

PENSIONS NEWS

Message from the Chairman



2007 marks an important stage in the Fund's history, for a number of reasons.

Firstly, the Fund is 80 years old. Founded within a year of ICI's creation in 1926, it was one of the first occupational pension schemes to be set up by a UK company and continues to provide benefits for over 70,000 people.

Secondly, the number of Fund members still working for ICI – which, at its peak was over 100,000 – fell below 1,000 for the first time and now stands at just under 800. Meanwhile, the number of UK employees in ICI's UK defined contribution pension scheme, 'Benefit Builder' – introduced for new employees in October 2000 – has risen to over 1,500.

Finally, for the first time in the Fund's history, ICI finds itself the subject of a recommended takeover offer. You will already have received my letter on this subject in September and, in order to give members the very latest information, an extra 'Stop Press News' page is included with this edition of Pensions News.

Yet the Fund still has many years ahead of it. Our investment strategy concentrates on giving predictability of cash flow to meet pensions over the next 20 years and beyond but, even after that, we still expect the value of the Fund to be measured in £ billions rather than £ millions. So, whatever the future may hold for ICI itself, the Trustee Board is united in its determination to keep the Fund financially strong and, with the continuing support of Law Debenture, to continue our traditions of independence and good governance.

I hope you find this 80th anniversary edition of Pensions News a useful insight into how the Trustee goes about this in a changing world.

David Gee • *Chairman, ICI Pensions Trustee Ltd*



PENSION
FUND

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November 2007

Ins and outs of the Fund for the year to 31 March 2007

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These figures have been extracted from the Fund's Annual Report & Accounts, as audited by KPMG LLP.

How the money came in

Contributions	£m
Investment income	296
Total income	402

How the money went out

Pensions	-457
Cash lump sum in exchange for pension	-17
AVC benefits paid	-1
Transfers to other funds	-4
Total expenditure	-479

Change in the Fund

Balance of income and expenditure	-77
Change in market value	147
Total change in the Fund	70

Total assets: £7,131million

Wartime cultures of penicillin grown in milk bottles by ICI's Pharmaceuticals Division.



Investment review

The key aims for the Fund's investments are to provide the cash needed to pay pensions and, within appropriate safety limits, to take some longer-term investment risk where there are reasonable prospects of generating returns that will grow faster than the liabilities.

Throughout the year, 82% of the Fund continued to be invested in lower risk bonds (or similar inflation-protected investments) which seek to match expected pensions outgoings. Over the three years 2004-2006, these investments returned 6.5% a year, which is a reasonable indication of the returns needed over that period to keep pace with the liabilities, excluding improvements in longevity. Over the same period, the total Fund returned 8.5%, which showed the benefits over that period of investing the remainder of the Fund in higher-risk assets such as equities, emerging market bonds, high-yield bonds and pooled currency funds.

The contrast with the preceding three years 2001-2003 is striking. Whilst in that period, the lower risk bond portfolio returned 6.1% a year, the total Fund returned only 2.4% a year. This reflects the impact of the serious downturn in equity markets during those three years, though ICI Pension Fund was much less affected during this period than most other schemes due to having less than 20% of the Fund in equities.

The Fund's lower risk investment strategy means that, in times of rising markets, it sometimes seems in retrospect to have missed out on opportunities. But, as every serious investor should know, the value of investments can go down as well as up – and, when investment markets fall, they can fall a long way relatively quickly and need a long time to recover. Since 31 March 2007, financial markets have once again entered a period of greater uncertainty, during which the Fund's low-risk investment strategy is again proving its value in protecting its financial stability.

