

In the 2004 annual report, an extensive account was given of the way in which DSM conducts its governance, risk management and control. In this section, the main elements are reported, the overall governance framework is described, and the risk management and control system is explained.



**Web link**  
Detailed Corporate governance information can also be found at [www.dsm.com](http://www.dsm.com) : Governance

### Organization

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 approved by the Supervisory Board and then submitted for adoption to 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 dialog with its shareholders and other stakeholders.

DSM has a decentralized organizational structure built around 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 is a separate entity. 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 intra-group product supplies are contracted by the business groups at market prices.

### Dutch Corporate Governance Code

DSM supports the Dutch Corporate Governance Code (Tabaksblat Code), and applies all but one of the 113 Best Practices. The only exception is Best Practice III.5.11, which stipulates that the remuneration committee shall not be chaired by the chairman of the Supervisory Board. This exception has been discussed in the Annual General Meeting of shareholders, where it met no objections. All documents related to the implementation at DSM of the Dutch Corporate Governance Code, can be found at the corporate website ([www.dsm.com](http://www.dsm.com)).

### Governance Framework

The figure below depicts DSM's overall governance framework. It shows how responsibilities are divided over the various levels of the company and lists some of the most important governance elements and regulations at each level.

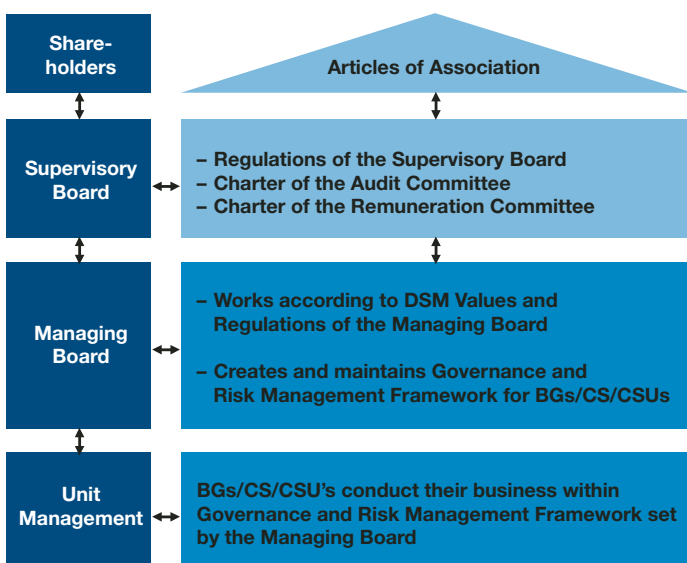
The relationship between the Managing Board and the operational units (business groups, corporate staff departments and central service units) is described by the governance and risk management and control framework that the Managing Board has established and to which the operational units adhere.

The most important governance elements of this framework are:

- The DSM Values to which both the Managing Board and the operational units adhere.
- The governance model, including the charters of several functional Boards, specifying the basic organizational structure and division of responsibilities between Managing Board and operational units.
- The Corporate Strategy Dialog (CSD), specifying the strategic direction and objectives of the corporation and Business Strategy Dialogs (BSD), establishing unit strategy and objectives
- Policies and Multi-Year Plans in several functional areas.
- The Corporate Requirements.

Compliance with the Corporate Requirements and the effectiveness of the risk management and internal control system are discussed regularly between Managing Board and operational units. On average once every three years, the units are also audited by Corporate Operational Audit (COA). The director of the COA department reports to the Chairman of the Managing Board and has the authority to consult with the Chairman of the Audit Committee. Furthermore, the director of COA acts as the compliance officer with regard to inside information and is the chairman of the DSM Alert Committee, which implements the whistle-blower policy.

Within the responsibilities as defined by the governance model and in the context of the strategies and policies of the company, the operational units have the freedom to operate within the limits set by the Corporate Requirements (and of course in compliance with all applicable national or international laws and regulations). These corporate requirements form the basis for systematic risk management and internal control at the operational level. If a special situation calls for it, the Corporate Requirements are extended by so-called Management Directives (e.g. a travel ban for security reasons).



Note: all internal regulations apply in addition to applicable national and international laws and regulations. In cases where internal regulations are incompatible with national or international laws and regulations, the latter prevail.

# Corporate Governance, risk management and internal control

## Risk Management

### Risk Management System

#### Managing Board Level

DSM's risk management and internal control system is based on the Enterprise Risk Management framework of the Committee of Sponsoring Organisations of the Treadway Commission (COSO ERM), and covers the eight risk management elements identified in that framework.

