



Interim Report 2007
leadership in formulation science

Financial highlights

	First half 2007 £m	First half 2006 £m	Change %
<i>(A list of definitions appears on page 24)</i>			
Revenue – continuing operations	2,398	2,442	(2)
Trading profit† – continuing operations	253	239	6
Profit before taxation and special items§ – total Group	255	228	12
Net profit before special items attributable to equity holders of the parent	199	167	19
Net profit after special items	1,076	93	n.m.
Earnings and dividends			
Earnings per £1 Ordinary Share	89.1p	6.7p	n.m.
Adjusted earnings per £1 Ordinary Share ^o	16.8p	14.0p	20
Interim dividend per £1 Ordinary Share	4.95p	4.15p	19
Cash flow			
Net cash inflow (outflow) before financing activities	596	(237)	
Net cash (debt)^o at 30 June	271	(962)	
Interest cover^o (times)	20.8	6.2	

† Trading profit is defined as operating profit before special items. At a Group level, this refers to continuing operations only. Operating profit from continuing operations for the first half of 2007 was £195m (first half 2006 £213m); special items charged to operating profit were £58m (first half 2006 charge £26m).

§ Profit before taxation and after special items – total Group was £1,128m (first half 2006 £134m); special items credited to profit before taxation in the period were £873m (first half 2006 charge £94m).

^o ICI's method of calculating adjusted earnings per share, interest cover, net cash and net debt are defined on page 24.

n.m. Not meaningful.

Discontinued Operations

As explained in note 3 on page 16, ICI has completed the sale of its flavours and fragrance business, Quest, in 2007. The results for Quest are included within discontinued operations in the Group income statement, along with those of the Uniqema business, which was disposed of in 2006. Note 4 on page 17 provides more detail of the profit on discontinued operations. All items referred to as relating to continuing operations therefore exclude the results of Quest and Uniqema. Measures of performance on a “comparable” basis relating to the Group are defined on the basis of continuing operations and thus exclude the results of Quest and Uniqema.

Chairman's statement

ICI made a strong start to 2007. Group sales for continuing operations were 5% ahead of the first half of 2006 on a comparable basis. Sales increased in most major geographical markets with Paints and National Starch delivering good growth in Asia, Europe and Latin America. Further sales price increases partially compensated for new raw material cost inflation in Adhesives, Electronic Materials and Specialty Starches.

As a result, with the help of further benefits from our Transformation Programme and good control of costs, trading profit was well ahead of last year on a comparable basis. Trading margins from continuing operations improved from 9.8% in the first half of 2006 to 10.6% in the first half of 2007. Group adjusted profit before taxation was £255m, 12% ahead of 2006.

Higher cash outflows related to the funding of the restructuring programmes and higher payments into pension funds contributed to a higher cash outflow from operating activities than in the first half of 2006. Reflecting the proceeds from the sales of Uniqema and Quest, net cash at 30 June 2007 was £271m, compared with net debt of £962m at the half year 2006.

Dividend

The Board has declared an interim dividend of 4.95p (2006 4.15p), in line with the growth in net profit before special items attributable to equity holders of the parent for the first half of 2007.

Strategic Progress

Our Transformation Programme announced in 2006 focused on three important levers to deliver our strategy – **accelerating profitable growth**, **improving operational effectiveness** and developing a **culture of sustainable improvement**. During the first six months of 2007 the Group has made good progress developing and implementing plans to deliver the revised strategy.

Since the start of the year ICI has announced several acquisitions and entered into two major alliances in adhesives and specialty starches.

Most recently, in July, ICI announced the acquisition of the Dulux paints business in southern Africa from AECL, which will further strengthen our presence in high-growth developing markets.

Quest

In March 2007, ICI announced the completion of the sale of its flavours and fragrance business, Quest, to Givaudan SA for a gross consideration of £1,200m, subject to closing balance sheet adjustments, including working capital and net debt.

People

In March 2007, Charles Knott, Chairman and Chief Executive of Quest International, stepped down from the ICI Board following the sale of Quest to Givaudan SA. On behalf of the Board, I would like to thank him for his commitment, his hard work and his contribution to ICI over many years.

Outlook

Although our visibility is limited, Paints and National Starch are both expected to make further progress and as a result, the outlook for the balance of the year remains positive.



Peter B Ellwood CBE

Chairman

3 August 2007

Business review

In the following review “Comparable” performance excludes the effect of currency translation differences and the impact of acquisitions and divestments. At a Group level, this refers to continuing operations only. References to “as reported” performance include the effects of currency translation, acquisitions and divestments. Reconciliations between “comparable” and “as reported” performance can be found in the tables on pages 6 and 7. Percentage changes are calculated using unrounded values. References to “trading profit” relate to operating profit before special items. Special items in operating profit are discussed separately as they are not considered to reflect the underlying business performance. The reconciliation between trading profit (loss) and operating profit (loss) is shown in the second table on page 6.

Continuing operations

For the half year, comparable sales for continuing operations were 5% ahead of the first half of 2006. Including the impact of foreign currency translation, reported sales for the Group of £2,398m were 2% lower than last year.

National Starch delivered 8% growth on a comparable basis with Paints up 3%. Sales for the Regional and Industrial businesses were 1% above last year. Regionally, National Starch delivered growth in all regions with good growth of 10% in Asia, 11% in Europe and 13% in Latin America. Paints sales in Asia were up 18%, Latin America up 13% and Europe ahead 4%. Paints sales in North America, as expected, were weaker, down 6%. Overall comparable sales for the continuing businesses, including Regional and Industrial were 6% ahead in Europe, 10% ahead in Asia and 12% ahead in Latin America, but lower year-on-year in North America.

Comparable trading profit for the continuing reporting segments for the half year was 11% ahead of last year, with Paints and National Starch delivering growth of 10% and 14% respectively. Regional and Industrial trading profit was below last year, reflecting lower average margins for PTA. The Group's comparable trading profit for total continuing operations

was 13% ahead. Adjusting for foreign currency translation and acquisitions and divestments, continuing Group trading profit at £253m was 6% ahead of last year.

