794	**120**	141
From 1 to 2 years	**192**	671	**27**	119
Total due after more than one year	**1,895**	2,533	**247**	360
Total due within one year	**606**	498	**108**	493
	2,501	3,031	**355**	853
Total loans				
Loans or instalments thereof are repayable:				
After 5 years from balance sheet date	**738**	1,181	**100**	100
From 4 to 5 years	**494**	164	**–**	117
From 3 to 4 years	**151**	667	**120**	–
From 2 to 3 years	**620**	228	**–**	24
From 1 to 2 years	**249**	714	**27**	119
Total due after more than one year	**2,252**	2,954	**247**	360
Total due within one year	**647**	585	**108**	493
	2,899	3,539	**355**	853
Aggregate amount of loans any instalment of which falls due after 5 years	**793**	1,266	**100**	100

22 Provisions for liabilities and charges

	Deferred taxation £m	*Unfunded pensions (note 38)* £m	*Employee benefits* £m	*Environmental provisions* £m	*Disposal provisions (note 23)* £m	*Restructuring provisions (note 23)* £m	*Other provisions* £m	*Total* £m
Group								
At the beginning of 1999	34	256	248	82	421	176	223	1,440
Profit and loss account	22	21	20	7	488	141	–	699
Net amounts paid								
or becoming payable	–	(26)	(11)	(13)	(307)	(95)	(63)	(515)
Movements due								
to acquisitions and disposals	(93)	(13)	(28)	–	–	–	(22)	(156)
Exchange and other movements	37*	(22)	–	(5)	(2)	(7)	(13)	(12)
At end of 1999	**–**	**216**	**229**	**71**	**600**	**215**	**125**	**1,456**
Company								
At the beginning of 1999	28	–	–	–	164	–	18	210
Profit and loss account	–	–	–	–	214	63	11	288
Net amounts paid or becoming current	–	–	–	–	(123)	(13)	(11)	(147)
Movements due to acquistions								
and disposals	(42)	–	–	–	–	–	–	(42)
Exchange and other movements	14*	–	–	–	(2)	–	–	12
At end of 1999	**–**	**–**	**–**	**–**	**253**	**50**	**18**	**321**

* Deferred tax asset balances are disclosed in note 17.

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

Notes relating to the accounts

23 Disposal and restructuring provisions

	Disposal provisions			Restructuring provisions		
	1999	1998 (as restated – note 1)	1997 (as restated – note 1)	**1999**	1998 as restated – note 1)	1997 (as restated – note 1)
	£m	£m	£m	**£m**	£m	£m
At beginning of year	**421**	162	–	**191**	71	106
Exceptional items before tax						
Rationalisation of operations (note 3)	**–**	–	–	**98**	223	143
Fundamental reorganisation costs (note 3)	**–**	–	–	**74**	–	–
Profit and loss account	**515**	406	245	**–**	–	–
Asset write-offs	**(27)**	–	(49)	**(31)**	(36)	(105)
Amounts paid	**(302)**	(156)	(25)	**(93)**	(58)	(72)
Exchange and other adjustments	**(2)**	9	(9)	**(2)**	(9)	(1)
At end of year	**605**	421	162	**237**	191	71
Provisions	**600**	421	162	**215**	176	63
Creditors	**5**	–	–	**22**	15	8
	605	421	162	**237**	191	71
Comprising						
Severance costs	**132**	192	79	**116**	105	8
Other	**473**	229	83	**121**	86	63
	605	421	162	**237**	191	71

Disposal provisions

As outlined in Management's Discussion and Analysis, ICI commenced reshaping its portfolio of businesses in 1997 consistent with plans to focus its resources on Specialty Chemicals. In pursuit of this strategy the Group has announced that it intends to divest most of its Industrial Chemicals business.

1997

In the period from July 1997 to 31 December 1997, the Group disposed of the following major businesses:

(i) 62.4% ordinary shareholding in ICI Australia Limited

In July 1997, the Group's 62.4% ordinary shareholding in ICI Australia was sold by means of a global public offering. Provision was made for expenditure of £17m in respect of certain separation costs associated with the Group's Paints, Explosives, Industrial Specialties and Polyurethanes businesses which had operations in Australia. These provisions had been fully utilised by 31 December 1998.

(ii) Polyester polymer and intermediates business excluding operations in Pakistan

At the end of December 1997, the Group sold its polyester polymer and intermediates (PTA and PET) interest in the UK and USA, and its 70% shareholding in a PTA joint venture in Taiwan to DuPont. Provisions of £226m were set up in respect of termination costs (£83m), asset write-downs (£35m), pension costs relating to employees transferring to the purchaser (£26m), site closure (£17m) and other exit related costs (£65m). During 1999, revisions were made to the estimated costs from this disposal resulting in £39m of provisions being released and £27m of further costs being provided. The net effect of these revisions was a credit to exceptional profit of £12m. At 31 December 1999, a total of £65m remained to be spent mainly on termination costs (£33m) and long-term residual costs (£13m). With the exception of the long-term residual costs the provisions are expected to be mainly utilised by the end of 2000.

(iii) Other disposals

The Group also divested its Canadian based Forest Products and UK based Fertiliser businesses. Provisions of £97m were raised for these two divestments, comprising termination costs (£20m) for 135 employees, asset write-downs (£14m), environmental clean up costs (£10m), pension costs relating to employees transferring to the purchaser (£41m) and other costs (£12m). During 1999, revisions were made to the estimated costs from these disposals resulting in £8m of provisions being released and £10m of further costs being provided. The net effect of these revisions was an exceptional charge of £2m. Provisions remaining at the end of 1999 relating to the Forest Products and Fertiliser divestments totalled £37m principally comprising termination costs (£4m) for 28 employees yet to be terminated, environmental and site clearance costs (£14m) and long-term residual costs (£10m). With the exception of the long-term residual costs and environmental costs the majority of the provision is expected to be spent by the end of 2000.

The 1997 disposal provisions were raised prior to the adoption of FRS 12 *Provisions, Contingent Liabilities and Contingent Assets.* Under FRS 12 £101m of these provisions have been restated and recognised in 1998.

1998

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

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

In April 1998, the Group sold its explosives operations in Canada, Latin America and Europe and the explosives distribution business in the USA to Orica Limited. Provisions of £90m were set up in respect of environmental remediation (£12m), site clearance (£9m), termination costs (£9m) and other costs (£60m). At 31 December 1999, £26m remained to be spent mainly on environmental remediation and other costs. With the exception of environmental costs the provisions are expected to be utilised by the end of 2000.

Notes relating to the accounts

23 Disposal and restructuring provisions (continued)

Disposal provisions (continued)

(ii) Polyester film business

In January 1998, the Group sold its polyester film business to DuPont. Provisions of £72m were set up in respect of termination costs (£22m), pension costs relating to employees transferring to the purchaser (£20m), corporate relocation (£9m) and other costs (£21m). During 1999, revisions were made to the estimated costs from this disposal resulting in £3m of provisions being released and £3m of further costs being provided. At 31 December 1999, £29m remained to be spent mainly on termination costs (£10m), corporate relocation (£3m) and long-term residual costs (£9m). With the exception of the long-term residual costs, the provisions are expected to be utilised by the end of 2001.

(iii) Other disposals

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

During 1999, revisions were made to the estimated costs from these disposals resulting in the release of £4m of provisions as an exceptional profit. At the end of 1999, provisions unspent relating to the Propafilm, Methylamines and Teesside Utilities and Services businesses totalled £63m principally comprising termination costs (£24m) where some 200 jobs are still to be terminated, and environmental remediation costs (£14m). With the exception of the environmental remediation costs the balance of these provisions is expected to be spent by the end of 2000.

The 1998 disposal provisions were recognised in accordance with FRS 12 and hence no restatement applies.

1999

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

(i) Polyurethanes, Tioxide and selected Petrochemicals businesses

In June 1999 the Group sold its Polyurethanes, Tioxide and selected Petrochemicals businesses (aromatics, hydrogen and North Tees Logistics businesses, together with the Olefines supply business) to Huntsman ICI Holdings LLC. Total provisions charged were £312m mainly in respect of termination costs (£38m) for 360 employees, pension costs relating to employees transferring to the purchaser (£35m), transaction costs (£42m), separation costs (£23m), IT related costs (£26m), site clearance costs (£13m), asset write-downs (£13m) and long-term residual costs (£91m). At 31 December 1999, £220m remained to be spent principally comprising termination costs (£30m) where some 290 jobs are still to be terminated, pension transfer costs (£6m), transaction costs (£13m), separation costs (£19m), IT related costs (£19m), site clearance costs (£13m) and long-term residual costs (£91m). With the exception of the long-term residual costs, the provisions are expected to be utilised by the end of 2001.

(ii) Automotive Refinish Business

The Group sold its automotive refinish business outside the Indian sub-continent to PPG Industries. The sale of the business in Europe and the Americas was completed in July 1999 and the sale of the Asian business outside the Indian sub-continent was completed in December 1999. Total provisions charged were £90m including termination costs (£6m) for 220 employees, pension costs relating to employees transferring to the purchaser (£21m), transaction costs (£13m), asset write-downs (£12m), separation costs (£6m) and IT related costs (£5m). At 31 December 1999, £49m remained to be spent mainly on termination costs (£6m) where some 170 jobs are yet to be terminated, pension transfer costs (£7m), transaction costs (£6m), separation costs (£6m) and IT related costs (£5m). The majority of the provisions are expected to be utilised by the end of 2001.

(iii) Acrylics Business

In November 1999 the Group sold its Acrylics Business to Ineos Acrylics Ltd. Total provisions of £76m were set up, including termination costs for 45 employees (£5m), pension costs relating to employees transferring to the purchaser (£25m), transaction costs (£18m), IT related costs (£7m) and long-term residual costs (£10m). At 31 December 1999, £55m remained to be spent principally on termination costs (£4m) where some 28 jobs are still to be terminated, pensions transfer costs (£13m), transaction costs (£14m), IT related costs (£7m) and long-term residual costs (£10m). With the exception of the long-term residual costs, provisions are expected to be utilised by the end of 2001.

(iv) Other disposals

The Group also divested some smaller businesses including Fluoropolymers and Ethylene Oxide. Provisions of £63m were raised for these disposals including termination costs (£11m) for 110 employees, pension costs associated with employees transferring to the purchaser (£8m), site clearance costs (£9m) and long-term residual costs (£12m). At the end of 1999, unspent provisions relating to these disposals totalled £48m principally comprising termination costs (£9m) for 69 employees, pension transfer costs (£6m), site clearance costs (£9m) and long-term residual costs (£12m). With the exception of the long-term residual costs these provisions are expected to be spent by the end of 2001.

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

Restructuring provisions

1997

In 1997, the Group undertook a series of actions across its portfolio, including projects to improve parts of the Specialty Chemicals businesses acquired from Unilever including integration opportunities identified after acquisition. The projects comprised:-

Quest – nine programmes worldwide to reduce Quest's cost base and improve its organisational effectiveness including the closure of plants, restructuring the Businesses and rationalisation of administrative activities.

Industrial Chemicals – projects comprised of:

Restructuring of electricity and steam supplies at the Group's Runcorn site
Restructuring the administration and overhead of the Group's Chlor-Chemicals business
Impairment of assets of Chlor-Chemicals business

The Chlor-Chemicals business operated at a loss and with a negative cash flow during 1997. An assessment of the economic value of the business based on projected cash flows indicated that the carrying value of the fixed assets of the business was not justified and a write-down of £100m was made.

