

ICHEM Insurance Company Limited

Directors' report and financial statements

31 December 2007

Registered number 2882073

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Directors' report and financial statements

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Directors' report

The directors present their report together with the audited financial statements for the year ended 31 December 2007

Principal activities

The principal activity of the company is the transaction of general insurance and reinsurance business associated with Imperial Chemical Industries PLC ("ICI") and its subsidiary and associated companies. The principal activities of the company's subsidiary and associated undertakings are as set out in note 11.

On 2 January 2008, Akzo Nobel NV ("Akzo Nobel") acquired the entire issued share capital of the Company's ultimate parent undertaking, ICI, by way of Scheme of Arrangement in accordance with section 425 of the Companies Act 1985. On 7 January 2008 Imperial Chemical Industries PLC reregistered as a private company.

Business review

The principal activity of the company is the transaction of general insurance and reinsurance business associated with ICI and its subsidiary and associated companies.

During 2004, the Company ceased underwriting new insurance business. The Board is committed to an orderly run off of the Company's liabilities.

The principal risk associated with the Company's future activities is that the provision for claims outstanding is inadequate to meet the ultimate settlement cost of claims.

The key performance indicators monitored by the Directors are the Company's profit before tax and the maintenance of adequate regulatory surplus.

The Directors monitor claims on a regular basis to assess the performance of the Company, and adjust the reserving levels accordingly, to ensure that an orderly run-off of the company will be achieved. The Directors believe that the provision for claims outstanding is adequate to meet the ultimate settlement cost of claims.

Proposed dividend and transfer from reserves

No dividends were declared for the year ended 31 December 2007 (2006: £nil). The directors recommend that the retained profit for the year of £1,161,000 (2006: profit £82,000) be transferred to reserves.

Directors and directors' interests

The directors of the company in office during the financial year were as follows:

D Taylor
IN Canham

DJ Gee resigned as director on 3 April 2007. None of the directors held shares in ICHM Insurance Company Limited at any time during the year.

Payment of suppliers

It is the company's policy to agree appropriate terms and conditions with suppliers and, subject to their acceptance, to comply with the agreement.

Statement as to disclosure of information to auditors

That in the case of each of the persons who were directors of the company at the date of approval of this directors' report that they confirm that, so far as they are aware, there is no relevant audit information of which the company's auditors are individually unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

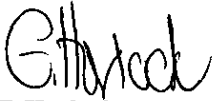
Auditors

A resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the Annual General Meeting

Directors' indemnification

Certain directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report

By order of the Board



B Horlock
Company Secretary

20 Manchester Square
London
W1U 3AN
2008

Statement of directors' responsibilities in respect of the directors' report and the financial statements.

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law

Independent auditors' report to the members of ICHM Insurance Company Limited

We have audited the financial statements of ICHM Insurance Company Limited for the year ended 31 December 2007, which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, Reconciliation of movement in Shareholder's Funds and related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information in the directors report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
*Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB*

27 March 2008

Profit and loss account: technical account - general business
for the year ended 31 December 2007

	Note	2007 £000	2006 £000
Written premiums, net of reinsurance			
Gross premiums written	2	-	(2)
Outward reinsurance premiums		-	-
		<hr/>	<hr/>
Net premiums written		-	(2)
		<hr/>	<hr/>
Change in the gross provision for unearned premiums	12	37	38
		<hr/>	<hr/>
Change in the net provision for unearned premiums		37	38
		<hr/>	<hr/>
Earned premiums, net of reinsurance		37	36
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(1,514)	(7,367)
Reinsurers' share		1,519	6,066
		<hr/>	<hr/>
		5	(1,301)
		<hr/>	<hr/>
Change in provision for claims			
Gross amount	12	945	2,570
Reinsurers' share	12	(1,523)	(1,616)
		<hr/>	<hr/>
		(578)	954
		<hr/>	<hr/>
Claims incurred, net of reinsurance		(573)	(347)
		<hr/>	<hr/>
Net operating income/(expenses)	6	479	(175)
		<hr/>	<hr/>
Balance on the technical account - general business		(57)	(486)
		<hr/>	<hr/>