Total Group

Net finance expense of £13m was £41m below 2006 and the adjusted profit before tax for the Group was £255m, 12% ahead of last year.

Taxation on profit before special items was £43m for the half year, £5m lower than last year. The adjusted tax rate (see definition on page 24) was 17% compared with 21% for the half year 2006 and 17% for 2006 full year.

Special items before taxation for continuing operations for the first half amounted to a loss of £49m compared with a loss of £22m in 2006. Special items in 2007 of £58m related to the transformation programme announced in May 2006. The prior period included a charge of £26m related to restructuring programmes. Within net finance expense, a gain of £5m was included in the first half of 2007 compared with a £1m gain in the first half of 2006 both related to foreign exchange on debt previously hedging goodwill written off to reserves.

Special items before taxation for the half year for discontinued operations amounted to a gain of £922m compared with a loss of £72m in 2006. The gain of £922m included £921m related to the disposal of Quest.

Net profit after special items was £1,076m compared with £93m for the first half of 2006.

Adjusted net profit was £199m for the half year compared with £167m for the first half of 2006, a 19% increase.

Basic adjusted earnings per share was 16.8p for the half year, compared with 14.0p for the first half of 2006. Basic earnings per share was 89.1p for the half year, compared with 6.7p for the first half of 2006.

The Board has declared an interim dividend of 4.95p (2006 4.15p), in line with the growth in adjusted net profit for the first half of 2007.

Review of business results

Continuing operations

Paints

Paints comparable sales were 3% ahead of 2006 for the half year. Strong growth for the Decorative businesses in Asia and Latin America, and further progress in the UK and Ireland and Continental Europe offset further weak trading for Decorative North America. Gross margin percentages were ahead of last year, benefiting from higher selling prices and efficiency improvements which offset regional mix effects due to high growth in Asia. With costs below gross margin only slightly higher, trading profit was 10% higher than in the first half of last year.

Sales for Decorative UK and Ireland were 3% ahead of last year as volume growth in UK Trade and the Ireland business offset weaker volumes in UK Retail. Gross margin percentages were ahead of last year and despite increased publicity costs, trading profit was well ahead of the first half last year.

Decorative Continental Europe sales were 8% ahead of last year, with good growth in southern Europe, the Benelux region and parts of Eastern Europe. Gross margin percentages were lower than last year, reflecting a weaker product mix. Despite costs below gross margin being higher than last year, the strong top-line performance contributed to a good improvement in trading profit.

As expected, sales for Decorative North America were lower than last year due to lower sales volumes across all channels. Overall sales were down 7%, with sales volumes for US Retail and US Trade depressed by the continuing weakness in the US housing market. This was partially offset by favourable product mix, lower supply chain costs and price increases, contributing to improved gross margin percentages compared with the prior year. Despite improved control of costs below gross margin and the benefits of restructuring initiatives, trading profit was below last year.

Decorative Asia had another strong half year, with sales growth of 20%. All countries were ahead of last year with the exception of Thailand. Sales growth in China was 29%, reflecting strong volume growth as expanded distribution continued to bring benefits. Despite lower gross margin percentages, reflecting increased sales of mid-tier products, trading profit for the half year was strongly ahead.

Decorative Latin America had another good half year recording sales growth of 13%. Gross margin percentages were lower than last year due to a weaker product mix in Argentina and Uruguay and lower selling prices in Brazil, but trading profit was significantly ahead.

Sales for Packaging Coatings for the half year grew by 4%, reflecting improved selling prices and volume growth in Asia, North America and Latin America. Gross margin percentages were lower due primarily to raw material cost pressure only partially offset by price increases. However, with costs below gross margin lower than last year, trading profit was higher than in the same period last year.

National Starch

National Starch delivered 8% comparable sales growth for the half year, with all businesses ahead of last year. Double digit growth was achieved in Europe, Asia and Latin America, with lower growth in North America. Gross margin percentages were ahead of last year and comparable trading profit was 14% higher due to continued strong performances in Specialty Starches and Specialty Polymers. Trading margins were 12.6% (2006 11.8%).

National Starch – Adhesives

Adhesives comparable sales for the half year were 6% ahead, with growth across all regions. Sales in Asia were significantly ahead with strong growth in China, India, Vietnam, Indonesia and Malaysia which offset slower growth in Japan. Gross margin percentages were in line with last year, reflecting good control of supply chain costs.

Business review continued

Despite higher costs below gross margin, due in part to a one-off benefit in 2006, comparable trading profit was 2% ahead of the same period last year.

National Starch – Specialty Starches

Comparable sales for Specialty Starches were 11% ahead of last year, with continued strong growth in all regions, good growth in food starches and double-digit growth in the industrial papermaking market. Sales of specialty food starches were again strong in Europe, where the Novation® product range continued to deliver significant growth and in Latin America, where growth was good in all segments. Sales of industrial starches were supported by price increases in North America and strong sales in Japan and China. Gross margin percentages were ahead of last year. As a result, comparable trading profit was 39% ahead of last year. During the balance of the year, the impact of increased corn and tapioca costs is expected to reduce the rate of trading profit growth.

National Starch – Specialty Polymers

Comparable sales for Specialty Polymers were 13% ahead of last year, with Europe and Asia delivering double-digit growth. Elotex had a strong half year with good growth in Europe and Asia. Strong growth in Personal Care was driven by demand for sunscreen and hair care polymers. Sales for Alco were also up, helped by demand for biopolymer-based products. Overall, gross margin percentages were ahead of last year and comparable trading profit was 32% higher.

National Starch – Electronic Materials

Electronic Materials comparable sales were 2% ahead of last year, reflecting the slower growth in consumer electronics year-to-date, and the consequential impact on component demand. Ablestik and Acheson Electronic Materials sales were slightly ahead whilst Emerson & Cuming sales were broadly unchanged. Gross margin percentages were below last year, due in part to higher silver and nickel costs. Despite good cost control, comparable trading profit was 5% below the same period last year.

