

Remuneration policy regarding the Managing Board and the Supervisory Board

This chapter comprises two parts. The first part outlines the remuneration policy as approved by the Annual General Meeting of Shareholders (6 April 2005). The second part contains details of the remuneration in 2007 and the changes expected in 2008.

Remuneration policy

The objective of DSM's remuneration policy is to attract, motivate and retain the qualified and expert individuals that the company needs in order to achieve its strategic and operational objectives.

- DSM strives for a high performance in the field of sustainability and aims to maintain a good balance between economic gain, respect for people and concern for the environment in accordance with the Triple P concept (People, Planet, Profit). The remuneration policy reflects a balance between the interests of DSM's main stakeholders as well as a balance between the company's short-term and long-term strategy. In the light of the remuneration policy, the structure of the remuneration package for the Managing Board is designed to balance short-term operational performance with the long-term objective of creating sustainable value within the company, while taking account of the interests of all stakeholders.
- To ensure that highly skilled and qualified senior executives can be attracted and retained, DSM aims for a total remuneration level that is comparable to levels provided by other Dutch multinational companies that are similar to DSM in terms of size and complexity. For this purpose, external reference data are used.
- The remuneration policy for the members of the Managing Board is aligned with the remuneration of other senior executives of DSM.
- In designing and setting the levels of remuneration for the Managing Board, the Supervisory Board takes into account the relevant provisions of statutory requirements, corporate governance guidelines and other best practices applicable to DSM.

Labor-market peer group

In order to be able to recruit the right caliber of people for the Managing Board and to secure long-term retention of the current Board members, DSM has taken external reference data into account in determining adequate salary levels. For this purpose, a specific labor-market peer group has been defined which consists of Dutch companies that are headquartered in the Netherlands and are more or less comparable to DSM in terms of size, international scope and complexity of industrial operations.

The labor-market peer group consists of the following ten companies:

Aegon	Numico ¹
Akzo Nobel	Nutreco
Getronics ¹	Océ
Heineken	TNT
KPN	Wolters Kluwer

¹ Since they are no longer listed on the stock exchange, Getronics and Numico will be eliminated from the peer group and replaced by other companies.

Professional independent remuneration experts (Towers Perrin, Amsterdam) have modified the raw data of the peer-group companies using a statistical empirical model, so as to make them comparable with a company the size of DSM, with the associated scope and responsibilities of the Managing Board. Peer-group data are updated on an annual basis. The peer group is verified by the Supervisory Board each year based on market circumstances (mergers, acquisitions) which determine the appropriateness of the composition of the labor-market peer group.

DSM operates in a competitive international industry. Therefore, DSM will also closely monitor industry and company-specific international developments with respect to remuneration.

Below, the various remuneration components are addressed separately.

Base salary

On joining the Board, the Managing Board members receive a base salary that is comparable with the median of the labor-market peer group. Every year base-salary levels are reviewed. Adjustment of the base salary is at the discretion of the Supervisory Board, which takes into account external and internal developments.

Bonus

Managing Board members can earn a bonus amounting to 60% of their annual base salary for on-target performance. Under the bonus plan, the part of the bonus that is related to financial targets amounts to 42% of base salary, which can increase to 63% in the case of an exceptionally good financial performance.

The part of the bonus that is not related to financial targets amounts to 18% of the base salary and cannot increase beyond that. Targets are defined in the areas of the company's strategic development and Triple P.

Bonus part linked to financial targets

Besides the CFROI, the part of the bonus that is linked to financial targets includes elements related to operational performance, being operating profit (EBIT) and net cash, reflecting short-term financial results. The weighting given to the individual financial elements in the bonus is as follows: CFROI 21%, operating profit 12% and net cash 9% of annual base salary for on-target performance.

Targets	On-target pay-out (% of base salary)	Maximum pay-out (% of base salary)
Financial targets:		
- CFROI	21.0	31.5
- Operating profit	12.0	18.0
- Net cash	9.0	13.5
Non-financial targets		
	18.0	18.0
Total	60.0	81.0

CFROI

The definition of CFROI has been established in such a way that the realization of the CFROI target can be derived from the financial information in the annual report. The definition is as follows¹.

Recurring EBITDA - Related annual tax - Economic depreciation (1%)

Gross asset base (incl. working capital)

CFROI focuses on value realization and creation compared with the weighted average cost of capital (WACC) established for DSM.