Independent Financial Advisers

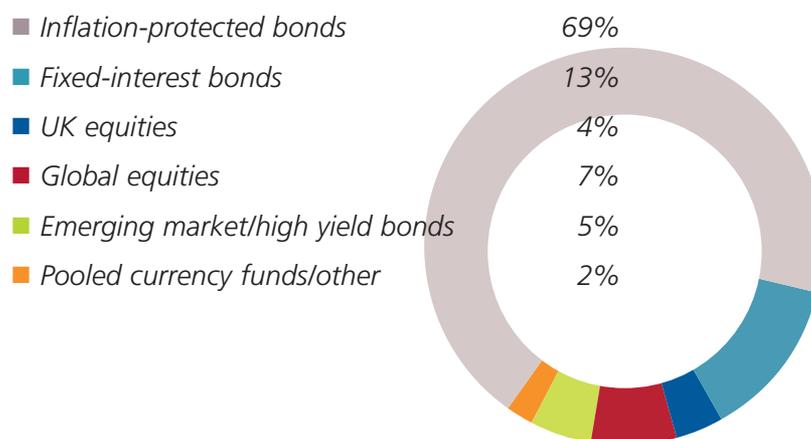
The Trustee Board is, by law, unable to offer financial advice. If you would like financial guidance you can obtain information about an Independent Financial Adviser (IFA) on:
0800 085 3250
 or at: www.unbiased.co.uk

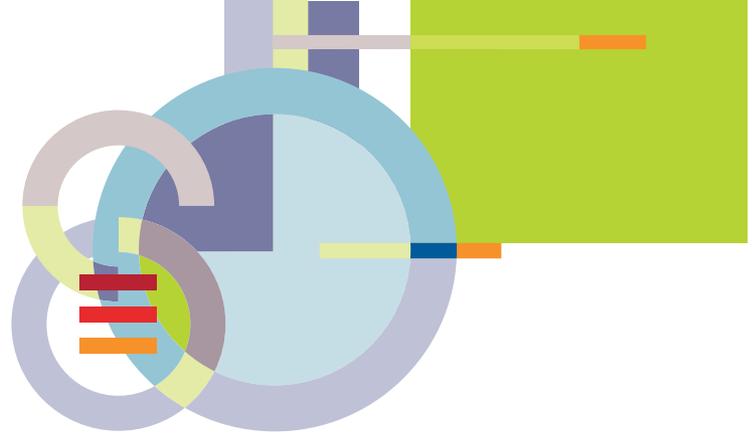
Investment performance

Part of the duties of the Trustee Board is to appoint professional investment advisers and decide the investment strategy of the Fund's assets. The Trustee Board sets benchmarks each year against which investment returns are measured. You will see from the table below how the Fund as a whole has performed over the past calendar year, as well as during the previous three and ten-year periods.

ICI Pension Fund: Performance vs Fund benchmark			
Calendar year	Year 2006	Last 3 years	Last 10 years
Actual	4.3%	8.5%	8.0%
Benchmark	2.7%	8.0%	7.9%

Investment strategy: March 2007





A Summary Funding Statement covering the results of the 2005 formal valuation and the 2007 annual review was sent to members in August this year.

When we carry out a valuation or a review, we don't just base the mortality assumption on an estimate of current life expectancy – we also allow for life expectancy to increase in the future. Both the estimate of current life expectancy and the allowance for future improvements need to be reviewed regularly and (when necessary) adjusted to reflect emerging evidence from the Fund and from the UK population as a whole. As in previous exercises, in the 2005 valuation we based our estimate of current life expectancy on recent evidence from the Fund. We also allowed for different improvements in life expectancy for different generations of pensioners, as there is strong evidence from the UK population that supports this.

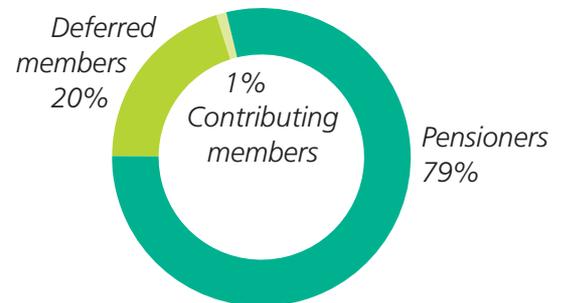
As part of the 2007 review, we found evidence suggesting that Fund pensioners are living longer than we had anticipated in 2005. There is also increasing evidence from the UK population that life expectancy is increasing faster than anticipated, and that this trend is set to continue into the future. As a result, we increased both our estimate of current life expectancy and the allowance for future increases in life expectancy in our latest review.

