COMPANY PROFILE

CLUSTERS

DSM is active worldwide in life science products, performance materials and industrial chemicals. The group has annual sales of around € 8 billion and employs about 24,000 people (year-end 2004) at more than 250 sites worldwide. DSM's activities are grouped into business groups representing coherent product/market combinations. The business group directors report directly to the Managing Board. For reporting purposes we have grouped our activities into three strategic clusters plus DSM Nutritional Products:

Life Science Products comprises the business groups that supply to the pharmaceutical, food and agrochemical industries: DSM Fine Chemicals, DSM Pharmaceutical Products, DSM Anti-Infectives, DSM Food Specialties and DSM Bakery Ingredients. The cluster's share in DSM's overall net sales is 24%.

DSM Nutritional Products, which comprises the activities of the former Roche division Vitamins & Fine Chemicals that DSM took over in 2003, has been included in the organization as a separate entity for the time being. The activities of DSM Nutritional Products are focused on three sectors: human nutrition & health, animal nutrition & health and personal care. The share of DSM Nutritional Products in DSM's overall net sales is 24%.

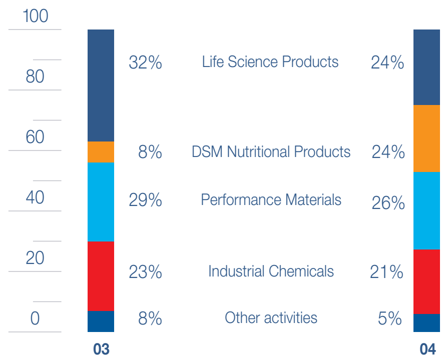
Performance Materials are high-performance materials such as the superstrong Dyneema fibre, the advanced plastic Stanyl marketed by DSM Engineering Plastics, elastomers (synthetic rubbers), engineering plastics, coating resins and structural resins. This cluster comprises the business groups DSM Elastomers, DSM Engineering Plastics, DSM Coating Resins and DSM Composite Resins. DSM Dyneema also forms part of this cluster. The cluster's share in DSM's overall net sales is 26%.

Industrial Chemicals comprises the business groups DSM Fibre Intermediates, DSM Melamine and DSM Agro, which produce industrial chemicals such as fibre intermediates, melamine and fertilizers, and DSM Energy. This cluster accounts for 21% of DSM's overall net sales.

In addition, DSM reports on a number of other activities, which have been grouped under *Other activities*. These include DSM Venturing & Business Development, Noordgastransport, the Chemelot industry park in Geleen (the Netherlands) and the part of the costs of corporate activities that is beyond the control of the business groups.

Decorative coatings

SALES BY CORE ACTIVITY*

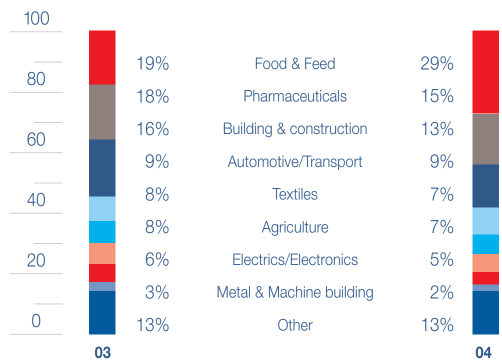


* DSM Nutritional Products' contribution in 2003 related to one quarter only.

MARKETS

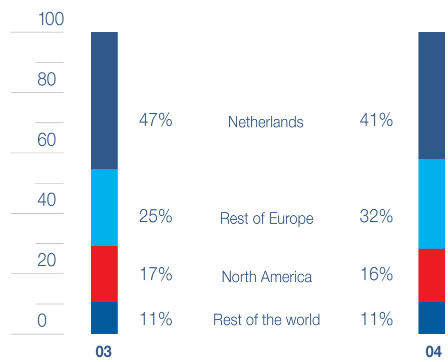
DSM supplies its products to high-end industrial markets (business to business). The human and animal nutrition market is the principal end use market for DSM. Other important users of DSM products are the pharmaceutical, electrics & electronics and automotive industries.

END-USE MARKETS*



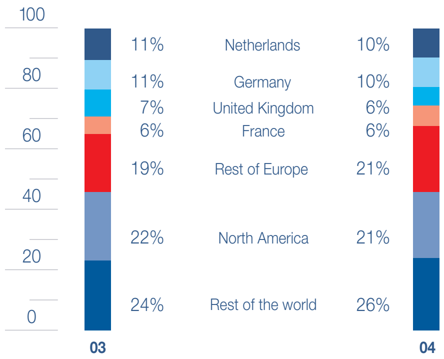
* DSM Nutritional Products' contribution in 2003 related to one quarter only.

