Royal DSM N.V.

Integrated Annual Report 2010

HEALTH · NUTRITION · MATERIALS

DSM
BRIGHT SCIENCE. BRIGHTER LIVING.

DSM, the Life Sciences and Materials Sciences company.

Our purpose is to create brighter lives for people today and generations to come.

We connect our unique competences in Life Sciences and Materials Sciences to create solutions that nourish, protect and improve performance.

This mission is supported by DSM's values: sustainability, anchored in our People, Planet and Profit approach. DSM focuses on a triple bottom line of economic performance, environmental quality and social responsibility, which it pursues simultaneously and in parallel, thereby creating value for all its stakeholders.

DSM's Triple P approach guides the company in all its actions. They also form the basis for the DSM Code of Business Conduct (a set of business principles) that was introduced in 2010.

To put its mission into practice, DSM has defined a corporate strategy for the period 2010-2015 (DSM in motion: *driving focused growth*) which can be summarized as follows:

DSM aims to leverage its unique capabilities in Life Sciences and Materials Sciences and the cross-fertilization between the two to address unmet needs in relation to three key global societal trends:

- Global Shifts
- Climate & Energy
- Health & Wellness

To ensure that this will generate maximum sustainable and profitable growth for 'the new DSM', the company will use four growth drivers:

- High Growth Economies
- Innovation
- Sustainability
- Acquisitions & Partnerships

DSM operates as One DSM: the business groups form the entrepreneurial building blocks, strengthened via our regional organizations and further optimized via our Functional Excellence and Shared Services departments. This set-up will enable DSM to create a global high performing organization, reaching its targets and ambitions.

In order to become a true global leader in Life Sciences and Materials Sciences, DSM is adapting its culture fitting with our business and strategy via the DSM Change Agenda. This will enable the company to:

- become more externally focused;
- demonstrate accountability for performance; and
- provide visible, inspirational leadership to guide DSM's further development, all based on a joint belief in sustainability and the value of diversity and internationalization.

The DSM brand promise Bright Science. Brighter Living.™ symbolizes the above key elements of the development of DSM. The portfolio change towards a Life Sciences and Materials Sciences company has been completed, the strategy to focus on growth is in action, the culture change is progressing and our values are guiding DSM in everything we do, acting as One DSM.

DSM
BRIGHT SCIENCE. BRIGHTER LIVING.

DSM – Bright Science. Brighter Living.™
Royal DSM N.V. is a global science-based company active in health, nutrition and materials. By connecting its unique competences in Life Sciences and Materials Sciences DSM is driving economic prosperity, environmental progress and social advances to create sustainable value for all stakeholders. DSM delivers innovative solutions that nourish, protect and improve performance in global markets such as food and dietary supplements, personal care, feed, pharmaceuticals, medical devices, automotive, paints, electrical and electronics, life protection, alternative energy and bio-based materials. DSM's 22,000 employees deliver annual net sales of around € 9 billion. The company is listed on NYSE Euronext.
More information can be found at www.dsm.com

DSM at a glance

DSM's activities have been grouped into business groups representing coherent product/market combinations. The business group directors report directly to the Managing Board. For reporting purposes the activities are grouped into four clusters.

Life Sciences

Nutrition

Continued value growth

The Nutrition cluster comprises DSM Nutritional Products (DNP) and DSM Food Specialties (DFS). The nutrition and food ingredients businesses serve the food, feed, cosmetic and pharmaceutical industries. Activities are based on in-depth knowledge of customer/market needs. With customized formulation activities in more than 44 locations and a marketing/sales presence reaching over 60 countries, customer intimacy is a key success factor. Technical expertise is based on application know-how and innovation translating market needs into products and services with new benefits. Technologies in the Nutrition cluster are broad, utilizing DSM's competences in biotechnology (including fermentation), chemical process technology and particle engineering. DSM is the world's largest vitamin producer and holds leading positions in the ingredient markets for animal and human nutrition and health as well as personal care.

Pharma

Leveraging partnerships for growth

The Pharma cluster comprises the business groups DSM Pharmaceutical Products (DPP) and DSM Anti-Infectives (DAI). For reporting purposes the business unit DSM BioSolutions is part of DPP. DPP is one of the world's leading independent suppliers to the pharmaceutical industry. Many of today's medicines around the world contain ingredients produced by DSM. DAI is one of the few producers and marketers of beta-lactam active pharmaceutical ingredients with a global presence, using cutting-edge low-footprint enzymatic and water-based manufacturing technology.

Emerging Business Areas

DSM's EBAs (**Emerging Business Areas**) comprise new innovative growth platforms based on the combination of DSM's competences in Life Sciences and Materials Sciences. **DSM Biomedical** develops novel materials-based solutions to meet the needs of the medical device and biopharmaceutical industries with coatings, drug delivery platforms and a wide range of biomedical materials for use in implantable medical devices.

In addition, DSM reports on a number of other activities, which have been grouped under Other activities.

Materials Sciences

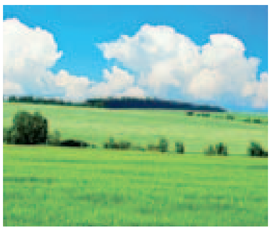
Performance Materials

Growing via sustainable, innovative solutions
The Performance Materials cluster comprises the business groups DSM Engineering Plastics (DEP), DSM Dyneema (DD) and DSM Resins (DR). These business groups specialize in the manufacture of technologically sophisticated, high-quality products that are tailored to meet customers' performance criteria. DSM is recognized as a front-runner in creating and introducing sustainable innovative solutions. Its performance materials are used in a wide variety of end-use markets: the automotive industry, the aviation industry, the electrical and electronics industry, the marine industry, the sports and leisure industries, the paint and coatings industry and the construction industry.

Polymer Intermediates

Strengthening backward integration for DSM Engineering Plastics
The Polymer Intermediates product cluster comprises caprolactam and acrylonitrile produced by DSM Fibre Intermediates (DFI). These products are raw materials for synthetic fibers and plastics. Caprolactam is a key feedstock for DSM Engineering Plastics' polyamide production. Globally, DFI is the largest merchant caprolactam supplier and the third largest merchant acrylonitrile supplier.
In addition, the business group produces ammonium sulfate, sodium cyanide, cyclohexanone and diaminobutane.

DSM Bio-based Products & Services is creating solutions for bioconversion of feedstocks for the production of bio-based chemicals and materials as well as developing the technologies to enable the production of second generation biofuels. **DSM Advanced Surfaces** provides solutions for the development and application of smart coatings that boost performance and/or improve aesthetics across a wide range of industries and applications, including picture framing, solar glass and the lighting industry.



Key data for 2010

Net sales, continuing operations (x million)	€ 8,176
Operating profit, continuing operations[1] (x million)	€ 752
Net profit, continuing operations[1] (x million)	€ 484
Net profit, total DSM (x million)	€ 507
Capital expenditure and acquisitions (x million)	€ 476
Net earnings per ordinary share	€ 3.03
Dividend per ordinary share[2]	€ 1.35
Additional innovation-related sales compared to 2005 (x million, approximate figure)	€1,280
Sales in High Growth Economies as % of total sales	37
China sales (x million)	$ 1,631
Cash provided by operating activities, total DSM (x million)	€ 1,103
ECO+ products as % of innovation pipeline	89
ECO+ products as % of running business (estimated at year-end)	40
Greenhouse-gas emissions, total DSM (x million tons)	5.2
Workforce (at year-end)	21,911
Employee engagement – favorable and neutral scores combined (in %)	90
Frequency Index of recordable accidents (per 100 employees)	0.57

[1] Before exceptional items

[2] Subject to approval by the Annual General Meeting of Shareholders

Forward-looking statements

This document may contain forward-looking statements with respect to DSM's future (financial) performance and position. Such statements are based on current expectations, estimates and projections of DSM and information currently available to the company. Examples of forward-looking statements include statements made or implied about the company's strategy, estimates of sales growth, financial results, cost savings and future developments in its existing business as well as the impact of future acquisitions, and the company's financial position. These statements can be management estimates based on information provided by specialized agencies or advisors.

DSM cautions readers that such statements involve certain risks and uncertainties that are difficult to predict and therefore it should be understood that many factors can cause the company's actual performance and position to differ materially from these statements. These factors include, but are not limited to, macro-economic, market and business trends and conditions, (low-cost) competition, legal claims, the company's ability to protect intellectual property, changes in legislation, changes in exchange and interest rates, changes in tax rates, pension costs, raw material and energy prices, employee costs, the implementation of the company's strategy, the company's ability to identify and complete acquisitions and to successfully integrate acquired companies, the company's ability to realize planned divestments, savings, restructuring or benefits, the company's ability to identify, develop and successfully commercialize new products, markets or technologies, economic and/or political changes and other developments in countries and markets in which DSM operates.

As a result, DSM's actual future performance, position and/or financial results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. DSM has no obligation to update the statements contained in this document, unless required by law. The English language version of this document is leading.

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Key data

	2010	2009
People		
Workforce at 31 December (headcount)	21,911	22,738
Female/male ratio	25/75	24/76
Total employee benefits costs in € million	1,566	1,532
Frequency Index of recordable accidents (per 100 employees; DSM and contractors)	0.57	0.56
Employee engagement - favorable and neutral scores combined (in %)	90	89
Planet		
Energy use (in PetaJoules)	49	63
Greenhouse-gas emissions in CO_2 equivalents (x million tons)	5.2	6.7
Emission of volatile organic compounds (x 1000 tons)	7.5	8.0
COD (Chemical Oxygen Demand) emissions (x 1000 tons)	7.2[1]	5.5
ECO+ products as % of innovation pipeline[2]	89	78
ECO+ products as % of running business (estimated at year-end)	40	n.a.
Profit (in € million, unless otherwise indicated)		
Net sales, continuing operations	8,176	6,725
China sales in USD million	1,631	1,188
Additional innovation-related sales compared to 2005	1,280	810
Operating profit plus depreciation and amortization, continuing operations (EBITDA)	1,161	834
Operating profit, continuing operations (EBIT)	752	433
Net profit, total DSM	507	337
Cash provided by operating activities	1,103	1,276
Dividend	234	205
Capital expenditure including acquisitions	476	467
Net debt	(108)	830
Shareholders' equity	5,481	4,949
Total assets	10,480	9,614
Capital employed, continuing operations	5,279	4,988
Market capitalization at 31 December[5]	7,730	6,252
Per ordinary share in €		
Net earnings before exceptional items	3.27	1.44
Dividend	1.35[3]	1.20
Royal DSM N.V. Shareholders' equity	31.52	28.92
Ratios (%)		
Sales in High Growth Economies / net sales (total DSM)	37	32
EBIT / net sales (continuing operations)	9.2	6.4
EBITDA / net sales (continuing operations)	14.2	12.4
Operating working capital / net sales (continuing operations)	17.9	18.6
CFROI (continuing operations)[4]	9.3	6.9
ROCE (continuing operations)[4]	14.6	8.1
Gearing (net debt / equity plus net debt)	(2.0)	14.2
Equity / total assets	53.2	52.1
Cash provided by operating activities / net sales (total DSM)	12.2	16.2

1 For more information see page 61.
2 For more information on ECO+ see page 218
3 Subject to approval by the Annual General Meeting of Shareholders
4 Including discontinued operations CFROI is 9.2% and ROCE is 15.0%
5 Source: Bloomberg

Letter from the Chairman

Dear reader,

The year 2010 was in many ways an eventful one for our company. Businesswise, it was very different from 2009. In that year, the most severe economic downturn of the last seven decades swept across the world and caused our results to be much lower than in the record year 2008, especially in the Materials Sciences businesses. In 2010, however, we saw substantial recovery and growth again.

The economic recovery, which had already started in the second half of 2009, continued and even accelerated during 2010. In both the second and the third quarter of the year, results from our core businesses were higher than the record results achieved in the same quarters in 2008, before the economic downturn, which started in October 2008. All in all, 2010 was a strong year for DSM.

We benefited not only from the economic recovery, but also from the choices we made in the past. As we gave our portfolio a greater and clearer focus in the period 2006-2010, a large proportion of our sales and earnings are now in high margin, high quality businesses that have reduced our cyclicality significantly.

We responded rapidly and effectively to the changing economic conditions ('the crisis') by focusing on costs and cash (among other things via a substantial reduction in our working capital), which, together with the proceeds from divestments, contributed to a large reduction in our net debt. At the same time we 'stayed the course' by continuing to concentrate on our customers, innovation and our core value: sustainability. Through this approach, DSM has emerged from the economic downturn as a much stronger company, as can be seen from our results.

It is with deep sadness that we have to report that four DSM employees and contractors lost their lives in 2010 due to work related accidents. Three contractors lost their lives on 11 September 2010 while conducting maintenance work in the fermentation facilities at the DSM site in Capua (Italy).
We deeply regret this tragic accident and our thoughts go out to the victims' families, friends and colleagues. Our thoughts also go out to the family, friends and colleagues of an employee of DSM Elastomers' Sarlink® business unit who was killed in a traffic accident on a business trip.

As the time frame of our *Vision 2010* strategy has come to an end, this is a good time to look back as well as ahead. Over the past few years we have transformed ourselves into a Life Sciences and Materials Sciences company by divesting non-core businesses and making selective acquisitions.

The targets of *Vision 2010* as set in 2005 were more ambitiously revised in 2007 in our Accelerated *Vision 2010* assuming there would be no adverse general economic and trading conditions. We are very proud that we have managed to achieve most of them despite the economic downturn. We had to implement tough measures to manage cash and working capital and to reduce costs. This involved a reduction in the global workforce by approximately 1,200 and cost savings of more than € 200 million per year.

DSM has achieved most, though not all, of the targets as set out in Accelerated *Vision 2010*, including the target for sales in China, sales from innovation, the profitability margin for Nutrition and our sustainability targets. A target that we did not achieve, however, is the profitability margin target for our Pharma cluster, which has faced considerable challenges and a changing marketplace over the last few years. The profitability margins for the Performance Materials and Polymer Intermediates clusters increased last year but the targets were not fully achieved although the EBITDA margin of Polymer Intermediates in 2010 was above the target set for the whole *Vision 2010* period.

The sale of DSM Elastomers which we announced in December 2010 completes our *Vision 2010* strategy to become a focused Life Sciences and Materials Sciences company. Earlier in the year we had already concluded a number of other divestments, including DSM Agro, DSM Melamine and DSM Special Products, and in 2009 we had sold our energy interests and the urea licensing business of Stamicarbon. The Base Chemicals and Materials cluster ceased to exist as a result of the announced sale of DSM Elastomers. DSM's transformation has been achieved within our desired time frame and at favorable conditions for our shareholders and employees.

We believe that with the successful completion of the *Vision 2010* period and the portfolio transformation we have realized, DSM is now ready for a new phase in which we will grow our Life Sciences and Materials Sciences company via four growth drivers: High Growth Economies, Innovation, Sustainability and Acquisitions & Partnerships. With our strategy for the coming period, DSM in motion: *driving focused growth*, we are entering a new era for DSM, a phase in which we will deliver on our promise of growing our company by creating brighter lives for people today and generations to come.

As we enter our next strategy period, the economic context in which all global companies are operating has arguably become more differentiated than it has ever been. For the period to come we expect some moderate growth in most mature economies. In the meantime many ’emerging economies’ have developed into ‘high growth economies’ and – for the first time – it is these high growth economies that have pulled the world out of recession. They will provide most of our growth in the period to come.

Our strategy is based on key global societal trends that are affecting economies, people and markets in different ways. These trends give direction to our customers' efforts to address current and future needs.

With an expected aging world population of 9 billion in 2050 compared to nearly 7 billion now, with increased consumption, the world is facing unprecedented challenges as a result of this anticipated growth. These are the *global shifts* (such as demographic changes, urbanization, usage of resources and the impact of new technologies), *climate change and energy* as well as *health and wellness*.

We aim to address unmet needs resulting from these societal trends with innovative and sustainable solutions. In this annual report you will find our strategy – DSM in motion: *driving focused growth* – in more detail. We stay committed to aligning our strategy and operations with the UN Global Compact principles. To reflect the fact that sustainability is our core value as well as one of our growth drivers, we have decided to report our People, Planet and Profit results for 2010 for the first time in this Integrated Annual Report as DSM focuses on creating value for all stakeholders. We are proud that the transparency of our reporting on sustainability has once again been recognized, as is evidenced by our achievement of GRI A+ status for this Integrated Annual Report.

The DSM Managing Board (from left to right): Rolf-Dieter Schwalb (CFO), Feike Sijbesma (Chairman/CEO), Stephan Tanda and Nico Gerardu

As the world around us is changing, so should our organization. We will use our regional platforms, functional excellence groups and shared services to (1) enhance the performance of our businesses operating as 'One DSM', (2) capture regional business opportunities and synergies and (3) implement excellence throughout our global organization. We will further build on our culture change program with an emphasis on external orientation, accountability for performance and inspirational leadership, based on our belief in sustainability and diversity, including internationalization. All these elements will be implemented with a focus on collaboration and speed of execution to support the realization of our strategy and to reach our goals.

With our focus on high growth economies, innovation and sustainability, our strong capital structure allowing acquisitions and partnerships, and our leadership in biotechnology, we are in an excellent position to deliver on our ambitious sales and profitability targets.

There is much to be proud of. We were once again named the number one in the worldwide chemical industry in the Dow Jones Sustainability World Index, and the prestigious 2010 Humanitarian of the Year Award that we received from the United Nations Association of New York is an acknowledgement of DSM's commitment to addressing the issue of hidden hunger. I truly feel that this award was given to all employees of DSM worldwide, who are inspired and motivated to contribute to helping those people in the world who need our help urgently.

We made many exciting announcements during the year, including a scientific breakthrough in the technology for second generation biofuels, our partnership with Roquette for a bio-based succinic acid joint venture and the agreement with Sinochem Group to form a 50/50 global joint venture for our anti-infectives business.

In addition, upon completion of the acquisition of Martek Biosciences Corporation announced in December 2010, DSM will add a new growth platform for healthy and natural food ingredients for infant formula and other food and beverage applications, especially focused on polyunsaturated fatty acids such as Omega-3 and Omega-6. The acquisition – which we expect to close in the first or second quarter of 2011 – is expected to realize material revenue synergies through expanded global distribution, marketing and product development as well as other operational efficiencies, and is expected to accelerate DSM's revenue growth.

In 2011, we will continue our new corporate strategy, which marks the shift from a period of intensive portfolio management to an era of maximizing sustainable profitable growth of 'the new DSM'. To mark this new DSM internally and externally we are launching our new DSM brand in early 2011, which is reflected in the design of this Integrated Annual Report.

We are committed to fully leveraging the unique opportunities in Life Sciences and Materials Sciences, not just individually but also in combination. The cross-fertilization potential between Life Sciences and Materials Sciences – internally referred to as the X-factor – is high.

I would like to thank our almost 22,000 employees for their valuable contributions, as well as our customers and shareholders for their continued support. DSM in motion: *driving focused growth* will be a very exciting journey and we already look forward to reporting further progress in our next Integrated Annual Report.

Feike Sijbesma

CEO/Chairman of the Managing Board

DSM in motion: *driving focused growth*

DSM has a long history of successful transformation. From the beginning in 1902, when the Dutch government established DSM as a state-owned coal-mining company, via a publicly listed (bulk) chemical company, to today's DSM: a Life Sciences and Materials Sciences company active in health, nutrition and materials.

At a very early stage, DSM realized the need for change. In the 1930s it converted a by-product from coal mining into a profitable commodity, ammonia, a key raw material for nitrogenous fertilizers. This marked the first step on a diversification path that ultimately saved DSM from the fate of many other coal-mining companies in Western Europe.

After WWII, DSM started to transform itself into a (bulk) chemical company. And by 1970, chemicals and fertilizers comprised the company's main activity. Petrochemicals then took center stage. In 1989 DSM was privatized and its shares were floated on the stock exchange. By that time it had also diversified into high-quality plastics and fine chemicals. DSM became a hybrid company active in commodity, fine and specialty chemicals.

Over the past 12 years major portfolio changes have taken place, such as the divestment of the petrochemicals business and the acquisition of companies such as Gist-brocades, Catalytica, Roche Vitamins & Fine Chemicals and NeoResins. With the divestment of the base chemicals activities in the last three years and the changes within the organization, this transformation has been completed and DSM is now a Life Sciences and Materials Sciences company ready for a new growth phase as the company enters a new era.

A key element of the strategy was to establish Life Sciences and Materials Sciences as business areas that offer attractive growth potential, not just individually but also in combination. The cross-fertilization potential between Life Sciences and Materials Sciences – internally referred to as the X-factor – is high. DSM is convinced that biotechnology, traditionally associated with Life Sciences, will increasingly play a role in developing new, greener and cleaner (bio)materials while at the same time performance materials will increasingly be used in medical applications in the field of Life Sciences.

In this next phase DSM will deliver on its promise of creating brighter lives for people today and generations to come, driving focused growth and becoming a truly global company. Embedded in the company's mission is the core value that DSM's activities should contribute to a more sustainable world. This guides how DSM pursues sustainable value creation for all stakeholders on three dimensions simultaneously: People, Planet and Profit.

DSM's strategy is a response to key global societal trends that are affecting economies, people and markets in different ways. By focusing on these trends, DSM will be better able to support its customers in developing solutions that meet current and future needs.

A major driver of these global trends is the continuous growth and aging of the world population from around 7 billion people today to an estimated 9 billion in 2050, together with increased consumption. The three major global societal trends underlying DSM's current strategy are *global shifts*, *climate and energy* and *health and wellness*.

Global shifts

DSM's customers know that the world is changing faster than ever – influencing where demand comes from, how and where people are living and how they connect with each other. Urbanization and economic prosperity are promoting dietary changes and increased spending on housing, transport, lifestyle and energy, all of these being areas where the chemical industry has sustainable solutions to offer.

In 2009, per-capita demand for chemical products in developed economies was six times greater than in high growth economies, showing the latter's huge market potential. Increased demand around the world is also driving a higher use of natural resources, leading to a search for further efficiency, recycling and renewable solutions. Industrial biotechnology is an important technology to help provide solutions to global challenges regarding food and energy access and security. Several new technologies, especially in the communications industry, are having a high impact on society and behavior and therefore on consumption patterns.

Climate and energy

Climate change is a reality and future production and efficient use of energy is a central challenge for society. In this context, DSM's customers are seeking sustainable value chains with higher yields, reduced waste, lower energy use and fewer greenhouse-gas emissions. There is also a growing focus on alternative, renewable raw materials, made possible with the help of industrial biotechnology to produce chemical building blocks, materials or energy.

Health and wellness

Prevention is better than cure. Today many health issues and the associated drug use are food and/or lifestyle induced. Customers need to address core health needs, whether through nutrition, medicines or lifestyle improvements. The populations of many countries around the globe are aging and there is cost pressure in all healthcare systems. At the same time, healthcare demand in high growth economies is increasing. Nutrition security and access are increasingly recognized as critical for human mental and physical development in both the West and the East. There is also a growing demand for safer and healthier foods and pharmaceuticals.

DSM in motion: *driving focused growth*

DSM in motion: *driving focused growth* marks the shift from an era of intensive portfolio transformation to a strategy of maximizing sustainable and profitable growth of 'the new DSM'. The current businesses compose the new core of DSM in Life Sciences and Materials Sciences.

DSM's focus on Life Sciences (Nutrition and Pharma) and Materials Sciences (Performance Materials and Polymer Intermediates) is fueled by the above-mentioned societal trends and the company aims to meet the unmet needs resulting from these with innovative and sustainable solutions.

It is DSM's ambition to fully leverage the unique opportunities in Life Sciences and Materials Sciences, using four growth drivers (High Growth Economies, Innovation, Sustainability and Acquisitions & Partnerships) and bringing all four drivers to the next level. At the same time DSM aims to make maximum use of the potential of all four growth drivers to mutually reinforce each other and generate a greater number of compelling business opportunities.

Regional organizations, functional excellence groups and shared services enhance the performance of the business groups which together operate as 'One DSM'. DSM will capture regional business opportunities and synergies and implement excellence throughout the global organization.

The culture change program that is currently in progress (focusing on external orientation, accountability for performance and inspirational leadership) will be further rolled out with an emphasis on collaboration and speed of execution to support this strategy. All this is based on sustainability as DSM's core value and its true belief in diversity, including internationalization.

DSM has set itself ambitious targets for the next strategy period. With its transformation completed, DSM can now focus on, and accelerate, growth. The company has high aspirations, based on an assessment of the opportunities, particularly in high growth economies.

For 2013 two profitability targets have been set: an increase in EBITDA to a level of € 1.4 – 1.6 billion and an increase in Return on Capital Employed (ROCE) to more than 15%.

Strategic and financial targets

Profitability targets 2013	
	€ 1.4 - 1.6 bn
- EBITDA	
- ROCE	> 15%
Sales targets 2015	
- Organic sales growth	5-7% annually
- China sales	from USD 1.5 bn to > USD 3 bn
- High growth economies sales	from ~32% towards 50% of sales
- Innovation sales	from ~12% to 20% of sales
Aspiration regarding Emerging Business Areas for 2020	
- EBA sales	> € 1 bn

Innovation sales – which from now on will be measured as sales from innovative products and applications introduced in the last five years – are targeted to be approximately 20% of total net sales by 2015.

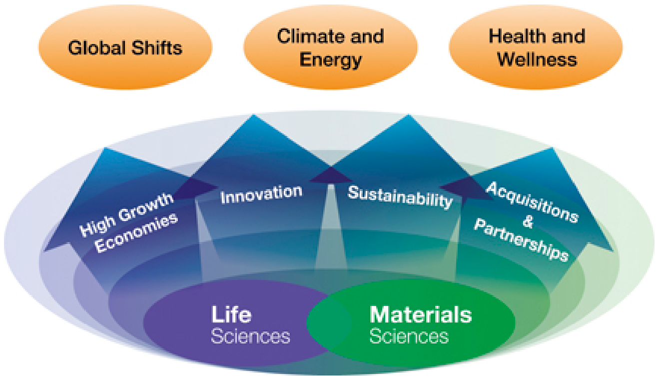
For the period 2011 – 2015 capital expenditure can be expected at a level comparable to that in the accelerated *Vision 2010* period (€ 500-550 million per year on average). For the total period, capital expenditure is expected to amount to € 2.5 – 2.7 billion, of which approximately USD 1 billion in China. In addition, DSM aspires to keep working capital as a percentage of net sales below 19%.

For the Emerging Business Areas (EBAs) DSM aspires to achieve combined sales of more than € 1 billion for 2020.

In the field of sustainability a number of ambitious targets and aspirations have been set. For 2011 – 2015 the following value-creating performance aspirations have been defined regarding sustainability:

- Dow Jones Sustainability Index: top ranking (SAM Gold Class, which means a total score of at least 75% and within 5% of the SAM sector leader)
- ECO+ (innovation): 80%+ of pipeline is ECO+ (see page 218 for a definition of ECO+)
- ECO+ (running business): from ~34% towards 50%
- Energy efficiency: 20% improvement in 2020, compared to 2008
- Greenhouse-gas emissions: -25% (absolute) by 2020, compared to 2008
- Engagement Survey: towards High Performance Norm [1]
- Diversity & People: to be updated in 2011

[1] The High Performance Norm is the composite of the top 25% employee responses of the selected external benchmark organizations.



High Growth Economies: from 'reaching out' to being truly global

All the evidence indicates that fast-growing economies such as China, India, Brazil and Russia and other emerging areas will be the major global growth engines for the world economy over the next decade.

DSM has actively pursued growth opportunities in high growth economies across all businesses. In the past five years the share of sales from these economies has increased from 22% in 2005 to about 32%. DSM has built a strong local presence in different regions in the last few years. A significant factor in DSM's *Vision 2010* was the fact that DSM exceeded the ambitious sales growth target of USD 1.5 billion in China (in 2007 this target was increased from USD 1.0 billion).

DSM's ambition now is to broaden this approach and accelerate growth in multiple economies and regions. By 2015 DSM expects sales from high growth economies to grow towards 50% of its total net sales. Over 70% of DSM's growth in the period to 2015 is expected to come from high growth economies.

DSM's strong focus on China will continue and the company expects to grow its China sales from USD 1.5 billion to over USD 3.0 billion by 2015. To support this growth DSM intends to invest USD 1 billion in China in this strategy period. DSM will also increase its presence in other markets, doubling or even trebling revenues in India, Latin America and Russia.

To enable this ambitious growth, DSM will need to adjust its organization in a variety of ways to facilitate local decision making and innovation. DSM's goal now is to truly internationalize its business. This will bring the company closer to its key markets and customers. It will strengthen the regional businesses and stimulate diversity and innovation.

DSM will combine a stronger regional infrastructure with clear board level accountability for regional growth. Over the next two years DSM intends to:

- establish a dual desk for members of the Managing Board responsible for regional growth in Asia and the United States;
- relocate the headquarters of the business groups DSM Fibre Intermediates, DSM Engineering Plastics and DSM Anti-Infectives to Asia;
- relocate the DSM Biomedical business headquarters to the United States;
- relocate the biofuel business, a part of DSM Bio-based Products & Services (formerly named DSM White Biotechnology), to the United States;
- establish new Innovation Centers in China and India;
- expand the existing Innovation Centers in the US and Japan;
- strengthen regional capabilities, infrastructure and management to provide regional insights to the business and support growth and innovation in the regions.

Also, DSM has established dedicated president roles in China, India, Japan, Latin America, Russia and the United States. DSM will also allocate regional growth and synergy accountability to designated members of the Managing Board.

Innovation: from 'building the machine' to doubling innovation output

Since the announcement of the innovation boost back in 2005, as part of DSM's *Vision 2010* strategy, the increased commitment to innovation has significantly paid off, as shown by the achievement of numerous milestones. The most tangible milestone is the fact that in 2010 DSM clearly exceeded its target of achieving € 1 billion in additional sales through innovation compared to 2005 despite the strong headwinds encountered since Q4 2008. Furthermore, DSM has made a big step in improving innovation practices and culture in the company and has succeeded in considerably increasing the number of product launches (from about 25 back in 2006 to a steady launch rate of approximately 60 per year now).

In addition, the Emerging Business Areas provide strong, long-term growth platforms, which optimally combine the available competences in Life Sciences and Materials Sciences. Building on this track record, DSM aspires to take value creation through innovation to the next level. This will be visible, among other things, through an even higher speed of innovation and consequently a new stretching innovation target and an ambitious growth perspective for the Emerging Business Areas (EBAs) DSM Bio-based Products & Services, DSM Biomedical and DSM Advanced Surfaces. In addition, DSM will implement a company-wide platform approach for innovation. See for a list of these platforms the chapter on Innovation starting on page 71. The focus on the EBA programs Personalized Nutrition and Specialty Packaging will be reduced and they will be partnered, exited or transferred to other parts of DSM.

DSM has adopted a new innovation target definition which is more in line with other mainstream innovators in the industry: percentage of sales created by new products and applications introduced in the last five years. This replaces the previous target of an absolute amount of additional sales through innovation.

DSM aims to increase innovation sales from 12% towards 20% of total sales by 2015. This target reflects DSM's aspiration to further boost innovative growth as well as portfolio renewal and the speed of innovation. The EBAs should grow to a combined turnover of more than € 1 billion in 2020.

Sustainability: from responsibility to a business driver

DSM is consciously expanding its sustainability approach. From an internal value and a tool for making a responsible contribution to society, sustainability has become a strategic business driver.

DSM's strategy is strongly connected to the company's mission to create brighter lives for people today and for generations to come. DSM is therefore proud of its strong track record in sustainability achievements. DSM believes that sustainability will be a key differentiator and value driver over the coming decades and that the company is uniquely positioned to capture new value-creating opportunities.

DSM has set new and ambitious aspirations for sustainability. By 2015 ECO+ products will account for over 80% of innovation sales and towards 50% of the total running business sales (compared to an estimated 34% in September 2010). The qualification ECO+ is based upon internal expert opinions where various impact categories are evaluated, for a growing number of products supported by Life Cycle Assessments. The impact categories DSM is considering are human health, ecosystem quality and resources. These developments will make DSM an industry leader and preferred partner in value creation through sustainability. To achieve these ambitious goals, sustainability is increasingly being embedded into all of DSM's business activities (see page 218 for a full definition of ECO+).

Global trends such as population growth and increased affluence (also in high growth economies), pressure on natural resources, over-exploitation and pollution are creating challenges that need to be addressed at every level:

- *Responsible care*: improving DSM's own eco-footprint through initiatives to reduce energy use, emissions and waste
- *Innovative new products*: developing new products that offer clear ecological (ECO+) or societal benefits over their mainstream alternatives
- *Creating sustainable value chains*: enhancing the eco-footprint along an entire value chain through improved sourcing, processes and/or products
- *Redesigning value chains*: using innovative technologies and partnerships to create new, fundamentally different, industry-changing solutions

DSM's integrated Triple P approach pursues sustainable value creation for all stakeholders on three dimensions simultaneously:

- **People**: improving people's lives through DSM's activities and innovations
- **Planet**: improving the environmental impact of DSM's activities and products (ECO+)
- **Profit**: creating profitable businesses and value for DSM's shareholders whilst meeting DSM's ECO+ objectives to provide solutions to global societal needs

DSM's **People** strategy will deliver measurably better solutions to meet human needs and improve lives. The company commits to developing internationally recognized measures of its impact on people. The company will engage with communities, governments and societies around the world to understand needs in areas such as health, nutrition and product performance. In addition, DSM will invest further in innovation related to DSM's competences and portfolio to address basic human needs, for example in projects to fight hidden hunger and malnutrition.

DSM will tap the creativity of its increasingly global and diverse organization to increase **ECO+** innovation and meet its ambitious 2015 ECO+ sales targets. DSM will build on its strong platform of ECO+ innovation, such as coatings for solar cells, waterborne paints, bio-based materials, halogen-free plastics, etc. In addition, the company works with suppliers to improve the overall footprint of the value chains in which it operates.

DSM's **Profit** objective is to translate innovative sustainable solutions into strong value-creating businesses meeting unmet needs. As a result of its increased focus on understanding (societal) needs, DSM will grow the profitability of its ECO+ businesses and people solutions in several ways. This includes meeting demand for cleaner, greener technologies; developing products specific to high growth economies; and making sustainability a criterion for acquisitions and partnerships. Base of the Pyramid and Cradle to Cradle® are examples of sustainable business models (see pages 39 and 40).

To capture the profit potential of Triple P for DSM's business, the company is embedding it fully into its organization, activities and reporting. For example, Triple P and stakeholder engagement are taken into account in the business planning and innovation processes and quarterly review procedures for all businesses. The business groups will establish and further build their sustainability organizations.

A Sustainability Advisory Board, comprising a diverse international group of external experts, will be installed in 2011 to provide advice and to serve as a sounding board for the Managing Board.

Acquisitions & Partnerships: from 'portfolio transformation' to 'driving focused growth'

DSM has transformed itself into a focused Life Sciences and Materials Sciences company by divesting non-core businesses and making selective acquisitions. Since 2007 DSM has realized the sale of Stamicarbon, DSM Energy, DSM's interest in Noordgastransport, Citric Acid Europe, Thermoplastic Elastomers (Sarlink® of DSM Elastomers), DSM Special Products, DSM Agro and DSM Melamine. An agreement regarding the sale of the Keltan® business of DSM Elastomers has been signed. The selling process for the Maleic Anhydride and Derivatives business is underway.

Like many other companies, DSM has been cautious about making acquisitions during the financial crisis and economic downturn. However, a number of smaller acquisitions and venturing investments were made in 2007-2009. To name a few examples: in 2008 DSM acquired The Polymer Technology Group, thus obtaining access to valuable know-how and client relationships in the biomedical market. With the acquisition of Pentapharm in 2007 DSM obtained a leading position in the development and production of active ingredients for the personal care industry.

DSM Venturing currently has about € 60 million invested in promising companies and leading venture capital funds. DSM has earmarked up to € 30 million per year to invest in venturing activities. In 2010, DSM reached agreement to acquire Bayer's industrial premix business in Korea and completed the acquisition of the polyamide 6 polymerization facility of Nylon Polymer Company, LLC in the United States. DSM also completed the swap of Mitsubishi Chemical Corporation's Novamid™ polyamide business against DSM's Xantar® polycarbonate business.

DSM has also established partnerships and joint ventures in many areas, most recently a joint venture with Roquette for bio-based succinic acid and a partnership agreement with the Australian Government to design, build and operate the first major Australian biopharmaceutical manufacturing facility. The company has the capabilities and resources – people and financing – to invest in selected acquisitions and partnerships.

The agreement with Sinochem Group to form a 50/50 global joint venture for the business group DSM Anti-Infectives is one of the first major milestones DSM announced after it formulated its new strategy. In December 2010 DSM announced the intended purchase of Martek, a US based producer of high value products from microbial sources that promote health and wellness through nutrition. This transaction will be the first major acquisition by DSM after its successful transformation into a Life Sciences and Materials Sciences company.

DSM applies stringent strategic, financial and sustainability criteria to any potential acquisition or partnership. In the screening process a first selection is made on the basis of strategic fit. This results in a shortlist to which DSM applies its financial criteria. A key strategic criterion is that the business or partner should add or increase a leadership position and should add value to DSM in terms of technological and/or market competencies.

DSM will also look for opportunities to strengthen competencies and market positions for the other three strategic growth drivers: expansion in High Growth Economies, Innovation and Sustainability.

As DSM is fully committed to maintaining its Single A credit rating, the key financial criterion is that any acquisition should be cash earnings per share accretive from the beginning and should be supportive to the other financial targets.

In the exceptional case that a very attractive acquisition opportunity arises of a size that would put pressure on financial metrics, DSM may be willing to accept a temporary deviation from the credit metrics commensurate with its rating target. However, DSM believes that Single A ratings are the right place to be for the company to ensure sufficient financial and strategic flexibility at all times, and DSM would seek to manage its balance sheet and underlying financials after such an acquisition to allow the company to re-align ratios with Single A ratings within a short period of time.

There are exceptions to the cash earnings per share criterion. The criterion may for instance not be appropriate in the case of small innovative growth acquisitions.

Combining growth drivers

Each of DSM's four strategic growth drivers is important in its own right but they also reinforce one another. By combining multiple growth drivers, DSM will be able to generate a greater number of compelling, high-potential business opportunities.

In 2009 DSM opened its DSM China Campus in Shanghai to advance local research and development competences. It is DSM's largest and most important research facility outside Europe and the US and acts as an incubator for DSM's local innovation competence.

The intended acquisition of 51% in AGI Corporation (Taiwan) will allow DSM to not only strengthen its UV technology platform, an innovative and environmentally friendly technology, but also expand its position in high growth economies. It is therefore consistent with all four growth drivers.

Organization and culture

To meet the next-level ambitions for all four growth drivers, DSM is transforming its organization and culture to create a genuinely global organization and achieve its strategic ambitions. By strengthening and empowering regional businesses, DSM will deepen local market insights and relationships. In parallel, the 'One DSM' approach and philosophy will progressively enhance knowledge sharing and collaboration across businesses, functions and regions, enabling the company to capture the full benefits of diversity.

'One DSM' – a global drive for a well-networked, high-performance organization – will enable DSM to reach its targets and ambitions. The business groups are the primary organizational and entrepreneurial building blocks with a focus on customers and markets. The regional organizations will strengthen the business groups by providing infrastructure and capabilities to support the businesses. The regional organizations will also cater for local innovation in designated countries and present DSM to the external constituencies. As a shared responsibility, the regional organizations will also accelerate sales growth.

All this will be supported and optimized by Functional Excellence groups (offering functional expertise and implementation capabilities leveraged across the company) and Shared Services (providing efficient high-quality services in designated areas across the company).

Cross-business and cross-regional collaboration, effective knowledge sharing, learning and inclusive innovation will lead to synergies. Functional excellence will be implemented in a global approach.

The transformation of DSM's organization will be further supported by DSM's culture change program, which has established a shared understanding of essential DSM values and principles to drive growth:

- External orientation and drive for innovation: bringing DSM closer to customers, suppliers, partners and other key influencers such as non-governmental organizations and many external parties
- Accountability for performance: setting ambitious targets, delivering results, learning from mistakes individually and collectively
- Inspirational leadership: the complementary and consistent combination of setting direction with ambition and passion, taking decisions based on a healthy sense of urgency, with connecting with people by demonstrating authenticity, engagement and strong motivation

DSM's culture change program will be further rolled out with an emphasis on collaboration and speed of execution. All this is based on DSM's belief in sustainability and diversity, including internationalization. At DSM, diversity is now centered on gender, nationality and background. Research has shown that these are the strongest differentiators in creating a more balanced mix of behaviors and mindsets.

As DSM has embarked on a journey to become a genuinely global organization with multiple dynamic regional centers, each focused on local/regional markets and customer needs, the company recognizes and values diversity as a key strength to help it adapt its business to an uncertain, fast-changing world, and as a source of new innovation potential.

The One DSM philosophy provides a strong platform to support internationalization and drive value-creating behaviors. The common mission statement, the core value and business principles form an integral part of One DSM. In 2010, DSM rolled out the DSM Code of Business Conduct in its organization, using a company-wide e-Learning tool. See page 51 for more information.

By embracing the culture change program, DSM will continue to maintain its focus on external orientation and innovation, accountability for performance and inspirational leadership, based on a joint belief in sustainability and diversity. DSM will also introduce a new emphasis on:

- collaboration: improving the ways that DSM people connect with colleagues, customers, partners, governments, regulators and other key opinion leaders;
- speed: facilitating knowledge-sharing, learning and information flow, leading to faster, more effective decision making;
- new ways of working: embracing flexible working practices and policies.

Further internationalization of DSM's workforce and senior management is a priority in order to contribute to becoming a truly global organization.

A new brand for a new era

As the transformation of DSM into a Life Sciences and Materials Sciences company active in health, nutrition and materials is complete, a new corporate brand is a logical step. It demonstrates very clearly – to customers, suppliers, shareholders, the communities in which the company works as well as to DSM employees – that DSM has turned a page. The new brand is a symbol of the company's transition to 'the new DSM': a Life Sciences and Materials Sciences company addressing key global societal trends.

The new brand is a reflection of the overall positioning – internal and external – of the company. It stands for the newly created DSM (the Life Sciences and Materials Sciences company) and the DSM culture (adapting to the new portfolio). In addition, it represents the values and the One DSM philosophy and fits with the mission to create brighter lives for people today and generations to come.

DSM
BRIGHT SCIENCE. BRIGHTER LIVING.

Report by the Managing Board

Highlights of 2010

General

DSM's strong financial results for 2010 reflect the company's focus on innovation and its customers across the globe as well as cost and cash management supported by an improving economic climate. Within the Life Sciences businesses, the Nutrition business continued to record very good results, whilst Pharma needs improvement. The Materials Sciences businesses delivered a significant improvement during the year with a record result for Polymer Intermediates.

The year 2010 was the last in a period of transformation for DSM to become a focused Life Sciences and Materials Sciences company. The company successfully completed its *Vision 2010* strategy, including divesting the remaining non-core assets within the promised timescale. Subsequently, through a series of important transactions DSM has started to build additional strong growth platforms for the next phase of its strategy 'DSM in motion: *driving focused growth*' as evidenced by the announced acquisition of Martek and the announced joint venture with Sinochem for DSM's anti-infectives business. DSM is confident that 2010 has laid the foundation for achieving its new strategic growth and profitability objectives and therefore it is proposing to raise its dividend from € 1.20 to € 1.35 per ordinary share instead of the € 1.30 announced in September 2010.

The year 2010 showed a very strong improvement compared to the downturn year 2009. All businesses, except Pharma, improved their performance. The improvement in the business environment, supported by DSM's swift actions in response to the downturn, resulted in the best ever operating result for the new DSM portfolio. For most businesses the first half of the year was stronger than the second half, due to downstream restocking and much more favorable currency exchange rates.

DSM's focus on cash remained a strong priority. Operating cash flow was € 1.1 billion. In combination with the proceeds from divestments and cautious capital expenditure this resulted in a net debt of minus € 108 million at the end of the year. This places DSM in an excellent position to pursue its strategic growth ambitions.

Organic sales growth in 2010 was very strong at 19%. Nutrition showed strong volume growth with slightly lower prices. At constant exchange rates, sales in Pharma were virtually flat. Materials Sciences showed a very strong volume increase resulting in an operating level which was back to pre-crisis level in most businesses. Pricing was very strong especially in Polymer Intermediates.

Net sales, continuing operations

x € million	**2010**	2009
Nutrition	3,005	2,824
Pharma	739	721
Performance Materials	2,507	1,823
Polymer Intermediates	1,398	849
Other activities	527	508
Total	**8,176**	**6,725**

Operating profit in 2010 was € 752 million, which was 74% above 2009. After 17% operating profit growth in 2009, Nutrition delivered 9% growth in 2010. This is a reflection of Nutrition's ability to strengthen its market position based on its innovation and differentiation strategy in combination with a good operational performance. The Pharma results were lower, reflecting continuing challenges in the pharmaceutical industry and the one-off effect of flu related sterile vaccines business in 2009. The Performance Materials operating profit was substantially better than in 2009 and topped the 2008 level. Polymer Intermediates posted an excellent performance and its best year ever. In both caprolactam and acrylonitrile, margins were the driver.

Nutrition

The performance in 2010 was above 2009, in both sales and profitability. Organic sales growth was 2%, mainly driven by higher volumes. Operating profit of DSM Nutritional Products and DSM Food Specialties increased further, due to good market conditions, excellent manufacturing performance, good cost control and favorable currency exchange rates. The cluster remained focused on its value over volume strategy.

Pharma

Organic sales development in 2010 was -1%. The much lower operating result compared to 2009 was mainly due to DSM Pharmaceutical Products as it continued to face challenges as a result of low demand from pharmaceutical companies, delay in approvals and the loss of some large contracts. DSM Anti-Infectives' improved performance in its continuing business could not completely offset the loss of margin as a result of the termination of clavulanic acid production in 2009.

Performance Materials

Organic sales growth in 2010 was 31%, highlighting a very strong recovery from the depressed year 2009 in all three business groups. Prices were flat at DSM Dyneema, but clearly increased in the other two business groups. The sales increase was reflected in the operating result, which showed a significant improvement, especially in the first half of the year because of downstream restocking. The second half of the year was affected by increased feedstock prices.

Polymer Intermediates

Organic sales growth in 2010 was 59%, reflecting very strong trading conditions for caprolactam as well as acrylonitrile. These excellent trading conditions resulted in an unprecedented operating profit.

Operating profit plus depreciation and amortization (EBITDA), continuing operations

x € million	2010	2009
Nutrition	702	655
Pharma	65	91
Performance Materials	299	174
Polymer Intermediates	229	36
Other activities	(134)	(122)
Total	**1,161**	**834**

Other activities

The operating result stayed at the same level as in 2009. Additional project related costs were compensated for by higher results from some remaining non-core businesses.

Financials

Net finance costs for 2010 amounted to € 93 million, which is € 18 million lower than in 2009.

The effective tax rate for the full year (continuing operations) amounted to 24%.

Full year exceptional items after tax amounted to a loss of € 40 million.

Net profit before exceptional items for 2010 amounted to € 547 million, which was € 303 million higher than in 2009. Total net profit increased by € 170 million compared to 2009 and reached a level of € 507 million.

Net earnings per share amounted to € 3.03 in 2010 versus € 2.01 in 2009.

As a result of DSM's strong focus on cash, Cash flow from operating activities amounted to € 1,103 million for 2010.

Operating working capital (continuing operations) in % of net sales decreased from 18.6% at the end of 2009 to 17.9% at the end of 2010.

Total cash used for Capital expenditure was € 416 million for 2010, which was € 41 million lower than the previous year (2009 € 457 million).

Compared to year-end 2009 Net debt decreased by € 938 million and resulted in a net debt of minus € 108 million. At the end of 2010 € 837 million was invested in higher yielding term deposits (duration 3 to 6 months), which are shown in the cash flow statement as Current investments.

Sustainability

DSM believes sustainability will be a key differentiator and value driver over the coming decades. The company has met all the sustainability targets it had set as part of its *Vision 2010* strategy. In 2010 both total energy consumption and greenhouse-gas emissions (in CO_2 equivalents) decreased by 22%. The decrease was mainly due to divestments. Energy efficiency in 2010 was 8% better than in 2005, meeting the target set.

In 2010 DSM executed its third worldwide Employee Engagement Survey. The results showed a 3 percentage point improvement in the level of engagement of employees (the percentage scoring favorable) compared to the second survey in 2009. The engagement score takes DSM within an 8 percentage point range of the external engagement benchmark of high-performing companies (scoring 79% favorable), which is the league DSM wants to be part of.

In 2010, 89% of DSM's innovations were ECO+ solutions. This compares to 78% in 2009. DSM was once again ranked the global number one in sustainability in the chemical sector of the Dow Jones Sustainability Index in 2010, just as in 2004, 2005, 2006 and 2009.

As part of its new strategy, DSM in motion: *driving focused growth*, DSM has formulated the ambition to go to the next level in sustainability: from responsibility to a business driver. More information can be found in the chapter DSM in motion: *driving focused growth* starting on page 8.

As from 2011, DSM will report on a number of sustainability metrics. With the publication of the annual results 2010 the company is also publishing its first Integrated Annual Report, combining the Annual Report with the Triple P Report. The transparency of DSM's reporting on sustainability has once again been recognized, as is evidenced by the achievement of GRI A+ status for the Integrated Annual Report.

Vision 2010

The time frame of DSM's *Vision 2010 – Building on Strengths* strategy has ended. In summary, this strategy built on the company's track record of portfolio transformation and sharpened its focus on Life Sciences and Materials Sciences at an increased pace, fueled by four main societal trends: climate change, health and wellness, functionality and performance and emerging economies.

A key element of the strategy was to establish Life Sciences and Materials Sciences as business areas that offer attractive growth potential, not just individually but also in combination. The cross-fertilization potential between Life Sciences and Materials Sciences – internally referred to as the X-factor – is high. DSM is convinced that biotechnology, traditionally associated with Life Sciences, will increasingly play a role in developing new, greener and cleaner (bio)materials while at the same time performance materials will increasingly be used in medical applications in the field of Life Sciences.

The Emerging Business Areas (EBAs) create growth platforms that are based on the strengths and synergies of DSM's positions in Life Sciences and Materials Sciences.

The main building blocks of DSM's accelerated *Vision 2010* transformation, announced in September 2007, included reshaping the portfolio at an increased pace, setting ambitious new targets, introducing measures related to DSM's shareholders and reinforcing DSM's Triple P focus.

Apart from clearly exceeding the *Vision 2010* target of adding € 1 billion in sales through innovation between 2006 and 2010, DSM has also succeeded in increasing the number of product launches.

DSM is now recognized as a technology leader in second-generation biofuels and bio-based materials.

By making a fast, strong and effective response to the changing economic conditions (by focusing on costs, cash and working capital and reducing net debt) whilst at the same time 'staying the course' (by continuing to concentrate on customers, innovation and DSM's core value: sustainability) DSM has emerged from the economic downturn as a stronger company, as can be seen from its results.

Reshaping the portfolio

In the past three years, DSM has transformed itself into a focused Life Sciences and Materials Sciences company by divesting non-core businesses and making selective acquisitions.

Divestments

DSM completed the sale of DSM Agro and DSM Melamine to Orascom Construction Industries. The former DSM Agro, now OCI Agro, is a producer of ammonia and high-nitrogen fertilizers for grasslands and agricultural crops and the market leader in the Netherlands. It also ranks among the market leaders in Germany, France and Belgium. The former DSM Melamine, now OCI Melamine, is the world's largest producer of melamine. In 2009 the two business groups realized combined sales of € 489 million with 779 employees.

DSM sold Citrique Belge to Adcuram (Germany). DSM reported a book loss of around € 40 million as a result of the transaction, although the transaction represented a very reasonable multiple on profits made by the unit. Approximately 250 employees transferred to the new owner upon closing.

The sale of DSM Special Products B.V. to Emerald Performance Materials (owned by an affiliate of Sun Capital Partners) was completed. This unit is the producer of among other things Purox® B and Purox® S, ingredients used in food and feed products as well as in a range of industrial applications. It also produces VevoVitall®, a product for the animal health market that will continue to be sold by DSM Nutritional Products. DSM Special Products employed around 125 people in Rotterdam and Sittard-Geleen (Netherlands). At closing all employees transferred to the new owner.

DSM divested the business unit Thermoplastic Elastomers (Sarlink®), part of the business group DSM Elastomers, to Teknor Apex Company. DSM reported a small book profit as a result of the transaction in Q4 2010. Approximately 90 employees transferred to the new owner upon closing.

DSM also reached an agreement regarding the sale of the remaining part of DSM Elastomers to LANXESS for € 310 million on a cash and debt free basis. The intended sale is expected to close in the first few months of 2011, subject to regulatory and other customary approvals and notifications. DSM expects to report a book profit of more than € 100 million as a result of the transaction upon closing. Approximately 420 employees will transfer to the new owner upon closing.

The announced divestment of DSM Elastomers represents the final stage of the transformation of DSM that began with the divestment program DSM announced in September 2007 as part of its accelerated *Vision 2010* program. Total divestment proceeds – including the proceeds from the intended sale of the remaining part of DSM Elastomers – are expected to be about € 1.2 billion.

Acquisitions

In December 2010 DSM and Martek Biosciences Corporation announced that they had entered into a definitive agreement under which DSM will acquire all the outstanding shares of common stock of Martek for USD 31.50 in cash per share for a total consideration of approximately USD 1,087 million. The transaction has been approved by DSM's Supervisory Board and is recommended by Martek's Board of Directors.

The tender offer that was the first step in this transaction was successfully completed on 18 February 2011. The transaction is expected to close at the end of February 2011.

The signing of the agreement between DSM and Martek. Front row (left to right): Hugh Welsh (President & General Counsel, DSM North America) , Steve Dubin (Chief Executive Officer, Martek) and Leendert Staal (President and Chief Executive Officer, DSM Nutritional Products).

The acquisition of Martek, a US based producer of high value products from microbial sources that promote health and wellness through nutrition, will be the first major acquisition by DSM after its successful transformation into a Life Sciences and Materials Sciences company.

This transaction is fully in line with DSM's 'continued value growth' strategy for its Nutrition cluster and adds a new growth platform for healthy and natural food ingredients for infant formula and other food and beverage applications, especially focused on polyunsaturated fatty acids such as microbial Omega-3 DHA (docosahexaenoic acid) and Omega-6 ARA (arachidonic acid).

DSM announced its intention to acquire a 51% stake in AGI Corporation of Taiwan (AGI) for about € 48 million through a subscription for newly to be issued shares combined with a public tender offer, subject to AGI corporate approvals and to regulatory and other customary approvals and notifications. AGI offers a broad range of environmentally friendly UV (ultraviolet) curable resins and other products. These products are used in coatings for paper, wood, plastic and graphic arts applications.

DSM acquired full control of the polyamide 6 (PA6) polymerization facility of Nylon Polymer Company LLC (NPC) (Augusta, Georgia, United States). DSM Chemicals North America and Shaw Industries were previously joint venture partners in NPC. For DSM Engineering Plastics the acquisition of the full ownership of the PA6 polymerization facility is an important step in its strategy to increase its geographical footprint, including expansion into South America. It also gives the company full integration in the PA6 chain, including caprolactam, polymer and compounded products, in North America.

DSM Engineering Plastics completed the acquisition of Mitsubishi Chemical Corporation's Novamid™ polyamide business in exchange for DSM's Xantar® polycarbonate business. Both businesses have an annual net sales level of approximately € 90 million. For both companies the swap of activities provides a strong strategic fit.

DSM Biologics, a business unit of DSM Pharmaceutical Products, acquired the assets and associated business of the Rhobust™ technology from Upfront Chromatography A/S (Denmark) for pharmaceutical and other applications. As a result of the acquisition, DSM Biologics gained all rights for the commercialization of the Rhobust™ technology in various fields, including the pharma industry.

DSM Nutritional Products acquired Microbia, Inc. (Lexington, Massachusetts, United States) from Ironwood Pharmaceuticals, Inc. Microbia is a successful industrial biotechnology research and development specialist. It has developed a highly effective technology platform that enables it to produce high-quality, natural carotenoids (including betacarotene and canthaxanthin), nutritional products and other specialty materials and chemicals from renewable resources.

Partnerships

DSM reached an agreement with Sinochem Group to form a 50/50 global joint venture for its business group DSM Anti-Infectives. The transaction is subject to receipt of regulatory approvals (including approvals from regulatory authorities in China) and customary clearances from competition authorities in the European Union and elsewhere. In addition, DSM's works councils will be requested to render advice in relation to the proposed transaction. The parties anticipate closing to take place in Q2 2011. Upon closing, the transaction will have retro-active effect to 1 January 2011.

Mr. Pan Zhengyi (left), Member of the Party Committee and Vice President of Sinochem Group, and DSM's Hein Schreuder, Executive Vice President Corporate Strategy & Acquisitions, shaking hands after the signing of the DSM/Sinochem joint venture agreement

As part of the joint venture agreement, Sinochem Group will take a 50% equity interest in DSM Anti-Infectives for a total cash consideration of €210 million on a cash and debt free basis.

The joint venture will be headquartered in Asia. Current DSM Anti-Infectives employees, in total around 2,000 people globally, will be part of the new entity. The joint venture will include all of the current DSM Anti-Infectives activities across the world.

DSM and Roquette Frères, the global starch and starch-derivatives company, signed a joint venture agreement for the production, commercialization and market development of bio-based succinic acid, subject to regulatory approvals and notifications. The formation of the joint venture is a new step following the successful cooperation between DSM and Roquette pursuant to a joint development agreement.

Since early 2008 the two companies have been working together to develop fermentative technology to produce bio-based succinic acid. The first testing volumes of this renewable and versatile chemical building block – used in the manufacture of polymers, resins and many other products – have already been produced in a demonstration plant in Lestrem (France) that was built in 2009. The positive results from this cooperation have led to the establishment of the joint venture.

DSM and Dutch biopharmaceutical company Crucell N.V., currently in the process of being taken over by Johnson & Johnson, announced an expansion of the activities in their existing joint venture, the PERCIVIA PER.C6® Development Center (Cambridge, Massachusetts, United States), to transform the company from a development center into a full biopharmaceutical company for the development of PER.C6®-based bio-better proteins and monoclonal antibodies as well as global licensing of the PER.C6® human cell line for the production of third party monoclonal antibodies and other proteins. The joint venture, in which DSM and Crucell each hold an equal equity share, will be known as PERCIVIA LLC.

DSM Biologics signed preliminary agreements to enter into a partnership with the Australian Governments (Queensland State Government and the Commonwealth of Australia) to design, build and operate the first major Australia-based mammalian biopharmaceutical manufacturing facility, which will be located in Brisbane. The over 70,000 square foot facility will offer mammalian process development and cGMP (current Good Manufacturing Practices) clinical and commercial manufacturing services. The Australian Governments will provide the full financial funding for the facility, which is part of the Queensland 10 year Biotechnology Strategic Plan. DSM will provide no capital but will provide technological expertise to design and set up the facilities and will employ its proprietary technologies in its operation.

DSM and DuPont announced an agreement to form a joint venture to develop, manufacture and market advanced surgical biomedical materials, pending European Union regulatory approval. The joint venture will be named Actamax Surgical Materials LLC. Under the joint venture agreement, DSM and DuPont will each have a 50 percent share.

The joint venture will address the market for surgical sealants, adhesion barriers and tissue adhesives. This is a large and underserved market of over 100 million annual surgical procedures worldwide. The outcome of many surgical procedures could be positively impacted using next-generation materials under development by the joint venture.

Measuring performance

In the period 2006-2010 DSM gave its portfolio a greater and clearer focus. At the same time, it successfully completed its *Vision 2010* strategy, despite the most severe economic downturn of the last 70 years.

The targets in the accelerated *Vision 2010* strategy were set assuming that there would be no adverse general economic and trading conditions affecting DSM specifically.

DSM has achieved most, though not all, of the targets as set out in Accelerated *Vision 2010*, including the target for sales in China, sales from innovation, the profitability margin for Nutrition and the sustainability targets. A target that DSM did not achieve, however, is the profitability margin target for the Pharma cluster, which has faced considerable challenges and a changing marketplace over the last few years. The profitability margins for the Performance Materials and Polymer Intermediates clusters increased in 2010 but the targets were not fully achieved although the EBITDA margin of Polymer Intermediates in 2010 was above the target set for the whole *Vision 2010* period.

The following table shows the *Vision 2010* targets and progress against these targets in 2010.

Vision 2010 targets

	Actual 2010	Target 2010
Organic sales growth	19%[1]	> 5% per year on average
EBITDA / net sales margin per cluster:		
- Nutrition	23.4%	> 18%
- Pharma	8.8%	> 19%
- Performance Materials	11.9%	> 17%
- Polymer Intermediates[2]	16.4%	> 13%
Growth from innovation	€ 1.3 billon	€ 1 billion
Sales in China	USD 1.6 billion	USD 1.5 billion
CFROI[4]	9.2%	WACC (7.5%) + 100 basis points
Sustainability	all achieved	
- Retaining top position in important sustainability rankings		
- Achieving leadership in industrial (white) biotechnology		
- Continuously improving eco-footprint		
- Increasing diversity of workforce		
- Reducing energy usage per unit of product by 8% over the period 2005-2010		
Total shareholder return	130% vs. 146% for peer group[3]	Above peer group average

[1] Average over the period 2006-2010: 5%
[2] On average over the cycle 2006-2010: 9.2%
[3] Total shareholder return 2006-2010 DSM: 131%, peer group: 151%. The peer group consists of AkzoNobel, BASF, Clariant, Danisco, DuPont, EMS Chemie Holding, Kerry, LANXESS, Lonza Group, Novozymes, Rhodia and Solvay
[4] Achieved in four out of five years during the *Vision 2010* period

Shareholder returns

An overview of the development of the DSM share in 2010 can be found on page 134.

The company proposes to the Annual General Meeting of Shareholders to declare an increased dividend per ordinary share of € 1.35, of which € 0.40 has already been paid as an interim dividend. This is 12.5% more than the dividend for 2009. More information about DSM's dividend can be found in the chapter Profit in 2010 starting on page 64 and on page 134.

Market-driven growth and innovation

Market-driven growth and innovation was a key driver of DSM's *Vision 2010* strategy and contributed significantly to growth. Organic sales growth from continuing operations in 2010 amounted to 19%, of which 13% as a result of higher volumes and 6% due to higher prices. Over the period 2006-2010, average organic sales growth amounted to 5%.