Notes relating to the accounts

23 Disposal and restructuring provisions (continued)

Restructuring provisions (continued)

Industrial Specialties – during late 1997 the Group undertook a programme to integrate ICI's existing businesses together with the acquired Unilever businesses in the areas of:

European surfactants
Catalysts
Lubricants

The business also implemented certain environmental remediation work.

The total exceptional provision before tax of £202m was charged against 1997 trading profit of which £63m related to anticipated terminations of 621 employees, £105m for asset write-downs, £24m for site clearance and £10m for other costs. These provisions were charged prior to the adoption of FRS 12. Under FRS 12, £143m was chargeable in 1997 and £59m has been restated and recognised in 1998.

At 31 December 1999, £58m of this provision remained unspent principally being £9m of termination costs relating to 50 employees and £12m for site clearance and closure. With the exception of the restructuring of electricity and steam supplies at Runcorn, provisions are expected to be spent by the end of 2000. Provisions for restructuring electricity and steam supplies at Runcorn are expected to be spent by the end of 2003.

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

Paints – the Paints Business commenced three restructuring programmes:

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

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

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

Industrial Specialties – restructuring by the Industrial Specialties Business relating principally to the Crosfield business including a reduction of its UK site infrastructure and a downsizing of operations in Latin America, (particularly Brazil, in line with market demand). Other restructuring by the Business comprised further integration costs for the surfactants, lubricants and catalysts activities.

Industrial Chemicals – restructuring included:

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

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

The total exceptional provision before tax of £164m for these restructuring programmes was charged against 1998 trading profits of which £68m related to anticipated terminations of some 1,700 employees, £36m to asset write-downs and £60m for other costs including £27m for provisions against assets and £6m for site clearance and closure. The 1998 restructuring provisions were in accordance with FRS 12.

At the end of 1999, £52m of these provisions remained to be spent including £38m of termination costs in respect of some 400 employees. The provisions are expected to be spent mainly by the end of 2000.

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

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

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

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

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

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

The total exceptional provision before tax of £172m for these restructuring programmes was charged against 1999 profits of which £80m related to termination of 1,030 employees, £31m to asset write-downs and £61m for other costs. At the end of 1999, £21m of these provisions had been spent including £10m relating to the termination of 230 employees. Most of the provisions are expected to be spent by the end of 2001.

Notes relating to the accounts

24 Called-up share capital of parent company

Ordinary Shares of £1 each	Authorised £m	Allotted, called-up and fully paid £m
At beginning of 1997	850	725
Employee share option schemes – options exercised		2
At end of 1997	850	727
Employee share option schemes – options exercised		1
At end of 1998	850	728
Employee share option schemes – options exercised		–
At end of 1999	**850**	**728**

Employees' share option schemes

ICI granted share options and other market based units to Executive Directors, senior executives and certain key employees under three main plans: the Share Option Scheme (Senior Staff Scheme), the Bonus Conversion Plan and the Stock Appreciation Rights Plan (SARP). These schemes are described on page 39. The Company also operates a savings related share option scheme (UK – Sharesave) for all UK employees meeting minimum service requirements.

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

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

At 31 December 1999 there were 84,351 shares outstanding representing the matched shares under the Bonus Conversion Plan to be delivered as the Company's Ordinary Shares or in the form of ADSs. Shares and ADSs required for this Plan are purchased in the market by a trust.

Options granted to Directors and Officers are shown in the Remuneration report on page 41.

a) Transactions on Option Schemes

	Senior Staff Scheme		UK – Sharesave		SARP	
	Number of options 000	Weighted average exercise price £	Number of options 000	Weighted average exercise price £	Number of options in ADSs 000	Weighted average exercise price $
Outstanding						
At beginning of 1997	3,641	7.10	10,491	6.41	78	47.83
Granted	471	10.12	3,499	7.31	111	65.50
Exercised	(1,059)	6.42	(73)	6.31	(7)	48.35
Cancelled	(138)	6.60	(537)	6.58		
At beginning of 1998	2,915	7.86	13,380	6.64	182	58.63
Granted	1,825	12.02	3,480	4.75	201	77.05
Exercised	(275)	6.92	(789)	6.42	(8)	47.97
Cancelled	–	–	(3,475)	6.91	(1)	78.90
At beginning of 1999	4,465	9.61	12,596	6.05	374	68.71
Granted	5,125	5.81	2,996	4.93	547	35.66
Exercised	(119)	5.73	(147)	5.94	(3)	34.70
Cancelled	(360)	8.58	(3,476)	6.29	(16)	45.49
At end of 1999	9,111	7.56	11,969	5.71	902	48.98
Number of options exercisable at:						
31 December 1997	1,577	7.02	–	–	9	47.97
31 December 1998	1,540	7.48	–	–	45	49.61
31 December 1999	2,353	7.46	–	–	173	47.48

Notes relating to the accounts

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

b) Summary of share options outstanding at 31 December 1999

	Total options outstanding at 31 December 1999			Exercisable options at 31 December 1999	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
	000	Years	£/$	000	£/$
Exercise price range					
Senior Staff Scheme					
£0 – £10	6,986	8.00	6.29	1,990	6.73
£10 – £20	2,125	8.25	11.82	363	11.45
	9,111		7.56	2,353	7.46
UK – Sharesave					
£0 – £10	11,966	3.12	5.70	–	–
£10 – £20	3	0.6	10.30	–	–
	11,969		5.71	–	–
SARP (ADSs)					
$20 – $40	488	9.15	34.49	83	34.70
$40 – $60	118	7.88	45.14	54	47.72
$60 – $80	296	9.05	73.97	36	76.46
	902		48.98	173	47.48

At 31 December 1999 there were options outstanding in respect of 21.1m (1998 17.1m) Ordinary Shares of £1 under the Senior Staff and UK – Sharesave Option Schemes normally exercisable in the period 2000 to 2009 (1999 to 2008) at subscription prices of £4.75 to £12.14 (1998 £4.75 to £12.14). Movements in the number of shares under option during 1999 comprised new options 8.12m, options exercised 0.27m, and options lapsed or waived 3.84m. The number of Ordinary Shares issued during the year, wholly in respect of the exercise of options, totalled 0.2m (1998 1.0m; 1997 1.1m).The weighted average subscription price of options outstanding at 31 December 1999 was £6.41.

At 2 February 2000 there were options outstanding in respect of 18.5m Ordinary Shares of £1 normally exercisable in the period 2000 to 2009 (1999 to 2008) at subscription prices of £4.75 to £12.14 (1998 £4.75 to £12.14). The weighted average subscription price of options outstanding at 2 February 2000 was £6.40.

Notes relating to the accounts

25 Reserves

	Share premium account	Retained earnings: Revaluation	Retained earnings: Associates	Retained earnings: Profit and loss account	Retained earnings: Total	Total
	£m	£m	£m	£m	£m	£m
Group						
Reserves attributable to parent company shareholders						
At beginning of 1997	576	35	71	2,199	2,305	2,881
Net (loss) profit for the financial year			(44)	413†	369	369
Dividends (note 10)				(232)	(232)	(232)
Transfer of goodwill on disposals				32	32	32
Impairment of goodwill on future disposals				245	245	245
Amounts taken direct to reserves						
Share premiums – share option schemes	5					5
Goodwill				(3,516)	(3,516)	(3,516)
Exchange adjustments		(4)	(1)	(254)	(259)	(259)
Share of other reserve movements of associates and other items		(31)		35	4	4
	5	(35)	(1)	(3,735)	(3,771)	(3,766)
At beginning of 1998	581	–	26	(1,078)†	(1,052)	(471)
Net (loss) profit for the financial year			(10)	93†	83	83
Dividends (note 10)				(232)	(232)	(232)
Transfer of goodwill on disposals				126	126	126
Amounts taken direct to reserves						
Share premiums – share option schemes	6					6
Goodwill relating to 1997 acquisitions				(48)	(48)	(48)
Exchange adjustments			(1)	(42)	(43)	(43)
	6		(1)	(90)	(91)	(85)
At beginning of 1999	587	–	15	(1,181)	(1,166)	**(579)**
Net profit for the financial year			16	236	252	**252**
Dividends (note 10)				(233)	(233)	**(233)**
Transfer of goodwill on disposals				69	69	**69**
Amounts taken direct to reserves						
Share premiums – share option schemes	1					**1**
Goodwill relating to 1997 acquisitions				10	10	**10**
Exchange adjustments			(5)	1	(4)	**(4)**
	1	–	(5)	11	6	**7**
At end of 1999	**588**	**–**	**26**	**(1,098)**	**(1,072)**	**(484)**

† As restated – note 1.

At the end of 1999, the cumulative goodwill offset against profit and loss account amounted to £4,082m (1998 £4,161m; 1997 £4,239m). Included in this figure was negative goodwill the cumulative amount of which at 31 December 1999 was £1m (1998 £1m; 1997 £1m).

In the Group accounts, £28m of net exchange gains on foreign currency loans (1998 losses £63m; 1997 gains £62m) have been offset in reserves against exchange losses (1998 gains; 1997 losses) on the net investment in overseas subsidiaries and associates.

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

	1999	1998	1997
	£m	£m	£m
At beginning of year	**(273)**	(230)	29
Exchange adjustments	**(4)**	(43)	(259)
At end of year	**(277)**	(273)	(230)

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

Notes relating to the accounts

25 Reserves (continued)

The Articles of Association of Imperial Chemical Industries PLC state that borrowings after deducting cash, current asset investments and short-term deposits, must not exceed two and a half times the shareholders' equity after adding back sums, calculated in accordance with US GAAP, equivalent to the unamortised balance of goodwill arising on acquisitions made after 1 January 1986. Any borrowings, cash or short-term investments held by subsidiaries in their capacity as trustee of a Group pension fund are excluded from the calculation. For the purpose of calculating the basis of the borrowing limits, in accordance with the Articles of Association, the total of the sums standing to the credit of capital and revenue reserves of the Company and its subsidiary undertakings, to be added to the nominal amount of the share capital of the Company, was £3,313m at 31 December 1999 (1998 £3,435m; 1997 £3,015m).

	Share premium account £m	Profit and loss account £m	**1999 Total £m**	1998 Total £m
Company				
Reserves				
At beginning of year	587	707	**1,294**	1,363
Net profit for year		2,361	**2,361**	163
Dividends		(233)	**(233)**	(232)
Amounts taken direct to reserves				
Share premiums – share option schemes	1		**1**	6
Exchange adjustments		(46)	**(46)**	(6)
Other		(8)	**(8)**	
	1	(54)	**(53)**	–
At end of year	588	2,781	**3,369**	1,294

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

26 Net cash inflow from operating activities

	1999 £m	1998 (as restated – note 1) £m	1997 (as restated – note 1) £m
Trading profit	**473**	404	477
Exceptional charges within trading profit	**98**	223	143
Trading profit before exceptional items	**571**	627	620
Depreciation and amortisation of goodwill	**319**	350	434
Stocks decrease	**21**	40	18
Debtors (increase)/decrease	**(191)**	168	(31)
Creditors increase/(decrease)	**30**	(148)	(42)
Other movements	**(75)**	(76)	(83)
	675	961	916
Outflow related to exceptional items	**(93)**	(105)	(159)
	582	856	757

Outflow related to exceptional items includes expenditure charged to exceptional provisions relating to business rationalisation and restructuring. The major part of the 1999 expenditure relates to provisions raised in prior years.