We will carry out the next formal valuation of the Fund next year when there will be a full review of all the assumptions, but in the meantime ICI has agreed to make additional payments towards the increased cost of pensions.

Robert Hails • *Scheme Actuary,*
Watson Wyatt Limited

Membership

Although the membership breakdown in percentage terms remains unchanged from last year, you can see from the figures below that each membership category is declining. As time passes, the proportion of pensioners in relation to the other membership categories will increase. This is because the Fund is closed to new contributing members and because people are generally living to greater ages.



	2007	2006
Pensioners	57,030	58,405
Deferred members	14,016	14,438
Contributing members	794	1,107
Total	71,840	73,950

Pension increases

The rate of inflation on which this year's pension increases are based is 3.8%. This reflects the change in the Retail Prices Index in the 12 months to July 2007. Individual pension increases are affected by a number of other factors too, which are explained in the Annual Increase Statement sent to all pensioners. The increase takes effect from 1 November 2007.

A Trustee Director talks: an interview with Fred Gray

Fred retired from ICI in 2002, after 33 years of service. After University he trained as a Chartered Accountant and worked in various businesses within ICI, but spent most of his career based at Head Office in Finance. He became a Member-Nominated Director (MND) in March 2007.

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What particularly interested you in becoming an MND?

With a financial background, I've always been interested in such areas and when at Tioxide Group in the 1990s I was the Chairman of the Trustees of their fund. I also chaired the ICI Canada Pensions Investment Committee at the time their Explosives business was divested which transformed their fund overnight into a 'mature' fund. So it was a combination of interest and some prior relevant experience.

What would your advice be to those who are interested in becoming a Trustee Director?

Although becoming a Trustee Director is a serious matter, as they take on duties and responsibilities, it should not deter people. I would, however, recommend that anyone considering becoming a Trustee Director enquires what is involved and expected, so that you know what you would be taking on.

What trustee training is provided? Do you need to sit an exam?

A considerable amount of training is provided, not just

for new Trustee Directors like me, but for all the Trustee Directors of the ICI Fund. Yes, you are required to sit an exam run by the Pensions Management Institute, but specific training sessions are pre-arranged to help prepare us.

The Trustee Board has four committees – how is the decision made as to which committees a new Trustee Director joins?

I was asked which committees I would be interested in joining and I volunteered to join the Appeals committee. However, some of my MND colleagues made it clear that they would like me to join the Investment committee too! So it was all very democratic.

The Trustee Board has experienced interesting times recently with the bid for ICI – how does the Trustee Board go about protecting member interests in such a situation?

When I attended my first Trustee Board meeting in late March I was encouraged to see how much preparation had been carried out, as the Board has maintained a clear

focus in readiness of any bid. Additional advisers were employed to advise on key issues such as what forms and levels of protection were vital, and what in addition we would endeavour to secure from any new owner of ICI. Clearly, one of our objectives was to at least maintain the levels of dialogue and support provided by ICI from a new owner. Key issues high on our list were the credit standing of a different owner and securing its commitment to guarantee existing and future pension obligations, including maintaining the ongoing solvency of the Fund.

What do you enjoy doing in your leisure time when you are away from your Trustee duties?

Since retiring five years ago, I've kept myself active with family, golf (administration and playing) and gardening. I spend about 25% of my time working and in addition to my trustee duties at the Fund and at a sizeable charity I am a Non-Executive Director of a Government Department based in Belfast.



ICI Pension Fund

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This year marks the 80th anniversary of the ICI Pension Fund. It is interesting to reflect that since the formation of our Fund in the 1920s, ICI employees have endured the Depression, gone to war, suffered industrial unrest and recession, participated in the privatisation of nationalised industries and, finally, seen the great majority of ICI's historic industrial businesses sold off to be taken forward by a variety of different owners.

