

DSM

Life Sciences and Materials Sciences

Nutrition:
Continued value growth

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DSM Capital Markets Days 2010

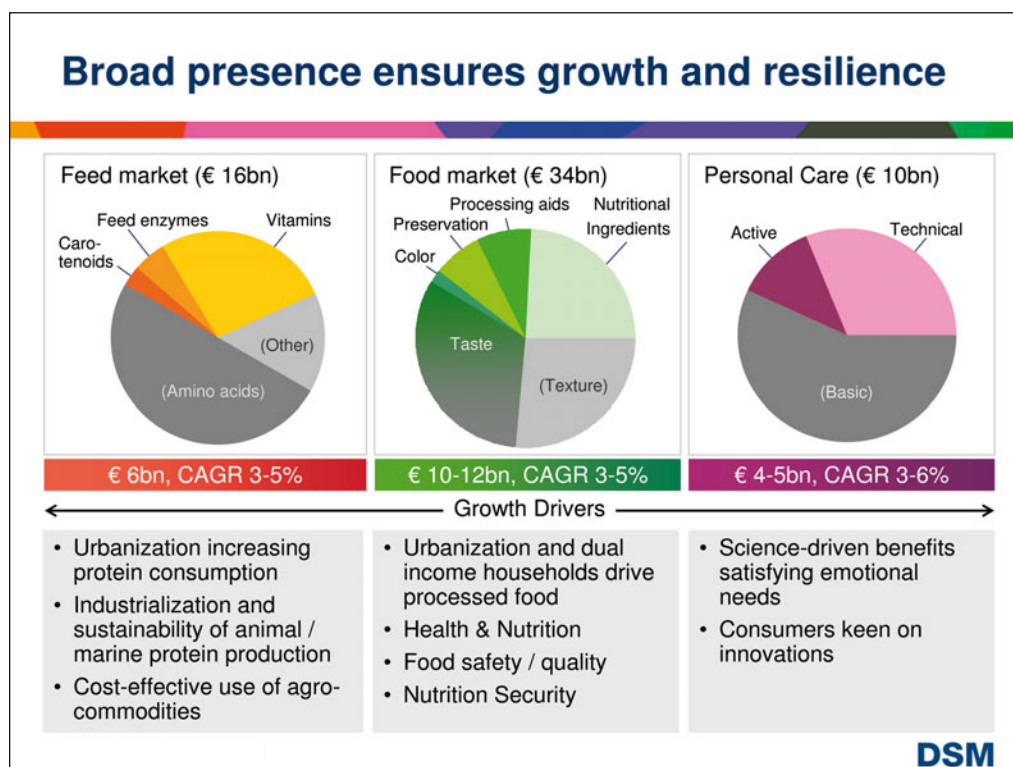


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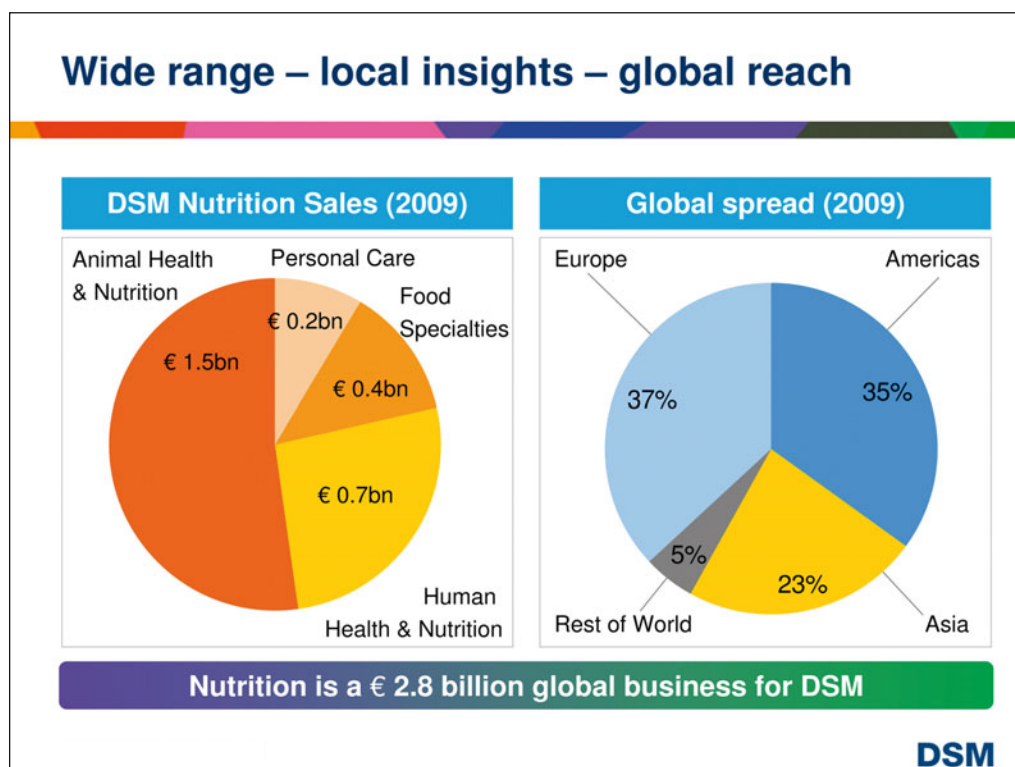
- This presentation details the future strategy foreseen for DSM's nutrition business.
- During the last strategy period (2005 – 2010), DSM established a strong business in food, feed and personal care ingredients with clear leadership positions in fast-growing segments. DSM's intent is to build further on this success and to continue to expand this attractive leadership position in scale and scope while growing EBITDA.
- DSM believes it is well positioned to achieve this ambitious growth.