DSM is proud to have clearly exceeded its *Vision 2010* target of generating an additional € 1 billion in sales from innovation by 2010 compared to 2005. In 2010 innovation-driven sales were about € 1,280 million compared to about € 810 million in 2009.

An additional objective was that DSM should become an intrinsically innovative company, with excellent innovation practices and an above-average return on innovation investments and with employees to whom innovation comes naturally. More information on DSM's progress in innovation can be found from page 71 onwards.

Increased presence in emerging economies

DSM continued its growth in emerging economies. As a percentage of total revenues, sales in emerging economies (Central and Eastern Europe, Latin America, China and Emerging Asia Pacific) increased from 32% in 2009 to 36% in 2010. In 2005 this percentage was 20%. As part of its new corporate strategy, DSM will report on high growth economies as of 2011. High growth economies are here understood to be high-GDP-growth economies.

Although there are clearly differences between the various high growth economies, DSM's increased focus on these countries has been paying off.

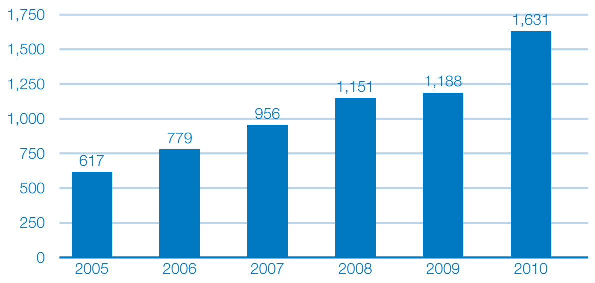
Night view of the Pudong district of Shanghai (China)

In China, DSM has had a significant presence for a number of years. China is changing very rapidly, transforming from the world's manufacturing base into one of the world's leading economies with the highest growth rates and with innovation playing an increasing role. China has become one of the largest markets in the world, accompanied by an increasing demand for Life Sciences and Materials Sciences products.

Economic prosperity and strong domestic demand, driven by a fast-rising income level, are expected to fuel economic growth for the coming decades. In 1998, DSM reported less than USD 100 million in sales in China. In 2005 sales had increased more than sixfold to over USD 600 million.

Over the last few years DSM has been experiencing growth rates in China of around 20% per year on average. Sales in China in 2010 amounted to USD 1,631 million, 37% more than in 2009 and a new record for the company. DSM is proud that it exceeded the sales target of USD 1.5 billion that it had set for 2010. The target was increased from USD 1.0 billion in 2007. The company intends to further increase its sales in China by 2015 to over USD 3.0 billion.

Sales in China
x USD million



DSM continued to invest in China in 2010. DSM Nutritional Products inaugurated its fourth premix plant in Changchun city, Jilin province. This new plant in North East China extends DSM's previous premix manufacturing reach of East China (Shanghai), North China (Shandong) and South China (Hunan).

DSM also signed a framework agreement with Chengdu Modern Industry Park for investment in their next and fifth premix plant in Pixian County, Sichuan. Construction of this plant began in the third quarter of 2010. The plant is anticipated to be operational in the third quarter of 2011.

DSM Composite Resins boosted its innovation capabilities in China by opening a new Research & Development Center at the DSM Campus facility in Shanghai. The new Shanghai center officially opened in November 2010 and follows a previous expansion of DSM Composite Resins' existing technical services facility in Nanjing.

The new Shanghai Composite Resins R&D center has full research capabilities ranging from resin formulation to composite application developments with highly qualified technical staff. Moreover, it will be the global center of excellence for pultrusion and FST (Flammability, Smoke generation, and Toxicity performance) developments.

Developments in India and Brazil were positive and the various DSM businesses active in these countries showed a good performance. Russia, too, showed positive signs throughout the year.

In January 2011 DSM and KuibyshevAzot OJSC (KA) announced a strategic cooperation. As a result of this strategic cooperation, DSM Engineering Plastics will enter into two joint ventures with KA. In both joint ventures DSM Engineering Plastics will hold a majority share. In addition, KA will be granted a license under DSM Fibre Intermediates' technology for the production of cyclohexanone.

The two joint ventures of DSM Engineering Plastics and KA relate to marketing and sales of engineering plastics in Russia and other members of the Commonwealth of Independent States (CIS) and secondly to the production of engineering plastics compounds in a plant located in Togliatti (Russia). The strategic cooperation between DSM and KA will also result in a license grant under DSM's proprietary cyclohexanone technology to be applied at KA's Togliatti caprolactam plant, resulting in a further increase of its capacity to meet the growing demand for this polyamide 6 intermediate.

DSM Nutritional Products signed a joint venture agreement with Tatenergo JSC (Republic of Tatarstan) for the construction of an Animal Nutrition & Health premix plant in the Republic of Tatarstan. This is another step confirming DSM's commitment to expanding its worldwide presence in micronutrient premixes and business development in the Russian Federation.

DSM Engineering Plastics and the Automotive Research Association of India announced their alliance to synergize their strengths in supporting the automotive industry in India. This alliance will provide sustainable solutions for the automotive industry through the shared knowledge of both companies in understanding industry requirements and their interaction with applications and materials.

DSM Composite Resins and Kemrock Industries & Exports signed a Memorandum of Understanding to form a joint venture for manufacturing unsaturated polyester and vinyl ester specialty resins in India. Through the alliance with DSM, Kemrock will be able to fortify its expertise in composite manufacturing and align it to global standards. DSM will strengthen its presence in India and leverage its depth of technological knowledge and global customer relationships.

DSM acquired the unsaturated polyester resins business of Dyo Boya Fabrikalari Sanayi ve Tic. A.S. (DYO) in Turkey. In addition both parties have signed a long term tolling agreement to support local manufacturing of the DSM specialty unsaturated polyester resins portfolio for the Turkish markets.

Operational excellence

Operational excellence is an important focus area in the pursuit of sustainable value creation. DSM has a strong track record in establishing efficiency enhancements that represent major changes in performance and add to the bottom line. Several initiatives and programs are in place to help the businesses focus on cash and to improve cost efficiencies as well as margins.

Some examples of initiatives and programs are those dedicated to:

- pricing excellence and customer segmentation;
- generating cash by compressing the cash conversion cycle;
- asset utilization and operational efficiency;
- increasing purchasing performance and spend control in indirect spend (technical goods and services, facility goods and services, ICT and logistics).

In addition, functional excellence initiatives will also be deployed to support the growth drivers. The Functional Excellence groups will ensure that DSM operates on or above par with peers, and that the knowledge available in the company is leveraged. These programs are yielding benefits not only individually, but also in synergy. Reliable plant performance for instance will reduce the required level of safety stock.

In response to the economic downturn in 2009, DSM implemented tough measures to manage cash and working capital and to reduce costs. This involved the reduction of the global workforce by approximately 1,200 positions and cost savings of more than € 200 million per year.

In 2010 DSM's operating working capital (continuing operations) increased in absolute terms to € 1,487 million, but decreased as a percentage of net sales to 17.9%, from 18.6% in 2009. DSM aspires to keep operating working capital as a percentage of net sales below 19%. Cash provided by operating activities amounted to € 1,103 million in 2010.

Sustainability strategy

Sustainability strategy

DSM's mission is about 'creating brighter lives for people today and generations to come'. This mission is supported by DSM's core value, which is that its activities should contribute to a more sustainable world.

By 'sustainable' DSM means 'meeting the needs of the present generation without compromising the ability of future generations to meet their own needs'. This is the widely accepted definition that the Brundtland Commission published in 1987. Like that Commission, DSM believes that achieving sustainability means simultaneously pursuing social responsibility, environmental quality and economic performance, in other words creating value on the three dimensions of People, Planet and Profit.

Sustainability has the attention of the entire Managing Board, with Feike Sijbesma, Chairman of the Managing Board, as the primary focal point. Sustainability at DSM is organized in a network supported by the Corporate Sustainable Development department under the responsibility of the Company Secretary, who reports directly to the Chairman of the Managing Board.

Furthermore, members of the Managing Board chair different sustainability-related projects and areas, such as DSM's partnership with the World Food Programme (Stephan Tanda), Diversity (Feike Sijbesma), Base of the Pyramid (Feike Sijbesma) and SHE (Safety, Health and Environment) (Nico Gerardu).

In addition to the Corporate Sustainable Development department, DSM has a dedicated Corporate Operations & Responsible Care department. It is among other things responsible for all corporate SHE issues. Sustainability champions in all business groups and the DSM Innovation Center and SHE managers at business group level support line management. The DSM SHE Council, which is composed of all business group SHE managers, plays an important role in sharing experiences and developing practices and communications regarding SHE issues.

In this way DSM has integrated and strengthened the functional network approach to sustainability, which focuses on sustainability performance, with a business approach focusing on sustainability as a business driver.

The Corporate Social Responsibility Committee is a sub-committee of the Supervisory Board, demonstrating the strategic importance of sustainability for DSM. See page 121 for more information.

As part of its new strategy, DSM in motion: *driving focused growth*, DSM has formulated the ambition to go to the next level in sustainability: *from responsibility to a business driver*. The strategy regarding sustainability is discussed more in-depth in the chapter DSM in motion: *driving focused growth* on page 8.

DSM is consciously expanding its sustainability approach. From an internal value and a tool for making a responsible contribution to society, sustainability has become a strategic business driver. DSM's strategy is strongly connected to the company's mission to create brighter lives for people today and for generations to come. DSM believes sustainability will be a key differentiator and value driver over the coming decades and that the company is uniquely positioned to capture new value-creating opportunities.

The company has set new and ambitious business aspirations for sustainability. By 2015 ECO+ products will account for over 80% of the innovation pipeline and towards 50% of the total running business sales (compared to an estimated 34% in September 2010). These developments show DSM's commitment to sustainable value creation. To achieve these ambitious goals, DSM is embedding sustainability into all its business activities (see page 218 for a definition of ECO+).

Sustainability aspirations 2011-2015

- Dow Jones Sustainability Index: top ranking (SAM Gold Class, which means a total score of at least 75% and within 5% of the SAM sector leader)
- ECO+ (innovation): 80%+ of pipeline is ECO+
- ECO+ (running business): from ~34% towards 50%
- Energy efficiency: 20% improvement in 2020, compared to 2008
- Greenhouse-gas emissions: -25% (absolute) by 2020, compared to 2008
- Engagement Survey: towards High Performance Norm
- Diversity & People: to be updated in 2011

Progress on implementation of the principles of the UN Global Compact

In 2007 DSM became a signatory to the UN Global Compact. DSM stays committed to aligning its operations and strategy with the UN Global Compact principles in the area of human rights, labor, the environment and anti-corruption. DSM fully supports the Global Compact's principles and is continuing to integrate appropriate actions into its business activities. The following table shows the pages in this document on which DSM reports on relevant values and activities.

DSM - Principles of the UN Global Compact[1]

		Relevant page(s) in this report
Principle 1	Support of human rights	DSM Code of Business Conduct (inside cover) and pages 46-55
Principle 2	Exclusion of human rights violation	DSM Code of Business Conduct (inside cover) and page 51
Principle 3	Observance of the right to freedom of association	DSM Code of Business Conduct (inside cover) and page 51
Principle 4	Abolition of all forms of forced labor	DSM Code of Business Conduct (inside cover) and page 51
Principle 5	Abolition of child labor	DSM Code of Business Conduct (inside cover) and page 51
Principle 6	Elimination of discrimination	DSM Code of Business Conduct (inside cover) and page 51
Principle 7	Precautionary environmental protection	Pages 11, 37-45, 56-63
Principle 8	Specific commitment to environmental protection	Pages 11, 37-45, 56-63
Principle 9	Diffusion of environmentally friendly technologies	Pages 11, 37-45, 56-63
Principle 10	Measures to fight corruption	DSM Code of Business Conduct (inside cover) and page 51

[1] In 2010 DSM renewed its commitment to the Global Compact CEO Water Mandate. See page 45 for more information.

Progress on sustainability in 2010

Many DSM products and services help improve ecological performance by for example reducing CO_2 and other GHG emissions along the value chain. In 2010, 89% of DSM's innovations were ECO+ solutions. This compares to 78% in 2009.

DSM furthermore takes sustainability explicitly into account in the selection and evaluation of suppliers by applying a Supplier Code of Conduct, which is based on the company's Code of Business Conduct. At the end of 2010, more than 90% of DSM's suppliers had signed this code.

In 2010 the Supplier Code of Conduct was updated and aligned with DSM's mission statement and the DSM Code of Business Conduct (based on DSM's core value of sustainability) that DSM launched in 2010. DSM's supplier sustainability program covers both global suppliers, who account for approximately 60% of its spend, and local suppliers. The program comprises two main elements: compliance and reduction of the eco-footprint.

Between 2007 and the end of 2010 DSM received 263 self-assessments from suppliers, covering 28% of external spend. DSM audited 76 suppliers in this period, covering 11% of external spend. Most of the suppliers audited were ranked A (very good; no non-conformities) and B (good; some minor non-conformities). Some 10% got the score C (moderate performance). For these, follow-up programs have been started. No suppliers got the score D (unacceptable).

In 2011 DSM will request a third-party auditor to execute approximately twenty supplier audits to further secure the high quality of its audit procedure and ensure that the outcome of these audits is undisputable.

Using 2010 as a reference, DSM is working with suppliers to reduce their carbon footprint by 20% by 2020. This has already resulted in a number of incremental improvements via more efficient synthetic routes, and there are also a number of radical improvements in the pipeline (suppliers moving from chemical routes to biorenewable synthesis and energy providers coming up with breakthroughs in the area of renewable energy).

In 2010 DSM was once again ranked the global number one in sustainability in the chemical sector of the Dow Jones Sustainability Index. In 2004, 2005, 2006 and 2009 DSM had also been named the global number one in this sector and in 2007 and 2008 it ranked amongst the top leaders in the sector.

DSM maintains an ongoing dialogue with stakeholders, such as (trade) associations and networks, the United Nations, governmental and non-governmental organizations. The company also engages in several global and local community programs, the partnership with the United Nations World Food Programme (WFP) being a notable example. See pages 39, 41, 54 and 79 for more information.

Society's demands are changing, and through these partnerships DSM recognizes how it can contribute and add value to its stakeholders in a sustainable way. This leads to joint advocacy on for instance hidden hunger and further development of knowledge and products, such as NutriRice® and MixMe™. It also catalyzes actions with organizations such as UNICEF and GAIN (Global Alliance for Improved Nutrition). Together with these organizations DSM is working to scale up these nutrition initiatives.

DSM received many awards and other forms of external recognition in 2010, including the World Business and Development Award. An overview can be found in the External Recognition section on page 79 as well as www.dsm.com.

Sustainability in business

DSM's Triple P philosophy is about serving the needs of people and the planet in profitable ways. Below are a few illustrative examples of how DSM puts this philosophy into practice.

Profitable nutrition solutions for the Base of the Pyramid

Through its Nutrition Improvement Program, DSM has been providing solutions and products to improve the nutritional status of people with micronutrient deficiencies for more than five years now. With this business program, DSM is targeting in particular the 'base of the economic pyramid' – the four billion people in the world who earn less than two dollars a day. To maximize the chance of success of its Base of the Pyramid (BoP) activities, DSM works in partnership with international organizations, such as WFP and local and international non-governmental organizations and government bodies, and also with multinational and local companies to develop food fortification products that meet the needs of specific target groups. Two important products are MixMe™ and NutriRice®.

MixMe™ is a ready-to-use vitamin and mineral mix packed in sachets that can be distributed to people in need. The composition of the mix can be adapted to suit local nutritional needs. The mix can be sprinkled over a ready-to-eat meal or dissolved in a drink. MixMe™ is especially suitable for young children. It was originally developed in partnership with WFP as part of the emergency relief program in response to the cyclone Sidr in Bangladesh in 2007. The product has since reached over 2 million people in many regions of the globe.

One of the most recent developments is a MixMe™ formulation that suits the dietary needs of regions where cereals that are naturally low in absorbable iron are the major staple. In such regions, iron deficiencies are very common. The new formulation contains an enzyme, phytase, which greatly increases the availability of minerals such as iron to the body by releasing the natural iron in the food. It thus eliminates the need for high-dose iron supplements. This is especially important in regions where malaria is endemic. In such regions, the World Health Organization discourages supplementation with high doses of iron, because the malaria parasite thrives on iron. A recently completed study in South Africa among school children showed that the new MixMe™ formulation led to a significantly reduced level of iron deficiency in comparison to the control groups.

Another significant contribution by DSM in the fight against micronutrient deficiencies among BoP populations is NutriRice®. Although rice is the number one staple for millions of people in the world and provides one fifth of the world's food calories, it has a poor nutritional value, especially when it is milled. This cannot be solved by simply adding micronutrients to it, because these are lost when the rice is cooked. The NutriRice® fortification technology jointly developed by DSM's Nutrition Improvement Program and Buehler (a Swiss-based manufacturer of extruders) works as follows. Broken rice kernels (a by-product of regular rice production) are milled, mixed with vitamin/mineral premix and then run through a hot extruder to produce customized NutriRice® 'rice kernels' with encapsulated micronutrients. These kernels look, taste and cook exactly the same as regular rice, which is important for cultural acceptance. The NutriRice® kernels are added to regular rice in a ratio of 1:100. The resulting white rice is a very nutritious meal even after cooking, and the added cost is very small (around 5%).

DSM and the St. John's Research Institute in Bangalore, India, jointly conducted a NutriRice® trial in a poor urban setting in Bangalore in 2009 and 2010. The primary aim was to examine the efficacy of multiple-micronutrient fortified rice in improving anemia, micronutrient status, growth, and physical performance among school children aged 6-12 years. After six months of consumption of rice fortified with NutriRice®, both the physical performance and the general vitamin status of the children had increased to a statistically significant degree in comparison to the controls.

Addressing micronutrient deficiency among children is a very effective way of combating some of the world's most pressing problems. The 2008 Copenhagen Consensus, comprised of a group of eminent economists, estimated that every dollar spent on relieving micronutrient deficiency in children would generate a 17-fold return through reduced health spending and improved economic output.

In the Nutrition Improvement Program, DSM combines humanitarian aid with profitable business.

DSM's key strengths that contribute to the success of this program are:

- its global presence, with committed professionals and experts;
- its networks with key nutritional scientists and opinion leaders;
- its capability to create innovative solutions;
- its vision and strategy to grow and develop; and above all,
- its belief that investing in people's health is a sound and profitable business strategy.

Cradle to Cradle®

The Cradle to Cradle® (C2C) concept is about creating intelligent product designs allowing perpetual, closed-loop recycling and having a positive impact on ecosystems. Developed in the 1990s by William McDonough and Michael Braungart, the C2C concept is modeled on processes found in nature, where all materials are part of a closed-loop system. The idea behind it is that maintaining materials in closed loops maximizes material value without damaging ecosystems. In 2008, at the initiative of former DSM deputy chairman Jan Zuidam, DSM partnered up with Michael Braungart's Environmental Protection Encouragement Agency to jointly develop C2C solutions. In 2010 DSM Engineering Plastics announced that five of its performance materials had been awarded Cradle to Cradle® certification, creating new business opportunities for DSM. See also page 75.

DSM Dyneema conducted a full eco-footprint study of the commercial fishing (wild catch) market. Over one billion people depend on fish as their primary source of protein, and fish is recognized as an excellent source of micronutrients. Fish is also one of the lowest contributors to CO_2 emissions amongst all food protein sources. The use of Dyneema® in nets and ropes can reduce the fuel consumption of a typical trawler by up to 10% versus traditional materials such as steel and nylon. As a result of this study, DSM Dyneema is developing its relationship with the Marine Stewardship Council (MSC) to explore how to increase support to MSC-certified sustainable fisheries.

Securing sustainability in manufacturing

In DSM's manufacturing organization, sustainability is secured through Functional Excellence programs and expert networks for maintaining and improving specific competences. The essence of the Functional Excellence programs is that they help make DSM's pooled manufacturing expertise available wherever and whenever it is needed throughout the global organization. The competence networks have been set up to develop shared solutions to DSM-wide issues. The programs and networks help DSM to achieve its objectives in the People, Planet and Profit fields. They are driven and supported by stakeholder engagement activities.

An example of a Functional Excellence program is Advanced Manufacturing (AM), a multi-business-group program, executed by the Corporate Operations & Responsible Care department together with the business groups. Its goals – mainly relating to Planet and Profit – include the following:

- Optimize DSM's footprint by improving plant operations and process stability and substantially reducing energy and raw materials consumption and waste
- Create a sustainability-driven, global value-generation-based culture through the transfer of an AM toolbox, AM skills and AM behaviors to the local sites

Competence networks

These expert networks relate to process control, process safety, water, raw materials and waste, materials and corrosion, maintenance and reliability, energy, project engineering, large capital projects, working capital reduction and life cycle assessments. These are all strategically important competences that help DSM to secure a competitive advantage or mitigate key risks.

Stakeholder engagement

Corporate Manufacturing's Functional Excellence programs and competence networks are supported by stakeholder engagement activities, which enable DSM to identify key issues in the manufacturing field, benchmark the sustainability performance of its manufacturing operations and contribute to industry-wide solutions. DSM is, for example, a member of CEFIC, the European Chemical Industry Council, and is also represented on the Board of NAP, the vertically organized Dutch Process Industry Competence Network, whose mission is to strengthen the entire chain of process plant owners and their suppliers. In 2010, NAP made a proposal to the Dutch government to improve the nationwide energy innovation process via alliances with partners throughout the value chain and entirely new business models. As far as DSM is concerned, the recommendations made by NAP are worth implementing on a global scale.

Engaging with stakeholders

DSM maintains an ongoing dialogue with key stakeholders in order to:

- share thoughts and views;
- deepen the company's insights into political, societal and customer trends, drivers and needs;
- achieve advocacy goals in a focused manner by engaging in political and societal debates on relevant DSM topics, preferably jointly with key stakeholders;
- resolve issues, receive endorsement and build trust (through public-private partnerships and new business models); and
- be able to create more value for these stakeholders and, by implication, for DSM.

The key stakeholder groups with which DSM engages are shareholders, customers, suppliers, local communities, industry peers, governments, NGOs (non-governmental organizations), special interest groups and, of course, its own employees.

Stakeholder engagement provides an important background to DSM's strategy. The new strategy DSM in motion: *driving focused growth* was influenced by DSM's continuous monitoring of and dialogue with stakeholders. DSM's focus on Life Sciences (Nutrition and Pharma) and Materials Sciences (Performance Materials and Polymer Intermediates) is fueled by major societal trends.

DSM aims to provide solutions for issues posed by:

- global shifts (demographic shifts, urbanization, high growth economies, usage of resources, impact of new technology);
- climate change and energy;
- health and wellness.

The main underlying drivers for these trends are the world's population growth and increasing life expectancy on the one hand, and increasing economic prosperity in the high growth economies on the other. DSM aims to meet the unmet needs resulting from these societal trends with innovative and sustainable solutions.

During 2010 DSM continued to develop its Stakeholder Engagement Roadmap. This identifies the strengths and weaknesses in DSM's current network of stakeholder relationships and provides the company with a structured agenda for intensifying its dialogue with key groups. Within the framework of the above-mentioned three main societal trends, DSM is identifying and strengthening contacts with selected thought leaders, policy makers, business partners, NGOs and other influential parties. DSM has been actively engaged in dialogues that address the stakeholder needs and issues listed in the table below.

- Hidden hunger	Together with the World Food Programme and other partners, DSM is making an advocacy effort on a global level to generate greater awareness of the importance of improved nutrition among other things via enrichments with micronutrients and by addressing food security.
- Food safety and quality	As a leading nutritional ingredients supplier, DSM feels that it is its duty to address society's growing concern about health issues related to food quality by developing programs offering exemplary standards of product quality, traceability and reliability.
- Climate change	DSM believes industry can and must play a positive role in securing economic growth while simultaneously reducing the total carbon footprint of the value chains in which it operates.
- Industrial (white) biotechnology	DSM continues to invest in industrial (white) biotechnology, which can create a bio-based economy as an alternative to the fossil-fuel based economy.
- Sustainable biomass	DSM's growing involvement in industrial (white) biotechnology is attended by the need to secure a sustainable raw-material base that does not compete with the food supply chain, and DSM is seeking further engagements in this area. DSM's activities must take into account both biodiversity and possible societal effects.
- Water management	In 2010, DSM CEO Feike Sijbesma reconfirmed his commitment to the United Nations Global Compact's CEO Water Mandate (see page 45).
- Community outreach	DSM encourages its local organizations to actively support their local communities.
- Careers and employment	DSM carries out regular Employee Engagement Surveys to gauge the needs and concerns of its employees worldwide as well as their opinions about all aspects of the company's operations.
- Sustainable value chains	DSM is engaged in an ongoing dialogue with suppliers, customers and industry peers to reach consensus on how to jointly increase the sustainability of the various value chains in which the company operates.

Customer relationship management

DSM assigns high importance to customer relationship management (CRM). This is evidenced by the introduction of a corporate requirement in 2010 defining a minimum frequency of customer satisfaction surveys for the various product/market combinations and a target date for achieving a good score in these surveys. The surveys carried out under the requirement focus on three key elements:

- DSM's performance on key performance indicators for customer satisfaction
- DSM's external orientation and its efforts in the fields of innovation and sustainability
- DSM's operational excellence

Besides carrying out a large number of surveys, DSM tested, adopted and implemented a number of CRM tools.

Associations and partnerships

DSM is involved with the World Business Council for Sustainable Development, the China Business Council for Sustainable Development, the United Nations World Food Programme, the World Economic Forum, BioVision, The United Nations Global Compact and Leaders for Nature, an initiative of IUCN (the International Union for the Conservation of Nature), as well as a number of industry associations such as ICCA (the International Council of Chemical Associations), ACC (the American Chemistry Council), CEFIC (the European Chemical Industry Council), VNCI (the Dutch Association for the Chemical Industry), EuropaBIO and BIO (the American Biotechnology Industry Organization).

DSM took a step in the fight against hidden hunger by participating in the Amsterdam Initiative on Malnutrition (AIM), a Dutch public-private partnership launched in May 2009 with the aim of eliminating malnutrition for 100 million people in Africa by 2015. The Initiative is led by the Ministry of Foreign Affairs of the Netherlands and focuses on improving the nutritional situation of 100 million people in six selected African countries. In 2010 DSM participated in the first AIM activities that targeted school milk fortification in Kenya. For 2011 activities are also planned in Tanzania, Ethiopia and Ghana.

Project Laser Beam, initially announced in 2009 at the Clinton Global Initiative, is a cross-sectoral program designed to create a sustainable model for fighting malnutrition in conjunction with international partners such as WFP, GAIN, Unilever and Kraft Foods. To date, an initial situational assessment in Indonesia has been completed while the Bangladesh project has entered its second phase with the development of a proposal for Ready to Use Supplementary Foods. The year 2011 will see the rollout of the first tranche of projects in these two focus countries including nutrition education, supplementary food distribution and community building activities.

Position papers

As part of its transparent reporting, DSM has posted position papers on CO_2 emissions trading, modern biotechnology, industrial (white) biotechnology and nanotechnologies, as well as key messages on the European Emissions Trading System and the European Industrial Sugar Regulation, on its website.

In addition, DSM has published a large number of documents on its website that provide background information on relevant topics such as bio-based performance materials, the bio-based economy and the Cradle to Cradle® concept.

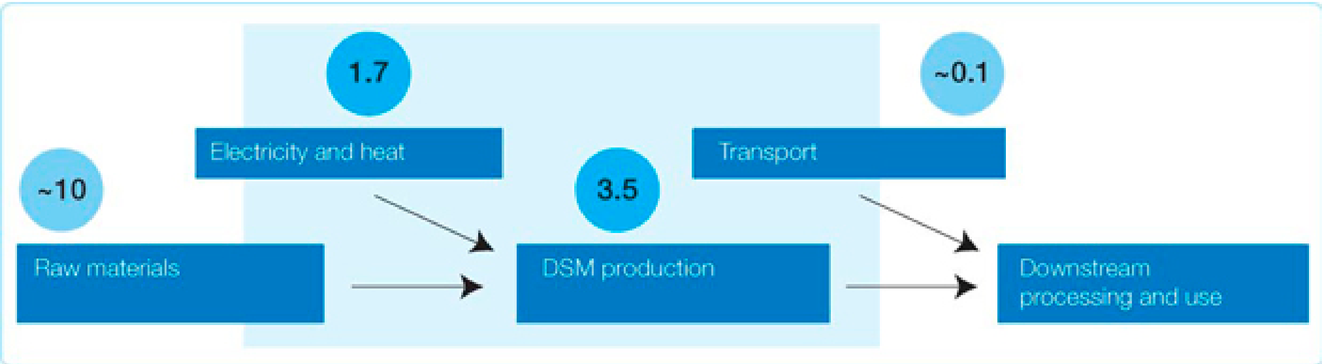
Improving the CO_2 footprint of DSM's raw materials

In order to gain a better insight into the environmental impact of its products DSM pays attention to the whole value chain. The company used to focus primarily on the impacts of its own production activities, including the emissions from power plants that supply electricity and steam to DSM. These are called 'scope 1' and 'scope 2' emissions, respectively. A more complete picture of the environmental impact of DSM's activities emerges when the emissions related to the production of its raw materials are taken into account. These are called 'scope 3' emissions.

In 2010 DSM analyzed the greenhouse-gas emissions due to all raw materials it uses, which in total comprises a spend of approximately € 4 billion per year. Based on information from expert databases, the production of DSM's raw materials generates emissions amounting to 10-11 million tons of CO_2 equivalent per annum, which is quite significant compared to the company's greenhouse-gas emissions of 5.2 million tons of CO_2 equivalents (see page 62).

Improving the company's production processes and reducing material losses are therefore crucial to DSM's sustainability performance. The company is working with its major suppliers to improve the overall footprint in the value chains in which it operates.

GHG emissions in DSM's value chain (all figures in million tons of CO_2 equivalents)



Making value chains more sustainable
As a company whose core value is sustainability, DSM is committed to continuously improving the sustainability of not only its own operations but the entire value chains in which it operates. To meet this commitment, DSM focuses on providing solutions that enable its customers and their customers (and ultimately the consumer) to improve their eco-footprint. For the same reason, DSM invites suppliers to support DSM's efforts by providing alternative and improved products.

ECO+
In all industries in which DSM is active, sustainability is increasingly being regarded as a source of added value. To capture this value, DSM focuses on providing what it calls ECO+ solutions. Approximately 89% of the innovations DSM launched in 2010 were ECO+. Two examples of ECO+ products are Arnitel® XG, an unfilled halogen free flame retardant thermoplastic copolyester polymer, and EcoPaXX™ UF, an unfilled 70% bio-based polyamide 4.10 polymer (see page 218 for a definition of ECO+).

To validate the ECO+ scores of its products, DSM has developed a measurement approach in which Life Cycle Assessments will increasingly play an important role.

Life Cycle Assessments and eco-transparency
A Life Cycle Assessment (LCA) analyzes and quantifies the environmental impacts that a product has throughout its entire life cycle and throughout the value chain. This not only creates awareness about the product's total eco-effect but also reveals opportunities for improvement, especially in product-chain efficiency and product performance.

DSM strives to carry out LCAs for all of its products. At year-end 2010 it had determined the 'cradle to gate' footprint (that is, from the extraction of raw materials until the moment the product leaves the DSM factory gate) for some 82% of its products. Together these are responsible for over 80% of DSM's greenhouse-gas emissions. In addition, for all new products DSM carries out full LCAs, including the use and waste stages, in other words 'from cradle to grave'.

DSM provides the outcome of its LCAs to its customers, who can use it as input for LCAs on their own products. In this way DSM contributes to the eco-transparency of the overall value chain. DSM also contributes by publishing all emissions and the consumption of energy and water per site on its website.

Methodology
To ensure that its footprint information and its ECO+ claims are meaningful, DSM carries out LCAs according to standards and principles that are accepted industry-wide. In particular, DSM uses the LCA methodology recommended in ISO 14040/14044. In addition, DSM uses its highly developed external network to enhance industry consensus on LCA practices.

For the top 50 of DSM's raw materials LCAs have been executed to determine their CO_2 footprint.

To mitigate the potential negative effects of Indirect Land Use Change (ILUC) as much as possible, DSM aims to find sustainable suppliers to provide bio-based raw materials.

The LCA network has been set up because the input provided by LCAs is important for DSM's choice of products and manufacturing processes. They help DSM choose the most sustainable lowest footprint options. To reach the lowest footprint solution, DSM will use its broad toolbox and skills set, applying chemical and biotechnology routes or any combination of these.

Value chain analyses: opportunities for innovation
DSM also carries out environmental analyses for the most important value chains in which its products are used. Such studies can reveal important opportunities for adding eco-value through innovation. For the automotive value chain, for example, DSM has reviewed the eco-footprint associated with one kilometer traveled by car. Such an analysis reveals which factors are the biggest contributors to a car's footprint and can therefore be potential targets for DSM's ECO+ innovation efforts.

Biodiversity and water footprint
There are at present no standard metrics available to accurately determine biodiversity and water footprints as part of a Life Cycle Assessment. This explains why DSM's activities with regard to biodiversity and water in 2010 focused on further awareness building and policy development.

With regard to biodiversity DSM aspires to help prevent further degradation of natural habitats and to contribute to the preservation of biodiversity wherever its activities impact it. The company sees attention for biodiversity as an important part of sustainable development and corporate social responsibility. DSM is of the opinion that companies have an important role to play in the conservation of nature. DSM realizes that this is a learning process, which starts with building awareness.

Follow-up actions include an assessment of the biodiversity impact of the company's operations as soon as this is methodologically feasible.

DSM aims to achieve Sustainable Water Management for its operations. This involves managing the company's water resources while taking into account the needs of present and future users and the various variables affecting water use, including political, economic, social, technological and environmental considerations. DSM's activities should not have an adverse effect on the availability and quality of groundwater or surface water in the regions where the company operates. DSM strives together with its suppliers to find new ways to reduce the number of hazardous chemicals in its operations as well as to reduce the usage of water.

DSM has made a thorough assessment of its water consumption and related risks. On the basis of this assessment 10 sites in (extreme) water scarcity areas were selected for further evaluation. At its manufacturing site in Zhangjiakou (China), DSM piloted a broader water footprint assessment in 2010, using tools provided by the World Business Council on Sustainable Development. This assessment takes into account where the site's water comes from and what other stakeholders are involved. DSM is using the results of the pilot to develop an approach that other sites can use to carry out similar detailed assessments. DSM formulated a preliminary water-use-reduction aspiration of 15% for 2015 compared to 2010. This is a complex issue because water-use targets depend to a large extent on site-specific circumstances. The outcome of executed water risk assessments will be used to define a final water-use-reduction aspiration.

Feike Sijbesma reconfirms commitment to CEO Water Mandate in 2010

"At DSM, we are keenly aware of our responsibility for people and the planet. We feel responsible for the environment we operate in. Our purpose is to create brighter lives for people today and generations to come.

"Many areas in the world are expected to face more water stress in the near and distant future. It is imperative to improve current water management practices. Both individual and collective action in this respect is a necessity to achieve the Millennium Development Goals. I herewith confirm our continued support to the excellent initiative of the UN Global Compact's CEO Water Mandate with respect to the use and conservation of water. These principles are supported by our own water-related goals."

Feike Sijbesma

CEO/Chairman of the Managing Board

Royal DSM N.V.

People in 2010

DSM developed its human resources strategy, *Passion for People*, in 2007 to help deliver the *Vision 2010* strategy. The main elements of this HR strategy are People Development and Management Development. This is to be achieved by, among other things, the Career Management Process (introduced in 2009), which includes Performance Development Reviews (DSM's performance appraisal system). In 2010, Career Management On-line went live, providing an on-line infrastructure for DSM's Career Management Process. Further roll-out of this infrastructure will take place in 2011. Also, attention was given to the development of people via training and the new DSM Learning Architecture. A stronger succession planning approach was introduced.

DSM Employee Engagement Survey

A key aim of DSM's HR strategy is to help employees to deal successfully with the challenges of a changing company in a fast-moving global marketplace. The concept of employee engagement is very important in this respect.

An engaged workforce was critical to DSM in realizing its *Vision 2010* strategy and will be critical in realizing the ambitions of DSM in motion: *driving focused growth*. Engagement is about creating an inclusive and high-energy working environment, where employees are aligned and energized to contribute to the company's business success. An engaged workforce delivers a competitive advantage because engaged employees are highly motivated. It is the backbone of a truly sustainable organization capable of delivering its strategy.

In 2010 DSM executed its third worldwide Employee Engagement Survey. Over 19,000 employees in more than 50 countries completed the questionnaire that was distributed on-line and on paper in 17 languages to all DSM employees. This high number of participants gave an excellent response rate of 90%, which is one of the highest response rates compared to other companies.

The main element in the survey was the measurement of DSM's Engagement Index, a combination of four attributes: commitment, pride, advocacy and satisfaction. The results showed a 3 percentage point improvement in the level of engagement of employees (the percentage scoring favorable) compared to the second survey in 2009, which was already a significant improvement on the results of the 2007 survey.

Taking all responses together, 71% scored favorably on the DSM Engagement Index (compared to 68% last year) and 19% scored a neutral response (compared to 21% last year). This means that 90% of DSM's employees are to a greater or lesser degree satisfied with working at DSM and that the majority of DSM employees are committed and proud and would recommend DSM as a great place to work.

The engagement score takes DSM within an 8 percentage point range of the external engagement benchmark of high-performing companies (scoring 79% favorable), which is the league DSM wants to be part of.

The survey showed that DSM had improved in almost all areas compared to 2009. The dimensions that received the highest scores were 'attention for safety' (82% favorable), 'teamwork' (78% favorable), 'my manager' (75% favorable), 'my job' (74% favorable), 'sustainability' (73% favorable) and 'future/vision' (73%). This reflects DSM's strong focus on these areas of importance and also demonstrates that DSM employees are positive about their day-to-day work activities and believe in a sustainable future of DSM. The lowest scoring dimensions indicated in the survey were related to (communications about) the Change Agenda (49%), Compensation (56%) and Innovation (56%).

The survey results for the individual DSM units have been translated into measurable action plans. DSM will continue to use the Employee Engagement Survey as its 'navigation device for change'. The survey results show how the company is progressing on its continuous change agenda and highlight the areas where DSM needs to step up its efforts to achieve its strategy.

DSM Change Agenda

The launch of DSM's new strategy for the years to come, the 'One DSM' philosophy and further clarified organizational and governance models provide the company with an even stronger platform to support internationalization and drive value-creating behaviors. In order to be better able to fulfill its strategic goals, DSM is committed to continuing to adapt its culture via the DSM Change Agenda. The three main themes of the Change Agenda are:

External Orientation and Innovation

DSM has anchored its strategy in key long-term trends that drive fundamental societal needs (global shifts, climate & energy and health & wellness). At the same time, the 'clock speed of business' is ever increasing. DSM is convinced that, in order to be able to rapidly adapt to changing industry and customer requirements, the vast majority of its people need to be fully in tune with the external world, not only anticipating customer needs to drive innovation priorities, but also tracking best practices for key business functions, broadening networks, engaging stakeholder groups, shaping the debate and collaborating more fully with external stakeholders. External orientation is thus not reserved for sales and marketing but is critical for all disciplines.

Accountability for Performance
DSM believes that its work is critical to its customers; its employees take ownership and deliver upon ambitious targets established to meet its customers' needs. Its people want to take responsibility for their actions and for the performance of their teams. Successes are recognized and celebrated. Issues are surfaced and mistakes are viewed as individual and collective learning opportunities.

Inspirational Leadership
DSM recognizes the importance of stronger inspirational leadership to lead the further cultural transformation of the company. This means the combination of setting direction through vision and targets, executed with passion, sense of urgency and decisiveness, with connecting with people, via trust, authenticity and humility.

These three themes are further supported by the two 'DSM mindsets': a belief in sustainability as a key business and value driver and a belief that increased diversity will contribute to DSM becoming a high performance company.

DSM Employee Engagement Survey 2010
The Change Agenda is supported by the outcome of the 2010 DSM Employee Engagement Survey. The DSM Employee Engagement Survey results show that currently more than half of all DSM employees (54%) are (fully) aware of (and contribute to) the DSM Change Agenda, 76% of whom feel they have gained personal insights into what they can do differently in terms of the three Change Agenda themes.

DSM Management
In 2010, the focus was on securing the commitment of DSM's management population (top 3,000), to ensure that the DSM Change Agenda is owned and driven by management towards all DSM's employees.

- Workshops covering all aspects of DSM's change journey were launched across the globe, supporting DSM management in creating a Change Roadmap, to connect and mobilize employees under their leadership.
- DSM's Executive and Management Leadership programs have been aligned with the three themes and two mindsets of the DSM Change Agenda, creating forums for DSM's executives and managers to engage in an open dialogue on change with DSM top management, external experts and influential CEOs. In these workshops with the top 400 of the organization, a lot of time is spent on the 'WHY, WHAT and WHO' of the change agenda. Now DSM has entered the next phase: 'from intent to living', covering the 'HOW'.
- A HR Change Management Program, focusing on building change management capabilities, was also rolled out, enabling the DSM HR community to play a pivotal role in supporting line management.

DSM Employees
The biggest challenge is to bring the Change Agenda to life for all of DSM's employees. To support management in this effort, DSM has developed the Circle of Thoughts (CoT). This is a *sharing* and *building* platform characterized by five virtual global hubs, representing the three themes and two mindsets. A wave of activities will be launched to all employees, with the aim of stimulating and engaging the whole organization to share ideas and best practices on the DSM Change Agenda. DSM is also capturing external best practices by tapping into sources that can help shape its thoughts and support DSM in its ongoing cultural transformation. The CoT will be a key driver in DSM's 'collaboration journey' and is aimed at becoming a truly global DSM shared initiative. The CoT was launched to all DSM Executives in 2010 and cascaded to all employees from January 2011 onwards.

As of 2011, DSM will also introduce a new emphasis on:

- collaboration: improving the way that DSM people connect with colleagues, customers, partners, governments, regulators and other key opinion leaders;
- speed: facilitating knowledge-sharing and information flow, leading to faster, more effective decision-making;
- new ways of working: embracing flexible working practices and policies.

Organizational learning
DSM strongly believes in the need to invest in the knowledge, skills and experience of its employees on an ongoing basis to ensure their long-term employability. The company aims to create an atmosphere of candor and stimulates openness and accountability by involving its employees in the development and execution of its business objectives.

DSM provides its employees with various kinds of learning opportunities, including classroom and virtual programs, on-the-job training, coaching and mentoring, as the company believes that personal development and learning are key to building an organization that will enable sustainable business growth and success.

DSM Business Academy

The DSM Learning Architecture consists of four program clusters: Executive Programs, Management Programs, Functional Programs and (since 2010) e-Learning Programs. This architecture creates a common and coherent concept of learning and program design, facilitates the development of a DSM learning culture and provides enhanced learning for Top and High Potentials.

The programs are designed and delivered in close cooperation with leading international business schools and global training providers (IMD, Wharton, Erasmus University) and are supported by a diverse internal faculty, primarily consisting of DSM's Top Management.

Innovative learning methods such as round-table discussions, business simulations, virtual classrooms, web-casting and team assignments are integrated into the programs. This enables interactive knowledge sharing and stimulates peer-to-peer networking in the organization.

The year 2010 marked a significant move forward in the implementation of e-Learning. A DSM e-Learning Hub, containing a wide range of cutting-edge interactive programs, was launched – with great success – and made available to all DSM employees.

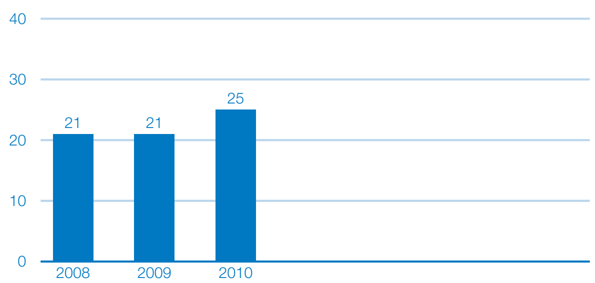
In 2010 a total of nine brand-new programs were designed and introduced, creating a robust and sustainable learning platform supporting the development of DSM's managers and executives for the years to come and bringing the total number of available learning programs to 71.

Program portfolio	**Available programs 2010**	**Available programs 2009**
Executive programs	8	7
Management programs	25	22
Functional programs	30	28
e-Learning programs	8	5
Total	71	62

In 2010 DSM gave a specific focus to the development of high performers. The Top Potentials who attended executive or management programs were assigned an internal coach who supports them and boosts their professional development. High Potentials who had attended DBA courses were assigned a mentor who helps them to navigate in a company environment and provides functional expertise. DSM also continued to introduce External Coaches as part of its customized learning solution offered to its Top Executives.

In 2010, 1872 DSM colleagues worldwide (from 27 different countries; 1318 male and 554 female) participated in the learning programs of the DSM Business Academy (DBA). This is a major surge compared to 2009 (up 108%). In total more than 100 programs were delivered in eight different countries. In addition to the DBA offerings, a vast amount of training-on-the-job and classroom training is offered to DSM employees at all levels in the organization. The number of training hours per employee increased from 21 in 2009 to 25 in 2010.

Training per FTE
(in hours)



Workforce composition

Diversity

DSM believes diversity will be a key driver of DSM becoming a truly international high performance company. Diversity is not an isolated agenda at DSM, but is firmly anchored in the transformation of the DSM culture and will continue to be one of fundamental value to the company.

At DSM, diversity is centered on gender balance and nationality, underpinned by a clear link to the company's new strategy. This is based on research showing that gender and nationality are the two strongest differentiators in creating a more balanced mix of behaviors and mindsets. DSM will continue to focus on building a sustainable culture that welcomes and embraces difference.

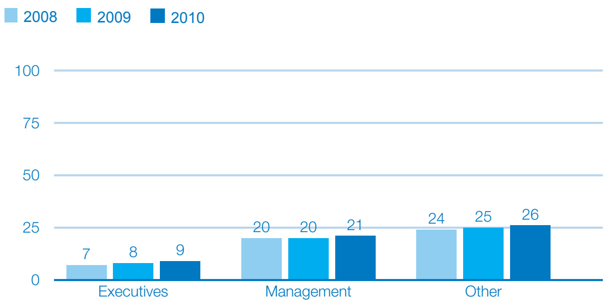
The diversity targets that the Managing Board had set for 2010 focused on executives and top potentials. The number of women in executive positions increased from 8% in 2009 to 9% in 2010. Besides using an internal pool of women candidates to promote into executive positions in the next five years, DSM is making an effort to recruit female executives from the external market. The growth of the non-European executive population, relative to the growth of DSM in high growth economies, will also continue to demand full attention from the businesses and regional organizations.

New targets will be set for the period 2011-2015, to ensure that DSM's organizational readiness is in line with its stretched growth ambitions for 2015. Therefore, DSM will address the geographical distribution of management and other key functions, with a keen eye on gender and nationality balance.

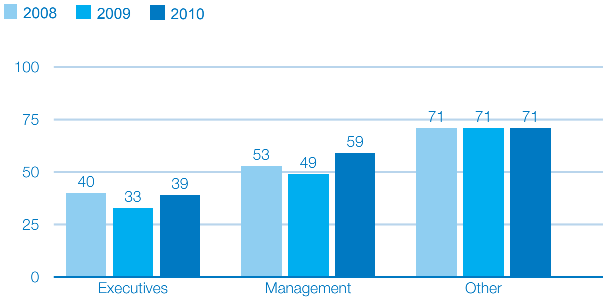
The role of the DSM Diversity Council, chaired by DSM CEO Feike Sijbesma, is to facilitate diversity in DSM and to ultimately support all DSM businesses in creating a sustainable inclusive environment, where diversity is fully embraced. In order to align this Council more strongly with DSM's internationalization efforts and to make further progress with the company-wide Change Agenda, the composition of the Diversity Council was changed in 2010 to include regional presidents and business group directors.

Given the innovation and growth ambitions of DSM's new strategy, coupled with DSM's international (people) footprint shift and Change Agenda, it is critical that the company fosters an environment that stimulates inclusion of different behaviors and styles. All DSM executives and management levels have a critical leadership role to play here. To support them in this effort, a One DSM – Diversity and Inclusiveness Program for all DSM executives and managers has been launched.

Workforce diversity
(% women)



Workforce diversity
(% non-Dutch)

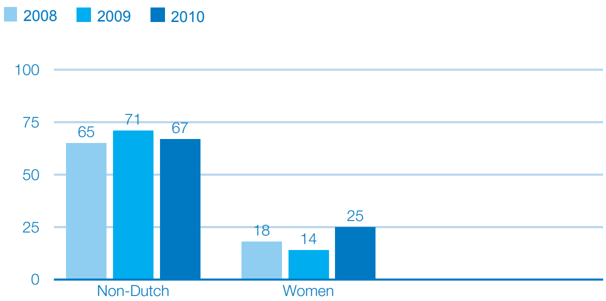


New employees

Executive hires

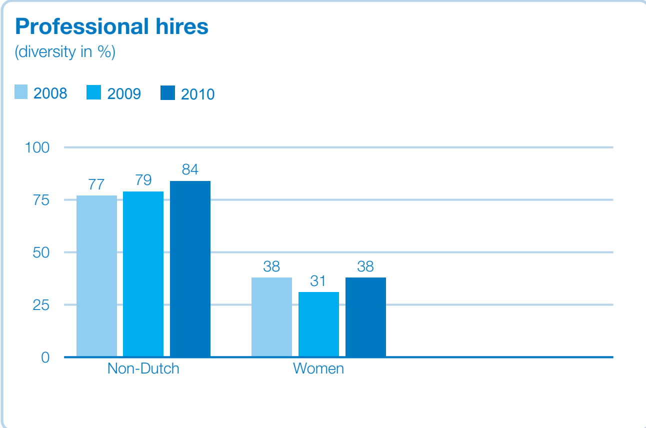
At the beginning of 2008, DSM decided that the intake of non-Dutch executives (55% in 2007) should be increased to an average of at least 60% inflow by the end of 2010. This was achieved during 2010, the score at 31 December 2010 being 67%. DSM's aim was also for an average of 25% of executives joining from outside the company in the period from 2008 to 2010 to be women. In 2010 this figure was 25%.

Executive hires
(diversity in %)



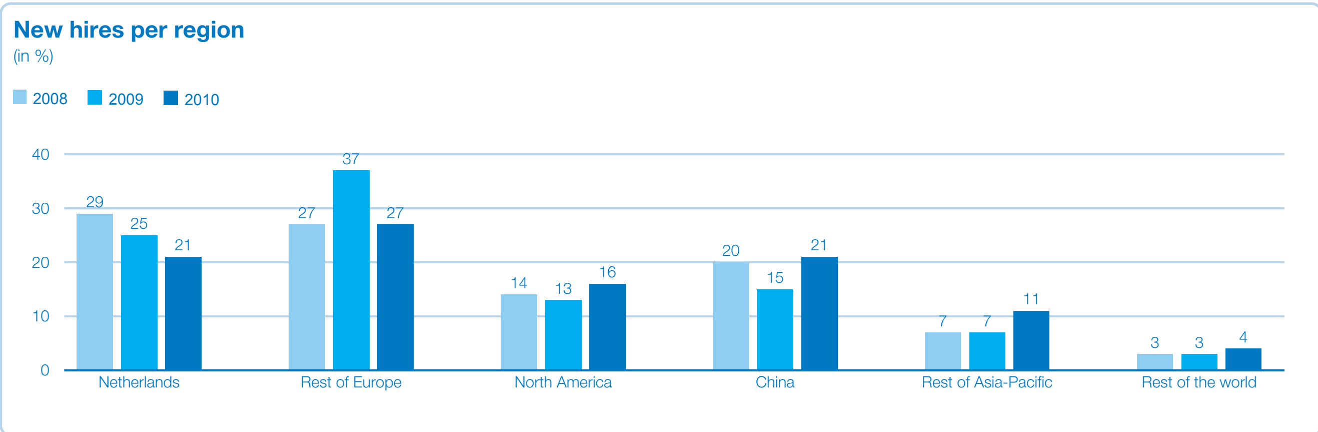
Professional hires

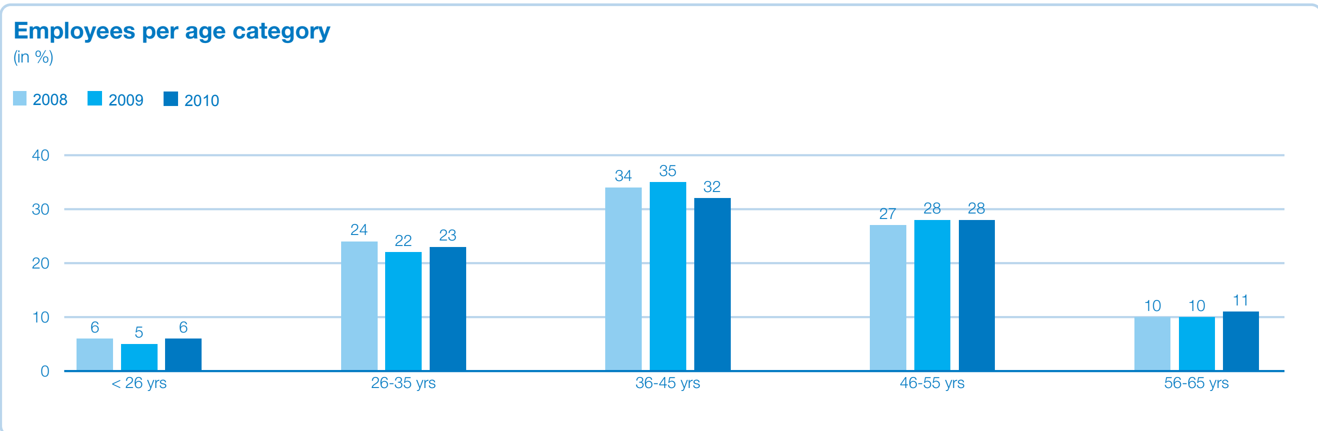
In 2010, DSM recruited a total of 636 professionals (graduates and experienced hires), of whom 84% were non-Dutch and 38% were women. This means DSM has clearly exceeded its internal targets. The company wants to keep its focus on the diversity of these hires (nationality/gender) and build a strong diverse talent pipeline to achieve sufficient 'diverse critical mass' in the organization. DSM wants to improve its labor market positioning as an employer of choice, to ensure that DSM is an attractive career option for talented individuals across all groups of potential employees.



Total workforce hires

The total inflow of new employees into DSM in 2010 was 1,978.



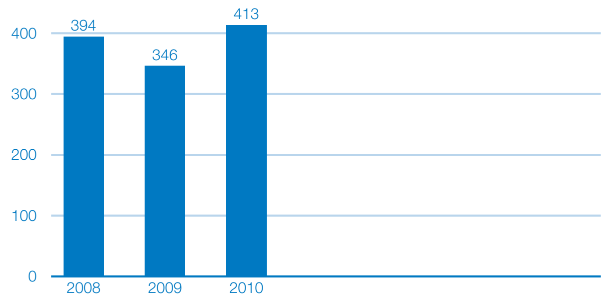


Outflow of employees

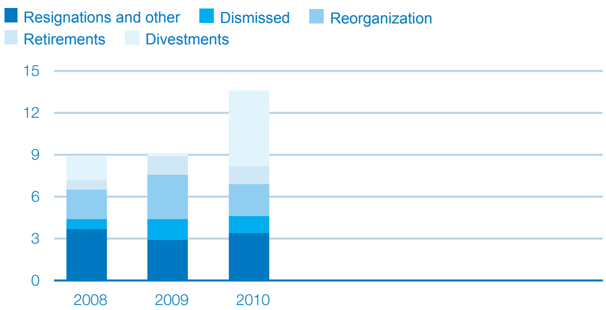
In 2010, DSM had a total outflow of 2,979 employees. A total of 283 employees retired, 665 resigned of their own will and, sadly, 18 employees died. In 2010, 259 employees were requested to leave the company (for non-performance or non-compliance reasons). A further 501 were made redundant due to reorganizations that took place across DSM in 2010. A substantial part was related to the closure of the site in Egypt (107 employees).

A large part of the outflow of employees was related to the divestments in 2010, amounting to 1,191 employees in total. Of this total, 10 employees were executives.

Net sales per employee
(x € 1000)



Outflow of employees
(in % of total workforce)



International labor standards

Respect for People is part of the business principles outlined in the DSM Code of Business Conduct that DSM launched in 2010. DSM supports and respects human values as outlined in the United Nations Universal Declaration of Human Rights. DSM's employees represent about 50 different nationalities and the company supports the equal treatment of all employees irrespective of race, nationality, ethnic background, age, religion, gender, sexual orientation or disability. Respect for human rights is also integral to DSM's sourcing policy and Supplier Code of Conduct. DSM utterly rejects and condemns any form of forced labor or child labor, whether at its own premises or within its supply chain. This is clearly stated in the DSM Code of Business Conduct. DSM exercises due diligence when making investment decisions with the aim of excluding any relationships or practices which may be in contravention of human rights.

DSM is a Dutch signatory to the United Nations Global Compact. For a report on how these principles are implemented within DSM, see page 38. DSM also meets all the recommendations made in the OECD Guidelines for Multinational Enterprises. Furthermore, DSM supports the work-related rights defined by the ILO (International Labor Organization) and therefore recognizes the International Labor Standards. In countries or companies where employees have third-party representation via a works council or collective bargaining, DSM respects these relationships and works with these third parties in a mutually respectful manner. In the event of an organizational restructuring that results in the reduction of a significant number of positions, DSM develops and implements either a Social Program (aimed at assisting employees to continue in employment, whether inside or outside the company) or else a Severance Program. DSM promotes employee empowerment and human rights protection and thus seeks dialogue with its employees and their representatives (Works Councils, Labor Unions).

DSM Code of Business Conduct

In 2010 DSM made a start on the implementation of the DSM Code of Business Conduct. This Code builds upon the DSM Values that DSM published in 2002 and has an umbrella function for other, more specific codes and policies within DSM. The Managing Board holds management accountable for compliance with the Code. DSM supported the Code's implementation with various tools. For example, it published a booklet containing DSM's mission, core value, key behaviors and the Code of Business Conduct, and distributed it to all DSM employees worldwide, in 17 language versions. Presentations were given by line management, cascading down into the organization. An intranet website dedicated to the Code went live on 1 October 2010. In addition, DSM developed an e-Learning course (mandatory for all DSM employees) which at the end of 2010 was available in eight languages, covering around 80% of DSM's employees. The remaining nine language versions followed in early 2011. The DSM Code of Business Conduct has also been published on the Internet site of DSM. In the course of 2011 e-Learning tools with regard to global trade controls and global competition principles and practices will be rolled out within DSM. In addition, compliance with competition laws is being enhanced through regular classroom competition law training sessions.

The implementation of the new Code of Business Conduct in 2010 provided DSM with a vehicle to once again raise awareness of its policies. A whistleblower procedure (DSM Alert) and a consequence management policy are in place to support compliance with the Code. The DSM Compliance Officer responsible for dealing with violations of the DSM Code of Business Conduct reports to the CEO and is invited to report independently once a year to the Supervisory Board. Proven violations of the Code can result in immediate discharge. In line with this policy, 41 employees were requested to leave the company during 2010 for breach of the Code of Business Conduct or other legal or local company regulations. Compliance with the DSM Code of Business Conduct and with legal and local regulations is regularly audited. DSM is unaware of any cases of breach of human rights or the use of forced or child labor within its operations in 2010.

Safety and health

DSM had set itself the target of reducing the Frequency Index of recordable injuries (number of fatalities, Lost Workday Cases or Restricted Workday Cases and Medical Treatment Cases per 100 DSM employees and contractors in one year) by 50% between 2005 and 2010. In 2010 the Frequency Index of recordable injuries was 0.57, compared to 0.95 in 2005. In 2010, the Frequency Index of Lost Workday Cases involving DSM employees was 0.15, compared to 0.33 in 2005. Although DSM did not achieve the targeted reduction in the Frequency Index of recordable injuries, it did achieve a considerable improvement. As a result of its efforts, considerably fewer people are getting hurt during their work (between 2005 and 2010, the number of injuries per year decreased by over 80). DSM will continue its efforts to prevent injuries and has set even more ambitious new targets for the next period (a reduction of more than 50%, from the 0.57 in 2010 to ≤ 0.25 in 2020).

On Saturday, 11 September 2010, a fatal accident occurred at the DSM site in Capua (Italy), in which three contractor employees lost their lives. The accident occurred during maintenance work in the fermentation facilities. DSM deeply regrets this tragic accident and has expressed its sympathy to the victims' families, friends and colleagues. DSM has appointed a committee to conduct an internal investigation into the causes of the accident. The Italian authorities have also initiated an investigation.

In the night of 21 September an employee of DSM Elastomers' Sarlink® business unit was killed in a traffic accident on a business trip. Despite the fact that the direct circumstances of the traffic accident were outside DSM's control, an internal investigation has been started to identify potential learning effects for improving travel safety.

DSM wants to be fatality free and has launched specific initiatives (on top of the well-established general safety programs) to reach this ambition. One of these is the development of so-called life-saving rules, which will be fully implemented in the course of 2011. Together, the initiatives will create the focus, awareness and organizational capabilities that will help DSM achieve its ambition.

Safety in logistics

In 2010 DSM introduced standard practices on a global scale to improve safety in the logistics chain. This chain covers the transport of raw materials to DSM sites, all DSM-internal logistics operations (unloading at DSM sites, internal transport and storage and loading of finished goods) and the transport of finished goods to customers. Historically, logistics has accounted for 35% of all accidents and incidents at DSM, so the new practices fill a clear need. Among other things, they relate to safe working with tank cars and fork lift trucks as well as methods to secure packaged goods for transport and handling.

The practices were developed by DSM Corporate Operations & Responsible Care, with the support of DSM's Supply Chain Council and SHE Council. The individual business groups were responsible for the implementation. By the end of 2010 most business groups had reached the final stage of implementation.

It is too early to assess the impact of the new practices on safety performance, but it is clear that they have led to increased awareness and that the reporting of incidents and near misses in the logistics area has greatly improved. The number of incidents in the logistic area is carefully monitored and separately reported on a quarterly basis.

