

REMUNERATION POLICY REGARDING THE MANAGING BOARD AND THE SUPERVISORY BOARD

This chapter comprises two parts. The first part outlines the remuneration policy of 2004 and contains tabulated details of the remuneration received in 2004. The second part, which outlines the remuneration policy for 2005 and subsequent years, will be submitted for approval by the Annual General Meeting of Shareholders on 6 April 2005.

NOMINATION & REMUNERATION COMMITTEE

The Nomination & Remuneration Committee (hereinafter referred to as 'the Committee') reviews the remuneration policy on a regular basis and, when appropriate, proposes changes to this policy to the Supervisory Board. The Committee consists entirely of Supervisory Board members. Its members are Mr Herkströter (Chairman), Mr Bodt and Mr Van Woudenberg. The Corporate Vice President Human Resources acts as the Secretary to the Committee.

The Committee met four times in 2004. During these meetings it discussed the remuneration policy for 2004 for the Managing Board. The Committee also defined targets for the bonus plan and assessed the degree to which the members of the Managing Board had achieved their targets for the previous year. The Committee made recommendations for stock options to be granted to the Managing Board. Finally, the Committee made preparations for the application of the Dutch corporate governance code (the Tabaksblat Code) as from 2005, especially regarding the remuneration policy.

The Nomination & Remuneration Committee will not be divided into two separate committees. The reason for this is that the remuneration of key executives in the company and their development and nomination are inextricably related. The Supervisory Board considers the development of the managerial qualities of key talent at DSM of great importance, and remuneration is an important tool enabling the company to attract, retain, motivate and further develop qualified Board members that will determine the future of the company. Given the importance of development, nomination and remuneration and the strong relationship between these, the committee is chaired by the chairman of the Supervisory Board. The chairman is also the first point of reference in the Supervisory Board for the chairman of the Managing Board in the areas of nomination and remuneration of Managing Board members.

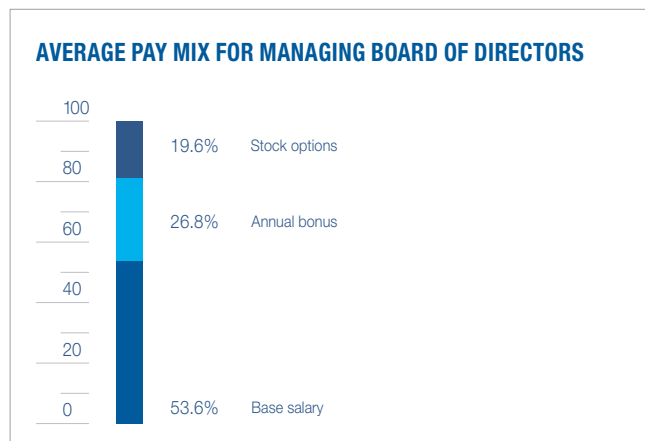
The Committee operates on the basis of a charter, which is publicly available on the Company's website.

REMUNERATION POLICY FOR 2004

DSM's remuneration policy aims to be fair and is designed to attract, motivate and retain qualified Managing Board members. The remuneration philosophy is consistent with and to a large extent based on the same philosophy as applied to other DSM executives. The remuneration package of the Managing Board is reviewed annually, based on extensive market surveys provided by independent experts. The remuneration package of the DSM Managing Board is compared to that of the boards of other companies of a similar size and scope.

REMUNERATION STRUCTURE IN 2004

The remuneration package is composed of a fixed and a variable part. The variable part (including bonus and stock options) is performance related. When performance is on target, the average performance related pay of the Managing Board accounts for 46.4% of the total package (excluding pension).



The total remuneration package of the members of the Managing Board comprises four elements:

- base salary
- bonus
- stock options
- pension

The valuation of stock options granted to the Managing Board is based on the Black-Scholes methodology.

Besides these elements Board Members enjoy benefits similar to those of other DSM executives. These include a health insurance allowance, the use of company cars and an entertainment allowance.

