



# ICI PENSION FUND 2007

Report of the Trustee &  
Financial Statements

**ICI PENSION FUND**

**Registration Number 10013256**

**31 March 2007**

**REPORT OF THE TRUSTEE  
AND  
FINANCIAL STATEMENTS**

**ICI PENSION FUND**

**CONTENTS**

HIGHLIGHTS OF THE YEAR	2
TRUSTEE, DIRECTORS & PROFESSIONAL ADVISERS	3
REPORT OF THE TRUSTEE	5
MEMBERSHIP REPORT	11
STATEMENT OF INVESTMENT PRINCIPLES	12
INVESTMENT REPORT	25
SCHEDULE OF CONTRIBUTIONS	28
ACTUARIAL CERTIFICATE	30
SUMMARY FUNDING STATEMENT	31
FUND ACCOUNT	35
NET ASSETS STATEMENT	36
NOTES FORMING PART OF THE FINANCIAL STATEMENTS	37
AUDITOR'S REPORT	44
FIVE YEARS' STATISTICAL SUMMARY	48

## ICI PENSION FUND

### HIGHLIGHTS OF THE YEAR ENDING 31 MARCH 2007

How the money came in	Total £m
Employer contributions	296
Investment income	106
<b>Total income</b>	<b>402</b>

How it was used	£m
Pensions	457
Commutation lump sums	17
AVC benefits paid	1
Transfers to other funds	4
<b>Total expenditure</b>	<b>479</b>

Change in the Fund	£m
Balance of Income and Expenditure	-77
Change in market value	147
<b>Total change in the Fund</b>	<b>70</b>

**The Fund's Assets at 31 March 2007 were £7,131 million**

The Fund provides for:

Contributing members	794
Pensioners	57,030
Deferred pensioners	14,016
<b>Total</b>	<b>71,840</b>

**ICI PENSION FUND**

**TRUSTEE DIRECTORS AND PROFESSIONAL ADVISERS  
AS AT 12 JULY 2007**

**Trustee**

ICI Pensions Trustee Limited

**Directors**

**D J Gee (Chairman)**

Pensioner

**SRC**

**B J Bunt**

Pensioner

**IC**

**I N Canham**

Imperial Chemical Industries PLC

**PAC, AC**

**A J Friston**

ICI Paints

**IC, SRC**

**F P Gray**

Pensioner

**J H Fitzpatrick**

Pensioner

**PAC, AC**

**T J Hampton**

Imperial Chemical Industries PLC

**K R January**

ICI Paints

**PAC**

**R W T Turner**

Imperial Chemical Industries PLC

**SRC, AC**

**The Law Debenture Trust Corporation  
p.l.c.**

**SRC, IC,  
PAC**

**Committee Roles:**

**IC** - Investment Committee

**SRC** - Strategic Risk Committee

**PAC** - Policy & Administration Committee

**AC** - Appeals Committee

**Board Secretary**

C A Amos

**Assistant Board Secretary**

M Cormican

**Membership Secretary**

T Dalmon

Watson Wyatt Limited, ICI Pensions Services

PO Box 545,

Redhill, Surrey RH1 1YX

**Scheme Actuary**

**R T G Hails**

Watson Wyatt Limited, Watson House

London Road, Reigate, Surrey RH2 9PQ

**Auditors**

**KPMG LLP**

One Canada Square, London E14 5AG

**Investment Managers**

**Barclays Global Investors Limited**

Murray House, 1 Royal Mint Court,

London EC3N 4YH

**Muzinich & Co Limited**

24 Upper Brook Street, London W1K 7QB

**Ashmore Management Company Limited**

20 Bedfordbury, London WC2N 4BL

**Southeastern Asset Management, Inc.**

6410 Poplar Avenue, Suite 900,

Memphis, Tennessee, TN 38119

**Goldman Sachs Asset Management  
International**

Christchurch Court, 10-15 Newgate Street,

London EC1A 7HD

**PIMCO Europe Limited**

103 Wigmore Street, London W1U 1QS

**Intermediate Capital Managers Limited**

20 Old Broad Street, London EC2N 1DP

**Custodian**

**JP Morgan Chase Bank**

60 Victoria Embankment, London EC4Y 0JP

**ICI PENSION FUND**

**TRUSTEE DIRECTORS AND PROFESSIONAL ADVISERS  
AS AT 12 JULY 2007**

**Solicitors**

**Hammonds**

7 Devonshire Square, Cutlers Garden,  
London, EC2M 4YH

**Allen & Overy LLP**

One Bishops Square, London E1 6AO

**DLA Piper UK LLP**

1 St Paul's Place  
Sheffield, S1 2JX

**Bankers**

**Barclays Bank PLC**

South East Corporate Banking Centre  
PO Box 112, 51 Bishopric, Horsham  
West Sussex, RH12 1YQ

**Medical Adviser**

**Dr J Ferguson-Smith**

Ferguson-Smith Associates Ltd,  
Braehead, Auchterarder,  
Perthshire, PH13 1DZ

**Dr J Orlandi**

11 Fir Tree Close, Hilton, Yarm  
Cleveland, TS15 9JZ

**Administrators**

**Watson Wyatt Limited**

**Administration Offices**

**ICI Pensions Services**

PO Box 545,  
Redhill,  
Surrey RH1 1YX

**Investment Advisers**

**Watson Wyatt Investment Consulting**

Watson House, London Road,  
Reigate, Surrey RH2 9PQ

**Safe Custody Advisers**

**Thomas Murray Ltd**

199 Piccadilly  
London, W1J 9HA

**Transaction-Cost Advisers**

**Inalytics Ltd**

1a Church Road  
Croydon, CR0 1SG

**Security Investigation Advisers**

**Morris Chase International Ltd**

Vista Centre  
Salisbury Road  
Heathrow, TW4 6JQ

**AVC Providers**

**Clerical Medical Investment Management Ltd**

Narrow Plains  
Bristol, BS2 0JH

**Equitable Life**

PO Box 125, Walton Street  
Aylesbury  
Bucks. HP21 7YN

**Investment Performance Measurer**

**WM Performance Services**

525 Ferry Road, Edinburgh, EH5 2AW

**Corporate Finance Advisers**

**Ernst & Young LLP**

1 More London Place  
London, SE1 2AF

**Penfida Partners LLP**

135 Cannon Street  
London, EC4N 5BP

**Hogarth Partnership Ltd**

No. 1 London Bridge London, SE1 9BG

## ICI PENSION FUND

### REPORT OF THE TRUSTEE 31 MARCH 2007

The Trustee Board submits the Annual Report on the operations of the Fund, together with the Financial Statements of the Fund for the year ended 31 March 2007.

#### **Status**

The ICI Pension Fund is a defined benefit occupational pension scheme. On 1 October 2000 the Fund was closed to new employees of ongoing ICI Businesses and on 30 June 2002 it was closed to all new members.

#### **Principal Employer**

The Principal Employer is Imperial Chemical Industries PLC ("ICI"), 20 Manchester Square, London W1U 3AN.

#### **The Trustee Company**

The ICI Pension Fund has only one trustee -- a Corporate Trustee, a company called ICI Pensions Trustee Limited. This company is owned by The Law Debenture Trust Corporation plc., ("Law Debenture"), a professional trustee company which is entirely independent from ICI.

The trustee board currently comprises 11 Directors, made up as follows:

- 1 Independent Director -- The Law Debenture Trust Corporation plc
- 5 Directors nominated by ICI management
- 5 Member-Nominated Directors (see below).

As owner of all the share capital only Law Debenture has the power to remove directors and to appoint replacements.

#### **Member-Nominated Directors ("MNDs")**

In order to give effect to the requirements of the Pensions Act 2004, ICI wrote to the Trustee in July 2006 expressing its agreement that the previous arrangements for selecting member nominated directors (originally proposed by ICI in October 2002) were no longer appropriate. This letter then allowed the Trustee itself to determine the new arrangements.

Under the new arrangements:

- any Fund member may be nominated as a Member-Nominated Director;
- the Trustee Board decides and publishes the selection criteria and nominates a selection panel, comprising Law Debenture and a cross-section of other Directors who are all members of the Fund;
- the final decision on who to appoint is taken by the selection panel appointed by the Trustee Board;
- detailed regulations for the nomination and selection procedure are determined by the Policy & Administration Committee and notified to members via the annual pensions newsletter issued in November each year ("Pensions News").

In order to avoid losing several experienced Trustee Directors at once, special transitional arrangements applied on the first occasion that these new arrangements were used:

- existing Trustee Directors who met all the selection criteria would be reappointed, unless there was good reason not to do so
- any existing Trustee Director reappointed as an MND under these transitional arrangements was reappointed only for the balance of their existing five-year term.

New arrangements were publicised to members in the November 2006 edition of Pensions News. No objections were received to these new arrangements and 20 applications were received before the closing date for consideration for vacancies in 2006/7 (15 January 2007.)

The Selection Panel met once during the year and decided that:

- B J Bunt, J Fitzpatrick, A J Friston and K January should be reappointed as Member-Nominated Directors and should remain in office for the remainder of their existing five-year terms.
- F P Gray should be appointed as an additional Member-Nominated Director with effect from 30 March 2007.

## ICI PENSION FUND

### REPORT OF THE TRUSTEE 31 MARCH 2007

MND Nominations are valid for three years from the date of receipt and so candidates who were not successful on this occasion may still be considered for future vacancies during this period, alongside any new nominations received.

#### Directors

A list of the Directors at the date of this report is given on page 3.