For the Trustee of the ICI Pension Fund, communication with members has always been a key factor and we have taken a retrospective look here to highlight events and scenes from a former age, sourced from the ICI archives. We hope you enjoy these small snapshots!

GLORIOUS YEARS



Construction of Imperial Chemical House, 29 January 1928



Left: Sir Alfred Mond and sales team, Brussels 1928



Above: Women loading soda ash, Winnington Wharf



The original ICI Board in 1926



Housing development for workers, Billingham, 1935

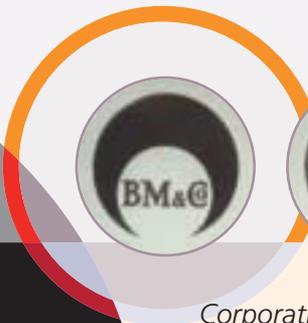
Right: Woman shovelling coal from a railway wagon



1920s

1930s

1940s



1927-2007

Trade marks of ICI's four merging companies Brunner Mond, Nobel, British Dyestuffs Corporation, United Alkali

PENSIONS NEWS launch

The first edition of Pensions News was issued in September 1979. This was produced in a broadsheet newspaper style, which was popular at that time. Two separate versions of the centre pages containing the financial information were produced for the Staff and Workers' Funds, keeping the overall size of the paper to manageable proportions.

WG Ashley, the Head of the Pensions Department, commented: "To me 'pensions' is not just about contributions and fractions and actuarial valuation. It is also about people and the ways we can help them enjoy the next phase of their lives after they cease employment without too many financial worries" – a sentiment that remains true today.



A loco called 'Harry'

A UNIQUE honour has been bestowed on a Mond pensioner at Tunstead Works, Buxton.

The latest locomotive to go into service at Tunstead has been named after Harry Townley, the design engineer who, in the 1930s, was principal architect of the works sidings, which extend to 10 miles of track and 97 turn outs.

Harry, now 81, is pictured during a visit to see the locomotive with Derek Burton, left, the recently - retired maintenance manager, and loco fitter Cliff Goddard.

Move toward November pension rises

Following a review of pensions, the Company agreed to a request from the Funds' trustees to increase pensions from 28 June (workers) and 1 July (staff) at a rate which can be financed without any further special contributions from the Company.

The Company still believes that the best timing for pensions increases is November. However, mindful of the effects of inflation on pensions and in order to help pensioners adjust from a July to November pensions increase, the Company has agreed, despite the extra administrative costs involved, to carry out two reviews in 1982.

(Edited extract)

Source: Pensions News, September 1982

Going into training

How ICI helps employees to prepare for retirement

Pre-retirement courses have been held regularly in all Paints Division locations since one was piloted many years ago at Paints' Slough HQ. Paints Division was one of the first in ICI to attend this area of training.

John Cross, training officer at Hyde, has been involved with the courses at the factory for seven years. "Retirement is often a worrying prospect for the person who has been in a regular job with us for many years. We set out to discuss the prospect, give help and advice and offer more information on a private basis if they so require."

The course was a two-day event dealing with a variety of subjects including personal adjustments, finance, working after retirement, health and safety in retirement, a talk from a home economist, and leisure activities. For many, the doctor's talk came tops. "Quite a few cigarettes were stubbed out while he was talking," chuckled Matt Dunworth of works engineering.