BASE SALARY IN 2004

The level of the base salary needs to be sufficient to attract, motivate and retain people of the right calibre for the Managing Board. On joining the Board, the Managing Board members receive a base salary that is commensurate with their position. The base salary of the Chairman of the Managing Board is 30% higher than that of the other members of the Managing Board, whose base salaries are all the same. The Committee reviews each year whether circumstances justify an adjustment of the base salary levels. In the light of the policy applied to DSM executives and the social labour agreement ('sociaal akkoord') in the Netherlands (although this agreement has no direct bearing on the remuneration of senior management), the base salaries were not adjusted in 2004.

BONUS FOR 2004

The remuneration policy aims to establish a strong link between the remuneration of the Managing Board and the performance of the Company. Managing Board members are offered an annual opportunity to earn a bonus amounting to 50% of the annual base salary, of which 25% is linked to financial performance metrics. The remaining 25% of the bonus opportunity is linked to non-financial shared and individual targets. These 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.

Performance measures

Cash Flow Return on Investment (CFROI) is used as a financial performance measure in the bonus plan. CFROI is currently based on an internal definition and cannot be derived directly from the annual report. CFROI is a value based performance measure which takes account of profitability, value growth and cash flow. The CFROI measure determines whether a company has earned sufficient returns in relation to its weighted average cost of capital. The non-financial performance targets for 2004 were a group target linked to the Company's strategic development, targets linked to the Planet and People elements of the Triple P concept and individual targets.

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 50% of their annual base salary. Outstanding financial performance can increase the bonus level to 62.5% of the annual base salary.

The 2004 annual report presents the bonuses that have been earned on the basis of results achieved in 2004. These bonuses will be paid out in 2005.

The Supervisory Board has established the extent to which the targets for 2004 were achieved. The target relating to the group's financial performance was only partly achieved, due in part to the high internal profitability standards and economic developments in 2004. The other, non-financial targets were almost fully achieved. The average realization percentage was 36%.

See page 46 for tabular overviews on the actual bonus realization per individual Board member in 2004.

The current bonus plan has been revised in the light of the Dutch corporate governance code.

STOCK OPTIONS IN 2004

In this section, details will be provided on the stock option plan for members of the Managing Board. The current long-term incentive plan consists of performance-related and non-performance-related stock options. Under the current plan, one third of the stock options received by the members of the Managing Board are not subject to a performance condition and two thirds are linked to performance. The number of stock options granted to members of the Managing Board is determined by the Supervisory Board.

The average target annualized expected value of all options for the Managing Board amounts to 37% of their average base salary levels. The actual number of performance-related options that vest depends on the Company's Total Shareholder Return (TSR) performance (share price appreciation plus dividend pay out) over a three-year period compared to the TSR performance of a specified peer group. The options granted have a total term of eight years (including the period of three years during which they cannot be exercised). The options that are not performance-related are subject to a vesting period of three years.

For details on the outstanding number of options under the plan, see page 48 of this report, where tabular overviews provide information per individual Board member.

The option exercise price

The stock options are granted on the first 'ex dividend' day following the Annual General Meeting of Shareholders at which DSM's annual accounts are adopted. The exercise price is equal to the opening price of the share on the date of grant. In 2004, stock options were granted on 2 April at an exercise price of € 35.79.

Valuation of stock options

The valuation of stock options, which form the long term incentive provided to the Managing Board, is based on the Black-Scholes method because data reporting by external experts is based on the same method. The accounting value of the stock options in the financial statements may differ from the value reported in the remuneration report.

TSR as a performance measure

DSM's TSR performance is compared to that of a well-defined set of peer companies. Two thirds of the option grant are linked to relative TSR. TSR measures the returns received by shareholders and captures both the change in a company's share price and the value of dividend income. This measure is used because it assesses long term value creation of the Company.

The TSR peer group comprises the following companies:

Akzo Nobel	EMS Chemie Holding
BASF	ICI
Bayer	Lonza Group
CIBA Spezialitätenchemie	Rhodia
Clariant	Solvay
Degussa	

This peer group reflects the relevant competitive market in which the company operates. It includes sector-specific competitors which the Supervisory Board and the Managing Board consider to be suitable benchmarks for DSM.

Dependent on DSM's performance compared to the peer group, a certain number of options will become exercisable. The final performance of DSM versus the peer group will be determined and validated by a bank and audited by an auditor at the end of the performance period.