Since 1 April 2006, the following changes in Directors' appointments have arisen:

	Appointed	Resigned
R P Taubinger		14.07.06
J A Fionda		01.09.06
P J Gillett		04.12.06
D J Loose		24.01.07
J H Fitzpatrick	14.07.06	
T J Hampton	14.02.07	
F P Gray	30.03.07	

It is unusual for as many as four directors to leave the Trustee Board within a 12 month period. All four resignations arose due to reasons beyond the control of the individuals, as follows:

- Mr Taubinger reached the age of 75 which, at that time, was the maximum permitted age for a Trustee Director.
- Mr Fionda left ICI employment as a consequence of the sale of the Uniqema business.
- Mr Gillett and Dr Loose left the Board because their promotion within ICI made it impracticable for them to continue as a Trustee Director.

The Directors held 7 meetings during the year ended 31 March 2007.

#### Secretary

Mr C A Amos was Board Secretary and Secretary of ICI Pensions Trustee Limited throughout the year. The Trustee has also appointed a Membership Secretary, Mrs Tracey Dalmon of Watson Wyatt (Administrators) who handles all correspondence with individual members and an Assistant Board Secretary, Mrs Maria Cormican, who acts as Secretary to the Fund's Appeals Committee. Whilst on maternity leave, Mrs Cormican's role was performed by Mr Fraser Sparks.

#### Committees of the Trustee Board

The Board has appointed four committees to deal with aspects of its activities:

##### Appeals Committee

The Appeals Committee hears all appeals from members under the Internal Dispute Resolution Procedure. The Appeals Committee met 3 times during the year.

##### Investment Committee

The Investment Committee met 6 times during the year. Its role is to advise the Board on investment strategy and risks and it has delegated authority to implement changes to strategy; to review, monitor, select and (where necessary) deselect investment managers and custodian; to determine their remit and terms of appointment; and to act as an Audit Committee on investment related issues. Further details are contained in the Investment Report.

##### Policy & Administration Committee

The Administration Committee met 4 times during the year. The Committee advises the Board on issues of administrative policy, monitors the administrators of the ICI Pension Fund, Watson Wyatt Limited, and deals with discretionary benefits and other administrative issues delegated by the Board. It also acts as an audit committee on those matters not dealt with by the Investment Committee.

# ICI PENSION FUND

## REPORT OF THE TRUSTEE 31 MARCH 2007

### **Strategic Risk Committee**

The Strategic Risk Committee met 8 times during the year. Its role is to represent the Fund's interests in discussions with the Actuary and the Company about funding issues and the general security of the Fund and to investigate ways of mitigating the principal non-investment risks that may affect the Fund.

### **Trustee Training**

The Trustee Board believes that all Directors should receive appropriate training to enable them to undertake their duties. Since 2003, the Trustee Board has allocated five days a year to trustee training in addition to scheduled Board and Committee meetings. It is the Trustee Board's practice to require all Directors to take the "Award in Pension Trusteeship" examination conducted by the Pensions Management Institute (or an equivalent examination). All directors with more than 12 months' service have already passed this (or an equivalent) examination.

### **Investment Principles & Corporate Governance**

The Trustee Board has approved statements on the above matters and these are shown on pages 12 to 24.

### **Statement of Trustee Responsibilities**

The audited accounts are the responsibility of the Trustee Board. Pension scheme regulations require the Trustee Board to make available to scheme members, beneficiaries and certain other parties, audited accounts for each scheme year which:

“show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year; and

contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice, 'Financial Reports of Pension Schemes'.”

The Trustee Board has arranged for the preparation of the accounts and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. It is also responsible for making available each year, commonly in the form of an annual report, information about the scheme prescribed by pensions legislation, which the Trustee Board should ensure is consistent with the audited accounts it accompanies.

Under the Pensions Act 1995, the Trustee Board is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme and the dates on or before which such contributions are to be paid. The Trustee Board is also responsible for keeping records of contributions received in respect of any active member of the scheme and for procuring that contributions are made to the scheme in accordance with the schedule of contributions.

The Trustee Board also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities.

### **Financial Statements**

The Annual Financial Statements of the Fund have been prepared and audited in accordance with the requirements of the Pensions Act 1995 and are shown on pages 35 to 43 of this Report.

It must be emphasised that market value is a snapshot at the date of the Financial Statements and that there can be sharp short-term fluctuations in market value. Given the long-term nature of pension funds, too much emphasis should not be given to short-term rises or falls in market value of the Fund's investments. Therefore, it is advised that the Fund's Financial Statements should be read in conjunction with the Actuarial Certificate on page 30.

A Five Years' Statistical Summary to 31 March 2007 is given on page 48 of this Report.

## ICI PENSION FUND

### REPORT OF THE TRUSTEE 31 MARCH 2007

#### **Custodian**

The Fund has a single, independent custodian for its investments, JP Morgan Chase Bank.

#### **Additional Voluntary Contributions**

With effect from 6 April 2006, the arrangements with Clerical Medical and Equitable Life are no longer open to new contributions. However, members who wish to do so are able to continue to maintain existing AVC savings accounts.

#### **Benefit Statements**

Benefit Statements are sent to most contributing and deferred members in early summer each year. Those not receiving them can request them individually.

#### **Pension Increase**

Guaranteed Minimum Pensions ("GMP") are increased as required by government regulations. The Fund's Rules provide a minimum increase for all other pensions of 5%, or RPI if lower, calculated on pension excluding GMP after commutation. The rate of increase granted during the year under the Rules was 3.3%, with effect from 1 November 2006.

In the case of those pensioners who retired between 15 May 1973 and 5 April 2006 inclusive and who elected to commute part of their pension for a lump sum, the increase was calculated on the pension excluding GMP before commutation ("a pre-commutation basis"). For all other pensioners, the increase was calculated on the post commuted pension (excluding GMP).

#### **Self Investment**

The Fund has no direct investments in Imperial Chemical Industries PLC or any other companies within the ICI group. Indirect investment arises only via indexed pooled investment vehicles (as permitted by the Pensions Act 1995) and represents less than 0.1% of Fund assets.

#### **Risk Controls**

As a result of the European Pensions Directive, new regulations came into effect during the year requiring all pension fund trustees to ensure adequate internal financial controls and policies for the control of investment risk. No significant change to Trustee policies or procedures was necessary to comply with these regulations, but the Trustee has expanded its Statement of Investment Principles and documentation of internal controls in order to demonstrate compliance with the new regulations.

#### **Actuarial Valuation and Determination of Contributions**

The Actuary carried out a formal valuation of the Fund as at 31 March 2005. As a result of the 2005 review the Employer made the following contributions during the year to 31 March 2006, on the determination of the Actuary:

- (a) 18.5% of pensionable pay throughout the year (but increasing to 22.8% from 1 April 2006).
- (b) Contributions to fund the costs of early retirements in normal health were paid monthly according to a schedule agreed with the Employer.
- (c) Additional contributions of £122 million in recognition of the funding deficit at 31 March 2005.

In order to comply with new disclosure regulations, the Fund issued its first Summary Funding Statement to all members in April 2006, summarising the results of this valuation.

## ICI PENSION FUND

### REPORT OF THE TRUSTEE 31 MARCH 2007

#### Arrangements for payment of employer contributions

The directors have approved the following contribution dates proposed by the Principal Employer:

Type of Payment	Due Date
Members' contributions deducted from salary	Within fourteen days after the end of the month in which the deduction was made
Employer contributions related to salary	As for members' contributions
Early Retirement Top-Ups	Within one month of being demanded by the Administrator
Additional Contributions	By the end of the Fund year specified by the Actuary

All contributions falling due within the year were received by the due dates.

#### Additional agreements with the Principal Employer

- In conjunction with the determination by the Actuary of the contributions set out above, ICI continues to provide the Trustee with an £250 million asset-backed guarantee and agreed to share information periodically with the Trustee on the financial condition of ICI.
- under Clause 14 of the Trust Deed, Imperial Chemical Industries PLC "guarantees the solvency of the Fund and the due payment of all pensions and benefits".
- Following the disposal of the Quest business in March 2007, ICI paid a one-off additional contribution to the Fund of £138 million during the same month.
- Following the disposal of the Uniqema business in September 2006, the Section 75 payment of £14 million was paid by ICI in March 2007.

#### Subsequent Valuations

In addition to formal valuations, it is the Trustee Board's policy to call for annual interim reviews by the Actuary. The primary purpose of the interim review is to confirm that no factors affecting Fund solvency have changed so materially as to warrant the Trustee Board seeking a formal valuation earlier than next scheduled (ie. 31 March 2008).

Consequently, the Actuary undertook an interim review as at 31 March 2006. This indicated that, on an ongoing valuation basis, the funding level had improved from approximately 91% (as at 31 March 2005) to 93%. No changes were made to contribution rates as a result of this interim review.

The Actuary is undertaking a further interim review as at 31 March 2007, the results of which will be included in next year's Annual Report.

The latest Schedule of Contributions, Actuarial Certificate and Summary Funding Statement appear on pages 28 to 34.

#### Transfers

All transfer values paid to other pension schemes or credits given in respect of transfer values received from other pension schemes during the year, were either calculated and verified by the Fund's Actuary, or calculated in accordance with instructions prepared by him, in accordance with statutory regulations.

## ICI PENSION FUND

### REPORT OF THE TRUSTEE 31 MARCH 2007

Transfers In from external companies' pension schemes are no longer accepted into the Fund. Existing ICI employees who were required to leave the Fund and transfer into other ICI pension arrangements may still be permitted to rejoin the Fund, subject to the consent of the Company and Trustee.

Transfers since 6 April 1997 have been based on the cash equivalents subject to a minimum calculated on the Minimum Funding Requirement basis. No transfers have been made at less than the cash equivalent value. The Trustee has instructed the Actuary not to take account of discretionary increases in calculating cash equivalents for transfer purposes.