(Edited extract) Source: Pensions News, September 1979

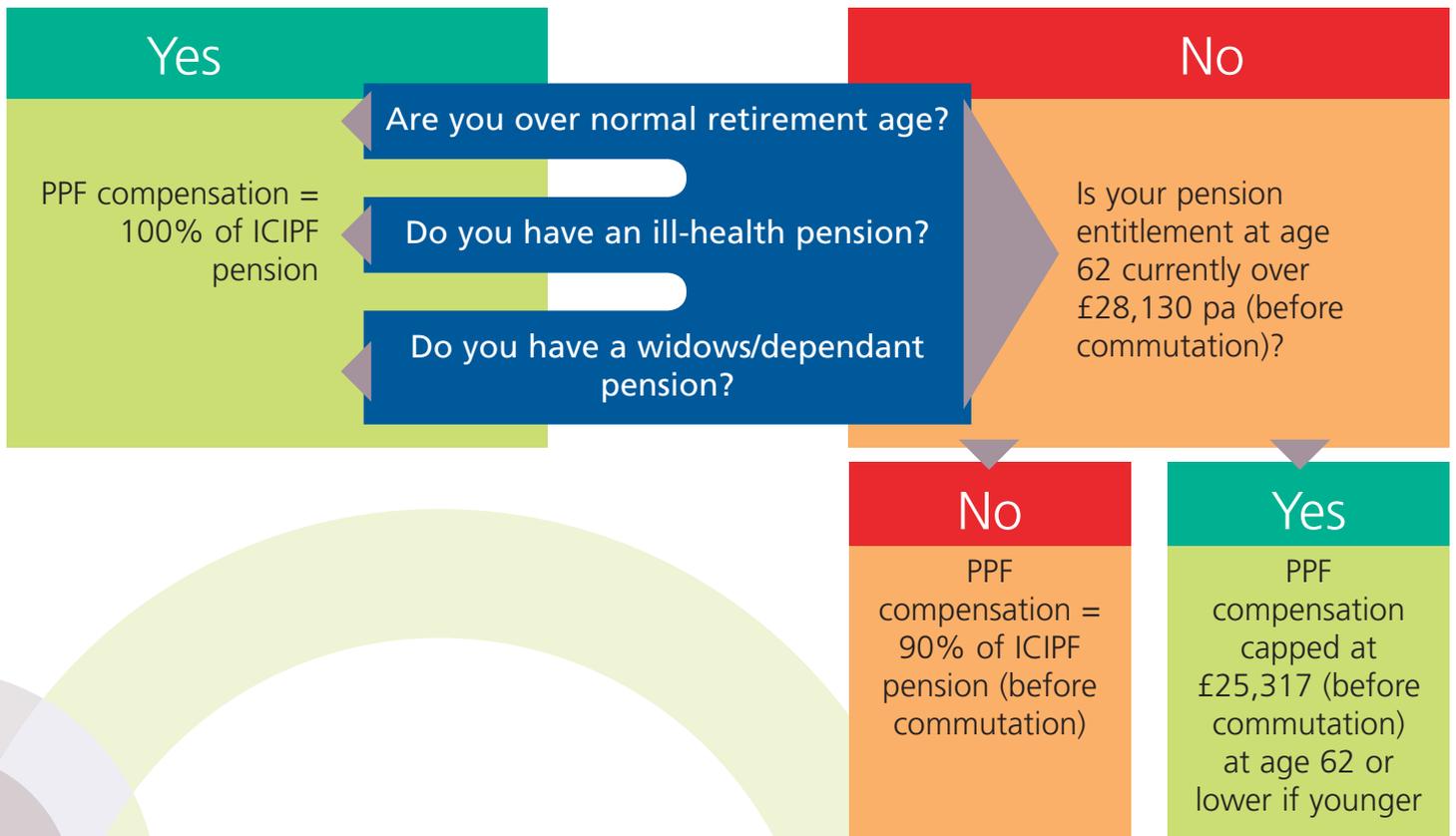
Membership over the years



Pension Protection Fund Compensation formula since April 2007

Initial compensation level

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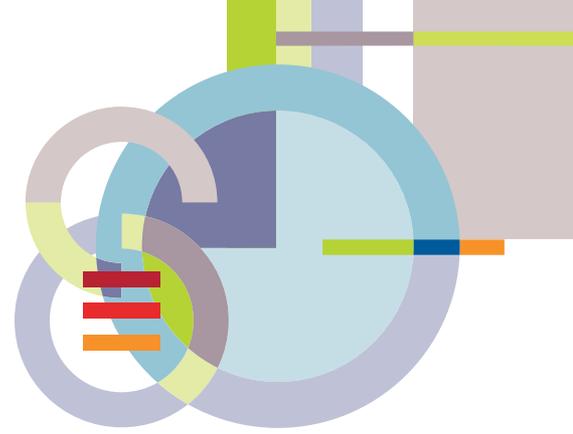
PPF compensation – annual increase formula