Regional and Industrial

Comparable sales for the Regional and Industrial businesses for the half year were slightly ahead of last year, with sales growth for ICI Pakistan offsetting lower sales for Pakistan PTA and ICI Argentina.

Gross margin percentages were lower, reflecting higher paraxylene costs and lower margins for PTA in Pakistan. Despite lower costs below gross margin and a short-term improvement in gross margins for Pakistan PTA in the second quarter, comparable trading profit was 14% below the same period last year.

Discontinued operations

Quest

The sale of Quest was completed on 2 March 2007. Up to the point of divestment, Quest reported sales of £98m (2006 £146m for the full three months of the first quarter) and trading profit of £12m (2006 £14m for the full three months of the first quarter).

Group cash flow and net cash (debt)

Operating activities

Working capital efficiency, measured as average monthly working capital as a percentage of sales, improved compared to the same period last year. Depreciation expense of £58m in the half year was £25m lower than last year, of which £20m related to Quest and Uniqema. Post-retirement benefit contribution payments of £190m included £151m of regular top-ups (2006 £122m). Cash outflows on special items related to the 2006 transformation programme were £53m (2006 £27m). Net finance expense payments of £38m in the half year included £24m of finance outflows related to settling forward contracts to acquire ICI shares in relation to the employee share ownership plans (ESOP). As a result, the net cash outflow from operating activities for the half year of £215m was £65m higher than last year.

Investing activities

Net cash from investing activities was an inflow of £811m for the half year compared to an outflow of £87m in 2006. Net proceeds relating to the disposal of the Quest business amounted to £1,162m and reflects the gross proceeds of £1,200m less £25m net cash disposed of and transaction related costs of £13m. After payments into pension funds of £226m, of which £178m related to Quest and £48m related to Uniqema, the effective net disposal proceeds related to Quest were £984m.

Further cash flows relating to the sale of Quest are expected in the remainder of 2007 and into 2008. The Group invested £15m on the acquisition of the minority interests in the Dongsung NSC footwear adhesives business in Asia.

Movement in net debt

Cash flow before financing for the half year was an inflow of £596m, compared with an outflow of £237m in 2006. An outflow of £72m, excluding the finance costs included in net interest, resulted from the settlement of forward contracts to acquire ICI shares less proceeds from the exercise of employee share options. With favourable other movements of £76m due in part to exchange movements on the Group's US dollar debt, net cash at the half year was £271m, compared with net debt of £329m at the end of 2006.

In the half year, the Group settled its forward commitments to purchase shares for £102m. Included in the Group cash flow statement is £77m, net of £25m of receipts from share options exercised. The "out of the money" element of these commitments of £5m was included in opening net debt. Therefore, the net impact of the settlement on net debt was £72m.

Post-retirement benefit deficit

Due to the significant movements in bond yields, the Group has updated its accounting valuation of the post-retirement benefit net deficit at the half year. The net deficit has fallen from £1,305m at the end of 2006 to £721m at 30 June 2007. The half year net deficit includes the effects of: an increase of £175m in respect of additional longevity risk in the ICI UK Pension Fund ("the Fund") following the Company's discussions with the Trustee of the Fund on the interim actuarial valuation; a net gain of £303m for other updated actuarial assumptions, primarily arising from movements in discount rates, and £377m of top-up contributions paid into various funds. Following the interim valuation of the Fund, the Trustee and the Company have agreed to an additional remediation schedule totalling £175m in present value terms, with £50m being paid in the first quarter of 2008, £50m in the first quarter of 2009 and £100m in the first quarter of 2010.

Reconciliation of movement in net cash (debt)

	First half 2007 £m	First half 2006 £m	Year 2006 £m
Net (debt) at beginning of period	(329)	(763)	(763)
Net cash inflow (outflow) before financing activities	596	(237)	301
ESOP share purchase/receipts from options exercised	(72)	–	(6)
Other movements	76	38	139
Total movement in net cash (debt)	600	(199)	434
Net cash (debt) at end of period	271	(962)	(329)

Business review continued

Reconciliation of "As reported" change to "Comparable" change in revenue First half 2007 vs First half 2006

	Revenue "As reported" First half		"As reported" change increase/ (decrease) First half		Foreign exchange translation effects adverse/ (favourable) £m	(Acquisition) and divestment effects £m	"Comparable" change increase/ (decrease) First half	
	2007 £m	2006 £m	2007 vs 2006 £m	%			2007 vs 2006 £m	%
Continuing operations								
Paints	1,186	1,218	(32)	(3)	62	2	32	3
Adhesives	527	532	(5)	(1)	36	–	31	6
Specialty Starches	263	251	12	4	16	–	28	11
Specialty Polymers	139	133	6	5	10	–	16	13
Electronic Materials	96	102	(6)	(6)	8	–	2	2
<i>Total National Starch</i>	1,025	1,018	7	1	70	–	77	8
Regional and Industrial	196	217	(21)	(10)	22	–	1	1
Total reporting segments	2,407	2,453	(46)	(2)	154	2	110	5
Corporate and other	1	1	–	–	–	–	–	–
Inter-segment eliminations	(10)	(12)	2	–	(2)	–	–	–
Total continuing operations	2,398	2,442	(44)	(2)	152	2	110	5

Reconciliation of trading profit (loss) to operating profit (loss) First half 2007 vs First half 2006

	Trading profit (loss) First half		Special items in operating profit (loss) First half		Operating profit (loss) after special items First half	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Continuing operations						
Paints	127	121	(13)	(3)	114	118
Adhesives	44	45	(10)	(12)	34	33
Specialty Starches	33	25	(1)	(2)	32	23
Specialty Polymers	29	24	(1)	(1)	28	23
Electronic Materials	23	26	(5)	–	18	26
<i>Total National Starch</i>	129	120	(17)	(15)	112	105
Regional and Industrial	13	17	–	(2)	13	15
Total reporting segments	269	258	(30)	(20)	239	238
Corporate and other	(16)	(19)	(28)	(6)	(44)	(25)
Total continuing operations	253	239	(58)	(26)	195	213

