# Summary Funding Statement

**ICI Pension Fund (the 'Fund')**
**Summary Funding Statement as at 31 March 2008**

ICI PENSION FUND

This statement is being sent to you on behalf of ICI Pensions Trustee Limited, who is the Trustee responsible for administering the Fund. As you are a person entitled to benefits from the Fund, we are writing to give you an update on the Fund's financial position. We will send you a statement like this at least once a year so that you have updated information about the funding position.

In November 2007, you will have received your fourth Summary Funding Statement, showing how the funding position had improved between the last full actuarial valuation of the Fund as at 31 March 2005 and the interim review as at 31 March 2007, updated to reflect additional contributions paid after that date. This statement updates the position to illustrate the results of the full Actuarial Valuation as at 31 March 2008 and the additional funding which Imperial Chemical Industries Limited ('ICI') has promised in response. Since this is the first such valuation under the Scheme-Specific Funding regulations made under the Pensions Act 2004, we are required to make certain changes to the content of this statement; but the overall intention remains, as before, to give members a readable summary of the information on funding contained in the latest actuarial advice available to the Trustee.

## The ongoing funding position

The last full 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 estimated amount needed to provide benefits over the life of the Fund) and the funding level was 91%. As a result, ICI agreed to pay additional contributions to eliminate the shortfall.

The interim review of the Fund's financial position on 31 March 2007 showed a somewhat higher shortfall, of £700 million, despite the additional contributions that had been paid by the Company since 2005. As a result of this, the Company agreed to pay further additional contributions, over and above what had been agreed following the 2005 valuation. Further details of this were provided in the previous Summary Funding Statement.

The valuation as at 31 March 2008 is a comprehensive and formal review of the Fund's ongoing financial position, including a detailed analysis of the funding assumptions (such as the Fund's future investment performance and members' life expectancies). The new scheme-specific funding process means that, if the valuation shows a shortfall, a formal recovery plan must be drawn up to correct it.

It is normal, in an ongoing funding valuation, to take a prudent level of advance credit for expected long-term future investment performance. However, the falls in world financial markets during 2008 were of such significance that the Trustee (with the agreement of the Company) felt that some explicit recognition of the implications for the Fund's ongoing financial position was required both in the valuation and the funding plan, even though these events took place after 31 March 2008. Consequently, the shortfall below includes an allowance of £480 million specifically to take account of subsequent events in investment markets.

The ongoing funding position (including the special allowance for subsequent investment developments as described above) as at 31 March 2008 is estimated as follows:

| | |
|---|---|
| **Assets** | **£7,120 million** |
| **Amount needed to provide benefits** | **£8,345 million** |
| **Shortfall** | **£1,225 million** |
| **Funding level** | **85%** |

The main reasons for the change in the ongoing financial position (whether compared to the position in 2005 or the position in 2007) were the Fund's investment performance (which was poorer than expected), the changes made to the scheme-specific funding assumptions (anticipating lower future investment returns and increased member life expectancy) and the allowance made for events after the valuation date, all of which offset the positive effect of the shortfall contributions paid by the Company.

As a result, the schedule of shortfall contributions was revised in March 2009, and the shortfall contributions due (or already paid) from ICI from 31 March 2008 are as follows:

- a total of £175 million due in the year ending 31 March 2009 (including shortfall contributions of £122 million already paid before the schedule was revised);
- contributions of £175 million in January 2010 and in January 2011; and
- contributions of £195 million each January from 2012 to 2017 inclusive.

(Under the previous schedule, shortfall contributions totalling £172 million were due by the end of March 2009 and contributions totalling £176 million were due by the end of March 2010.)

## 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 2008 nor, so far as the Trustee is aware, at any time previously to any company connected with ICI or with AkzoNobel. The Trust Deed which governs the ICI Pension Fund contains strict provisions about the payment of Fund money to employers. Essentially, payments can 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.

## No intervention by The Pensions Regulator

In certain circumstances, The Pensions Regulator has powers to intervene in a scheme's funding plan, by changing the future accrual of benefits, setting the level of the statutory funding objective, setting the terms of the recovery plan for meeting the statutory funding objective and/or imposing a schedule of contributions. The Pensions Regulator has not used any of these powers in relation to the Fund.

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

As part of the valuation, the Fund's solvency position was assessed as at 31 March 2008, showing a shortfall of £2,500 million and a solvency funding level of 78% compared with 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). This estimate is based on the position at 31 March 2008; unlike the ongoing funding position, it has not been adjusted to allow for any changes after that date in investment markets, or in the cost of securing benefits with insurers. The solvency position is reviewed each year as part of the Fund's interim funding review.

