Summary Funding Statement

ICI Pension Fund (the 'Fund')
Summary Funding Statement as at 31 March 2006
– updated to 30 April 2007

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 of 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 last year, you will have received your second 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 an updated estimate as at 31 March 2006. This statement updates the position to illustrate the further impact of deficit contributions received from ICI since October 2006.

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 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 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 an improved funding position as at 31 March 2006 as follows:

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 contributions received and the higher than expected return on the Fund's assets over the period, largely offset by the lower interest rates used in calculating the amount needed to provide the benefits.

Since the last Summary Funding Statement was prepared in October 2006, the Fund has received:

- the scheduled additional £122 million contribution from ICI for the year to 31 March 2007
- an additional one-off payment of just under £14 million made following the disposal of Uniqema
- an additional one-off payment of £138 million from the proceeds of the Quest disposal (see Chairman's letter of 30 April 2007).

There are many other factors to be taken into account in estimating the overall funding position as at 31 March 2007 and so we are not in a position to report to you on this subject at this time. However, if the additional contributions referred to above had been received as at 31 March 2006, the effect would have been to reduce the shortfall at that date to £269 million, which would have improved the funding level to 96%.

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 30 April 2007 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.

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

Following the disposal of Uniqema in 2006 the Fund's solvency position was assessed as at 1 September 2006, showing a shortfall of £2,800 million and a solvency funding level of 72% 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). If the additional Company contributions referred to above had been received by 1 September 2006, this solvency funding level would have increased to 74%.

What would happen if the scheme 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. It is unlikely, however, that ICI would be able to pay this amount in full in such circumstances, and it is 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 was given on page 4 of last year's Pensions News, which is also available on the Fund's new 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 ICI's 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 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 Fund;
- 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.

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 have added to the statement to explain the Trustee policy for assessing the Fund's liabilities (and hence the deficit) in the event that the Trustee was not able to rely on the financial support of ICI in the future, to the same extent that this has been available in the past. This includes (but is not limited to) situations which could arise following a change in ownership of ICI.

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 the Principal Employer (ICI) subject (because of the special protective provisions) to the Scheme Actuary deciding the minimum level of employer contributions. In the event of a failure to agree, the Pensions Regulator has the power to decide the actual level of employer contributions, subject to the Scheme Actuary's minimum.

'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 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.

These examples can be illustrated using the 31 March 2006 position as a point of comparison.

	Shortfall £ billion
Latest Interim Review as at 31 March 2006 (see page 1)	**0.5**
with significant reduction in investment risk	**1.1**
Self-sufficiency basis	**2.2**
Buyout or 'Solvency' basis	**2.8**

Note: the figures above do not allow for the additional £274 million contributions received since 31 March 2006, nor for the £250 million asset-backed guarantee which the Trustee could call upon in the event of insolvency of ICI.

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 an update on the position as at 31 March 2007.

Address for further enquiries:

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Or see our new website at: www.icipensionfund.org.uk