



HOWARD ROSS LIBRARY
OF MANAGEMENT

MAR 28 1979

Annual Report 1978



Imperial
Chemical
Industries
Limited

Foreword by the Chairman

The year 1978 was a difficult one for the European chemical industry. UK growth was small, but there was more growth overseas and this was reflected in the volume of ICI's exports from the UK and in the performance of a number of our overseas businesses. The international spread of our operations stood us in good stead and the importance of being broadly based, both in products and territories, was well underlined.

As we came to the end of 1978, there was some promise of a quickening of economic pace in Continental Western Europe, notably in West Germany, and of continued growth in most of the rest of the world. But the threat of industrial troubles hung over the UK – particularly then from tanker drivers and hauliers. Much harm is done to British-based international companies by widespread industrial disruption of this type.

To survive, ICI must match its main competitors who have their bases in different political and economic environments. ICI has more than half its assets in the UK. These must be worked efficiently and continuously if we are to succeed. Our competitors overseas will exploit any inability to supply and, with the present over-capacity in Europe and the USA, this is particularly threatening. Not only is there the danger that markets will be handed to competitors but, as a result, their profitability and ability to invest will be increased at a time when we are suffering from reduced income and higher costs as we struggle to keep plants open and employees at work.

I am afraid that some people still do not understand the damage that industrial disruption does to a country's industrial base and to industry's ability to maintain employment. There is a need for the whole community to recognise that we serve our customers – not they us. If they desert us for more reliable suppliers, there will be much less money for wages, for investment, and for the Government and public services.

Against this background ICI did well to hold its position in world markets in 1978. To raise, or even to maintain, our share of these markets we need strong local organizations with, where appropriate, local manufacturing bases. Investment overseas must remain an integral part of our world strategy and our developments at Wilhelmshaven and in the USA are major elements of that strategy. We have recently been investing more than most of our competitors, but continuance depends on adequate profitability and the price weakness in 1978 was a worrying factor. Despite low growth and over-capacity in the chemical industry, it is vital to pass on in higher product prices the massive increases in naphtha costs, together with any further rises in petroleum raw material costs which result from the latest OPEC decisions and the Middle East situation.

When I became Chairman last year I decided that an important priority was to meet as many of our employees in the UK and overseas as possible so that I could be aware of their aspirations and problems. I have found great



loyalty to the Company, real understanding of its complex problems, high morale, and determination to come to grips with the tough business realities facing us. I am confident that ICI has the people and the commercial and technological abilities to hold its position amongst the leaders of the international chemical business. I am determined that we shall continue to meet whatever challenges lie ahead.

Maurice Hodgson.

Notice of Meeting

Notice is hereby given that the fifty-second Annual General Meeting of Imperial Chemical Industries Limited will be held at the Royal Garden Hotel, Kensington High Street, London W8, on Wednesday, 18 April 1979 at 11.00 a.m., for the following purposes:

To consider the Company's Accounts and the Reports of the Directors and Auditors for the year ended 31 December 1978, and to confirm dividends.

To elect Directors in place of those retiring.

To appoint Auditors, and to authorize the Directors to fix the remuneration of the Auditors.

To consider and, if thought fit, pass the following resolution as an Ordinary Resolution:—

'That the Directors of the Company be and are hereby authorized, for the purposes set out on page 21 of the Report of the Directors for the year ended 31 December 1978:

(a) to issue further Ordinary Shares of the Company and/or

(b) to issue, or guarantee the issue by any subsidiary of the Company of, securities convertible into Ordinary Shares of the Company,

whether to existing stockholders of the Company or not and at such times and upon such terms and conditions as to price or otherwise as the Directors shall determine; provided that the total number of shares so issued shall not exceed 5 per cent of the nominal value of the Ordinary share capital of the Company at present in issue and for this purpose an issue of convertible securities shall be deemed to be an issue of the number of shares which would be required to satisfy the conversion rights attached to those securities in full at the initial conversion price provided for in the terms and conditions of the issue'.

7 March 1979

Imperial Chemical House, Millbank, London SW1P 3JF

By Order of the Board
J. D. COUSIN
Secretary

Any member of the Company entitled to attend and vote is entitled to appoint one or more proxies (whether members or not) to attend and, on a poll, to vote instead of him. The instrument appointing a proxy, and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's Transfer Office, PO Box 227, Imperial Chemical House, Millbank, London SW1P 3JL, not less than 48 hours before the time for holding the meeting.

This Report is circulated to members of the Company and to holders of Unsecured Loan Stock of the Company, but those holding Preference Stock and/or Unsecured Loan Stock only are not entitled to attend or vote at the meeting.

The following information, which is available for inspection during business hours at the Company's Transfer Office, Imperial Chemical House, Millbank, London SW1P 3JL, will, on the day of the Annual General Meeting, be available for inspection at the Royal Garden Hotel, Kensington High Street, London W8, from 10.45 a.m. until the conclusion of the meeting:

- 1) A statement of transactions of Directors (and of their family interests) in the share capital and debentures of the Company and any of its subsidiaries.*
- 2) Copies of all contracts of service under which Directors of the Company are employed by the Company or any of its subsidiaries.*

About 540,000 copies of this Report are despatched to stockholders. To facilitate delivery of this very large number of copies, posting of the Report will be phased over a period.

Reports of the Chairman's speech at the Annual General Meeting will be published in the Press. A copy of the speech will be sent to any stockholder on request.

Front cover:

The principal strength of the ICI Group is the enterprise, skill and dedication of its employees. The front cover shows a process operator, Bill Wright, at ICI's Hillhouse Works, near Thornton Cleveleys, Lancashire.

Back cover:

Top left: Oil from this production platform in the North Sea's Ninian field, in which ICI has an interest, is now being piped ashore at Sullom Voe in the Shetlands.

Bottom left: ICI Holland's sales office in the business centre of Rotterdam overlooks the barge trade at Wijnhaven Harbour.

Top right: Work continues on the construction of the new plant at Billingham, Teesside, which will make 'Pruteen' single cell protein from methanol for animal feedingstuffs.

Bottom right: Specialised equipment is used on board this Brixham Laboratory vessel to monitor areas of estuary and marine environment of particular interest to the Company.

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Summary of the year

Economic Background

The world economy again achieved only moderate growth. There was some recovery in world chemicals output, but excess capacity persisted and prices remained under pressure.

Group Results

Group sales totalled £4,533 million, a volume increase of 5 per cent. Trading profit was £504 million (1977, £521 million excluding IMI). On a current cost accounting basis, the trading profit was £233 million (1977, £292 million excluding IMI).

Capital Expenditure

Money sanctioned for new projects totalled £788 million, of which £466 million is for the UK. The amount spent in 1978 rose by more than 40 per cent to £701 million.

Finance

New borrowings in 1978 amounted to £166 million and borrowings repaid to £117 million. At the end of the year the net liquid resources were £395 million.

Review of Trading

In **agriculture**, fertilizers were generally in strong demand and, except in Canada, profits from them were maintained. Sales of bipyridyl herbicides continued to expand in a slowly growing world market for crop protection chemicals.

Trading in **fibres** showed some improvement but prices did not reach realistic levels. Sales growth was limited by the level of demand for textiles which improved in the UK but remained static in Continental Western Europe.

Starting from a low level, sales of **general chemicals** increased but prices remained depressed. The strategy of investment in chlorine and related products continued and, as part of this, plants in West Germany and the USA were purchased.

Industrial explosives sales and profits were slightly lower than in 1977 as a result of a fall in demand.

Trading conditions for **organic chemicals** were difficult, but the Group maintained its position in world markets compared with its competitors. Profits from dyes and pigments were lower because of lack of demand and depressed prices.

ICI's international **paint and decorative products** business achieved a substantial improvement in profit. Difficult trading conditions in Australia and Canada were more than offset by better results in the UK and SE Asia.

UK **petrochemicals** sales volumes recovered early in the year, but pressure on profit margins intensified during the second half of the year due to substantial rises in naphtha costs. Crude oil began to flow at the end of the year from the North Sea Ninian oilfield in which ICI has an interest of more than 18 per cent.

Group sales of **pharmaceuticals** increased by 20 per cent. Continued growth is centred on the cardiovascular products 'Inderal' and 'Tenormin'.

In **plastics**, demand for bulk polymers improved slightly in Western Europe, but prices continued to be weak because of over-capacity. Prices for sheet improved. High demand for polyester film in the USA continued.

Geographic Spread

(Sales by the Group in major areas of the world are shown in the chart)

In the **United Kingdom**, the growth in sales volume was small and costs rose more than product prices. Export sales volume increased more strongly, but the prices obtained were significantly lower than in 1977.

In **Continental Western Europe**, over-capacity persisted in many sectors of industry. Prices in most markets remained depressed, but there was some firming of prices for fibres. About half the sales made by the Group were shipments from the UK.

Sales and profits from **United States** trading operations were well ahead of 1977, with crop protection chemicals and 'Melinex' film doing particularly well. Although sales in **Canada** were higher than in 1977, trading profit was reduced by higher costs.

In **Australasia**, profits increased, with most business sectors contributing to the improvement, particularly heavy chemicals, industrial explosives and plastics. The profitability of the fibres business markedly improved.

In the **Far East**, sales and profits increased significantly.

Because of industrial unrest, sales and profits in **India** were lower than in 1977. Production of pharmaceuticals and 'Gramoxone' herbicide began at the new plant near Madras.

Research and Technology

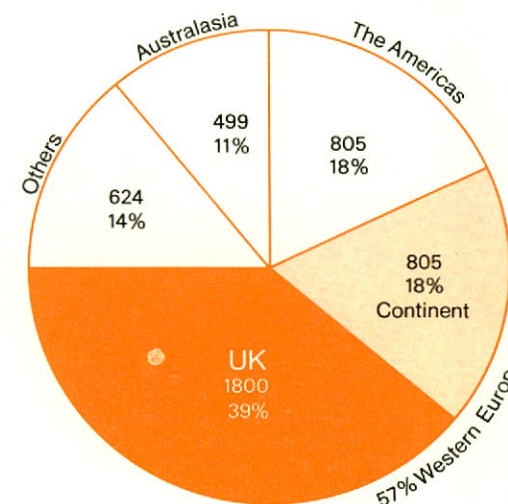
The Group spent £164 million (1977, £150 million) on research, development and technical service. Of this, £47 million (1977, £46 million) was spent overseas. More emphasis was given to biological science, service to overseas customers, and process improvement in basic chemical manufactures.

Personnel

The average number of employees in the Group in 1978 was 151,000 (1977, 154,000). Of these, 92,000 (1977, 95,000) were employed in the UK. The increasingly international nature of ICI's business in a fiercely competitive environment demands the highest technical, commercial and managerial skills, and special efforts have been made to accelerate their development across the Group. Income policies in the UK have created many problems on differentials, including serious difficulties at Wilton arising from a shortage of instrument artificers.

1978 Group Sales

£ 4533 million



Group results in brief

The Group sold its 63% interest in Imperial Metal Industries Ltd (IMI) in early November 1977. The 1977 comparative figures include IMI's results to 31 October 1977.

The salient profit and capital employed information is shown both as published in the audited accounts and also under the Current Cost Accounting (CCA) convention. The Board believe that the CCA information, which takes account of inflation, provides the more realistic measure of performance.

	1977 £million	1978 £million	
Sales			
Sales to external customers	4,663	4,533	◀ Excluding IMI, 1977 sales amounted to £4,295 million.
UK	1,868*	1,800*	
Overseas	2,795	2,733	
Exports from United Kingdom at f.o.b. value	936	856	◀ Excluding IMI, 1977 exports amounted to £864 million.
Profits			
Trading profit			
Audited accounts	552	504	◀ Excluding IMI, the 1977 figure was £521 million.
CCA	301	233	◀ Excluding IMI, the 1977 figure was £292 million.
Profit before taxation and grants			
Audited accounts	483	421	
CCA	261	189	
Profit applicable to parent company before extraordinary items			
Audited accounts	319	304	
CCA	198	135	
Earnings (before extraordinary items) per £1 Ordinary Stock			
Audited accounts	56.8p	53.6p	
CCA	35.2p	23.8p	
Dividends			
Ordinary dividends	93	105	
Dividend per £1 Ordinary Stock	16.5p	18.5p	
Capital employed			
Capital expenditure			
Fixed assets	491	701	◀ Excluding IMI, 1977 expenditure was £477 million.
New investments	39	52	
Additional working capital	119	42	
Assets employed at year end			
Audited accounts	3,633	3,969	
CCA	6,287	6,740	
Percentage return on average assets employed			
Audited accounts	15.9%	13.5%	
CCA	5.6%	4.3%	

*Including oil purchased and resold, amounting in 1977 to £69 million and in 1978 to £139 million.
'Group' means ICI and its subsidiary companies.

Sources and disposal of value added

(This table shows the total value added to the cost of materials and services purchased from outside the Group and indicates how this increase in value has been disposed of.)

	1977 £million	1978 £million	
Sources of income			
Sales	4,663	4,533	
Royalties and other trading income	39	49	
Less: Materials and services used	(2,866)	(2,842)	
Value added by manufacturing and trading activities	1,836	1,740	◀ Excluding IMI, the 1977 figure was £1,684 million.
Share of profits of principal associated companies and investment income	96	100	
Exchange loss on net current assets of overseas subsidiaries	(29)	(39)	
Extraordinary items	(29)	(3)	
Total value added to cost of materials and services used	1,874	1,798	◀ Excluding IMI, 1977 added value was £1,744 million.
Disposal of total value added			
Employees	1,092	1,041	
— pay, plus pension and national insurance contributions	1,063	1,011	◀ Excluding IMI, the 1977 figure was £950 million.
— profit sharing bonus	29	30	◀ 1978 UK bonus rate 6.9p per £1 of remuneration (7.1p in 1977).*
Governments — corporate taxes, less grants	136	100	◀ Does not include tax paid by employees on their pay. Income tax paid by UK employees under PAYE amounted to £112 million in 1978 (1977 £104 million).
Providers of capital	228	236	
— interest paid on borrowings	107	114	
— dividends to stockholders	93	105	
— minority shareholders in subsidiaries	28	17	
Re-investment in the business	418	421	
— depreciation set aside	221	225	◀ Contribution towards the total spent in the year on new fixed assets, working capital and additional investments.
— profit retained	197	196	
	1,874	1,798	

The above table is based upon the audited accounts. Figures in brackets represent deductions.

*The rate is based upon the relationship between pay (plus pension and national insurance contributions) and value added by manufacturing and trading activities.

Directors

Chairman	Maurice Arthur Eric Hodgson
Deputy Chairmen	William Barr McKinnon Duncan, CBE
	John Henry Harvey-Jones, MBE
	Sir Raymond William Pennock
	Sir Terence Norman Beckett, CBE*
	Alan William Clements
	Sir Arnold Alexander Hall, FRS*
	Philip Geoffrey Harvey
	Robert Haslam
	Frederick John Kenneth Hillebrandt
	John Robin Ibbs
	Alexander Anthony Jarratt, CB*
	John Alfred Lofthouse, OBE
	The Rt Hon Lord Polwarth, TD*
	Charles Hugh Reece
	Alan Robertson
	Sir Francis Edwin Prescott Sandilands, CBE*
	Norman Brian Smith
	Alfred Spinks, CBE, FRS
	The Rt Hon Lord Thomson of Monifieth, PC*

*Non-Executive Directors

Secretary	James Douglas Cousin
Treasurer	Cyril John Crowe (from 1 March 1979)
Solicitor	Bernard John Wyndham Winterbotham

Senior Executives

Division Chairmen		General Managers	
Agricultural	F. Whiteley	Commercial	R. C. Hampel
Fibres	J. Lister	International Personnel Co-ordination	J. A. G. Coates, DFC
Mond	V. G. Cove	Investments	A. Conlong
Organics	J. D. Rigg, CBE	Personnel (Operations)	J. P. M. Bell
Paints	D. H. Henderson	Personnel (Senior Management)	W. B. Stead
Petrochemicals	R. G. J. Telfer	Planning	C. Hampson
Pharmaceuticals	P. W. Cunliffe	Research and Technology	C. W. Suckling, FRS
Plant Protection	A. Hayes		
Plastics	C. Vowles		

ICI Europa Chairman N. M. Mims

Chief executives of major subsidiary companies

ICI Australia Ltd	Chairman and Joint Managing Director:	D. R. Zeidler, CBE
ICI Americas Inc	President and Chief Executive Officer:	E. J. Goett
	Executive Vice President and Chief Operating Officer:	R. P. Barnett
Canadian Industries Ltd	President and Chief Executive Officer:	W. J. Mandry
ICI Group of Companies in India	Chairman:	A. L. Mudaliar
ICI Japan Ltd	President:	N. D. MacLeod
Nobel's Explosives Co Ltd	Chief Executive:	W. C. McDowall
Scottish Agricultural Industries Ltd	Managing Director:	A. W. Morrison

Registered Office	Imperial Chemical House, Millbank, London SW1P 3JF
Registrar and Transfer Office	Brian Piercy Mould PO Box 227, Imperial Chemical House, Millbank, London SW1P 3JL
Auditors	Price Waterhouse & Co Southwark Towers, 32 London Bridge Street, London SE1 9SY
	Thomson McLintock & Co 70 Finsbury Pavement, London EC2A 1SX

Report of the Directors 1978

The Directors of Imperial Chemical Industries Limited present their fifty-second Annual Report, together with the Accounts of the Company for the year 1978. They will be laid before the stockholders at the fifty-second Annual General Meeting to be held on 18 April 1979, and copies are being provided for those employees of the Company who are not also stockholders.