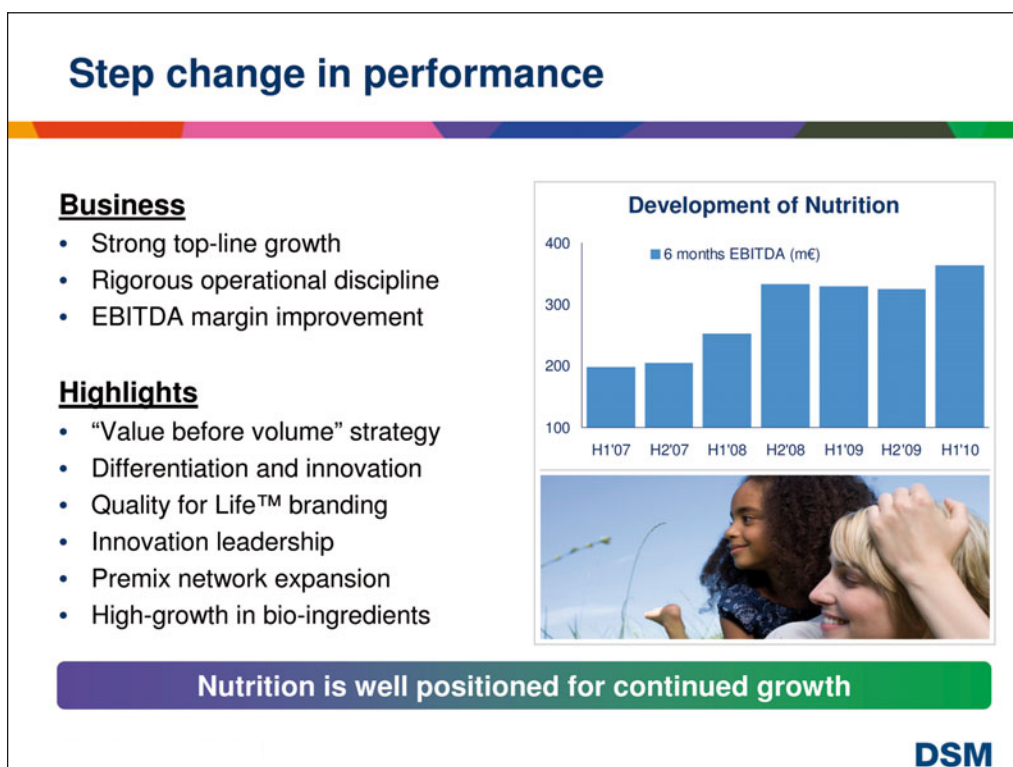
- The food, feed and personal care ingredients markets are experiencing many of the same global trends that are impacting DSM as a whole, but also specific business and societal developments that are profoundly shaping the future of these markets.
- Established and still influential trends such as consumer demands for convenient and indulgent products, as well as a continuing focus on cost, have been supplemented by an ever-deepening concern about health and wellness, sustainability and changing demand patterns in High Growth Economies.
- Sustainability concerns continue to rise across all sectors, and increasingly across all major markets – food ingredients and methods of production and supply are no exception. Regulators, too, are applying stricter standards to the oversight of contents, claims and production systems.
- More specific to the food ingredients 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 vitamins demand for some time.
- These trends create a series of clear criteria for ingredient companies like 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 USA).
- What is also clear is that this is an industry 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 in markets for innovative new ingredients, 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.



