

Report by the Supervisory Board

Supervisory Board report

The composition of the Supervisory Board changed during the year under review. Mr. Henk Bodt stepped down at the Annual General Meeting of Shareholders as he had served the maximum term of 12 years on the Supervisory Board. The Supervisory Board is grateful to Mr. Bodt for his commitment to the company during his membership and his constructive and valuable contribution to the Board's work. The General Meeting of Shareholders appointed Mrs. Louise Gunning-Schepers as a new member of the Supervisory Board and reappointed Mr. Cor Herkströter and Mr. Ewald Kist. The Supervisory Board appointed Mr. Ewald Kist as its Deputy Chairman, succeeding Mr. Henk Bodt.

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 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 and a proposal to the Annual General Meeting of Shareholders in 2009 to adjust the remuneration policy for the members of the Managing Board. These subjects were all prepared by the Remuneration Committee. In addition to remuneration subjects, these Supervisory-Board-only meetings were also used for pre-discussion of for instance corporate governance issues. The Supervisory Board also devoted a separate meeting to its profile, composition and functioning. 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. At the same meeting the Managing Board's composition and performance and the performance of its individual members were also discussed.

The Supervisory Board meetings in 2008 were all attended by at least six of the seven members. None of the Supervisory Board members was regularly absent.

The composition of the Audit Committee changed in 2008. Mr. Henk Bodt stepped down, Mr. Tom de Swaan took over the chairmanship and Mr. Ewald Kist was appointed as a member. The Audit Committee, thus consisting of Messrs. Tom de Swaan (chairman), Claudio Sonder and Ewald Kist, held eight meetings in 2008. Five meetings were specifically devoted to discussing and approving the content of press releases on financial results and guidances for the full-year results. During the other three

regular meetings various subjects were discussed; the external auditor was in attendance at these meetings, and the internal – operational – auditor was present or represented as well. The main topics of discussion during these meetings 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 Audit Committee discussed and endorsed the dividend proposal for the year 2007. The Committee acknowledged the receipt of the independence letter of the external auditor. The Committee 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 as well as the follow-up actions following the Corporate Risks Assessment 2007. The Committee discussed the wish voiced in the 2008 Annual General Meeting of Shareholders to further increase the quantification of the risk disclosures and endorsed the decision of the Managing Board not to do so for competitive reasons. The system and status of the Letters of Representation issued by the managers directly reporting to the Managing Board were evaluated. An assessment of the performance of the external auditors Ernst & Young Accountants was discussed. The Committee discussed at year-end the potential accounting issues for 2008 and observations by the external auditor regarding their assessment of internal control at DSM as well as some recommendations. The status of the whistle-blower system was discussed. The adequacy of the charter of the Audit Committee was reassessed; no recommendations were made for any changes.

The Audit Committee had its regular private discussion with the auditors without members of the Managing Board being present.

The Chairman of the Audit Committee verbally reported the main issues discussed to the Supervisory Board in their subsequent meeting. The Audit Committee furthermore provided the Supervisory Board with written reports on its deliberations, findings and recommendations. These reports were distributed among all members of the Supervisory Board.

The composition of the Nomination and Remuneration Committee changed in 2008. Mr. Ewald Kist stepped down and was succeeded by Mr. Pierre Hochuli. In 2008 the combined Nomination and Remuneration Committee was formally split into two separate committees, both consisting of Messrs. Cor Herkströter (chairman), Cees van Woudenberg and Pierre Hochuli.

The Nomination Committee met once in 2008. The Committee recommended Mrs. Louise Gunning-Schepers as a successor

of Mr. Henk Bodt. The Committee also discussed longer-term developments regarding the composition of the Supervisory Board and the succession planning for the Managing Board and the top executives within the company. The Chairman of the Nomination Committee verbally reported the issues discussed to the Supervisory Board in their subsequent regular Supervisory Board meetings outside the presence of the Managing Board.

The Remuneration Committee met five times in 2008. On behalf of the Supervisory Board the Committee prepared an overview of the manner in which the remuneration policy was implemented in the year 2008 as well as an overview of the remuneration policy for the Managing Board members in subsequent years. The Committee prepared proposals to the full Supervisory Board on the realization of the 2007 targets, the short-term incentive targets for 2008 and an increase in the base salary of the Managing Board with effect from 1 July 2008. These proposals were adopted by the Supervisory Board. Information on DSM's remuneration policy is to be found on page 70 of this annual report and is posted on the company's website.