SALES BY ORIGIN*



* DSM Nutritional Products' contribution in 2003 related to one quarter only.

SALES BY DESTINATION*



* DSM Nutritional Products' contribution in 2003 related to one quarter only.

CONTRIBUTION TO SOCIETY AND SUSTAINABLE DEVELOPMENT

A know-how intensive chemicals and biotechnology company like DSM makes a very valuable contribution to society. With its products the company helps enhance the quality of people's daily lives and work. In close collaboration with its customers, DSM constantly strives to optimize these products, so that they can make life healthier, cheaper, longer-lasting, more pleasant or more efficient. Examples are new pharmaceuticals, healthy food ingredients, lighter car components and synthetic materials to replace scarce natural materials such as hardwood. Sustainability and safety are important aspects of DSM's processes and products. Its production processes are for example designed for a minimum use of raw materials and energy. DSM also uses so-called 'white biotechnology': biotechnological processes that replace conventional chemical production processes. DSM contributes in many ways to the development of scientific knowledge and technology relating to sustainability, safety and the environment, both within the company and in general.

To DSM, responsible entrepreneurship means developing and implementing an integrated policy that strikes the right balance between economic gain, respect for people and concern for the environment – the Triple P concept of *people, planet, profit*. The company annually reports on its policy and performance in this field in its Triple P report, in which the former Responsible Care Progress Report has been incorporated.

GOVERNANCE

CORPORATE GOVERNANCE

See page 7 for information on the way in which DSM implemented the new Dutch corporate governance code (the Tabaksblat Code) in 2004.

DSM has formulated explicit corporate values and rules that form the basis for risk management, financial policy and organizational management at corporate and business group levels.

Royal DSM N.V. is a public limited company with a Managing Board and an independent Supervisory Board. The Managing Board is responsible for the company's strategy, its portfolio policy, the deployment of human and capital resources and the company's financial performance as based on these factors. The Supervisory Board supervises the policy pursued by the Managing Board, the Managing Board's performance of its managerial duties and the company's general state, taking account of the interests of all the company's stakeholders. The Annual Financial Statements are submitted for adoption by the Annual General Meeting of Shareholders, accompanied by an explanation by the Supervisory Board of how it carried out its supervisory duties during the year concerned.

Members of the Managing Board and the Supervisory Board are appointed (and, if necessary, dismissed) by the Annual General Meeting of Shareholders.

DSM fully informs its stakeholders about its corporate objectives, the way the company is managed and the company's performance. Its aim in doing so is to pursue an open dialogue with its shareholders and other stakeholders.

ORGANIZATION

DSM has a decentralized organizational structure built round business groups that are empowered to carry out all business functions. This structure ensures a flexible, efficient and fast response to market changes. DSM Nutritional Products will be a separate entity for the time being. At the corporate level, DSM has a number of staff departments to support the Managing Board and the business groups. The services of a number of shared service departments and DSM Research and intergroup product supplies are contracted by the business groups at market prices.

DSM has adopted the Value Based Business Steering (VBBS) model for internally assessing and steering its financial performance. VBBS measures and steers financial performance in terms of value creation, based on a cash flow return on (historical) investment minus the weighted average cost of capital (WACC).

RISK MANAGEMENT

Design and effectiveness

The DSM Managing Board is responsible for ensuring that all company units have appropriate risk management systems in place. That is why the design and effectiveness of the company's internal risk management and control system(s) are always high on the Board's agenda. The Board considers effective risk management to be an important building block in the company's internal governance process.

Enterprise risk management starts with a clear set of company values. These DSM Values revolve around three core values: respect for people, good corporate citizenship and a focus on valuable partnerships. With its Triple P approach DSM simultaneously appeals to all major stakeholders. The Triple-P approach also anchors appropriate company conduct and performance to multi-dimensional criteria for business value creation. The company values include ethical standards for all DSM employees, for DSM business partners and towards good corporate citizenship.

With *Vision 2005: Focus and Value* DSM has outlined and defined a clear strategy and related objectives for the period 2001-2005. In addition, every business group has a strategy that has been approved by the Managing Board in the so-called Business Strategy Dialogue process. Within this context the quality of the company's risk and control system in terms of effectiveness and efficiency is a matter of continuous focus and alignment. Over the last few years the company has made its organization more aware of the criticality of adequate business controls and has further improved the integration of the control and risk systems within its business and service units. The Managing Board formalized this process further when it revised the Corporate Requirements in 2004.