- DSM has a unique position within the ingredients industry: a considerable presence across all of the three 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 is the key to resilience in the marketplace.
- Of the total feed ingredients market assessed at €16bn, DSM has strong positions in the vitamins, feed enzymes and carotenoids segments which currently constitute an accessible market of around €6bn. In this market, customers' key concern is product efficacy as they seek increased yields: "How does this feed ingredient enhance productivity in my animal production through increased feed conversion, bio-availability, growth rate, health, meat quality and so on?". DSM's expertise in raising bio-availability of vitamins through specific forms is a good example of how it seeks to support increased productivity in the context of modern farming systems.
- Increasing consumer wealth is changing diets, as meat and fish are becoming more affordable, more regularly, to more people. Urbanization and changes in traditional roles are changing eating habits, increasing demand for processed foods as supermarkets and food stores replace the role of traditional markets. DSM's competencies give it access to around one third of the global food ingredients market, where health and nutrition awareness, alongside the constant search for quality and safety, are driving innovation.
- DSM is also a prime driver in the fight to bring nutrition security to many of the world's poorest, particularly through its Nutrition Improvement Program and its partnership with the UN World Food Program.
- The personal care ingredients market offers DSM considerable opportunity for growth, most notably because it is an industry driven by consumers' desire for new innovations. Science-driven innovations are meeting strong emotional needs, which is potentially an extremely powerful combination to drive growth.



- DSM's Nutrition cluster is already its most internationally diverse.
- Unlike some industries, food markets remain 'local' – which means proximity to local consumers and their tastes and habits is key. The global nature of DSM's ingredients business is demonstrated by the chart on the right: no other ingredients company has built such a truly international business.
- DSM has a truly global presence. For example, in its animal health and nutrition (ANH) business it has a 'local for local' approach everywhere, with a local sales and technical support team that understands local markets and local premix facilities to deliver against these needs. It is now adding local application labs to deepen these local products in China, the US and in Latin America; in human health and nutrition a similar if more regional approach is adopted. Crucially, the fact that this is wholly-owned and not just a network of distributors means we also build knowledge and expertise that can be shared across DSM's nutrition businesses for the benefit of our customers.
- For the first time, DSM is also breaking out its Personal Care Ingredients business, which has grown to just below €200m in sales per annum with very good prospects for future growth, helped by the acquisition of the Pentapharm business in 2007 which added scale and substantial innovation power. Already a leader in UV filters and with a strong presence in skin care, DSM has adopted a more determined approach to developing opportunities in this highly innovative business.