27 Returns on investments and servicing of finance

	1999 £m	1998 £m	1997 £m
Dividends received from other investments	**4**	3	16
Interest received	**82**	75	66
Interest paid	**(376)**	(419)	(272)
Dividends paid by subsidiary undertakings to minority shareholders	**(17)**	(9)	(37)
	(307)	(350)	(227)

28 Capital expenditure and financial investment

	1999 £m	1998 £m	1997 £m
Purchase of tangible fixed assets	**(428)**	(516)	(750)
Purchase of fixed asset investments other than associates or joint ventures	**–**	(48)	(23)
Sale of fixed assets	**72**	44	150
	(356)	(520)	(623)

Notes relating to the accounts

29 Acquisitions

	1999 Total Fair value £m	1998 Total Fair value £m
Subsidiary undertakings and operations		
Tangible fixed assets	**3**	93
Net current assets/liabilities	**(4)**	132
Creditors due after more than one year	**–**	(5)
Provisions for liabilities and charges	**–**	(22)
Minority interests	**–**	(4)
Fair value of net assets acquired	**(1)**	194
Goodwill acquired	**6**	658
Consideration for subsidiary undertakings and operations acquired	**5**	852
Investments in participating interests	**–**	4
	5	856
Less		
Cash included in undertakings acquired	**–**	(70)
Cash consideration – current year	**5**	786
– previous year's acquisitions of: Specialty Chemicals business	**(7)**	74
Others	**14**	–
	12	860

30 Management of liquid resources

	1999 £m	1998 £m	1997 £m
Commercial paper	**89**	–	–
Bank deposits and certificates of deposit	**126**	529	(538)
Floating rate notes, medium term notes, treasury bills			45
Asset backed securities			66
Corporate bonds			66
Other			112
	215	529	(249)

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

Notes relating to the accounts

31 Disposals

	1999 £m	1998 (as restated – note 1) £m
Subsidiary undertakings and operations		
Tangible fixed assets and investments	**1,358**	413
Net current assets	**497**	107
Creditors due after more than one year	**(24)**	(3)
Provisions for liabilities and charges	**(135)**	(36)
Minority interests	**(4)**	(15)
Book value of net assets disposed	**1,692**	466
Disposal costs and provisions	**180**	257
Goodwill written back on disposal	**69**	126
Investments in participating interests	**17**	3
Repayment of loans	**(3)**	31
Profits less losses on disposals	**368**	89
	2,323	972
Less		
Cash included in undertakings disposed	**–**	(14)
Deferred consideration	**–**	(56)
Non cash consideration	**(283)**	–
Cash consideration	**2,040**	902
Comprising inflow (outflow) arising on		
current year's disposals	**2,138**	927
previous year's disposals	**(98)**	(25)
	2,040	902

During the year, the Group received gross cash consideration of £2,359m, primarily for disposals of operations £2,362m (1998 £1,024m) and £(3)m (1998 £31m) in respect of repayment of fixed asset investment loans. Of this amount, £319m (1998 £156m) was paid against ongoing disposal costs and provisions.

During the year the Group disposed of interests in the following undertakings and businesses:
Polyurethanes
Tioxide
Selected Petrochemicals businesses
Autocolor
Acrylics
Fluoropolymers

Impact of disposals on cash flows
The contribution to Group cash flow by the Polyurethanes, Tioxide, selected Petrochemicals, Autocolor, Acrylics and Fluoropolymers business disposals from 1 January 1999 to their respective dates of disposal are summarised as follows:

	Businesses disposed (specified above) £m
Net cash inflow from operating activities	151
Returns on investment and servicing of finance	(4)
Taxation	(4)
Capital expenditure and financial investment	(103)
Cash inflow before use of liquid resources and financing	40

The cash flows of other disposals from 1 January 1999 to their respective dates of disposal were not material.

Notes relating to the accounts

32 Financing

	Financing – shares: Shares issued by Company – Share capital	Share premium	Minorities*	Total	Financing – debt: Loans	Short-term borrowings other than overdrafts	Finance leases	Total	Total
Notes		25			21	34	36		
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At beginning of 1997	(725)	(576)	(182)	(1,483)	(1,417)	(148)	(15)	(1,580)	(3,063)
Exchange adjustments			15	15	63	29	–	92	107
Financing									
New finance	(2)	(5)	(2)	(9)	(5,614)	(5,267)		(10,881)	(10,890)
Finance repaid					3,400	4,550	3	7,953	7,953
Cash flow	(2)	(5)	(2)	(9)	(2,214)	(717)	3	(2,928)	(2,937)
Acquisitions and disposals			94	94	(357)	(200)	1	(556)	(462)
Other movements			35	35	–	(11)	(5)	(16)	19
At beginning of 1998	(727)	(581)	(40)	(1,348)	(3,925)	(1,047)	(16)	(4,988)	(6,336)
Exchange adjustments					(44)	(19)	–	(63)	(63)
Financing									
New finance	(1)	(6)	(1)	(8)	(527)	(9,322)		(9,849)	(9,857)
Finance repaid					951	9,038	3	9,992	9,992
Cash flow	(1)	(6)	(1)	(8)	424	(284)	3	143	135
Acquisitions and disposals			(1)	(1)	8	(2)	1	7	6
Other movements			2	2	(2)	2	(3)	(3)	(1)
At beginning of 1999	(728)	(587)	(40)	(1,355)	(3,539)	(1,350)	(15)	(4,904)	**(6,259)**
Exchange adjustments					24			24	**24**
Financing									
New finance	–	(1)	–	(1)	(161)	(11,383)		(11,544)†	**(11,545)**
Finance repaid					773	12,679	2	13,454ø	**13,454**
Cash flow	–	(1)	–	(1)	612	1,296	2	1,910	**1,909**
Acquisitions and disposals			4	4	–	1	5	6	**10**
Other movements			2	2	4	(1)	(2)	1	**3**
At end of 1999	**(728)**	**(588)**	**(34)**	**(1,350)**	**(2,899)**	**(54)**	**(10)**	**(2,963)**	**(4,313)**

* Share capital element of minority interests.

		Repayment dates	Currency	Rate %	Amount £m
† New finance	Bank loan	1999 – 2002	various	various	41
	Euro dollar medium-term notes	1999 – 2000	various	various	83
	US commercial paper	1999 – 2000	US$	various	11,317
	Others				103
					11,544
ø Finance repaid					
	Euro dollar medium term notes		various	various	531
	Euro dollar bonds		US$	various	19
	US commercial paper		US$	various	11,657
	Others				1,247
					13,454

Notes relating to the accounts

33 Analysis of net debt

	Cash	Financing – debt					Current asset investments	Net debt
		Loans Due after one year	Due within one year	Short-term borrowings other than overdrafts	Finance leases	Total		
Notes	1, 34	21	21	34	36		18	
	£m	£m	£m	£m	£m	£m	£m	£m
At beginning of 1997	303	(1,174)	(243)	(148)	(15)	(1,580)	560	(717)
Exchange adjustments	(59)	63	–	29	–	92	8	41
Cash flow	27	(2,062)	(152)	(717)	3	(2,928)	249	(2,652)
Acquisitions and disposals	–	115	(472)	(200)	1	(556)	118	(438)
Other non-cash changes	11	83	(83)	(11)	(5)	(16)	–	(5)
At beginning of 1998	282	(2,975)	(950)	(1,047)	(16)	(4,988)	935	(3,771)
Exchange adjustments	5	(51)	7	(19)	–	(63)	(1)	(59)
Cash flow	(25)	(390)	814	(284)	3	143	(529)	(411)
Acquisitions and disposals	–	(1)	9	(2)	1	7	11	18
Other non-cash changes	10	463	(465)	2	(3)	(3)	39	46
At beginning of 1999	272	(2,954)	(585)	(1,350)	(15)	(4,904)	455	**(4,177)**
Exchange adjustments	(7)	(27)	51	–	–	24	–	**17**
Cash flow	(40)	41	571	1,296	2	1,910	(215)	**1,655**
Acquisitions and disposals	–	–	–	1	5	6	154	**160**
Other non-cash changes	(3)	688	(684)	(1)	(2)	1	–	**(2)**
At end of 1999	**222**	**(2,252)**	**(647)**	**(54)**	**(10)**	**(2,963)**	**394**	**(2,347)**

34 Cash and short-term borrowings

	Cash at bank	Short-term borrowings (note 19)			Net total	Cash (at bank and overdrafts)
		Overdrafts	Other	Total		
	£m	£m	£m	£m	£m	£m
At beginning of 1997	341	(38)	(148)	(186)	155	303
Exchange adjustments	(63)	4	29	33	(30)	(59)
Cash flow	62	(35)	(717)	(752)	(690)	27
Acquisitions and disposals	–	–	(200)	(200)	(200)	–
Other non-cash changes	–	11	(11)	–	–	11
At beginning of 1998	340	(58)	(1,047)	(1,105)	(765)	282
Exchange adjustments	–	5	(19)	(14)	(14)	5
Cash flow	27	(52)	(284)	(336)	(309)	(25)
Acquisitions and disposals	–	–	(2)	(2)	(2)	–
Other non-cash changes	–	10	2	12	12	10
At beginning of 1999	367	(95)	(1,350)	(1,445)	(1,078)	**272**
Exchange adjustments	(6)	(1)	–	(1)	(7)	**(7)**
Cash flow	(91)	51	1,296	1,347	1,256	**(40)**
Acquisitions and disposals	–	–	1	1	1	**–**
Other non-cash changes	–	(3)	(1)	(4)	(4)	**(3)**
At end of 1999	**270**	**(48)**	**(54)**	**(102)**	**168**	**222**

Notes relating to the accounts

35 Statement of Group cash flow: Basis of preparation

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

The definition of cash in the UK Standard is limited to cash plus deposits less overdrafts/borrowings repayable on demand without penalty. In the US, the definition in SFAS No. 95 excludes overdrafts but is widened to include cash equivalents, comprising short-term highly liquid investments that are both readily convertible to known amounts of cash and so near their maturities that they present insignificant risk of changes in value: generally, only investments with original maturities of 3 months or less qualify for inclusion. Calculated in accordance with SFAS No. 95, cash and cash equivalents at 31 December 1997, 1998 and 1999 and the movements during the years ending on those dates were as follows:

	1999 £m	1998 £m	1997 £m
Cash and cash equivalents			
Cash	**270**	367	340
Investments and short-term deposits which were within 3 months of maturity when acquired	**184**	242	263
	454	609	603
Change in the balance of cash and cash equivalents			
At beginning of year	**609**	603	655
Exchange adjustments	**(8)**	–	(98)
Cash (outflow) inflow during year	**(147)**	15	(49)
Acquisitions and disposals	**–**	(9)	95
At end of year	**454**	609	603

The format of the UK statement employs some 9 headings compared with 3 in SFAS No. 95. The cash flows within the UK headings of "Operating activities", "Dividends received from associates", "Returns on investments and servicing of finance" and "Taxation" would all be included within the heading of "Net cash provided by operating activities" under SFAS No. 95. Likewise, the UK headings of "Capital expenditure and financial investment" and "Acquisitions and disposals" correspond with "Cash flows from investing activities" under SFAS No. 95, and "Equity dividends paid', "Management of liquid resources" and "Financing" in the UK, subject to adjustments for cash equivalents, correspond with "Cash flows from financing activities" in the USA.