As a consequence of *Vision 2010* as well as some comments by institutional investors during the Annual General Meeting of Shareholders on 26 March 2008 the Supervisory Board decided to review in particular the variable compensation elements (bonus and stock incentives) of the remuneration policy for the Managing Board. The Remuneration Committee prepared a proposal to the full Supervisory Board to adjust the bonus scheme to further strengthen the alignment of the bonus-related financial targets with *Vision 2010* and to adjust the Total Shareholder Return (TSR) vesting scheme. The Supervisory Board adopted the proposals; the proposal to adjust the TSR vesting scheme is to be submitted for approval to the 2009 Annual General Meeting of Shareholders. Information regarding changes to the remuneration policy expected in 2009 is to be found in the remainder of this chapter.

The Remuneration Committee provided the Supervisory Board with written reports on its deliberations, findings and recommendations. These reports were distributed among all members of the Supervisory Board.

Six regular Supervisory Board meetings were held in 2008. 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 DSM's executive development and succession planning for the top executives within the company. Also various aspects of the alignment of the organization with the *Vision 2010* strategy as well as the progress made in this alignment were discussed.

The financial results recorded by the various units and developments at these units were discussed at every meeting. Special attention was paid to the consequences of the financial crisis that became apparent as from October 2008. 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 and the acceleration of the shift to a specialty Life Sciences and Materials Sciences company. The Board discussed the Annual Strategic Review which included an assessment by the Managing Board of the main risks to the company.

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 Nutrition and Performance Materials clusters, and approved the exploration of possible acquisitions fitting into this strategy. The Supervisory Board was regularly updated on the progress of the so-called Batavia project aimed at cooperation with NCPC (North China Pharmaceutical Group Corporation) in vitamin C and in anti-infectives and granted an amended mandate for the set-up of the agreements. The Supervisory Board approved the acquisition of The Polymer Technology Group active in the biomedical sector. The Board approved DSM Dyneema investment proposals.

The Board was regularly updated on the progress of the so-called Pearl divestment project regarding the sale of DSM Agro, DSM Melamine, DSM Elastomers and Urea Licensing. The Supervisory Board discussed and approved the proposal to close the IJmuiden (Netherlands) fertilizer plants of DSM Agro. The Board also approved the closure of the Nutritional Products site in Wuxi (China). The Board gave the mandate to dispose of the DSM Special Products business and approved the sale of the Side Chains business unit, part of DSM Anti-Infectives, to the management of DSM Deretil in Spain. The Board discussed and approved a restructuring program for DSM Pharmaceutical Products aimed at improving top line growth and cost reduction.

The Supervisory Board discussed and approved the (Revised) Capital Expenditure Plan and the Financing and Guarantee Plan for 2008.

The Supervisory Board approved the proposal to re-open the existing € 300 million bond issued in 2005 and increase the outstanding amount from € 300 million to € 500 million.

The Board approved a proposal to the Annual General Meeting of Shareholders in March 2008 to adopt a resolution for the

Report by the Supervisory Board

annual report for the financial year 2008 and subsequent years to be drawn up in English. The Board also approved the proposal to increase the dividend per ordinary share for 2007 by 20% and the proposal made to the Annual General Meeting of Shareholders regarding the final dividend to be paid out for 2007. The Supervisory Board approved the interim dividend to be paid for 2008.

As in previous years, the Supervisory Board invited managers from a number of DSM business groups and corporate staff and services departments to its meetings, to present relevant developments in their units in person. The Supervisory Board visited DSM Pharmaceutical Products' site in Linz (Austria) and was updated by local management on the business and production activities.

Discussions were held with the external auditor, Ernst & Young Accountants, about the financial statements for 2008. The Report by the Managing Board and the financial statements for 2008 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 17 February 2009. The financial statements were audited by Ernst & Young Accountants, who issued an unqualified opinion (see page 156 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 157 of this report.

Despite increasing economic headwinds, DSM succeeded in recording good results for 2008. The Supervisory Board wishes to express its sincere appreciation for all the efforts made by the employees and the Managing Board.

Remuneration policy regarding the Managing Board and the Supervisory Board

This chapter comprises two parts. The first part outlines the remuneration policy as approved in 2005 and adapted in 2008 by the Annual General Meeting of Shareholders. The second part contains details of the remuneration in 2008 and expected changes in 2009.

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 (predominantly Dutch) multinational companies that are similar to DSM in terms of size and complexity. For that 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 also takes into account the relevant provisions of statutory requirements, corporate governance guidelines and other best practices applicable to DSM. DSM's policy is to offer the Managing Board a total direct compensation comparable with the median of the (predominantly Dutch) labor-market peer group.

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 that purpose, a specific labor-market peer group has been defined which consists of a number of Dutch and some European companies that are more or less comparable to DSM in terms of size, international scope and business portfolio.