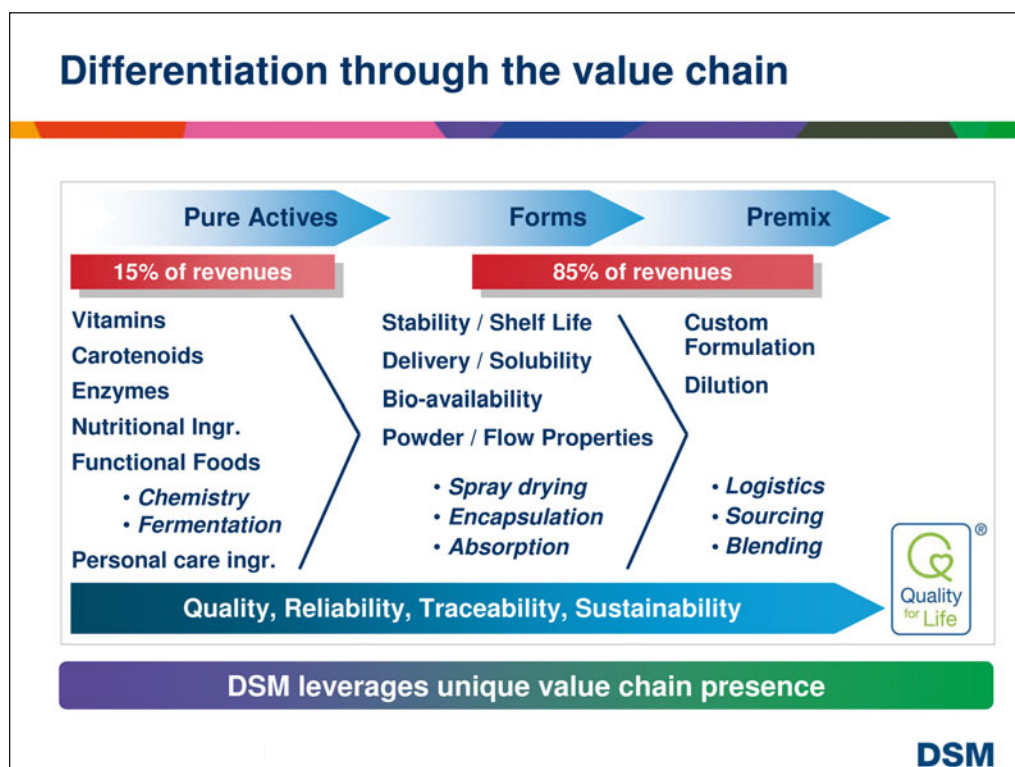


- Since the announcement of DSM’s Accelerated *Vision 2010* in 2007, a series of strategic actions has driven continual top-line growth and, more importantly, a step-change in margin. A strong focus on operational excellence has underpinned cost control whilst also deepening the company’s offer in terms of quality and customer service. At the same time, structural changes to the competitive landscape contributed to a favorable shift in market dynamics.
- Encouragingly, the Nutrition cluster has proven the resilience of this program by sustaining EBITDA levels even through the worst recession in 70 years.
- Key actions have been:
 - A focus on “value before volume”, through all areas of our business. We are creating customer value by understanding what their needs are and where we can add to their business. Moreover, this ‘specialties approach’ also drives DSM’s differentiation and innovation strategy, ensuring it concentrates on innovative approaches, including activities that take it further down the value chain.
 - The Quality for Life™ approach – quality, safety, traceability and reliability – which emphasizes DSM’s commitment to high standards of production and a focus on customer needs in the context of customer and consumer desire for peace of mind about their food.
 - Expanding the network of premix plants into new ANH markets, giving DSM a closer connection to its customers and access to markets – most recent examples include premix plants in Tatarstan, Russia in Q4 2009; an expansion in Korea in Q1. In addition, we have expanded the franchise operation, selling smaller premix bags to farmers and smaller companies.
 - A focus on bio-ingredients – specialty products based on fermentation processes, such as yeast extracts, cultures and food enzymes. DSM has the requisite expertise in enzyme and bio technologies to take a leadership position in this market. MaxiCurd™ for the cheese industry, Panamore™ for bakers, and Brewers Clarex™ for brewing are successful examples of DSM’s innovation in process enzymes, thereby reducing cost and energy consumption and increasing sustainability.

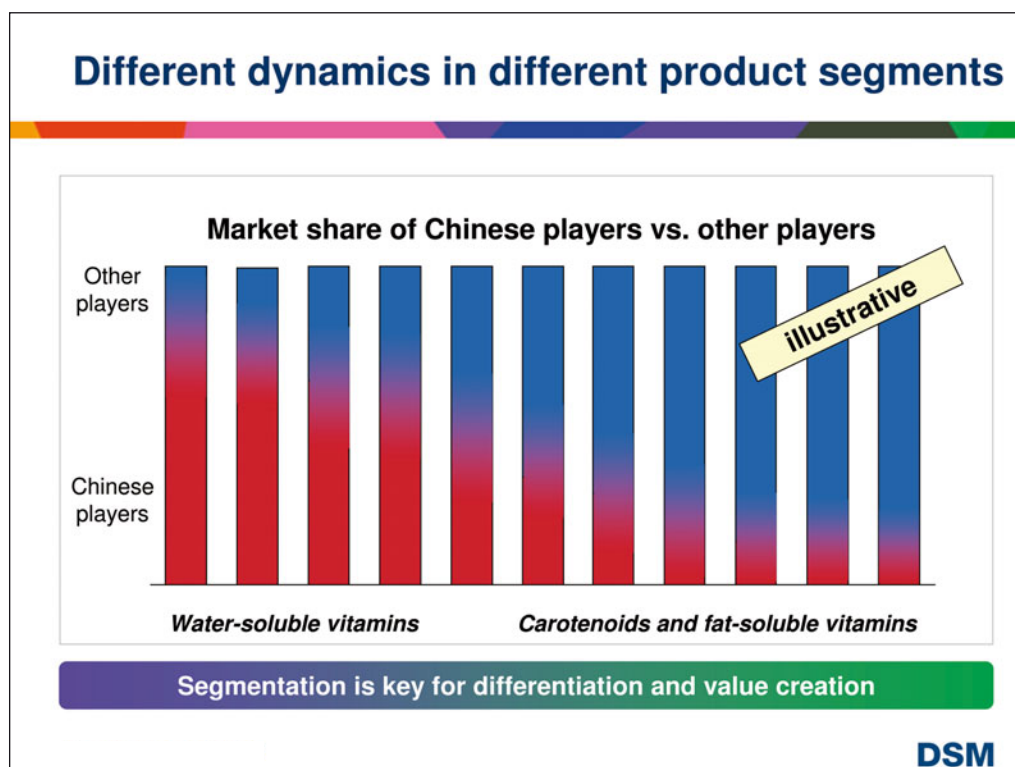
Today's leadership positions of Nutrition