**Reconciliation of "As reported" change to "Comparable" change in trading profit (loss)
First half 2007 vs First half 2006**

	Trading profit (loss) "As reported" First half		"As reported" change increase/ (decrease) First half 2007 vs 2006		Foreign exchange translation effects adverse (favourable) £m	(Acquisition) and divestment effects £m	"Comparable" change increase/ (decrease) First half 2007 vs 2006	
	2007 £m	2006 £m	£m	%			£m	%
Continuing operations								
Paints	127	121	6	5	4	2	12	10
Adhesives	44	45	(1)	(3)	2	-	1	2
Specialty Starches	33	25	8	30	2	-	10	39
Specialty Polymers	29	24	5	23	2	-	7	32
Electronic Materials	23	26	(3)	(11)	2	-	(1)	(5)
<i>Total National Starch</i>	129	120	9	7	8	-	17	14
Regional and Industrial	13	17	(4)	(22)	2	-	(2)	(14)
Total reporting segments	269	258	11	5	14	2	27	11
Corporate and other	(16)	(19)	3		-	-	3	
Total continuing operations	253	239	14	6	14	2	30	13

Reconciliation from trading profit to adjusted net profit

	First half 2007			First half 2006		
	Continuing operations £m	Discontinued operations £m	Total Group £m	Continuing operations £m	Discontinued operations £m	Total Group £m
Trading profit	253	12	265	239	41	280
Income from associates	3	-	3	2	-	2
Net finance expense	(13)	-	(13)	(53)	(1)	(54)
Adjusted profit before taxation	243	12	255	188	40	228
Taxation	(41)	(2)	(43)	(40)	(8)	(48)
Minority interests	(13)	-	(13)	(12)	(1)	(13)
Adjusted net profit	189	10	199	136	31	167

Group income statement

	notes	First half 2007		
		Before special items £m	Special items £m	Total £m
Continuing operations				
Revenue	2	2,398		2,398
Operating costs		(2,163)	(58)	(2,221)
<i>(including special items: restructuring costs)</i>			(58)	(58)
Other operating income		18	–	18
Profits less losses on disposal of property, plant and equipment	5		–	–
Operating profit (loss)	2	253	(58)	195
Profits less losses on sale of continuing operations	5		4	4
Share of profits less losses of associates		3	–	3
Interest expense		(50)		(50)
Interest income		37		37
Foreign exchange gains on debt previously hedging goodwill written off to reserves			5	5
Post-retirement benefit interest cost		(225)		(225)
Post-retirement benefit expected return on assets		225		225
Net finance expense		(13)	5	(8)
Profit (loss) before taxation	2,5	243	(49)	194
Income tax expense	6	(41)	4	(37)
Net profit (loss) for the period from continuing operations		202	(45)	157
Discontinued operations				
Profit (loss) for the period from discontinued operations	4	10	(1)	9
<i>(including special items: fine restructuring costs)</i>			–	–
			(1)	(1)
Profits less losses on disposal of discontinued operations			910	910
Net profit (loss) for the period from discontinued operations		10	909	919
Net profit (loss) for the period		212	864	1,076
Attributable to equity holders of the parent		199	856	1,055
Attributable to minority interests		13	8	21
Earnings (loss) per £1 Ordinary Share				
Basic – Continuing operations	7			12.1p
– Discontinued operations	7			77.0p
– Total	7			89.1p
Diluted – Continuing operations				12.0p
– Discontinued operations				76.5p
– Total				88.5p
Dividends proposed per £1 Ordinary Share	9			4.95p

First half 2006			Year 2006		
Before special items £m	Special items £m	Total £m	Before special items £m	Special items £m	Total £m
2,442		2,442	4,845		4,845
(2,221)	(26)	(2,247)	(4,382)	(80)	(4,462)
	(26)	(26)		(80)	(80)
18	–	18	39	–	39
	–	–		9	9
239	(26)	213	502	(71)	431
	3	3		4	4
2	–	2	2	–	2
(63)		(63)	(123)		(123)
19		19	44		44
	1	1		15	15
(211)		(211)	(422)		(422)
202		202	404		404
(53)	1	(52)	(97)	15	(82)
188	(22)	166	407	(52)	355
(40)	6	(34)	(70)	14	(56)
148	(16)	132	337	(38)	299
32	(68)	(36)	62	(69)	(7)
	(63)	(63)		(62)	(62)
	(5)	(5)		(7)	(7)
	(3)	(3)		37	37
32	(71)	(39)	62	(32)	30
180	(87)	93	399	(70)	329
167	(87)	80	375	(80)	295
13	–	13	24	10	34
		10.1p			23.3p
		(3.4)p			1.6p
		6.7p			24.9p
		10.1p			23.0p
		(3.4)p			1.5p
		6.7p			24.5p
		4.15p			8.90p