The DSM Values (which give direction on a more abstract level) combined with the Corporate Requirements form the main body of regulations with which all DSM units have to comply. Within DSM's governance framework, the Corporate Requirements form the basis for systematic risk management and appropriate controls.

The Corporate Requirements first of all translate into a Unit Risk Management Requirement; this specifies the risk management environment and risk management processes that need to be in place in each unit. The Corporate Requirements encompass both the company's key functional processes (such as Manufacturing, Finance & Economics) and business processes (such as Order-to-Cash). The table below provides a more comprehensive overview of the functional and business processes covered by the Corporate Requirements with respect to risk management and control systems.

Corporate requirements

UNIT RISK MANAGEMENT REQUIREMENT

Requirements for functional processes:

- Strategy
- Legal
- Finance & Economics
- Safety, Health & Environment (SHE)
- Human Resource Management (HRM)
- External Communication
- Security
- Information & Communication Technology (ICT)
- Research, Technology and Development (RT&D)
- Manufacturing
- Corporate Secretariat

Requirements for business processes:

- Purchase-to-Pay
- Order-to-Cash
- Demand Supply Chain Management
- Project Management

The Corporate Requirements apply to all DSM companies and in most cases are addressed to these companies' managements. Specific requirements also have an impact on contractors. If a unit – or a third party – fails to materially comply with the requirements for certain activities, DSM will review whether those activities can be continued, and if so, on what conditions.

In essence the Corporate Requirements require unit managers to have a clear policy in place for every process. Standard roles or combinations of standard roles must be assigned to individual employees in conformity with the segregation-of-duties principle and these roles must be verifiably documented. The use of (key) performance indicators is essential for monitoring the processes.

All DSM units are working out in detail how to implement the revised Corporate Requirements and how to ensure compliance with these Requirements. DSM is currently undertaking a major project to facilitate the process of detailed implementation of the requirements within the units where appropriate and necessary. This project started in 2004 and will run for the coming 2-3 years with a focus in 2005 on the internal control framework regarding goods and money flows in the company.

Business and functional processes and IT
DSM's approach to business processes is "standardize, unless…". Through process standardization the company assures efficiencies, facilitates communication and learning and reduces risks. The company's standard ERP/IT system is SAP. DSM is working to harmonize and standardize the DSM-wide use of this system, including the standard detailed design of all major business processes relevant for operating within a so-called principal – toller– agent enterprise model. Appropriate segregation of duties is one of the leading principles in the process design and its control design. The standard has been certified by Ernst & Young accountants.

The robustness of DSM's ICT infrastructure is a vital qualifier for the company's success. Standard hardware and application software is in use within DSM worldwide. Through security controls such as authorization and access controls, back-up systems and disaster recovery plans, the company aims to reasonably assure ongoing data and infrastructure availability and integrity. DSM's ICT suppliers are required to provide reasonable assurance of compliance with DSM requirements.

Examples of functional and business processes and their requirements (summaries)
To provide insight into the depth and reach of some of the Corporate Requirements, an excerpt is given in the tables below.

Manufacturing	Management ensures effective internal control of the financial risks concerning the goods flow process within manufacturing by having in place adequate mass balancing and adequate inventory management for raw materials (insofar as inventory management is within the area of responsibility of manufacturing). Management ensures effective internal control of the financial risks concerning maintenance, turnarounds and assets within manufacturing. In addition, there are specific requirements for personnel qualifications and training, quality control, supply base management and key performance indicators, among other things.
Finance & Economics	*Accounting and Reporting* Management has an accounting & reporting system in place according to rules set up by Corporate Finance & Economics (CFE), which satisfies the information needs of DSM and local legislation. Management informs CFE about potential exceptional items with profit consequences. Management supplies the information required by CFE for financial consolidation and management reporting, and confirms adherence to the requirements of quarterly accounting and reporting, by means of a written statement. *Treasury* Management plans funding together with Corporate Treasury (CT), and informs CT about funding or liquidity needs. Management follows the rules for capital payments and profit distribution. It does not enter into specified financial transactions without approval from CT. Management ensures that DSM companies participate in DSM cash pools. It ensures all payments follow the Purchase-to-Pay process and it uses standard DSM payment services. Management transfers excess cash to CT and it only changes bank accounts or bank relations after approval from CT. Management hedges open currency positions. Management does not take un-hedged currency positions, execute other currency transactions or execute financial derivative transactions without prior approval from CT. In addition, specific requirements are in place for Fiscal Affairs, Insurances, Capital Expenditure incl. Acquisitions and Divestments and Investor Relations, among others.