SHE Award and SHE Improvement Award

To stimulate internal excellence in the field of SHE, DSM annually grants a SHE Award to the DSM site that showed the best SHE performance, and a SHE Improvement Award for the site that has made the greatest progress in improving its SHE performance over a number of years. All business groups are invited to nominate sites or other parts of their organization for these awards. The criteria (approximately 30 in total) that are used to rank the nominees were updated in 2010. Besides SHE aspects, they now include sustainability items (for example how the unit has supported the local community).

The winner of the SHE Award receives a bronze sculpture and a check of € 10,000, to be spent on the local community. This reflects the importance that DSM attaches to the communities around its sites. To emphasize the importance of the awards, a member of the Managing Board hands over the prizes to the winning organizations, making these awards the most coveted within DSM. In 2010, the former DSM Melamine Sittard-Geleen (Netherlands) site won the SHE Award and the Zibo (China) site of DSM Anti-Infectives won the SHE Improvement Award.

Organizational learning in the field of SHE

SHE training

The new SHE leadership training course for managers (SHELEX, SHE Leadership EXperience) that DSM introduced in 2010 was originally planned for around 60 participants but turned out to have around 300. It is an experiential, personalized, behavior-based course in which people experience how their behavior affects others (in a positive or negative way) and learn how they can further leverage their strengths. The set-up and content of the SHELEX course fits in with DSM's cultural change program.

DSM has a wide variety of SHE training courses in place. Most of these are mandatory, but it is DSM's experience that people increasingly participate in them because they want to, not because they have to. The number of SHELEX enrolments for 2011 already exceeds 500, and several DSM sites will offer an adapted version of the course (based on the same experiential learning format) to shop floor personnel.

Learning from major incidents

DSM uses the TRIPOD method to analyze serious incidents and learn lessons from them. TRIPOD offers deep learning opportunities because it reveals what are called 'preconditions' and 'latent failures'. These are hidden flaws (including organizational or management flaws) that play a vital role in causing accidents.

A relatively new analysis method that complements the TRIPOD approach is Human Factors Analysis (HFA). HFA was developed by The Keil Centre (well-known for its Safety Culture Maturity® Model). It is based on the observation that 80% of all accidents are due to human factors. DSM uses this method in addition to the TRIPOD approach when deemed appropriate.

DSM investigates very serious near-misses in a similar way as fatalities. This maximizes the lessons to be learned from them.

To enable the entire DSM organization to learn from incidents occurring anywhere in the company, DSM has an internal reporting system in place which includes communication to the relevant groups of employees.

Employee health management

DSM believes that organizational and safety performance are directly linked to the health and well-being of its employees. Health management is therefore included in the company's learning programs. For example, 'Health at Work' forms an integral part of SHE training programs for DSM employees.

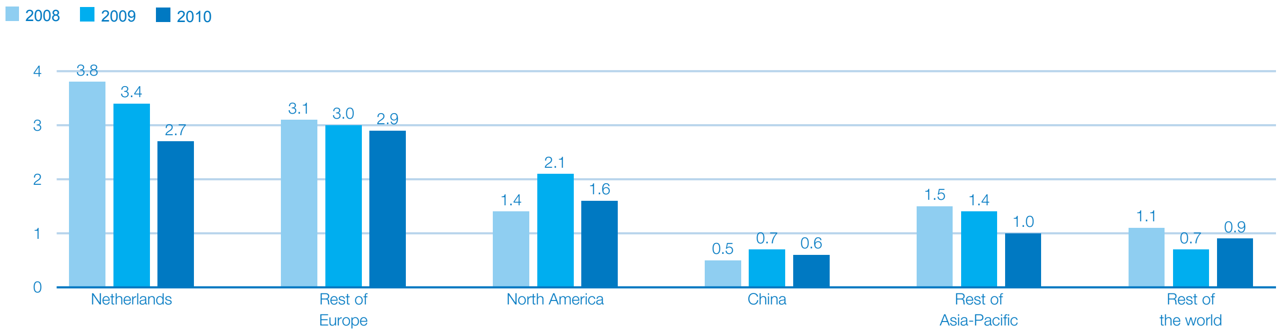
This link between health and organizational performance is reflected in DSM's Global Health Management initiative. This involves a health promotion program (DSM Vitality) for DSM employees including a web-based tool (DSM Vitality Checkpoint) helping employees to assess their health risks and set themselves healthy lifestyle goals. Where DSM Vitality has been introduced, it has been combined with comprehensive health check-ups and individual follow-up on any health issues identified. At year-end 2010, worldwide more than 3,500 DSM employees had participated in DSM Vitality (2009: 2,166). Participation rates at the sites where DSM Vitality has been introduced vary from 65% to 95%. Participants were located in Switzerland, China, Singapore, Brazil, the Netherlands, the United States, India and Spain.

Based on the health risks reported by participants, DSM will be able to define the content and priorities of health promotion campaigns at site level. Overall, the highest risks according to the participants relate to stress (53%), eating habits (44%) and lack of exercise (38%).

Occupational health

In 2010 a total of 6 Occupational Health Cases were reported (20 cases in 2009). Reported cases feature physical troubles (5, compared to 11 in 2009) and allergic reactions (1, compared to 4 in 2009). No psychological troubles were reported (compared to 5 in 2009). DSM's primary aim remains to increase its employees' awareness of occupational health issues and to encourage them to report all Occupational Health Cases they encounter.

Absenteeism
(in %)



Absenteeism

Absenteeism at DSM is determined by calculating the total absence due to illness in hours as a percentage of the total number of possible working hours. The total number of possible working hours is calculated by multiplying the average actual workforce in FTEs for the period in question by the number of hours corresponding to one FTE (52 weeks multiplied by the 'normal' number of hours per week, not taking into account leave of absence and holidays).

Community

True solutions start with listening to and understanding the needs of various stakeholders. This holds in particular for one of DSM's most important stakeholder groups: the world's hungry. Hunger is the number one cause of death in the world, killing more people than AIDS, malaria and tuberculosis combined. But even if people have enough food to survive, this food often lacks certain key nutrients. This type of malnutrition is referred to as hidden hunger.

In March 2007, DSM announced an official partnership with the United Nations' World Food Programme (WFP). WFP is the world's largest humanitarian organization, fighting hunger worldwide. WFP brings food assistance to an average of 90 million people each year, most of them women and children, in nearly 80 countries. DSM provides WFP with expertise, high-nutrient products as well as financial assistance.

In 2010 DSM and WFP announced a three-year extension of their global partnership. In 2010, DSM made several million euros available to WFP and other community initiatives and partnerships.

Donations

DSM's Code of Business Conduct creates an agenda for making a positive contribution not only to the world of business but also to society as a whole. DSM has a clear policy with regard to corporate citizenship:

- DSM encourages local initiatives in support of the communities in which its sites are located.
- DSM supports a few targeted large-scale initiatives, drawing on DSM expertise.
- DSM clearly rules out any payments or donations in kind to political parties or their institutions, agencies or representatives.

DSM donated and/or made available more than € 5 million to a wide range of initiatives in 2010. DSM continued its essential long-term commitments such as those to WFP and the Dutch Olympic Committee (NOC*NSF). DSM also continued its humanitarian initiative SIGHT AND LIFE and made charitable donations to a number of local causes. Many of DSM's contributions draw on the expertise of its micronutrient scientists or materials specialists.

DSM CEO Feike Sijbesma (left) and Josette Sheeran, Executive Director of the United Nations' World Food Programme

Sponsoring

DSM continued its Innovation is our Sport™ program, sponsoring various athletes and supporting them with innovations in the fields of nutrition and materials. For DSM, sports provide a platform to showcase innovations. Since 2001

DSM has been Innovation Partner of the Dutch Olympic Committee (NOC*NSF).

The revolutionary Dutch-built bobsled whose cowling was developed and built by DSM

At the 2010 Winter Olympics the Dutch Olympic short-track team wore new and innovative one layer skin suits, made with Dyneema® fiber, which are lighter and more comfortable due to intrinsic cooling properties than comparable alternatives, whilst offering full body protection. DSM also developed and built the cowling of the first Dutch-built two-man bobsled that competed in the Winter Olympics.

DSM has an extensive art collection that currently comprises about 800 works. The DSM Art Collection includes works that represent creativeness, innovativeness and concern for the global and local environment.

Legally required safety studies

As an innovative company, DSM is continuously developing new products. DSM is required by law to assess the properties and safety profiles of its products. These assessments can necessitate the use of live animals. The company only uses animals in studies for safety assessment if this is required by regulation and only if no accepted and validated non-animal alternative methods are available.

DSM is committed to constantly seeking and pursuing opportunities to further improve its performance and to ‘reduce, replace and refine’ methods in which the use of animals is the only alternative. The examples below illustrate this ‘3R’ approach.

DSM will continue to make reasoned requests to the authorities to waive safety tests with animals in cases where the company believes that requirements are excessive and in cases where the information can be provided by other means. DSM uses state-of-the-art analysis techniques that allow for repeated measurements on fewer animals and the use of non-invasive measurements, such as scanning ‘from the outside’, similar to MRI scans on humans. The company increasingly makes use of *in silico* (computer modeling) and *in vitro* techniques (e.g. cell arrays) to identify candidate substances.

DSM conducts in-house projects to develop and promote alternative testing methods. The company develops ‘early safety’ and ‘early efficacy’ assessments aimed at determining these effects by computer calculations, based on comparison of new compounds to known effects of existing compounds. DSM also cooperates actively in external networks and with academic partners. Examples are the International Council of Chemical Associations’ Long-Range Research Initiative and the joint government-industry initiative European Partnership for Alternatives to Animal Testing (EPAA). In recent years a gradual reduction in the number of animals used in labs was seen. DSM was able to significantly reduce the number of animals used, in some tests by up to 90%.

However, DSM is concerned about the increasing need for assessments because of the implementation of REACH (Registration, Evaluation, Authorization and Restriction of Chemical substances), the European chemicals legislation. Further reduction will require adjustment of legal requirements and the development, validation, dissemination and implementation of new testing methods. DSM does not want the safety and efficacy of its products to be compromised. This means that studies involving animals will continue to be necessary in the foreseeable future. However, DSM believes that its approach is sensible and responsible and the company is committed to further reducing, refining and replacing these studies on an ongoing basis.

Planet in 2010

Environment

DSM has set itself environmental targets on the basis of the principle that all DSM plants, wherever they are in the world, should comply with at least the same environmental standards as set in the European Union or the United States. In 2007, based on findings in pilots, the target for the improvement of energy efficiency was doubled from 1% to 2% per year, targeting an 8% improvement in 2010, compared to 2005. Of the nine environmental targets set, eight were realized in 2010. As in 2009, total energy consumption decreased considerably (from 63 to 49 PetaJoules). The decrease in 2010 was mainly due to divestments, which more than offset the increase in energy consumption due to higher production volumes. Energy efficiency was 8% better than in 2005.

Key environmental indicators

	2010	2009
Energy use in PetaJoules	49	63
Greenhouse-gas emissions in CO_2 equivalents (x million tons)	5.2	6.7
Emission of volatile organic compounds (x 1000 tons)	7.5	8.0
COD (Chemical Oxygen Demand) emissions to surface waters (x 1000 tons)	7.2	5.5
Environmental incidents	336	421
Environmental complaints	27	79

The reported figures are the result of improvements achieved in the year 2010, changes in production volumes, the impact of divestments carried out in the same year, as well as the correction of some errors which emerged from a detailed analysis of DSM's Planet data in March 2010.

In the framework of the new corporate strategy, new long-term SHE targets for 2010-2015 have been defined and translated into plans and activities in a so-called Corporate Multi-year Plan Responsible Care (CMP), which is intended to give guidance to the rolling 3-year plans from the business groups.

From a long list of about 40 topics, 9 issues were identified as being material for DSM on the basis of a combination of potential business impact and societal interest or for reasons of internal stakeholders' interest and common industry practices. For six of the selected topics, quantitative targets were set.

In the CMP 2010-2015 not only SHE topics are addressed, but also security as a strategic subject. In January 2010 the Managing Board gave its approval for a Security Roadmap.

SHE targets[1]

	2015		2020
Safety at work			- Frequency Index of recordable injuries ≤ 0.25 - Reduction of Frequency Index of serious incidents by 65%
Process safety	Reduction of process safety incidents by 50%		Reduction of process safety incidents by 75%
Health at work	DSM Vitality program target: at least 75% uptake per project done, ambition to reach 15,000 entries by 2015		
Eco-efficiency	Reduction of discharges to water:		
	- COD	20%	
	Reduction of emissions to air:		
	- VOC	40%	
	- SO_2	70%	
	- NO_x	30%	
	Reduction of waste:		
	- Landfilling non-hazardous waste	15%	
Climate change			- Energy-efficiency improvement 20% by 2020 compared to 2008 - 25% reduction (absolute) in GHG emissions by 2020 compared to 2008
Water availability and use	Reduction of water use (preliminary)	15%	Final aspiration to be defined in 2012

[1] Compared to 2010, unless otherwise stated

Reaping maximum rewards from energy-saving investments

Investments in energy-saving measures are by themselves very sound investments, but they have to compete with other investments. DSM has introduced what it calls a Beauty Contest to select the most rewarding energy-saving investments. All business groups are invited to send in their best investment ideas for saving energy. A judging panel selects a short list and ranks the proposals according to the rewards they bring, not just financially but also in terms of sustainability (conserving fossil resources and reducing greenhouse-gas emissions). Aspects such as innovativeness, process integration and example setting for other businesses also play a role in the selection process.

The implementation of the top 50 ideas that emerged from the 2010 Beauty Contest should result in savings totaling approximately 2% of DSM's current energy consumption.

In 2010 DSM reached a partnership agreement with the US Department of Energy (DOE) to help reduce DSM's energy consumption at selected DSM facilities in the United States by 25% over the next 10 years, consistent with the company's sustainability strategy. The DOE will provide expert services, third party consultants and resources to help make this goal a reality.

Sharing information on the safe use of chemicals

Within the scope of REACH (Registration, Evaluation, Authorization and Restriction of Chemical substances), the European legislation on chemicals, DSM is running a program to share with its peers all available information on the properties and safe use of chemical substances. The importance of REACH cannot be overestimated: companies that fail to comply with REACH will at some point no longer be able to do business in the European Union.

Before 2018 all substances that DSM produces and imports in the European Union have to be registered under REACH. Registration includes providing information on the safety of the substances' intended use. The total number of substances involved exceeds 600, of which 79 had to be registered by 1 December 2010. DSM succeeded in meeting this deadline, thus providing security of supply for its customers. Currently DSM is REACH compliant, and focused on the future: the next deadlines in 2013 and 2018, follow-up of its 2010 dossiers and integration of REACH in daily operations.

DSM has also committed itself to actively participate in the Global Product Strategy (GPS), initiated by the International Council of Chemical Associations (ICCA). The aim of the GPS initiative is threefold:

- To reduce differences in the safe handling of chemical substances between developing, emerging and industrialized countries
- To ensure the correct handling and use of chemicals across the value chain and across geographical boundaries by providing relevant and reliable information
- To increase transparency by helping companies provide stakeholders with information about marketed chemicals in an easily understandable format: the GPS Product Safety Summary

DSM has started the development of GPS Product Safety Summaries, the first six of which have been published on DSM's Product Stewardship website. In 2010 DSM finalized the format of these Product Safety Summaries and linked the first five to the GPS portal of ICCA. In addition, the company actively participated in the ICCA Taskforce on Information Gathering and Sharing that published an ICCA Guidance on Chemical Risk Assessment.

DSM carefully aligns its GPS and REACH activities by prioritizing its GPS initiatives on the basis of REACH deadlines.

One of DSM's SHE (Safety, Health and Environment) targets for 2020 is to use GPS company-wide as the tool to communicate on product safety to the outside world.

DSM continuously monitors developments with regard to the UN Globally Harmonized System (GHS) and the EU Regulation on Classification and Labeling (CLP) and takes the necessary actions to ensure compliance. Products have been relabeled and revised Safety Data Sheets are provided according to the new requirements. In that process national and regional deadlines are respected. DSM employees are informed and trained on the new information.

ICT contribution to GHG emission reduction

In 2010 DSM's ICT department added some new aspects to the reduction of energy use and CO_2 emissions. Besides a focus on replacing desktops, laptops and servers with less energy consuming equipment the department introduced a new way of working. The reduction of travel by using video conferencing resulted in additional savings in both costs and CO_2 emissions. The consolidation of printing capacity in the follow-me printing concept also resulted in savings. Continued improvement in DSM's datacenters together with the earlier mentioned initiatives resulted in total savings of 642 tons of CO_2 in 2010 compared to 385 tons in 2009.

Manifesto for Sustainable Procurement

A group of Chief Procurement Officers of private companies, including DSM, and public institutions have taken the initiative of drawing up a Manifesto for Sustainable Procurement and Corporate Responsibility. By signing and endorsing the Manifesto, each participant declares that they will promote the offering of more sustainable products and services by enhancing the sustainability of their procurement practice and thus contribute to the sustainability of their company. It contributes, for instance, to maintaining an up-to-date and efficient ICT infrastructure.

Environmental targets for 2010

The following pages provide an overview of DSM's emission and consumption figures for 2010 as well as comments on the realization of the reduction targets for the period 2005-2010.

The environmental targets are based on the principle that all DSM sites in the world should as a minimum meet the standards as applied in the European Union or the United States. New plants and major plant modifications should meet this requirement right from the start, whereas existing plants should meet it within five years.

DSM realized eight out of its nine environmental targets for 2010 and exceeded some of them. Clear improvements by 65% were realized for SO_2 emissions, although the ambitious target of 75% reduction was not achieved. Further reduction of SO_2 emissions is one of the new environmental targets for 2015.

The figures reported here are the result of improvements achieved by 2010, changes in production volume, divestments carried out in the same year, and the correction of some errors that surfaced from a detailed analysis of DSM's Planet data in March 2010.

The following table shows DSM's environmental reduction targets for 2010 and the degree to which these were realized.

	% Reduction realized in 2010 compared to 2005[1]	% Reduction target in 2010 compared to 2005
Dust	95	75
N_2O	45	40
SO_2	65	75
NO_x	50	20
VOC	50	50
COD	80	15
Landfilling non-hazardous waste	65	5
Landfilling hazardous waste[2]	100	100
Energy efficiency	8	8

[1] Corrected for changes in production volumes and product portfolio relative to the reference year 2005. Acquisitions made during the target period have not been taken into account. Divested units, such as DSM Agro, DSM Melamine, DSM Elastomers' Sarlink® business unit, Citrique Belge and DSM Special Products Rotterdam, have also been excluded.

[2] With regard to hazardous waste DSM intends to ban landfilling for all situations where this is feasible.

The reduction percentages shown in the table are the result of calculations incorporating changes in production volume. Acquisitions and divestments in the period 2005-2010 are excluded for the determination of target realization in order to have a like-for-like comparison.

The graphs on the following pages show the uncorrected DSM totals, which can give rise to some apparent differences. The graphs make a distinction between continuing operations and discontinued operations. In this framework, discontinued operations are DSM Agro, DSM Melamine, Citrique Belge, DSM Special Products and DSM Elastomers. Since the divestment of the Keltan® business unit of DSM Elastomers was not yet finalized at the end of 2010, the emissions and consumption figures for this business unit are still included in the 2010 figures. The other discontinued units are no longer included in the environmental data for 2010.

It should be taken into account that the production volumes of several plants were higher than in 2009, when they were reduced for economic reasons.

In addition to the consolidated graphs shown in this section, on www.dsm.com DSM publishes detailed information on the environmental performance of all its production sites, such as emissions, consumption figures and SHE highlights. Data reporting by the sites is regularly audited by DSM's Corporate Operational Audit department.

Emissions to air

Dust

The 75% reduction target for 2010 was amply achieved, mainly as a result of improvements in previous years. The 125-ton reduction from 2009 to 2010 is the net result of small increases at DSM Fibre Intermediates' plants and the divestment of DSM Agro.

N_2O

The 40% reduction target for emissions of nitrous oxide (N_2O) for 2010 was amply achieved. Major improvements had been realized in previous years in the plants of DSM Agro, but these were not taken into account in calculating the overall reduction achieved since 2005 (45%) because this business group was sold in 2010. The reduction percentage of 45% is due to the fact that production volumes at the caprolactam plants of DSM Fibre Intermediates, which are the main remaining sources of N_2O emissions, increased significantly more than N_2O emissions in the period 2005-2010.

The changes from 2009 to 2010 were mainly the result of the divestment of DSM Agro and an increase in the production volume at the caprolactam plant in Augusta (USA). Measurement of nitrous oxide in these plants is complex, which causes some uncertainty in the reported values.

DSM Fibre Intermediates is working on new technology for N_2O abatement in its caprolactam plants. DSM's 2020 greenhouse-gas reduction target is based on the assumption that the development and implementation of this new technology will be successful.

SO_2

DSM's SO_2 emissions have decreased significantly since 2005. Nevertheless, the ambitious reduction target of 75% was not achieved. The reduction percentage, relative to production volumes, was 65%. The reduction target of 75% was partly based on a reduction to be realized at DSM Fibre Intermediates Nanjing. Due to local circumstances, the intended reduction at that site is expected to be realized in the next target period (2010-2015).

From 2009 to 2010 only minor changes occurred in SO_2 emissions, mainly as a result of variations in the sulfur content of the fuel used.

NO_x

The reduction target of 20% for NO_x emissions was amply achieved. NO_x emissions fell in 2010 compared to 2009. This was the result of an increase in production volume in the caprolactam plant of DSM Fibre Intermediates in Augusta (USA) on the one hand and the divestment of DSM Agro and several other units on the other hand.

VOC

The reduction target of 50% for emissions of Volatile Organic Compounds (VOC) for 2010 was just achieved. VOC emissions in 2010 were reduced by approximately 500 tons compared to 2009, due to several changes. Major reductions were achieved at DSM Anti-Infectives Ramos Arizpe, Mexico (450 tons) as a result of the introduction of enzymatic processes, and at DSM Fibre Intermediates Nanjing, China (450 tons) as a result of technical reduction measures. A further reduction resulted from smaller changes, including the divestment of several units.

On the other hand, there were increases at DSM Fibre Intermediates Augusta, USA and DSM Elastomers Triunfo, Brazil due to increases in production volumes. DSM Fibre Intermediates, Augusta, USA has already taken measures to reduce VOC emissions and will significantly reduce these emissions further in 2011 and beyond. As reported in DSM's Triple P Reports for previous years, VOC emission figures at DSM Fibre Intermediates Augusta, USA for 2005 needed to be corrected, from approximately 250 tons to 1,500 tons (see also the section on Fines).

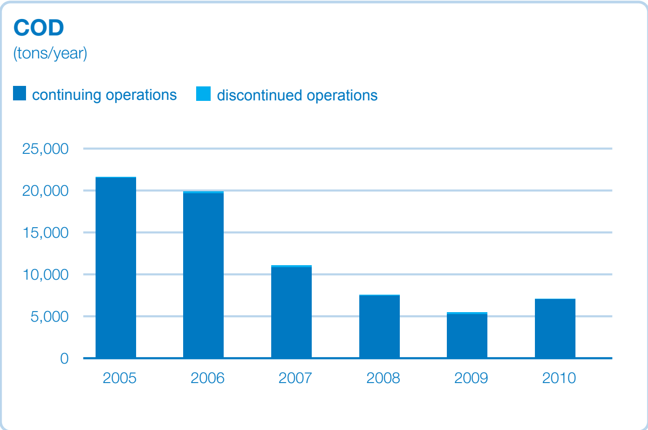
Reported emissions of DSM Nutritional Products Dalry, UK also increased, partly due to an increase in production volume and partly due to a necessary upward restatement by approximately 200 tons per year in the whole period 2005-2010, as a result of a more robust calculation method. DSM has started an evaluation into possible measures to reduce the emissions.

Emissions to water and landfilling of waste

COD

The reduction target of 15% for emissions of COD (Chemical Oxygen Demand: an indicator of the degree of pollution of wastewater by organic substances) was amply achieved. Several wastewater treatment plants had been taken in operation or improved in previous years, as reported in previous Triple P reports.

In absolute terms, the discharge of COD in 2010 increased by approximately 1,600 tons compared to 2009. This is the balance of an increase of approximately 1,800 tons due to increased production volumes, in combination with some technical problems, and a decrease of approximately 200 tons due to the divestment of several units.



Non-hazardous waste

The reduction target of 5% for landfilling of non-hazardous waste was amply achieved. The landfilling of non-hazardous waste was reduced by approximately 3,000 tons in 2010 compared to 2009. A major reduction resulted from a successful shift from landfill to a composting facility at DSM Nutritional Products Belvidere, USA. Other changes were mainly the result of changes in one-off disposals of waste materials and the deconsolidation of several units.

Hazardous waste

DSM intends to ban the landfilling of hazardous waste for all situations where feasible alternatives exist. This is reflected in the 100% reduction target. Landfilling is only accepted within DSM if there are no technically feasible or legally permissible alternatives.

In 2010 a total of approximately 8,300 tons of hazardous waste were landfilled, which is significantly higher than the 2,800 tons landfilled in 2009. The vast majority comprised material from the DSM Anti-Infectives site in Toansa, India. For all material it was shown that no technically feasible and legally permissible alternatives existed. DSM therefore considers the reduction target to have been achieved.

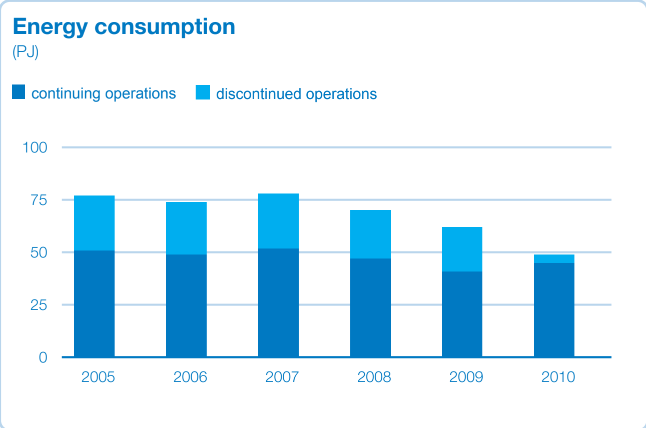
Biodiversity

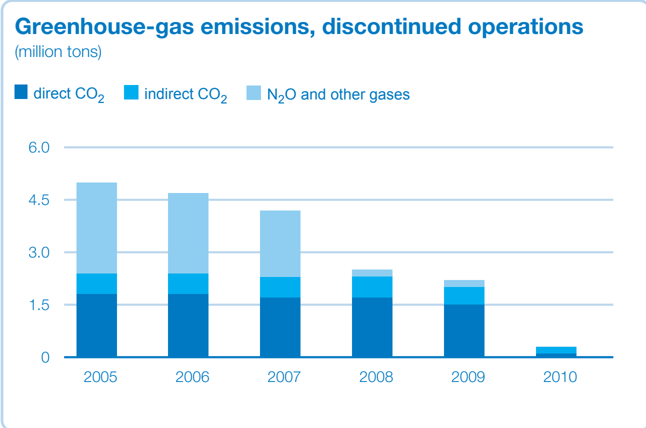
Eleven DSM sites are located in or adjacent to (protected) areas of high biodiversity. This is one less than in 2009, due to the divestment of DSM Melamine in Bontang, Indonesia. DSM has no indication of any adverse impact of its operations on these areas.

Energy and greenhouse gases

Energy consumption

Energy consumption in 2010 was approximately 14 PJ lower than in 2009. This was the balance of two opposing effects: the divestment of several units and increased production in most of the remaining units. In addition, there were significant effects of energy saving projects, most notably at DSM Fibre Intermediates, and of product portfolio shifts at a number of sites.



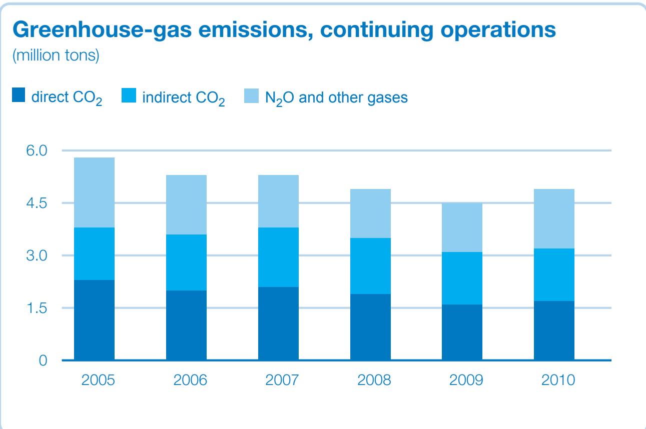


Energy efficiency

Thanks to a considerable improvement in 2010, the energy efficiency improvement target for 2010 was achieved. The improvement in 2010 was mainly due to the recovery from the low production levels of 2009. Production levels were up to 50% higher. In some cases this resulted in an energy efficiency improvement of 30%. In addition, there were some improvements caused by shifts to products with lower energy intensity at a number of sites. The acrylonitrile plant of DSM Fibre Intermediates in Sittard-Geleen (Netherlands) contributed 0.6 percentage point of the 8% overall improvement through results of the Advanced Manufacturing Program, including the application of advanced process control.

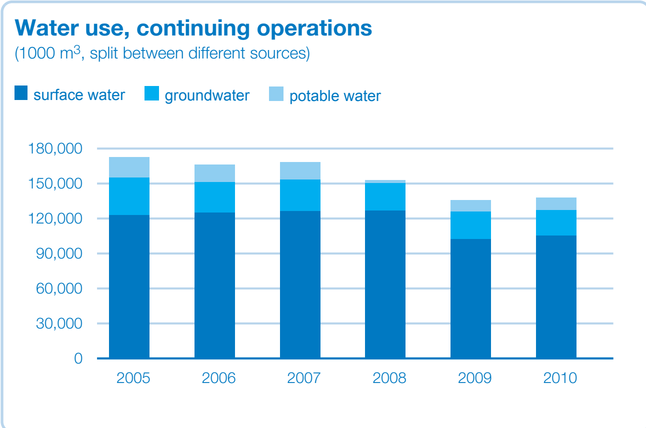
Greenhouse-gas emissions

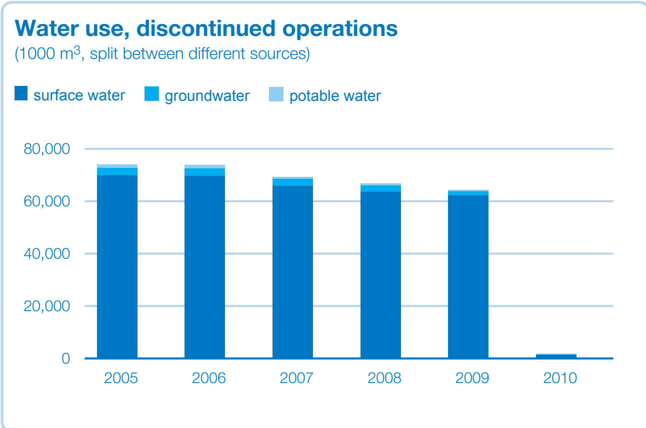
Just like energy consumption, greenhouse-gas emissions decreased as a result of the divestment of several units and increased due to increased production levels. The total greenhouse-gas emission for 2010 was 5.2 million tons of CO_2 equivalents.



Water consumption

The graph below shows DSM's global water consumption, split up into surface water, groundwater and potable (tap) water. Total water consumption decreased by approximately 60 million m^3(30%) compared to 2009. The deconsolidation of several units, most notably DSM Agro in IJmuiden (Netherlands), resulted in a large decrease, particularly in the consumption of surface water, whereas the increase in production volume caused a relatively moderate increase in the continuing operations.





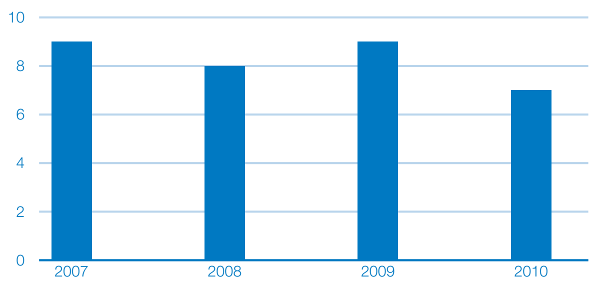
Raw materials

In its Triple P Report for 2009, DSM presented its use of renewable raw materials as a percentage of the total amount of raw materials used on a weight basis (ton/ton). DSM has decided to change the reporting on (renewable) raw materials from a weight basis (ton/ton) to a money basis (€/€), because this better reflects DSM's financial dependency on fossil-based versus renewable raw materials and the associated risks. The analysis was done for the period 2007-2010.

In 2010 approximately 7% of DSM's total spend on raw materials related to renewable raw materials (7.3% for continuing operations). This is a decrease compared to 2009, when this percentage was 9.4%, mainly as a result of stronger growth of the Materials Sciences businesses compared to the Life Sciences businesses.

The previous increase from 2008 to 2009 was due to the economic crisis in 2009, when the Materials Sciences businesses were relatively strongly affected, while Life Sciences were relatively stable.

Renewable raw materials
(in % of total raw materials spend)



Fines

Environmental sanctions were given to eight DSM sites. Four of these were fined. The total amount paid in fines amounted to approximately € 670,000, compared to € 95,000 in 2009. The fines were imposed on DSM Fibre Intermediates Augusta, USA, DSM Anti-Infectives Zhangjiakou, China, DSM Pharmaceutical Products Greenville, USA and DSM Dyneema in Heerlen, the Netherlands.

By far the largest fine related to DSM Fibre Intermediates Augusta, USA. Information on this incident has already been given in previous Triple P Reports.

To the best of DSM's knowledge, no other fines or non-monetary sanctions were incurred in 2010.

Environmental incidents and complaints

The total number of registered environmental complaints was 27 (79 in 2009), of which 18 were about odor, 8 about noise and 1 fell in the 'miscellaneous' category.

The total number of environmental incidents was 336, compared to 421 in 2009. Of these incidents, 23 were rated as serious (15 in 2009).

Of the total number of 336 environmental incidents, 124 have also been classified as related to process safety. Together with one of DSM's Lost Workday Cases in which contact occurred with process chemicals, this adds up to 125 incidents that have a relation to process safety. In 2009 DSM reported 158 such incidents. The lower number for 2010 is almost entirely due to divestments.

In the absence of agreed uniform industry standards for reporting process-safety-related incidents, over the last three years DSM has reported on these incidents using its own criteria. These criteria specified the release of (low) quantities of hazardous substances or a Lost-Workday Case due to contact with process chemicals as a process-safety-related incident.

Currently, industry developments are in the direction of two slightly different approaches for reporting process safety incidents. One approach originated in the United States and has resulted in an American Petroleum Institute standard, and the other originated in Europe (it is being developed by CEFIC). These approaches differ in the release threshold quantities and the systems used for the classification of hazardous substances. Both approaches will serve the purpose of giving more insight into the occurrence of process-safety-related incidents, but unfortunately the results are not comparable. DSM's intention is to follow the approach under development by CEFIC and use the results as the baseline for its new 2020 target of reducing process-safety-related incidents by 75%.

Profit in 2010

Financial results

Income statement

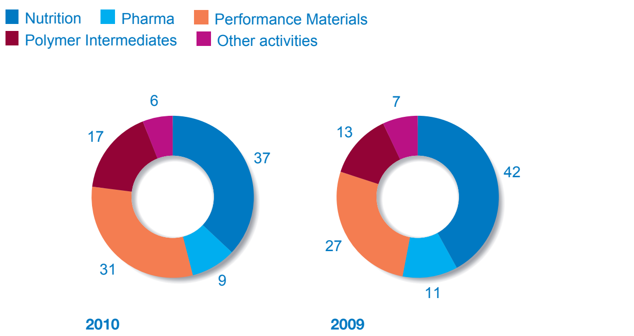
x € million	2010	2009
Continuing operations:		
Net sales	8,176	6,725
Total operating costs	(7,424)	(6,292)
Operating profit before exceptional items	**752**	**433**
Net finance costs	(93)	(111)
Share of the profit of associates	5	(4)
Income tax expense	(162)	(73)
Profit attributable to minority interests	(18)	(1)
Net profit before exceptional items	**484**	**244**
Net profit from discontinued operations, excluding exceptional items	63	-
Net result from exceptional items	(40)	93
Total net profit attributable to equity holders of Royal DSM N.V.	**507**	**337**
ROCE, continuing operations (in %)	14.6	8.1
EBITDA, continuing operations	1,161	834

Net sales

At € 8.2 billion, net sales from continuing operations in 2010 were 22% higher than in the previous year. Volume growth accounted for a 13% increase in net sales. Selling prices were on average 6% higher than in 2009. Exchange rates, acquisitions and divestments on balance had a positive effect of 3%. Net sales (total DSM) increased by 15%. In the graphs on the following page the development of sales by origin, by destination and by end-use market can be seen.

Net sales by business segment, continuing operations

(in %)

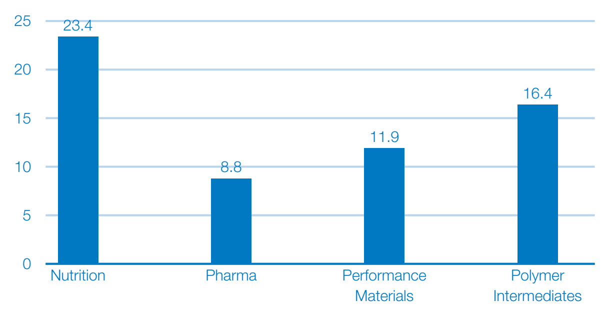


Operating costs

Total operating costs in 2010 of continuing operations before exceptional items amounted to € 7.4 billion, € 1.1 billion higher than in 2009, when these costs stood at € 6.3 billion. Total operating costs in 2010 included cost of sales to an amount of € 6.0 billion (2009: € 5.0 billion); gross margin in % of net sales stood at 27% (2009: 25%).

EBITDA / net sales, continuing operations in 2010

(in %)



Operating profit

The operating profit from continuing operations before exceptional items increased by € 319 million (74%), from € 433 million in 2009 to € 752 million in 2010. The EBITDA margin (operating profit before depreciation and amortization as a percentage of net sales) increased from 12.4% in 2009 to 14.2% in 2010.

Net profit

The net profit from continuing operations before exceptional items increased by € 240 million to € 484 million. Per ordinary share, net earnings from continuing operations before exceptional items increased from € 1.44 in 2009 to € 2.89 in 2010.

Net finance costs (continuing operations), before exceptional items, stood at € 93 million in 2010, compared to € 111 million in 2009.

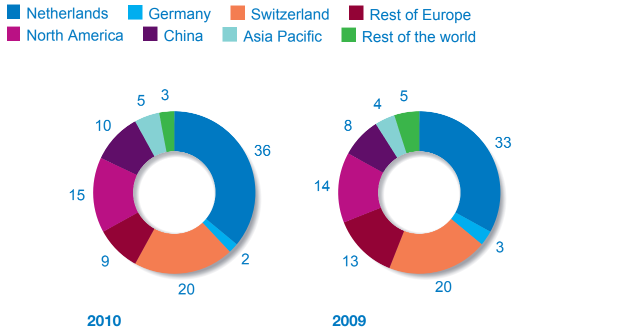
At 24%, the effective tax rate in 2010 was 1 percentage point higher than in 2009 due to changes in the geographical distribution of taxable results.

The net profit (total DSM) increased from € 337 million in 2009 to € 507 million in 2010. Net profit per ordinary share increased from € 2.01 in 2009 to € 3.03 in 2010.

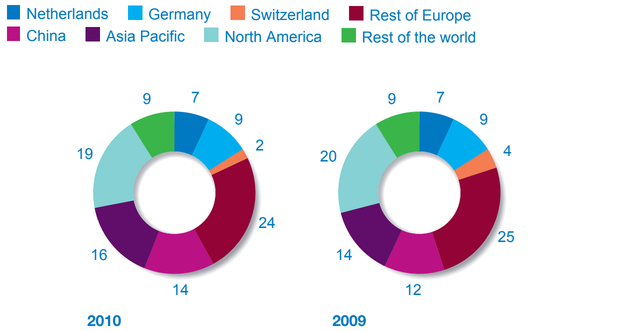
Exceptional items

Total exceptional items after tax amounted to a loss of 40 million in 2010 (2009: € 93 million profit). Due to an improved business outlook for DSM Anti-Infectives as a result of the new strategy and the announced formation of a joint venture with Sinochem Group, the remainder of the 2007 impairment of the cash generating unit amounting to € 55 million before tax could be reversed. The disposals of DSM Agro, DSM Melamine and S.A. Citrique Belge N.V. resulted in a combined pre-tax book loss of € 61 million. Other disposals resulted in book gains of some € 22 million. The settlement of the US Federal Class Antitrust Litigation and related cases concerning EPDM resulted in a charge of € 17 million. On balance various changes in pension arrangements resulted in an exceptional gain of € 6 million before tax. Impairments of assets and businesses resulted in exceptional losses of € 40 million before tax.

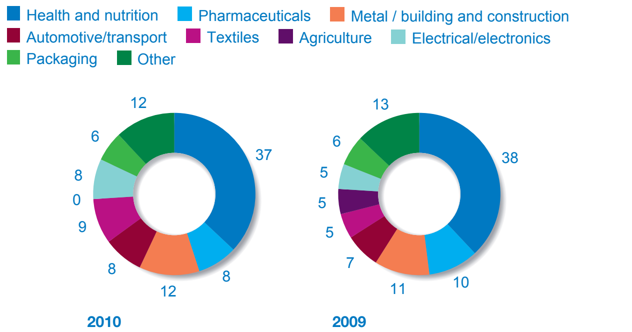
Net sales by origin, continuing operations
(in %)



Net sales by destination, continuing operations
(in %)



Net sales by end-use market, continuing operations
(in %)



Cash flow

At € 1,103 million, cash provided by operating activities (total DSM) was 12.2% of net sales.

Cash flow statement

x € million	2010	2009
Cash and cash equivalents at 1 January	1,340	601
Operating activities:		
- Earnings before interest, tax, depreciation and amortization	1,226	1,191
- Changes in operating working capital	(19)	566
- Other changes	(104)	(481)
Cash flow provided by operating activities	1,103	1,276
Investing activities:		
- Capital expenditure	(416)	(457)
- Acquisitions	(61)	(16)
- Sale of subsidiaries	363	279
- Disposals	14	8
- Change in fixed-term deposits	(832)	-
- Other	(32)	(87)
Cash used in investing activities	(964)	(273)
Dividend	(206)	(205)
Net cash from / used in financing activities	45	(64)
Cash used in financing activities	(161)	(269)
Effect of exchange differences	135	5
Cash and cash equivalents at 31 December	**1,453**	**1,340**
Current investments at 31 December	837	7
Cash, cash equivalents and current investments at 31 December	**2,290**	**1,347**

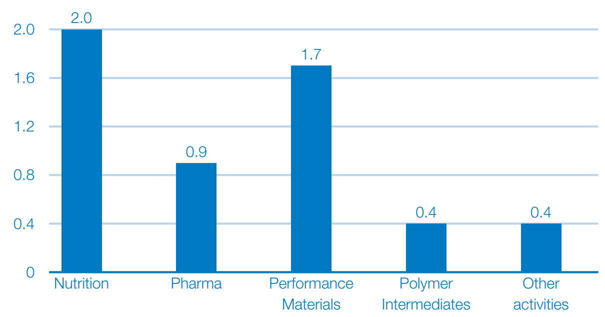
The balance sheet total (total assets) increased by € 0.9 billion in 2010 and amounted to € 10.5 billion at year-end (2009: € 9.6 billion). Equity increased by € 566 million compared to the position at the end of 2009; this was due mainly to the profit for the year and changes in Other comprehensive income. Equity as a percentage of total assets increased from 52% at the end of 2009 to 53% at the end of 2010. The current ratio before reclassification to held for sale (current assets divided by current liabilities) increased from 2.14 in 2009 to 2.42 in 2010.

Compared to year-end 2009 Net debt decreased by € 938 million and resulted in a net debt of minus € 108 million. At the end of 2010 € 837 million was invested in higher yielding term deposits (duration 3 to 6 months), which are shown in the cash flow statement as 'current investments'.

Capital expenditure on intangible assets and property, plant and equipment amounted to € 476 million in 2010 and was above the level of amortization and depreciation.

The operating working capital continuing operations was € 181 million higher than in 2009 and as a percentage of net sales amounted to 17.9% (2009: 18.6%). Cash and cash equivalents including current investments increased and amounted to € 2,290 million.

Capital employed by business segment at 31 December 2010, continuing operations x € billion



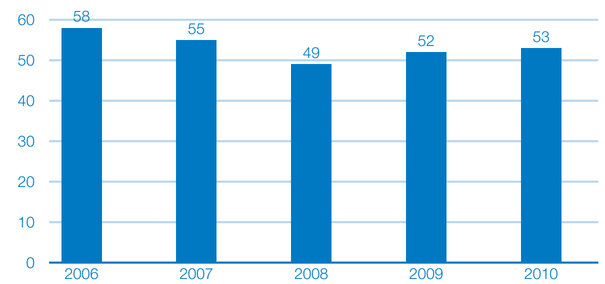
Balance sheet profile[1]

in %	**2010**	2009
Intangible assets	10	11
Property, plant and equipment	31	36
Other non-current assets	7	9
Cash and cash equivalents	14	14
Other current assets	38	30
Total assets	**100**	**100**
Equity	53	52
Provisions	1	2
Other non-current liabilities	25	26
Other current liabilities	21	20
Total liabilities	**100**	**100**

[1] Before reclassification to held for sale

Equity at 31 December

(as a % of balance sheet total)



Dividend

DSM's dividend policy is to provide a stable and preferably rising dividend. In September 2010 DSM indicated that it would propose a dividend increase of €0.10 per ordinary share from €1.20 to €1.30 for 2010. In view of the strong financial results achieved in 2010 and the company's confidence that the foundations are in place to achieve its new strategic growth and profitability objectives, DSM now proposes to increase the dividend by €0.15 (12.5%) to €1.35 per ordinary share. This will be proposed to the Annual General Meeting of Shareholders to be held on 28 April 2011. An interim dividend of €0.40 per ordinary share having been paid in August 2010, the final dividend would then amount to €0.95 per ordinary share. The dividend will be payable in cash or in the form of ordinary shares at the option of the shareholder. Dividend in cash will be paid after deduction of 15% Dutch dividend withholding tax. The ex-dividend date is 2 May 2011.

DSM reiterates that for the coming years the company intends to further increase the dividend to at least €1.50 per ordinary share, barring unforeseen circumstances and assuming that DSM will be able to fulfill its growth aspirations.

Outlook

The consensus economic outlook for 2011 is positive. High growth economies, in particular China, are continuing to drive global growth, whilst the US and Western European economies are expected to continue their gradual recovery. It is therefore anticipated that the end-markets that are relevant for DSM will show continued growth.

Inflation, however, is expected to increase during the year, resulting in higher prices for energy and certain raw materials compared to 2010 as is already seen today. DSM will actively seek to offset these through price increases. Currency exchange rates are expected to remain volatile in 2011; especially the current rate of the Swiss franc is unfavorable for the Nutrition cluster.

The Nutrition cluster is expected to achieve sustained good performance. The Nutrition cluster's results are expected to be positively impacted by the acquisition of Martek. The focus within the Pharma cluster will be on the strategy execution such as the announced anti-infectives joint venture with Sinochem. Business conditions are expected to be similar to 2010.

The Performance Materials cluster is expected to benefit significantly from continued global growth in the relevant end-markets such as automotive, electronics and packaging. There are early signs of recovery in the building and construction markets for the second half of the year. Polymer Intermediates is expected to continue its excellent performance in 2011 in view of very favorable trading conditions.

In connection with the new collective labor agreement in the Netherlands the Dutch pension plan was changed from a defined benefit plan into a defined contribution plan with a fixed premium. In this new scheme the financial risks related to the pension plan will be borne by the pension fund and its (former) participants. DSM's cash contribution to the pension plan will be similar to the contribution in 2010. The change will, however, have a negative accounting effect (non-cash) of € 33 million on operating profit from 2011 onward compared to 2010.

The tax rate for continuing operations excluding exceptional items is expected to be considerably lower going forward at a level of about 21% – even including US-based Martek – compared to 24% for 2010. This is mainly caused by a different geographic spread of results after the divestments and acquisitions, but also due to the application of preferential tax regimes.

Based on the above, 2011 is expected to be another strong year. This gives DSM confidence that it will meet the 2013 EBITDA target of € 1.4 to 1.6 billion, with ROCE expected to exceed 15%.

Financial policy

As a basis for and contribution to effective risk management and to ensure that the company will be able to pursue its strategies even during periods of economic downturn, DSM retains a strong balance sheet and limits its financial risks.

One of the key targets of *Vision 2010* was to achieve a cash flow return on investment (CFROI) which exceeded the weighted average cost of capital (WACC) by at least 100 basis points in normal times. This target was achieved in 4 out of 5 years of the strategy period. The financial crisis and the subsequent economic downturn necessitated tough measures to manage cash, working capital and costs. Strict management of operating working capital, especially during the downturn in 2009, together with the divestments, resulted in record cash generation over the *Vision 2010* period.

For the next strategic period ambitious return targets have been set. For 2013 an increase in EBITDA to a level of € 1.4 to € 1.6 billion and an increase in the Return on Capital Employed to more than 15% are aimed at.

DSM targets a gearing which is below 30% of equity plus net debt, and an operating profit before amortization and depreciation (EBITDA) which is at least 8.5 times the balance of financial income and expense. Furthermore, funds from operations needs to be at least 30% of net debt in accordance with the definitions of the major credit rating agencies. This underlines the company's aim of maintaining its Single A long-term credit rating. Under certain circumstances the gearing could be raised to a level of between 30% and 40%, provided that the boundaries at the desired Single A credit rating remain attainable.

Most of DSM's external funding needs are financed through long-term debt. Debt covenants are not included in the terms and conditions of outstanding bonds and financing arrangements. DSM aims to spread the maturity profile of outstanding bonds in order to have adequate financial flexibility. DSM has a commercial paper program of € 1,500 million and two committed credit facilities of in total € 900 million, consisting of € 500 million (until October 2012) and € 400 million (until April 2013).

An important element of DSM's financial strategy is the allocation of cash flow. DSM primarily allocates cash flow to investments aimed at strengthening its business positions and to dividend payments to its shareholders. The cash flow is further used for acquisitions and partnerships to strengthen DSM's competencies and market positions in Life Sciences and Materials Sciences supported by the other three strategic growth drivers: High Growth Economies, Innovation and Sustainability. As the occasion arises, the company may choose to return cash to shareholders if excess cash is available over a longer period to such an extent that the above cash flow priorities can be satisfied without a reduction in gearing towards a level of 30%.

DSM aims to provide a stable and preferably rising dividend. In order to avoid dilution of earnings per share as a result of the exercise of management and employee options, DSM buys back shares insofar as this is desirable and feasible.

It is DSM's policy to hedge 100% of the currency risks resulting from sales and purchases at the moment of recognition of the trade receivables and trade payables. In addition, operating companies may – under strict conditions – opt for hedging currency risks from firm commitments and forecasted transactions. The currencies giving rise to these risks are primarily USD and JPY. The risks arising from currency exposures are regularly reviewed and hedged when appropriate.

Important acquisition criteria are strategic fit and financial condition. A business or partner should add value to DSM in terms of technological and/or market competencies. Acquired companies are in principle required to contribute to DSM's cash earnings per share from the very beginning and to meet the company's profitability, sustainability and growth requirements. There are however exceptions to this rule; the requirement may for instance not be appropriate in the case of small innovative growth acquisitions.

DSM's policy in the various sub-disciplines of the finance function is strongly oriented towards solidity, reliability and optimum protection of cash flows. The finance function plays an important role in business steering.

Innovation

Innovation was a key element of DSM's *Vision 2010* strategy and is a key growth driver in the coming strategy period. In many ways Innovation is connected with Sustainability and both growth drivers reinforce each other. Innovation is not just about great ideas, state-of-the-art technology and high-tech laboratories. It also involves spotting market trends and opportunities and using technological capabilities to improve the quality of people's lives in a way that is commercially attractive.

Since the announcement of the innovation boost back in 2005, as part of DSM's *Vision 2010* strategy, the increased commitment to innovation has significantly paid off, as shown by the achievement of numerous milestones. The most tangible milestone is the fact that in 2010 DSM clearly exceeded its target of achieving € 1 billion in additional sales through innovation compared to 2005 despite the strong headwinds encountered since Q4 2008.

Furthermore, DSM has made a big step in improving innovation practices and culture in the company and has succeeded in considerably increasing the number of launches (from about 25 back in 2006 to a steady launch rate of approximately 60 per year now).

In addition, two of the Emerging Business Areas have become strong, long-term growth platforms which optimally combine the available competences in Life Sciences and Materials Sciences.

The increased strategic focus on innovation has led to the acceleration of 50 key projects throughout DSM, which generated the main part of the € 1 billion growth target. Analysis has shown that projects that went through this innovation boost on average have a projected value that is twice as high as that of projects that did not go through these improvement actions. Many innovations emerging from these projects have already found their way to the market and they all have projections that show considerably higher margins than DSM's traditional portfolio.

Since 2005, substantial additional funding has been made available to step up DSM's innovation efforts. Open innovation tools, such as venturing, licensing-in, marketing alliances and R&D collaborations as well as small acquisitions in the chosen fields of New Business Development, complement in-house activities. DSM has earmarked an amount of up to € 30 million per year for venturing investments.

DSM has expanded its extensive innovation program by setting up an Excellence in Innovation program, which will build on the innovation boost experience started in 2006. This program will further build DSM's organizational infrastructure and will also expand the work already done to improve the 'soft aspects' of innovation (such as effective behavior, personal leadership skills, teamwork) in order to secure an even more favorable innovation culture at DSM. The Excellence in Innovation program focuses on five key areas:

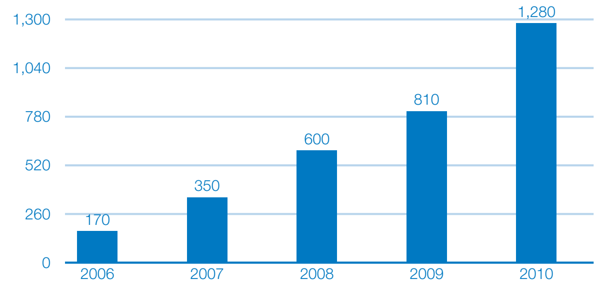
- Market understanding
- The innovativeness of the business groups
- The delivery of DSM's top 50 innovation projects
- Entrepreneurship
- Performance orientation

As part of the innovation boost, DSM has formed a Product Launch team, part of the DSM Marketing Office, which focuses on all activities related to the launch of new products. This team has developed a toolkit for the commercialization of innovations within DSM. By providing guidance, provoking thought and offering support through its frameworks and living examples, the toolkit pulls DSM employees into embracing the end-consumer and thinking outside the box in every phase of development and launch.

In 2010 DSM showed continued strong growth in innovation. Additional innovation sales, compared to 2005, amounted to about € 1,280 million in 2010 compared to around € 810 million in 2009. This is about twice the level of additional innovation sales achieved in the period 2000-2005. The 2010 target for additional innovation sales of € 1 billion was thus clearly exceeded.

The number of innovation launches in 2010 (65) remained at the high level achieved in 2009 (62). The large diversified portfolio of innovations yields a stable income profile, which will be complemented by a broad range of new launches that the company is currently developing. With its well-filled pipeline DSM is confident the innovation contribution will remain high after 2010.

Development of innovation-related sales
(x € million)



DSM uses a self-assessment tool, which the company developed together with McKinsey, to map the innovation practices in all business groups and compare them with the practices in peer companies. Overall results from this self-assessment now confirm that DSM performs better than the industry average. With its Excellence in Innovation program the company wants to raise the bar even further, since it aims to be among the top innovation performers in the business.

Building on this track record, DSM aspires to take value creation through innovation to the next level. This will be visible, among other things, through an even higher speed of innovation and consequently a new stretched innovation sales target; an ambitious growth perspective for the EBAs DSM Bio-based Products & Services (formerly White Biotechnology), DSM Biomedical and DSM Advanced Surfaces; and the implementation of a company-wide platform approach. The focus on the EBA programs Personalized Nutrition and Specialty Packaging will be reduced and they will be partnered, exited or transferred to other parts of DSM.

DSM has adopted a new innovation sales target which is more in line with the targets defined by other mainstream innovators in the industry. The new innovation target, defined in terms of a percentage of sales created by new products and applications introduced in the last five years, replaces the previous target of an absolute amount of additional sales through innovation.

DSM aims to increase innovation sales from 12% in 2010 towards 20% of total sales by 2015. This target reflects DSM's aspiration to further boost innovative growth as well as portfolio renewal and the speed of innovation. Furthermore, the aspiration for the EBAs is to grow to a combined turnover of more than € 1 billion in 2020.

DSM will move further from pursuing individual and sometimes unconnected projects to managing its innovation activities and portfolios at a platform level. This will allow the company to bring together cohesive projects and/or business development activities and provide even more focus to its innovation efforts.

These platforms draw on DSM's competences, have real and significant commercial potential and address the key global trends. These innovation platforms – at various stages of development – include (but are not limited to) the following:

- Bio-based food and feed processing ingredients
- Food and feed ingredients with health/performance benefits
- (Bio-)Manufacturing platforms for pharmaceuticals
- Bio-based clean/green materials for coatings, automotive and electronics
- Materials for Life Protection and Sports
- New business models, for example, Business to Farmer and Base of the Pyramid
- EBAs: Bio-based Products & Services, Biomedical and Advanced Surfaces

Opportunities and ideas that could lead to new platforms will be gathered in a threefold approach: via the DSM Innovation Center, via individual business groups and at the regional level. Stage gating, which DSM has been using for many years to steer individual innovation projects, will now also be applied to steer at platform level.

In addition, DSM will use portfolio management to ensure a good balance between incremental and radical innovation. This will facilitate discussions on the composition of the innovation portfolio and will help optimize the mix between incremental and radical innovation within the company. For the radical part of DSM's innovation portfolio, a global, company-wide portfolio approach will be adopted. This will secure a long-term focus on Life Sciences and Materials Sciences as the key pillars of DSM's strategy and will help make sure that the cross-fertilization between the two fields is actively stimulated. The Managing Board will decide on the composition of this portfolio.

Breakthrough innovation is increasingly happening in high growth economies (especially in Asia). Therefore, expanding innovation to high growth economies and further internationalization will be another important element in DSM's innovation efforts in the coming years. DSM will establish new Innovation Centers in China and India to harvest the opportunities in these countries. This will ensure a local influence on the company's innovation approach.

Open innovation will continue to be a key driver to speed up innovation. DSM will further expand the quality of its open innovation, e.g. through licensing, which perfectly fits the drive towards new business models in DSM. In addition, the venturing activities will be speeded up. Furthermore, DSM will increase its partnering activities, not only in its key business areas but also in technology areas as it aims to broaden and strengthen its technology/competence base.

DSM's broad high-quality technology base will continue to provide a solid foundation and support for its innovation activities. DSM will make sure its core competences remain in top shape.

Research and Development

Research and Development (R&D) plays a key role in the realization of DSM's innovation strategy. Most of the annual R&D expenditure is directed towards business-focused R&D programs. In addition, DSM has a Corporate Research Program in place to build and strengthen the technological competences the company needs to execute development projects.

R&D expenditure (including associated IP expenditure), continuing operations

x € million	**2010**	2009
Nutrition	176	144
Pharma	69	73
Performance Materials	146	138
Polymer Intermediates	15	13
Other activities	18	10
Total	**424**	**378**
Total R&D expenditure as % of net sales	5.2	5.6
Staff employed in R&D activities	2,281	2,068

Innovation and R&D in Life Sciences

In the Nutrition cluster, innovation is a key driver of differentiation, covering the entire product cycle. In the Life Sciences clusters, 119 new launches took place between 2006 and year-end 2010, of which 22 in 2010.

In the human nutrition and health market, DSM launched ready-to-use dietary supplement products in the United States under the brand names of i-Cool™ and i-Flex™. These consumer brands are now available in various retail chains and provide relief for menopausal symptoms and joint problems, respectively.

DSM's geniVida™ Bone Blend has been shown in a clinical trial to significantly increase bone mineral density by up to 3.4% in post-menopausal women after only 6 months' supplementation. Due to an aging population, bone loss and the resulting increased risk of bone fracture is a growing problem globally. Approximately a third of post-menopausal women in the United States and Europe are affected.

DSM also launched a new DHA-rich Omega-3 powder for the infant nutrition sector which is derived from natural fish oil which contains DHA (docosahexaenoic acid), as well as EPA (eicosapentaenoic acid), the other important Omega-3, at levels matched to human breast milk and ideally suited to infant formulas.

DSM introduced a new ingredient for heart health, following a long-term alliance agreement with the product developer, Provexis. Fruitflow® is the first natural, scientifically substantiated solution for the promotion of healthy blood flow. To date, Fruitflow® is the only ingredient with an approved health claim from the European Food Safety Authority (EFSA) under Article 13.5, opening up clear routes to market for food, beverage and dietary supplement products.

For the flavor industry Maxagusto™ a new range of natural flavors that deliver taste and aroma authenticity, was launched. It delivers intense, authentic flavor profiles using only natural ingredients – an unprecedented combination for flavorists and flavor creators.

For the brewing industry DSM brought Brewers Compass™ to the market – a unique enzyme solution that enables brewers to produce up to 100 percent barley beers of the highest quality.

Panamore™ Soft, a new enzymatic solution for the baking industry was launched, designed to improve the shelf life of bread. Containing a patent protected blend of enzymes, Panamore™ Soft helps bakers meet consumer demand for breads that look better and stay fresher for longer.

In the animal nutrition and health market, Ronozyme® ProAct, the first pure protease for the poultry industry, received regulatory approval in the European Union. This innovative feed enzyme has been successfully marketed in Brazil and Turkey, followed by launches in Latin America and Asia Pacific. The new feed enzyme offers the poultry industry many advantages. Depending on feed protein source, it reduces feed costs by 5% on average by maximizing protein utilization and improving nutritional value while simultaneously enhancing animal performance by up to 6%.

VevoVitall®, a zootechnical feed additive from DSM used in piglets and fattening pigs to reduce urine pH, thus helping to cut the levels of ammonia associated with pig farming, was approved for use in pig feed in the Netherlands. The inclusion of 1% VevoVitall® in the diet of pigs leads to an average reduction in ammonia emissions of 16%. The Netherlands is home to some 11 million of Europe's approximately 190 million pigs and has Europe's most stringent laws regarding the management of ammonia emissions caused by pig farming. It has been shown that by combining the use of VevoVitall® with other low cost measures ammonia emissions can be reduced by as much as 42%.