Group balance sheet

	notes	At 30 June 2007 £m	At 30 June 2006 (as restated note 1) £m	At 31 Dec 2006 £m
Assets				
Non-current assets				
Intangible assets		525	565	523
Property, plant and equipment		1,054	1,278	1,069
Investments in associates		24	21	21
Financial assets		26	81	28
Deferred tax assets		271	278	229
Other receivables		33	34	35
Post-retirement benefit assets		32	7	12
		1,965	2,264	1,917
Current assets				
Inventories		523	589	486
Trade and other receivables		891	1,024	791
Current tax debtor		12	36	17
Financial assets		150	34	110
Cash and cash equivalents		1,148	386	596
Assets classified as held for sale		–	485	372
		2,724	2,554	2,372
Total assets		4,689	4,818	4,289
Liabilities				
Current liabilities				
Trade and other payables		(1,106)	(1,337)	(1,272)
Financial liabilities		(499)	(395)	(487)
Current tax liabilities		(213)	(370)	(217)
Provisions		(242)	(176)	(193)
Liabilities classified as held for sale		–	(250)	(201)
		(2,060)	(2,528)	(2,370)
Non-current liabilities				
Financial liabilities		(528)	(1,033)	(548)
Other creditors		(27)	(39)	(28)
Provisions		(271)	(259)	(277)
Deferred tax liabilities		(38)	(45)	(18)
Post-retirement benefit liabilities		(753)	(1,389)	(1,237)
		(1,617)	(2,765)	(2,108)
Total liabilities		(3,677)	(5,293)	(4,478)
Net assets (liabilities)		1,012	(475)	(189)
Equity				
Called-up share capital		1,195	1,193	1,193
Share premium account		938	936	936
Retained earnings and other reserves		(1,249)	(2,722)	(2,442)
Attributable to equity holders of the parent		884	(593)	(313)
Minority interests		128	118	124
Total equity	8	1,012	(475)	(189)

Group cash flow statement

	notes	First half 2007 £m	First half 2006 £m	Year 2006 £m
Cash flows from operating activities				
Net profit for the period		1,076	93	329
Adjusted for:				
Net finance expense		13	54	99
Depreciation and amortisation		58	83	150
Post-retirement benefit charges		23	30	46
Special items after taxation		(864)	87	70
Taxation (including taxation on associates)		45	49	84
Movement in working capital		(191)	(201)	(5)
Outflows relating to operating special items		(53)	(27)	(68)
Post-retirement benefit payments		(190)	(187)	(238)
Net interest paid		(38)	(36)	(76)
Tax paid excluding tax on disposal of businesses		(36)	(39)	(84)
Dividends paid to equity holders of the parent		(56)	(47)	(96)
Dividends paid to minority interests		(6)	(9)	(21)
Other items		4	–	1
Net cash (outflow) inflow from operating activities		(215)	(150)	191
<i>(including net cash flows from discontinued operating activities)</i>		2	(1)	29
Cash flows from investing activities				
Purchase of property, plant, equipment and intangibles		(65)	(65)	(150)
Proceeds from sale of property, plant and equipment		1	6	26
Purchase of businesses, net of cash acquired		(15)	(18)	(31)
Net proceeds from disposal of businesses		1,185	5	324
Legacy payments		(10)	(17)	(41)
Tax on disposal of businesses		(11)	–	(1)
Post-retirement benefit payments relating to disposals		(226)	–	–
(Increase) decrease in current asset investments		(48)	2	(17)
Net cash inflow (outflow) from investing activities		811	(87)	110
<i>(including net cash flows from discontinued investing activities)</i>		1,160	(45)	243
Cash flows from financing activities				
Increase in long-term loans	10	1	2	4
Repayment of long-term loans	10	(12)	(8)	(146)
Net increase in short-term borrowings	10	5	162	7
Movement in non-operating derivatives	10	6	(47)	(70)
Capital repayment of finance leases	10	(1)	(1)	(13)
ESOP share purchase/receipts from options exercised		(77)	–	6
Net cash (outflow) inflow from financing activities		(78)	108	(212)
<i>(including net cash flows from discontinued financing activities)</i>		–	–	–
Cash and cash equivalents at beginning of period	10	589	516	516
Net cash inflow (outflow) from all activities	10	518	(129)	89
Movement arising on foreign currency translation and other		11	(10)	(16)
Cash and cash equivalents at end of period	10	1,118	377	589

Statement of Group recognised income and expense

	notes	First half 2007 £m	First half 2006 £m	Year 2006 £m
Net profit for the period		1,076	93	329
Exchange differences on translating foreign operations		1	(56)	(88)
Recycling of cumulative exchange differences		9	–	6
Actuarial gains and losses		121	35	58
Changes in fair value of cash flow hedges		(3)	(1)	1
Tax on items taken directly to equity		37	(2)	101
Total income and expense recognised directly in equity		165	(24)	78
Total recognised income and expense for the period	8	1,241	69	407
Attributable to equity holders of the parent		1,221	62	385
Attributable to minority interests		20	7	22

Notes to financial statements

1 Basis of preparation

These half year 2007 interim consolidated financial statements of ICI are for the six months ended 30 June 2007. The information included within this document has been prepared on the basis of the recognition and measurement requirements of IFRS and IFRIC interpretations in issue that are endorsed by the European Commission and effective (or available for early adoption) at 30 June 2007.

These financial statements should be read in conjunction with the Group's Annual Report and Accounts for 2006 and have been prepared using the accounting policies set out in that report. These policies have been consistently applied to all the periods presented.

In accordance with the Group's accounting policy for employee benefits (as described on page 62 of the 2006 Annual Report and Accounts), the Group has updated its accounting valuation of the post-retirement benefit deficit at 30 June 2007 due to the significant market fluctuation in bond yields during the first half of the year. This update included the Company's revised view of longevity in the United Kingdom following its discussions with the Trustee of the ICI UK Pension Fund.

Deferred taxation assets and liabilities have been revised to conform with the offset requirements in IAS 12 *Income Taxes*. Deferred taxation assets at 30 June 2006 originally stated at £523m have been revised to £278m and deferred taxation liabilities originally stated at £290m have been revised to £45m. Current taxation assets at 30 June 2006 of £84m have been revised to £41m and current taxation liabilities of £413m have been revised to £370m.

2 Segment information

ICI changed its reporting segments in 2006. The National Starch business, previously reported as one segment, is now reported as four segments. Segmental data for continuing operations comprises:

- Paints;
- Adhesives, Specialty Starches, Specialty Polymers, and Electronic Materials (collectively formerly reported as National Starch);
- Regional and Industrial; and
- Corporate and other.

