

## NON-CONSOLIDATED COMPANIES

DSM's main non-consolidated companies are EdeA and Methanor.

### EdeA

EdeA V.o.f. owns, operates and maintains most of the production and distribution facilities for utilities (i.e. steam, power and water) at the Chemelot site in Geleen (the Netherlands). EdeA V.o.f. is a joint venture with Essent, an energy production and distribution company in which DSM's stake is 25%.

### METHANOR

Methanor V.o.f. (30% DSM), a producer of methanol, turned in a good performance in 2004, as it had done the year before. In the first half of the year, various maintenance and rejuvenation projects were carried out at the #1 unit in Delfzijl (the Netherlands). Capacity was increased by 5%. Despite the positive development of methanol prices, the company posted a lower operating profit than in 2003 due to higher raw material prices.

Heerlen, 14 February 2005

#### THE MANAGING BOARD

Peter Elverding, chairman  
Jan Zuidam, deputy chairman  
Jan Dopper  
Henk van Dalen  
Feike Sijbesma

## REPORT BY THE SUPERVISORY BOARD TO THE SHAREHOLDERS

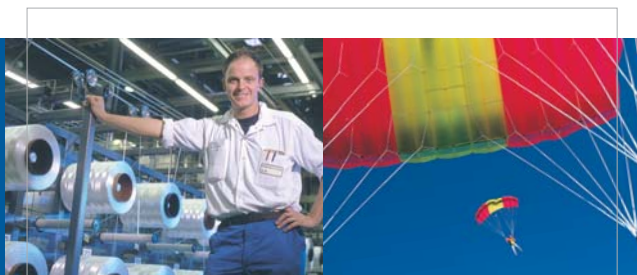
There were several changes in the composition of the Supervisory Board during the year under review. Messrs Herkströter, Bodt and Sosa all retired by rotation, and were reappointed during the Annual General Meeting held on 31 March 2004. Mr Kist was appointed as a Supervisory Director on 1 July 2004 to fill the vacancy left by the death of Mr Stekelenburg in 2003. Mr Geers resigned from the Supervisory Board on the same date, in the wake of the changes made in the legal status of Royal DSM N.V. He had been appointed in 1999 on the nomination of the Central Works Council, under the rules of the Dutch Large Company Regime then applicable to DSM. The Supervisory Board is grateful to Mr Geers for his commitment to the company and his constructive contribution to the Board's work.

There were no changes in the composition either of the committees operating under the Supervisory Board or of the Managing Board in 2004.

The Supervisory Board held six meetings with the Managing Board during the year under review. Each of these meetings was preceded by a private Supervisory Board meeting. The Supervisory Board also devoted a separate meeting to a discussion of its profile, composition and performance. The composition and performance of the Managing Board was also discussed at the same meeting. The meeting concluded that all the members of the Supervisory Board were independent, as defined by the regulations for the Supervisory Board, and that the Board's profile and the competences of its individual members were in line with the desired situation. A meeting was also held with the Managing Board during which an extensive discussion took place of DSM's long-term strategy. Virtually all the Supervisory Board's meetings in 2004 were attended by all its members. One of the meetings was held in the USA; on this occasion the Supervisory Board visited two sites of DSM Nutritional Products.

The Audit Committee, consisting of Messrs Bodt (chairman), Müller and Van Woudenberg, met three times in 2004. The external auditor was usually in attendance at these meetings, as was the internal auditor. The Audit Committee's remit includes laying the groundwork for the discussion of DSM's financial figures by the Supervisory Board prior to their publication, and assessing the company's risk profile.

The main topics of discussion during the meeting held in February were the adoption of the group's financial statements, the external auditors' experiences and their assessment of DSM's annual accounts and internal control systems. The meeting concluded that the external auditors were independent of DSM. Among the topics discussed during the meeting held in September were various aspects of the implementation of the IFRS, as well as (in the light of the introduction of the Tabaksblat Code, the new Dutch code on corporate governance), the regulations for the Managing Board and the Supervisory Board and the charters for the committees operating under the Supervisory Board, including the Audit Committee's own charter. The Supervisory Board approved the various rules, regulations and charters. The Committee also discussed the work of the Corporate Operational Audit department. The main agenda items during the Committee's December meeting were the possible need for creating provisions for restructuring programmes



Ropes & cords

and possible impairments, and the implications of the application of the IFRS to the group's accounts in the 2005 financial year. The external auditor and the chairman of the Audit Committee were consulted before the publication of quarterly reports. In September the Audit Committee and the Supervisory Board discussed the company's risk profile and its internal control and risk management system, the programmes being implemented to further upgrade this system and the measures that had been taken or were to be taken.

