

## Employment contracts

### Term of employment

The employment contracts of the members of the Managing Board appointed before 1 January 2005 have been entered into for an indefinite period of time. Newly appointed members of the Managing Board are also offered an employment contract for an indefinite period of time. The employment contract ends on the date of retirement or by notice of either party.

### Term of appointment

Members of the Managing Board appointed before 1 January 2005 are appointed for an indefinite period of time. New members of the Managing Board (appointed after 1 January 2005) will be appointed for a period of four years. Newly appointed members are subject to reappointment by the shareholders after a period of four years.

### Notice period

Termination of employment by a member of the Managing Board is subject to three months' notice. A notice period of six months will for legal reasons be applicable in the case of termination by the company.

### Severance arrangement

There are no specific contractual exit arrangements for the members of the Managing Board appointed before 1 January 2005. Should a situation arise in which a severance payment is appropriate for these Board members, the Remuneration Committee will recommend the terms and conditions. The Supervisory Board will decide upon this, taking into account usual practices for these types of situations, as well as applicable laws and corporate governance requirements.

The employment contracts of newly appointed members of the Managing Board (appointed after 1 January 2005) include an exit-arrangement provision which is in accordance with best-practice provision II.2.7 of the Dutch corporate governance code (that is, a sum equivalent to the fixed annual salary, or if this is manifestly unreasonable in the case of dismissal during the first term of office, two times the fixed annual salary).

## Remuneration policy for the Supervisory Board

The remuneration package of the Supervisory Board comprises an annual fixed fee and an annual committee-membership fee. The fixed fee for the Chairman of the Supervisory Board is € 50,000. The members of the Supervisory Board each receive a fixed fee of € 35,000. Committee membership is awarded € 5,000 per member and € 7,500 for the Chairman. Following the splitting-up of the

Nomination and Remuneration Committee into two separate committees in 2008, the membership and chairmanship fees for each of these committees were halved.

In accordance with good corporate governance, the remuneration of the Supervisory Board is not dependent on the results of the company. This implies that neither stock options nor shares are granted to Supervisory Board members by way of remuneration.

If any shareholdings in DSM are held by Supervisory Board members, they serve as a long-term investment in the company. At year-end 2008 the members of the Supervisory Board together held no shares in Royal DSM N.V.

DSM does not provide any loans to its Supervisory Board members.

## Remuneration in 2008 and changes expected in 2009

### Remuneration of Managing Board in 2008

The remuneration package for the Managing Board is subject to annual review. The market competitiveness of the remuneration package of the Managing Board for 2008 was reviewed, based on the labor-market peer group. The data reflect the July 2008 remuneration levels. All values are denominated in euros.

On-target bonus and stock-incentive grants are expressed as a percentage of base salary. The remuneration data of peer group companies are regressed to reflect the size and scope of DSM. Stock-incentive valuations are based on the Black-Scholes method.

Furthermore, data are presented as median actual levels.

### Benchmark against labor-market peer group 2008

#### Managing Board Chairman

	DSM (1 July 2008)	Peer-group median
Base salary	€ 766,000	€ 755,000
On-target bonus	60%	100%
Total cash on target	€ 1,225,600	€ 1,510,000
Annualized stock incentive value	38%	80%
Total direct compensation	€ 1,516,680	€ 2,114,000

#### Other Board members

	DSM (1 July 2008)	Peer-group median
Base salary	€ 509,000	€ 500,000
On-target bonus	60%	70%
Total cash on target	€ 814,400	€ 850,000
Annualized stock incentive value	46%	55%
Total direct compensation	€ 1,048,540	€ 1,125,000

# Report by the Supervisory Board

## Base salary in 2008

The Supervisory Board reviewed whether circumstances justified an adjustment of the base-salary levels. Based on the benchmark against the peer group, it was concluded that the base salary for the chairman was well below the median whilst the salaries of the other members of the Managing Board were around the median level.

As stated in the 2007 annual report, it was decided to close the gap with the median of the benchmark in 2008. As a consequence the Supervisory Board decided in 2007 to increase the base salary of the chairman of the Managing Board by an extra 10% with effect from 1 January 2008 to close the gap with the median of the market, as already mentioned in the 2007 annual report.

External and internal circumstances justified a general increase in the base salary of the Managing Board of 3.0% as of 1 July 2008 to compensate for inflation and to reflect market developments.

## Bonus for 2008

Bonus targets are revised annually so as to ensure that they are stretching but realistic. Considerations regarding the performance targets are influenced by the operational and strategic course taken by the company and are directly linked to the company's ambitions. The targets are determined at the beginning of the year for each Board member.

### Target bonus level and pay-out

When they achieve all their targets, Managing Board members receive a bonus of 60% of their annual base salary. Outstanding performance can increase the bonus level to 102% of the annual base salary.

The 2008 annual report presents the bonuses that have been earned on the basis of results achieved in 2008. These bonuses will be paid out in 2009.

The Supervisory Board has established the extent to which the targets for 2008 were achieved. The realization of the 2008 financial bonus targets has been reviewed by Ernst & Young Accountants. Furthermore, Ernst & Young has reviewed the process with respect to the target setting and realization of the non-financial bonus targets. The targets relating to the group's financial performance were all met and even exceeded. The other, non-financial targets were almost fully achieved. The average realization percentage was 97.3%.