The Regional and Industrial segment comprises the Group's Regional businesses (of which the largest operation is the pure terephthalic acid business in Pakistan) and some ongoing residual activity relating to legacy management. Corporate and other represents the shared costs that are not directly attributable to individual segments. The Group's discontinued operations, as described on page 71 of the 2006 Annual Report and Accounts, include Uniqema and Quest.

Information for the entirety of the National Starch business continues to be provided as it is an important part of the organisation and management structure. Prior year segment information has been updated for the change.

Seasonality

Due to the diversity of their product portfolios and broad international coverage, seasonality within the Adhesives, Specialty Starches, Specialty Polymers, Electronic Materials and Regional and Industrial businesses is not significant. However, Paints is affected, with trading patterns influenced by prevailing weather conditions. With the geographic profile of Paints, this results in higher levels of activity in the second and third quarters of the year.

Notes to financial statements

2 Segment information (continued)

Business segments

	Segment revenue		
	First half 2007 £m	First half 2006 £m	Year 2006 £m
<i>Continuing operations</i>			
Paints	1,186	1,218	2,414
Adhesives	527	532	1,052
Specialty Starches	263	251	502
Specialty Polymers	139	133	266
Electronic Materials	96	102	203
<i>Total National Starch</i>	<i>1,025</i>	<i>1,018</i>	<i>2,023</i>
Regional and Industrial	196	217	431
Total reporting segments	2,407	2,453	4,868
Corporate and other	1	1	3
Inter-segment revenue	(10)	(12)	(26)
Total continuing operations revenue	2,398	2,442	4,845
<i>Discontinued operations revenue</i>	98	624	1,023
Total Group revenue	2,496	3,066	5,868

2 Segment information (continued)

Business segments (continued)

	Segment profit before special items			Segment profit after special items		
	First half 2007 £m	First half 2006 £m	Year 2006 £m	First half 2007 £m	First half 2006 £m	Year 2006 £m
Continuing operations						
Paints	127	121	257	114	118	240
Adhesives	44	45	83	34	33	61
Specialty Starches	33	25	60	32	23	58
Specialty Polymers	29	24	48	28	23	45
Electronic Materials	23	26	51	18	26	49
<i>Total National Starch</i>	129	120	242	112	105	213
Regional and Industrial	13	17	37	13	15	30
Total reporting segments	269	258	536	239	238	483
Corporate and other	(16)	(19)	(34)	(44)	(25)	(52)
Total continuing segment result	253	239	502	195	213	431
Reconciliations						
Operating profit/segment result	253	239	502	195	213	431
Profit less losses on sale of continuing operations	–	–	–	4	3	4
Share of profits less losses of associates	3	2	2	3	2	2
Net finance expense	(13)	(53)	(97)	(8)	(52)	(82)
Income tax expense	(41)	(40)	(70)	(37)	(34)	(56)
Total continuing operations net profit	202	148	337	157	132	299
Discontinued operations net profit (loss)	10	32	62	919	(39)	30
Total Group net profit	212	180	399	1,076	93	329

In the above table, the columns headed "segment profit before special items" are provided to give additional information on segment performance consistent with the approach used by executive management.

Notes to financial statements

3 Disposals

On 2 March 2007, ICI completed the sale of its flavours and fragrance business, Quest, to Givaudan SA for a gross consideration of £1,200m subject to closing balance sheet adjustments, including working capital and net debt. The disposal gave rise to a pre-tax gain of £921m and an associated tax charge of £13m.

The analysis of the profit on disposal of Quest, the net cash inflow and the net identifiable assets and liabilities disposed of at completion are set out in the tables below.

	Quest 2007 £m
Consideration received (see below)	1,200
Less: Net identifiable assets and liabilities at completion (see below)	(208)
Less: Transaction costs and other increases in provisions	(62)
Other	(9)
Profit on disposal before taxation	921
Consideration received, satisfied in cash	1,200
Cash disposed of	(25)
Net cash inflow	1,175
Property, plant and equipment	160
Intangible assets	31
Inventories	74
Current asset investments	6
Trade and other receivables and other assets	122
Cash and cash equivalents	25
Trade and other payables and other liabilities	(143)
Post-retirement benefit liabilities	(67)
Net identifiable assets and liabilities (at date of completion)	208
	2007 £m
Reconciliation to Group cash flow statement	
Net cash inflow from Quest disposal	1,175
Cash inflow from other disposals	34
Payments in respect of disposals in 2004 or later	(24)
Total cash inflow from disposals	1,185

4 Discontinued operations

The operations of Uniqema and Quest have been classified as discontinued. The results of discontinued operations after special items, which have been included in the Group income statement, are as follows:

	First half 2007 £m	First half 2006 £m	Year 2006 £m
Operating profit (loss)	11	(27)*	5*
Profits less losses on sale of operations	923	(4)	32
Net finance expense	–	(1)	(2)
Profit (loss) before taxation†	934	(32)	35
Income tax expense†	(15)	(7)	(5)
Net profit (loss) for the period	919	(39)	30

† In the above table, profit before taxation and special items was £12m for the first half of 2007, £40m for the first half of 2006 and £75m for year 2006. Income tax expense before special items was a charge of £2m for the first half of 2007, £8m for the first half of 2006 and £13m for year 2006.

* Operating profit (loss) figures for 2006 include the European Commission fine referred to in note 5 below.

5 Special items

Continuing operations

In the first half of 2007 there was a loss from special items before taxation of £49m which primarily related to a loss of £58m within operating profit, relating to restructuring programmes, and a £4m gain on sale of continuing operations. In the first half of 2006 there was a loss before taxation from special items of £22m, mainly relating to restructuring programmes. For the full year 2006 there was a loss before taxation of £52m which primarily comprised charges of £71m in operating profit relating to restructuring programmes, and a profit on sale of continuing operations of £4m, mainly relating to the disposal of the Quest Food Ingredients business. Taxation in respect of special items for the first half of 2007 amounted to a credit of £4m (first half 2006 credit £6m, year 2006 credit £14m).