#### **Bulk Transfers**

At the year end the ICI Pension Fund was in the process of completing two group transfers to other schemes. The transfer values are still under negotiation and whilst they cannot be determined exactly, they are likely to amount to approximately £59.1 million. The transfers will be accounted for once the payments have been made, and accordingly the liabilities are not reflected in the financial statements for the year ended 31 March 2007. The membership report has been adjusted to reflect the cessation of active service. In cases of bulk transfers of members to other Funds, the transfer values were higher than the normal cash equivalents described above but did not exceed the attributable share of the Fund as calculated by the Actuary.

#### **Equal Treatment**

The Directors believe that the ICI Pension Fund has equalised benefits between men and women as required by law except for Guaranteed Minimum Pensions where in common with most other schemes the Directors are awaiting further clarification of the law.

#### **Internal Dispute Procedure**

The Fund has instituted a procedure in accordance with the requirements of the Pensions Act. Details and a form can be obtained from ICI Pensions Services.

#### **Contracting Out of S2P (formerly SERPS)**

ICI has decided to contract its employees out of the State Earnings Related Pension Scheme (S2P formerly SERPS) as it has done since the scheme was introduced in 1978. The basis for contracting out of S2P (formerly SERPS) for the ICI Pension Fund is the Reference Scheme Test.

#### **Appointment of Advisers**

The advisers listed on pages 3 and 4 have all been appointed by the Trustee or under authority of the Trustee.

#### **Data Protection Act 1998**

The Trustee Board, together with the Administrator and the Scheme Actuary, periodically review the data held and systems used in order to assess actions required to meet the provisions of the Act. The Trustee believes that it complies with all aspects of the legislation.

#### **Tax Status**

The Fund is registered with HMRC in accordance with the Finance Act 2004 and the Directors know of no reason why this registration may be prejudiced or withdrawn.

#### **Enquiries**

Any enquiry concerning the Trustee's Report, Financial Statements or any provisions of the Fund should be addressed to the Membership Secretary at the address of the Fund's Administration Offices shown on page 3.

BY ORDER OF THE BOARD  
OF ICI PENSIONS TRUSTEE LIMITED

C A AMOS  
Secretary

12 July 2007

## ICI PENSION FUND

### MEMBERSHIP REPORT 31 MARCH 2007

	Contributing Members	Pensions in Payment	Deferred Pensioners	Total
At 1 April 2006	1,107	58,405	14,438	73,950
Additions	18	1,542	263	1,823
Cessations	-331	-2,917	-685	-3,933
At 31 March 2007	794	57,030	14,016	71,840

#### Cessations of Contributing Members

Pensions at normal retirement	5
Pensions at early retirement	74
Pensions on failure of health	7
Deaths	2
Deferred pensions	39
Divestments	204
	331

#### Commutation of Pensions

During the year 662 members were eligible to exercise their option to commute part of their pensions and 523 (i.e 79.0%) decided to do so. The total pensions commuted during the period under review amounted to £0.9 million per annum.

#### Dependants' and Spouses' Pensions

Of the 57,030 pensions in payment at 31 March 2007, 17,738 were payable to dependants and spouses.

#### Additional Voluntary Contributions (AVC) Scheme

AVCs are invested in individual accounts with Clerical Medical and the Equitable Life Assurance Society.

The membership statistics reflect the number of individuals with AVCs.

	Equitable Life	Clerical Medical
AVC Members at 1 April 2006	284	140
<b>Add:</b> New contributors	-	-
	284	140
<b>Less:</b> Leavers	21	16
<b>Members at 31 March 2007</b>	<b>263</b>	<b>124</b>

## ICI PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES

REVISED JUNE 2007

#### Introduction

#### Background

Under the Pensions Act 1995, subsequently amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005 ("the Act"), the Trustee Board of ICI Pensions Trustee Limited ("the Trustee") is required to prepare a statement of the principles governing decisions about investments for the Scheme. This document is that statement. It also reflects the recommendations made in the Myners Review and ICI's Global Framework of Best Practice for Pension Investments ("the Global Framework").

Before adopting this document, the Trustee has consulted Imperial Chemical Industries PLC (the "Principal Employer") and the Trustee will consult the Principal Employer before revising this document. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

In drawing up this document, the Trustee has obtained and considered written advice (for the purposes of the Act) from the Fund's investment consultants, the scheme actuary and, on an informal basis, has discussed the investment issues contained in this document with the Fund's investment managers.

The Trustee will review this document, with the advice of the investment consultant, actuary and in consultation with the Principal Employer from time to time but, in any event, at least every three years or immediately after any significant change in investment policy or where the Trustee thinks a review is needed for other reasons.

In preparing this document the Trustee has had regard to the requirements of the Act concerning diversification of investments, suitability of investments and its policy in relation to risks, including the ways in which risks are to be measured and managed. The Trustee will consider those requirements in any review of this document or any change in their investment policy.

The Trustee will refer to this document where necessary to ensure that it exercises its powers of investment so as to give effect to the principles set out in it as far as is reasonable.

#### Governance

The Trustee has ultimate responsibility for decision-making on investment matters. However, the Board has set up an Investment Committee, which gives detailed consideration to investment matters and makes recommendations to the full Trustee Board. The Investment Committee has some executive powers delegated to it but all strategic decisions are reserved to the Trustee Board.

The Trustee's responsibilities include:

- Reviewing from time to time the content of this Statement of Investment Principles (SIP) and modifying it if deemed appropriate, in consultation with the Principal Employer and with written advice from the investment consultant and the scheme actuary.
- Reviewing the suitability of the investment policy following the results of each actuarial review, and/or significant change in the Trustees evaluation of the Principal Employer's covenant in consultation with the investment consultant and scheme actuary.
- Assessing the quality of the performance and processes of the Investment Managers by means of regular, but no less than annual, reviews of the investment results and other information in consultation with the investment consultant and the scheme actuary. Day-to-day monitoring of managers is delegated to the Investment Committee, who in turn may delegate some monitoring tasks to the investment consultant or to Trustee officers
- Allocating the assets and the cash flow of the Fund between investment mandates and making periodic adjustments to the portfolio allocations.
- Consulting with the Principal Employer when reviewing investment policy issues.
- Appointing (and dismissing) investment managers.

## ICI PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES

REVISED JUNE 2007

- Appointing and monitoring the custodian.
- Appointing and monitoring other advisers to the Fund.
- Monitoring compliance with this statement on an ongoing basis.

In addition to the considerations articulated within this statement, the Trustee formulates a forward-looking business plan and updates it as a continuous process. This business plan highlights issues, which will be considered/reviewed over the next 12 months and the next three years.

Only persons or organisations with the necessary skills, information and resources take decisions affecting the Scheme. The Trustee of the Scheme draws on the expertise of external advisers including investment managers, custodians, investment consultants and the scheme actuary. A list of advisers is included in Appendix A on page 20. Details of their respective responsibilities are detailed in Appendix B on page 21.

The Trustee is also committed to a training programme to ensure it continues to develop its expertise.

The Trustee agrees with the principle that mandates for actuarial advice and for investment consulting should be open to separate competition. However, the importance of matching asset strategy to liabilities means a close relationship between actuarial and investment advice has been helpful.

Trustee Directors employed by ICI are entitled to time off from their normal duties for Trustee business, but are not otherwise remunerated. Other Directors (such as Pensioner Directors and the Independent Trustee) are remunerated by the Principal Employer for their services, on terms decided by the Trustee Board. In addition, all expenses of Trustee Directors associated with their responsibilities are met by the Company.

#### **Investment Objectives**

The Fund's principal investment objective is to ensure that the Fund is able to provide the benefits set out in the Trust Deed by optimising the return on a diversified portfolio of assets, having taken account of the Fund's liabilities and its tolerance of risk in the context of the Trustee's evaluation of the Principal Employer's covenant.

In more detail, the long-term investment objectives of the Trustee are to:

- Identify a strategic balance of investments which is appropriate to the mature liabilities of the Fund.
- Invest in a range of suitable assets of appropriate liquidity which will generate income and capital growth and, together with new contributions from members and the employer, will meet the cost of current and future benefits which the Fund provides, as set out in the Trust Deed and Rules.
- Limit the risk of the assets failing to meet the liabilities over the long-term, in particular in relation to the MFR test and the expected future requirements of the scheme-specific funding regime established by the Pensions Act 2004 and associated regulations.
- Control the long-term costs of the Fund by maximising the return on the assets to the extent consistent with the principal investment objective described above

The investment objectives described above have been determined after consultation with the Principal Employer, who has the right to be consulted in relation to any change in the investment objectives.

The investment objectives of the Fund are not framed relative to the performance of either other pension funds or market indices and are specific to the Fund.

#### **Minimum Funding Requirement**

The Pensions Act requires that the value of the assets of pension schemes is not less than the value of the liabilities and sets out the procedure for dealing with shortfalls. The Trustee considers that the investment principles described in this statement are consistent with complying with its obligations under the Minimum

## ICI PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES

REVISED JUNE 2007

Funding Requirement. The Trustee will review its strategic benchmark and investment policy in the light of actuarial valuations and certificates and schedules of contributions produced in order to comply with the Act. Although the Fund is not yet, subject to the scheme-specific funding requirements of the Pensions Act 2004, these will apply following its next full valuation, which must take place as at a date no later than 31 March 2008. The Trustee expects that its Statutory Funding Objective under the scheme-specific funding regime is likely to be significantly more demanding than the Minimum Funding Requirement and its investment policy takes account of this expectation.