THE QUEEN'S AWARD
FOR TECHNOLOGICAL ACHIEVEMENT 1978
TO MOND DIVISION, PHARMACEUTICALS DIVISION
AND PLANT PROTECTION DIVISION

These Awards were won by Mond Division for the development of 'Saffil' alumina fibres, by Pharmaceuticals Division for the development of 'Nolvadex', a drug used in the treatment of advanced breast cancer, and by Plant Protection Division for the development of pirimiphos-methyl insecticide (sold under the trade marks 'Actellic', 'Silosan' and 'Blex').

Economic Background

The world economy again achieved only moderate growth in 1978, although activity improved throughout the year. Business conditions remained relatively buoyant in the USA, whilst other major economies showed some recovery from their previous low levels. Unemployment and inflation remained serious problems in most countries. Further instability was experienced in foreign exchange markets, with the US dollar under particular pressure.

UK economic growth was better than in 1977. The improvement was due mainly to increased consumer spending, the result of rising real incomes to which a reduction in inflation substantially contributed. UK exports rose broadly in line with world trade, but imports by foreign competitors again took a greater share of UK markets for manufactured goods. Only a small surplus was achieved on the balance of payments despite a large increase in North Sea oil production.

There was some revival in world output of chemicals, which was about 6 per cent higher than in 1977. All major regions contributed to the advance, including Continental Western Europe where trading conditions had previously been especially depressed. Excess capacity persisted, however, in a wide range of products, and chemical prices remained under pressure in highly competitive markets. Only a small increase was recorded in UK chemical output and this was due entirely to expansion of export sales.

Group Results

The Group's audited statutory accounts are shown on pages 23 to 35. The Group's unaudited current cost accounts, which take account of inflation, are shown facing page 36. The Board believe that the current cost accounts, which indicate significantly lower profits and return on assets, provide a more realistic measure of performance.

The Group sold its 63 per cent interest in Imperial Metal Industries Ltd in early November 1977. The 1977 comparative figures include IMI's results to 31 October 1977.

In 1978, Group sales amounted to £4,533 million compared with £4,663 million (£4,295 million excluding IMI) in 1977. If sales of oil purchased and resold are excluded, the volume of Group sales increased by 5 per cent compared with 1977, comprising 3 per cent for sales in the UK and 7 per cent for sales overseas.

The fall in sales volume in the second half of 1977 was recovered in the first half of 1978 and, following a seasonal decline in the third quarter, there was a further increase in the fourth quarter. Exports from the UK at £856 million f.o.b. were higher in volume than in 1977 but lower in value, due to weak prices in Europe and to the weakness of the US dollar compared with sterling.

Trading profit amounted to £504 million, compared with £552 million (£521 million excluding IMI) for 1977. On a Current Cost Accounting (CCA) basis, 1978 trading profit amounted to £233 million compared with £292 million for 1977 (excluding IMI). In the first half year, trading profit improved on the low level of the second half of 1977, but the recovery was not sustained into the second half of 1978. The benefits of improved volume were more than offset by rising manpower and raw material costs, which could not be matched by higher selling prices.

Group profit before tax and grants in 1978 was £421 million compared with £483 million for 1977. On a CCA basis, these figures were £189 million and £261 million respectively. The table on the right shows Group sales and profit before taxation for the last two years on a quarterly basis (including IMI to 31 October 1977).

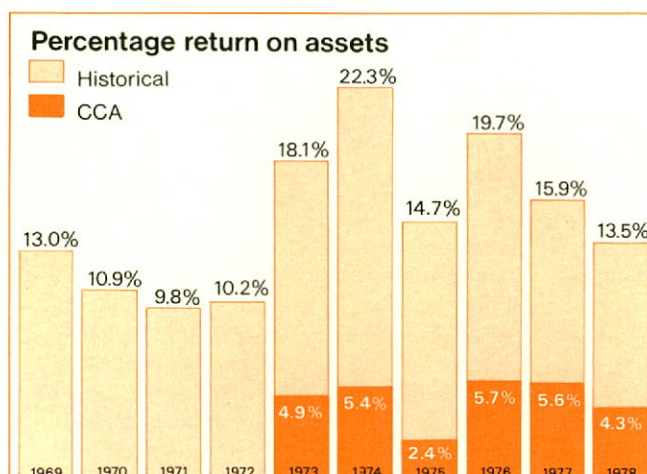
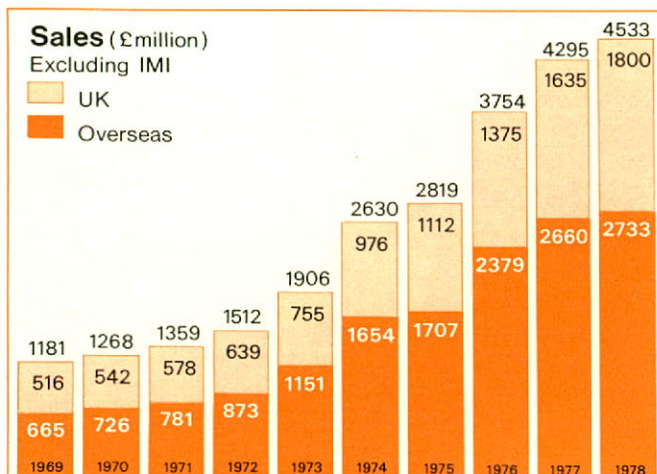
Profit before loan interest, taxation and grants represented a return on average assets employed of 13.5 per cent compared with 15.9 per cent in 1977. The returns on a CCA basis were 4.3 per cent and 5.6 per cent respectively.

<u>Sales</u>		<u>Profit before tax</u>		
	Excluding exchange gain/ (deficit)	Exchange gain/ (deficit)	Total	On a CCA basis
£million	£million	£million	£million	£million
1,190	148	(7)	141	86
er 1,224	169	(1)	168	101
1,136	107	(2)	105	43
r 1,113	88	(19)	69	31
4,663	512	(29)	483	261
1,060	119	(7)	112	57
er 1,156	136	3	139	61
1,125	105	(22)	83	42
r 1,192	100	(13)	87	29
4,533	460	(39)	421	189

The new UK standard on accounting for deferred taxation has been adopted in arriving at the net charge for taxation less grants for 1978, and the comparative figures for 1977 have been amended accordingly (see pages 23 and 27). By comparison with ICI's previous accounting policy for deferred taxation, the charge for taxation less grants is about £60 million lower for 1978 (1977 £66 million lower).

Earnings after taxation but before extraordinary items were £304 million (53.6p per £1 unit of Ordinary Stock) compared with £319 million (56.8p per £1 unit) in 1977. On a CCA basis, earnings were £135 million (23.8p per £1 unit) in 1978 and £198 million (35.2p per £1 unit) in 1977.

A second interim Ordinary dividend of 8.46586p per £1 unit, which the Annual General Meeting will be asked to confirm as the final dividend for 1978, is payable on 5 April 1979. This, together with the first interim dividend of 10p per unit paid on 10 November 1978, makes a total Ordinary dividend of 18.46586p for the year. The gross equivalent of this (including the related tax credit) is 27.56099p, compared with 25.02405p for 1977. The increase is the maximum permitted by the Government's dividend restraint regulations. The payment of these dividends requires £105 million, leaving £196 million (1977 £197 million) retained in the business.



Capital Programme

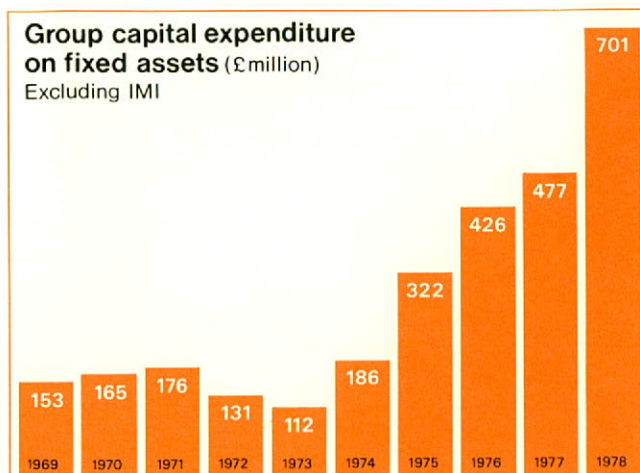
With worthwhile investment opportunities and satisfactory liquidity, the Group maintained its sanctioning of expenditure on fixed assets at an amount approaching the record figure of 1977. As a result of high sanctioning in recent years, expenditure rose by more than 40 per cent.

Expansion, modernisation and improvement of plants in the UK, the Group's main manufacturing base, continued to be an important feature of investment policy. A substantial part of the capital programme was again directed towards increasing the strength of ICI's position in the major chemical markets of the world in Western Europe and North America. Some investments were also made to ensure the continuing strength of the Group as a supplier of chemicals in markets in other parts of the world.

The following table summarises Group sanctions and expenditure for each of the past three years.

Fixed Assets	1976 £million	1977 £million	1978 £million
Sanctioned:			
United Kingdom	268	454	466
Continental Western Europe	56	168	131
The Americas	147	76	92
Other countries	45	106	99
	<u>516</u>	<u>804</u>	<u>788</u>
Expenditure:			
United Kingdom	268	330	430
Continental Western Europe	37	42	87
The Americas	102	82	107
Other countries	31	37	77
	<u>438</u>	<u>491</u>	<u>701</u>
Total sanctioned but unspent at end of year	<u>673</u>	<u>986</u>	<u>1,073</u>

**Group capital expenditure
on fixed assets (£million)**
Excluding IMI



The major projects sanctioned during 1978 are set out in the table below.

Project	Location	Fixed Assets Cost £ million
United Kingdom		
Chlor-alkali	Teesside	66
Vinyl chloride	Teesside	45
Chloromethanes	Merseyside	32
Polypropylene	Teesside	30
Modernisation of soda ash production	Cheshire	25
Effluent disposal system	Stevenston, Scotland	10
In addition to the above projects and other smaller ones for new plant, some £125 million was sanctioned for projects to modernise, improve and sustain the output of existing plants in the UK.		
Continental Western Europe		
PVC	Wilhelmshaven, West Germany	38
Chlor-alkali acquisition and improvements	Wilhelmshaven, West Germany	26
The Americas		
Chlor-alkali and vinyl chloride acquisition	Louisiana, USA	32
'Melinex' film	Virginia, USA	23
Urea	Ontario, Canada	9
Other countries		
Urea (sanctioned subject to negotiations with the Indian Government)	Kanpur, India	50

Working Capital

Working capital increased by £42 million during 1978. The increase was due to the growth in business and to the effect of continuing pressures on the costs included in the value of stocks — notably the price of naphtha and employee costs.

Finance

The table below is a summary for 1978 and for the ten year period 1969-1978 of the sources of the Group's funds and how they were spent. A more detailed statement for 1977 and 1978 is given on page 26.

During 1978, 4.3 million £1 units of Ordinary Stock were issued in respect of the Employees' Profit-Sharing Scheme and 1.8 million units in exchange for US \$14.1 million of

convertible bonds of a finance subsidiary. Canadian Industries Ltd made an issue of Canadian \$75 million of Preferred Shares with a floating dividend rate, repayable in 1988.

New long-term borrowings in 1978 amounted to £166 million. Included were public issues by finance subsidiaries of US \$175 million 8½ per cent sinking fund debentures due 1988-2003 and Swiss Francs 100 million 4¼ per cent bonds due 1984-1993, both guaranteed by ICI. During the year long-term borrowings amounting to £117 million were repaid, including convertible bonds exchanged for Ordinary Stock.

At 31 December 1978, Group net liquid resources amounted to £395 million compared with £552 million at 31 December 1977.

Source and Application of Funds

	Ten years 1969/78		1978
	£million	%	£million
Source of funds			
Funds generated from trading operations after taxation	4,220	77	602
Issues of ICI Ordinary Stock	366	7	23
Borrowings less repayments	544	10	49
Disposal of investments	157	3	10
Others	154	3	74
Funds obtained	5,441	100	758
Use of funds			
New fixed assets	2,933	57	701
New investments	485	9	52
Additional working capital	913	18	42
Dividends	807	16	120
Funds used	5,138	100	915
Movement of funds			
Net liquid resources at beginning of period	303		(157)
	92		552
Net liquid resources at end of period	395		395

Stockholders

At the end of 1978 the register of stockholders consisted of 498,490 Ordinary Stock accounts, 967 Preference Stock accounts and 240,714 accounts in respect of all classes of Loan Stock. The following table analyses the holdings of Ordinary Stock:

Size of holding £	Number of stockholders' accounts	Amount £ million
1—250	224,189	27.2
251—500	122,221	44.8
501—1,000	93,002	65.8
1,001—5,000	55,696	96.1
5,001—50,000	2,684	33.1
50,001—1,000,000	627	129.9
Over 1,000,000	71	173.6
All holdings	498,490	570.5

The Ordinary Stockholders include many thousands of ICI employees in the UK who receive Ordinary Stock under the ICI Employees' Profit-Sharing Scheme.

The holders of more than £50,000 of Ordinary Stock are almost exclusively insurance companies, pension funds, unit trusts, banks and other institutions, together representing millions of people who, as holders of insurance policies, members of pension funds, unit holders and the like, have — with their families — an interest in the progress of ICI.

So far as the Board are aware, at no time during 1978 or up to and including 7 February 1979 (one month prior to the date of the Notice of Meeting on page 1) has any person held an interest in stock comprising 5 per cent or more of the issued Ordinary capital of the Company.

For the benefit of stockholders and employees in Continental Western Europe, translations of this Report are provided in Dutch, French and German.

Review of Trading Operations

The first part of this review deals on a worldwide basis with the results of each class of business in which the Group is engaged. The table which follows gives the sales and trading profit attributable to each class. It does not include the results of associated companies.

	Sales		Trading Profit	
	1977 £million	1978 £million	1977 £million	1978 £million
Agriculture	806	873	139	150
Fibres	398	420	(16)	(13)
General chemicals	858	895	146	128
Industrial explosives	203	192	24	22
Metals and engineering products	411	—	33	—
Organic chemicals	520	502	55	21
Paint and decorative products	409	429	13	24
Petrochemicals	768*	813*	44	38
Pharmaceuticals	245	293	46	68
Plastics	602	625	50	39
Miscellaneous	63	88	(4)	2
	5,283	5,130	530	479
Inter-class sales	(620)	(597)	—	—
Royalty income	—	—	22	25
Totals as in profit and loss account	4,663	4,533	552	504

*Including oil purchased and resold, amounting in 1977 to £69 million and in 1978 to £139 million.

The Group's policy is to transfer products internally at prevailing external market prices.

Classes of Business

Agriculture

The Group has major fertilizer manufacturing operations in the UK, Canada, Australia, India and Malaysia, the main function of which is to supply regional requirements. In 1978, fertilizers were generally in strong demand in the regions served by the Group. In the UK, sales were at a slow rate in the early months of the year as a result of price increases and a late spring, but they recovered well despite increasing competition. Overseas, sales volumes were high, exceeding 1977 levels in India and Malaysia. Profits were maintained, except in Canada where rapidly rising

natural gas costs could not be fully recovered in the selling prices of ammonia and fertilizers.

The high level of sales achieved in the related industrial chemicals business in 1977 was maintained. In this sector, ammonia and methanol are the principal products. The Group, which manufactures ammonia for both fertilizer and industrial applications, is the world's largest ammonia producer.

Construction on Teesside of the first commercial scale plant for the manufacture of 'Pruteen', ICI's high protein animal feed, is at an advanced stage. Market development of the product continued satisfactorily and product registration was completed in several Western European countries.

The world market for crop protection chemicals grew slowly and remained highly competitive. Prices were under pressure and costs rose, but speciality products providing high benefits to the farmer remained profitable.

Sales of the Group's bipyridyl herbicides continued to expand, and benefited from favourable weather conditions in many parts of the world. Sales and profits of 'Gramoxone' herbicide in Western Europe and the USA were particularly satisfactory, and further growth was achieved in Malaysia. Sales in Brazil were, however, adversely affected by drought. A second synthetic pyrethroid insecticide, 'Cymbush', was added to the range and achieved considerable success, particularly in the Middle East. This complemented the continuing success of 'Ambush' pyrethroid insecticide in the USA and elsewhere.

The Group continues to expand its production capacity for crop protection products, with additional capacity soon to be commissioned in the UK for diquat herbicide and for pyrimidine products.

Fibres

Total fibres sales, including those of associated companies, were about £900 million, the same as in 1977. In most countries, trading in fibres during 1978 showed an improvement over 1977, although conditions were well short of full recovery and did not allow prices to reach realistic levels.

In Western Europe, sales growth was limited by textile demand which remained static in Continental Europe but improved progressively in the UK. The agreements which were negotiated last year under the renewed Multi-Fibre Arrangement were effective in controlling textile imports from developing countries, but imports from EEC

associated countries in the Mediterranean area were a cause of concern. The long-term prospects for ICI's Western European fibre operations remain closely linked with those of its downstream customers in the textile industry. In conjunction with the relevant trade associations, the Company has continued to play an active part in defining with national governments and the EEC Commission the necessary conditions for success.

Despite individual action by producers, over-capacity in synthetic fibres throughout Western Europe remains a problem which can only be solved by unified action. Working closely with the EEC Commission's Directorate for Industry, the producers drew up during the early part of the year a short-term agreement which would enable this excess capacity to be reduced progressively. Unfortunately, the Commission has not endorsed the agreement, but is discussing with the industry ways of finding an acceptable solution.