#### The COSO ERM risk management elements

- internal environment
- objective setting
- event identification
- risk assessment
- risk response
- control activities
- information & communication
- monitoring

By instituting the governance structures as described above and specifying a risk management and internal control framework for the operational units, the Managing Board has established the internal environment for enterprise risk management. The DSM Values and Requirements as well as policies in the field of finance and economics (page 74), human resources, safety, health and environment (SHE), security and legal affairs define the 'tone at the top' with regard to ethical behavior and doing business.

Strategies are established for every unit and translated into clear objectives, amongst others, with regard to business, markets, innovation, financial results, SHE and social matters. The objectives are reviewed in the

Annual Strategic Review for the corporation as well as at unit level.

Performance and compliance are monitored consistently in discussions between accountable management and the Managing Board.

The Corporate Strategy Dialog, executed every three to five years, includes an elaborate process for the identification and assessment of risks and the definition of responses at the corporate level. These are updated in an annual Corporate Risk Assessment.

#### Operational Unit Level

The Corporate Requirements form the basis for systematic risk management and internal control at the operational level. They are structured as follows:

The application of the Corporate Requirements leads to systematic risk management and internal control. The Unit Risk Management (URM) Requirements 'govern' the whole system and are the backbone of the internal environment for risk management in the operational units.

They require that:

- a risk management system be put in place.
- risks be identified and assessed and risk responses chosen.
- compliance with applicable law and Corporate Requirements be monitored and deviations corrected.
- reporting of control failures be encouraged and identified material risks be reported immediately.
- the effectiveness of the risk management system be assessed and reported, together with the compliance status, in an annual Letter of Representation.

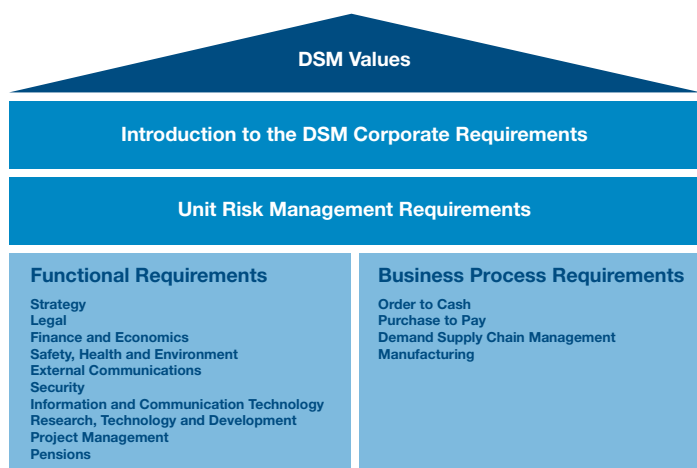
The Corporate Requirements require that Corporate Policies are translated into policies for the operational units. They also stipulate that management should take the lead and give the example, and should keep the employees accountable for compliance. In this way the "tone at the top" is cascaded downward in the organization.

Each operational unit executes a Business Strategy Dialog (BSD) at regular intervals. The outcome of this strategic process is translated into clear objectives for financial as well as other functional and business fields. As part of the BSD, events are identified that could influence the risk profile of the business. It is an important aspect of the DSM risk management and internal control system that it provides for the assessment, control and monitoring of risks in two ways:

- Common Risk and Common Controls  
In companies such as DSM, a large part of the identifiable risks are directly linked to the nature of the operations. DSM has chosen to identify and assess these common risks and design common controls for them. These mandatory common controls are part of the Corporate Requirements and cover all functional fields. Especially in the field of the primary flow of goods and products and the related financial control processes, but also in some supportive processes, implementation is supported by standard ICT solutions. In these cases, the controls are built into so-called standard business processes. A special tool (DSM i2i) supports the monitoring of the effectiveness of a number of key controls in these standard business processes.

Through this concept of common risks and common controls, control or mitigation of a large number of risks is achieved in an efficient and effective way.

- Business-specific risks and responses  
According to the Unit Risk Management Requirements, operational units are nevertheless required to carry out risk assessments following every BSD. These assessments are aimed at identifying and designing responses to risks that are not covered by the common controls as described above. In these cases specific responses have to be identified and controls have to be implemented and monitored.



A business continuity plan needs to be prepared for an effective response to all risks with a potentially serious impact which, although they have a very low chance of occurring, cannot be excluded altogether.

The corporate Policies and Requirements and their implementation in the operational units are the subject of mandatory training and specific attention is given to communication about risks, also, for example, in job hand-over procedures at senior management levels.