Notes relating to the accounts

36 Leases

	Total rentals under operating leases, charged as an expense in the profit and loss account		
	Hire of plant and machinery £m	Other £m	Total £m
1999			
Continuing operations	13	46	**59**
Discontinued operations	–	–	–
Total	**13**	**46**	**59**
1998			
Continuing operations	14	46	60
Discontinued operations	4	1	5
Total	18	47	65
1997			
Continuing operations	19	42	61
Discontinued operations	5	8	13
Total	24	50	74

	Land and buildings		Other assets	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Commitments under operating leases to pay rentals during the year following the year of these accounts, analysed according to the period in which each lease expires				
Expiring within 1 year	**7**	9	**5**	6
Expiring in years 2 to 5	**20**	19	**18**	20
Expiring thereafter	**17**	17	**4**	2
	44	45	**27**	28

	Operating leases		Finance leases	
Obligations under leases comprise	**1999 £m**	1998 £m	**1999 £m**	1998 £m
Rentals due within 1 year	**71**	73	**4**	6
Rentals due after more than 1 year				
From 1 to 2 years	**57**	60	**3**	3
From 2 to 3 years	**47**	47	**2**	3
From 3 to 4 years	**36**	33	**1**	3
From 4 to 5 years	**31**	29	**1**	2
After 5 years from balance sheet date	**125**	143	**–**	7
	296	312	**7**	18
	367	385	**11**	24
Less amounts representing interest			**(1)**	(9)
Present value of net minimum lease payments			**10**	15
Less current lease obligations			**(4)**	(3)
Non current lease obligations			**6**	12

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

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

Notes relating to the accounts

37 Employee numbers and costs

Average number of people employed by the Group

Classes of business

	1999	1998	1997
Continuing operations			
Core operations			
Specialty Products			
National Starch	**10,500**	9,900	4,500
Quest	**4,400**	4,400	2,100
Industrial Specialties	**5,500**	5,600	4,100
	20,400	19,900	10,700
Coatings	**18,200**	19,200	18,700
	38,600	39,100	29,400
Industrial Chemicals	**8,600**	9,800	10,600
Corporate			
Board support	**200**	200	200
Group technical resources and other shared services	**1,200**	1,500	1,700
	48,600	50,600	41,900
Discontinued operations	**4,900**	10,000	27,600
	53,500	60,600	69,500

Geographic areas

	Continuing operations			Total		
	1999	1998	1997	1999	1998	1997
United Kingdom	**11,700**	12,900	11,600	**13,600**	16,900	18,100
Continental Europe	**7,800**	7,900	5,100	**9,100**	10,600	8,100
USA	**11,700**	11,900	9,300	**12,600**	13,300	12,200
Other Americas	**6,500**	6,900	6,100	**6,600**	7,500	8,700
Asia Pacific	**10,500**	10,600	9,500	**11,000**	11,500	18,000
Other countries	**400**	400	300	**600**	800	4,400
Total employees	**48,600**	50,600	41,900	**53,500**	60,600	69,500

Number of people employed by the Group at the year end

	1999	1998	1997
Continuing operations	**46,700**	50,300	49,700
Discontinued operations		8,400	17,800
Total employees	**46,700**	58,700	67,500

Employee costs

	Continuing operations			Total		
	1999 £m	1998 £m	1997 £m	1999 £m	1998 £m	1997 £m
Salaries	**1,161**	1,137	880	**1,298**	1,408	1,517
Social security costs	**120**	131	103	**138**	168	159
Pension costs	**113**	140	108	**132**	162	171
Other employment costs	**24**	25	31	**30**	33	43
	1,418	1,433	1,122	**1,598**	1,771	1,890
Less amounts allocated to capital and to provisions						
set up in previous years	**(37)**	(4)	(10)	**(38)**	(6)	(14)
Severance costs charged in arriving at profit before tax	**61**	74	51	**70**	102	76
Employee costs charged in arriving at profit before tax	**1,442**	1,503	1,163	**1,630**	1,867	1,952

Notes relating to the accounts

38 Pensions and other post-retirement benefits

Pensions

Group

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

The actuarial assumptions used to calculate the projected benefit obligation of the Group's pension plans vary according to the economic conditions of the country in which they are situated. The weighted average discount rate used in determining the actuarial present values of the benefit obligations was 8.0% (1998 8.3%). The weighted average expected long-term rate of return on investments was 8.3% (1998 8.4%). The weighted average rate of increase of future earnings was 5.3% (1998 5.5%).

The actuarial value of the fund assets of these plans at the date of the latest actuarial valuations was sufficient to cover 93% (1998 94%) of the benefits that had accrued to members after allowing for expected future increases in earnings; their market value was £8,166m (1998 £7,770m).

The total pension cost for the Group for 1999 was £132m (1998 £162m). Accrued pension costs amounted to £11m (1998 £14m) and are included in other creditors (note 20); provisions for the benefit obligation of a small number of unfunded plans amounted to £216m (1998 £256m) and are included in provisions for liabilities and charges – unfunded pension (note 22). Prepaid pension costs amounting to £382m (1998 £281m) are included in debtors (note 17).

ICI Pension Fund

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

From the date of the actuarial valuation of the ICI Pension Fund as at 31 March 1994 the Company has been making payments into the Fund to reflect the extra liabilities arising from early retirement as retirements occur. In addition, the Company agreed to make accelerated contributions to the Fund to reduce the deficit identified in the 1994 valuation. A Funding Review as at 31 March 1997 disclosed a solvency ratio on a current funding level basis, which assumes a cessation of operation, of 95%. The solvency ratio, on an ongoing basis, was 92%. Based on the Funding Review as at 31 March 1998, the Company agreed to make six annual payments into the Fund of £100m pa from 1998 through 2003 which are expected to eliminate the deficit on an ongoing valuation basis. The deficit, together with the prepayment, is taken into account in arriving at the employers' pension costs charged in the accounts by being amortised as a percentage of pensionable emoluments over the expected working lifetime of existing members. In 1999 this gave rise to a charge of £30m.

Healthcare

The Group provides in North America, and to a lesser extent in some other countries, certain unfunded healthcare and life assurance benefits for retired employees. At 31 December 1999 approximately 24,000 (1998 27,000) current and retired employees were eligible to benefit from these schemes. The liabilities in respect of these benefits are fully accrued over the expected working lifetime of the existing members.

The total post-retirement healthcare cost for the Group for 1999 was £3m (1998 £15m; 1997 £16m) and the provision at the year end was £166m (1998 £176m).

The Group has adopted the measurement bases of the US Standard, SFAS 106 – *Employer's Accounting for Post-Retirement Benefits other than Pensions* as the basis of its UK GAAP reporting. Costs and provisions were determined on an actuarial basis. The assumptions relating to the US plans, which represent a substantial portion of the Group total, are set out in the table below.

The healthcare cost trend has a significant effect on the amounts reported. For the Group, increasing the assumed healthcare cost rates by 1% in every year would increase the accumulated post-retirement benefit obligation at 31 December 1999 by £13m (1998 £11m) and the aggregate of the service and interest cost components of net periodic post-retirement benefit cost for the year ended 31 December 1999 by £1m (1998 £2m).

Pensions and other post-retirement benefits (US GAAP)

For the purposes of the disclosure in accordance with US GAAP, the pension cost of the major UK retirement plans and of the retirement plans of the major non-UK subsidiaries have been restated in the following tables, on a Group basis, in accordance with the requirements of SFAS No. 87 – *Employers' Accounting for Pensions* and of SFAS No. 132 – *Employers' Disclosures about Pensions and Other Post-Retirement Benefits*. The actuarial liabilities of these plans comprise a substantial portion of the Group total.

Assumed discount rates and rates of increase in remuneration used in calculating the projected benefit obligations together with long-term rates of return on plan assets vary according to the economic conditions of the country in which the retirement plans are situated. The weighted average rates used in the Group's major pension plans for SFAS No.87 purposes in the Group are shown in the table below, together with the assumptions relating to other post-retirement benefit plans.

	Pension benefits		*Other post-retirement benefits*	
	1999 %	1998 %	**1999** %	1998 %
Discount rate	**6.1**	5.9	**7.1**	6.6
Expected long-term rate of return on assets	**7.2**	8.0		
Long-term rate of increase in remuneration	**4.0**	3.8		
Initial post-retirement cost trend rate ø			**8.5 – 4.5**	9.0 – 4.5

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

Notes relating to the accounts

38 Pensions and other post-retirement benefits (continued)

The funded status of the Group's major post-retirement plans, covering both continuing and discontinued operations, under SFAS No.87 and SFAS No. 106 is as follows:

	Pension benefits		Other post-retirement benefits	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Change in benefit obligations				
Benefit obligation at beginning of year	**8,332**	7,577	**176**	153
Service cost	**101**	107	**6**	5
Interest cost	**437**	511	**11**	10
Participants' contributions	**8**	9	**–**	–
Plan amendments	**11**	24	**2**	(1)
Actuarial loss (gain)	**(200)**	592	**(13)**	15
Business combinations	**100**	30	**–**	7
Divestitures	**(504)**	(16)	**(10)**	(4)
Curtailments	**(1)**	(13)	**–**	–
Settlements	**(200)**	(33)	**–**	–
Termination benefits	**128**	42	**–**	–
Exchange	**(25)**	25	**4**	–
Benefit payments	**(531)**	(523)	**(10)**	(9)
Benefit obligation at end of year	**7,656**	8,332	**166**	176
Change in plan assets				
Fair value of plan assets at beginning of year	**8,039**	7,241	**–**	–
Actual return on plan assets	**954**	1,050	**–**	–
Business combinations	**99**	51	**–**	–
Divestitures	**(479)**	(11)	**–**	–
Settlements	**(213)**	(32)	**–**	–
Employer's contributions	**318**	232	**10**	9
Participants' contributions	**8**	9	**–**	–
Exchange	**(26)**	22	**–**	–
Benefit payments	**(531)**	(523)	**(10)**	(9)
Fair value of plan assets at end of year	**8,169**	8,039	**–**	–
Funded status				
Funded status at end of year	**513**	(293)	**(166)**	(176)
Unrecognised net actuarial gain	**(759)**	4	**(30)**	(28)
Unrecognised transition amount	**54**	28	**1**	1
Unrecognised prior service cost	**110**	175	**3**	3
Adjustment to recognise minimum liability	**(5)**	46	**2**	–
Intangible assets	**(3)**	(46)	**–**	–
Other	**1**	2	**–**	1
Net amount recognised	**(89)**	(84)	**(190)**	(199)
Prepaid benefit cost	**83**	117	**–**	–
Accrued benefit cost	**(172)**	(201)	**(190)**	(199)
Net liability recognised	**(89)**	(84)	**(190)**	(199)

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

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

	Pension benefits			Other post-retirement benefits		
	1999 £m	1998 £m	1997 £m	**1999 £m**	1998 £m	1997 £m
Components of net periodic benefit cost						
Service cost	**101**	107	104	**6**	5	4
Interest cost	**437**	511	505	**11**	10	9
Expected return on plan assets for period	**(471)**	(576)	(562)	**–**	–	–
Amortisation of prior service cost	**30**	29	32	**–**	–	–
Amortisation of transition amount	**4**	6	6	**–**	–	–
Recognised net actuarial gain	**44**	25	12	**(1)**	–	–
Recognised on termination/curtailment/settlement benefits	**171**	38	63	**(13)**	–	–
Net periodic benefit cost	**316**	140	160	**3**	15	13

The net periodic benefit cost includes £128m (1998 £42m) for contractual terminations which are included within the relevant UK GAAP statutory headings.