DSM and BioAnalyt launched the iCheck® Sudan technology for eggs in China. The first user of this technology will be the Shanghai Food and Drug Administration (FDA). As part of their Food Quality Control program, Shanghai FDA started using this new technology at the Shanghai Universal Expo 2010, which was visited by approximately 70 million people.

For Personal Care, DSM introduced the first products of the portfolio of hair care polymers. This new platform will be further extended in the next few years.

For the pharmaceutical industry, DSM successfully scaled up its proprietary, yield-boosting XD® technology by a factor of 25 using a CHO cell line. By dramatically increasing the cell density and optimizing the conditions for protein production of a culture, DSM's proprietary XD® Technology offers a simple, elegant solution to substantially increase titers without changing the cell line or process media. XD's ultra-high yields allow for downsizing of bioreactors and open avenues for new biopharmaceutical manufacturing concepts.

DSM also launched its InnoSyn™ route scouting services. In response to the increasing interest of pharmaceutical customers to outsource the development of robust low-cost manufacturing routes, DSM offers focused and flexible stand-alone route scouting services. DSM's route scouting capabilities lead to significant cost savings through a reduction in the number of synthesis steps or the redesign of synthesis routes.

Innovation and R&D in Materials Sciences

With 153 launches between 2006 and year-end 2010, the Materials Sciences clusters reached the desired portfolio size of successful applications. In 2010 there were 43 launches.

For the automotive industry, DSM introduced two new Diablo high heat resins: Stanyl® Diablo OCD2300 and Akulon® Diablo. Both new ECO+ products are a direct response to some of the main trends in the automotive industry, including weight reduction. The new materials also facilitate system cost optimizations and productivity gains, long-term sustainability and reduced environmental impact.

As a tribute to 100 years of Alfa Romeo, Fiat Automobiles Group introduced the 2010 Alfa Romeo Giulietta. Automotive Tier 1 supplier Hutchinson selected Stanyl® Diablo OCD2100 for the Turbo charge air duct resonator on the Alfa Giulietta 1.6 L Multijet 105 Hp Euro 5 Turbo Diesel engine. The resonator acts to dampen noise in the charge air system.

For fuel tanks of non-road outdoor equipment (such as lawn mowers) and vehicles with small, spark-ignition engines, DSM launched Akulon® Fuel Lock, a mono-polyamide 6 technology that dramatically reduces emissions from fuel tanks. Tests showed an exceptionally low evaporative emission rate of less than 20% of the US Environmental Protection Agency regulation limit.

The joysteer® X-by-wire system with precision gears made of Stanyl® PA 46 resin from DSM went into commercial production for the handicapped market and is available from car modification companies in Switzerland, Germany and the Benelux. The Swiss company Bozzio achieved this rapid development from prototype to successful commercialization within a record time of just three years.

Weight reduction is a key driver for Viking, one of the world's leading producers of ice skates. The latest generation of Viking ice skates is now completely made of plastic – except for the metal blade. DSM's 60% glass filled Akulon® Ultraflow™ K-FG12 BLK was selected for the various parts of the new skates.

For the food processing industry in Europe, Dyneema® may now also be used in cut resistant gloves. Within the European Union, materials and articles used in food contact applications need to comply with very strict requirements. UHMWPE fiber of DSM has been granted approval under these EU regulations.

For food packaging, DSM introduced a number of innovative eco-packaging solutions, including a new solution for reducing lactam pollution in biaxially oriented polyamide film production and in co-extrusion of PA6 outer layer(s), and a breathable, cost-effective film to replace highly polluting cellulose in smoked meat applications.

For wind turbine blade applications, DSM launched a new, advanced specialty resin material specifically developed for these applications. The new high-performance resin, Synolite™ 1790-G-3, was developed and tested in cooperation with major industry players. Wind turbine blades need to be environmentally friendly, structurally strong and durable and are being developed in increasingly longer dimensions, upwards of 50 m, to maximize their wind-capturing productivity. This in turn is driving increased demand for material innovations that deliver structural strength at light weight.

DSM also outlined its new solutions-based approach for the global wind turbine blade manufacturing industry. At the heart of DSM's new approach is a move to educate the wind energy industry on the benefits and long-term potential of switching away from the traditionally used epoxy resins towards polyester resins for wind turbine blade manufacturing.

The use of Dyneema® ultra high molecular weight polyethylene (UHMWPE) fiber is helping to ensure that a major construction project to bring clean energy to millions of people in the United Kingdom moves ahead as efficiently and safely as possible. The world's largest offshore wind farm is under construction in the North Sea, 23 km off the coast of England. Scheduled for completion in 2012, the Greater Gabbard wind farm's 140 turbines will generate 500 megawatts of electricity for the people of London.

For replacement of steel in lines used in deep-sea installations, DSM introduced Dyneema® XBO. Ropes made with the new fiber provide the same load-bearing capability as steel wire ropes that weigh seven times as much. The weight of the steel wire can consume up to 50% of the winch capacity in ultra deep water installations. By substituting steel with ropes made with Dyneema® XBO, systems can carry higher loads, or they can be downsized while retaining their deep water installation capacity, freeing up vital deck space.

SkySails, DSM Dyneema and Gleistein formed a unique technology partnership in 2010 to bring sustainable ECO+ solutions to the maritime market. By combining their expertise in synthetic fibers and rope construction, DSM and Gleistein enabled SkySails to develop the SkySails towing kite technology. As the world's most powerful and effective wind propulsion system, the SkySails system reduces fuel consumption and emissions of ships by up to 35%.

In Life Protection, DSM expanded its already strong portfolio of products based on Dyneema®, the world's strongest fiber™, with the first in a new series of vest grades of uni-directional material. Dyneema® SB51, which the company believes will create a step-change in the protection achievable with Soft Ballistic armor, has been developed for use in ballistic vests that combine minimum weight with high protection performance against handgun ammunition, fragments and knives.

For the building and construction market, DSM extended its low temperature curing Uralac® EasyCure™ polyester resin portfolio for outdoor applications. The product is the answer to an urgent market demand for lower temperature curing with hydroxyalkyl acrylate (HAA) crosslinkers. The market trend is to go for reduced curing cycles, enabling lower temperatures or faster curing, resulting in lower energy costs and improved line efficiency.

DSM introduced new Hybrane™ hyperbranched polymers, part of the wide range of dendritic materials that the Swedish company Polymer Factory offers to its customers in an open innovation business model. Additionally, new types of Hybrane™ hyperbranched polymers developed by Polymer Factory will be produced on an industrial scale within DSM's existing facilities.

DSM also introduced two new resins that provide improvement on several properties of dry blend powder. Customers' demand for matt finishes has led DSM to develop a resin system which combines good mechanical properties and outdoor durability with excellent gloss consistency. Uralac® P 837 (3% HAA) and Uralac® P 877 (7% HAA) are both designed for dry blend powder coating formulations with improved properties compared to existing systems.

DSM expanded its product portfolio with a polyester for an epoxy-free alternative for hybrid powder coatings with a new resin in its Uralac® Veranda™ polyester resins range. It is based on a patented technology and it meets a pressing demand for sustainable ECO+ alternatives to hybrid powder coatings.

DSM also expanded its offering of UV-curable corrosion-preventative coatings to the tube and pipe industry in Europe. The UVaCorr® product line, which has been widely used for the past 15 years throughout North America, includes both clear and colored coatings designed for protection of steel tube and pipe, particularly during storage and transport to end-use destinations.

DSM announced that five of its performance materials had been awarded Cradle to Cradle® certification by the internationally renowned sustainable design firm, McDonough Braungart Design Chemistry. The Cradle to Cradle® concept, developed by William McDonough and Michael Braungart, aims to eliminate waste entirely by circulating safe and healthful materials within closed loop systems of continuous reuse.

EPEA Hamburg, the consultancy firm of Michael Braungart, has evaluated the materials. This evaluation focuses on the product ingredients' human and environmental health attributes and their potential to safely cycle in closed loops. The five materials are:

- Akulon® K224-G6, a 30% glass filled polyamide 6 compound;
- Arnitel® EM400, an unfilled thermoplastic copolyester polymer;
- Arnitel® XG, an unfilled halogen free flame retardant thermoplastic copolyester polymer;
- Arnite® T-XG510, a halogen free flame retardant PBT compound;

- EcoPaXX™ UF, an unfilled 70% bio-based polyamide 4.10 polymer.

All five materials are used in a variety of industrial applications, including furniture, automotive and consumer electronics meeting specific customer demands, and have been awarded Silver certification.

For the production of prototypes, DSM introduced Somos® NeXt, the industry's most advanced stereolithography resin to date for approaching true thermoplastic performance. Somos® NeXt produces parts that demonstrate an unprecedented combination of stiffness and toughness which typically characterizes thermoplastics, yet with all of the high feature detail, dimensional accuracy and aesthetics offered by stereolithography.

The newest generation of optical fiber coatings from DSM, the global leader in fiber coating technology, is helping telecom operators make important savings by enabling at least 30% more fiber to be installed in access network ducts, the pipes that carry telecommunication cables to end-users in urban areas. This reduces the investment needed for digging new trenches and accelerates payback time.

Innovation at the crossroads of Life Sciences and Materials Sciences

Breakthrough innovation frequently takes place where different technologies or markets meet. Taking the global trends as a starting point for its innovation efforts, DSM is able to exploit this by initiating new developments at the crossroads of Life Sciences and Materials Sciences to develop new products and technologies to meet existing and emerging market needs.

DSM announced a major breakthrough in the technology to produce second generation biofuels. This breakthrough will help second generation biofuels – produced from the non-edible parts of agricultural residues – to become more cost effective and to become a viable alternative to both first generation biofuels and conventional fossil fuels.

Second generation refers to biofuels manufactured from agricultural residues or specially cultivated energy crops that do not compete with the food chain and can be grown on land that is deemed less suitable for food production. By enabling second generation processes the biofuels industry will be able to greatly improve its sustainability as it continues to grow and replace – finite – fossil-based fuels.

DSM's breakthrough comes as a result of two separate innovations, the first of which relates to its enzyme technology. By focusing its research on a fungal organism that typically thrives in compost heaps or on fallen trees, the company has identified enzymes that are able to break down biomass into its constituent sugars much more efficiently compared to products and prototype formulations available in the market today.

The advantage of these new enzymes lies not only in their ability to break down biomass into sugars more effectively than conventional enzymes, but also in the fact that they are able to function at higher temperatures. These unique properties enable a lower enzyme dosage, better control of the fermentation process, increased feedstock loading, reduced energy consumption and shorter processing time.

DSM's second innovation lies in its new advanced yeast technology. Micro-organisms such as yeasts or bacteria are essential to the biofuel production process as they are needed to convert the fermentable sugars generated from the biomass into ethanol, today's most widely used biofuel. There are two primary classes of fermentable sugars that are liberated from cellulosic biomass during hydrolysis, C6 and C5 sugars, referring to the number of C-atoms in the sugar molecule. Whereas in existing processes these microorganisms typically only consume C6 sugars, the DSM process is able to significantly boost the efficiency of second generation processes.

Through classical strain improvement combined with metabolic engineering DSM has developed an advanced yeast strain that is capable of converting all the major sugar components found in biomass (both C6 and C5 sugars) to bioethanol. It has been estimated that, taking a mixed sugar fermentation as an example, the overall ethanol yield using DSM's advanced yeast can be improved by up to 100% as compared to the yield of standard yeasts used today.

The combination of these two innovations will result in greatly improved process economics and productivity for second generation biofuel producers coupled with the sustainability benefits derived from the use of second generation feedstocks. The investment bank UBS recently estimated that second generation bioethanol will become the main transportation fuel over the coming decade, with a market valued at USD 80 billion annually by 2022.

For the automotive industry, DSM introduced two bio-based performance materials in response to customers' increasing demand for sustainable products. This marks an important step in DSM's aim of creating a portfolio of bio-based performance materials. The products are Palapreg® ECO P55-01, a bio-based resin for automotive vehicle body parts, including exterior panels, and EcoPaXX™, a bio-based, high performance engineering plastic.

Palapreg® ECO is composed of 55% renewable resources, making it the composite resin material with the highest bio-based content available on the market today. Industry testing has proven that DSM has been able to achieve this high renewable content without sacrificing product performance or production speeds.

EcoPaXX™ is a high-performance polyamide that combines the benefits of a high melting point (approximately 250°C), low moisture absorption and excellent resistance to various chemical substances, including for instance road salt. Approximately 70% of the material is based on building blocks derived from castor oil, a renewable resource.

Following the successful introduction of EcoPaXX™ DSM Engineering Plastics launched Arnitel® Eco, a high performance thermoplastic copolyester with a 20-50% content derived from renewable resources, depending on the hardness of the grade. The new material, which is already being sampled to selected customers, is specifically suited for applications in Consumer Electronics, Sports & Leisure and Automotive Interior.

Life Cycle Assessment of Arnitel® Eco shows a reduction in greenhouse-gas emissions, cradle to gate, of up to 50% versus oil-based thermoplastic copolyesters.

DSM and Novomer, Inc., based in Waltham (Massachusetts, United States), signed an agreement to jointly develop a revolutionary coating resin using CO_2 as a raw material. This follows a cooperation agreement and an investment by DSM Venturing in Novomer in 2007. Initial results are encouraging and suggest that this project might lead to completely new and improved application properties in coatings.

For the biomedical market, DSM announced the availability of development material and enabling technology for the industry's first medical grade of UHMWPE film for cardiovascular implants. Medical-grade UHMWPE film offers medical device companies an opportunity to significantly enhance the performance of cardiovascular devices such as stent grafts and covered stents for use in various applications. The usage of UHMWPE film opens up design possibilities that can potentially improve patient outcomes.

Dyneema Purity® BLUE became commercially available for medical device companies to create colored high-strength sutures. Dyneema Purity® BLUE is the first 100% colored implantable grade of UHMWPE fiber. It can be used in implantable applications to offer surgeons uncompromised strength, better contrast during arthroscopic surgeries and differentiation between multiple sutures on multiple anchors.

DSM extended its partnership with CID (Carbostent & Implantable Devices) based on the use of DSM ComfortCoat® hydrophilic coating technology on the Optima Jet Stent Delivery System and the Fluydo PTCA Balloon Catheter. The DSM ComfortCoat® Hydrophilic Coating was designed to enhance maneuverability of devices in minimally invasive procedures.

DSM also entered into six multi-year licensing agreements with global medical device manufacturers in the orthopedic, cardiovascular, vascular and urology fields in 2010. Continuing the company's successful track record, having also signed nine new license agreements in 2009, DSM has a history of partnering with medical device companies to develop new and innovative products that incorporate novel materials and technologies.

DSM and the National Institute for Materials Science of Japan joined forces on research in biomedical-related materials science. The initial focus of the collaboration will be on the development of non-fouling medical device surfaces that inhibit protein adsorption and cell adhesion. A two-year agreement was signed. The partners expect this joint research project to be the first of many collaborative undertakings in a long-term partnership going forward.

DSM further optimized its KhepriCoat™ solar anti-reflective coating technology. The improvements have already resulted in a significant contribution to the first multicrystalline-silicon solar panels in the world to achieve a conversion efficiency of 17%, which were produced by the Norwegian company REC and the Energy Research Center of the Netherlands. DSM's KhepriCoat™ solar anti-reflective coating system boosts light transmission of solar glass sheets by around 4%, resulting in a considerable improvement in solar module efficiency.

DSM also agreed the terms of a licensing deal with Berliner Glas KGaA, a leading European supplier of refined technical glass, for KhepriCoat™. Berliner Glas uses KhepriCoat™ to improve the performance of its glass in lighting cover applications.

New patent applications

DSM filed about 240 patents in 2010, compared to about 300 in 2009. In addition to filing own patents, DSM strengthened its Intellectual Property position through in-licensing of IP positions. This is a logical outcome of DSM's open innovation strategy, in which the company's own R&D efforts and patent filings are complemented by in-licensing of patents that have been filed by other companies.

DSM Venturing

DSM Venturing made an equity investment in US-based green chemistry company Segetis, Inc., based in Golden Valley (Minnesota, United States). Segetis has developed renewable chemistry which enables the use of non-food agricultural and forestry feedstock for the production of sustainable materials. The company produces versatile, cost-effective chemical building blocks (monomers) called levulinic ketals which can be used to make new classes of chemicals and plastics with an improved health and environmental footprint as well as novel performance attributes.

DSM Venturing also made an equity investment in Bioprocess Control AB (Sweden), a market leader in providing advanced control technologies and services that enable the efficient design and optimal operation of biogas processes. In addition to the investment, a strategic cooperation agreement has been signed which will enable DSM and Bioprocess Control AB to leverage their complementary activities in the area of biogas.

Recently DSM Venturing announced several investments. Germany-based SkySails GmbH & Co. KG (SkySails), the market and technology leader for automated towing kite systems for ships, received an investment from DSM Venturing. The investment is fully in line with DSM's strategic commitment to sustainability, innovation and partnerships as outlined in its corporate strategy. Depending on the prevailing wind conditions, a ship's average annual fuel costs and emissions can be reduced by 10 to 35% by using the SkySails system. Under optimal wind conditions, fuel consumption can temporarily be cut by up to 50%. The reduced fuel consumption leads to significantly reduced costs and lower emissions to safeguard the environment.

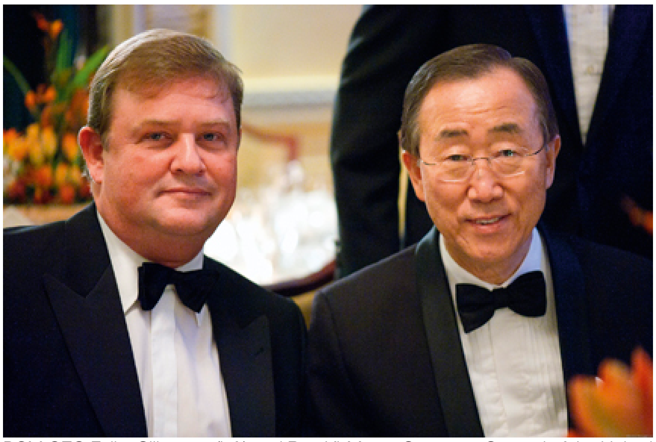
The venturing unit of DSM participated in a financing round for Verdezyne, Inc. (United States), an industrial biotechnology company developing cost-effective processes for the production of renewable fuels and chemicals. The additional financing allows Verdezyne to continue to build its yeast metabolic engineering capabilities to produce a pipeline of renewable transportation fuels and platform chemicals.

DSM Venturing made an investment in Xolve, Inc., a US-based start-up nanomaterials company. Xolve is developing and commercializing a revolutionary technology that enables simple room temperature processing of graphene and other nanoparticle composites, solutions and coatings. The company's activities have a fit with several strategic business areas in DSM's Materials Sciences clusters. CellMade™, a biotechnology company specializing in human cell biology and bio-analytics, received an investment from DSM Venturing which it will use for the further development and commercialization of its proprietary Cell*Insight* Systems Biology platform.

External recognition

DSM and its business groups have been awarded a variety of awards and other forms of recognition by customers, suppliers, the academic world, non-governmental and trade organizations. In this chapter an illustrative overview is given of the external recognition received by DSM.

DSM CEO Feike Sijbesma received the prestigious 2010 Humanitarian of the Year Award from the United Nations Association of New York for his outstanding commitment to corporate social responsibility and in particular for DSM's partnership with the United Nations' World Food Programme (WFP). Mr. Ban Ki-Moon, Secretary General of the United Nations, conveyed his appreciation of Royal DSM's work and its commitment to supporting the goals of the UN.



DSM CEO Feike Sijbesma (left) and Ban Ki-Moon, Secretary General of the United Nations, at the Banquet given after the presentation of the Humanitarian of the Year Award

At the beginning of 2010, DSM announced that it had extended its global partnership with WFP, the world's largest humanitarian organization fighting hunger worldwide, by three years. The aim of the partnership is to fight the debilitating effects of hunger in the developing world.

DSM was also recognized at the 2010 World Business and Development Awards Ceremony during the opening week of the United Nations' General Assembly in New York for its contribution to helping achieve the United Nations Millennium Development Goals (MDGs). DSM was honored for its innovative and targeted solutions specifically designed to meet the nutritional requirements of those in the developing world.

DSM continued its number one position in the chemical industry sector in the Dow Jones Sustainability World Index. In 2004, 2005, 2006 and 2009 DSM was also named the worldwide sustainability No. 1 in this sector, while in 2007 and 2008 the company ranked amongst the top leaders in the sector.

Standard & Poor's (S&P) upgraded its credit rating for DSM from 'A-' to 'A'. This rating had remained unchanged for nearly 12 years. According to S&P the rating reflects the company's "strong business risk profile" and incorporates DSM's financial risk profile which S&P assesses as "modest".

In various media, DSM's new remuneration system received much attention at the beginning of the year. DSM's CEO Feike Sijbesma was interviewed by CCTV in China about the company's new strategy and its vision on sustainability and appeared several times on CNBC. The scientific breakthrough in the development of second generation biofuels – which is discussed earlier in this report – also generated many headlines in the international press.

DSM received the Prix de Mazars 2010 for its 2009 Annual Report. The Prix de Mazars is sponsored by Mazars, an international organization of auditors, tax advisers and management consultants. DSM ranked first in a poll among nearly 1000 private investors and financial professionals. It was the second time in three years that DSM won this award.

During the yearly Strategy Platform for the Dutch Chemical Sector, DSM CEO Feike Sijbesma was chosen as Influencer of the Year. The award was voted on by around 90 senior decision makers in the industry, from three nominees. Feike Sijbesma was noted for his clear vision for the chemical industry and his further development of DSM's strategy.

Mr. Robert Kirschbaum, DSM's Vice President Open Innovation, was awarded the Giulio Natta Award 2010 in recognition of his contributions to innovation and the advancement of performance materials during an illustrious career in the chemical industry spanning several decades.

DSM received many more awards and other forms of external recognition. These can be found on the DSM website.

DSM Innovation Awards Program

DSM is deeply committed to promoting pioneering research that leads to products or applications that enhance people's quality of life. That is why the company has an Innovation Awards Program in place to recognize and reward the achievements of its own people as well as those of scientists working outside DSM who have displayed excellence in innovative research. In 2010 a number of awards were presented:

- Gert De Cremer was awarded the first prize in the DSM Science & Technology Awards (North) 2010. An international judging committee, chaired by DSM Chief Technology Officer Jos Put, selected Gert De Cremer, who received his doctorate from the Katholieke Universiteit Leuven (Belgium) for his PhD research on a new category of environmentally friendly fluorescent materials which can be manufactured on a large scale at low cost. These new materials offer an attractive alternative to currently used – but more expensive – materials for a variety of applications such as lighting, solar cells, security labeling and medical diagnostics.

- Philipp Heretsch was awarded the first prize in the DSM Science & Technology Awards (South) 2010. An international judging committee, chaired by Manfred Eggersdorfer, Senior Vice President Nutritional Science & Nutrition and Health Advocacy at DSM Nutritional Products, selected Philipp Heretsch, who obtained his doctorate from the Universität Leipzig in Germany for his PhD research pioneering a chemical synthesis route for the naturally occurring active compound cyclopamine, plus more stable and acid resistant derivatives thereof. This research is considered to be a great achievement in the development of more efficient therapeutic actives for cancer treatment.

- Han E.H. Meijer, Professor of Polymer Technology and Scientific Director of the Research School Eindhoven Polymer Laboratories at the Eindhoven University of Technology in the Netherlands, was awarded the DSM Performance Materials Award 2010 in recognition of his exceptional contributions to the advancement of the materials sciences. Professor Meijer is one of the world's leading scientists in the field of predicting polymer structuring during processing and the relationship between the resulting structure and the polymer's mechanical performance. His outstanding fundamental and applied research and his dedication to innovative science have earned him a high reputation in the academic world.

Review of business

In 2010 DSM's activities were grouped into four clusters: Nutrition, Pharma, Performance Materials and Polymer Intermediates.

Net sales, continuing operations

x € million	2010	2009
Nutrition	3,005	2,824
Pharma	739	721
Performance Materials	2,507	1,823
Polymer Intermediates	1,398	849
Other activities	527	508
Total	**8,176**	**6,725**

Operating profit (EBIT), continuing operations

x € million	2010	2009
Nutrition	569	521
Pharma	7	32
Performance Materials	179	68
Polymer Intermediates	192	6
Other activities	(195)	(194)
Total	**752**	**433**

Operating profit plus depreciation and amortization (EBITDA), continuing operations

x € million	2010	2009
Nutrition	702	655
Pharma	65	91
Performance Materials	299	174
Polymer Intermediates	229	36
Other activities	(134)	(122)
Total	**1,161**	**834**

EBITDA / net sales, continuing operations

in %	2010	2009
Nutrition	23.4	23.2
Pharma	8.8	12.6
Performance Materials	11.9	9.5
Polymer Intermediates	16.4	4.2
Total	**14.2**	**12.4**

Capital employed at 31 December

x € million	2010	2009
Nutrition	1,981	1,802
Pharma	907	789
Performance Materials	1,660	1,641
Polymer Intermediates	375	369
Other activities	356	387
Total continuing operations	**5,279**	**4,988**
Discontinued operations	189	685
Total DSM	**5,468**	**5,673**

Capital expenditure and acquisitions

x € million	2010	2009
Nutrition	153	82
Pharma	76	63
Performance Materials	118	139
Polymer Intermediates	46	25
Other activities	58	80
Total continuing operations	**451**	**389**
Discontinued operations	25	78
Total DSM	**476**	**467**

R&D expenditure (including associated IP expenditure), continuing operations

	x € million		as % of net sales	
	2010	2009	**2010**	2009
Nutrition	176	144	5.9	5.1
Pharma	69	73	9.3	10.1
Performance Materials	146	138	5.8	7.6
Polymer Intermediates	15	13	1.0	1.5
Other activities	18	10	3.5	2.0
Total	**424**	**378**	**5.2**	**5.6**

Workforce at 31 December

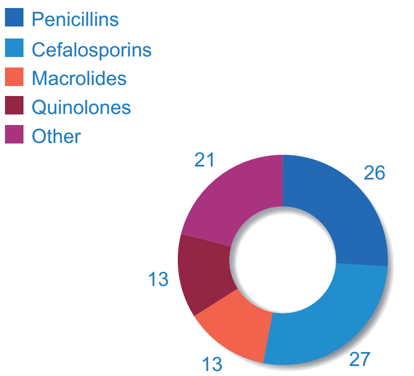
(headcount)	**2010**	2009
Nutrition	7,409	7,110
Pharma	4,079	4,374
Performance Materials	4,918	4,633
Polymer Intermediates	1,361	1,321
Other activities	3,726	3,620
Total continuing operations	**21,493**	**21,058**
Discontinued operations	418	1,680
Total DSM	**21,911**	**22,738**

Life Sciences

DSM's Life Sciences activities are bundled into two clusters: Nutrition and Pharma. In 2010, both clusters represented 46% of DSM's net sales from continuing operations.

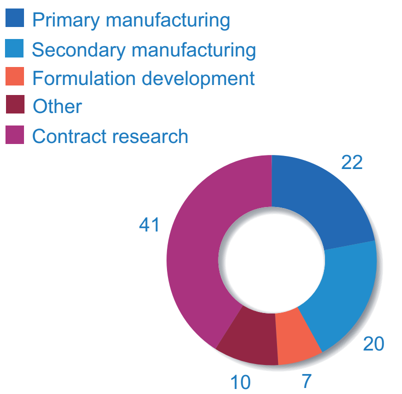
Global antibacterial market (USD 36 billion, in %)

DSM relevant market USD 19 billion, CAGR 5-7%



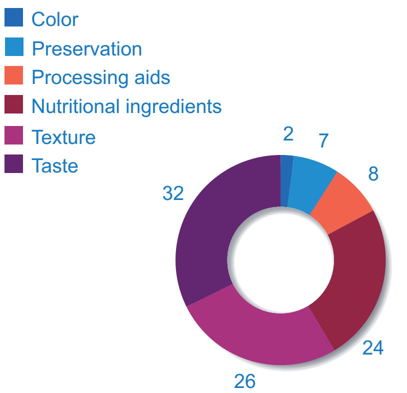
Global Pharma outsourcing market (USD 40 billion, in %)

DSM relevant market: USD 20 billion, CAGR 7-9%



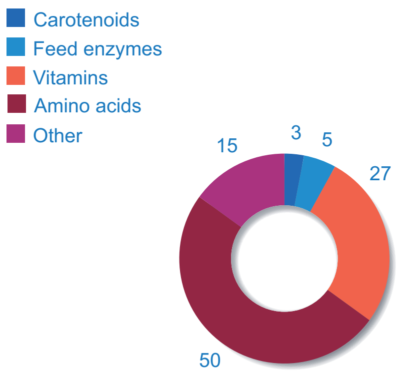
Food ingredient market (€ 34 billion, in %)

DSM relevant market: € 15-17 billion, CAGR 3-5%



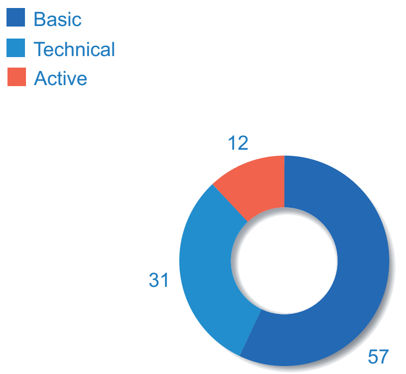
Feed ingredient market (€ 8 billion, in %)

DSM relevant market: € 3 billion, CAGR 2-4%



Personal Care market (€ 10 billion, in %)

DSM relevant market: € 4-5 billion, CAGR 3-6%



Review of business: Nutrition

Continued value growth

Net sales

€3,005 m

x € million	2010	2009
Net sales:		
DSM Nutritional Products:		
- Animal Nutrition and Health	1,540	1,478
- Human Nutrition and Health	923	845
- Personal Care	158	140
	2,621	2,463
DSM Food Specialties	384	361
Total	**3,005**	**2,824**
Operating profit	569	521
Operating profit plus depreciation and amortization (EBITDA)	702	655
Capital expenditure and acquisitions	153	82
Capital employed at 31 December	1,981	1,802
ROCE (in %)	30.1	27.0
EBITDA as % of net sales	23.4	23.2
R&D expenditure	176	144
Workforce at 31 December (headcount)	7,409	7,110

Business and trends

The Nutrition cluster concentrates on the food, feed and personal care ingredients markets. These markets are experiencing many of the same global trends that are impacting DSM as a whole, but also specific business and societal developments that are profoundly shaping the future.

Established and still influential trends such as consumer demands for convenient and indulgent products are supplemented by an ever-deepening concern about the health and wellness of rapidly aging populations and the emerging demand patterns in high growth economies, all of which combine with a continuing focus on cost.

Sustainability and food safety concerns continue to rise across all sectors, and increasingly across all major markets. Ingredients and methods of production and supply are not exempt from these concerns. Regulators are applying stricter standards to the oversight of product content, claims, processing methods and emissions.

More specific to the food ingredient sector, but linked to the issue of health and wellness, is the desire for natural ingredients. This captures the 'clean label' spirit, where some opinion-forming consumers in more mature markets are asking for fewer E-numbers, and 'no artificial flavors or preservatives'. DSM expects this trend to widen over the coming years. Although it will not represent a major part of the quantitative demand for some time, it will be addressed pro-actively.

These trends create a series of clear criteria for ingredient companies such as DSM. While the fastest future growth will come from high growth economies, the established economies remain vital not only as the largest markets but also as the central drivers of product innovation (especially the United States and Europe).

What is clear is that future growth in this industry will be largely driven by innovation. The total ingredients sector is growing faster than global GDP, but this hides a divergence between well-established ingredients and forms and more innovative ones. Growth is higher than GDP growth in markets for innovative solutions, such as new enzymes or new forms of established ingredients. In more established ingredients, such as ascorbic acid (generic vitamin C), growth is at or even below GDP growth. However, this is accompanied by a continuous drive towards more quality and safety, enabling companies with a premium positioning such as DSM to further expand their market share.

The Nutrition cluster comprises DSM Nutritional Products (DNP) and DSM Food Specialties (DFS). The nutrition and food ingredients businesses serve the food, feed, cosmetic and pharmaceutical industries. Activities are based on in-depth knowledge of customer/market needs. With customized formulation activities in more than 44 locations and a marketing/ sales presence reaching over 60 countries, customer intimacy is a key success factor. Technical expertise is based on application know-how and innovation translating market needs into products and services with new benefits. Technologies in the Nutrition cluster are broad, utilizing DSM's competences in biotechnology (including fermentation), chemical process technology and particle engineering. DSM is the world's largest vitamin producer and holds leading positions in the ingredient markets for animal and human nutrition and health as well as personal care.

DSM has a unique role within the ingredients industry: a considerable presence across all large ingredients markets and a highly developed 'local for local' infrastructure around the world. This gives the company unparalleled depth and breadth within and across sizeable markets – and this scale and breadth are the key to resilience in the marketplace.

The total food, feed and personal care ingredients market is assessed at € 52 billion. DSM has particularly strong positions in vitamins, enzymes, carotenoids and UV filters, which currently constitute an accessible market of almost half that amount. New and nature identical or natural nutritional ingredients as well as the expansion of the premix footprint in emerging economies are the main drivers in the areas of human and animal nutrition and health. Increasing emphasis on expanding its strong position in personal care ingredients offers considerable opportunity for accelerated growth, most notably because it is an industry driven by consumers' desire for new applications.

Strategic context

DSM Nutritional Products is organized around three market-facing entities: Animal Nutrition and Health (ANH), Human Nutrition and Health (HNH) and Personal Care (PC). ANH realized € 1,540 million in sales in 2010, HNH € 923 million and PC € 158 million. The growth rates have been 4% for ANH, 9% for HNH and 13% for PC.

HNH largely addresses the nutritional ingredients part of the food market. ANH addresses the nutritional additives segment of the feed market. PC is focusing on the actives and ingredients in the sun care, skin care and hair care industries. DSM Nutritional Products is the only producer who can supply the complete range of vitamins and carotenoids in the most suitable forms for all possible human and animal uses.

DSM Nutritional Products is uniquely involved in all three main steps of the value chain: the production of pure active ingredients, their incorporation into sophisticated forms, and the provision of tailored premixes. Being the only fully integrated player allows DSM to differentiate itself all the way through the chain. Managing the interdependencies between active ingredients, forms and premixes, which have important implications for innovation, logistics, and value delivery, is a core competence of DSM.

DSM Food Specialties is a leading global manufacturer of food enzymes, cultures, savory ingredients and other specialties for the food and beverage industries. In 2010 the business group realized sales of € 384 million, 6% higher than in 2009. DSM's advanced ingredients make a considerable contribution to the success of the world's favorite food brands for the dairy, baking, fruit juice, beer, wine and savory segments.

DSM Food Specialties is the global market leader in bio-ingredients in food and beverages. It holds leading positions (number one or number two) in the relevant segments of its portfolio. The business group's growth strategy is to exploit opportunities of current businesses via organic growth based on radical innovation, geographical expansion in high growth economies, and acquisitions.

Food processing ingredients represent on average approximately 2% of the value of the final product (hence a small percentage of the purchase value for food manufacturers), whilst the added value of the ingredients in terms of taste, texture and other functionalities is significant. Differentiation at this level, for instance through enzymes or vitamins, directly impacts the differentiation of the end-product.

DSM's Nutrition cluster is very international. Unlike some industries, many food markets remain 'local' – which means proximity to local consumers and their tastes and habits is key.

DSM Nutritional Products

Key drivers of profitability

- Leadership in global markets: differentiation, innovation, scale, cost and quality
- Strong customer value proposition – Quality for Life™ program
- Long history of nutrition innovation
- Value strategy
- Premix footprint expansion in high growth economies

• Focus on quality and manufacturing excellence

Key success factors
• Global sales, marketing and distribution network including global/regional key account management
• Innovation (products, concepts and processes)
• Complete product portfolio and full value chain player
• Strong differentiation

DSM Food Specialties
Key drivers of profitability
• Innovation in enzymes, savory ingredients and bio-actives
• Scale and production efficiency

Key success factors
• Innovation and value differentiation
• Key customer intimacy
• Global distribution network
• Quality and application know-how

The cluster in 2010
Since the announcement of DSM's Accelerated *Vision 2010* in 2007, a series of strategic actions has driven continuous sales growth and, more importantly, a step-change in profitability. This strategy has specifically addressed structural changes to the competitive landscape and a favorable shift in market dynamics, whilst also deepening the company's offer in terms of quality and customer service. The continuing strong focus on operational excellence has underpinned cost control. As a consequence, the Nutrition cluster has proven its resilience by sustaining EBITDA levels even through the worst recession in 70 years. A focus on value over volume through all areas of the business has boosted customer value by increasing understanding where DSM can add value to their business. Moreover, this specialty approach also drives DSM's differentiation strategy, ensuring it concentrates on profitable approaches, including activities that take it further down the value chain.

The Quality for Life™ seal – which stands for quality, reliability, traceability and sustainability – emphasizes DSM's commitment to the highest and most comprehensive standards, delivering on customer and consumer desire for peace of mind.

Ongoing expansion of the network of premix plants into new ANH markets has given DSM a closer connection to new customers and access to additional geographies and segments. In addition, the franchise operation in China was expanded, which was set up to sell smaller premix bags to farmers and smaller companies.

DSM Food Specialties continued its sustained resilience in performance in 2010, with strong growth in food enzymes and savory ingredients. The growth in food enzymes and savory ingredients is expected to continue, as enzymes play a decisive role in cost savings and sustainable production, whilst savory ingredients meet the market demand for natural ingredients and sodium reduction.

The focus on bio-ingredients – specialty products based on fermentation processes, such as yeast extracts, cultures and food enzymes – continues. DSM has the requisite expertise in enzyme and fermentation technology to take a leadership position in this market. Enzymes bring efficient and sustainable production closer to the manufacturer by accelerating certain reactions during production, reducing raw material usage, and reducing waste, emissions and energy need. Successful examples of DSM's innovation in enzymes resulting in increased sustainability are Rapidase® Smart for the fruit juice industry, Panamore™ for bakers, Brewers Clarex™ for the brewing industry, and Ronozyme® ProAct, which is significantly impacting the feed conversion rate of farm animals.

DSM has established leadership positions across all three areas of the ingredients business: food, feed and personal care. It is the world's largest producer of vitamins.

DSM's best-in-class biotechnology platform has led to the launch of several profitable food enzymes, and DSM has maintained its leadership position in feed enzymes through continued close collaboration with Novozymes.

In Personal Care, DSM has translated its proprietary expertise into growing market positions in sun care and skin care. In addition, the company has used its deep resins knowledge in Materials Sciences to create innovative new hair care products. This year, for example, it has introduced the Tilamar™ range of polymers used in hair styling, conditioning and shine.

DSM is working from its strong basis as a global market leader in key value-added ingredients offered through an international infrastructure and reach unequaled by any competitor. This enables the company to be a front-runner in terms of product quality and innovation, regulatory and technical expertise and customer and consumer understanding, while it also allows DSM to be seen as an opinion leader in nutritional science. This is becoming a key element in the company's ongoing development. As well as helping to build its own institutional knowledge and customer and stakeholder confidence, opinion leadership also potentially enables DSM to actively engage in discussions around nutrition guidelines, policy and practices with high level decision makers and authorities around the world.

The performance in 2010 was above 2009, in both sales and profitability. Organic sales growth was 2%, mainly driven by higher volumes. Operating profit of DSM Nutritional Products and DSM Food Specialties increased further, due to good market conditions, excellent manufacturing performance, good cost control and favorable currency exchange rates. The cluster remained focused on its value over volume strategy.

Looking ahead

DSM's future in the ingredients industry will depend on three core performance levers:

- Through operational excellence, DSM must maintain a cost position that is at least on par with the competition. This means continuing to look for process innovations and improvements, rigorous site selection, and pursuing 'asset light' strategies.
- Continued differentiation in the market is the key to capturing value and margin growth. DSM will continue to be the premium player in the sector, pursuing product and process innovation by making optimum use of its technology. Connecting technological advances with consumer trends and customer needs, DSM remains the innovation front-runner in nutrition.
- The company will also look to grow by extending partnerships and via acquisitions. This will focus on complementary ingredients which can be marketed through DSM's existing global infrastructure, or on expanding this infrastructure in areas where DSM is still under-represented. Examples are the premix acquisition from Bayer in Korea and the acquisition of Microbia, Inc. in the United States.

In December 2010 DSM and Martek Biosciences Corporation announced that they had entered into a definitive agreement under which DSM will acquire all the outstanding shares of common stock of Martek for USD 31.50 in cash per share for a total consideration of approximately USD 1,087 million. The tender offer that was the first step in this transaction was successfully completed on 18 February 2011. The transaction is expected to close at the end of February 2011.

This transaction is fully in line with DSM's 'continued value growth' strategy for its Nutrition cluster and adds a new growth platform for healthy and natural food ingredients for infant formula and other food and beverage applications, especially focused on polyunsaturated fatty acids such as microbial Omega-3 DHA (docosahexaenoic acid) and Omega-6 ARA (arachidonic acid).

Review of business: Pharma

Leveraging partnerships for growth

Net sales

€739 m

x € million	2010	2009
Net sales:		
DSM Pharmaceutical Products	392	395
DSM Anti-Infectives	347	326
Total	**739**	**721**
Operating profit	7	32
Operating profit plus depreciation and amortization (EBITDA)	65	91
Capital expenditure and acquisitions	76	63
Capital employed at 31 December	907	789
ROCE (in %)	0.8	3.6
EBITDA as % of net sales	8.8	12.6
R&D expenditure	69	73
Workforce at 31 December (headcount)	4,079	4,374

Business and trends

The Pharma cluster comprises the business groups DSM Pharmaceutical Products (DPP) and DSM Anti-Infectives (DAI). These business groups concentrate on the pharmaceutical outsourcing markets and the generic antibacterial market, respectively. DPP is one of the world's leading independent suppliers to the pharmaceutical industry. Many of today's medicines around the world contain ingredients produced by DSM. DAI is one of the few producers and marketers of beta-lactam active pharmaceutical ingredients with a global presence, using cutting-edge low-footprint enzymatic and water-based manufacturing technology.

The pharmaceutical market in general is facing a range of quickening trends and dynamics that question existing business models and are leading to some fundamental changes in the industry.

The patented pharmaceutical market's challenges are well documented. It is becoming ever harder to discover new active molecules with sufficient additional patient benefits and an acceptable risk profile – and which the FDA and other regulatory bodies are prepared to approve. This 'perfect storm' of developments is calling into question the 'blockbuster model': costs are rising at the same time as all health service providers – governments or insurance companies – are under enormous pressure to reduce cost.

Medicines are becoming an increasing element of healthcare costs, typically accounting for around 10% of total healthcare spend. As a consequence, both governments and insurance companies are looking to save by going 'out to tender' for drug supply contracts, explicitly searching for the lowest cost.

At the same time, the industry is facing a 'patent cliff': it is estimated that USD 260 billion worth of sales will go 'off patent' in the next five years. This is reflected in the steep growth of generic sales in both developing and developed markets, including emerging 'bio-similars'. Latest estimates indicate that generics and bio-similars will rise from 10-12% of global spending on medicines to 15% by 2015.

The implications of all this are profound. Pharmaceutical companies are consolidating, reviewing their business models and product ranges, and competing to develop increasingly 'niche', narrow spectrum and specialized drugs, often 'difficult to administer' drugs and bio-pharmaceuticals used only in hospitals. Whilst these can be high value, volumes are lower.

At the same time pharmaceutical companies are also pursuing the opposite: high volume, lower value opportunities in high growth economies. In response, many Western pharmaceutical companies have sought partnerships with low-cost country producers, with whom they can manufacture and market branded generic options, and focus on outsourcing. Also, the general importance of manufacturing and supply chain costs as a source of margin improvement for pharmaceutical companies has become much more prominent.

These changes in the industry present attractive growth opportunities for DSM. The intensity of cost pressure and openness to review business models across the industry is likely to mean above-GDP growth in the pharmaceutical outsourcing market. There is an increasing trend towards outsourced manufacturing; particularly for drugs nearing the end of their (patented) life cycle. The imperative to rationalize assets will lead to a greater focus on finding experienced and highly qualified partners to optimize the value chain.

Anti-infectives are a fast growing class of drugs in the high growth economies, with the beta-lactams class – DSM's area of leadership – accounting for more than half of the current USD 36 billion market. As healthcare coverage and quality expands in these countries, DSM sees attractive growth – around 5-7% per year – coupled with an increasing focus on quality. DSM is seen as an industry leader with clear market advantages, communicated via the DSMPureActives™ brand.

DSM's Pharma revenue is already significant in Asia – giving the company a clear head start in the world's fastest growing markets for pharmaceuticals in general, and anti-infectives in particular. This market currently represents only about 6-7% of total global pharmaceutical spend, but is estimated to rise to 20% by 2020 (Source: Credit Suisse/IMS). DSM is well positioned to take advantage of this.

DSM has already established a significant footprint in Asia, with its anti-infectives business having two production sites in China and one in India, supported by a network of sales offices.

Strategic context

DSM Pharmaceutical Products is a leading provider of high-quality custom contract manufacturing and development services to the pharmaceutical, biopharmaceutical and agrochemical industries. Customers around the world are serviced from five manufacturing sites in the United States and Europe. Among these customers are nine of the top ten pharmaceutical companies and the top three agrochemical companies as well as a large number of biotech, specialty and emerging companies across the globe. For reporting purposes the business unit DSM BioSolutions is part of DPP. In 2010 DPP's sales remained relatively stable.

The business group focuses on the innovative biopharmaceutical market as well as the merchant pharmaceutical fine chemicals markets. DSM Pharmaceutical Products consists of three business units: DSM Pharma Chemicals (custom chemical manufacturing services for complex registered intermediates and active pharmaceutical ingredients (APIs), including DSM Exclusive Synthesis (custom manufacturing services for the crop protection industry), DSM Biologics (biopharmaceutical manufacturing technology and services) and DSM Pharmaceuticals, Inc. (finished-dose-form manufacturing services). DSM BioSolutions focuses on custom manufacturing services based on microbial fermentation.

DSM Pharmaceutical Products' facilities have been approved by the US Food and Drug Administration (FDA), similar agencies in Europe, the Middle East, Africa and Japan and many other regulatory agencies. DSM Pharmaceuticals, Inc. is licensed by the US Drug Enforcement Administration to manufacture scheduled drugs.

DAI is the global market leader in active pharmaceutical ingredients (APIs) such as semi-synthetic penicillins and semi-synthetic cefalosporins (beta-lactams), and other active ingredients such as nystatin, which represent the biggest class of APIs in anti-infectives. DSM Anti-Infectives is also one of the few API manufacturers that continuously invest in R&D for generic antibiotics. Consequently, DSM manufactures nearly all its beta-lactam APIs and the related intermediates using proprietary biotechnology, which gives DSM leadership in terms of both cost and sustainability as it reduces energy use and minimizes the need for solvents. Consequently emissions and costs are considerably lower than with conventional technology. The opening of the new 6-APA plant in China will mark the completion of this technology rollout across the entire global production footprint.

The APIs produced via these proprietary biotechnology routes also offer advantages in terms of increased patient safety based on the higher purity of the products, and lower spillage in the processing step from API to finished dosage form. To complete DSM's enhanced eco-footprint, DSM Anti-Infectives is cutting down on the use of scarce resources where possible and is actively implementing the use of renewable energy sources in its operations.

DSM Anti-Infectives increased its sales in 2010 from € 326 million to € 347 million.

DSM Pharmaceutical Products

Key drivers of profitability

- Focus on end-of-lifecycle drugs and new products pipeline in pharma industry
- Innovative technologies for the future of pharma manufacturing
- Increased outsourcing by pharma, including technology transfers

Key success factors

Strong pipeline of service contracts based on:

- Large strategic customer partnerships
- Delivery to the DSM Quality for Life™ standards for quality, reliability and traceability
- Continued commitment to sustainability and innovative solutions for customer success

DSM Anti-Infectives

Key drivers of profitability

- Basic penicillin (PEN) price
- Access to regulated markets
- Currency exchange rate
- PEN production cost
- Conversion margins from PEN to SSPs and SSCs

Key success factors

- Market access through global presence/alliances
- New technologies
- Access to China
- Product differentiation / brand value
- Operational excellence
- Access to quality-oriented customers

The cluster in 2010

The same global trends as outlined earlier are also impacting DSM Pharmaceutical Products, bringing rapid change to the pharmaceutical outsourcing market. Whilst outsourcing is becoming increasingly common, the business remains inherently volatile. Customer demand fluctuates, sometimes quite violently, as customers take manufacturing back in house seeking to fill their own capacity, or see planned production phases delayed by the FDA or because of other business challenges. The rise of competitors from Asia is particularly keenly felt.

There has been a sharp increase in outsourced manufacturing to the high growth economies, although this has tended to remain at the level of ingredients (now moving towards regulated active ingredients) rather than final dosage products. As a result, a number of new entrants have come into the industry over the past few years.

The changing nature of global regulations is creating increased opportunities for bio-similar and bio-better production. DSM Biologics is well equipped to capture these opportunities.

The market context has fundamental implications for DSM Pharmaceutical Products. The biggest opportunities now lie where DSM's pharmaceutical customers expect the greatest cost pressure, that is, innovative drugs nearing the end of their patent protection and support in rationalizing supply chains.

DSM is recognized as a trusted and high quality provider, with an excellent track record in regulatory affairs and with outstanding R&D and manufacturing capabilities. More than this, customers see DSM as a company that understands the intricacies of technology transfer and asset optimization well.

All of these strengths mark DSM out as a leading player in the outsourcing market able to successfully manage and deliver complex manufacturing solutions – in other words DSM is now a quality leader in a market that is increasingly driven by cost.

Over the past few years, DSM has decisively tackled the challenging issues that were hampering the anti-infectives business. The tough but necessary decisions to rationalize the site portfolio have been taken, and by 2012 DSM will have completed its asset base turnaround with the opening of a new 6-APA plant in China. Not only will this significantly increase DSM Anti-Infectives' exposure to high growth economies in line with the DSM corporate strategy, it will also make the business less dependent on external penicillin sources.

Organic sales development in 2010 of the Pharma cluster was -1%. The much lower operating result of the cluster compared to 2009 was mainly due to DSM Pharmaceutical Products as it continued to face challenges as a result of low demand from pharmaceutical companies, delay in approvals and the loss of some large contracts. DSM Anti-Infectives' improved performance in its continuing business could not completely offset the loss of margin as a result of the termination of clavulanic acid production in 2009.

Looking ahead

DSM will further optimize DPP's current assets and re-focus them towards new customer requirements. This essentially means re-balancing towards lower cost assets in the high growth economies. The inherent volatility of the custom manufacturing business model makes optimizing asset utilization very challenging. In order to address this, DSM intends to significantly expand its range of own products. DSM believes it will drive positive results most rapidly if DPP partners with another company which has strengths complementary to its own.

DSM reached an agreement with Sinochem Group to form a 50/50 global joint venture for DSM Anti-Infectives. The transaction is subject to receipt of regulatory approvals (including approvals from regulatory authorities in China) and customary clearances from competition authorities in the European Union and elsewhere. In addition, DSM's works councils will be requested to render advice in relation to the proposed transaction. The parties anticipate closing to take place in Q2 2011. Upon closing, the effective date of the transaction will be 1 January 2011.

As part of the joint venture agreement, Sinochem Group will take a 50% equity interest in DSM Anti-Infectives for a total cash consideration of € 210 million on a cash and debt free basis. The joint venture will be headquartered in Hong Kong. Current DSM Anti-Infectives employees, in total around 2,000 people globally, will be part of the new entity. The joint venture will include all of the current DSM Anti-Infectives activities across the world.

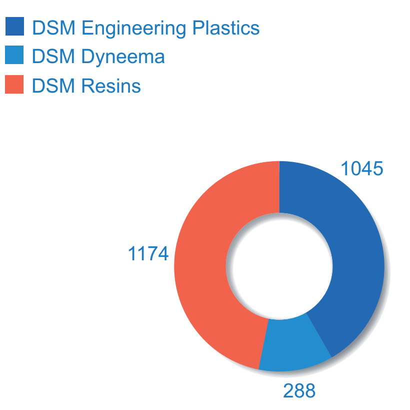
The joint venture with Sinochem is fully in line with DSM's stated strategy for its Pharma cluster: creating value via partnerships. The combination of DSM's strong global market position in anti-infectives and Sinochem's significant sales infrastructure presents exciting future growth opportunities through combined technologies and access to the fast growing Asian economies. DSM Anti-Infectives, the global leader in beta-lactam antibiotics, has successfully applied its highly innovative biotechnology knowledge to improve and transform its business.

Both companies are convinced that together they will be better able to capture the growth opportunities in China and other high growth economies, combining DSM's proprietary technology position and global production footprint and Sinochem's distribution and sales capabilities and global growth ambition in biopharmaceuticals.

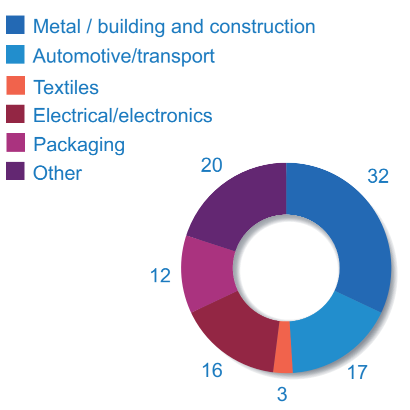
Materials Sciences

DSM's Materials Sciences businesses comprise the Performance Materials and Polymer Intermediates clusters. In 2010 the two clusters represented 48% of DSM's total net sales from continuing operations.

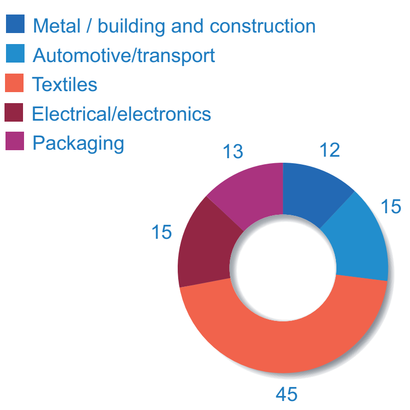
Performance Materials cluster sales (2010)
(x € billion)



Performance Materials sales by end-market (2010)
(in %)



Polymer Intermediates sales by end-market (2010)
(in %)



Review of business: Performance Materials

Growing via sustainable, innovative solutions

Net sales

€2,507 m

x € million	2010	2009
Net sales:		
DSM Engineering Plastics	1,045	648
DSM Dyneema	288	222
DSM Resins	1,174	953
Total	**2,507**	**1,823**
Operating profit	179	68
Operating profit plus depreciation and amortization (EBITDA)	299	174
Capital expenditure and acquisitions	118	139
Capital employed at 31 December	1,660	1,641
ROCE (in %)	10.8	4.1
EBITDA as % of net sales	11.9	9.5
R&D expenditure	146	138
Workforce at 31 December (headcount)	4,918	4,633

Business and trends

The Performance Materials cluster comprises the business groups DSM Engineering Plastics, DSM Dyneema and DSM Resins. These business groups specialize in the manufacture of technologically sophisticated, high-quality products that are tailored to meet customers' performance criteria. DSM Engineering Plastics is a global supplier of high-performance engineering thermoplastic solutions. DSM Dyneema is the global supplier of Dyneema®, the world's strongest fiber™. DSM Resins is a global supplier of innovative high-quality resins solutions for paints and coatings, composite materials and fiber optic coatings.

Climate change and the adverse effects of over-dependence on fossil fuels continue to be the most important trends driving the materials industry. DSM's customers in virtually every sector are seeking products that reduce energy use or emissions in their own operations or, even more importantly, throughout their value chains. In many cases DSM is active in the business of replacing metals with lighter alternatives, for example, and supports customers who are increasingly seeking polymer solutions that are based on renewable (rather than fossil-based) raw materials and solvent-free products and processes that can help create more sustainable value chains. Resource scarcity, which also impacts costs, is increasingly contributing to these developments.

Energy reduction is key. This means not only finding new, less energy-intensive ways to manufacture DSM's own products, but also, for example, developing resins systems that require less energy for curing, thereby saving energy in the application of DSM's products. By providing lighter weight solutions than, for instance, conventional metal structures, DSM products help reduce energy consumption during use as well, thus making a significant contribution to the reduction of energy and carbon footprints across the planet.

Workplace health and safety standards are becoming more common across the world as prosperity grows. Health and wellness also translates into meeting the needs of an increasing elderly population. These needs require new thinking, and new applications. Urbanization is an important driver for building and construction – one of the areas in which DSM plays an important role with innovative resins solutions.

An aging population is just one of the radical global shifts DSM is now seeing. The world has become multi-polar and more difficult to predict, with rapidly growing prosperous middle classes in many formerly 'emerging' countries. Demand for plastics and resins is therefore high and increasing in these markets, not only because manufacturers are seeking to meet growing local needs, but also because global manufacturing has shifted to these countries.

At the same time, concerns about personal safety and global threats have not diminished. Innovation in this area is needed. The elimination of hazardous substances such as halogens in flame retardants in consumer electronics and the replacement of solvent-based resins by water-based resins continues.

DSM's Performance Materials cluster has expanded significantly in the last two decades from just over €0.5 billion in sales in 1990 to €2.5 billion in 2010.

With major investments in high growth economies such as China and India, the Performance Materials cluster is making a major contribution to DSM's growth in Asia. For instance, both DSM Engineering Plastics and DSM Resins have opened new plants in China in the last few years. DSM Engineering Plastics has opened a new facility and DSM Resins announced a joint venture for the manufacturing of unsaturated polyester and vinyl ester specialty resins in India.

The Performance Materials cluster outperformed its innovation target to 2010. Despite the downturn, innovations in performance materials continued to accelerate. With the great majority of these innovations driven by sustainability, DSM's Performance Materials cluster is recognized as a front-runner in creating and introducing sustainable innovative solutions.

During the last two decades, the portfolio in Performance Materials has clearly evolved towards more specialized, higher-value-added businesses. Innovations, branding and continued operational excellence programs in the more mature part of the portfolio have contributed to a continuous increase in gross margin.

The cluster reacted quickly and very flexibly to the downturn, focusing strongly on reducing operating working capital, implementing cost-saving plans and reducing fixed costs. As a result, the Performance Materials cluster is recovering as economic growth returns. Indeed, in some key segments, DSM has been clearly gaining market share by staying focused on innovation and sustainability and by remaining close to its customers.

The businesses in the Performance Materials cluster have achieved strong leadership positions in chosen segments of the global markets for advanced materials.

DSM Engineering Plastics has a focused portfolio of products; with each of them it has realized global leadership. DSM Engineering Plastics is the global number 3 in the overall market for semi-crystalline engineering plastics. DSM is the global market leader in high-temperature polyamides. In polyamide 6, DSM holds a number 2 position, as it does in thermoplastic copolyester elastomers.

Dyneema® is respected as the global premium brand for ultra high molecular weight polyethylene fiber. DSM Dyneema manufactures and sells products in several forms including fiber, tape and uni-directional (UD) sheets. The powerful Dyneema® brand is licensed for use in a wide and ever-increasing range of applications such as medical sutures, commercial fishing and aquaculture nets, ropes, slings, high-performance fabrics such as cut-resistant gloves and apparel and vehicle and personal ballistic protection. DSM Dyneema is an undisputed and highly successful leader in sustainable innovation.

DSM Resins ranks among the global leaders in the markets for resin systems for industrial coatings and decorative coatings. DSM is a niche player in functional materials with a global leadership position in fiber optic coatings, protecting more than one billion kilometers of fiber optic cables around the world. As a leader in sustainable solutions, DSM is recognized as a front-runner in the development and production of environmentally friendly resins such as waterborne coating resins and powder coating resins. DSM Resins is the European market leader in unsaturated polyester resins and is rapidly building a position in the fast growing markets of China.

DSM Engineering Plastics

Key drivers of profitability

- Market growth in key segments and regions
- Sustainable solutions driving innovation: green materials, weight reduction (replacing metal, fuel efficiency, reduced emissions), halogen free
- Drive for miniaturization, functionality and performance
- Growth in market share in high-end innovative applications

Key success factors

- Global market leadership in chosen markets
- Global presence (follow customers)
- Cost position
- The right portfolio of engineering plastics matching needs in chosen markets
- Ability to commercialize market-driven innovations
- Product, application and value chain know-how

DSM Dyneema

Key drivers of profitability

- Market growth and penetration into existing applications

- Success of innovations, new launches
- Dyneema® and Dyneema Purity® brands

Key success factors
- Capability to manage growth, both in hardware and in people
- Ability to commercialize market driven innovations
- Product, application and value chain know-how
- Strong, healthy IP position (patents & trademarks)
- Brand value (trust and innovation)

DSM Resins

Key drivers of profitability
- Market growth in key segments and regions
- Sustainability: lighter materials and environmentally friendly, safer, solvent free paints
- Growth in market share in high-end innovative applications

Key success factors
- Global market leadership and presence
- Brand value (differentiation, reliability)
- Ability to commercialize market driven innovations
- Leading low-footprint technology platforms geared towards markets

The cluster in 2010

DSM Engineering Plastics offers an industry-leading portfolio of green thermoplastic technologies. Its leadership in sustainable solutions is demonstrated by its complete portfolio of halogen-free engineering plastics, developed for a wide range of high-performance applications. This has been further strengthened by the successful launch of new innovations, of which Stanyl® ForTii™, the new breakthrough high-temperature polyamide with halogen-free flame retardant grades, is a recent example.

DSM strives to further improve the environmental performance of its products. The most innovative developments in this field are new bio-based polymers and bio-based building blocks. DSM is already making good progress on this front: EcoPaXX™ is the best-performing green polymer available, and has a zero carbon footprint (cradle to gate). Also, with Palapreg® ECO, DSM has created a resin with 55% bio-renewable content (the highest bio-based content in resins on the market) which has excellent properties while simultaneously supporting sustainability in the value chain.

Many of DSM's customers are looking for materials with high recyclability to improve the Life Cycle Assessment scores of their own products. DSM Engineering Plastics is leading the response to this need. Recognizing the growing interest in recycling with the ultimate goal of achieving closed-loop systems, DSM has adopted the Cradle to Cradle® concept as part of its sustainability strategy. DSM Engineering Plastics is also actively replacing hazardous materials, particularly by introducing halogen-free alternatives, such as Arnitel® XG (used in consumer electronics cables), Stanyl® ForTii™ (especially in electronic connectors), and Arnite® XG (used in electrical insulation in white goods).