To help the operational units in implementing the risk management and internal control system, the DSM Business System Portal has been developed (see figure below).

The portal is made available to them on the DSM intranet and all relevant Policies, Requirements, practices and standard business processes are to be found under the respective buttons. The operational units have to copy the portal for their own use and can add unit-specific Policies, Requirements and practices and make links to documents archived, such as documents describing standard operating procedures.

**Application of the system**

Of course, having a suitable risk management system only leads to the desired degree of control if it is effectively applied. Below, the implementation of the system and the way in which the effectiveness of implementation is monitored is described for each COSO ERM category: strategic, operational, reporting and compliance.

**Strategic**

In the DSM risk management and internal control system, a great deal of attention is given to ensuring that the strategic direction is clear at all times. At the corporate level the strategic choices for the company are made through an elaborate process, the Corporate Strategy Dialog (CSD). The strategy is translated into concrete targets, financial and otherwise, the attainment of which will be checked in annual strategic reviews. A similar process (BSD) takes place in the operational units. In this way DSM attempts to ensure that it understands the extent to which its strategic objectives are being achieved.

**Operational**

Operational risks are identified through Process Risk Assessments and categorized as either business-specific or common; in the latter case the controls are prescribed in the Corporate Requirements and, if applicable, implemented through a standard business process. Policies and plans are drawn up for each relevant operational field, based on the chosen strategy. Fulfillment of these plans is monitored and reported at least on a quarterly basis and revised forecasts are made. In this way, surprises with regard to the operational results should be avoided.

The business processes themselves, however, should also be reliable. Each step in a process and its related risks must be defined and controls must be put in place. DSM has developed and implemented standard business processes; in these processes the necessary internal control is "designed in"

For units that have not yet implemented the standard business processes, the Corporate Requirements describe which controls need to be implemented as a minimum.

**Reporting**

To ensure reliable financial reporting there are detailed accounting and reporting requirements and related annexes specifying amongst other things reporting time schedules and formats, the DSM Chart of Accounts, the IFRS-compliant DSM Accounting Rules and the format for a quarterly affidavit, to be signed by the Financial Director of each unit.

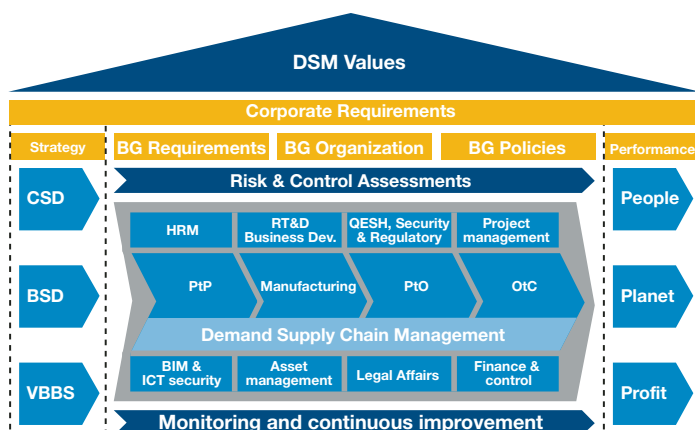
The financial control process has also been translated into a standard business process, with 'built in' internal controls such as authorizations and segregations of duty, mandatory control reports and documented procedures.

**Compliance**

In its Corporate Requirements, DSM puts much emphasis on compliance with internal rules as well as applicable external laws and regulations. The text under the heading 'Management Leadership' in the Human Resources section of the Requirements reads:

*"Management is visibly committed to and, wherever applicable, leads by example in, achieving full compliance with the DSM Values and Requirements and (local) legislation. Management ensures that systems, specific information and expertise are available for its employees to ensure compliance. It keeps its employees accountable for compliant behavior. To support this, it has a policy in place with regard to the consequences".*

Compliance with the internal requirements and external laws is monitored consistently. A special program on the assessment and reporting of SHE compliance is in place. In the field of compliance with Competition Law an awareness program is run and relevant people have to sign for compliance.



# Corporate Governance, risk management and internal control

## Financial Policy – Risks

### Financial Policy

As a basis for and contribution to effective risk management and to ensure that the company will be able to pursue its strategies even during periods of economic downturn, DSM retains a solid financial policy.

One of the key targets of *Vision 2010* is to achieve a cash flow return on investment (CFROI, see definition on page 62) which is at least 50 base points higher than the weighted average cost of capital (WACC). DSM further aims for a net debt which is between 30 and 40% of 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 single A long-term credit rating.