#### Risk Management

The Trustee recognises a number of risks involved in the investment of the assets of the Fund:

- Solvency risk and mismatching risk:
  - Are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies
  - Are managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.
- Manager risk:
  - Is measured by the expected deviation of the prospective risk and return, as set out in the manager(s)' objectives, relative to the investment policy
  - Is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the manager(s)' investment process.
- Liquidity risk
  - Is measured by the level of cash flow required by the Fund over a specified period
  - Is managed by the Fund's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- Custodian risk:
  - Is measured by assessing the credit-worthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody
  - Is managed by monitoring the custodian's activities and discussing the performance of the custodian with the investment managers when appropriate.
- Political risk:
  - Is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention
  - Is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.
- Sponsor risk:
  - Is measured by the level of ability and willingness of the sponsor to support the continuation of the Fund and to make good any current or future deficit
  - Is managed by assessing the interaction between the Fund and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor, the size of the pension liability relative to a number of metrics reflecting the financial strength of the sponsor and the enforceability in practice of the Principal Employer's legal obligations to the Fund.

## ICI PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES

REVISED JUNE 2007

#### **Strategic Asset Allocation**

The strategic asset allocation of the Fund is driven by the financial characteristics of the Fund, in particular the Fund's liabilities and the risk tolerance of the Trustee in consultation with the Principal Employer.

The Trustee seeks to achieve the Fund's objectives through investing in a suitably diversified mix of real and monetary assets or financial instruments that reflects the funding risks to which the Fund is exposed and which balances investment return against volatility.

As a very mature fund, the investment portfolio is centred on fixed income securities. In addition, the Fund invests in equities (including a long term mandate), emerging market debt and high yield debt (which have equity-type characteristics), leveraged loans and pooled Global Tactical Asset Allocation and currency funds. However, the Trustee does not feel that investment in other alternative asset classes, including private equity, hedge funds or real estate would be beneficial at present, given the overall risk-return profile of the Fund. This policy is, however, reviewed from time to time.

In setting the investment policy, the Trustee has had regard to the influence that this will have on future Minimum Funding Requirement and the likelihood of this measure falling below 100%. The Trustee also has regard to the likely future implications of the scheme-specific funding regime introduced by the Pensions Act 2004.

The Fund's strategic asset allocation benchmark is also used as a performance benchmark to assess implementation over the shorter term.

Asset allocation is kept within narrow bands around the strategic benchmark.

The Trustee hedges part of its foreign currency exposure on a passive basis to reduce risk.

The current asset allocation and assumptions used in the last asset/liability study are included in Appendix C on page 22. In setting the Fund's strategic asset allocation benchmark, the Trustee takes account of the Fund's very mature liability profile and its tolerance of risk in the context of the Trustees evaluation of the Principal Employer's covenant. Consequently, the Fund's current objective is to have 82% of the Fund invested in low-risk fixed interest and inflation-linked bonds.

In the absence of other factors, the Trustee expects that the proportion of the Fund invested in low-risk bonds will increase gradually over future years, as the liability profile matures further.

#### **Manager Structure**

The Trustee considers the use of both passive and active investment management when reviewing the Fund's strategy. The resultant allocation to active and passive management is decided following consideration of the efficiency, liquidity and level of transaction costs likely to prevail within each market as well as the impact of the investment manager fees on future expected returns.

The maturity of the Fund has led the Trustee to conclude that a large proportion of the liability should be cash-flow matched with bonds.

The Fund employs a number of managers to ensure adequate diversification by fund management organisation and investment style. Managers are selected, monitored and terminated on the basis of a range of factors of which performance is only one. The overall business management of the investment firm, its people and investment processes are the most important. Independent, expert advice is taken in all manager appointments and terminations.

The investment managers (with the exception of the cashflow matching portfolio) have been set mandate-specific benchmarks which have clear performance targets attached. In order to control the risk of significant

## ICI PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES

REVISED JUNE 2007

underperformance, the active investment managers' performance objectives include various control limits. (The current manager structure and mandates are attached in Appendix D on pages 23 & 24.)

Managers (other than the long term global equity manager) should achieve their objectives in the majority of three-year periods under consideration. It is not expected that the Managers (other than the passive manager) will achieve these targets in every three year period. Managers should, however, demonstrate that the skill they exercise in managing the portfolio and the process that they follow is consistent with these targets given the level of risk adopted.

The Trustee has imposed certain investment restrictions on their investment managers in the areas of concentration of holdings, derivatives, currency hedging and sub-underwriting. In addition, there is no self-investment (as defined in the respective investment management agreements with the investment managers), except as permitted under the Occupational Pension Schemes (Investment) Regulations 1996.

The Fund's investment managers provide the Trustee with details of the commission payments they make on asset transactions and how they control overall trading costs. The Trustee monitors transaction costs on a triennial basis. The Fund's investment managers are not permitted to use soft commission arrangements within their broking transactions on the Fund's directly invested investments.

A significant proportion of the Fund's liabilities are matched by a cashflow matching portfolio. However, for any unexpected cash payments, cashflow is managed in such a way that the Fund can meet its regular outgoings. Furthermore, sufficient investments are held in liquid or readily realisable assets so that unexpected cashflow requirements can be met in most circumstances without the need to disrupt the Fund's overall investment policy. Within guidelines set by the Trustee, the investment managers have total discretion as to which investments they buy and sell although they must take account of the Fund's cashflow requirements which are reported to them on a regular basis. The investment managers are expected to sell investments that are no longer considered suitable for the Fund and should take account of liquidity when new investments are made. Transactions are reported on a monthly basis.

The Trustee has in the past provided a facility for members to pay AVCs into the Fund to enhance their benefits at retirement. Members were offered a number of investment vehicles ranging from monetary based to equity based funds. The AVC funds are no longer open to new contributions, but members who wish to do so are able to maintain existing AVC investments and so the range, suitability and performance of these vehicles and the status and service of their providers are reviewed from time to time with advice from the investment consultant.

#### **Corporate Governance, Socially-Responsible Investing ("SRI") and Activism**

The Trustee recognises its responsibilities as a shareholder being an owner of capital and that its primary objective as a shareholder is to achieve a high long-term return on its investment by the enhancement of shareholder value. The Trustee believes that good corporate governance enhances shareholder value in the long term.

The Trustee wishes to encourage:

- a high standard of corporate governance within its investee companies; and
- positive voting at all general meetings on all matters.

#### **Corporate Governance Policy**

The Trustee believes that good corporate governance applied in the appropriate manner should improve the performance of the companies in which the Fund invests, thereby enhancing the long-term growth of the Fund's investments.

The Trustee, therefore, supports the Combined Code of the London Stock Exchange Committee on Corporate Governance but feels that a good corporate governance policy should not be a rigid process involving the

## ICI PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES

REVISED JUNE 2007

ticking of boxes. Instead, it should involve a degree of flexibility and allow for appropriate judgement to be exercised to take account of an individual company's particular circumstances. This is particularly true in the case of smaller companies where full compliance with some elements of these codes can be particularly onerous and may result in the deleterious effect of stifling entrepreneurial flair to the long-term detriment of investors.

The Trustee has delegated the responsibility of implementing its corporate governance policy to its investment managers and in future its investment managers' corporate governance policies will be reviewed as part of their manager selection process. The investment managers will be instructed where practicable to take into account the principles laid down in a series of guidelines when considering corporate governance issues and to exercise the appropriate judgement for the particular company in question.

#### **Social, Environmental and Ethical Issues**

Good corporate governance of a company includes the management of its impact on the environment and the community. Failure to address these matters may harm a company's reputation. Furthermore, an inadequate environmental policy can lead to legal action and higher operating costs, which represent potential damage to shareholder interests. Consequently, the Trustee also expects its investment managers to take account of social, environmental and ethical considerations in the pursuit of long-term returns. The Trustee has reviewed and has accepted the managers' policies on this issue and will monitor these policies on a regular basis.

The Trustee's policy is to invest part of the Fund's assets on a passive basis. The Trustee does not consider it appropriate for a passive manager to take account of social, environmental or ethical considerations in the selection, retention and realisation of investments. However, it is the Trustee's policy to give discretion to the passive investment manager to pursue a policy of engagement with companies. The extent to which social, environmental and ethical considerations are taken into account in this engagement policy and any exercise of voting rights is left to the discretion of the passive manager.

#### **Rights attaching to Investments**

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers.

Investment managers are encouraged, but not directed, to vote on all resolutions at annual and extraordinary meetings of companies. Voting power will be exercised by investment managers with the objective of preserving and enhancing long-term shareholder value in accordance with the Trustee's corporate governance policy, which is reviewed from time to time. Deliberate abstention should always be distinct from not voting, and seen as a milder rebuke than voting against a resolution.

The Trustee has instructed investment managers to report quarterly on an 'exceptions' basis on the exercise of corporate governance, and particularly on their voting record. The investment managers may also be requested from time to time to provide a report on the overall impact of social, environmental and ethical considerations on investment management, and to comment in particular on situations in which social, environmental and ethical considerations have been decisive to a transaction or shareholder action (including voting).

#### **Activism**

In addition to positive voting, the Trustee also expects its investment managers to intervene where practicable in an investee company in accordance with the set of principles for activism drawn up by the Institutional Shareholders' Committee.