Notes relating to the accounts

39 Related party transactions

The following information is provided in accordance with FRS No. 8 – *Related Party Transactions* as being material transactions with related parties during 1999.

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

Transactions: a) Sales of naptha and ethylene to HICI amounted to £128m.
b) Purchases of ethylene and titanium dioxide from HICI amounted to £97m.
c) Amounts owed to the Group relating to the above transactions at the year end amounted to £10m.

Related party: Phillips-Imperial Petroleum Ltd (PIP), disclosed as a principal associate on page 69.

Transactions: a) Sales of crude oil and refined products to PIP amounted to £168m.
b) Purchase of refined oil and refining costs from PIP amounted to £23m.
c) Site services and other charges to PIP amounted to £15m.
d) Amount owed to the Group related to the above transactions at the year end amounted to £29m.

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

Transaction: Loans totalling Yen 5 billion have been provided to the joint venture by its parent companies under a five year floating rate facility (ICI's share Yen 2.5 billion (£15m)). These have been used to repay existing fixed rate loans.

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

Transactions: Insurance claims settled by IC Insurance Ltd with ICI amounted to £1m.

40 Financial risk management

(a) Interest rate risk

The interest rate profile of the Group's financial assets and financial liabilities at 31 December 1999, after taking into account the effect of interest rate and currency swaps, is set out in the tables below. Further quantitative analysis of the sensitivity to movements in interest rates is reported in the Operating and financial review on page 25.

Financial assets

					Fixed rate financial assets		Interest free financial assets
	At fixed interest rates	At floating interest rates	Interest free	Total	Weighted average interest rate	Weighted average period for which rates are fixed	Weighted average period to maturity
	£m	£m	£m	£m	%	years	years
Current assets investments, short-term deposits and cash							
Sterling	–	89	40	129	–	–	–
US dollars and US dollar related currencies	89	56	93	238	6.2	–	–
Euro and Euro related currencies	–	6	39	45	–	–	–
Japanese yen	–	–	3	3	–	–	–
Other currencies	–	10	92	102	–	–	–
	89	161	267	517			
Fixed asset investments and debtors due after more than one year							
Sterling				254			
US dollars and US dollar related currencies				160			
Euro and Euro related currencies				5			
Other currencies				2			
Total financial assets				938			

At 31 December 1999 the financial assets of the Group comprised:

Investments in participating and other investments	
Loans to associates	150
Other investments	
Shares	22
Loans	–
Debtors due after more than one year	249
Current asset investments and short-term deposits	394
Cash	270
Less financial assets of insurance subsidiaries	(147)
	938

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

Notes relating to the accounts

40 Financial risk management (continued)

Financial liabilities

	At fixed interest rates	At floating interest rates	Total	Fixed rate financial liabilities: Weighted average interest rate	Fixed rate financial liabilities: Weighted average period for which rates are fixed
	£m	£m	£m	%	*years*
Sterling	–	330	330	–	–
US dollars and US dollar related currencies	380	1,399	1,779	7.0	5
Euro and Euro related currencies	22	642	664	4.9	1
Japanese yen	22	213	235	4.3	4
Other currencies	–	47	47	–	–
	424	2,631	3,055		

At 31 December 1999 the financial liabilities of the Group comprised:

Short-term borrowings	102
Current instalments of loans	647
Loans	2,252
Other creditors due after more than one year	
Environmental liabilities	6
Other creditors	42
Finance leases	6
Less financial liabilities of insurance subsidiaries	–
	3,055

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

Further protection from interest rate movements is provided by interest rate caps on £1,868m. Of these, £783m US dollar and Euro denominated caps were struck at the money, in compliance with the Group's fixed/floating policy.

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

(b) Currency exposures on monetary assets and liabilities

As explained in the Operating and financial review, on page 22, the Group's policy is, where practicable, to hedge all exposures on monetary assets and liabilities.

(c) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, as defined in section (a) above, at 31 December 1999 was as follows:

	1999 £m	1998 £m
In one year or less on demand	**749**	2,030
In more than one year but not more than two years	**303**	741
In more than two years but not more than five years	**1,265**	1,064
In more than five years	**738**	1,186
	3,055	5,021

(d) Borrowing facilities

Committed facilities available to the Group at 31 December 1999 in respect of which all conditions precedent had been met at date were as follows:

	1999 £m	1998 £m
Expiring in one year or less	**100**	1,026
Expiring in more than one year	**500**	–
Expiring in more than two years	**1,300**	1,267
	1,900	2,293

Notes relating to the accounts

40 Financial risk management (continued)

(e) Net debt management

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

The most significant consequences of this approach are:

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

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

There were no material gains/losses deferred at 31 December 1999 (1998 nil).

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

	Notional principal amounts At 31 December 1999 £m	1998 £m	Carrying values* At 31 December 1999 £m	1998 £m	Fair values* At 31 December 1999 £m	1998 £m
Interests in participating and other investments – other investments†	**172**	41	**172**	41	**172**	41
Current asset investments and short-term deposits†	**394**	455	**394**	455	**394**	455
Cash†	**270**	367	**270**	367	**270**	367
Other financial assets†	**102**	(76)	**102**	(76)	**102**	(76)
Short-term borrowings†	**(102)**	(1,445)	**(102)**	(1,445)	**(102)**	(1,445)
Loans	**(2,912)**	(3,478)	**(2,912)**	(3,478)	**(2,914)**	(3,605)
Other financial liabilities†	**(54)**	(37)	**(54)**	(37)	**(54)**	(37)
Currency swaps	**1,358**	1,541	**13**	(61)	**63**	(4)
Interest rate swaps	**3,372**	2,394	**–**	–	**5**	(32)
Interest rate caps	**1,868**	2,799	**–**	–	**8**	(17)
Total net liabilities			**(2,117)**	(4,234)	**(2,056)**	(4,353)
Financial assets			**938**			
Financial liabilities			**(3,055)**			
			(2,117)			

* ( ) = liability

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

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

The total decrease in the fair value of long-term debt net of associated hedges for the year ended 31 December 1999 of £691m arose from the net repayment of loans (£621m), adverse movements on foreign exchange (£56m) and movements due to changes in interest rates (£126m).

A portfolio approach is adopted to create the Group's target proportion of fixed and floating rate debt by currency. The maturity profile of the net fixed rate exposure is spread over several years to reduce re-pricing risk.

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

The Group is exposed to credit related losses in the event that counterparties to off-balance-sheet financial instruments do not perform according to the terms of the contract. In the opinion of management, the counterparties to the financial instruments are creditworthy parties and the Group does not expect any significant loss to result from non-performance. The immediate credit exposure of financial instruments is represented by those financial instruments that have a positive fair value at 31 December 1999.

At 31 December 1999 the aggregate value of all financial instruments with a positive fair value (assets) was £103m for currency swaps, £27m for interest rate swaps, £12m for forward contracts, £12m for interest rate caps and nil for currency options.

(f) Hedges

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

	Gains £m	Losses £m	Total net gains/losses £m
Unrecognised gains and losses on hedges at 1 January, 1999	86	(139)	(53)
Gains and losses arising in previous years that were recognised in 1999	(42)	92	50
Gains and losses arising before 1 January, 1999 that were not recognised in 1999	44	(47)	(3)
Gains and losses arising in 1999 that were not recognised in 1999	98	(19)	79
Unrecognised gains and losses on hedges at 31 December 1999	142	(66)	76
Of which:			
Gains and losses expected to be recognised in 2000	64	(30)	34
Gains and losses to be recognised in 2001 or later	78	(36)	42
	142	(66)	76

Notes relating to the accounts

40 Financial risk management (continued)

(g) Currency management

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

Surplus funds are invested in instruments in a variety of currencies. Forward foreign exchange contracts are used to hedge these back to the currencies that are appropriate for the net debt portfolio (typically pound sterling or US dollars).

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

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

	Notional principal amounts At 31 December		Carrying values* At 31 December		Fair values* At 31 December	
	1999 £m	1998 £m	**1999 £m**	1998 £m	**1999 £m**	1998 £m
Hedging working capital			**1**	1	**1**	1
Forward contracts to buy currency	**168**	447				
Forward contracts to sell currency	**(167)**	(446)				
Hedging anticipated cash flows			**–**	1	**–**	1
Forward contracts	**–**	–				
Currency contracts to buy currency	**37**	37				
Currency contracts to sell currency	**(37)**	(36)				
Hedging debt			**(6)**	6	**(6)**	6
Forward contracts to buy currency	**879**	1,085				
Forward contracts to sell currency	**(885)**	(1,079)				
Hedging current asset investments and short-term deposits			**–**	1	**–**	1
Forward contracts to buy currency	**–**	122				
Forward contracts to sell currency	**–**	(121)				

* ( ) = liability

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

(h) Management of current asset investments

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

At 31 December 1999 no current asset investments had contractual maturities between one and five years. All other current asset investments had contractual maturities less than one year.

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

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

41 Statutory and other information

Remuneration of auditors charged in the Group accounts for 1999 was £3.5m (1998 £4.7m; 1997 £4.7m); fees paid to the auditor (and its associates) of the parent Company for services other than statutory audit supplied to the Group during 1999 totalled £6.3m (1998 £5.3m; 1997 £11.4m) of which £4.7m (1998 £3.0m) related to acquisition and divestment activities.

Included in debtors is an interest free loan of £7,000 (1998 £8,000) to Dr J D G McAdam. This relates to the potential exercise of share options under a Company scheme and the amount, in currency, has remained unchanged throughout 1999.

Notes relating to the accounts

42 Commitments and contingent liabilities

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Commitments for capital expenditure not provided for in these accounts (including acquisitions)				
Contracts placed for future expenditure	**52**	157	**2**	6
Expenditure authorised but not yet contracted	**149**	120	**10**	17
	201	277	**12**	23

Contingent liabilities existed at 31 December 1999 in connection with guarantees and uncalled capital relating to subsidiary and other undertakings and guarantees relating to pension funds, including the solvency of pension funds. There was no contingent liability in respect of guarantees of borrowings and uncalled capital for the Group at 31 December 1999 (1998 £nil); the maximum contingent liability for the Company, mainly on guarantees of borrowing by subsidiaries, was £2,382m (1998 £2,460m).

The Group is also subject to contingencies pursuant to environmental laws and regulations that in the future may require it to take action to correct the effects on the environment of prior disposal or release of chemical substances by the Group or other parties. The ultimate requirement for such actions, and their cost, is inherently difficult to estimate, however provisions have been established at 31 December 1999 in accordance with the Group's accounting policy noted on page 47. It is believed that, taking account of these provisions, the cost of addressing currently identified environmental obligations is unlikely to impair materially the Group's financial position.

The Glidden Company (Glidden), a wholly owned subsidiary, is a defendant, along with former lead paint and pigment producers as well as other lead product manufacturers and their trade associations, in a number of suits in the United States, three of which purport to be class actions. These suits seek damages for alleged personal injury caused by lead related products or for the costs of removing lead-based paint. An alleged predecessor of Glidden manufactured lead pigments until the 1950's and lead-based consumer paints until the 1960's. The suits involve substantial claims for damages, and rulings adverse to Glidden could lead to additional claims. The cases pending include a suit filed in 1989 by the New York Housing Authority in New York state court seeking the removal of all lead-based paints from all buildings in two of the New York Housing Authority projects. A purported class action suit filed in August 1992 on behalf of all children alleged to be affected by lead-based paints is pending in the state court of Ohio, and a purported class action on behalf of all children in the state of New York was filed in New York state court in 1998. An individual personal injury suit is also pending in New York state court in which a New York appellate court recently rejected the plaintiffs' theory of market share liability. In 1999, the State of Rhode Island filed a suit seeking lead paint abatement and other monetary damages including costs of related governmental programmes, and a similar suit was filed by the City of St Louis, Missouri in February 2000. In addition, two suits were filed in Maryland in 1999. One of these is a purported class action seeking abatement of lead paint in Maryland and the other is a personal injury suit on behalf of six allegedly injured minors. Several US States legislatures have considered or are considering proposed legislation that could adversely affect Glidden's position in pending or possible future cases, including proposals that could add additional grounds for legal liability or that would permit suits otherwise time-barred. Glidden believes that it has strong defences and has denied all liability and will continue to vigorously defend all actions.

