Royal DSM

Integrated Annual Report 2011

HEALTH · NUTRITION · MATERIALS

DSM

BRIGHT SCIENCE. BRIGHTER LIVING.

Life Sciences and Materials Sciences

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.

DSM uses its Bright Science to create Brighter Living for people today and for generations to come. Based on a deep understanding of key global trends that are driving societies, markets and customers, DSM creates solutions to some of the world's great challenges, thus adding to both its own and its customers' success.

DSM believes that its continued success will be driven by its ability to create shared value for all stakeholders, now and in the future. It creates sustainable shared value by innovating in ways that allow its customers to provide better People, Planet and Profit solutions – solutions to the challenges facing society, the environment and end-users. In this way, DSM's customers derive value from being able to offer end-users improved products; society and the planet derive value from the impact of more sustainable, longer-lasting, safer, healthier and more nutritious alternatives; and, as a result, DSM and its shareholders derive value from stronger growth and profitability. Finally, DSM's employees feel engaged and motivated both through the contribution they make to a better world and the success this creates for the company in which they work.

DSM – Bright Science. Brighter Living.™
Royal DSM 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.

Key data for 2011

Net sales, continuing operations (x million) € 9,048	**Operating profit plus depreciation and amortization, continuing operations**[1] (x million) € 1,296	**Net profit, continuing operations**[1] (x million) € 594	**Net profit, total DSM** (x million) € 814
Cash provided by operating activities, total DSM (x million) € 882	**Capital expenditure including acquisitions** (x million) € 1,502	**Basic earnings per ordinary share, total DSM** € 4.86	**Dividend per ordinary share**[2] € 1.45
ROCE, continuing operations (in %) 14.0	**Innovation sales as % of total sales** 18	**Sales in High Growth Economies as % of total sales** 39	**China sales, continuing operations** (x USD million) 2,002
ECO+ products as % of innovation pipeline, total DSM 94	**ECO+ products as % of running business, total DSM** (at year-end) 41	**Energy use, continuing operations** (in PetaJoules) 44	**Water use, continuing operations** (in million m^3) 157
Greenhouse-gas emissions, continuing operations (x million tons) 4.6	**Workforce** (at year-end) 22,224	**Employee engagement - favorable score** (in %) 71	**Frequency Index of recordable injuries** (per 100 DSM employees and contractors) 0.53

1 Before exceptional items
2 Subject to approval by the Annual General Meeting of Shareholders

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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 businesses 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.

Key data

	2011	2010
People		
Workforce at 31 December (headcount)	22,224	21,911
Female/male ratio	26/74	25/75
Total employee benefits costs in € million	1,655	1,566
Frequency Index of recordable injuries (per 100 employees; DSM and contractors)	0.53	0.57
Employee engagement - favorable score (in %)	71	71
Planet		
Energy use (in PetaJoules), continuing operations	44	44
Water use (in million m^3), continuing operations	157	148
Greenhouse-gas emissions in CO_2 equivalents (x million tons), continuing operations	4.6	4.5
Emission of volatile organic compounds (x 1000 tons), continuing operations	4.2	6.5
COD (Chemical Oxygen Demand) discharges (x 1000 tons), continuing operations	7.1	7.9
ECO+ products as % of innovation pipeline, total DSM[1]	94	89
ECO+ products as % of running business (at year-end), total DSM	41	40
Profit (in € million, unless otherwise indicated)		
Net sales, continuing operations	9,048	8,176
China sales in USD million, continuing operations	2,002	1,535
Operating profit plus depreciation and amortization, continuing operations (EBITDA)	1,296	1,161
Operating profit, continuing operations (EBIT)	866	752
Net profit, total DSM	814	507
Cash provided by operating activities	882	1,103
Dividend	247	234
Capital expenditure including acquisitions	1,502	476
Net debt	318	(108)
Shareholders' equity	5,784	5,481
Total assets	11,157	10,480
Capital employed, continuing operations	6,581	5,264
Market capitalization at 31 December[2]	6,504	7,730
Per ordinary share in €		
Net earnings before exceptional items (total DSM)	3.66	3.27
Dividend	1.45[3]	1.35
Shareholders' equity	34.00	31.52
Ratios (%)		
Sales in High Growth Economies / net sales (total DSM)	39	37
Innovation sales / net sales (total DSM)	18	16
EBITDA / net sales (continuing operations)	14.3	14.2
Operating working capital / annualized net sales (continuing operations)	20.2	17.9
ROCE (continuing operations)[4]	14.0	14.6
Gearing (net debt / equity plus net debt)	5.1	(2.0)
Equity / total assets	53.5	53.2
Cash provided by operating activities / net sales (total DSM)	9.6	12.2

[1] For a definition of ECO+ see page 224
[2] Source: Bloomberg
[3] Subject to approval by the Annual General Meeting of Shareholders
[4] Including discontinued operations ROCE was 14.3% (2010: 15.0%)

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. In addition, DSM reports on the Innovation Center and a number of other activities, which have been grouped under Corporate activities.

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 and beverage, feed, personal care and pharmaceutical industries. Their 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. The Nutrition businesses' 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 has the world's broadest ingredients portfolio and holds leading positions in many large ingredient markets for animal and human nutrition and health as well as personal care.

Pharma

Leveraging partnerships for growth

The Pharma cluster includes the business group DSM Pharmaceutical Products (DPP), one of the world's leading custom manufacturing suppliers to the pharmaceutical industry. Many of today's medicines around the world contain ingredients produced by DPP. The cluster also contains DSM's 50% interest in the DSM Sinochem Pharmaceuticals joint venture (DSP). DSP was formed from the former DSM business group DSM Anti-Infectives (DAI). DSP is one of the few producers and marketers of beta-lactam active pharmaceutical ingredients with a global presence, using cutting-edge low eco-footprint manufacturing technology.

Materials Sciences

Performance Materials

Growing via sustainable, innovative solutions
The Performance Materials cluster comprises 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's 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.

Innovation Center

The Innovation Center is an element of the strategy DSM in motion: *driving focused growth*. It contains the activities of the DSM Innovation Center (including DSM Venturing) and the **Emerging Business Areas** (EBAs). The EBAs 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. **DSM Bio-based Products & Services** creates solutions for bioconversion of feedstocks for the production of bio-based chemicals and materials and develops the technologies to enable the production of advanced 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 solar glass and the lighting industry.

Letter from the Chairman

Dear reader,

The year behind us was in many ways very eventful, not just for our company but for the entire world. Major trends and events such as the Arab Spring, the European debt crisis, the tsunami in Japan and increased economic uncertainties dominated the news. Where we saw a remarkable economic recovery and growth in 2010 and the first half of 2011, the last part of 2011 brought stagnation and even decline, especially in Europe and in some market sectors.

Despite this environment, 2011 was a strong year for DSM. It was the first full year in the implementation of our strategy DSM in motion: *driving focused growth*. We made substantial strategic progress in all clusters and on all growth drivers, as illustrated by the highlights in this report regarding acquisitions, growth in high growth economies, innovation (including the development of new growth platforms), and sustainability.

With our previous strategy we had transformed DSM into a much more balanced and stronger company with a relatively resilient portfolio in health, nutrition and materials, a broad geographic spread with a strong presence in high growth economies, and a solid balance sheet. Our strategy for the coming years is a response to global trends which all have to do with the unprecedented challenges that the world is facing.

The global population is expected to grow from 7 billion now to 9 billion by 2050. In addition, it is aging and becoming increasingly urban and wealthy, leading to increased consumption per capita and a bigger claim on the world's resources. All this comes together in three key global societal trends: a global demographic shift, challenges in the field of climate and energy usage and a growing focus on how to secure health and wellness for all.

These trends are affecting our planet, people and markets in different ways. They give direction to our customers' efforts to address current and future unmet needs, for which we aim to provide innovative and sustainable solutions.

Our strategy in addressing these trends and meeting these needs is underpinned by four growth drivers: High Growth Economies, Innovation, Sustainability and Acquisitions & Partnerships. In 2011 we delivered progress on all four of them.

We increased our sales and our presence in the new, emerging, high growth economies, which now account for almost 40% of our total sales. We also shifted part of our senior management positions from Europe to other regions, in particular Asia.

Our continued investments in innovation are paying off. The Emerging Business Areas DSM Biomedical and DSM Bio-based Products & Services are developing well toward becoming new growth platforms for DSM. We are also on track when it comes to sales from innovation as a percentage of total sales, which was 18% in 2011.

We have achieved almost all our targets regarding sustainability. For the sixth time in eight years, we were ranked number one in the Dow Jones Sustainability Index for our sector. In addition, we are seeing that sustainability is increasingly becoming a business driver, on top of being a value and a tool for making a responsible contribution to society.

We successfully completed the acquisition and integration of Martek and we started the joint venture of DSM Anti-Infectives with Sinochem, to name just two highlights in the area of Acquisitions & Partnerships.

Despite the headwind we faced in 2011, especially from the strong Swiss franc, the relatively high raw material prices and the uncertain economic climate, our business and financial performance was very good. Our EBITDA of almost € 1.3 billion was the second highest ever and a good step up toward achieving our medium term goals. Our Nutrition business performed very well. In our Pharma cluster we took important strategic steps, but the cluster's performance still needs to improve. Our Performance Materials business made a good step up compared to 2010, although especially in the last part of 2011 it felt the effects of the uncertain economic climate that the world, and the Eurozone in particular, was experiencing. Our Polymer Intermediates business had an extraordinary performance in 2011.

In the year under review we also made good progress regarding our cultural and organizational change. Throughout the DSM organization we are seeing a more diverse workforce, not only in terms of male/female ratio, but also in terms of nationality and other backgrounds. Increased diversity and inclusion together with the DSM Change Agenda – with a focus on external orientation, accountability for performance and inspirational leadership – will create the culture that we need to achieve our strategic objectives in a sustainable way with increased speed and using the 'One DSM' approach.

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

The successful launch of the new DSM brand was another highlight of 2011. All our employees watched an award winning movie to celebrate the launch of the new brand, which will support our One DSM philosophy. Besides movie awards we received many other forms of recognition, including the George Washington Carver Award for Innovation in Industrial Biotechnology and the Leaders of Change Award, which is supported by the United Nations.

In the area of safety we need to make further improvements. It is with deep regret that we report the tragic death of a contractor employee in 2011. On 13 September an electrician from Austin Industrial lost his life while working on a high voltage substation at the recently acquired DSM South Center property in Augusta (Georgia, USA). And on 28 July a vapor cloud explosion followed by a fire occurred at the DSM-AGI Xinhua plant in Tainan (Taiwan). As a result, seven employees were injured, two of them seriously. These tragic accidents, together with a number of other serious incidents in 2011, led us to organize a Safety Day for all employees worldwide to highlight the DSM Life Saving Rules, the implementation of which we strengthened in 2011. On this day, all DSM employees discussed their safety situation and ways to further improve it.

We stay committed to aligning our strategy and operations with the UN Global Compact principles. 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 second Integrated Annual Report.

The year 2012 has just begun. We are conscious that risks to the macro-economic global outlook remain, and that weakness in Europe and some of our end markets, especially building and construction, persists. However, we believe that our balanced, relatively resilient portfolio in health, nutrition and materials, our broad geographic spread with a significant presence in high growth economies, together with our strong balance sheet, leaves us well placed to achieve our ambitious 2013 targets.

We are committed to creating value for all stakeholders by fully leveraging the unique opportunities in Life Sciences and Materials Sciences, not just individually but also in combination, for the benefit of people today and for generations to come.

In 2011 Mr. Cor Herkströter, Chairman of the DSM Supervisory Board since March 2002 and member of the Supervisory Board since April 2000, stepped down after the Annual General Meeting of Shareholders. I would like to express our deep gratitude for his guidance and support in DSM's transformation process. We look forward to continuing working with Mr. Rob Routs, who took over the Supervisory Board chairmanship.

I would like to thank all our employees for their valuable contributions, and our customers and shareholders for their continued support. DSM in motion: *driving focused growth* will be a very exciting journey and we look forward to reporting further progress.

Feike Sijbesma
CEO/Chairman of the Managing Board

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Royal DSM - Bright Science. Brighter Living.™

DSM has transformed itself into a leading Life Sciences and Materials Sciences company that is active in health, nutrition and materials and creates value for its customers by helping them provide solutions to the world's great challenges. DSM uses its bright science to create brighter lives for people today and generations to come by providing the ingredients to develop innovative more sustainable, healthier, more nutritious and better performing products.

DSM has a very strong starting position to realize its ambitious growth targets as set in its strategy for the period till 2015, all based on its strong global market position (with about 40% of its total sales of €9 billion coming from high growth economies), its unique technological knowledge as a basis for innovation, its strong track record in sustainability, its very solid balance sheet, and the experience and expertise of its 22,000 people.

DSM believes that its continued success will be driven by **creating shared value for all stakeholders**, now and in the future. It creates sustainable shared value by innovating in ways that allow its customers to provide better solutions serving People, Planet and Profit solutions to the challenges facing society, the environment and end-users. In this way, DSM's customers derive value from being able to offer end-users improved products; society and the planet derive value from the impact of more sustainable, longer-lasting, safer, healthier and more nutritious alternatives; and, as a result, DSM and its shareholders derive value from stronger growth and profitability.

Finally, DSM's employees feel engaged and motivated through the contribution they make to a better world and the success this creates for the company in which they work. In short, DSM is a multi-stakeholder-oriented company with a triple bottom line (People-Planet-Profit) creating value for its customers, shareholders and employees as well as society at large.

As a global company, DSM is actively engaged in addressing the same key trends that face all its stakeholders: meeting changing demands arising from global shifts in demographics and technology, mitigating the impact of climate change while searching for new forms of energy and trying not just to feed but also to improve the health of a growing population.

In DSM's Life Sciences markets, these trends manifest themselves through the related impacts of increasing personal wealth, urbanization and expanding life expectancy.

Urbanization drives the consumption of processed foods and the need for a more efficient food chain, while rising wealth translates into increased demand for proteins from meat, fish, eggs and milk – in turn driving demand for DSM's food and feed products. Food security (access to nutritious food for all people at all times) is one of the main themes to which DSM is contributing.

At the same time, a focus on healthy and active aging is driving demand for fortified foods and supplements. And finally, an aging population means increased healthcare spending, which DSM addresses through its engagement in preventive health and services to pharmaceutical companies.

Performance and sustainability are key drivers impacting demand in DSM's Materials Sciences markets, where the company is accelerating the transformation toward the production and use of materials that are lighter, healthier, safer, stronger and more durable and that have lower environmental footprints throughout their value chains than traditional materials such as steel.

For automotive manufacturers for instance, this transformation means providing more features for drivers while simultaneously reducing the environmental impact of vehicles over their lifecycle. This requires not just lighter materials but also innovations that reduce friction – a factor that is important in other transport sectors as well. Miniaturization and constant innovation still drive the market for electronics manufacturers, but E-waste and resource availability and efficiency are growing concerns. In order to avoid health risks and reputational problems for their brands, electronics manufacturers want to be able to use materials that not only offer increasingly lower hazards and deliver excellent performance, but are also efficiently recyclable or even bio-based. Similarly, the building and construction industry needs paints and coatings that offer improved quality and appearance while at the same time minimizing health risks and offering exceptional environmental performance.

Bringing DSM's Life Sciences and Materials Sciences competences together offers cross-fertilization opportunities allowing further advances. This cross-fertilization is managed through DSM's Emerging Business Areas (EBAs). A thorough understanding of how advanced materials can be used in the human body to strengthen or replace body parts and accurately deliver medicines is driving DSM's biomedical materials business. By merging its broad biotechnology capability with its materials businesses, DSM is able to find renewable solutions for the post fossil age by creating bio-based materials and building blocks and by actively working to create commercially viable advanced biofuels that do not compete with the food value chain.

While DSM continues to meet the needs of customers in the mature markets of North America and Western Europe – which remain central to its core business – the company's investment focus is increasingly on the high growth economies such as Asia, Central and Eastern Europe and Latin America, where DSM expects 70% of its growth up to 2015 to take place. In turn, this means DSM is becoming steadily more international, enabling it to bring a global perspective to the challenges of all its customers. In addition to achieving sustainable, innovative organic growth, DSM will continue to take advantage of opportunities to acquire exciting businesses and to partner with others to the benefit of all its stakeholders. And finally, the company will continue to improve its shareholder returns, supported by its solid dividend policy.

In short, after having transformed itself into a Life Sciences and Materials Sciences company, DSM now focuses on further growing the company, using four growth drivers: High Growth Economies, Innovation, Sustainability and Acquisitions & Partnerships.

DSM
BRIGHT SCIENCE. BRIGHTER LIVING.

DSM brand

In 2011 DSM introduced its new corporate brand, a logical step as the company had just completed its transformation into a Life Sciences and Materials Sciences company active in health, nutrition and materials. The new DSM brand 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. On the following pages, and throughout the Review of business section, examples of the brand campaign DSM undertook in 2011 are shown.

For her, bright science the recipe

From India to Indiana, the world's consumers increasingly want natural, healthy food that tastes delicious, feels authentic and yet is highly convenient and affordable. At DSM we're helping the food industry meet these needs through a family of ingredients that pack flavor into products while reducing salt, sugar and fat. In fact, our latest range of savory ingredients was created in partnership with independent chefs. They inspired us, now we're inspiring them. Truly, food for thought...

HEALTH · NUTRITION · MATERIALS

means rewriting
book.

DSM
BRIGHT SCIENCE. BRIGHTER LIVING.

means healthier profits.

DSM

BRIGHT SCIENCE. BRIGHTER LIVING.

For her, bright science means better drugs.

Every pharmaceutical company on the planet is searching for that next breakthrough drug that could make its mark on mankind. At the same time, they are all under pressure to improve efficiency and sustainability. Which is where our 'green chemistry toolbox' comes in – enabling us to provide drug development and manufacturing services to pharma companies so that they can focus more on drug discovery. And did we mention that our active ingredients are used in some half a billion potentially life-saving antibiotic treatments each year?

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BRIGHT SCIENCE. BRIGHTER LIVING.

For him, bright science science fiction

The good news is that humans are generally living longer. The bad news is that this means more wear and tear on our bodies. The really good news? Thanks to our unique crossover between life sciences and materials sciences there are now millions of people whose lives have been enhanced by biomedical devices inside their bodies – from artificial joints to delicate devices that improve the function of impaired critical organs such as the brain and the heart. It's all about creating brighter lives.

HEALTH · NUTRITION · MATERIALS

means turning
into fact.

DSM
BRIGHT SCIENCE. BRIGHTER LIVING.

means

DSM
BRIGHT SCIENCE. BRIGHTER LIVING.

For them, bright science to live off the

The race is on to replace dwindling natural resources with plentiful alternative energy sources like sun, water and wind. Our polymers and resins are helping to make it happen – from the gargantuan 64-meter blades (now stronger, lighter and more environmentally friendly) of advanced windmills to the giant skysails seen pulling commercial ships across the ocean and thus cutting oil consumption in a big way. It's true wind-assisted thinking...

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BRIGHT SCIENCE. BRIGHTER LIVING.

For him, bright science never goes out of

The global textile industry is going through enormous change – and DSM is truly measuring up to this challenge with sustainable technologies. For those with a passion for fashion it is good to know that bright and colorful acrylics based on our raw material are more sustainable than sheep's wool (which requires a surprising amount of chemical processing). We're also one of the world's leading producers of caprolactam – a raw material used extensively in recyclable nylon textiles. In fact, we've got it all covered.

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Report by the Managing Board

Highlights of 2011

General

The year 2011 was another strong year for DSM despite the challenges of the global economy, adverse currency movements and high raw material costs. As a consequence we propose to increase our dividend for the second consecutive year. In Nutrition the company made good progress once again and Polymer Intermediates delivered its highest profitability in history.

Furthermore, the company made significant steps in the first year of implementing its growth strategy. This included the acquisition of Martek, the formation of the joint venture with Sinochem, the completion of non-core divestments, progress in sustainability-related innovations and expansion into high growth economies, which now account for 39% of sales. At the start of 2012 DSM announced an exciting joint venture with POET, to make advanced biofuels a reality on a commercial scale.

DSM is conscious that risks to the macro-economic global outlook remain, and that weakness in Europe and some of its end markets, especially building and construction, persists. However, DSM believes that its balanced, relatively resilient portfolio in health, nutrition and materials, its broad geographic spread with a significant presence in high growth economies, together with its strong balance sheet, leave the company well placed to achieve its ambitious 2013 targets.

Net sales, continuing operations

x € million	**2011**	2010
Nutrition	3,370	3,005
Pharma	677	739
Performance Materials	2,752	2,507
Polymer Intermediates	1,820	1,398
Innovation Center	60	50
Corporate activities	369	477
Total	**9,048**	**8,176**

Full year organic sales growth was 11%, well above DSM's strategic target of 5-7%. All clusters, especially Polymer Intermediates, contributed to this growth.

Full year EBITDA was € 1,296 million. EBITDA growth (excluding the IFRS pension adjustment) was 15%, which is clearly above sales growth.

The Nutrition result (€ 735 million) including Martek was higher despite the negative impact of currencies of € 70-80 million net of hedging results, mainly Swiss franc related.

The Pharma result (€ 36 million) was lower, but stabilizing. As a result of the formation of the joint venture with Sinochem in anti-infectives, DSM Sinochem Pharmaceuticals was consolidated at 50% in the last 4 months of the year.

Performance Materials posted a higher result for the year (€ 293 million), despite tough economic conditions in Q4 and weakness in the tender driven vehicle protection business at DSM Dyneema.

Polymer Intermediates had its four best quarters ever in 2011, resulting in a very substantial increase in EBITDA (to € 380 million), compared to a strong 2010 performance.

Net sales in China (continuing operations) increased by 30% from USD 1,535 million in 2010 to USD 2,002 million in 2011. Total sales in high growth economies increased to 39% of overall sales in 2011.

Innovation sales – measured as sales from innovative products and applications introduced in the last five years – reached 18% of total net sales in 2011, close to the company's 2015 target of approximately 20%.

Nutrition

Full year sales increased by 12% with organic sales growth of 4% due to higher volumes across all businesses and stable pricing. Martek (contributing since the end of February 2011) delivered an excellent performance with sales reaching € 284 million and EBITDA of € 88 million.

Despite a strong currency headwind, which had an impact on EBITDA of € 70-80 million net of hedging results (mainly Swiss franc related), EBITDA increased to € 735 million due to the Martek acquisition, higher volumes and further cost improvements.

Pharma

Organic sales growth was 3% in 2011 due to higher volumes at DSM Pharmaceutical Products and slightly lower volumes at DSP. Overall sales decreased by 8% mainly as a consequence of the proportional consolidation of DSP.

The cluster's profitability was reduced by tougher market conditions in 2011 in the anti-infectives markets and the proportional consolidation of DSP.

Performance Materials

Full year organic sales growth was 9%. Higher prices at DSM Engineering Plastics and DSM Resins were partly offset by lower volumes at DSM Dyneema and DSM Resins. Despite the lower results in Q4, EBITDA was higher than in 2010.

Polymer Intermediates

Organic sales growth in 2011 was 32%, compared to an already very strong performance in 2010. The cluster benefited from the favorable market conditions and demonstrated an excellent manufacturing performance, resulting in an all time high EBITDA.

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

x € million	2011	2010
Nutrition	735	684
Pharma	36	61
Performance Materials	293	283
Polymer Intermediates	380	223
Innovation Center	(57)	(49)
Corporate activities	(91)	(41)
Total	**1,296**	**1,161**

Innovation Center

Strategic progress was made in 2011 with the start-up of the Actamax joint venture in surgical biomedical materials. In addition, several development agreements were signed in the main segments of the Biomedical business. DSM and Roquette started the construction of the commercial-scale bio-based succinic acid plant in Italy. The acquisition of C5 Yeast Company B.V. from Royal Cosun was completed, further extending DSM's leadership position in the field of cellulosic bio-ethanol.

Corporate activities

Excluding the changes in the Dutch pension plan, full year EBITDA decreased by € 17 million due to a lower contribution of the captive insurance company and higher share based payment costs.

Financials

Net finance costs decreased by € 11 million compared to the previous year to a level of € 82 million, mainly as a result of favorable hedging results and lower interest costs.

The effective tax rate amounted to 19% (2010: 24%). The lower tax rate was a result of a different geographical spread of results and the application of preferential tax regimes in countries where DSM is operating.

Net profit before exceptional items amounted to € 615 million, which was € 68 million higher than in 2010. Total net profit increased by € 307 million compared to the previous year and reached a level of € 814 million, partly due to exceptional items and a lower tax rate. Net earnings per ordinary share (continuing operations, excluding exceptional items) increased by 22% to a level of € 3.53 compared to € 2.89 in 2010.

Sustainability

In sustainability DSM set a number of ambitious aspirations in 2010, and in 2011 the company made good progress toward meeting them, as evidenced by the following highlights.

DSM once again retained its number one position in the chemical industry sector in the Dow Jones Sustainability World Index. This is the third consecutive year that DSM has held this top position in worldwide sustainability and the sixth time in total since 2004. In 2007 and 2008, the two years when DSM was not ranked number one, it was also among the leaders in the sector.

In 2011 the percentage of ECO+ solutions in the innovation pipeline was 94%, well above the target set. ECO+ solutions as a percentage of running business increased further to 41%. DSM is on its way toward the 50% aspiration.

DSM is on track with its drive to improve energy efficiency by 20% by 2020 compared to 2008. Including 2011 energy efficiency improved 13% compared to 2008.

In 2011 DSM executed its fourth worldwide Employee Engagement Survey. The main element in the survey is the measurement of DSM's Employee Engagement Index, the percentage of employees scoring favorable on a combination of four attributes: commitment, pride, advocacy and satisfaction. The Employee Engagement Index measured in 2011 again was close to high performance norm with an all time high response rate of 91%.

DSM's People+ strategy will deliver measurably better solutions to improve the lives of people. The company has defined a new People+ framework based on broad stakeholder analyses. The dimensions of health, comfort and well-being, working conditions and community development have been identified as distinct and instrumental categories to measure People+ impact at product level.

In 2011 diversity ambitions for the business groups were defined for the period 2011-2015, to ensure that DSM's organizational readiness is in line with its stretched growth ambitions for 2015. In addition, DSM has addressed the geographical distribution of management and other key functions.

DSM in motion: *driving focused growth*

After a long history of successful transformations, DSM has reached a next phase where it delivers on its mission 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.

The businesses that form DSM's new core in Life Sciences and Materials Sciences are built around finding innovative and sustainable solutions to some of the world's most important challenges, based on a clear understanding of the key global societal trends and their consequences for the planet, consumers and societies, which in turn is based upon extensive stakeholder input. See also the chapter on stakeholder engagement from page 36.

The global population is expected to grow from 7 billion now to 9 billion by 2050. In addition, it is aging and becoming increasingly urban and wealthy, leading to increased consumption per capita and a bigger claim on the world's resources. All this comes together in three key global societal trends: a global demographic shift, challenges in the field of climate and energy usage and a growing focus on how to secure health and wellness for all.

- **Global shifts**
  The accelerating shift of wealth from West to East and from North to South is the basis of a whole series of global shifts which are creating a more urban, more connected and more prosperous world – but with huge resource and cultural challenges as a result.
- **Climate change and energy**
  The accepted reality that our fossil age is causing considerable change to our climate is driving the search for alternative energy, chemicals and materials sources as well as efforts to reduce resource consumption in a multitude of ways as the world will enter an era of resource scarcity.
- **Health and wellness**
  The impact of a growing, aging, more urban population is being felt across the world, but in remarkably different ways: the drive to improve well-being and increase life span among the growing middle classes of the high growth economies contrasts with the continuing struggle to effectively feed the populations in less well-off parts of the world.

DSM's focus is on providing its customers with the innovations and sustainable products they need to meet the societal and market demands arising from these trends. By adding to its customers' success, DSM adds to its own success too.

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 its 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 and inclusion, including internationalization.

DSM has set itself ambitious targets for the current strategy period. The company has high aspirations, based on an assessment of the opportunities, particularly in high growth economies, innovation, sustainability, acquisitions and partnerships, and aims at accelerated growth and increased profitability.

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%. In 2011 EBITDA was € 1,296 million, compared to € 1,128 million in 2010 (excluding IFRS pension adjustment of € 33 million). ROCE in 2011 was 14.0%, compared to 14.6% in 2010.

Strategic and financial targets

Profitability targets 2013	
- EBITDA	€ 1.4 - 1.6 bn
- 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% toward 50% of sales
- Innovation sales	from ~12% to 20% of sales
Aspiration regarding Emerging Business Areas for 2020	
- EBA sales	> € 1 bn

In terms of the sales targets established for this strategy period, DSM comfortably exceeded the organic sales growth target and demonstrated solid growth in sales in China in 2011. DSM saw a growth in sales in high growth economies as a percentage of overall sales to 39% in 2011, bringing the company closer to its announced goal of moving from approximately 32% toward 50% of total net sales. Innovation sales — measured as sales from innovative products and applications introduced in the last five years — reached 18% of total net sales in 2011, close to the company's 2015 target of approximately 20%.

Further progress was made in the Emerging Business Areas (EBAs). The EBAs are DSM Biomedical, DSM Bio-based Products & Services and DSM Advanced Surfaces.

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 annualized net sales below 19%. At the end of 2011 working capital as a percentage of annualized net sales amounted to 20.2%.

Sustainability aspirations 2011-2015
Dow Jones Sustainability Index
Top ranking (SAM Gold Class)[1]
ECO+ (innovation)
80%+ of pipeline is ECO+[2]
ECO+ (running business)
From approximately 34% toward 50%
Energy efficiency
20% improvement in 2020, compared to 2008
Greenhouse-gas emissions
-25% (absolute) by 2020, compared to 2008
Employee Engagement Survey
Toward High Performance Norm[3]
Diversity and People+
To be updated in 2011

1 This means a total score of at least 75% and within 5% of the SAM sector leader
2 See page 224 for a definition of ECO+
3 The High Performance Norm (79% favorable) is the composite of the top 25% employee responses of the selected external benchmark organizations

In 2010 DSM set a number of ambitious sustainability aspirations for 2015, and in 2011 the company made good progress toward meeting them. The highlights can be found on page 27.

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

A key element of DSM in motion: *driving focused growth* is for DSM to move from being a European company reaching out to the world to being a truly global company. All the evidence indicates that fast-growing economies such as China, India, Brazil and Russia and other emerging areas will be the major growth engines for the world economy over the next decade. DSM's market penetration in the high growth economies has increased from just 22% of sales in 2005 to 39% now, the target for 2015 being to move toward 50% of sales. DSM expects over 70% of its growth in the period to 2015 to come from high growth economies.

DSM has a clear focus on China, where the company has set a target to double sales to a level of at least USD 3 billion by 2015. In 2011 DSM made good progress toward this target: China sales increased 23% to USD 2.0 billion. 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.

Achieving these targets requires a true internationalization of the company. DSM is adjusting its organization in a variety of ways to facilitate local decision making (for example via country presidents in China, India, Russia and Latin America), drive local innovation (through Innovation Centers such as in China and India), and establish clear accountability for regional growth at Managing Board level. The headquarters of DSM Fibre Intermediates was moved to Shanghai and that of DSM Engineering Plastics to Singapore. The headquarters of the DSM Sinochem Pharmaceuticals joint venture was established in Asia (currently it is located in Hong Kong).

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 company's increased commitment to innovation has significantly paid off, as shown by the achievement of numerous milestones, the most tangible one being the fact that in 2010 DSM clearly exceeded its target of achieving € 1 billion in additional sales through innovation compared to 2005 (the actual contribution achieved was € 1.3 billion in 2010).

Building on this track record, DSM is taking value creation through innovation to the next level. DSM has adopted a new definition of its innovation target which is more in line with the definition used by other mainstream innovators in the industry: percentage of sales created by new products and applications introduced in the last five years, replacing the previous target of an absolute amount of additional sales through innovation.

DSM's target is to increase innovation sales from approximately 12% in 2010 toward 20% of total sales by 2015. In 2011 innovation sales increased to 18% of total sales.

Sustainability: from responsibility to a business driver

DSM's sustainability strategy is strongly connected to the company's mission to create brighter lives for people today and for generations to come, and to its brand promise of Bright Science. Brighter Living.™ DSM believes sustainability will be a key differentiator and value driver over the coming decades. The company is on track to achieve all the sustainability targets it has set for 2015. More information regarding progress toward these targets and other achievements in 2011 can be found in the chapter on sustainability from page 32.

In engaging with stakeholders, DSM does more than just respond to stakeholders' expectations. The company actively shapes these expectations by striving to be a trendsetter rather than a trend follower in selected fields, including sustainability. For more information see the chapter on stakeholder engagement from page 36.

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

When DSM launched DSM in motion: *driving focused growth* in 2010, the company made it clear that, alongside stretched organic growth targets, it would also use acquisitions and partnerships to achieve its ambitions more rapidly. Clearly, these would need to be partnerships that make strategic sense in terms of meeting the ambitions, and acquisitions that meet DSM's criteria. A notable example is the successful acquisition and subsequent integration of Martek.

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 competences.

The key financial criteria for acquisitions are a Single A credit rating for DSM, a contribution to cash earnings per share from the beginning and a contribution to earnings per share from year two. An acquisition should also support DSM's 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.

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

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.

Since September 2010 DSM has announced a range of acquisitions and partnerships in the Nutrition and Performance Materials clusters as well as in the Emerging Business Areas. The table below gives an overview of the acquisitions and partnerships and how they meet DSM's strategic acquisition criteria.

Value creation via acquisitions & partnerships

Acquisitions & Partnerships	Leadership	Market position	Geographic ambition	Innovation / technology	Sustainability
Martek	●	●	●	●	●
Vitatene		●		●	●
Microbia			●	●	●
Premix plants		●	●		
AGI Taiwan	●	●	●	●	●
KuibyshevAzot		●	●		
Shandong ICD		●	●		
C5 Yeast Company	●	●		●	●

● Nutrition/Health ● Performance Materials ● Emerging Business Areas

The acquisitions are described in more detail in the chapters on Nutrition, Performance Materials and Innovation Center.

Organization and culture

DSM is transforming to become a genuinely global organization that is capable of achieving its strategic ambitions. By strengthening and empowering its regional businesses, DSM deepens local market insights and relationships. In parallel, the One DSM drive progressively enhances knowledge-sharing and collaboration across businesses, functions and regions, enabling DSM to realize the full benefits of scale and diversity.

The business groups are the primary organizational and entrepreneurial building blocks with a focus on customers and markets. The regional organizations strengthen the business groups by providing infrastructure and capabilities. They also cater for local innovation in designated countries and present the One DSM face to the external stakeholders. As a shared responsibility, the regional organizations also support sales growth.

All this is supported and optimized by shared services (providing efficient high quality services in designated areas) and functional excellence groups (offering functional expertise and implementation capabilities). Corporate staff departments support the Managing Board in running the company.

The further transformation of DSM's organization is supported by DSM's culture change program, which has established a shared understanding of essential DSM values and principles to promote growth.

DSM aims to truly internationalize its business. This will bring it closer to its key markets and customers, strengthen the regional businesses and stimulate diversity and innovation. DSM combines a strong regional infrastructure with clear board level accountability for regional growth.

The following changes contribute to the further internationalization of DSM:

- Relocation of business group headquarters: DSM Fibre Intermediates to Shanghai, DSM Engineering Plastics to Singapore.
- Establishment of the DSM Sinochem Pharmaceuticals joint venture, headquartered in Asia (currently Hong Kong).
- Relocation of the DSM Biomedical business headquarters to the US.
- Relocation of the biofuel business, a part of DSM Bio-based Products & Services, to the US.
- Initiation of new Innovation Centers in China, India and Latin America, and expansion of the existing Innovation Centers in the US and Japan.
- Strengthening of regional capabilities, infrastructure and management to provide regional views to the business and to support growth and innovation in the regions. DSM has established regional president roles in China, India, Latin America, Russia, Japan and the US.

- Allocation of regional growth and synergy accountability to designated members of the Managing Board, with two members also having offices in Asia and the US, respectively.

The drive for a global high performance organization is, among other things, supported by functional excellence programs, one of which focuses on achieving excellence in marketing and sales (see the People in 2011 chapter from page 42 for further activities supporting this drive). DSM is taking its focus on customer centricity to the next level to enhance its competitiveness and profitability, which means going beyond the traditional sales driven relationship to develop an in-depth understanding of the needs of customers and the evolving markets in which they operate.