Operational performance

There are two financial-target-related bonus elements that allow for a focus on short-term operational targets: operating profit and net cash. These can be derived from the financial statements and are defined as follows:

- Operating profit: EBIT before exceptional items
- Net cash: cash provided by operating activities

¹ Recurring EBITDA is defined as EBIT excluding exceptional items plus depreciation and amortization as reported in the income statement. Related annual tax is defined as effective tax expense from continuing operations before exceptional items as reported in the income statement. Economic depreciation is defined as a 1% charge on the historical cost of intangible assets and property, plant and equipment as reported in the balance sheet. The 1% charge represents the fund to be formed to replace the average asset mix after its economic lifetime ends. Gross asset base is defined as the historical cost value of intangible assets and property, plant and equipment plus average annualized working capital. Working capital is defined as inventories plus receivables minus other current liabilities as reported in the balance sheet.

Targets are determined each year by the Supervisory Board, based on historical performance, the operational and strategic outlook of the company in the short term and expectations of the company's management and stakeholders, among other things. The targets contribute to the realization of the objective of long-term value creation.

In determining the realization of the operating-profit target, a (partial) adjustment mechanism for sensitivity to the euro/dollar ratio will apply. The company does not disclose the actual targets, as they qualify as commercially sensitive information.

Stock incentives

The Managing Board members are eligible to performance-related stock options and shares. Both stock options and performance shares operate on the basis of the same performance schedule.

The vesting of stock options and performance shares is conditional on the achievement after three years of previously determined target levels of total shareholder return (TSR) compared to the peer group.

The chairman will receive 10,000 performance shares and 37,500 performance options; the members of the Board will receive 8,000 performance shares and 30,000 performance options.

Exercise price

The stock options and shares are granted on the first 'ex-dividend' day following the Annual General Meeting of Shareholders at which DSM's financial statements are adopted. The exercise price of the stock incentives is equal to the opening price of the share on the date of grant at Euronext Amsterdam.

TSR as a performance measure

DSM's TSR performance is compared to the average TSR performance of a set of pre-defined peer companies.

The TSR peer group for 2007 consists of the following companies:

Akzo Nobel	ICI ²
BASF	Lanxess
Ciba	Lonza Group
Clariant	Novozymes
Danisco	Rhodia
EMS Chemie Holding	Solvay

² ICI will be eliminated from the peer group because the company is no longer listed.

Remuneration policy regarding the Managing Board and the Supervisory Board

The peer group used for benchmarking total-shareholder-return performance reflects the relevant market in which DSM competes for shareholder preference. It includes sector-specific competitors that the Supervisory Board considers to be suitable benchmarks for DSM.

The peer group is verified by the Supervisory Board each year based on market circumstances (mergers, acquisitions) that determine the appropriateness of the composition of the performance peer group. Depending on DSM's performance compared to the peer group a certain number of options will become exercisable and a certain number of shares will be unconditionally awarded. The stock options can be kept for a maximum of eight years (including the three-year vesting period) while the shares shall be retained by the members of the Managing Board for a period of at least five years (after the three-year vesting period) or at least until termination of employment if this period is shorter. The final performance of DSM versus its peers will be determined and validated by a bank and audited by the external auditor at the end of the performance period.

Performance incentive zone

The number of options and shares that become unconditional after three years is determined on the basis of DSM's performance relative to the average TSR performance of the peer group. The difference between DSM's performance and the peer group's performance (in percentage points) determines the vesting.

The following table gives an overview of the vesting conditions.

DSM performance minus peer-group performance in % points	Percentage of performance-related stock options that become exercisable and percentage of shares awarded
≥ 20	100
> 10 and < 20	75
> (10) and < 10 (target)	50
> (20) and < (10)	25
≤ (20)	0

Pensions

The members of the Managing Board are participants in the Dutch pension fund Stichting Pensioenfonds DSM Nederland (PDN). PDN operates similar pension plans for various DSM companies. The pension provision of the Managing Board is equal to the pension provision for the employees of DSM Limburg BV and DSM Executive Services BV employed in the Limburg area.