The Trustee expects its investment managers to:

## ICI PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES

REVISED JUNE 2007

- Monitor various aspects of corporate performance. These might include:
  - Relative share price performance
  - Corporate governance
  - Strategies and policies
  - Senior management succession planning
  - Mergers and acquisition policy
  - Financial and non-financial performance
- Maintain details of their monitoring process and record keeping as necessary;
- Intervene in a company if they believe that such action will enhance value for the Fund after taking account of the costs involved. Intervention should be seriously considered when the manager has concerns about any aspect of corporate performance and where they believe that shareholder value may be at risk;
- Maintain a regular dialogue with the management of the companies in which they hold a significant percentage of the stock on behalf of their clients;
- Intervention may take several forms, according to the circumstances, and may include the following:
  - Exercising votes
  - Discussion with management
  - Communicating concerns in writing for the attention of the board as a whole
  - Communicating concerns to the company's brokers or advisers
  - Declining to accept the terms of a takeover
  - Exchanging information with other shareholders
  - Working with other shareholders to requisition a shareholder meeting
  - Attendance at general meetings, which may involve calling a poll.
- Manage conflicts of interest effectively;
- Monitor the response of a company during and after the period of intervention, looking for evidence that the company has addressed the concerns and responded accordingly;
- Report back to the Trustee on a quarterly basis where the manager has taken meaningful steps to intervene in a company.

#### **Monitoring**

#### **Investment Managers**

Independent performance monitoring agencies measure the Fund's and the investment managers' performance against objectives. Both individual managers and the overall manager structure are assessed on the basis of return, level of risk taken and the fees paid.

The investment consultant holds regular meetings with the investment managers to satisfy themselves that the managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Fund. Any concerns/issues are reported to the Investment Committee and the Trustee. The Investment Committee meets the managers at least annually.

The investment managers have been provided with a copy of this Statement and will be notified of any amendment to, or replacement of, the Statement. The Trustee will monitor the extent to which the managers give effect (so far as is reasonably practicable) to the policies set out.

## ICI PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES

REVISED JUNE 2007

#### **Custodian**

The Trustee believes that the provider of custodian services for the Fund's assets should be separate from the providers of investment management services and that the custodian should be monitored regularly. The Trustee has also entered into a stock lending programme via its custodian and Barclays Global Investors as a way of enhancing value. All stock lending is required to be covered by collateral deposited by the borrower, to a value excess of the value of the stock borrowed. The Custodian or BGI (as appropriate) is responsible for continuously monitoring the value of collateral. The Trustee employs a specialist custody consultant to monitor the suitability and performance of the custodian and to monitor safe custody risks.

#### **Other advisers**

Service level agreements are in place with the external advisers. These agreements provide for:

- timeliness of response
- confirmation of work
- regular billing
- a complaints mechanism.

#### **Trustee effectiveness**

The Trustee has developed methods of assessing the effectiveness of the Trustee's decisions and the contributions to those decisions by the Fund's investment managers and consultants.

## ICI PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES

REVISED JUNE 2007

#### APPENDIX A: Current Advisers and Investment Managers

---

<i>Scheme Actuary:</i>	Robert Hails, FIA
<i>Investment Consultant:</i>	Watson Wyatt Investment Consulting
<i>Long term global equity:</i>	Southeastern Asset Management Inc
<i>Active Bonds:</i>	
<i>High Yield:</i>	Muzinich & Co Limited
<i>Emerging Market:</i>	Ashmore Management Company Limited
<i>High Alpha:</i>	PIMCO Europe Limited
<i>Leveraged loans</i>	Intermediate Capital Group
<i>Passive (including cashflow matching):</i>	Barclays Global Investors
<i>Active currency pooled funds:</i>	Goldman Sachs Asset Management
<i>Global Tactical Asset Allocation</i>	Goldman Sachs Asset Management
<i>Custodian:</i>	JP Morgan Chase
<i>Performance measurer:</i>	The WM Company
<i>Solicitors:</i>	Hammonds Allen & Overy
<i>Scheme Auditors:</i>	KPMG LLP
<i>Safe Custody Advisers</i>	Thomas Murray Limited
<i>Transaction Cost Advisers</i>	Inalytics Limited

---

## ICI PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES

REVISED JUNE 2007

#### APPENDIX B: Division of Responsibilities

##### Scheme actuary

The scheme actuary's responsibilities include:

- Fulfilling the statutory obligations of a scheme actuary
- Liaising with the investment consultant on the suitability of the Fund's investment strategy given the financial characteristics of the Fund
- Assessing the MFR position of the Fund and advising on the appropriate response to any shortfall
- Performing the triennial (or more frequently as required) valuations and determining the appropriate contribution levels.

##### Investment consultant

The investment consultant's responsibilities include

- advising the Trustee in reviews of this Statement of Investment Principles
- advising through consultation with the scheme actuary, how any changes within the Scheme's benefits, membership and funding position may affect the manner in which the assets should be invested
- advising of any changes in the Fund's investment managers' organisations that could affect the interests of the Fund
- advising of any changes in the investment environment that could either present opportunities or problems for the Fund
- undertaking project work as requested including
- review of the asset allocation policy
- research reviews of investment managers
- advising on the selection of new managers.

Fees - currently calculated by reference to the time spent on any particular assignment multiplied by the relevant charge out rates applying to partners and staff who provided the services in question. Budgets are agreed on an annual basis.

##### Investment managers

The investment managers' responsibilities are set out in investment management agreements between each manager and the Fund and include (to the extent appropriate to their mandate):

- At their discretion, or in accordance with any special instructions from the Trustee, implementing changes in the asset mix within their control and selecting securities within each asset class.
- Providing the Trustee with quarterly statements of the assets along with a quarterly report on actions and future intentions, and any changes to the investment processes applied to their portfolios.
- Informing the Trustee of any material changes in the internal objectives and guidelines of any pooled funds used by the Fund and managed by the investment manager or an associated company.

##### Custodian

The Custodian's responsibilities include:

- the safekeeping of all the assets of the Fund
- providing the Trustee with statements of the assets and the cashflows
- undertaking all appropriate administration relating to the Scheme's assets
- processing all dividends and tax reclaims in a timely manner
- dealing with corporate actions
- handling a stock lending programme.

## ICI PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES

REVISED JUNE 2007

#### APPENDIX C: Current Asset Allocation 31.03.07

	<b>% Benchmark weight</b>
UK Equities	4.0
Overseas/Global Equities	6.0
Fixed Interest Bonds	12.6
Inflation-linked Bonds (RPI and LPI)	69.4
High yield debt	1.33
Emerging market debt	2.33
Global bonds	0.33
Active Currency Fund	1.0
Global Tactical Asset Allocation	1.0
Long-term global equities	1.0
Leveraged loans	1.0
	100.0

#### Assumptions as at 31.03.06

The following assumptions represent best-estimates of future real (i.e in excess of inflation) returns for each asset class rather than the more prudent assumptions that the Scheme Actuary would use in the triennial valuation process.

	<b>% pa</b>
UK equities	4.9
Overseas equities	5.0
Long-term UK conventional gilts	1.6
AA UK long corporate bonds	2.0
UK index-linked gilts	1.3
Cash	0.8
High yield debt	2.5
Emerging market debt	2.7
Active currency	3.6
Inflation	2.7

## ICI PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES

REVISED JUNE 2007

#### APPENDIX D: Current Manager Structure

The Fund employs a number of active and passive investment managers.

Measurable objectives have been developed for the Investment Managers consistent with the achievement of the Fund's overall longer-term objective. The benchmarks and performance targets are shown in the table below.

Manager Mandate	Benchmark	Performance target
Residual portfolio (ICI-IM)	Cash	To realise the portfolio for cash without conceding significant discounts to market value and where possible adding value
Passive Equities (BGI)	40.0% FTSE All Share Index (excluding ICI) 24.6% FTSE All-World Developed Europe ex UK Index 10.1% FTSE All-World Japan Index 11.0% FTSE All-World Developed Asia Pacific ex Japan Index 14.3% FTSE All-World US Index	Maximum tracking error 0.3% over 12 months 0.1% over 3 years
Cash flow matching (BGI)	Fixed interest bonds to match all fixed liabilities for all years  Limited Price Indexation (0,5) (LPI (0,5)) to match 51.4% of LPI (0,5) liabilities for all years and an additional 48.6% of LPI (0,5) liabilities for the period until 31 December 2009, an additional 14.8% of LPI (0-5) liabilities for the period from 1 January 2010 until 31 December 2014, and an additional 5.8% of LPI (0-5) liabilities for the period from 1 January 2015.  Limited Price Indexation (0,3) (LPI (0,3)) to match 100% of LPI (0.3) liabilities for all years.  The balance of liabilities is deemed to be met from equity income, company contributions and equity realisations.	
Active Bonds		
High Yield (Muznich)	80% Merrill Lynch US High Yield Cash Pay (BB and B) Constrained Index and 20% Merrill Lynch Euro High Yield (BB and B) Constrained Index, hedged into GBP	Outperform by 2% pa over three year periods. Active risk: 8% pa.
Emerging Market (Ashmore) EMLIP Fund and Multi Strategy Fund	Not Applicable (Investment made through unit trust)	Not Applicable
High alpha (PIMCO) Diversified Income Fund	33.3% Lehman Brothers Global Aggregate - Credit Component Hedged USD Index 33.3% Merrill Lynch Global High Yield - BB-B rated Constrained Hedged Index 33.3% JPMorgan EMBI Global Hedged Index	Outperform by 1% pa to 2% pa

## ICI PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES

REVISED JUNE 2007

Long Term Equity (Southeastern)	Not applicable (Unconstrained portfolio within the constituent universe of the MSCI World Index)	7% pa above the annualised return on UK Retail price Index over rolling 5-10 years
Global Tactical Asset Allocation Fund (Goldman Sachs)	Sterling LIBOR	Targeted active risk of 30%, leading to an expected out performance of around 25% (excluding cash backing for which target is sterling LIBOR)
Active Currency Pooled Funds (Goldman Sachs)	Sterling LIBOR	Targeted active risk of 6%, leading to an expected outperformance of 4.5%

#### Derivatives

A derivatives policy has been developed for the use of derivatives (such as index futures, currency forward contracts and swaps) for efficient portfolio management and risk reduction. However, they must not be used to gear the Fund. Limits have been set on the use of derivatives which are reviewed from time to time.