It is mandatory for all DSM businesses to perform customer satisfaction surveys at least once every two years. A best practice has been established for this. The results are split into two categories: strategic and business-specific. Strategic results are consolidated at corporate level and business-specific results are fed back to the units concerned. All results are used in plan-do-check-act improvement cycles. Risk Management Coordinators make sure the results and the improvement plans are reviewed annually, and Corporate Operational Audit reviews the efficiency and effectiveness of the processes and procedures involved. Customer satisfaction targets are set decentrally (in view of the wide variety of DSM businesses) and are always aligned with DSM's corporate strategy.

Customer feedback is an integral element of important business processes at DSM. It is for example used as key input for setting the innovation agenda at both the strategic and the operational level. Also, key performance indicators defined for Demand and Supply Chain Management are centered around "on-time delivery in full" as reported by customers. Every customer complaint is officially filed and followed up by the relevant experts. Risk Management Coordinators ensure that complaints, complaint trends and corrective actions are annually reviewed and evaluated. And finally, DSM has a company-wide customer relationship management platform in which customer feedback management workflows have been integrated.

DSM aims to be in the top quartile of customer-centric companies by 2013. The DSM Excellence in Marketing and Sales department is supporting this drive with four programs (Value Creation, Capture Value, Customer Management and People & Performance) and an extensive training curriculum. To further promote customer centricity DSM has decided to introduce the Net Promoter Score[1] as the relevant vehicle. Tools have been established and three business groups are now actively pursuing this approach. The other business groups are scheduled to follow.

Sustainability

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. As part of its strategy, DSM in motion: *driving focused growth*, DSM has formulated the ambition to go to the next level in sustainability: from an internal value and a tool for making a responsible contribution to society, to a strategic business driver.

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 Sustainability department under the responsibility of the Senior Vice President Corporate Affairs, who reports directly to the Chairman of the Managing Board.

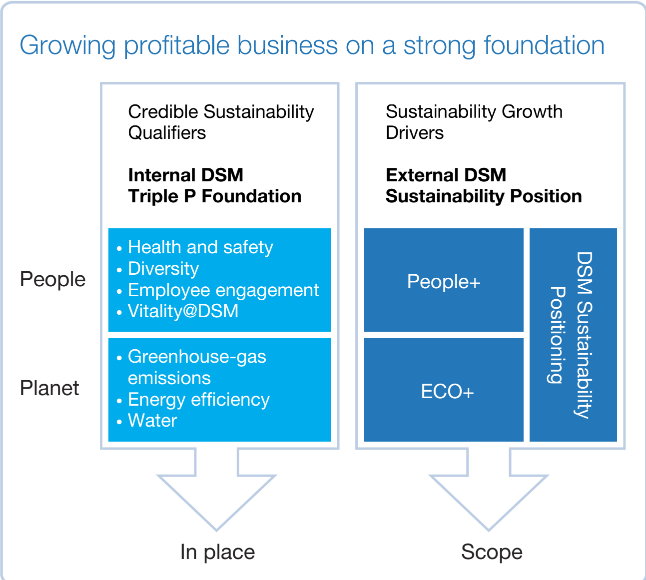
In addition to the Corporate Sustainability department, DSM has a dedicated Corporate Operations & Responsible Care department. It is among other things responsible for all corporate SHE (Safety, Health and Environment) issues. Sustainability champions in all business and functional groups and the DSM 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. The Vice President Corporate Operations & Responsible Care reports directly to DSM Managing Board member Nico Gerardu.

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 and Inclusion (Feike Sijbesma), Base of the Pyramid (Feike Sijbesma) and SHE (Nico Gerardu).

[1] A customer loyalty metric that provides a comparable measure of business performance

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

Sustainability is also recognized as an important element for DSM's Supervisory Board agenda. The Corporate Social Responsibility Committee is a subcommittee of the Supervisory Board, demonstrating the strategic importance of sustainability for DSM. See the Report by the Supervisory Board from page 116 for more information. DSM has also installed an external Sustainability Advisory Board.



DSM's activities in the field of sustainability cover three dimensions:

- People: improving people's lives through DSM's activities, products and innovations (People+)
- Planet: improving the environmental footprint of DSM's activities, products and innovations (ECO+)[2]
- Profit: creating profitable businesses and value for DSM's shareholders while meeting DSM's objectives to provide solutions to global societal needs

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 products, food and feed enzymes, 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. Sustainability-driven value creation examples are described in the chapters on the clusters and on innovation. Base of the Pyramid and Cradle to Cradle® are examples of sustainable business models.

A Sustainability Advisory Board, comprising a diverse international group of external thought leaders on key sustainability topics, will meet for the first time in 2012 to provide advice to and act as a sounding board for the DSM Managing Board. The Sustainability Advisory Board will support DSM in deepening its understanding of strategic issues and stakeholder needs, sharpening its focus, conducting advocacy efforts and dealing with dilemmas.

In 2011, DSM started externally reporting a number of sustainability metrics on a semi-annual basis. Since 2010 the company has published an Integrated Annual Report. The transparency of DSM's reporting on sustainability is once again at a high level, as is evidenced by the achievement of Global Reporting Initiative (GRI) A+ status for this Integrated Annual Report.

[2] See the section 'explanation of some concepts and ratios' for a definition of ECO+

Sustainability aspirations 2011-2015	Realization 2011
Dow Jones Sustainability Index	
Top ranking (SAM Gold Class)[1]	Number 1 chemical sector
ECO+ (innovation)	
80%+ of pipeline is ECO+[2]	94%
ECO+ (running business)	
From approximately 34% toward 50%	41%
Energy efficiency	
20% improvement in 2020, compared to 2008	13% improvement
Greenhouse-gas emissions	
-25% (absolute) by 2020, compared to 2008	8% increase
Employee Engagement Survey	
Toward High Performance Norm[3]	71% favorable
Diversity and People+	
To be updated in 2011	Updated, see pages 27 and 44

1 This means a total score of at least 75% and within 5% of the SAM sector leader
2 See page 224 for a definition of ECO+
3 The High Performance Norm (79% favorable) is the composite of the top 25% employee responses of the selected external benchmark organizations

Position papers

As part of its transparent reporting, DSM has posted position papers on CO_2 emissions trading, industrial biotechnology and nanotechnologies as well as key messages on the European Emissions Trading System 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.

DSM produces some products with the help of genetically modified micro-organisms (GMMs) in contained use. DSM is transparent toward its customers about how its products are produced, and, where possible, offers customers a choice regarding the production system used. When a product is produced by a GMM, DSM clearly states this in the accompanying product information.

Progress on the implementation of the principles of the UN Global Compact

Since 2007 DSM has been a signatory to the UN Global Compact. DSM remains 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. For example, the company will refrain from any form of corruption, including extortion and active or passive bribery, even if it loses business as a consequence. DSM fully supports the Global Compact's principles and is continuing to integrate them into its business activities. The table on page 35 shows the pages in this document where DSM reports on values and activities that are relevant to these principles.

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 2011, more than 90% of DSM's suppliers had signed the DSM Supplier Code of Conduct. For details see the chapter on stakeholder engagement from page 36.

DSM maintains an ongoing dialogue with stakeholders, such as (trade) associations and networks, the United Nations and governmental and non-governmental organizations, and includes their feedback in its strategy. The company also engages in several global and local community programs, the public-private partnership with the United Nations World Food Programme (WFP) being a notable example. See the chapter on stakeholder engagement from page 36 for more information.

Principles of the UN Global Compact[1]

		DSM Code of Business Conduct and relevant page(s) in this report
Principle 1	Support of human rights	42-50
Principle 2	Exclusion of human rights violation	42-50
Principle 3	Observance of the right to freedom of association	42-50
Principle 4	Abolition of all forms of forced labor	42-50
Principle 5	Abolition of child labor	42-50
Principle 6	Elimination of discrimination	42-50
Principle 7	Precautionary environmental protection	10, 32-58, 63-69
Principle 8	Specific commitment to environmental protection	10, 32-58, 63-69
Principle 9	Diffusion of environmentally friendly technologies	10, 32-58, 63-69
Principle 10	Measures to fight corruption	34, 42-50

[1] In 2011 DSM once again renewed its commitment to the UN Global Compact's CEO Water Mandate; see page 56

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. 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. At the end of 2011 the Advanced Manufacturing program had yielded significant operational savings. 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

In addition, networks are in place for the following issues:

- Industrial hygiene
- Lean/Six-Sigma
- Process control
- Process safety
- Water and waste
- Materials and corrosion
- Maintenance and reliability
- Energy
- Project engineering
- Large capital projects
- Life cycle assessments (LCAs)

These are all strategically important competences that help DSM to secure a competitive advantage or mitigate key risks.

External recognition

DSM received many awards and other forms of external recognition in 2011. An overview can be found in the External recognition section on page 69 and on www.dsm.com.

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 these 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 is committed to the use of 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 whenever possible. 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 predicting 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 DSM has been able to significantly reduce the number of lab animals used, in some tests by up to 90%.

DSM is concerned about the increasing need for assessments because of the implementation of REACH[3] (Registration, Evaluation, Authorization and Restriction of Chemical substances), the European chemicals legislation. DSM has already observed an increase in animal tests performed for this purpose even though the company has, where possible, used alternative ways to fulfill the data requirements and has worked together with other companies in consortia.

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 where possible.

Stakeholder engagement

DSM invests in a strategic, pro-active and 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 topics that are relevant for DSM, 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 shared value, for these stakeholders and by implication for DSM.

In engaging with these stakeholders, DSM does more than just respond to their expectations. As a thought leader, the company actively shapes these expectations by striving to be a trendsetter rather than a trend follower in selected fields, including sustainability.

DSM's strategy (DSM in motion: *driving focused growth*) was influenced by the company's continuous dialogue with all stakeholders: shareholders, customers, suppliers, local communities, end-consumers, industry peers, banks, governments, investors, non-governmental organizations (NGOs), special interest groups and, of course, its own employees. The strategy is about meeting the unmet needs resulting from societal trends with innovative and sustainable solutions. In cooperation with its stakeholders DSM has identified the following trends:

- Global shifts (demographic shifts, urbanization, high growth economies, usage of resources, impact of new technology)
- Climate change and energy
- Health and wellness

In order to meet its strategic stakeholder engagement objectives, DSM addresses the stakeholder needs and issues listed below.

Hidden Hunger

In various partnerships (with the UN World Food Programme (WFP), the Scaling Up Nutrition (SUN) movement, Wageningen University (Netherlands), and the United States Agency for International Development (USAID)), DSM is advocating greater awareness about the importance of improved nutrition.

[3] See the Planet chapter for more information about REACH

Nutrition improvement is one of DSM's main businesses in both the developing and the developed world. In a relatively short period of time, DSM has emerged as one of the industry leaders in this area and the company is often consulted by United Nations agencies, governments and non-governmental organizations. The partnership with WFP (since 2007) has made it possible for DSM to reach up to 10 million people with its tailored nutrition solutions.

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 safety and quality. It does so by developing programs, together with partners such as the Chinese government. The Quality for Life™ seal reflects DSM's commitment to create safer, fully traceable, more reliable and sustainable business processes. It extends beyond products and services to incorporate DSM's commitment to the environment and society. The Quality for Life™ seal symbolizes DSM's pledge to uphold ethical values in relationships with customers, employees and partners.

Industrial biotechnology

DSM promotes the development of industrial biotechnology in various ways. For example, DSM Bio-based Products & Services continues to invest in industrial biotechnology, which supports a bio-based economy as an alternative to the fossil based economy. DSM Managing Board member Stephan Tanda serves as chair to EuropaBio, the European Association for bio-industries. In addition, DSM initiated the Dutch multi-stakeholder initiative resulting in a Manifesto on the Bio-based Economy. DSM is represented on the board of SusChem, the European technology platform for sustainable chemistry, and leads the industrial biotechnology work group of this organization. DSM is also a member of the Biotechnology Industry Organization (BIO) in the US. And finally, the company engages with various European commissioners and the European Parliament on the subject of industrial biotechnology.

Climate change

DSM believes industry can and must play a positive role in securing economic growth while simultaneously reducing the total carbon footprint of both its own operations and its value chains. The company engages with multiple supply chain initiatives and sector organizations such as the World Business Council for Sustainable Development (WBCSD) and The Sustainability Consortium on measuring environmental impact in the value chain and on ways to collectively steer toward products with minimum environmental impact.

Water management

DSM aims to achieve sustainable water management by taking into account the needs of present and future users and applying practices aimed at safeguarding this vital resource. For this, DSM continues to execute water risk assessments to mitigate operational, regulatory, reputational and financial risks. DSM's continuing commitment to the UN Global Compact's CEO Water Mandate will secure its focus on the topic. DSM takes part in the WBCSD water task force. See page 55 for more information on water.

Sustainable biomass

DSM's growing involvement in industrial biotechnology is attended by the need to secure a sustainable raw-material base that does not compete with the food supply chain. DSM is seeking further engagements in this area. The company closely cooperates with parties such as IUCN (the International Union for the Conservation of Nature), the Biomass Sustainability Studies Commission (Corbey Commission) in the Netherlands and EuropaBio to take into account both biodiversity and possible societal effects. DSM joined the Inspirational Programme on Ecosystems together with many other Dutch companies to engage in long-term projects in order to reach an effective approach to reducing the ecological footprint and eventually have a positive impact on biodiversity.

Careers and employment

DSM carries out regular Employee Engagement Surveys (see page 42) to gauge the needs and concerns of its employees worldwide as well as their opinions about all aspects of the company's operations. DSM aims to provide employees with the opportunity to engage with the societies impacted by its products (an example being the DSM-WFP employee volunteer program).

Sustainable value chains

DSM is engaged in an ongoing dialogue with suppliers, customers, NGOs and industry peers to reach a consensus on how to jointly increase the sustainability of the various value chains in which the company operates. This includes both environmental and societal sustainability.

Role of business in society

DSM engages with various organizations on the role of transparent and responsible business in society, in order to create shared value. The company actively promotes and participates in transformative public-private partnerships. DSM Chairman and CEO Feike Sijbesma chairs the World Economic Forum Global Agenda Council on the Role of Business, and DSM has been co-developing the 'shared value' concept as an active participant in UN Global Compact LEAD, which is a platform for corporate sustainability leadership.

Stakeholder engagement in 2011

In 2011 DSM continued to update 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. A number of key stakeholders were identified, the desired levels of engagement were decided upon, and implementation plans (including evaluation criteria) were set up.

Sustainability Advisory Board
As DSM is looking for strong, diverse and challenging input and advice for its strategy, its objectives and their implementation, it set up a Sustainability Advisory Board in 2011. This board, comprising a diverse international group of external thought leaders on key sustainability topics, will support DSM in deepening its understanding of strategic issues and stakeholder needs, sharpening its focus, conducting advocacy efforts and dealing with dilemmas.

Shareholders
By being present at investor events for institutional investors (including Socially Responsible Investors) and retail investors and by organizing conference calls, capital markets days and roadshows in 2011, DSM maintained contacts with current and potential DSM shareholders and with analysts who advise shareholders. In these contacts, DSM provided information about developments at the company and ensured that all relevant information was equally and simultaneously provided and accessible to all interested parties.

Strategic partnerships with stakeholders

As a result of DSM's continuous stakeholder engagement, several strategic partnerships have evolved around key topics.

Since 2007, DSM and WFP have maintained a strategic partnership that has enabled DSM to reach up to 10 million people to date with its tailored nutrition solutions. DSM also played an integral role in the development of WFP's Nutrition Improvement Strategy. DSM believes that providing aid via such a partnership is both the right thing to do and critical to the future growth of its business:

- It gives DSM insight into the needs in different countries where organizations like WFP operate, which helps DSM to innovate.
- It strengthens advocacy on the importance of nutrients.

In 2010 DSM and WFP announced a three-year extension of their global partnership. In 2011, DSM made several million euros available to WFP and other community initiatives and partnerships.

Public awareness of the importance of nutrition is increasing. At the International Food Policy Research Institute (IFPRI) in August 2011, US Secretary of State Hillary Clinton addressed the humanitarian crisis in the Horn of Africa and mentioned DSM's nutrition initiatives as exemplary. The rising interest of EU decision makers such as EU President Herman van Rompuy and Kristalina Georgieva, Commissioner for International Cooperation, Humanitarian Aid and Crisis Response, was confirmed at the high-level conference 'Combating Malnutrition through Sustainable Interventions - EU-ASEAN Relations as Key Driver' that DSM organized in Brussels in November 2011. The conference highlighted DSM's contribution toward establishing this issue on the political agenda in Brussels.

DSM is one of the few private sector actors who have been involved from the start in the Scaling Up Nutrition (SUN) initiative, led by UN Special Representative David Nabarro and officially launched at the UN Millennium Development Goals Summit in 2010 by US Secretary of State Hillary Clinton. The initiative has laid out a roadmap for achieving nutrition security, with a focus on delivering proper nutrition within 'the first 1000 days' (from conception to a child's second birthday). It has also formulated the rationale in doing so, and calculated its expected annual cost. See also the Review of business Nutrition from page 74.

At the 2011 World Economic Forum, DSM and USAID launched a partnership initiative to combat hidden hunger. USAID and DSM will develop a priority list of countries and projects to provide proper nutrition to people in the developing world with an initial focus on rice fortification. This will help achieve the nutrition objectives of Feed the Future, the US Government's global food security initiative. At the 2012 World Economic Forum, DSM and WFP organized a high level session on how to improve lives by making nutrition accessible and effective. Representatives from The Coca-Cola Company, General Mills, United Nations, USAID, GAIN, WFP, DSM and Columbia University discussed cross-sector approaches to deliver improved nutrition.

Project Laser Beam (PLB) is a 5-year, USD 50 million public-private partnership that seeks to eradicate child malnutrition. PLB was unveiled in September 2009 on behalf of PLB founding partners WFP, Unilever, Kraft Foods, DSM and the Global Alliance for Improved Nutrition (GAIN) by former US President Bill Clinton at the Clinton Global Initiative meeting in New York. DSM is working with a variety of partners and projects to fortify a range of foods and create a sustainable business model for fortified foods.

The Amsterdam Initiative on Malnutrition is a public-private partnership involving the Ministry of Foreign Affairs of the Netherlands, DSM, Unilever, AkzoNobel, ICCO and Wageningen University. The goal is to eliminate malnutrition for 100 million people in Africa by 2015, focusing on six countries: Ghana, Kenya, South Africa, Ethiopia, Mozambique and Tanzania.

Together with General Mills, the global food company, Cargill, the international producer and marketer of food, agricultural, financial and industrial products and services, and Technoserve, an NGO focused on helping entrepreneurs in developing countries, DSM has become one of the first corporate partners of the non-profit initiative *Partners in Food Solutions* founded by General Mills. Linking the expertise of employees from General Mills, Cargill and DSM – in research and development, nutrition, engineering, marketing, finance and more – with small, growing food manufacturers throughout Africa, this non-profit and volunteer initiative is designed to share knowledge and strengthen the capacity of local food manufacturers in Africa to help address the hunger problem. DSM's collaboration with the *Partners in Food Solutions* initiative emphasizes its long-standing commitment to developing sustainable partnership-based approaches that address the global problem of malnutrition and hidden hunger.

Through its continued support of the non-profit humanitarian initiative Sight and Life, DSM is further building the world's knowledge, understanding and awareness of hidden hunger. Sight and Life's vision is to ensure a sustainable and significant improvement in human nutrition, health and well-being.

Nutrition is vital in disease prevention

Non-communicable diseases (NCDs) such as cancer, diabetes, cardiovascular and respiratory diseases are the leading causes of death globally, killing more people each year than all other causes combined. More than 36 million people die annually from NCDs, including 9 million who die before the age of 60. Globally, NCDs are expected to increase significantly in the next 10 years. Improving nutrition is the most fundamental and effective way of tackling NCDs. In fact six leading NCDs, which contribute to 70% of deaths worldwide, are all modifiable by an appropriate diet providing an adequate intake of micronutrients. Furthermore, according to the Copenhagen Consensus, micronutrient fortification and supplementation are the most cost-effective interventions to address global health and development problems.

At the 2011 UN Summit on NCDs in New York, a call was made for global action to tackle the NCD epidemic. At the high-level meeting, where DSM Managing Board member Stephan Tanda was invited to speak on behalf of the private sector, UN Secretary-General Ban Ki-moon concluded that the answer to both obesity and malnutrition is better nutrition. He emphasized that NCDs can have their roots in poor nutrition during infancy. US Secretary of State, Hillary Clinton, confirmed that ensuring that women and children receive essential nutrients is crucial to setting them on a better path toward lifelong health.

Future Fortified campaign kicks off with support for Africa
In 2011 DSM, together with Herbalife, made a donation of 20 million MixMe™ micronutrient powder sachets to fill the critical nutrition gaps for those suffering from one of the worst famines to hit the Horn of Africa. More than a one-off donation, this commitment also signals DSM's involvement in a new nutrition campaign, Future Fortified, which will 'inform, influence and invest' in order to improve the lives of millions of women and children worldwide.

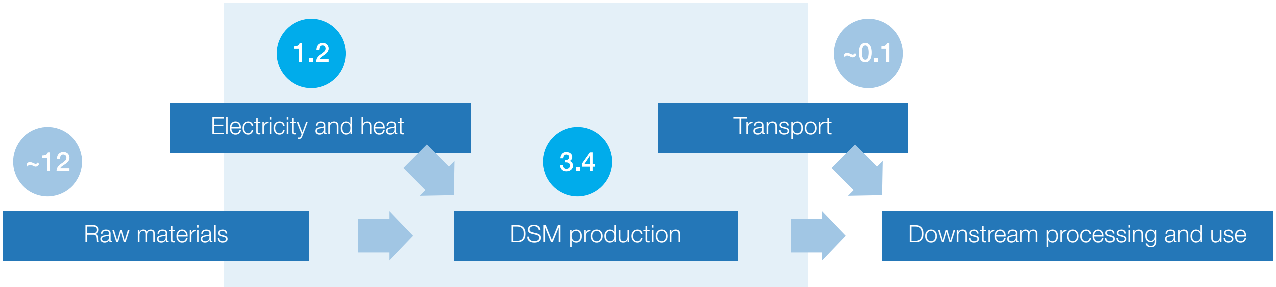
Making value chains more sustainable

Improving the carbon 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 greenhouse-gas emissions from power plants that supply electricity and/or 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 greenhouse-gas emissions related to the production of its raw materials are taken into account. These are part of the so-called 'scope 3' emissions.

In 2011 DSM analyzed the greenhouse-gas emissions due to all raw materials it uses, which in total represent a spend of approximately €4.3 billion per year. Based on information from expert databases, the production of DSM's raw materials generates emissions amounting to some twelve million tons of CO_2 equivalents per annum, which is quite significant compared to the company's greenhouse-gas emissions of 4.6 million tons of CO_2 equivalents.

While improving production processes and reducing material losses are crucial to DSM's sustainability performance, the company is also 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)



Sustainable supply chains

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: supplier conduct and supplier solutions. DSM invites all of its suppliers to use their unique competences and capabilities to contribute to the ECO+ solutions in its product pipeline.

Supplier conduct

DSM takes sustainability explicitly into account in the selection and evaluation of suppliers by applying a Supplier Code of Conduct (SCoC), which is based on the company's Code of Business Conduct. The SCoC asks DSM's suppliers to show their commitment to sustainable business practices with regard to People (non-discrimination, health and safety, fair remuneration), Planet (eco-footprint, product stewardship, local community welfare, waste) and Profit (anti-bribery and corruption, fair trade, confidentiality, transparency). At the end of 2011, more than 90% of DSM's external spend was covered by the SCoC. The SCoC is an integral part of every contract as well as DSM's general purchase conditions. Every year some 50-100 suppliers are selected for closer evaluation. Evaluation criteria and questions are directly derived from the SCoC. The selection process is risk based, where a combination of various factors, such as the nature of the product (for example hazardous chemicals) or service, the country risk (which covers the areas of labor conditions, corruption and greenhouse-gas emissions), specific business risks (single source, very particular material) as well as the size of spend determines whether a supplier will receive a questionnaire or will be audited.

Between 2007 and the end of 2011 DSM received 344 self-assessments from suppliers, covering approximately 30% of external spend. A total of 81 of these were received in 2011. DSM audited 125 suppliers in this period (of which 41 during 2011), covering 12% of external spend. In 2008 a supplier classification was introduced. Based on the outcome of the audit a supplier might receive the ranking A (no improvement needed), B (small improvement program necessary), C (extensive improvement program necessary) and D (the contractual relationship will most likely be terminated or frozen). In 2011, 80% of the audited suppliers were ranked A and a further 10% were ranked B. Some 7% got the score C. For these, follow-up programs have been or are being executed. One supplier received a D score and has been replaced, and the contractual relationship with another supplier has been frozen until the moment that the accusations of environmental laws breach are cleared by the relevant court authorities.

In 2011, DSM requested an external party to execute 22 supplier audits to further secure the high quality of its audit procedure. For these external audits, too, the supplier selection process was risk based. Initial results revealed that most of DSM's suppliers had received A (68%) or B (27%) rankings, while a small percentage had received a C (5%) ranking. For all suppliers ranked C, follow-up programs have been started. No suppliers received a D ranking from the external party.

The differences in supplier rankings between audits carried out by DSM and audits carried out by the external party mainly stem from the fact that these audits covered different regions. In 2011 DSM mainly audited European suppliers, while the external party mainly audited suppliers in the Asia-Pacific region.

Supplier solutions

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, for example suppliers moving from chemical routes to synthesis based on biorenewables, and energy providers coming up with breakthroughs in the area of renewable energy. To identify potential improvement areas, several Life Cycle Assessments (LCAs) were carried out during 2011 jointly with suppliers. One of the most promising cases is a new type of pallet used for transportation, whose eco-footprint is approximately 60% lower than that of the most common pallet types (plastic and wooden ones). The new pallet is made of

100% waste materials, allowing approximately 10,000 tons of virgin plastic (with 0% recycled content) to be saved every year, which is equivalent to avoiding approximately 60,000 tons of CO_2 emissions.

As DSM is introducing more and more biorenewables into its ECO+ product pipeline, it is key that these bio-derived or bio-related materials are sourced in the most sustainable ways and are compliant with DSM's business strategy. To secure this, DSM has drafted biodiversity and biomass policies based on a number of international guidelines. Furthermore, for every biorenewable and its related plant sources DSM aims to apply more specific guidelines, like the Roundtable on Sustainable Palm Oil guidelines for palm oil. The company has started evaluating its bio-based raw material portfolio and how this might change in the future, including potential risk factors relating to the sourcing of each bio-based material. Possible key risk areas identified so far are water use, land use, impact on biodiversity and impact on mass balance (whether or not nutrients are left in the soil).

To further increase the impact of such activities, a training program has been prepared and will be rolled out in 2012 to give the DSM Purchasing community and its supplier base the relevant tools to perform some 20 LCAs, which may lead to a substantial reduction of carbon footprints as well as improvements in other areas, such as reduction of water usage and the replacement of hazardous raw materials.

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. In line with this Code, DSM does not make any payments or donations in kind to political parties or their institutions, agencies or representatives. DSM focuses its donations and sponsorships on activities that are connected to:

- DSM's know-how and competence base;
- DSM's business position; or
- DSM's present and future geographical presence (in this case the donations and sponsorships are part of 'being an active neighbor').

In 2011, DSM donated and/or made available more than € 5 million to a range of initiatives. DSM continued its 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 and its employees developed many initiatives in 2011 to create awareness for the WFP and to collect money. In June 2011, 23 DSM sites and over 3,500 employees participated in Walk the World, a global advocacy and fund raising event to end child hunger. In June DSM employees raised USD 146,000 for WFP in Ethiopia in just under 10 days, enough to provide 584,000 meals to children through WFP's School Meals program. This amount was matched by a donation on behalf of DSM's Managing Board. In October DSM's first ever global employee fund raising campaign raised nearly € 100,000 for WFP. In 2011 six DSM employees went on WFP volunteer assignments in Zambia, Nepal, the Philippines and Indonesia.

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).

DSM Art Collection

DSM has an extensive art collection that currently comprises about 700 works. The DSM Art Collection includes works that represent creativeness, innovativeness and concern for the global and local environment.

People in 2011

DSM's strategy DSM in motion: *driving focused growth* requires a new focus of its human resources strategy. The main elements of the human resources strategy are talent management, leadership development and performance management, supported by the further implementation of DSM's Change Agenda. These elements are given shape by, among other things, the DSM career management process (including succession planning and performance reviews), the development of DSM's Leadership Model and the development of DSM's people via training and mentoring.

DSM aims to truly internationalize its business. This will bring the organization closer to its key markets and customers, strengthen the regional businesses and stimulate diversity and innovation. DSM combines a strong regional infrastructure with clear board level accountability for regional growth. Its human resources strategy supports the internationalization goal.

Change Agenda

Through its Change Agenda, DSM is developing the culture needed to achieve its strategic ambitions. Building this culture across DSM will lead to a more agile organization that is fit to cope with fast moving developments in the business environment. The three main themes of the Change Agenda are: external orientation, accountability for performance and inspirational leadership. These three themes are supported by DSM's underlying beliefs in sustainability and diversity.

External orientation

DSM has anchored its strategy in key long-term trends (global shifts, climate & energy and health & wellness) that drive fundamental societal needs. 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 with stakeholder groups, shaping the debate and collaborating with external stakeholders.

Accountability for performance

DSM believes that its work is critical to its customers and that it is therefore important that its employees take ownership and deliver upon the ambitious targets established to meet customers' needs. Accountability for performance is about people taking responsibility for their actions and for the performance of their teams, about recognizing and celebrating successes, bringing issues to the surface and viewing mistakes as individual and collective learning opportunities.

Inspirational leadership

DSM recognizes the importance of stronger inspirational leadership to lead the company's further cultural transformation. This leadership is a combination of setting direction by formulating a vision and targets; pursuing this vision and these targets with passion, a sense of urgency and decisiveness; and connecting with people by giving and inspiring trust, being authentic and showing humility.

To involve all employees in the desired culture change, all business groups and service units have started programs to (1) clarify to their entire workforce why the change process is necessary, given their specific challenges, and (2) develop the desired behaviors. The activities aimed at developing the desired behaviors include experiential workshops to develop the basis of trust and the skills needed for having more open and deeper dialogues, a renewed target setting process to structurally connect the desired behaviors with achieving strategic goals, and on-site events for employees' families and the broader community to strengthen social connections.

To facilitate learning across the organization, specific activities were started in 2011. These included the launch of internal platforms for sharing experiences and ideas around the themes of the Change Agenda. For all platforms an awareness campaign was launched to inform and engage the employees. Within the various platforms, activities were organized to attract groups of employees who, as front-runners, will be creating and organizing new activities 'by employees for employees'. The tools used to support the development of the platforms include instruments to improve inspirational leadership and behavior, interactive webinars to share internal and external sustainability best practices, and a dedicated Change Agenda intranet portal. In 2011, four webinars were held which each attracted over 400 attendees. As part of the activities to support the development of the sustainability platform, regional sustainability events were organized, for instance in China. The platforms have grown into self-sustaining worldwide communities facilitating collaboration, shared learning and the exchange of best practices across the businesses and regions. These global communities will enable faster organizational and individual learning, and will thus speed up the culture change within DSM.

The human resources function supports DSM's managers in further advancing their mindset and behavior concerning the three themes and the two beliefs and moving 'from intent to living'. For example, the Change Agenda has been integrated into DSM's global management and leadership learning portfolio in order to build the desired skill set, share best practices and facilitate collaboration. New, dedicated programs have been added to the portfolio, such as the Diversity and Inclusiveness workshop to develop better skills in fostering an inclusive culture that embraces differences. An inclusive culture will contribute to DSM's business results in innovation.

The DSM Employee Engagement Survey (see below) serves as DSM's 'navigation device' for change. The 2011 outcome supports the positive advancement of the DSM Change Agenda. The results show that currently 62% of all DSM employees are fully aware of the Change Agenda, of whom 84% feel they have gained personal insights into what they can do differently in terms of the three Change Agenda themes.

DSM Employee Engagement Survey

DSM's HR strategy is about helping employees to successfully deal 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 is critical to DSM in realizing its ambitions. Engagement is about creating an inclusive and high-energy working environment, where employees are aligned and energized to contribute to the company's 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 2011 DSM executed its fourth worldwide Employee Engagement Survey. Over 19,800 employees (including 1000 contractors) in more than 50 countries completed the questionnaire that was distributed online and on paper in 17 languages to all DSM employees. This represents a very high response rate of 91%, which exceeds the 90% response rate of 2010.

The main element in the survey is the measurement of DSM's Employee Engagement Index, the percentage of employees scoring favorable on a combination of four attributes: commitment, pride, advocacy and satisfaction. The Employee Engagement Index measured in 2011 was 71%, the same as in 2010 and above the global overall norm (68%). The neutral responses amounted to 19%, the same as in 2010. The DSM score takes DSM within an 8 percentage point range of the external benchmark of high performing companies (scoring 79% favorable), which is the league DSM wants to be part of.

The scores improved slightly on most dimensions. The main improvements compared to 2010 related to the DSM Change Agenda and employees' awareness of the DSM whistleblower procedure. The dimensions that received the highest scores were Safety (82% favorable), Teamwork (79% favorable), Sustainability (77% favorable) and My Manager (77% favorable). This reflects DSM's strong focus on these areas of importance and demonstrates that employees believe in a sustainable future for DSM. The lowest scoring dimensions related to Compensation (57% favorable), DSM's Change Agenda (57% favorable) and Inspirational Leadership (57% favorable). The Change Agenda score was still low but showed the largest improvement compared to 2010.

The survey results for the individual DSM units have been translated into measurable action plans. DSM will continue to use the Employee Engagement Survey to guide its Change Agenda activities.

Talent management

DSM aims to create opportunities for its talent to maximize their development. In 2011 several initiatives were started and/or finalized:

- Full implementation of Career Management Online, supporting the career management process and performance development reviews, including succession planning.
- The development of the Career Compass website, which went live in January 2012, providing transparency about career opportunities at DSM.
- The development of the DSM Leadership Model, which will specify the characteristics needed by future DSM leaders in a simple, understandable and compelling way. This Leadership Model will be finalized early in 2012.
- Further extension of Talent Summits toward the US, China and Asia Pacific, with a strong focus on learning and networking.

Organizational learning

DSM strongly believes in the need to invest in the knowledge, skills and experience of its employees to ensure their employability. The company provides its employees with various kinds of learning opportunities, including classroom and virtual programs, on-the-job training, coaching and mentoring.

The DSM Learning Architecture consists of four program clusters: Executive Programs, Management Programs, Functional Programs and 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 talent.

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.

Other 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.

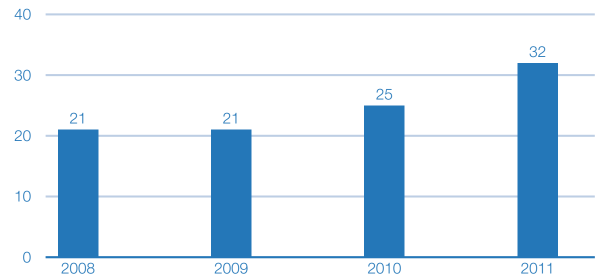
In 2011 progress was made in designing and implementing curriculae in the areas of marketing, sales and innovation. DSM made a start on the worldwide deployment of the One DSM Diversity and Inclusiveness Program to support the company's internationalization efforts and to strengthen its inclusive working culture. Significant efforts were made to further increase safety, health and environment (SHE) awareness via a global roll-out of the SHE Leadership Experience (SHELEX) course. 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 use their strengths more effectively. The set-up and content of the SHELEX course supports DSM's cultural change program. The number of SHELEX enrollments for 2011 was close to 500, and the course is now given in Europe, Asia and the US. Several DSM sites have offered an adapted version of the course (based on the same experiential learning format) to shop floor personnel. DSM also continued to align the core curriculum with the scope of its Change Agenda.

In 2011, six new programs were designed and introduced, bringing the total number of available global learning programs to 77.