Safety, Health & Environment (SHE)

SHE leadership
Management works to the principle of “Do it in a SHE-responsible way or not at all”. Management has a SHE policy in place and creates a SHE management system that is reviewed regularly. It ensures that the organization is capable of effectively managing SHE. In acquisitions, SHE aspects are addressed in a due diligence.

Human resource management
Management ensures that employees have access to SHE information and participate in SHE activities. Tasks, powers and responsibilities and the required education and training with respect to SHE are defined for all jobs.

Operational controls
Information on the process technology and equipment used, the substances used or produced and a specbook describing hazard related design standards are kept up to date and are made easily accessible to employees for whom this information is relevant. Management implements written operating procedures and instructions that lead to safe operations and that minimize the risk of harm to human health or the environment. They also assure that the products that are manufactured can be used and handled in a SHE responsible manner. Operating procedures and instructions are formally reviewed for accuracy and effectiveness at least once every three years. Work permits are required for all work, other than normal operations, involving SHE hazards. Specific environmental requirements are set for soil and groundwater protection, control and phasing out of the use of ozone depleting substances and for the use of persistent, bioaccumulating, toxic (PBT) substances. Deep-well injection and (with certain exceptions) the land filling of hazardous waste is prohibited.

In addition, specific requirements are in place for aspects such as how to act in emergencies, personnel training, suppliers, collecting feedback on the use of DSM products and systematic measurement of SHE performance on the basis of key indicators.

Purchase-to-Pay

Management pursues a Purchase-to-Pay policy that is reviewed regularly and employs an annually updated business purchase plan. Management ensures that standard roles in the Purchase-to-Pay process are clearly described, explained and assigned to individual employees and executed/applied in conformity with segregation-of-duties principles. The management of each DSM unit appoints and documents authorized signatories representing said company vis-à-vis third parties in the Purchase-to-Pay process. Management has documented procedures in place for vendor master data, purchase contracting and order processing, receipt handling of both goods and services, in voice processing and verification and accounts payable processing. These procedures are in agreement with specified rules and management ensures they are applied.

In addition, specific requirements are in place for aspects such as supplier payment, inventory price adjustment and the drawing up of inventory lists

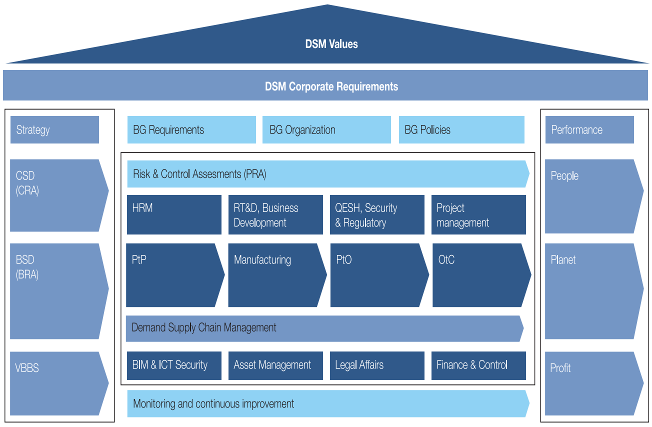
Order-to-Cash

Management pursues an Order-to-Cash policy that is reviewed regularly and employs an annually updated sales plan. Management ensures that standard roles in the Order-to-Cash process are clearly described, explained and assigned to individual employees and executed/applied in conformity with segregation-of-duties principles. Management of each DSM unit appoints and documents authorized signatories representing said company vis-à-vis third parties in the Order-to-Cash process. Management has documented procedures in place for sales prices, conditions and rebates; agency contracts and commissions; customer master data; sales contracting and order processing; delivery of both goods and services; invoice processing; complaint handling and accounts receivable processing. These procedures are in agreement with specified rules and management ensures they are applied.

In addition, specific requirements are in place for aspects such as the physical delivery of goods ordered, credit notes and accounts receivable management

DSM internal governance framework

The schematic overview below describes the DSM governance framework and the position of the DSM Values and the Corporate Requirements in it. The framework shows that DSM’s internal governance system is essentially in accordance with the recommendations of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which are aimed at providing a reasonable level of assurance that the operational risks are controlled and managed. Furthermore, the framework links the COSO elements to operations and decision-making.