A subsidiary is involved in arbitration proceedings in Singapore regarding PTA technology exchange and licence arrangements with PT Polyprima Karyareksa (Polyprima). Fees due under these arrangements are being claimed against Polyprima who, in response, has claimed damages for alleged fraud, deceit, misrepresentation and concealment, allegations which the subsidiary rejects and intends to resist vigorously.

In 1995 ICI Explosives USA Inc. and a former employee each admitted to a single offence in breach of US antitrust laws relating to the sale of certain commercial explosives between 1988 and 1992 and, as a result ICI Explosives USA Inc. paid a fine of US$10m.

Subsequently, ICI Explosives USA Inc. was named as a defendant in a number of lawsuits including both proposed class action and non-class action lawsuits, by parties claiming unquantified damages from a number of explosives companies in the United States. The Company and ICI Canada Inc. were also named as defendants in certain of the non-class action lawsuits. During the period 1996 to 1999 all ICI defendants settled all proposed class action and non-class action lawsuits relating to this matter.

The Company, as well as several other ICI companies were named as defendants in lawsuits, relating to the bombing of the A P Murrah Building in Oklahoma City, Oklahoma. The lawsuits alleged, among other things that the ICI companies were negligent in relation to the sale, through a distributor, of fertiliser allegedly used to prepare the bomb, to a farmers' co-operative in Kansas. Lawsuits were commenced in US District Court in Oklahoma and Texas and state court in Oklahoma. In November 1996 the District Court in Oklahoma granted ICI's motion to dismiss the complaint, holding that the ICI companies have no case to answer. The judgement was appealed to the United States Court of Appeals for the Tenth Circuit. Concurrently with the District Court's dismissal, the plaintiffs in the Oklahoma state court and Texas District Court case voluntarily stayed their cases pending the outcome of the appeal to the US Court of Appeals. On 9 November 1998, the Tenth Circuit Court of Appeals affirmed the dismissal of the case against the ICI defendants. The Tenth Circuit rejected the plaintiffs' request that it rehear the appeal. The plaintiffs have exhausted all appeals and as of 31 December 1999 all other lawsuits relating to the Oklahoma bombing have been dismissed or withdrawn.

The Group is also involved in various other legal proceedings, principally in the United Kingdom and United States, arising out of the normal course of business. The Directors do not believe that the outcome of these other proceedings will have a material effect on the Group's financial position.

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

The Group's 50% interest in Teesside Gas Transportation Ltd (TGT) was sold, during 1996, to its other shareholder, Enron Europe Ltd (Enron). TGT contracted with the owners of a distribution network (the CATS parties) for pipeline capacity for North Sea gas and the commitment is guaranteed severally by the Company and Enron (the present value of the commitment guaranteed by the Company is estimated at £158m). The Company received the benefit of a counter guarantee from Enron's parent, Enron Corp.

The Group's interest in Teesside Power Ltd (TPL) was sold on 31 December 1998 to Enron Teesside Operations Ltd (ETOL). TPL had previously contracted with certain gas sellers for the purchase of gas. Enron Corp. and the Company had guaranteed on a several basis the liability of TPL to the gas sellers in the proportions 70% and 30% respectively.

On the sale of the Group's interest in TPL to ETOL, the Company received the benefit of a guarantee from Enron Corp. in respect of the Company's 30% guarantee commitment to the gas sellers. The present value of this commitment at the year end is estimated at £302m.

The only significant take-or-pay contract entered into by subsidiaries is the purchase of electric power, which commenced in the second quarter of 1998, for 15 years. The present value of this commitment at the year end is estimated at £160m.

Notes relating to the accounts

43 Differences between UK and US accounting principles

The accompanying Group financial statements included in this report are prepared in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP). The significant differences between UK GAAP and US Generally Accepted Accounting Principles (US GAAP) which affect the Group's net income and shareholders' equity are set out below:

(a) Accounting for pension costs
There are five significant differences between UK GAAP and US GAAP in accounting for pension costs:

(i) SFAS No. 87, "Employers' Accounting for Pensions", requires that pension plan assets are valued by reference to their fair or market related values, whereas UK GAAP permits an alternative measurement of assets, which, in the case of the main UK retirement plans, is on the basis of the discounted present value of expected future income streams from the pension plan assets.

(ii) SFAS No. 87, requires measurements of plan assets and obligations to be made as at the date of financial statements or a date not more than three months prior to that date. Under UK GAAP, calculations may be based on the results of the latest actuarial valuation.

(iii) SFAS No. 87, mandates a particular actuarial method – the projected unit credit method – and requires that each significant assumption necessary to determine annual pension cost reflects best estimates solely with regard to that individual assumption. UK GAAP does not mandate a particular method, but requires that the method and assumptions, taken as a whole, should be compatible and lead to the actuary's best estimate of the cost of providing the benefits promised.

(iv) Under SFAS No. 87, a negative pension cost may arise where a significant unrecognised net asset or gain exists at the time of implementation. This is required to be amortised on a straight-line basis over the average remaining service period of employees. Under UK GAAP, the Group's policy is not to recognise pension credits in its financial statements unless a refund of, or reduction in, contributions is likely.

(v) SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", requires immediate recognition of previously unrecognised gains or losses when certain events meeting the definition of a plan settlement or curtailment occur. Under UK GAAP, such gains or losses are recognised over the expected service life of the remaining employees.

(b) Purchase accounting adjustments, including the amortisation and impairment of goodwill and intangibles
In the Group's financial statements, prepared in accordance with UK GAAP, goodwill arising on acquisitions accounted for under the purchase method after 1 January 1998 is capitalised and amortised, as it would be in accordance with US GAAP. Prior to that date such goodwill arising on acquisitions was and remains eliminated against retained earnings. Values were not placed on intangible assets. Additionally, UK GAAP requires that on subsequent disposal or closure of a previously acquired asset, any goodwill previously taken directly to shareholders' equity is then charged in the income statement against the income or loss on disposal or closure. Under US GAAP all goodwill would be capitalised in the Group balance sheet and amortised through the income statement over its estimated life not exceeding 40 years. Also, under US GAAP, it is normal practice to ascribe fair values to identifiable intangibles. For the purpose of the adjustments to US GAAP, included below, identifiable intangible assets are amortised to income over the lower of their estimated lives or 40 years. Provision is made where there is a permanent impairment to the carrying value of capitalised goodwill and intangible assets based on a projection of future undiscounted cash flows.

(c) Capitalisation of interest
There is no requirement in the UK to capitalise interest and the Group does not capitalise interest in its Group financial statements. Under US GAAP, SFAS No. 34 "Capitalization of Interest Cost", requires interest incurred as part of the cost of constructing fixed assets to be capitalised and amortised over the life of the asset.

(d) Restructuring costs
US GAAP requires a number of specific criteria to be met before restructuring costs can be recognised as an expense. Among these criteria is the requirement that all the significant actions arising from the restructuring plan and their completion dates must be identified by the balance sheet date. Under UK GAAP, prior to the publication of FRS 12, which had similar requirements to US GAAP, when a decision was taken to restructure, the necessary provisions were made for severance and other costs. Accordingly, timing differences, between UK GAAP and US GAAP, arose on the recognition of such costs.

(e) Foreign exchange
Under UK GAAP, foreign currency differences arising on foreign currency loans are taken to reserves and offset against differences arising on net investments (if they act as a hedge). US GAAP is more restrictive in that currency loans may only hedge net investments in the same currency. If currency loans exceed net investment in any particular currency then the exchange differences arising are included in the income statement.

(f) Discontinued operations
US and UK GAAP have different criteria for determining discontinued operations. As a result the Canadian based Forest Products business, the UK fertiliser business, the Propafilm business, the Teesside Utilities and Services business, the Polyurethanes business, the titanium dioxide business, the selected Petrochemicals business sold to HICI and the Acrylics business which are discontinued operations for UK GAAP would qualify as continuing operations for US GAAP. In addition, UK GAAP only allows discontinued accounting disclosure for operations which either ceased or left the Group prior to the approval of the financial statements. Under US GAAP discontinued operations also include those operations where management have committed to a formal plan of disposal. For the purpose of the US GAAP reconciliation, net income has been allocated between continuing operations and discontinued operations based on the classification described in note 1 after taking into account the above differences.

(g) Employee share trust arrangements
An employee share trust has been established in order to hedge obligations in respect of options issued under certain employee share option schemes. Under UK GAAP the Company's ordinary shares held by the employee share trust are included at historic net book value in fixed asset investments. Under US GAAP, such shares are treated as treasury stock and included in shareholders' equity.

(h) Ordinary Dividends
Under UK GAAP, the proposed dividends on ordinary shares, as recommended by the directors, are deducted from shareholders' equity and shown as a liability in the balance sheet at the end of the period to which they relate. Under US GAAP, such dividends are only deducted from shareholders' equity at the date of declaration of the dividend.

(i) Deferred taxation
Deferred taxation is provided on a full provision basis under US GAAP. Under UK GAAP no provision is made for taxation deferred by reliefs unless there is reasonable evidence that such deferred taxation will be payable in the foreseeable future.

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

43 Differences between UK and US accounting principles (continued)

(j) Newly adopted US accounting principles
The American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-1,"Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" in March 1998. This SOP, which is effective for financial statements for fiscal years beginning after 15 December 1998 provides guidance on accounting for the costs of computer software developed or obtained solely to meet a company's needs. The effect of adopting SOP 98 -1 was not material.

(k) New US Accounting Standards and pronouncements not yet effective
SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued in June 1998. This Standard, which is effective for fiscal years beginning after 15 June 2000, requires all derivatives to be recognised in the balance sheet as either assets or liabilities and measured at fair value. To implement the standard, all hedging relationships must be reassessed. The Group has not yet evaluated the likely impact on its financial statements.

The following is a summary of the material adjustments to net income and shareholders' equity which would have been required if US GAAP had been applied instead of UK GAAP:

	1999 £m	1998 £m	1997 £m
Net income after exceptional items – UK GAAP	**252**	83	369
Continuing operations	**116**	(97)	(47)
Discontinued operations	**136**	180	416
Adjustments to conform with US GAAP			
Pension expense	**(100)**	(10)	(41)
Purchase accounting adjustments			
Amortisation of goodwill and intangibles	**(124)**	(134)	(83)
Disposals and other adjustments	**14**	31	112
Other disposal adjustments	**2**	43	(68)
Capitalisation of interest less amortisation and disposals	**(65)**	(24)	(113)
Restructuring costs	**(33)**	(22)	(1)
Foreign exchange	**(50)**	(1)	(135)
Discontinued operations	**–**	8	(8)
Deferred taxation			
Arising on UK GAAP results	**79**	(16)	(12)
Arising on other US GAAP adjustments	**76**	(5)	104
Others	**2**	3	17
Total US GAAP adjustments	**(199)**	(127)	(228)
Net income (loss) – US GAAP	**53**	(44)	141
Continuing operations	**13**	(29)	(270)
Discontinued operations	**40**	(15)	411
	pence	pence	pence
Basic and diluted net earnings (net loss) per Ordinary Share in accordance with US GAAP	**7.3**	(6.1)	19.4
Continuing operations	**1.8**	(4.0)	(37.1)
Discontinued operations	**5.5**	(2.1)	56.5

The effect on earnings per £1 Ordinary Share of the exercise of all outstanding options (note 24) would not be material.