The Dyneema® brand is well known in the industries served, and DSM Dyneema is at the final stages of implementing a comprehensive brand licensing strategy which will result in a number of new licensees and enhanced control of the brand. This strategy is particularly targeted at supporting key customers. DSM Dyneema conducted a comprehensive eco-footprint study throughout the commercial marine (wild catch) industry. The results demonstrate conclusively that trawlers equipped with nets and ropes made from Dyneema® are inherently more fuel efficient and safer to operate than those employing conventional steel and nylon equipment.

DSM Resins' waterborne coatings range already delivers significant advantages to its paint customers, who are faced with regulatory pressures and social responsibility demands. An example is NeoCryl®, a family of waterborne resins that meet food safety standards and can therefore be used in inks and overprint varnishes that come into direct contact with foods.

DSM's resins also deliver considerable advantages in creating lightweight composites used in containers, cars, trucks and trains, wind-turbine blades and a range of other applications related to improving energy efficiency. DSM will further increase the flow of radical innovations. DSM Resins' ongoing focus on and commitment to both customers and innovation gives DSM a strong competitive advantage versus the competition.

Organic sales growth in 2010 was 31%, highlighting a very strong recovery from the depressed year 2009 in all three business groups. Prices at DSM Dyneema were flat, but clearly increased in the other two business groups. The sales increase was reflected in the operating result, which showed a significant improvement, especially in the first half of the year because of downstream restocking. The second half of the year was affected by increased feedstock prices.

Looking ahead

Many of the core end-markets for DSM's Performance Materials cluster have suffered during the current downturn. But just as DSM's sales volumes saw a serious decline in 2008, DSM expects to benefit from the strong return to growth in these sectors during the period from 2011 to 2013. Automotive, personal protection and electrical and electronics are all expected to see above-GDP growth during the coming period.

To realize the opportunities in high growth economies, DSM will continue to invest in these markets. DSM Engineering Plastics and DSM Resins will set up a Materials Research and Automotive Development Center in Shanghai. This will be DSM's biggest center for advanced materials research outside the Netherlands. Through the research center, DSM will deliver its global capabilities in advanced materials to the strategic Chinese market.

DSM's Engineering Plastics business focuses on further strengthening its leading positions in high temperature polymers, polyamide 6 and copolyester elastomers and on using its applications leadership to meet the needs of its customers, who are increasingly focused on creating sustainable, and at the same time profitable, products and value chains.

An important prerequisite for DSM Engineering Plastics' ambitious growth is its strong upstream integration in a leading caprolactam player: DSM Fibre Intermediates.

DSM Dyneema is committed to supporting customers and to developing new products, forms, applications and markets. DSM Dyneema believes that it can continue to achieve rapid sales growth by further expanding into new markets and applications, while accelerating the replacement of traditional materials in existing ones.

Innovation remains key: DSM Dyneema's product portfolio already includes over 100 inventions protected by 500 patents or patent applications. DSM Dyneema has innovated towards diverse applications ranging from developing new medical devices for surgeons to increasing the towing capacity of ocean salvage vessels.

DSM will accelerate innovations and get them to market even quicker by extending its co-creation partnerships with leading value chain players. This will help DSM Dyneema to extend the penetration of the product into new markets. The combination of light weight and high strength of Dyneema® fiber has huge potential in areas yet untouched. Growth will be driven by even more creativity in application development.

Like other materials businesses of DSM, DSM Resins will focus on high growth economies. This means its investments will also largely be in these economies. For DSM Resins, the main high growth economies are China and India. In addition, there is extra focus on growth in the US markets.

Furthermore, DSM Resins' focus is on accelerating growth, particularly via innovations, and on meeting the sustainability demands of the value chains it operates in. The business group will continue to do this by carefully selecting combinations of end-markets and regions that are characterized by high growth and attractive margins and that can benefit from DSM's advanced technologies.

With its range of innovative specialty resins, DSM is able to differentiate itself from the competition. In many cases, the resin is the key differentiator for the end product. DSM Resins is creating customer value by understanding what its customers need and where it can add to their business and their customers' businesses. Strengthening value-based pricing by focusing on specialty functionality will add value to DSM Resins' customers as well as to the company's own operations. DSM Resins will also look to grow through selective acquisitions.

DSM's businesses in the Performance Materials cluster will aim for faster growth than the sector averages by focusing investment, marketing and business development on high growth economies; by utilizing their understanding and technology lead in sustainable solutions to meet rapidly developing customer needs (lighter, stronger, more recyclable, and bio-based) and by deepening their innovation leadership position in materials by getting great ideas to market even more quickly. Continued growth for sustainable and innovative solutions is foreseen. For the cluster, DSM expects sales to grow at twice the worldwide GDP growth rate.

Review of business: Polymer Intermediates

Strengthening backward integration for DSM Engineering Plastics

Net sales

€ 1,398 m

x € million	2010	2009
Net sales		
DSM Fibre Intermediates	1,398	849
Total	**1,398**	**849**
Operating profit	192	6
Operating profit plus depreciation and amortization (EBITDA)	229	36
Capital expenditure and acquisitions	46	25
Capital employed at 31 December	375	369
ROCE (in %)	51.6	1.5
EBITDA as % of net sales	16.4	4.2
R&D expenditure	15	13
Workforce at 31 December (headcount)	1,361	1,321

Business and trends

Caprolactam

DSM Fibre Intermediates is the global leader in the production and supply of caprolactam, the raw material for polyamide 6 (nylon). It has production facilities on three continents (Europe, North America, Asia) with a total production capacity of nearly 700 kilotons per year. DSM supplies around 20% of the merchant market. DSM Fibre Intermediates offers caprolactam of world-class quality with a high level of service to build long-term valuable partnerships with customers.

Over 40% of all caprolactam produced globally is made using DSM's proprietary technology. The fact that even DSM's competitors use this technology is proof of the leadership reputation of DSM Fibre Intermediates. This technology leadership is the pillar of its commercial success and will be even more important in the future, when polyamide 6 will be used in increasingly demanding applications with stricter performance requirements.

Caprolactam's key outlet is polyamide 6, of which approximately 4 million tons per year are produced worldwide. The applications of polyamide 6 are very diverse, covering many end-markets, from carpets and textiles to cars, electrical devices and packaging film. Some of these applications are sensitive to the larger economic cycle (automotive, housing, luxury electronics), while others (like textiles) are quite stable.

With its local presence and production facilities, DSM Fibre Intermediates has established a strong caprolactam position in China, resulting from excellent and crisis-proof partnerships with winning customers in the downstream polyamide 6 industries.

DSM Fibre Intermediates supplies key intermediates to DSM Engineering Plastics. In this way, DSM Fibre intermediates has a secured base load and DSM Engineering Plastics enjoys security of supply. Thanks to this integration, DSM Fibre Intermediates contributes to the success of DSM Engineering Plastics.

By keeping a strong focus on the potential of high growth economies, sustainability and technological innovation and by showing an unwavering commitment to its customers, DSM Fibre Intermediates has strengthened its global leadership position.

Acrylonitrile

With its market share of 25%, DSM Fibre Intermediates is the leading supplier in the European merchant acrylonitrile market while globally it ranks third. Acrylonitrile is produced at the

Chemelot site in Sittard-Geleen (Netherlands) in two identical plants, with a total capacity of 275 kilotons per year. The feedstocks for the production of acrylonitrile are air, propylene and ammonia. The on-site availability of these raw materials results in a high level of efficiency. Even the recovered by-products of the production process increasingly contribute to profitability.

As DSM Fibre Intermediates, with its distinguishing focus on reliability and responsiveness, continues to shift its customer portfolio towards the strongest European market segments it sustains its sound financial performance.

DSM Fibre Intermediates' production of acrylonitrile involves the efficient recovery of by-products (hydrogen cyanide, ammonium sulfate and acetonitrile) and the efficient use of energy and raw materials. A recently performed Life Cycle Analysis of acrylonitrile revealed that DSM Fibre Intermediates is a leader in the acrylonitrile industry with respect to carbon footprint.

Acrylonitrile is a key ingredient for bright, fashionable acrylic textile and carpet fibers and for materials (acrylonitrile-butadiene-styrene, ABS and styrene-acrylonitrile, SAN) for automobile components, electronic devices, toys and sports equipment. The application of acrylonitrile in a wide range of valuable specialty products (e.g. carbon fibers, water treatment additives, enhanced oil recovery, detergents) is rapidly growing.

DSM Fibre Intermediates

Key drivers of profitability

- Growth (DSM Engineering Plastics, China)
- High utilization rates
- Volatility of raw material prices

Key success factors

- Low-cost operations
- Security of sales (excellent global coverage)
- Reliable supply, consistently good product quality
- Technology leadership

The cluster in 2010

Both the caprolactam and the acrylonitrile industry were impacted by the 2008/2009 economic downturn, which caused the demise of several acrylonitrile producers for example.

However, the industry has recovered resiliently and producers are running their assets at high utilization rates again to supply a tight market.

DSM Fibre Intermediates has emerged stronger from the downturn, with improved yields, reduced variable and fixed costs, good profitability and a continued full focus on customers and sustainability. Its significant foothold in high growth economies has particularly benefited its caprolactam business.

Organic sales growth of caprolactam was strong throughout the year due to higher selling prices and continued strong demand. Consequently, operating profit showed a strong increase compared to 2009 in spite of the scheduled maintenance turnarounds in China and Europe.

DSM Fibre Intermediates' strong position as a sustainable and leading supplier of acrylonitrile in Europe was the key to overcoming the economic downturn. The business group emerged as the preferred supplier to its customers, producing at the lowest cost per ton while maintaining its 'license to operate'.

Organic sales growth in 2010 was 59%, reflecting very strong trading conditions for caprolactam as well as acrylonitrile. These excellent trading conditions resulted in an unprecedented operating result.

Looking ahead

Caprolactam

The future of the caprolactam industry looks bright. Strongly driven by the growth of engineering plastics and film applications of polyamide 6, the global caprolactam market will grow by ~2.5% annually over the next five years.

Healthy demand from the textile industry and very strong growth in the engineering plastics and film segments (annual growth rate > 10%), will drive the demand growth in the greater China region by ~5%. The region will consume half of the world's caprolactam by 2015.

Currently, China is largely dependent on imports to satisfy the demand for polyamide 6. Half of the polyamide 6 needed is imported and approximately two-thirds of the caprolactam needed for the local production of polyamide 6 has to be imported as well. The rapidly increasing demand (both captive and merchant) fuels the Chinese government's intention to replace imported caprolactam by local production.

With projected increases in both demand and capacity, global utilization rates are expected to remain high in the coming years (over 90%).

DSM Fibre Intermediates has a uniquely strong starting point to make the best of the opportunities via global and Chinese growth. Its global market position, a solid partnership in China, excellent performance, technological leadership and a growing secured supply to an ambitiously growing DSM Engineering Plastics provide the foundations for building a second caprolactam line in Nanjing (China), doubling capacity there by 2014. For caprolactam, the increases in both global demand and global capacity will be balanced in the coming years and global utilization rates are expected to remain high. This, together with sound margins, provides an excellent foundation for expanding DSM's caprolactam production capacity.

Besides expanding its caprolactam capacity, DSM Fibre Intermediates will continue to improve its existing assets by means of projects to extend the life time and to reduce variable costs, while maintaining a firm commitment to sustainability.

Acrylonitrile
Globally, the demand for acrylonitrile will grow roughly along with the global economy. Thus, a current global annual demand of ~5 million tons and GDP growth of 2% per year, amounts to an additional demand of 100 kilotons of acrylonitrile each year.

Global acrylonitrile capacity in 2010 was close to 6 million tons per year. The market is expected to remain tight, as there is only one major acrylonitrile expansion project underway: a 200 kt/yr plant being built in Asia.

The main growth sectors for acrylonitrile are the ABS and SAN markets. Especially in Asia the demand for ABS and SAN is growing fast, at 5 to 10 % per year, driven by growing populations that partially spend their increasing wealth on basic household appliances like refrigerators and washing machines. Within Asia, China will lead this growth.

An up-to-date industrial infrastructure and the availability of low-cost raw materials make the European acrylonitrile producers the global cost leaders. With their excellent competitive positions, they outperform their US and Chinese competitors. This situation is expected to continue into the coming years.

DSM Fibre Intermediates will strengthen its position as a sustainable and leading supplier of acrylonitrile in Europe, being the preferred supplier to customers and producing at the lowest cost per ton while maintaining its 'license to operate'. In addition, it is currently investigating the feasibility of expanding its acrylonitrile production capacity to 300 kt/yr.

Being a European player, DSM Fibre Intermediates does not strive to expand its acrylonitrile business to Asia. However, to keep a strategic 'window on Asia', some customers in Asia are supplied through swaps with acrylonitrile producers in the United States and Japan.

Other activities

Other activities comprises various activities and businesses that do not belong to any of the four reporting clusters. It consists of both operating and service activities and also includes a number of costs that cannot be logically allocated to the clusters. Other activities includes the DSM Innovation Center, DSM Venturing, the Maleic Anhydride and Derivatives business, DEX Plastomers and a number of other activities such as Sitech Services, DSM Insurances and part of the costs of corporate activities. The segment normally has a negative operating result.

x € million	**2010**	2009
Net sales	527	508
Operating profit	(195)	(194)
of which:		
- Defined benefit plans	(63)	(70)
- DSM Innovation Center	(61)	(54)
- Other	(71)	(70)
Operating profit plus depreciation and amortization (EBITDA)	(134)	(122)
Capital expenditure and acquisitions	58	80
Workforce at 31 December (headcount)	3,726	3,620

DSM Innovation Center

The DSM Innovation Center was originally set up to facilitate the *Vision 2010* change program towards an intrinsically innovative organization. To the extent that costs of the DSM Innovation Center cannot be directly allocated to clusters, they are reported in Other activities. A comprehensive description of the activities of the DSM Innovation Center is provided in the Innovation section on page 71. As from 2011, Innovation will be reported on as a separate cluster.

DSM Venturing

DSM Venturing participates in external start-up companies or funds and is constantly on the lookout for investment opportunities in innovative businesses or technologies in the fields of Life Sciences and Materials Sciences. DSM Venturing plays an important part in DSM's open innovation policy and invests in activities that are of immediate or potential relevance to DSM. In addition to direct investments DSM Venturing is also involved in a number of venture capital funds. For more information see the Innovation section on page 71.

Sitech Services

Sitech Services was founded on 1 September 2008, combining DSM Manufacturing Services, Chemelot Park Protection and Chemelot Infra. Services provided include technological consultancy, expertise in auxiliary materials and human resources management.

Corporate activities

Various holding companies and corporate overheads are reported in Other activities. The most important cost elements in this respect are related to defined benefit pension plans and share-based compensations for the group.

DSM Insurances

DSM retains a limited part of its Property Damage and Business Interruption and Product Liability risks via a captive insurance company. Damages incurred in 2010 were very limited.

Defined benefit plans

The costs for defined benefit plans are not allocated to the clusters, because objective allocation criteria are lacking.
A substantial part of the defined benefit liability relates to former employees.

Associates

DSM has a share in a limited number of associates. Their contribution to the result was negligible.

Discontinued and deconsolidated activities

In the second quarter of 2010 DSM completed the sale of DSM Agro and DSM Melamine to Orascom Construction Industries. Before their divestment both business groups, which represented individual cash generating units, were reported in the Base Chemicals and Materials cluster.

As a result of the divestment, DSM's interests in the Utility Support Group B.V. (USG) and in EdeA v.o.f. were also reduced. At the end of June DSM only retained significant influence in the financial and operating policy decisions of both companies and therefore consolidation of USG and proportionate consolidation of EdeA were terminated. The remaining investments in both entities were recognized at their fair value at the time when (proportionate) consolidation was terminated and accounted for in accordance with the equity method. These de-recognitions led to an immaterial result.

In July DSM reached an agreement with Emerald Performance Materials regarding the sale of DSM Special Products B.V. The sale was completed in December 2010. In September DSM reached an agreement with Adcuram regarding the sale of S.A. Citrique Belge N.V. Both businesses were classified as held for sale at the end of the first nine months and reported as discontinued operations. Before their reclassification DSM Special Products B.V. and S.A. Citrique Belge N.V. were reported in the Base Chemicals and Materials cluster.

Furthermore, DSM reached an agreement regarding the sale of the Keltan® business unit of DSM Elastomers to LANXESS and finalized the divestment of the other DSM Elastomers business unit Sarlink® to Teknor Apex. As a consequence, the entire business group DSM Elastomers was reclassified from the Base Chemicals and Materials cluster to discontinued operations.

In addition, the remaining activities of the Base Chemicals and Materials cluster were reclassified to Other activities. DSM has stopped reporting on the Base Chemicals and Materials cluster, as announced earlier.

Corporate governance and risk management

Introduction

This chapter includes, among other things, the information regarding corporate governance as referred to in Section 2 of the Dutch governmental decree of 23 December 2004 establishing further instructions concerning the content of the annual report (*Besluit van 23 december 2004 tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag, Staatsblad* [Bulletin of Acts and Decrees] 2004, 747) as amended in April 2009 (*Staatsblad* 2009, 154) and December 2009 (*Staatsblad* 2009, 545).

Koninklijke DSM N.V. (Royal DSM) is a company limited by shares listed on NYSE Euronext, with a Managing Board and an independent Supervisory Board. Members of the Managing Board and the Supervisory Board are appointed (and, if necessary, dismissed) by the General Meeting of Shareholders.

The Managing Board is responsible for the company's strategy, its portfolio policy, the deployment of human and capital resources, the company’s risk management system and the company's financial performance. The Supervisory Board supervises the policy pursued by the Managing Board, the Managing Board's performance of its managerial duties and the company's general course of affairs, taking account of the interests of all the company's stakeholders. The annual financial statements are approved by the Supervisory Board and then submitted for adoption to the Annual General Meeting of Shareholders, accompanied by an explanation by the Supervisory Board of how it carried out its supervisory duties during the year concerned.

The company is governed by Dutch law and its Articles of Association, which can be consulted at the DSM website (www.dsm.com). The General Meeting of Shareholders decides on an amendment to the Articles of Association by an absolute majority of the votes cast. A decision to amend the Articles of Association may only be taken at the proposal of the Managing Board, subject to approval of the Supervisory Board.

DSM fully informs its stakeholders about its corporate objectives, the way the company is managed and the company's performance. Its aim in doing so is to pursue an open dialogue with its shareholders and other stakeholders.

DSM has a decentralized organizational structure built around business groups that are empowered to carry out all short-term and long-term business functions. At the operational level, the business groups are the primary organizational and entrepreneurial building blocks. The business groups are grouped into clusters. Business groups within a cluster report to one member of the Managing Board. The clusters are the main entities for external strategic and financial reporting.

This structure ensures a flexible, efficient and fast response to market changes. DSM has a number of functional and regional organizations to support the Managing Board and the business groups. Intra-group product supplies and the services of a number of shared service departments and research departments are contracted by the business groups on an arm's length basis.

Managing Board

The Managing Board consists of three or more members to be determined by the Supervisory Board. The current composition of the Managing Board can be found on page 130. Since 2005, members of the Managing Board have been appointed for a maximum period of four years.

The members of the Managing Board are collectively responsible for the management of the company. Notwithstanding their collective responsibility within the Managing Board, certain tasks and responsibilities for business clusters and functional areas as well as regional responsibilities have been assigned to individual members.

The remuneration of the members of the Managing Board is determined by the Supervisory Board based on the remuneration policy approved by the General Meeting of Shareholders.

The functioning of and decision-making within the Managing Board are governed by the Regulations of the Managing Board, which have been drawn up in line with the Dutch corporate governance code and can be found on the company’s website.

Supervisory Board

The Supervisory Board consists of at least five members.

The current composition of the Supervisory Board can be found on page 130. Members of the Supervisory Board are appointed for a maximum of three four-year terms.

All current members of the Supervisory Board are independent in accordance with the Best Practice provisions of the Dutch corporate governance code. The remuneration of the members of the Supervisory Board is determined by the General Meeting of Shareholders.

The functioning of and decision making within the Supervisory Board are governed by the Regulations of the Supervisory Board, which have been drawn up in line with the Dutch corporate governance code and can be found on the company's website.

In line with the Dutch corporate governance code the Supervisory Board has established from among its members an Audit Committee, a Nomination Committee, a Remuneration Committee and a Corporate Social Responsibility Committee. The task of these committees is to prepare the decision-making of the Supervisory Board. The functioning and tasks of these committees are governed by charters that have been drawn up in line with the Dutch corporate governance code and can be found on the company's website.

General Meeting of Shareholders

The main powers of the General Meeting of Shareholders relate to:

- the appointment, suspension and dismissal of members of the Managing Board and Supervisory Board;
- approval of the remuneration policy of the Managing Board;
- approval of the remuneration of the Supervisory Board;
- the adoption of the annual financial statements and declaration of dividends;
- release from liability of the members of the Managing Board and Supervisory Board;
- issuance of shares or rights to shares, restriction or exclusion of pre-emptive rights of shareholders and repurchase or cancellation of shares;
- amendments to the Articles of Association;
- decisions of the Managing Board that would entail a significant change in the identity or character of DSM or its business.

The Annual General Meeting of Shareholders is held every year within six months of the end of the financial year in order to discuss and, if applicable, approve the annual report, the annual accounts, any appointments of members of the Managing Board and Supervisory Board and any of the other topics mentioned above.

The Annual General Meeting of Shareholders and, if necessary, other General Meetings of Shareholders are called by the Managing Board or the Supervisory Board. The agenda and explanatory notes are published on DSM's website.

Shareholders who, individually or jointly, represent at least one percent (1%) of the issued capital or a block of shares worth at least €50,000,000 have the right to request the Managing Board or Supervisory Board that items be placed on the agenda. Such requests need to be received in writing by the chairman of the Managing Board or Supervisory Board at least sixty days before the date of the Annual General Meeting of Shareholders.

On 31 March 2010, the Annual General Meeting of Shareholders was held. The agenda was to a large extent similar to that of previous years. Mr. N.H. Gerardu and Mr. R.D. Schwalb were reappointed as members of the Managing Board. Mr. T. de Swaan was reappointed as member of the Supervisory Board. Mr. R.J. Routs was appointed as member of the Supervisory Board. The revised remuneration policy, which complies with the amended Dutch corporate governance code, was adopted.

Article 10 of Directive 2004/25

With regard to the information referred to in the Resolution of article 10 of the EC Directive pertaining to a takeover bid which is required to be provided according to Dutch law, the following can be reported:

- Information on major shareholdings can be found below (Distribution of shares).
- There are no special statutory rights related to the shares of the company.
- There are no restrictions on the voting rights on the company's shares. When convening a General Meeting of Shareholders the Managing Board is entitled to determine a registration date in accordance with the relevant provisions of the Dutch Civil Code.
- The applicable provisions regarding the appointment and dismissal of members of the Managing Board and Supervisory Board and amendments to the Articles of Association are set forth above.
- The powers of the Managing Board regarding the issue and repurchase of shares in the company can be found below (Issue of shares, Repurchase of own shares).
- Other information can be found in the notes to the financial statements (16 Equity, 18 Borrowings, 26 Share-based compensation) and in the chapters Information on the DSM share and Other information.

Issue of shares

The issue of shares takes place by a decision of the Managing Board. The decision is subject to the approval of the Supervisory Board. The scope of this power of the Managing Board shall be determined by a resolution of the General Meeting of Shareholders and shall relate to at most all unissued shares of the authorized capital, as applicable now or at any time in the future. In the Annual General Meeting of Shareholders of 31 March 2010 this power was extended up to and including 1 October 2011, on the understanding that this authorization of the Managing Board is limited to a number of ordinary shares with a nominal value amounting to 10% of the issued capital at the time of issue, and to an additional 10% of the issued capital at the time of issue, if the issue takes place within the context of a merger or acquisition within the scope of DSM's strategy as published on DSM's website. The issue price will be determined by the Managing Board and shall as much as possible be calculated on the basis of the trading prices of ordinary shares on the Euronext Amsterdam Stock Exchange.

Distribution of shares

Under the Dutch Financial Supervision Act, shareholdings of 5% or more in any Dutch company must be disclosed to the Netherlands Authority for the Financial Markets (AFM). According to the register kept by the AFM the following shareholders had disclosed that they owned between 5 and 10% of DSM's total share capital on 1 January 2011:

- ASR Verzekeringen Nederland N.V.
- Rabobank Nederland Participatie Maatschappij B.V.
- Aviva plc (Delta Lloyd Levensverzekering N.V.)

Repurchase of own shares

The company may acquire paid-up own shares by virtue of a decision of the Managing Board, provided that the par value of the shares in its capital amounts to no more than one tenth of the issued capital. Such a decision is subject to the approval of the Supervisory Board. In the Annual General Meeting of Shareholders of 31 March 2010 the Managing Board was authorized to acquire own shares for a period of 18 months from said date.

Dutch corporate governance code

DSM supports the amended Dutch corporate governance code 2008 (Frijns Code), which can be found on www.commissiecorporategovernance.nl.

Following the publication of the amended Dutch corporate governance code in December 2008 DSM has reviewed all Principles and Best Practice provisions of the amended code and has, where applicable, taken measures to implement the amended Principles and Best Practice provisions. The Regulations of the Managing Board and the Supervisory Board and the Charters of the Supervisory Board committees have been brought in line with the amended code. The implementation of the amended code within DSM was a separate agenda item at the Annual General Meeting of Shareholders of 31 March 2010.

In view of this DSM can confirm that it applies all but one of the amended code's 113 Best Practices. The only exception is Best Practice III.5.11, which stipulates that the remuneration committee shall not be chaired by the chairman of the Supervisory Board. DSM considers remuneration to be an integral part of its nomination and retention policy and hence of its human resource management policy for its senior management. DSM therefore considers it desirable for the Chairman of the Supervisory Board to be directly involved in preparing decisions taken by the full Board, also in view of the role played by the Supervisory Board Chairman vis-à-vis the Managing Board. This exception to the code was discussed in the Annual General Meeting of Shareholders in 2005, where it met with no objections.

With respect to Best Practice provision II.1.8 it is to be reported that Mr. Nico Gerardu, member of the Managing Board, is currently acting as the chairman of the Supervisory Board of a listed company (see section on Corporate organization). This is a temporary arrangement pending the appointment of a successor as chairman of the Supervisory Board of this listed company.

With respect to the appointment of members of the Managing Board for a period of at most four years (Best Practice II.1.1) it should be noted that DSM has adhered to this Best Practice since the introduction of the corporate governance code in 2004. Since DSM respects agreements made before the introduction of said code, the chairman of the Managing Board will remain appointed for an indefinite period.

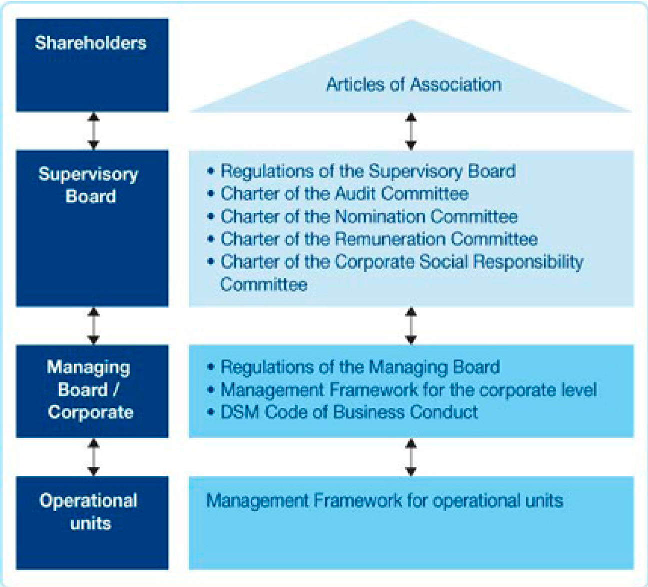
With respect to the Dutch corporate governance code it should be noted that any substantial change in the corporate governance structure of the company and in the company's compliance with the code shall be submitted to the General Meeting of Shareholders for discussion under a separate agenda item.

All documents related to the implementation at DSM of the Dutch corporate governance code can be found in the Governance section of the corporate website (www.dsm.com).

Governance framework

Business groups are the main building blocks of DSM's organization; they have integral long-term and short-term business responsibility and have at their disposal all functions that are crucial to their business success. In order to facilitate selective leveraging of expertise and implementation capabilities in the approach to markets, products and technologies, business groups with the most important commonalities in these areas are grouped into clusters. The business groups within a specific cluster report to a member of the Managing Board. This Board member manages the coherence of operations and the leveraging of resources within the cluster and is accountable for the overall performance of the cluster within limits defined by the collective responsibility of the total Managing Board for the overall management of the company. The clusters are the main entities for external strategic and financial reporting. In order to ensure sufficient independence with regard to financial management, the Chief Financial Officer has no business groups reporting to him.

The following figure depicts DSM's overall governance framework and the most important governance elements and regulations at each level.



Note: all internal regulations apply in addition to applicable national and international laws and regulations. In cases where internal regulations are incompatible with national or international laws and regulations, the latter prevail.

For the sake of clarity, a short summary of the main aspects of the framework at Managing Board / corporate level and operational level is given here:

- The Managing Board adheres to the Regulations of the Managing Board.
- In addition, the Managing Board works according to the Management Framework for the corporate level. This implies among other things that it adheres to the DSM Code of Business Conduct and applicable corporate policies and requirements.
- The Management Framework for the corporate level further provides a description of the most important (decision-making) processes, responsibilities and 'rules of the game' at the Managing Board, functional and regional levels and includes the governance relations with the next-higher levels (Supervisory Board and Shareholders) and the operational units. In particular, the framework defines the roles of corporate staff, functional excellence and shared service departments as follows:
  - Corporate Staff departments; small, high level groups, supporting the Managing Board and reporting directly to a Managing Board member (in most cases CEO or CFO);
  - Functional Excellence departments, in which expert capabilities in selected functions are concentrated and which are steered by Functional Excellence Advisory Boards, chaired by a Managing Board member; the Director of a Functional Excellence department reports to a Managing Board member;
  - Shared Service departments, in which selected service functions are leveraged and which are steered by Shared Service Boards, chaired by a business group director. The director of a Shared Service department reports to a Managing Board member, who is also a member of the Shared Services Board.

  The company's strategic direction and objectives are set in a Corporate Strategy Dialogue. During the year under review such a Corporate Strategy Dialogue was executed, resulting in the new strategy DSM in motion: *driving focused growth*. As part of this strategy, the regional functions have been further strengthened, especially in the high growth economies and the US. The framework will be adjusted accordingly.

- The operational units conduct their business within the parameters of the Management Framework for operational units. This implies among other things that the operational units:

  - establish the strategy and objectives of their business according to the Business Strategy Dialogue, in which process various scenarios and related risk profiles are investigated;
  - implement risk management actions according to an Annual Risk Management Plan and in line with corporate policies and multi-year plans in several functional areas;
  - comply with the Corporate Requirements and Directives; and monitor the effectiveness of the risk management and internal control system and regularly discuss the findings with the Managing Board.

On average once every three years, the units are audited by Corporate Operational Audit (COA). The director of COA reports to the chairman of the Managing Board and has access to the external auditor and the chairman of the Audit Committee of the Supervisory Board. Furthermore, the director of COA acts as the compliance officer with regard to inside information and is the chairman of the DSM Alert Committee, which implements the whistle-blower policy.

In January 2010 a Fraud Committee was formed in which relevant corporate functions participate under the chairmanship of the CFO. The objective of the committee is to ensure structural follow-up of fraud cases with the aim of reducing fraud risks.

Risk management

The Managing Board is responsible for risk management in the company and, supported by the Corporate Risk Office, has designed and implemented a risk management system and organization. The system and organization are documented in the DSM risk management policy, the DSM Code of Business Conduct, DSM policies in several functional areas and the DSM Corporate Requirements and Directives. The aim of the system is to ensure that the extent to which the company's strategic and operational objectives are being achieved is understood, that the company's reporting is reliable and that the company complies with relevant laws and regulations.

The DSM risk management system is based on the COSO-ERM framework. It has been designed to achieve maximum integration of the risk management process in the normal business processes. It provides for risk assessment tools, controls for risks that commonly occur in the company and monitoring and reporting procedures and systems. The internal controls for the goods and money flows have been 'built into' standard business processes and tools have been developed to support their implementation and to monitor their effectiveness in operation. In this way, a high level of internal control is achieved efficiently. Simultaneously with the publication of this Integrated Annual Report, an updated version of the full description of DSM's risk management system and process will be placed on the company's Internet site. This description is to be considered an integral part of this Integrated Annual Report.

The functioning of the system in 2010

The important events in risk management in 2010 are reported below. This section is structured according to the elements of the COSO-ERM risk management framework.

Internal environment for risk management

Values and Business Principles are an important element of the internal environment for risk management. DSM confirmed sustainability to be its core value, directly related to its mission to create brighter lives for people today and generations to come. In 2010 the DSM Business Principles were brought in line with this core value and launched in the organization as the DSM Code of Business Conduct. This code, which is available on the company's website, describes principles in the areas of People (social and humanitarian standards), Planet (principles with regard to the environment) and Profit (principles regarding fair and ethical business practices). The worldwide implementation of the Code is ongoing. It is being supported by the distribution of a booklet in 17 languages, an intranet site and an e-Learning course for all employees.

Objective setting and risk identification, assessment and response

In line with the mandatory risk management process, business groups that updated their strategy in 2010 performed a business risk assessment to identify and assess the implementation risks of the chosen strategy and agree on responses. At mid-year and towards year-end, all business groups updated their risk assessments as part of the semi-annual risk reporting process. Additionally, risk assessments were performed by a number of central functions (including the Corporate Risk Office, Corporate Human Resources and the Corporate Secretariat) and on major projects and programs.

In 2010, the Managing Board updated the Corporate Risk Assessment (CRA). Based on the results of the CRA conducted in 2009, internal risk and incident reports and risk information from external sources, the Managing Board, facilitated by Corporate Risk Management, identified the risks that are relevant in relation to the achievement of the targets of the new strategy DSM in motion: *driving focused growth*. This strategy is described on page 8 of this report and in the individual business group reports. Based on individual inputs, the Board Members and the Director of Corporate Strategy and Acquisitions assessed and ranked these risks and identified any responses to be made in addition to the mitigating actions already in place.

In the CRA, the responses were chosen to bring the risks within DSM's risk appetite. This risk appetite cannot be captured in one figure or formula, but varies per category of risks. The main characteristics of DSM's risk appetite can be described as follows:

- To fulfill its strategic intent (growth through the four growth drivers High Growth Economies, Innovation, Sustainability and Acquisitions & Partnerships) DSM is prepared to accept the considerable risks involved. These risks will, however, always be limited by well-defined hurdle criteria and rigorous implementation programs.
- DSM takes a conservative approach to managing financial risks.
- Through dedicated quality, technology and business continuity management, DSM aims to limit its operational risks. DSM's safety and health policies are aimed at achieving zero injuries and work-related illnesses. The financial impact of operational mishaps is further limited by several insurance policies.
- With regard to legal compliance issues and ethical business conduct, DSM takes a 'zero tolerance' approach.

- Risk tolerance in the areas of stakeholder relations, reputation, sustainability and social responsibility is low. Advanced policies and implementation programs are in place in these areas in an effort to turn risks in these areas into opportunities.

Elsewhere in this chapter, on page 70 and in the description of risk categories on the website, the risk appetite is quantified for several risk areas.

The main risks and responses as identified in the CRA were reported to the Supervisory Board as part of the outcome of the Corporate Strategy Dialogue and discussed in the Supervisory Board's meeting of 7 September 2010.

The company's top five risks

By nature, a report on risks focuses on detrimental effects that can be related to certain developments. The table below shows that DSM has clearly identified relevant risks and taken remedial actions to mitigate them. The CRA was conducted under the assumption of normal macro-economic developments. DSM has improved its early warning and forecasting processes and has proven to be able to adjust quickly to sudden adverse market conditions. However, if adverse economic conditions were to occur, this could nevertheless have detrimental effects on the achievement of the targets. In the table below, the top five risks and responses are shown as resulting from the CRA.

The top five risks and related mitigating actions

Description of risk	*Mitigating actions*
People, organization and culture	
The implementation of the new strategy could be hampered by organizational concerns. These can consist of a lack of key resources, insufficient organizational clarity, insufficient priority setting and/or inadequate collaborative and result-oriented behavior.	The following mitigating actions are being taken: - Filling key positions by fast tracking internal development and increasing external hires - Setting and implementing clear charters, especially for the regional platforms - Setting up a small program office for strategy implementation - Implementing the DSM culture change program with the One DSM philosophy
Growth of the Nutrition cluster	
Due to the high profit contribution of the Nutrition cluster there is a risk that this cluster may fall short of the ambitious growth and profitability targets also due to potential difficulties in implementing the programs geared towards organic growth and growth through acquisitions and partnerships simultaneously with quality differentiation, innovation and cost control.	The following mitigating actions are being taken: - Strengthening market position - Further focus on differentiation and innovation - Further focus on cost competitiveness - Instituting program management for the strategy implementation in the Nutrition cluster - Ensuring sufficient, dedicated resources for acquisitions and partnerships - Leveraging DSM's best practices and resources
Acquisitions and partnerships	
DSM may have difficulties implementing sufficient value creating acquisitions to fulfill growth targets.	For acquisitions, resources are being focused and decision taking optimized by continuous prioritization and direct involvement of the Managing Board.
Innovation	
DSM may have difficulties realizing the growth as projected for the Emerging Business Areas and other innovations in the crossover field between Life Sciences and Materials Sciences.	In order to maximize the chance that opportunities in the chosen areas will be recognized and fulfilled, efforts are being strongly focused in the areas of Biomedical, Bio-based Products & Services (formerly White Biotechnology) and Advanced Surfaces. Priorities in growth platforms are strictly being managed.
Growth and profitability in the Pharma cluster	
DSM may have difficulties realizing the growth and return to adequate profitability levels as projected in the strategy.	In the execution of the Pharma strategy, the partnering efforts are receiving maximum attention. This has resulted in the intention to form a joint venture with Sinochem.

Other important risks
Next to the top risks, the most recent risk assessment and reports show the following risks as being most important:

- Product-liability risks – These risks are limited by contracting policies, quality assurance and insurance policies. To further limit liabilities, extra steps are being taken to assess risks in the value chain and to limit risks in contractual relations.
- Business-continuity risks – Major disruptions, especially in the supply chain, in manufacturing and in the ICT environment, remain a low likelihood but possibly high impact risk. Although several measures are already in place and insurance has been taken out for cost elements connected to business interruption, additional efforts in business continuity management are still being made.
- Security (including information security) – Continued focus on the mitigation of these risks is required, especially in the area of the security of and access to data in ICT systems.
- Intellectual Property (IP) risks – The policy of accelerated growth through speeding up innovation and expansion in high growth economies holds the risk of increased exposure in the IP area. Measures are being taken to contain these risks.
- Safety, health and environmental (SHE) risks – The fatal accident in Capua shows that SHE incidents can still have major human, reputational and operational impacts. DSM will further step up its already major efforts in order to contain these risks even better.

Overview of risk categories
Below, an overview is given of all risk categories that have been identified as potentially important and from which the main risks described above have been derived. Simultaneously with the publication of this annual report, an updated version of the full description of DSM's risk categories will be placed on the company's internet site (Governance section under Risk Management). This description is to be considered an integral part of this Integrated Annual Report. Additionally, information on the risks related to financial instruments is also provided in the Financial statements in the section Financial instruments and risks.

Generic/strategic risks

- Global financial and economic development risks
- Risks related to high growth economies
- Risk of competition and commoditization in existing markets
- Political and country risks
- Risks related to divestments, acquisitions and joint ventures
- Innovation risks (new markets, products and technologies)
- People, organization and culture risks
- Intellectual Property protection risks
- Raw material / energy price and availability risks

Operational risks

- Reputation risks
- Customer risks
- Production-process risks
- Business-continuity risks
- Product-liability risks
- ICT risks
- Project risks
- (Information) security and Internal Control related risks
- Industrial relations risks
- Safety, health and environmental risks

Financial and reporting risks

- Liquidity and market risk
- Currency risks
- Pension risks
- Other financial risks
- Reporting integrity risks

Legal and compliance risks

- Risks of non-compliance with the DSM Code of Business Conduct, Policies, Requirements and Management Directives
- Risk of legal non-compliance
- Risks related to regulatory developments

See www.dsm.com, Governance section.

For the management of all these categories of risks, strategies, controls and/or mitigating measures have been put in place as part of DSM's risk management practices. These nevertheless involve uncertainties that may lead to the actual results differing from those projected. There may also be risks that the company has not yet fully assessed and that are currently qualified as 'minor' but that could have a material impact on the company's performance at a later stage. The company's risk management and internal control system has been designed to identify and respond to these developments on time, but 100% assurance can never be achieved.

Control activities

Each business group and each major operational service unit has an Audit Committee which, under the direction of the director of the group or unit, sets up annual risk management plans, monitors their implementation and reviews risk management issues on a regular basis. During the year under review, major risk management events, such as business risk assessments, audits and the occurrence of control failures or weaknesses, were discussed with the responsible Managing Board member.

In many parts of DSM, the implementation of the Corporate Requirements, which represent common controls for the most important commonly occurring risks, has materially been completed. A limited number of waivers were granted for temporary exceptions and much attention was given to the implementation of temporary controls where necessary.

As reported last year, at DSM Nutritional Products the project to migrate to the DSM standard ERP solution was postponed. This implied that the controls in the goods and money flows that would have been implemented as part of this project now had to be provided for in a different manner. To this end, a major project was executed in 2010 to ensure compliance with the requirements in this area. In the project flying squads, supported by a central team, visited all major units of the business group and helped them to set up a plan to close any gaps with the Corporate Requirements. All gaps are projected to be closed in 2011. Finally, a special tool was developed to check critical authorization controls and segregation of duties requirements.

Information and communication

In 2010 much effort was given to informing people about the DSM risk management system and training them in its use. On the new intranet site, workflow management functionality was introduced to ensure flawless and well documented management of change of the Corporate Requirements.
A special version of the risk management training was conducted for Corporate Staff Directors and an in-depth training session was conducted for the members of the Supervisory Board.

Monitoring and reporting

Information on the functioning of the system was collected on a continuous basis. Business groups tracked compliance with Corporate Requirements and follow-up of actions arising from risk assessments; they conducted assessments on the effectiveness of their internal controls and reported and investigated incidents. Independent audits on the effectiveness of risk management implementation were executed by Corporate Operational Audit according to a program agreed with the Audit Committee of the Supervisory Board. If applicable, information coming in via the DSM Alert whistle-blowing channel was also used as a source for reviewing the effectiveness of the risk management system. Any critical findings were addressed immediately.

By signing an affidavit, the business group controllers confirmed that the quarterly financial statements had been produced according to the internal accounting rules and reporting procedures.

Based on developments within and external to the company, as well as findings from the various risk assessments, audits and monitoring and reporting efforts, Corporate Risk Management drew up a consolidated risk report, including recommendations for further improvement of the risk management system. This report was discussed with the Managing Board and in the June 2010 meeting of the Audit Committee of the Supervisory Board and resulted in a number of actions and enhancements to the risk management system. The enhancements are described in the next section.

At the end of the second quarter, the operational units were asked to provide an update of their material risks and incidents over the first half of 2010 and the status of the mitigation of the risks reported over 2009 and to specify any material risks or uncertainties for the rest of the year. The consolidated overview of these risks, incidents and mitigation measures was the basis for the risk section and Managing Board statement as provided with the first-half figures in accordance with the requirements of the Dutch Financial Markets Supervision Act.

Together with the annual financial accounts, the directors of all entities reporting to the Managing Board reported on any material strategic, operational, reporting and compliance risks or incidents over the year 2010 in their Letter of Representation. The Corporate Risk Management department consolidated the reported risks and incidents and compared them with the outcome of corporate audits and of the Corporate Risk Assessment. The findings were reported to and discussed with the Audit Committee of the Supervisory Board in its meeting of February 2011.

Enhancements of the risk management system

Following up on earlier initiatives, controls in the area of product liability, project management, payments and (information) security were further enhanced. During the year, a project was run to enable the business groups to better manage compliance with international trade laws. Automated systems were introduced to help avoid that trade embargoes are violated or that commercial deals are concluded with sanctioned parties.

Statements of the Managing Board

On the basis of the above and in accordance with best practice II.1.5 of the Dutch corporate governance code of December 2008, and Article 5:25c of the Financial Markets Supervision Act the Managing Board confirms that internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies, and confirms that these controls functioned properly in the year under review and that there are no indications that they will not continue to do so. The financial statements fairly represent the company's financial condition and the results of the company's operations and provide the required disclosures.

It should be noted that the above does not imply that these systems and procedures provide absolute assurance as to the realization of operational and strategic business objectives, or that they can prevent all misstatements, inaccuracies, errors, fraud and non-compliances with legislation, rules and regulations.

In view of all of the above, the Managing Board confirms that, to the best of its knowledge, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the annual report includes a fair review of the position at the balance sheet date and the development and performance of the business during the financial year together with a description of the principal risks and uncertainties that the company faces.

Heerlen, 21 February 2011

The Managing Board

Feike Sijbesma, CEO/Chairman of the Managing Board
Rolf-Dieter Schwalb, CFO
Nico Gerardu
Stephan Tanda

Report by the Supervisory Board

Supervisory Board report

The DSM Supervisory Board in 2010, from left to right: Tom de Swaan, Rob Routs, Cor Herkströter, Louise Gunning-Schepers (stepped down on 1 September 2010), Pierre Hochuli, Ewald Kist and Claudio Sonder

Introduction/general

The DSM Supervisory Board is in charge of supervising and advising the DSM Managing Board in setting and achieving the company's objectives, strategy and policies and in the ensuing delivery of results. In DSM's two-tier corporate structure under Dutch law, the Supervisory Board is a separate body operating fully independent of the Managing Board. The composition of the Supervisory Board is always such that its members are an appropriate and diverse mix of knowledge, experience and understanding of the markets in which DSM operates. More information regarding the Supervisory Board profile can be found in the Governance part of the DSM website.

Composition of Supervisory Board

In 2010 the composition of the board changed. Mr. Cees van Woudenberg stepped down as he had served the maximum period of 12 years. The Supervisory Board would like to thank Mr. van Woudenberg for his constructive and pleasant cooperation in all those years. He was succeeded by Mr. Rob Routs, who was appointed as a member of the DSM Supervisory Board by the Annual General Meeting of Shareholders held on 31 March 2010 on the basis of his extensive international experience, his knowledge of the (petro)chemical industry and his broad experience in the management and supervision of corporations. Mr. Tom de Swaan, who was retiring by rotation, was reappointed at the Annual General Meeting of Shareholders held on 31 March 2010. Mrs. Louise Gunning-Schepers stepped down with effect from 1 September 2010 in connection with her appointment as president of the Health Council of the Netherlands, a position that cannot be combined with membership of the DSM Supervisory Board. The Board would like to thank Mrs. Louise Gunning-Schepers for her valuable contributions. As announced in December 2010, at the Annual Meeting of Shareholders to be held on 28 April 2011, the Supervisory Board will propose to appoint Mrs. Pauline van der Meer Mohr as member of the Supervisory Board to succeed Mrs. Louise Gunning-Schepers as of that date.

Composition of the Managing Board

The composition of the Managing Board remained unchanged in 2010. Two members of the Managing Board, Mr. Nico Gerardu and Mr. Rolf-Dieter Schwalb, were reappointed by the

Annual General Meeting of Shareholders for a second term of four years; Mr. Rolf-Dieter Schwalb was reappointed as Chief Financial Officer. The first four-year term of Mr. Stephan Tanda will expire in 2011. His reappointment for a second four-year term will be proposed to the 2011 Annual General Meeting of Shareholders.

Nomination and Remuneration

In 2010 the Supervisory Board met eight times to discuss and approve remuneration and nomination topics proposed by the appropriate Supervisory Board Committees. In three cases, one of the Board members was absent and excused. Discussion topics included the proposal for a new remuneration policy for the Managing Board, submitted by the Remuneration Committee, and the recommendations regarding several Board (re)appointments, submitted by the Nomination Committee. The Supervisory Board adopted the proposals, which were subsequently approved by the Annual General Meeting of Shareholders on 31 March 2010. One of the meetings was dedicated to a self-assessment of the functioning of the Managing Board, the Supervisory Board as well as all individual members. In this meeting, attended by all Supervisory Board members, Mr. Paul Jarrell (at that time Executive Vice President DSM Human Resources) was present as challenger for the assessment of the Managing Board; Mr. Feike Sijbesma was present during part of the meeting as CEO to elucidate the self-assessments of the individual Managing Board members and to discuss the succession planning of the top executives and Managing Board. The self-assessment of the Supervisory Board focused in particular on the independency of the Board members, their professionalism and experience mix, potential conflicts of interest, Supervisory Board committees and their functioning, the quality of the information received, and the frequency of meetings and contacts with the Managing Board and other senior executives of the company. After an extensive discussion the Supervisory Board concluded that:

- all members are independent, as defined by the Dutch corporate governance code, and no conflicts of interest exist;
- their professionalism and experience are in line with the Supervisory Board Profile;
- the functioning of the various Supervisory Board committees was of such quality that the full Board could share responsibility for the subjects covered in the committees on the basis of the reporting by the respective chairpersons;
- the information received by the Supervisory Board was of good quality and was timely received;
- the frequency of the meetings was adequate;
- the contacts with the Managing Board were highly valued by all members and the contacts with other senior executives of the company were well structured and added to the Supervisory Board’s insight into the matters DSM was dealing with.

Corporate Social Responsibility

In view of its supervision of corporate social responsibility issues relevant to the company, the sections 'Sustainability Strategy', ‘People in 2010' and ‘Planet in 2010’ (the Sustainability Information) in the Integrated Annual Report 2010 were reviewed and subsequently discussed by the Supervisory Board during its meeting on 22 February 2011. Taking into consideration the Independent Assurance Report on People and Planet by KPMG included on page 208 of this Integrated Annual Report the Supervisory Board approved the reporting in these sections. The Sustainability Information is based on the sustainability reporting guidelines of GRI (G 3) and the internal reporting criteria of DSM included on page 216 of the Integrated Annual Report.

Financials and Business

The Supervisory Board held six meetings in the presence of the Managing Board. On three occasions, one of the Supervisory Board members was excused. A standing agenda item was an update on financial and business performance. The Supervisory Board was able to get in-depth background information about all financial and business results, to challenge the results and to provide proper advice. The 2009 annual results were discussed in the presence of two Ernst & Young auditors. The Supervisory Board discussed and approved the (Revised) Capital Expenditure Plan and the Financing and Guarantee Plan for 2010, including a threshold of € 50 million for the annual increase in guarantee obligation on behalf of third parties.

Furthermore, the Supervisory Board approved the proposal to keep the dividend per ordinary share for 2009 at € 1.20 and the proposal to be submitted to the Annual General Meeting of Shareholders regarding the final dividend to be paid out for 2009. In addition, the Supervisory Board approved the interim dividend to be paid for 2010 and the proposal to increase the dividend per ordinary share for 2010. The Supervisory Board discussed during its meeting on 22 February 2011 the proposal to increase the dividend per ordinary share from € 1.20 to € 1.35, and agreed to submit this proposal regarding the final dividend to be paid out for 2010 to the 2011 Annual General Meeting of Shareholders.

The Supervisory Board also approved the proposal to raise the absolute threshold of guarantees issued on behalf of associates up to a maximum of € 110 million. In addition, the Supervisory Board gave the Managing Board a mandate to conclude a pre-hedge for a 10-year € 500 million bond starting in March 2014.

In 2010 DSM held a new Corporate Strategy Dialogue. DSM’s *Vision 2010 – Building on Strengths* strategy program, adopted in 2005, and the acceleration of the shift to a Life Sciences and Materials Sciences Company were discussed and it was concluded that most of the targets had been achieved despite the economic downturn. The accompanying divestments and acquisitions were also extensively discussed. Building on this achievement, DSM proposed ambitious new targets as key elements of its new strategy, DSM in motion: *driving focused growth*. In two extended meetings, the Supervisory Board was informed and updated in-depth on DSM's strategic plans and took the opportunity to challenge and advise the Managing Board on its proposed plans. The Supervisory Board endorsed the new corporate strategy, which is described on page 8 of this Integrated Annual Report.

The Supervisory Board invited DSM management to inform it on relevant developments in innovation and pensions, among other things. One meeting was held at the DSM Nutritional Products site in Switzerland, where the Supervisory Board was invited to visit the Research & Development facilities in Kaiseraugst and the production site in Sisseln and was updated by local management on business, research and production activities.

In an additional meeting the Supervisory Board was extensively informed about the DSM Risk Management System. This interactive meeting, in the presence of the Managing Board and the corporate risk officer, included a shortened corporate risk assessment performed by the members of the Supervisory Board.

With the external auditor, Ernst & Young Accountants, discussions were held about the financial statements for 2009 and 2010. The Report by the Managing Board and the financial statements for 2010 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 22 February 2011. The financial statements were audited by Ernst & Young Accountants, who issued an unqualified opinion (see the Independent Auditor's Report on the Financial Statements on page 209 of this report). The Supervisory Board concluded that the external auditor was independent of DSM.

Audit Committee

Until the Annual General Meeting of 31 March 2010, the Audit Committee consisted of Mr. Tom de Swaan (chairman), Mr. Claudio Sonder and Mr. Ewald Kist. After this meeting Mr. Ewald Kist, who moved to the Nomination Committee, was replaced by Mr. Rob Routs. The committee held six meetings in 2010. Three meetings were specifically devoted to discussing and approving the content of press releases on financial results. The main topics of discussion during the other meetings were the adoption of the group's financial statements, the 2010 financing plan, auditor independence, the external auditor's comments and their assessment of DSM's internal control systems. The Audit Committee discussed and endorsed the dividend proposals for the years 2009 and 2010.

In one meeting DSM's Operational Audit system and DSM's Risk Management system were discussed in the presence of the responsible managers as well as the external auditor. The Committee discussed the work of the Corporate Operational Audit department and endorsed 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 Risk Assessment 2009. The system and status of the Letters of Representation issued by the managers directly reporting to the Managing Board were evaluated with a focus on monitoring progress on identified risks and related risk responses. The design and effectiveness of the internal risk management and control systems were reviewed. The meeting in December was used for an in-depth training on the DSM Risk Management System. All Supervisory Board members were invited to this meeting. Furthermore, the Audit Committee was updated on DSM Alert cases submitted under DSM's whistleblower policy. In order to be able to give proper follow-up to fraud cases, DSM established a Fraud Committee in January 2010 to ensure the systematic mitigation of fraud risks.

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 its 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.

Nomination Committee

Until 31 March 2010, Mr. Cor Herkströter (chairman), Mr. Cees van Woudenberg and Mr. Pierre Hochuli were members of the Nomination Committee. As of 31 March Mr. Cees van Woudenberg was replaced by Mr. Ewald Kist. The Nomination Committee prepared proposals for the reappointment of Mr. Tom de Swaan, the appointment of Mr. Rob Routs as new Supervisory Board member, and the reappointments of Managing Board members Mr. Rolf-Dieter Schwalb and Mr. Nico Gerardu. In a second meeting the committee discussed the replacement of Mrs. Louise Gunning-Schepers, concluding in a recommendation to the full Supervisory Board to propose Mrs. Pauline van der Meer Mohr as her successor.

In September 2010 the Supervisory Board held a meeting which was fully dedicated to the succession planning of the Managing Board. Mr. Feike Sijbesma was present during that meeting.

Remuneration Committee

In 2010 the Remuneration Committee, consisting of Mr. Cor Herkströter (chairman), Mr. Cees van Woudenberg and Mr. Pierre Hochuli, met two times. As Mr. Cees van Woudenberg stepped down as member of the Supervisory Board on 31 March 2010 he was replaced in the Remuneration Committee by Mr. Ewald Kist with effect from the same date.

The Remuneration Committee finalized the proposal to adjust the remuneration policy for the Managing Board members, as approved by the Annual General Meeting of Shareholders, with effect from 2010 and recommended this proposal to the full Supervisory Board. Furthermore, the Committee prepared the advice for the realization of the individual targets of the Managing Board members, which was adopted by the full Supervisory Board.

Corporate Social Responsibility Committee

The newly installed Corporate Social Responsibility Committee, consisting of all members of the Supervisory Board, pre-discussed the DSM Triple P Report for 2009 and the Sustainability Information in the Integrated Annual Report 2010, in the presence of two Managing Board members, including the CEO, and the Director Sustainable Development. This meeting served as a preparation for the discussion by the Supervisory Board on the supervision of the Managing Board with respect to formulating, developing, implementing, monitoring and reporting on DSM's social and environmental policies.

In view of Mrs. Louise Gunning-Schepers' resignation with effect from 1 September 2010, Mr. Cor Herkströter was appointed as interim chairman as of the same date.

Financial statements 2010

The Supervisory Board will submit the 2010 financial statements to the 2011 Annual General Meeting of Shareholders, and will 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 in the section Profit appropriation.

The year 2010 showed a very strong improvement compared to the downturn year 2009. It was also the last year in a period of transformation for DSM to become a focused Life Sciences and Materials Sciences company. The Supervisory Board wishes to express its sincere appreciation for the results achieved and the new strategy as announced in September 2010 and would like to thank the employees and the Managing Board for their efforts.

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 2010 by the Annual General Meeting of Shareholders. The second part contains details of the remuneration in 2010 and changes expected in 2011.

Remuneration policy

The objective of DSM's remuneration policy is to attract, motivate and retain qualified and expert individuals that the company needs in order to achieve its strategic and operational objectives, whilst acknowledging the societal context around remuneration and recognizing the interests of DSM's stakeholders. The following elements are taken into consideration:

- 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 line with the DSM values and business principles as reflected in the DSM Code of Business Conduct. 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. As a result the structure of the remuneration package for the Managing Board is designed to balance short-term operational performance with the medium and long-term objective of creating sustainable value within the company, while taking account of the interests of its 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 (Dutch and European) multinational companies that are similar to DSM in terms of size and complexity.
- 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, amended Dutch corporate governance clauses, societal and market trends and the interests of stakeholders.
- DSM's policy is to offer the Managing Board a total direct compensation approaching the median of the 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 will take external reference data into account in determining adequate remuneration levels. For this purpose, a specific labor-market peer group has been defined which consists of a number of Dutch and European companies that are more or less comparable to DSM in terms of size, international scope and business portfolio.

The Supervisory Board regularly reviews the peer group to ensure that its composition is still appropriate.

The labor-market peer group currently consists of the following twelve companies:

Aegon	Nutreco
AkzoNobel	Rhodia
Clariant	Solvay
Heineken	Syngenta
KPN	TNT
LANXESS	Wolters Kluwer

As part of its remuneration policy DSM will benchmark its remuneration package against the packages offered by the labor-market peer group once every three years. In addition, the company will apply a yearly increase to the package based on the 'general increase' (market movement) for DSM executives in the Netherlands. The initial benchmarking of the remuneration policy will be conducted in Q1 2011.

Total Direct Compensation (TDC)

The total direct compensation of the Managing Board consists of:

(I) Base salary
(II) Variable income
- Performance-related Short-Term Incentive (STI)
- Performance-related Long-Term Incentive (LTI)

In addition to this total direct compensation, the members of the Managing Board participate in the Dutch pension scheme for DSM employees in the Netherlands and they are entitled to other benefits, such as a company car and representation allowance.

As a matter of policy, the balance between fixed income and variable income (Short-Term plus Long-Term Incentive) within total direct compensation (on target) will be 50% - 50%.

Value in % of Total Direct Compensation (on target):

A: Base Salary	50%
B: Variable income (STI + LTI)	50%
Total Direct Compensation (TDC)	100%

Base salary

On joining the Board, the Managing Board members receive a base salary that is comparable with the median of the labor-market peer group. Every year, base salary levels are reviewed based on a three-year remuneration benchmark. Adjustment of the base salary is at the discretion of the Supervisory Board.

Variable income

The variable income part of remuneration consists of the Short-Term and Long-Term Incentives.

As a matter of policy, the distribution between Short-Term and Long-Term Incentives for (on target) performance has been fixed at 50% - 50%. This results in a balance between short-term result and long-term value creation. As indicated above, the on-target incentive potential of the variable income (Short-Term and Long-Term Incentives) will be 100% of base salary.

The parameters relating to the various elements of the variable income part of the remuneration are established and where necessary adjusted by and at the discretion of the Supervisory Board, taking into account the general rules and principles of the remuneration policy itself.

Distribution of variable income (on target):

A: Short-Term Incentive (STI)	50%
B: Long-Term Incentive (LTI)	50%
Total variable income as % of base salary	100%

Short-Term Incentive (STI)

Managing Board members are eligible to participate in a Short-Term Incentive (STI) scheme. The scheme is designed to reward Short-Term operational performance with the long-term objective of creating sustainable value, taking account of the interests of all stakeholders.

The Short-Term Incentive opportunity amounts to 50% of the annual base salary for on-target performance (100% in the case of excellent performance). The part of the STI that is related to financial targets accounts for 25% of base salary and the other 25% relates to sustainability and other value-creating targets.

Target areas	Distribution	Shared	Individual
Financial	25%	25%	0%
Sustainability and individual	25%	20%	5%
Total	50%	45%	5%

Short-Term Incentive (STI) linked to financial targets
The part of the STI that is linked to financial targets (25%) includes elements related to operational performance, being operating profit (EBIT), gross free cash flow and net sales growth (organic), reflecting short-term financial results.

The weighting given to the individual financial elements in the bonus is as follows: EBIT 10%, gross free cash flow 7.5% and organic net sales growth 7.5% of annual base salary for on-target performance.

Target areas	On-target pay-out (% of base salary)
Financial targets	
- Operating profit (EBIT before exceptional items)	10
- Gross free cash flow	7.5
- Organic net sales growth[1]	7.5
Total	25

[1] Excluding currency fluctuations and divestments and acquisitions

The three financial-target-related Short-Term Incentive elements can be derived from the financial statements.

Short-Term Incentive (STI) linked to sustainability and other value-creating areas
The part of the STI that is linked to non-financial targets (25%) relates to sustainability and other value-creating areas.