Although the Company's fibre business continued to make losses during 1978, the improved efficiency of operation following the restructuring of the past two years, coupled with limited price increases, led to an improvement in trading during the course of the year. In the final quarter, the business operated at around break-even level, although the full impact of raw material cost increases has yet to be experienced.

Assisted by selective investment in the most modern technology, some progress has been made in improving the productivity of the UK factories, but these still lag behind the standards achieved in Group operations in other countries. Further progress remains essential if international competitiveness is to be maintained.

General chemicals

These products, made largely from raw materials indigenous to the countries where the main plants are sited, are centred on alkalis, chlorine and chlorinated products, but include also acids, methacrylates, limestone, lime, salt and a range of important speciality chemicals manufactured on a smaller scale.

Starting from a low level, sales increased, particularly in Western Europe. Prices remained depressed, reflecting world over-capacity for most products. Of special concern has been the increase in low-priced imports into Western Europe from Eastern European sources. After representations from the European Council of Chemical Manufacturers' Federations (CEFIC) on behalf of the alkali manufacturers, the EEC Commission has accepted that for soda ash this situation justifies investigation.

Most of the Group's manufacturing plants for chlorine and related products are in the UK but there are also major installations in Australia and North America as well as a number of more widely spread smaller plants. The strategy of investment in these products was continued. In the UK, a chloromethanes plant at Runcorn, and chlorine and vinyl chloride plants at Teesside, were sanctioned. Subsequently, however, the construction of part of the vinyl chloride plant has had to be postponed because of an unexpected change in the market situation. Overseas, two major plants were purchased during the year, a chlorine plant at Wilhelmshaven, West Germany, and an integrated chlor-alkali and vinyl chloride facility at Baton Rouge, in the United States; these are intended to strengthen the Group's position in Western Europe and North America. At the same time the build-up of exports of chlorinated products from the UK to Continental Western Europe has continued.

An extension to the prototype production plant for 'Saffil' alumina fibre at Widnes, Cheshire, came on stream during the year. This product has unique properties for extremely high temperature insulation and sales have continued to develop rapidly, especially in the USA and Japan.

Commissioning of the latest extensions to the soda ash plant at Khewra, Pakistan, commenced. Engineering design support was given to this project by the Group from both the UK and Australia.

Industrial explosives

ICI, together with its associates, is the largest supplier of industrial explosives to western world markets.

The depressed state of the mining and construction industries was reflected in reduced demand for industrial explosives and accessories. Sales and profits were slightly lower than in 1977 as a result of the fall in demand, the

effects of industrial disputes at the sites of major customers and movements in exchange rates.

International competition has increased, and more effort and funds are being directed to research and development on novel products and processes. Much is being done to maintain high safety standards, and at the end of 1978 Indian Explosives Ltd at their Gomia Works had reached over eleven million man-hours without a lost-time accident.

Organic chemicals

This group of products includes dyestuffs, pigments, biocides, polyurethanes and other speciality chemicals.

ICI ranks amongst the world's leading producers of dyestuffs. Despite the difficult trading conditions of 1978, application development and new product innovation have enabled the Group to maintain its competitive position in the world's major markets. Demand for dyes was, however, adversely affected by the continuing low level of activity in the textile industry, particularly in Western Europe, and also by the current fashion for pale shades. With depressed markets and low growth, it was not possible, because of overcapacity, to raise prices to the extent necessary to recover cost increases. Profits therefore suffered.

A plant for H Acid, a major dyestuffs intermediate, was commissioned. This plant at Stevenston, Scotland, is managed by ICI, but is owned jointly with Acna U.K. Ltd, a member of the Montedison Group.

Elsewhere within the colouration area of the Group's business, pigments were also depressed and profits were reduced. During the course of the year, new capacity in the UK was commissioned for HD (high dispersion) pigment pastes, which will help to improve ICI's position in the pigmentation of emulsion paints.

Low demand and weak prices were experienced in the polyurethane chemicals business in Europe. In the middle of the year, the Group ceased manufacture of TDI (tolylene diisocyanate) in Western Europe. Growth for polyurethane chemicals in the USA was, however, four times as high as in Western Europe and, in consequence, Rubicon Chemicals Inc, the joint venture with Uniroyal, Inc in the USA, had a good year. A major new aniline plant was brought on stream by Rubicon at the end of 1978.

Results from the ICI range of speciality chemicals, which include biocides, industrial nitrocellulose and silicones, were mixed but overall the sales and profits were comparable with 1977. Demand for industrial biocides remained high and good progress was also made in overseas markets with the swimming pool sanitizer, 'Baquacil' SB. Sales of the Atlas range of products, including sorbitol, mannitol, general purpose surfactants, activated carbon and polyester resins, again grew in both the USA and Europe. The development of anthraquinone as an additive in the manufacture of wood pulp continued.

Paint and decorative products

The international paints business achieved a substantial improvement in profit. Difficult trading conditions in Australia and Canada were more than offset by better results in the UK and South-East Asia.

The sharp improvement in the results in all sectors in the UK was due partly to buoyant consumer demand for decorative paint and partly to improved sales in automotive and refinish paint and in pre-treatment chemicals.

Further rationalisation of the UK business took place during the year. ICI's interest in the Farrow Group of construction companies was sold and agreement was reached for the sale of Rose & Co (Wallpaper & Paints) Ltd, which owns 57 retail outlets. Because of inadequate profitability, it was decided to withdraw from marine paint and to close the Glasgow paint factory.

Results of Hermann Wiederhold GmbH continued to improve, showing the effect of substantial past restructuring and productivity improvement. A new warehouse on Wiederhold's main manufacturing site at Hilden, West Germany, was sanctioned.

Outside Western Europe, ICI paints are manufactured in 19 countries, with licensees in a further eight. Close co-operation continued between these producers in order to make effective use of resources in the key areas of new product development, manufacturing and marketing expertise. Expansion of paint manufacturing facilities in Indonesia and Malaysia was sanctioned during the year.

Petrochemicals

ICI is one of the world's largest manufacturers of petrochemicals. This class of products includes many of the basic building blocks of the chemical industry, such as ethylene, propylene, benzene and xylenes, as well as their derivatives, which include ethylene glycol, nylon salt and terephthalic acid.

The manufacturing plants concerned are mainly located in the UK. About half the output is used within the Company, chiefly for the manufacture of fibres and plastics but also as raw material for paints, polyurethanes, dyestuffs and pharmaceuticals. The other half is sold in worldwide markets, making this one of ICI's largest export sectors.

Business conditions in 1978 were mixed. UK sales volumes recovered early in the year from the depressed level of the second half of 1977 and export volumes rose to record levels. Full advantage could not be taken of the improved demand, however, as several plants had to be shut down because of the shortage of instrument artificers referred to on page 19. This resulted in the trading profit being substantially lower than it would otherwise have been. Selling prices mostly remained at the low levels to which they had fallen at the end of 1977, reflecting the intense competition in all markets caused by widespread over-capacity for most petrochemicals and continuing depression in the synthetic fibre and plastics industries. The pressure on profit margins intensified in the second half of the year as a result of rises totalling 50 per cent in the market cost of naphtha, the major feedstock for petrochemicals. It is essential that these cost increases should be recovered through higher prices for the derived products if profitability is to be restored to the level needed to support further major investment.

At the end of the year, a plant was commissioned in the UK to manufacture a number of derivatives from ICI's own supplies of ethylene oxide. These derivatives are used in the manufacture of a variety of products, including detergents, fertilizers, pharmaceuticals, surface coatings and brake fluids.

Meanwhile, two large new olefine plants, in which ICI has major interests, are nearing completion, one at Wilton on

Teesside and the other at Corpus Christi in the USA. The Wilton plant is jointly owned by ICI and BP Chemicals Ltd, and the Corpus Christi plant is owned by a partnership consisting of ICI Americas and subsidiaries of Solvay et Cie SA and Union Pacific Corporation. The latter plant is ICI's first investment in the large basic petrochemicals market of the USA.

Oil and gas exploration and development During the year ICI transferred its UK oil interests to a wholly-owned subsidiary, ICI Petroleum Ltd.

In accordance with Government participation policy, an agreement was signed during 1978 for Government participation in the ICI Group's interest of more than 18 per cent in the North Sea Ninian oilfield. Under the agreement, the British National Oil Corporation has the right to acquire part of ICI's Ninian oil at market price, and ICI can purchase from BNOC comparable quantities of crude oil for its petrochemicals operations in the UK.

Crude oil flow from the Ninian oilfield commenced at the end of 1978. Production initially is from the southern platform and will build up during 1979 and 1980 as the central and northern platforms, which were successfully installed during 1978, come into operation. Plans have been made for ICI's share of 1979 output to go to the refinery on Teesside of Phillips-Imperial Petroleum Ltd, in which ICI has a 50 per cent interest. North Sea crude oil supplies are particularly important at a time when supply problems have again arisen in the Middle East.

A discovery west of the Shetlands, in which ICI has a 20 per cent interest, is being appraised and exploration in other North Sea areas is continuing. Following successful exploration in the Gulf of Mexico area, exploration in the Baltimore Canyon area, off the east coast of the USA, commenced in 1978 but has given disappointing results.

Studies into the viability of possible North Sea gas gathering systems, which were led by the British Gas Corporation and BNOC and in which ICI was involved, resulted in 1978 in a recommendation that the existing systems should be extended. The possibility of connecting the Ninian oilfield to the gas gathering system of the Brent oilfield is under investigation.

Pharmaceuticals

ICI's pharmaceutical products are sold throughout the world, providing effective treatment for a wide range of serious illnesses. Group sales increased by 20 per cent to £293 million, of which £87 million were in Continental Western Europe, £84 million in the Americas and £47 million in the UK. Sales increased in most countries, notably in Japan where they increased by 40 per cent. Exports from the UK increased by 16 per cent to £109 million.

The continued growth of ICI's international pharmaceutical business is centred on the cardiovascular products 'Inderal' and 'Tenormin'. 'Tenormin', a product which reduces high blood pressure, was first introduced in 1976 and is now available in most parts of the world, apart from the USA and Japan where good progress is being made towards obtaining the approval of the regulatory authorities. There were also significant contributions to the growth in sales from a wide range of other products, including antiseptics and 'Nolvadex', a drug for the treatment of advanced breast cancer.

With the stringent safety requirements in force throughout the world, a new pharmaceutical product can take ten years to develop. Additional toxicity testing prior to clinical trials, which is proposed in the UK and could eventually be required throughout the EEC, would add considerably to the already protracted development time and to costs.

The animal health business continued to be affected by intense product and price competition and by the depressed state of agriculture in some parts of the world.

Plastics

The Group manufactures the three bulk polymers — low density polyethylene, polypropylene and polyvinyl chloride; also acrylic, polyamide and PTFE moulding powders; acrylic sheet; and films made from polypropylene, polyester and low density polyethylene. All of these products are manufactured in Western Europe and some of them also in the Americas, Australasia and India.

Demand for bulk polymers in Western Europe improved slightly. Selling prices, influenced by over-capacity, continued to be weak, especially for low density polyethylene and polypropylene, and remained well below those needed to earn profits. With steep increases in naphtha costs towards the end of the year, efforts were being made to raise prices to a level that would recover these costs and permit continued investment.

A new PVC plant in the UK was commissioned during the year and another is under construction. New plants were sanctioned for the manufacture of PVC in West Germany and polypropylene in the UK.

In Western Europe, demand for films and sheet improved and sales increased by some 7 per cent over 1977. Although prices for film fell slightly, profits were maintained. Prices for sheet were raised and profits improved. In the USA, demand for polyester film continued at a high level, with the plant in Virginia operating at maximum capacity throughout the year.

Territorial Analysis

This part of the review analyses the results in each of the main geographical areas of the Group's operations. The sales and trading profit made by companies located in each area are shown in the following table. Export sales and their related profits are included against the territories from which those sales were made; the sales figures differ, therefore, from those in the chart on page 3 where sales are shown according to the territory in which the customer is located.

	Sales				Trading Profit	
	£million	1977* £million	£million	1978 £million	1977* £million	1978 £million
United Kingdom—						
Home sales	1,867		1,798			
Exports (at invoice value)	1,041		970			
		2,908		2,768	406	370
Continental Western Europe		730		744	(3)	(2)
The Americas		726		743	43	30
Australasia		502		494	45	47
Indian sub-continent		125		116	17	12
Other countries		217		234	22	22
		5,208		5,099	530	479
Inter-territory sales within the Group		(545)		(566)	—	—
Royalty income		—		—	22	25
Totals as in profit and loss account		4,663		4,533	552	504

*Including IMI to 31 October 1977.

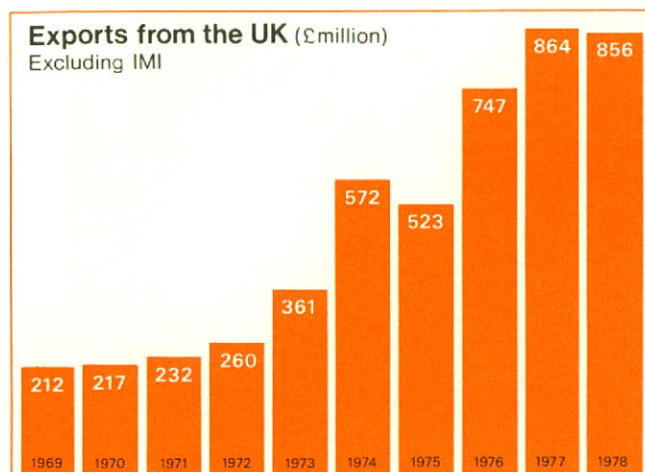
The United Kingdom

Excluding the resale of purchased oil, the volume of ICI sales in the UK increased by 3 per cent. This was a disappointing result in view of the substantial growth in consumer demand during the year, much of which was met by increased imports of finished goods. Business confidence amongst industrial customers remained low and was affected particularly in the last quarter by fears of industrial unrest.

The combination of low growth and increased competition from imports limited the ability to raise prices sufficiently to offset increased costs.

Export sales volume increased more strongly than UK sales volume. However, export prices were on average significantly lower than in 1977 because of competitive pressures in overseas markets, particularly in Continental Western Europe, and the strength of sterling compared with some other currencies.

In line with the increase in consumer demand, the fastest growing sectors of the business were in areas nearest to the end-user, that is, in paints, pharmaceuticals and crop protection chemicals. Fertilizers also had a good year although sales were not quite at the exceptional level of 1977. There was some increase in general chemicals sales, and petrochemicals showed an improvement against the poor second half of 1977. However, plastics, fibres, dyestuffs and pigments continued to be depressed.



Exports from the UK The f.o.b. value of Group direct exports from the UK in 1978 was £856 million, 1 per cent lower than in 1977 excluding IMI sales. Although volume rose by 7 per cent, this increase was more than offset by weaker prices and unfavourable exchange rates. Group direct imports were £320 million and the net effect was a positive contribution of £536 million to the UK balance of payments.

The values of exports from the UK, expressed in f.o.b. terms, were:—

	1976* £million	1977* £million	1978 £million
Western Europe			
EEC	260	306	315
Rest of Western Europe	112	109	109
	372	415	424
Africa	84	93	96
North America	52	83	73
Far East	42	59	69
Eastern Europe and USSR	48	52	50
Central and South America	56	59	46
Middle East	37	44	46
Australasia	46	46	40
Indian sub-continent	10	13	12
Total	747	864	856

*Excluding IMI

Continental Western Europe

For the second year in succession, economic growth was sluggish and over-capacity persisted in many sectors of industry. Although prices in most markets remained depressed, there was some firming of prices for fibres. Group sales in Continental Western Europe amounted to £805 million, about half of which were exports from the UK. The Group has manufacturing facilities in the Netherlands, West Germany, France and Italy, which produce a range of plastics, fibres, polyurethanes, paints, pharmaceuticals and speciality chemicals. There are wholly-owned selling companies in all the main territories.

Work started on the first stage of the Group's new production complex at Wilhelmshaven, West Germany, which will manufacture vinyl chloride and PVC in parallel with ICI's UK production. As part of this development, the Group acquired Alusuisse Atlantik GmbH. This company, now ICI Atlantik GmbH, manufactures chlorine and caustic soda at Wilhelmshaven.

Also in West Germany, new purification and packing plants for pharmaceutical products were brought into production at Plankstadt, near Heidelberg.

In Spain, a new plant at Huelva to manufacture phenol and acetone was commissioned by Ertisa SA, ICI's joint company with Union Explosivos Rio Tinto SA.

The Americas

No general economic pattern was apparent in the Americas. During 1978 the Canadian economy remained depressed, but the United States continued buoyant although, with an adverse balance of payments and high inflation, the dollar weakened against most other currencies. In Latin America, Argentina experienced a recession, but there was some growth in Brazil and higher growth in Mexico. This economic background was reflected in the pattern of the Group's trading operations in the Americas.

Canada Canadian Industries Ltd, together with its subsidiary companies, manufactures industrial and agricultural chemicals, paints, plastics and industrial explosives. Sales were higher than in 1977. Trading profit, however, was reduced by an inability to increase prices sufficiently to offset higher feedstock and raw material costs and by the effect of strikes in the mining industry, which is important to the Company both as a customer and a supplier.