Program portfolio	**Available programs 2011**	Available programs 2010
Executive programs	8	8
Management programs	27	25
Functional programs	34	30
e-Learning programs	8	8
Total	77	71

In 2011, 3,059 DSM employees worldwide (from 43 different countries; 2,153 male and 906 female) participated in the learning programs of the DSM Business Academy (DBA). This is an increase of 63% compared to 2010. More than 200 programs were delivered in 9 countries – an increase of almost 100% compared to the previous year. These increases were mainly due to a significant rise in the number of programs and participants in China, as well as the completion of more than 40 project management programs in Europe. In addition to the DBA offerings, DSM employees at all levels in the organization are offered a wide variety of training opportunities (both on-the-job and classroom training). The number of training hours per employee increased from 25 in 2010 to 32 in 2011.

Training per FTE
(in hours)



Workforce composition

Diversity and inclusion

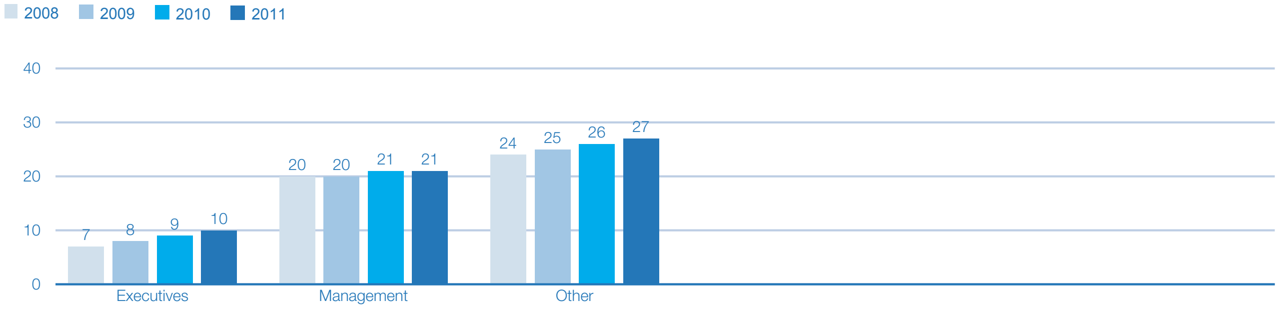
DSM believes that fostering an inclusive culture that embraces differences will help to drive business results and innovation. A workforce that is diverse and that shares the desired DSM behaviors and mindsets will support a high performing culture. Inclusion and diversity will moreover promote an outside-in approach, lead to a better connection with end customers and increase DSM's focus on innovation, thereby strengthening the company's global presence. And finally, a more balanced DSM leadership group (in terms of gender, nationality and background) will improve the decision-making process as well as the implementation of DSM's strategy.

The diversity targets that the Managing Board had set for 2010, and continued in 2011, focused on executives and top potentials (gender and nationality). The number of women in executive positions (36 in 2010) increased from 9% in 2010 to 10% (41 positions) in 2011. In addition to using an internal pool of women candidates to promote into executive positions in the coming 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.

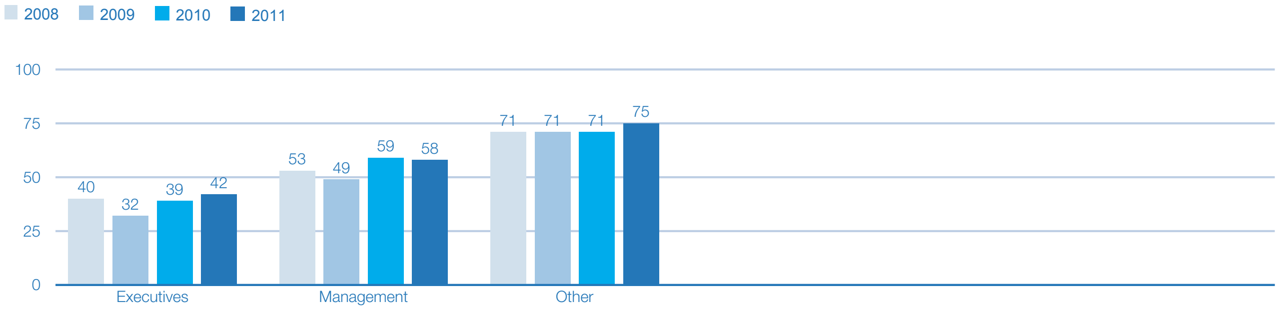
DSM has defined diversity ambitions (in terms of gender and nationality) for its business groups for the period 2011-2015 to ensure that its organizational readiness is in line with its stretched growth ambitions for 2015. DSM continues to address the geographical distribution of management and other 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 at DSM and to ultimately support all DSM businesses in creating a sustainable inclusive environment, where diversity is fully embraced. This Council is strongly aligned with DSM's internationalization efforts to make further progress with the company-wide Change Agenda.

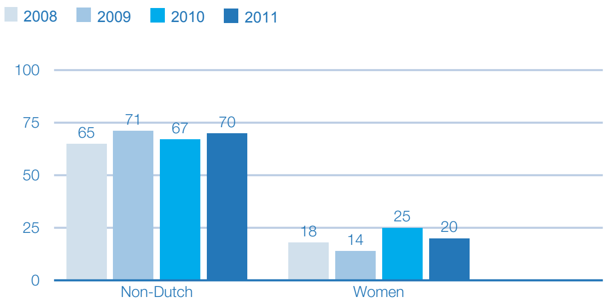
Workforce diversity
(% women)



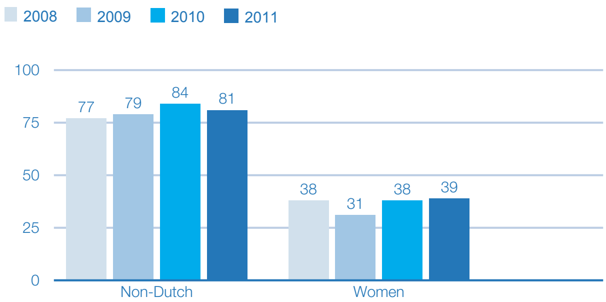
Workforce diversity
(% non-Dutch)



Executive hires
(diversity in %)



Professional hires
(diversity in %)



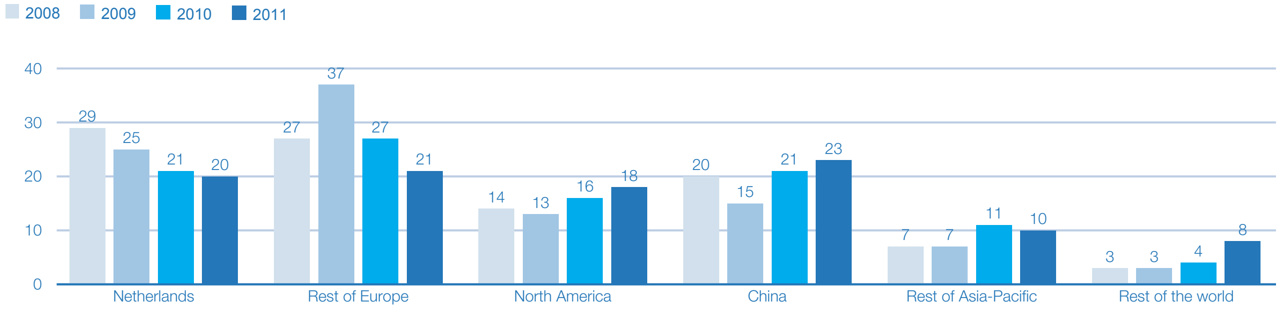
New employees
At the beginning of 2008, DSM decided that the intake of non-Dutch executives should be increased; at least 60% of the annual inflow of new executives should be non-Dutch. This was once again achieved during 2011, the score being 70%. DSM's aim was also for an average of 25% of executives joining from outside the company in the period from 2008 to 2011 to be women. In 2011 this figure was 20%.

In 2011, DSM recruited a total of 656 professionals (graduates and experienced hires), of whom 81% were non-Dutch and 39% were women. 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 the company is an attractive career option for talented individuals across all groups of potential employees.

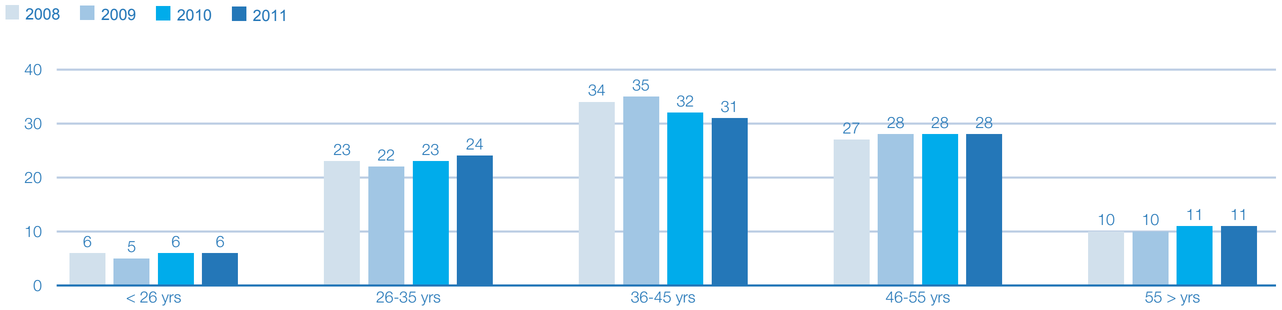
Total workforce hires

The total inflow of new employees into DSM in 2011 was 2,404. This does not include the inflow of employees due to acquisitions (1,402).

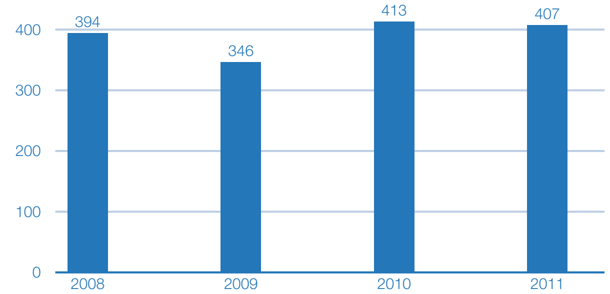
New hires by region
(in %)



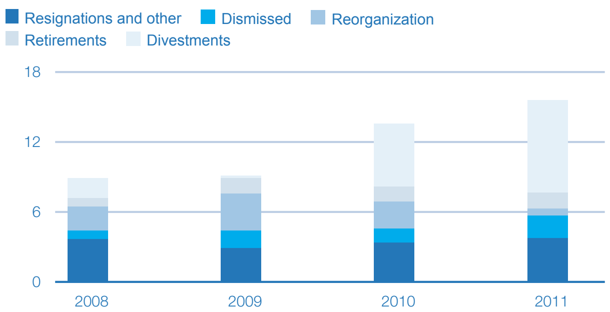
Employees by age category
(in %)



Net sales per employee
(x € 1000)



Outflow of employees
(in % of total workforce)



Outflow of employees

The total outflow of employees at DSM in 2011 was 3,493. A total of 303 employees retired, 849 resigned of their own will and, sadly, 6 employees died. In 2011, 438 employees were requested to leave the company (for non-performance or non-compliance reasons). A further 134 were made redundant due to reorganizations that took place across DSM in 2011. A part of the outflow (1,763 employees in total) was related to the divestment in 2011 of DSM Elastomers, the deconsolidation of Sitech and the partnership between DSM Anti-Infectives and Sinochem Group.

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 conducts due diligence before making any investment decisions in order to exclude, among other things, any relationships or practices which may be in contravention of human rights.

DSM is a Dutch signatory to the United Nations Global Compact. For an overview of how the Compact's principles are implemented within DSM, see page 35. DSM also meets the recommendations made in the OECD (Organization for Economic Development) 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 businesses 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 loss of a significant number of jobs, 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 therefore seeks dialogue with its employees and their representatives (works councils, labor unions).

DSM Code of Business Conduct

The DSM Code of Business Conduct, as introduced in 2010, contains the company's business principles across the three dimensions of People, Planet and Profit. All DSM employees are expected to act in accordance with the Code, and the Managing Board holds DSM management accountable for this compliance. In 2011 the Code was further rolled out into the organization. Presentations by management cascaded the information throughout the organization, booklets were distributed worldwide and a mandatory e-learning course was made available in 17 languages. The full text of the DSM Code of Business Conduct is available on www.dsm.com. The Code serves as an umbrella for several other DSM regulations, such as global trade controls and global competition principles and practices, for which targeted employees completed e-learning courses as well. In addition, compliance with competition law and trade controls is being addressed via regular classroom training sessions and e-learning. This is structurally embedded in DSM's systems and processes. For example, DSM master data is screened overnight to check customers and suppliers against embargoes and sanctioned parties.

DSM applies zero-tolerance consequence management with respect to deliberate violation of its Code of Business Conduct policy. 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 to the Supervisory Board once a year. Proven violations of the Code can result in immediate discharge. In line with this policy, 24 employees were requested to leave the company during 2011 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 2011.

Safety and health

DSM has 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% or more (compared to 2010) by the year 2020. In 2010 this Frequency Index was 0.57; the target for 2020 is ≤ 0.25. In 2011 the index was 0.53. The Frequency Index of Lost Workday Cases involving DSM employees was 0.15 (2010: 0.15).

DSM's performance in this area has fluctuated around this level since mid 2009. It has proved to be difficult to improve it to a next level. Over half of the accidents in 2011 related to 'slips, trips and falls', 'sprains and strains' or the work posture in which the job was executed. For such cases improvements must come from training, increased awareness, and behavioral programs as well as improving ergonomics in work situations. Such programs take some time to deliver success.

It is with deep regret that DSM reports the tragic death of a contractor employee in 2011. On 13 September an electrician from Austin Industrial lost his life while working on a high voltage substation at the recently acquired DSM South Center property in Augusta (Georgia, USA).

On 28 July a vapor cloud explosion followed by a fire occurred at the recently acquired DSM-AGI Xinhua plant in Tainan (Taiwan). As a result, seven employees were injured, five of whom were hospitalized shortly after the explosion. Two employees were seriously injured; one of them had burn injuries to 70-80% of his body. To protect people from potentially toxic substances that might leak out of the plant or might be released from the fire, the authorities temporarily shut down the hospital and the neighboring agricultural refinement factories, evacuated the patients from the hospital and also evacuated approximately 1500 residents living in nearby villages.

DSM wants to eliminate fatalities altogether and has launched specific initiatives (on top of the well-established general safety programs) to reach this ambition, including the strengthening of the implementation of a set of Life Saving Rules in 2011.

DSM's Life Saving Rules focus on certain known high-risk activities (for example entry into confined spaces, or driving) where the company has experienced fatal accidents in the past. Many of the rules already existed; strengthening their implementation as Life Saving Rules provided an excellent opportunity for highlighting the importance of the rules, and discussing what they mean in the daily working environment and how they should be applied. Via company-wide briefing sessions in June and workshops in the second half of the year all DSM employees and all contractors working on DSM sites were involved in the roll-out of and discussions on these Life Saving Rules.

Safety in logistics
In 2011 DSM finalized the implementation of 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 the safeguarding of packaged goods for transport and handling.

This has led to increased awareness and fewer accidents in the supply chain. Supply chain accidents now account for about 15% of the total number of reportable accidents. Incidents in the logistics area are carefully monitored and separately reported on a quarterly basis.

SHE Award and SHE Improvement Award
To stimulate 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 to 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 nominees are ranked on the basis of approximately 30 criteria. Besides SHE elements, these include sustainability aspects (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. In 2011, the DSM Resins site in Schoonebeek (Netherlands) won the SHE Award and the caprolactam site of DSM Fibre intermediates in Nanjing (China) won the SHE Improvement Award. DSM Resins has donated its prize to 'Stichting Stroomdal', a housing project for disabled children. In 2012 the SHE Awards committee will pay particular attention to contractors' SHE management.

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 is rolling out a global employee health management program, Vitality@DSM. Participants are offered a Vitality Check (an extensive periodic medical check-up) and are asked to fill out an electronic questionnaire. This provides DSM with anonymized, tangible and quantitative data on health at work, enabling the company to monitor progress through performance indicators, compare results by region as a basis for defining the content and priorities of health promotion campaigns at site and regional level, and create scorecards at relevant levels in the company.

Vitality@DSM fits the company's mission very well as it creates 'brighter lives' for the employees and addresses one of the global trends (Health and Wellness) defined in DSM's strategy for the years 2010-2015. It was first implemented in the Netherlands in 2009. In 2010 and 2011 DSM made a start on the global roll-out, with locations in China, India, the US and Brazil implementing the program. At the end of 2011, more than 6,100 DSM employees worldwide had participated.

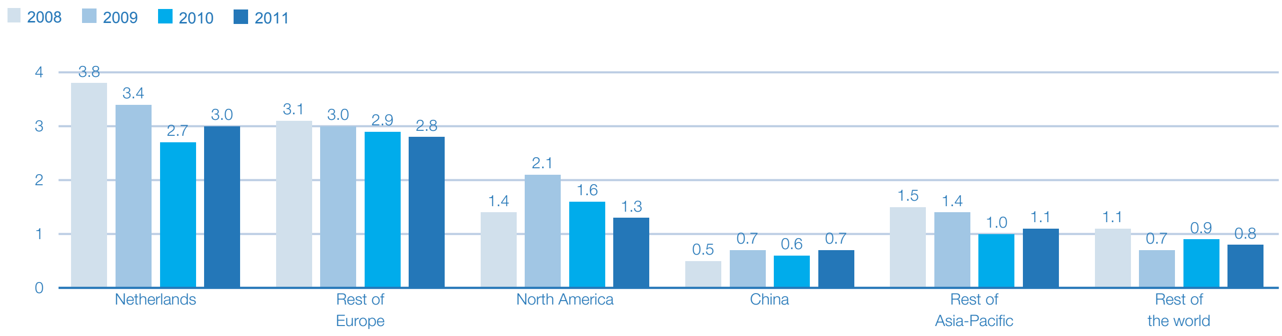
Based on the data collected until now, the highest employee health risks at DSM relate to stress (mentioned by 72% of participants in Asia, 67% in North America and 46% in Europe), eating habits (North America 49% and Europe 43%), and lack of exercise (Asia 70%). The 'readiness to change' score differs from region to region and is taken into account in defining action plans.

Occupational health

In 2011 a total of 6 occupational health cases were reported (the same as in 2010). Reported cases feature physical ill-health (3 compared to 5 in 2010) and psychological ill-health (2 compared to 0 in 2010). One allergic reaction was reported (1 in 2010). In 2011, DSM continued to increase its employees' awareness of occupational health issues and to further improve the reporting of all occupational health cases the company encounters.

Absenteeism

(in %)



Planet in 2011

Environment

Energy efficiency improved by 2% compared to 2010, compensating for a growth in production volume of the same magnitude. The improvement compared to 2008 was 13%. Greenhouse-gas emissions increased slightly compared to 2010, from 4.5 to 4.6 million tons of CO_2 equivalents. Compared to 2008, they increased from 4.2 to 4.6 million tons of CO_2 equivalents (8%), largely due to increased production volumes at greenhouse-gas intensive production units.

Water consumption increased by approximately 9 million m^3 (6%) in 2011 compared to 2010, mainly as a result of shifts in production volumes.

Significant improvements from 2010 to 2011 were achieved in emissions to air. VOC, NO_x and SO_2 emissions were all significantly reduced due to structural improvements.

For other environmental parameters, the structural changes from 2010 to 2011 were limited.

Key environmental indicators, continuing operations

	2011	2010
Energy use in PetaJoules (PJ)	44	44
Water use (x million m^3)	157	148
Greenhouse-gas emissions in CO_2 equivalents (x million tons)	4.6	4.5
Emission of volatile organic compounds (x 1000 tons)	4.2	6.5
COD (Chemical Oxygen Demand) discharges to surface waters (x 1000 tons)	7.1	7.9
Environmental incidents	306	336
Environmental complaints	24	27

The changes in the reported figures from 2010 to 2011 are mainly the result of improvements achieved in the year 2011, some non-structural deterioration and changes in production volumes.

Environmental targets

In the framework of its corporate strategy, DSM has defined long-term Safety, Health and Environment (SHE) targets for 2010-2015 and translated these into plans and activities in a Corporate Multi-year Plan Responsible Care (CMP). This CMP gives guidance to the rolling 3-year plans of the business groups. In addition to SHE topics, the CMP 2010-2015 also addresses security as a strategic subject. Quantitative targets have been set for six SHE topics (see table on page 51). For three other SHE topics, improvement programs have been set up.

The eco-efficiency targets, representing the main emissions from DSM's plants, 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 US. New plants and major plant modifications should meet this requirement right from the start, whereas existing plants should meet it within five years.

SHE targets[1]

	2015		2020
Safety at work			- Reduction in number of serious incidents by 65%
			- Frequency Index of recordable injuries ≤ 0.25
Process safety	Reduction in number of process safety incidents (PSI) by 50%		Reduction of PSI by 75%
Health at work	Vitality@DSM target: at least 75% uptake per project done, and 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 of 20% by 2020 compared to 2008 - Reduction (absolute) in GHG emissions of 25% by 2020 compared to 2008
Water availability and use	Reduction of water use (preliminary)	15%	Final aspiration to be defined in 2012

[1] Reductions compared to 2010, unless otherwise stated

The following table shows the status at year-end 2011 regarding the progress made toward the environmental reduction targets:

		% Reduction realized in 2011 compared to reference year[1]	Reduction target (%, reference year-target year)
Discharges to water	COD	5%	20% (2010-2015)
Emissions to air	VOC	29%	40% (2010-2015)
	SO_2	66%	70% (2010-2015)
	NO_x	22%	30% (2010-2015)
Waste	Landfilling non-hazardous waste	6% increase	15% (2010-2015)
Climate change	Improvement of energy efficiency	13%	20% (2008-2020)
	Greenhouse gases	8% increase	25% (2008-2020)
Water availability and use	Total water consumption	5% increase	15% (2010-2015)[2]

[1] Corrected for changes in production volumes and product portfolio relative to the reference year (except greenhouse-gas emissions, which is an absolute target). Acquisitions made during the target period are not taken into account. Divested units, such as DSM Agro, DSM Melamine, DSM Elastomers, Citrique Belge and DSM Special Products Rotterdam, have been excluded.

[2] Final aspiration to be defined in 2012.

All environmental targets, except the one for greenhouse-gas emissions, are relative targets, that is, emissions and consumption figures are relative to production volumes per individual production unit. This means that the reduction percentages in the table are the result of calculations incorporating changes in production volume. Acquisitions and divestments in the target period are excluded from the determination of target realization in order to have a like-for-like comparison.

The target for greenhouse-gas emissions is an absolute target. The previously divested units DSM Agro, DSM Melamine, DSM Elastomers, Citrique Belge, and DSM Special Products Rotterdam were excluded from the base year 2008, but other acquisitions and divestments, including forthcoming ones, will be included in these figures.

The graphs on the following pages show the uncorrected DSM totals. This can give rise to some apparent differences with the target realization figures. Compared to the figures that were reported in 2010, the divested operations (DSM Agro, DSM Melamine, Citrique Belge, DSM Special Products Rotterdam and DSM Elastomers) are fully excluded from the environmental data for the whole reporting period.

The reported absolute figures are the result of improvements achieved in the year 2011, some non-structural deterioration, changes in production volumes, the impact of site closures, as well as some corrections. The most significant correction relates to greenhouse-gas emissions and is elucidated on page 54. DSM Sinochem Pharmaceuticals (DSP) is fully consolidated in all the environmental figures during the whole reporting period 2008-2011.

In addition to the consolidated graphs shown in this chapter, DSM publishes detailed information on the environmental performance of all its production sites on www.dsm.com. This information includes emissions, consumption figures and SHE highlights.

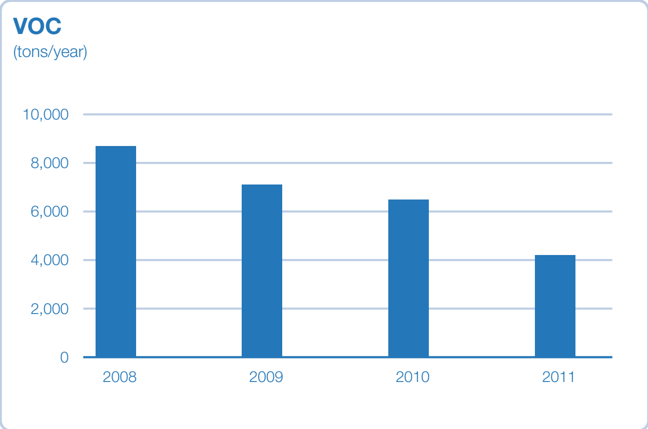
Data reporting by the sites is regularly audited by DSM's Corporate Operational Audit department.

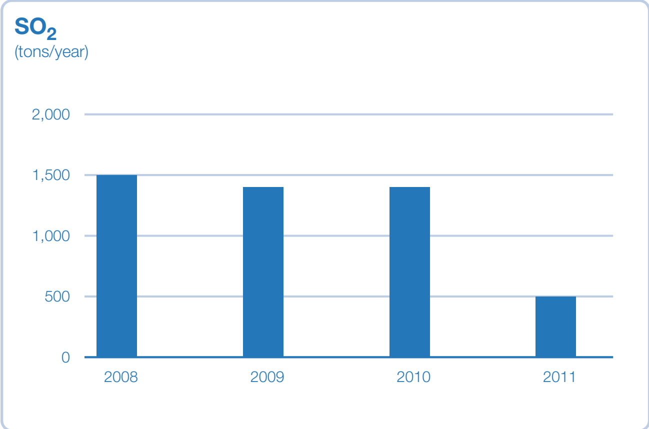
Emissions to air

VOC

VOC emissions in 2011 were reduced by approximately 2,300 tons compared to 2010, due to several changes. A major contribution was realized by DSP, mainly due to process improvements and further implementation of enzymatic processes, particularly at the site in Ramos Arizpe (Mexico). The closure of the site in Cairo (Egypt) and the production stop at the site in Zhangjiakou (China) since August also contributed to the reduction.

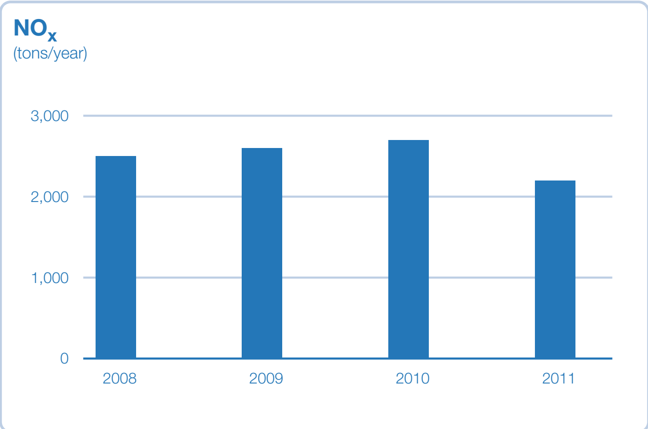
Major reductions were also realized by DSM Fibre Intermediates as a result of emission reduction projects at the sites in Nanjing (China) and Augusta (Georgia, USA).





NO_x

NO_x emissions decreased by approximately 500 tons in 2011 compared to 2010, mainly because the two coal-fired steam boilers at DSM Fibre Intermediates in Nanjing (China) were closed in July. Other, smaller changes were largely due to changes in production volumes.



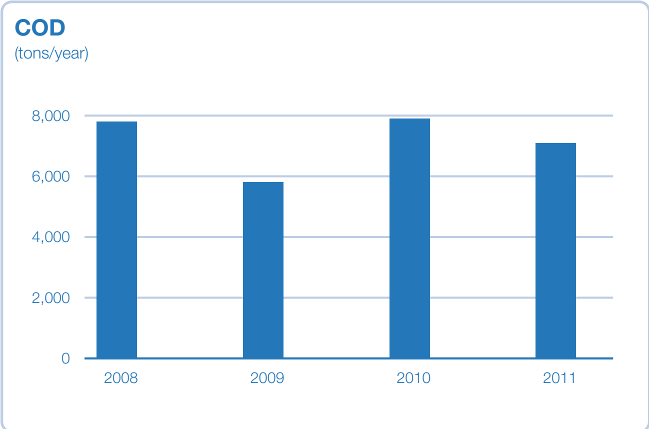
SO_2

DSM's SO_2 emissions decreased by approximately 900 tons in 2011 compared to 2010. The main reason for this significant decrease is that the two coal-fired steam boilers at DSM Fibre Intermediates in Nanjing (China) were closed in July. Further reductions were realized at the DSP sites in Toansa (India) and Zhangjiakou (China).

Discharges to water and landfilling of waste

COD

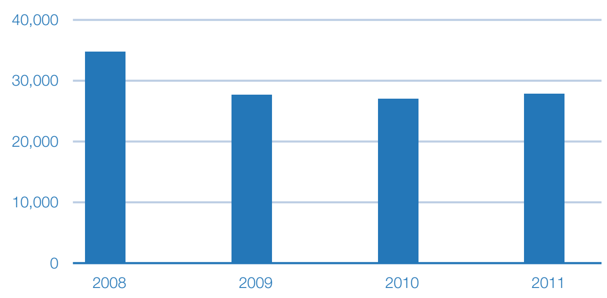
The discharge of COD (Chemical Oxygen Demand: an indicator of the degree of pollution of wastewater by organic substances) decreased by approximately 800 tons in 2011 compared to 2010. The main reductions were achieved at DSP, particularly due to several changes at the site in Ramos Arizpe (Mexico), the closure of the site in Cairo (Egypt) and the production stop at the site in Zhangjiakou (China) since August. A further reduction occurred at DSM Fibre Intermediates in Augusta (Georgia, USA).



Non-hazardous waste

The landfilling of non-hazardous waste increased by approximately 900 tons in 2011 compared to 2010. This is the balance of reductions that were achieved at some sites and increases at other sites. Significant increases occurred at two sites of DSM Nutritional Products (Belvidere, New Jersey, USA and Dalry in the UK). Both increases were largely of a non-structural nature.

Landfilling non-hazardous waste
(tons/year)



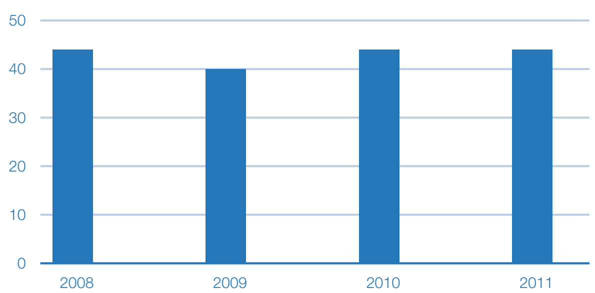
Energy and greenhouse gases

Energy consumption

DSM's energy consumption in 2011 was 44 PetaJoules, which is the same value as in 2010 for the continuing operations. Energy efficiency improved by 2% compared to 2010, compensating for a growth in production volume of the same magnitude. Compared to 2008, energy efficiency improved by 13%.

The most significant contribution to the improvement from 2010 to 2011 came from the DSM Fibre Intermediates sites in Nanjing (China) and Augusta (Georgia, USA). At both sites, a combination of higher output from the same equipment and energy saving projects resulted in significant improvements. In addition, the Nanjing site replaced steam supplied from its own relatively inefficient coal-fired boilers with steam supplied from a more efficient external supplier.

Energy consumption
(PJ)



On top of this, new initiatives to improve energy efficiency are being developed. For instance, DSM Nutritional Products is building a new combined heat and power (cogen) unit at its site in Belvidere (New Jersey, USA). This unit will decrease DSM's energy consumption and greenhouse-gas emissions by about 0.5%.

DSM Pharmaceuticals, Inc. at Greenville (North Carolina, USA) has developed an energy efficient lighting retrofit project. The retrofit comprises the replacement of the approximately 12,000 lights at the facility and is designed to improve light levels and reduce energy consumption and greenhouse-gas emissions of DSM by approximately 0.1%.

Greenhouse-gas emissions

Compared to 2010, greenhouse-gas emissions increased slightly, from 4.5 to 4.6 million tons of CO_2 equivalents. Compared to 2008, they increased from 4.2 to 4.6 million tons of CO_2 equivalents (8%). The most significant change in 2011 compared to 2010 was a shift from scope 1 (direct) to scope 2 (indirect) emissions. This was due to the discontinuation of the boilers at DSM Fibre Intermediates in Nanjing (China).

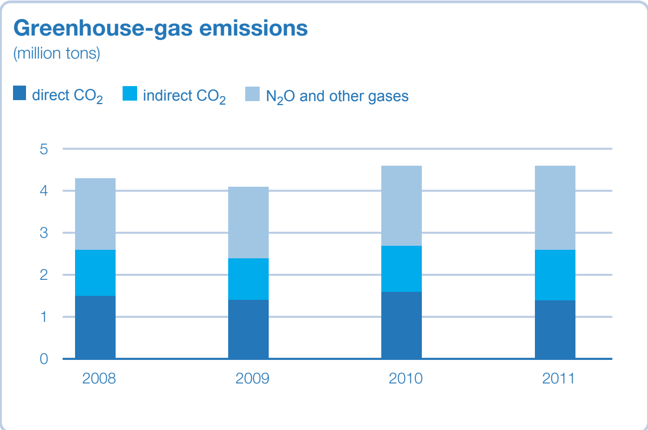
Other changes in the period 2008-2011 were largely the result of changes in production volumes, particularly at greenhouse-gas intensive production units.

Some corrections were applied to DSM's greenhouse-gas reporting compared to previous years. The corrections were applied over the whole reporting period 2008-2011.

- The most significant increase relates to N_2O emissions from the caprolactam plants of DSM Fibre Intermediates (Augusta, Georgia, USA; Sittard-Geleen, Netherlands; and Nanjing, China). Extended N_2O measurements indicated higher emissions than previously reported.
- This increase is more than outweighed by a decrease resulting from a more consistent application of the Greenhouse-Gas Protocol. The most important change is the use of country-specific factors for the conversion of purchased electricity to greenhouse-gas emissions, instead of the global factor that was used before and that was clearly too high.

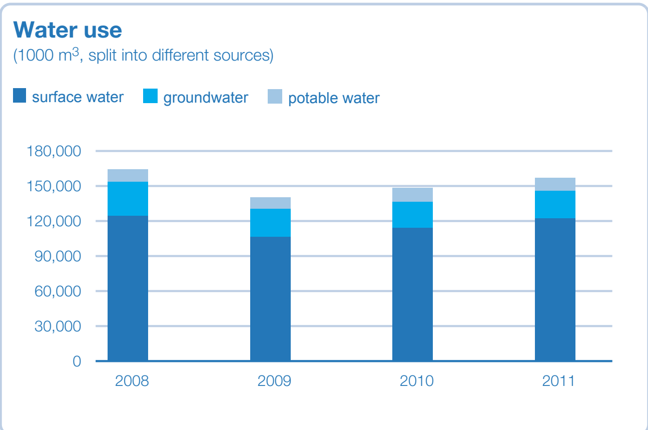
DSM strongly supports the development, adoption and application of joint international standards regarding carbon reduction. Therefore DSM strives for full adherence to the Greenhouse Gas Protocol. Using the same standards and calculation methods is the only way to be able to compare and measure progress. However, there is one important point that DSM wishes to emphasize. Setting standards should be a means to reach a goal. In this case the goal is to support management in decision making with regard to GHG emissions reduction. As the composition of the energy grid in a particular country is outside a company's sphere of influence, the use of country-specific conversion factors needs further interpretation and review. This is especially important because these country-specific factors do not take into consideration what the (perhaps more carbon efficient) composition of the energy grid will be in the longer term (especially in developing countries), while companies need to base their investment decisions on long-term considerations. Just applying the calculations might therefore not always stimulate companies to make the right decisions and take the right actions (in terms of investments and energy efficiency programs).

The overall effect of the above-mentioned changes and several other corrections is a reduction in previously reported figures of approximately 0.4 million tons of CO_2 equivalents per year over the whole reporting period 2008-2011.



Water consumption

The following graph shows DSM's global water consumption, split up into surface water, groundwater and potable (tap) water. Total water consumption increased by approximately 9 million m^3 in 2011 compared to 2010. This is the balance of reductions at some sites and increases at other sites. The most notable increase occurred at DSM Pharmaceutical Products in Linz (Austria) as a result of changes in production volumes of different production plants at this site.



DSM aims to manage its water resources in a sustainable way, taking into account the needs of present and future users and the various factors affecting water use. Its ambition is to reach a situation where its operations have no adverse effect whatsoever on the availability and quality of groundwater or surface water in the regions in which it operates. To achieve this, DSM is working to:

Improve its operations
For the period 2010-2015, DSM has set a global water consumption reduction target of 15% (this preliminary target will be reviewed in 2012 based on the outcomes of water risk assessments) and a COD reduction target of 20%. In 2011 the company started collecting semi-annual results on its performance against these targets. DSM takes water use and water scarcity into consideration as integral parts of its decision making process to select new plant construction locations.