See the next page for a tabular overview of the actual bonus pay-out per individual Board member in 2008.

## Stock options and performance shares in 2008

In 2008 performance-related stock options and performance shares were granted to the Managing Board on 28 March 2008 at an exercise price of € 29.79. The table below shows the number of stock incentives granted to the individual Board members:

	Number of stock incentives granted	
	Stock options	Performance shares
Feike Sijbesma	37,500	10,000
Jan Zuidam	30,000	8,000
Nico Gerardu	30,000	8,000
Rolf-Dieter Schwalb	30,000	8,000
Stephan Tanda	30,000	8,000

## Pensions in 2008

The members of the Managing Board are participants in the Dutch pension fund Stichting Pensioenfonds DSM Nederland (PDN).

The pension scheme (revised as of 1 January 2006) comprises the following elements:

- Retirement age 65 years (early retirement possible only by actuarial reduction of pension rights).
- The scheme includes a spouse pension as well as a disability pension.
- Annual accrual of pension rights (old-age pension) over base salary exceeding € 12,209 (reviewed annually) at a rate of 2%.
- Employee's contribution of 2.5% of base salary up to € 53,660 and 6.5% of pensionable salary above this amount (to be reviewed annually).
- Conditional defined benefit: indexation of pensions and pension rights, conditional depending on PDN's cover ratio.

Members of the Managing Board born before 1 January 1950 (Mr. Zuidam) continue to participate in the old pension plan. Other Board members participate in the revised PDN pension plan (due to changed legislation on pre-pensions). For Mr. Sijbesma a transitional arrangement is applicable.

## Loans

DSM does not provide any loans to members of the Managing Board.

### Purchasing shares

As announced in the press release on the third-quarter results of 2007, all members of the Managing Board have decided to purchase more shares in the company to emphasize their confidence in the strategy. These share purchases are private transactions with private money. At year-end 2008 the members of the Managing Board together held 23,027 shares in Royal DSM N.V.

### Total remuneration

The total remuneration (including pension costs relating to current and former Board members) of the Managing Board amounted to € 4.6 million in 2008 (2007: € 3.8 million). The increase of € 0.8 million was mainly due to higher bonus pay-out and pension expenditures.

### Overview of remuneration awarded to the Managing Board in 2008

The tables below show the remuneration awarded to the Managing Board in 2008.

#### Fixed annual salary

in €	1 July 2008	1 July 2007
Feike Sijbesma	766,000	676,000
Jan Zuidam	509,000	494,000
Nico Gerardu	509,000	494,000
Rolf-Dieter Schwalb	509,000	494,000
Stephan Tanda	509,000	494,000

#### Bonus

in €	2008 <sup>1</sup>	2007 <sup>2</sup>
Feike Sijbesma	735,930	395,633
Jan Zuidam	481,440	317,200
Nico Gerardu	496,485	317,200
Rolf-Dieter Schwalb	483,948	317,200
Stephan Tanda (as from 1 May 2007)	488,963	212,767

<sup>1</sup> Based on results achieved in 2008 and therefore payable in 2009

<sup>2</sup> Bonus paid in 2008 based on results achieved in 2007

### Pensions

in €	Pension costs (employer)		Accrued pension as of age 65	
	2008 <sup>1</sup>	2007 <sup>2</sup>	31 Dec. 2008	31 Dec. 2007
Feike Sijbesma	56,532	-	331,487	167,562
Jan Zuidam	35,232	-	272,809	256,509
Nico Gerardu	38,272	-	282,294	261,615
Rolf-Dieter Schwalb	38,272	-	21,681	11,755
Stephan Tanda	38,272	-	38,543	28,208 <sup>3</sup>

<sup>1</sup> Partial pension discount

<sup>2</sup> Discount on employer contribution

<sup>3</sup> Including additional accrual (one-off) for compensation of loss of pension from previous employer

### Overview of remuneration awarded to the Supervisory Board in 2008

In the following table an overview is given of the remuneration awarded to the Supervisory Board in 2008.

#### Supervisory Board remuneration in 2008

in €	Annual fixed fee	Committee fee	Total
Cor Herkströter, chairman	50,000	7,500	57,500
Henk Bodt, deputy chairman (until 26 March 2008)	8,750	1,875	10,625
Ewald Kist, deputy chairman (as from 26 March 2008)	35,000	5,000	40,000
Louise Gunning- Schepers (as from 26 March 2008)	26,250	-	26,250
Pierre Hochuli	35,000	3,750	38,750
Claudio Sonder	35,000	5,000	40,000
Tom de Swaan	35,000	6,875	41,875
Cees van Woudenberg	35,000	5,000	40,000
<b>Total</b>	<b>260,000</b>	<b>35,000</b>	<b>295,000</b>

### Changes expected to the remuneration policy in 2009 for the Managing Board

As a consequence of *Vision 2010* as well as some comments made by institutional investors during the Annual General Meeting of Shareholders on 26 March 2008 the Supervisory Board decided to review the remuneration policy for the Managing Board.