Construction of the major chlor-alkali plant expansion at Becancour, Quebec, continued on schedule, for start-up in 1979. An expansion of urea manufacturing capacity was sanctioned during the year.

USA The operations of ICI Americas Inc in the United States include the manufacture and sale of pharmaceuticals, dyes, plastics, and speciality and crop protection chemicals. During the fourth quarter ICI Americas acquired an integrated chlor-alkali and vinyl chloride facility at Baton Rouge, Louisiana, which will provide ICI with an important heavy chemicals base in the United States market.

Sales and profits from United States operations were well ahead of 1977, the largest gains coming from paraquat herbicide, from a new insecticide, 'Ambush', and from 'Melinex' film.

During the year the Group incurred significant costs in exploration for oil and gas.

Construction of the world-scale olefines plant at Corpus Christi, Texas, in which ICI Americas has a 37½ per cent interest, continued on schedule towards a 1980 start-up.

Latin America Difficult trading conditions persisted in most Latin American countries and sales overall were slightly less than in 1977. In particular, sales of agricultural products in Brazil were affected by the severe drought, while in Argentina lower tariffs and the over-valued peso placed sales by ICI's subsidiary company, Duperial SAIC, at a disadvantage compared with imports. Trading profits remained depressed.

A new polypropylene plant built in Brazil by ICI's associated company, Polipropileno SA, was commissioned by the end of the year and a new polypropylene film plant was sanctioned.

Australasia

The ICI Australia Group manufactures in Australia, New Zealand and Papua New Guinea an extensive range of products including plastics, organic and inorganic chemicals, fibres, paints, industrial explosives, pharmaceuticals, crop protection chemicals, veterinary products and fertilizers.

Government economic policies were successful in securing a steady reduction in inflation rates in both Australia and New Zealand. Towards the end of the year

there were signs of a general improvement in business confidence and good spring rains, coupled with increased export earnings, led to a strong recovery in the rural sector.

Although market demand for the Group's products was generally restrained, a moderate growth in sales was achieved. Profits increased, with most business sectors contributing to the improvement, particularly heavy chemicals, industrial explosives and plastics. The profitability of the synthetic fibres business improved markedly as a result of higher production efficiency and a more stable trading environment following Australian Government action to limit imports of textiles.

There was an improvement in sales of agricultural products, particularly towards the end of the year. Sales of paint also increased towards the end of the year after suffering earlier from reduced demand, particularly from the automotive, building and construction industries.

Capital expenditure by the Group was more than double the level of the previous year. Construction of two major projects, a polypropylene plant at Botany, New South Wales, and a PVC plant at Laverton, Victoria, was well advanced at the end of the year.

Indian sub-continent

Production in India suffered because of industrial relations difficulties, reflecting general labour unrest in the country. Sales and profits were consequently lower than in 1977, despite the overall improvement in the Indian economy.

In the course of the year, as required by the Indian Foreign Exchange Regulation Act 1973, ICI disposed of 60 per cent of the shares in Crescent Dyes & Chemicals Ltd (previously ICI (India) Private Ltd), which handles about 15 per cent of the Group's total sales in India. The public offer for the shares at the price fixed by the Indian Government was substantially over-subscribed.

Towards the end of the year, production of pharmaceuticals and of 'Gramoxone' bipyridyl herbicide

began at the new plant at Ennore near Madras. A major expansion of fertilizer capacity by Indian Explosives Ltd at Kanpur was sanctioned, subject to negotiations with the Indian Government. Work commenced on an expansion of the polyester plant of Chemicals and Fibres of India Ltd at Thane.

In Pakistan, good progress was made with soda ash expansion at Khewra, but growth of profits was restrained by Government delays in approving an application for a soda ash price increase.

Africa

Exports from the UK to Africa were £96 million, an increase of 3 per cent on 1977. The largest export sales were to South Africa (£43 million, a 23 per cent increase on 1977) and to Nigeria (£23 million, a 10 per cent increase). The principal exports were crop protection chemicals, dyestuffs, pharmaceuticals and general chemicals.

ICI continued to pay particular attention to the employment conditions and welfare of its employees in South Africa. There is, however, a need to secure a better public understanding of the contribution that is made by European companies in South Africa, and the EEC Code of Conduct for companies with interests in that country could be helpful in securing this. The United Kingdom Government has asked UK companies to report on their progress in implementing the provisions of the Code during the twelve months ending 30 June in every year. ICI's next statement will therefore be for the twelve months ending 30 June 1979. Copies will be available for those who wish to have them.

Eastern Europe

Trading relationships were further developed and expatriate managers are now established in each country except USSR where the necessary permission has still to be obtained. In spite of these increased efforts, sales remained at 1977 levels due to increased competition in markets limited by a shortage of foreign currency.

Far East (excluding Japan)

The continued buoyancy of these markets was reflected in higher sales and profits. Sales in the ICI (China) region, covering a wide range of products, increased by more than 40 per cent.

The declared intention of the People's Republic of China to modernise its agriculture and industry led to increasing activity to develop opportunities for business co-operation. As a result, sales by the ICI Group to the People's Republic of China were more than double those in 1977.

Sales in the countries of the Association of South-East Asian Nations continued to show encouraging growth, particularly in Malaysia.

Exports from the UK to the whole area increased by nearly 20 per cent and included substantial increases in agricultural chemicals, dyestuffs and petrochemicals.

Japan

Trading conditions were difficult, especially in the commodity chemicals and textiles industries where over-capacity and a low rate of domestic demand continued. Nevertheless, ICI's exports from the UK to Japan increased by 10 per cent.

ICI's joint ventures with Japanese partners are concerned mainly with speciality products. The business of these companies was less affected by adverse trading circumstances, and results were particularly good in agricultural chemicals and pharmaceuticals.

Middle East

Sales to the area were adversely affected by political unrest, particularly in the Lebanon and Iran. Turkey's financial difficulties reduced sales in that country which, in recent years, has been ICI's largest Middle Eastern market. Nevertheless, overall sales in the area were maintained at the previous year's level, with pharmaceuticals, crop protection products and dyestuffs again doing well.

Associated Companies

Details of ICI's investments in its principal associated companies are given on page 35.

AECI Ltd

AECI Ltd, the South African Group in which ICI has a 40 per cent interest, manufactures and sells industrial explosives for mining and other commercial uses, general chemicals, plastics, vinyl products, paints, synthetic fibres and agricultural products.

Sales by AECI in the year 1978 increased to Rand 703 million. Profit before tax amounted to Rand 95 million. During 1978 the South African economy, after a four year recession, entered a phase of slow recovery which has had a material effect on the performance of AECI. In addition, the improvement in the operation of the coal-based nitrogen complex at Modderfontein continued and there was a marked recovery in the synthetic fibres business.

During 1978 there was a steady improvement in operating efficiency at Coalplex, a coal-based complex of plants manufacturing carbide, acetylene, chlorine, caustic soda and PVC in which AECI has a 60 per cent interest.

Carrington Viyella Ltd

Sales by Carrington Viyella Ltd, in which the Group has a 49 per cent interest, were £323 million in the year 1978, an increase of 6 per cent over 1977. Profit before tax and exchange gains/losses was £14.5 million (1977 £16.1 million).

The effect of the increase in consumer spending was reflected in textiles and clothing much later in the year than in some other consumer markets. This delay, coupled with extremely high imports of textile products in the first half of the year, adversely affected Carrington Viyella's profits.

Cleveland Potash Ltd

This company, jointly owned by ICI and by Charter Consolidated Ltd and associates, mines potash at Boulby in north-east England. 1978 was another disappointing year due to continuing production problems and depressed world potash prices. The partners agreed to provide an additional £18 million to finance capital expenditure and operating deficit.

Fiber Industries, Inc

This company, in which ICI owns 37½ per cent of the stock and Celanese Corporation the rest, is the second largest manufacturer of polyester fibre in the USA. It has major plants in North and South Carolina.

During 1978 the company took full advantage of the sustained level of textile activity in the United States. In dollar terms, sales were 6 per cent higher than in 1977 and trading profits were 10 per cent higher.

Tioxide Group Ltd

Tioxide Group Ltd, in which ICI now has a 50 per cent interest, is a major international producer of titanium pigments, with manufacturing facilities in the UK, where a major expansion is in progress, and in France, Spain, Canada, Australia and South Africa.

For the half year to June 1978, Tioxide Group achieved a pre-tax profit of some £2.5 million, well below the £10.6 million earned in the corresponding period of 1977. However, some recovery of prices in 1978 which began in Western Europe had by the year-end spread to most other areas of the world and the indications were that an improvement in world demand for pigment was taking place.

Research and Technology

Research, Development and Technical Services expenditure was £164 million (1977 £150 million), of which £47 million (1977 £46 million) was spent overseas. Increasing emphasis has been given to biological science, service to overseas customers, and process improvement in basic chemical manufactures, while greater selectivity has been exercised on projects aimed at minor improvements. The bulk of the Group's exploratory research continues to be in the UK; this research is increasingly linked to business overseas and, accordingly, the effort overseas is being further strengthened.

In fibres, research on new high-speed processes producing high quality products is justifying modernisation of existing plant. A more basic scientific understanding of the fibre-forming process has been important in this work.

Considerable effort is being put into development of new chlorine cells in support of investments in the UK and overseas. Significant advances continue to be made in vinyl chloride process technology and these are being incorporated in new plants. In the field of chlorinated solvents, which are mainly used for industrial degreasing, new technology giving a substantially greater efficiency in the use of raw materials has been developed for a new plant soon to be commissioned.

In plastics, the major emphasis is on improving the manufacturing technology for the Group's main products. Plants currently under construction for the manufacture of polypropylene, PVC and 'Propafilm' polypropylene film are based on processes developed to give lower costs. Research effort is also aimed at an improved product range for ICI's main polymers and, in this work, there is an increasing emphasis on the use of special inorganic materials as fillers.

The Group has continued to increase its expenditure on research and development for crop protection products. The work on pyrimidine derivatives has given rise to a range of new products and recent successes have included the new fungicide 'Nimrod', and the insecticide 'Actellic' for which a Queen's Award for Technological Achievement was won in 1978.

Expenditure on pharmaceutical research and development also increased substantially during the year in the search for further advances in medical and animal health products. 'Inderal' LA, a sustained release formulation of the heart drug 'Inderal', has been developed and has the advantage of once-a-day dosage. The drug 'Nolvadex' was another ICI product to win a Queen's Award for Technological Achievement in 1978.

Research into new products is vital to the future of the dyestuffs business and during the year the 'Procion' T dyes for dyeing cotton and the 'Procilene' PC liquid dyes for printing polyester/cotton blends were added to the range and were well received.

Two new businesses based on new products discovered and developed in the Company's laboratories are being established — 'Pruteen' high protein animal feed and 'Saffil' alumina fibre for refractory use in steel, ceramic and other high temperature processes. The latter product is already selling well, and was a third ICI development to win a Queen's Award for Technological Achievement in 1978.

ICI's Corporate Laboratory covers the whole range of science underlying the Company's business, and fundamental engineering programmes are assuming a greater importance in its work. The laboratory is also starting fundamental work on the detonation of industrial explosives, an important business for the Group worldwide. The laboratory continues to work closely with universities, and the joint laboratories which operated at Liverpool and Manchester are being followed by a joint laboratory for molecular biology at Leicester University. Valuable relationships with university scientists and engineers have been strengthened throughout the Company by the Joint Research Scheme; the number of university projects being supported has grown to 34.

The Group has been a leader in the development of computer technology, notably of systems for the control of chemical plants. Computers are making an impact on all aspects of ICI's activities from research to the delivery of products to customers.

Personnel

The Group

The average number of people employed by the Group in 1978 was 151,000 (1977, 154,000 excluding IMI) and they were located in the following areas:

	1977	1978
United Kingdom	95,000	92,000
Continental Western Europe	11,000	10,800
The Americas	19,900	19,500
Australasia	12,400	12,300
Indian sub-continent	10,800	11,100
Other countries	4,900	5,300
	<hr/> 154,000	<hr/> 151,000

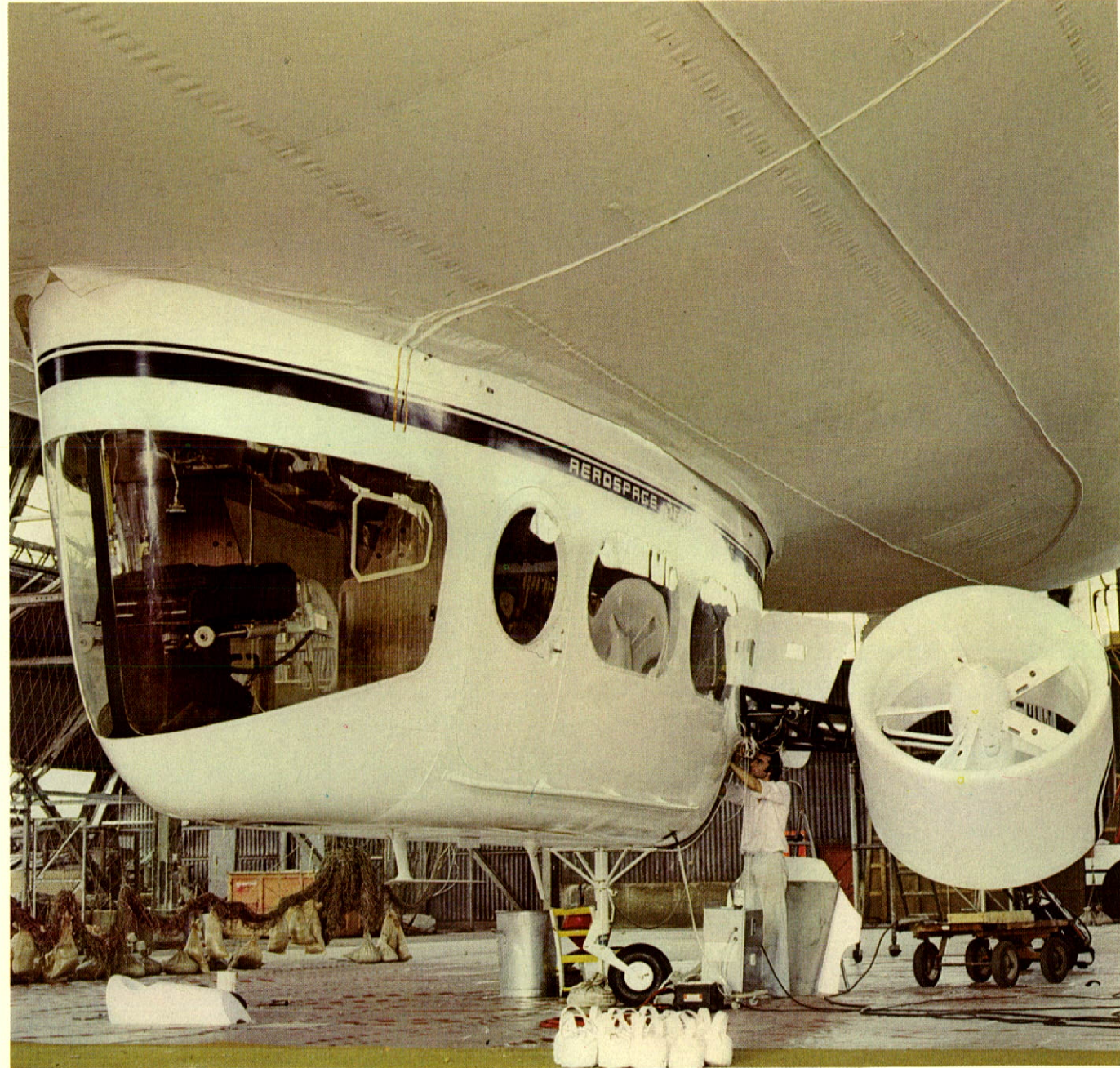
During 1978, in most areas in which the Group operates, the complexity and severity of industrial relations problems were intensified by inflation and unemployment, combined with political uncertainties and intervention by governments in business matters. The Group experienced some industrial action resulting in stoppages and loss of production, notably in the UK and India, but industrial relations throughout the Group nevertheless remained generally good. This confirmed the need, to which ICI has always attached great importance, for the continuing development of effective and progressive consultation and negotiation procedures, in which both employer and employees have confidence and which are consistent with local laws and culture.