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 have been 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 as Board Member. 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 Nomination & 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 in 2007 and changes expected in 2008

Remuneration of Managing Board in 2007

The remuneration package for the Managing Board is subject to annual review. The market competitiveness of the remuneration package of the Managing Board for 2007 was reviewed, based on the Dutch labor-market peer group. The data reflect the July 2007 remuneration levels.

On-target bonuses and stock-incentive grants are expressed as a percentage of base salary. The remuneration data 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 Dutch labor-market peer group 2007

Managing Board Chairman	DSM (1 July 2007)	Peer-group median
Base salary	€676,000	€745,000
On-target bonus	60%	100%
Total cash on target	€1,081,600	€1,490,000
Annualized stock incentive value	30%	120%
Total direct compensation	€1,284,400	€2,384,000
Other Board members	DSM (1 July 2007)	Peer-group median
Base salary	€494,000	€500,000
On-target bonus	60%	70%
Total cash on target	€790,400	€850,000
Annualized stock incentive value	41%	110%
Total direct compensation	€992,940	€1,400,000

Base salary in 2007

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. DSM's policy is to offer the Managing Board a base salary comparable with the median of the Dutch labor-market peer group. As stated in the annual report 2006, it is the intention to close the gap with the median of the benchmark by 2008, see page 75.

External and internal circumstances justified a general increase in the base salary of the Managing Board of 2.5% as of 1 July 2007 to cope with inflation and labor-market developments.

Bonus for 2007

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 financial performance can increase the bonus level to 81% of the annual base salary.

The 2007 annual report presents the bonuses that have been earned on the basis of results achieved in 2007. These bonuses will be paid out in 2008.

The Supervisory Board has established the extent to which the targets for 2007 were achieved. The realization of the 2007 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 partially even exceeded. The other, non-financial targets were also fully realized. The average realization percentage (annualized) was 65%.

See page 74 for tabular overviews on the actual bonus pay-out per individual Board member in 2007.

Stock options and performance shares in 2007

Stock incentives granted in 2007

In 2007 performance-related stock options and performance shares were granted to the Managing Board on 30 March 2007 at an exercise price of €33.60. The following table shows the number of stock incentives granted to the individual Board members:

Remuneration policy regarding the Managing Board and the Supervisory Board

Number of stock incentives granted

	Stock options	Performance shares
Peter Elverding	37,500	10,000
Jan Zuidam	30,000	8,000
Feike Sijbesma	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 2007

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 €11,872 (reviewed annually) at a rate of 2%.
- Employee's contribution of 2.5% of base salary up to €52,608 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 financial returns.

Members of the Managing Board born before 1 January 1950 (Jan 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

The company does not provide any loans to members of the Managing Board. There are therefore no loans outstanding.

Purchasing shares

As announced in the press release on the third quarter results of 2007, members of the Managing Board have decided to purchase more shares in the company to emphasize their confidence in the strategy. Shares purchased are private transactions with private money.

Total remuneration

The total remuneration (including pension costs relating to current and former Board members) of the Managing Board amounted to €3.8 million in 2007 (2006: €4.3 million). The decrease of €0.5 million was mainly due to a discount on

pension cost and the changed composition of the Managing Board.

Overview of remuneration awarded to the Managing Board in 2007

The tables below show the remuneration awarded to the Managing Board in 2007.

Fixed annual salary

in €	1 July 2007	1 July 2006
Peter Elverding (until 1 May 2007)	na	660,000
Jan Zuidam	494,000	482,000
Feike Sijbesma (chairman since 1 May 2007)	676,000	482,000
Nico Gerardu	494,000	482,000
Rolf-Dieter Schwalb	494,000	na
Stephan Tanda (as from 1 May 2007)	494,000	na

Bonus

in €	2007 ²	2006 ¹
Peter Elverding (until 1 May 2007)	143,200 ³	319,235
Jan Zuidam	317,200	233,240
Feike Sijbesma	395,633	233,240
Nico Gerardu	317,200	175,665
Rolf-Dieter Schwalb	317,200	59,286 ³
Stephan Tanda (as from 1 May 2007)	212,767 ³	na

1 Bonus paid in 2007 based on results achieved in 2006.

2 Based on results achieved in 2007 and therefore payable in 2008.

3 Pro-rated bonus

Pensions

in €	Pension costs (employer)		Accrued pension as of age 65	
	2007 ¹	2006	31 Dec. 2007	31 Dec. 2006
Peter Elverding (until 1 May 2007)	-	111,379	-	323,573
Jan Zuidam	-	81,968	256,509	240,446
Feike Sijbesma	-	91,248	167,562	153,897
Nico Gerardu	-	49,493	261,615	148,575
Rolf-Dieter Schwalb	-	17,990	11,755	2,352
Stephan Tanda (as from 1 May 2007)	-	na	28,208 ²	na

1 Discount on employer contribution.

2 Including additional accrual (one-off) for compensation of loss of pension from previous employer.

Remuneration package of Supervisory Board in 2007

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.