Discontinued operations

In the first half of 2007 there was a gain before taxation from special items of £922m. The gain primarily related to the £921m gain on disposal of Quest. In the first half of 2006 there was a loss before taxation from special items of £72m and for the full year a loss before taxation of £40m. The loss for the full year 2006 primarily comprised a loss of £72m within operating profit and a profit on sale of discontinued operations of £32m. The amount within operating profit mainly related to a £62m fine imposed by the European Commission following an investigation into alleged cartel activity in the European methacrylates markets. Taxation on the above items amounted to a charge of £13m for the first half of 2007 (first half 2006 credit £1m, year 2006 credit £8m).

6 Income tax expense

The tax expense for the Group after special items for the first half 2007 includes a £37m expense (first half 2006 expense £34m, year 2006 expense £56m) relating to continuing operations and a £15m expense (first half 2006 expense £7m, year 2006 expense £5m) relating to discontinued operations. The tax expense for the Group for the first half of 2007 consists of UK taxation of £8m (first half 2006 expense £17m, year 2006 credit £7m) and an overseas tax expense of £44m (first half 2006 £24m, year 2006 £68m).

Notes to financial statements

7 Earnings (loss) per £1 Ordinary Share

Basic earnings per £1 Ordinary Share and diluted earnings per £1 Ordinary Share for a period are calculated by dividing the appropriate value (continuing, discontinued or total) of net profit (loss) attributable to the equity holders of the parent for the financial period by, respectively, basic weighted average Ordinary Shares in issue during the period or diluted weighted average Ordinary Shares in issue during the period.

Average Ordinary Shares in issue

	First half 2007 million	First half 2006 million	Year 2006 million
Weighted average Ordinary Shares in issue during the period	1,195	1,192	1,193
Weighted average shares held by the Group's employee share ownership plan	(11)	(2)	(4)
Basic weighted average Ordinary Shares in issue during the period	1,184	1,190	1,189
Dilutive effect of share options	8	3	15
Diluted weighted average Ordinary Shares in issue during the period	1,192	1,193	1,204

	First half 2007 £m	First half 2006 £m	Year 2006 £m
Adjusted earnings – continuing operations	189	136	315
Special items after tax and minorities – continuing operations	(46)	(16)	(38)
Earnings – continuing operations	143	120	277
Adjusted earnings – discontinued operations	10	31	60
Special items after tax and minorities – discontinued operations	902	(71)	(42)
Earnings – discontinued operations	912	(40)	18
Total adjusted earnings	199	167	375
Total special items after tax and minorities	856	(87)	(80)
Total earnings	1,055	80	295
	pence	pence	pence
Basic adjusted earnings per £1 Ordinary Share – continuing operations	16.0	11.4	26.5
Special items after tax per £1 Ordinary Share – continuing operations	(3.9)	(1.3)	(3.2)
Basic earnings per £1 Ordinary Share – continuing operations	12.1	10.1	23.3
Basic adjusted earnings per £1 Ordinary Share – discontinued operations	0.8	2.6	5.1
Special items after tax per £1 Ordinary Share – discontinued operations	76.2	(6.0)	(3.5)
Basic earnings per £1 Ordinary Share – discontinued operations	77.0	(3.4)	1.6
Total basic adjusted earnings per £1 Ordinary Share	16.8	14.0	31.6
Total special items after tax per £1 Ordinary Share	72.3	(7.3)	(6.7)
Total earnings per £1 Ordinary Share	89.1	6.7	24.9

8 Reconciliation of closing equity

	Share capital £m	Share premium account £m	Translation reserves £m	Retained earnings and other reserves £m	Equity holders of the parent £m	Minority interests £m	Total equity £m
At 1 January 2006	1,192	934	44	(2,786)	(616)	126	(490)
Total recognised income and expense	–	–	(51)	113	62	7	69
Dividends	–	–	–	(47)	(47)	(9)	(56)
Share-based payments	–	–	–	3	3	–	3
Shares issued/movement in respect of own shares	1	2	–	2	5	–	5
Acquisition of additional minority interests	–	–	–	–	–	(6)	(6)
At 30 June 2006	1,193	936	(7)	(2,715)	(593)	118	(475)
Total recognised income and expense	–	–	(19)	342	323	15	338
Dividends	–	–	–	(49)	(49)	(10)	(59)
Share-based payments	–	–	–	3	3	–	3
Shares issued/movement in respect of own shares	–	–	–	4	4	–	4
Other movements	–	–	–	(1)	(1)	1	–
At 31 December 2006	1,193	936	(26)	(2,416)	(313)	124	(189)
Total recognised income and expense	–	–	11	1,210	1,221	20	1,241
Dividends	–	–	–	(56)	(56)	(7)	(63)
Share-based payments	–	–	–	3	3	–	3
Shares issued/movement in respect of own shares	2	2	–	25	29	–	29
Acquisition of additional minority interests	–	–	–	–	–	(9)	(9)
At 30 June 2007	1,195	938	(15)	(1,234)	884	128	1,012

9 Dividends

The dividend charged against reserves in the first half of 2007 is the 2006 second interim dividend of 4.75p paid on 13 April 2007. The dividend charged against reserves for the first half of 2006 is the 2005 second interim dividend of 3.95p.

The first interim dividend for 2007 of 4.95p per £1 Ordinary Share (2006 4.15p) is payable on 5 October 2007 to members on the Register on 24 August 2007.

Notes to financial statements

10 Analysis of net cash (debt)

	Financing – debt						Net cash (debt) £m
	Loans £m	Derivatives £m	Short-term borrowings ^o £m	Finance leases £m	Cash and cash equivalents* £m	Current asset investments £m	
At 31 December 2006	(981)	33	(9)	(8)	589	47	(329)
Exchange adjustments	13	10	(2)	1	(1)	5	26
Cash flow	11	(6)	(5)	1	543	48	592
Acquisitions and disposals	3	–	–	–	(25)	(6)	(28)
Fair value movements	7	(4)	–	–	–	–	3
Other	2	5	–	(1)	12	(11)	7
At 30 June 2007	(945)	38	(16)	(7)	1,118	83	271

* 'Cash and cash equivalents' includes cash at bank, deposits repayable on demand, overdrafts and investments and short-term deposits which had a maturity of three months or less on acquisition. In the Group balance sheet the £1,118m shown in the table above is split between £1,148m on the cash and cash equivalents line in current assets and as £(30)m included in the financial liabilities line in current liabilities.