#### Fee Basis

Investment manager fees for the Fund are mainly on an ad valorem basis but some managers are remunerated wholly or partly on the basis of a fixed fee or a performance-related fee. The Trustee believes that it is not in the commercial interests of the Fund to disclose the detailed nature of the fees paid.

## ICI PENSION FUND

### INVESTMENT REPORT 31 MARCH 2007

#### Investment Management Structure

Investments are managed according to remits and control limits laid down by the Directors of ICI Pensions Trustee Limited, after having consulted the Principal Employer in accordance with the Pensions Act 1995. The Directors have an Investment Committee to whom a number of operational powers are delegated, but key strategic decisions about long-term strategy and governance are taken by the full Board of Directors.

The Trustee has delegated all day-to-day investment decisions to its investment managers:

- Ashmore Management Company Limited ["Ashmore"]
- Barclays Global Investors Limited ["BGI"]
- Goldman Sachs Asset Management Limited ["GSAM"]
- Intermediate Capital Group ["ICG"]
- Muzinich & Co Limited ["Muzinich"]
- PIMCO Europe Limited ["PIMCO"]
- Southeastern Asset Management Inc ["Southeastern"]

Each remit includes a benchmark against which performance is measured. BGI's ongoing remit is to manage equities on a passive basis and bonds on a cashflow-matching basis. BGI also acts as the Fund's principal Transition Manager. Southeastern is a specialist equity manager. Ashmore, Muzinich and PIMCO are bond managers, specialising in Emerging Markets Bonds, High-Yield Bonds and High Return Bonds respectively. ICG is a specialist Leveraged Loans manager. GSAM manages currencies on an active basis through two pooled currency funds, and also manages a Global Tactical Asset Allocation (GTAA) portfolio.

During the year, the Trustee made an allocation of 1% of assets each to a high alpha bond mandate managed by PIMCO, a Leveraged Loans portfolio managed by ICG, and the GSAM GTAA fund. The appointment of UBS Global Asset Management (UK) Limited to manage a portfolio of global equities was terminated.

#### Economic & Market Background

All major equity markets delivered good performance for the 12 months to 31 March 2007. Global markets fell in May 2006 but strong performance between June and December helped to recover these losses in spite of U.S. recession concerns. UK equities, in particular, performed well, returning 11.1% over the year despite fears of rising domestic inflation. Asia Pacific (ex Japan) equities continued their strong performance, returning 19.9% over the year. The sterling pound gained strength over the US Dollar and Japanese Yen (13.1% and 13.2%), hence returns on investments in the US and Japan were relatively weak in sterling terms.

Over the year, UK base rates rose by 0.75% to 5.25%, the highest level since August 2001, in response to concerns about higher inflation. This included a surprise increase in rates in January in response to CPI inflation of 3.2%. During the first half of 2006 the Federal rate in the USA increased to 5.25%, though it has remained stable since June 2006. In Europe, the European Central Bank continued a trend of interest rate increases, raising rates five times during the year to an all time high of 3.75% in March 2007, reflecting higher rates of economic growth and higher inflation.

Over the 12 months to 31 March 2007, most UK bond markets produced positive returns, although once more performance lagged behind equity returns. Long-dated inflation-linked bonds were the strongest performer, rising 3.0% over the year, outperforming the return of 0.6% on fixed interest bonds.

#### Investment Strategies

The Fund continued its existing investment strategy of maintaining a substantial proportion of assets in bonds that directly match expected future cash outflows, in order to minimise volatility of assets relative to liabilities. The Trustee recognises that, in years when equity markets rise strongly, this limits the upside potential performance of the Fund's investments; but, equally, when they fall substantially (as in the period 2000-2003), the Fund is correspondingly much better protected against downside risk.

## ICI PENSION FUND

### INVESTMENT REPORT 31 MARCH 2007

The Fund relied mainly on income and maturities of its low-risk bond portfolio to meet pension outgoings, but also made modest sales of equities and higher-yielding bonds in order to limit deviation from the long-term benchmark.

As a result of changes to investment managers during the year, the Fund's strategic asset allocation expressed by the benchmarks given to individual managers at 31 March 2007, was as set out below:-

	BGI %	GSAM %	South Eastern %	PIMCO %	Ashmore %	Muzinich %	ICG %	Total %
UK Inflation-linked Bonds (LPI)	42							42
UK Inflation-linked Bonds (RPI)	27							27
UK Fixed Interest Bonds	13							13
UK Equities	4							4
Overseas Equities	6		1					7
Emerging Market Bonds				0.3	2			2.3
High-Yield Bonds				0.3		1		1.3
Global Bonds				0.3				0.3
Leveraged Loans							1	1
Active Pooled Currency Funds		1						1
Global Tactical Asset Allocation		1						1
	92	2	1	1	2	1	1	100

Subject to rounding differences

#### Investment Performance Summary

The Fund subscribes to the independent WM Company service for performance measurement of UK pension funds. Since 1995, the Fund has set a strategic allocation benchmark which takes into account the liability profile. Performance is measured by reference to a weighted benchmark calculated from the stock market indices appropriate to its asset strategy (see above). The returns against benchmark for the total Fund to 31 December 2006 and for each manager who served throughout the relevant period were as follows:

	Year 2006		Last 3 years		Last 10 years	
	Actual %	Benchmark %	Actual %	Benchmark %	Actual %	Benchmark %
BGI equity portfolio	15.5	16.3	17.0	17.5	7.8	7.8
BGI bond portfolio	1.5	1.5	6.5	6.5	N/A	N/A
Southeastern	8.0	11.4	N/A	N/A	N/A	N/A
Ashmore	6.4	-3.1	19.6	8.1	N/A	N/A
Muzinich	8.4	10.1	8.9	9.9	N/A	N/A
GSAM (currency)	2.4	4.9	N/A	N/A	N/A	N/A
Total Fund Return	4.3	2.7	8.5	8.0	8.0	7.9

Note: PIMCO, ICG and GSAM (GTAA) were appointed on 28 September 2006, 15 November 2006 and 5 October 2006 respectively and so did not serve as managers for the full year.

Investment management benchmarks are adjusted for changes in remit quarterly as necessary. BGI's indexed performance reflects the impact of directions given by the Trustee during the last 10 years at mid-quarter dates and, if these are excluded, BGI's 5-year performance is within 0.1% of benchmark.

## ICI PENSION FUND

### INVESTMENT REPORT 31 MARCH 2007

The Fund's passive manager, BGI, managed its portfolio throughout the year so as to minimise divergence from benchmark. BGI's cashflow-matching portfolio was the main source of cash recalled from investment for paying pensions during the year. BGI's underperformance in the equity portfolio during 2006 is a result of a change in the benchmark during the year, rather than poor manager performance.

Results achieved by the Fund's active managers were dominated by the success of Ashmore in identifying emerging-market bonds which significantly out-performed the relevant index. Muzinich's style is designed mainly to limit damage in falling markets and so, in the steadily rising markets encountered during 2006/7, they underperformed.

#### **Disclosure of Information**

Further information concerning investments is detailed in Note 7 of the Financial Statements on pages 40 & 41.

#### **Myners' Report - Trustee Compliance Statement**

In March 2001, the government-sponsored Myners' Report published a voluntary code of practice, which contained a variety of recommendations on the future governance of pension fund investment processes.

The Trustee supports the principles set out in the Myners' Report and believes that, in general, they coincide with the interests of the Fund. The Trustee conducts an annual assessment of the Fund's compliance with the code of practice. This assessment confirms that the Trustee complies with almost all of the principles. There is, however, one area of non-compliance, namely the publication of the Fund's planned asset allocation strategy in the Statement of Investment Principles on the grounds that this may be prejudicial to the Fund's interests, due to the risk of initiating adverse market movements.

## ICI PENSION FUND

### SCHEDULE OF CONTRIBUTIONS

#### Schedule of Contributions

1. Name of Scheme: ICI Pension Fund
2. This Schedule of Contributions revokes and replaces the schedule of contributions signed on behalf of the Trustees on 19 March 2007 and certified by the Actuary on 28 March 2007, which shall be of no further effect.
3. Period covered by schedule of contributions: from the date on which this schedule is certified by the Actuary up to and including 31 March 2014, unless it is replaced by a revised or new schedule of contributions certified by the Actuary.
4. Level of contributions payable:  
By Contributing Members and Employed Members:
  - the rates set out in the Rules.By Contributing Companies :
  - 18.5% of members' total Pensionable Pay (as defined in the 1967 Rules or the Senior Executive Rules (1996), as applicable, assuming for this purpose (but without prejudice to clause 5 of this schedule) that no member is participating in the salary sacrifice arrangements referred to below) until 31 March 2006, rising to 22.8% with effect from 1 April 2006;
  - an additional contribution of £60m payable by 28 February 2006;
  - additional annual contributions of £122m payable during each successive twelve month period falling within the period commencing 1 April 2006 and ending 31 March 2009;
  - an additional contribution of £13.73m payable in February 2007 as settlement of the Section 75 debt arising following Uniqema's cessation of participation in the Fund;
  - an additional contribution of £138m payable in March 2007 following the completion of ICI's disposal of its Quest business
  - an additional contribution of £62m payable during the period commencing 1 April 2009 and ending 31 March 2010;
  - an additional contribution of £14m payable no later than 31 March 2010;
  - additional contributions as may be determined from time to time by the Actuary to be necessary to meet the estimated cost of all early retirements in normal health;
  - additional contributions as may be determined from time to time by the Actuary to be necessary to meet the estimated cost of benefit augmentations granted.
  - such additional amounts as may, from time to time, be agreed between the Trustee and the Employer.
5. The contributions due from the Contributing Companies will be increased by the amount of any Contributing Members or Employed Member's contributions which are not required to be paid because the member concerned participates in the Contributing Companies' salary sacrifice arrangement, penSAVE, communicated to Contributing Members and Employed Members in February 2006.
6. Due date for payment of contributions: Contributing Members' and Employed Members' contributions and the Contributing Companies' contributions referred to above are payable monthly and are due to be paid to the Trustees by the 19<sup>th</sup> day of the month following the month to which the contributions relate. The additional contributions associated with early retirements and augmentations are due to be paid to the Trustees within six months of the retirement or augmentation to which they relate. The additional annual contributions of £122m and the additional contribution of £62m referred to above, are each payable in three equal instalments in each of the first three weeks of each January, commencing January 2007. The additional contribution of £14m referred to above is payable no later than 31 March 2010.