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 2007 the members of the Supervisory Board together held 6,084 shares in Royal DSM NV.

The company does not provide any loans to its Supervisory Board members.

Rules have been adopted governing ownership of and reporting on transactions in securities (other than securities issued by DSM) by Supervisory Board members.

The following table gives an overview of the remuneration paid to the Supervisory Board in 2007.

Supervisory Board remuneration in 2007

in €	Annual fixed fee	Committee fee	Total
Cor Herkströter, chairman	50,000	8,750	58,750
Henk Bodt, deputy chairman	35,000	7,500	42,500
Okko Müller (until 28 March 2007)	8,750	1,250	10,000
Cees van Woudenberg	35,000	5,000	40,000
Ewald Kist	35,000	5,000	40,000
Pierre Hochuli	35,000	-	35,000
Claudio Sonder	35,000	3,750	38,750
Tom de Swaan	35,000	5,000	40,000
Total	268,750	36,250	305,000

Changes expected in 2008

To close the gap with the median of the benchmark (Dutch labor-market peer group), an extra 10% increase in the base salary of the Managing Board chairman has taken place on 1 January 2008.

The Supervisory Board will review in the second quarter of 2008 whether circumstances justify adjustment of the base-salary levels of the Managing Board with effect from 1 July 2008 to compensate for inflation and to reflect market developments. This review will among other things be based on the labor-market peer group.

Since Numico and Getronics are no longer listed, they will be eliminated from the Dutch labor-market peer group and need to be replaced.

Recent changes in the AEX/AMX index will limit DSM's options to compose a specific Dutch labor-market peer group based on the AEX/AMX only. Moreover, Eumedion (a platform of institutional investors) has issued guidelines to the effect that a labor-market peer group should consist of at least 12 companies. It is to be expected that corporate-governance-regulating bodies will adopt this guideline.

As a consequence, the Supervisory Board has requested independent remuneration experts to propose an alternative labor-market peer group. The proposed peer group will consist of Dutch listed companies that are more or less comparable to DSM in terms of size and complexity and some industry-specific European specialty-chemicals companies. The following peer group is being proposed, subject to approval of the Annual General Meeting of Shareholders:

Remuneration policy regarding the Managing Board and the Supervisory Board

Aegon	Nutreco
Akzo Nobel	Océ
Ciba	Rhodia
Clariant	Solvay
Heineken	TNT
KPN	Wolters Kluwer

In December 2007 the Supervisory Board reviewed the financial targets of the short-term incentive scheme for the Managing Board. A proposal will be submitted to the 2008 Annual General Meeting of Shareholders to modify the short-term incentive scheme for the Managing Board. The proposal consists of the following elements.

- Replacement of CFROI as financial target by net-sales growth (organic) to reduce overlaps and correlation between financial targets. Moreover net-sales growth as a target fits in with the organic sales growth target of > 5% on average per year as part of the accelerated *Vision 2010* strategy.
- An increase in the percentage bonus for overachievement of financial targets from 150% to 200% of the base bonus to close the gap with the median of the market for total cash compensation.
- Abolition of the adjustment mechanism for the euro/dollar ratio.

Financial targets within the bonus scheme account for a bonus amounting to 42% of base salary (84% for outstanding financial performance) and relate to:

• operating profit (EBIT)	21%	(42%)
• net cash	12%	(24%)
• net-sales growth (organic)	9%	(18%)

The bonus part related to non-financial targets amounts to 18% of the base salary and cannot increase beyond that. No change is being proposed with respect to non-financial targets.

In 2008 a proposal will be prepared to further align the remuneration of the Managing Board and other executives with the long-term strategy of the company by making the Long-Term Incentive (LTI) a more important element of the total remuneration package than the Short-Term Incentive (STI).