		
Bio-ingredients	Vitamins/Carotenoids	Cosmetic ingredients
<ul style="list-style-type: none"> • Strong biotech platform • Enzymes for <ul style="list-style-type: none"> • Food & beverage • Feed 	<ul style="list-style-type: none"> • World market leader • Network of 46 custom blending plants • Quality management 	<ul style="list-style-type: none"> • Sun Care leadership • Strong innovation drive in Skin Care • Hair Care leveraging resins know-how
<p>Single broadest product portfolio Only full value chain player</p>		<p>Global reach through extensive network Leveraging shared innovation platforms</p>
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- These actions have given DSM established leadership positions across all three areas of the ingredients business.
- DSM's best-in-class biotech platform has led to the launch of several profitable food enzymes, and DSM maintained its leadership position in feed enzymes through continued, close collaboration with Novozymes.
- DSM is the global market leader in vitamins and carotenoids, leading the industry in terms of product quality and innovation, regulatory and nutrition science, technical expertise and customer and consumer understanding. Its international infrastructure and reach is unequalled by any competitor.
- In Personal Care Ingredients, DSM has translated this expertise into growing market positions in Sun and Skin care. In addition the company has used its deep resins knowledge to create innovative new hair care products. This year, for example, it has introduced the TILAMAR™ range of hair care polymers used in hair styling, conditioning and shine.



- DSM 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 production 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.
- Even in the production of 'straights' (untreated vitamins, carotenoids, enzymes and other nutritional ingredients), where cost is a more important factor, significant added value is generated by differentiation, through for example quality management, traceability, reliability of supply, sustainable production practices, and physical product attributes such as polymorphisms, influencing stability and bio-availability.
- In the following step of the chain, where active ingredients are incorporated into so-called 'forms', DSM has an array of sophisticated technologies to deliver a range of application properties. Forms are single product formulations, which can be solid particles in which the active ingredients are dispersed or encapsulated in an inert matrix to provide stability, extended shelf life, bio-availability or dispersability – the ability to form stable suspensions in a liquid matrix, for instance for beverages.
- In the next step shown here, a range of blends are produced in so-called premix operations. In addition, DSM also meets specific customers' needs through tailored solutions. Only 15% of DSM Nutritional Products' revenue is derived from sales of pure active ingredients, while 85% of revenue is based on sales of forms and premix.



- DSM is the clear leader in the global vitamins business, but that does not mean that it is the volume leader in every single vitamin. The vitamin sector is complex and multi-layered, with a variety of different approaches adopted by manufacturers.
- Market dynamics differ strongly per segment and even per product, and segmentation is key to understanding the relative strength of the various players. DSM's leadership positions are in higher-value, more complex sectors such as fat-soluble vitamins, where barriers to entry are very high because of the complexity of the multi-step processes interlinked with intermediates used for multiple products, and the need for very significant capital investments. In other sectors we see opportunities to further strengthen our competitiveness and differentiation to strengthen our position.