The notes on pages 11 to 20 form part of the financial statements

Profit and loss account: non-technical account
for the year ended 31 December 2007

	Note	2007 £000	2006 £000
Balance on the technical account - general business		(57)	(486)
Investment income	4	1,730	1,422
Other charges	5	(12)	(726)
Profit on ordinary activities before tax	7	<u>1,661</u>	<u>210</u>
Tax on profit on ordinary activities	9	(500)	(128)
Profit on ordinary activities after tax		<u>1,161</u>	<u>82</u>
Retained profit for the financial year		<u><u>1,161</u></u>	<u><u>82</u></u>

All amounts relate to continuing operations

The notes on pages 11 to 20 form part of the financial statements

Statement of total recognised gains and losses
for the year ended 31 December 2007

	Note	2007 £000	2006 £000
Profit on ordinary activities after tax		1,161	82
Increase in current value of investments in subsidiary & associated undertakings	17	3,861	321
Total gains recognised since last annual report		5,022	403

Reconciliation of movements in shareholder's funds
for the year ended 31 December 2007

	Note	2007 £000	2006 £000
Retained profit for the financial year		1,161	82
Increase in current value of investments in subsidiary & associated undertakings	17	3,861	321
Net increase in shareholder's funds		5,022	403
Shareholder's funds at beginning of year		47,585	47,182
Shareholder's funds at end of year		52,607	47,585

The notes on pages 11 to 20 form part of the financial statements

Balance sheet
at 31 December 2007

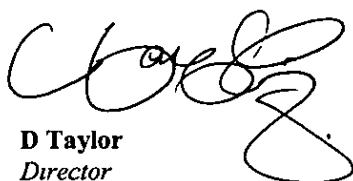
	Note	2007 £000	2006 £000
Assets			
<i>Investments</i>			
Investments in subsidiary and associated undertakings	10	24,492	20,631
Other financial investments	11	30,139	29,079
		<hr/>	<hr/>
		54,631	49,710
<i>Reinsurers' share of technical provisions</i>			
Claims outstanding	12	64,280	65,803
		<hr/>	<hr/>
		64,280	65,803
<i>Debtors</i>			
Debtors arising out of reinsurance operations	13	713	950
Other debtors		-	174
Deferred tax asset		1	1
		<hr/>	<hr/>
		714	1,125
<i>Other assets</i>			
Cash at bank and in hand		1,536	1,888
<i>Prepayments and accrued income</i>			
Accrued interest		63	111
		<hr/>	<hr/>
		63	111
		<hr/>	<hr/>
Total Assets		121,224	118,637
		<hr/>	<hr/>

The notes on pages 11 to 20 form part of the financial statements

Balance sheet (continued)
at 31 December 2007

	Note	2007 £000	2006 £000
Liabilities			
<i>Capital and reserves</i>			
Called up share capital	16	34,049	34,049
Revaluation reserve	17	24,443	20,582
Profit and loss account	17	(5,885)	(7,046)
		<hr/>	<hr/>
Shareholder's funds attributable to equity interests		52,607	47,585
<i>Technical provisions</i>			
Provision for unearned premiums	12	74	115
Claims outstanding	12	67,839	68,834
		<hr/>	<hr/>
		67,913	68,949
<i>Creditors falling due within 12 months</i>			
Creditors arising out of reinsurance operations	14	94	1,345
Other creditors including taxation and social security	15	490	667
		<hr/>	<hr/>
		584	2,012
Accruals and deferred income		120	91
		<hr/>	<hr/>
Total Liabilities		121,224	118,637
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 27 March 2008 and were signed on its behalf by


D Taylor
Director

The notes on pages 11 to 20 form part of the financial statements

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation

The accounts have been prepared in accordance with the provisions of Section 255 of, and schedule 9A to, the Companies Act 1985, and comply with the Statement of Recommended Practice on Accounting for Insurance Business ("SORP") dated December 2005 (as amended in December 2006)

The accounts have also been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments

The financial statements present information about the company as an individual undertaking and not about its group. The company is exempt from the preparation of group accounts under S228(1)(b) of the Companies Act 1985

The company has not prepared a cash flow statement as it is a wholly-owned subsidiary undertaking and is included in the consolidated accounts of its parent undertaking

