Summary Funding Statement

ICI Pension Fund (the 'Fund')

Summary Funding Statement as at 31 March 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 May this year, you will have received your third 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 2006, updated to reflect additional contributions paid after that date. This statement updates the position to illustrate the results of the Interim Funding Review as at 31 March 2007 and the additional interim funding which ICI has promised in response.

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 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 (£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 on 31 March 2006 showed a somewhat lower shortfall of £543 million.

Since then, the Fund has continued to receive planned additional contributions and, on top of these, has received additional one-off payments totalling £152 million following the disposals of Uniqema and Quest. Investment conditions were also, in the main, modestly favourable to the Fund in the year to 31 March 2007. On the other hand, the Trustee was faced with increasing evidence – both from the Fund's own records and from the wider UK actuarial consensus – that pensioners are likely to live even longer than previously estimated, and so further allowance needs to be made for future improvements in longevity.

Consequently, the ongoing funding position as at 31 March 2007 is estimated as follows:

Assets	**£7,070 million**
Amount needed to provide benefits	**£7,770 million**
Shortfall	**£700 million**
Funding level	**91%**

The Trustee discussed these results with ICI in July and reached agreement on 1 August 2007 on an interim funding package of £200 million spread over three years, in addition to the rectification payments already agreed.

Consequently, the revised schedule of contributions due from ICI is as follows:

	Previous Schedule £m	Additional Schedule £m	Total Contributions £m
by March 2008	122	50	172
by March 2009	122	50	172
by March 2010	76	100	176

No payments back to ICI

There has not been any payment to ICI out of Fund's assets over the period 1 April 2005 to 31 March 2007 nor, so far as the Trustee is aware, at any time previously. 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.

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

As part of the Interim Funding Review, the Fund's solvency position was assessed as at 31 March 2007, showing a shortfall of £2,900 million and a solvency funding level of 71% 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).

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. 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 website, **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 (or, if ICI is taken over, some other company who has guaranteed its obligations) is able to continue to support the Fund:

- ICI (or its guarantor) 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 (or its guarantor) 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 (or its guarantor) 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 this year 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 (or its guarantor) 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 its guarantor).

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 has power to decide the actual level of employer contributions, subject to the powers of the Scheme Actuary to set a minimum level of contributions in certain 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 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 2007 position as a point of comparison.

	Shortfall £ billion
Latest Interim Review as at 31 March 2007 (see page 1)	**0.7**
with significant reduction in investment risk	**1.0**
Self-sufficiency basis	**2.2**
Buyout or ‘Solvency’ basis	**2.9**

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 2007. 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 2008 pensions newsletter, and should contain an update on the position as at 31 March 2008.

Address for further enquiries:
ICI Pensions Services
PO Box 545
Redhill
Surrey RH1 1YX

Telephone: 01707 607500
E-mail: **membership.secretarial@watsonwyatt.com** or see **www.icipensionfund.org.uk**