Key strengths of DSM Nutrition



Personal care



Food



Feed

- Complete product portfolio and full value chain player
- Strong differentiation including Quality for Life™ program
- Global sales, marketing and premix network for animal nutrition and food ingredients
- Innovation (products, concepts and processes)
- Strengths in forms & application skills
- Best-in-class process technology & biotech/fermentation skills
- Key opinion leader in nutritional science

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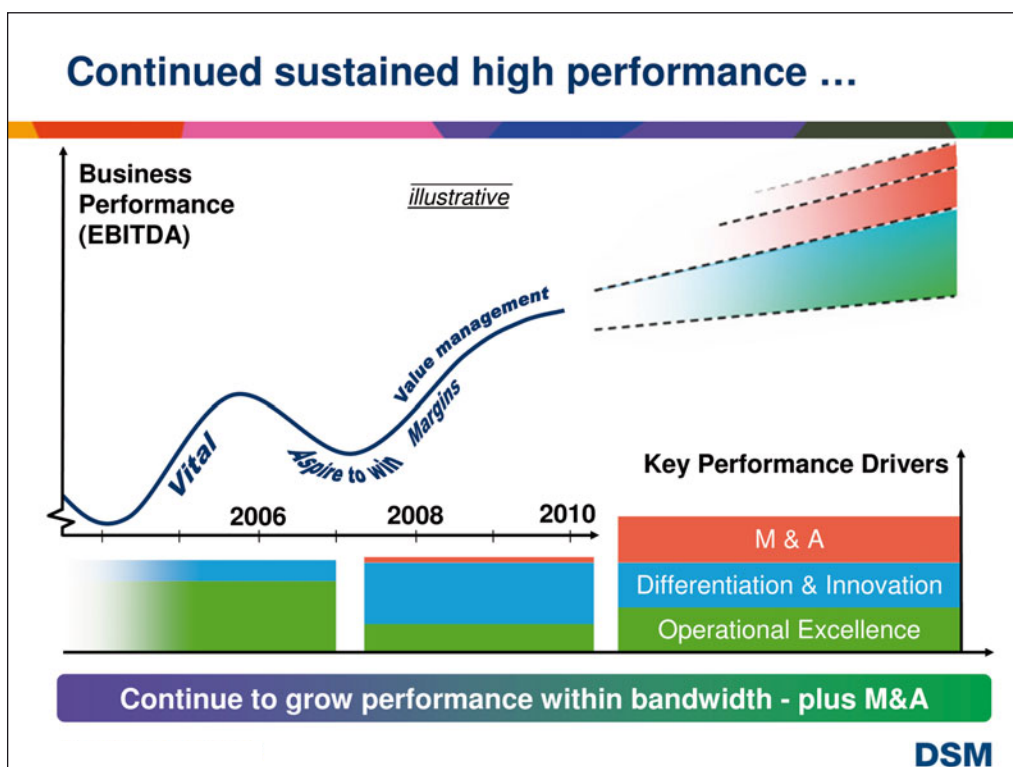
- In addition to the business strengths outlined in previous slides, DSM is now seen as a key opinion leader in nutritional science.
- This is a key element in the company's ongoing development. As well as helping to build DSM's own institutional knowledge and customer and stakeholder confidence, opinion leadership also potentially enables DSM to actively engage in discussions around nutrition guidelines, policy and practices with regulators and governments around the world.
- DSM is already seen as a valued and objective contributor to nutrition debates, which helps to ensure that rigorous science and the state of the art are considered by key stakeholders.

Strategic actions going forward

Operational Excellence		<ul style="list-style-type: none"> Ensuring global costs at par with best in industry Process innovation Flexible premix modules in high growth economies
Differentiation & Innovation		<ul style="list-style-type: none"> Value before volume strategy Differentiation throughout the value chain Innovation (towards natural; health benefits, optimum nutrition, process, new business models)
Acquisitions & Partnership		<ul style="list-style-type: none"> Leveraging infrastructure / market access Emphasis on naturals Expand global premix presence

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- DSM's continued success in the ingredients industry will depend on three core performance levers.
 - as our recent premix acquisition from Bayer in Korea.
- 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 Quality player in the sector, pursuing product and process innovation through optimum use of its technology. DSM is marrying technological advances with consumer trends and customer needs, and remains the innovation front-runner in nutrition.
- DSM will also look to grow by extending partnerships and via acquisitions. It will focus on complementary ingredients, with a bias towards naturals, which can be marketed through DSM's existing global infrastructure. Acquisitions may also focus on expanding this infrastructure in areas where DSM is still under-represented, such



- Since the acquisition of the Roche Vitamins and Ingredients business, a combination of business re-engineering and re-focusing, and then re-positioning to focus on value over volume and margin management, has created a strong and sustainable business. DSM is proud to have managed this integration successfully.
- With the growth of the business DSM is confident that its absolute EBITDA will rise within a bandwidth, whilst maintaining an EBITDA margin between 20% and 23%.
- DSM sees strong opportunities for organic growth, but Acquisitions and Partnerships will also be an integral part of the strategy if it is to deliver against its aspirations.