Notes

- The PPF compensation cap is reviewed from time to time (eg in the light of inflation), but there is currently no guaranteed formula for increasing this.
- Subject to the cap, compensation for deferred pensions is increased in line with inflation up to a maximum of 5%. Increases on widows and dependant pensions depend on when the original member left service.
- We have done our best to make this chart a fair summary of the PPF compensation rules, but the Trustee cannot accept any responsibility for any discrepancy between this summary and the actual PPF rules, which may change. For full information on PPF compensation, see the PPF website www.pensionprotectionfund.org.uk

Becoming a Member-Nominated Director



Since 2006, being a Member-Nominated Director ('MND') has been open to all pensioners, deferred members and employed members who are, or used to be, contributing members of the Fund.

The key features of the arrangements are:

- 5 out of the 11 Trustee Board places (which includes 1 place for Law Debenture) are for MNDs.
- Selection is made by a selection panel, comprising Trustee Board members who are themselves members of the Fund, with the addition of Law Debenture.
- The nomination and selection processes are advertised every year through Pensions News.

Nominations are valid for a period of three years – so, even if there is no vacancy at present, it is still worth putting yourself forward so that you can be considered for new vacancies as and when they arise.

As reported in the end-April special Chairman's Newsletter, the existing MNDs – Brian Bunt, John Fitzpatrick, Alf Friston and

Kevin January – were reappointed earlier this year for the balance of their existing five-year terms, and Fred Gray was appointed as a new MND, commencing March 2007. This means that there should be, on average, one MND vacancy arising every year – although Trustee Directors can (and frequently do) volunteer to serve more than one term. It is too early to say what impact the proposed Akzo Nobel takeover might have on the Trustee Board overall but, since all decisions about MNDs lie entirely with Fund members and the Trustee Board selection panel, we expect that MNDs – particularly pensioners – will be an important source of continuity for the Trustee Board.

If you're interested in being considered for future vacancies, please write to the Membership Secretary requesting an MND Information Pack and Nomination Form. Please note that Nomination Forms must be returned by **15 January 2008** in order to be considered for any vacancies arising before November 2008.

Pension input period

You may need to be aware of the pension input period when completing your annual tax return. The pension input period will be taken as 31 March each year. This period will be used when calculating the Annual Allowance (ie the maximum pension benefits you may build up each year), which is set at £225,000 for the 2007/08 tax year.



Front cover of ICI's first house journal, January 1928. The design symbolised the company's progressive ideas for linking workers and management, a philosophy inherited from Brunner, Mond.

Secretary's postbag

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Almost inevitably, most of the questions coming into ICI Pensions Services this year have been concerning the proposed takeover of ICI by Akzo Nobel. Answers to many of these have already been sent to members who wrote in with questions and were subsequently posted on the Trustee website. But, since some members do not have Internet access, we have grouped together questions and answers on the most popular themes, together with a few additions.

Will anything change immediately?

If ICI is taken over, will ICI Pension Fund still pay my pension as usual, or could my benefits be cut?

We can reassure members that, in the immediate aftermath of any takeover:

- ICI Pension Fund would carry on paying pensions as normal
- a new owner could not change benefit entitlements retrospectively
- Imperial Chemical Industries PLC would still be responsible for giving financial support to ICI Pension Fund, even though it would be owned by another company.

Since the Fund has a deficit on an ongoing basis and an even bigger deficit on a 'winding-up' basis, does this mean that my pension could now be cut back?