For 2010/2011 three 'first tier' value-creating-performance measures have been defined in the area of sustainability. The distribution over these three targets is set by the Supervisory Board. On a regular basis, following proper evaluation further refinement/adaptations of performance measures in the area of sustainability and their weight will take place.

The following shared targets linked to sustainability have been defined for the STI:

- **ECO+ products** – Profitable ECO+ product development, consisting of:
  - Percentage of phase transitions from 'Feasibility' (phase 2) to 'Development' (phase 3) that meet ECO+ criteria
  - Percentage of successful product launches that meet ECO+ criteria
- **Energy-efficiency improvement** – linked to Triple P target of 20% increased energy efficiency in 2020 compared to 2008
- **Employee Engagement Index**– related to the High Performance norm in industry

The STI targets on sustainability can be defined as follows:

- **ECO+ products** – ECO+ solutions are products and services that, when considered over their whole life cycle, offer clear ecological benefits (in other words, a clearly lower eco-footprint) compared to the mainstream solutions they compete with. These ecological benefits can be created at any stage of the product life cycle – from raw material through manufacturing and use to potential re-use and end-of-life disposal. ECO+ solutions, in short, create more value with less environmental impact.
- **Energy-efficiency improvement** – Reduction of the amount of energy that is used per unit of product (known as energy efficiency).
- **Engagement Index** – An Employee Engagement Survey is conducted annually, focusing on a combination of perceptions that have a consistent impact on behavior and create a sense of ownership. Research has consistently shown that the four key elements (satisfaction, commitment, pride and advocacy) define engagement and link engagement to business performance metrics.

In addition to shared sustainability targets (20%), a limited number of individual non-financial targets (5%) will apply.

Target area	On-target pay-out (% of base salary)
Non-financial targets	
- Sustainability	20
- Individual	5
Total	25

The targets are 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.

The company does not disclose the actual targets, as they qualify as commercially sensitive information. However, full transparency will be given on target areas and definitions. Target setting and realization will be audited by external auditors.

Long-Term Incentives (LTI)

The Managing Board members will be eligible to receive performance-related shares. Stock options are no longer part of their Long-Term Incentive program.

Under the performance share plan, shares will conditionally be granted to Managing Board members. Vesting of these shares is conditional on the achievements of certain predetermined performance targets during a three-year period.

Two performance targets will apply for vesting of performance shares:

- Comparable Total Shareholder Return (TSR) performance versus a peer group
- Greenhouse-gas emissions (GHGE) reduction over volume related revenue

The LTI performance targets can be defined as follows:

- **Total shareholder return (TSR)**
  Used to compare the performance of different companies' stocks and shares over time. It combines share price appreciation and dividends paid to show the total return to the shareholder. The relative TSR position reflects the market perception of overall performance relative to a reference group.
- **Greenhouse-gas emissions (GHGE) reduction**
  The definition of greenhouse gases (GHG) according to the Kyoto protocol includes carbon dioxide (CO_2), methane, nitrous oxide (N_2O), sulfur hexafluoride, hydrofluorocarbons and perfluorocarbons.

The scope for calculation of GHGE reduction is as follows:

(I) DSM's direct emissions (on site or from DSM assets) mainly comprise CO_2 and N_2O (scope 1).

(II) DSM's indirect emissions (emissions created on behalf of DSM in the generation of electricity or the delivery of energy via hot water or steam) relate to electricity from the grid. DSM relies on local suppliers (scope 2).

(III) DSM does not report in detail on scope 3 emissions (catch-all for remaining emissions that result from activities of the company (e.g. business travel)).

In the LTI plan, 50% of the performance-shares grant is linked to relative TSR, while 50% is based on GHGE reduction.

The policy level for the value of the Long-Term Incentive is set (on target) at 50% of base salary (75% in the case of excellent performance). The number of conditionally granted shares is set by dividing the policy level (50% of base salary) by a share price at the beginning of the year of the conditional grant. The annual grant level will fluctuate as a consequence of this mechanism.

In determining the number of shares to be conditionally granted, the Supervisory Board takes into account a discounted face value of shares. This method incorporates the actual share price and a fixed vesting probability multiplier.

Granting date

The shares are granted on the first 'ex-dividend' day following the Annual General Meeting of Shareholders at which DSM's financial statements are adopted.

TSR as a performance measure

DSM's TSR performance is compared to the average TSR performance of a set of pre-defined peer companies.

The TSR peer group for 2010 consists of the following companies:

AkzoNobel	Kerry
BASF	LANXESS
Clariant	Lonza Group
Danisco[1]	Novozymes
DuPont	Rhodia
EMS Chemie Holding	Solvay

[1] It is expected that Danisco will be eliminated from the peer group due to the anticipated de-listing of the company.

The TSR peer group reflects the relevant market in which DSM competes for shareholder preference. It includes sector-specific competitors that the Supervisory Board considers to be suitable benchmarks for DSM.

The peer group is verified by the Supervisory Board each year based on market circumstances (such as mergers and acquisitions) that determine the appropriateness of the composition of the performance peer group.

GHGE reduction as a performance measure
GHGE reduction over volume-related revenues in percentage points (over a 3 year period) will be used for the vesting of 50% of the performance shares.

Performance Incentive Zones
The number of shares that become unconditional after three years ('vesting') is determined on the basis of two equally weighted factors: DSM's performance relative to the average TSR performance of the peer group and DSM's GHGE reduction over volume-related revenue.

The following vesting schemes will apply:

TSR vesting scheme		**GHGE vesting scheme**	
DSM performance minus peer-group performance in % points	% of shares that vest	DSM GHGE reduction over volume-related revenue in % points	% of shares that vest
≥ 30	100	5.27	100
≥ 25 and < 30	89	4.68	89
≥ 20 and < 25	78	4.09	78
≥ 15 and < 20	67	3.50	67
≥ 10 and < 15	56	2.91	56
≥ 5 and < 10	45	2.32	45
≥ 0 and < 5	34	1.73	34
< 0	0	<1.73	0

The retention period for performance shares expires five years after the three-year vesting period or at termination of employment if this occurs earlier.

The final TSR performance of DSM versus its peers will be determined and validated by a bank and audited by the external auditor at the end of the vesting period.

Pensions
The members of the Managing Board are participants in the Dutch pension fund *Stichting Pensioenfonds DSM Nederland* (PDN). PDN operates similar pension plans for various DSM companies. The pension scheme of the Managing Board is equal to the pension scheme for the employees of DSM Executive Services B.V. and DSM employees in the Netherlands.

Employment contracts
Term of employment
The employment contracts of the members of the Managing Board appointed before 1 January 2005 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
Members of the Managing Board appointed before 1 January 2005 are appointed for an indefinite period of time. New members of the Managing Board (appointed after 1 January 2005) 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.

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 members of the Managing Board appointed before 1 January 2005. Should a situation arise in which a severance payment is appropriate for these 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 (appointed after 1 January 2005) include an exit-arrangement provision which is in accordance with the Dutch corporate governance code (that is, 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).

Claw back / change in control
The Annual Report 2009 stated that DSM would implement claw-back and change-in-control clauses in the employment contracts for the Managing Board as soon as new legislation to this effect would enter into force. As this legislation has still not been approved by the Dutch parliament, the Supervisory Board has agreed that appropriate claw-back and change-in-control provisions will be introduced in the employment contracts, without waiting for the legislation in preparation.

Share ownership
The Supervisory Board will encourage the Managing Board to hold shares in the company to emphasize their confidence in the strategy and the company.

Loans
DSM does not provide any loans to members of the Managing Board.

Scenario analysis
The amended Dutch corporate governance code requires that the Supervisory Board 'shall analyze possible outcomes of the variable income components and the effect on Managing Board remuneration'. Within DSM this analysis will be conducted at least every three years.

Remuneration in 2010

Remuneration of Managing Board in 2010

As part of its remuneration policy for the Managing Board DSM will benchmark its remuneration package against the packages offered by the labor-market peer group once every three years. In addition, the company will apply a yearly increase to the package based on the 'general increase' (market movement) for DSM executives in the Netherlands. The initial benchmarking of the Managing Board remuneration policy will be conducted in Q1 2011.

Base salary in 2010

The Supervisory Board reviewed whether circumstances justified an adjustment of the base-salary levels. Because of the uncertain economic circumstances, DSM paid close attention across the company to limiting salary increases. Against this background, the Supervisory Board granted the Managing Board's request not to increase their base salaries in 2010, just as they had requested for 2009. Managing Board base salaries were last increased at the beginning of 2008.

Short-Term Incentives (STI) for 2010

STI 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. The targets are determined at the beginning of the year for each Board member.

Target STI level and pay-out
When they achieve all their targets, Managing Board members receive an incentive of 50% of their annual base salary. Outstanding performance can increase the STI level to 100% of the annual base salary.

The 2010 Integrated Annual Report presents the Short-Term Incentives that have been earned on the basis of results achieved in 2010. These Short-Term Incentives will be paid out in 2011.

The Supervisory Board has established the extent to which the targets for 2010 were achieved. The realization of the 2010 financial STI targets has been reviewed by Ernst & Young Accountants. Furthermore, Ernst & Young has reviewed the process with respect to the target setting and realization of the non-financial STI targets. The average realization percentage was 89.13% of base salary. This reflects a prudent interpretation of the realization of the targets.

See the next page for a tabular overview of the actual Short-Term Incentive pay-out per individual Board member in 2010.

Performance shares in 2010
In 2010 performance shares were granted to the Managing Board on 6 April 2010. The following table shows the number of performance shares granted to the individual Board members:

Number of stock incentives granted

	Performance shares
Feike Sijbesma	28,500
Nico Gerardu	19,000
Rolf-Dieter Schwalb	19,000
Stephan Tanda	19,000

For an overview of all granted and vested stock options and performance shares see page 203 under note 10.

Pensions in 2010

The members of the Managing Board are participants in the Dutch pension fund *Stichting Pensioenfonds DSM Nederland* (PDN). The pension scheme (revised as of 1 January 2006) comprises the following elements:

- Retirement age 65 years (early retirement possible only by actuarial reduction of pension rights).
- The scheme includes a partner pension as well as a disability pension.
- Annual accrual of pension rights (old-age pension) over base salary exceeding € 12,466 (reviewed annually) at a rate of 2%.
- Employee's contribution of 2.5% of base salary up to € 55,538 and 6.5% of pensionable salary above this amount (to be reviewed annually).
- Conditional defined benefit: indexation of pensions and pension rights, depending on PDN's cover ratio.

Board members participate in the revised PDN pension plan (due to changed legislation on pre-pensions). For Mr. Sijbesma a transitional arrangement is applicable.

For DSM in the Netherlands, a new pension plan has been agreed with Labor Unions with effect from 1 January 2011. Among other changes, the new plan has a fixed employer contribution and is based on average pay and the pensionable age will be increased to 66 with effect from 1 January 2012. This pension plan is also applicable to members of the Managing Board.

Loans

DSM did not provide any loans to members of the Managing Board in 2010.

Purchasing shares

All members of the Managing Board have purchased shares in the company to emphasize their confidence in the strategy and the company. These share purchases are private transactions with private money. At 1 January 2011 the members of the Managing Board together held 45,556 shares in Royal DSM N.V. More information can be found in the chapter Information about the DSM share starting on page 134.

Total remuneration

The total remuneration paid (including pension costs relating to current and former Board members) of the Managing Board amounted to €3.7 million in 2010 (2009: €6.1 million). The decrease of €2.4 million was mainly due to the retirement of Mr. J. Zuidam and lower STI pay-outs over 2009 paid in 2010.

Overview of remuneration awarded to the Managing Board in 2010

The tables below show the remuneration awarded to the Managing Board in 2010.

Fixed annual salary

in €	**1 July 2010**	1 July 2009
Feike Sijbesma	766,000	766,000
Jan Zuidam[1]	-	509,000
Nico Gerardu	509,000	509,000
Rolf-Dieter Schwalb	509,000	509,000
Stephan Tanda	509,000	509,000

1 Retired as of 1 January 2010

Short-Term Incentives

in €	**2010**[2]	2009[3]
Feike Sijbesma	683,655	252,780
Jan Zuidam[1]	-	160,335
Nico Gerardu	464,463	157,790
Rolf-Dieter Schwalb	444,103	162,880
Stephan Tanda	451,738	160,335

1 Retired as of 1 January 2010
2 Based on results achieved in 2010 and therefore payable in 2011
3 Short-term incentives paid in 2010 based on results achieved in 2009

Pensions

	Pension costs (employer)		Accrued pension (retirement age is 65)	
in €	**2010**	2009	**31 Dec. 2010**	31 Dec. 2009
Feike Sijbesma	113,292	113,292	376,283	348,911
Jan Zuidam[1]	-	65,847	-	282,759
Nico Gerardu	76,027	76,027	313,802	293,839
Rolf-Dieter Schwalb	76,027	76,027	42,201	31,619
Stephan Tanda	76,027	76,027	59,580	48,488

1 Retired as of 1 January 2010

Changes expected to the remuneration for the Managing Board in 2011

Base Salary

As base salaries for the Managing Board have not been increased since early 2008, the Supervisory Board will review an appropriate base salary increase in 2011 based on external benchmarking to be done in the first quarter of 2011.

Short-Term Incentive (STI)

After careful evaluation the Supervisory Board has decided to implement the following refinements and adaptations with effect from 2011:

Short-Term Incentive (STI) linked to financial targets

Instead of Operating profit as a financial performance measure, EBITDA will be used, in line with the targets of the new DSM Strategy.

The other financial measures remain unchanged.

Short-Term Incentive (STI) linked to sustainability and other value creating areas
- **ECO+ products** – instead of the two measures used in 2010, for 2011 only the percentage of successful product launches that meet ECO+ criteria will be used as a performance measure.

- **Energy-efficiency improvement** – given possible yearly volatility in this sustainability area, the Supervisory Board has decided to use a 3 year rolling average of energy-efficiency performance from 2011 onwards.

- **Employee Engagement Index** – remains as is.

The Supervisory Board reserves the right to include other sustainability targets which it considers relevant for DSM.

In addition to the shared sustainability targets for 20% of base salary on target pay-out, a limited number of individual non-financial targets (5%) will continue to apply.

Long-Term Incentives (LTI)
For 2011, the number of conditionally granted ordinary shares under the LTI program will be:
Chairman 24,000
Members 16,000

Supervisory Board remuneration in 2010

Remuneration policy for the Supervisory Board in 2010

The remuneration package for 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 €50,000. The members of the Supervisory Board each receive a fixed fee of €35,000.

Audit Committee membership is awarded €5,000 per member and €7,500 for the Chairman. Nomination Committee and Remuneration Committee membership is awarded €2,500 per member and €3,750 for the Chairman. No fee is awarded to Corporate Social Responsibility Committee members since the related tasks are considered to be an extension of the Supervisory Board activities.

These fees were last increased in 2005.

Based on external benchmarking in the first quarter of 2011, the Supervisory Board will consider an appropriate increase in the remuneration of the Supervisory Board members.

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 2010 the members of the Supervisory Board held no shares in Royal DSM N.V.

DSM does not provide any loans to its Supervisory Board members.

Overview of remuneration awarded to the Supervisory Board in 2010

In the following table an overview is given of the remuneration awarded to the Supervisory Board in 2010.

Supervisory Board remuneration in 2010

Annual fee in €	Total	Supervisory Board	Audit Committee	Nomination Committee	Remuneration Committee
Cor Herkströter, chairman	57,500	50,000	-	3,750	3,750
Ewald Kist, deputy chairman	40,000	35,000	1,250	1,875	1,875
Louise Gunning-Schepers[1]	23,333	23,333	-	-	-
Pierre Hochuli	40,000	35,000	-	2,500	2,500
Rob Routs[1]	30,000	26,250	3,750	-	-
Claudio Sonder	40,000	35,000	5,000	-	-
Tom de Swaan	42,500	35,000	7,500	-	-
Cees van Woudenberg[1]	10,000	8,750	-	625	625
Total	**283,333**	**248,333**	**17,500**	**8,750**	**8,750**

[1] Pro rata

DSM did not provide any loans to its Supervisory Board members in 2010.

Heerlen, 22 February 2011

The Supervisory Board

Cor Herkströter, Chairman
Ewald Kist, Deputy Chairman
Pierre Hochuli
Rob Routs
Claudio Sonder
Tom de Swaan

Supervisory Board and Managing Board

Supervisory Board

Cor Herkströter (1937, m), chairman
First appointed: 2000. End of current term: 2012.
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 Advisory Committee of Royal NIVRA, member of the Capital Market Committee (Netherlands Authority for the Financial Markets), member of the Advisory Council of Robert Bosch, Emeritus Professor of International Management at the University of Amsterdam.

Ewald Kist (1944, m), deputy chairman
First appointed: 2004. End of current term: 2012.
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., Royal Philips Electronics N.V., Stage Entertainment and Moody's Investor Services, chairman of the Van Gogh Museum, member of the Board of Governors of the Peace Palace in The Hague (Netherlands) and of the Netherlands America Foundation.

Pierre Hochuli (1947, m)
First appointed: 2005. End of current term: 2013.
Position: retired; last position held: chairman of the Board of Directors of Devgen N.V.
Nationality: Swiss.
Supervisory directorships and other positions held: member of the Board of Directors of Domes of Silence Holdings Ltd.

Rob Routs (1946, m)
First appointed: 2010. End of current term: 2014.
Position: retired; last position held: executive director Downstream and member of the Board of Royal Dutch Shell plc
Nationality: Dutch.
Supervisory directorships and other positions held: chairman of the Supervisory Board of Aegon N.V., member of the Supervisory Board of Royal KPN N.V., member of the Board of Directors of Canadian Utilities Ltd., A.P. Moeller-Maersk Group and UPM-Kymmene Corporation.

Claudio Sonder (1942, m)
First appointed: 2005. End of current term: 2013.
Position: retired; last position held: chairman of the Managing Board of Celanese.
Nationality: Brazilian and German.
Supervisory directorships and other positions held: chairman of the Board of Lojas Renner S.A., member of the Supervisory Boards of Companhia Suzano de Papel e Celulose S.A., RBS S.A. Media Group, Hospital Albert Einstein, Cyrela Brazil Realty S.A., OGX S.A. and Executive Vice President of Suzano Holding S.A.

Tom de Swaan (1946, m)
First appointed: 2006. End of current term: 2014.
Position: retired; last position held: member of the Managing Board and Chief Financial Officer / Chief Risk Officer ABN AMRO.
Nationality: Dutch.
Supervisory directorships and other positions held: non-executive director of the Board of GlaxoSmithKline plc and of the Board of Zurich Financial Services, chairman of the Supervisory Board of Van Lanschot Bankiers N.V., vice chairman of the Supervisory Board of Royal Ahold N.V., board member of Royal Concertgebouw Orchestra and member of the Board of Trustees of Netherlands Cancer Institute-Antoni van Leeuwenhoek Hospital.

Managing Board

Feike Sijbesma (1959, m), CEO/chairman
Position: CEO/chairman of DSM's Managing Board since May 2007; member of DSM's Managing Board since July 2000.
Nationality: Dutch.
Supervisory directorships and other positions held: board member of Cefic (European Chemical Industry Council), member of the Supervisory Board of Utrecht University (Netherlands) and the Supervisory Board of the Dutch Genomics Initiative, member of the Advisory Board of RSM Erasmus University and of ECP-EPN.
e-mail: feike.sijbesma@dsm.com

Rolf-Dieter Schwalb (1952, m), CFO
Position: member of DSM's Managing Board and CFO since October 2006.
Nationality: German.
Supervisory directorships and other positions held: none.
e-mail: rolf-dieter.schwalb@dsm.com

Nico Gerardu (1951, m)
Position: member of DSM's Managing Board since April 2006.
Nationality: Dutch.
Supervisory directorships and other positions held: member of the Supervisory Board of Voestalpine Polynorm N.V. and the Bonnefanten Museum in Maastricht (Netherlands) and chairman of the Supervisory Board of Holland Colours N.V.
e-mail: nicolaas.gerardu@dsm.com

Stephan Tanda (1965, m)
Position: member of DSM's Managing Board since May 2007.
Nationality: Austrian.
Supervisory directorships and other positions held: board member of EuropaBio (European Biotechnology Industries Association), SGCI (Swiss Chemical and Pharmaceutical Industry Association) and ACC (American Chemistry Council).
e-mail: stephan.tanda@dsm.com

What still went wrong

DSM strives to continuously improve its performance in the field of safety, health and environment (SHE). However, there is always the possibility of something going wrong. The following list summarizes the most important things that went wrong in 2010.

It is with deep regret that DSM reports that in 2010 it was confronted with four fatalities.

On 11 September 2010 three people died at the DSM site in Capua, Italy, on entering a fermentor to remove scaffolding inside. The day before, a specialized company had executed a pressure test to detect leakages. In this test the fermentor had been pressurized with a mixture of helium and nitrogen.

In the night of 21 September an employee from DSM Elastomers Sarlink® died in a car accident on a business trip.

Q1

- At DSM Anti-Infectives in Toansa (India), a fitter lost part of the little finger of his left hand while inspecting an exhaust blower. The blower had been switched off but had not completely stopped.
- At Citrique Belge in Tienen (Belgium), a person injured his foot when it got stuck between a forklift and a wall.
- DSM Chemicals North America (DCNA, part of DSM Fibre Intermediates) in Augusta (Georgia, United States) signed a Consent Order to resolve allegations that DSM had violated air quality permit and other rules. DCNA agreed to pay a fine of USD 800,000 and committed to projects (over USD 1.2 million) to further reduce VOC, CO_2 and NO_x emissions and reduce water consumption from the Savannah River.
- At DSM Elastomers in Triunfo (Brazil), a hexane spill ended up in a canal leading to a site emergency lake, causing fish mortality in the canal.
- At Sitech in Sittard-Geleen (Netherlands) about 15,000 litres of molten sulfur leaked from a pipeline from a nearby harbor to the Geleen site. The sulfur solidified and could be cleaned up.
- At DSM NeoResins in Waalwijk (Netherlands) a runaway reaction occurred due to an agitator failure. The rupture disk broke and the pressure (incl. water and monomers) was released to the air. This resulted in media attention but no harm was done to the environment or nearby residents.
- A serious near miss occurred at DSM Agro in Sittard-Geleen (Netherlands) during the relocation of the business group's nitric acid plant. A 40 ft container that was being hoisted fell down from a height of 1 meter when the hoisting cable ripped.

Q2

- At the DSM Anti-Infectives head office in Delft (Netherlands), an employee seriously injured his lower leg while unloading a truck loaded with pavement parts.
- At DSM Powder Coating Resins in Ping Tung (Taiwan), a warehouse operator injured his hand when he tried to restart a faulty conveyor belt in the packaging unit.
- At DSM Pharmaceutical Products Intermediates Linz (Austria) nitric acid was transferred into condensate due to incorrectly set valves.
- At the same site, a truck transporting molten maleic anhydride lost approximately 3,000 kg on the parking area outside the Chemiepark Linz (Austria) where it had been loaded. The driver was exposed to the vapors and stayed in hospital for one day. He could restart his work after four weeks.
- At DSM Nutritional Products' distribution center in Venlo (Netherlands), a trailer tipped over while it was being unloaded by a forklift truck. The forklift truck driver was not injured.
- At DSM Chemicals North America in Augusta (Georgia, United States), an employee was removing a temporary air conditioning unit from the warehouse using a forklift when, as he began backing down the access ramp, the ramp and forklift tilted and dropped approximately 1 meter to the ground.

Q3

- At DSM Food Specialties in Seclin (France), a temporary worker in packing operations broke his arm when it was squeezed by an automatic valve that was closing.
- At DSM Nutritional Products in Sisseln (Switzerland), an operator was injured while positioning a spray nozzle block that was being lifted with a chain hoist. The block slipped from the hoist and fell on the operator's hand.
- At DSM Chemicals North America in Augusta (Georgia, United States), a filter that had been cleared for replacement was not completely isolated from the rest of the installation, causing significant process upsets and financial damage.
- At DSM Fibre Intermediates' caprolactam plant in Sittard-Geleen (Netherlands), a phenol railcar derailed and hit a concrete column supporting several pipes and e-wiring. Fortunately, the pipes and wiring did not break.

Q4

- In 2009, the severe winter in the northern hemisphere had resulted in a high number of slips and falls, with sometimes serious consequences for the people involved. In 2010 a lot of preventive measures were taken, but despite all efforts DSM was unable to prevent all such incidents and four people got injured.
- At DSM Anti-Infectives, Ramos Arizpe, Mexico, product caught fire during a grinding process, without further consequences.
- A dust explosion occurred at DSM Nutritional Products, Pendergrass, USA. The explosion affected two floors of the production tower. Two people got injured.
- At DSM Resins, Augusta, USA, a flash fire occurred during the charging of a reactor, without further consequences.
- At DSM Anti-Infectives, Delft (Netherlands), an operator got injured. He lost his balance while loosening a bolt and got his finger stuck in a machine.

Information about the DSM share

Shares and listings

Ordinary shares in Royal DSM N.V. are listed on the NYSE Euronext stock exchange in Amsterdam, the Netherlands (Stock code 00982, ISIN code NL0000009827).

Options on ordinary DSM shares are traded on the European Option Exchange in Amsterdam, the Netherlands (Euronext.liffe).

In the United States a sponsored unlisted American Depositary Receipts (ADR) program is offered by Citibank NA (Cusip 780249108), with four ADRs representing the value of one ordinary DSM share.

Besides the ordinary shares, 44.04 million cumulative preference shares A are in issue, which are not listed on the stock exchange; these have been placed with institutional investors. The cumprefs A have the same voting rights as ordinary shares, as their nominal value of € 1.50 per share is equal to the nominal value of the ordinary shares.

Transfer of the cumprefs A requires the approval of the Managing Board, unless the shareholder is obliged to transfer his shares to a previous shareholder by virtue of the law.

The average number of ordinary shares outstanding in 2010 was 164,047,019. All shares in issue are fully paid.

On 31 December 2010 the company had 166,467,632 ordinary shares outstanding.

Development of the number of ordinary DSM shares

	2010			2009
	Issued	Repurchased	Outstanding	Outstanding
Balance at 1 January	181,425,000	18,387,671	163,037,329	162,227,062
Changes:				
Reissue of shares in connection with exercise of option rights	-	(3,428,094)	3,428,094	810,267
Other	-	(2,209)	2,209	-
Balance at 31 December	181,425,000	14,957,368	166,467,632	163,037,329
DSM share prices on Euronext Amsterdam (€ per ordinary share):				
Highest closing price			42.85	34.84
Lowest closing price			30.43	16.93
At 31 December			42.61	34.46
Market capitalization at 31 December (€ million)[1]			7,730	6,252

[1] Source: Bloomberg

Optional dividend program for shareholders of Royal DSM N.V.

Beginning with its final dividend for 2010, DSM will offer an optional dividend program. As a result of this, shareholders will be provided with the opportunity to receive dividends in cash or in the form of ordinary shares.

The total dividend for the financial year 2010 is € 1.35 per ordinary share. An interim dividend of € 0.40 per ordinary share having been paid in August 2010, the final dividend thus amounts to € 0.95 per ordinary share. The dividend will be payable in cash or in the form of ordinary shares, at the option of the shareholder. Dividend in cash will be paid after deduction of 15% Dutch dividend withholding tax. The ex-dividend date is 2 May 2011.

DSM reiterates that for the coming years the company intends to further increase the dividend to at least € 1.50 per ordinary share, barring unforeseen circumstances and assuming that DSM will be able to fulfill its growth aspirations.

Following the introduction of the optional dividend program, the Dividend Reinvestment Plan previously provided by Royal Bank of Scotland N.V. has been withdrawn.

DSM Managing Board members' holdings of DSM shares

The cumulative holdings of the four DSM Managing Board members increased in 2010 from 32,056 to 45,556 shares on 1 January 2011. These shareholdings serve as a long-term investment in the company. These share purchases were private transactions with private money. The holdings do not include vested performance shares.

Board member	**Holdings on 1 January 2011**	Holdings on 1 January 2010
Feike Sijbesma, chairman/CEO	27,500	14,000
Rolf-Dieter Schwalb, CFO	7,000	7,000
Nico Gerardu	5,056	5,056
Stephan Tanda	6,000	6,000

Geographical spread of DSM shares outstanding (excl. cumprefs A)

in %	**2010**	2009
Netherlands	21	24
United Kingdom	20	22
North America	27	21
Germany	10	10
Switzerland	4	4
France	4	3
Belgium and Luxemburg	3	3
Other countries	11	13

DSM share

The year 2010 proved to be another successful year for the DSM share. At the last trading day of the year the share price reached an all-time high at € 42.93, after DSM announced a large number of corporate transactions in the month of December.

In the first few months of the year 2010 the DSM share price was relatively stable, moving around the € 33 mark. In September the share price rose nearly 15% after the new strategy, DSM in motion: *driving focused growth*, was announced.

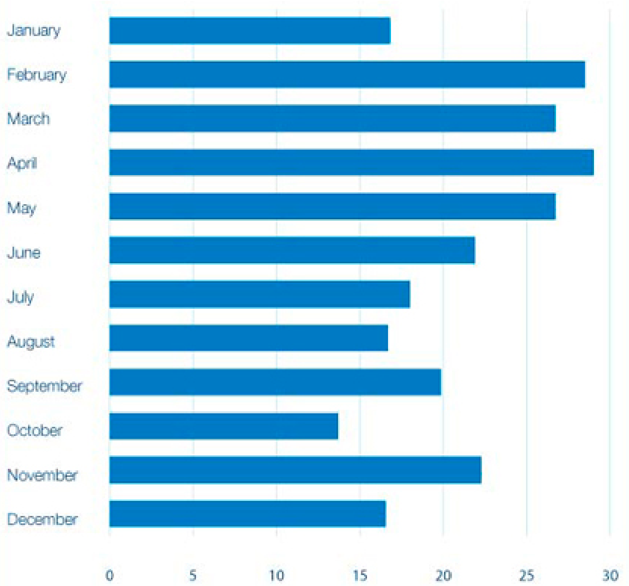
The DSM share outperformed both the AEX index and the Dow Jones Euro StoXX Chem Index in 2010. It ended the year at € 42.61. This was 24% higher than at the end of 2009.

DSM share price development versus AEX and Dow Jones Euro StoXX Chemical Index, 2010

in €

Trading volumes DSM shares 2010

x million shares



Consolidated financial statements

Summary of significant accounting policies

Basis of preparation

DSM's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The accounting policies applied by DSM comply with IFRS and the pronouncements of the International Financial Reporting Interpretation Committee (IFRIC) effective at 31 December 2010.

Consolidation

The consolidated financial statements include Royal DSM N.V. and its subsidiaries as well as the proportion of DSM's ownership of joint ventures (together 'DSM' or 'group'). A subsidiary is an entity over which DSM has control. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The financial data of subsidiaries are fully consolidated. Non-controlling interests in the group's equity and profit and loss are stated separately. A joint venture is an entity in which DSM holds an interest and which is jointly controlled by DSM and one or more other venturers under a contractual arrangement. Joint ventures are included in the consolidated financial statements according to the method of proportionate consolidation.

Subsidiaries and joint ventures are consolidated from the acquisition date until the date on which DSM ceases to have control or joint control, respectively. On consolidation, all intra-group balances and transactions and unrealized profits or losses from intra-group transactions are eliminated, with one exception: unrealized losses are not eliminated if there is evidence of an impairment of the asset transferred. In such cases a value adjustment for impairment of the asset is recognized.

Segmentation

Segment information is presented in respect of the group's operating segments about which separate financial information is available that is regularly evaluated by the chief operating decision maker. DSM has determined that the Nutrition, Pharma, Performance Materials and Polymer Intermediates clusters represent reportable segments in addition to Other activities. The Managing Board decides how to allocate resources and assesses the performance of the clusters. Cluster performance is reported and reviewed down to the level of operating profit. The clusters are organized based on the type of products produced and the nature of the markets served. The same accounting policies that are applied for these consolidated financial statements are also applied by the operating segments. Prices for transactions between segments are determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can reasonably and consistently be allocated. Selected information on a country and regional basis is provided in addition to the information about operating segments.

Foreign currency translation

The presentation currency of the group is the euro.

Each entity of the group records transactions and balance sheet items in its functional currency. Transactions denominated in currency other than the functional currency are recorded at the spot exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in a currency other than the functional currency of the entity are translated at the closing rates. Exchange differences resulting from the settlement of these transactions and from the translation of monetary items are recognized in the income statement.

Non-monetary assets denominated in a currency other than the functional currency continue to be translated against the rate at initial recognition and will not result in exchange differences.

On consolidation, the balance sheets of subsidiaries and joint ventures whose functional currency is not the euro are translated into euro at the closing rate. The income statements of these entities are translated into euro at the average rates for the relevant period. Goodwill paid on acquisition is recorded in the functional currency of the acquired entity. Exchange differences arising from the translation of the net investment in entities with a functional currency other than the euro are recorded in Other comprehensive income (Translation reserve). The same applies to exchange differences arising from borrowings and other financial instruments in so far as they hedge the currency risk related to the net investment. On disposal of an entity with a functional currency other than the euro, the cumulative exchange differences relating to the translation of the net investment are recognized in the income statement.

Distinction between current and non-current

An asset (liability) is classified as current when it is expected to be realized (settled) within 12 months after the balance sheet date.

Intangible assets

Goodwill represents the excess of the cost of an acquisition over DSM's share in the net fair value of the identifiable assets and liabilities of an acquired subsidiary, joint venture or associate. Goodwill paid on acquisition of subsidiaries and joint ventures is included in intangible assets. Goodwill paid on acquisition of associates is included in the carrying amount of these associates. Goodwill is not amortized but tested for impairment annually and when there are indications that the carrying amount may exceed the recoverable amount. A gain or loss on the disposal of an entity includes the carrying amount of goodwill relating to the entity sold.

Intangible assets acquired in a business combination are recognized at fair value on the date of acquisition and subsequently amortized over their expected useful lives, which vary from 5 to 15 years.

Acquired licenses, patents and application software are carried at historic cost less straight-line amortization and less any impairment losses. The expected useful lives vary from 4 to 10 years. Costs of software maintenance are expensed when incurred. Capital expenditure that is directly related to the development of application software is recognized as an intangible asset and amortized over its estimated useful life (5-8 years).

Research costs are expensed when incurred. Where the recognition criteria are met, development expenditure is capitalized and amortized over its useful life from the moment the product is launched commercially. The carrying amount of assets arising from development expenditures is reviewed for impairment at each balance sheet date or earlier upon indication of impairment. Development assets in use are tested for impairment when there are indications that the carrying amount may exceed the recoverable amount. Any impairment losses are recorded in the income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation calculated on a straight-line basis and less any impairment losses. Interest during construction is capitalized. Expenditures relating to major scheduled turnarounds are capitalized and depreciated over the period up to the next turnaround.

Property, plant and equipment are systematically depreciated over their estimated useful lives. The estimated remaining lives of assets are reviewed every year, taking account of commercial and technological obsolescence as well as normal wear and tear. The initially assumed expected useful lives are in principle as follows: for buildings 10-50 years, for plant and machinery 5-15 years, for other equipment 4-10 years. Land is not depreciated.

In oil and gas exploration, development and production costs are accounted for using the successful efforts method. Costs of successful and incomplete oil and gas drilling operations are capitalized as Property, plant and equipment. The estimated discounted costs for future drilling platform decommissioning and site restoration are capitalized and depreciated. Items of property, plant and equipment related to oil and gas exploration are depreciated on the basis of the unit of production method.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use or the sale of the asset. Any gain or loss arising on derecognition of the asset is recorded in the income statement.

Leases

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. All other leases are operating leases.

Lease payments for finance leases are apportioned to finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in interest costs. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Operating lease payments are recognized as an expense over the lease term.

Associates

An associate is an entity over which DSM has significant influence but no control, usually evidenced by a shareholding that entitles DSM to between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method, which involves recognition in the income statement of DSM's share of the associate's profit or loss for the year. DSM's interest in an associate is carried in the balance sheet at its share in the net assets of the associate together with goodwill paid on acquisition, less any impairment loss.

When DSM's share in the loss of an associate exceeds the carrying amount of the associate, including any other receivables, the carrying amount is reduced to zero. No further losses are recognized, unless DSM has responsibility for obligations relating to the associate.

Other financial assets

Other financial assets comprise other participations, other receivables and other deferred items.

Other participations comprise equity interests in entities in which DSM has no significant influence; they are accounted for as available-for-sale securities. These other participations are measured against fair value, with changes in fair value being recognized in Other comprehensive income (Fair value reserve). On disposal, the cumulative fair value adjustments of the related other participations are released from equity and included in the income statement. If a reliable fair value cannot be established, the other participations are recognized at cost. The proceeds from these other participations and the gain or loss upon their disposal are recognized in the income statement.

Loans and long-term receivables are measured at fair value upon initial recognition and subsequently at amortized cost, if necessary after deduction of a value adjustment for bad debts. The proceeds from these assets and the gain or loss upon their disposal are recognized in the income statement.

Impairment of assets

When there are indications that the carrying amount of a non-current asset (an intangible asset or an item of property, plant and equipment) may exceed the estimated recoverable amount (the higher of its value in use and fair value less costs to sell), the possible existence of an impairment loss is investigated. If an asset does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market interest rates and the risks specific to the asset.

When the recoverable amount of a non-current asset is less than its carrying amount, the carrying amount is impaired to its recoverable amount and an impairment charge is recognized in the income statement. An impairment loss is reversed when there has been a change in estimate that is relevant for the determination of the asset's recoverable amount since the last impairment loss was recognized.

All financial assets are reviewed for impairment. If there is objective evidence of impairment as a result of one or more events after initial recognition, an impairment loss is recognized in the income statement. Impairment losses for goodwill and other participations will never be reversed.

Inventories

Inventories are stated at the lower of cost and net realizable value. The first-in, first-out (FIFO) method of valuation is used unless the nature of the inventories requires the use of a different cost formula, in which case the weighted average cost method is used. The cost of intermediates and finished goods includes directly attributable costs and related production overhead expenses. Net realizable value is determined as the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Products whose manufacturing cost cannot be calculated because of joint cost components are stated at net realizable price after deduction of a margin.

Current receivables

Current receivables are stated at amortized cost, which generally corresponds to face value, less an adjustment for bad debts.

Current investments

Deposits held at call with banks with a remaining maturity between 3 and 12 months are classified as current investments. They are measured at amortized cost. Proceeds from these deposits are recognized in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and deposits held at call with banks with a maturity of less than three months at inception. Bank overdrafts are included in current liabilities. Cash and cash equivalents are measured at nominal value.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups (assets and liabilities relating to an activity that is to be sold) are classified as 'held for sale' if their carrying amount is to be recovered principally through a sales transaction rather than through continuing use. The reclassification takes place when the assets are available for immediate sale and the sale is highly probable. These conditions are usually met as from the date on which a first draft of an agreement to sell is ready for discussion. Non-current assets held for sale and disposal groups are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets held for sale are not depreciated or amortized.

Discontinued operations

Discontinued operations comprise those activities that have been disposed of during the period or which have been classified as held for sale at the end of the period, and represent a separate major line of business or geographical area that can be clearly distinguished for operational and financial reporting purposes. DSM has identified its cash generating units as the components of the company that will be reported as discontinued operations in the event of their disposal.

Royal DSM N.V. Shareholders' equity

DSM's ordinary shares and cumulative preference shares are classified as Royal DSM N.V. Shareholders' equity. The price paid for repurchased DSM shares (treasury shares) is deducted from Royal DSM N.V. Shareholders' equity until the shares are canceled or reissued. Dividend to be distributed to holders of cumulative preference shares is recognized as a liability when the Supervisory Board approves the proposal for profit distribution. Dividend to be distributed to holders of ordinary shares is recognized as a liability when the Annual General Meeting of Shareholders approves the profit appropriation.

Provisions

Provisions are recognized when all of the following conditions are met: 1) there is a present legal or constructive obligation as a result of past events; 2) it is probable that a transfer of economic benefits will settle the obligation; and 3) a reliable estimate can be made of the amount of the obligation.

The probable amount required to settle long-term obligations is discounted if the effect of discounting is material. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest costs. However, the interest costs relating to pension obligations are included in pension costs.

Any provision for costs that will arise from future drilling platform decommissioning and site restoration is made when the investment project concerned is taken into operation. These costs are included in Property, plant and equipment, along with the historic cost of the related asset, and depreciated over the useful life of the asset.

Borrowings

Borrowings are initially recognized at cost, being the fair value of the proceeds received, net of transaction costs. Subsequently, borrowings are stated at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium. Interest expenses are accrued and recorded in the income statement for each period.

Where the interest rate risk relating to a long-term borrowing is hedged, and the hedge is regarded as effective, the carrying amount of the long-term loan is adjusted for changes in fair value of the interest component of the loan.

Other current liabilities

Other current liabilities are stated at amortized cost, which generally corresponds to the nominal value.

Revenue recognition

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership are transferred to the buyer. Net sales represent the invoice value less estimated rebates and cash discounts, and excluding indirect taxes.

Royalty income is recognized in Other operating income on an accrual basis in accordance with the substance of the relevant agreements. Interest income is recognized on a time-proportion basis using the effective interest method. Dividend income is recognized when the right to receive payment is established.

Government grants

Government grants are recognized at their fair value if there is reasonable assurance that the grant will be received and all related conditions will be complied with. Cost grants are recognized as income over the periods necessary to match the grant on a systematic basis to the cost that it is intended to compensate. If the grant is an investment grant, its fair value is initially recognized as deferred income in Other non-current liabilities and then released to the income statement over the expected useful life of the relevant asset by equal annual amounts.

Share-based compensation

The costs of option plans are measured by reference to the fair value of the options on the date on which the options are granted. The fair value is determined using the Black-Scholes model, taking into account market conditions linked to the price of the DSM share. The costs of these options are recognized in the income statement (Employee benefits costs) during the vesting period, together with a corresponding increase in equity (Reserve for share-based compensation) in the case of share-settled options or Other non-current liabilities in the case of cash-settled options (Share Appreciation Rights). No expense is recognized for options that do not ultimately vest, except for options whose vesting is conditional upon a market condition, which are treated as vesting, irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are met.

Performance shares are granted free of charge and vest after three years on the achievement of previously determined targets. The cost of performance shares is measured by reference to the fair value of the DSM shares on the date on which the performance shares were granted and is recognized in the income statement (Employee benefits costs) during the vesting period, together with a corresponding increase in equity (Reserve for share-based compensation).

Emission rights

DSM is subject to legislation encouraging reductions in greenhouse-gas emissions and has been awarded emission rights (principally CO_2 emission rights) in a number of jurisdictions. Emission rights are reserved for meeting delivery obligations and are recognized at cost (usually zero). Revenue is recognized when surplus emission rights are sold to third parties. When actual emissions exceed the emission rights available to DSM, a provision is recognized for the expected additional costs.

Exceptional items

Exceptional items relate to material non-recurring items of income and expense arising from circumstances such as:

- write-downs of inventories to net realizable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
- restructurings of the activities of an entity;
- releases of provisions;
- disposals of property, plant and equipment;
- disposals of associates or other financial assets;
- book gain or loss on discontinued operations;
- onerous contracts;
- litigation settlements.

To provide a better understanding of the underlying results of the period, exceptional items are reported separately if the aggregate amount of the specific event or project exceeds € 10 million.

Income tax expense

Income tax expense is recognized in the income statement except to the extent that it relates to an item recognized directly within Shareholders' equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect to previous years. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the carrying amount of assets and liabilities and their tax base. Deferred tax assets and liabilities are measured at the tax rates and under the tax laws that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred tax assets are realized or the deferred tax liabilities are settled. Deferred tax assets, including assets arising from losses carried forward, are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilized. Deferred tax assets and liabilities are stated at face value.

Deferred taxes are not provided for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Financial derivatives

The group uses financial derivatives such as foreign currency forward contracts and interest rate swaps to hedge risks associated with foreign currency and interest rate fluctuations. Financial derivatives are initially recognized in the balance sheet at fair value including transaction costs and subsequently measured at their fair value on each balance sheet date. Changes in fair value are recognized in the income statement unless cash flow hedge accounting or net investment hedge accounting is applied.

Changes in the fair value of financial derivatives designated and qualifying as cash flow hedges are recognized in Other comprehensive income (Hedging reserve) to the extent that the hedge is effective. Upon recognition of the related asset or liability the cumulative gain or loss is transferred from the Hedging reserve and included in the carrying amount of the hedged item if it is a non-financial asset or liability. If the hedged item is a financial asset or liability, the cumulative gain or loss is transferred to profit or loss. Changes in the fair value of financial derivatives designated and qualifying as net investment hedges are recognized in Other comprehensive income (Translation reserve) to the extent that the hedge is effective and the change in fair value is caused by changes in currency exchange rates. Accumulated gains and losses are released from the Translation reserve and are included in the income statement when the net investment is disposed of. Changes in the fair value of financial derivatives designated and qualifying as fair value hedges are immediately recognized in the income statement, together with any changes in the fair value of the hedged assets or liabilities attributable to the hedged risk.

Pensions and other post-employment benefits

For defined benefit plans, pension costs are determined using the projected-unit-credit method. Actuarial gains and losses are recognized in Other comprehensive income in the period in which they occur. Prepaid pension costs relating to defined benefit plans are capitalized only if they lead to refunds to the employer or to reductions in future contributions to the plan by the employer. Prepaid pension costs that do not meet this recoverability criterion are charged to Other comprehensive income in the period in which they occur and are recognized as effects of the asset ceiling. Payments to defined contribution plans are charged as an expense as they fall due.

Effect of new accounting standards

The IASB and IFRIC have issued new standards, amendments to existing standards and interpretations, some of which are not yet effective or have not yet been endorsed by the European Union. DSM has introduced standards and interpretations that became effective in 2010. The adoption of these standards and interpretations did not have a material effect on the group's financial performance or position.

The amendment to IFRS 2, 'Share-based Payment: Group-Cash Settled Share-based Payment Transactions', clarifies the scope and the accounting for group cash-settled share-based payment transactions. DSM adopted this amendment as of 1 January 2010. This has not had a material effect on the financial performance or position of the company.

The revised IFRS 3, 'Business Combinations', and the amended IAS 27, 'Consolidated and Separate Financial Statements', became effective for DSM as of 1 January 2010. They introduced a number of changes that are relevant to new acquisitions of the group and to changes in ownership interests in subsidiaries:

- Contingent consideration payable is recognized at fair value at the acquisition date with subsequent changes in this value being recognized in profit or loss unless the contingent consideration is classified as equity, in which case it is not remeasured and settlement is accounted for within equity.
- Transaction costs related to acquisitions, other than those associated with the issuance of debt or equity securities, are expensed as incurred.
- A non-controlling interest (previously known as minority interest) may be measured either at fair value (i.e. including goodwill) or at the proportionate share of the identifiable net assets of the entity in which the non-controlling interest is held.
- In the event that a business combination is achieved in stages, the value of an equity interest previously held is remeasured to fair value at the acquisition date and value changes are recognized in profit or loss.
- Changes in ownership interests in a subsidiary (without loss of control) are accounted for as transactions with owners and no longer give rise to goodwill, nor to a gain or loss. When control over a subsidiary is lost, the remaining interest is remeasured to fair value at the date when control is lost.

The IASB's annual improvement projects resulted in minor amendments to several existing standards. These amendments were implemented on their respective effective dates and did not have a significant impact on the financial statements.

Effect of forthcoming accounting standards

The adoption of other standards with an effective date after the date of these financial statements is not expected to have a material impact on the financial statements. Certain additional disclosures and accounting changes will be required and will be introduced as of the effective date of the standards and interpretations.

New IFRIC interpretations are not expected to have a material effect on the consolidated financial statements.

IFRIC 19, 'Extinguishment Financial Liabilities with Equity Instruments', deals with situations where a debtor and a creditor renegotiate the terms of a financial liability with the result that the debtor extinguishes the liability by issuing equity instruments to the creditor. This interpretation will become effective for DSM as of 2011 and is not expected to have a material effect on the financial performance or position of DSM.

Change in presentation of consolidated income statement

From 2010 onwards DSM analyses expenses in the consolidated income statement in accordance with their function. This allows the presentation of gross margin on the face of the income statement, which is a widely used performance measure in the industry. The presentation therefore enhances comparability with industry peers. The comparative information for 2009 has been aligned with the new presentation format. The composition of the costs allocated to new individual functions is explained in note 1 to the consolidated financial statements. For comparison purposes the income statement according to the previously applied presentation by nature is also presented there.

Consolidated statements

Consolidated income statement for the year ended 31 December 2010

x € million	Notes	Continuing operations: Before exceptional items	Continuing operations: Exceptional items (note 6)	Continuing operations: Total	Discontinued operations	Total
Net sales		8,176	-	8,176	874	9,050
Cost of sales	4	(5,953)	29	(5,924)	(674)	(6,598)
Gross margin		**2,223**	**29**	**2,252**	**200**	**2,452**
Marketing and sales		(793)	-	(793)	(63)	(856)
Research and development		(314)	(14)	(328)	(10)	(338)
General and administrative		(366)	-	(366)	(14)	(380)
Other operating income		43	55	98	37	135
Other operating expense		(41)	(58)	(99)	(112)	(211)
	4	**(1,471)**	**(17)**	**(1,488)**	**(162)**	**(1,650)**
Operating profit		**752**	**12**	**764**	**38**	**802**
Interest costs	5	(102)	-	(102)	-	(102)
Other financial income and expense	5	9	-	9	-	9
Share of the profit of associates		5	-	5	-	5
Profit before income tax expense		664	12	676	38	714
Income tax expense	7	(162)	(4)	(166)	(23)	(189)
Profit for the year		**502**	**8**	**510**	**15**	**525**
Reclassification of the net result from activities disposed of		-	(48)	(48)	48	-
Total		502	(40)	462	63	525
Of which:						
- Profit attributable to non-controlling interests		18	-	18	-	18
- Net profit attributable to equity holders of Royal DSM N.V.		484	(40)	444	63	507
Net profit attributable to equity holders of Royal DSM N.V.		**484**	**(40)**	**444**	**63**	**507**
Dividend on cumulative preference shares		(10)	-	(10)	-	(10)
Net profit available to holders of ordinary shares		474	(40)	434	63	497
Average number of ordinary shares outstanding (x 1000)						164,047
Effect of dilution due to share options (x 1000)						1,003
Adjusted average number of ordinary shares (x 1000)						165,050
Per ordinary share in euro:						
- Basic earnings after reclassification of the net result from activities disposed of		2.89	(0.24)	2.65	0.38	3.03
- Basic earnings		2.89	0.05	2.94	0.09	3.03
- Diluted earnings		2.87	(0.24)	2.63	0.38	3.01
- Dividend paid in the period						1.20
- Dividend for the year						1.35

Consolidated income statement for the year ended 31 December 2009

x € million	Notes	Continuing operations			Discontinued	Total
		Before exceptional items	Exceptional items (note 6)	Total	operations	
Net sales		6,725	-	6,725	1,141	7,866
Cost of sales	4	(5,034)	(10)	(5,044)	(1,048)	(6,092)
Gross margin		**1,691**	**(10)**	**1,681**	**93**	**1,774**
Marketing and sales		(672)	-	(672)	(71)	(743)
Research and development		(292)	(1)	(293)	(12)	(305)
General and administrative		(326)	(25)	(351)	(19)	(370)
Other operating income		73	19	92	342	434
Other operating expense		(41)	(209)	(250)	(5)	(255)
	4	**(1,258)**	**(216)**	**(1,474)**	**235**	**(1,239)**
Operating profit		**433**	**(226)**	**207**	**328**	**535**
Interest costs	5	(102)	-	(102)	(2)	(104)
Other financial income and expense	5	(9)	-	(9)	-	(9)
Share of the profit of associates		(4)	-	(4)	-	(4)
Profit before income tax expense		318	(226)	92	326	418
Income tax expense	7	(73)	14	(59)	(23)	(82)
Profit for the year		**245**	**(212)**	**33**	**303**	**336**
Reclassification of the net result from activities disposed of		-	305	305	(305)	-
Total		245	93	338	(2)	336
Of which:						
- Profit attributable to non-controlling interests		1	-	1	(2)	(1)
- Net profit attributable to equity holders of Royal DSM N.V.		244	93	337	-	337
Net profit attributable to equity holders of Royal DSM N.V.		**244**	**93**	**337**	**-**	**337**
Dividend on cumulative preference shares		(10)	-	(10)	-	(10)
Net profit available to holders of ordinary shares		234	93	327	-	327
Average number of ordinary shares outstanding (x 1000)						162,364
Effect of dilution due to share options (x 1000)						454
Adjusted average number of ordinary shares (x 1000)						162,818
Per ordinary share in euro:						
- Basic earnings after reclassification of the net result from activities disposed of		1.44	0.57	2.01	-	2.01
- Basic earnings		1.44	(1.30)	0.14	1.87	2.01
- Diluted earnings		1.44	0.57	2.01	-	2.01
- Dividend paid in the period						1.20
- Dividend for the year						1.20

Consolidated statement of comprehensive income

x € million	Other reserves	Retained earnings: Actuarial gains and losses	Retained earnings: Other	Total	Non-controlling interests	Total
2009						
Exchange differences on translation of foreign operations	3	-	-	3	(1)	2
- Related income tax expense	4	-	-	4	-	4
Change in actuarial gains and losses	-	110	-	110	-	110
- Related income tax expense	-	(29)	-	(29)	-	(29)
Change in asset ceiling	-	(6)	-	(6)	-	(6)
- Related income tax expense	-	2	-	2	-	2
Change in Fair value reserve	75	-	-	75	-	75
- Related income tax expense	(15)	-	-	(15)	-	(15)
Change in Hedging reserve	14	-	-	14	-	14
- Related income tax expense	(5)	-	-	(5)	-	(5)
Other comprehensive income	**76**	**77**	**-**	**153**	**(1)**	**152**
Profit for the year	-	-	337	337	(1)	336
Total comprehensive income	**76**	**77**	**337**	**490**	**(2)**	**488**
2010						
Exchange differences on translation of foreign operations	294	-	-	294	7	301
- Related income tax expense	39	-	-	39	-	39
Change in actuarial gains and losses	-	(186)	-	(186)	-	(186)
- Related income tax expense	-	47	-	47	-	47
Change in asset ceiling	-	(171)	-	(171)	-	(171)
- Related income tax expense	-	44	-	44	-	44
Change in Fair value reserve	33	-	-	33	-	33
- Related income tax expense	(13)	-	-	(13)	-	(13)
Change in Hedging reserve	45	-	-	45	-	45
- Related income tax expense	(9)	-	-	(9)	-	(9)
Other comprehensive income	**389**	**(266)**	**-**	**123**	**7**	**130**
Profit for the year	-	-	507	507	18	525
Total comprehensive income	**389**	**(266)**	**507**	**630**	**25**	**655**

Consolidated balance sheet as at 31 December

x € million	Notes	2010	2009
Assets			
Non-current assets			
Intangible assets	8	1,070	1,053
Property, plant and equipment	9	2,943	3,477
Deferred tax assets	7	326	322
Prepaid pension costs	23	1	282
Associates	10	25	18
Other financial assets	11	270	233
		4,635	**5,385**
Current assets			
Inventories	12	1,340	1,359
Trade receivables	13	1,361	1,321
Other receivables	13	116	89
Financial derivatives	22	134	88
Current investments	14	837	7
Cash and cash equivalents	15	1,453	1,340
		5,241	4,204
Assets to be contributed to joint ventures (100% basis)		317	-
Other assets held for sale		287	25
		5,845	**4,229**
Total		**10,480**	**9,614**
Equity and liabilities			
Equity	16		
Royal DSM N.V. Shareholders' equity		5,481	4,949
Non-controlling interests		96	62
		5,577	**5,011**
Non-current liabilities			
Deferred tax liabilities	7	155	115
Employee benefits liabilities	23	297	298
Provisions	17	93	103
Borrowings	18	1,992	2,066
Other non-current liabilities	19	33	49
		2,570	**2,631**
Current liabilities			
Employee benefits liabilities	23	24	26
Provisions	17	33	102
Borrowings	18	105	138
Financial derivatives	22	219	61
Trade payables	20	1,277	1,169
Other current liabilities	20	512	469
		2,170	1,965
Liabilities to be contributed to joint ventures (100% basis)		104	-
Other liabilities held for sale		59	7
		2,333	**1,972**
Total		**10,480**	**9,614**

Consolidated statement of changes in equity (note 16)

x € million	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings: Actuarial gains and losses	Retained earnings: Other	Total	Non-controlling interests	Total Equity
Balance at 1 January 2009	**339**	**489**	**(773)**	**(85)**	**(458)**	**5,121**	**4,633**	**62**	**4,695**
Dividend paid	-	-	-	-	-	(205)	(205)	(2)	(207)
Options / performance shares granted	-	-	-	13	-	-	13	-	13
Options / performance shares exercised/canceled	-	-	-	(6)	-	6	-	-	-
Cancellation of cumprefs C	(1)	-	113	-	-	(112)	-	-	-
Proceeds from reissued shares	-	-	23	-	-	(5)	18	-	18
Change in DSM's share in subsidiaries	-	-	-	-	-	-	-	4	4
Total comprehensive income	-	-	-	76	77	337	490	(2)	488
Balance at 31 December 2009	**338**	**489**	**(637)**	**(2)**	**(381)**	**5,142**	**4,949**	**62**	**5,011**
Dividend paid	-	-	-	-	-	(206)	(206)	(1)	(207)
Options / performance shares granted	-	-	-	10	-	-	10	-	10
Options / performance shares exercised/canceled and SARs canceled	-	-	-	(16)	-	19	3	-	3
Proceeds from reissued shares	-	-	95	-	-	-	95	-	95
Change in DSM's share in subsidiaries	-	-	-	-	-	-	-	15	15
Reclassification to held for sale	-	-	-	-	-	-	-	(5)	(5)
Total comprehensive income	-	-	-	389	(266)	507	630	25	655
Balance at 31 December 2010	**338**	**489**	**(542)**	**381**	**(647)**	**5,462**	**5,481**	**96**	**5,577**

Consolidated cash flow statement (note 25)

x € million		**2010**		2009
Operating activities				
Profit for the year		525		336
Income tax		189		82
Profit before income tax expense		714		418
Share of the profit of associates		(5)		4
Other financial income and expense		(9)		9
Interest costs		102		104
Operating profit		802		535
Depreciation and amortization		424		656
Earnings before interest, tax, depreciation and amortization		1,226		1,191
Adjustments for:				
- (Gain) or loss from disposals	37		(313)	
- Change in provisions	(63)		24	
- Defined benefit plans	(79)		(68)	
	(105)		(357)	
Interest received	12		10	
Interest paid	(101)		(84)	
Income tax received	5		13	
Income tax paid	(68)		(90)	
Other	61		25	
Changes, excluding working capital		(196)		(483)
Operating cash flow before changes in working capital		**1,030**		**708**
Changes in operating working capital:				
- Inventories	(108)		409	
- Trade receivables	(160)		157	
- Trade payables	249		0	
	(19)		566	
Changes in other working capital	92		2	
Changes in working capital		73		568
Cash provided by operating activities		**1,103**		**1,276**

Consolidated cash flow statement (note 25) continued

x € million	2010	2009
Cash provided by operating activities	**1,103**	**1,276**
Investing activities		
Capital expenditure for:		
- Intangible assets	(46)	(72)
- Property, plant and equipment	(370)	(385)
Proceeds from disposal of property, plant and equipment	7	8
Acquisition of subsidiaries and associates	(61)	(16)
Cash from net investment hedge	-	(69)
Proceeds from disposal of subsidiaries and businesses	363	279
Change in fixed-term deposits	(832)	-
Other financial assets:		
- Capital payments and acquisitions	(8)	(6)
- Change in loans granted	(24)	(12)
- Proceeds from disposals	7	-
Cash used in investing activities	**(964)**	**(273)**
Financing activities		
Loans taken up	5	517
Repayment of loans	(14)	(242)
Change in debt to credit institutions, commercial paper and current investments	(41)	(355)
Dividend paid	(206)	(205)
Proceeds from reissued shares	95	18
Change in non-controlling interests	-	(2)
Cash used in financing activities	**(161)**	**(269)**
Change in cash and cash equivalents	**(22)**	**734**
Cash and cash equivalents at 1 January	**1,340**	**601**
Exchange differences relating to cash held	135	5
Cash and cash equivalents at 31 December	**1,453**	**1,340**
Current investments at 31 December	837	7
Total cash, cash equivalents and current investments at 31 December	**2,290**	**1,347**

Notes to the consolidated financial statements of Royal DSM N.V.

1 General information

Unless stated otherwise, all amounts are in € million.

In conformity with article 402, Book 2 of the Dutch Civil Code, a condensed income statement is included in the separate financial statements of Royal DSM N.V.

A list of DSM participations has been filed with the Chamber of Commerce for Limburg (Netherlands) and is available from the company upon request. The list can also be downloaded from the company's website (www.dsm.com).

The preparation of financial statements requires estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements. The policies that management considers to be the most important to the presentation of financial condition and results of operations are discussed in the relevant notes. The same holds for the issues that require management judgments or estimates about matters that are inherently uncertain. Management cautions that future events often vary from forecasts and that estimates routinely require adjustment. Areas of judgment that have the most significant effect on the amounts recognized in the financial statements relate to the categorization of certain items as 'exceptional', the identification of 'cash generating units' and the classification of activities as 'held for sale' and 'discontinued operations'.

Estimates that need to be made by management relate to the useful lives of non-current assets (notes 8 and 9), the establishment of provisions for retirement and other post-employment benefits (note 23), income taxes (note 7) and the determination of fair values for financial instruments (note 22) and for share-based compensation (note 26). Estimates are based on historical quoted market prices, experience and other assumptions that are considered reasonable under the circumstances.

Exchange rates

The currency exchange rates that were used in preparing the consolidated statements are listed below for the most important currencies.

1 euro =	Exchange rate at balance sheet date		Average exchange rate	
	2010	2009	**2010**	2009
US dollar	1.33	1.43	1.33	1.39
Swiss franc	1.25	1.49	1.38	1.51
Pound sterling	0.86	0.90	0.86	0.89
100 Japanese yen	1.08	1.32	1.17	1.30
Chinese renminbi	8.77	9.79	8.98	9.52

Presentation of consolidated income statement

From 2010 onwards DSM analyses expenses in the consolidated income statement in accordance with their function. This allows the presentation of gross margin on the face of the income statement, which is a widely used performance measure in the industry. The presentation therefore enhances comparability with industry peers. The comparative information for 2009 has been aligned with the new presentation format. The composition of the costs allocated to new individual functions is explained below.

