

# Report by the Supervisory Board of Directors to the shareholders

There were several changes in the composition of the Supervisory Board during the year under review. Mr Sosa resigned from the Supervisory Board on 6 April 2005 at his own initiative because the intercontinental travels related to his Board membership were increasingly becoming a burden to him. The Supervisory Board is grateful to Mr Sosa for his commitment to the company during his five-year membership and his constructive and valuable contribution to the Board's work. According to the rotation scheme it was Mr Müller's turn to resign. He was reappointed by the Annual General Meeting on 6 April 2005 on the understanding that – in compliance with the Dutch Corporate Governance Code – he will step down at the Annual General Meeting in 2007, as he will by then have served the maximum term of twelve years on the Supervisory Board. Mr Sonder and Mr Hochuli were appointed as Supervisory Board members by the Annual General Meeting on 6 April 2005.

On 1 April 2005 Mr Dopfer stepped down as a member of the Managing Board. The Supervisory Board would like to express its sincere appreciation for all that Mr Dopfer did for the company during the many years he worked for DSM, of which almost six were served on the Managing Board. The resulting vacancy on the Managing Board was filled by the appointment by the Annual General Meeting on 6 April 2005 of Mr Goppelsroeder with effect from the same date. In his previous position Mr Goppelsroeder had been responsible for DSM Nutritional Products' North American business and, as Project Director of the VITAL project, had supervised the integration of the acquired Roche Vitamins & Fine Chemicals business into DSM. For personal reasons, Mr Goppelsroeder has decided to relinquish his position with effect from 1 April 2006. The Supervisory Board wishes to express its appreciation for the contribution he made to the successful integration of the former Roche business within DSM and for his commitment to DSM during his period of Managing Board membership.

After having worked for DSM 29 years, of which six were served on the Managing Board, Mr Van Dalen has decided to pursue his career as Chief Financial Officer of the Dutch express, logistics and postal services group TNT with effect from 1 April 2006. The Supervisory Board would like to express its sincere appreciation for all that Mr Van Dalen has done for the company, especially for his key role in the transformation process of DSM, both during the execution of *Vision 2005* over the past five years and in the establishment of DSM's new strategic direction as outlined in the *Vision 2010 – Building on Strengths* program.

The Supervisory Board held six meetings in the presence of 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 its profile, composition and functioning. The composition and performance of the Managing Board were also discussed at the same meeting. 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 were in aggregate in line with the Board's profile. Virtually all Supervisory Board meetings in 2005 were attended by all its members. One of the meetings was held in China; on this occasion the Supervisory Board visited several DSM sites (in Beijing, Nanjing, Wuxi and Shanghai) and had sessions on the Chinese economic, financial, political and business environment.

The composition of the Audit Committee changed in 2005. Mr Van Woudenberg stepped down as member of the Audit Committee and was succeeded by Mr Herkströter. The Audit Committee, thus consisting of Messrs Bodt (chairman), Müller and Herkströter, met three times in 2005. The external auditor was in attendance at these meetings, and at most 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 auditors' comments and their assessment of DSM's annual accounts and internal control systems. In addition, various aspects relating to the conversion to IFRS were discussed. The meeting concluded that the external auditors were independent of DSM. The main topics discussed during the meeting held in June were the work of the Corporate Operational Audit department, some IFRS technicalities, Directors' & Officers' liability and the status of the *True Blue* project concerning the further upgrading of the internal control and risk management system. The possibility of a stock split was also discussed. The main agenda items during the Committee's December meeting were the provisions and impairments for 2005, an interim report by the external auditor and the Corporate Operational Audit plan for 2006. Furthermore the committee was informed about DSM's risk management system.

The composition of the Nomination and Remuneration Committee also changed. Mr Kist was appointed as member of this Committee. He succeeded Mr Bodt. The Committee, thus consisting of Messrs Herkströter (chairman), Van Woudenberg and Kist, met five times in 2005. The Committee's activities regarding remuneration are described in detail on page 64 (in the chapter on remuneration policy). The Committee made suggestions for dealing with future changes in the composition of the Supervisory Board. 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 62 of this 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 2005. Approval was given for the refinancing of the existing bond maturing at year-end 2005. The financial results recorded by the various company units and developments at these 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 a discussion of the progress made in implementing the corporate strategy adopted in 2000, as set out in *Vision 2005: Focus and Value*. Furthermore the Supervisory Board held in-depth discussions with the Managing Board on the new strategy program for the next five years. The Board approved the new strategy program, which has been named *Vision 2010 – Building on Strengths*, focusing on accelerating profitable and innovative growth of DSM's specialties portfolio. The Board supports the ambitious targets set and will see to the implementation of this strategy.

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) and a similar program for the integration of the NeoResins business that was acquired in early 2005. The Supervisory Board supported the continuation of the collaboration 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 approved the sale of DSM Bakery Ingredients (excluding Baking Enzymes) and the share in the South African joint venture Rymco. The Board also approved the divestment of the styrene-butadiene-rubber business and the divestment of the Chilean DSM Minera iodine business.

The Supervisory Board approved the acquisition of coating resins producer Syntech, located in the Guangdong area (China). The Board also approved two major investment projects in Greenville (North Carolina, USA) for building additional capacity for the production of Dyneema® fibers.

The Supervisory Board gave its approval for the Heureka project regarding major restructuring measures at the Linz (Austria) site. The Board agreed with the asset streamlining within the DSM Pharmaceutical Products business group, leading to the closure of the South Haven (USA) site in 2007 and the mothballing of the Montreal (Canada) site.

The Supervisory Board approved the replacement of two existing stand-by credit facilities by one new facility.

The Supervisory Board agreed with a proposal that was to be presented to an extra General Meeting of Shareholders for amending the articles of association in connection with a two-for-one share split.

The Supervisory Board discussed the dividend policy in relation to the implementation of IFRS and approved the continuation of the existing policy. The Supervisory Board approved the interim dividend to be paid for 2005 and the proposal to be made to the Annual General Meeting regarding the final dividend to be paid out for 2005.

As in previous years, the Supervisory Board invited managers from a number of DSM 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 statements and the financial reports for 2005. The Report by the Managing Board and the financial statements for 2005 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 8 February 2006.

The financial statements were audited by Ernst & Young Accountants, who issued an unqualified opinion (see page 133 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 134 of this report.

In 2005 DSM achieved an operating profit which considerably surpassed the result of the previous years, and also succeeded in improving its safety, environmental and health performance. DSM has achieved almost all of the strategic goals set out in *Vision 2005: Focus and Value* and has successfully concluded the Group's transformation into a specialty company, realizing more stable and higher earnings. This strong foundation will enable the company to embark on the *Vision 2010 – Building on Strengths* program with confidence. The Supervisory Board wishes to express its sincere appreciation for the company's performance and would like to thank the Managing Board and all employees for all the good work done.

Heerlen, 8 February 2006

**The Supervisory Board**  
Cor Herkströter, chairman  
Henk Bodt, deputy chairman  
Pierre Hochuli  
Ewald Kist  
Okko Müller  
Claudio Sonder  
Cees van Woudenberg