No. For as long as the Fund continues to have the financial support of a viable employer, all pension benefits will continue to be paid in full, even if the Fund is temporarily in deficit. And, if the proposed takeover by Akzo Nobel goes ahead, the Fund will have the benefit of a guarantee directly from Akzo Nobel N.V., in addition to the existing ICI guarantee.

How secure is my pension in the longer term?

How does the Trustee view the prospect of ICI being taken over?

It is not a role of the Trustee either to encourage or discourage any changes in the ownership of ICI. Our role is to ensure that whoever controls ICI understands:

- the requirements of the UK pensions regulatory system (modified by the special protections in our Trust Deed & Rules); and that
- under that system, the Trustee view on deficits and funding requirements will vary according to the specific circumstances of our Fund – including any change to the strength of the employer covenant.

The Trustee is pleased that Akzo Nobel engaged directly with the Fund and its advisers in constructive, private negotiations to reach an agreement satisfactory to the Trustee on how the security of pensions would be maintained if the takeover goes ahead.

None of us can predict perfectly what the future may hold, so what's the worst that could happen to my pension?

Since the advent of the Pension Protection Fund ('PPF') in 2005, members have the benefit of PPF protection in the event of their sponsoring employer being unable to make good a deficit in the pension fund. See page 8 for more details.

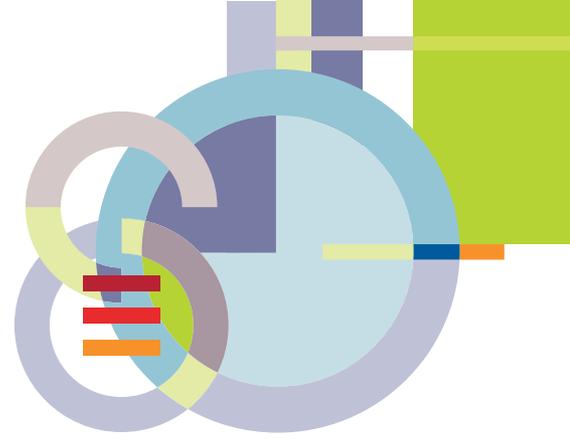
Can you give me an absolute guarantee that I will always get my ICI pension exactly as it was promised to me?

No, because the only pensions that are absolutely guaranteed in all circumstances are those guaranteed by the Government, who have so far refused to promise that

The admin team from left to right: John Kennedy, Tracey Dalmon, Lorraine Davey, Keith Davies and Suzi Cudby.

Any questions?

If you have a question which you would like addressed in next year's Pensions News, you can email us at membership.secretarial@watsonwyatt.com or write to the Membership Secretary at ICI Pensions Services, PO Box 545, Redhill Surrey RH1 1YX.



taxpayers' money would be used to support the PPF. However, we have expanded our Summary Funding Statement this year in order to explain in more detail how the Trustee seeks to make Fund pensions as secure as practicable, particularly in circumstances where the financial strength of the employer may change.

I'm a member under normal retirement age with pension rights just over the PPF protection limit and, frankly, I find it very difficult to understand the PPF compensation formula.

This is an increasingly common point. Consequently, we will be introducing some member-specific information on this subject into benefit statements or annual increase statements in 2008.

The Trustee is saying that the interim review shows that the deficit has roughly doubled to £700 million, whereas ICI's half yearly results talked about an increased provision for pensioner longevity of only £175 million. Which is correct?

The Trustee has been advised by the Scheme Actuary that it would be prudent for the Fund to be funded on the basis that pensioner longevity requires provision for a further £350 million, giving a total funding deficit of £700 million. When the Scheme Actuary calculates ICI's pension liabilities, he uses 'prudent estimates', which means that allowance is made for the possibility that the actual outcome may be worse than expected.

When ICI calculates its pension liabilities, it uses 'best estimates'. This means that ICI calculates its pension liabilities on the basis of the outcome which it believes is most likely. In addition, ICI preferred not to reach

a view on the full extent of the extra provision required for pensioner longevity until a further year's data becomes available at the time of the scheduled triennial review in March 2008.