Increase awareness and knowledge of local site situations
DSM is using the period until the end of 2012 to carry out in-depth water risk assessments at the sites located in (extreme) water scarcity regions and to identify mitigating strategies. The mitigating strategies are to be implemented by 2015.

Provide full transparency in reporting water performance
DSM publishes location reports of all DSM sites worldwide on the internet, providing external stakeholders with detailed insight into local situations. In 2009 DSM signed the CEO Water Mandate and in 2011 it started reporting its water performance within the Carbon Disclosure Project for water.

Promote improvements in the value chain
DSM is engaged in an ongoing dialogue with suppliers, customers and industry peers to create sustainable value chains by progressively enhancing the eco-footprint (including water footprint) of products and processes across each chain. Moreover, in the coming years DSM will increasingly require suppliers to commit themselves to targets and assessments similar to those applied by DSM, so as to achieve sustainable water management in the supply chain. See also the chapter on stakeholder engagement from page 36.

To improve the methodology of water footprinting, assessment and awareness building, DSM is participating and collaborating in associations and partnerships which address this topic. DSM has for example joined the World Business Council for Sustainable Development's Water Leadership Group. The company also actively participates in UN Global Compact country networks to promote innovations in the process industry, including process intensification or other technologies stimulating the reuse of water. And finally, DSM is contributing to the development of the ISO 14046 water footprint standard.

Based on the water footprinting exercises conducted so far (taking into account the water footprints of DSM's value chains) DSM has no known water related risk exposures within its supply chains, has no known significant effects on water withdrawal sources and has no known significant effect on water bodies or related habitats due to water discharges.

"With our commitment to sustainability, DSM's core value, we are driving economic prosperity, environmental progress and social advances to create sustainable value for all stakeholders. It is becoming increasingly clear that the lack of access to clean water and sanitation in many parts of the world causes great suffering in humanitarian, social, environmental and economic terms, and seriously undermines development goals. That is why we aim to achieve sustainable water management, that is, to manage water resources taking into account the needs of present and future users and applying practices aimed at safeguarding this vital resource. We continue to develop water risk assessments to mitigate operational, regulatory, reputation and financial risks and address political, economic, social, technological and environmental considerations, as part of our continuing commitment to the UN Global Compact's CEO Water Mandate."

Feike Sijbesma, CEO of Royal DSM

Biodiversity

Biodiversity and healthy ecosystems are key conditions for a more sustainable world. They provide what are known as ecosystem services: by fulfilling basic human needs such as food, materials, clean water and fresh air, they sustain human life. DSM considers the conservation of biodiversity and ecosystems an essential part of sustainable development and corporate (social) responsibility. It is DSM's belief that companies have an important role to play in the conservation of nature. This is a learning process; it starts with building awareness, to be followed up with actions to (1) assess DSM's impact on biodiversity and (2) preserve biodiversity wherever such an impact occurs.

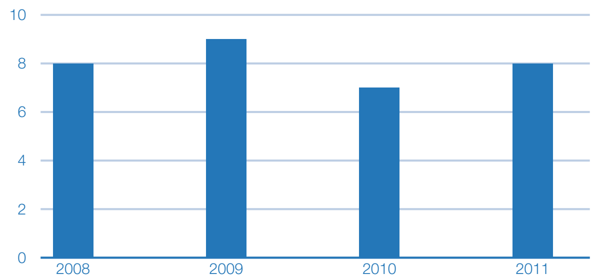
DSM supports the terms of the Convention of Biological Diversity, being the conservation of biological diversity, the sustainable use of the components of biological diversity and the fair and equitable sharing of the benefits arising out of the utilization of genetic resources. This has been embedded in DSM's management systems. At present, DSM has identified eleven sites that are located at or adjacent to high biodiversity areas. Together with stakeholders such as the International Union for the Conservation of Nature and the World Business Council for Sustainable Development, DSM will revise the assessment of these sites in the coming period.

Raw materials

In 2011 approximately 8% of DSM's total spend on raw materials related to renewable raw materials. This represents an increase compared to 2010, when this percentage was 7%. Contrary to the environmental performance data, the percentages shown in the graph below represent the actual spend in the pertinent year, that is, including all units that have been divested. Martek, which was acquired in 2011, has not yet been included.

The changes from year to year are mainly the result of these divestments and changes in the production volumes of the Materials Sciences businesses compared to the Life Sciences businesses.

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



Fines, sanctions, complaints and incidents

Fines and sanctions

A total of 12 environmental sanctions were given to one DSM site. All of these related to non-compliance of the site's wastewater discharge with local regulations.

The total amount paid in fines by DSM amounted to approximately € 70,000, which is much lower than in 2010 (€ 670,000) and more in line with previous years.

To the best of DSM's knowledge, no other fines or non-monetary sanctions for environmental issues were incurred in 2011.

Environmental incidents and complaints

The total number of registered environmental complaints was 24 (27 in 2010), of which 13 were about odor, 8 about noise, 1 about flaring and 1 about dust emissions. One complaint fell in the 'miscellaneous' category.

The total number of environmental incidents was 306, compared to 336 in 2010. Of these incidents, 11 were rated as serious (23 in 2010).

Process safety incidents

As of 2011, DSM follows the European Chemical Industry Council (CEFIC) guidance in defining which incidents qualify as process safety incidents (PSIs). All such incidents are already part of DSM's incident reporting system and are reported either as environmental incidents (the majority) or as safety incidents. Of the total number of incidents reported, 173 have also been classified as process safety incidents. This translates into a Frequency Index for PSIs of 0.58. The number of process safety related incidents in 2011 was higher than the number reported in the 2010 Integrated Annual Report (124). This is due to a change in definitions. In 2010 DSM still used its own threshold definitions (that is, excluding releases of non-hazardous substances and with lower release thresholds than those applied by CEFIC), whereas in 2011 the company followed the CEFIC guidance (that is, including releases of non-hazardous substances, and with higher release thresholds). Applying the CEFIC guidance to the 2010 incidents would have resulted in 193 PSIs and a Frequency Index of 0.68. This is also the baseline for DSM's 2020 target of reducing the Frequency Index for PSIs by 75%.

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 in and imports into the European Union have to be registered under REACH. Registration includes providing information on the safety of the substances' intended use. DSM is on track with its registration process for the next deadline in REACH (2013). 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 started to prepare GPS Product Safety Summaries with a focus on high volume chemicals. The summaries have been and will continue to be published on DSM's website and the GPS portal of ICCA. In addition, the company actively participates 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 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 (a system for standardizing and harmonizing the classification and labeling of chemicals) and the EU Regulation on Classification and Labeling 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.

Profit in 2011

Financial results

Income statement

x € million, continuing operations	2011	2010
Net sales	9,048	8,176
Operating profit before depreciation and amortization (EBITDA)	**1,296**	**1,161**
Operating profit before exceptional items	**866**	**752**
Net finance costs	(82)	(93)
Share of the profit of associates	3	5
Income tax expense	(147)	(162)
Profit attributable to non-controlling interests	(46)	(18)
Net profit before exceptional items	**594**	**484**
Net profit from discontinued operations, excluding exceptional items	21	63
Net result from exceptional items	199	(40)
Total net profit attributable to equity holders of Koninklijke DSM N.V.	**814**	**507**
ROCE, continuing operations (in %)	14.0	14.6
EBITDA / net sales, continuing operations (in %)	14.3	14.2

Net sales

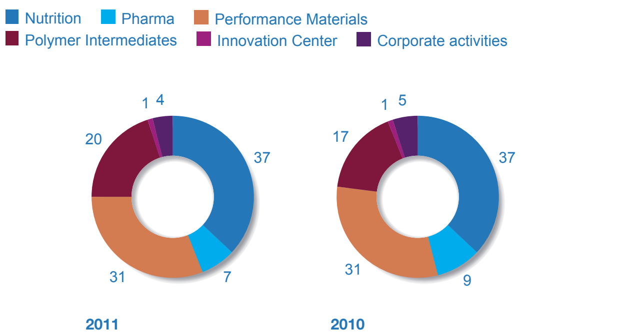
At € 9.0 billion, net sales from continuing operations in 2011 were 11% higher than in the previous year. Volume growth accounted for a 4% increase in net sales. Selling prices were on average 7% higher than in 2010. The positive effect of 1% relating to acquisitions and divestments was offset by the negative impact of exchange rates. The graphs on the following page show the development of sales by origin, by destination and by end-use market.

Operating costs

Total operating costs of continuing operations before exceptional items amounted to € 8.2 billion, € 0.8 billion higher than in 2010, when these costs stood at € 7.4 billion. Total operating costs in 2011 included cost of sales to an amount of € 6.5 billion (2010: € 6.0 billion); gross margin in % of net sales stood at 28% (2010: 27%).

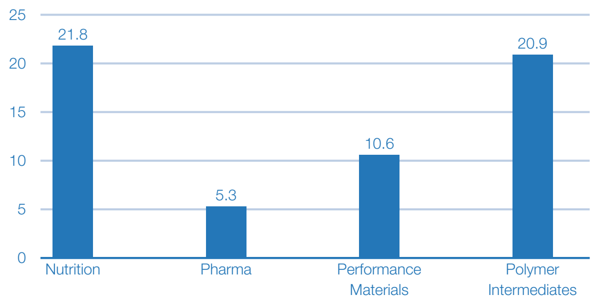
Net sales by business segment, continuing operations

(in %)



EBITDA / net sales, continuing operations in 2011

(in %)



Operating profit

The operating profit from continuing operations before exceptional items increased by € 114 million (15%), from € 752 million in 2010 to € 866 million in 2011. The EBITDA margin (operating profit before depreciation and amortization as a percentage of net sales) increased from 14.2% in 2010 to 14.3% in 2011.

Net profit

The net profit from continuing operations before exceptional items increased by € 110 million to € 594 million. Expressed per ordinary share, net earnings from continuing operations before exceptional items increased from € 2.89 in 2010 to € 3.53 in 2011.

Net finance costs (continuing operations), before exceptional items, stood at € 82 million in 2011, compared to € 93 million in 2010. The decrease was mainly a result of favorable hedge results and lower interest costs.

At 19%, the effective tax rate in 2011 was 5 percentage points lower than in 2010. The lower tax rate was a result of a different geographical spread of results and the application of preferential tax regimes, in countries where DSM is operating.

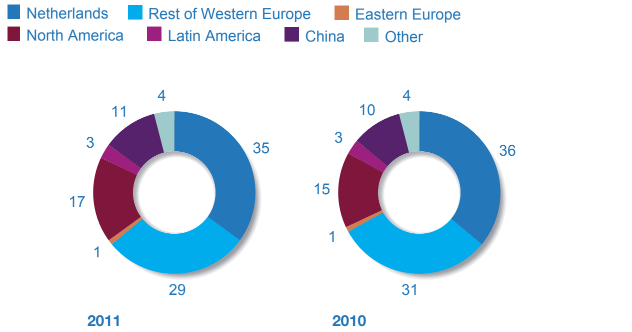
The net profit (total DSM) increased from € 507 million in 2010 to € 814 million in 2011, partly due to exceptional items and a lower tax rate. Net profit per ordinary share increased from € 3.03 in 2010 to € 4.86 in 2011.

Exceptional items

Full year exceptional items amounted to € 173 million (€ 199 million after tax), comprising the book profits on the sale of Danisco shares, the divestment of DSM Elastomers, the establishment of the DSM Sinochem Pharmaceuticals joint venture, as well as losses regarding the non-recurring value adjustments of inventories in relation to the Martek acquisition, restructuring actions at DSM Resins and costs for litigation settlements and claims.

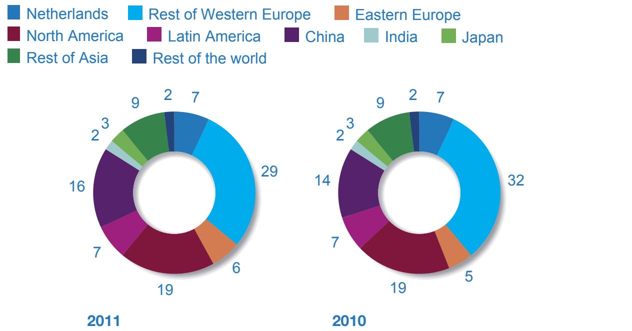
Net sales by origin, continuing operations

(in %)



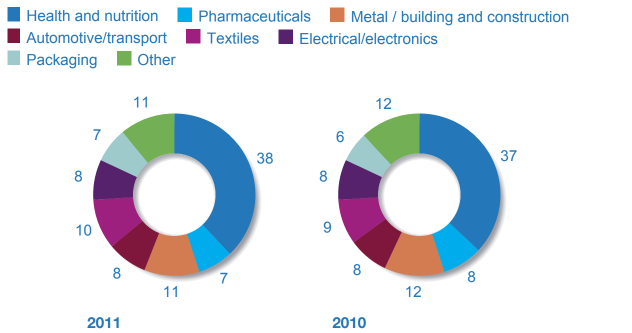
Net sales by destination, continuing operations

(in %)



Net sales by end-use market, continuing operations

(in %)



Cash flow

At € 882 million, cash provided by operating activities (total DSM) was 9.6% of net sales.

Cash flow statement

x € million	2011	2010
Cash, cash equivalents and current investments at 1 January	**2,290**	**1,347**
Current investments at 1 January	837	7
Cash and cash equivalents at 1 January	**1,453**	**1,340**
Operating activities:		
- Earnings before interest, tax, depreciation and amortization	1,430	1,226
- Changes in operating working capital	(260)	(19)
- Other changes	(288)	(104)
Cash flow provided by operating activities	882	1,103
Investing activities:		
- Capital expenditure	(477)	(416)
- Acquisitions	(929)	(61)
- Sale of subsidiaries	513	363
- Disposals	229	14
- Change in current investments	748	(832)
- Other	(77)	(32)
Cash from / used in investing activities	7	(964)
Dividend	(155)	(206)
Repurchase of shares	(357)	-
Proceeds from re-issued shares	111	95
Other cash from / used in financing activities	59	(50)
Cash used in financing activities	(342)	(161)
Effect of exchange differences	58	135
Cash and cash equivalents at 31 December	**2,058**	**1,453**
Current investments at 31 December	89	837
Cash, cash equivalents and current investments at 31 December	**2,147**	**2,290**

Balance sheet

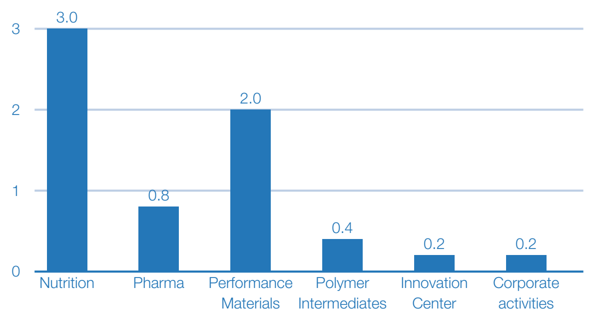
The balance sheet total (total assets) increased by € 0.7 billion in 2011 and amounted to € 11.2 billion at year-end (2010: € 10.5 billion). Equity increased by € 397 million compared to the position at the end of 2010. The increase was due to the profit for the year and proceeds from re-issued shares which were partly offset by the repurchase of shares. Equity as a percentage of total assets increased from 53% at the end of 2010 to 54% at the end of 2011. The current ratio before reclassification to held for sale (current assets divided by current liabilities) decreased from 2.42 in 2010 to 2.24 in 2011.

Compared to year-end 2010, Net debt increased by € 426 million. At year-end 2011 it stood at € 318 million. At the end of 2011, € 89 million (2010: € 837 million) had been invested in higher yielding term deposits (duration 3 to 6 months), which are shown in the cash flow statement as ‘current investments'.

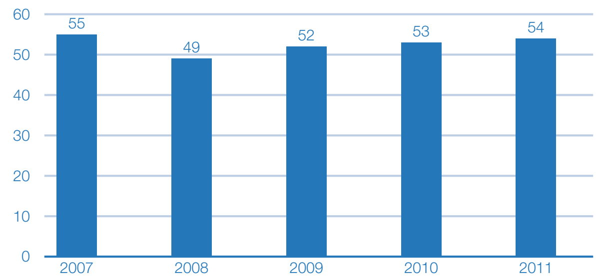
Capital expenditure on intangible assets and property, plant and equipment amounted to € 528 million in 2011 and was above the level of amortization and depreciation.

The operating working capital (continuing operations) was € 308 million higher than in 2010 and amounted to 20.2% of annualized net sales (2010: 17.9%). Cash and cash equivalents including current investments decreased by € 143 million and amounted to € 2,147 million.

Capital employed by business segment at 31 December 2011, continuing operations x € billion



Equity at 31 December
(as a % of balance sheet total)



Balance sheet profile[1]

in %	**2011**	2010
Intangible assets	16	10
Property, plant and equipment	31	31
Other non-current assets	4	7
Cash and cash equivalents	18	14
Other current assets	31	38
Total assets	**100**	**100**
Equity	54	53
Provisions	1	1
Other non-current liabilities	23	25
Other current liabilities	22	21
Total liabilities	**100**	**100**

[1] Before reclassification to held for sale

Dividend

DSM's dividend policy is to provide a stable and preferably rising dividend. DSM therefore proposes to increase the dividend by € 0.10 to € 1.45 per ordinary share. This will be proposed to the Annual General Meeting of Shareholders to be held on 11 May 2012. An interim dividend of € 0.45 per ordinary share having been paid in August 2011, the final dividend would then amount to € 1.00 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 15 May 2012.

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

DSM's outlook for the year is influenced by the uncertain and volatile economic conditions. At this moment DSM is experiencing a weak economic environment, especially in Europe, which is expected to improve in the second half of the year.

The high growth economies continue to grow fast, albeit at a slower pace than in previous years. Despite these uncertainties, DSM is confident that it will continue to benefit from its balanced, relatively resilient portfolio in health, nutrition and materials, its broad geographic spread with a significant presence in high growth economies and its strong balance sheet.

Nevertheless, in addition to the already announced restructuring initiatives at DSM Resins, DSM is putting in place further cost reduction programs and profit protection plans.

In Nutrition, the impact of the substantial strengthening of the Swiss franc in 2011 was mitigated by a €50 million currency hedge gain, which effect will not occur in 2012. Despite this, DSM anticipates that its Nutrition business will continue to make further progress in 2012. EBITDA is expected to be above 2011.

Trading conditions in the Pharma cluster are expected to remain challenging, although DSM anticipates that it will make further strategic progress. EBITDA is expected to improve slightly compared to last year, despite the impact of the 50% deconsolidation of the anti-infectives business.

Trading conditions in Materials Sciences continue to be volatile and the end market outlook is uncertain owing to weak consumer sentiment in some of DSM's key geographies. However, based on current insights EBITDA of the Performance Materials cluster is expected to be somewhat higher than in 2011.

For Polymer Intermediates another strong year is expected, at a level above the historical average, but EBITDA will be clearly lower than the exceptional result in 2011. In 2012 three planned turnarounds in caprolactam, one in Q1 2012 and two more in Q3 2012, will also impact the results.

Despite macro-economic uncertainties DSM is cautiously optimistic for the year 2012. DSM expects the second half of the year to be stronger than the first half, on its way to achieve the 2013 targets.

Innovation

Innovation is a key growth driver and the bridge between Bright Science and Brighter Living. Innovation is connected with Sustainability in many ways, 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.

In 2005 DSM announced an innovation boost as part of its *Vision 2010* strategy. This increased commitment to innovation has significantly paid off, as shown by the achievement of numerous milestones. 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 innovation launches since 2006.

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

Since 2005, DSM’s innovation efforts have significantly increased. Open innovation tools (such as venturing, licensing-in, marketing alliances and R&D collaborations) and small acquisitions in the chosen fields of New Business Development complement in-house activities.

DSM has expanded its already extensive innovation program by setting up an Excellence in Innovation program. This program further builds DSM’s organizational infrastructure and also expands on the work already done to improve the ‘soft' aspects of innovation (such as effective behavior, personal leadership skills and 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 Excellence in Marketing and Sales organization, 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.

In innovation, DSM’s ambition now is to go to the next level: from 'building the machine' to doubling innovation output in the period 2010-2015. This will be visible, among other things, through:

- an even higher speed of innovation through the further implementation of value-creating best practices;
- the implementation of a company-wide approach of moving from individual projects to innovation platforms;
- a new stretched innovation target whereby DSM aims to increase innovation sales — measured as sales from innovation products launched in the last five years — from approximately 12% toward 20% of total sales by 2015; and
- an ambitious growth perspective for sales from Emerging Business Areas of more than € 1 billion by 2020.

DSM will move from pursuing individual and sometimes unconnected projects to managing its innovation activities and portfolios at a platform level. This will allow the company to increase the cohesion between its various projects and/or business development activities and to give even more focus to its innovation efforts.

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

- Bio-based food and feed processing ingredients
- Food and feed ingredients with health/performance benefits
- Bio-based clean/green materials for coatings, automotive and electronics
- Materials for life protection and sports
- New business models, for example, the brand licensing strategy of DSM Dyneema
- EBAs: DSM Bio-based Products & Services, DSM Biomedical and DSM 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. A form of stage gating, which DSM has been using for many years to steer individual innovation projects, will now also be applied to steer platforms.

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 the innovation drive to include high growth economies will be an important element in DSM's innovation efforts in the coming years. In 2011 DSM established 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.

The opening of the DSM China Science and Technology Center in Shanghai marks a new stage in the development of DSM in China, where the company has been doing business for nearly 50 years. The Center in Shanghai will be DSM's main innovation base in China and will form a vital part of the company's global science and technology innovation network. The new Science and Technology Center integrates research and application technology activities in the areas of materials sciences, chemistry and biotechnology. Along with the DSM China Innovation Center, the new Center covers the full range of DSM's innovation capabilities in both science and technology, as well as advanced business development capabilities and the shaping of new ventures.

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

As an example, in 2011 DSM expanded an alliance with Diadem, an esteemed R&D institute in Moscow (Russia). Diadem will produce purified enzyme samples for food application tests and phage testing for DSM Food Specialties. In addition, the alliance gives DSM more access to academia in Russia.

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.

In 2011 DSM showed continued strong growth in innovation. Sales from innovation products increased from 16% to 18%. 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 2011.

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 toward 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	**2011**	2010
Nutrition	200	174
Pharma	67	62
Performance Materials	128	123
Polymer Intermediates	18	15
Innovation Center	42	31
Corporate activities	21	19
Total	**476**	**424**
Total R&D expenditure as % of net sales	5.3	5.2
Staff employed in R&D activities	2,520	2,281

Innovation and R&D in Life Sciences

In the Nutrition cluster, innovation is a key driver of differentiation, covering the entire product cycle.

DSM opened a state-of-the-art Nutrition Innovation Center in Parsippany (New Jersey, USA). This new center and the centers already operational in South America, Europe and Asia will enable DSM to serve the demands of regional customers in developing tailor-made products that address particular needs of specific local markets.

The European Food Safety Authority (EFSA) issued a positive opinion on DSM Nutritional Products' application pursuant to Article 14 of the Nutrition and Health Claim Regulation on the use of Vitamin D to reduce the risk of falling and fractures. On the basis of the data presented, EFSA concludes that a cause and effect relationship has been established between the intake of vitamin D and a reduction in the risk of falling.

DSM Nutritional Products' geniVida® (branded genistein) has been shown to reduce levels of prostate specific antigen (PSA) in men with early prostate cancer. A study to that effect was published in October 2011.

DSM and the University Medical Center Groningen (Netherlands) have signed an agreement and will cooperate in research projects on the role of micronutrients, in particular vitamins, in healthy human development and longevity.

DSM Nutritional Products introduced ß-carotene 10% Emulsion Red for improved performance in food and beverage applications. Offering manufacturers an allergen-free route to colorful beverages, the new easy-to-use liquid emulsion product is suitable for vegetarians and designed to appeal to a wide range of consumers.

According to a study published in June 2011 in the Journal of the American College of Nutrition, free lutein has a better bioavailability or absorption than lutein esters, enabling a higher utilization by the body. Lutein and zeaxanthin, both produced by DSM, are two dietary carotenoids which accumulate physiologically in a specific part of the retina, the macula lutea or 'yellow spot' referred to as the macular pigment (MP). Higher levels of MP are associated with a decreased risk of age-related macular degeneration (AMD) and improved visual function.

PowerBar has launched ISOMAX – a new high-performance isotonic beverage powder for endurance athletes that contains DSM's PeptoPro®. The new formula contains functional ingredients including a mix of five electrolytes, caffeine and C2MAX, a carbohydrate blend designed for maximum energy delivery. The inclusion of PeptoPro® facilitates efficient amino acid delivery during intense physical exercise, when the body's digestive capacity is heavily compromised. The new formula combines optimal functionality with great taste and ease of preparation.

DSM Nutritional Products launched REGU®-FADE, a high-performing and fast-acting skin brightener. The ingredient has proven its performance in human efficacy studies in which it produced visible effects in only two weeks.

DSM Food Specialties launched Maxavor® YE All Natural – a range of 100 per cent natural savory flavor ingredients. Globally certified as natural, it combines the functionality of thermal process flavors (which are no longer considered natural under new EC regulation) with a natural yeast extract label declaration. The range is the first of its kind to adapt to changing global flavor regulations relating to the term 'natural'.

DSM Food Specialties is expanding its food protection activities. At the end of 2011 it successfully concluded initial tests to provide a biologically based solution for pathogen control in mushrooms. It will now apply this expertise to the highly attractive crop protection market, where DSM can offer solutions to food companies' and customers' growing demand for reduced levels of pesticides and chemicals in the protection of foods.

In 2011 DSM concluded an Agreement of Research Cooperation with East China University of Science and Technology (ECUST). Under this agreement ECUST and DSM Food Specialties will work together on better ways to design and operate industrial fermentations, fulfilling economic as well as sustainability needs.

DSM Biologics introduced the new Kremer Method™ that further optimizes the downstream processing of proteins and monoclonal antibodies. It also reported a new record achievement with DSM's proprietary XD® process technology with a CHO cell line producing an Fc-fusion protein. In combination with DSM's Rhobust® downstream harvesting technology, DSM is growing a unique biomanufacturing portfolio.

Innovation and R&D in Materials Sciences

DSM Engineering Plastics' Arnitel® PB500-H has been approved for dirty and clean air ducts for the Fiat Minicargo and for the new Lancia Epsilon. Dirty air ducts convey the air before the air filter, whereas clean air ducts are situated in the engine between the air filter and the turbo-compressor.

DSM Dyneema is investing in a new world-class technical center in Singapore, which will house the nation's first independent ballistic testing center and whose technology will support all DSM Dyneema businesses. The center will be dedicated to serving DSM Dyneema's growing customer base in the Asia Pacific region. It is scheduled to be fully operational in the fourth quarter of 2012.

In August 2011 the US Patent and Trademark Office officially granted a patent protecting DSM Dyneema's tape technology. This is the first in a series of patent applications to be granted in this field. One of the products from this technology recently introduced into the market is BT10, marketed under the Dyneema® brand. This product, as well as future developments building on this patent, are expected to make a significant contribution to life protection, telecommunications and other applications worldwide.

In the offshore industry, ropes made with Dyneema® are being successfully used to secure rigs, mobile offshore drilling units, buoyant turret mooring systems and similar structures. In these applications, the extremely light weight of Dyneema® is instrumental in enabling exploration and production from deeper, more inaccessible sites where conventional mooring systems using steel wire rope or chains cannot be used or are prone to failure.

Several global customers in the personal protective equipment market have launched new ranges of gloves featuring the Dyneema Diamond Technology. These gloves combine comfort and dexterity with high levels of cut resistance. Too often, accidents happen because workers in hazardous occupations remove lesser-performing gloves either because they limit movement or become uncomfortable to wear due to heat or skin irritation. DSM has overcome this, which contributes to worker safety. Additionally, these new gloves are resistant to industrial laundry cycles, so they can be washed and re-used several times. This means they have a significantly lower environmental footprint than gloves that cannot be washed and re-used.

In 2011 DSM launched NeoCryl™ B-300, a patented inert solid acrylic resin that offers enhanced adhesion properties to plastic substrates to which adhesion is difficult to obtain. It can be used in energy curable printing inks, overprint varnishes and coatings.

Following its successful introduction of outdoor grades of Uralac® EasyCure™ (powder coating resins curing at low temperatures) in 2009, DSM launched the first Uralac® EasyCure™ product designed for indoor applications, Uralac® P 3170, in 2011. Offering good flow, non-blooming properties and good storage stability, the product heralds the next generation of low temperature curing resins for indoor applications.

DSM launched the composites industry's first full range of zero-styrene resins. These resins, which are suitable for a variety of market applications, possess excellent resistance to many chemicals, and their styrene emissions during use are close to zero. Some of the products, developed specifically for food contact applications, have the added benefit of being made in line with Good Manufacturing Practice (GMP) standards.

DSM introduced its latest composite resin – Atlac® 5200 FC - developed specifically for use in composite applications that involve contact with food and water. This new vinyl ester resin is fully compliant with the European regulations on food contact and made in line with commonly accepted GMP standards for the food industry.

DSM's eco-friendly line of UVolve® Instant Floor Coatings has received NSF registration for incidental food contact, making it an efficient and highly sustainable solution for food and beverage facilities where processing, handling, packaging and storage occurs, including restaurants, grocery stores and cold storage areas. NSF registration assures inspection officials and end users that the formulation and labels meet food safety regulations.

DSM announced the further optimization of its KhepriCoat™ solar anti-reflective coating system. 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%.

Innovation at the crossroads of Life Sciences and Materials Sciences

Combining DSM's strengths in Life Sciences and Materials Sciences has led to new innovative products. An example is Pack-Age™, a special cheese ripening solution. Pack-Age™ film is breathable to moisture but forms a barrier to gases spoiling the product. A life cycle analysis conducted in 2011 shows that Pack-Age™ reduces the carbon footprint of cheese production by 9%. If a cheese producer with an output of 30 kilotons per year were to use Pack-Age™ instead of traditional coating for its entire production volume, the CO_2 emissions avoided would be equivalent to 7,000 car trips around the world.

DSM and Svelte Medical Systems, Inc., a privately held company developing next generation endovascular therapies, announced they have entered into a license and supply agreement granting Svelte the right to use DSM's proprietary bio-erodible amino acid based drug carrier in the design of a non-thrombogenic, non-inflammatory drug-eluting stent.

New test results indicate DSM's VitroStealth® coating can be used in the design of biosensors, such as those for continuous glucose monitoring. VitroStealth® is a durable and non-fouling coating designed to prevent unwanted protein absorption and cellular adhesion on synthetic surfaces. Study data indicates that VitroStealth® does not inhibit the transport of glucose or oxygen through coated filters.

DSM started a successful collaboration with vascular catheter developer and manufacturer PendraCare resulting in the launch of PRIMUM guiding catheters.

DSM also entered into a licensing agreement with FH Group, an orthopedic device manufacturer and distributor. The agreement grants FH Group the use of Bionate® PCU, a proprietary DSM Biomedical polymer, in its LP-ESP® (lumbar) and CP-ESP (cervical) disc replacement products. DSM Biomedical's Bionate® PCU was chosen as the material for the disc replacement elastomer core based on its biocompatibility and elastomeric quality, enabling the implant to mimic the motion of the human disc.

Sustainable innovation

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.

Cradle to Cradle®

Modeled directly on nature's ability to renew itself cyclically without generating any waste, Cradle to Cradle® manufacturing systems are essentially waste free – they extract raw material, make use of it, and then place it back into the value chain as a raw material.

The Cradle to Cradle® philosophy fits perfectly with DSM's core business and sustainability drive. DSM is therefore an ideal partner for customers embarking on Cradle to Cradle® as a new way to find solutions for existing and emerging market needs.

A number of leading furniture manufacturers, including Giroflex and Herman Miller, are now adopting Cradle to Cradle® designs. DSM works with both these manufacturers; Giroflex has selected DSM's Akulon® polyamide 6 for its chair arms, seats, backs and bases, and Herman Miller uses Arnitel® in its Mirra office chair.

DSM's collaborations with Giroflex and Herman Miller are examples of how Cradle to Cradle® has become a focal point for entire value chains to work on sustainable products and processes. Achieved only through open and collaborative innovation, teamwork and long-term partnerships, Cradle to Cradle® is a great inspiration on the path toward sustainable systems that are good not only for the environment, but also for business.

Faster, more fuel efficient planes

DSM has worked with LH Aviation (supported by Magellan Industries) in Melun (France) to develop the LH-10 Ellipse, an exceptionally light two seater aircraft made of DSM's Aeronite® resin and carbon fiber. The Ellipse offers shorter production times, higher flight speeds and greater fuel efficiency than any similar plane. Flying at 370 kilometers per hour – 150 kilometers per hour faster than other planes in its class – it is able to cross the whole of France (1600 km) in one flight without refueling, consuming around 18 liters of fuel per hour. That is less than 5 liters per 100 kilometers, which is significantly less than the average car.

DSM's composite resin technology has helped make this happen. Besides offering high strength and light weight, Aeronite® can be manufactured very efficiently at room temperature, making manufacturing more energy efficient and helping LH Aviation build the Ellipse more quickly than any similar aircraft.

The rural school of the future, today

August 2011 saw the opening of India's first school made of composite materials from DSM. The school, situated in the village of Kusgaon, Pune, is a demonstration of DSM's commitment to using its bright science to create brighter lives today and for generations to come.

The school brings a number of innovations to Indian education. Made of composite materials, its lightweight and modular nature means it can be built within a week by four non-skilled workers without the need for any specialist equipment, saving time, money and impact on the local environment compared to traditional schools made from concrete. Its excellent mechanical properties and attractive design have also created a safe, strong, well-insulated and inspirational learning environment.

As the world's biggest producer of vitamins and micronutrients, DSM has also formulated a nutrition program that will help the students attain their full academic potential. It has been calculated by the Copenhagen Consensus think tank that achieving adequate micronutrient levels in a country's population can impact its GDP by as much as 2%.

For Santosh Gaikwad, headmaster of the school, the value DSM brings to Kusgaon was not limited to the physical structure of the classrooms: "We should not underestimate the role of this school in creating the right conditions for our students to thrive. With world-class facilities, equipment and nutrition, our model school is now ready to educate our country's next generation."

Working to combat vitamin D deficiency
Vitamin D deficiency is a serious health threat that has been linked to a variety of health problems such as osteoporosis (the softening of bones), cardiovascular disease, diabetes, asthma, hypertension and more.

Staggeringly, this problem affects the vast majority of people, even in the developed world. A recent National Intake Survey for Germany indicated that 91% of women and 82% of men do not attain their recommended daily intake. The problem is even more prevalent in lower income countries in Africa, Asia and Latin America.

Finding a solution to this problem is not as straightforward as it might seem. Making vitamin D supplements or fortifying foods is one thing, but figuring out how to get the right quantities of the vitamin into the body in a bioavailable form is a problem that has challenged nutritionists for decades. It is also becoming increasingly important to find sustainable ways of manufacturing vitamins.

DSM, the world's largest provider of vitamins, collaborated with an important stakeholder, the International Osteoporosis Foundation to create a global map of vitamin D status and worked with other leading research organizations to initiate studies on the bioavailability of vitamin D and its metabolites (such as vitamin D3).

Using this research and drawing on its Life Sciences expertise, DSM Nutritional Products is leading the development and provision of vitamin D3 for food, beverage, and dietary supplement manufacturers.

Quali®-D from DSM is a very pure vitamin D product. It helps meet health-conscious consumers' demands for safe and convenient products that address the problem of Vitamin D deficiency. Unlike other forms of Vitamin D, Quali®-D is sustainably derived from lanolin taken from the wool of healthy live sheep found in Australia and New Zealand.

Patents
DSM filed more than 300 patents in 2011, compared to about 240 in 2010. In addition to filing own patents, DSM strengthened its Intellectual Property position through in-licensing. 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 the in-licensing of patents that have been filed by other companies.

DSM Bright Science Awards
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 a Bright Science 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. The external awards presented in 2011 are listed below.