Cost of sales encompasses all manufacturing cost (including raw materials and energy) related to goods and services captured in net sales. They are measured at their actual cost based on FIFO, or weighted average cost.

Marketing and sales relates to the selling and marketing of goods and services, and also includes all costs that are directly related to the sale of goods, but that are not originated by the manufacturing of the goods (e.g. freight).

Research and development consists of:

- research, which is defined as original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding;
- development, which is defined as application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

General and administrative relates to the strategic and governance role of the general management of the company as well as the representation of DSM as a whole in the financial, political or business community. It also relates to business support activities of staff departments that are not directly related to the other functional areas.

For comparison reasons, below an overview is given of the consolidated income statement according to the nature of costs for total DSM.

	2010	2009
Net sales	9,050	7,866
Own work capitalized	85	64
Raw materials and consumables used / change in inventories	(4,505)	(3,959)
Work subcontracted and other external costs	(1,762)	(1,600)
Employee benefits costs	(1,566)	(1,532)
Depreciation, amortization and impairments	(424)	(656)
Other operating costs	(211)	(104)
Other operating income	135	456
Operating profit	**802**	**535**
Interest costs	(102)	(104)
Other financial income and expense	9	(9)
Share of the profit of associates	5	(4)
Profit before tax expense	**714**	**418**
Income tax expense	(189)	(82)
Profit for the year	**525**	**336**
Of which:		
- Profit attributable to non-controlling interests	18	(1)
- Net profit attributable to equity holders of Royal DSM N.V.	507	337

2 Change in the scope of the consolidation

Acquisitions

2010

Acquisitions, both individually and in aggregate, were immaterial with respect to IFRS disclosure requirements. In view of reductions in contingent consideration for certain acquisitions from earlier years, related liabilities and goodwill were reduced by € 8 million.

2009

Acquisitions, both individually and in aggregate, were immaterial with respect to IFRS disclosure requirements. In view of reductions in contingent consideration for certain acquisitions from earlier years, related liabilities and goodwill were reduced by € 5 million.

Assets / liabilities to be contributed to joint ventures

2010

DSM reached an agreement with Sinochem Group to form a 50/50 global joint venture for its business group DSM Anti-Infectives. The transaction is subject to receipt of regulatory approvals and customary clearance from competition authorities in the European Union and elsewhere. Closing is expected to take place in the second quarter of 2011. In view of DSM's continuing involvement in the anti-infectives business these activities are not presented as discontinued operations.

Major classes of assets and liabilities that will be contributed to the joint venture consist of property, plant and equipment to an amount of € 158 million and working capital to an amount of € 34 million (all amounts are on a 100% basis). DSM will apply proportionate consolidation for the new joint venture and therefore the proportionate share of the assets and liabilities transferred will be consolidated again upon formation of the new joint venture.

Disposals

In the second quarter of 2010 DSM completed the disposal of DSM Agro and DSM Melamine to Orascom Construction Industries and in the fourth quarter of 2010 it completed the disposal of Citrique Belge N.V. to Adcuram, the disposal of the Sarlink® Business unit to Teknor Apex and the disposal of DSM Special Products B.V. to Emerald Performance Materials. In view of the fact that the entities disposed of represented major lines of business the related activities of DSM Agro and DSM Melamine, S.A. Citrique Belge N.V. and DSM Special Products B.V. are reported as discontinued operations and comparatives have been restated. In view of the disposal of Sarlink® and the reclassification of Keltan® as held for sale, the activities of DSM Elastomers, which represented a major line of business, are also presented as discontinued operations. The impact of these disposals on the DSM financial statements is presented in the following tables. The impact of other disposals is immaterial.

Impact on balance sheet

	DSM Agro / DSM Melamine	Citrique Belge	DSM Special Products	Sarlink®	Total
Assets					
Intangible assets and property, plant and equipment	(262)	(39)	(36)	(21)	(358)
Other non-current assets	(19)	(8)	-	-	(27)
Inventories	(56)	(23)	(11)	(16)	(106)
Receivables	(57)	(21)	(20)	(1)	(99)
Cash and cash equivalents	(71)	-	-	(2)	(73)
Total assets	**(465)**	**(91)**	**(67)**	**(40)**	**(663)**
Non-controlling interests	12	-	-	-	12
Liabilities					
Provisions	(29)	(6)	(1)	-	(36)
Other non-current liabilities	9	-	(2)	-	7
Current liabilities	(124)	(16)	(15)	(5)	(160)
Non-controlling interests and liabilities	**(132)**	**(22)**	**(18)**	**(5)**	**(177)**
Net asset value	**(333)**	**(69)**	**(49)**	**(35)**	**(486)**
Consideration, net of selling costs	311	30	50	45	436
Book result	(22)	(39)	1	10	(50)
Income tax expense	2	-	-	(5)	(3)
Net book result	**(20)**	**(39)**	**1**	**5**	**(53)**

Impact on cash flow statement

	DSM Agro / DSM Melamine	Citrique Belge	DSM Special Products	Sarlink®	Total 2010	Total 2009
Net cash provided by operating activities	(41)	(22)	(12)	(0)	(75)	(137)
Net cash used in investing activities	10	2	2	-	14	64
Net cash used in financing activities	-	-	-	-	-	4
Net change in cash and cash equivalents	(31)	(20)	(10)	(0)	(61)	(69)

2009

DSM completed the sale of DSM Energie Holding B.V. (DSM Energy) to TAQA Abu Dhabi National Energy Company PJSC on 30 September 2009. The disposal consisted of the participations that DSM had in oil and gas exploration and pipelines, including the 40% participation in Noordgastransport B.V. In view of the disposal the related activities are reported as discontinued operations.

The sale of DSM's urea-licensing subsidiary Stamicarbon B.V. to Maire Tecnimont S.p.A. was finalized on 6 October 2009.

The impact that the disposal of DSM Energy and Stamicarbon made on DSM's consolidated balance sheet in 2009, at the date of disposal, is summarized in the following table. The impact of other disposals is immaterial.

	DSM Energy	Stamicarbon	Total
Assets			
Property, plant and equipment	(80)	0	(80)
Inventories	(2)	-	(2)
Receivables	(12)	(34)	(46)
Cash and cash equivalents	(73)	(4)	(77)
Total assets	**(167)**	**(38)**	**(205)**
Liabilities			
Provisions	(99)	0	(99)
Other non-current liabilities	(5)	-	(5)
Current liabilities	(24)	(28)	(52)
Total liabilities	**(128)**	**(28)**	**(156)**
Net asset value	**(39)**	**(10)**	**(49)**
Consideration, net of selling costs	308	52	360
Book profit	269	42	311
Income tax expense	(2)	(11)	(13)
Net book profit	**267**	**31**	**298**

Impact on cash flow statement

	DSM Energy	Stamicarbon	Total 2009	Total 2008
Net cash provided by operating activities	(63)	(13)	(76)	(114)
Net cash used in investing activities	5	0	5	8
Net cash used in financing activities	2	0	2	4
Net change in cash and cash equivalents	(56)	(13)	(69)	(102)

Other assets held for sale

In view of the announced agreement regarding the sale of the remaining part of DSM Elastomers (Keltan®) and the expected disposal of the Maleic Anhydride and Derivatives business of DSM Pharmaceutical Products in Linz (Austria) in 2011, these businesses have been reclassified as held for sale. Before reclassification these activities were reported in the segment Base Chemicals and Materials, which has ceased to exist.

Major classes of assets and liabilities that are held for sale consist of property, plant and equipment to an amount of € 141 million and working capital to an amount of € 80 million.

Deconsolidation

As a result of the divestment of DSM Agro and DSM Melamine DSM's interests in the Utility Support Group B.V. (USG) and in EdeA v.o.f. were also reduced. At the end of June DSM only retained significant influence in the financial and operating policy decisions of both companies and therefore consolidation of USG and proportionate consolidation of EdeA was terminated. The remaining investments in both entities were recognized at their fair value at the time when (proportionate) consolidation was terminated and accounted for in accordance with the equity method. The impact of the derecognition on the balance sheet and on the result was immaterial.

Other changes

In 2010 the following changes in the DSM's share in subsidiaries occurred without impacting the classification of the participations.

	DSM share	
	Old	New[1]
Sitech Manufacturing Services C.V.	100%	65%
Sitech Utility Holding Beheer B.V.	100%	60%
Sitech Utility Holding C.V.	100%	60%
Sitech Services B.V.	100%	77%
Sitech Manufacturing Services Beheer B.V.	100%	77%
Sitech IAZI B.V.	100%	77%
Sitech Site Services B.V.	100%	77%

[1] All as a result of the disposal of DSM Agro and DSM Melamine

3 Segment information

Business segments[1]

2010	Continuing operations							Discon-tinued operations	Elimina-tions	Total
	Nutrition	Pharma	Perform-ance Materials	Polymer Interme-diates	Other[2] activities	Elimina-tions	Total			
Financial performance										
Net sales	3,005	739	2,507	1,398	527	-	8,176	874	-	9,050
Supplies to other clusters	52	14	42	395	20	(472)	51	100	(151)	-
Supplies	**3,057**	**753**	**2,549**	**1,793**	**547**	**(472)**	**8,227**	**974**	**(151)**	**9,050**
Operating profit before exceptional items	569	7	179	192	(195)	-	752	86	-	838
Exceptional items	-	15	10	-	(13)	-	12	(48)	-	(36)
Operating profit	**569**	**22**	**189**	**192**	**(208)**	**-**	**764**	**38**	**-**	**802**
Depreciation and amortization	129	58	119	33	48	-	387	31	-	418
Impairments	4	-	1	4	13	-	22	-	-	22
Additions to provisions	4	6	7	-	10	-	27	19	-	46
Share of the profit of associates	1	-	-	3	1	-	5	-	-	5
R&D costs[3]	118	14	91	16	75	-	314	10	-	324
Wages, salaries and social security costs	524	174	308	60	329	-	1,395	76	-	1,471
Financial position										
Total assets	4,648	1,367	2,794	966	10,337	(9,632)	10,480	-	-	10,480
Total liabilities	1,713	1,211	1,402	597	4,766	(4,786)	4,903	-	-	4,903
Capital employed at year-end	1,981	907	1,660	375	356	-	5,279	189	-	5,468
Capital expenditure and acquisitions	153	76	118	46	58	-	451	25	-	476
Share in equity of associates	2	2	1	10	1	-	16	-	-	16
EBITDA / net sales (in %)	23.4	8.8	11.9	16.4						
Workforce[4]										
Average in fte	7,237	4,100	4,648	1,339	3,526	-	20,850	1,204	-	22,054
Year-end (headcount)	7,409	4,079	4,918	1,361	3,726	-	21,493	418	-	21,911

1 For a description of the types of products and services of each segment please refer to the Review of business in the Report by the Managing Board.
2 Other activities also includes costs for defined benefit plans, corporate overhead and share-based compensation. A reasonable basis for the allocation of the costs for defined benefit plans to the individual clusters is not available, because these costs relate to both current and former employees.
3 R&D costs relate to the functional area Research and development and exclude R&D costs included in the functional areas Costs of sales and Marketing and sales as well as R&D expenditure capitalized.
4 The workforces of joint ventures have been included on a proportionate basis.

Transfers between segments were fairly limited and were generally executed at market-based prices.

Business segments[1]

2009	Continuing operations							Discon-tinued opera-tions	Elimina-tions	Total
	Nutrition	Pharma	Perform-ance Materials	Polymer Interme-diates	Other[2] activities	Elimina-tions	Total			
Financial performance										
Net sales	2,824	721	1,823	849	508	-	6,725	1,141		7,866
Supplies to other clusters	61	11	25	256	45	(349)	49	140	(189)	-
Supplies	**2,885**	**732**	**1,848**	**1,105**	**553**	**(349)**	**6,774**	**1,281**	**(189)**	**7,866**
Operating profit before exceptional items	521	32	68	6	(194)	-	433	10	-	443
Exceptional items	(30)	(175)	(10)	(1)	(10)	-	(226)	318	-	92
Operating profit	**491**	**(143)**	**58**	**5**	**(204)**	**-**	**207**	**328**	**-**	**535**
Depreciation and amortization	133	59	106	30	42	-	370	72	-	442
Impairments	1	-	-	-	30	-	31	1	-	32
Additions to provisions	6	13	16	9	18	-	62	45	-	107
Share of the profit of associates	0	0	0	0	(4)	-	(4)	-	-	(4)
R&D costs[3]	92	19	85	10	87	-	293	12	-	305
Wages, salaries and social security costs	483	170	282	54	329	-	1,318	118	-	1,436
Financial position										
Total assets	4,233	1,250	2,555	793	10,171	(9,388)	9,614	-	-	9,614
Total liabilities	1,547	1,344	1,226	499	5,084	(5,097)	4,603	-	-	4,603
Capital employed at year-end	1,802	789	1,641	369	387	-	4,988	685	-	5,673
Capital expenditure and acquisitions	82	63	139	25	80	-	389	78	-	467
Share in equity of associates	2	1	0	6	8	-	17	-	-	17
EBITDA / net sales (in %)	23.2	12.6	9.5	4.2					-	
Workforce[4]									-	
Average in fte	6,825	4,372	4,670	1,346	3,505	-	20,718	1,786	-	22,504
Year-end (headcount)	7,110	4,374	4,633	1,321	3,620	-	21,058	1,680	-	22,738

1 For a description of the types of products and services of each segment please refer to the Review of business in the Report by the Managing Board.
2 Other activities also includes costs for defined benefit plans, corporate overhead and share-based compensation. A reasonable basis for the allocation of the costs for defined benefit plans to the individual clusters is not available, because these costs relate to both current and former employees.
3 R&D costs relate to the functional area Research and development and exclude R&D costs included in the functional areas Costs of sales and Marketing and sales as well as R&D expenditure capitalized.
4 The workforces of joint ventures have been included on a proportionate basis.

Transfers between segments were fairly limited and were generally executed at market-based prices.

Geographical information

2010	Continuing operations									
	The Nether-lands	Germany	Switzer-land	Rest of Europe	North America	China	Rest of Asia-Pacific	Rest of the world	Elimina-tions	Total
Net sales by origin										
In € million	2,941	189	1,684	708	1,192	796	412	254	-	8,176
In %	36	2	20	9	15	10	5	3	-	100
Net sales by destination										
In € million	544	740	188	1,974	1,518	1,157	1,271	784	-	8,176
In %	7	9	2	24	19	14	16	9	-	100
Total assets	10,719	464	3,241	4,070	1,612	923	524	565	(11,638)	10,480
Intangible assets and Property, plant and equipment										
Capital expenditure	124	11	55	60	91	43	8	10	-	402
Carrying amount	1,480	138	663	462	910	397	95	54	-	4,199
Workforce at year-end[1]	6,491	783	2,344	3,443	2,878	3,170	1,319	1,065	-	21,493
2009										
Net sales by origin										
In € million	2,195	218	1,331	845	945	572	277	342	-	6,725
In %	33	3	20	13	14	8	4	5	-	100
Net sales by destination										
In € million	490	578	252	1,703	1,316	782	966	638	-	6,725
In %	7	9	4	25	20	12	14	9	-	100
Total assets	10,306	478	3,017	3,327	1,425	739	410	476	(10,564)	9,614
Intangible assets and Property, plant and equipment										
Capital expenditure	147	13	48	47	95	25	9	10	-	394
Carrying amount	1,562	153	574	497	822	340	60	40	-	4,048
Workforce at year-end[1]	6,359	829	2,296	3,520	2,693	2,964	1,211	1,186	-	21,058

[1] The workforces of joint ventures have been included on a proportionate basis.

DSM has no single external customer that represents 10 percent or more of revenues and therefore information about major customers is not provided.

Future changes in segment reporting

As from 2011 DSM will align the presentation of business segments and geographical information with the new strategy DSM in motion: *driving focused growth*. Geographical information will be provided for Western Europe, Eastern Europe, North America, Latin America, Asia and rest of the world, with separate specifications for the Netherlands, China, India and Japan, both in the Integrated Annual Report 2011 and in the quarterly interim financial statements. Furthermore, a new cluster, Innovation, will be introduced that will contain the activities of the DSM Innovation Center and the Emerging Business Areas. Previously both were reported in Other activities. In addition, this cluster will include the costs of the Corporate Research Program. In view of the change of the Dutch pension plan to a defined contribution plan, the existing problem with respect to the allocation of defined contribution costs to business segments will be overcome and therefore costs related to both defined contribution plans and defined benefit plans will be reported in the respective clusters.

4 Total costs

Total operating costs in 2010 of continuing operations before exceptional items amounted to €7.4 billion, €1.1 billion higher than in 2009, when these costs stood at €6.3 billion. Total operating costs in 2010 include Cost of sales to an amount of €6.0 billion (2009: €5.0 billion); gross margin in % of net sales stood at 27% (2009: 25%).

Employee benefits costs

	2010	2009
Continuing operations before exceptional items		
Wages and salaries	1,214	1,099
Social security costs	165	199
Pension costs (see also note 23)	87	84
Share-based compensation (see also note 26)	16	20
Total	**1,482**	**1,402**

Depreciation, amortization and impairments

	2010	2009
Continuing operations before exceptional items		
Amortization of intangible assets	61	50
Depreciation of property, plant and equipment	326	320
Impairment losses	22	31
Total	**409**	**401**

Other operating income

	2010	2009
Continuing operations before exceptional items		
Release of provisions	15	18
Gain on assets, activities, scrap, waste material, emission rights, royalties and licenses sold	12	36
Compensations for transfer of production	-	8
Insurance benefits	2	5
Sundry	14	6
Total	**43**	**73**

Other operating expense

	2010	2009
Continuing operations before exceptional items		
Additions to provisions	23	16
Loss from the disposal or closure of assets and activities	1	1
Exchange differences	4	5
Sundry	13	19
Total	**41**	**41**

5 Net finance costs

	2010	2009
Continuing operations before exceptional items		
Interest costs		
Interest expense	101	99
Capitalized interest during construction	(1)	(3)
Interest charge on discounted provisions	2	6
Total	**102**	**102**
Other financial income and expense		
Interest income	(12)	(5)
Exchange differences	0	2
Result from other securities	(6)	14
Sundry	9	(2)
Total	**(9)**	**9**
Net finance costs	**93**	**111**

In 2010 the interest rate applied in the capitalization of interest during construction was 5% (2009: 5%).

6 Exceptional items

	2010	2009
Cost of sales:		
- Reversal of impairment of intangible assets and property, plant and equipment	55	-
- Impairments of property, plant and equipment and business activities	(26)	-
- Other costs	-	(10)
	29	(10)
Research and development:		
- Impairment of intangible assets	(12)	-
- Other costs	(2)	(1)
	(14)	(1)
General and administrative:		
- Impairment of intangible assets	-	(16)
- Other costs	-	(9)
	-	(25)
Other operating income:		
- Release of provisions	45	19
- Book gain on disposals	10	-
	55	19
Other operating expense:		
- Additions to provisions	-	(43)
- Impairment of goodwill	-	(166)
- Other costs	(58)	-
	(58)	(209)
Operating profit	**12**	**(226)**
Net finance costs	-	-
Share of the profit of associates	-	-
Total, before income tax expense	**12**	**(226)**
Income tax expense	(4)	14
Profit for the year	**8**	**(212)**
Reclassification of the net result from activities disposed of	(48)	305
Net result from exceptional items	**(40)**	**93**

2010

The exceptional items in 2010 are listed below:

- Due to an improved business outlook for DSM Anti-Infectives related to the new strategy *Leveraging partnerships for growth* including the announced agreement with Sinochem Group to form a 50/50 global joint venture, the remaining 2007 impairment of intangible assets and property, plant and equipment was reversed in Cost of sales.
- The impairments of property, plant and equipment and business activities in Cost of sales relate to DSM Pharmaceutical Products.
- The impairment of intangible assets and other costs in Research and development relate to the transfer of DSM assets to PERCIVIA LLC.
- The release of a provision in Other operating income is related to a curtailment gain of the Dutch pension plan due to the new pension agreement as of 2011.
- A book gain on disposals in Other operating income was recognized as a result of the disposal of the DSM Xantar® polycarbonate business to Mitsubishi Chemical Corporation.
- The other costs in Other operating expense relate to the recognition of previously unrecognized past service costs of the Dutch pension plan.
- The reclassification of the net result from activities disposed of relates to the result from the disposal of activities. These mainly include the pre-tax book loss related to the disposal of DSM Agro and DSM Melamine (€ 22 million) and the disposal of S.A. Citrique Belge N.V. (€ 39 million) and the book gain related to the disposal of the Sarlink® (€ 10 million) and DSM Special Products (€ 1 million) activities. Also included is a pre-tax gain of € 19 million related to the remeasuring of the defined benefit obligations due to the aforementioned disposals and an expense of € 17 million related to the announced settlement of the US Federal Class Antitrust Litigation and related cases concerning EPDM.

2009

The exceptional items in 2009 are listed below:

- Other costs in Cost of sales, Research and development and General and administrative relate to cost saving actions and other organizational changes related to the financial crisis.
- Impairments of intangible assets in General and administrative are recognized as a result of the decision to cancel certain ICT projects.
- The releases of provisions in Other operating income relate to plan changes and curtailments of certain defined benefit plans in the United States and Switzerland.
- The additions to provisions in Other operating expense relate to restructuring charges in connection with actions to strengthen DSM's competitive position and reduce the cost base.
- Impairments in Other operating expense are recognized for goodwill of Catalytica (€ 154 million) and Lipid Technologies Provider (€ 12 million).
- The reclassification of the net result from activities disposed of relates to the gains from the disposal of activities. These mainly include the pre-tax book profit of € 269 million on the disposal of DSM Energy and the book profit of € 42 million on the disposal of Stamicarbon. For more details see note 2, Change in the scope of the consolidation, under Disposals 2009. Also included was a gain of € 19 million due to compensation for the closure of the citric acid manufacturing plant in Wuxi (China).

7 Income tax

The income tax expense on the total result was € 189 million, which represents an effective income tax rate of 26.5% (2009: € 82 million, representing an effective income tax rate of 19.6%) and can be broken down as follows:

	2010	2009
Current tax expense:		
- Current year	(58)	(68)
- Prior-year adjustments	4	12
	(54)	**(56)**
Deferred tax expense:		
- Originating from temporary differences and their reversal	(68)	(59)
- Prior-year adjustments	6	(3)
- Change in tax rate	(2)	6
- Change in tax losses and tax credits recognized	(71)	30
	(135)	**(26)**
Total	**(189)**	**(82)**
Of which related to:		
- The result from continuing operations before exceptional items	**(162)**	**(73)**
- The result from exceptional items continuing operations	**(4)**	**14**
- The result from discontinued operations	**(23)**	**(23)**

The effective income tax rate on the result from continuing operations before exceptional items was 24.4% in 2010 (2009: 23.0%). The relationship between the income tax rate in the Netherlands and the effective tax rate on the result from continuing operations is as follows:

in %	**2010**	2009
Domestic income tax rate	25.5	25.5
Tax effects of:		
- Deviating rates	(6.4)	(5.1)
- Tax-exempt income and non-deductible expense	0.3	(0.2)
- Other effects	5.0	2.8
Effective tax rate	**24.4**	**23.0**

The tax rate for continuing operations excluding exceptional items is expected to be considerably lower going forward at a level of about 21% – even including US-based Martek – compared to 24% for 2010. This is mainly caused by a different geographic spread of results after the divestments and acquisitions, but also due to the application of preferential tax regimes.

The balance of deferred tax assets and deferred tax liabilities decreased by € 36 million owing to the changes presented in the table below:

	2010	2009
Balance at 1 January		
Deferred tax assets	322	392
Deferred tax liabilities	(115)	(122)
Total	**207**	**270**
Changes:		
- Income tax expense in income statement	(135)	(26)
- Income tax expense in Other comprehensive income	108	(44)
- Acquisitions and disposals	(6)	11
- Exchange differences	-	(4)
- Reclassification to held for sale	(3)	-
Balance at 31 December	**171**	**207**
Of which:		
- Deferred tax assets	326	322
- Deferred tax liabilities	(155)	(115)

In various countries DSM has taken standpoints regarding its tax position which may at any time be challenged, or have already been challenged, by the tax authorities because the authorities in question interpret the law differently. In determining the probability of realization of deferred tax assets and liabilities these uncertainties are taken into account.

The deferred tax assets and liabilities relate to the following balance sheet items:

		2010		2009
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	41	(32)	33	(32)
Property, plant and equipment	95	(280)	58	(217)
Financial assets	18	(37)	13	(45)
Inventories	66	(40)	42	(17)
Receivables	9	(29)	5	(19)
Equity	1	-	-	(1)
Other non-current liabilities	10	(1)	10	(1)
Non-current provisions	71	(20)	82	(58)
Non-current borrowings	3	-	1	-
Other current liabilities	88	(11)	51	(11)
	402	**(450)**	**295**	**(401)**
Tax losses carried forward	222	-	313	-
Reclassification to held for sale	(5)	2	-	-
Set-off	(293)	293	(286)	286
Total	**326**	**(155)**	**322**	**(115)**

No deferred tax assets were recognized for loss carryforwards amounting to € 88 million (2009: € 62 million).

The valuation of deferred tax assets depends on the probability of the reversal of valuation differences and the utilization of tax loss carryforwards. Deferred tax assets are recognized for future tax benefits arising from temporary differences and for tax loss carryforwards to the extent that the tax benefits are likely to be realized. In the Netherlands tax losses may be carried forward for 9 years. For the entities in the Dutch tax consolidation, losses start to expire in 2019. Other foreign tax loss carryforwards primarily exist in the United States and Austria. US tax losses start to expire in 2023. Austrian tax losses can be carried forward for an indefinite period of time. DSM has to assess the likelihood that deferred tax assets will be recovered from future taxable income. Deferred tax assets are reduced if, and to the extent that, it is not probable that all or some portion of the deferred tax assets will be realized. In the event that actual future results differ from estimates, and depending on tax strategies that DSM may be able to implement, changes to the measurement of deferred taxes could be required, which could impact on the company's financial position and net profit.

8 Intangible assets

	Total	Goodwill	Licenses and patents	Under construction	Development projects	Other
Balance at 1 January 2009						
Cost	1,443	822	157	17	21	426
Amortization and impairment losses	243	-	67	-	1	175
Carrying amount	**1,200**	**822**	**90**	**17**	**20**	**251**
Changes in carrying amount:						
- Capital expenditure	72	-	3	47	4	18
- Put into operation	-	-	-	(31)	1	30
- Acquisitions	(2)	(5)	-	-	-	3
- Disposals	(5)	-	(1)	-	-	(4)
- Amortization	(52)	-	(7)	-	(2)	(43)
- Impairments	(193)	(166)	-	(4)	-	(23)
- Exchange differences	(2)	(2)	-	-	-	-
- Reclassifications	35	-	(14)	29	11	9
	(147)	**(173)**	**(19)**	**41**	**14**	**(10)**
Balance at 31 December 2009						
Cost	1,527	799	144	62	37	485
Amortization and impairment losses	474	150	73	4	3	244
Carrying amount	**1,053**	**649**	**71**	**58**	**34**	**241**
Changes in carrying amount:						
- Capital expenditure	46	-	7	35	1	3
- Put into operation	-	-	15	(81)	19	47
- Acquisitions	27	19	7	-	-	1
- Disposals and deconsolidations	(3)	-	(2)	-	-	(1)
- Amortization	(63)	-	(5)	-	(2)	(56)
- Impairments	(21)	(2)	(15)	-	(3)	(1)
- Exchange differences	40	25	3	3	2	7
- Reclassification to held for sale	(17)	-	(1)	(2)	-	(14)
- Other reclassifications	9	-	(9)	40	(30)	8
- Others	(1)	-	-	-	-	(1)
	17	**42**	**0**	**(5)**	**(13)**	**(7)**
Balance at 31 December 2010						
Cost	1,605	855	158	53	23	516
Amortization and impairment losses	535	164	87	-	2	282
Carrying amount	**1,070**	**691**	**71**	**53**	**21**	**234**

Over the past few years DSM has acquired several entities in business combinations that have been accounted for by the purchase method, resulting in recognition of goodwill and other intangible assets. The amounts assigned to the acquired assets and liabilities are based on assumptions and estimates about their fair values. In making these estimates, management consults independent, qualified appraisers if appropriate. A change in assumptions and estimates could change the values allocated to certain assets and their estimated useful lives, which could affect the amount or timing of charges to the income statement, such as amortization of intangible assets.

The breakdown of the carrying amount of goodwill at year-end 2010 is as follows:

Acquisition	2010	2009	Cash generating unit	Currency	Year of acquisition
NeoResins	358	358	DSM Resins	EUR	2005
Catalytica	165	153	DSM Pharmaceuticals, Inc.	USD	2001
The Polymer Technology Group	66	61	DSM PTG	USD	2008
Pentapharm	31	34	DSM Nutritional Products	CHF	2007
Novamid	12	-	DSM Engineering Plastics	JPY	2010
Syntech Far East	10	10	DSM Resins	HKD	2005
Zhejiang Zhongken Biotechnology	9	-	DSM Food Specialties	CNY	2010
Crina	7	6	DSM Nutritional Products	CHF	2006
DSM Japan Engineering Plastics	6	6	DSM Engineering Plastics	EUR	2003
Pamako Engineering	5	4	DSM Dyneema	CHF	2007
Valley Research	5	4	DSM Food Specialties	USD	2008
CMT	4	4	DSM Food Specialties	EUR	2008
Soluol	3	3	DSM Resins	USD	2008
Bayer Korea's Industrial Premix Business	3	-	DSM Nutritional Products	KRW	2010
Other acquisitions	7	6			
Total	**691**	**649**			

The annual impairment tests of goodwill are performed in the fourth quarter. The recoverable amount of the cash generating units concerned is based on a value-in-use calculation. The cash flow projections for the first five years are derived from DSM's business plan (Corporate Strategy Dialogue) as adopted by the Managing Board. Cash flow projections beyond the five year planning period are extrapolated taking into account the growth rates that have been determined to apply for the specific cash generating unit in the Annual Strategic Review. The terminal value for the period after ten years is determined with the assumption of no growth. The key assumptions in the cash flow projections relate to the market growth for the cash generating units and the related revenue projections. The pre-tax discount rate is between 7.5% and 14% (2009: between 8.5% and 14.5%) depending on the risk profile of the cash generating unit.

A stress test was performed on the impairment tests of the cash generating units. This showed that the conclusions of these tests would not have been different if reasonably possible adverse changes in key parameters had been assumed.

The other intangible assets are listed in the following table:

	2010				2009
	Cost	Amortization	Carrying amount	Of which acquisition-related	Acquisition-related
Application software	170	(100)	70	1	11
Marketing-related	12	(6)	6	6	7
Customer-related	27	(15)	12	8	10
Technology-based	272	(141)	131	109	110
Other	35	(20)	15	-	-
Total	**516**	**(282)**	**234**	**124**	**138**
Total 2009	485	(244)	241	138	

Impairments of licenses and patents in 2010 principally relate to the transfer of DSM assets to PERCIVIA, LLC. This impairment was fully recognized as exceptional item as explained in note 6 Exceptional items.

9 Property, plant and equipment

	Total	Land and buildings	Plant and machinery	Other equip-ment	Under construc-tion	Not used for operating activities
Balance at 1 January 2009						
Cost	9,068	1,727	6,568	245	507	21
Depreciation and impairment losses	5,427	749	4,464	199	5	10
Carrying amount	**3,641**	**978**	**2,104**	**46**	**502**	**11**
Changes in carrying amount:						
- Capital expenditure	400	9	36	1	354	-
- Put into operation	-	54	339	20	(413)	-
- Acquisitions	4	3	-	1	-	-
- Disposals	(123)	(17)	(99)	(1)	(6)	-
- Depreciation	(390)	(62)	(314)	(14)	-	-
- Impairment losses	(20)	(1)	(10)	-	(6)	(3)
- Exchange differences	2	1	1	-	-	-
- Reclassifications	(37)	12	(8)	(6)	(37)	2
- Other changes	-	-	(1)	-	1	-
	(164)	**(1)**	**(56)**	**1**	**(107)**	**(1)**
Balance at 31 December 2009						
Cost	8,548	1,757	6,170	189	401	31
Depreciation and impairment losses	5,071	780	4,122	142	6	21
Carrying amount	**3,477**	**977**	**2,048**	**47**	**395**	**10**
Changes in carrying amount:						
- Capital expenditure	381	7	22	3	348	1
- Put into operation	-	42	195	11	(248)	-
- Acquisitions	7	2	4	-	1	-
- Disposals	(369)	(37)	(289)	(1)	(42)	-
- Deconsolidations	(96)	(3)	(61)	(1)	(31)	-
- Depreciation	(355)	(64)	(272)	(19)	-	-
- Impairment (losses) / reversals	15	(13)	34	-	(6)	-
- Exchange differences	194	65	110	1	18	-
- Reclassification to held for sale	(300)	(42)	(225)	(3)	(30)	-
- Other reclassifications	(9)	12	(11)	14	(19)	(5)
- Other changes	(2)	-	(1)	-	(1)	-
	(534)	**(31)**	**(494)**	**5**	**(10)**	**(4)**
Balance at 31 December 2010						
Cost	6,684	1,749	4,323	199	386	27
Depreciation and impairment losses	3,741	803	2,769	147	1	21
Carrying amount	**2,943**	**946**	**1,554**	**52**	**385**	**6**

Property, plant and equipment includes assets acquired under finance lease agreements with a carrying amount of € 9 million (31 December 2009: € 7 million). The related commitments are included under Borrowings and amount to € 10 million (31 December 2009: € 8 million). The total of the minimum lease payments at the balance sheet date amounts to € 11 million (31 December 2009: € 9 million) and their present values to € 10 million (31 December 2009: € 8 million).

Overview of minimum lease payments in time:

2011	3
2012-2015	8
After 2015	-
Total	**11**

In 2010, on balance an impairment reversal of € 15 million was recognized. This mainly related to an impairment reversal at DSM Anti-Infectives of € 51 million, an impairment loss of € 26 million at DSM Pharmaceutical Products and various smaller impairments.

In 2009, on balance € 20 million in impairment losses was recognized. In 2009 the asset impairment losses mainly related to various assets that are no longer used at DSM Research (€ 8 million), at DSM Resins (€ 5 million), at DSM Food Specialties (€ 2 million), at DSM Specialty Intermediates (€ 2 million) and at DSM Nutritional Products, DSM Elastomers and Other activities (€ 1 million each).

10 Associates

	2010	2009
Balance at 1 January	**18**	**19**
Changes:		
- Share of profit	5	(1)
- Capital payments	3	1
- Dividend received	(1)	0
- Impairments	-	(3)
- New loans	4	-
- Disposals	(1)	-
- Deconsolidations	(0)	-
- Reclassification to held for sale	(3)	-
- Transfers	(1)	2
- Exchange differences	1	0
Balance at 31 December	**25**	**18**
Of which loans granted	9	1

11 Other financial assets

	Total	Other participations	Other receivables	Other deferred items
Balance at 1 January 2009	**176**	**118**	**42**	**16**
Changes:				
- Charged to the income statement	(2)	-	-	(2)
- Capital payments	4	4	-	-
- Impairments	(20)	(20)	-	-
- Acquisitions	1	1	-	-
- Disposals	(3)	(3)	-	-
- Loans granted	14	-	14	-
- Repayments	(3)	-	(3)	-
- Exchange differences	(1)	-	-	(1)
- Transfers	(6)	(5)	-	(1)
- Changes in fair value	74	74	-	-
- Other changes	(1)	1	(2)	-
Balance at 31 December 2009	**233**	**170**	**51**	**12**
Changes:				
- Charged to the income statement	(2)	-	-	(2)
- Capital payments	5	5	-	-
- Disposals related earn-out payments	12	-	12	-
- Disposals	(20)	(2)	(18)	-
- Loans granted	25	-	25	-
- Repayments	(4)	-	(4)	-
- Exchange differences	4	1	4	(1)
- Transfers	(2)	-	(10)	8
- Changes in fair value	33	33	-	-
- Reclassification to held for sale	(17)	-	(17)	-
- Other changes	3	-	-	3
Balance at 31 December 2010	**270**	**207**	**43**	**20**

Other participations relate to equity instruments in companies whose activities support DSM’s business and which can be quoted or unquoted. In Other participations an amount of € 24 million is included that relates to equity instruments whose fair value cannot be measured reliably (2009: € 23 million). These instruments are therefore measured at cost. Furthermore, the companies' shareholding in Danisco with a fair value of € 161 million is included in Other participations against the closing price of the shares on 31 December 2010 (quoted price in an active market).

12 Inventories

	2010	2009
Raw materials and consumables	422	423
Intermediates and finished goods	968	979
	1,390	**1,402**
Adjustments to lower net realizable value	(50)	(43)
Total	**1,340**	**1,359**

The carrying amount of inventories adjusted to net realizable value (before reclassification to held for sale) was € 140 million (2009: € 114 million); the value adjustment of inventories recognized in the income statement was an expense of € 28 million (2009: € 38 million).

13 Receivables

	2010	2009
Trade receivables		
Trade accounts receivable	1,352	1,300
Deferred items	20	39
Receivables from associates	7	5
	1,379	**1,344**
Adjustment for bad debts	(18)	(23)
Total	**1,361**	**1,321**
Other receivables		
Income taxes receivable	27	18
Other taxes and social security contributions	10	18
Government grants	1	-
Loans	13	7
Other receivables	41	33
Deferred items	24	13
Total	**116**	**89**

Deferred items comprise € 26 million (31 December 2009: € 31 million) in prepaid expenses that will impact profit or loss in future periods but have already been paid.

With respect to debtors within trade accounts receivable that are neither impaired nor past due, there are no indications that the debtors will not meet their payment obligations. An aging overview of trade receivables related to commercial transactions amounting to € 1,193 million is provided below. The remaining balance reported as trade receivables amounting to € 159 million is excluded from this analysis because it principally concerns reclaimable VAT and accruals that are not related to the payment behavior of customers.

in %	2010	2009
Neither past due nor impaired	88	87
1-29 days overdue	10	9
30-89 days overdue	1	2
90 days or more overdue	1	2

14 Current investments

	2010	2009
Fixed term deposits	837	5
Other	-	2
Total	**837**	**7**

In order to obtain better yields, excess cash has been invested in highly liquid time deposits and money market instruments with maturities between 3 and 6 months, which are reported as Current investments.

15 Cash and cash equivalents

	2010	2009
Deposits	536	893
Cash at bank and in hand	640	411
Commercial paper	244	-
Payments in transit	19	3
Bills of exchange	14	33
Total	**1,453**	**1,340**

16 Equity

	2010	2009
Balance at 1 January	**5,011**	**4,695**
Net profit	525	336
Net exchange differences	340	6
Net actuarial gains/(losses) on defined benefit obligations	(139)	81
Net asset ceiling related to defined benefit obligations	(127)	(4)
Dividend	(207)	(207)
Proceeds from reissue of ordinary shares	95	18
Other changes	79	86
Balance at 31 December	**5,577**	**5,011**

After the balance sheet date the following dividends were declared by the Managing Board:

	2010	2009
Per cumulative preference share A: €0.23 (2009: €0.23)	10	10
Per ordinary share: €1.35 (2009: €1.20)	224	195
Total	**234**	**205**

The proposed dividend on ordinary shares is subject to approval by the Annual General Meeting of Shareholders and has not been deducted from Equity. Shareholders will be provided with the opportunity to receive dividends in cash or in the form of ordinary shares.

Share capital

On 31 December 2010 the authorized capital amounted to €1,125 million, (2009: €1,125 million) distributed over 330,960,000 ordinary shares, 44,040,000 cumulative preference shares A and 375,000,000 cumulative preference shares B with a nominal value of €1.50 each.

The changes in the number of outstanding shares in 2010 are shown in the following table.

	Issued shares			Treasury shares	
	Ordinary	**Cumprefs A**	**Cumprefs C**	**Ordinary**	**Cumprefs C**
Balance at 1 January 2009	**181,425,000**	**44,040,000**	**37,500,000**	19,197,938	37,500,000
Reissue of shares in connection with share-based payments	-	-	-	(810,267)	-
Cancelation cumprefs C	-	-	(37,500,000)	-	(37,500,000)
Balance at 31 December 2009	**181,425,000**	**44,040,000**	**-**	18,387,671	-
Number of treasury shares at 31 December 2009	(18,387,671)	-	-		
Number of shares outstanding at 31 December 2009	**163,037,329**	**44,040,000**	**-**		
Balance at 1 January 2010	**181,425,000**	**44,040,000**	**-**	18,387,671	-
Reissue of shares in connection with share-based payments	-	-	-	(3,428,094)	-
Others	-	-	-	(2,209)	-
Balance at 31 December 2010	181,425,000	44,040,000	-	14,957,368	-
Number of treasury shares at 31 December 2010	(14,957,368)	-	-		
Number of shares outstanding at 31 December 2010	**166,467,632**	**44,040,000**	**-**		

The average number of ordinary shares outstanding in 2010 was 164,047,019 (2009: 162,364,142). All shares issued are fully paid.

Share premium

Of the total share premium of €489 million (2009: €489 million), an amount of €125 million (2009: €125 million) can be regarded as entirely free of tax.

Treasury shares

On 31 December 2009 DSM possessed 18,387,671 ordinary shares (nominal value €28 million, 8.2% of the share capital). In 2010, DSM used 3,428,094 ordinary shares for servicing option rights and performance shares.

On 31 December 2010 DSM possessed 14,957,368 ordinary shares (nominal value €22 million, 6.6% of the share capital). The average purchase price of the ordinary treasury shares was €36.23. As at 31 December 2010, 1,487,368 of the total number of treasury shares outstanding were held for servicing management and personnel share-option rights. The remainder, 13,470,000 shares, were purchased under the company's share buy-back program in 2007 and 2008.

Other reserves in Shareholder's equity

	Total	Translation reserve	Hedging reserve	Reserve for share-based compensation	Fair value reserve
Balance at 1 January 2009	**(85)**	**(122)**	**30**	**38**	**(31)**
Changes:					
Fair-value changes of derivatives	5	-	5	-	-
Release to income statement	9	-	9	-	-
Fair-value changes of other financial assets	75	-	-	-	75
Exchange differences	3	3	-	-	-
Options and performance shares granted	13	-	-	13	-
Options and performance shares exercised/canceled	(6)	-	-	(6)	-
Income tax	(16)	4	(5)	-	(15)
Total changes	83	7	9	7	60
Balance at 31 December 2009	**(2)**	**(115)**	**39**	**45**	**29**
Changes:					
Fair-value changes of derivatives	46	-	46	-	-
Release to income statement	(1)	-	(1)	-	-
Fair-value changes of other financial assets	33	-	-	-	33
Exchange differences	294	294	-	-	-
Options and performance shares granted	10	-	-	10	-
Options and performance shares exercised/canceled	(16)	-	-	(16)	-
Income tax	17	39	(9)	-	(13)
Total changes	383	333	36	(6)	20
Balance at 31 December 2010	**381**	**218**	**75**	**39**	**49**

17 Provisions

The total of non-current and current provisions decreased by € 79 million. This is the balance of the following changes:

	Restructuring costs and termination benefits	Environmental costs	Other long-term employee benefits	Other provisions	Total
Balance at 1 January 2009	**83**	**42**	**35**	**112**	**272**
Changes in 2009:					
- Additions	81	4	3	19	107
- Releases	(3)	(6)	-	(9)	(18)
- Uses	(53)	(3)	(3)	(6)	(65)
- Disposals	-	-	-	(88)	(88)
- Exchange differences	-	-	-	1	1
- Reclassifications	-	(3)	-	3	-
- Other changes	(4)	-	-	-	(4)
Total changes	21	(8)	-	(80)	(67)
Balance at 31 December 2009	**104**	**34**	**35**	**32**	**205**
Of which current	80	5	3	14	102
Balance at 1 January 2010	**104**	**34**	**35**	**32**	**205**
Changes in 2010:					
- Additions	12	5	4	25	46
- Releases	(11)	-	-	(4)	(15)
- Uses	(55)	(5)	(5)	(29)	(94)
- Disposals	(24)	-	-	-	(24)
- Exchange differences	2	1	1	-	4
- Reclassifications	-	-	6	(2)	4
Total changes	(76)	1	6	(10)	(79)
Balance at 31 December 2010	**28**	**35**	**41**	**22**	**126**
Of which current	17	6	3	7	33

In cases where the effect of the time value of money is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate used is based on swap rates for various terms, increased by 75 to 100 basis points depending on those terms. The balance of provisions measured at present value increased by € 2 million in 2010 in view of the passage of time and changes in the discount rate.

The provisions for restructuring costs and termination benefits mainly relate to the costs of redundancy schemes connected to the dismissal and transfer of employees and costs of termination of contracts. These provisions have an average life of 1 to 3 years.

The provisions for environmental costs relate to soil clean-up obligations, among other things. These provisions have an average life of more than 10 years.

Several items have been combined under Other provisions, for example expenses relating to claims. These provisions have an average life of 5 to 10 years.

The additions to the provisions for restructuring costs and termination benefits mainly relate to the closure of the DSM Anti-Infectives sites in Sweden and Egypt.

The addition to the environmental provision mainly relates to expenditures for soil clean-up at the Chemelot site in Sittard-Geleen (Netherlands).

The additions to the Other provisions mainly relate to various claims, including the US Federal Class Antitrust litigation and related cases concerning EPDM. The charges of this claim were recognized in exceptional items.

The item 'disposals' in the changes of the provision for restructuring costs and termination benefits mainly relates to the disposal of DSM Agro.

18 Borrowings

	2010		2009	
	Total	Of which current	Total	Of which current
Debenture loans	1,738	-	1,722	-
Private loans	292	46	346	8
Finance lease liabilities	10	2	8	2
Credit institutions / commercial paper	57	57	128	128
Total	**2,097**	**105**	**2,204**	**138**

In agreements governing loans with a residual amount at year-end 2010 of € 1,964 million, none of which were of a short-term nature (31 December 2009: € 1,932 million, of which none of a short-term nature), clauses have been included which restrict the provision of security. The documentation of the € 300 million bond issued in November 2005, which was increased by € 200 million in September 2008, the documentation of the € 750 million bond issued in October 2007 and the documentation of the € 500 million bond issued in March 2009 include a change-of-control clause. This clause allows the bond investors to request repayment at par if 50% or more of the DSM shares are controlled by a third party and if the company is downgraded below investment grade (< BBB-). In 2010 Moody's confirmed their A3 credit rating for DSM with a stable outlook. Standard & Poor's upgraded DSM's credit rating in 2010 from A- to A credit rating with a stable outlook.

At 31 December 2010, borrowings to a total of € 743 million had a remaining term of more than five years.

The schedule of repayment of borrowings (excluding debt to credit institutions and commercial paper) is as follows:

	2010	2009
2010	-	10
2011	48	48
2012	22	8
2013	117	108
2014 and 2015	1,110	1,160
2016 through 2020	743	742
Total	**2,040**	**2,076**

A breakdown of the borrowings by currency (excluding debt to credit institutions and commercial paper) is given in the following table:

	2010	2009
EUR	1,756	1,820
USD	238	211
CNY	34	34
Other	12	11
Total	**2,040**	**2,076**

On balance, total borrowings decreased with € 107 million owing to the following changes:

	2010	2009
Balance at 1 January	**2,204**	**2,293**
Loans taken up	14	530
Repayments	(14)	(242)
Changes in fair value	11	2
Acquisitions/disposals	(1)	(4)
Deconsolidations	(78)	-
Changes in debt to credit institutions/commercial paper	(71)	(370)
Exchange differences	22	(4)
Other changes	10	(1)
Balance at 31 December	**2,097**	**2,204**

The average effective interest rate on the portfolio of borrowings outstanding in 2010, including financial instruments related to these borrowings, amounted to 4.0% (2009: 3.8%).

A breakdown of debenture loans is given below:

			2010	2009
EUR loan	4.00%	2005-2015	492	484
EUR loan	5.25%	2007-2017	743	742
EUR loan	5.75%	2009-2014	503	496
Total			**1,738**	**1,722**

All debenture loans have a fixed interest rate.

The original amount of € 300 million of the 4% EUR loan 2005-2015 was swapped into CHF to hedge the currency risk of net investments in CHF-denominated subsidiaries. This original amount of the loan was pre-hedged (cash flow hedge) in 2005 by means of a forward starting swap, which led to a lower effective fixed interest rate of 3.66%. The loan increase of € 192 million (after discount and fair value adjustments), was swapped to floating rates in August 2009 by means of an interest rate swap (fair value hedge). The effective interest rate for this floating part of the loan is 2.17% above 1 month Euribor.

At year-end 2010 (same as 2009), the 5.25% EUR loan 2007-2017 was swapped into CHF for an amount of € 325 million to hedge the currency risk of net investments in CHF-denominated subsidiaries. In 2006 and 2007 the loan had been partly pre-hedged (cash flow hedge) by means of forward starting swaps, leading to a lower effective fixed interest rate of 4.89% for the full loan.

Of the 5.75% EUR loan 2009-2014 € 300 million was swapped to floating rates in September 2009 by means of an interest rate swap (fair value hedge). The effective interest on the fixed rate part of € 200 million is 5.88% and the effective interest rate for the floating part of € 300 million is 3.48% above 1 month Euribor.

In November 2010 pre-hedge contracts were concluded for an intended refinancing in 2014 of the 5.75% EUR loan 2009-2014 at a 10 years interest rate of 3.42% excluding DSM spread. At year-end 2010 the fair value of these contracts amounted to € 31 million, which is recognized in the hedging reserve.

A breakdown of private loans is given below:

			2010	2009
CNY loan	floating (12 months)	2008-2011	34	31
USD loan	5.51%	2003-2013	113	105
NLG loan	floating (6 months)	2000-2014	-	70
USD loan	5.61%	2003-2015	113	105
Other loans			32	35
Total			**292**	**346**

The fixed interest rate of the 5.51% USD loan 2003-2013 was swapped into a floating rate by means of an interest rate swap (fair value hedge). During 2005 this interest rate swap was unwound. The gain from this will be amortized until maturity, leading to an effective fixed USD interest rate of 4.29% for the loan. This 5.51% USD loan was assigned as a net investment hedge to hedge the currency risk of net investments in USD-denominated subsidiaries.

The currency component of the 5.61% USD loan 2003-2015 was swapped into euros (cash flow hedge). The resulting EUR obligation was swapped into CHF to hedge the currency risk of net investments in CHF-denominated subsidiaries (net investment hedge).

DSM's policy regarding financial-risk management is described in note 22.

19 Other non-current liabilities

	2010	2009
Investment grants	12	18
Other non-current liabilities	21	31
Total	**33**	**49**

20 Current liabilities

	2010	2009
Trade payables		
Received in advance	20	27
Trade accounts payable	1,245	1,138
Notes and cheques due	11	3
Owing to associates	1	1
Total	**1,277**	**1,169**
Other current liabilities		
Income taxes payable	41	39
Other taxes and social security contributions	42	42
Pensions	4	3
Other liabilities	368	233
Deferred items	57	152
Total	**512**	**469**

21 Contingent liabilities and other financial obligations

The contingent liabilities and other financial obligations in the following table are not recognized in the balance sheet.

	2010	2009
Operating leases and rents	82	81
Guarantee obligations on behalf of associates and third parties[1]	143	40
Outstanding orders for projects under construction	5	23
Other	24	18
Total	**254**	**162**

[1] Increase in 2010 mainly due to the deconsolidation of USG B.V. See note 29.

Most of the outstanding orders for projects under construction will be completed in 2011. Property, plant and equipment under operating leases primarily concern catalysts, buildings and various equipment items.

The commitments for operating leases and rents are spread as follows:

	2010	2009
2010	-	11
2011	12	13
2012	15	10
2013	10	9
2014 and 2015	17	14
After 2015	28	24
Total	**82**	**81**

Litigation

DSM has a process in place to monitor legal claims periodically and systematically.

DSM is involved in several legal proceedings, most of which are related to the ordinary course of business. DSM does not expect these proceeding to result in liabilities that have a material effect on the company's financial position. In case where it is probable that the outcome of the proceedings will be unfavorable, and the financial outcome can be measured reliably, a provision has been recognized in the financial statements.

22 Financial instruments and risks

Policies on financial risks

General

The main financial risks faced by DSM relate to liquidity risk and market risk (comprising interest rate risk, currency risk and price risk). DSM's financial policy is aimed at minimizing the effects of fluctuations in currency-exchange and interest rates on its results in the short term and following market rates in the long term. DSM uses financial derivatives to manage financial risks relating to business operations and does not enter into speculative derivative positions. DSM's financial policy, including policies and processes for managing capital, is discussed more extensively on page 70 of the Report by the Managing Board.

Liquidity risk

DSM has two committed credit facilities of € 400 million and € 500 million amounting to a total of € 900 million (2009: two committed credit facilities amounting to a total of € 900 million) and a commercial-paper program amounting to € 1,500 million (2009: € 1,500 million). The company will use the commercial-paper program to a total of not more than € 900 million (2009: € 900 million). The agreements for the committed credit facilities neither have financial covenants nor material adverse changes clauses. On 31 December 2010 no loans were taken up under either of the facilities.

Floating-rate and fixed-rate borrowings and short-term monetary liabilities analyzed by maturity are summarized in the following table. Borrowings excluding credit institutions are shown after taking into account related interest rate derivatives in designated hedging relationships. DSM manages financial liabilities and related derivative contracts on the basis of the remaining contractual maturities of these instruments. Therefore the remaining maturities presented in the following table provide an appropriate understanding of the timing of the cash flows related to these instruments, and amounts are not expected to differ from those reported. Financial assets are not linked to financial liabilities in order to meet cash outflows on these liabilities.

2010	Fixed-rate borrowings	Floating-rate borrowings	Short-term monetary liabilities	Subtotal	Interest payments	Cash at[1] redemption	Total cash out
Within 1 year	12	36	1,846	1,894	90	-	1,984
Within 1 to 2 years	11	11	-	22	89	-	111
Within 2 to 3 years	115	2	-	117	87	-	204
Within 3 to 4 years	202	302	-	504	64	(3)	565
Within 4 to 5 years	414	192	-	606	55	8	669
After 5 years	743	-	-	743	67	7	817
Total	**1,497**	**543**	**1,846**	**3,886**	**452**	**12**	**4,350**
2009							
Within 1 year	8	2	1,766	1,776	90	-	1,866
Within 1 to 2 years	9	39	-	48	90	-	138
Within 2 to 3 years	6	2	-	8	88	-	96
Within 3 to 4 years	107	1	-	108	87	-	195
Within 4 to 5 years	199	372	-	571	62	4	637
After 5 years	1,147	184	-	1,331	116	24	1,471
Total	**1,476**	**600**	**1,766**	**3,842**	**533**	**28**	**4,403**

[1] Difference between nominal redemption and amortized costs

Interest rate risk

DSM's interest rate risk policy is aimed at minimizing the interest rate risks associated with the financing of the company and thus at the same time optimizing the net interest costs. This policy translates into a certain desired profile of fixed-interest and floating-interest positions, including cash and cash equivalents, with the floating-interest position in principle not exceeding 60% of net debt.

On 31 December 2010, the notional amount of two interest rate swaps in relation to long-term borrowings was € 500 million (2009: two swaps of € 500 million). For these swaps fair value hedge accounting was applied.

The following analysis of the sensitivity of borrowings and related financial derivatives to interest rate movements assumes an immediate 1% change in interest rates for all currencies and maturities from their level on 31 December 2010, with all other variables held constant. A 1% reduction in interest rates would result in a € 17 million pre-tax loss in the income statement on the basis of the composition of financial instruments on 31 December 2010 as floating-rate borrowings are more than compensated for by floating-rate assets (mainly cash). The opposite applies in the case of a 1% increase in interest rates. The sensitivity of the fair value of financial instruments on 31 December 2010 to changes in interest rates is set out in the following table.

	2010				2009			
	Carrying amount	Fair value	Sensitivity of fair value to change in interest of:		Carrying amount	Fair value	Sensitivity of fair value to change in interest of:	
			+1%	(1%)			+1%	(1%)
Current investments	837	837	-	-	7	7	-	-
Cash and cash equivalents	1,453	1,453	-	-	1,340	1,340	-	-
Short-term borrowings	(105)	(105)	-	-	(138)	(138)	-	-
Long-term borrowings	(1,992)	(2,150)	92	(97)	(2,066)	(2,191)	108	(116)
Interest rate swaps (fixed to floating and pre-hedges)	39	39	15	(20)	(3)	(3)	(22)	23

Currency risk

It is DSM's policy to hedge 100% of the currency risks resulting from sales and purchases at the moment of recognition of the trade receivables and trade payables. In addition, operating companies may – under strict conditions – opt for hedging currency risks from firm commitments and forecasted transactions. The currencies giving rise to these risks are primarily USD and JPY. The risks arising from currency exposures are regularly reviewed and hedged when appropriate. DSM uses average-rate currency forward contracts, currency forward contracts, spot contracts, and average-rate currency options to hedge the exposure to fluctuations in foreign exchange rates. At year-end, these instruments had remaining maturities of less than one year.

To hedge intercompany loans, receivables and payables denominated in currencies other than the functional currency of the subsidiaries, DSM uses currency swaps or forward contracts. Hedge accounting is not applied for these instruments. On 31 December 2010, the notional amount of the currency forward contracts was € 2,121 million (2009: € 2,212 million).

In 2010 DSM hedged USD 846 million (2009 USD 733 million) of its projected net cash flow in USD in 2011, of which USD 421 million against EUR and USD 425 million against CHF by means of average-rate currency forward contracts at an average exchange rate of USD 1.34 per euro and USD 0.96 per Swiss franc respectively for the four quarters of 2011. In 2010 DSM also hedged JPY 5,000 million (2009: JPY 4,960 million) of its projected net cash flow in JPY in 2011 of which JPY 4,240 million against CHF and JPY 760 million against the euro by means of average-rate currency forward contracts at an average exchange rate of JPY 83 per Swiss franc and JPY 117 per euro, respectively, for the four quarters of 2011. These hedges have fixed the exchange rate for part of the USD and JPY receipts in 2011. Cash flow hedge accounting is applied for these hedges. As a result of similar hedges concluded in 2009 for the year 2010, in 2010 € 3 million negative (2009: € 13 million negative) was recognized in the operating income of the segments involved in accordance with the realization of the expected cash flows. There was no material ineffectiveness in relation to these hedges.

The currency risk associated with the translation of DSM's net investment in entities denominated in currencies other than the euro was partially hedged at year-end 2010. CHF-denominated net assets have been partially hedged by currency swaps (CHF 1,157 million). USD-denominated net assets have been partially hedged through a USD loan (USD 150 million). There was no material ineffectiveness in relation to these hedges.

The following analysis of the sensitivity of net borrowings and derivative financial instruments to currency movements against the euro assumes a 10% change in all foreign currency rates against the euro from their level on 31 December 2010, with all other variables held constant. A +10% change indicates a strengthening of the foreign currencies against the euro. A -10% change represents a weakening of the foreign currencies against the euro.

	2010				2009			
	Carrying amount	Fair value	Sensitivity of fair value to change in all exchange rates of:		Carrying amount	Fair value	Sensitivity of fair value to change in all exchange rates of:	
			+10%	(10%)			+10%	(10%)
Current investments	837	837	-	-	7	7	-	-
Cash and cash equivalents	1,453	1,453	27	(27)	1,340	1,340	24	(24)
Short-term borrowings	(105)	(105)	(8)	8	(138)	(138)	(8)	8
Long-term borrowings	(1,992)	(2,150)	(27)	27	(2,066)	(2,191)	(27)	27
Cross currency swaps	(20)	(20)	13	(13)	(32)	(32)	12	(12)
Currency forward contracts	29	29	22	(22)	55	55	41	(41)
Cross currency swaps related to net investments in foreign entities[1]	(171)	(171)	(97)	97	(14)	(14)	(82)	82
Average-rate forwards used for economic hedging[2]	38	38	(29)	29	21	21	(24)	24

[1] Fair-value change reported in Translation reserve
[2] Fair-value change reported in Hedging reserve

The following analysis of the sensitivity of net borrowings and derivative financial instruments to currency movements against the euro assumes a 10% change in the USD exchange rate against all foreign currencies and the euro from the level on 31 December 2010, with all other variables held constant. A +10% change indicates a strengthening of the USD against the foreign currencies and the euro and a -10% change represents a weakening of the USD against the foreign currencies and the euro.

	2010				2009			
	Carrying amount	Fair value	Sensitivity of fair value to change in USD		Carrying amount	Fair value	Sensitivity of fair value to change in USD	
			+10%	(10%)			+10%	(10%)
Current investments	837	837	-	-	7	7	-	-
Cash and cash equivalents	1,453	1,453	-	-	1,340	1,340	-	-
Short-term borrowings	(105)	(105)	-	-	(138)	(138)	-	-
Long-term borrowings	(1,992)	(2,150)	(27)	27	(2,066)	(2,191)	(23)	23
Cross currency swaps	(20)	(20)	13	(13)	(32)	(32)	12	(12)
Currency forward contracts	29	29	(62)	62	55	55	(56)	56
Cross currency swaps related to net investments in foreign entities[1]	(171)	(171)	-	-	(14)	(14)	-	-
Average-rate forwards used for economic hedging[2]	38	38	(64)	64	21	21	(51)	51

[1] Fair-value change reported in Translation reserve
[2] Fair-value change reported in Hedging reserve

Fair-value changes on these positions will generally be recognized in profit or loss, with the exception of the instruments for which cash flow hedge accounting or net-investment hedge accounting is applied. Cash flow hedge accounting is applied for the average-rate forwards and average-rate currency options used for economic hedging; the fair value changes of these derivatives are recognized in the Hedging reserve in equity until recognition of the related cash flows. Net-investment hedge accounting is applied for the cross currency swaps used to protect net investments in foreign entities; the fair-value changes of these derivatives are recognized in the Translation reserve in equity until the net investment is disposed of, to the extent that the changes in fair value are caused by changes in currency-exchange rates.

Price risk

Financial instruments that are subject to changes in stock exchange prices or indexes are subject to a price risk. At year-end 2010 DSM had a 4.95% shareholding in Danisco, which was accounted for as available-for-sale security. Danisco is listed on the Copenhagen stock exchange and subject to a tender offer from DuPont to buy the company. Price risks related to other investments in securities are limited.