Schematic overview of internal governance framework

Risk management process and system at corporate level
Risk management at corporate level starts with the Corporate Strategy Dialogue (CSD). The previous CSD in 2000 was conducted with the aim of establishing a clear view as to the direction of DSM as a whole and the major strategic decisions to be taken. The resulting strategy, *Vision 2005: Focus & Value*, describes DSM’s strategic ambitions and the major steps to be taken in the period 2001-2005. In the course of 2005 the Managing Board will undertake a new CSD in which both portfolio risks and strategic risks and opportunities will be assessed and related strategies will be defined.

The Managing Board regularly discusses material risk and control issues with the Supervisory Board and/or its Audit Committee. In 2004 the Managing Board discussed the project regarding the implementation of the Corporate Requirements and the Corporate Operational Audit program for 2005-2006 and the results of previous audits. DSM has adopted a fully integrated approach to auditing.

DSM’s Corporate Operational Audit (COA) department is responsible for the operational audit function. COA provides independent information to management about the degree to which significant risks are being identified and managed effectively and efficiently. Key audit activities are:
- Evaluating the quality of existing and proposed internal risk assessment, risk management and related control systems;
- Testing the operation of those systems and the reliability, integrity and timeliness of information and transactions generated;
- Testing compliance against policies, requirements, plans, procedures, laws and regulations governing DSM’s operations.

All DSM units are audited once every three years on average.

These activities result in an overview of the state of affairs regarding risk management, control and governance within the company.

COA reports to the chairman of the Managing Board, informs the Audit Committee of the Supervisory Board and works closely with the Corporate Control department for all internal control structures and systems. Ernst & Young, the company's external auditor, reviews the annual financial statements. The external auditor reports to the Managing Board and, independently of this, also to the Supervisory Board and the Audit Committee operating under the Supervisory Board. Both the external auditor and the director of COA are usually in attendance at the meetings between the Audit Committee and the Managing Board.

The aim of this approach is to continuously improve the quality of all DSM activities and achieve reasonable assurance, on a continuous basis, that DSM systematically identifies and controls its enterprise risks.

Risk management process and system at business group and unit level
Every DSM business group is required to hold a Business Strategy Dialogue (BSD) every three years on average, to determine the strategic and operational direction for its business units. DSM currently comprises fourteen business groups, which report directly to the Managing Board. After the business strategy is developed the business group director presents the outcome for approval to the Board. According to a Corporate Requirement, every business group and business unit is required to operate under a valid BSD.

The BSD is the starting-point of all planning and control processes within DSM. Performance targets for the business groups are captured in a Strategic Value Contract (SVC). The SVC is a summary of the main conclusions of a BSD, translated into measurable targets for the next three years. Each year, there is a validity check called the ASR (Annual Strategic Review). The ASR comprises:

- a progress report on the implementation of the BSD;
- a BSD update, if necessary;
- financials for the next six years, the first of which is budget.

The ASRs from the business groups are submitted to and reviewed by the Managing Board in December. The corporate ASR is discussed with the Supervisory Board.

Since 2001 DSM has used Value Based Business Steering (VBBS) to steer and manage financial performance. VBBS focuses the organization on the cash flow. The central performance metric within VBBS is CFROI (cash flow return on investment).

Besides the business and financial plan the business group directors have to prepare a SHE plan (Safety, Health and Environment), an HR plan and an Internal Control plan.

All DSM business groups have to have an appropriate risk management system in place that will systematically identify and assess their business units' key risks and determine the key controls that are required to mitigate those risks. These systems have to be designed in such a way that their appropriate application provides management with reasonable assurance that:

- it understands the extent to which the unit's strategic objectives are being achieved;
- it understands the extent to which the unit's operational objectives are being achieved;
- the unit's assets are being safeguarded;
- the unit's reporting is reliable;
- applicable laws and regulations are being complied with.

The above system requirements are COSO-based. Unit management has to regularly carry out a Business Risk Assessment (BRA) and a Process Risk Assessment (PRA). The BRA and PRA can be regarded as the heart of the DSM risk management and control system. Internal control coordinators within the business units are the focal points for coordinating the consistency and validity of the controls in place.

