

Report by the Supervisory Board

The composition of the Supervisory Board and the Managing Board changed during the year under review. According to the rotation scheme Mr Okko Müller's term came to an end. He stepped down from the Supervisory Board on 28 March 2007 since he had served the maximum term of twelve years. The Supervisory Board is grateful to Mr Müller for his commitment to the company during his membership and his constructive and valuable contribution to the Board's work.

Mr Peter Elverding stepped down as chairman of the Managing Board as of 1 May 2007. He was succeeded by Mr Feike Sijbesma as of the same date. The Supervisory Board would like to express its sincere appreciation for all that Mr Peter Elverding did for the company during the years he worked for DSM in various positions, especially when he served on the Managing Board, first as a member and subsequently as chairman.

To fill the vacancy arisen from Mr Feike Sijbesma's appointment as chairman of the Managing Board replacing Mr Peter Elverding, the Annual General Meeting of Shareholders held on 28 March 2007 appointed Mr Stephan Tanda as a member of the Managing Board with effect from 1 May 2007 for a period of four years.

The Supervisory Board approved the distribution of Managing Board responsibilities as from 1 May 2007 and the redistribution as from 1 January 2008.

The Supervisory Board held five meetings in the presence of the Managing Board during the year under review. Each of these meetings was preceded by a Supervisory Board meeting without the Managing Board being present. The subjects discussed in these regular Supervisory Board meetings outside the presence of the Managing Board included the establishment and the outcome of the Managing Board bonus targets and the Managing Board overall remuneration package, all of which were prepared by the Nomination & Remuneration Committee.

In addition to remuneration subjects, this part of the Supervisory Board meetings was used for pre-discussion of for instance corporate-governance issues. The Supervisory Board also devoted a separate meeting to its profile, composition and functioning. At the same meeting the Managing Board's composition and performance and the performance of its individual members were also discussed. The meeting concluded that all members of the Supervisory Board were independent, as defined by the Dutch corporate-governance code, and that the competences of its individual members in aggregate were in line with the Board's profile. The Supervisory Board meetings in 2007 were attended by virtually all of the Board's members.

The composition of the Audit Committee changed in 2007. Mr Cor Herkströter and Mr Okko Müller stepped down and were succeeded by Mr Tom de Swaan and Mr Claudio Sonder. The Audit Committee, thus consisting of Messrs Henk Bodt (chairman), Tom de Swaan and Claudio Sonder, met three times in 2007. The external auditor was in attendance at these meetings, and at all meetings the internal – operational – auditor was present as well.

The main topics of discussion during the Audit Committee meeting held in February were the adoption of the group's financial statements, the external auditor's comments, and their assessment of DSM's systems such as Internal Control and ICT. The dividend proposal for the year 2006 was discussed. The committee acknowledged the receipt of the independence letter of the external auditor.

At the June Audit Committee meeting the 2007 audit plan for the external auditor was discussed and approved. The committee furthermore discussed the work of the Corporate Operational Audit department and approved its audit plan. The review of strategic and operational risks reported by the business groups was discussed. The system and status of the Letters of Representation issued by the managers directly reporting to the Managing Board were evaluated. The positive outcome of the review of the DSM Annual Report by the AFM, the Netherlands Authority for the Financial Markets, was reported.

The main topics discussed during the meeting held in December were the potential provisions and impairments for 2007, findings from the interim audit performed by the external auditor, the basis upon which the Internal Control statement was to be based, the activities of the Corporate Operational Audit department, the 2007 status of the Whistleblower systems and the Corporate Risk Assessment for 2007.

The composition of the Nomination & Remuneration Committee did not change in 2007. The committee, consisting of Messrs Cor Herkströter (chairman), Cees van Woudenberg and Ewald Kist, met five times in 2007. The committee made a recommendation concerning the remuneration of members of the Managing Board. This recommendation was adopted by the Supervisory Board. Information on the group's remuneration policy is to be found on page 70 of this annual report.

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The committee discussed the effectiveness and outcome of the remuneration policy. An assessment was made as to whether the remuneration policy was consistent with *Vision 2010*. Proposals were formulated to the full Supervisory Board on the short-term incentive targets for 2007, the realization of the 2006 targets and the increase in the base salary of the Managing Board with effect from 1 July 2007. The committee also prepared a proposal to the Supervisory Board on various other remuneration aspects such as a change in the 2008 bonus-related financial targets and a revision of the Dutch labor-market peer group for 2008. Other issues covered in the proposal were a change in the base salary for the chairman with effect from 1 January 2008, as announced in the annual report for 2006 and an increase in the maximum percentage overachievement of the financial bonus targets.

The Supervisory Board and the Managing Board discussed company matters on a regular basis during the year under review. One of the issues discussed was the succession planning for the Managing Board and the top executives within the company. The remuneration of the members of the Managing Board was also discussed.