The increasingly international nature of ICI's business in a fiercely competitive environment demands the highest standards of technical, commercial and managerial skills. These in turn require the recruitment, training and retention

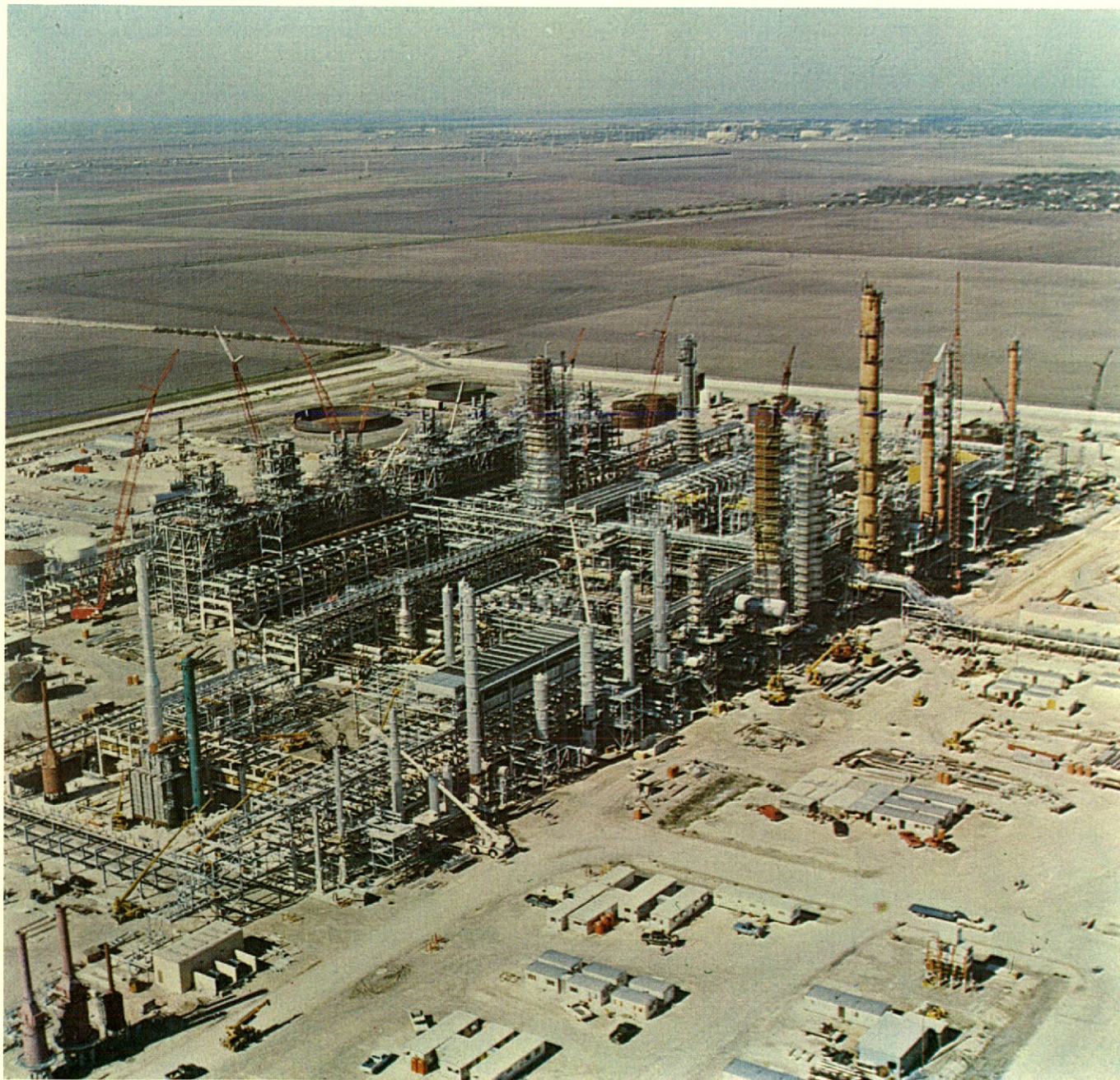
Sailing ahead with 'Terylene' polyester fibre.



'Perspex' acrylic sheet will give all-round viewing for the crew of this new airship being made in the UK for a South American customer.



ICI Americas has a 37½ per cent interest in this olefines plant under construction at Corpus Christi, Texas.



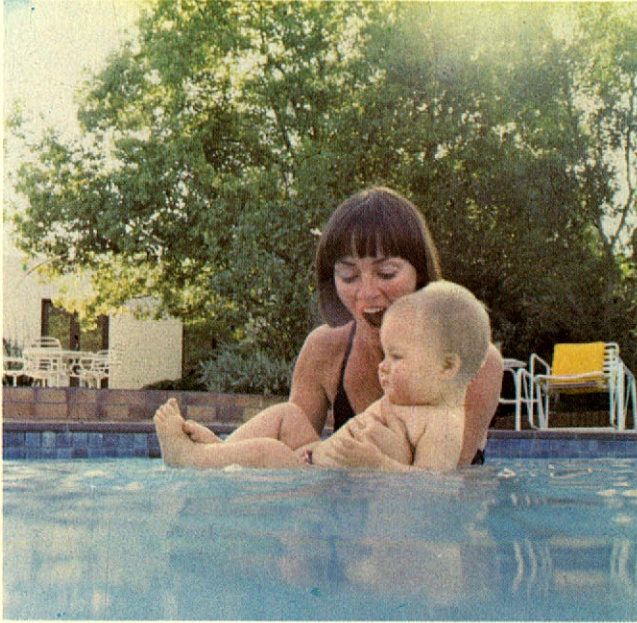
Top Laboratory activity at ICI's agricultural research station at Jealott's Hill, Berkshire, which was 50 years old in 1978.

Below Another 1978 anniversary — Paints Division celebrated 25 years of supplying 'Dulux' paint to the retail trade.



Top This swimming pool in Australia is protected by 'Baquacil' SB sanitizer, developed by ICI in the UK and marketed through ICI Australia and other overseas companies.

Below ICI encourages the teaching of technology in schools, providing specially-produced booklets, wall charts, and personal contact with teachers.

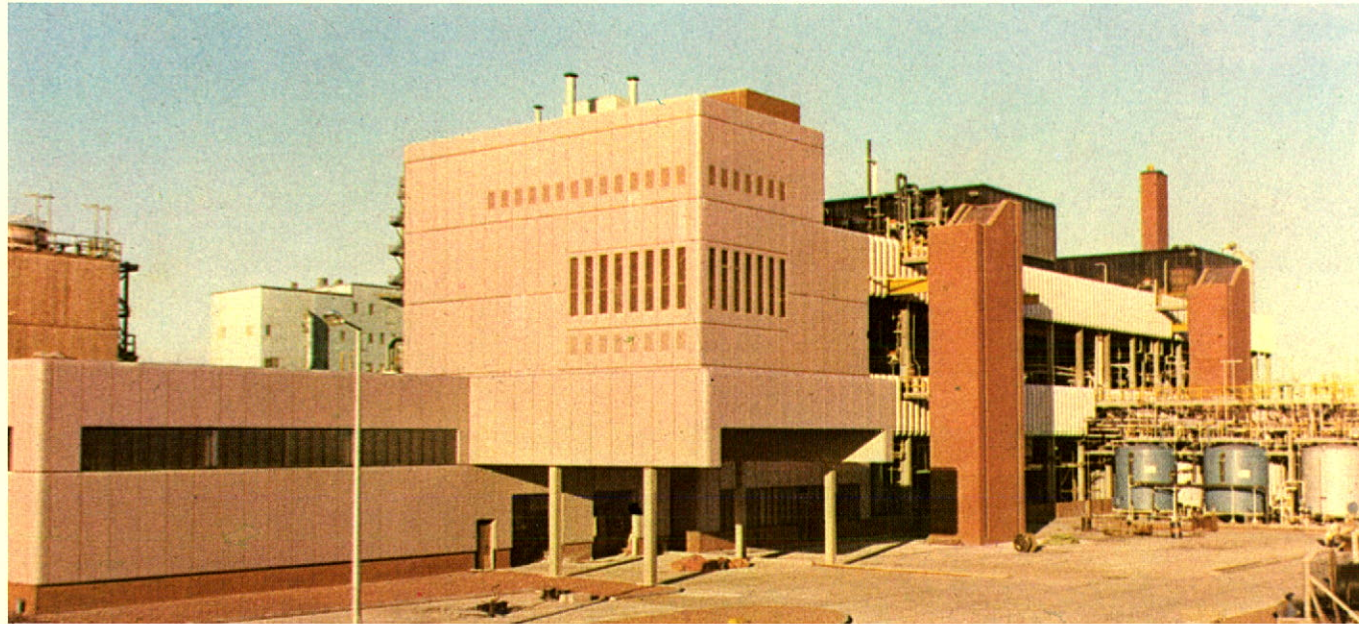


ICI Fibres Textile Centre — threads which lead to tomorrow's fabrics.



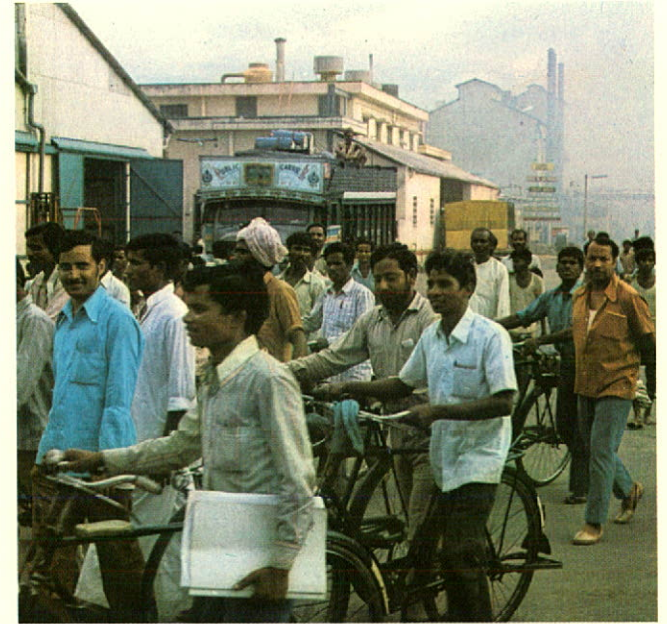
Top ICI has a 50 per cent share in this newly-commissioned dyestuffs intermediates plant at Stevenston, Ayrshire, Scotland.

Below Liaison between design, construction and start-up team members at the new plant for making 'Genklene' solvent at Runcorn, Cheshire.



Top Employees at the Gomia Works of Indian Explosives Ltd had, by the end of 1978, worked over eleven million man-hours without a lost-time accident.

Below ICI Garden Products provided a colourful presence at the 1978 Chelsea Flower Show in London.



of staff of the highest calibre in each area in which the Group operates. Equally essential is the movement of employees across national boundaries, in order to transfer technical and managerial skills and to build a cadre of senior managers and directors with a wider international perspective and the experience and understanding that is required to meet rapidly changing conditions across the world. By the end of 1978 the number of ICI employees living and working outside their home countries had increased to nearly 700.

The United Kingdom

The aggregate remuneration for 1978 of the employees of the Group in the UK was £523 million (1977 £473 million) and total income tax deducted under PAYE was £112 million (1977 £104 million).

During 1978 the Company conformed fully to the Government's incomes policies. It is clear, however, that sustained Government intervention in the detail of employment policies, especially pay, causes serious distortions. Incomes policies and crippling taxation have combined to produce a new set of pressures on differentials and have reduced the Company's ability to attract and retain employees for some of the jobs needing higher skills and carrying greater responsibilities.

In May 1978 the Government published a White Paper on 'Industrial Democracy' and, in spite of the fact that there was no consensus on the best way to involve employees in decision-making processes, the intention to proceed with legislation was subsequently announced in the Queen's Speech. In such circumstances and bearing in mind that the situations of individual companies vary so widely, legislation is the wrong way forward. Within the Company, there has meanwhile been further careful development and consolidation of the work of the Business and Investment Committees at Division and Company level. In November 1978 the Signatory Trades Unions held a Delegate Conference, involving nearly two hundred shop stewards and six national and regional trades union officials, to

review the working of the jointly-agreed arrangements; the Conference endorsed the value of these arrangements and their use as a means of influencing the decisions taken at Board and Division level.

An important question raised by employees in the consultation systems and in face-to-face discussions with the Chairman during a series of visits to Divisions has been how the Company reconciles its drive for improved productivity with its social responsibility to help to alleviate unemployment. The course the Company has to follow is clear. The business is an international one which has to measure up to international competitive standards and it cannot afford to slacken its pursuit of productivity improvement or technological innovation. It is only by improving competitiveness to the highest standards that UK manufacturing industry as a whole will generate sufficient wealth to stimulate and sustain a growth of employment in other sectors of the economy, and this is what ICI is doing. In addition, Divisions have every encouragement from the Board to help in stimulating small business developments in the communities around them and to support the activities of the Manpower Services Commission. Training programmes for young people are of particular importance and the Company is now assisting over 1,000 young people directly or in collaboration with other employers.

During the year the Company suffered from a continuing shortage of instrument artificers on Teesside and significant commercial losses arose in consequence. Attempts to alleviate the problem by training and by alterations to differentials in the payment structure have encountered considerable difficulties, but efforts with the trades unions to find solutions to the problems continue.

Pensions With effect from 1 July 1978 pensions were increased by 10 per cent for those who had been retired for a year or more. This was the fourteenth increase since 1949.

Much of the savings from contracting-out under the Social Security Pensions Act 1975 were used to make further improvements in benefits for employees. Members' prospective benefits were increased by about 10 per cent and some minor improvements were made in the provisions for children's and nominated dependents' benefits.

Employees' Profit-Sharing Scheme The rate of bonus is now determined by reference to a published scale based on the ratio of added value to employee costs. As a result, the rate for 1978 will be 6.9p per £1 of remuneration (at a total cost of £30 million) compared with 7.1p (£29 million) for 1977.

The Finance Act 1978 contains provisions for the favourable tax treatment of bonuses up to a value of £500 per annum used to acquire shares under an approved profit-sharing scheme. The ICI Employees' Profit-Sharing Scheme has been modified to include an optional new facility for 1978 and subsequent years. This will meet the requirements of the Act and enable those employees who wish to do so to leave their stock in the hands of the Trustees of the Scheme for the required periods and thus obtain the new tax relief.

ICI and the Community

Social responsibility A company's primary task is to be efficient and competitive. If it fails in this task, then in the long run it will be unable to play its part in creating the additional wealth which is necessary to improve the quality of life of the communities in which it operates. For companies to succeed in this there must be informed understanding by the community of the benefits that successful companies can bring and of the circumstances that are necessary to ensure success. This understanding cannot be achieved by good works alone and ICI is constantly seeking to explain the role and working of industry at all levels of the community. In this, the young are particularly important and in 1978 the Company continued to improve its links with schools and universities. Every large ICI site in the UK now has a co-ordinator whose task it is to maintain these links locally.

ICI is following closely the activities of international bodies, such as the Organization for Economic Co-operation and Development, the International Labour Organization and the United Nations, which are presently seeking to develop codes of practice for the conduct of international business. Codes which encourage a better understanding of the role of industry and seek to establish the appropriate spirit of co-operation between industry and the community can do much to give companies and the communities in which they operate the greater confidence in one another that both must have if they are to prosper.

Health, safety and the environment Care for the health and safety of its employees, and regard for the effect of its processes and products in the communities in which it operates and on the environment, are fundamental to all of the Company's activities.

The Company's computerised medical and occupational record system, which was introduced with the co-operation of the trades unions, continues to be a key source of information for epidemiological studies which should help in detecting any effect of employees' work on their health. Pilot studies are in hand to improve the recording and retrieval of more detail of occupational histories, such as

attendance at medical centres and results of occupational hygiene and biological monitoring.

As required in the UK by the Health and Safety at Work etc Act 1974, union-appointed safety representatives took up their duties in the latter part of the year.

The Central Toxicology Laboratory continues to be extended and modernised to cope with the increasing work load. Work to develop tests based on better understanding of the causes of toxic effects has been maintained. This is part of a long-term programme to make testing more relevant as a guide to potential risks in real life and also to limit the use of animals.

Progressive implementation of the new framework of environmental protection introduced in the UK in 1974 and of EEC legislation in this field has continued. The Group devotes substantial resources to ensuring that it can operate within the higher standards of protection now being applied. As the £10 million effluent disposal system referred to on page 9 indicates, this work is imposing considerable costs on the Group.

The Company is collaborating with a number of academic scientists and other companies on problems of common interest, of which the most topical is the monitoring of ozone in the stratosphere. No evidence has so far been found which would justify the making of regulations to limit the use of chlorofluorocarbons as propellants in aerosol sprays.

Donations Donations made by the Group in 1978 for charitable purposes in the UK amounted to £705,000 (£685,000 in 1977), of which about half was given for higher education, particularly in the sciences and engineering at British universities. The remainder was given to a wide variety of causes, including medical research, management training, learned and scientific societies, the arts, and organizations serving the young, the elderly and the handicapped. The Company continued its policy of not making donations for political purposes.

Board of Directors

The names of the Directors of the Company at the date of this Report are set out on page 6. With the exception of Dr N B Smith, Dr C H Reece and Mr A W Clements, whose appointments to the Board are referred to below, all served as Directors for the whole of 1978. In addition, Sir Rowland Wright, whose retirement from the Board was referred to in the Report for 1977, and Mr R Malpas were Directors for part of the year.

It is with great pleasure that the Directors record the honour of Knighthood conferred on Sir Raymond Pennock and Sir Terence Beckett in The Queen's Birthday Honours for 1978.

Board changes

Three new Directors have been appointed since the last Annual General Meeting of the Company. Dr N B Smith, previously Chairman of Fibres Division, was appointed a Director with effect from 1 September 1978 and Dr C H Reece, previously Chairman of Plant Protection Division, was appointed a Director with effect from 1 January 1979. Mr A W Clements, the Treasurer of the Company for the past three years, has been appointed a Director with effect from 1 March 1979.

Mr R Malpas resigned from the Board on 31 August 1978 to become Executive Vice-President and a Director of Halcon International, Inc, New York. His career with the Company began in 1948 and his early service was in the engineering field on Teesside. For twelve years from 1963 he worked in Continental Western Europe, becoming Chairman of Europa Division in 1973. He was appointed to the Board in 1975 and served as Technical Director and Organics Product Director. He also contributed significantly to the development of the Company's business with Eastern Europe. His departure from the Board is much regretted.

The Board is shortly to lose the services of Mr F J K Hillebrandt and Dr A Spinks who retire on 31 March 1979. Each has played an important part in guiding the Company's affairs over a number of years, and their colleagues on the Board pay warm tribute to the valuable contributions they have made.