Performance incentive zone

The number of options that become unconditional after three years (apart from the options that are not performance related – one third of the total) 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 initially granted that vests (becomes exercisable)
≥ 20	100%
≥ 10 and < 20	75%
≥ -10 and < 10 (target)	50%
≥ -20 and < -10	25%
< -20	0%

In 2004, all performance related options granted in 2001 vested on the basis of DSM's performance relative to the aforementioned peer group (≥ 20%).

The stock option plan has been revised in the light of the Dutch corporate governance code.

PENSIONS IN 2004

The members of the Managing Board are participants in the Dutch pension fund "Stichting Pensioenfonds DSM Chemie" (PDC). PDC operates similar pension plans for various DSM companies. The pension provision of the Managing Board is equal to the pension provisions for the employees of DSM Limburg BV and executives who are employed in the Limburg region.

Retirement age is 65. PDC operates two different schemes: a pre-pension scheme providing benefits between age 62 and 65 and a basic pension scheme for old age pension benefits as of age 65. The latter scheme is a defined benefit final pay scheme. Old-age pension rights are accrued according to vested years of service. Only base salary, after deduction of an offset, is pensionable. In 2004 this offset was € 20,235.

The accrual of pension rights in the salary range between the offset and € 50,810 amounts to 1.75% per annum and in the salary range above € 50,810 to 1.55% per annum. The basic pension scheme includes entitlement to a pension and a waiver of pension contributions in the event of disability, as well as a spouse's/dependants' pension on death. Contribution to this basic pension scheme is a flat rate percentage of pensionable salary. The scheme participants contribute a pension premium of 4% of base salary above € 50,810.

The pre-pension scheme (PPS) is basically a defined contribution scheme, in which benefits are based on the contributions paid by the participants. The scheme guarantees a pre-pension income of 75% of base salary from age 62, provided that the participant has paid the full contribution.

Since July 1999 a (temporary) individual scheme has been applied to members of the Managing Board aimed at accruing additional pension rights (as of age 65). The Company pays a premium of 4.5% of the monthly base salary. This scheme is intended to compensate for the fact that an old age pension of max. 60% of the pensionable salary will normally be attainable only after 40 years of service. Old age pension rights are accrued according to vested years of service. In practice most current members of the Managing Board will not reach 40 years of service and therefore their maximum attainable old age pension will be less than 60% of their base salary and an even lower percentage of their total compensation (including bonuses and stock options).

EARLY RETIREMENT PLAN

In addition to the pension provisions as set out above, DSM operates a non-pension early retirement scheme for the members of the Managing Board. Early retirement is possible from the age of 60 if the Supervisory Board decides so. The early retirement income is 80% of base salary during the first six months of payment and 75% henceforward. The early retirement benefit stops at age 65. The total attainable early retirement income is determined taking into account as an offset the benefits from the pre-pension scheme operated by PDC. The early retirement benefits do not accrue or vest. The early retirement scheme is non-contributory.

LOANS

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

CONTRACTS OF EMPLOYMENT

The employment contracts for the current members of the Managing Board have been entered into for an indefinite period and provide for a notice period of six months in the case of termination by a member of the Managing Board. In line with Dutch statutory requirements a notice period of twelve months will therefore be applicable in the case of termination by the Company.

The terms of employment will be subject to reconsideration as part of the remuneration policy for 2005 and subsequent years.

Severance arrangements

The employment contracts of the members of the DSM Managing Board do not include a provision on exit arrangements in the event of termination of employment by the Company.

REGULATIONS REGARDING SECURITIES

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

OVERVIEW OF REMUNERATION 2004 – MANAGING BOARD

The tables below show the remuneration paid to the Managing Board in 2004.

FIXED ANNUAL SALARY IN €	1 July 2003	1 Jan 2004	1 July 2004
Peter Elverding, chairman	599,760	599,760	599,760
Jan Zuidam, deputy chairman	461,040	461,040	461,040
Jan Dopper	461,040	461,040	461,040
Henk van Dalen	461,040	461,040	461,040
Feike Sijbesma	461,040	461,040	461,040

BONUS IN €	2004 ¹	2003 ²
Peter Elverding, chairman	215,914	118,776
Jan Zuidam, deputy chairman	165,974	102,717
Jan Dopper	165,974	79,891
Henk van Dalen	165,974	102,717
Feike Sijbesma	165,974	102,717

¹ Based on results achieved in 2004 and therefore payable in 2005.