For US GAAP, the segmentation follows that of UK GAAP with the exception of adjustments made between Continuing and Discontinued operations so that the segmentation under US GAAP satisfies APB 30.

For the purposes of segmental disclosures under UK GAAP, reference should be made to page 55 where there is a description of each class of business.

Notes relating to the accounts

43 Differences between UK and US accounting principles (continued)

	1999 £m	1998 £m
Shareholders' equity, as shown in the Group Balance sheets – UK GAAP	**244**	149
Adjustments to conform with US GAAP		
Purchase accounting adjustments, including goodwill and intangibles	**3,390**	3,618
Disposal accounting adjustments	**(29)**	(25)
Capitalisation of interest less amortisation and disposals	**63**	128
Restructuring provision	**21**	56
Pension expense	**(391)**	(291)
Employee share trust arrangements	**(54)**	(62)
Ordinary dividends	**142**	141
Deferred taxation	**(5)**	(147)
Other	**(8)**	(10)
Total US GAAP adjustments	**3,129**	3,408
Shareholders' equity in accordance with US GAAP	**3,373**	3,557

The effect of applying US GAAP to items other than those directly affecting net income or shareholders' equity is dealt with in other notes relating to the accounts.

44 *Valuation and qualifying accounts*

	Balance at 1 January £m	Additions charged to: Cost and expenses £m	Additions charged to: Other accounts £m	Deductions £m	Balance at 31 December £m
1997					
Allowance for doubtful accounts	70	18	–	(17)	71
Allowance for losses (deducted from investments)	4	–	–	(4)	–
	74	18	–	(21)	71
1998					
Allowance for doubtful accounts	71	25	–	(9)	87
Allowance for losses (deducted from investments)	–	–	–	–	–
	71	25	–	(9)	87
1999					
Allowance for doubtful accounts	**87**	**16**	–	**(23)**	**80**
Allowance for losses (deducted from investments)	–	–	–	–	–
	87	**16**	–	**(23)**	**80**

Principal subsidiary undertakings

at 31 December 1999

	Class of capital	Held by ICI %	Principal activities
UNITED KINGDOM			
ICI Chemicals & Polymers Ltd England	Ordinary	100†	Manufacture of halochemicals, methanol, surfactants, catalysts and other chemicals
ICI Finance PLC England	Ordinary	100†	Financial services
Quest International Flavours, Food Ingredients and Fragrances UK Ltd England	Ordinary	100†	Manufacture of flavours, food ingredients and fragrances
CONTINENTAL EUROPE			
Deutsche ICI GmbH Germany	Ordinary	100†	Manufacture of chlorine, caustic soda, catalysts, paints, starch, adhesives and oleochemicals; merchanting of other ICI products
ICI France SA France	Ordinary	100†	Manufacture of paints, fragrances, adhesives, toll conversion of lubricants and chlor-chemicals; merchanting of other ICI products
Quest International Nederland BV The Netherlands	Ordinary	100†	Manufacture of flavours and food ingredients
Unichema Chemie BV The Netherlands	Ordinary	100†	Manufacture of specialty oleochemicals and derivatives
THE AMERICAS			
ICI American Holdings Inc USA	Common	100†	Manufacture of halochemicals; merchanting of other ICI products
The Glidden Company USA	Common	100†	Manufacture of paints
Indopco Inc USA	Common	100†	Manufacture of adhesives, industrial starches, electronic materials, food ingredients and flavourings, fragrances, oleochemicals, resins and specialty chemicals
ICI Canada Inc Canada	Common Preference	100† 100†	Manufacture of paints; merchanting of ICI and other products
Tintas Coral Ltda Brazil	Ordinary	100†	Manufacture of paints
ASIA PACIFIC			
ICI India Ltd India (Accounting date 31 March; reporting date 31 December)	Equity*	51	Manufacture of paints, surfactants, catalysts, adhesives, industrial explosives, rubber chemicals, nitrocellulose and pharmaceuticals
ICI Pakistan Ltd Pakistan	Ordinary*	76†	Manufacture of pure terephthalic acid, polyester staple fibre, soda ash, paints, specialty chemicals, formulation of agrochemicals and polyurethanes; marketing of toll manufactured and imported pharmaceuticals and animal health products; merchanting of general chemicals
Nippon NSC Ltd Japan	Common	100†	Manufacture of adhesives and specialty synthetic polymers; merchanting of starch products
National Starch and Chemical (Thailand) Ltd Thailand	Ordinary	100†	Manufacture of food and industrial starches

* Listed   † Held by subsidiaries

The country of principal operations and registration or incorporation is stated below each company. The accounting dates of principal subsidiary undertakings are 31 December unless otherwise stated.

The companies listed above are those whose results, in the opinion of the Directors, principally affected the profits or assets of the Group. A full list of subsidiary undertakings and associates at 31 December will be annexed to the next annual return of the Company to be filed with the Registrar of Companies.

Trading market for Ordinary Shares; defaults upon senior securities

Trading market for Ordinary Shares

The nominal capital of the Company comprises 850,000,000 Ordinary Shares of £1 each. At the close of business on 31 December 1999, 727,729,950 Ordinary Shares were in issue.

The principal trading market for the Company's Ordinary Shares is the London Stock Exchange. ADSs (each representing four Ordinary Shares) evidenced by ADRs issued by Morgan Guaranty Trust Company of New York, as depositary, are listed on the New York Stock Exchange. Ordinary Shares are also listed on the New York Stock Exchange (NYSE) and in Frankfurt, Paris, Amsterdam, Basle, Geneva, Zurich, Brussels and Antwerp.

	Total	In the United States
Number of record holders of:		
Ordinary Shares as at 1 January 2000	245,159	698
American Depositary Receipts as at 2 February 2000	2,802	2,738

As of 2 February 2000 the proportion of Ordinary Shares represented by American Depositary Shares was 21.33% of the Ordinary Shares in issue.

The following table shows, for the quarters indicated, the reported high and low middle market values for the Company's Ordinary Shares on the London Stock Exchange, based on its Daily Official List and the reported high and low sale prices of ADSs, as reported by Dow Jones (ADR Quotations):

	£1 Ordinary Shares		American Depositary Shares	
	Quarter high £	Quarter low £	Quarter high US$	Quarter low US$
1998:				
First quarter	11.42½	8.91	75$^{11}/_{16}$	58¾
Second quarter	12.40	9.66	80½	64$^{5}/_{16}$
Third quarter	10.14	4.50	66¼	30⅜
Fourth quarter	6.15	4.46	40⅞	30½
1999:				
First quarter	5.87½	4.59½	38⅞	31
Second quarter	7.36½	5.50½	48	35⅝
Third quarter	8.23½	5.95	52⅝	38¾
Fourth quarter	6.99	5.68½	45⅜	36⅜
2000:				
First quarter (through 2 February 2000)	6.74	4.78½	45$^{3}/_{16}$	30¼

Defaults upon senior securities

(a) There has been no material default in the payment of principal, interest, a sinking or purchase fund instalment, or any other material default with respect to any indebtedness for or in respect of monies borrowed or raised by whatever means of the Company or any of its significant subsidiaries.

(b) There have been no arrears in the payment of dividends on and no material delinquency with respect to any class of preferred stock of any significant subsidiary of the Company.

Shareholder information

Analyses of shareholdings

The following tables analyse the holdings of £1 Ordinary Shares at the end of 1999:

by size of account

Size of holding	Number of Ordinary shareholders' accounts	Number of shares millions	%
1-250	88,327	10	1
251-500	44,448	17	2
501-1,000	35,248	26	4
1,001-5,000	21,257	38	5
5,001-10,000	793	6	1
10,001-50,000	653	15	2
50,001-1,000,000	600	130	18
Over 1,000,000	90	486	67
All holdings	191,416	728	100

by category

	1999 %
UK	
Pension funds	13
Life assurance	11
Index funds	8
Individuals	15
Others	12
Overseas	41
	100

In addition to the number of registered shareholders shown, there are approximately 43,000 holders of American Depositary Receipts (ADRs). The ADRs, each of which is equivalent to four £1 Ordinary Shares, are issued by Morgan Guaranty Trust Company of New York.

Control of Company

(a) So far as the Company is aware, it is neither directly nor indirectly owned or controlled by one or more corporations or by any government.

(b) (i) *Set out below is information regarding interests in the* Company's Ordinary Shares appearing, as at 2 February 2000, in the Register of Interests in Shares maintained by the Company:

Identity of Group	Amount owned (number of shares) millions	Per cent of class
Morgan Guaranty Trust Company of New York (Morgan Guaranty)*	156.6	21.52
The Capital Group Companies**	58.2	8.00
Brandes Investment Partners LP	24.1	3.31

* This interest relates to ADRs issued by Morgan Guaranty, as depositary, which evidence ADSs.

** Held on behalf of its affiliates including Capital Research and Management Company which holds 58.2m Ordinary Shares (7.99%).

No other person held an interest in shares, comprising 3% or more of the issued Ordinary Share Capital of the Company, appearing in the Register of Interests maintained under the provisions of Section 211 of the Companies Act 1985.

(ii) As of 2 February 2000 the total amount of the Company's voting securities owned by Directors and Officers of ICI, as a group, was:

Title of class	Amount owned (number of shares)	Per cent of class
Ordinary Shares	281,431	0.039

(c) Imperial Chemical Industries PLC does not know of any arrangements the operation of which might result in a change in control of the Company.

Exchange controls and other limitations affecting security holders

(a) There are no governmental laws, decrees or regulations in the UK restricting the import or export of capital or affecting the remittance of dividends, interest or other payments to non-resident holders of the Company's Ordinary Shares or ADSs. However, a 1.5% stamp duty reserve tax is payable upon the *deposit of ICI Ordinary Shares in connection with the creation* of, but not subsequent dealing in, ADRs. This is in lieu of the normal 0.5% stamp duty on all purchases of Ordinary Shares.

(b) There are no limitations under English Law or the Company's Memorandum and Articles of Association on the right of non-resident or foreign owners to be the registered holders of and to vote Ordinary Shares of Imperial Chemical Industries PLC.

Taxation

UK income taxes and tax treaties affecting remittance of dividends

No effective repayment of any part of the tax credit associated with a dividend paid on or after 6 April 1999 is available under the *current Double Taxation (Income) Convention* ("the Convention") between the United Kingdom and the United States. Under the Convention, US resident individuals who are the beneficial owners of dividends on Ordinary Shares, or American Depositary Receipts representing Ordinary Shares, in UK Corporations are, with the exceptions mentioned below, entitled to a payment from the UK tax authorities of an amount equal to the tax credit which attaches to dividends paid to UK resident shareholders under the system of corporation tax currently in force in the UK less a withholding of 15% of the sum of the dividend and related tax credit. The associated tax credit has, from 6 April 1999, been reduced to one-ninth (1/9) of the dividend paid, the withholding at 15% (never being greater than the associated tax credit) eliminates the repayment due.