Mr Hillebrandt joined the Company in 1949, his early years being spent in Head Office, Paints Division and Heavy Organic Chemicals (now Petrochemicals) Division. He became a Director and Chief Accountant of Paints Division in 1964 and was appointed a Deputy Treasurer of the Company in 1966 and Treasurer in 1968. Since his appointment to the Board in 1976, he has been Finance Director and has also had special responsibility for the business in general chemicals. Mr Hillebrandt's sound judgment and wise counsel in financial matters have been of inestimable value in maintaining the health and growth of the Group during a period when the economic climate has been fraught with difficulty.

Dr Spinks joined ICI in 1941 and spent much of his early period in the Company on research work, initially in Dyestuffs (now Organics) Division and later in Pharmaceuticals Division. He was appointed Research Director of Pharmaceuticals Division in 1966 and a Deputy Chairman of the Division later that year. Since his appointment to the Board in 1970, Dr Spinks has made a major contribution in a number of fields, notably as Research and Development Director and in the Group's business in pharmaceuticals and in Africa. His distinction as a scientist was recognised in 1977 by his election as a Fellow of the Royal Society, which gave great pleasure to his colleagues on the Board and throughout the Company.

Directors recommended for re-election

Under Article 80, Mr A W Clements (aged 50 years), Dr C H Reece (aged 52 years) and Dr N B Smith (aged 50 years) retire and are recommended for re-election, together with Mr J H Harvey-Jones (aged 54 years), Mr R Haslam (aged 56 years), Mr M A E Hodgson (aged 59 years), Mr J R Ibbs (aged 52 years), and Mr A A Jarratt (aged 55 years), who retire under Article 98.

Mr J H Harvey-Jones has twenty-two years' service with the ICI Group, six as a Director. Before his appointment to the Board he was Chairman of Petrochemicals Division. He was elected a Deputy Chairman of the Board in 1978.

Mr R Haslam has thirty-one years' service, five as a Director. Before his appointment to the Board, he was Chairman of Fibres Division. He is currently Personnel Director.

Mr M A E Hodgson has thirty-six years' service, nine as a Director. Before his appointment to the Board, he was General Manager — Company Planning. He has been Chairman since April 1978.

Mr J R Ibbs has twenty-seven years' service, three as a Director. Before his appointment to the Board, he was General Manager — Planning. He is currently Commercial Director and Planning Director.

Mr A A Jarratt has been a Non-Executive Director for three years. He is Chairman and Chief Executive of Reed International Ltd.

Directors' interests

At no time during the year has any Director had any material interest in a contract with the Company, being a contract of significance in relation to the Company's business. A statement of Directors' interests in stocks, shares and debentures of the Company and its subsidiaries is set out on page 22.

Capital of the Company

The Board consider that the Company should continue to be able to issue foreign currency securities convertible into Ordinary Stock to persons other than existing stockholders of the Company so that advantage can be taken of favourable opportunities to raise funds in international markets when this is thought desirable. Moreover, it is possible that placings of small amounts of Ordinary Stock will prove to be necessary or desirable in connection with any further listings of the Company's Ordinary Stock which it may be thought appropriate to arrange on stock exchanges in major financial centres. This could involve issuing stock at below the market rate at the time.

Stockholders will therefore be asked at the Annual General Meeting of the Company on 18 April 1979 to pass the resolution set out in the Notice of Meeting on page 1. This is in line with the authority given at the Annual General Meeting held on 19 April 1978 under which no issues have been made. It is the intention of the Directors to ask stockholders at future Annual General Meetings to renew the authority if the situation at the time makes it desirable to do so.

Auditors

The Auditors, Price Waterhouse & Co and Thomson McLintock & Co, are willing to continue in office, and a resolution re-appointing them and authorizing the Directors to fix their remuneration will be submitted to the Annual General Meeting.

Thanks to Employees

The principal strength of the ICI Group is the enterprise, skill, and dedication of its employees. In an uncertain climate both at home and abroad these qualities are especially valuable. The Directors record their grateful appreciation of the contribution of the employees in 1978.

Directors' interests

The interests at 31 December 1978 of the persons who on that date were Directors (including the interests of their families) in stocks, shares and debentures of the Company and its subsidiaries, are shown below. Their holdings at 1 January 1978, or, if appointed during 1978, at their date of appointment, are shown in brackets.

Directors (As at 31 December 1978)	Class of stock/share/debenture	*Holding at 31 December 1978		Other interest	
		Beneficial interest			
Sir Terence Beckett	ICI Ordinary Stock	£562	(£562)		
W. B. M. Duncan	ICI Ordinary Stock	£3,800	(£3,800)	£630	(£630)
Sir Arnold Hall	ICI Ordinary Stock	£562	(£562)		
P. G. Harvey	ICI Ordinary Stock	£2,518	(£2,518)		
	ICI 8 per cent Loan Stock	£150	(£150)		
J. H. Harvey-Jones	ICI Ordinary Stock	£563	(£563)		
R. Haslam	ICI Ordinary Stock	£2,477	(£2,477)		
F. J. K. Hillebrandt	ICI Ordinary Stock	£3,201	(£3,201)		
M. A. E. Hodgson	ICI Ordinary Stock	£2,426	(£2,426)		
J. R. Ibbs	ICI Ordinary Stock	£1,049	(£1,049)		
	ICI 8 per cent Loan Stock	£150	(£150)		
A. A. Jarratt	ICI Ordinary Stock	£562	(£562)	£118	(£118)
J. A. Lofthouse	ICI Ordinary Stock	£3,013	(£3,013)		
	ICI 7½ per cent Loan Stock	£200	(£200)		
Sir Raymond Pennock	ICI Ordinary Stock	£550	(£3,195)		
Lord Polwarth	ICI Ordinary Stock	£2,125	(£2,125)	£1,178	(£1,178)
A. Robertson	ICI Ordinary Stock	£1,011	(£1,011)		
	ICI 8 per cent Loan Stock	£100	(£100)		
Sir Francis Sandilands	ICI Ordinary Stock	£562	(£562)	£3,500	(£4,777)
N. B. Smith	ICI Ordinary Stock	£500	(£500)		
A. Spinks	ICI Ordinary Stock	£2,723	(£2,723)		
	ICI 7½ per cent Loan Stock	£150	(£150)		
	ICI 8 per cent Loan Stock	£100	(£100)		
Lord Thomson	ICI Ordinary Stock	£500	(£500)		

Financial calendar

Dividend and interest payments

A second interim dividend for the year 1978, which the Annual General Meeting will be asked to confirm as the final dividend for that year, is payable on 5 April 1979 to Ordinary Stockholders registered in the books of the Company on 22 February 1979.

Dividend and interest payments are normally made as follows:—

First Interim Ordinary Dividend: Second week of November
(Announced fourth Thursday in August)

Second Interim Ordinary Dividend: First week of April
(Announced fourth Thursday in February)

Preference Dividends: 1 February, 1 August

Unsecured Loan Stocks:

5½ per cent	1 February, 1 August
7¼ per cent	31 May, 30 November
8 per cent	10 January, 10 July
10¾ per cent	6 February, 6 August

Quarterly results

Unaudited trading results of the Group for 1979 are expected to be announced as follows:—

First quarter	24 May 1979
Half year	23 August 1979
Nine months	22 November 1979
Whole year	28 February 1980

Taxation

In certain circumstances, when a stockholder sells stock his liability to tax in respect of capital gains is computed by reference to the market value of the stock on 6 April 1965. The market values of ICI stocks at that date, for the purpose of the capital gains tax, were:—

Ordinary Stock	234½p
(The adjusted value, for a stockholder who subscribed in full for his share of the 1976 rights issue, is 245p)	
Preference Stock	72½p
5¾ per cent Unsecured Loan Stock	87½

The Company is not, and has not been, a close company within the meaning of the Income and Corporation Taxes Act 1970 (as amended).

* There were no changes in the period 1 January 1979 to 7 February 1979.

Accounts for the year 1978

Accounting policies

The following paragraphs describe the main accounting policies of the Group. Legislation or local usage precludes some overseas subsidiaries from conforming with certain of these policies and therefore, where appropriate, adjustments are made on consolidation in order that the Group accounts are presented on a consistent basis.

Associated companies & other trade investments

An associated company is defined as a company, not being a subsidiary, in which the Group has a substantial interest and on whose commercial and financial policy decisions the Group exercises significant influence. The Group's share of the profits less losses of the principal associated companies is included in the Group profit and loss account. The profits relate to periods ending not earlier than 30 June and are calculated from the latest available audited accounts adjusted, where the accounting dates are before 30 June, by reference to the unaudited results for more recent periods. The profits of other companies in which the Group has trade investments, including the smaller associated companies, are included only to the extent of dividends received.

The Group's share of the post-acquisition retained profits and reserves of the principal associated companies is included in the book values of the investments in the Group balance sheet. The retained profits of other companies in which the Group has trade investments are included in the book values only to the extent of the nominal value of any scrip issues capitalised since acquisition.

Depreciation

The Group's policy is to write off the book value of each fixed asset evenly over its estimated remaining life. Reviews are made periodically of the estimated remaining lives of individual productive assets, taking account of commercial and technical obsolescence as well as normal wear and tear.

Estimates of asset lives cannot be made with precision and in practice a range of possible lives exists. The Group, recognising to some extent the problem of continuing inflation, has, in its historical cost accounts, adopted lives at the lower end of this range. The Group believes that it is sensible to continue to apply this prudent basis to the calculation of depreciation in the historical accounts. For the purpose of calculating depreciation in the inflation adjusted results shown facing page 36, the Group believes that it is appropriate to use longer lives from within the range. These lives have been based on a review of asset values and lives which has been undertaken as part of the Group's consideration of the current cost basis of accounting, and are, overall, approximately one third longer than those used in the historical accounts, which average 24 years for buildings and 13 years for plant and equipment.

Depreciation on assets qualifying for investment grants or regional development grants is calculated on their full cost.

Foreign currencies

Profit and loss accounts in foreign currencies are translated into sterling at the average rates applicable to the respective accounting periods. Assets and liabilities are generally translated into sterling at the rates of exchange ruling at the date of the Group balance sheet. Differences arising from changes in exchange rates are taken to profits where they relate to items of a trading nature, and to reserve where they relate to fixed assets, investments and long-term loans, including, in the Company balance sheet, adjustments to the book values of overseas subsidiaries and trade investments.

Goodwill

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the price paid for a business exceeds the values attributable to such net assets. Goodwill is written off to Group profit as an extraordinary item over a period, or, if minor, on acquisition. Prior to 1978 goodwill of continuing value associated with major acquisitions was capitalised and retained in the balance sheet. The amount in the balance sheet at 31 December 1977, which arose in 1971, has in accordance with this change in policy been written off as a prior year adjustment against reserves brought forward.

Government grants

Investment and regional development grants are credited to profit and loss account, as a deduction from taxation, over a period of ten years. The grants shown in the balance sheets consist of the total grants receivable to date less the amounts so far credited to profits.

Oil concessions, exploration and development

Expenditure on the acquisition, exploration for and development of oil reserves is, in general, capitalised and depreciated over the life of the wells on the basis of the rate of production. However, immediate write-offs are made in the following circumstances:

Expenditure on concessions – to the extent that the value is considered to have been impaired by the absence of successful drilling results;

Exploration expenditure – if unsuccessful or if oil reserves are not determined to be commercially viable within one year of completion of drilling.

The foregoing method, which differs, without material effect, from that previously adopted, is known as the 'successful efforts' basis.

Pension funding

The Company and most of its subsidiaries operate pension schemes covering the majority of employees. Contributions to pension funds are charged against profits as payments are made. With some minor exceptions these schemes are fully funded and contributions by employees and by the companies are held in trustee-administered funds completely independent of the companies' finances.

Research and development

Research and development expenditure is in general charged to profits in the year in which it is incurred although small amounts are capitalised as part of the cost of new plant.

Stock valuation

Finished goods are stated at the lower of cost or net realisable value, raw materials and other stocks at the lower of cost or 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 (principally central administration costs) are excluded.

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 for taxation and accounting purposes. However, no provision is made for taxation deferred by reliefs, principally accelerated taxation allowances on UK capital expenditure and UK stock appreciation relief, if there is reasonable evidence that such deferred taxation will not be payable in the future. This policy is in accordance with the provisions of Statement of Standard Accounting Practice No. 15 issued by the UK accountancy bodies in October 1978.

Advance corporation tax payable on dividends paid or provided for a year is, as a matter of prudence, included in the tax charge for that year to the extent that it cannot be recovered against the corporation tax liability on that or a prior year's profits. Credit is taken for advance corporation tax charged in previous years when it can be recovered against corporation tax liabilities.

These policies differ from those adopted by the Group prior to 1978 and the comparative figures for 1977 have been adjusted accordingly. The effects of the changes in policy are shown in Notes 4 and 8 on pages 27 and 28.

Group profit and loss account

For the year ended 31 December 1978

Notes

1977
£million

1978
£million

Composition of the Group

The Group accounts consolidate the accounts of the Company and its subsidiaries of which there were 344 at 31 December 1978. Owing to seasonal trade or local conditions and to avoid undue delay in the presentation of the Group accounts, 140 subsidiaries make up their accounts to dates earlier than 31 December, but not earlier than 30 September.

No significant subsidiaries have been acquired or disposed of during the year; results for 1977 include Imperial Metal Industries Ltd to date of disposal (see Note 11).

The accounts of one operating division and certain subsidiary and associated companies, representing approximately 26 per cent of Group sales and 23 per cent of Group net assets, have been audited by firms other than the Group joint auditors.

Comparative figures for 1977

Comparative figures for 1977 have been restated to reflect the changes in accounting policies for deferred taxation and goodwill referred to on page 23.

Sales to external customers		4,663	4,533
Trading profit	(1)	552	504
Exchange loss on net current assets of overseas subsidiaries		(29)	(39)
Investment income	(2)	65	71
Interest payable	(3)	(107)	(114)
Employees' profit-sharing bonus		(29)	(30)
Share of profits less losses of principal associated companies		31	29
Profit before taxation and grants		483	421
Taxation less grants	(4)	(136)	(100)
Profit after taxation and grants		347	321
Applicable to minorities		(28)	(17)
Profit applicable to parent company before extraordinary items		319	304
Extraordinary items	(5)	(29)	(3)
Profit applicable to parent company after extraordinary items		290	301
Dividends	(6)	(93)	(105)
Profit retained for year		197	196
Earnings before extraordinary items per £1 Ordinary stock	(7)	56.8p	53.6p

At beginning of year – as previously reported		1,264	
– prior year adjustments		234	
– as restated		1,498	1,679
Profit retained for year		197	196
Amounts taken direct to reserves		(16)	(1)
At end of year	(8)	1,679	1,874

Reserves applicable to parent company

Balance sheets

At 31 December 1978

Notes

Group

1977 1978
£million £million

Company

1977 1978
£million £million

Assets employed

Fixed assets	(9)	1,876	2,299	1,079	1,165
Interests in subsidiaries	(10)	—	—	925	1,140
Trade investments	(12)	345	362	83	91
Net current assets	(13)	1,412	1,308	151	75
		<u>3,633</u>	<u>3,969</u>	<u>2,238</u>	<u>2,471</u>

Financed by

Capital and reserves

Applicable to parent company:

Issued capital	(15)	573	579	573	579
Reserves	(8)	1,679	1,874	1,235	1,402
		<u>2,252</u>	<u>2,453</u>	<u>1,808</u>	<u>1,981</u>
Applicable to minorities		195	227		
		<u>2,447</u>	<u>2,680</u>		

Government grants not yet credited to profit		89	120	86	114
Advance proceeds from oil sales	(16)	53	85	53	85
Loans	(17)	1,044	1,084	291	291
		<u>3,633</u>	<u>3,969</u>	<u>2,238</u>	<u>2,471</u>

M A E HODGSON }
F J K HILLEBRANDT } Directors

A W CLEMENTS, Treasurer

Composition of net current assets

	Group		Company	
	1977	1978	1977	1978
	£million	£million	£million	£million
Current assets				
Stocks	863	919	421	462
Debtors	915	980	107	84
Liquid resources	711	603	85	50
	<u>2,489</u>	<u>2,502</u>	<u>613</u>	<u>596</u>
Current liabilities				
Creditors	918	986	418	460
Short-term borrowings	159	208	44	61
	<u>1,077</u>	<u>1,194</u>	<u>462</u>	<u>521</u>
Net current assets	<u>1,412</u>	<u>1,308</u>	<u>151</u>	<u>75</u>

Auditors' report

To the Members of Imperial Chemical Industries Limited

We have examined the accounts set out on pages 23 to 35 which have been prepared under the historical cost convention as modified by the revaluation of certain assets.

In our opinion the accounts give, under the convention mentioned above, a true and fair view of the state of affairs of the company and the group at 31 December 1978 and of the profit and source and application of funds of the group for the year then ended and comply with the Companies Acts 1948 and 1967.