The Supervisory Board's Nomination & Remuneration Committee, consisting of Messrs Herkströter (chairman), Bodt and Van Wou-denbergh, met four times in 2004. The committee's activities are described in detail on page 44 (in the chapter on remuneration policy). The Committee made recommendations on the filling of vacancies on the Supervisory Board. Apart from leading to the aforementioned appointments and reappointments of four members of the Supervisory Board, these recommendations also included suggestions for dealing with future changes in the composition of the Supervisory Board.

The Committee also made recommendations for staggering the retirement dates of members of the Managing Board born in either 1947 or 1948 and for their succession. The Supervisory Board adopted these recommendations. As a consequence, Mr J. Dopfer will be retiring in 2005 and a proposal will be made to the 2005 Annual General Meeting of Shareholders to appoint Mr C. Goppels-roeder in his place. The Supervisory Board would like to express its gratitude to Mr Dopfer for all that he has done for the company, in particular during the six years in which he was a member of the Managing Board.

The Committee prepared a recommendation, in connection with the implementation of the Tabaksblat Code, on the remuneration of members of the Managing Board and the Supervisory Board. This recommendation was adopted by the Supervisory Board. Information on the group's remuneration policy is to be found on page 44 of the annual report.

The Supervisory Board and the Managing Board discussed company matters on a regular basis during the year under review. The Supervisory Board discussed and approved the Capital Expenditure and Financing Plan for 2004. The financial results recorded by, and the developments at, the various company units were discussed at every meeting. Special attention was paid to those units that were not performing well or whose future prospects were less bright. Various meetings included discussions of the progress being made in implementing the corporate strategy adopted in 2000, as set out in *Vision 2005: Focus and Value*. More specifically, the Supervisory Board monitored the progress of the transformation and integration process at DSM Nutritional Products (formerly Roche's Vitamins & Fine Chemicals Division, which DSM acquired in 2003). The Supervisory Board held in-depth and detailed discussions with the Managing Board on the company's strategy and possible future takeovers that would fit in with this strategy, one of the aims of which would be to strengthen the Performance Materials cluster. In this connection, the Supervisory Board gave its permission for the acquisition of NeoResins, Avecia's coating resins division, which will mean a substantial strengthening of DSM's activities in the coating resins market. The Supervisory Board also gave the go-ahead to start talks with North China Pharmaceutical Group Corporation (NCPC) in Shijiazhuang, China, on the formation of a strategic alliance and the possibility of forming joint ventures for

the production of vitamins and antibiotics. The Supervisory Board also approved a review of all the various strategic options for the future of DSM Bakery Ingredients, including divestment.

The Supervisory Board approved a major investment in Belvidere, USA, for expanding the capacity for the production of arachidonic acid, as well as the sale of land belonging to the site in Addis, USA.

The Supervisory Board approved a series of major restructuring measures affecting the organization of the site in Geleen (the Netherlands) and of the DSM Anti-Infectives business group. These measures are likely to have a far-reaching impact on the respective staffing levels.

The Supervisory Board gave its permission for the purchase of outstanding cumulative preference C shares.

The Supervisory Board approved various proposals to be presented to the Annual General Meeting of Shareholders for amending the articles of association, principally to take account of the change in the group's legal status (i.e. the ending of its special Large Company Regime status), but also to bring them into line, where necessary, with the provisions of the Tabaksblat Code. The Supervisory Board discussed with the Managing Board the plans relating to, and the progress being made with, the implementation of the Tabaksblat Code. The Supervisory Board also reviewed its own profile, assessing it in the light of social trends and the changes emanating from the guidelines set out in the Tabaksblat Code. This review resulted in the reformulation of the Supervisory Board's profile.

On the basis of an in-depth analysis of the Tabaksblat Code, the Supervisory Board concluded that DSM was already applying many of the Best Practices embraced by the Code. In those areas where this was not the case, the Supervisory Board decided to adopt the practices in question, with just one exception: it was decided that the chairman of the Supervisory Board should continue to chair the Nomination & Remuneration Committee. The Supervisory Board regards this as a logical combination, given the strong relationship between the development, nomination and remuneration of top managers. The Supervisory Board will discuss the way in which DSM has implemented the new Dutch code on corporate governance at the Annual General Meeting of Shareholders.

The Supervisory Board discussed the dividend policy in relation to the implementation of IFRS in 2005.

As in previous years, the Supervisory Board invited managers of a number of DSM business groups to attend its meetings, so that they could inform the Board about relevant developments.