² Bonus paid in 2004 based on results achieved in 2003.

PENSION	PENSION COSTS (EMPLOYER)		ACCRUED PENSION AS OF AGE 65	
	2004	2003	31 Dec 2004	31 Dec 2003
Peter Elverding, chairman	110,289	97,993	274,162	259,834
Jan Zuidam, deputy chairman	85,250	75,325	218,298	207,297
Jan Dopper	85,250	75,325	190,149	179,695
Henk van Dalen	85,250	75,325	193,596	183,074
Feike Sijbesma	85,250	75,325	133,851	124,491

TOTAL REMUNERATION

The total remuneration (including pension costs and other commitments) of Managing Board members amounted to € 3.4 million in 2004 (2003: € 3.5 million).

The table below shows the stock options granted to the Managing Board in 2004. Please note that the options referred to below are also included in the total overview of options granted.

	NUMBER OF CONDITIONAL OPTIONS GRANTED IN 2004	NUMBER OF UNCONDITIONAL OPTIONS GRANTED IN 2004	EXERCISE PRICE	DATE OF GRANT	EXPIRATION DATE
Peter Elverding, chairman	25,000	12,500	€ 35.79	2 April 2004	1 April 2012
Jan Zuidam, deputy chairman	20,000	10,000	€ 35.79	2 April 2004	1 April 2012
Jan Dopper	20,000	10,000	€ 35.79	2 April 2004	1 April 2012
Henk van Dalen	20,000	10,000	€ 35.79	2 April 2004	1 April 2012
Feike Sijbesma	20,000	10,000	€ 35.79	2 April 2004	1 April 2012
Total	105,000	52,500			

The following tables summarize information concerning options exercised by members of the Managing Board during 2004 and unexercised options currently held by them.



Laminate flooring

OVERVIEW OF STOCK OPTIONS IN 2004 – MANAGING BOARD

		outstanding at 31 Dec. 2003	stock options granted in 2004	stock options exercised in 2004	outstanding at 31 Dec. 2004	exercise price (in €)
Peter Elverding						
Unconditional* stock options:	1999	18,000			18,000	26.01
	2000	22,500			22,500	36.48
	2001	0			37,500	39.98
Conditional stock options:	2001	37,500			0	39.98
	2002	37,500			37,500	47.01
	2003	37,500			37,500	36.39
	2004		37,500		37,500	35.79
	Total		153,000	37,500	0	190,500
Jan Zuidam						
Unconditional* stock options:	1999	18,000			18,000	26.01
	2000	18,000			18,000	36.48
	2001	0			30,000	39.98
Conditional stock options:	2001	30,000			0	39.98
	2002	30,000			30,000	47.01
	2003	30,000			30,000	36.39
	2004		30,000		30,000	35.79
	Total		126,000	30,000	0	156,000
Jan Dopper						
Unconditional* stock options:	1999	13,500			13,500	26.01
	2000	18,000			18,000	36.48
	2001	0			30,000	39.98
Conditional stock options:	2001	30,000			0	39.98
	2002	30,000			30,000	47.01
	2003	30,000			30,000	36.39
	2004		30,000		30,000	35.79
	Total		121,500	30,000	0	151,500
Henk van Dalen						
Unconditional* stock options:	1999	11,250			11,250	26.01
	2000	18,000			18,000	36.48
	2001	0			30,000	39.98
Conditional stock options:	2001	30,000			0	39.98
	2002	30,000			30,000	47.01
	2003	30,000			30,000	36.39
	2004		30,000		30,000	35.79
	Total		119,250	30,000	0	149,250
Feike Sijbesma						
Unconditional* stock options:	1999	7,500			7,500	26.01
	2000	11,250			11,250	36.48
	2001	0			30,000	39.98
Conditional stock options:	2001	30,000			0	39.98
	2002	30,000			30,000	47.01
	2003	30,000			30,000	36.39
	2004		30,000		30,000	35.79
	Total		108,750	30,000	0	138,750

* All options (whether or not linked to performance) are subject to the condition that they cannot be exercised until three years after the granting date. After these three years, the options become unconditional.

SHARES

At year-end 2004 the members of the Managing Board held a total of 918 shares in Royal DSM N.V.