An important element of DSM's financial strategy is the allocation of cash flow. DSM primarily allocates cash flow to investments aimed at strengthening its business positions and to dividend payments to its shareholders. The cash flow is further used for strengthening the Nutrition and Performance Materials businesses by means of selective acquisitions. As the occasion arises, the company may choose to buy back shares, if excess cash is available in the context of a medium-term analysis of primary cash flow allocation requirements and a sustained solid single A rating.

DSM's dividend policy is outlined on page 34 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. Capitalized goodwill paid in the case of acquisitions is subject to an annual impairment test. Acquired companies are in principle required to contribute to DSM's cash EPS from the very beginning and to meet the company's profitability requirements. In some cases, for instance in the case of small innovative growth acquisitions, this requirement cannot be used.

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 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 and make available reliable financial information that meets statutory and other governance requirements 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 optimizing the financial risks to which the group and its units are exposed and to optimizing 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 programs and reorganizations. It also examines the tax consequences of cross-border activities between business components such as transfer pricing, cross-border activities that lead to some permanent form of foreign establishment, and changes in the shareholdings in legal entities.

DSM's tax policy 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 provided and 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 will afford to bear itself.

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 by the Managing Board with the Supervisory Board's Audit Committee and the external auditor, and then with the Supervisory Board. Quarterly financial reports are discussed by the Managing Board, with the Chairman of the Audit Committee and the external auditor. The company uses a release calendar for financial results.

## Risks

The following section contains a selection of important risks that have been identified and for the management of which strategies, controls and mitigating measures have been put in place as part of our risk management practices. They nevertheless involve uncertainty that may lead to the actual results differing from those projected. There may also be current risks that the company has not yet fully assessed and that 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 and internal control system has been designed to identify and respond to these developments on time, but 100% assurance can never be achieved, of course.

### Generic risks

#### Macroeconomic trends

Being a global company, DSM is subject to the usual business risks associated with macroeconomic trends and events. The projected results from the *Vision 2010 strategy* are sensitive to deviations from the assumed and defined economic scenario on which the strategy is based.

#### General market developments

DSM operates in many different business segments with contingent 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 2010* strategy aims at further reducing the cyclical element, but a substantial portion of its activities may still 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.

#### Low-cost competition

Counteracting the influence of low-cost competitors and seizing opportunities in low-cost areas (especially China) is one of the centerpieces of DSM’s new strategy. The risk remains, however, that such low-cost competitors may penetrate in DSM’s core markets.

#### Political risks

DSM has subsidiaries in more than 35 countries. These subsidiaries can be exposed to changes in government regulations and potentially unfavorable political developments that might hamper

the exploitation of certain opportunities or might 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 significantly impact on 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 focusing manufacturing activities and through increased dollar-based purchasing. However, these ‘natural hedges’ are never fully balanced. 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 center of gravity in Europe, a large portion of DSM’s product sales is in US dollars or is based on US-dollar-denominated world-market prices. Consequently, from a currency perspective there is a mismatch between revenue and costs. In the 2005 business mix a 1% change in the euro-US dollar rate and the US dollar-Swiss franc rate has on aggregate a € 8 - 10 million impact on gross margin level (=sales minus variable costs). Fluctuations in the relative values of other currencies (such as the yen or the pound sterling) have a limited impact on DSM’s results.

DSM companies are obliged to hedge their open currency positions via the DSM Inhouse Bank in order to protect the operating result against effects of currency fluctuations. Only under strict conditions are DSM companies allowed to hedge firm commitments in order to protect the cash flow of the contract value against currency fluctuations. Hedging of forecast transactions is only allowed after the approval of the Managing Board.

#### Risks of derivatives used for hedging purposes

DSM uses derivatives to hedge various currency and interest rate risks. Under IFRS, all derivatives are recognized as either assets or liabilities. In line with IAS 39 derivatives are recognized at fair value. Changes in fair value go to the income statement either contemporaneously or, in case hedge accounting is applied, at the moment that the hedged item impacts on the income statement. These changes normally consist of a currency and an interest rate component. To limit the

volatility deriving from the use of derivatives, hedge accounting is applied in certain cases. Hedge accounting is only allowed under strict conditions, which are different per hedge type.