Further information regarding the parent undertaking in whose consolidated accounts the company is included is shown in note 22

Investments and investment income

Realised and unrealised gains and losses on financial investments are included in the profit and loss account. Realised gains and losses represent the difference between net sale proceeds and purchase price unless previously revalued. Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price, or if they had been previously valued, their valuation at the last balance sheet date

Investments in subsidiary undertakings and participating interests are stated at current value, which the directors have based on net asset value. The changes in current value are included in the statement of total recognised gains and losses and are taken to the revaluation reserve

Other financial investments, consisting of deposits with credit institutions and fixed income securities, are stated at current value

Investment income (excluding dividends received and receivable from subsidiary undertakings and participating interests) and investment expenses and charges are reported in the non-technical account

Basis of accounting for underwriting activities

The annual basis of accounting is applied to all classes of insurance business

Notes (continued)

1 Accounting policies (continued)

Premiums

All premiums included in the profit and loss account relate to continuing operations. Written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the financial year and include adjustments arising during the financial year to premiums in respect of business written in previous financial years. All premiums are shown gross of commission payable to intermediaries.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured.

Provision for unearned premiums

Unearned premiums are computed using the daily pro rata method, taking into account the risk profile of the contracts.

Deferred acquisition costs

Acquisition expenses, both direct and indirect, are deferred and charged to the accounting periods in which related premiums are earned.

Claims incurred

Claims incurred includes all payments made in respect of the financial period, claims handling expenses and the movement in provisions for claims outstanding.

Claims outstanding

Claims outstanding comprise provisions for the estimated cost of settling all claims including the related claims handling expenses incurred up to but not paid at the balance sheet date whether reported or not. Where applicable, deductions are made for salvage and other recoveries, which are recorded as net assets.

Equalisation reserve

Under the Insurance Companies (Reserves) Act 1995, the company is required to establish equalisation reserves for certain classes of business underwritten, subject to de minimis exemptions.

Foreign currencies

Assets, liabilities and income and expenditure items arising in foreign currencies have been translated into sterling at rates of exchange ruling at the balance sheet date. Net realised exchange gains and losses are dealt with through the profit and loss account.

Taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Notes (continued)

2 Analysis of gross premiums written, gross premiums earned, gross claims incurred, operating expenses and the reinsurance balance

	2007 Gross Premiums Written £000	2007 Gross Premiums Earned £000	2007 Gross Claims Incurred £000	2007 Net Operating Expenses £000	2007 Reinsurance Balance £000
Written as follows					
Direct	-	-	(1,327)	(38)	2,396
Reinsurance	-	37	758	517	(2,400)
	<u>-</u>	<u>37</u>	<u>(569)</u>	<u>479</u>	<u>(4)</u>
By class of business (direct only)					
Property	-	-	46	21	-
Motor	-	-	(4)	2	-
Liability	-	-	(704)	(217)	1,727
Marine, aviation and transport	-	-	(664)	156	669
Miscellaneous	-	-	(1)	-	-
	<u>-</u>	<u>-</u>	<u>(1,327)</u>	<u>(38)</u>	<u>(2,396)</u>
	2006 Gross Premiums Written £000	2006 Gross Premiums Earned £000	2006 Gross Claims Incurred £000	2006 Net Operating Expenses £000	2006 Reinsurance Balance £000
Written as follows					
Direct	-	-	2,296	(84)	(2,124)
Reinsurance	(2)	36	(7,093)	(91)	6,574
	<u>(2)</u>	<u>36</u>	<u>(4,797)</u>	<u>(175)</u>	<u>4,450</u>
By class of business (direct only)					
Property	-	-	759	148	(1,351)
Motor	-	-	23	3	(8)
Liability	-	-	3,201	(200)	(2,302)
Marine, aviation and transport	-	-	(1,891)	(73)	1,946
Miscellaneous	-	-	204	38	(409)
	<u>-</u>	<u>-</u>	<u>2,296</u>	<u>(84)</u>	<u>(2,124)</u>

All of the company's activities take place in the United Kingdom

Business interruption particulars are included in the miscellaneous class

The total amount of commissions for direct insurance business was nil (2006 £4k)