OVERVIEW OF REMUNERATION IN 2004 – 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 € 45,000. The members of the Supervisory Board each receive a fixed fee of € 30,000. Committee membership is awarded € 4,000 per membership per year.

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 2004 the members of the Supervisory Board together held 3,042 shares in Royal DSM N.V.

The compensation of the members of the Supervisory Board is determined annually. Recent benchmark studies by external consultants made clear that there is a discrepancy between market practice and the current remuneration of the Supervisory Board. Especially for non-Dutch Supervisory Board candidates the current remuneration at DSM is below market practice. The Supervisory Board has reconsidered this issue and will propose to the Annual General Meeting of Shareholders on 6 April 2005 to increase the fixed remuneration with effect from 1 January 2005, as follows:

- Chairman € 50,000 (2004: € 45,000)
- Members € 35,000 (2004: € 30,000)

It is proposed to increase the fees for Committee membership with effect from the same date, the new fees being € 5,000 per committee for members (2004: € 4,000) and € 7,500 per committee for chairmen (2004: € 4,000).

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

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

The table below gives an overview of the remuneration paid to the Supervisory Board in 2004.

SUPERVISORY BOARD REMUNERATION 2004

	Annual fixed fee	Committee fee	Total
Cor Herkströter, chairman	€ 45,000	€ 4,000	€ 49,000
Henk Bodt, deputy chairman	€ 30,000	€ 8,000	€ 38,000
Ad Geers*	€ 15,000		€ 15,000
Okko Müller	€ 30,000	€ 4,000	€ 34,000
Enrique Sosa	€ 30,000		€ 30,000
Cees van Woudenberg	€ 30,000	€ 8,000	€ 38,000
Ewald Kist**	€ 15,000		€ 15,000
Total	€ 195,000	€ 24,000	€ 219,000

* until 30 June 2004

** since 1 July 2004

The table below shows the Committee membership of the Supervisory Board members in 2004.

COMMITTEE MEMBERSHIP

	Audit Committee	Nomination and Remuneration Committee
Cor Herkströter		x (chairman)
Henk Bodt	x (chairman)	x
Ad Geers		
Okko Müller	x	
Enrique Sosa		
Cees van Woudenberg	x	x
Ewald Kist		

REMUNERATION POLICY AS FROM 2005

The Supervisory Board decided to review the company's remuneration policy for the Managing Board in 2004 in order to comply

with the Dutch corporate governance code. This reconsideration has led to some changes in the current remuneration policy and structure as outlined before. Below, the remuneration policy for 2005 and subsequent years is outlined.

SHAREHOLDER APPROVAL

Both the remuneration policy for 2005 and subsequent years and any share-based incentive schemes are subject to approval by the Annual General Meeting of Shareholders on 6 April 2005.

OBJECTIVES OF REMUNERATION POLICY FOR 2005 AND ONWARDS

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.

The remuneration policy comprises the following elements:

- DSM strives for a high performance in the field of sustainability and Triple P, finding a balance between economic gain, respect for people and concern for the environment. The remuneration policy should reflect 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 managers 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 that purpose, external reference data are used. See page 50 for an outline of the labour market reference group.
- The remuneration policy for the members of the Managing Board is aligned with the philosophy underlying the remuneration of other senior executives of DSM.
- In designing and setting the levels of remuneration for the Managing Board, the Committee also takes account of the relevant provisions of statutory requirements, corporate governance guidelines and other best practices in the Netherlands and other relevant jurisdictions.

REMUNERATION STRUCTURE

The proposed balance between fixed and variable remuneration elements will be the same as in 2004. This implies that when performance is on target, the performance-related pay components in 2005 will account for approx. 45-50% of the total package (excluding pension).

LABOUR MARKET PEER GROUP

In order to be able to recruit the right calibre 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 that purpose, a specific labour 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 labour market peer group consists of the following ten companies:

Aegon	Numico
Akzo Nobel	Nutreco
Getronics	Océ
Heineken	TPG
KPN	Wolters Kluwer

Professional independent remuneration experts 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.

DSM operates in a competitive international industry. Therefore, DSM will also closely monitor industry specific international developments with respect to directors' remuneration, notably at the following companies: Ciba, Clariant, Degussa, Lonza and Solvay. This will enable DSM to attract non-Dutch Board members if necessary as part of the further internationalization of the Company.

