
DSM Pension Services

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Note

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Introduction

DSM is a globally active speciality chemical company operating in more than 200 locations worldwide with over 25,000 employees.

DSM has 4 main business lines which are industrial chemicals, nutritional products, life science products and performance materials. Sales of DSM are approaching €8 billion with €1 billion EBITDA.

DSM has undergone a number of major transformations in its history. At the beginning of the last century DSM was the national coal industry of the Netherlands and it has diversified from coal through to making fertilizers then diversifying into petrochemicals and finally converting to the product portfolio which exists today.

Several years ago DSM was concerned that its pension liabilities and costs are a significant financial factor for DSM overall and that proper governance of these liabilities is essential for the financial health of DSM. In line with market trends of major multinationals, which are taking a closer role in the governance of pension arrangements worldwide, DSM introduced a governance structure for its pension liabilities. In particular, DSM created a Corporate Pensions Committee to oversee pension liabilities to align with the growing practice multinationals and to meet the expectations of analysts and investors with regard to good corporate governance.

An additional factor is the change in shift of DSM's employee base. In 1990 DSM had approximately 25,000 employees with 15,000 based in the Netherlands. As of today, DSM has some 26,000 employees but with only 8,000 based in the Netherlands. The increased internationalisation of DSM's employee base meant that increased governance was needed for the overseas pension liabilities.

A further factor for DSM was the implementation of IAS19 accounting with effect from 1 January 2004. This led to increased need for actuarial analysis of DSM's global pension liabilities, the need to develop a consistent and appropriate approach to setting key actuarial assumptions and the need for a full understanding at DSM's corporate headquarters of its international pension liabilities in order to be able to confidently sign off the IAS19 figures.

By way of background, DSM has over €5 billion of pension liabilities and assets globally with the main liabilities existing in the USA, Germany, UK, Switzerland and the Netherlands. The Dutch pension arrangements account for €4.3 billion of liability and €4.8 billion of assets.

DSM set up a Corporate Pensions Committee to oversee pension liabilities globally within DSM. The key reasons for setting up such a pension board were as follows.

- Cost control
- Governance and risk control
- Information and financial reporting
- Investment efficiencies
- International HR policy
- Mergers and acquisitions.

Constituents of the Pensions Committee comprise of the most senior executives in the company including the Chairman of DSM, the HR Director, the Vice President of Finance and Economics and other members of the top management. As the in-house actuary for DSM, I act as secretary to the pensions board and advise them on their deliberations.

The mission statement for the Pensions Committee overall is to ensure proper management and governance of DSM pension plans. This includes drafting and ensuring compliance with a set of pension principles for DSM's pension arrangements. In addition, we were looking to overview plan design, the accounting for pension plans, how pension plans are funded, ensuring optimal use of insurance partners, govern the use of consultants, actuaries and investment managers and third party providers and other areas. We established a clear delineation between the responsibilities of the DSM Pensions Committee and the responsibilities that are devolved to line management in each country. We made sure that in each country where DSM operates there is a notified country representative who has overall responsibility for pension issues in that country and for implementation of the DSM pension principles.

The DSM pension principles were drafted and approved by the Board. The pension principles included four key elements, plan design, accounting and funding, governance and approval, investment and other.

All major changes to pension benefits, design, funding or investment have to be approved by the Pensions Committee, which meets on a regular basis. So far, we have achieved a number of our objectives. In particular, we have managed to gain significant efficiencies in the investment of pension plan assets in the US by consolidating the investment providers. We have reviewed 4 proposals for pension plans produced by local management and have rejected one of these proposals and amended the others to align local plans with the overall principles of DSM. We have dealt with the numerous M&A deals that DSM has engaged in over the past few years.