Summary Funding Statement

ICI Pension Fund (the 'Fund')

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This statement has been produced by ICI Pensions Trustee Limited which is the Trustee responsible for administering the Fund. As you are entitled to benefits from the Fund, we are giving you an update on the Fund's financial position. We will produce a statement like this regularly so that you have updated information about the funding position.

In October 2013, the previous Summary Funding Statement showed how the funding position had changed between the full actuarial valuation of the Fund as at 31 March 2011 and the interim review as at 31 March 2013. This year's statement sets out the results of the latest actuarial valuation, as at 31 March 2014, together with an update of the position to reflect the results of the interim review, as at 31 March 2015. The valuation is a comprehensive formal review of the Fund's financial position and includes a detailed consideration of the underlying funding assumptions. It covers matters such as the expected future investment performance of the Fund's assets and how long members' pensions are expected to be paid. An interim review is an update which reflects changes in the Fund since the previous valuation or review but is not as comprehensive as an actuarial valuation.

The funding position as at 31 March 2014

The previous actuarial valuation of the Fund showed that on 31 March 2011 the value of the Fund's assets was £1,034 million less than the amount estimated to be needed to provide benefits earned up to that date, as and when they become payable. The corresponding funding level (the ratio of the value of the Fund assets to the amount estimated to be needed to provide benefits) was 88%. As a result, ICI agreed to pay additional deficit contributions over a period of around six years from the valuation date that were expected to eliminate the shortfall. Further details of this were provided in the Summary Funding Statement issued in April 2012 (available on the Fund's website at www.icipensionfund.org.uk under Library & Forms).

By the 31 March 2014 valuation date the Fund had received the first three instalments of the agreed deficit contributions, totalling £648.5 million. The actuarial valuation to assess the financial position of the Fund as at 31 March 2014 has now been completed. Based on the assumptions agreed by the Trustee and the Company for the purposes of the valuation, the funding position as at 31 March 2014 was calculated to be as follows:

Assets	£8,447 million
Amount needed to provide benefits	£9,297 million
Shortfall	£850 million
Funding level	91%

The improvement in the financial position since the 2011 actuarial valuation (with the shortfall reducing from £1,034 million to £850 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,
- the cost of premiums paid to insurers for annuity policies, to reduce the Fund's exposure to longevity and interest rate risk, and
- changes to the funding assumptions, principally the anticipated investment returns to reflect the prevailing yields on lower risk assets (predominately UK government gilts).

In view of the change in the funding position, the Trustee and ICI have agreed a revised contributions schedule with the following deficit contributions payable (or already paid) over the seven years following the valuation date:

- £178.5 million paid in January 2015
- £150 million payable by 31 January in 2016 and 2017, and
- £125 million payable each year by 31 January from 2018 to 2021 inclusive.

The previous Summary Funding Statement showed the estimated funding level as at 31 March 2013 was 91%. Over the year, the positive effects of the January 2014 deficit contribution and returns on assets being greater than the growth in liabilities have been offset by the effects of changes in the funding assumptions and the cost of premiums paid to insurers (to reduce the Fund's exposure to longevity and interest rate risk).

The funding position as at 31 March 2015

An interim review to assess the financial position of the Fund as at 31 March 2015 has also been completed and shows the estimated position at that date to be as follows:

Assets	£9,575 million
Amount needed to provide benefits	£10,326 million
Shortfall	£751 million
Funding level	93%

Over the year to 31 March 2015, the investment return on the Fund's assets was broadly sufficient to keep pace with the growth in the value of liabilities (predominately as a result of falls in long-term interest rate). The main reason for the increase in the funding level, from 91% to 93%, was the receipt of the deficit funding contribution of £178.5 million in January 2015.

No payments back to ICI

There has been no payment to ICI out of the Fund's assets over the period 1 April 2014 to 31 March 2015 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 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 actuarial valuation, the Fund's solvency position was assessed. A solvency valuation assumes that all benefits earned up to the valuation date 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 2014, there would have been a shortfall in assets of £1,938 million compared with the estimated cost of securing members' benefits in full with insurance companies. The solvency funding level as at 31 March 2014 was 81%. The interim review as at 31 March 2015 showed an estimated shortfall of £1,783 million, corresponding to a solvency funding level of 84%, at that date.

Please note that insurance companies tend to charge a higher amount for insuring scheme liabilities than the value used by trustees for funding purposes.

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 the 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 the 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 (PPF) 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 also available on the Fund's website at www.icipensionfund.org.uk under Library & Forms.

Further information and guidance is available on the PPF's website at www.pensionprotectionfund.org.uk or you can write to the PPF at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Guarantee from AkzoNobel N.V. ('AkzoNobel')

Since 2 January 2008, ICI has been a wholly-owned subsidiary of AkzoNobel. With effect from that 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).

Transferring your benefits out of the Fund

If you have not yet started receiving your ICI pension, you may wish to transfer your pension to another arrangement. It is possible that changes in the funding level or in the actuarial factors used by the Trustee 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 pensions in full, now and in the future. It is based on the assumption that ICI (supported as necessary by AkzoNobel) will be able to continue to support the Fund until all Fund benefits have been paid. 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 ICI's 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).

For 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, in the Trustee's view, the employer covenant were not strong enough in future to cover 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 £850 million. On the more conservative assumptions used in estimating the cost of securing members' benefits with insurance companies (the solvency valuation) the deficit increases to £1,938 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 (copies of which are available on request from ICI Pensions Services). 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, in certain circumstances, for example if AkzoNobel were to be taken over, or if its credit rating were to be significantly damaged, the Fund Actuary has an additional role in determining the employer contributions under the Fund's Trust Deed and Rules, and this is reflected in the Scheme-Specific Funding requirements. In the event of a failure of the Trustee and ICI to agree employer contributions in these circumstances, the Pensions Regulator would also have to take account of the relevant recommendations of the Fund Actuary. '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 2017. However, the Trustee or ICI can commission an earlier actuarial valuation of the Fund and, if appropriate, to review ICI's contributions. 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 is expected to be published in 2016 and to contain an update of the funding position as at 31 March 2016.

Where can I get more information?

This Summary Funding Statement is based on the actuarial valuation report of the Fund Actuary on the funding position as at 31 March 2014 and the actuarial report on the position as at 31 March 2015. If you would like any more information on this subject, copies of the 31 March 2014 actuarial valuation report and the actuarial report as at 31 March 2015 are available to members at a cost of £5 each 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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