Notes (continued)

3 Prior years' claims provisions

Under provisions for claims outstanding at the beginning of the year and payments and provisions at the end of the year in respect of prior years were as follows

	2007 £000	2006 £000
Property	45	(576)
Liability	(1,595)	400
Marine	695	(22)
Motor	(4)	15
Trade Finance	273	135
Miscellaneous	13	(299)
	<u>(573)</u>	<u>(347)</u>

Although provision for claims outstanding are based upon the information currently available to the directors, subsequent information and events may show that the ultimate liability is less than, or in excess of, the amount provided. The methods used, and estimates made, are continually reviewed and any resulting adjustments are reported in the technical account for general business in the financial year in which they are made.

4 Investment income

	2007 £000	2006 £000
Interest income	<u>1,730</u>	<u>1,422</u>

5 Other charges

	2007 £000	2006 £000
Foreign exchange loss	<u>(12)</u>	<u>(726)</u>

Notes (continued)

6 Net operating income/(expenses)

	2007 £000	2006 £000
Acquisition costs	613	(3)
Administrative expenses	(134)	(172)
	<u>479</u>	<u>(175)</u>

Acquisition costs comprises a release of over accruals in prior years in respect of brokerage, commissions and other underwriting expenses

7 Profit/(loss) on ordinary activities before tax

	2007 £000	2006 £000
Profit on ordinary activities before tax is stated after charging		
Auditors' remuneration		
Audit	43	45
Other services – audit of regulatory return	14	13
	<u>57</u>	<u>58</u>

8 Staff numbers and costs

Management and administrative services are provided under the terms of a management agreement by a participating interest. Accordingly, the company has no employees.

Notes (continued)

9 Tax on profit on ordinary activities

	2007 £000	2006 £000
UK corporation tax on profit for		
- current year	498	292
- prior year	2	(162)
	<hr/>	<hr/>
Current tax charge for period	500	130
Deferred tax		
- origination and reversal of timing differences	-	(2)
	<hr/>	<hr/>
Tax charge on profit on ordinary activities	500	128
	<hr/>	<hr/>
The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%) The differences are explained below		
Profit on ordinary activities before tax	1,661	210
	<hr/>	<hr/>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	498	63
Effects of:		
Expenses not deductible for tax purposes	-	229
Prior year under/(over) provision	2	(162)
	<hr/>	<hr/>
Current year tax charge	500	130
	<hr/>	<hr/>

Deferred tax is recognised in respect of losses carried forward

Notes (continued)

10 Investments in subsidiary and associated undertakings

	Current value		Cost	
	2007 £000	2006 £000	2007 £000	2006 £000
Investment in subsidiary undertaking	2,451	2,299	-	-
Investment in associated undertaking	22,041	18,332	49	49
	<u>24,492</u>	<u>20,631</u>	<u>49</u>	<u>49</u>

Investments in subsidiary and associated undertakings comprise

	Country of Incorporation	Principal Activity	Class of Capital	Percentage Held
Chemont Insurance Company	USA	Insurance and Reinsurance	Common stock of US\$1 each	100%
I C Insurance Holdings Limited	England and Wales	Management and Holding company	Ordinary shares of £1 each	49%
IC Insurance Limited *	England and Wales	Insurance and Reinsurance	Ordinary shares of £1 each	49%

* A wholly-owned subsidiary of I C Insurance Holdings Limited

11 Other financial investments

	Current value		Cost	
	2007 £000	2006 £000	2007 £000	2006 £000
Deposits with credit institutions	15,139	29,079	15,139	29,079
Loan to fellow subsidiary undertaking	15,000	-	15,000	-
	<u>30,139</u>	<u>29,079</u>	<u>30,139</u>	<u>29,079</u>

Deposits with credit institutions are investments in money markets funds with same day liquidity

Deposits totalling £2,710,400 (2006 £2,799,979) have been pledged in support of letters of credit in order to provide security to cedants in respect of claims outstanding

Notes (continued)