The European industry peer group is influenced by factors such as the type of organization and the organizational superstructure of these companies. Therefore, in assessing DSM pay levels the peer data should be used with caution, as they do not reflect the specific organizational structure of DSM.

Below, the various remuneration components are addressed separately.

BASE SALARY FROM 2005

On joining the Board, the Managing Board members receive a base salary that is commensurate with their position.

DSM's policy is to offer Board members a salary comparable with the median of the labour market peer group. Every year it is considered whether base salary levels should be reviewed. An adjustment of the base salary is at the discretion of the Supervisory Board, which takes into account external and internal developments.

BONUS FROM 2005

The Supervisory Board has decided to change the current bonus plan for members of the Managing Board. The Dutch corporate governance code requires the linkage of variable remuneration to previously determined, measurable and influenceable targets. The bonus is an annual payment in cash. The bonus pay out is based on performance in the previous year.

Managing Board members can earn a bonus amounting to 50% of their annual base salary for on target performance. Under the new bonus plan, the part of the bonus that is related to financial targets amounts to 35% of base salary, which can increase to 52.5% in the case of an exceptionally good financial performance.

The part of the bonus that is not related to financial targets amounts to 15% of the base salary and cannot increase beyond that.

Bonus part linked to financial targets

The part of the bonus that is linked to financial targets has been expanded to include elements related to operational performance, being operating profit and free cash, reflecting short-term financial results, in addition to the current bonus design linked to CFROI. The balance of the financial elements of the bonus will be CFROI

17.5%, operating profit 10% and free cash 7.5% of annual base salary for on target performance.

	On target pay out (% of base)	Maximum pay out (% of base)
Financial targets:		
– CFROI	17.50	26.25
– Operating Profit	10.00	15.00
– Free Cash	7.50	11.25
Non financial targets	15.00	15.00
Total	50.00	67.50

CFROI

CFROI will remain part of the bonus design. 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 and is now as follows:¹

$$\frac{\text{EBITDA from ordinary activities} - \text{Related annual tax} - \text{Economic depreciation (1\%)}}{\text{Gross asset base (incl. working capital)}}$$

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 cash. These can be derived from the financial statements and are defined as follows:

- Operating profit: EBIT from ordinary activities excluding exceptional items.
- Free cash, defined as cash from operating activities minus capital expenditure and minus the average dividend paid in the previous three years.

The Company feels that the combination of CFROI (value realization and creation), operating profit and free cash adequately reflects the company's financial performance. Targets will be 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 will not disclose the actual targets, as they qualify as commercially sensitive information.

There will be no changes with regard to the part of the bonus that is not related to financial targets, apart from a reduction of the target level for this element. Targets will be defined in the areas of the strategic development of the Company and Triple P, among other things.

¹ EBITDA from ordinary activities is defined as: EBIT from ordinary activities excluding exceptional items plus depreciation and amortization as reported in the profit and loss statement. Related annual tax is defined as taxes paid minus the effect of exceptional items as reported in the statement of income. Economic depreciation is defined as a 1% charge on the historic value of tangible and intangible assets as reported in the balance sheet. The 1% charge represents the fund to be formed to replace the average asset mix after economic lifetime ends. Gross asset base is defined as the historic value of tangible and intangible assets plus average annualized working capital.

STOCK OPTIONS FROM 2005

In the light of the Dutch corporate governance code, the stock option plan will be adjusted with effect from 2005. The plan will be submitted to the Company's shareholders for approval.

The Supervisory Board has decided to replace the non-performance-related options and part of the performance-related options with performance-related (restricted) shares, up to an equal balance of options and shares in terms of economic value (calculated by independent specialists on the basis of the Black-Scholes method and the weighted probability method). Both stock options and restricted shares operate on the basis of the same performance schedule.

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

The overall value of the options provided to the Managing Board will not change. Based on historical option grant levels, 5,000 performance (restricted) shares and 18,750 performance options will be allocated to the CEO and 4,000 performance shares and 15,000 performance options to the other Managing Board Members.

Exercise/Grant price

The stock options and shares are granted on the first 'ex dividend' day following the Annual General Meeting at which DSM's annual accounts are approved. The exercise price/grant price will be equal to the opening price of the share on the date of grant.