London 1 March 1979

PRICE WATERHOUSE & CO
THOMSON McLINTOCK & CO

Statement of source and application of funds

For the year ended 31 December 1978

	Group	
	1977 £million	1978 £million
Source of funds		
Profit after taxation and grants	347	321
Depreciation	221	225
Government grants received but not yet credited to profits	4	31
Miscellaneous items	31	25
Total generated from operations	603	602
Funds from other sources	236	156
Issues of ICI Ordinary stock	17	23
Issues of Loan stocks (less repayments)		
United Kingdom	(16)	(1)
Overseas	115	50
Advance proceeds from oil sales	27	32
Increased investment of minorities in subsidiaries	6	42
Disposal of subsidiaries and trade investments	87	10
Total funds obtained	839	758
Application of funds		
Dividends	107	120
Parent company	93	105
Subsidiaries to minority shareholders	14	15
Investment	649	795
New fixed assets	491	701
New investment in subsidiaries and trade investments	39	52
Additional working capital		
Stocks	78	63
Debtors	87	64
Creditors	(46)	(85)
Total funds applied	756	915
Increase (decrease) in net liquid resources	83	(157)

Sales proceeds comprised £9 million (1977 £65 million) in respect of subsidiaries and £1 million (£5 million) in respect of trade investments. (The balance in 1977 related to the reduction of net short-term borrowings arising from the sale of subsidiaries).

New investment, mainly for cash, of £52 million (1977 £39 million) comprised £5 million (£2 million) in respect of subsidiaries and £47 million (£37 million) in respect of trade investments.

Liquid resources decreased by £108 million (1977 £87 million increase); short-term borrowings increased by £49 million (£4 million).

Notes relating to the accounts (figures in brackets represent deductions)

1 Trading profit

	1977 £million	1978 £million
Trading profit comprises:		
Sales	4,663	4,533
Royalty and other income	39	49
Cost of sales exclusive of depreciation	(3,057)	(3,001)
Depreciation	(221)	(225)
Selling, general and administrative expenses	(872)	(852)
	<u>552</u>	<u>504</u>

The following amounts have been charged in arriving at trading profit:

Pension fund contributions, pensions and gratuities (including redundancy payments)	105	108
Hire of plant	54	62
Audit fees and expenses (parent company 1977, £0.3 million – 1978, £0.4 million)	2.3	2.1

2 Investment income

Dividends and interest from:

Trade investments – listed	3	5
– unlisted	24	23
Other listed investments	6	6
Short-term deposits and sundry loans	49	53
	<u>82</u>	<u>87</u>
Less: dividends from principal associated companies	(17)	(16)
	<u>65</u>	<u>71</u>

3 Interest payable

Loans – wholly repayable within 5 years	15	19
– not wholly repayable within 5 years	70	73
Bank overdrafts	13	9
Other	9	13
	<u>107</u>	<u>114</u>

4 Taxation less grants

	1977 (as published in 1977 accounts) £million	1977 (restated) On basis of SSAP No 15 £million	1978 £million
ICI Group			
United Kingdom			
Corporation tax	108	108	34
Double taxation relief	(20)	(20)	(23)
Deferred taxation adjustment	68	4	4
Advance corporation tax less recoveries	—	—	45
	<u>156</u>	<u>92</u>	<u>60</u>
Less: Government grants	(22)	(22)	(23)
	<u>134</u>	<u>70</u>	<u>37</u>
Overseas			
Overseas taxes	51	51	51
Deferred taxation adjustment	1	(1)	(1)
Total ICI Group	<u>186</u>	<u>120</u>	<u>87</u>
Principal associated companies	<u>16</u>	<u>16</u>	<u>13</u>
	<u>202</u>	<u>136</u>	<u>100</u>

The ICI Group taxation charge has benefited from UK accelerated capital allowances, UK stock appreciation relief and certain other timing differences. It is not expected that the taxation deferred by these timing differences will be payable in the future and in accordance with SSAP No. 15 this tax has not been provided. Without the benefit of these accelerated allowances and timing differences the Group taxation charge would have been increased as follows:

UK accelerated capital allowances	102	144
UK stock appreciation relief	6	24
Miscellaneous timing differences	—	7
	<u>108</u>	<u>175</u>
Less: advance corporation tax	—	(45)
	<u>108</u>	<u>130</u>

UK and overseas taxation has been provided on the profits earned for the periods covered by the Group accounts. UK corporation tax has been provided at the rate of 52 per cent. The total taxation charge for 1978 has been reduced by overprovisions of £5 million (1977 £2 million) in respect of previous years.

	1977 £million	1978 £million
5 Extraordinary items*		
The following amounts, which derive from events outside the ordinary activities of the Group, have been classified as extraordinary items:		
Difference between proceeds of sale of Imperial Metal Industries Ltd and Group share of net assets	(27)	—
Provisions against trade investments	1	(5)
Goodwill written off	(1)	—
Other	(2)	2
	<u>(29)</u>	<u>(3)</u>

* Net of minority interests.

6 Dividends

5 per cent (now 3.5 per cent plus tax credit) Cumulative Preference stock (dividends for both years were £0.3 million)

Ordinary stock: Interim 10.0p (1977 9.0p) per £1 unit	51	57
Second interim 8.46586p (1977 7.51587p) per £1 unit	42	48
	<u>93</u>	<u>105</u>

The interim dividend was paid on 10 November 1978 and the second interim dividend, to be confirmed as final, is payable on 5 April 1979.

7 Earnings per £1 Ordinary stock

Earnings for Ordinary stockholders, before extraordinary items	319	304
Average Ordinary stock in issue during year, weighted on a time basis	<u>562</u>	<u>567</u>
Earnings before extraordinary items per £1 Ordinary stock	56.8p	53.6p

Earnings for 1977 are as restated in the profit and loss account. The effect on earnings per £1 Ordinary stock of full conversion of outstanding convertible bonds of a subsidiary into Ordinary stock of the Company would not be material.

	Group		Company	
	1977 £million	1978 £million	1977 £million	1978 £million
8 Reserves				
At beginning of year – as previously reported	1,264		786	
– prior year adjustments	234		286	
	<u>1,498</u>	1,679	<u>1,072</u>	1,235
– as restated				
Profit retained for year –				
By parent company	190	161	190	161
By subsidiaries	6	18	—	—
In principal associated companies	1	17	—	—
Amounts taken direct to reserves –				
Share premiums, less expenses	12	17	12	17
Exchange adjustments –				
Book value of overseas subsidiaries	—	—	(37)	(16)
Fixed assets	(51)	(25)	(1)	1
Loans	42	3	3	1
Investments and other items	(21)	4	(5)	(1)
Other movements	2	—	1	4
	<u>1,679</u>	<u>1,874</u>	<u>1,235</u>	<u>1,402</u>
At end of year				

Group reserves are those applicable to the parent company.

	Group 1977 £million	Company 1977 £million
Prior year adjustments –		
Deferred taxation – change in accounting policy described on page 23	249	266
Goodwill – change in accounting policy described on page 23	(15)	—
Profit on stocks held by subsidiaries (adjustment not affecting Group reserves)	—	20
	<u>234</u>	<u>286</u>

There are no significant statutory or contractual restrictions on the distribution of current profits of subsidiaries. Undistributed profits of prior years are, in the main, permanently employed in the businesses of the subsidiaries. Dividends payable on Ordinary stock of the Company are restricted by the UK Government's dividend restraint regulations.

Reserves at end of year included share premiums amounting to £287 million (1977 £270 million). Group reserves included £112 million (£107 million) in respect of principal associated companies, comprising post-acquisition retained profits and reserves attributable to the ICI Group.

9 Fixed assets

	Land and buildings			Plant and equipment			Total
	Cost or as revalued £million	Depreciation £million	Net book value £million	Cost or as revalued £million	Depreciation £million	Net book value £million	Net book value £million
Group							
At beginning of year	704	257	447	2,943	1,514	1,429	1,876
Exchange adjustments	(20)	(5)	(15)	(48)	(22)	(26)	(41)
Capital expenditure	95		95	606		606	701
Disposals and other movements	(31)	(10)	(21)	(37)	(46)	9	(12)
Depreciation for year		25	(25)		200	(200)	(225)
At end of year	748	267	481	3,464	1,646	1,818	2,299
Company							
At beginning of year	238	120	118	1,914	953	961	1,079
Capital expenditure	30		30	349		349	379
Disposals and transfers	(2)	—	(2)	(194)	(15)	(179)	(181)
Depreciation for year		8	(8)		104	(104)	(112)
At end of year	266	128	138	2,069	1,042	1,027	1,165

At 31 December 1978 the net book value of oil concessions, exploration and development expenditure, included in the Group figures shown above, was £220 million (1977 £159 million).

The Company revalued most of its assets in 1958 and there have also been revaluations by certain subsidiaries at various dates. At the end of the year the net book value of assets so revalued was:

Land and buildings £76 million (1977 £84 million)
Plant and equipment £16 million (1977 £21 million)

Land and buildings comprised the following:

	Group		Company	
	1977 £million	1978 £million	1977 £million	1978 £million
Land	128	120	10	10
Buildings	576	628	228	256
	704	748	238	266
Freeholds	636	696	227	253
Long leases (over 50 years unexpired)	24	26	9	11
Short leases	44	26	2	2
	704	748	238	266

10 Interests in subsidiaries

	1977 £million	1978 £million
Shares at cost less amounts provided	418	490
Scrip issues capitalised	25	25
Book value of shares*	443	515
Amounts owed by subsidiaries	1,036	1,204
Amounts owed to subsidiaries*	(554)	(579)
	925	1,140

* The amounts owed to dormant subsidiaries (£89 million) have been set off against the book value of the corresponding investments.

Information relating to the principal subsidiaries is given on page 34.

11 Imperial Metal Industries Ltd (IMI)

The Company's 63 per cent shareholding in IMI was sold on 8 November 1977.

The results of IMI for the period of ten months up to the date of disposal, as adjusted for inclusion in the ICI Group profit and loss account for the year 1977, were:

	£million
Sales outside ICI Group	380
Profit before taxation	27
Profit after taxation	16
Profit after extraordinary items applicable to ICI	10

Intra-group sales to IMI in 1977 were £12 million.

12 Trade investments

Principal associated companies

	Group		Company	
	1977	1978	1977	1978
	£million	£million	£million	£million
Shares and advances at cost less amounts provided	148	153	40	41
Group share of post-acquisition retained profits and reserves (excluding amounts capitalised)	96	102	—	—
Scrip issues capitalised	14	13	1	5
	<u>258</u>	<u>268</u>	<u>41</u>	<u>46</u>

Information relating to the principal associated companies is given on page 35.

Other trade investments

Shares and advances at cost less amounts provided	83	90	39	44
Scrip issues capitalised	4	4	3	1
	<u>87</u>	<u>94</u>	<u>42</u>	<u>45</u>
Total	<u>345</u>	<u>362</u>	<u>83</u>	<u>91</u>

The division of the above as between listed and unlisted investments is as follows:

Listed shares	89	91	15	17
Unlisted equity shares	219	221	68	72
Advances	37	50	—	2
	<u>345</u>	<u>362</u>	<u>83</u>	<u>91</u>
Market value of listed shares	<u>64</u>	<u>68</u>	<u>9</u>	<u>11</u>

12 Trade investments (continued)

The following information is given in respect of the investments in unlisted equity shares:

	Group		Company	
	1977	1978	1977	1978
	£million	£million	£million	£million
Amount included in ICI profit before taxation	23	21	11	8
ICI share of profits less losses for period of latest audited accounts received				
Before taxation	49	36	24	20
After taxation	27	20	10	6
ICI share of aggregate undistributed profits less losses since acquisition (including amounts capitalised)	84	77	49	53
Aggregate amounts provided by ICI in respect of losses since acquisition	37	52	31	49

13 Net current assets

Stocks

Finished goods	491	523	222	234
Raw materials and other stocks	372	396	199	228
	<u>863</u>	<u>919</u>	<u>421</u>	<u>462</u>

Debtors

As a result of factoring agreements entered into with a wholly owned subsidiary by the parent company and certain other wholly owned subsidiaries, outstanding trade debts of £325 million (1977 £287 million), which have been transferred to that subsidiary, are included with interests in subsidiaries in the parent company balance sheet.

Included in debtors are loans totalling £62,000 (1977 £101,000) made to officers of the Company. These loans were made in accordance with the Company's policy of providing housing assistance to staff who have been transferred.

Liquid resources

Listed investments, at cost	77	113	43	42
Short-term deposits	566	420	40	5
Cash	68	70	2	3
	<u>711</u>	<u>603</u>	<u>85</u>	<u>50</u>

The market value of the listed investments at balance sheet dates was £116 million in the Group (1977 £86 million) and £46 million in the Company (£48 million).

13 Net current assets (continued)

Creditors

	Group 1977 £million	1978 £million	Company 1977 £million	1978 £million
Trade and other creditors	699	780	326	349
Dividends to Ordinary stockholders	42	48	42	48
Taxation	177	158	50	63
	<u>918</u>	<u>986</u>	<u>418</u>	<u>460</u>

Taxation includes advance corporation tax amounting to £24 million (1977 £23 million) in the Group and £23 million (£22 million) in the Company attributable to dividends payable in 1979 out of 1978 profits.

Short-term borrowings

Bank borrowings – secured	13	13	—	—
— unsecured	127	124	43	61
Other short-term borrowings	19	71	1	—
	<u>159</u>	<u>208</u>	<u>44</u>	<u>61</u>

14 Deferred taxation

This relates mainly to the UK, where levels of capital expenditure and stockholdings are expected to be adequate to ensure that corporation tax deferred by accelerated capital allowances and by stock appreciation relief will not be payable in the future. The assumption has been made that capital allowances and stock appreciation relief will continue in their present form.

The potential amount of deferred taxation and relief on all timing differences is:

Not accounted for at balance sheet date

UK capital allowances	467	611	449	482
UK stock appreciation relief	105	130	95	113
Advance corporation tax not yet utilised	(23)	(68)	(22)	(59)
Miscellaneous timing differences	(16)	(10)	—	—
	<u>533</u>	<u>663</u>	<u>522</u>	<u>536</u>

Accounted for at balance sheet date

Miscellaneous timing differences (included in creditors)	21	24	(7)	(5)
	<u>554</u>	<u>687</u>	<u>515</u>	<u>531</u>

15 Capital of parent company

5 per cent (now 3.5 per cent plus tax credit)

	Authorised £million	Issued 1977 £million	Issued 1978 £million
Cumulative Preference stock (£1 units)	9	9	9
Ordinary stock (£1 units)	570	564	570
Unclassified shares (£1 each)	71	—	—
	<u>650</u>	<u>573</u>	<u>579</u>

Ordinary stock was issued during the year in respect of:

Employees' Profit-Sharing Scheme	4	4
Conversion of loan stock of a subsidiary	—	2
Acquisitions	1	—
	<u>5</u>	<u>6</u>

16 Advance proceeds from oil sales

The Group has an approximate 18 per cent interest in the Ninian oilfield which is currently being developed at an estimated cost to it of around £285 million. Of this £207 million has been spent up to 31 December 1978 (1977 £141 million) and a further £78 million (£109 million), of which £34 million has been contracted (1977 £39 million), is included in capital commitments, reported in Note 18. Financing for up to £125 million has been arranged from banks as advance payments for a portion of the Group's share of the oil to be extracted. Discharge of the liability by way of deliveries of oil (to be re-purchased by the Group) will be effected during the period 1979 to 1986. Should the oil sales proceeds be insufficient to meet the Group's obligations under the arrangements, deficiencies will be payable in cash. The advance payments, totalling £85 million at 31 December 1978 (1977 £53 million), are shown as advance proceeds from oil sales in the Company and Group balance sheets.

	Repayment Dates	Group 1977 £million	1978 £million	Company 1977 £million	1978 £million
17 Loans					
Secured loans					
United Kingdom	1979/2001	1	1	—	—
Overseas					
Australia (6½ to 13½ per cent)	1979/2006	81	70	—	—
Others (5 to 16 per cent)	1979/96	20	31	—	—
Total secured loans		102	102	—	—
Unsecured loans					
United Kingdom					
7¼ to 8 per cent stocks	1986/93	119	119	119	119
10¾ per cent stock	1991/96	43	43	43	43
5½ per cent stock	1994/2004	26	26	26	26
Others	1979/99	7	6	1	1
		195	194	189	189
Overseas					
8 per cent Sterling/Deutsche Mark bonds		26	—	—	—
4¼ to 7¼ per cent Swiss Franc Loans	1979/93	84	124	42	45
6½ to 8½ per cent Deutsche Mark bonds	1979/92	152	119	—	—
6½ to 8¼ per cent Euro-dollar bonds	1979/92	88	79	16	12
9.05 per cent US Dollar bonds	1983/95	52	49	—	—
8⅞ per cent US Dollar bonds	1988/2003	—	86	—	—
6¾ per cent Convertible US Dollar bonds*	1997	52	42	—	—
Australia (6½ to 13 per cent)	1979/84	12	9	—	—
Canada (5⅝ to 10⅝ per cent)	1979/96	38	33	—	—
Holland (5¼ to 9½ per cent)	1979/91	58	60	—	—
USA (5½ to 9¼ per cent)	1979/98	91	84	—	—
Others (5 to 13 per cent)	1979/89	94	103	44	45
		747	788	102	102
Total unsecured loans		942	982	291	291
Total loans		1,044	1,084	291	291

17 Loans (continued)

Total loans comprise:

Wholly repayable within five years	169	170	81	80
Not wholly repayable within five years	875	914	210	211
	1,044	1,084	291	291
Loans or instalments repayable:				
Within one year from balance sheet date	24	33	6	6
From one to five years from balance sheet date	251	241	82	85
Over five years from balance sheet date	769	810	203	200
	1,044	1,084	291	291

*Unless previously redeemed these bonds are convertible until 1 September 1997 into Ordinary stock of the Company at a conversion price, subject to adjustment in certain events, of 460 pence per £1 of Ordinary stock (with a fixed rate of exchange applicable upon conversion of the bonds of US\$1.7423 = £1).

