Summary Funding Statement

PENSION FUND

ICI Pension Fund (the 'Fund')

Summary Funding Statement as at 31 March 2011

This statement is being sent to you on behalf of ICI Pensions Trustee Limited, which is the Trustee responsible for administering the Fund. As you are 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 regularly, so that you have updated information about the funding position.

In October 2010 you received the last Summary Funding Statement showing how the funding position had changed between the actuarial valuation of the Fund as at 31 March 2008 and the interim review as at 31 March 2010. This statement sets out the results of the latest actuarial valuation as at 31 March 2011. The valuation is a comprehensive formal review of the Fund's ongoing financial position, and includes a detailed consideration of the underlying funding assumptions. It covers matters such as the future investment performance of the Fund's assets and how long members' pensions are expected to be paid.

The funding position as at 31 March 2011

The last actuarial valuation of the Fund showed that on 31 March 2008 there was a deficit of £1,225 million. In other words, there was a shortfall in the value of the Fund's assets compared with the estimated amount needed to provide benefits, earned by the valuation date, as and when they become payable over the life of the Fund. The corresponding funding level (the ratio of the value of the Fund's assets to the amount needed to provide benefits) was 85%. As a result, ICI agreed to pay additional deficit contributions over a period of around nine years that were expected to eliminate the shortfall. Further details of this were provided in the Summary Funding Statement issued in March 2009.

By the 31 March 2011 valuation date the Fund had received the first three instalments of the agreed deficit contributions, totalling £525 million. The actuarial valuation to assess the financial position of the Fund as at the valuation date has now been completed. Based on the assumptions agreed by the Trustee and ICI, for the purposes of the valuation, the funding position as at 31 March 2011 was calculated to be as follows:

Assets	£7,707 million
Amount needed to provide benefits	£8,741 million
Shortfall	£1,034 million
Funding level	**88%**

The improvement in the financial position since the 2008 actuarial valuation (with the shortfall reducing from £1,225 million to £1,034 million) is mainly due to the net effect of:

- additional contributions paid to the Fund over the inter-valuation period,
- better than expected investment performance,
- changes to the funding assumptions (anticipating lower future investment returns and pensions being paid for longer, reflecting increased member life expectancy), and
- an increase in the estimate of the amount needed to provide the benefits by £340 million, in anticipation of future action by the Trustee to reduce the level of risk inherent in operating the Fund.

The inclusion of an additional £340 million of reserves in the estimate of liabilities secures additional funding from ICI and enables the Trustee to reduce risk in the Fund over time. These reserves are covered by a separate agreement between the Trustee and ICI which details how they will be used to fund de-risking initiatives implemented by the Trustee. In acknowledgement of this new arrangement, the asset-backed guarantee (established in 2004 to provide additional funding of up to £250 million on the insolvency of ICI) has been terminated.

Reflecting the updated funding position, a revised contributions schedule has been agreed with the following deficit contributions payable over six years from the valuation date:

- £335 million paid in January 2012,
- £135 million payable by 31 January 2013, and
- £178.5 million payable each year by 31 January from 2014 to 2017 inclusive.

The previous Summary Funding Statement showed that the estimated funding level at 31 March 2010 was 91%. The reduction to 88% over the year to 31 March 2011 is due primarily to the deficit contribution received in January 2011 being lower than an increased allowance for longer life expectancy and the inclusion of the de-risking reserves mentioned above.

No payments back to ICI

There has been no payment to ICI out of the Fund's assets over the period 1 April 2008 to 31 March 2011 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 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 the power to intervene in a scheme's funding plan. This could include 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 actuarial valuation, the Fund's solvency position was assessed. A solvency valuation assumes that all benefits will be secured by buying policies in the insurance market and estimates the total funds that this would require. The solvency valuation showed that if the Fund had started winding up as at 31 March 2011 there would have been an estimated shortfall in assets of £1,922 million compared with what would be needed for members' benefits to be paid in full by an insurance company. The solvency funding level as at 31 March 2011 was 80%. Please note that insurance companies tend to place a higher value on scheme liabilities than the value used by trustees for funding purposes.

Guarantee from AkzoNobel 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. In the event of this happening, ICI would have an obligation 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 AkzoNobel to make the payment instead under the terms of the guarantee. In the event that neither ICI nor AkzoNobel could pay this entire amount, you would not receive the full amount of pension you have built up (even if there was no deficit in the Fund based on the most recent actuarial valuation available at that time). This information is provided for completeness only and does not imply that the Fund is likely to wind-up.

If ICI were to go into liquidation, the Pension Protection Fund should ensure that members receive a statutory minimum level of compensation. A summary of the PPF compensation regime was given on page 10 of Pensions News 2009, which is 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

If you have not yet retired, 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 (contact details are 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 target funding level is to have enough money in the Fund to pay all pensions in full, now and in the future, and is based on the assumption that ICI (supported as necessary by AkzoNobel) is able to continue to support the Fund. As explained above, ICI will continue to pay deficit contributions, 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 variables such as changes in investment conditions or as a result of improved life expectancy. When there is a funding shortfall, ICI (supported as necessary by AkzoNobel) will usually need to put in more money.

Unless the Fund is wound up, pensions will continue to be paid in full even though funding is temporarily below target.

Measuring the Fund deficit if the employer covenant were to weaken

The current approach to funding reflects the Trustee's assessment of the covenant of ICI (as supported by AkzoNobel), and its continued ability to meet its ongoing obligations to the Fund. In the event that the Trustee were not able to rely on the financial support of ICI (or AkzoNobel) in the future as we can now, the funding requirement would be reassessed and the deficit could increase substantially. This includes (but is not limited to) situations which could arise following a change in ownership of ICI (or of AkzoNobel).

By way of an example, the current assessment of the deficit effectively includes some advance credit for expected higher investment returns from some riskier assets which could also fall substantially in value. If the employer covenant were not strong enough in future to cope with such investment risk, the Trustee would have to consider changing the investment policy to one where expected returns are more predictable but lower. Lower investment returns and more cautious assumptions could increase the deficit to be met by employer contributions quite substantially. This is illustrated by the results of the most recent actuarial valuation: on the assumptions agreed for the ongoing valuation the funding deficit is £1,034 million. On the more conservative assumptions used in estimating the cost of securing members' benefits with an insurance company (the solvency valuation) the deficit increases to £1,922 million.

The Trustee's funding policy has been developed to meet the UK regulatory regime for Scheme-Specific Funding (modified by the special protective provisions in the ICI Pension Fund Trust Deed), and is set out in more detail in the Fund's Statement of Funding Principles (available via the Trustee website at www.icipensionfund.org.uk). 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 Fund Actuary to set a minimum level of contributions in those circumstances. 'Scheme-Specific Funding' broadly requires the amount of money that the Fund needs to be set 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.

Next actuarial valuation

The next actuarial valuation is expected to be undertaken as at 31 March 2014. However, the Trustee or ICI can commission an earlier actuarial valuation of the Fund to review ICI's contribution requirements if appropriate. For years when an actuarial valuation is not undertaken, a review of the financial position of the Fund will be completed and the results communicated to members in future Summary Funding Statements. The next Summary Funding Statement you receive should be part of Pensions News 2012 and should contain an update of the funding position as at 31 March 2012.

Where can I get more information?

This Summary Funding Statement is based on the actuarial valuation report of the Fund Actuary as at 31 March 2011. If you would like any more information on this subject, copies of the 2011 valuation report are available to members at a cost of £5 by post from the address given below, or free by e-mail or direct from the Trustee website at www.icipensionfund.org.uk. You can also request further information about any other aspect of your pension from ICI Pensions Services.

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