TSR as a performance measure

No changes have taken place in the use of the performance measure linked to the stock option plan as compared to 2004. DSM's TSR performance is compared to the average TSR performance of a set of pre-defined peer companies. TSR measures the returns received by shareholders and captures both the change in a company's share price and the value of dividend income. This measure is used as it assesses long-term value creation by the Company.

The TSR peer group consists of the following companies:

Akzo Nobel	EMS Chemie Holding
BASF	ICI
Bayer	Lonza Group
CIBA Spezialitätenchemie	Rhodia
Clariant	Solvay
Degussa	

This peer group is not the same as the one used for determining remuneration levels. The latter is chosen to reflect the relevant labour market. The peer group used for benchmarking total shareholder return performance reflects the relevant market in which the company competes for shareholder preference. It includes sector-specific competitors which the Supervisory Board and the Managing Board consider to be suitable benchmarks for DSM. 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 performance peer group. The composition of the peer group will only be changed if the Supervisory Board is convinced that this will not result in targets becoming easier or more difficult to meet.

Depending on DSM's TSR 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 restricted 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 performance of DSM versus its peers will be determined and validated by a bank and audited by an 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 defined peer companies. The method used to determine the exercisable rights will remain the same as in 2004, with the exception that this method will apply to both options and shares from 2005 onwards.

PENSIONS

The members of the Managing Board are participants in the Dutch pension fund "Stichting Pensioenfonds DSM Chemie" (PDC). PDC 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 executives employed in the Limburg area. Retirement age is 65. PDC operates two different schemes: a pre-pension scheme providing benefits between age 62 and 65, and a basic pension scheme for old age pension benefits as of age 65.

Due to changes in government regulations with respect to pre-pensions, the current pension plans of PDC are subject to review. Since the Managing Board members are participants in the PDC pension plans, these changes will be applicable to the Managing Board as well. The non-pension early retirement scheme and the temporary individual pension scheme (see page 46) will also be reviewed in 2005.

EMPLOYMENT CONTRACTS

Term of employment

The employment contracts of the current members of the Managing Board 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

The current members of the Managing Board are appointed for an indefinite period of time. New members of the Managing Board 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. This policy is in line with the Dutch corporate governance code.

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 current members of the Managing Board. Should a situation arise in which a severance payment is appropriate for the existing 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 will include an exit arrangement provision which is in accordance with best practice provision II.2.7. of the Dutch corporate governance code (i.e. 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 2005

The remuneration package for the Managing Board is subject to annual review. The market competitiveness of the remuneration package of the Managing Board for 2005 has been reviewed, based on the Dutch labour market peer group. The data below reflect the July 2004 remuneration levels. All values are denominated in euros.

Target bonus and stock option grants are expressed as a percentage of base salary. The remuneration data are regressed to reflect the size and scope of DSM. Stock option valuations are based on the Black-Scholes method.

Furthermore, data is presented as 'median actual levels'. Median actual levels imply currently applied remuneration levels of the Dutch peer group.

BENCHMARK AGAINST DUTCH LABOUR MARKET PEER GROUP

Managing Board Chairman	DSM	Peer group median
Base salary	€ 599,760	€ 735,000
Bonus "at target" (%)	50%	60%
Total Cash "at target"	€ 899,640	€ 1,176,000
Annualized Option Value (%)	35%	60%
Total Direct Compensation	€ 1,109,556	€ 1,617,000

Board Member	DSM	Peer group median
Base salary	€ 461,040	€ 450,000
Bonus "at target" (%)	50%	60%
Total Cash "at target"	€ 691,560	€ 720,000
Annualized Option Value (%)	37%	55%
Total Direct Compensation	€ 862,145	€ 967,500

CONCLUSIONS

The CEO's base salary is at the lower quartile level of the peer group or 22% below the targeted median level. The CEO's at-target bonus percentage and long term incentive are also in the lower quartile of the peer group.

Members of the Managing Board are around the median level with respect to base salary, while the target bonus percentage and options granted are in the lower quartile of the peer group. It is DSM's policy to gradually move toward the median level of the external benchmark. For 2005, no increase in base salary is foreseen in this context. The Supervisory Board will consider each year whether an increase in base salary is justified, taking into account all relevant circumstances.