Emiel de Smit was awarded first prize in the DSM Science & Technology Awards (North) 2011 for his PhD research in the field of Fischer-Tropsch catalysis. Emiel de Smit, who received his doctorate from Utrecht University in the Netherlands, was selected by an international judging committee, chaired by the then DSM Chief Technology Officer Dr. Jos Put. Dr. De Smit has discovered new and important aspects of Fischer-Tropsch synthesis, a reaction that has been known since the 1920s, yet is still very poorly understood mechanistically. As oil prices rise and the need to reduce emissions increases, improvements in Fischer-Tropsch synthesis could form an important part of the solution for meeting the world's energy needs and chemical demands.

French researcher Armelle Corpet was awarded the first prize in the DSM Science & Technology Awards (South) 2011. An international judging committee, chaired by Dr. Manfred Eggersdorfer, Senior Vice President Nutritional Science & Nutrition and Health Advocacy at DSM Nutritional Products, selected Dr. Armelle Corpet, who obtained her doctorate from the University Pierre and Marie Curie in Paris, France, for her PhD research in the field of epigenetics. Dr. Corpet has tackled a key question in mammalian cell division and has investigated the role of human histone chaperones in the maintenance of genome integrity, which is important for long-term health. Besides the new insights it has generated, this research offers the promise of new diagnostic and prognostic biomarkers for assessing human health and chronic diseases.

Cole DeForest was awarded the DSM Polymer Technology Award 2011 for his PhD research in the field of responsive polymer hydrogels. A judging committee comprising experts from DSM and from the Polymer Chemistry Division of the American Chemical Society (ACS POLY) chose the winner from among four candidates selected as finalists. Cole DeForest has developed a synthetic methodology to synthesize novel hydrogel biomaterials whose biochemical and biophysical properties are independently tunable in both time and space and can be used to direct and probe fundamental cell function.

The DSM Nutrition Award 2011 for research on Animal Nutrition was granted to Dr. Yves Nys of INRA, the French National Institute for Agricultural Research, in recognition of his outstanding contributions to research in the field of poultry nutrition. In the course of a career spanning several decades, Dr. Nys has pushed the frontiers of poultry nutrition science to develop several novel approaches to enhancing the quality of poultry products, such as poultry meat and eggs, which are a major source of relatively cheap and nutritious animal derived proteins.

External recognition

In 2011 DSM and its business groups were awarded a variety of awards and other forms of recognition by customers, suppliers, the academic world, non-governmental organizations and trade organizations. A few illustrative examples are given below.

During the Global Conference for Social Change at the United Nations in New York, DSM's CEO Feike Sijbesma was awarded the Leaders of Change award in recognition of his visionary and inspirational leadership. According to the Foundation for Social Change, Mr. Sijbesma exemplifies how leadership, creativity and innovation can engage in initiatives that solve social problems.

In 2011 the Dow Jones Sustainability World Index ranked DSM No. 1 in the chemical industry sector. This is the third consecutive year that DSM has held this top position in worldwide sustainability and the sixth time in total since 2004. In 2007 and 2008, the two years when DSM was not ranked number one, it was still among the leaders in the sector.

DSM CEO Feike Sijbesma received the prestigious George Washington Carver Award for Innovation in Industrial Biotechnology in recognition of his outstanding contribution and vision to the development and innovation in industrial biotechnology.

DSM Pharmaceutical Products received the Profiles in Sustainability Award in the category of Product, Process and Green Innovations for its corporate commitment and ongoing innovations in pharmaceutical manufacturing for the sustainable and cost-effective production of active pharmaceutical ingredients and intermediates.

For its movie 'Bright Now', the story behind DSM's Bright Science. Brighter Living.™ brand, DSM won first prize at the annual Cannes Corporate Media & TV awards and at the European Digital Communication Awards.

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

Review of business in 2011

In 2011 DSM's activities were grouped into four clusters: Nutrition, Pharma, Performance Materials and Polymer Intermediates. In addition, DSM reports separately on the DSM Innovation Center and on Corporate activities.

Net sales, continuing operations

x € million	2011	2010
Nutrition	3,370	3,005
Pharma	677	739
Performance Materials	2,752	2,507
Polymer Intermediates	1,820	1,398
Innovation Center	60	50
Corporate activities	369	477
Total	**9,048**	**8,176**

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

x € million	2011	2010
Nutrition	735	684
Pharma	36	61
Performance Materials	293	283
Polymer Intermediates	380	223
Innovation Center	(57)	(49)
Corporate activities	(91)	(41)
Total	**1,296**	**1,161**

EBITDA / net sales, continuing operations

in %	2011	2010
Nutrition	21.8	22.8
Pharma	5.3	8.3
Performance Materials	10.6	11.3
Polymer Intermediates	20.9	16.0
Total	**14.3**	**14.2**

Operating profit (EBIT), continuing operations

x € million	2011	2010
Nutrition	577	551
Pharma	(8)	3
Performance Materials	162	163
Polymer Intermediates	339	186
Innovation Center	(69)	(64)
Corporate activities	(135)	(87)
Total	**866**	**752**

Capital employed at 31 December

x € million	2011	2010
Nutrition	3,019	2,035
Pharma	802	888
Performance Materials	2,016	1,774
Polymer Intermediates	397	354
Innovation Center	174	112
Corporate activities	173	101
Total continuing operations	**6,581**	**5,264**
Discontinued operations	-	204
Total DSM	**6,581**	**5,468**

Capital expenditure and acquisitions

x € million	2011	2010
Nutrition	950	153
Pharma	87	76
Performance Materials	258	118
Polymer Intermediates	81	46
Innovation Center	40	7
Corporate activities	84	51
Total continuing operations	**1,500**	**451**
Discontinued operations	2	25
Total DSM	**1,502**	**476**

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

	x € million		as % of net sales	
	2011	2010	**2011**	2010
Nutrition	200	174	5.9	5.8
Pharma	67	62	10.0	8.4
Performance Materials	128	123	4.7	4.9
Polymer Intermediates	18	15	1.0	1.0
Innovation Center	42	31	70.0	62.0
Corporate activities	21	19	5.7	4.0
Total	**476**	**424**	**5.3**	**5.2**

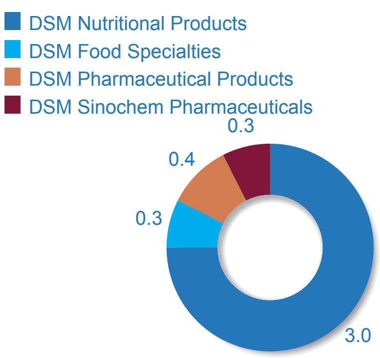
Workforce at 31 December

(headcount)	**2011**	2010
Nutrition	8,329	7,409
Pharma	3,324	4,079
Performance Materials	5,599	4,918
Polymer Intermediates	1,439	1,361
Innovation Center	383	309
Corporate activities	3,150	3,417
Total continuing operations	**22,224**	**21,493**
Discontinued operations	-	418
Total DSM	**22,224**	**21,911**

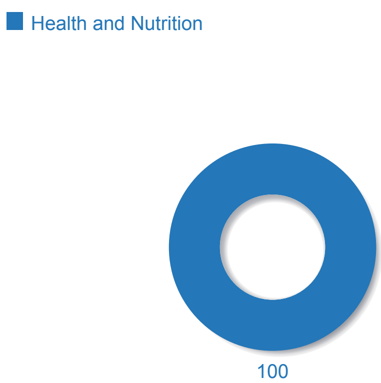
Life Sciences

DSM's Life Sciences activities are bundled into two clusters: Nutrition and Pharma. In 2011, these two clusters represented 45% of DSM's net sales from continuing operations.

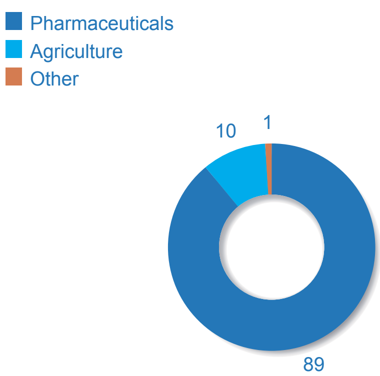
Life Sciences sales (2011)
(x € billion)



Nutrition sales by end-market (2011)
(in %)



Pharma sales by end-market (2011)
(in %)



Review of business in 2011: Nutrition

Continued value growth

Net sales

€ 3,370 m

x € million	2011	2010
Net sales:		
DSM Nutritional Products:		
- Animal Nutrition and Health	1,625	1,540
- Human Nutrition and Health	937	923
- Personal Care	168	158
- Martek	284	n.a.
	3,014	2,621
DSM Food Specialties	356	384
Total	**3,370**	**3,005**
Operating profit	577	551
Operating profit plus depreciation and amortization (EBITDA)	735	684
Capital expenditure and acquisitions	950	153
Capital employed at 31 December	3,019	2,035
ROCE (in %)	20.6	28.3
EBITDA as % of net sales	21.8	22.8
R&D expenditure	200	174
Workforce at 31 December (headcount)	8,329	7,409

Business and trends

The Nutrition cluster concentrates on the food and beverage, infant nutrition, dietary supplements, animal nutrition 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:

- consumer demands for convenient and indulgent products
- deepening concern about the health and wellness of rapidly aging populations
- emerging demand patterns in high growth economies
- sustainability and food safety concerns
- consumers' growing desire for natural ingredients ('clean label spirit')

Sustainability and food safety concerns are leading regulators to apply stricter standards to the oversight of product content, claims, processing methods and emissions. This is a development that will impact producers such as DSM.

The 'clean label spirit' in more mature markets, where consumers are asking for fewer E-numbers and 'no artificial flavors or preservatives', is a trend that DSM expects to widen over the coming years. DSM will address it pro-actively, although it will not represent a major part of demand for some time.

Against the background of the above-mentioned trends, DSM expects that the fastest future growth will come from high growth economies, and that the established economies remain vital not only as the largest markets but also as the central drivers of product innovation (especially the US and Western Europe).

What is clear is that future growth in this industry will be partly driven by innovation. The total ingredients sector is growing faster than global GDP. There is also 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 toward more quality, reliability, traceability and sustainability, enabling premium suppliers 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 and beverage, animal nutrition, personal care and pharmaceutical industries. Their activities are based on in-depth knowledge of customer/market needs. With customized formulation activities in more than 44 locations and a marketing and sales presence reaching over 60 countries, customer intimacy is a key success factor.

The Nutrition businesses' 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 has the world's broadest ingredients portfolio and holds leading positions in many large ingredient markets for animal and human nutrition and health as well as personal care. The company also has a highly developed 'local for local' infrastructure around the world. The resulting depth and breadth within and across sizeable markets are the key to resilience in the marketplace.

The total food and beverage, dietary supplements, animal nutrition and personal care ingredients market is estimated to be € 61 billion. DSM has particularly strong positions in vitamins, nutritional lipids, enzymes, carotenoids, UV filters and innovative skin care products, 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 growth drivers in the areas of human and animal nutrition and health. Increasing emphasis on expanding DSM's strong position in personal care ingredients offers considerable opportunity for accelerated growth, most notably because the personal care industry is driven by consumers' desire for innovations.

Strategic context

DSM Nutritional Products is organized around three market-facing entities: Animal Nutrition & Health (ANH), Human Nutrition & Health (HNH) and Personal Care (PC). ANH realized € 1,625 million in sales in 2011, HNH € 937 million and PC € 168 million. The growth rates were 6% for ANH, 2% for HNH and 6% for PC.

HNH largely addresses the nutritional ingredients part of the food and beverage market and the dietary supplements market. ANH addresses the nutritional additives segment of the animal nutrition market. PC focuses on 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, nutritional lipids and carotenoids in the most suitable forms for a broad range of human and animal applications.

In 2011, DSM completed the acquisition of Martek Biosciences, making DSM the world's leading innovator and supplier of algal DHA omega-3 and ARA omega-6 products. After the integration of Martek, DNP introduced Category Management focusing on four categories: nutritional lipids (including Martek), carotenoids, fat soluble vitamins (A, D, E and K) and water soluble vitamins (B and C) and strategically sourced products.

DSM Nutritional Products is 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, taste ingredients and other specialties for the food and beverage industries. In 2011 the business group realized sales of € 356 million, 10% higher than in 2010, after adjusting for the now captive sales of ARA to DNP (previously to Martek). 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 cost of the final product (hence a small percentage of the purchase value for food manufacturers), while 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 has established leadership positions across all three areas of the ingredients business: food, animal nutrition 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 animal nutrition enzymes through continued close collaboration with Novozymes.

In personal care, DSM focuses on sun, hair and skin care, UV filters and skin actives. The nourishment and health of the skin are key to overall health. The company uses its deep resins knowledge in Materials Sciences to create innovative new hair care products.

DSM is a front-runner in terms of product quality and innovation, regulatory and technical expertise and customer and consumer understanding. It is also 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.

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
- Highly motivated and skilled workforce
- Premix plants global footprint
- 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

Respecting the future

DSM is committed to continuously improving the sustainability of both its own operations and the value chains in which it operates. The company's strategy is to provide customers with solutions that enable them to improve their eco-footprint.

DSM Food Specialties is the first DSM business group to have drawn up standardized reports, called Environmental Product Declarations, in which it shares the environmental consequences of its products with its customers. The first Environmental Product Declarations concern products (enzymes) that have an eco-footprint of their own, but reduce the customer's footprint a great deal more. Examples are Brewers Clarex™, which prevents chill haze formation in beer, and Panamore®, an emulsifier used in bread baking. If all the beer produced worldwide in one year were stabilized with Brewers Clarex™, the greenhouse-gas emissions avoided (compared to the use of classical powdered beer stabilizers) would be equivalent to the annual carbon footprint of 100,000 Western European people. And if Panamore® were used by every bakery around the world, the CO_2 emissions avoided would be equivalent to the annual carbon footprint of 15,000 people.

The purpose of Environmental Product Declarations is threefold: they give DSM and its customers insight into the eco-footprint of their production activities, they help reduce the overall footprint and they have a commercial appeal.

The cluster in 2011

The Nutrition cluster made steady progress in 2011, with continued strong business fundamentals. A series of strategic actions over the past few years have resulted in steady sales growth and, more importantly, a step change in profitability. These actions specifically addressed structural changes to the competitive landscape and a favorable shift in market dynamics, while also deepening the company's offering in terms of quality and customer service. A continued strong focus on operational excellence has underpinned cost control.

The Nutrition cluster has proven its resilience by sustaining EBITDA levels even through the recession in 2008-2009. A focus on value over volume in all areas of the business has boosted DSM's understanding of where it can add value to customers' business. This focus also drives DSM's differentiation strategy, ensuring it concentrates on profitable approaches, including activities that take it further down the value chain.

DSM Nutritional Products is a full value chain player and has a broad portfolio of micronutrients, with product offerings fully anchored in nutritional science, and production and delivery executed in a tight framework of quality management. The company aims to expand the range and scope of available active ingredients, and to increase the geographical reach of its products. Major progress has been made in these fields through the acquisition of Martek Biosciences and of two companies in the field of natural carotenoids: Microbia (Massachusetts, USA) in 2010 and Vitatene (Spain) in 2011.

Martek has a strong position in PUFAs (polyunsatured fatty acids) for infant nutrition and an emerging position in food and beverage applications, especially in the US. Its acquisition of Amerifit, a growing business supplying branded dietary supplements with very specific health benefits, provided an innovative marketing channel for Martek ingredients and is now providing a similar channel for selected DSM ingredients.

DSM will use its global market reach, technology base and application capabilities to further accelerate the growth of Martek's product portfolio outside of the US as well as in applications and market segments such as animal nutrition, food, beverage and dietary supplement applications worldwide. The acquisition of Martek will drive continued, rapid and profitable growth for DSM's Nutrition business.

Furthermore, Martek's algal and other microbial-based biotechnology platform and its robust biotechnology pipeline, which complements the rest of DSM's portfolio, are expected to deliver new growth opportunities in Life Sciences and Materials Sciences. The acquisition was fully integrated in the course of 2011.

The Martek acquisition was included in the results of DSM Nutritional Products as of 25 February 2011 and added € 284 million to sales and € 88 million to EBITDA.

DSM's Human Nutrition & Health (HNH) business is focused on understanding the intricate relationship between nutrition and human health. At its heart is nutritional science supported by clinical studies aimed at improved micronutrient supply, based around the well-known vitamins, nutritional lipids and carotenoids as well as an array of new nutritional ingredients.

Ongoing expansion of the network of Animal Nutrition & Health (ANH) premix plants into new markets (China, India, South Korea, Romania, Russia, Ecuador and Colombia) has given DSM a closer connection to new customers and access to additional geographies and segments. In addition, the franchise operation in China, which was set up to give DSM direct access to smaller companies and farmers, was further strengthened.

In 2011 DSM acquired the premix unit of Fatrom, the leading feed premix manufacturer in Romania, following the acquisition of the feed premix unit of Bayer in South Korea in 2010. Newly built premix plants were opened in India, China, Russia, Ecuador and Colombia in 2011.

DSM Food Specialties continued its growth path in 2011 with further, stronger growth in food enzymes, cultures and savory ingredients. The business group has set itself an aggressive growth strategy for 2015: it aims to be the fastest growing force in enzymes, cultures, savory taste and other bio-ingredients by competing aggressively at the highest level, building business in high growth economies, and helping customers to succeed through innovation. In 2011 it reaped the first fruits of this strategy with growth percentages of more than 10% in each of its segments.

The focus on bio-ingredients – specialty products based on fermentation processes, such as yeast extracts, cultures and enzymes – continues in the BRIC countries as well as in more traditional markets such as Europe and North America. DSM has the requisite expertise in enzyme and fermentation technology to take a leadership position in this market. The growth in food enzymes is expected to continue, as enzymes bring cost savings and sustainable production closer to the food manufacturer by accelerating certain reactions during production, reducing raw material usage, and reducing waste, emissions and energy need.

The market for cultures and probiotics is expected to continue to grow as a result of the trend toward health and the growing consumption of fermented milk products, while savory ingredients meet the market demand for natural ingredients and sodium reduction. Under the new flavor legislation that came into force in January 2011, all process flavors are by definition no longer natural.

DSM Food Specialties succeeded in strengthening its position in the various regions in 2011 by developing and producing products tailored specifically to local markets, and also through regional co-operation, regional application labs and acquisitions and partnerships.

In 2011 DSM Food Specialties finalized a joint venture agreement with Jiangsu JieCheng Bio-Engineering Co., Ltd. for the enzyme activities of Yixing DiCheng Biotechnology Co., Ltd., creating a new company, DSM (Jiangsu) Biotechnology Co., Ltd. Through this venture DSM is further reinforcing its global position in food enzymes. The global market for enzymes amounts to € 2 billion and is growing by 6-8% per year. The Chinese market for food enzymes is one of the world's largest and is experiencing growth rates well above the global average. DSM holds 85% of the shares of DSM (Jiangsu) Biotechnology Co., Ltd.

This joint venture is DFS' next step in strengthening its position in China. In 2010 it had started a joint venture with Zhejiang Zhongken Biotechnology Co., Ltd. This new joint venture focuses on the production and marketing of gellan gum, a valuable addition to DSM Food Specialties' product portfolio and a close fit with its biotechnology expertise and process capabilities.

The Nutrition cluster's performance in 2011 was above that of 2010, including the Martek acquisition. Organic sales growth was 4% due to higher volumes across all businesses and stable pricing. The cluster remained focused on its value over volume strategy. Since DSM Nutritional Products is headquartered in Switzerland, the cluster was impacted by the strong valuation of the Swiss franc, which affected EBITDA performance. Excluding the currency exchange impact, the business would have delivered another record year.

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 customers' and consumers' desire for peace of mind.

Looking ahead

The key elements of the growth strategy for the Nutrition cluster are:

- *Innovation*
  This comprises market driven product, process and system innovation, continued improvements via incremental application-driven innovations and open innovation with key customers and other partners.
- *High Growth Economies*
  This is about securing growth in the high growth economies by developing and producing products tailored specifically to these markets as well as through regional partnerships and acquisitions.
- *Continued strengthening of the core of the business*
  This involves continuous development/improvement in operations and in the supply chain, continuous development of delivery systems and forms technologies, expansion of the premix network and services, strengthening of nutritional science and advocacy, and continuous development and improvement in quality management. In short: building and strengthening capabilities to ensure the cluster delivers more value, more efficiently.
- *Increased leveraging of the cluster's unique full value chain position*
  This will be done by broadening the portfolio of ingredients.
- *Establishment of new growth platforms in adjacent areas*
  The aim of this element is to expand the breadth of the cluster's operations. Within the existing business, personal care is a good example of a new growth platform. Acquisitions are seen as the vehicle to deliver other new growth platforms.

The Nutrition cluster has delivered a CAGR (Compound Annual Growth Rate) of 6% over the last five years with net sales reaching € 3.4 billion in 2011. Overall, DSM continues to see strong market conditions in animal nutrition, as high grain and commodity prices increase the importance of feed efficiency. The human nutrition market includes segments with varying growth potential. For 2015 the Nutrition cluster maintains the financial targets set in 2010: to grow by 2% above global GDP growth and to operate at an EBITDA margin of at least 20% with an overall aspiration of 23%.

The impact of the substantial strengthening of the Swiss franc in 2011 was mitigated by a € 50 million currency hedge gain, which effect will not occur in 2012. Despite this, DSM anticipates that its Nutrition business will continue to make further progress in 2012. EBITDA is expected to be above 2011.

DSM brings '1000 Days' concept to China

Nutrition levels before birth and up to the age of two have a major impact on a child's future mental and physical health. If a child does not receive the right mix of micronutrients (vitamins and minerals) during these '1000 days', it will be stunted for life.

Micronutrient deficiencies in children are very common in poor rural areas in China. This 'hidden hunger' results in anemia and slow growth and development. In 2010, the percentage of anemia in children in these areas was found to be an alarming 40-50%, the overall prevalence of anemia in China being 24-28%.

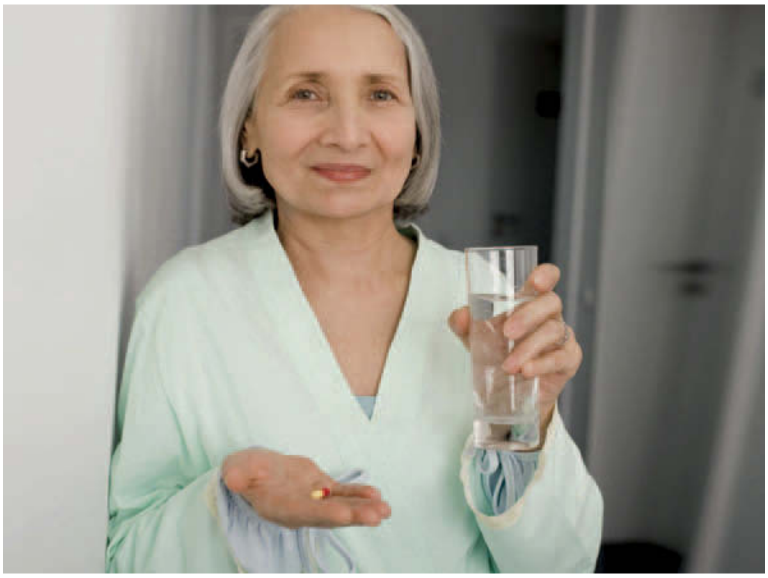
Until recently, governments and NGOs in China did not actively address hidden hunger in children, their focus being on general education and on combating serious diseases. But in 2008 the Chinese government created a new standard for infant food and approved DSM's Yingyangbao, as it is called in Chinese, which means 'A Bag full of Nutrients'- for babies of 6-36 months. DSM, along with other parties, had for many years been actively promoting the importance of micronutrients for the proper development of babies.

Yingyangbao is very suitable for children of 6-36 months, because it is a nutritious meal in itself when dissolved in for instance soy milk, and it offers an affordable alternative to poor people or low income parents compared to infant food available in the market.

In 2009 the China Development Research Foundation used DSM's Yingyangbao fortified soybean powder in a child nutrition intervention program in Qinghai, one of the poorest provinces of China. After one year the number of stunted and anemic children was found to have been drastically reduced. Motivated by these positive results, the China Children and Teenagers Foundation (CCTF) launched a program in May 2011 to provide Yingyangbao to children of between 6 and 36 months in the whole of China. DSM (the main supplier of Yingyangbao) was chosen as the nutrition partner in this program. DSM will also support CCTF in expanding the program to include children up to the age of 6 and eventually all target population groups in China.

DSM's Nutrition Improvement Program (NIP) has been actively working with all parties to focus attention on children's micronutrient deficiencies and to develop policies and product standards. A global team of NIP experts supports local organizations by sharing experiences and know-how and solving issues that arise in the field.

Review of business in 2011: Pharma



Leveraging partnerships for growth

Net sales

€ 677 m

x € million	2011	2010
Net sales:		
DSM Pharmaceutical Products	409	392
DSM Sinochem Pharmaceuticals[1]	268	347
Total	**677**	**739**
Operating profit	(8)	3
Operating profit plus depreciation and amortization (EBITDA)	36	61
Capital expenditure and acquisitions	87	76
Capital employed at 31 December	802	888
ROCE (in %)	(1.0)	0.4
EBITDA as % of net sales	5.3	8.3
R&D expenditure	67	62
Workforce at 31 December (headcount)	3,324	4,079

[1] DSM Sinochem Pharmaceuticals, in which DSM has a 50% interest, has been proportionally consolidated from 1 September 2011

Business and trends

The Pharma cluster includes the business group DSM Pharmaceutical Products (DPP), one of the world's leading custom manufacturing suppliers to the pharmaceutical industry. Many of today's medicines around the world contain ingredients produced by DPP. The cluster also includes DSM's 50% interest in the DSM Sinochem Pharmaceuticals joint venture (DSP). DSP was formed from the former DSM business group DSM Anti-Infectives (DAI). DSP is one of the few producers and marketers of beta-lactam active pharmaceutical ingredients with a global presence, using cutting-edge low eco-footprint manufacturing technology.

The pharmaceutical market is facing a range of trends and dynamics that are putting existing business models into question and are leading to some fundamental changes in the industry, but which are also providing a number of future growth opportunities for DSM's Pharma activities.

For DPP's customers, innovative pharmaceutical companies, it is becoming more difficult to discover new active molecules which have sufficient additional patient benefits and an acceptable risk profile and which can get approved by the US Food and Drug Administration (FDA) and other regulatory bodies. The cost of developing such molecules is rising, while at the same time health service providers – governments or insurance companies – are under enormous pressure to reduce cost. Medicines are becoming an increasingly important element of total healthcare costs, typically accounting for around 10% of total healthcare spend. As a consequence, both governments and insurance companies are looking to save costs, putting pressure on the total healthcare value chain, including custom manufacturing companies.

Pharmaceutical companies are consolidating, reviewing their business models and product ranges, and competing to develop increasingly 'niche', narrow spectrum and specialized drugs, which are often difficult-to-administer drugs and biopharmaceuticals used only in hospitals. Although these can be high value, volumes are lower.

However, the intensity of cost pressure and the need to review business models across the pharmaceutical industry is likely to result in above-GDP growth in the pharmaceutical outsourcing market, especially for drugs nearing the end of their (patented) life cycle. The imperative for pharma companies to optimize their asset base is expected to lead to a greater focus on finding experienced and highly qualified partners to take on manufacturing challenges as a supplier. DPP, with its broad service offering including regulatory services, is well equipped to meet these market demands.

In most countries increased attention is being paid to the overall consumption of antibiotics. Infectious diseases continue however to be a major life threat, especially in high growth economies, and the beta-lactam anti-infectives – DSP's area of leadership – continue to be most physicians' first choice of cure. As healthcare coverage and quality expands in these economies and these products are very safe and cost-effective, DSP sees healthy growth rates – around 5-7% per year – coupled with an increasing focus on patient safety. DSP is seen as an industry leader with clear market advantages, communicated via the DSMPureActives™ brand.

DSM's Pharma presence in Asia gives the joint venture a clear head start in the world's fastest growing markets for the manufacture of generic pharmaceuticals in general, and anti-infectives in particular. The Asian market currently represents only about 6-7% of total global pharmaceutical spend, but this is estimated to rise to 20% by 2020 (Source: Credit Suisse/IMS). DSM is well positioned to take advantage of this, 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 (DPP) is a leading provider of high-quality custom manufacturing and development services to the pharmaceutical, biopharmaceutical and crop protection industries. Customers around the world are serviced from two research and development sites and six manufacturing sites with a range of clinical to commercial capacity in the US and Europe. Among these customers are nine of the top ten pharmaceutical companies a well as the top three crop protection companies. In addition, DPP serves a large number of biotech, specialty and emerging pharma companies across the globe. In 2011 DPP's sales amounted to € 409 million (up 4% from 2010) with high growth in biopharma revenues.

The business group focuses on the innovative and generic pharmaceuticals, biologics and biosimilars, pharma/agro chemical, and bio-industrial markets. DSM Pharmaceutical Products includes DSM Pharma Chemicals (DPC) (custom chemical manufacturing services for complex registered intermediates and active pharmaceutical ingredients (APIs) as well as their own registered products), and DSM Exclusive Synthesis (which caters to various fine-chemical customers outside of the pharma industry); DSM Biologics (focusing on services for biopharmaceutical companies based on unique technological strengths and technology licensing); DSM Pharmaceuticals, Inc. (DPI) (offering manufacturing services for final dosage with a strong competence in sterile operations); and DSM BioSolutions (focusing on custom manufacturing services based on microbial fermentation).

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

DSP is the global market leader in beta-lactam active pharmaceutical ingredients (APIs) such as semi-synthetic penicillins and semi-synthetic cephalosporins, which represent the biggest class of APIs in anti-infectives, and other active ingredients such as nystatin. The joint venture manufactures nearly all its beta-lactam APIs and the related intermediates using proprietary biotechnology. This reduces energy use and minimizes the need for solvents, making DSP an industry leader in terms of both cost and sustainability. Emissions are considerably lower than with conventional technology, while product quality is higher. The opening of the new 6-APA plant in China in the beginning of 2012 will mark the completion of this technology roll-out across all of DSP's production facilities around the world.

One of the quality advantages of the APIs produced via these proprietary biotechnology routes is that patients benefit from the higher purity of the products. To further enhance its eco-footprint, DSP is cutting down on the use of scarce resources where possible and is actively implementing the use of renewable energy sources in its operations.

DSP saw its sales decrease from € 347 million in 2010 to € 268 million in 2011. DSM proportionally consolidates its share in the joint venture of 50% with effect from 1 September 2011. Reported net sales decreased by € 63 million as a result of the deconsolidation.

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
- Expansion of proprietary product portfolio

Key success factors

- Strong pipeline of service contracts based on large strategic customer partnerships

- Continued demonstration of sustainable and innovative solutions for customers
- Increased presence in Asia and high growth economies
- Commitment to DSM Quality for Life™ standards

DSM Sinochem Pharmaceuticals

Key drivers of profitability

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

Key success factors

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

The cluster in 2011

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

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

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

In 2011 DPP adopted the Quality for Life™ seal. This seal, which stands for quality, reliability, traceability and sustainability, emphasizes DSM's commitment to the highest and most comprehensive standards, delivering on customers' and consumers' desire for peace of mind.

All of these strengths mark DSM out as a leading player in the outsourcing market who is 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.

DSM is committed to continuous innovation to provide ever more efficient and sustainable alternatives for the manufacturing of pharmaceuticals. The company's sustainability drive includes both small and large molecule production. Route scouting is part of DSM's 'green chemistry toolbox', which also integrates process intensification activities, such as micro-reactor technology, that increase yield and reduce waste for small molecules. Similar concepts are applied in biotechnological manufacturing with DSM's XD® and Rhobust™ technologies, which minimize production volumes and process steps, resulting in higher plant utilization and less labor.

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

The anti-infectives joint venture with Sinochem was finalized in 2011. As part of the joint venture agreement, Sinochem Group took 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 includes all of the 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.

DSP, the global leader in beta-lactam antibiotics, is successfully applying its highly innovative biotechnology knowledge to improve and transform its business.

Both companies are convinced that together they will be better able to seize 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.

Organic sales growth of the Pharma cluster in 2011 was 3% due to higher volumes at DSM Pharmaceutical Products and slightly lower volumes at DSP. Overall sales decreased by 8%, mainly as a consequence of the proportional consolidation of DSP.

The cluster's profitability was reduced by tougher market conditions in 2011 in the anti-infectives markets and the proportional consolidation of DSP.

Looking ahead

DSM's strategy for both DPC and DPI is to focus on midsize to large pharmaceutical companies, where they will move from a pure service model to a product and service model and increasingly offer solutions for the full supply chain, including regulatory services. For DPC and DPI DSM is looking to further increase efficiency and to balance the activities toward the east to be more active in end-of-lifecycle products. DPP wants to accelerate its growth and transformation via a partnership.

DSM Biologics continues to develop its technology and will open the first commercial scale biopharmaceutical manufacturing site in Australia in 2013, funded by the Australian government.

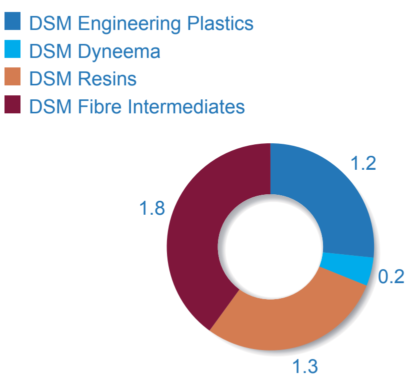
DSM expects the DSP joint venture to increase its sales to over €600 million by 2015, generating EBITDA margins in excess of 15%.

For 2012, trading conditions in the Pharma cluster are expected to remain challenging, although DSM anticipates that it will make further strategic progress. EBITDA is expected to improve slightly compared to last year, despite the impact of the 50% deconsolidation of the anti-infectives business.

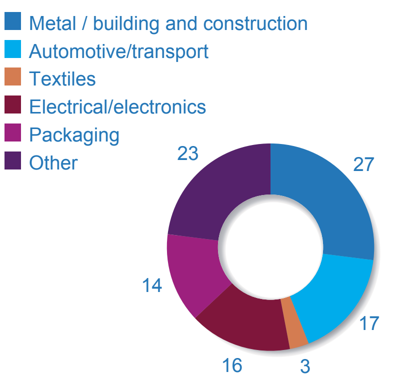
Materials Sciences

DSM's Materials Sciences businesses comprise the Performance Materials and Polymer Intermediates clusters. In 2011 the two clusters represented 51% of DSM's total net sales from continuing operations.

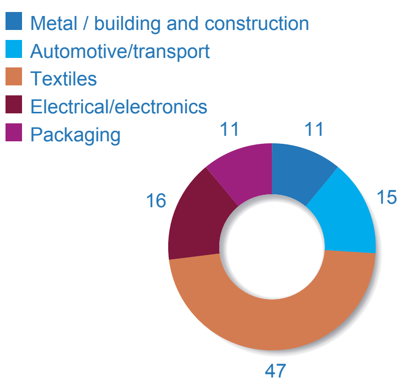
Materials Sciences sales (2011)
(x € billion)



Performance Materials sales by end-market (2011)
(in %)



Polymer Intermediates sales by end-market (2011)
(in %)




I want a
brighter world.
At DSM we believe Bright Science can take us there.
HEALTH · NUTRITION · MATERIALS
DSM
BRIGHT SCIENCE. BRIGHTER LIVING.

Review of business in 2011: Performance Materials

Growing via sustainable, innovative solutions

Net sales

€ 2,752 m

x € million	2011	2010
Net sales:		
DSM Engineering Plastics	1,249	1,045
DSM Dyneema	234	288
DSM Resins	1,269	1,174
Total	**2,752**	**2,507**
Operating profit	162	163
Operating profit plus depreciation and amortization (EBITDA)	293	283
Capital expenditure and acquisitions	258	118
Capital employed at 31 December	2,016	1,774
ROCE (in %)	8.6	9.5
EBITDA as % of net sales	10.6	11.3
R&D expenditure	128	123
Workforce at 31 December (headcount)	5,599	4,918

Business and trends

The Performance Materials cluster comprises 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, 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 enabling energy savings in the application of these products, for example by developing resins systems that require less energy for curing. 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.

An important field of application of performance materials is workplace health and safety. Demand in this area is increasing because workplace health and safety standards are becoming more common across the world as prosperity grows. Another field of application is health and wellness. Here, the main focus is on 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. And finally, concerns about personal safety and global threats have not diminished, which means there is a continuing demand for innovative protective materials.