DSM applies the following hedge accounting models: fair value hedge accounting, cash flow hedge accounting and net investment hedge accounting. The goal of a *fair value hedge* is to fix the value of an asset/liability (hedged item). Changes in fair value of a designated derivative that is highly effective as a fair value hedge, together with the change in fair value of the corresponding asset, liability or firm commitment attributable to the hedged risk, are included directly in earnings. So both fair value changes are offset in the income statement. The goal of a cash flow hedge is to limit the variability of highly probable future cash flows due to foreign currency or interest rate movements. Changes in fair value of a designated derivative that is highly effective as a *cash flow hedge* are included in equity and reclassified into income in the same period during which the hedged forecast cash flow affects income. This means there is no volatility in the income statement. The goal of a *net investment hedge* is to fix the value of an investment in a foreign entity. Changes in fair value of a designated derivative that is highly effective as a net investment hedge are included in equity. So volatility of the hedged part of the net investment is offset in equity.

Under IFRS hedge accounting through combined derivatives is not allowed. For this reason DSM has chosen to hedge the interest and foreign currency risk with separate derivatives and not to use combined derivatives to hedge both risks.

Any ineffectiveness of hedges is reflected directly in income. DSM aims to mitigate these risks by closely monitoring the effectiveness of the hedges through effectiveness testing. Ineffectiveness only occurs when fair value changes of the hedging instrument compared to fair value changes of the underlying risk are outside a 80 – 125 % bandwidth. All hedges in 2005 have proven to be effective.

# Corporate Governance, risk management and internal control

## Risks

### Strategic risks

#### *Acquisitions, divestments and joint ventures*

The success of DSM's strategy is partly dependent on the results obtained in spotting and implementing acquisition and divestment opportunities and joint ventures. Risks in this field are connected to the company not identifying relevant acquisitions or alliances, or not doing so in time, or not being successful in bid processes or in 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 can arise that result in a conflict of interests that could potentially damage the business.

#### *New markets, products and technologies*

In its *Vision 2010* strategy, DSM increases its focus on innovation in order to develop new technologies and products and explore new markets. Market intelligence will be strengthened and market and customer orientation enhanced. Nevertheless, the actual developments in the targeted markets, the speed with which new products and technologies are accepted and the emergence of new competition will always constitute risks to the success of the chosen strategy.

#### *Innovation Risks*

Within DSM's new strategy there is an extra focus on innovation. A multitude of actions are being taken to ensure success in the R&D and market development processes. There is a risk that goals nevertheless 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, on a longer-term basis, justify the company's related 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.

### *Human resource risks*

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. Within the company's new strategic direction, huge and ongoing efforts are directed to managing the required processes. The company may have to adjust the timing of its growth path, due to constraints or opportunities in this field.

#### Specific risks

#### *Corporate reputation risks*

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 on 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 might fail to comply with internal requirements and/or external laws and regulations (see the general section on risk management).

In 2005 DSM was ranked No. 1 worldwide in the chemical industry sector of the Dow Jones Sustainability Index for the second year running, reflecting among other things the enormous efforts the company continues to make in the area of production processes and their potential impact on the environment and on the safety and well-being of its employees.

#### *Customer risks*

The company makes considerable efforts to delight 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 customers' and DSM's sales conditions.

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

### *Production process risks*

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.

#### *Legal risks*

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. For instance some pharma product liabilities cannot be insured against, or only at prohibitively high costs. This typically holds true 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 far as is reasonably possible.

The company is putting in a great deal of effort on an ongoing basis into ensuring 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 risks*

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 ICT processes are not disrupted.

Although DSM has applied strict measures with regard to the security and reliability of its IT systems, incidents regarding for example 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 risks*

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. *Apollo* is a project that assures uniform application of standard 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 seconded its best people to projects that are considered critical. Moreover, direct Board involvement and monitoring are in place to mitigate the risk of project failure.

#### *Financial risks*

Additional financial risks include commodity risk, credit risk, interest rate risk, tax risk, pension risk and country risk. The major credit rating institutions may change their assessments of DSM's 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 single-A credit rating. The risk of fluctuating interest rates is addressed in the financial statements, see page 113 of this report.

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 on the company's tax position with retroactive effect. Although tax assets have been recognized at fair value, future profits may not suffice to realize all tax-loss carry-forwards.

#### *Insurable risks*

Global insurance policies are in place to reduce the risk of damage to property, business-interruption loss and general liability. Uninsured losses in 2006 for any one incident will not exceed about € 30 million per occurrence with an annual aggregate maximum of € 45 million.

#### *Control failures*

In DSM's Triple P Report some of the control failures are mentioned that occurred in spite of the risk management efforts. They can be found in the section 'What still went wrong'. All failures are extensively analyzed and lessons learnt are implemented.