12 Technical provisions

	Provision for Unearned Premiums	Claims outstanding	Total
	£000	£000	£000
Gross amount			
At beginning of year	115	68,834	68,949
Foreign exchange movement	(4)	(50)	(54)
Amounts charged per technical account	(37)	(945)	(982)
	<hr/>	<hr/>	<hr/>
Gross amount at 31 December 2007	74	67,839	67,913
	<hr/>	<hr/>	<hr/>
Reinsurers' share			
At beginning of year	-	65,803	65,803
Amounts charged per technical account	-	(1,523)	(1,523)
	<hr/>	<hr/>	<hr/>
Reinsurers' share at 31 December 2007	-	64,280	64,280
	<hr/>	<hr/>	<hr/>

The provision for outstanding claims comprises an estimate of the cost of settling all notified outstanding claims and an estimate of the cost of settling claims incurred but not reported at the balance sheet date, including external claims handling costs

The notified outstanding claims estimates are based on advices from policyholders, intermediaries and assessors

The provision for losses incurred but not reported for Employers Liability claims of £60,000,000 is based upon advice provided by the actuarial practice of Ernst & Young, London which performs an annual actuarial review. For the other classes of business, the Directors have applied their judgement in establishing the IBNR provision based on incurred claims to date and expected ultimate claims based on current information.

The reinsurers' share of the provision for outstanding claims is then estimated based on the gross provisions, having due regard to collectability and contract terms and conditions.

The establishment of outstanding claims provisions is subject to a great degree of variability in that, notwithstanding every effort to make appropriate provision, the eventual cost of settling outstanding claims may vary significantly from the initial estimate.

13 Debtors arising out of reinsurance operations

	2007 £000	2006 £000
Amounts owed by intermediaries	713	950
	<hr/>	<hr/>

Notes (continued)

14 Creditors arising out of reinsurance operations

	2007 £000	2006 £000
Amounts owed to intermediaries	94	1,176
Amounts owed to subsidiary undertakings	-	169
	<u>94</u>	<u>1,345</u>

15 Other creditors including taxation and social security

	2007 £000	2006 £000
Corporation tax	490	667
	<u>490</u>	<u>667</u>

16 Share capital

	2007 £000	2006 £000
<i>Authorised</i>		
50,000,000 (2006 50,000,000) ordinary shares of £1 each	50,000	50,000
	<u>50,000</u>	<u>50,000</u>
<i>Allotted, called up and fully paid</i>		
34,049,001 (2006 34,049,001) ordinary shares of £1 each	34,049	34,049
	<u>34,049</u>	<u>34,049</u>

17 Reserves

	Profit and loss account £000	Revaluation reserve £000	Total 2007 £000	Total 2006 £000
At beginning of year	(7,046)	20,582	13,536	13,133
Retained profit for the year	1,161	-	1,161	82
Increase in current value of investments in associated undertakings	-	3,861	3,861	321
	<u>(5,885)</u>	<u>24,443</u>	<u>18,558</u>	<u>13,536</u>
At end of year	(5,885)	24,443	18,558	13,536

Notes (continued)

18 Related party transactions and balances

The company has taken advantage of the exemption from disclosing related party information relating to group undertakings as it is a wholly-owned subsidiary and the consolidated financial statements in which the company is included are publicly available

19 Statements of cash flows

The company's ultimate parent undertaking at 31 December 2007 was ICI and the cash flows of the company are included in the consolidated group cash flow statements of ICI. Consequently the company is exempt under the Financial Reporting Standard No 1 (revised) from publishing a cash flow statement

20 Ultimate parent company

The company is a subsidiary undertaking of ICI which, at 31 December 2007, was the ultimate parent company and which is registered in England and Wales

The largest group in which the results of the company are consolidated is that headed by ICI, registered in England and Wales. The consolidated accounts of this company are available to the public and may be obtained from 20 Manchester Square, London, W1U 3AN. No other group accounts include the results of the company

ICI was acquired by Akzo Nobel on 2 January 2008, see note 21

21 Post Balance sheet Events

The acquisition of the Company's ultimate parent undertaking ICI by Akzo Nobel was completed on 2 January 2008 by way of a court-sanctioned Scheme of Arrangement under section 425 of the Companies Act 1985. On that date, the entire share capital of ICI PLC was disposed of to Akzo Nobel for a consideration of £8,092m.