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 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.

On the safety and sustainability front, the replacement of halogen-based flame retardants in consumer electronics and the replacement of solvent-based resins by water-based resins continues.

DSM's Performance Materials cluster has expanded in the last two decades from just over €0.5 billion in sales in 1990 to €2.8 billion in 2011. With major investments in high growth economies such as China and India, the Performance Materials cluster is making a significant contribution to DSM's growth in Asia.

With the great majority of its 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, DSM's portfolio in Performance Materials has clearly evolved toward 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 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 and has achieved global leadership positions with many of its products. It is the global number 3 in the overall market for semi-crystalline engineering plastics and the global market leader in high-temperature polyamides. In polyamide 6 and thermoplastic copolyester elastomers DSM holds a number 2 position.

An important factor underlying DSM Engineering Plastics' leadership and growth is its strong upstream integration with a leading caprolactam player, DSM Fibre Intermediates.

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, as well as vehicle and personal ballistic protection. DSM Dyneema focuses on sustainable innovation. Dyneema® is increasingly seen as the up-grade material of choice enabling the replacement of traditional materials that have a less desirable environmental footprint.

DSM Resins ranks among the global leaders in the markets for resin systems for industrial coatings and decorative coatings. 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 Asia. 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.

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), driving innovation
- 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 and trademarks)
- Brand value (trust and innovation)

DSM Resins

Key drivers of profitability
- Market growth in key segments and regions
- Sustainable solutions: 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 toward markets

Nuna6

The World Solar Challenge – which in 2011 saw 37 solar powered cars from around the globe racing 3,000 kilometers under the Australian sun – requires a combination of speed, endurance and strength. To do well in the race, teams have to reduce the energy consumption of their vehicles by making them as aerodynamic and lightweight as possible, while ensuring that they are strong and reliable enough to survive a race across the outback.

DSM is an innovation partner of the Nuon Solar Team. For the 2011 World Solar Challenge, DSM's Turane resins helped to make Nuna6, the team's car, 10% lighter than its predecessor while also increasing its rigidity by 25%. Nuna6 crossed the finishing line in only 5 days, behind the winning team from Japan, leaving a further 35 solar powered cars from around the world in its wake.

The cluster in 2011

DSM Engineering Plastics offers an industry-leading portfolio of sustainable thermoplastic technologies. Its leadership in sustainable solutions is demonstrated by its complete portfolio of halogen free flame retardant solutions, developed for a wide range of high-performance applications. This has been further strengthened by the successful launch of new innovations.

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 making good progress in this area: 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% biorenewable 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. In 2011 DSM received Silver certificates for a number of its materials, meaning these grades can be recycled safely in a closed loop Cradle to Cradle® business model. DSM Engineering Plastics is also actively replacing other materials, particularly by introducing halogen free flame retardant solutions, 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).

In Russia, DSM and KuibyshevAzot OJSC (KA) commenced their strategic cooperation. DSM Engineering Plastics now has two joint ventures with KA and holds a majority share in both. In addition, KA has received a license under DSM Fibre Intermediates' technology for the production of cyclohexanone.

The two joint ventures of DSM Engineering Plastics and KA relate to the marketing and sale of engineering plastics in Russia and the production of engineering plastics compounds in a plant located in Togliatti (Russia). The license granted to KA for using DSM's proprietary cyclohexanone technology at the Togliatti caprolactam plant will increase KA's capacity to meet the growing demand for this polyamide 6 intermediate.

DSM Dyneema completed the acquisition of a majority share of 91.75% in Shandong ICD High Performance Fiber Co., Ltd. (ICD), based in Laiwu, Shandong province, China. ICD is a manufacturer of UHMWPE (ultra high molecular weight polyethylene) fiber and a strong player in the high-performance fiber market in China. The acquisition brings complementary manufacturing and technology assets to DSM Dyneema and substantially strengthens the company's presence in this key market.

The Dyneema® brand is well known in the industries served, and DSM Dyneema has implemented 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 and other value chain partners.

DSM Resins' waterborne coatings range already delivers significant advantages to its paint customers, who are faced with regulatory pressures and social responsibility demands. 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.

In 2011 construction started on the new Jinling DSM Resins facility in China. The new facility will be one of the largest manufacturing plants for composite resins in the world. Focusing on the continued strong demand for high-end resins in all the application segments, the new facility will boost the sustainable development of the composite resins industry in China.

DSM acquired a 51% stake in AGI Corporation of Taiwan (AGI) in 2011. The company offers a broad range of environmentally friendly UV (ultraviolet) curable resins and other products. These products are used in coatings and inks for wood, flooring, plastic and graphic arts applications. Due to the accident that occurred on DSM-AGI's site in Xinhua on 28 July 2011, production was suspended on this site. Part of the site will be rebuilt. DSM-AGI is finalizing the construction of its new manufacturing site in Changwa, which will create approximately 75 new jobs.

DSM also announced a joint venture with Kemrock Industries in India for the production of specialty composite resins in this country. DSM and Kemrock will together invest USD 25 million in the joint venture, which will be based in Pune. Through this partnership DSM will structurally strengthen its presence in India, capitalizing on its technological knowledge and global customer relationships. DSM's share in the joint venture will be 51% and Kemrock's will be 49%. In addition to the joint venture, DSM has established its own local marketing and sales company for composite resins to serve the Indian domestic market.

The building and construction markets in Europe and the US continue to be depressed and this is negatively affecting DSM Resins' results. In order to achieve its objectives, including accelerating its switch to highly innovative and sustainable products (styrene free, powder, waterborne and UV curable), the business group will optimize and streamline its global organization. Therefore, DSM Resins will close a few smaller operations in the UK and Taiwan (90 fte) and reduce its global staff by 210 fte, of which 130 are in the Netherlands.

Organic sales growth for the cluster in 2011 was 9%. Higher prices at DSM Engineering Plastics and DSM Resins were partly offset by lower volumes at DSM Dyneema and DSM Resins.

Despite tough economic conditions in Q4 and weakness in the tender driven vehicle protection business at DSM Dyneema, the cluster posted a higher result for the year.

Looking ahead

DSM's businesses in the Performance Materials cluster aim to achieve faster growth than the sector averages by (1) focusing investment, marketing and business development on high growth economies, (2) utilizing their understanding and technology lead in sustainable solutions to meet rapidly developing customer needs (lighter, stronger, more recyclable, and bio-based) and (3) deepening their innovation leadership position in materials by getting great ideas to market even more quickly. DSM foresees continued growth for sustainable and innovative solutions, and its sales and profit aspirations for the cluster are as follows: sales growth at double GDP growth level and an EBITDA margin above 17% by 2015.

For 2012, trading conditions are expected to continue to be volatile and the end market outlook is uncertain owing to weak consumer sentiment in some of DSM's key geographies. However, based on current insights EBITDA of the cluster is expected to be somewhat higher than in 2011.

Review of business in 2011: Polymer Intermediates

Strengthening backward integration for DSM Engineering Plastics

Net sales

€ 1,820 m

x € million	2011	2010
Net sales		
DSM Fibre Intermediates	1,820	1,398
Total	**1,820**	**1,398**
Operating profit	339	186
Operating profit plus depreciation and amortization (EBITDA)	380	223
Capital expenditure and acquisitions	81	46
Capital employed at 31 December	397	354
ROCE (in %)	90.3	50.5
EBITDA as % of net sales	20.9	16.0
R&D expenditure	18	15
Workforce at 31 December (headcount)	1,439	1,361

Business and trends

Caprolactam

DSM Fibre Intermediates (DFI) is the global leader in the production and supply of caprolactam, the raw material for polyamide 6. 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. DFI 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 DFI. 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 and cover 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 (such as textiles) are quite stable.

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

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

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, DFI has strengthened its global leadership position in caprolactam.

Acrylonitrile

With its market share of 25%, DFI 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 DFI, with its distinguishing focus on reliability and responsiveness, continues to shift its customer portfolio toward the strongest European market segments, it is able to sustain its sound financial performance.

DFI's 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 Life Cycle Analysis of acrylonitrile in 2010 revealed that DFI has the lowest carbon footprint in the industry.

Acrylonitrile is a key ingredient for 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 (for example carbon fibers, water treatment additives, enhanced oil recovery, detergents) is rapidly growing.

DSM Fibre Intermediates

Key drivers of profitability

- Global growth of engineering plastics
- Exposure to high growth Asian markets
- High utilization rates

Key success factors

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

The cluster in 2011

DFI achieved organic sales growth of 32% compared to 2010. The business continued to benefit from the high global utilization rate, resulting in excellent pricing. Prices were 21% above the 2010 level. Volumes were higher than in 2010 due to yield improvements in operations in both caprolactam and acrylonitrile. The cluster continued to show a substantial EBITDA increase compared to 2010. Continued pricing strength and higher margins, combined with higher sales volumes and an excellent manufacturing performance, drove the result to a new record high.

DSM Nanjing Chemical Co., Ltd (DNCC), jointly owned by DSM, Sinopec Nanjing Chemical Industry Company and Jiangsu Guoxin Group, started an expansion project to double its caprolactam capacity to 400 kilotons, making it the largest caprolactam plant in the world. The investment will be approximately USD 300 million. The new facility is to be located at the existing DNCC manufacturing site in Nanjing Yanjiang Industrial Development Zone. It is expected to come on stream in Q3 of 2013 and to be operating at full capacity in 2014.

Looking ahead

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 is estimated to grow by more than 3% annually over the next five years. In the Chinese region, consumption of polyamide 6, and therefore demand for caprolactam, will grow rapidly in the coming years. 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.

The new capacity that is scheduled to come online in the coming years will cover the growth in demand. In addition to DNCC's 200 kiloton second line in China in 2014, 400 kiloton of capacity is under construction, including some smaller debottlenecking projects, and will start up between 2012 and 2014. As the global demand is expected to grow by more than 3% annually, global utilization rates are expected to stay at a healthy level.

DFI has a uniquely strong starting point to make the best of these 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 DEP provide the foundations for building a second caprolactam line in Nanjing (China).

Besides doubling caprolactam capacity in Nanjing, DFI will continue to improve its existing assets by means of projects to extend asset life time and to reduce variable costs, while maintaining a firm commitment to sustainability. Sustainable and innovative solutions are an integral part of the production process. With innovative technologies, the Nanjing facility will reduce energy consumption by 30% while doubling capacity.

For acrylonitrile, the global demand will grow roughly along with the global economy. Current global annual demand being approximately 5 million tons, and GDP growth being 2% per year, the additional demand for acrylonitrile each year will be 100 kilotons.

Global acrylonitrile capacity in 2011 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 kiloton per year plant being built in Asia.

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.

Being a European player, DFI does not strive to expand its acrylonitrile business to Asia. However, to keep a strategic ‘window on Asia’, it supplies some customers in Asia through swaps with acrylonitrile producers in the US and Japan.

For the cluster another strong year is expected, at a level above the historical average, but EBITDA will be clearly lower than the exceptional result in 2011. In 2012 three planned turnarounds in caprolactam, one in Q1 2012 and two more in Q3 2012, will also impact the results.

Review of business in 2011: Innovation Center

The brightest science for the best solution

Net sales

€ 60 m

x € million	2011	2010
Net sales	60	50
Operating profit	(69)	(64)
Operating profit plus depreciation and amortization (EBITDA)	(57)	(49)
Capital expenditure and acquisitions	40	7
R&D expenditure	42	31
Workforce at 31 December (headcount)	383	309

The Innovation Center is an element of the strategy DSM in motion: *driving focused growth* that was announced in 2010. The cluster contains the activities of the DSM Innovation Center (including DSM Venturing) and the Emerging Business Areas (EBAs). Until 2010 both were reported in Other activities.

DSM Innovation Center

The DSM Innovation Center was originally set up in 2006 to facilitate the *Vision 2010* change program toward an intrinsically innovative organization. It has a business development role, with its Business Incubator and Emerging Business Areas, as well as a leading role in enabling and accelerating innovation within DSM.

DSM Venturing

DSM Venturing actively invests in start-up companies that create innovative products and services in health, nutrition and materials. 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 business groups and/or the DSM Innovation Center. In addition to direct investments DSM Venturing is also involved in a number of venture capital funds.

In 2011 DSM Venturing made a follow-up investment in German-based SkySails GmbH & Co. KG, the market and technology leader for automated towing kite systems for ships.

DSM also made an investment in NanoHoldings LLC, a company that specializes in breakthrough nanotechnology discoveries in the field of energy. Based in Rowayton (Connecticut, USA), NanoHoldings finds, nurtures and commercializes breakthrough materials sciences discoveries through partnerships with world-class universities and their leading scientists. Nanomaterials have very interesting intrinsic mechanical as well as electrical and thermal properties that can be leveraged in a broad range of applications.

And finally, DSM made an investment in Cambrios, an electronic materials company that develops proprietary electrically conductive coatings using nano silver wires.

In September 2010 DSM announced that it would shift its focus to other EBAs, and that the Specialty Packaging activities and the Personalized Nutrition activities were to be partnered, exited or transferred to other parts of DSM. In 2011 DSM sold part of its majority shareholding in DSM TCG B.V. (currently: Qalpac B.V.), part of the Specialty Packaging EBA, to MocoLabs, Inc. It also sold the business of DSM Personalized Nutrition, LLC to Viocare, Inc. in Princeton (New Jersey, USA). DSM will remain involved in both businesses as a minority shareholder through DSM Venturing.

DSM Licensing

DSM Licensing aims to create value by assisting DSM business groups and DSM Emerging Business Areas (EBAs) with the initiation and management of collaboration on the basis of intellectual property (IP), including patents and know-how. DSM approaches licensing as a completely integrated, powerful way of creating shared value with partners. In all of DSM's EBAs licensing will be one of the most important ways in which the company enhances its value proposition and speed to the market. DSM Licensing has been established in the DSM Innovation Center to facilitate such IP intensive collaborations and to serve as a center of excellence for IP-based business.

Emerging Business Areas

DSM's Emerging Business Areas provide strong, long-term growth platforms that optimally combine the available competences in Life Sciences and Materials Sciences. The company currently has three Emerging Business Areas: DSM Bio-based Products & Services, DSM Biomedical and DSM Advanced Surfaces.

DSM Bio-based Products & Services

DSM Bio-based Products & Services is a front-runner in contributing to a bio-based, sustainable future. Major biotechnology advances are opening up opportunities in the production of advanced biofuels and bio-based materials. Recent DSM breakthroughs will enable the competitive manufacturing of advanced biofuels and bio-based chemicals and materials. Furthermore, DSM's efforts to develop technological solutions for biorefineries are set to optimize biorefinery operation and output.

In 2011 DSM acquired C5 Yeast Company B.V. (Bergen op Zoom, Netherlands) from Royal Cosun. The acquisition allows DSM to combine C5 Yeast Company's business with its own advanced yeast and enzyme technologies for advanced biofuels, thus further increasing its leadership position in this field.

DSM already has a unique position in the development of advanced biofuels (cellulosic bio-ethanol derived from agricultural residues and non-edible crops), being the only company capable of offering both enzyme and yeast fermentation technologies to increase conversion rates to make the technology commercially viable. Micro-organisms such as yeast are essential to the biofuel production process as they are needed to convert the fermentable sugars liberated by enzymes from biomass into ethanol.

There are two primary classes of fermentable sugars that are liberated from cellulosic biomass during hydrolysis; six-carbon sugars (C6) and five-carbon sugars (C5). Typically yeasts only consume C6 sugars, but DSM's advanced yeast technology is capable of converting both C6 and C5 sugars to ethanol.

C5 Yeast Company has developed a key yeast technology and extensive patent position with its team of R&D experts. The acquisition of C5 Yeast Company adds additional technology for the conversion of specific fractions of biomass (C5 sugars/ arabinose) to DSM's portfolio, allowing DSM to further optimize its yeast technology.

In January 2012 DSM and POET, LLC, one of the world's largest ethanol producers, announced a joint venture to commercially demonstrate and license cellulosic bio-ethanol, the next step in the development of biofuels, based on their proprietary and complementary technologies. The joint venture, POET–DSM Advanced Biofuels, LLC, is scheduled to start production in the second half of 2013 at one of the first commercial-scale cellulosic ethanol plants in the US.

The two partners will produce cellulosic bio-ethanol from corn crop residue through a biological process using enzymatic hydrolysis followed by fermentation. The first commercial demonstration of the technology will be at Project Liberty, which is currently being constructed adjacent to POET's existing corn ethanol plant in Emmetsburg (Iowa, USA).

The joint venture intends to replicate and license the technology to additional plants to be built at the other 26 corn ethanol facilities in POET's network and license it to other producers in the US and the rest of the world. The US Environmental Protection Agency (EPA) estimates that in the US as many as 350-400 new biorefineries will have to be constructed by 2022 to meet the volume requirement of 16 billion gallons/year of cellulosic bio-ethanol under the Renewable Fuel Standard.

DSM and POET will each hold a 50% share in the joint venture, which will be headquartered in Sioux Falls (South Dakota, USA). The initial capital expenditure by the joint venture in Project Liberty will amount to about USD 250 million. The closing of the joint venture is subject to regulatory approvals and other customary closing conditions.

DSM and the French starch and starch derivatives company Roquette Frères are building a commercial scale plant for the production of bio-based succinic acid. This is the first non-fossil feedstock derived chemical building block that allows customers in the chemical industry to choose a bio-based alternative with a lower eco-footprint for a broad range of applications, from packaging to footwear. With a capacity of up to 10 kilotons per year, the plant will be Europe's largest bio-based succinic acid facility. It is expected to come on stream in the second half of 2012 on the premises of Roquette in Cassano Spinola (Italy).

Succinic acid is a chemical building block used in the manufacture of polymers, resins, food and pharmaceuticals, among other products. Bio-based succinic acid, a renewable and versatile chemical building block, is an alternative to petroleum-derived chemical building blocks such as adipic acid. As a result of its price competitiveness and its renewable nature, bio-based succinic acid is addressing a larger market than fossil feedstock based succinic acid.

The commercial scale bio-based succinic acid plant is another important step in the successful cooperation between DSM and Roquette that started in 2008. If the market develops as DSM and Roquette expect, an even larger facility will be considered in the future.

It is DSM's ambition to further strengthen its portfolio in renewable bio-based chemicals and materials. Bio-based adipic acid is a high-potential chemical building block. The adipic acid market is currently worth USD 5 billion; adipic acid is used for the manufacture of polyamide 6,6 (used in engineering plastics and textiles) as well as polyurethanes, plasticizers, solvents and resins.

The Emerging Business Area continues to see huge opportunities in the move toward a bio-based economy, particularly in bio-energy and bio-based building blocks and materials. DSM is confident that the EBA Bio-based Products & Services will continue to grow at a steep rate.

DSM Biomedical

DSM has a history of more than 10 years in the field of biomedical materials. It all started with research and development efforts to bring Dyneema® to the medical field, leading to the introduction of Dyneema Purity® as a new material of choice for orthopedic sutures. In 2006 the EBA Biomedical was established, followed by the acquisition of The Polymer Technology Group (PTG) in 2008 and more recently the Actamax joint venture with DuPont. In 2011 DSM Biomedical's headquarters was moved to the US in order to be more closely connected to customers and innovation activities.

Building on its broad technology portfolio and its understanding of specific market needs, DSM Biomedical's strategy is to focus on cardiovascular, orthopedic and ophthalmic markets. Other markets such as urinary, general surgery or wound care are also addressed whenever required by key customers.

DSM's strategy in the biomedical field in these focused areas is to expand its offering through new products based on a broad technology portfolio, to establish a presence in the field of drug delivery based on licensed-in technology from MediVas, and to explore opportunities in the promising fields of tissue engineering and regenerative medicine.

Of all the businesses with a presence in the polymer-based biomedical materials and solutions market, DSM is the only company with products covering all the major applications, from implants and coatings to drug delivery systems and sutures. DSM technology/product pillars are: Dyneema Purity®, medical coatings, polyurethane, UHMWPE, silicone hydrogels, and drug delivery systems.

Furthermore, the combination of these products allows customers to use the synergies between them. Examples of such combinations are Dyneema Purity® (suture) and polyurethane for various orthopedic devices and Dyneema Purity® (balloon) and Trancerta® (drug eluting stent) for cardiovascular stents. In addition, the broad portfolio enables customers to choose between multiple alternatives from the same source, e.g. polyurethane and UHMWPE for lumbar discs and hip implants.

To achieve its objective, DSM will rely on organic growth, strategic alliances and partnerships, and acquisitions. The EBA Biomedical is building a healthy portfolio of emerging businesses through internal incubation (for example Dyneema Purity®, medical coatings) and acquisitions (such as PTG), and through venturing opportunities such as Actamax, the DSM-DuPont joint venture addressing unmet needs in the area of adhesion barriers and sealants/hemostats.

DSM Advanced Surfaces

DSM Advanced Surfaces provides solutions for the development and application of smart coatings. While current products are designed for glass, the EBA aims to expand this range into smart coatings for plastics and films. DSM's coatings enable glass to transmit more light, instead of reflecting it, thus boosting performance and/or improving aesthetics across a wide range of industries and applications, including the solar energy industry, horticultural and agricultural greenhouses, picture framing and in-store displays, TV and computer screens and the lighting industry.

To date, DSM Advanced Surfaces has successfully developed and brought to the market KhepriCoat™, the best-performing anti-reflective coating technology for solar cover glass. By reducing the amount of sunlight that is simply reflected back off the panels, KhepriCoat™ ensures that more of the sun's energy is captured – and therefore more energy is produced by each solar panel. This is an important sustainability advantage – and a great example of how DSM is using its technology to help address climate change. For KhepriCoat™ license agreements were signed in 2011 with Berliner Glas and Interfloat.

Looking ahead

The DSM Business Incubator serves as the cradle for future Emerging Business Areas. Within the Business Incubator, DSM explores opportunities in new areas where its technologies can meet current and future market demands. Platforms are created within the scope of securing food, health and energy requirements of society. This journey is made in close collaboration with industry partners and (potential) customers. For the three EBAs combined, DSM aspires to achieve sales of more than €1 billion with an above average profitability in 2020.

Corporate activities

Corporate activities comprises various activities and businesses that do not belong to any of the four reporting clusters or the Innovation Center. It consists of both operating and service activities and also includes a number of costs that cannot be logically allocated to the clusters. Corporate activities includes 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 departments. The segment normally has a negative operating result.

x € million	**2011**	2010
Net sales	369	477
Operating profit	(135)	(87)
Operating profit plus depreciation and amortization (EBITDA)	(91)	(41)
- of which IFRS pension adjustment	-	33
Capital expenditure and acquisitions	84	51
R&D expenditure	21	19
Workforce at 31 December (headcount)	3,150	3,417

Other activities

Various holding companies and corporate overheads are reported in Corporate activities. The most important cost elements included under this heading are corporate departments and share-based compensations for the group. DEX Plastomers reported a lower result for 2011, whereas the results of the Maleic Anhydride and Derivatives business were stable.

Sitech Services

Sitech Services provides services such as manufacturing services, park services and Safety, Health & Environment services for the Chemelot industrial site in Sittard-Geleen (Netherlands) and the site of DSM Pharma Chemicals in Venlo (Netherlands).

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 2011 were limited.

Defined benefit plans

As part of the new Collective Labor Agreement in the Netherlands, DSM changed its Dutch pension plan from a defined benefit plan into a defined contribution plan. In the new scheme all risks related to the pension plan will be carried by the pension plan foundation and all of its participants. DSM's contribution to the plan is fixed and covers the current service costs of the plan. As a consequence, DSM now recognizes the actual cash contribution to the plan in its income statement.

The Dutch pension plan contributions will from now on (starting with the year 2011) be directly reported in the individual clusters. The cluster results for 2010 have been brought in line with this new presentation as if in 2010, too, a defined contribution plan had been applicable. For 2010, the difference (€ 33 million) between the defined contribution plan costs and the costs based on Projected Unit Credit Method is presented on a separate line in the specification of EBITDA of the Corporate activities (IFRS pension adjustment). In accordance with the above, the defined benefit contributions to the non-Dutch plans (which for consistency reasons were also included in Other activities in 2010) will also be reported in the respective clusters.

As from 2011 the total costs of the Corporate Research program are reported under Corporate activities. In 2010 50% of these costs were reported under Other activities and the remaining 50% in the results of the clusters Nutrition, Pharma, Performance Materials and Polymer Intermediates. The comparative information for 2010 has been aligned with the new allocation method.

Associates

DSM has a share in a limited number of associates. Their contribution to the result was negligible in 2011.

Discontinued and deconsolidated activities

In the second quarter of 2011 DSM completed the sale of DSM Elastomers (Keltan®) to LANXESS for € 338 million on a cash and debt-free basis. In view of the divestment, the related activities are reported as discontinued operations and comparatives have been re-presented.

Financial and reporting policy

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.

The current strategy, DSM in motion: *driving focused growth*, has ambitious strategic and financial targets. For 2013 DSM aims to achieve an increase in EBITDA to a level of € 1.4 billion to € 1.6 billion and an increase in return on capital employed to more than 15%. 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. Under certain circumstances the gearing could be raised to a level between 30% and 40%, provided that the boundaries of the desired Single A credit rating remain attainable. Furthermore, funds from operations need 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.

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 totaling € 900 million, consisting of € 500 million until September 2018 and € 400 million until April 2013.

An important element of DSM's financial policy 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 & Partnerships to strengthen DSM's competences 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-mentioned cash flow priorities can be satisfied without an increase in gearing toward 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. The 2011 share repurchases were initiated for this purpose.

It is DSM's policy to hedge 100% of the currency risks resulting from sales and purchases at the moment of recognition of trade receivables and 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, CHF, JPY and GBP. 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 competences. Acquired companies are in principle required to contribute to DSM's cash earnings per share from the very beginning and to earnings per share from year two. In addition, they are required to meet the company's profitability, sustainability and growth requirements. There are, however, exceptions to this rule; a 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 toward solidity, reliability and optimum protection of cash flows. The finance function plays an important role in business steering.

Reporting policy

Reporting policy and justification of choices made

In this report financial 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 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.

Since 2010 the Triple P Report has been integrated into an Integrated Annual Report as sustainability is an integral part of DSM's business and one of the key growth drivers in DSM's strategy DSM in motion: *driving focused growth.*

In the sustainability information in this Integrated Annual Report, DSM explains its vision and policy with respect to a sustainable enterprise and reports on its activities in this field during 2011. 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 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 Ernst & Young, that this report merits G3 level A+. For the GRI matrix for 2011, see www.dsm.com.

Assurance

DSM asked Ernst & Young to provide limited assurance on the sustainability information in this Integrated Annual Report. See page 216 for Ernst & Young's assurance report.

Selection of topics

The topics covered in this report were selected on the basis of input from stakeholders, GRI guidelines and 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) and topics whose importance warrants publication on the Internet (these are topics that are important to either DSM or its stakeholders).

As in the 2010 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; see page 35.

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 planet 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. Acquired and divested units are excluded from the evaluation of progress on environmental targets but are included in absolute figures (unless stated otherwise).

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 impact is relevant, it is stated in the report. See page 54 for a restatement on greenhouse-gas emissions.

Whenever a restatement of data is required, DSM includes all relevant years in the restated data. See also page 224 for an explanation of some concepts and ratios, and page 226 for a list of abbreviations. Details for the individual sites are published on www.sustainability.dsm.com, together with an explanation of the definitions used.

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.

Corporate governance and risk management

Introduction[1]

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 by 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 and the same 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 in the chapter Supervisory Board and Managing Board starting 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

[1] This chapter contains, 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)

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; and
- 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 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 the 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 have the right to request the Managing Board or the 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 the Supervisory Board at least sixty days before the date of the Annual General Meeting of Shareholders.

On 28 April 2011 the Annual General Meeting of Shareholders was held. The agenda was to a large extent similar to that of previous years. Mr. Stefan Doboczky was appointed as member of the Managing Board. Mr. Stephan Tanda was reappointed as member of the Managing Board. Mrs. Pauline van der Meer Mohr was appointed as member of the Supervisory Board. An amendment to the remuneration of the Supervisory Board was adopted. Furthermore, the proposed amendment to the Articles of Association was approved. The amendment included an adaptation of the company's objective to bring it in line with the transformation of the company in recent years. Further details can be found on the company's website.

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 attached to the shares of the company.
- There are no restrictions on the voting rights of 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 the 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 consolidated financial statements (16 Equity, 19 Borrowings, 27 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 28 April 2011 this power was extended up to and including 28 October 2012, 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 Markets 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 2012:

- ASR Nederland B.V.
- Rabobank Nederland Participatie B.V.
- Delta Lloyd 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 acquired 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 28 April 2011 the Managing Board was authorized to acquire own shares for a period of 18 months from said date. In 2011, 9 million ordinary shares were repurchased in order to cover existing management and personnel options.

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 of the amended code's 113 Best Practices. Until 29 April 2011 there was an exception with respect to Best Practice III.5.11, which stipulates that the remuneration committee shall not be chaired by the chairman of the Supervisory Board. As reported in the past, 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 considered 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. Upon the retirement of Mr. Cor Herkströter as Chairman of the Supervisory Board as announced at the Annual General Meeting of Shareholders of 28 April 2011, the Supervisory Board decided to appoint Supervisory Board member Mr. Ewald Kist as his successor as chairman of the Remuneration Committee.

With respect to Best Practice provision II.1.8 it is to be reported that Mr. Nico Gerardu, member of the Managing Board, acted as the chairman of the Supervisory Board of a listed company until 11 July 2011 (see page 131). On that date he resigned from 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 current chairman of the Managing Board will remain appointed for an indefinite period.

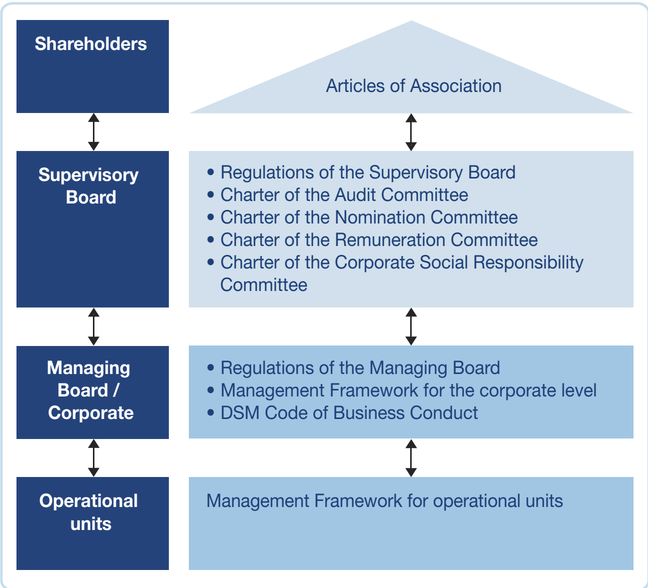
With respect to the Dutch corporate governance code it should be noted that any substantial change in the corporate governance structure of the company and in the company's compliance with the code shall be submitted to the General Meeting of Shareholders for discussion under a separate agenda item.

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. The business groups within a specific cluster report to one and the same 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; and
  - 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. In 2010 such a Corporate Strategy Dialogue was executed, resulting in the current 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. Regional management reports directly to a Managing Board member.

- The operational units conduct their business within the parameters of the Management Framework for operational units. This implies among other things that they:

  - 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 operational 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 is responsible for the DSM whistleblower policy, systems and processes.

In the Fraud Committee, 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 a risk management organization. The system and the 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' 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 website. This description is to be considered an integral part of this Integrated Annual Report.

The functioning of the system in 2011

The important events in risk management in 2011 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. Directly related to its mission to create brighter lives for people today and generations to come, DSM has chosen sustainability as its one core value. DSM's business principles, which are defined in the DSM Code of Business Conduct, are based on this core value. The DSM Code of Business Conduct, 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 2011 performed a business risk assessment to identify and assess the implementation risks of the chosen strategy and agree on responses. At mid-year and toward 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 and on major projects and programs.

In 2011, the Managing Board updated the Corporate Risk Assessment (CRA). Based on the results of the CRA conducted in 2010, internal risk and incident reports and risk information from external sources, the Managing Board, facilitated by the Corporate Risk Office, identified the risks that are relevant in relation to the achievement of the targets of the strategy DSM in motion: *driving focused growth*. This strategy is described on pages 28-32 of this report and in the individual business group reports. Board members individually identified and assessed risks, and during a Managing Board session they reached consensus on these risks and identified any necessary responses to be made in addition to the mitigating actions already in place.

In the CRA, 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 unethical 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 an effort to turn risks in these areas into opportunities.

Elsewhere in this chapter and in the description of risk categories on the website, the risk appetite is quantified for several risk areas.

The preliminary outcomes of the CRA were reported to and discussed with the Audit Committee of the Supervisory Board in the meeting of 12 December 2011. These 'top-down' outcomes were compared with the risks and incidents as reported 'bottom-up' by the operational units in their Letters of Representation and with findings from internal and external audits. The final risk profile was reported to and discussed with the Audit Committee of the Supervisory Board on 27 February 2012. It is the basis for the main risks and responses as reported on the following pages.

The company's top risks
The CRA identifies the likelihood and impacts of events that could jeopardize the achievement of the targets for 2013, 2015 and 2020 set in the DSM in motion: *driving focused growth* strategy. In setting these targets, assumptions were made about the macro-economic and global financial developments (basic scenario). Since the recession in 2008 DSM has improved its early warning and forecasting processes. It has also proven to be able to adjust quickly to sudden adverse market conditions. If an economic downturn were to occur again, however, this could have a significant detrimental effect on the achievement of the targets. This effect could be aggravated by volatility in currencies. The sensitivities to variations in several key currencies are given in note 23 'Financial instruments and risks' from page 187.

The table below shows the most important risks for DSM achieving its targets under the basic scenario, and the remedial actions to mitigate them.

The top risks and related mitigating actions

Description of risk	*Mitigating actions*
People, organization and culture	
The implementation of the strategy is supported by organizational measures to enhance regional and functional effectiveness. These measures may lack sufficient clarity and/or speed, resulting in inadequate collaborative and result-oriented behavior and/or insufficient speed in achieving the projected diverse and international human resource base.	The following mitigating actions are being taken: - Setting up and implementing an overall program for filling leadership positions worldwide. - Implementing clear charters, especially for the regional resources. - Implementing programs for increased diversity of the workforce.
Acquisitions and partnerships	
DSM has successfully acquired and integrated several activities, most notably Martek. It may, however, have difficulties in implementing sufficient additional value adding acquisitions to fulfill its growth targets.	For acquisitions, resources are being focused and decision making is being optimized by continuous prioritization and direct involvement of the Managing Board.
Innovation	
Within the Emerging Business Areas, DSM has made Biomedical and Bio-based Products & Services its main areas of focus. Developments in these fields are subject to the uncertainties inherent in new technologies and markets.	Within the areas of focus, DSM will further concentrate its efforts, reinforce the talent base and make sure to fully capitalize on this talent.
Growth and profitability in the Pharma cluster	
DSM has made a successful start with its partnering strategy in the Pharma cluster, but there remain considerable uncertainties in realizing the desired growth and returning to adequate profitability levels in this business area.	Maximum attention will continue to be given to successfully implementing the Pharma partnering strategy.

Other important risks
In addition to the top risks, the most recent risk assessment and reports show the following risks as being most important:

- Raw material and energy price and availability risks
  DSM implements various policies to avoid supply chain disruptions (e.g. multiple supplier strategy) and decrease price volatility (e.g. commodity hedging). Nevertheless, the increasing complexity and interdependence of worldwide supply streams as well as increasing (perceived) pressure on the availability of resources may lead to price fluctuations and availability issues, influencing DSM's profitability and/or business continuity.
- 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 will continue to be taken to contain these risks, but these may not always be completely effective in mitigating IP risks.
- Security (including information security)
  Especially in the area of the security of and access to data in ICT systems a continued focus on monitoring and mitigating actions is required, given the increasing tension between the growing professionalism of cybercrime and widespread use of (mobile) IT.
- 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. Actions are being continued to recognize and prepare for the most important scenarios.
- Safety, health and environmental (SHE) risks
  After a number of fatalities, DSM has enhanced its already strict safety policies even further, among other things by strengthening the implementation of the Life Saving Rules. Nevertheless, SHE risks cannot be excluded altogether and any accidents may have a deep impact in terms of human suffering and (reputation) damage to the company.
- Product liability risks
  To reduce product liability risks, product risk evaluations have been carried out, contractual and quality procedures have been updated and insurance policies have been reviewed. Unexpected effects of or undetected flaws in DSM's products or services may, however, still cause considerable product liability exposures.