The financial results recorded by the various company units and developments at these units were discussed at every meeting. The Supervisory Board discussed and monitored various aspects concerning the progress of the implementation of the *Vision 2010 – Building on Strengths* strategy program adopted in 2005. The Board discussed the Annual Strategic Review. Furthermore, the Supervisory Board held in-depth discussions with the Managing Board on a strategic mid-term review of the *Vision 2010* program. The Board approved the acceleration of the *Vision 2010* program, that is, the acceleration of the shift to a specialty Life Sciences and Materials Sciences company, delivering faster growth, higher margins and improved earnings quality. More specifically the Board approved the related portfolio adjustments and the initiation of a disposal or partnering program for non-core businesses. The Annual Strategic Review as well as the review of the *Vision 2010* program included an overview and an assessment by the Managing Board of the main risks to the company. The Supervisory Board also discussed the organizational alignment in relation to the acceleration of the *Vision 2010* program. Furthermore the Supervisory Board discussed the outcome of the Corporate Risk Assessment for 2007.

The Supervisory Board held discussions with the Managing Board on possible future acquisitions that would fit in with the strategy, one of the aims being to strengthen the Performance Materials and Nutrition clusters. The Supervisory Board approved the acquisition of cosmetic-active-ingredient specialist Pentapharm. The Supervisory Board discussed and approved a profit improvement program for DSM Nutritional Products and a partnering strategy (possibly with – partial – disposals) for the Anti-Infectives business combined with innovation initiatives and further restructuring measures to improve profitability.

The Supervisory Board discussed and approved the Capital Expenditure and Financing and Guarantee Plan for 2007.

The Supervisory Board agreed with proposals that were subsequently presented to the Annual General Meeting of Shareholders (March 2007) for amending the Articles of Association. The proposals related to the introduction of a loyalty dividend concept, offering a Dividend Re-Investment plan (DRIP) to the shareholders and the incorporation into the Articles of Association of the possibility of using electronic communication media in the decision-making process.

The Supervisory Board was informed in detail about the – negative – decision of the Enterprise Chamber of the Amsterdam Court of Appeal on whether the shareholders were allowed to vote on the loyalty dividend proposal during the Annual General Meeting of Shareholders on 28 March 2007. In September 2007 the Solicitor General (*Advocaat-generaal*) at the Dutch Supreme Court lodged a request for cassation against the decision of the Enterprise Chamber. The Supreme Court overruled the Enterprise Chamber's decision in its decision of 14 December 2007.

The Supervisory Board approved an update of the Commercial Paper program involving cancellation of the existing USD 0.4 billion Commercial Paper program, an update of the existing €0.9 billion Commercial Paper program and an increase in the nominal amount of the Commercial Paper program to €1.5 billion. The Supervisory Board also approved an increase in the planned bond issue from €400 million to €750 million.

Furthermore, the Board approved a second share buy-back program worth €750 million, to be executed in 2007 and 2008. The Supervisory Board approved the interim dividend to be paid for 2007. The Board approved the new formulation of the dividend policy: 'DSM aims to provide a stable and preferably rising dividend'. The Board also approved the announcement of the recommendation to the Annual General Meeting of Shareholders on 26 March 2008 of a dividend increase of 20% per ordinary share and the proposal made to the Annual



General Meeting of Shareholders regarding the final dividend to be paid out for 2007.

As in previous years, the Supervisory Board invited managers from a number of business groups and corporate staff departments to its meetings, to present relevant developments in their units in person.

Discussions were held with the external auditor, Ernst & Young Accountants, about the financial report for 2007. The Report by the Managing Board and the financial statements for 2007 were submitted to the Supervisory Board by the Managing Board, in accordance with the provisions of Article 30 of the Articles of Association, and subsequently approved by the Supervisory Board in its meeting on 12 February 2008. The financial statements were audited by Ernst & Young Accountants, who issued an unqualified opinion (see page 147 of this report). The Supervisory Board concluded that the external auditor was independent of DSM.

We submit the financial statements to the Annual General Meeting of Shareholders, and propose that the shareholders adopt them and discharge the Managing Board from all liability in respect of its managerial activities and the Supervisory Board from all liability in respect of its supervision of the Managing Board. The profit appropriation as approved by the Supervisory Board is presented on page 147 of this report.

DSM succeeded in recording good results for 2007. In 2007 the company embarked on an acceleration of the shift to a Life Sciences and Materials Sciences company and set ambitious new growth targets. The Supervisory Board wishes to express its sincere appreciation for all the efforts made by the employees and the Managing Board.

Heerlen, 12 February 2008

The Supervisory Board

Cor Herkströter, chairman
Henk Bodt, deputy chairman
Pierre Hochuli
Ewald Kist
Claudio Sonder
Tom de Swaan
Cees van Woudenberg

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