Conclusions: continued value growth

Key levers



- Competitive and cost-effective production / locations
- Innovation headroom for further differentiation
- M&A to leverage unique infrastructure / market access
- Well-positioned to leverage trend towards naturals

Top line



- Sales growth 2% above GDP
- Additional growth through portfolio expansions
- Well-positioned to capture demand in High Growth Economies

Bottom line



- Current EBITDA level sustainable
- Further improvement within 20% - 23% bandwidth

DSM continues to lead in nutritional ingredients

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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 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 disposals, 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.

A more comprehensive discussion of the risk factors affecting DSM's business can be found in the company's latest Annual Report, a copy of which can be found on the company's corporate website, www.dsm.com

Abbreviation	Explanation	Abbreviation	Explanation
3P	Triple P (People, Planet, Profit)	GUR	Global Utilization Rate
6-APA	6-amino-penicillanic acid	HNH	Human Nutrition & Health
ACN	Acrylonitrile	ICT	Information and Communication Technology
Acq.	acquisition	Inno center	Innovation Center
7-ADCA	7-amino-deacetoxycephalosporanic acid	IFRS	International Financial Reporting Standards
AGM	Annual General Meeting of Shareholders	IP	Intellectual property
AM	Advanced Manufacturing	JV	Joint Venture
ANH	Animal Nutrition & Health	kt	kiloton
API	Active pharmaceutical ingredients	KPI	Key Performance Indicators
BF	Bio-Fuel	LATAM	Latin America
bn	billion	LS&MS	Life Sciences and Materials Sciences
bps	Basis Points	m	million
BC&M	Base Chemicals and Materials	M&A	Merger & Acquisitions
BoP	Base of the Pyramid	M&S	Marketing and Sales
CAGR	Compound Annual Growth Rate	MB	Managing Board
CAPEX	Capital Expenditures	MCC	Mitsubishi Chemical Corporation
CEO	Chief Executive Officer	NCPC	North China Pharmaceutical Corporation
CFO	Chief Financial Officer	NPC	Nylon Polymer Company LLC
CFROI	Cash Flow Return On Investment	OWC	Operating Working Capital
cGMP	current good manufacturing practice	p/a	per annum
CHF	Swiss Franc	PA6	Polyamide 6
CMO	Contract Manufacturing Outsourcing	PBT	Polybutylene terephthalate
COS	Cost of Sales	PEN	Penicillin
DAI	DSM Anti-Infectives	PET	Polyethene terephthalate
DBM	DSM BioMedical	PTG	The Polymer Technology Group
DBPS	DSM Bio-based Products & Services	P&L	Profit and Loss
DD	DSM Dyneema	R&D	Research and Development
DEC	DSM Expert Center	ROCE	Return on Capital Employed
DEP	DSM Engineering Plastics	SBB	Share Buy-Backs
DFI	DSM Fibre Intermediates	TPV	Thermoplastic Vulcanizate
DFS	DSM Food Specialties	Triple P	Triple P (People, Planet, Profit)
Divest.	Divestment	TSR	Total Shareholder Return
DJSI	Dow Jones Sustainability Indexes	UD	Unidirectional
DNP	DSM Nutritional Products	UHMwPE	Ultra-High Molecular Weight Polyethylene
DPP	DSM Pharmaceutical Products	US	United States (of America)
DR	DSM Resins	USA	United States of America
E&E	Electrical & Electronic Industry	USD	United States Dollar
EBA	Emerging Business Area	US\$	United States Dollar
EBIT	Earnings before Interest and Taxes	WACC	Weighted average cost of capital
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization	WTO	World trade Organization
ECO+	The Greenhouse Dialogue		
EDPM	Ethylene Propylene Diene Monomer		
EPS	Earnings per Share		
EU	European Union		
adj. FfO	Adjusted Funds from Operations		
FD	Finished dosage / final dose		
FDA	Food and Drugs Administration		
FOOP	Fixed Out of Pocket costs		
FX	Foreign Exchange (exchange rates)		
G&A	General and Administrative		
GDP	Gross Domestic Product		
GHG	Greenhouse Gas		
GRI	Global Reporting Initiative		