In every business group a group audit committee oversees the adequacy and effectiveness of the risk management and control system. This committee also draws up a risk management plan and monitors its implementation. It meets regularly to address any threat or weakness in the business control infrastructure that is identified by control self-assessment (CSA) and reported by the internal and/or external auditor, and to take any corrective measure deemed necessary.

To enforce accountability, at the end of each fiscal year all business group and corporate directors are required to sign a Letter of Representation (LoR) stating whether the manager perceives his unit to be "in control". This means that the manager declares he has duly informed himself that his unit (1) is compliant with applicable law, regulations and DSM values and requirements and (2) that he has put in place an appropriate system of risk management and control and (3) that all areas for potential control improvements are explicitly reported, including remediation actions and their timing.

Risks
The following section on risks and risk management and control activities may include forward-looking statements and may therefore involve uncertainty (the actual results may differ from those projected). There may be current risks that the company has not yet fully assessed and which are currently qualified as "minor" but that could have a material impact on the company's performance at a later stage. The company's risk management system has been designed to signal and respond to these developments on time, but 100% assurance can never be achieved, of course.

Generic risks
Being a global company, DSM is subject to the usual business risks associated with macroeconomic trends, the emergence of new competition, exchange rate fluctuations, raw material price changes, fluctuations in supply and demand, and the speed with which new technologies and products are introduced and accepted.

DSM operates in many different business segments with risk profiles reflecting the different business environments, the diverse nature of the businesses and the distinctive competitive positions those businesses target for. DSM's *Vision 2005* strategy has reduced the cyclical element, but a substantial portion of its activities – typically the Industrial Chemicals cluster but also some businesses in the other clusters, together representing approximately 40% of total revenue – may experience material fluctuation in sales and results due to changes in general market conditions, supply-driven overcapacity, economic conditions, currency exchange rate fluctuations or other factors.

The entry of foreign low cost competitors (typically Chinese and Indian) into DSM's core markets may challenge the company's position.

DSM has subsidiaries in more than 35 countries. These subsidiaries can be exposed to changes in government regulations and potentially unfavourable political developments that may hamper the exploitation of certain opportunities or may impair the value of the local business.

Currency risks
All DSM sales that are priced in currencies other than the euro are subject to economic transaction and/or translation risks that may strongly impact the financial results, as the company's reporting unit is the euro.

DSM's aim is to mitigate its currency exposure by developing sales in certain regions, through product mix improvements, by spreading manufacturing activities and by increased dollar-based purchasing. However, these 'natural hedges' never work perfectly. The volatility of the US dollar in relation to the euro and the Swiss Franc can have a significant impact on the company's results. Although the production base still has its centre of gravity in Europe, a large portion of DSM's product sales is in US dollars or is based on US dollar priced world markets. Consequently, from a currency perspective there is a mismatch between revenue and costs. In the 2004 business mix a 1% change in the euro-dollar rate has a € 5-8 million impact on gross margin level (=sales minus variable costs), whereas a 1% change in the Swiss franc-US dollar rate has an annual effect of 3 to 5 million Swiss francs. Fluctuations in the relative values of other currencies (such as the Yen or the pound sterling) have a limited impact on DSM's results.

Specific risks

Strategic risk
Increased market volatility may undermine the effectiveness of the strategy pursued by DSM management, with the result that the company may be unable to adapt in time. The company may not identify relevant acquisitions or alliances, or may not do so in time, or it may not be successful in bid processes or with the integration of acquired businesses needed to safeguard its path of growth. DSM uses joint ventures and other strategic alliances whenever it is beneficial to do so (for example to combine strengths and to share investments and inherent risks). Although joint ventures and strategic alliances are always intended to add value, situations may arise that result in a conflict of interests that could potentially damage the business.

Corporate reputation risk
Any failure by any of its business units to meet production safety, social, environmental and/or ethical standards could harm DSM's corporate reputation and thereby impact its business and results. DSM values such as good corporate citizenship, open communication and transparency should reasonably assure appropriate employee conduct. Moreover, the company mitigates its reputation risk by making substantial efforts to reduce the probability that any of its units fails to comply with internal requirements and/or external laws and regulations (see the general section on risk management).

In 2004 DSM was ranked No. 1 worldwide in the chemical sector of the Dow Jones Sustainability Index, reflecting among other things the enormous efforts the company is continuously taking in the area of production processes and their potential impact on the environment and on the safety and well-being of its employees.

Customer risk
The company makes considerable efforts towards satisfying its customers. Compliance with customer agreements and commitments is measured regularly. Appropriate process and product quality checks and balances are in place to mitigate the risk of non-compliance with customer requirements and with DSM sales conditions.