Consequently, ICI and the Trustee agreed to concentrate on reaching immediate agreement on interim additional funding of £200 million, spread over the next three years, and to defer consideration of the remainder of the difference until the full actuarial valuation as at 31 March 2008. Akzo Nobel is aware of this position.

Queries on pensioner booklet

Last year's pensioner booklet says that the Trustee has a power to reduce the pension payable to my spouse because she is significantly younger than me, but I was previously told that this would not affect the value of her benefits. Which is right?

In the past, the Trustee commonly decided not to apply a reduction to a spouse's benefits where the spouse was 10 or 15 years younger (depending on when the marriage took place). However, the Trustee has decided that from now on it will look at each case individually and is likely to apply the reduction, unless it can be persuaded not to do so in a particular case eg financial hardship of the spouse.

And finally...

When will it be possible to view details about my own pension online?

We are currently working on introducing a link to Watson Wyatt's 'ePA' or electronic pension administration system. This will allow members to view details such as the value of their pension and to update contact details. We hope to have this service available to members before next year's issue of Pensions News.



A cartoon marking the introduction of the Staff Grade Scheme, ICI Magazine, February 1928

Trustee Board and advisers



From left to right: Brian Bunt, Helen James (Law Debenture), Alf Friston, Charles Amos, Wynne Turner, Fred Gray, David Gee, Ian Canham, Maria Cormican, John Bloxsome (Law Debenture), Kevin January, John Fitzpatrick and Tim Hampton. John Hunter has joined the Trustee Board since this photo was taken.

Contributing members

If you have a query about your benefits, please contact your local HR Department.

You can also ask questions by emailing the Membership Secretary at: membership.secretarial@watsonwyatt.com

Pensions Helpline

If you have a query about your benefits, you can contact the Pensions Helpline on: **01707 607500** or write to:

ICI Pensions Services
PO Box 545
Redhill
Surrey RH1 1YX

The Pensions Helpline is open from 0900–1700, Monday to Friday. Please have your payroll number (on your payslip) with you when you call, as it will help us to trace your record quickly.

Any change of address or change in bank details must be given in writing, due to the risk of fraud. The ICI Pensions Services team cannot alter these details without your signature.

If you have a general query, you may wish to refer to the Trustee website at: www.icipensionfund.org.uk

The Board uses four committees to help in the running of the Fund:

- ‡ Appeals Committee
- * Investment Committee
- † Policy & Administration Committee
- ∫ Strategic Risk Committee

Trustee Board

David Gee Chairman ∫
Brian Bunt MND, Pensioner *
Ian Canham Imperial Chemical Industries PLC †‡
John Fitzpatrick MND, Pensioner †‡
Alf Friston MND, ICI Paints *∫
Fred Gray Pensioner †* (from 30 March 2007)
Tim Hampton (from 14 February 2007)*
John Hunter ICI Paints (from 26 July 2007)
Kevin January MND, ICI Paints †
Wynne Turner Imperial Chemical Industries PLC †∫
The Law Debenture Trust Corporation p.l.c. *†∫
Charles Amos Board Secretary
Maria Cormican Assistant Board Secretary
Tracey Dalmon Membership Secretary

Principal advisers at November 2007

Scheme Actuary: **Robert Hails, Watson Wyatt Limited**

Auditor: **KPMG LLP**

Corporate finance adviser: **Penfida Partners LLP**

Investment Adviser:

Watson Wyatt Investment Consulting

Investment Managers as at 31 March 2007:

Ashmore Management Company Limited
Barclays Global Investors Limited
Goldman Sachs Asset Management International
Intermediate Capital Managers Limited
Muzinich & Co Limited
PIMCO Europe Limited
Southeastern Asset Management, Inc.

Solicitors: **Allen & Overy LLP**
Hammonds



Original telephone exchange, Imperial Chemical House, 9 Millbank, London SW1