Overview of risk categories
On the next page, 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 Integrated Annual Report, an updated version of the full description of DSM's risk categories will be placed on the company's website (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.

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.

Commonly occurring risks are mitigated through the implementation of the Corporate Requirements and process controls in the business processes. The operational units regularly test compliance with these requirements and the effectiveness of the controls. Deviations from Corporate Requirements are only allowed temporarily, if sufficient alternative controls are in place and after approval by the responsible Board member. A limited number of waivers have been granted.

As reported last year, a special project was initiated at DSM Nutritional Products (DNP) to bring the unit into compliance with the DSM Corporate Requirements. It can now be confirmed that by year-end 2011 this special project had been completed and material gaps had been closed. For the same reason, critical controls within DNP are checked with a special tool. The outcomes of these checks, too, were satisfactory.

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
- Sustainability risks

Operational risks

- Reputation risks
- Customer risks
- Production-process risks
- Business-continuity risks
- Product-liability risks
- ICT risks
- Program and Project Management risks
- (Information) security and Internal Control related risks
- Industrial relations risks
- Safety, health and environmental risks

Financial and reporting risks

- Liquidity and market risks
- 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
- Risks of legal non-compliance
- Risks related to regulatory developments

See www.dsm.com, Governance section.

Information and communication

A continuous effort is being made to inform people about the DSM risk management system and train them in its use. A special version of the risk management training course was conducted for financial staff in China. To increase general awareness of risk management, a video was produced featuring the CEO, the CFO and many other top executives of the company. Finally, new booklets were distributed, containing the purpose and summaries of the Corporate Requirements.

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 the Corporate Operational Audit department 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, among other things, 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, the Corporate Risk Office drew up a consolidated risk report, including recommendations for further improvement of the risk management system. These recommendations were integrated into an update of the Corporate Risk Management Plan 2011-2015.

In the May 2011 meeting of the Audit Committee of the Supervisory Board the most important enhancements to the risk management system and developments in the risk profile were discussed. 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 2011 and the status of the mitigation of the risks reported over 2010, 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 the statements of the Managing Board 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 2011 in their Letter of Representation. The Corporate Risk Office consolidated the reported risks and incidents and compared them with the outcome of internal and external 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 on 27 February 2012.

Enhancements to the risk management system

Initiatives to further enhance controls in the area of product liability, project management, (information) security and safety, health and environment were continued. In order to support strategic developments within DSM, special attention was given to the high growth economies (enhancement of local risk management capabilities and region specific risk assessment, starting in China), sustainability (improvement of reporting controls, inclusion of sustainability risks in the risk register and risk assessments), and acquisitions and partnerships (improvement of risk management practices in the integration of acquisitions and joint ventures). Finally, new, more flexible concepts for control and continuous control monitoring were developed.

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 management 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, 27 February 2012

The Managing Board

Feike Sijbesma, CEO/Chairman of the Managing Board
Rolf-Dieter Schwalb, CFO
Stefan Doboczky
Nico Gerardu
Stephan Tanda

Report by the Supervisory Board

Supervisory Board report

The DSM Supervisory Board (from left to right): Claudio Sonder, Rob Routs (Chairman), Pauline van der Meer Mohr, Tom de Swaan, Ewald Kist (Deputy Chairman) and Pierre Hochuli.

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. In 2011 this task was fully focused on the strategy DSM in motion: *driving focused growth*. In DSM's two-tier corporate structure under Dutch law, the Supervisory Board is a separate body operating fully independently of the Managing Board. Members of the Supervisory Board and the Managing Board are (re)appointed by the General Meeting of Shareholders.

Composition of Supervisory 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. For a more detailed description, see the profile posted on the DSM website. Mrs. Pauline van der Meer Mohr was nominated to succeed Mrs. Louise Gunning-Schepers (who had stepped down in 2010) because of her broad human resource management and international business experience, among other things. She was appointed as a new member of the Supervisory Board by the Annual General Meeting of Shareholders on 28 April 2011.

Mr. Cor Herkströter, Chairman since March 2002 and member of the Supervisory Board since April 2000, stepped down after the Annual General Meeting of Shareholders held on 28 April 2011. During his chairmanship DSM completed its transformation from a chemical company into a Life Sciences and Materials Sciences company. The Supervisory Board as well as the Managing Board would like to express their deep gratitude to Mr. Cor Herkströter for his guidance and support in this transformation process. Mr. Rob Routs, member of the DSM Supervisory Board since March 2010, was appointed by the Supervisory Board to succeed Mr. Cor Herkströter as its new Chairman.

More information regarding the Supervisory Board profile, its members, Mr. Rob Routs, Mr. Pierre Hochuli, Mr. Ewald Kist, Mr. Claudio Sonder, Mr. Tom de Swaan and Mrs. Pauline van der Meer Mohr, and the established Audit Committee, Nomination Committee, Remuneration Committee and

Corporate Social Responsibility Committee, can be found in the Governance part of the DSM website.

Mid 2011 it was decided to elect another two Supervisory Board members. Mrs. Victoria Haynes and Mrs. Eileen Kennedy, who are both US nationals, were selected and are available to join the Supervisory Board in 2012. Their appointment will be proposed at the Annual General Meeting of Shareholders to be held on 11 May 2012. Mrs. Victoria Haynes has a broad and in-depth applied technological knowledge in the fields of materials sciences, life sciences and biotechnology, which will be important for DSM in achieving its ambitions as a leading innovative company. Mrs. Eileen Kennedy has a broad and in-depth nutrition knowledge, which will be of key importance for DSM's growth and development.

Composition of the Managing Board

Early in 2011 the Supervisory Board agreed with the Managing Board's proposal to have the number of Managing Board members increased to five. Mr. Stefan Doboczky was proposed as an additional Member of the Managing Board and was appointed by the Annual General Meeting of Shareholders on 28 April 2011. With effect from 1 May 2011 he took over Mr. Stephan Tanda's responsibility for DSM's Pharma cluster and the corporate responsibility for DSM's activities in Asia. The Annual General Meeting of Shareholders reappointed Mr. Stephan Tanda as a Member of the Managing Board for a second term of four years. Mr. Stephan Tanda remained responsible for the Nutrition cluster and kept corporate responsibilities for DSM's activities in the Americas and Switzerland. Information regarding all Managing Board members, Mr. Feike Sijbesma (CEO), Mr. Rolf-Dieter Schwalb (CFO), Mr. Nico Gerardu, Mr. Stephan Tanda and Mr. Stefan Doboczky, can be found in the Governance part of the DSM website.

Financials and business

The Supervisory Board held seven meetings with the Managing Board. In four meetings, one or two Supervisory Board members were excused; they gave their input in advance and designated other Supervisory Board members to proxy for them.

During all meetings the Supervisory Board was updated on the highlights, lowlights and news regarding the company and its financial and business performance.

The 2010 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 2011. The Supervisory Board discussed the proposal to pay out the dividend per ordinary share in cash or in ordinary shares, and approved it for submission to the 2011 Annual General Meeting of Shareholders. In addition, an amendment to the Articles of Association was proposed to the 2011 Annual General Meeting of Shareholders. The Annual General Meeting approved both proposals.

The Supervisory Board was able to obtain in-depth background information about all financial and business results.

During all meetings the Supervisory Board discussed the progress of the implementation of the DSM strategy to keep the company in motion to drive focused growth in Life Sciences and Materials Sciences using four growth drivers: High Growth Economies, Innovation, Sustainability and Acquisitions & Partnerships. The Supervisory Board got the opportunity to challenge the progress and results and to provide advice. Various acquisitions and partnerships were discussed and approved, including the acquisition of Martek Biosciences Corporation and the anti-infectives joint venture with Sinochem, which both fit in with DSM's growth strategy.

In 2011 the Supervisory Board invited DSM management to explain more in-depth the following corporate staff or shared service departments: Sourcing, Corporate Human Resources and Treasury. In addition, developments and roadmaps to business growth in High Growth Economies (especially Russia, India, China and Latin America) were explained by the Country Presidents and discussed with the Supervisory Board. Furthermore, one of the meetings was held in the US, and was followed by two site visits: to DSM's Greenville site and to the Research and Development facilities of the newly acquired Martek Biosciences Corporation. Through well-prepared presentations and plant and laboratory visits, the Supervisory Board got the opportunity to learn about and see part of DSM's operational activities.

With input from the Audit Committee, the Supervisory Board reviewed and discussed the DSM Corporate Risk Assessment 2011 and related risk responses and actions. The final risk profile was reported to and discussed with the Supervisory Board on 28 February 2012. For more information on Risk Management see page 110.

With the external auditor, Ernst & Young Accountants, discussions were held about the financial statements for 2010 and 2011. The Report by the Managing Board and the financial statements for 2011 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 28 February 2012. 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 217 of this report). The Supervisory Board concluded that the external auditor was independent of DSM.

Financial statements 2011

The Supervisory Board will submit the 2011 financial statements to the 2012 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 on page 218. The year 2011 was another strong year for DSM despite the challenges of the global economy, adverse currency movements and high raw material costs. DSM made significant steps in the first year of implementing its growth strategy. The Supervisory Board wishes to express its sincere appreciation for the results achieved and would like to thank the employees and the Managing Board for their efforts.

Nomination Committee

To periodically assess the size and composition of the Managing Board and the Supervisory Board, to prepare proposals for the (re)appointment of Board Members and to assess the functioning of individual Board Members, the Supervisory Board has established a Nomination Committee. Until 28 April 2011, Mr. Cor Herkströter (Chairman), Mr. Pierre Hochuli and Mr. Ewald Kist were members of this Committee. As Mr. Cor Herkströter resigned from the Supervisory Board on 28 April 2011, he was replaced by Mr. Rob Routs, who was also appointed as Chairman as of that date.

In 2011 the Nomination Committee met five times; on one occasion one member was excused. Minutes were taken at all meetings and these minutes were shared with the full Supervisory Board. Proposals were prepared to advise the full Supervisory Board on the reappointment of Mr. Stephan Tanda as a Managing Board Member, the appointment of Mr. Stefan Doboczky as a new Managing Board Member and the appointment of Mrs. Pauline van der Meer Mohr as a new Supervisory Board member. Mr. Sijbesma and the Executive Vice President of the Corporate Human Resources department were involved in the discussion and selection of the new Board members. All proposals were discussed by the full Supervisory Board and accepted to be proposed to the Annual General Meeting of Shareholders held on 28 April 2011. After their appointment, both Mr. Stefan Doboczky and Mrs. Pauline van der Meer Mohr received an introduction program.

In addition, the Nomination Committee discussed a further extension of the Supervisory Board to improve its composition and quality in view of the company’s new strategy and its size, portfolio, nature, culture and geographical spread. The Committee considered it desirable to appoint two new Supervisory Board members. Two new prospective members were selected, both of them being US nationals with a background in technological areas that are key to DSM’s development. A proposal to extend the Supervisory Board by appointing these two new members was submitted to the full Supervisory Board. The Supervisory Board discussed the proposal and agreed with the Committee that the prospective new members' additional knowledge and experience will be important for DSM in achieving its ambitions as a leading innovative company. Their appointment will be proposed to the Annual General Meeting of Shareholders to be held on 11 May 2012.

The Supervisory Board further had extensive discussions on the succession planning for the Managing Board and the DSM Leadership Council positions.

At the end of 2011 a Supervisory Board effectiveness assessment was performed. A questionnaire filled in by all individual Supervisory Board members in combination with individual interviews with the Chairman, in the presence of the Company Secretary, was used to review the functioning and effectiveness of the Supervisory Board and its members. The functioning of the Chairman was reviewed by the Supervisory Board in a meeting chaired by the Vice-Chairman, Mr. Ewald Kist, in the absence of the Chairman. The results of the assessment were discussed by the full Supervisory Board in December 2011, in the absence of the Managing Board.

Remuneration Committee

To prepare proposals for and updates of the remuneration policy and the remuneration of the Managing Board and the Supervisory Board, the Supervisory Board has established a Remuneration Committee. Until 28 April 2011, Mr. Cor Herkströter (Chairman), Mr. Pierre Hochuli and Mr. Ewald Kist were members of this Committee. As Mr. Cor Herkströter resigned from the Supervisory Board on 28 April 2011, he was replaced by Mr. Rob Routs; Mr. Ewald Kist was appointed as Chairman of this Committee as of that date.

In 2011 the Remuneration Committee met six times; on one occasion one member was excused. Minutes were taken during all meetings and these minutes were shared with the full Supervisory Board. Topics included the remuneration of the Managing Board and of the Supervisory Board.

Furthermore, the Committee prepared the advice regarding the realization of the individual 2010 targets of the Managing Board members, which was reported to and adopted by the full Supervisory Board.

Based on an external benchmarking performed by Towers Watson, which highlighted that the DSM Supervisory Board fees (both general and committee fees) were considered low compared to relevant peers, the Committee proposed to the full Supervisory Board to amend the remuneration of the Supervisory Board. The full Board concluded that an adjustment was desirable and agreed to propose an amendment to the Annual General Meeting of Shareholders held on 28 April 2011, which was approved.

At the end of 2011, based on benchmarking, a further increase in the Supervisory Board remuneration (both general and committee fees) and the allowance of an intercontinental travel fee was discussed and proposed to the full Supervisory Board in order for DSM to be able to retain and attract highly qualified international Supervisory Board members. This increase will be proposed to the Annual General Meeting of Shareholders to be held on 11 May 2012.

During 2011, the Remuneration Committee discussed alternatives to bring the Managing Board's remuneration closer to the median of the labor-market peer group. Given the uncertain economic conditions, the Supervisory Board agreed, at the request of the CEO and the members of the Managing Board, not to change the current remuneration policy for now and not to increase base salaries for the Managing Board until mid 2013.

Corporate Social Responsibility Committee

To prepare discussions on the supervision of the Managing Board with respect to formulating, developing, implementing, monitoring and reporting on the company's social and environmental policies in line with the DSM Code of Business Conduct, the Supervisory Board has established a Corporate Social Responsibility Committee. All Supervisory Board members are a member of this Committee. After Mrs. Louise Gunning stepped down from the Board in September 2010, Mr. Cor Herkströter was appointed as interim Chairman of the Committee. After he resigned from the Supervisory Board on 28 April 2011, he was replaced as Chairman of this Committee by Mrs. Pauline van der Meer Mohr.

In 2011 the Corporate Social Responsibility Committee met two times. In one meeting one member was excused, and minutes were taken at both meetings. One meeting was used to formulate a recommendation to the Supervisory Board regarding the approval of the reporting of the Sustainability Information as included in the Integrated Annual Report 2010. The second meeting was used to discuss DSM's sustainability strategy as part of the company's overall strategy and its implementation in the DSM organization. The CEO, the Managing Board member responsible for Corporate Operations & Responsible Care, the Senior Vice President Corporate Affairs and the Director Sustainable Development were present during both meetings.

In view of its supervision of corporate social responsibility issues relevant to the company, the sections '*Sustainability', 'Stakeholder engagement', 'People in 2011' and 'Planet in 2011' (the Sustainability Information)* in the Integrated Annual Report 2011 were reviewed and subsequently discussed by the Supervisory Board during its meeting on 28 February 2012. Taking into consideration the Independent Assurance Report on People and Planet by Ernst & Young included on page 216 of this Integrated Annual Report, the full Supervisory Board approved the reporting in these sections. The Sustainability Information is in compliance with the sustainability reporting guidelines of GRI (G3) and the internal reporting criteria of DSM included on page 104 of this Integrated Annual Report.

Audit Committee

Until the Annual General Meeting of 28 April 2011, the Audit Committee consisted of Mr. Tom de Swaan (Chairman), Mr. Claudio Sonder and Mr. Rob Routs. After this meeting Mr. Rob Routs was replaced by Mrs. Pauline van der Meer Mohr. All other Supervisory Board members had a standing invitation for the Audit Committee meetings; Mr. Rob Routs attended all the Audit Committee meetings and all others made use of this invitation at least once. The Committee held six meetings in 2011. During two meetings one of the members was excused but replaced by another Supervisory Board member, and one meeting was held between two members.

Minutes were taken at all meetings and these minutes were shared with the entire Supervisory Board. Three meetings were specifically devoted to discussing and approving the content of press releases on financial results. The Audit Committee had its regular private discussion with the auditors without members of the Managing Board being present. In addition to these private discussions, meetings were held in the presence of the CFO and other relevant responsible managers. One meeting was mainly focused on the operation and development of the internal risk management and control systems, including the supervision of the enforcement of the relevant legislation and regulations. In another meeting the Audit Committee discussed ICT security.

The review of strategic and operational risks reported by the business groups was discussed, as were the follow-up actions following the Corporate Risk Assessment 2010. 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 Committee discussed the work of the Corporate Operational Audit department and endorsed its audit plan.

The Audit Committee was regularly updated on DSM Alert cases submitted under DSM's whistleblower policy and mitigating actions to prevent recurrence of fraud.

The Audit Committee discussed and endorsed the dividend proposals for the years 2010 and 2011. Further, the Audit Committee discussed among other things the adoption of the group's financial statements, the 2011 Financing and Guarantee Plan, the auditor's audit plan, the management letters issued by the external auditor (including management's follow-up) and auditor independence.

In addition, the Audit Committee started the evaluation of the performance of the external Auditor, using a questionnaire, individual interviews and a comparison with peers. The outcome of this evaluation will be used for a decision to continue with the current external auditor or to propose the appointment of a new external auditor. This proposal will be addressed in the 2013 Annual General Meeting of Shareholders.

Remuneration policy regarding the Managing Board and the Supervisory Board

This chapter comprises two parts. The first part outlines the remuneration policy as approved by the Annual General Meeting of Shareholders. The second part contains details of the remuneration in 2011 and changes expected in 2012.

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 eleven companies:

Aegon	Nutreco
AkzoNobel	Solvay[1]
Clariant	Syngenta
Heineken	TNT Express
KPN	Wolters Kluwer
LANXESS	

[1] Compared to the 2010 Integrated Annual Report, Rhodia has been eliminated from the peer group as it was acquired by Solvay

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 remuneration policy was benchmarked against the peer group in 2011.

Total Direct Compensation (TDC)

The total direct compensation of the Managing Board consists of the following components:

(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 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. In addition, the company will, when appropriate, apply a yearly increase to the package based on the 'general increase' (market movement) for DSM executives in the Netherlands.

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 individual 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 EBITDA before exceptional items, 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: EBITDA 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	
- EBITDA[1] before exceptional items	10
- Gross free cash flow	7.5
- Organic net sales growth[2]	7.5
Total	25

[1] Since 2011, in line with the targets established for the current DSM strategy
[2] Excluding currency fluctuations, 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 individual targets

The part of the STI that is linked to non-financial targets (25%) relates to sustainability and individual targets.

For 2010/2011 three 'first tier' value-creating-performance measures were defined in the area of sustainability. The distribution over these three targets was 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 were defined for the STI:

- ECO+ products – percentage of successful product launches that meet ECO+ criteria
- Energy-efficiency improvement – linked to target of 20% increase in energy efficiency in 2020 compared to 2008
- Employee Engagement Index – related to the High Performance Norm in industry

The STI targets on sustainability are 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) on a 3 year rolling average basis.
- **Employee 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 are audited by external auditors.

Long-Term Incentives (LTI)

The Managing Board members will be eligible to receive performance-related shares.

Under the performance share plan, shares will conditionally be granted to Managing Board members. Vesting of these shares is conditional on the achievement of certain predetermined performance targets during a three-year period.

Two performance targets will apply for the 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)**
  This is 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 shareholders. 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 predefined peer companies.

The TSR peer group for 2011 consists of the following companies:[1]

AkzoNobel	Kerry
BASF	LANXESS
Clariant	Lonza Group
DuPont	Novozymes
EMS Chemie Holding	Solvay

[1] Danisco and Rhodia have been eliminated from the peer group due to the de-listing of these companies

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 as a basis 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 for 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) are 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

In the course of 2011 the appropriate claw-back and change-in-control provisions were introduced in the employment agreements of the members of the Managing Board as well as in the LTI rules.

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 is conducted at least every three years.

Remuneration in 2011

Remuneration of Managing Board in 2011

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. Benchmarking of the Managing Board remuneration policy was conducted in Q1 2011 and clearly showed that the remuneration of the members of the Managing Board, particularly the variable part, was well below the median at target level of the peer group.

Base salary in 2011

Managing Board base salaries were last increased in 2008. Therefore the Supervisory Board agreed to increase the base salaries with effect from mid 2011.

Short-Term Incentives (STI) for 2011

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 2011 Integrated Annual Report presents the Short-Term Incentives that have been earned on the basis of results achieved in 2011. These Short-Term Incentives will be paid out in 2012.

The Supervisory Board has established the extent to which the targets for 2010 were achieved. The realization of the 2011 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 79.83% 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 2011.

Performance shares in 2011

In 2011 performance shares were granted to the Managing Board on 28 April 2011. The following table shows the number of performance shares granted to the individual Board members:

Number of stock incentives granted

	Performance shares
Feike Sijbesma	24,000
Stefan Doboczky	16,000
Nico Gerardu	16,000
Rolf-Dieter Schwalb	16,000
Stephan Tanda	16,000

For an overview of all granted and vested stock options and performance shares see note 10 from page 213.

Pensions in 2011

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 for the Managing Board is equal to the pension scheme for the employees of DSM Executive Services B.V. and DSM employees in the Netherlands.

As already mentioned in the 2010 annual report, for DSM in the Netherlands a new pension plan has been agreed with Labor Unions with effect from 1 January 2011. The plan comprises the following elements:

- Career-average pay plan, with annual accrual of pension rights (old-age pension) over base salary exceeding € 12,898 (reviewed annually) at a rate of 2%. The old pension plan was a final pay plan.
- Retirement age 65 years for accrual until 2012. From 2012 onwards the accrual will be linked to a pensionable age of 66 years.
- The scheme includes a partner pension as well as a disability pension.
- Employee's contribution of 3.5% of base salary up to € 57,499 and 7.5% of pensionable salary above this amount (reviewed annually).
- Collective defined contribution: indexation of pensions and pension rights, depending on PDN's coverage ratio.

The new pension plan also applies to the Managing Board.

For participants who started participating before 2006, transitional arrangements related to the plan changes in 2006 apply.

Board members participate in the revised PDN pension plan 2011. For Mr. Sijbesma and Mr. Gerardu, who both started participating before 2006, the transitional arrangement applies, as it does for all employees participating before 2006.

For Mr. Sijbesma, who was already a Board member before 2006, a specific transitional arrangement applies. This arrangement, too, has now been adjusted, related to the plan changes as of 2011, leading to earlier accrual of an extra old age pension in 2011 and 2012 of € 41,563. This accrual has no funding implications as the premium was already paid under the specific pension plan operated before 2006.

Loans

DSM did not provide any loans to members of the Managing Board in 2011.

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 2012 the members of the Managing Board together held 117,512 shares in Koninklijke DSM N.V., compared to 77,512 at 1 January 2011. More information can be found in the chapter Information about the DSM share starting on page 134.

Total remuneration

The total remuneration paid to the Managing Board (including pension costs relating to current and former Board members) amounted to € 5.5 million in 2011 (2010: € 3.7 million). This was largely due to the expansion of the Managing Board from four to five members.

Overview of remuneration awarded to the Managing Board in 2011

The tables below show the remuneration awarded to the Managing Board in 2011.

Fixed annual salary

in €	**1 July 2011**	1 July 2010
Feike Sijbesma	840,000	766,000
Stefan Doboczky	545,000	n.a.
Nico Gerardu	545,000	509,000
Rolf-Dieter Schwalb	545,000	509,000
Stephan Tanda	545,000	509,000

Short-Term Incentives

in €	**2011**[1]	2010[2]
Feike Sijbesma	657,460	683,655
Stefan Doboczky	279,315[3]	n.a.
Nico Gerardu	431,485	464,463
Rolf-Dieter Schwalb	423,580	444,103
Stephan Tanda	411,722	451,738

[1] Based on results achieved in 2011 and therefore payable in 2012
[2] Short-Term Incentives paid in 2011 based on results achieved in 2010
[3] For the period from 1 May 2011, the date of appointment of Mr. Stefan Doboczky as Managing Board Member

Pensions

	Pension costs (employer)		Accrued pension	
in €	**2011**	2010	**31 Dec. 2011**	31 Dec. 2010
Feike Sijbesma	110,595	113,292	416,584[1]	376,283
Stefan Doboczky	49,386	n.a.	6,615	n.a.
Nico Gerardu	74,755	76,027	336,220	313,802
Rolf-Dieter Schwalb	74,755	76,027	53,613	42,201
Stephan Tanda	74,755	76,027	71,605	59,580

[1] This includes € 9,565 at retirement age 66

Changes expected to the remuneration of the Managing Board in 2012

Since a benchmark exercise had indicated that the remuneration of the members of the Managing Board was below the median of the labor market peer group, in 2011 the Remuneration Committee looked at a number of alternatives to bring this remuneration closer to the median. These alternatives included an increase in the STI potential.

Given the uncertain economic conditions, the Supervisory Board has agreed, at the request of the CEO and the members of the Managing Board, not to change the current remuneration policy for now and not to increase base salaries for the Managing Board until mid 2013.

As the TSR peer group was reduced to ten members in 2011 (Danisco and Rhodia were delisted), Arkema and Christian Hansen will be added to the TSR peer group as from 2012.

Long-Term Incentives (LTI)

For 2012, the number of conditionally granted ordinary shares under the LTI program will be:
Chairman 31,000
Members 20,000

Supervisory Board remuneration in 2011

Remuneration policy for the Supervisory Board in 2011 and 2012

As Supervisory Board fees were last increased in 2005, the 2011 Annual General Meeting agreed with the proposal to moderately increase the fees 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.

Based on benchmarking in 2011 the Supervisory Board will propose to the Annual General Meeting of Shareholders to be held on 11 May 2012 an appropriate increase in the remuneration of the Supervisory Board members in order for DSM to be able to retain and attract highly qualified international Supervisory Board members. This will also include a proposal for an allowance for Supervisory Board members for intercontinental travel to attend meetings.

The current 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 € 55,000. The members of the Supervisory Board each receive a fixed fee of € 40,000. Audit Committee membership is awarded € 7,000 per member and € 10,000 for the Chairman. Nomination Committee, Corporate Social Responsibility Committee and Remuneration Committee membership is awarded € 3,500 per member and € 5,000 for the Chairman.

If any shares in DSM are held by Supervisory Board members, they serve as a long-term investment in the company. At year-end 2011 the members of the Supervisory Board held no shares in Koninklijke DSM N.V. (same as in 2010).

DSM does not provide any loans to its Supervisory Board members.

Overview of remuneration awarded to the Supervisory Board in 2011

In the following tables an overview is given of the remuneration awarded to the Supervisory Board in 2011.

Annual Supervisory Board remuneration till 29 April 2011

Fee in €	Supervisory Board	Audit Committee	Corporate Social Responsibility Committee	Nomination Committee	Remuneration Committee	Total
Cor Herkströter, chairman[1]	50,000	-	-	3,750	3,750	57,500
Ewald Kist, deputy chairman	35,000	-	-	2,500	2,500	40,000
Pierre Hochuli	35,000	-	-	2,500	2,500	40,000
Pauline van der Meer Mohr[2]	-	-	-	-	-	-
Claudio Sonder	35,000	5,000	-	-	-	40,000
Tom de Swaan	35,000	7,500	-	-	-	42,500
Rob Routs	35,000	5,000	-	-	-	40,000
Total	**225,000**	**17,500**	**-**	**8,750**	**8,750**	**260,000**

1 Chairman till 29 April 2011
2 As from 28 April 2011

Annual Supervisory Board remuneration as of 29 April 2011

Fee in €	Supervisory Board	Audit Committee	Corporate Social Responsibility Committee	Nomination Committee	Remuneration Committee	Total
Rob Routs, chairman[1]	55,000	-	3,500	5,000	3,500	67,000
Ewald Kist, deputy chairman	40,000	-	3,500	3,500	5,000	52,000
Pierre Hochuli	40,000	-	3,500	3,500	3,500	50,500
Pauline van der Meer Mohr[2]	40,000	7,000	5,000	-	-	52,000
Claudio Sonder	40,000	7,000	3,500	-	-	50,500
Tom de Swaan	40,000	10,000	3,500	-	-	53,500
Total	**255,000**	**24,000**	**22,500**	**12,000**	**12,000**	**325,500**

1 Chairman as from 29 April 2011
2 As from 28 April 2011

For information on remuneration paid out to the members of the Supervisory Board in 2011 and 2010 please refer to Note 11 Remuneration of the members of the Supervisory Board in the Parent company financial statements.

DSM did not provide any loans to its Supervisory Board members in 2011.

Heerlen, 28 February 2012

The Supervisory Board

Rob Routs, Chairman
Ewald Kist, Deputy Chairman
Pierre Hochuli
Pauline van der Meer Mohr
Claudio Sonder
Tom de Swaan

Supervisory Board and Managing Board

Supervisory Board

Rob Routs (1946, m), chairman
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.

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, member of the Board of Governors of the Peace Palace in The Hague (Netherlands).

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.

Pauline F.M. van der Meer Mohr (1960, f)
First appointed: 2011. End of current term: 2015.
Position: President of the Executive Board of Erasmus University Rotterdam.
Nationality: Dutch.
Supervisory directorships and other positions held: member of the Supervisory Board of ASML N.V., chair of the Supervisory Board of the Rotterdam School of Management, member of the Supervisory Board of Nederlandse School voor Openbaar Bestuur, director of the Hollandsche Maatschappij van Wetenschappen, member of the Economic Development Board of Rotterdam and member of the Duisenberg School of Finance Board.

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, 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 Advisory Board of RSM Erasmus University and of ECP-EPN (Electronic Commerce Platform Netherlands).
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

Stefan Doboczky (1967, m)
Position: member of DSM's Managing Board since May 2011.
Nationality: Austrian.
Supervisory directorships and other positions held: none.
e-mail: stefan.doboczky@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 board member of VNCI (Association of the Dutch Chemical Industry).
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: chairman of EuropaBio (European Biotechnology Industry Association), board member of scienceINDUSTRIES (Swiss association for the chemical, pharmaceutical and biotech industries) and BIO (US Biotechnology Industry Organization).
e-mail: stephan.tanda@dsm.com

What still went wrong in 2011

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.

It is with deep regret that DSM reports the tragic death of a contractor employee in 2011. On 13 September an electrician from Austin Industrial lost his life while working on a high voltage substation at the recently acquired DSM South Center property in Augusta (Georgia, USA).

On 28 July a vapor cloud explosion followed by a fire occurred at the DSM-AGI Xinhua plant in Tainan (Taiwan). As a result, seven employees were injured, two of them seriously. These tragic accidents, together with a number of other serious incidents in 2011, led DSM to organize a Safety Day for all employees worldwide. On this day, all DSM employees discussed their safety situation and ways to further improve it.

The following list summarizes the most important other incidents in 2011. In line with DSM's reporting policy the overview also contains some serious near-misses. These are incidents that did not result in an injury, illness or damage but had the potential to do so and are therefore used as a learning opportunity.

Q1

- At DSM Engineering Plastics in Emmen (Netherlands) a contractor employee lost a fingertip when it became pinched between a belt and a pulley.
- A driver of DSM Fibre Intermediates was one of the victims in a terrorist attack in January 2011 in Moscow (Russia). He was seriously injured.
- At DSM Pharmaceutical Products in Greenville (North Carolina, USA) 25 gallons of nitric acid were spilled.
- Serious near-miss: At the DSM Anti-Infectives site in Toansa (India) a boiler chimney got tilted. Five segments with a total length of 35 meters fell down during a heavy storm.

Q2

- At DSM Nutritional Products in Venlo (Netherlands), a truck driver was hit on the head by an empty pallet (used for load securing on top of the load) when he released the lashing straps at the back of his trailer. He suffered a concussion.
- At DSM Resins in Nanjing (China) a maintenance contractor was caught between a fork lift truck and his van. He was repairing the brakes of the fork lift truck. Suddenly the fork lift truck started to move, resulting in multiple injuries.
- At DSM's site in Sittard-Geleen (Netherlands) a contractor fell while carrying a heavy hoisting beam and broke his leg.
- At the DSM site in Linz (Austria) a contractor fell from a (fixed) ladder, which resulted in a fracture.
- At DSM Dyneema in Greenville (North Carolina, USA) a mechanical failure of the closure of a roll-off container caused a spill which was only partly contained and approximately 100 gallons of solvent ran into the storm drain.
- At DSM Fibre Intermediates in Sittard-Geleen (Netherlands) the spilling of approximately 1500 kg of phenol in a secondary containment (tank pit) due to a leaking flange caused nuisance.
- Serious near-miss: at DSM Engineering Plastics in Emmen (Netherlands), mechanical failures in a roof structure created a situation of immediate danger.
- Serious near-miss: At DSM Fibre Intermediates in Sittard-Geleen (Netherlands), hydro-leak testing during start-up showed leakages on a column. This could have led to the release of hazardous substances.

Q3

- At DSM Resins in Nanjing (China) an employee was very seriously injured in a traffic accident. On his way in a customer's car visiting another customer the car was hit by a truck. Three people were in the car, one of whom died instantly.
- At DSM Nutritional Products in Lalden (Switzerland) an operator burned his feet with hot condensate when opening a coupling.
- At the DSM Nutritional Products ANH Premix Asia site in Amberthan (India) an employee suffered a serious injury to his right hand, resulting in the amputation of his index finger and the top of his thumb, when he came in contact with a motorized rotary seal in the dust collection system.
- At DSM Nutritional Products in Belvidere (New Jersey, USA) an operator lost his balance when climbing onto a platform. He fell to the ground, resulting in multiple bone fractures.
- At DSM Resins in Shunde (China) a thermal heater exploded. This was followed by a fire that damaged the oil heater and a steam boiler. DSM employees were near, but fortunately they were not hit by fragments. No personal injuries occurred.

Q4

- At DSM Engineering Plastics in Emmen (Netherlands) a piece of pipe fell on a contractor employee's hand from a height of approximately 1.70m, resulting in a serious injury.
- At DSM Fibre Intermediates in Sittard-Geleen (Netherlands) an operator suffered serious thermal burns to his forearm when he was unplugging a pump.
- At DSM Nutritional Products in Sisseln (Switzerland) a starting explosion occurred in one of the reaction steps of a vitamin production process. This scenario had been identified in the safety studies and had been safeguarded against. This part of

the installation is pressure resistant and has been closed off by an explosion suppression system. The safety measures worked as intended and nobody got hurt; only the installation was damaged.

- At DSM Nutritional Products in Chengdu (China) a flash fire occurred when an operator was discharging raw material from a bag to a silo. Nobody was injured and no facility damage resulted from the incident.
- A DSM ICT Site Support engineer was involved in a car accident while travelling from the DSM site in Zwolle to DSM Groningen (both in the Netherlands). The employee was taken to a hospital for treatment.
- Two contractor employees at DSM Fibre Intermediates, Nanjing (China) suffered burns to their faces and arms as a result of electric sparks due to a short-circuit that occurred while they were working on a 380 V cabinet. This incident was dealt with as a serious near-miss.

Information about the DSM share

Shares and listings

Ordinary shares in Koninklijke 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 US 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 2011 was 165,566,944. All shares in issue are fully paid.

On 31 December 2011 the company had 163,257,388 ordinary shares outstanding.

Development of the number of ordinary DSM shares

	2011			2010
	Issued	Repurchased	Outstanding	Outstanding
Balance at 1 January	181,425,000	14,957,368	166,467,632	163,037,329
Changes:				
Reissue of shares in connection with exercise of option rights	-	(3,568,018)	3,568,018	3,428,094
Repurchase of shares	-	9,000,000	(9,000,000)	-
Dividend in the form of ordinary shares	-	(2,221,738)	2,221,738	-
Other	-	-	-	2,209
Balance at 31 December	181,425,000	18,167,612	163,257,388	166,467,632
DSM share prices on Euronext Amsterdam (€ per ordinary share):				
Highest closing price			46.82	42.85
Lowest closing price			30.54	30.43
At 31 December			35.85	42.61
Market capitalization at 31 December (€ million)[1]			6,504	7,730

[1] Source: Bloomberg

Optional dividend program for shareholders of Koninklijke DSM N.V.