Discussions were held with the external auditor, Ernst & Young Accountants, about the financial statements and the financial reports for 2004. The Managing Board's Report and the financial statements for 2004 were drawn up by the Managing Board as at 14 February 2005. In accordance with the provisions of Article 30 of the Articles of Association, the Supervisory Board subsequently approved the financial statements at its meeting on 16 February 2005. The financial statements were audited by Ernst & Young Accountants, who issued an unqualified opinion (see page 89 of this report).

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 89 of this report.

The acquisition of NeoResins, which will substantially strengthen the Performance Materials cluster, means that DSM has now achieved most of the strategic goals set out in *Vision 2005: Focus and Value*, and represents the final step in the group's transformation into a specialty company.

In the light of the difficulties encountered by the Life Science Products cluster and the further decline in the value of the dollar on the one hand, and the improvement in profits that has been achieved thanks in part to a range of major restructuring measures, the significantly improved performances posted by the Performance Materials and Industrial Chemicals clusters and the strong contribution from DSM Nutritional Products on the other hand, the group's profit for 2004 is a good step forward.

The Supervisory Board wishes to express its appreciation for the achievements and efforts of the Managing Board and all employees.

Heerlen, 16 February 2005

#### THE SUPERVISORY BOARD

Cor Herkströter, chairman  
Henk Bodt, deputy chairman  
Ewald Kist  
Okko Müller  
Enrique Sosa  
Ceas van Woudenberg

## CORPORATE ORGANIZATION

### SUPERVISORY BOARD

COR A. HERKSTRÖTER (1937, m), CHAIRMAN

*First appointed:* 2000. End of current term: 2008.

*Position:* retired; last position held: President of Koninklijke Nederlandsche Petroleum Maatschappij N.V. and Chairman of the Committee of Managing Directors of Royal Dutch/Shell Group.

*Nationality:* Dutch.

*Supervisory directorships and other positions held:* chairman of the Supervisory Board of the ING Group, chairman of the Advisory Committee on the Listing and Issuing Rules of Euronext Amsterdam N.V., trustee of the International Accounting Standards Committee Foundation (IASCF), professor of International Management at the University of Amsterdam, chairman of the Board of Trustees of the Erasmus University (Rotterdam), chairman of the Social Advisory Council of the Tinbergen Institute, member of the Advisory Council of Robert Bosch.

HENK BODT (1938, m), DEPUTY CHAIRMAN

*First appointed:* 1996. End of current term: 2008.

*Position:* retired; last position held: Executive Vice President of Philips Electronics N.V.

*Nationality:* Dutch.

*Supervisory directorships and other positions held:* member of the Supervisory Boards of ASM Lithography N.V., Neopost SA and Delft Instruments N.V.

EWALD KIST (1944, m)

*First appointed:* 2004. End of current term: 2008.

*Position:* retired; last position held: Chairman of the Managing Board of the ING Group.

*Nationality:* Dutch.

*Supervisory directorships and other positions held:* member of the Supervisory Boards of De Nederlandsche Bank N.V., Philips Electronics N.V. and Moody's Investor Services, member of the Board of Governors of the Peace Palace in The Hague (the Netherlands).

OKKO MÜLLER (1936, m)

*First appointed:* 1994. End of current term: 2005.

*Position:* retired; last position held: member of the Managing Boards of Unilever N.V. and Unilever PLC.

*Nationality:* German.

*Supervisory directorships and other positions held:* Chairman of the Supervisory Board of Unilever Deutschland Holding GmbH.

ENRIQUE J. SOSA (1940, m)

*First appointed:* 2000. End of current term: 2008.

*Position:* retired; last position held: President of BP Amoco Chemicals.

*Nationality:* US.

*Supervisory directorships and other positions held:* member of the Board of FMC Corporation, member of the Board of Amtrak Reform and member of the Board of Pediatrix Health Systems Inc.

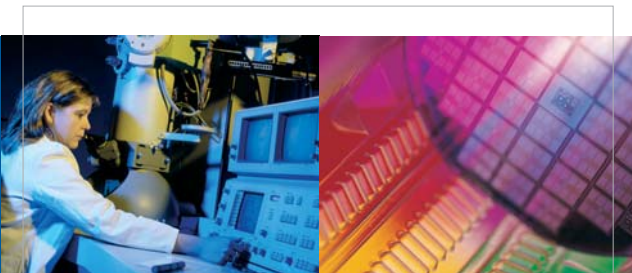
CEES VAN WOUDENBERG (1948, m)

*First appointed:* 1998. End of current term: 2006.

*Position:* member of the KLM Managing Board.

*Nationality:* Dutch.

*Supervisory directorships and other positions held:* member of the Supervisory Boards of Transavia CV, Mercurius Group Wormerveer



Electronics and IT equipment