18 Commitments and contingent liabilities

Contracts placed for future capital expenditure (including acquisition of share and loan capital in subsidiary and other companies)

Expenditure sanctioned but not yet contracted	292	310	200	169
	714	774	372	353
	1,006	1,084	572	522

Group and Company commitments at 31 December 1978 for acquisition of share and loan capital include £9 million (1977 £17 million) in respect of Corpus Christi Petrochemical Co, which forms the major part of the Corpus Christi project, a joint venture in the United States of America in which the Group has a 37.5 per cent interest. The projected capital requirements of the project are £294 million, of which 75 per cent has been arranged as loan finance. The ICI Group's share of the remaining 25 per cent to be financed by equity capital is £28 million, of which £19 million had been subscribed at 31 December 1978. The arrangements for loan finance will involve guarantees of £83 million by the Group (£71 million by the Company) of which £49 million is included in (a) below.

Contingent liabilities existed at 31 December 1978 in connection with (a) guarantees and uncalled capital relating to subsidiary and other companies, the maximum liability in respect of which would be £87 million (1977 £42 million) for the Group and £822 million (£675 million) for the Company, (b) guarantees relating to Pension Funds, including guarantees of the solvency of Pension Funds, (c) possible exchange losses (which could be profits depending on movements in exchange rates) under medium-term currency exchange arrangements of a subsidiary totalling £161 million (1977 £161 million), and (d) other guarantees and contingencies arising in the ordinary course of business.

19 Emoluments of directors and employees

The total emoluments of the directors of the Company for the year comprised fees £32,000 (1977 £28,000) and other emoluments £947,000 (£894,000). Pensions, commutations of pensions and gratuities in respect of executive service of former directors amounted to £1,932,000 (£1,451,000).

Two directors served as Chairman during the year, their emoluments whilst serving in that capacity being:

	1977	1978
Sir Rowland Wright (up to 31 March 1978)	£95,363	£26,122
Mr M A E Hodgson (from 1 April 1978)	—	£80,465

The tables which follow show the number of directors and UK employees of the Company whose emoluments during the year were within the bands stated. The tables also show the total amount of income tax at the appropriate graduated rates applicable for 1978/79 at the higher end of each band over £10,000 and the corresponding take-home pay; it has been assumed that the recipient is a married man without children and with no other source of income.

Directors				
Emoluments	Tax	Take-home pay	1977	1978
£	£	£		
Up to 2,500			1	—
2,501 – 5,000			1	—
5,001 – 7,500			2	2
7,501 – 10,000			2	4
15,001 – 17,500	6,900	10,600	1	—
22,501 – 25,000	12,400	12,600	—	1
25,001 – 27,500	14,500	13,000	—	1
45,001 – 47,500	31,100	16,400	—	1
55,001 – 57,500	39,400	18,100	3	—
57,501 – 60,000	41,400	18,600	2	—
60,001 – 62,500	43,500	19,000	3	—
65,001 – 67,500	47,700	19,800	1	2
67,501 – 70,000	49,700	20,300	—	4
70,001 – 72,500	51,800	20,700	—	1
75,001 – 77,500	56,000	21,500	2	—
77,501 – 80,000	58,000	22,000	1	—
82,501 – 85,000	62,200	22,800	—	1
85,001 – 87,500	64,300	23,200	—	2
95,001 – 97,500	72,600	24,900	1	—
100,001 – 102,500	76,700	25,800	—	1

Three of the directors whose emoluments are shown above were directors for part of the year only (2 in 1977).

19 Emoluments of directors and employees (continued)

Employees				
Emoluments	Tax	Take-home pay	1977	1978
£	£	£		
10,001 – 12,500	3,900	8,600	1,448	2,893
12,501 – 15,000	5,300	9,700	529	883
15,001 – 17,500	6,900	10,600	213	339
17,501 – 20,000	8,700	11,300	127	181
20,001 – 22,500	10,600	11,900	65	102
22,501 – 25,000	12,400	12,600	48	63
25,001 – 27,500	14,500	13,000	18	49
27,501 – 30,000	16,500	13,500	13	30
30,001 – 32,500	18,600	13,900	10	12
32,501 – 35,000	20,700	14,300	7	9
35,001 – 37,500	22,800	14,700	6	5
37,501 – 40,000	24,800	15,200	5	6
40,001 – 42,500	26,900	15,600	2	5
42,501 – 45,000	29,000	16,000	4	2
45,001 – 47,500	31,100	16,400	—	3
47,501 – 50,000	33,100	16,900	—	4
50,001 – 52,500	35,200	17,300	—	1
52,501 – 55,000	37,300	17,700	—	1

The statutory requirement to show the above information for employees earning above £10,000 was introduced in 1967 and £10,000 in 1978 was the equivalent of only £3,175 in 1967. Had the £10,000 limit been adjusted for inflation, 42 employees would have appeared in the above table in 1978 compared with 55 employees with emoluments over £10,000 in 1967.

Principal subsidiary companies

31 December 1978

Company and country of principal operations and registration or incorporation		Class of capital	Percentage held by ICI Subsidiaries		Principal activities
Europe (Accounting dates 31 December)					
Deutsche ICI GmbH	West Germany	Ordinary	93	7	Manufacture of nylon and polyester fibres, paints and pharmaceuticals; merchanting of other ICI products
ICI Europa Ltd	Belgium (registered in England)	Ordinary	100	—	Co-ordination of ICI's interests in Continental Western Europe
ICI Finance Ltd	England	Ordinary	100	—	Financial services
I.C.I. France SA	France	Ordinary	100	—	Manufacture of plasticisers and pharmaceuticals; merchanting of other ICI products
ICI Holland BV	Holland	Ordinary	100	—	Manufacture of bulk and speciality plastics, nylon and polyester polymers and polyurethane chemicals; merchanting of other ICI products
ICI Petroleum Ltd	England	Ordinary	100	—	Petroleum exploration, production, processing and trading
Imperial Chemicals Insurance Ltd	England	Ordinary	—	100	Insurance
Nobel's Explosives Co Ltd	Scotland	Ordinary	100	—	Manufacture of industrial explosives and accessories
Scottish Agricultural Industries Ltd	Scotland	Ordinary*	62	—	Manufacture of fertilizers and feeding stuffs; agricultural merchants
The Americas					
Canadian Industries Ltd (Accounting date 31 December)	Canada	Common*	—	73	Manufacture of chemicals, fertilizers, industrial explosives, paints and plastics, directly and through holdings in 31 subsidiary companies
Duperial SAIC (Accounting date 30 September)	Argentina	Ordinary	100	—	Manufacture of chemicals, dyes, plastics, sporting ammunition and paints; merchanting of ICI and other products
ICI Americas Inc (Accounting date 31 December)	United States of America	Common	—	100	Manufacture of pharmaceuticals, dyes, plastics, chlor-alkali products and speciality chemicals; merchanting of other ICI products; co-ordination of ICI's interests in North and South America
Other countries (Accounting dates 30 September)					
Chemical Company of Malaysia Berhad	Malaysia	Ordinary*	50	—	Manufacture of fertilizers, agricultural chemicals and chlorine products
Chemicals and Fibres of India Ltd	India	Ordinary*	55	—	Manufacture of polyester fibre
ICI Australia Ltd	Australia	Ordinary*	—	62	Manufacture of chemicals, fertilizers, fibres, industrial explosives, paints, plastics and pharmaceuticals, directly and through holdings in 44 subsidiary companies
I.C.I. (Malaysia) Sdn Berhad	Malaysia	Ordinary	100	—	Holding company and merchanting of ICI and other products; subsidiaries merchant ICI and other products and manufacture paints
ICI (South Africa) Ltd	Republic of South Africa	Ordinary	100	—	Merchanting of ICI and other products, manufacture of zip fasteners and pharmaceuticals, holding company
Indian Explosives Ltd	India	Ordinary*	50	—	Manufacture of industrial explosives and fertilizers
The Alkali and Chemical Corporation of India, Ltd	India	Ordinary*	51	—	Manufacture of chemicals, paints, polyethylene, rubber chemicals, pharmaceuticals and agricultural chemicals

*Listed

Principal associated companies

31 December 1978

Company and country of principal operations and registration or incorporation		Issued share and loan capital at date of latest available audited accounts				Year end date of latest available audited accounts	Year end date adopted for ICI Group accounts	Principal activities
		Class	£million	Percentage held by ICI Subsidiaries				
Europe								
Carrington Viyella Ltd	England	Ordinary (Listed) Preference Loan	45 10 39	7 — —	42 — —	31 December 77	30 June 78	Manufacture of textiles
Cleveland Potash Ltd	England	Ordinary Preference Loan	7 30 37	50 50 22 (Note 1)	— — —	31 December 77	31 December 78	Potash mining
Nurel SA	Spain	Ordinary Loan	21 29	50 —	— 23	31 December 77	31 December 78	Manufacture of man-made fibres
Phillips-Imperial Petroleum Ltd	England	Ordinary	—	50	—	31 December 77	30 September 78	Oil refining
SA Solvic	France	Ordinary Loan	3 9	25 —	— —	31 December 77	30 June 78	Manufacture of synthetic resins
Tioxide Group Ltd	England	Ordinary Preference Loan	31 1 24	13 — —	31 (Note 2) — —	31 December 77	30 June 78	Manufacture of titanium pigments
The Americas								
Blair Insurances Ltd	Bermuda	Ordinary	2	—	50	30 June 78	30 June 78	Insurance
Fiber Industries, Inc	United States of America	Ordinary Loan	40 43	37 —	— —	31 December 78	31 December 78	Manufacture of man-made fibres
Corpus Christi Petrochemical Company	United States of America	Partners' capital Loan	37 4	— —	37 —	31 December 77	31 December 78	Manufacture of olefines (not yet in operation)
Other countries								
AECI Ltd	Republic of South Africa	Ordinary (Listed) Preference Loan	84 3 132	— — —	40 (Note 3) — —	31 December 77	30 June 78	Manufacture of chemicals, fertilizers, fibres, industrial explosives, paints and plastics
Consolidated Fertilizers Ltd	Australia	Ordinary Shareholders' Subordinated Loan Loan	26 9 13	— — —	38 36 —	30 September 78	30 September 78	Manufacture of fertilizers
C.S.R. Chemicals Ltd	Australia	Ordinary Loan	7 1	— —	50 —	31 March 78	30 September 78	Manufacture of chemicals

Notes: 1 Between 31 December 1977 and 31 December 1978 ICI invested a further £11 million of loan capital; the ICI Group has guaranteed £10 million of external loan capital at 31 December 1978.

2 Subsequently increased to 37 per cent and transferred to ICI, making ICI holding 50 per cent.

3 Includes 29 per cent held through Afex Holdings (Pty) Ltd in which Group interest is 50 per cent.

Group financial record

For the years ended 31 December

		1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
		£million									
Assets employed	Fixed assets	1,016	1,076	1,157	1,160	1,185	1,233	1,425	1,733	1,876	2,299
	Trade investments	118	192	202	208	244	258	302	365	345	362
	Net current assets	384	368	399	486	699	906	1,006	1,406	1,412	1,308
	Total assets employed	1,518	1,636	1,758	1,854	2,128	2,397	2,733	3,504	3,633	3,969
Financed by	Ordinary capital of ICI	448	469	474	478	480	486	494	559	564	570
	Group reserves applicable to ICI Ordinary stockholders	374	443	433	448	615	806	934	1,249	1,679	1,874
	ICI Ordinary stockholders' interest	822	912	907	926	1,095	1,292	1,428	1,808	2,243	2,444
	Minority interests and preference capital of ICI	122	125	123	133	165	187	203	243	204	236
	Deferred taxation (Note 3)	95	77	62	91	115	174	212	308	—	—
	Government grants	67	80	91	87	81	77	80	85	89	120
	Advance proceeds from oil sales	—	—	—	—	—	—	—	26	53	85
	Loans	412	442	575	617	672	667	810	1,034	1,044	1,084
	Total funds invested	1,518	1,636	1,758	1,854	2,128	2,397	2,733	3,504	3,633	3,969
	Sales (external) — UK	652	693	704	776	942	1,199	1,314	1,616	1,868	1,800
Sales, profits and reserves	— Overseas	703	769	820	918	1,224	1,756	1,815	2,519	2,795	2,733
	— Total	1,355	1,462	1,524	1,694	2,166	2,955	3,129	4,135	4,663	4,533
	Trading profit (after depreciation)	190	159	145	163	309	463	319	519	552	504
	Depreciation	107	114	129	148	157	169	182	205	221	225
	Exchange gain (loss) on net current assets of overseas subsidiaries	—	—	—	6	20	(6)	29	58	(29)	(39)
	Share of profits less losses of principal associated companies	—	16	22	18	34	43	24	30	31	29
	Profit before loan interest, taxation and grants	193	172	166	185	360	505	378	615	568	513
	Profit before taxation and grants	167	144	130	141	311	455	321	540	483	421
	Taxation less grants (Note 3)	60	42	32	39	126	197	125	214	136	100
	Profit after taxation and grants	107	102	98	102	185	258	196	326	347	321
	Profit applicable to ICI before extraordinary items	96	92	85	85	161	238	172	291	319	304
	Extraordinary items	—	—	—	—	15	(5)	(1)	(46)	(29)	(3)
	Profit applicable to ICI after extraordinary items	96	92	85	85	176	233	171	245	290	301
	Net dividends	37	38	40	41	50	54	59	83	93	105
	Income tax on dividends	26	27	25	26	—	—	—	—	—	—
	Profit retained transferred to reserves	33	27	20	18	126	179	112	162	197	196
	Amounts credited (charged) direct to reserves	8	42	(30)	(3)	41	12	16	153	(16)	(1)
	Earnings and dividends (in pence) per £1 Ordinary stock (see Note below)										
	Earnings, before extraordinary items	21.0	19.6	17.8	17.6	33.0	48.2	34.5	54.4	56.8	53.6
	Dividends	13.5	13.5	13.5	13.8	10.1	10.9	11.6	14.8	16.5	18.5
	Dividends grossed up for imputed tax credit	—	—	—	—	14.5	16.3	17.9	22.7	25.0	27.6
	Profit before loan interest, taxation and grants, as a percentage of average assets employed	13.0	10.9	9.8	10.2	18.1	22.3	14.7	19.7	15.9	13.5

Notes: 1 Earnings and dividends per £1 Ordinary stock have been adjusted to give effect to the bonus element in the rights issue made in 1976.

2 In accordance with the accounting policy for goodwill set out on page 23, the amount previously carried in the balance sheet has been deducted from Group reserves in the above table.

3 Deferred taxation for the years 1969 to 1976 has not been recalculated on the basis of the accounting policy set out on page 23; the cumulative amount of the prior years' adjustment at 31 December 1976 was £249 million.

Inflation Accounting on Current Cost Accounting (CCA) Basis

Group results – unaudited

	£million	1977 £million	£million	1978 £million
Trading profit as per historical accounts		552		504
Adjustments to trading profit				
Additional depreciation (Note 2)		(182)		(213)
Cost of sales adjustment for stocks (Note 3)		(57)		(52)
Erosion of trade debtors less creditors (Note 4)		(12)		(6)
Trading profit – CCA basis		301		233
Investment income		65		71
Interest payable		(107)		(114)
Employees' profit-sharing bonus		(29)		(30)
Share of profits less losses of principal associated companies		31		29
Profit before taxation and grants		261		189
Taxation less grants		(136)		(100)
Profit after taxation and grants		125		89
Gearing adjustment (Note 5)	59		40	
Exchange gains on financial items	27	86	19	59
		211		148
Applicable to minorities		(13)		(13)
Profit applicable to parent company before extraordinary items (Note 6)		198		135
Earnings (before extraordinary items) per £1 Ordinary stock – CCA basis		35.2p		23.8p
Dividend per £1 Ordinary stock		16.5p		18.5p
Average assets employed – CCA basis		6,170		6,514
Profit before loan interest, taxation and grants as a percentage of average assets employed – CCA basis (Note 7)		5.6%		4.3%

Notes

1 Specific inflation adjustments have been calculated for approximately 90% of the Group and estimates made for the remainder. No adjustments have been made to the share of profits of principal associated companies nor have these and other investments been revalued.

2 The additional depreciation has been based on:
(1) In general, indices of the cost of chemical plants, and
(2) Asset lives which are longer than those applied in the historical cost accounts as described in the accounting policy note on page 23.

Total inflation-adjusted depreciation is estimated at £403 million in 1977 and £438 million in 1978.

3 The cost of sales adjustment for stocks has been based mainly on actual movements in costs, using the averaging method.

4 The erosion by inflation of trade debtors less trade creditors, based on movements in prices of sales and purchases, has been charged to trading profit.

5 The gearing adjustment represents the total holding gains less losses for the year on assets effectively financed by net non-trading monetary liabilities (mainly borrowings less cash). The exchange gains or losses on the non-sterling part of these liabilities are then added to or deducted from the adjustment.

6 Pending the issue of the CCA exposure draft by the Accounting Standards Committee the statement does not deal with extraordinary items, nor does it deal with depreciation adjustments relating to past years which may arise on the revision of asset lives.

7 The CCA profits for the two years shown are expressed in £'s of each year and in this respect are not comparable. However, the profits expressed as percentages of average assets employed are comparable.