^o 'Short-term borrowings' excludes overdrafts.

11 Commitments and contingent liabilities

Material developments during the first half of 2007, to the matters described in note 33 to the 2006 Annual Report and Accounts are as follows:

US Army claims

On 24 May 2007, the Armed Services Board of Contract Appeals issued its decision, which was substantially in favour of the US Government and partly in favour of ICI Americas Inc. No determination on any damages is expected until 2008. ICI does not believe that the outcome of this matter will have a material effect on the Group's financial position.

Take or pay contract for purchase of electric power

The take or pay contract for the purchase of electric power which commenced in the second quarter of 1988 has been novated to a third party and, as such, ICI no longer has any potential liability under this contract.

The ultimate outcome of unresolved matters described above and in note 33 of the 2006 Annual Report and Accounts is subject to many uncertainties, including future events and the uncertainties inherent in litigation. The Group has made provision in its financial statements for liabilities to the extent they are considered probable and can be measured with sufficient reliability. However, these liabilities are inherently difficult to predict and quantify, and the provisions established may be inadequate to cover them. These matters may involve substantial sums and an unfavourable outcome of one or more of these matters could have a material effect on the Group's results of operations, cash flow and/or financial position.

12 Relationship to statutory accounts and audit status

The comparative figures for the financial year ended 31 December 2006 are not the Company's statutory Group accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

Independent review report

Independent review report to Imperial Chemical Industries PLC

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2007 which comprises the Group income statement, the Group balance sheet, the Group cash flow statement, the Statement of Group recognised income and expense and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 *Review of interim financial information* issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (United Kingdom and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

London
3 August 2007

KPMG Audit Plc
Chartered Accountants

Forward-looking statements

This document contains statements concerning the Group's business, financial condition, results of operations and certain of the Group's plans, objectives, assumptions, projections, expectations or beliefs with respect to these items. These statements are intended as forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995.

The Company cautions that any forward-looking statements in this document may and often do vary from actual results and the differences between these statements and actual results can be material. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only at their respective dates. The Company undertakes no obligation to release publicly the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this document, including, without limitation, changes in the Group's business or acquisition or divestment strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, among other things: the impact of competitive products and pricing; changes in the price of raw materials; the occurrence of major operational problems; the loss of major customers; limitations imposed by the Group's indebtedness and leverage; a credit rating downgrade by the rating agencies; undertakings and guarantees relating to pension funds; contingent liabilities, including those arising in connection with disposed businesses; risks associated with the Group's international operations; risks of litigation; and other factors described in the Business Review Risk Factors section in the 2006 Annual Report and Accounts.

Definitions

Adjusted earnings per share	Net profit before special items attributable to equity holders of the parent divided by weighted average number of shares in issue (less weighted average number of shares held by the Group's employee share plans) during the period.
Adjusted net profit	Net profit before special items attributable to equity holders of the parent.
Adjusted profit before taxation	Profit of continuing and discontinued operations before taxation and special items.
Adjusted tax rate	Taxation (excluding taxation on special items) divided by adjusted profit before taxation.
As reported	Results including the effects of currency translation differences and the impact of acquisitions and divestments.
Comparable*	Results excluding the effect of currency translation differences and the impact of acquisitions and divestments. At a Group level, this refers to continuing operations only. Comparable profits and losses are quoted before accounting for special items.
Gross margin*	Sales value less the variable and fixed costs directly associated with the manufacture and distribution of the goods sold.
Interest cover*	Calculations of interest cover are based on the sum of the Group's operating profit before special items from continuing and discontinued operations, post-retirement benefit finance charges, and the Group's share of net associated company income (associates' trading profit less taxation and net finance expense of associates) divided by the net of interest expense and income of the Group (excluding share of net finance expense of associates and post-retirement benefit finance expense).
Net cash	Cash (including overdrafts), cash equivalents and current asset investments less the borrowings of ICI (comprising loans and short-term borrowings other than overdrafts together with related derivatives and obligations under finance leases).
Net debt	The borrowings of ICI (comprising loans and short-term borrowings other than overdrafts together with related derivatives, obligations under finance leases and the liabilities associated with the forward contracts for the acquisition of own shares (to the extent that the contracts are 'out of the money')) less cash (including overdrafts), cash equivalents and current asset investments.
Special items	Special items are those items of financial performance that should be separately disclosed to assist in the understanding of the financial performance achieved by the Group and in making projections of future results, as explained in IAS 1 <i>Presentation of Financial Statements</i> . Special items include items relating to both continuing and discontinued operations.
Trading margin	Trading profit expressed as a percentage of sales.
Trading profit	Operating profit before special items. At a Group level this refers to continuing operations only.

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

Shareholder information

The year ahead

22 August 2007	Shares go 'ex-dividend'
24 August 2007	Record date for the interim dividend
5 October 2007	Interim dividend payable
1 November 2007	Announcement of trading results for the third quarter and first nine months of 2007 ending 30 September 2007
31 December 2007	End of financial year
7 February 2008	Preliminary announcement of final results for 2007
March 2008	Annual Report published
May 2008	Announcement of trading results for the first quarter ending 31 March 2008
May 2008	Annual General Meeting
July 2008	Announcement of half year results for the six months ending 30 June 2008

Contact details

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'Company' means Imperial Chemical Industries PLC. 'ICI', 'ICI Group' or the 'Group' means Imperial Chemical Industries PLC and its subsidiary companies (its consolidated subsidiaries and its proportionally consolidated joint ventures but not its associates).

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