## **ICI PENSION FUND**

### **SCHEDULE OF CONTRIBUTIONS**

7. In the event that the additional contribution of £14m is paid earlier than the due date specified above, the amount payable will be reduced at the rate of 5% per annum compound for each complete month between the actual payment date and 31 March 2010.
8. Terms used in this Schedule have the meanings given to them in the Definitive Deed and Rules dated 6 April 2006 governing the ICI Pension Fund, unless the context requires otherwise.

**ICI PENSION FUND**

**ACTUARIAL CERTIFICATE**

**Actuarial certificate given for the purposes of section 58 of the Pensions Act 1995  
(Certificate of Schedule of Contributions)**

**Name of scheme ICI Pension Fund**

**Adequacy of rates of contributions**

I hereby certify that, in my opinion, the rates of the contributions payable in accordance with the schedule of contributions signed on behalf of the Trustees on 14 and 15 May 2007 are adequate for the purpose of securing that throughout the period it covers the scheme will meet the minimum funding requirement imposed by section 56(1) of the Pensions Act 1995.

In forming this opinion I have complied with the requirements imposed by sections 56(3) and 58 of the Pensions Act 1995, the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 and the mandatory guidelines on minimum funding requirement (GN27), prepared and published by the Institute of Actuaries and the Faculty of Actuaries, and have made the assumptions prescribed by them.

**R T G Hails  
Fellow of the Institute of Actuaries  
Watson Wyatt Limited**

**18 May 2007**

**Watson House  
London Road  
Reigate  
Surrey  
RH2 9PQ**

**Note:**

The certification of the adequacy of rates of contributions for the purpose of securing the meeting of the minimum funding requirement is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were wound up.

<b>ICI PENSION FUND</b>
<b>FUND ACCOUNT</b>
<b>FOR THE YEAR ENDED 31 MARCH 2007</b>

	Note	Year to 31 Mar 07 £m's	Year to 31 Mar 06 £m's
<b>Contributions and Benefits</b>			
Contributions receivable	3	296	141
		<b>296</b>	141
Benefits payable	4	-475	-459
Payments to and on account of leavers	5	-4	-5
		<b>-479</b>	-464
<b>Net withdrawals from dealings with members</b>		<b>-183</b>	-323
<b>Gains on Investments</b>			
Investment income	6	106	160
Change in market value of investments	7	147	628
<b>Total gain on investments</b>		<b>253</b>	788
<b>Net increase in the Fund during the year</b>		<b>70</b>	465
<b>Net assets of the Fund at start of the year</b>		<b>7,061</b>	6,596
<b>Net assets of the Fund at end of the year</b>		<b>7,131</b>	7,061

**ICI PENSION FUND**

**NET ASSETS STATEMENT  
AS AT 31 MARCH 2007**

	Note	Year to 31 Mar 07 £m's	Year to 31 Mar 06 £m's
<b>Investments</b>	7		
Fixed interest securities		666	743
Index-linked securities		1,529	1,949
Equities		111	361
Pooled investment vehicles		4,767	3,984
Cash deposits and other investment balances		60	25
AVC Investments		4	4
<b>Total Investments</b>		<b>7,137</b>	<b>7,066</b>
<b>Current assets and liabilities</b>	8	<b>-6</b>	<b>-5</b>
<b>Net assets of the Fund at end of the year</b>		<b>7,131</b>	<b>7,061</b>

The notes on pages 37-43 form part of the financial statements

These financial statements were approved by the board of the Trustee Company on 12 July 2007

and were signed on its behalf by:

**D J Gee,** Chairman

**C A Amos,** Secretary

## ICI PENSION FUND

### NOTES FORMING PART OF THE FINANCIAL STATEMENTS 31 MARCH 2007

#### 1. Basis of Preparation

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and other benefits in the future. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the Actuarial Certificate on page 30 of the annual report and these financial statements should be read in conjunction with it.

These Financial Statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and the Statement of Recommended Practice, 'Financial Reports of Pension Schemes' (revised November 2002).

#### 2. Accounting Policies

##### (a) Accruals Basis

The Financial Statements have been prepared on an accruals basis, except where noted.

##### (b) Additional Voluntary Contributions (AVCs)

All investments and transactions in AVCs are included in these accounts under the relevant heading. Investment gains and losses notified later than six weeks after the year-end are included in the following year's accounts, on the grounds that the amounts involved are immaterial and that this is necessary to avoid inordinate delay to the production of the Financial Statements.

##### (c) Contribution Income

Ordinary contributions relating to wages and salaries earned in the financial year are calculated at rates determined by the Scheme Actuary and accounted for in the month when the corresponding wages and salaries are paid. Additional contributions determined by the Scheme Actuary and AVCs are accounted for when due in accordance with the agreed timetable.

##### (d) Investment Income

Investment income is accounted for on an accruals basis. Interest income is accrued for on a daily basis whereas dividends are accrued for on the basis of the date when the corresponding share price becomes quoted on an ex-dividend basis. Dividends and interest are grossed up for the effects of overseas taxation if any and any irrecoverable withholding taxes shown separately.

##### (e) Benefits Payable

Benefits payable represent all material valid benefit claims in respect of the scheme year. Where a member has a choice in connection with his benefits (e.g. to commute part of the pension), the benefit choice is accounted for in the month of receipt by the trustees of a notification from the member.

##### (f) Administration Expenses

All the Fund's administration expenses and investment management fees are borne by Imperial Chemical Industries PLC, with the exception of some investment-related expenses. Charges in relation to specific transactions are deducted from the relevant category of investment income or capital return.

##### (g) Foreign Currency Conversion

All assets and liabilities stated in foreign currencies are converted at rates of exchange ruling at the year end date. Exchange adjustments arising are then incorporated in the Fund Account, included in the change in market value of investments.

## ICI PENSION FUND

### NOTES FORMING PART OF THE FINANCIAL STATEMENTS 31 MARCH 2007

#### (h) Valuation of Investments

The Fund's investments are reported in the Financial Statements on the basis of market values. Market values at the year end are assessed as follows:

- Listed ordinary shares, government and fixed interest securities and index linked securities are valued at the average of bid and offer prices (the mid price).
- Financial futures are stated at the market value of their full economic effect.
- Cash backing open futures contracts has been classified with pooled cash funds within unitised funds as futures contracts are undertaken to gain market exposure against assets held in these funds.
- Pooled investment vehicles are valued at the mid price with the exception of the Ashmore bond funds, which are valued at the bid price.

**ICI PENSION FUND**

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS  
31 MARCH 2007**

**3. Contributions receivable**

		<b>Year to 31 Mar 07 £m's</b>	Year to 31 Mar 06 £m's
Employers			
normal payroll based		11	9
normal early retirement based		11	9
contributions previously scheduled		122	122
further additional contributions re:	Quest	138	-
	Uniqema	14	-
Members			
normal payroll based		-	1
		<b>296</b>	<b>141</b>

**4. Benefits payable**

		<b>31 Mar 07 £m's</b>	31 Mar 06 £m's
On or during retirement			
Pensions		457	452
Commutation and lump sum retirement benefits		17	7
AVC benefits paid		1	-
		<b>475</b>	<b>459</b>

**5. Payments to and on account of leavers**

		<b>31 Mar 07 £m's</b>	31 Mar 06 £m's
Group transfers to other schemes		-	1
Individual transfers to other schemes		4	4
		<b>4</b>	<b>5</b>

## ICI PENSION FUND

### NOTES FORMING PART OF THE FINANCIAL STATEMENTS 31 MARCH 2007

6. Investment income	31 Mar 07 £m's	31 Mar 06 £m's
Income from fixed interest securities	42	90
Income from index-linked securities	46	50
Dividends from equities	3	6
Income from pooled investment vehicles	15	13
Interest on cash deposits	1	1
Investment Management fees	-1	-
Total investment income	<u>106</u>	<u>160</u>

## 7. Investments

### (a) Change in market value of investments including futures

	Market Value at 31 Mar 06 £m's	Purchases at cost £m's	Sales proceeds £m's	Change in market value £m's	Net change in cash position £m's	Market Value at 31 Mar 07 £m's
Fixed interest securities	743	94	-131	-40		666
Index-linked securities	1,949	91	-530	19		1,529
Equities	324	306	-553	-5		72
Pooled investment vehicles	3,984	5,522	-4,851	112		4,767
Futures	37	149	-148	1		39
	<u>7,037</u>	<u>6,162</u>	<u>-6,213</u>	<u>87</u>		<u>7,073</u>
Cash deposits and other investment balances	25	-6,162	6,213	59	-75	60
AVC Investments	4	0	-1	1		4
	<u>7,066</u>	<u>0</u>	<u>-1</u>	<u>147</u>	<u>-75</u>	<u>7,137</u>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The net change in cash position represents:-

