ICI Pensions Services
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PENSION FUND

October 2006

Summary Funding Statement
ICI Pension Fund (the 'Fund')
Summary Funding Statement as at 31 March 2006

This statement is being sent to you on behalf of ICI Pensions Trustee Limited, who is the Trustee responsible for looking after the Fund. As a person entitled to benefits from the Fund, we are writing to give you an update of the Fund's financial position. We will send you a statement like this each year so that you have updated information about the funding position of the Fund, wherever possible, as part of the annual Pensions Newsletter issued in November each year.

Earlier in the year, you will have received your first Summary Funding Statement, based on the last full actuarial valuation of the Fund as at 31 March 2005 and an estimate of how the position had changed as at 31 March 2006. This statement updates the position to give a fuller account of the position as at 31 March 2006, now that the interim review has been completed.

The content of this statement is defined by government regulations and so what we cover in it may vary from year to year where the regulations change.

The ongoing funding position

The most recent funding valuation of the Fund showed that on 31 March 2005 there was a shortfall of £657 million (ie the Fund's assets were £657 million less than the amount needed to provide benefits) and the funding level was 91%. As a result, ICI agreed to pay additional contributions (£122 million a year for four years, followed by £62 million a year for the next five years) to eliminate the shortfall. There was no change in the rate of active members' contributions.

The interim review of the Fund's financial position showed that the funding position had improved as at 31 March 2006, compared to 31 March 2005, with the shortfall reduced and the funding level increased:

Assets	**£7,031 million**
Amount needed to provide benefits	**£7,574 million**
Shortfall	**£543 million**
Funding level	**93%**

The main reasons for this improvement were:

- the additional £122 million in contributions paid by ICI between 31 March 2005 and 31 March 2006;
- the higher than expected investment return achieved by the Fund's assets over the same period.

However, these improvements were significantly offset by lower interest rates used in calculating the amount needed to provide the benefits.

Valuation on a solvency – or 'winding up' – basis

The estimated amount needed to ensure that all members' benefits could have been paid in full if the Fund had started winding up (full solvency) was approximately £9,600 million as at 31 March 2006 and the corresponding funding level was 73%.

Following the first ever Summary Funding Statement issued earlier this year, a number of members asked why the funding level on a 'winding up basis' is significantly lower than the ongoing funding position. The reason is as follows:

If a pension fund is wound up, unless it is taken over by the Pension Protection Fund, it must generally purchase annuity guarantees from an external insurance company or, if this is impractical, set aside and invest its assets in a way which is broadly similar to the manner in which a regulated insurance company would do. The cost of purchasing annuities is very expensive because of the type of assets insurance companies invest in and the fact that the insurance companies will be seeking to make a profit.

Under the Trust Deed of the Fund, ICI cannot choose to wind up the Fund unless it is itself in liquidation, and under the Pensions Act 2004 ICI would then be liable to contribute the amount necessary to secure members' benefits in full – though the Company would be likely to have very limited capacity to pay any such contribution in those circumstances.

No payments back to ICI

There has not been any payment to ICI out of the Fund's assets over the period 1 April 2005 to 31 March 2006 nor, so far as the Trustee is aware, at any time previously. The Trust Deed which governs the ICI Pension Fund has for many years contained strict provisions about the payment of scheme money to employers. Essentially, payments could only be made to employers if the Fund is terminated at a time when it has more than enough money to secure every member's benefits in full.

Important: *If you are thinking of leaving the Fund for any reason, you should consult a professional advisor, such as an independent financial advisor, before taking any action.*

The importance of ICI's support

The Trustee's ongoing funding target is to have enough money in the Fund to pay pensions now and in the future, assuming that ICI is able to continue to support the Fund:

- ICI will be paying deficit contributions as explained above, plus the cost of employed members' benefit accrual, as well as the expenses of running the scheme;

- the funding level can fluctuate as a result of changes in investment conditions, and when there is a funding shortfall, ICI will usually need to put in more money; and
- the target funding level may turn out to be too low – for instance as a result of improved life expectancy – so that ICI will need to put in more money.

If you have not yet retired and wish to transfer your pension to another arrangement, it is possible that the funding level could affect the level of future transfer payments. The government has recently announced a review of the regulations governing the calculation of transfer payments and we will tell all members not already drawing their pension if there is any significant change.

Whilst the scheme remains ongoing, even though funding is temporarily below target, pensions will continue to be paid in full.

What would happen if the scheme started to wind up?

As explained, the Fund can only be wound up if ICI goes into liquidation and ICI would then be required to pay enough into the Fund to enable members' benefits to be completely secured with an insurance company. It is unlikely, however, that ICI would be able to pay this amount in full in such circumstances, and therefore likely that you would not receive the full amount of pension you have built up, even if the Fund is fully funded on an ongoing basis.

However, the Pension Protection Fund should, in those circumstances, ensure that members receive a statutory minimum level of compensation. A summary of the PPF compensation regime is given on page 4 of this year's Pensions News, which accompanies this statement. Further information and guidance is available on the Pension Protection Fund's website at: www.pensionprotectionfund.org.uk

Or you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Where can I get more information?

This Summary Funding Statement is based on the actuarial valuation report of the scheme Actuary as at 31 March 2005 and the interim funding review as at 31 March 2006. If you would like any more information on this subject, copies of the 2005 valuation report are available to members (price £5 or free by e-mail) from ICI Pensions Services, at the address given below. You can also request further information about any other aspect of your pension from ICI Pensions Services.

The next Summary Funding Statement you receive should be part of the 2007 pensions newsletter, and should contain a further update on the position as at 31 March 2007.

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