## Takeover by Akzo Nobel N.V. ('AkzoNobel')

Since 2 January 2008, ICI has been a wholly-owned subsidiary of AkzoNobel. With effect from the same date, the Fund also has the benefit of an unlimited guarantee from AkzoNobel of all ICI's obligations to make payments to the Fund in accordance with the Trust Deed, pensions legislation and any specific agreements between the Trustee and ICI (such as the Schedule of Contributions).

## What would happen if the Fund started to wind up?

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. If ICI itself could not pay, then the Trustee would look to the AkzoNobel guarantee for payment instead. In the unlikely event that neither ICI nor AkzoNobel were able to pay this amount in full, you would, in those circumstances, 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 was given on page 10 of last year's Pensions News, which is also available on the Fund's website at www.icipensionfund.org.uk. 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.

## Transferring your benefits out of the Fund

You may not yet have retired and, if so, you may wish to transfer your pension to another arrangement. It is possible that the funding level could affect the level of future transfer payments. Details of transfer values are available on request from ICI Pensions Services at the address stated at the end of this statement.

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

## The importance of employer financial support (the 'employer covenant')

The Trustee's ongoing funding target is to have enough money in the Fund to pay pensions in full now and in the future, assuming that ICI (supported as necessary by AkzoNobel) is able to continue to support the Fund:

- ICI (supported as necessary by AkzoNobel) will be paying deficit contributions as explained above, plus the cost of employed members' benefit accrual, as well as the expenses of running the Fund;
- the funding level can fluctuate as a result of changes in investment conditions, and when there is a funding shortfall, ICI (supported as necessary by AkzoNobel) 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 (supported as necessary by AkzoNobel) will need to put in more money.

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

## Measuring the Fund deficit if the employer covenant were to weaken

This is a new section which we added to the Statement in 2007 to explain the Trustee policy for assessing the Fund's liabilities, and hence the deficit, in the event that the Trustee were not able to rely on the financial support of ICI (AkzoNobel) in the future, to the same extent that we can now. This includes (but is not limited to) situations which could arise following a change in ownership of ICI (or of AkzoNobel).

The Trustee policy has been developed to meet the new UK regulatory regime for Scheme-Specific Funding (modified by the special protective provisions in the ICI Pension Fund Trust Deed), which will apply to any new valuation of this Fund. These regulations assume that the valuation principles will normally be agreed between the Trustee and ICI. In the event of a failure to agree, The Pensions Regulator normally has power to decide for itself the actual level of employer contributions. However, if AkzoNobel were to be taken over, or if its credit rating were to be significantly damaged, The Pensions Regulator would also have to take account of the powers of the Scheme Actuary to set a minimum level of contributions in those circumstances. 'Scheme-Specific Funding' means, broadly, the amount of money that the Fund needs in order to provide reasonable security for members' accrued benefits. This depends on the specific circumstances of the Fund at the time and, in particular, on the extent to which it can confidently rely on ICI's and AkzoNobel's continued financial support. This means that there is no single answer as to the appropriate size of the funding deficit if circumstances change.

For instance, the current assessment of the deficit effectively includes some advance credit for expected higher investment returns from some riskier assets which could go down as well as up. If the employer covenant were not strong enough in future to cope with such higher investment risk, the Trustee would have to change the investment policy to one where expected returns were lower but more predictable. Depending on the extent to which investment returns were lower and other assumptions needed also to be more cautious, the deficit to be met by employer contributions could increase quite substantially.

For example:

- **Significant Reduction in Investment Risk**
  It might be prudent to increase the proportion of the Fund invested in low risk bonds to 90%, to maximise the level of inflation protection and increase the certainty of investment returns.
- **Self-Sufficiency Basis**
  It might be prudent to assume that no future employer contributions at all would be available in the long term and so the Fund would need to minimise all investment risks – and to make further provision for the difficulty in forecasting how long pensioners may live in future.
- **Buyout or 'Solvency' Basis**
  This is the estimated amount necessary to secure all pension benefits with external insurers, which is relevant if it becomes certain that no future employer support would be available.

It is difficult to illustrate the impact of using these different bases using the 31 March 2008 position, given the special allowance that might need to be made in these figures for subsequent events in investment markets and the unusually competitive state of the buy-out market in March 2008. However, the Scheme Actuary has estimated that the shortfall on a Buyout or 'Solvency' basis as at 31 March 2008 would have been £2,500 million and that the cost of funding to a self-sufficiency basis would have been broadly similar. As mentioned above, this estimate is based on the position at 31 March 2008 and (unlike the ongoing funding position) has not been adjusted to allow for any changes after that date in investment markets, or in the cost of securing benefits with insurers.

## 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 2008. 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 full valuation report is also available on the Trustee website at www.icipensionfund.org.uk.

The next Summary Funding Statement you receive should be part of the 2009 pensions newsletter, and should contain an update on the position as at 31 March 2009.

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