No DSM customer represents more than 3% of DSM's total sales.

Research and Development risk
Ongoing successful innovation is critical to DSM's success. Without effective and efficient R&D the company's rate of innovation could decline and that would expose the company's growth and/or current market position. Within the new DSM the success of its R&D has become even more important to foster future organic growth. There is a risk that goals will not be achieved and that the company will have to abandon a project on which it has already spent substantial sums of money. The company may reach a point where its overall sales volume does not justify the company's R&D expenditure.

A certain portion of the company's financial results is based on legally protected intellectual property. When these protection mechanisms expire and the company is unable to follow up these situations appropriately, e.g. through new valuable patents, there is a risk that the financial results might deteriorate.

Production process risk
DSM tries to mitigate production process risks by spreading production where possible, but concentration is necessary in order to achieve economies of scale. The design of any new facilities and/or production processes is required to include state-of-the-art safety and security facilities. Plants are regularly and systematically inspected against predefined risk and engineering standards. Nevertheless, certain risks and the degree to which SHE elements are managed may not be sufficiently well known.

Human resource risk
DSM's ability to retain highly specialized and committed technical staff as well as talented staff working in sales, R&D, manufacturing, finance, general management and human resources is critical to the future success of the company. With the company's new strategic direction and its recent major acquisitions, huge and ongoing efforts must be directed to managing the required processes and integrating the newly acquired companies. The company may have to adjust the timing of its growth path, due to constraints or opportunities in this field. The company uses, for instance, confidentiality agreements where necessary to protect its intellectual property.

Legal risk
DSM's current strategic position and direction has considerably changed the product portfolio. The life science business is rather different from the other businesses from a product-liability point of view. Some pharma product liabilities cannot be insured, or only at unreasonably high costs. This typically holds for the pharma business in the USA. On the basis of highly demanding process and product quality requirements the company tries to mitigate such product liability risks as much as is reasonably possible.

The company is putting in a great deal of effort on an ongoing basis to ensure that all its units comply with internal and external requirements (e.g. FDA compliance). The risk of non-compliance has been further reduced by the recent revision and tightening-up of the Corporate Requirements.

ICT risk
In order to control potential ICT risks DSM employs a policy of using the latest proven hardware and software solutions. Group-wide DSM works with integrated and standardized ICT infrastructures, backup, encoding and encryption systems, replicated databases, virus and access protection and a fully compatible global network and intranet. Regular local ICT security assessments should assure adequate local applications. External ICT service providers have been contracted in and are required to report regularly on the measures they are taking to reasonably assure that DSM's IT processes are not disrupted.

Although DSM has applied strict measures with regard to the security and reliability of its IT systems, incidents regarding back-up recovery, hot failover systems, virus attacks and international network connections may still occur and this can have a material impact on business operations.

Project risk
The company is currently undertaking some major projects whose success is important to the overall business results and exposure. In general these fall into three categories: pricing reinforcement projects, reorganization projects and ICT projects. The aim of the *Vital* project is to improve profitability within DSM Nutritional Products through material cost reductions and to improve the various market positions. *Copernicus* is a project running at the largest DSM production site in Geleen (the Netherlands) that aims to optimize production processes and to reduce any risk of non-compliance. *Apollo* is a project that assures uniform application of structured business processes designed in SAP-R3 throughout DSM worldwide. The *True Blue* project is intended to reduce the risk of internal and external non-compliance and to further strengthen controls.

DSM has extensive experience in project management. It seconds its best people to projects that are considered critical. Moreover, direct Managing Board involvement and monitoring are in place to mitigate the risk of project failure.

Financial risk
Additional financial risks include commodity risk, credit risk, tax risk, pension risk and country risk. The major credit rating agencies may change their assessments on DSM creditworthiness, thereby affecting the company's borrowing capacity and/or the conditions under which it can borrow money and causing fluctuations in the cost of finance. The company aims to keep its 'A' credit rating.

The low effective rate of corporation tax may come under pressure under the new harmonized European and Dutch tax legislation. In addition, the outcomes of ongoing disputes with tax authorities could impact the company's tax position with retroactive effect. The risk of fluctuating interest rates is addressed in the financial statements, see page 83 of this report.