Prior to 6 April, the associated tax credit was 25% of the amount of the net dividend. A dividend of $8.00 entitled a US resident owner (within the description above) to receive an additional payment of $0.50 (a tax credit of $2.00, less a withholding of $1.50), giving a total net receipt, after UK taxes but before US taxes, of $8.50.

US resident corporate shareholders are generally treated in the *same way as individuals, provided that either alone, or together* with associated corporations, they do not control directly or indirectly 10% or more of the voting shares of the UK company and do not constitute investment or holding companies, 25% or more of the capital of which is owned, directly or indirectly, by persons that are not individuals resident in, and are not nationals of, the US.

For US federal income tax purposes, the sum of the dividend paid and any associated tax credit or UK withholding tax considered to have been paid with respect to the dividend is includable in gross income by US resident shareholders that claim the benefits of the Convention and, for foreign tax credit limitation purposes, is foreign source income treated separately, together with other

Shareholder information (continued)

items of "passive income" (or, in the case of certain holders, "financial services income"). The withholding is treated as a foreign income tax which may, subject to certain restrictions and limitations, be eligible for credit against a US resident shareholder's US federal income tax liability (or deductible by such shareholder in computing taxable income). As noted above, changes to UK tax law in relation to dividends paid on or after 6 April 1999 result in no effective repayment being available. However, US resident shareholders that claim the benefits of the US-UK income tax treaty are entitled to include in gross income the tax credit of one-ninth of the cash dividend paid and claim a foreign tax credit for the equal amount of withholding tax.

No dividends received deduction is allowed to US resident corporate shareholders with respect to dividends paid by the Company. Shareholders whose holdings are effectively connected with a permanent establishment or fixed base in the UK, or who are corporations also resident in the UK for the purpose of the Convention, are not entitled to payment of the tax credit nor are they subject to any deductions from the dividend. Special rules may apply if the shareholder is exempt from tax in the US on dividends paid by the Company.

UK taxation on capital gains
In certain circumstances, when a shareholder in the UK sells shares, liability to tax in respect of capital gains is computed by reference to the market value of the shares on 31 March 1982. The market value of ICI Ordinary Shares at 31 March 1982, for the purposes of capital gains tax, was 309p. The computation of the chargeable gain takes into account inflation from the later of the date of acquisition and 31 March 1982 until the earlier of 5 April 1998 and the date of disposal. For disposals after 5 April 1998 the calculation is further adjusted to reflect the period of ownership after 5 April 1998.

ICI and Zeneca demerged on 1 June 1993. Post-demerger ICI shares will inherit a base cost equivalent to 0.50239 of their pre-demerger base cost.

Under the Convention each contracting state may, in general, tax capital gains in accordance with the provisions of its domestic law. Under present UK law, individuals who are neither resident nor ordinarily resident in the UK, and companies which are not resident in the UK will not be liable to UK tax on capital gains made on the disposal of their Ordinary Shares or American Depositary Receipts, unless such Ordinary Shares or American Depositary Receipts are held in connection with a trade, profession or vocation carried on in the UK through a branch or agency.

UK inheritance tax
Under the current Double Taxation (Estates) Convention (the "Estate Tax Convention"), between the US and the UK, Ordinary Shares or American Depositary Receipts held by an individual shareholder who is domiciled for the purposes of the Estate Tax Convention in the US, and is not for the purposes of the Estate Tax Convention a national of the United Kingdom, nor resident in the UK for the last seven out of ten tax years, will generally not be subject to the UK inheritance tax on the individual's death nor on a chargeable gift of the Ordinary Shares or American Depositary Receipts during the individual's lifetime provided that any applicable US federal gift or estate tax liability is paid, unless the Ordinary Shares or American Depositary Receipts are part of the business property of a permanent establishment of the individual in the UK or, in the case of a shareholder who performs independent personal services, pertain to a fixed base situated in the UK. Where the Ordinary Shares or American Depositary Receipts have been placed in trust by a settlor who, at the time of settlement, was a US resident shareholder, the Ordinary Shares or American Depositary Receipts will generally not be subject to UK inheritance tax unless the settlor, at the time of settlement, was not domiciled in the US and was a UK national. In the exceptional case where the Ordinary Shares or American Depositary Receipts are subject both to UK inheritance tax and to US federal gift or estate tax, the Estate Tax Convention generally provides for double taxation to be relieved by means of credit relief.

Shareholder information (continued)

Quarterly results

Unaudited trading results of the ICI Group for 2000 are expected to be announced as follows:

First quarter	28 April 2000
Half year	27 July 2000
Nine months	2 November 2000
Full year	8 February 2001

Dividend payments

A second interim dividend for the year 1999, which the Annual General Meeting will be asked to confirm as the final dividend for that year, is payable on 25 April 2000 to Ordinary shareholders registered in the books of the Company on 10 March 2000. Dividends are normally paid as follows:

First interim: Announced with the Half year results and paid in early October;
Second interim: Announced with the Full year results and paid in late April.

Registrar and Transfer Office

Lloyds TSB Registrars, The Causeway, Worthing,
West Sussex BN99 6DA
Telephone: 01903 502541

Securities and Exchange Commission filings

The Company from time to time files reports with the United States Securities and Exchange Commission. A copy of each report filed within the preceding 12 months can be inspected by any shareholder or ADR holder during normal business hours at the offices of ICI at 9 Millbank, London SW1P 3JF.

Dividend mandate

Any shareholder wishing dividends to be paid directly into a bank or building society account should contact the Registrar for a dividend mandate form. Dividends paid in this way will be paid through the Bankers Automated Clearing System (BACS).

Low-cost share dealing service

The Share Centre Ltd provides a simple share dealing service which allows existing and potential shareholders to purchase or sell ICI Ordinary Shares at an attractive commission rate.

Further information can be obtained from:
The Share Centre Ltd, PO Box 1000, Tring, Herts HP23 5AN
Telephone: 01442 890844

ADR Depositary

Morgan Guaranty Trust Company of New York is Depositary for ICI's American Depositary Receipts. Shareholder enquiries may be directed to:

Morgan Guaranty Trust Company of New York
PO Box 842006
Boston, MA 02284 – 2006
Telephone: (781) 575 4328

For comprehensive ADR information, please visit J P Morgan's ADR website: www.adr.com

Exchange rates

The following table sets forth, for the years and dates indicated, the noon buying rate in New York City for cable transfers in pounds sterling as certified by the Federal Reserve Bank of New York for customs purposes (the "noon buying rate"):

US$ to pound sterling (£) (1)	**1999**	1998	1997	1996	1995
At 31 December (2)	**1.62**	1.66	1.64	1.71	1.56
Average for year (2) (3)	**1.62**	1.66	1.64	1.57	1.60
Highest rate during year	**1.68**	1.72	1.70	1.71	1.64
Lowest rate during year	**1.55**	1.61	1.58	1.49	1.53

The noon buying rate on 14 February 2000 was \$1.59 = £1

(1) All figures have been taken directly or derived from figures released through the Public Information Office of the Federal Reserve in Washington, D.C. or New York City.

(2) The noon buying rate at such dates differed from the rates used in preparation of the Group's financial statements as of such dates.

(3) The average is the average of the noon buying rate on the last date of each month during the period indicated.

Fluctuations in the exchange rate between the pound sterling and the US dollar will affect the US dollar equivalent of the pound sterling prices of the Ordinary Shares of Imperial Chemical Industries PLC on the London Stock Exchange and, as a result, will affect the market prices of ADSs on the New York Stock Exchange. Cash dividends, if any, will be paid by the Company in respect of Ordinary Shares in pounds sterling, and exchange rate fluctuations will affect the US dollar amounts received by holders of ADSs on conversion by the Depositary of such dividends.

A substantial proportion of the Group's assets, liabilities, revenues and expenses are denominated in currencies other than pounds sterling. Accordingly, fluctuations in the value of the pound sterling relative to other currencies can have a significant effect on the translation into sterling of non-sterling assets, liabilities, revenues and expenses (see Operating and financial review page 22).

Definitions

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

ADR	American Depositary Receipt evidencing title to an ADS
ADS	American Depositary Share representing four underlying Ordinary Shares of Imperial Chemical Industries PLC
bn	billion – 1,000 million
Company	Imperial Chemical Industries PLC
Demerger	The Demerger of Zeneca Limited and its subsidiaries from the ICI Group
Depositary	Morgan Guaranty Trust Company of New York, as depositary under the deposit agreement pursuant to which the ADRs are issued
Directors	The Directors of Imperial Chemical Industries PLC
DuPont	E. I. du Pont de Nemours and Company
FID	Foreign Income Dividend
FRS	Financial Reporting Standard (UK)
ICI, ICI Group or the Group	Imperial Chemical Industries PLC and its subsidiaries
ICI Share Option Schemes	ICI Group's Senior Staff Scheme and Sharesave Scheme, each as defined in note 24 to the Group financial statements
London Stock Exchange	London Stock Exchange Limited
m	million
Ordinary Shares	Ordinary shares of £1 each in the capital of Imperial Chemical Industries PLC
pound sterling, £, pence or p	Refers to units of UK currency
SEC	The United States Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards (US)
UK or United Kingdom	United Kingdom of Great Britain and Northern Ireland
US dollar, dollar, US$ or $	Refers to units of US currency
USA or United States	United States of America
Zeneca	(a) in relation to the period prior to the Demerger becoming effective, the pharmaceuticals, agricultural chemicals, seeds, specialty chemical and biological products businesses and companies transferred by the ICI Group to Zeneca Limited; and (b) in relation to the period after the Demerger becoming effective, Zeneca Group PLC and its subsidiaries

Figures in parentheses in tables and financial statements are used to represent negative numbers.

Glossary

Term used in annual report	US equivalent or brief description
Accounts	Financial statements
Acquisition accounting	Purchase accounting
Allotted	Issued
Associate	20–50% owned investee
Called-up share capital	Ordinary shares, issued and fully paid
Capital allowances	Tax term equivalent to US tax depreciation allowances
Class of business	Industry segment
Closing rate method	Current rate method
Creditors	Accounts payable/payables
Creditors: Amounts falling due after more than one year	Long-term debt liabilities
Creditors: Amounts falling due within one year	Current liabilities
Debtors	Accounts receivable/receivables
Finance lease	Capital lease
Financial year	Fiscal year
Fixed tangible assets	Property, plant and equipment
Freehold	Ownership with absolute rights in perpetuity
Freehold land	Land owned
Gearing	Leverage
Group, or consolidated accounts	Consolidated financial statements
Interest receivable	Interest income
Interest payable	Interest expense
Loan capital	Long-term debt
Net asset value	Book value
Nominal value	Par value
Pension scheme	Pension plan
Profit	Income (or earnings)
Profit and loss account (reserve)	Retained earnings
Profit and loss account	Income statement
Profit attributable to ordinary shareholders	Net income
Reconciliation of movements in shareholders' funds	Statement of changes in stockholders' equity
Reserves	Stockholders' equity other than capital stock
Share capital	Ordinary shares, capital stock or common stock issued and fully paid
Share premium account	Additional paid-in capital relating to proceeds of sale of stock in excess of par value or paid-in surplus (not distributable)
Shares in issue	Shares outstanding
Shareholders' funds	Stockholders' equity
Stocks	Inventories
Tangible fixed assets	Property, plant and equipment
Turnover	Revenues (or sales)