Credit risk

DSM manages the credit risk to which it is exposed by applying credit limits per institution and by dealing exclusively with institutions having a high credit rating. In February 2009 individual credit limits for financial institutions were reviewed and reduced by about 50% in anticipation of increasing exposure to credit risk as rising cash levels of DSM coincided with a still questionable stability of banks. In 2010, the credit limits were reinstalled to pre crisis levels. Given the cash position of DSM and the need to increase yields, DSM decided to invest also in deposits with a maximum maturity of six months and in commercial paper of non-financial institutions.

At the balance sheet date there were no significant concentrations of credit risk.

With regard to treasury activities it is ensured that financial transactions are only concluded with counterparties that have at least a Moody's credit rating of P1 for short-term instruments or A3 for long-term instruments. At business group level, outstanding receivables are continuously monitored by the management of the operating companies. Appropriate allowances are made for credit risks that have been identified (as listed in note 13). It is therefore unlikely that significant losses will arise in relation to receivables that have not been provided for.

The maximum exposure to credit risk is represented by the carrying amounts of financial assets that are recognized in the balance sheet, including derivative financial instruments. No significant agreements or financial instruments were available at the reporting date that would reduce the maximum exposure to credit risk. Information about financial assets is presented in note 10 Associates, note 11 Other financial assets, note 13 Receivables, note 14 Current investments, note 15 Cash and cash equivalents and note 22 Financial instruments and risks.

Fair value of financial instruments

In the following table the carrying amounts and the estimated fair values of financial instruments are disclosed:

	31 December 2010		31 December 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Other participations	207	207	170	170
Other non-current receivables	44	44	51	51
Current receivables	1,477	1,477	1,410	1,410
Financial derivatives	134	134	88	88
Current investments	837	837	7	7
Cash and cash equivalents	1,453	1,453	1,340	1,340
Liabilities				
Non-current borrowings	1,992	2,150	2,066	2,191
Other non-current liabilities	33	33	49	49
Current borrowings	105	105	138	138
Financial derivatives	219	219	61	61
Other current liabilities	1,789	1,789	1,638	1,638

The following methods and assumptions were used to determine the fair value of financial instruments: cash, current investments, current receivables, current borrowings and other current liabilities are stated at carrying amount, which approximates fair value in view of the short maturity of these instruments. The fair values of financial derivatives and long-term instruments are based on calculations, quoted market prices or quotes obtained from intermediaries.

The portfolio of derivatives consists of Average Rate Forward Contracts that are valued against average foreign exchange forward rates obtained from Bloomberg and other derivatives that are valued using a discounted cash flow model, applicable market yield curves and foreign exchange spot rates. All inputs for the fair value calculations represent observable market data that are obtained from external sources that are deemed to be independent and reliable.

The following table shows the carrying amounts of the financial derivatives recognized, broken down by type and purpose:

	Assets	Liabilities	Total
Interest rate swaps	-	(3)	(3)
Currency swaps	-	(46)	(46)
Total financial derivatives related to borrowings	**-**	**(49)**	**(49)**
Currency forward contracts	88	(12)	76
Currency options	-	-	-
Balance at 31 December 2009	**88**	**(61)**	**27**
Interest rate swaps	39	-	39
Currency swaps	-	(191)	(191)
Total financial derivatives related to borrowings	**39**	**(191)**	**(152)**
Currency forward contracts	95	(28)	67
Currency options	-	-	-
Balance at 31 December 2010	**134**	**(219)**	**(85)**

23 Post-employment benefits

The group operates a number of defined benefit plans and defined contribution plans throughout the world, the assets of which are generally held in separately administered funds. The pension plans are generally funded by payments from employees and by the relevant group companies. The group also provides certain additional healthcare benefits to retired employees in the United States.

Post-employment benefits relate to obligations that will be settled in the future and require assumptions to project benefit obligations. Post-employment benefit accounting is intended to reflect the recognition of post-employment benefits over the employee's approximate service period, based on the terms of the plans and the investment and funding. The accounting requires management to make assumptions regarding variables such as discount rate, future salary increases, return on assets, and future healthcare costs. Management consults with external actuaries regarding these assumptions at least annually for significant plans. Changes in these key assumptions can have a significant impact on the projected defined benefit obligations, funding requirements and periodic costs incurred.

The charges for pension costs recognized in the income statement (note 4) relate to the following:

	2010	2009
Defined benefit plans:		
- Pension plans	58	58
- Healthcare plans	2	2
- Other post-employment benefits	6	6
Defined contribution plans	21	18
Total continuing activities	**87**	**84**
Discontinuing activities	6	12
Exceptional items	(6)	(19)
Total	**87**	**77**

In 2010 DSM agreed with the labor unions to change the Dutch pension plan as of 2011. The plan will be converted from final-pay to average-pay and as of 1 January 2012 the pensionable age will be raised from 65 to 66 years, in line with developments in the Netherlands. The new agreement covers a period of 5 years and obliges DSM to pay a fixed premium. In view of the fact that DSM has no further obligation than to pay the agreed premium, the changed plan will be accounted for as a defined contribution plan in 2011. The charge to profit and loss will be equal to the premium paid. The changes in the Dutch pension plan resulted in a curtailment gain of €45 million that was recognized in profit and loss together with a charge of €58 million for previously unrecognized past service costs. Both were reported as exceptional items in 2010. After these changes the remaining prepaid pension assets of €176 million were charged to Other comprehensive income because the assets did not meet the requirements of the asset ceiling test. With the introduction of the defined contribution plan in 2011 DSM will have no further responsibility under the Dutch pension plan than to pay the agreed premium and therefore the defined benefit obligation and the related plan assets will no longer be reported. Because the prepaid pension assets have already been reduced to nil (2009: €280 million) this will have no further impact on profit and loss.

For 2011, costs related to pensions and healthcare, excluding gains and losses on curtailments and settlements, will be €30 million (2010: €63 million). The costs related to defined contribution plans will increase to a level of about €95 million.

Changes in Prepaid pension costs and Employee benefits liabilities recognized in the balance sheet are disclosed in the following overview:

	2010	2009
Prepaid pension costs	282	137
Employee benefits liabilities	(324)	(347)
Balance at 1 January	**(42)**	**(210)**
Changes:		
- Balance of actuarial gains/(losses)	(186)	109
- Balance of asset ceiling	(171)	(6)
- Employee benefits costs	(65)	(56)
- Contributions by employer	144	124
- Exchange differences	(8)	1
- Reclassification to held for sale	4	-
- Other changes	4	(4)
Total changes	**(278)**	**168**
Balance at 31 December	**(320)**	**(42)**
Of which:		
- Prepaid pension costs	**1**	**282**
- Employee benefits liabilities	**(321)**	**(324)**

The Employee benefits liabilities of €321 million (2009: €324 million) consist of €281 million (2009: €280 million) related to pensions, €23 million (2009: €22 million) related to healthcare and other costs and €17 million (2009: €22 million) related to other post-employment benefits.

Pensions

The DSM group companies have various pension plans, which are geared to the local regulations and practices in the countries in which they operate. As these plans are designed to comply with the statutory framework, tax legislation, local customs and economic situation of the countries concerned, it follows that the nature of the plans varies from country to country. The plans are based on local legal and contractual obligations.

Defined benefit plans are applicable to certain employees in the Netherlands, Germany, the United Kingdom, Switzerland, the United States and Austria. The rights that can be derived from these plans are based primarily on length of service and the majority of the plans are based on final salary. The majority of the obligations are funded and have been transferred to independent pension funds and life-insurance companies. The German and the Austrian plan are unfunded. Together they represent 4% (2009: 4%) of the total defined benefit obligation.

The changes in the present value of the defined benefit obligations and in the fair value of plan assets of the major plans are listed below:

Present value of defined benefit obligations

	2010	2009
Balance at 1 January	**4,942**	**4,454**
Changes:		
- Service costs	93	81
- Interest costs	246	241
- Contributions by employees	24	23
- Actuarial (gains)/losses	431	376
- Curtailments	(69)	(1)
- Settlements	-	(4)
- Transfer	21	-
- Past service costs	-	(7)
- Exchange differences on foreign plans	94	5
- Benefits paid	(240)	(227)
- Other changes	1	1
Balance at 31 December	**5,543**	**4,942**

Fair value of plan assets

	2010	2009
Balance at 1 January	**4,876**	**4,213**
Changes:		
- Expected return on plan assets	290	266
- Actuarial gains/(losses)	245	485
Actual return on plan assets	**535**	**751**
- Settlements		(3)
- Contributions by employer	136	113
- Contributions by employees	24	23
- Transfer	20	-
- Exchange differences on foreign plans	89	6
- Benefits paid	(240)	(227)
Balance at 31 December	**5,440**	**4,876**

The amounts recognized in the balance sheet are as follows:

	2010	2009
Present value of funded obligations	(5,322)	(4,722)
Fair value of plan assets	5,440	4,876
	118	**154**
Present value of unfunded obligations	(221)	(220)
Funded status	**(103)**	**(66)**
Unrecognized past service costs	-	74
Effect of asset ceiling	(177)	(6)
Net liabilities / net assets	**(280)**	**2**
Of which:		
- Liabilities (Employee benefits liabilities)	(281)	(280)
- Assets (Prepaid pension costs)	1	282

In 2010 an adjustment due to a change of the mortality tables was included in the defined benefit obligation of the Netherlands and the United Kingdom for an amount of €386 million.

The changes in the net assets / liabilities recognized in the balance sheet are as follows:

	2010	2009
Balance at 1 January	**2**	**(154)**
Expense recognized in the income statement	(56)	(61)
Actuarial gains/(losses) recognized directly in Other comprehensive income during the year	(186)	109
Asset ceiling recognized directly in Other comprehensive income during the year	(171)	(6)
Contributions by employer	136	113
Exchange differences on foreign plans	(5)	1
Other changes	-	-
Balance at 31 December	**(280)**	**2**

In 2011 DSM is expected to contribute € 57 million (actual 2010: € 136 million) to its defined benefit plans.

The major categories of pension-plan assets as a percentage of total plan assets are as follows:

	2010	2009
Bonds	57%	57%
Equities	34%	37%
Property	5%	4%
Other	4%	2%

The pension-plan assets include neither ordinary DSM shares nor property occupied by DSM.

The total expense recognized in the income statement is as follows:

	2010	2009
Current service costs	93	81
Interest on obligation	246	241
Expected return on plan assets	(290)	(266)
Past service costs	70	5
(Gains)/losses on curtailments and settlements	(64)	0
Other	1	-
Costs related to defined benefit plans	**56**	**61**

The main actuarial assumptions for the year (weighted averages) are:

	2010		2009	
	The Netherlands	Other countries	The Netherlands	Other countries
Discount rate	5.10%	4.09%	5.20%	4.52%
Price inflation	1.75%	2.03%	1.75%	2.09%
Salary increase	1.75%	2.92%	1.75%	2.97%
Pension increase	1.75%	1.53%	1.75%	1.63%
Expected return on plan assets	5.56%	2.25%-7.80%	5.96%	4.91%-8.00%

The assumptions for the expected return on plan assets are based on a review of historical returns of the asset classes in which the assets of the pension plans are invested and the expected long-term allocation of the assets over these classes. The 2010 assumptions are used for the determination costs related to defined benefit plans for 2011.

Year-end amounts for the current and previous periods are as follows:

	2010	2009	2008	2007
Defined benefit obligations	(5,543)	(4,942)	(4,454)	(4,478)
Plan assets	5,440	4.876	4,213	5,400
Funded status of asset/(liability)	**(103)**	**(66)**	**(241)**	**922**
Experience adjustments on plan assets, gain/(loss)	245	485	(1,402)	(331)
Experience adjustments on plan liabilities, gain/(loss)	35	(40)	26	21
Gain/(loss) on liabilities due to changes in assumptions	(466)	(336)	106	519

Healthcare and other costs

In some countries, particularly in the United States, group companies provide retired employees and their surviving dependants with post-employment benefits other than pensions, mainly allowances for healthcare expenses and life-insurance premiums. Some of these are unfunded; in these cases, approved expense claims are reimbursed out of the financial resources of the group companies concerned.

The amounts included in the balance sheet are as follows:

	2010	2009
Present value of funded obligations	(10)	(9)
Fair value of plan assets (including reimbursement rights)	6	6
	(4)	**(3)**
Present value of unfunded obligations	(19)	(19)
Funded status	**(23)**	**(22)**
Unrecognized past service costs	-	-
Net liability (Employee benefits liabilities)	**(23)**	**(22)**

The amounts recognized in the income statement are as follows:

	2010	2009
Current service costs	1	1
Interest costs	2	2
Expected return on plan assets and reimbursement rights	(1)	(1)
Past service costs	-	0
(Gains)/losses on curtailments or settlements	-	(15)
Costs related to healthcare plans	**2**	**(13)**

The changes in the net liability for post-employment healthcare and other costs recognized in the balance sheet (Employee benefits liabilities) can be shown as follows:

	2010	2009
Balance at 1 January	**(22)**	**(36)**
Expense recognized in the income statement	(2)	13
Actuarial gains/(losses) recognized directly in equity	1	0
Benefits paid/employer contributions	2	1
Exchange differences	(2)	0
Balance at 31 December	**(23)**	**(22)**

In 2011 DSM is expected to contribute €2 million (actual 2010: €2 million) to its post-employment healthcare and other plans.

The main actuarial assumptions for post-employment healthcare costs (weighted averages) for the year are:

	2010	2009
Discount rate	5.75%	6.00%
Price inflation	2.75%	2.75%
Salary increase	3.75%	3.75%
Healthcare-cost trend (initial rate)	7.00%	8.00%
Healthcare-cost trend (ultimate rate)	4.75%	4.75%

The 2010 assumptions are used for the determination of post-employment healthcare costs for 2011.

A one-percentage-point change in assumed healthcare cost trend rates would have the following impact:

	One-percentage-point increase	One-percentage-point decrease
2009		
Effect on the aggregate of service costs and interest costs (increase)	(0)	0
Effect on defined obligation (increase)	(2)	2
2010		
Effect on the aggregate of service costs and interest costs (increase)	(0)	0
Effect on defined obligation (increase)	(2)	2

Amounts for the current and previous periods are as follows:

	2010	2009	2008	2007
Defined benefit obligations	(29)	(28)	(43)	(40)
Plan assets (including reimbursement rights)	6	6	8	8
Funded status of asset/(liability)	**(23)**	**(22)**	**(35)**	**(32)**
Experience adjustments of plan liabilities (loss)	2	0	1	1

24 Net debt

The development of the components of net debt is as follows:

	2010	2009
Borrowings:		
- Non-current borrowings	1,992	2,066
- Current borrowings	105	138
Total borrowings	**2,097**	**2,204**
Current investments	(837)	(7)
Cash and cash equivalents	(1,453)	(1,340)
Financial derivatives, assets (see also note 22)	(134)	(88)
Financial derivatives, liabilities (see also note 22	219	61
Net debt	**(108)**	**830**

Cash at year-end 2010 was not being used as collateral and was not restricted (same as in 2009).

25 Notes to the cash flow statement

The cash flow statement provides an explanation of the changes in cash and cash equivalents. It is prepared on the basis of a comparison of the balance sheets as at 1 January and 31 December. Changes that do not involve cash flows, such as changes in exchange rates, amortization, depreciation, impairment losses and transfers to other balance sheet items, are eliminated.

Changes in working capital due to the acquisition or disposal of consolidated companies are included under Investing activities.

Most of the changes in the cash flow statement can be traced back to the detailed statements of changes for the balance sheet items concerned. For those balance sheet items for which no detailed statement of changes is included, the table below shows the link between the change according to the balance sheet and the change according to the cash flow statement:

	2010	2009
Operating working capital		
Balance at 1 January	1,511	2,102
Balance at 31 December	1,424	1,511
Balance sheet change	**(87)**	**(591)**
Adjustments:		
- Exchange differences	(141)	(7)
- Changes in consolidation	72	18
- Reclassification to held for sale	140	12
- Transfers	35	2
Total	**19**	**(566)**

In 2010 the operating working capital continuing operations (€ 1,487 million) in percentage of the annualized net sales continuing operations of the fourth quarter, was 17.9% (2009: 18.6%). This ratio for total DSM (before reclassification to held for sale) in 2010 was 17.9% (2009: 18.9%).

26 Share-based compensation

Under the DSM Stock Incentive Plan, performance and non-performance stock options or Stock Appreciation Rights (SARs) are granted to senior management. Such a grant takes place on the first day on which the DSM stock is quoted ex-dividend following the Annual General Meeting of Shareholders. The opening price of the DSM stock on that day is the exercise price of the stock options and SARs.

Stock Options and SARs have a term of eight years and are subject to a vesting period of three years. After this three-year period one third of the stock options and SARs (non-performance-related) will vest and two thirds of the stock options and SARs that are performance-related will become exercisable in whole, in part, or not at all, depending on the total shareholder return (TSR) achieved by DSM in comparison with a peer group. Non-vested performance-related stock options and SARs will be forfeited. If employment is terminated prior to the vesting date, specific rules regarding vesting and forfeitures apply. The exercise of stock incentives is regulated.

Besides stock options tied to performance, performance shares have been granted to the members of the Managing Board. Performance shares vest after three years upon the realization of a predefined performance measure. The performance schedule is the same as that for stock options.

All stock options and performance shares are settled by physical delivery of DSM shares, while SARs are settled in cash.

Overview of stock options and Stock Appreciation Rights for management

Year of issue	Outstanding at 31 Dec. 2009	In 2010 Granted	In 2010 Exercised	In 2010 Forfeited/ expired	Outstanding at 31 Dec. 2010	Fair value on grant date (€)	Exercise price (€)	Expiry date
2002	110,800	-	(98,050)	(12,750)	-	5.22	23.505	4 Apr. 2010
2003	358,600	-	(305,350)	-	53,250	3.09	18.195	4 Apr. 2011
2003[1]	74,500	-	(35,200)	-	39,300	3.64	19.770	3 Nov. 2011
2004	675,193	-	(368,075)	(6,750)	300,368	2.97	17.895	2 Apr. 2012
2005[2]	909,092	-	(445,489)	(3,750)	459,853	6.15	29.050	8 Apr. 2013
2006[2]	1,693,350	-	(234,019)	(94,750)	1,364,581	8.95	38.300	31 Mar. 2014
2007[2,3]	2,892,450	-	(637,513)	(480,123)	1,774,814	7.69	33.600	30 Mar. 2015
2008[2]	3,152,300	-	(167,750)	(113,750)	2,870,800	5.73	29.790	28 Mar. 2016
2009[2]	3,386,763	-	(113,250)	(126,800)	3,146,713	2.83	21.100	27 Mar. 2017
2010[2]	-	3,313,263	(15,250)	(91,800)	3,206,213	6.07	33.100	6 Apr. 2018
2010 Total	**13,253,048**	**3,313,263**	**(2,419,946)**	**(930,473)**	**13,215,892**			
Of which vested	4,340,485				4,379,866			
	at 31 Dec. 2008				at 31 Dec. 2009			
2009 Total	**11,616,918**				**13,253,048**			
Of which vested	3,287,143				4,340,485			

1 On 3 November 2003 a select group of DSM Nutritional Products employees received stock options and SARs on a one-off basis.
2 Stock options will partly vest, and may therefore be immediately exercised, upon termination of employment in connection with retirement or early retirement. The remaining term to exercise stock options or SARs after their vesting as a result of retirement or early retirement is limited to three years (the remaining term to exercise in the case of regular vesting is five years).
3 Based on TSR performance, the stock incentives tied to performance granted in 2007 did only partially vest; the remaining part has been forfeited.

Certain employees in the Netherlands are entitled to employee stock options that are granted on the first day on which the DSM stock is quoted ex-dividend following the Annual General Meeting of Shareholders. The opening price of the DSM stock on that day is the exercise price of the stock options. Employee stock options can immediately be exercised and have a term of 5 years.

Overview of stock options for employees

Year of issue	Outstanding at 31 Dec. 2009	In 2010 Granted	Exercised	Forfeited/ expired	Outstanding at 31 Dec. 2010	Fair value on grant date (€)	Exercise price (€)	Exercise period until
2005	125,818	-	(101,158)	(24,660)	-	4.29	29.05	Apr. 2010
2006	537,508	-	(167,047)	(76,687)	293,774	6.03	38.30	Mar. 2011
2007	459,912	-	(163,967)	(47,847)	248,098	4.27	33.60	Mar. 2012
2008	422,131	-	(198,210)	(18,596)	205,325	3.27	29.79	Mar. 2013
2009	577,482	-	(341,766)	(8,846)	226,870	2.31	21.10	Mar. 2014
Total	**2,122,851**	**-**	**(972,148)**	**(176,636)**	**974,067**			
2009	1,586,514	825,632	(281,959)	(7,336)	2,122,851			

Based on the 2009 result, no employee option rights were granted in 2010.

Measurement of fair value

The costs of option plans are measured by reference to the fair value of the options at the date at which the options are granted. The fair value is determined using the Black-Scholes model, taking into account market conditions linked to the price of the DSM share. Stock-price volatility is determined on the basis of historical volatilities of the DSM share price measured each month over a period equal to the expected option life. The costs of these options are recognized in the income statement (Employee benefits costs).

The following assumptions were used in the Black-Scholes model to determine the fair value at grant date:

	2010	2009
Risk-free interest rate of management option rights (6 years)	2.56%	2.59%
Expected option life of management option rights	6 years	6 years
Nominal option life of management option rights	8 years	8 years
Expected option life of employee option rights	2.5 years	2.5 years
Nominal option life of employee option rights	5 years	5 years
Stock-price volatility of management option rights	26%	26%
Stock-price volatility of employee option rights	26%	26%

In the costs for wages and salaries an amount of € 16 million is included for share-based compensation (2009: € 20 million). In the following table the share-based compensation is specified:

	2010	2009
Stock options	9	12
Stock appreciation rights	6	7
Performance shares	1	1
Total expense	16	20

27 Interests in joint ventures

DSM's share in its most important joint ventures (joint ventures with a net asset value higher than € 25 million on a 100% basis) is disclosed below:

Company	Location	Country	DSM interest	
			2010	2009
DEX-Plastomers v.o.f.	Heerlen	NL	50%	50%
EdeA v.o.f.[1]	Sittard-Geleen	NL	-	50%

[1] Deconsolidated in 2010

The financial data of all joint ventures are included in the consolidated financial statements according to the method of proportionate consolidation. DSM's interests in the assets and liabilities, income and expense of all these joint ventures are disclosed below:

	2010	2009
Non-current assets	17	115
Current assets	42	56
Non-current liabilities	0	(79)
Current liabilities	(23)	(33)
Net assets	**36**	**59**
Net sales	75	68
Expenses	(56)	(57)
Net profit	**19**	**11**

28 Interests in associates

DSM's share in its most important associates (associates with a net asset value higher than € 25 million on a 100% basis) is disclosed below:

Company	Location	Country	DSM interest	
			2010	2009
Xinhui Meida - DSM Nylon Chips Co. Ltd.	Guangzhou	CN	25%	25%

Investments in associates are accounted for by the equity method. The following table provides summarized financial information on all associates on a 100% basis.

	2010[1]	2009
Non-current assets	185	57
Current assets	133	76
Non-current liabilities	(146)	(41)
Current liabilities	(114)	(37)
Net assets	**58**	**55**
Net sales	603	134
Net result	4	2

[1] Before reclassification to held for sale. The major changes compared to 2009 are related to the recognition of the former subsidiary USG B.V. as an associate in 2010

29 Related parties

In the ordinary course of business, DSM buys and sells goods and services to various related parties in which DSM has significant influence. Transactions are conducted under terms and conditions that are equivalent to those that apply to arm's length transactions. In 2010 significant transactions with Utility Support Group (USG) B.V. and EdeA v.o.f. occurred. Both units were consolidated until the second quarter of 2010 and became associates as of July (see note 2). Transactions and relationships with related parties are reported in the table below.

	2010[1]	2009[1]
Sales to related parties	40	31
Purchases from related parties	132	129
Receivables from related parties	2	4
Payables to related parties	9	11

[1] Relates to continuing operations of DSM and includes the full year.

DSM has provided a guarantee to third parties for debts of USG B.V. and EdeA v.o.f. for an amount of € 70 million.

Other related-parties disclosure relates entirely to the key management of DSM, being represented by the Managing Board and Supervisory Board of DSM.

The total remuneration (including pension expenditures and other commitments) paid to the current members of the Managing Board amounted to €3.5 million (2009: €4.9 million). This includes fixed annual salary including other items to the amount of €2.4 million (2009: €2.4 million),short-term incentives to the amount of €0.8 million (2009: €2.2 million), and pension expenditure amounting to €0.3 million (2009: €0.3 million). For further information about the remuneration of the members of the Managing Board see note 10 to the financial statements of Royal DSM N.V.

Members of the Supervisory Board received a fixed remuneration (included in General and administrative) totaling €0.3 million (2009: €0.3 million).

Further information about the remuneration of Managing Board members and Supervisory Board members and their share option rights is given in the report by the Supervisory Board from page 121 onwards.

30 Service fees paid to external auditors

The service fees recognized in the financial statements 2010 for Ernst & Young network amounted to €8.0 million (2009: €7.8 million). The amounts per service category are shown in the following table.

	Total service fee		Of which Ernst & Young Accountants LLP	
	2010	2009	**2010**	2009
Audit of the financial statements	4.4	4.5	2.1	2.1
Other assurances services	0.6	0.6	0.4	0.5
Total assurance services	5.0	5.1	2.5	2.6
Tax services	1.9	2.0	-	-
Sundry services	1.1	0.7	-	-
Total	**8.0**	**7.8**	**2.5**	**2.6**

Financial statements of Royal DSM N.V.

Balance sheet at 31 December

x € million	Notes	2010	2009
Assets			
Non-current assets			
Intangible assets	2	409	414
Property, plant and equipment	3	9	14
Financial assets	4	11,383	10,902
Deferred tax assets		76	30
Other non-current assets		7	9
		11,884	**11,369**
Current assets			
Receivables	5	237	126
Financial derivatives		39	-
Cash and cash equivalents		1	2
		277	**128**
Total		**12,161**	**11,497**
Shareholders' equity and liabilities			
Royal DSM N.V. Shareholders' equity	6	5,481	4,949
Non-current liabilities			
Deferred tax liabilities		-	-
Provisions	7	2	2
Borrowings	8	1,964	1,932
		1,966	**1,934**
Current liabilities			
Provisions	7	4	4
Borrowings	8	-	-
Financial derivatives		190	49
Other current liabilities	9	4,520	4,561
		4,714	**4,614**
Total		**12,161**	**11,497**

Income statement

x € million	2010	2009
Share in results of subsidiaries, joint ventures and associates (after income tax expense)	732	669
Other income and expense	(225)	(332)
Net profit attributable to equity holders of Royal DSM N.V.	**507**	**337**

Notes to the Royal DSM N.V. financial statements

1 General

Unless stated otherwise, all amounts are in € million.

The company financial statements have been prepared in accordance with accounting principles generally accepted in the Netherlands.

The accounting policies used are the same as those used in the consolidated financial statements, in accordance with the provisions of article 362-8 of Book 2 of the Dutch Civil Code. In these separate financial statements investments in subsidiaries are accounted for using the net asset value. The balance sheet presentation is aligned with the consolidated financial statements in order to enhance transparency and facilitate understanding. In conformity with article 402, Book 2 of the Dutch Civil Code, a condensed income statement is included in the separate financial statements of Royal DSM N.V.

A list of DSM participations has been filed with the Chamber of Commerce for Limburg (Netherlands) and is available from the company upon request. The list can also be downloaded from the company's website (www.dsm.com).

Information on the use of financial instruments and on related risks for the group is provided in the Notes to the consolidated financial statements of Royal DSM N.V.

2 Intangible assets

The carrying amount of intangible assets mainly comprises goodwill on the acquisition of NeoResins in 2005 (€ 358 million), Crina in 2006 (€ 7 million) and Pentapharm in 2007 (€ 31 million).

3 Property, plant and equipment

This item mainly relates to land and buildings and corporate IT projects. Capital expenditure in 2010 was € 0 million (2009: € 5 million), while the depreciation charge in 2010 was € 2 million (2009: € 1 million). In addition, a transfer to intangible assets was recognized for an amount of € -3 million (in 2009 transfers amounted to € -14 million). The historic cost of property, plant and equipment as at 31 December 2010 was € 46 million (2009: € 50 million); accumulated depreciation amounted to € 37 million (2009: € 36 million).

4 Financial assets

	Total	Subsidiaries		Other	Other loans
		Share in equity	Loans	participations	
Balance at 1 January 2009	**9,816**	**9,354**	**393**	**69**	**0**
Changes:					
- Share in profit	669	669	-	-	-
- Dividend received	(66)	(66)	-	-	-
- Capital payments	218	218	-	-	-
- Net actuarial gains/(losses)	93	93	-	-	-
- Net asset ceiling	(4)	(4)	-	-	-
- Intra-group transfers	66	66	-	-	-
- Change in Fair value reserve	75	16	-	59	-
- Change in Hedging reserve	23	23	-	-	-
- Exchange differences	18	18	-	-	-
- Reclassifications	-	78	(78)	-	-
- Other changes	(6)	10	-	(16)	-
Balance at 31 December 2009	**10,902**	**10,475**	**315**	**112**	**0**
Changes:					
- Share in profit	732	732	-	-	-
- Dividend received	(1,046)	(1,046)	-	-	-
- Capital payments	748	748	-	-	-
- Net actuarial gains/(losses)	(139)	(139)	-	-	-
- Net asset ceiling	(127)	(127)	-	-	-
- Intra-group transfers	(162)	-	-	(162)	-
- Change in Fair value reserve	33	(17)	-	50	-
- Change in Hedging reserve	13	13	-	-	-
- Exchange differences	447	447	-	-	-
- Disposals	(30)	(30)	-	-	-
- New loans	19	-	-	-	19
- Transfers	(7)	(1)	-	-	(6)
Balance at 31 December 2010	**11,383**	**11,055**	**315**	**0**	**13**

5 Receivables

	2010	2009
Receivable from subsidiaries	37	110
Loans to subsidiaries	169	4
Other receivables / deferred items	31	12
Total	**237**	**126**

6 Royal DSM N.V. Shareholders' equity

	2010	2009
Balance at 1 January	**4,949**	**4,633**
Net profit	507	337
Exchange differences, net of income tax	333	7
Net actuarial gains/(losses) on defined benefit obligations	(139)	81
Net asset ceiling related to defined benefit plans	(127)	(4)
Dividend	(206)	(205)
Proceeds from reissue of ordinary shares	95	18
Other changes	69	82
Balance at 31 December	**5,481**	**4,949**

For details see the consolidated statement of changes in equity (note 16).

Legal reserve

Since the profits retained in Royal DSM N.V.'s subsidiaries, joint ventures and associates can be distributed, and received in the Netherlands, without restriction, no legal reserve for retained profits is required. In Royal DSM N.V. Shareholders' equity an amount of € 218 million (2009: € -115 million) is included for Translation reserve, € 75 million (2009: € 39 million) for Hedging reserve and € 49 million (2009: € 29 million) for Fair value reserve.

7 Provisions

The total of non-current and current provisions did not change compared to 2009. This is the net effect of the following changes:

	Environmental costs	Other provisions	Total
Balance at 1 January 2009	**3**	**1**	**4**
Changes in 2009:			
- Additions	-	3	3
- Uses	(1)	-	(1)
Total changes	(1)	3	2
Balance at 31 December 2009	**2**	**4**	**6**
Of which current	1	3	4
Balance at 1 January 2010	**2**	**4**	**6**
Changes in 2010:			
- Additions	1	-	1
- Uses	-	(1)	(1)
Total changes	1	(1)	0
Balance at 31 December 2010	**3**	**3**	**6**
Of which current	1	3	4

8 Borrowings

	2010		2009	
	Total	Of which current	Total	Of which current
Debenture loans	1,738	-	1,722	-
Private loans	226	-	210	-
Credit institutions / commercial paper	-	-	-	-
Total	**1,964**	**-**	**1,932**	**-**

Of the total amount of borrowings outstanding at 31 December 2010, €743 million had a remaining term of more than five years.

The repayment schedule for borrowings is as follows:

	2010	2009
2010	-	-
2011	-	-
2012	-	-
2013	113	105
2014 and 2015	1,108	1,085
2016 through 2020	743	742
Total	**1,964**	**1,932**

In agreements governing loans with a residual amount at year-end 2010 of € 1,964 million, none of which were of a current nature (31 December 2009: € 1,932 million, of which none of a current nature), clauses have been included which restrict the provision of security. More information on borrowings is provided in note 18 (Borrowings) to the consolidated financial statements.

9 Other current liabilities

	2010	2009
Owing to subsidiaries	4,418	4,503
Other liabilities	57	16
Deferred items	45	42
Total	**4,520**	**4,561**

Contingent liabilities
Guarantee obligations on behalf of affiliated companies and third parties amounted to € 182 million (31 December 2009: € 178 million). Royal DSM N.V. has declared in writing that it accepts several liability for debts arising from acts-in-law of a number of consolidated companies. These debts are included in the consolidated balance sheet.

10 Remuneration of the members of the Managing Board

Total remuneration
The remuneration of the members of the Managing Board is determined by the Supervisory Board within the framework of the remuneration policy for 2010 and subsequent years as approved by the Annual General Meeting of Shareholders. More details about the remuneration policy are included in the Report by the Supervisory Board from page 121 onwards.

The total remuneration (including pension expenditure and other commitments) paid to the current members of the Managing Board amounted to € 3.5 million (2009: € 4.9 million). The remuneration of the individual current members of the Managing Board was as follows:

Feike Sijbesma: salary including other items € 808,000 (2009: € 808,000), short-term incentive € 253,000 (2009: € 736,000), pension expenditure € 113,000 (2009: € 113,000); Nico Gerardu: salary including other items € 514,000 (2009: € 513,000), short-term incentive € 158,000 (2009: € 496,000), pension expenditure € 76,000 (2009: € 76,000); Rolf-Dieter Schwalb: salary including other items € 514,000 (2009: € 513,000), short-term incentive € 163,000 (2009: € 484,000), pension expenditure € 76,000 (2009: € 76,000); Stephan Tanda: salary including other items € 545,000 (2009: € 516,000), short-term incentive € 160,000 (2009: € 489,000), pension expenditure € 76,000 (2009: € 76,000).

Outstanding and exercised stock incentives
The following table shows the stock incentives of the individual members of the Managing Board and the rights exercised.

Overview of stock options

	Year of issue	Outstanding at 31 Dec. 2009	In 2010 Exercised	In 2010 Forfeited/ expired	Outstanding at 31 Dec. 2010	Average share price at exercise (€)	Exercise price (€)	Expiry date
Feike Sijbesma	2003	60,000	(60,000)	-	-	37.02	18.195	4 Apr. 2011
	2004	60,000	(60,000)	-	-	37.01	17.895	2 Apr. 2012
	2005	7,500	-	-	7,500		29.050	8 Apr. 2013
	2006	15,000	-	-	15,000		38.300	31 Mar. 2014
	2007	30,000	-	(7,500)	22,500		33.600	30 Mar. 2015
	2008	37,500	-	-	37,500		29.790	28 Mar. 2016
	2009	37,500	-	-	37,500		21.100	27 Mar. 2017
	Total	**247,500**	**(120,000)**	**(7,500)**	**120,000**			
Of which vested		142,500			45,000			
Nico Gerardu	2003	36,000	(36,000)	-	-	37.85	18.195	4 Apr. 2011
	2004	36,000	-	-	36,000		17.895	2 Apr. 2012
	2005	18,000	-	-	18,000		29.050	8 Apr. 2013
	2006	15,000	-	-	15,000		38.300	31 Mar. 2014
	2007	30,000	-	(7,500)	22,500		33.600	30 Mar. 2015
	2008	30,000	-	-	30,000		29.790	28 Mar. 2016
	2009	30,000	-	-	30,000		21.100	27 Mar. 2017
	Total	**195,000**	**(36,000)**	**(7,500)**	**151,500**			
Of which vested		105,000			91,500			
Rolf-Dieter Schwalb	2007	30,000	-	(7,500)	22,500		33.600	30 Mar. 2015
	2008	30,000	-	-	30,000		29.790	28 Mar. 2016
	2009	30,000	-	-	30,000		21.100	27 Mar. 2017
	Total	**90,000**	**-**	**(7,500)**	**82,500**			
Of which vested		-			22,500			
Stephan Tanda	2007	30,000	-	(7,500)	22,500		33.600	30 Mar. 2015
	2008	30,000	-	-	30,000		29.790	28 Mar. 2016
	2009	30,000	-	-	30,000		21.100	27 Mar. 2017
	Total	**90,000**	**-**	**(7,500)**	**82,500**			
Of which vested		-			22,500			

Since 2010 the Managing Board has been granted performance shares instead of stock options.

Overview of performance shares

	Year of issue	Outstanding at 31 Dec. 2009	In 2010 Granted	Exercised	Forfeited / expired	Outstanding at 31 Dec. 2010	Vested as of 31 Dec. 2010	Year of vesting	Share price at date of grant (€)
Feike Sijbesma	2005[1]	2,000	-	-	-	2,000	2,000	2008	29.050
	2006[1]	4,000	-	-	-	4,000	4,000	2009	38.300
	2007[1]	8,000	-	-	(2,000)	6,000	6,000	2010	33.600
	2008	10,000	-	-	-	10,000			29.790
	2009	10,000	-	-	-	10,000			21.100
	2010	-	28,500	-	-	28,500			33.100
	Total	**34,000**	**28,500**	**-**	**(2,000)**	**60,500**	**12,000**		
Nico Gerardu	2006[1]	4,000	-	-	-	4,000	4,000	2009	38.300
	2007[1]	8,000	-	-	(2,000)	6,000	6,000	2010	33.600
	2008	8,000	-	-	-	8,000			29.790
	2009	8,000	-	-	-	8,000			21.100
	2010	-	19,000	-	-	19,000			33.100
	Total	**28,000**	**19,000**	**-**	**(2,000)**	**45,000**	**10,000**		
Rolf-Dieter Schwalb	2007[1]	8,000	-	-	(2,000)	6,000	6,000	2010	33.600
	2008	8,000	-	-	-	8,000			29.790
	2009	8,000	-	-	-	8,000			21.100
	2010	-	19,000	-	-	19,000			33.100
	Total	**24,000**	**19,000**	**-**	**(2,000)**	**41,000**	**6,000**		
Stephan Tanda	2007[1]	8,000	-	(2,044)	(2,000)	3,956	3,956	2010	33.600
	2008	8,000	-	-	-	8,000			29.790
	2009	8,000	-	-	-	8,000			21.100
	2010	-	19,000	-	-	19,000			33.100
	Total	**24,000**	**19,000**	**(2,044)**	**(2,000)**	**38,956**	**3,956**		

[1] The shares of the series 2005, 2006 and 2007 have vested and have been delivered to the individual Board members. The retention period expires in the fifth year after the year of vesting or at termination of employment if this occurs earlier.

Shares
In addition to the performance shares granted under the DSM Stock Incentive Plan, the current members of the Managing Board have themselves invested in DSM shares. At year-end 2010 the current members of the Managing Board together held 45,556 shares (year-end 2009: 32,056) in Royal DSM N.V.

Loans
The company does not provide any loans to members of the Managing Board.

11 Remuneration of the members of the Supervisory Board

The total remuneration (annual fixed fee and annual committee membership fee) of the members of the Supervisory Board amounted to €0.3 million (2009: €0.3 million).

The remuneration of the individual members of the Supervisory Board was as follows:

in €	Annual fixed fee	Committee fee	Other costs	Total	
				2010	2009
Cor Herkströter, chairman	50,000	7,500	3,590	61,090	60,983
Ewald Kist, deputy chairman	35,000	5,000	3,590	43,590	43,483
Louise Gunning-Schepers	23,333	-	2,478	25,811	38,483
Pierre Hochuli	35,000	5,000	1,250	41,250	41,250
Rob Routs	26,250	3,750	938	30,938	-
Claudio Sonder	35,000	5,000	1,250	41,250	41,250
Tom de Swaan	35,000	7,500	3,590	46,090	45,983
Cees van Woudenberg	8,750	1,250	897	10,897	43,483
Total	**248,333**	**35,000**	**17,583**	**300,916**	
Total 2009	260,000	35,000	19,915	-	314,915

At year-end 2010 the members of the Supervisory Board held no shares in Royal DSM N.V. (same as in 2009).

Heerlen, 21 February 2011

Managing Board,

Feike Sijbesma, CEO/Chairman
Rolf-Dieter Schwalb, CFO
Nico Gerardu
Stephan Tanda

Heerlen, 22 February 2011

Supervisory Board,

Cor Herkströter, Chairman
Ewald Kist, Deputy Chairman
Pierre Hochuli
Rob Routs
Claudio Sonder
Tom de Swaan

Other information

Independent Assurance Report on People and Planet

To the readers of the Integrated Annual Report of Royal DSM N.V.

Introduction

We were engaged by the Managing Board of Royal DSM N.V. to provide limited assurance on the sections 'Sustainability strategy', 'People in 2010' and 'Planet in 2010' (further referred to as: 'The Sustainability Information'), included on pages 37–63 in the Integrated Annual Report 2010. Management is responsible for the preparation and fair presentation of The Sustainability Information. Our responsibility is to provide limited assurance on this information.

What was included in the scope of our assurance engagement

Our engagement was designed to provide limited assurance on whether The Sustainability Information is fairly presented, in all material respects, in accordance with the G3 guidelines of the Global Reporting Initiative supported with the internal reporting guidelines as described on page 216.

Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those for a reasonable level of assurance.

We have also assessed, to the extent of our competence, whether the information on sustainability in the Integrated Annual Report is consistent with The Sustainability Information.

Which reporting criteria did DSM use

Royal DSM N.V. applies the Sustainability Reporting Guidelines of the Global Reporting Initiative (G3) supported with internal corporate reporting guidelines as detailed on page 216 of the Integrated Annual Report. It is important to view the performance data in the context of this explanatory information. We believe that these criteria are suitable in view of the purpose of our assurance engagement.

Which assurance standard did we use

We conducted our engagement in accordance with Standard 3410N 'Assurance engagements relating to sustainability reports' of the Royal Netherlands Institute of Register Accountants. Amongst others, this standard requires that the assurance team members possess the specific knowledge, skills and professional competencies needed to understand and review the information and that they comply with ethical requirements, including independence requirements.

What did we do to reach our conclusions

We undertook the following procedures:

- performed a media analysis and internet search on environmental, safety and social issues relating to DSM, to obtain information on relevant sustainability issues in the reporting period;
- reviewed the systems and processes for information management, internal control and processing of the qualitative and quantitative information in the report, at corporate level;
- interviewed relevant staff at corporate level responsible for the reported information on specific issues including sustainability strategy, employee engagement survey, ECO+, safety;
- collected and reviewed internal and external documentation to determine whether the qualitative information is supported by sufficient evidence;
- reviewed the environmental data submitted by all sites for central aggregation, together with an assessment of the quality of the data validation process at corporate level;
- reviewed the results of environmental data reviews which formed part of the Operational Audits at key DSM sites in 2010 carried out by the Corporate Operational Audit department of DSM;
- reviewed the environmental data trends and the explanations provided in the report and discussed these with management at corporate level;
- checked the GRI application level declared by DSM on page 216.

During the assurance process we discussed changes to the various drafts of The Sustainability Information with DSM, and reviewed the final version of The Sustainability Information to ensure that it reflected our findings.

What are our conclusions

Based on the procedures performed, as described above, we conclude that The Sustainability Information does not, in all material respects, appear to be unfairly stated in accordance with the Sustainability Reporting Guidelines (G3) of the Global Reporting Initiative supported with the internal reporting criteria as described on page 216.

We also report, to the extent of our competence, that information on sustainability in the Integrated Annual Report is consistent with The Sustainability Information.

Amsterdam, 22 February 2011
KPMG Sustainability

Signed by W.J. Bartels

Independent Auditor's Report on the Financial Statements

To the Shareholders and the Supervisory Board of Royal DSM N.V.

Report on the financial statements

We have audited the accompanying financial statements 2010 of Royal DSM N.V., Heerlen. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2010, the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2010, the company income statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Report by the Managing Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Royal DSM N.V. as at 31 December 2010, its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Royal DSM N.V. as at 31 December 2010 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Report by the Managing Board as set out on page 28–117, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Report by the Managing Board as set out on page 28–117, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Eindhoven, 22 February 2011
Ernst & Young Accountants LLP

Signed by P.J.A.M. Jongstra

Profit appropriation

According to Article 32 of the Royal DSM N.V. Articles of Association and with the approval of the Supervisory Board, every year the Managing Board determines the portion of the net profit to be appropriated to the reserves. For the year 2010 the net profit is € 507 million and the amount to be appropriated to the reserves has been established at € 273 million. From the subsequent balance of the net profit (€ 234 million), dividend is first distributed on the cumulative preference shares B. At the end of 2010 no cumprefs B were in issue. Subsequently, a 4.348% dividend is distributed on the cumulative preference shares A, based on a share price of € 5.29 per cumulative preference share A. For 2010 this distribution amounts to € 0.23 per share, which is € 10 million in total. An interim dividend of € 0.08 per cumulative preference share A having been paid in August 2010, the final dividend will then amount to € 0.15 per cumulative preference share A.

The profits remaining after distribution of these dividends (€ 224 million) will be put at the disposal of the Annual General Meeting of Shareholders in accordance with the provisions of Article 32, section 6 of the Articles of Association.

In view of the above, the proposed dividend on ordinary shares outstanding for the year 2010 would amount to € 1.35 per share. An interim dividend of € 0.40 per ordinary share having been paid in August 2010, the final dividend would then amount to € 0.95 per ordinary share.

If the Annual General Meeting of Shareholders makes a decision in accordance with the proposal, the net profit will be appropriated as follows:

in € million	**2010**	2009
Net profit	507	337
Profit appropriation:		
- To be added to the reserves	273	132
- Dividend on cumprefs A	10	10
- Interim dividend on ordinary shares	66	65
- Final dividend payable on ordinary shares	158	130

Special statutory rights

DSM Preference Shares Foundation

The DSM Preference Shares Foundation was established in 1989.

By virtue of DSM's Articles of Association, 375,000,000 cumulative preference shares B can be issued. The listing prospectus of 1989 stated that if, without the approval of the Managing Board and Supervisory Board, either a bid is made for the ordinary shares or a significant participation in ordinary shares is built up, or such an event is likely to occur, then these preference shares B may be issued, which shares shall have the same voting rights as the ordinary shares.

Under an agreement entered into in 1999, and subsequently amended, between the DSM Preference Shares Foundation and DSM, the Foundation has the right to acquire such preference shares (call option) to a maximum corresponding to 100% of the capital issued in any form other than preference shares B, less one.

The object of the Foundation is to promote the interest of DSM, and the enterprise maintained by DSM and all parties connected therewith, whereby influences that would threaten the continuity, independence or identity, contrary to the aforementioned interests, are resisted to the maximum extent possible.

The purpose of the agreement with the Foundation is, amongst other things, for the Foundation to allow DSM the opportunity to determine its position, for example with regard to a possible bidder for DSM shares or a party or parties tempting to obtain (de facto) control, to examine any plans in detail and, to the extent applicable, to look for (better) alternatives. Preference shares B will not be outstanding longer than necessary. As soon as there are no longer any reasons for the preference shares B to remain outstanding, the Managing Board will convene a General Meeting of Shareholders and recommend the cancellation of the preference shares B that are still outstanding.

The Foundation acquired no preference shares B in 2010.

The DSM Preference Shares Foundation is an independent legal entity within the meaning of article 5:71, first paragraph, under c of the Dutch Act on Financial Supervision *(Wet op het financieel toezicht).*

On 31 December 2010 the board of the Foundation was composed as follows:

Floris Maljers, chairman
Maarten van Veen, vice-chairman
Mick den Boogert

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders is to be held at the DSM head office in Heerlen (Netherlands) on Thursday, 28 April 2011 at 14.00 hours.

Important dates

Publication of first-quarter results	Wednesday, 27 April 2011
Ex-dividend quotation	Monday, 2 May 2011
Publication of second-quarter results	Tuesday, 2 August 2011
Publication of third-quarter results	Tuesday, 1 November 2011
Annual report 2011	Wednesday, 29 February 2012

DSM figures: five-year summary

Balance sheet

x € million	**2010**	2009	2008	2007	2006
Assets					
Intangible assets	1,070	1,053	1,200	1,037	1,008
Property, plant and equipment	2,943	3,477	3,641	3,440	3,655
Deferred tax assets	326	322	392	346	496
Prepaid pension costs	1	282	137	1,169	918
Associates	25	18	19	20	26
Other financial assets	270	233	176	126	100
Non-current assets	**4,635**	**5,385**	**5,565**	**6,138**	**6,203**
Inventories	1,340	1,359	1,765	1,547	1,515
Receivables	1,477	1,410	1,632	1,687	1,739
Financial derivatives	134	88	86	83	79
Current investments	837	7	4	4	3
Cash and cash equivalents	1,453	1,340	601	369	552
	5,241	4,204	4,088	3,690	3,888
Assets to be contributed to joint ventures	317	-	-	-	-
Other assets held for sale	287	25	-	-	-
Current assets	**5,845**	**4,229**	**4,088**	**3,690**	**3,888**
Total assets	**10,480**	**9,614**	**9,653**	**9,828**	**10,091**
Equity and liabilities					
Royal DSM N.V. Shareholders' equity	5,481	4,949	4,633	5,310	5,784
Non-controlling interests	96	62	62	73	71
Equity	**5,577**	**5,011**	**4,695**	**5,383**	**5,855**
Deferred tax liabilities	155	115	122	344	383
Employee benefits liabilities	297	298	314	273	304
Provisions	93	103	190	170	188
Borrowings	1,992	2,066	1,559	1,560	907
Other non-current liabilities	33	49	65	35	44
Non-current liabilities	**2,570**	**2,631**	**2,250**	**2,382**	**1,826**
Employee benefits liabilities	24	26	33	9	21
Provisions	33	102	82	91	127
Borrowings	105	138	734	192	607
Financial derivatives	219	61	179	42	41
Current liabilities	1,789	1,638	1,680	1,729	1,614
	2,170	1,965	2,708	2,063	2,410
Liabilities to be contributed to joint ventures	104	-	-	-	-
Other liabilities held for sale	59	7	-	-	-
Current liabilities	**2,333**	**1,972**	**2,708**	**2,063**	**2,410**
Total equity and liabilities	**10,480**	**9,614**	**9,653**	**9,828**	**10,091**

Income statement

x € million	2010	2009	2008	2007	2006
Net sales	9,050	7,866	9,297	8,757	8,380
Operating profit plus depreciation and amortization (EBITDA)	1,278	917	1,357	1,247	1,274
Operating profit (EBIT)	838	443	903	823	834
Net finance costs	(93)	(113)	(102)	(75)	(81)
Income tax expense	(185)	(83)	(196)	(183)	(198)
Share of the profit of associates	5	(4)	(3)	(2)	1
Net profit before exceptional items	**565**	**243**	**602**	**563**	**556**
Net profit from exceptional items	(40)	93	(31)	(129)	(4)
Profit for the year	**525**	**336**	**571**	**434**	**552**
Profit attributable to non-controlling interests	(18)	1	6	(5)	(5)
Net profit attributable to equity holders of Royal DSM N.V.	**507**	**337**	**577**	**429**	**547**
Dividend on cumulative preference shares	(10)	(10)	(10)	(10)	(10)
Net profit available to holders of ordinary shares	**497**	**327**	**567**	**419**	**537**
Key figures and ratios					
Capital employed[1]	5,468	5,673	6,558	5,982	6,303
Capital expenditure:					
- Intangible assets and Property, plant and equipment	427	472	587	475	457
- Acquisitions	49	(5)	152	93	44
Disposals	377	287	27	52	165
Depreciation and amortization	440	474	454	424	451
Net debt	(108)	830	1,781	1,338	921
Dividend	234	205	204	214	197
Workforce at 31 December, headcount (x 1000)	22	23	24	23	22
Employee benefits costs (x € million)	1,566	1,532	1,465	1,389	1,332
Ratios[1]					
- ROCE in %	15.0	7.2	14.4	13.4	13.4
- Net sales / average capital employed	1.62	1.29	1.48	1.43	1.34
- Current assets / current liabilities	2.42	2.14	1.51	1.78	1.61
- Equity / total assets	0.53	0.52	0.49	0.55	0.58
- Gearing (net debt / equity plus net debt)	(0.02)	0.14	0.28	0.20	0.14
- EBIT / net sales in %	9.3	5.6	9.7	9.4	10.0
- CFROI in %	9.2	6.1	8.7	8.3	8.5
- Net profit / average Royal DSM N.V. Shareholders' equity available to holders of ordinary shares in %	10.0	7.2	11.9	7.9	9.9
- EBITDA / net finance costs	13.7	8.1	13.3	16.6	15.7

[1] Before reclassification to held for sale

Information about ordinary DSM shares

per ordinary share in €	**2010**	2009	2008	2007	2006
Net profit before exceptional items	3.27	1.44	3.64	3.07	2.85
Net profit	3.03	2.01	3.45	2.35	2.83
Cash flow	5.62	6.05	6.20	5.56	5.21
Royal DSM N.V. Shareholders' equity	31.52	28.92	27.12	30.42	30.03
Dividend:	1.35[1]	1.20	1.20	1.20	1.00
- Interim dividend	0.40	0.40	0.40	0.33	0.33
- Final dividend	0.95	0.80	0.80	0.87	0.67
Pay-out including dividend on cumulative preference shares as % of net profit before exceptional items	38	84	36	35	38
Dividend yield (dividend as % of average price of an ordinary DSM share)	3.8	4.8	3.9	3.3	2.9
Share prices on NYSE Euronext Amsterdam (closing price):					
- Highest price	42.85	34.84	41.27	39.87	39.70
- Lowest price	30.43	16.93	15.76	31.63	28.58
- At 31 December	42.61	34.46	18.33	32.33	37.43
(x 1000)					
Number of ordinary shares outstanding:					
- At 31 December	166,468	163,037	162,227	166,897	184,850
- Average	164,047	162,364	164,196	178,541	189,550
Daily trading volumes on NYSE Euronext Amsterdam:					
- Average	995	1,270	1,783	1,590	1,301
- Lowest	85	75	152	94	267
- Highest	3,629	4,376	5,894	11,347	5,268

[1] Subject to approval by the Annual General Meeting of Shareholders

Sustainability reporting approach

Reporting policy and justification of choices made

This is DSM's first Annual Report in which financial reporting and sustainability reporting are fully integrated. In the period from 1993 to 2001, in addition to financial reporting in the annual report and the financial statements, DSM also reported on safety, health and environment (SHE) in its Responsible Care Progress Report. From 2002 onwards, SHE reporting was integrated into DSM's Triple P Report, which consolidated the company's reporting on People, Planet and Profit.

The Triple P Report has now been integrated into this Integrated Annual Report as Sustainability is an integral part of DSM's business and one of the key growth drivers in DSM's new strategy DSM in motion: *driving focused growth*.

In the Sustainability part of this Integrated Annual Report, DSM explains its vision and policy with respect to sustainable enterprise and reports on its activities in this field during 2010. Besides presenting developments and data for the three categories of People, Planet and Profit, DSM reports on its sustainability strategy, its stakeholder engagement activities, and the organization of sustainability at DSM. Furthermore, DSM discusses the global trends that drive its sustainability strategy.

It is DSM's policy to proactively canvas the views of its employees on issues of material importance to the company. The preparation of this report was facilitated by experts who were supported by a review group comprising employees selected from across the DSM organization.

Global Reporting Initiative (GRI)

DSM bases its sustainability reporting on the GRI guidelines. For this report, the company used the GRI matrix G3. DSM believes, as was verified by KPMG, that this report merits G3 level A+. For the GRI matrix for 2010, please see www.dsm.com.

Assurance

DSM asked KPMG Sustainability to provide limited assurance on the sustainability part of this Integrated Annual Report.

Selection of topics

The topics covered in this report were selected on the basis of the GRI guidelines, DSM's own management systems and their relevance and impact for DSM and its various stakeholders. On the basis of the principle of materiality, DSM has attempted to make a distinction between topics whose importance warrants publication in the printed version (these are topics that are relevant to both DSM and its stakeholders), topics whose importance warrants publication on the Internet (these are topics that are important to either DSM or its stakeholders) and topics that are relevant neither to DSM nor to its stakeholders.

As in last year's report, DSM groups relevant awards and external recognition received by DSM in a separate section. DSM also reports separately on its progress in implementing the principles of the UN Global Compact.

Scope

The People data in this report cover all entities that belong to the consolidation scope of the consolidated financial statements. The environmental information is collected from all production sites that are controlled by DSM.

Acquisitions and divestments

The personnel data for newly acquired companies are reported from the first full month after the acquisition date. Historical personnel data are not restated for divestments.

The safety, health and environmental data for newly acquired companies are reported in the year following the first full year after the acquisition. This is because these companies' reporting procedures first have to be aligned with those of DSM.

Quality of data

The data for the sites are based on these sites' own measurements and calculations, which are based on definitions, methods and procedures established at corporate level. The year-on-year comparability of the data can be affected by changes in the portfolio as well as by improvements that have been made in the measurement and recording systems at the various sites. Whenever this is the case, it is stated in the report.

Details for the individual sites are published on www.sustainability.dsm.com, together with an explanation of the definitions used. Whenever a restatement of data is required, DSM includes all relevant years in the restated data.

Manner of reporting

Quantitative data are reported per site. All data are consolidated at corporate level by the relevant departments. The qualitative reports on various subjects were provided by experts throughout the organization.

Explanation of some concepts and ratios

PEOPLE

FI

Frequency Index: a unit of measurement for safety. The number of accidents of a particular category per 100 employees per year.

SHE

Safety, Health and the Environment.

United Nations Global Compact

A strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption.

United Nations' Universal Declaration of Human Rights

On 10 December 1948, the General Assembly of the United Nations adopted and proclaimed the Universal Declaration of Human Rights. Following this historic act, the Assembly called upon all Member countries to publicize the text of the Declaration and 'to cause it to be disseminated, displayed, read and expounded principally in schools and other educational institutions, without distinction based on the political status of countries or territories.'

PLANET

Biofuel

A fuel which is derived from renewable organic resources, as distinct from one which is derived from non-renewable resources such as oil and natural gas.

Carbon footprint

The impact of a certain activity in terms of the emission of non-renewable CO_2 to the atmosphere.

CO_2

Carbon dioxide, a gas that naturally occurs in the atmosphere. It is part of the natural carbon cycle through photosynthesis and respiration. It is also generated as a by-product of combustion. Carbon dioxide is a greenhouse gas.

Chemical Oxygen Demand (COD)

COD is an indicator of the degree of pollution of wastewater by organic substances.

ECO+

ECO+ solutions are products and services that, when considered over their whole life cycle, offer clear ecological benefits (in other words, a clearly lower eco-footprint) compared to the mainstream solutions they compete with. These ecological benefits can be created at any stage of the product life cycle – from raw material through manufacturing and use to potential re-use and end-of-life disposal. ECO+ solutions, in short, create less environmental impact on human health, ecosystem quality, and resources. The qualification ECO+ is based upon internal expert opinions where various impact categories are evaluated, for a growing number of products supported by Life Cycle Assessments.

Greenhouse-gas emissions (GHGE) reduction over volume related revenue (VRR)

VRR is net sales adjusted for changes in selling prices, exchange rates and the impact of acquisitions and disposals. The GHGE definition is according to the Kyoto Protocol and includes carbon dioxide (CO_2), methane, nitrous oxide (N_2O), sulfur hexafluoride, hydrofluorocarbons and perfluorocarbons. GHGE/VRR is one of the ratios in the Managing Board long term incentive remuneration and relates to a three-year period.

N

Nitrogen. A mostly inert gas constituting 78% of the earth's atmosphere, nitrogen is present in all living organisms.

N_2O

Nitrous oxide. A gas that is formed during combustion. When emitted to the environment, it contributes to global warming.

NO_x

Nitrogen oxides. Gases that are released mainly during combustion and cause acidification.

Product Eco-Footprinting (PEF)

The analysis of the environmental impact of a product.

Renewable resources

A natural resource which is replenished by natural processes at a rate comparable to, or faster than, its rate of consumption by humans or other users. The term covers perpetual resources such as solar radiation, tides, winds and hydroelectricity as well as fuels derived from organic matter (bio-based fuels).

SO_x

Sulfur dioxide and other sulfur oxides. They are formed during the combustion of fossil fuels and cause acidification.

VOC

Volatile organic compounds. The term covers a wide range of chemical compounds, such as organic solvents, some of which can be harmful.

PROFIT

General

In calculating financial profitability ratios, use is made of the average of the opening and closing values of balance sheet items in the year under review.

The financial indicators per ordinary share are calculated on the basis of the average number of ordinary shares outstanding (average daily number). In calculating Royal DSM N.V. Shareholders' equity per ordinary share, however, the number of shares outstanding at year-end is used.

In calculating the figures per ordinary share and the 'net profit as a percentage of average Royal DSM N.V. Shareholders' equity available to holders of ordinary shares', the amounts available to the holders of cumulative preference shares are deducted from the profits and from Royal DSM N.V. Shareholders' equity.

Capital employed
The total of the carrying amount of intangible assets and property, plant and equipment, inventories, trade receivables and other receivables, less trade payables and other current liabilities.

Capital expenditure
This includes all investments in intangible assets and property, plant and equipment as well as the acquisition of subsidiaries and associates and related cash flows.

Cash flow
Cash flow is net profit plus depreciation and amortization.

Cash flow return on investment (CFROI)
Cash flow return on investment is the sustainable cash flow (recurring EBITDA minus related annual tax and minus 1% depreciation on weighted average historic asset base) divided by weighted average historic asset base plus average working capital.

Disposals
This includes the disposal of intangible assets and property, plant and equipment as well as the disposal of participating interests and other securities.

Earnings before interest, tax, depreciation and amortization (EBITDA)
EBITDA is the sum total of operating profit plus depreciation and amortization.

Earnings per ordinary share
Net profit attributable to equity holders of Royal DSM N.V. minus dividend on cumulative preference shares, divided by the average number of ordinary shares outstanding.

Operating working capital
The total of inventories and trade receivables, less trade payables.

Return on capital employed (ROCE)
Operating profit as a percentage of average capital employed.

Total shareholder return (TSR)
Total shareholder return is capital gain plus dividend paid.

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