Financial reporting and disclosure risk
All DSM units have to report their results periodically and comply with Corporate Requirements in the field of Finance & Economics. Compliance with the requirements of accounting and reporting is confirmed by means of a quarterly written statement signed by the management. Before the annual report is disclosed it is first discussed between the Supervisory Board's Audit Committee and the external auditor and then within the Supervisory Board. Quarterly financial reports are discussed with the Managing Board, the chairman of the Audit Committee and the external auditor. Financial quarterly reports are discussed with the Managing Board, the chairman of the Audit Committee and the external auditor. The company uses a release calendar for financial results.

Insurable risk
Global insurance policies are in place to reduce the risk of damage to property, business interruption loss and general liability. Uninsured losses in 2005 for any one incident will not exceed about € 30 million per occurrence with an annual aggregate maximum of € 50 million.

Financial policy

Given the dynamic nature of DSM's markets, it has always been important for the company to have a strong financial position. This gives DSM the financial resilience to continue pursuing its strategic goals even during economic downturns. DSM aims for a net debt which is less than 40% of group equity plus net debt and an operating profit before amortization and depreciation (EBITDA) which is at least 8.5 times the balance of financial income and expense. This underlines the company´s aim of maintaining its 'A' long-term credit rating. DSM aims to achieve a cash flow return on investment (CFROI) which is higher than the weighted average cost of capital (WACC).

An important element of DSM´s financial strategy is the allocation of cash flow. DSM primarily uses cash flow for investments aimed at strengthening its business positions and for the payment of dividend to its shareholders. The cash flow is further used for strengthening the Life Science Products and Performance Materials clusters by means of acquisitions. The company may also choose to buy back shares if there is sufficient cash flow available for this after the primary cash flow expenditures have been made.

DSM's dividend policy is outlined on page 16 of this report. In order to avoid dilution of earnings per share as a result of the exercise of management and employee options, DSM buys back shares insofar as this is desirable and feasible at a reasonable price.

An important acquisition criterion is that the business concerned should be compatible with DSM in terms of technological and/or market competencies. With effect from 2000, DSM's policy has been to capitalize goodwill paid in the case of acquisitions and to amortize it over a maximum period of 20 years. Under the IFRS this will be replaced by an annual impairment test on goodwill. Acquired companies are in principle required to contribute to DSM's profit from the very beginning and to meet the companys profitability requirements. In some cases this requirement may be relaxed somewhat.

DSM's policy in the various sub-disciplines of the Finance function is strongly oriented towards solidity, reliability and optimum protection of cash flows. The Finance function also plays an important advisory role in business steering.

The *accounting and control* function is responsible for the administrative processing of business processes, financial reporting and making assessments and providing advice regarding business processes geared to the company's financial targets. The main policy aim in this function is to obtain reliable financial information that meets statutory requirement and is adequate for business steering purposes.

The *treasury function*'s tasks include financing the group and its units, managing the cash held by the company and managing currency risks and interest risks. To ensure that its policy in these fields is properly implemented and produces the best possible results, DSM has a set of stringent internal regulations, procedures, organizational measures and market-related benchmarks in place. DSM's treasury policy is mainly geared to the minimization of the financial risks to which the group and its units are exposed and to optimize the balance of financial income and expense.

The *tax function* is responsible for optimizing the company's position with regard to taxes and import, export and excise duties. As part of this task, it handles the various tax returns and reviews acquisitions, disposals and liquidations of business components and/or joint ventures, as well as restructuring programmes and reorganizations. It also examines the tax consequences of crossborder activities between business components such as transfer pricing, crossborder activities that lead to some form of foreign establishment, and changes in the shareholdings in legal entities.

The main policy of the tax function is aimed at realizing an optimal position in the field of taxes and import, export and excise duties, and at maintaining such a position for the long term.

The *investor relations function*'s primary task is to maintain contacts with current and potential shareholders of DSM and with analysts who advise shareholders. The policy of this function is to provide quality information to investors and analysts about developments at DSM, ensuring that relevant information is equally and simultaneously accessible to all interested parties.

The *insurance function* has the task of achieving a proper balance between self-financing hazardous risks or having these risks transferred to external insurers, based on the relative costs involved. The underlying premise is the company's risk management philosophy, which is that group-wide risk awareness must ultimately lead to gaining a proper insight into the risks that a company such as DSM may be confronted with, and to controlling, preventing and limiting such risks. An insurance policy is therefore viewed as a last-resort element of this risk management process.

The choice as to whether or not to obtain external insurance coverage also depends on the scope of the risk exposure in relation to the financial parameters that are relevant for a listed corporation. Such parameters determine the amount of risk that the corporation can afford to bear itself.