	£m's
Favourable movement in contributions due (note 8)	1
Investment Income (note 6)	106
Net withdrawals from dealings with members (as per Fund Account)	-183
Net invested direct into AVCs	1
Net change in cash position	<u>-75</u>

**ICI PENSION FUND**

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS  
31 MARCH 2007**

**(b) Summary of investments by asset type**

	31 Mar 07 £m's	31 Mar 06 £m's
<b>Fixed interest securities-directly held</b>		
UK public sector quoted	10	7
UK non government bonds	584	667
Overseas non government bonds	72	69
	<b>666</b>	<b>743</b>
<b>Index-linked securities-directly held</b>		
UK government	-	422
Other UK quoted	1,529	1,527
	<b>1,529</b>	<b>1,949</b>
<b>Equities-directly held</b>		
UK quoted	3	25
UK equity futures	39	37
Overseas quoted	69	299
	<b>111</b>	<b>361</b>
<b>Pooled investment vehicles</b>		
Overseas non government bonds	305	162
Limited-Price-Indexed funds	3,269	2,758
Equity funds	861	705
Hedge funds	26	12
Short term investment funds	345	384
Cash backing open futures contracts	-39	-37
	<b>4,767</b>	<b>3,984</b>
<b>Deposits and other Investment Balances</b>		
Sterling deposits		
Cash balances	31	-1
Accrued income and other investment debtors	29	26
	<b>60</b>	<b>25</b>
<b>AVC Investments</b>	<b>4</b>	<b>4</b>

All Pooled investment vehicles are managed by UK registered companies. Of the total of £4,767million, £717million is invested in unitised insurance policies.

**ICI PENSION FUND**

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS  
31 MARCH 2007**

**8. Current assets and liabilities**

	<b>31 Mar 07</b>	31 Mar 06
	<b>£m's</b>	£m's
Contributions due from Employer & outstanding group transfers-in	-	1
Unpaid benefits	<b>-6</b>	-6

Contributions due at the year end have been paid to the Fund subsequent to the year end in accordance with the Schedule of Contributions.

## ICI PENSION FUND

### NOTES FORMING PART OF THE FINANCIAL STATEMENTS 31 MARCH 2007

#### 9. Related Party Transactions

##### (a) Directors of the Trustee Company

The Fund has received contributions in respect of directors of the Trustee company who are also Contributing members of the Fund. The Fund has also paid benefits to directors of the Trustee company who are also beneficiaries of the Fund. All of the above transactions are in accordance with the rules of the Fund and on the same terms as other members.

##### (b) Owners of the Trustee Company

The Law Debenture Trust Corporation p.l.c ("Law Debenture") owns and is also a director of the corporate trustee of the Fund. Law Debenture earned fees during the year, which were borne by the Principal Employer.

##### (c) Imperial Chemical Industries PLC (Principal Employer)

In recognition of a deficit for funding purposes of £657m and a solvency ratio of 91% at 31 March 2005 arising from the full actuarial valuation of the ICI UK Pension Fund ("the Fund") the Principal Employer has agreed to make top-up contributions to the Fund of £122m per annum for four years from 2005/6, followed by top-up contributions of £62m per annum for a further five years. It also continues to provide an asset-backed guarantee, via a wholly owned subsidiary specifically incorporated to provide the guarantee, for £250m to support its commitments to the Fund. Such asset-backed guarantee has been secured by way of a fixed and floating charge over the assets of the subsidiary.

Contributions received during the year in accordance with this arrangement are included in Note 3 above.

#### 10. Stock Lending

At the year end the Fund had loaned £47 million (2006: £254 million) of its investments under a stock lending arrangement managed by Barclays Global Investors and JP Morgan. The collateral held represented 106% (2006:105%) of the value of the stock lent and comprised principally cash, bonds and letters of credit. Income earned in the year to 31 March 2007 amounted to £0.2 million (2006 £0.2 million.)

#### 11. Hedging contracts

Currency hedging contracts are maintained in respect of a proportion of overseas securities of £1,024 million (2006: £892 million) in order to protect against fluctuations in exchange rates.

#### 12. Investment Management expenses

Charges in relation to specific transactions are deducted from the relevant category of investment income or capital return. As explained in note 2(f) general investment management expenses are normally paid by the Principal Employer unless otherwise determined by the Trustee.

## ICI PENSION FUND

### AUDITORS' REPORT

#### **Independent Auditors' report to the Trustee of the ICI Pension Fund**

We have audited the financial statements of the ICI Pension Fund for the year ended 31 March 2007 which comprise the fund account, the net assets statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Fund's Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder.

Our audit work has been undertaken so that we might state to the Fund's Trustee those matters we are required to state to it in an auditors' 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 Fund's Trustee for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of Trustee and Auditors**

As described in the Statement of Trustee's responsibilities on page 7, The Fund's Trustee is responsible for obtaining an annual report, including audited financial statements prepared in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the Trustee's report and other information contained in the annual report and consider whether it is consistent with the financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### **Bases of audit opinion**

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

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

**ICI PENSION FUND**

**AUDITORS' REPORT**

**Opinion**

In our opinion the financial statements:

- show a true and fair view, in accordance with UK Generally Accepted Accounting Practice of the financial transactions of the Fund during the Fund year ended 31 March 2007 and of the amount and disposition at that date of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the Fund year); and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.

KPMG LLP  
Chartered Accountants  
Registered Auditor  
One Canada Square  
London  
E14 5AG

12 July 2007

## ICI PENSION FUND

### AUDITORS' REPORT

#### **Independent Auditors' Statement about Contributions, made under Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustee of the ICI Pension Fund**

We have examined the summary of contributions payable under the schedule of contributions to the ICI Pension Fund in respect of the Fund year ended 31 March 2007 which is set out on page 47.

This statement is made solely to the Fund's Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Fund's Trustee those matters we are required to state to it in an auditors' statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund's Trustee, for our work, for this statement, or for the opinions we have formed.

#### **Respective responsibilities of Trustee and Auditors**

As described on page 47, the Fund's Trustee is responsible, under the Pensions Act 1995, for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions which sets out the rates and due dates of certain contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund. The Trustee has a general responsibility for procuring that contributions are made to the Fund in accordance with the schedule of contributions.

It is our responsibility to provide a statement about contributions paid to the Fund under the schedule of contributions and to report our opinion to you.

We read the Trustee's report and other information in the annual report and consider whether it is consistent with the summary of contributions. We consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary of contributions.

#### **Basis of statement about contributions**

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to give reasonable assurance that contributions reported in the summary of contributions have been paid in accordance with the relevant requirements. For this purpose, the work that we carried out included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Fund and the timing of those payments. Our statement about contributions is required to refer to those breaches of the schedule which come to our attention in the course of our work.

#### **Statement about contributions payable under the schedule**

In our opinion contributions for the Fund year ended 31 March 2007, as reported in the summary of contributions and payable under the schedule, have in all material respects been paid at least for the period 1 April 2006 to 22 May 2006 in accordance with the schedule of contributions certified on 1 March 2006, for the period 23 May 2006 to 27 March 2007 in accordance with the schedule of contributions certified on 23 May 2006 and subsequently in accordance with the schedule of contributions certified by the actuary on 28 March 2007.

KPMG LLP  
Chartered Accountants  
One Canada Square  
London E14 5AG

12 July 2007

**ICI PENSION FUND**

**STATEMENT OF TRUSTEE'S RESPONSIBILITIES IN RESPECT OF CONTRIBUTIONS**

The Fund's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund and the dates on or before which such contributions are to be paid. The Fund's Trustee is also responsible for keeping records of contributions received in respect of any active member of the Fund and for procuring that contributions are made to the Fund in accordance with the schedule.

**Trustee's Summary of Contributions payable under the schedule in respect of the Fund year ended 31 March 2007**

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer and member contributions payable to the Fund under the schedules of contributions applicable in respect of the Fund year ended 31 March 2007. The Fund auditor reports on contributions payable under the schedule in the Auditors' Statement about Contributions.

<b>Contributions payable under the schedule in respect of the Fund year</b>	£'000s
Employer:	
normal payroll based contributions	10,709
normal early retirement based contributions	11,352
special contributions	122,000
further additional contribution re: Quest disposal	138,000
Member:	
normal payroll based contributions	255
<b>Contributions payable under the Schedule (as reported on by the Fund auditor)</b>	<b>282,316</b> =====

**Reconciliation of contributions**

Reconciliation of contributions payable under the schedule to contributions reported in the accounts in respect of the Fund year ended 31 March 2007.

Contributions payable under the Schedule (as above)	282,316
Contributions payable in addition to those due under the Schedule (and not reported on by the Fund auditor):	
member additional voluntary contributions	15
further additional contribution re: Section 75 debt Uniqema	13,730
<b>Total contributions reported in the accounts</b>	<b>296,061</b> =====

Signed on behalf of the Trustee on

C A Amos

12 July 2007

**ICI PENSION FUND****FIVE YEARS' STATISTICAL SUMMARY  
31 MARCH 2007**

	2003	2004	2005	2006	2007
Deferred Pensioners	15,506	15,897	15,033	14,438	14,016
Pensioners-Dependants	18,724	18,473	18,180	18,034	17,738
Pensioners-Members	43,980	42,712	41,557	40,371	39,292
Contributing Members	1,670	1,446	1,228	1,107	794

	£m	£m	£m	£m	£m
Contributions-Members	2	2	2	1	-
-Company	78	86	86	140	296
Investment Income	244	222	228	160	106
Pensions & Commutations	453	450	454	459	474
Net Assets (Market Value)	6,211	6,489	6,596	7,061	7,131