DSM offers an optional dividend program. As a result of this, shareholders have the opportunity to receive dividends in cash or in the form of ordinary shares.

DSM proposes to the Annual General Meeting of Shareholders for the total dividend for the financial year 2011 to be € 1.45 per ordinary share. An interim dividend of € 0.45 per ordinary share having been paid in August 2011, the final dividend would then amount to € 1.00 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 15 May 2012.

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.

The Dividend Reinvestment Plan previously provided by Royal Bank of Scotland N.V. was withdrawn in 2011.

DSM Managing Board holdings of DSM shares

The cumulative holdings of the five DSM Managing Board members increased in 2011 from 77,512 to 117,512 shares (situation on 1 January 2012). These shareholdings serve as a long-term investment in the company. These holdings include share purchases with private money and vested performance shares.

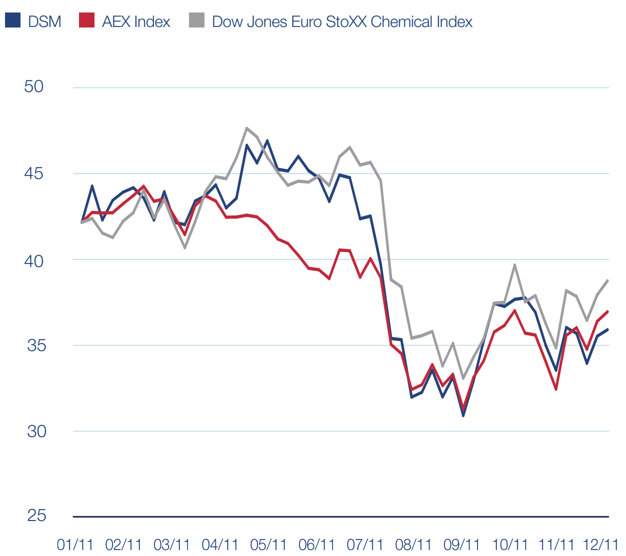
	1 January 2012			1 January 2011		
Board member	Shares purchased with private money	Vested performance shares	Total holdings	Shares purchased with private money	Vested performance shares	Total holdings
Feike Sijbesma, CEO/chairman	30,500	19,500	50,000	27,500	12,000	39,500
Rolf-Dieter Schwalb, CFO	8,000	12,000	20,000	7,000	6,000	13,000
Stefan Doboczky	5,000	-	5,000	-	-	n.a.
Nico Gerardu	8,556	16,000	24,556	5,056	10,000	15,056
Stephan Tanda	8,000	9,956	17,956	6,000	3,956	9,956
Total holdings	**60,056**	**57,456**	**117,512**	**45,556**	**31,956**	**77,512**

Geographical spread of DSM shares outstanding (excl. cumprefs A)

in %	**2011**	2010
Netherlands	23	21
United Kingdom	19	20
North America	22	27
Germany	9	10
Switzerland	5	4
France	7	4
Belgium and Luxemburg	3	3
Other countries	12	11

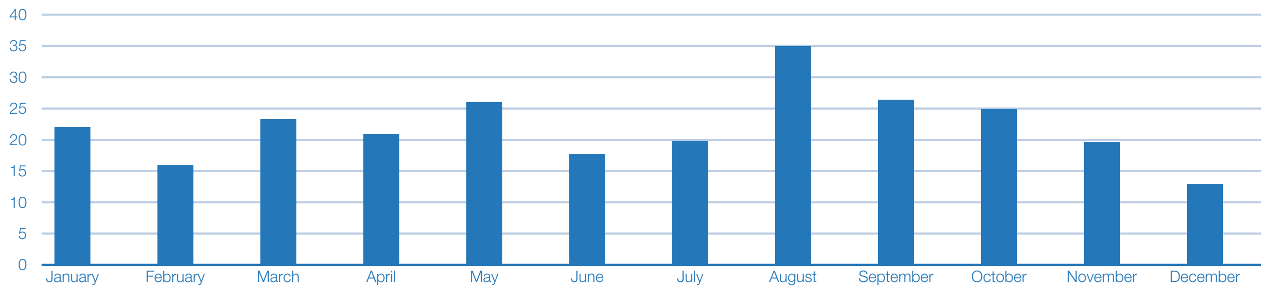
DSM share price development versus AEX and Dow Jones Euro StoXX Chemical Index, 2011

in €



Trading volume DSM shares 2011

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 2011.

Consolidation
The consolidated financial statements include Royal DSM 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. From the acquisition date onwards, 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.

Business combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, including liabilities incurred toward the former owners, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed.

As of the acquisition date identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree are recognized separately from goodwill. Identifiable assets acquired and the liabilities assumed are measured at acquisition date fair value. For each business combination, DSM elects whether it measures the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

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 Innovation Center and Corporate 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 before exceptional items. 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 historical 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. Development expenditure is capitalized if the recognition criteria are met and if it is demonstrated that it is technically feasible to complete the asset, that the entity intends to complete the asset, that the entity is able to sell the asset, that the asset is capable of generating future economic benefits, that adequate resources are available to complete the asset and that the expenditure attributable to the asset can be reliably measured. Development expenditure is amortized over the asset's 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.

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). A significant or prolonged decline of the fair value of an equity interest below cost represents an impairment, which is recognized in the income statement. 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 value after deduction of a margin for selling and distribution efforts.

Current receivables
Current receivables are stated at amortized cost, which generally corresponds to nominal 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. For the sake of clarity, non-current assets and disposal groups that will be contributed to joint ventures are reported separately from other assets and liabilities held for sale.

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.

Royal DSM Shareholders' equity

DSM's ordinary shares and cumulative preference shares are classified as Royal DSM Shareholders' equity. The price paid for repurchased DSM shares (treasury shares) is deducted from Royal DSM 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.

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 equity 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;
- non-recurring inventory value adjustments related to business combinations;
- restructurings of the activities of an entity;
- releases of provisions;
- disposals of property, plant and equipment;
- disposals of associates or other financial assets;
- book results 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 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 other comprehensive income or 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 nominal 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.

Deferred tax assets and deferred tax liabilities are offset and presented net when there is a legally enforceable right to set off, and the assets and liabilities relate to income taxes levied by the same taxation authority.

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 2011. The adoption of these standards and interpretations did not have a material effect on the group's financial performance or position.

The amendment to IAS 24, 'Related Party Transactions', clarifies the definitions of a related party. Furthermore, the amendment introduces an exemption for transactions with government and government controlled entities. The adoption of the amendment had no material effect on DSM's financial position or performance.

The amendment to IAS 32, 'Financial Instruments: Presentation', alters the definition of a financial liability and enables the classification of certain rights issues, options and warrants as equity instruments. The adoption of the amendment had no effect on DSM's financial position or performance because the company presently does not have these instruments.

The amendment to IFRIC 14, 'Prepayments of a Minimum Funding Requirement', addresses the interaction between minimum funding requirements and early payments to cover such requirements. It permits a prepayment of future service costs to be recognized as a pension asset. The adoption of the amendment had no material effect on DSM's financial position or performance.

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 following new standards and amendments to existing standards are not yet applied by DSM.

IFRS 7, 'Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements', requires additional disclosures about financial assets that have been transferred but not derecognized. Furthermore, the amendment requires disclosures about continuing involvement in derecognized assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011 and has no impact on DSM's financial position or performance because it only affects disclosures.

IFRS 9, 'Financial Instruments: Classification and Measurement', applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard represents the first phase in the work of the IASB to replace IAS 39. Since the standard has not yet been endorsed by the European Union, it is uncertain when it needs to be applied by DSM. The remaining uncertainty with respect to the subsequent phases of the project makes it impossible to quantify the impact of the new standard on DSM's financial position or performance.

IFRS 10, 'Consolidated Financial Statements', establishes a single control model that applies to all entities, including special purpose entities. Management will have to determine which entities meet the new criteria for control and therefore have to be consolidated. The standard becomes effective for annual periods beginning on or after 1 January 2013 but has not yet been endorsed by the European Union, which means that its introduction may be delayed.

IFRS 11, 'Joint Arrangements', removes the option to apply proportionate consolidation for joint ventures and mandates the use of the equity method for jointly controlled entities that meet the definition of a joint venture. The introduction of this new standard will change DSM's financial position. Information on joint ventures that are affected is provided in note 28: Interests in joint ventures. The standard becomes effective for annual periods beginning on or after 1 January 2013 but has not yet been endorsed by the European Union, which means that its introduction may be delayed.

IFRS 12, 'Disclosure of Involvement with Other Entities', provides disclosure requirements with respect to interests in subsidiaries, joint arrangements, associates and structured entities. It is the complement of the two new standards discussed in the preceding paragraphs and will become effective at the same time as these standards.

IFRS 13, 'Fair Value Measurement', becomes the single source of guidance in IFRS for all fair value measurements. The standard becomes effective for annual periods beginning on or after 1 January 2013 but has not yet been endorsed by the European Union, which means that its introduction may be delayed. The impact of this standard on DSM's financial position and performance is being assessed but is not expected to be material because the standard further clarifies requirements that already exist.

New IFRIC interpretations are not expected to have a material effect on the consolidated financial statements.

Consolidated statements

Consolidated income statement for the year ended 31 December 2011

x € million	Notes	Continuing operations Before exceptional items	Exceptional items (note 6)	Total	Discontinued operations	Total
Net sales		9,048		9,048	145	9,193
Cost of sales	4	(6,479)	(48)	(6,527)	(98)	(6,625)
Gross margin		**2,569**	**(48)**	**2,521**	**47**	**2,568**
Marketing and sales		(882)	-	(882)	(10)	(892)
Research and development		(378)	-	(378)	(3)	(381)
General and administrative		(474)	(13)	(487)	(6)	(493)
Other operating income		71	13	84	112	196
Other operating expense		(40)	(29)	(69)	(1)	(70)
	4	(1,703)	(29)	(1,732)	92	(1,640)
Operating profit		**866**	**(77)**	**789**	**139**	**928**
Interest costs	5	(99)	-	(99)	-	(99)
Other financial income and expense	5	17	140	157	-	157
Share of the profit of associates		3	-	3	-	3
Profit before income tax expense		787	63	850	139	989
Income tax expense	7	(147)	25	(122)	(7)	(129)
Profit for the year		**640**	**88**	**728**	**132**	**860**
Reclassification of the net result from activities disposed of		-	111	111	(111)	-
Total		640	199	839	21	860
Of which:						
- Profit attributable to non-controlling interests		46	-	46	-	46
- Net profit attributable to equity holders of Koninklijke DSM N.V.		594	199	793	21	814
Net profit attributable to equity holders of Koninklijke DSM N.V.		**594**	**199**	**793**	**21**	**814**
Dividend on cumulative preference shares		(10)	-	(10)	-	(10)
Net profit available to holders of ordinary shares		584	199	783	21	804
Earnings per share, continuing operations (in €):						
- Basic 4.06 (see note 17 Earnings per ordinary share)						
- Diluted 4.03 (see note 17 Earnings per ordinary share)						
Earnings per share, total DSM (in €):						
- Basic 4.86 (see note 17 Earnings per ordinary share)						
- Diluted 4.82 (see note 17 Earnings per ordinary share)						

Consolidated income statement for the year ended 31 December 2010

x € million	Notes	Continuing operations			Discontinued	Total
		Before exceptional items	Exceptional items (note 6)	Total	operations	
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 Koninklijke DSM N.V.		484	(40)	444	63	507
Net profit attributable to equity holders of Koninklijke 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

Earnings per share, continuing operations (in €):
- Basic 2.94 (see note 17 Earnings per ordinary share)
- Diluted 2.92 (see note 17 Earnings per ordinary share)

Earnings per share, total DSM (in €):
- Basic 3.03 (see note 17 Earnings per ordinary share)
- Diluted 3.01 (see note 17 Earnings per ordinary share)

Consolidated statement of comprehensive income

x € million	Other reserves	Retained earnings: Actuarial gains and losses	Retained earnings: Other	Total	Non-controlling interests	Total
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**
2011						
Change in Dutch pension plan	-	765	(765)	-	-	-
Exchange differences on translation of foreign operations	47	-	-	47	10	57
- Related income tax expense	6	-	-	6	-	6
Change in Actuarial gains and losses	-	(41)	-	(41)	-	(41)
- Related income tax expense	-	10	-	10	-	10
Change in Asset ceiling	-	1	-	1	-	1
- Related income tax expense	-	0	-	0	-	0
Change in Fair value reserve	(85)	-	-	(85)	-	(85)
- Related income tax expense	20	-	-	20	-	20
Change in Hedging reserve	(120)	-	-	(120)	-	(120)
- Related income tax expense	24	-	-	24	-	24
Other comprehensive income	**(108)**	**735**	**(765)**	**(138)**	**10**	**(128)**
Profit for the year	-	-	814	814	46	860
Total comprehensive income	**(108)**	**735**	**49**	**676**	**56**	**732**

Consolidated balance sheet as at 31 December

x € million	Notes	**2011**	2010
Assets			
Non-current assets			
Intangible assets	8	1,786	1,070
Property, plant and equipment	9	3,405	2,943
Deferred tax assets	7	292	326
Prepaid pension costs	24	-	1
Associates	10	35	25
Other financial assets	11	135	270
		5,653	**4,635**
Current assets			
Inventories	12	1,573	1,340
Trade receivables	13	1,551	1,361
Other receivables	13	153	116
Financial derivatives	23	50	134
Current investments	14	89	837
Cash and cash equivalents	15	2,058	1,453
		5,474	5,241
Assets to be contributed to joint ventures (100% basis)		-	317
Other assets held for sale		30	287
		5,504	**5,845**
Total		**11,157**	**10,480**
Equity and liabilities			
Equity	16		
Shareholders' equity		5,784	5,481
Non-controlling interests		190	96
		5,974	**5,577**
Non-current liabilities			
Deferred tax liabilities	7	192	155
Employee benefits liabilities	24	322	297
Provisions	18	116	93
Borrowings	19	2,029	1,992
Other non-current liabilities	20	69	33
		2,728	**2,570**
Current liabilities			
Employee benefits liabilities	24	6	24
Provisions	18	43	33
Borrowings	19	160	105
Financial derivatives	23	326	219
Trade payables	21	1,348	1,277
Other current liabilities	21	557	512
		2,440	2,170
Liabilities to be contributed to joint ventures (100% basis)		-	104
Other liabilities held for sale		15	59
		2,455	**2,333**
Total		**11,157**	**10,480**

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 2010	**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 / cancelled and SARs cancelled	-	-	-	(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**
Dividend paid	-	-	-	-	-	(242)	(242)	(4)	(246)
Options / performance shares granted	-	-	-	19	-	-	19	-	19
Options / performance shares exercised / cancelled and SARs cancelled	-	-	-	(18)	-	24	6	-	6
Proceeds from reissued shares	-	-	201	-	-	-	201	-	201
Change in DSM's share in subsidiaries	-	-	-	-	-	-	-	42	42
Reclassification to held for sale	-	-	-	-	-	-	-	-	-
Repurchase of shares	-	-	(357)	-	-	-	(357)	-	(357)
Total comprehensive income	-	-	-	(108)	735	49	676	56	732
Balance at 31 December 2011	**338**	**489**	**(698)**	**274**	**88**	**5,293**	**5,784**	**190**	**5,974**

Consolidated cash flow statement (note 26)

x € million		**2011**		2010
Operating activities				
Profit for the year		860		525
Income tax		129		189
Profit before income tax expense		989		714
Share of the profit of associates		(3)		(5)
Net finance costs				
- Before exceptional items		82		93
- Exceptional items		(140)		-
Operating profit		928		802
Depreciation, amortization and impairments		502		424
Earnings before interest, tax, depreciation and amortization		1,430		1,226
Adjustments for:				
- (Gain) or loss from disposals	(201)		37	
- Change in provisions	23		(63)	
- Defined benefit plans	(33)		(79)	
	(211)		(105)	
Interest received	103		61	
Interest paid	(161)		(150)	
Income tax received	7		5	
Income tax paid	(95)		(68)	
Other	41		61	
Changes, excluding working capital		(316)		(196)
Operating cash flow before changes in working capital		**1,114**		**1,030**
Changes in operating working capital:				
- Inventories	(112)		(108)	
- Trade receivables	(123)		(160)	
- Trade payables	(25)		249	
	(260)		(19)	
Changes in other working capital	28		92	
Changes in working capital		(232)		73
Cash provided by operating activities		**882**		**1,103**

Consolidated cash flow statement (note 26) continued

x €million	2011	2010
Cash provided by operating activities	**882**	**1,103**
Investing activities		
Capital expenditure for:		
- Intangible assets	(54)	(46)
- Property, plant and equipment	(423)	(370)
Proceeds from disposal of property, plant and equipment	8	7
Acquisition of subsidiaries and associates	(929)	(61)
Cash from net investment hedge	(77)	-
Proceeds from disposal of subsidiaries and businesses	513	363
Change in fixed-term deposits	748	(832)
Other financial assets:		
- Capital payments and acquisitions	(3)	(8)
- Change in loans granted	3	(24)
- Proceeds from disposals	221	7
Cash from / used in investing activities	**7**	**(964)**
Financing activities		
Loans taken up	35	5
Repayment of loans	(50)	(14)
Change in debt to credit institutions, commercial paper and current investments	74	(41)
Dividend paid	(155)	(206)
Proceeds from reissued shares	111	95
Repurchase of shares	(357)	-
Cash used in financing activities	**(342)**	**(161)**
Change in cash and cash equivalents	**547**	**(22)**
Cash and cash equivalents at 1 January	**1,453**	**1,340**
Exchange differences relating to cash held	58	135
Cash and cash equivalents at 31 December	**2,058**	**1,453**

Notes to the consolidated financial statements of Royal DSM

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 the parent company.

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.

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 the 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 24), income taxes (note 7) and the determination of fair values for financial instruments (note 23) and for share-based compensation (note 27). 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	
	2011	2010	**2011**	2010
US dollar	1.29	1.33	1.39	1.33
Swiss franc	1.22	1.25	1.23	1.38
Pound sterling	0.84	0.86	0.87	0.86
100 Japanese yen	1.00	1.08	1.11	1.17
Chinese renminbi	8.24	8.77	9.00	8.98

Presentation of consolidated income statement

From 2010 onwards DSM presents 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 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.

Segment reporting

With effect from 2011 DSM presents business segments and geographical information in accordance with the strategy DSM in motion: *driving focused growth*. Geographical information is 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. Furthermore, the segment Innovation Center was introduced, containing the activities of the DSM Innovation Center and the Emerging Business Areas. Information on the activities, products and services of the segments is available in the Review of business in the Report by the Managing Board. Information for 2010 is presented in accordance with the new segment structure.

Event after the reporting period

In January 2012 DSM and POET, LLC, one of the world's largest ethanol producers, announced a joint venture to commercially demonstrate and license cellulosic bio-ethanol, the next step in the development of biofuels, based on their proprietary and complementary technologies. The joint venture, POET–DSM Advanced Biofuels, LLC, is scheduled to start production in the second half of 2013 at one of the first commercial-scale cellulosic ethanol plants in the US. Further information on the new joint venture is provided in the section Review of business in 2011: Innovation Center starting on page 98. The formation of the joint venture is subject to regulatory approvals and other customary closing conditions. DSM will apply proportionate consolidation for the new joint venture once it is established.

2 Change in the scope of the consolidation

Acquisitions

2011

In February, DSM acquired 100% of the shares of Martek Biosciences Corporation (Martek), for a total consideration of € 789 million. The goodwill of € 337 million primarily results from the know-how of the employees, the ability to retain these employees and DSM specific synergies, notably the ability to cross-sell Martek's technology through the DSM network. Martek has annual sales of approximately USD 450 million and employs about 600 people. In consolidation, a part of the additional Martek sales is offset by the shift of ARA sales from DSM Food Specialties to Martek from external sales to internal supplies.

The impact of the acquisition of Martek on DSM's consolidated balance sheet, at the date of acquisition, is shown in the following table.

	Carrying amount	Adjustments to fair value	Opening balance sheet DSM
Assets			
Intangible assets	124	119	243
Property, plant and equipment	150	(19)	131
Other non-current assets	10	-	10
Inventories	75	13	88
Receivables	55	-	55
Cash and cash equivalents	60	-	60
Total assets	**474**	**113**	**587**
Liabilities			
Non-current liabilities	45	34	79
Current liabilities	48	8	56
Total liabilities	**93**	**42**	**135**
Net assets at fair value	**381**	**71**	**452**
Acquisition price (in cash)			789
Acquisition price (payable)			-
Consideration			**789**
Goodwill			**337**

The acquisition of Martek contributed € 284 million to net sales. If the acquisition had occurred on 1 January 2011, additional net sales would have been approximately € 335 million. The acquisition of Martek contributed € 19 million to the profit before tax and before exceptional items. Martek related exceptional items amounted to € 46 million before tax (for further information on exceptional items see note 6 Exceptional items).

DSM acquired a 51% stake in AGI Corporation of Taiwan in July 2011, through a subscription for newly issued shares combined with a public tender offer, for a total consideration of €41 million. AGI has annual sales of around €100 million and employs more than 300 people.

The impact of the acquisition of AGI Taiwan on DSM's consolidated balance sheet, at the date of acquisition, is shown in the following table.

	Carrying amount	Adjustments to fair value	Opening balance sheet DSM
Assets			
Intangible assets	0	10	10
Property, plant and equipment	37	8	45
Other non-current assets	4	-	4
Inventories	13	-	13
Receivables	29	-	29
Cash and cash equivalents	11	-	11
Total assets	**94**	**18**	**112**
Non-controlling interests	19	7	26
Liabilities			
Non-current liabilities	10	6	16
Current liabilities	39	4	43
Non-controlling interests and liabilities	**68**	**17**	**85**
Net assets at fair value	**26**	**1**	**27**
Acquisition price (in cash)			41
Acquisition price (payable)			-
Consideration			**41**
Goodwill			**14**

In October, DSM acquired a majority share of 91.75% in Shandong ICD, High Performance Fiber Co., Ltd., based in Laiwu, China. Shandong ICD is a manufacturer of ultra high molecular weight polyethylene and employs about 300 people.

The impact of the acquisition of Shandong ICD on DSM's consolidated balance sheet, at the date of acquisition, is shown in the following table.

	Carrying amount	Adjustments to fair value	Opening balance sheet DSM
Assets			
Intangible assets	11	4	15
Property, plant and equipment	34	-	34
Other non-current assets	0	-	0
Inventories	8	-	8
Receivables	3	-	3
Cash and cash equivalents	0	-	0
Total assets	**56**	**4**	**60**
Non-controlling interests	4	-	4
Liabilities			
Non-current liabilities	0	-	0
Current liabilities	1	-	1
Non-controlling interests and liabilities	**5**	**-**	**5**
Net assets at fair value	**51**	**4**	**55**
Acquisition price (in cash)			48
Acquisition price (payable)			30
Consideration			**78**
Goodwill			**23**

The impact of all acquisitions made in 2011 on DSM's consolidated balance sheet, at the date of acquisition, is summarized in the following table.

	Martek	AGI Taiwan	Shandong ICD	Other acquisitions	Opening balance sheet DSM
Assets					
Intangible assets	243	10	15	24	292
Property, plant and equipment	131	45	34	31	241
Other non-current assets	10	4	0	1	15
Inventories	88	13	8	1	110
Receivables	55	29	3	2	89
Cash and cash equivalents	60	11	0	1	72
Total assets	**587**	**112**	**60**	**60**	**819**
Non-controlling interests	-	26	4	0	30
Liabilities					
Non-current liabilities	79	16	0	1	96
Current liabilities	56	43	1	6	106
Non-controlling interests and liabilities	**135**	**85**	**5**	**7**	**232**
Net assets at fair value	**452**	**27**	**55**	**53**	**587**
Acquisition price (in cash)	789	41	48	61	939
Acquisition price (payable)	-	-	30	5	35
Consideration	**789**	**41**	**78**	**66**	**974**
Goodwill	**337**	**14**	**23**	**13**	**387**

The acquisitions in 2011 contributed €316 million to net sales. If all acquisitions had occurred on 1 January 2011, additional net sales would have been approximately €400 million. The acquisitions in 2011 contributed €17 million to the profit before tax and before exceptional items; this would also have been approximately €17 million if they had all occurred on 1 January 2011.

Other acquisitions comprise C5 Yeast Company, Vitatene, the premix unit of Fatrom and Volgaplast.

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.

Disposals

2011

In the second quarter of 2011 DSM completed the sale of DSM Elastomers (Keltan®) to LANXESS for €338 million on a cash and debt-free basis. In view of the disposal the related activities are reported as discontinued operations and comparatives have been re-presented. The impact of the deconsolidation of these activities on the DSM financial statements is presented in the following table:

Assets		
Intangible assets and Property, plant and equipment	(132)	
Other non-current assets	(5)	
Inventories	(84)	
Receivables	(50)	
Cash and cash equivalents	(40)	
Total assets		**(311)**
Non-controlling interests	5	
Liabilities		
Non-current liabilities	(2)	
Current liabilities	(37)	
Non-controlling interests and liabilities		**(34)**
Net assets at fair value		**(277)**
Consideration, net of selling costs, translation differences and net debt		387
Book profit		**110**
Income tax		1
Net book profit		**111**

Before disposal the business was classified as assets and liabilities held for sale.

The impact of the disposal on the cash flow statement is presented in the following table:

	2011	2010
Net cash provided by operating activities	(14)	60
Net cash used in investing activities	(3)	(8)
Net cash used in financing activities	0	0
Net change in cash and cash equivalents	(17)	52

In the third quarter of 2011 DSM completed the formation of the DSM Sinochem Pharmaceuticals joint venture, which is consolidated on a 50% proportionate basis from 1 September 2011 onwards. As a consequence of the transaction 50% of the assets and liabilities of the business were effectively sold to the joint venture partner. DSM continues to account for the assets and liabilities that are retained in the business on the basis of existing book values. In view of DSM's continuing involvement with the business the related activities remain part of continuing operations. The impact of the 50% disposal is presented in the following table:

Assets		
Intangible assets and Property, plant and equipment	(72)	
Other non-current assets	(17)	
Inventories	(41)	
Receivables	(67)	
Cash and cash equivalents	(17)	
Total assets		**(214)**
Non-controlling interests	(4)	
Liabilities		
Non-current liabilities	(26)	
Current liabilities	(92)	
Non-controlling interests and liabilities		**(122)**
Net assets at fair value		**(92)**
Consideration, net of selling costs and translation differences		166
Impairment		(62)
Book profit		**12**
Income tax		17
Net book profit		**29**

Before disposal the business was classified as asset/liabilities to be contributed to joint ventures.

2010

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 assets at fair 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	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
Net cash provided by operating activities	(41)	(22)	(12)	(0)	(75)
Net cash used in investing activities	10	2	2	-	14
Net cash used in financing activities	-	-	-	-	-
Net change in cash and cash equivalents	(31)	(20)	(10)	(0)	(61)

Other assets and liabilities held for sale

2011
In view of the expected disposal of the Maleic Anhydride and Derivatives business of DSM Pharmaceutical Products in Linz (Austria), this business continues to be classified as held for sale.

2010
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), these businesses were reclassified as held for sale. Before reclassification these activities were reported in the segment Base Chemicals and Materials, which has ceased to exist, and Pharma.

Major classes of assets and liabilities held for sale consisted of property, plant and equipment to an amount of € 141 million and working capital to an amount of € 80 million.

Deconsolidation

2011
As a result of the divestment of DSM Elastomers, DSM's interests in Sitech Manufacturing Services C.V., Sitech Utility Holding Beheer B.V. and Sitech Utility Holding C.V. were also reduced. At the end of June DSM only retained significant influence on the financial and operating policy decisions of these companies and therefore consolidation was terminated. The remaining investments in these entities were recognized at their fair value at the time when 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.

2010
As a result of the divestment of DSM Agro and DSM Melamine in 2010 DSM's interests in Utility Support Group B.V. (USG) and in EdeA v.o.f. were also reduced. At the end of June 2010 DSM only retained significant influence on 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

2011
In 2011 the following changes in DSM's share in subsidiaries occurred without impacting the classification of the participations.

	DSM share	
	Old	New[1]
Sitech Services B.V.	77%	70%
Sitech Manufacturing Services Beheer B.V.	77%	70%
Sitech IAZI B.V.	77%	70%
Sitech Site Services B.V.	77%	70%

[1] All as a result of the disposal of DSM Elastomers

2010

In 2010 the following changes in 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]

2011	Continuing operations								Discontinued operations	Eliminations	Total
	Nutrition	Pharma	Performance Materials	Polymer Intermediates	Innovation Center	Corporate activities[2]	Eliminations	Total			
Financial performance											
Net sales	3,370	677	2,752	1,820	60	369	-	9,048	145	-	9,193
Supplies to other clusters	68	21	21	435	4	23	(571)	1	6	(7)	-
Supplies	**3,438**	**698**	**2,773**	**2,255**	**64**	**392**	**(571)**	**9,049**	**151**	**(7)**	**9,193**
Operating profit	577	(8)	162	339	(69)	(135)	-	866	29	-	895
Exceptional items	(51)	22	(33)	-	-	(15)	-	(77)	110	-	33
Operating profit including exceptional items	**526**	**14**	**129**	**339**	**(69)**	**(150)**	**-**	**789**	**139**	**-**	**928**
Depreciation and amortization	155	44	121	25	11	41	-	397	-	-	397
Impairments	3	-	10	16	1	3	-	33	-	-	33
Additions to provisions	6	30	24	-	-	9	-	69	-	-	69
Share of the profit of associates	-	2	-	-	-	1	-	3	-	-	3
R&D costs[3]	146	14	107	13	63	35	-	378	3	-	381
Wages, salaries and social security costs	597	179	319	67	34	322	-	1,518	11	-	1,529
Financial position											
Total assets	3,826	1,104	2,085	835	255	3,052	-	11,157	-	-	11,157
Total liabilities	1,115	294	601	417	23	2,733	-	5,183	-	-	5,183
Capital employed at year-end	3,019	802	2,016	397	174	173		6,581	-	-	6,581
Capital expenditure and acquisitions	950	87	258	81	40	84	-	1,500	2	-	1,502
Share in equity of associates	2	-	2	8	3	7	-	22	-	-	22
EBITDA / net sales (in %)	21.8	5.3	10.6	20.9				14.3			14.4
Workforce[4]											
Average in fte	8,051	3,174	5,454	1,376	348	3,417	-	21,820	-	-	21,820
Year-end (headcount)	8,329	3,324	5,599	1,439	383	3,150	-	22,224	-	-	22,224

[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] Corporate activities also includes costs for regional holdings, corporate overhead and share-based compensation
[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]

2010	Continuing operations								Discon-tinued opera-tions	Elimina-tions	Total
	Nutrition	Pharma	Perform-ance Materials	Polymer Interme-diates	Inno-vation Center	Corpo-rate activities[2]	Elimina-tions	Total			
Financial performance											
Net sales	3,005	739	2,507	1,398	50	477	-	8,176	874	-	9,050
Supplies to other clusters	52	14	42	395	4	16	(472)	51	100	(151)	-
Supplies	**3,057**	**753**	**2,549**	**1,793**	**54**	**493**	**(472)**	**8,227**	**974**	**(151)**	**9,050**
Operating profit	551	3	163	186	(64)	(87)	-	752	86	-	838
Exceptional items	-	15	10	-	-	(13)	-	12	(48)	-	(36)
Operating profit including exceptional items	**551**	**18**	**173**	**186**	**(64)**	**(100)**	**-**	**764**	**38**	**-**	**802**
Depreciation and amortization	129	58	119	33	14	34	-	387	31	-	418
Impairments	4	-	1	4	1	12	-	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]	110	12	85	15	56	36	-	314	10	-	324
Wages, salaries and social security costs	524	174	308	60	32	297	-	1,395	76	-	1,471
Financial position											
Total assets	2,777	1,175	2,253	700	199	3,089	-	10,193	287	-	10,480
Total liabilities	1,008	275	587	332	38	2,604	-	4,844	59	-	4,903
Capital employed at year-end	2,035	888	1,774	354	112	101	-	5,264	204	-	5,468
Capital expenditure and acquisitions	153	76	118	46	7	51	-	451	25	-	476
Share in equity of associates	2	2	1	10	3	(2)	-	16	-	-	16
EBITDA / net sales (in %)	22.8	8.3	11.3	16.0				14.2			14.1
Workforce[4]											
Average in fte	7,237	4,100	4,648	1,339	298	3,228	-	20,850	1,204	-	22,054
Year-end (headcount)	7,409	4,079	4,918	1,361	309	3,417	-	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 Corporate activities also includes costs for regional holdings, corporate overhead and share-based compensation
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

2011	Continuing operations										
	The Nether-lands	Rest of Western Europe	Eastern Europe	North America	Latin America	China	India	Japan	Rest of Asia	Rest of the world	Total
Net sales by origin											
In € million	3,151	2,601	91	1,505	247	987	118	78	228	42	9,048
In %	35	29	1	17	3	11	1	0	3	0	100
Net sales by destination											
In € million	662	2,689	514	1,692	589	1,438	167	299	793	205	9,048
In %	7	29	6	19	7	16	2	3	9	2	100
Total assets	4,184	2,594	93	2,342	269	1,121	72	150	273	59	11,157
Intangible assets and Property, plant and equipment											
Capital expenditure	154	114	4	86	5	148	1	0	10	4	526
Carrying amount	1,445	1,266	29	1,723	25	539	12	39	97	16	5,191
Workforce at year-end[1]	6,205	6,398	334	3,650	824	3,423	481	146	627	136	22,224
2010											
Net sales by origin											
In € million	2,941	2,536	65	1,192	223	796	130	108	139	46	8,176
In %	36	31	1	15	3	10	1	1	2	0	100
Net sales by destination											
In € million	544	2,602	436	1,518	585	1,157	162	261	712	199	8,176
In %	7	32	5	19	7	14	2	3	9	2	100
Total assets	4,239	2,943	75	1,464	372	885	113	163	171	55	10,480
Intangible assets and Property, plant and equipment											
Capital expenditure	124	119	8	91	8	43	3	2	2	2	402
Carrying amount	1,480	1,249	21	910	40	397	30	38	21	13	4,199
Workforce at year-end[1]	6,491	6,381	241	2,878	979	3,170	662	139	400	152	21,493

[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.

4 Total costs

Total operating costs in 2011 of continuing operations before exceptional items amounted to €8.2 billion, €0.8 billion higher than in 2010, when these costs stood at €7.4 billion. Total operating costs in 2011 include Cost of sales to an amount of €6.5 billion (2010: €6.0 billion); gross margin in % of net sales stood at 28% (2010: 27%).

Employee benefits costs

	2011	2010
Continuing operations before exceptional items		
Wages and salaries	1,310	1,214
Social security costs	189	165
Pension costs (see also note 24)	125	87
Share-based compensation (see also note 27)	19	16
Total	**1,643**	**1,482**

Depreciation, amortization and impairments

	2011	2010
Continuing operations before exceptional items		
Amortization of intangible assets	83	61
Depreciation of property, plant and equipment	314	326
Impairment losses	33	22
Total	**430**	**409**

Other operating income

	2011	2010
Continuing operations before exceptional items		
Release of provisions	16	15
Gain on assets, activities, scrap, waste material, emission rights, royalties and licenses sold	15	12
Insurance benefits	14	2
Claims	7	-
Sundry	19	14
Total	**71**	**43**

Other operating expense

	2011	2010
Continuing operations before exceptional items		
Additions to provisions	8	23
Loss from the disposal or closure of assets and activities	1	1
Exchange differences	9	4
Costs of financial instruments	5	-
Sundry	17	13
Total	**40**	**41**

5 Net finance costs

	2011	2010
Continuing operations before exceptional items		
Interest costs		
Interest expense	100	101
Capitalized interest during construction	(2)	(1)
Interest charge on discounted provisions	1	2
Total	**99**	**102**
Other financial income and expense		
Interest income	(18)	(12)
Exchange differences	4	0
Result from other securities	(4)	(6)
Sundry	1	9
Total	**(17)**	**(9)**
Net finance costs	**82**	**93**

In 2011 the interest rate applied in the capitalization of interest during construction was 5% (2010: 5%).

6 Exceptional items

	2011	2010
Cost of sales:		
- Reversal of impairment of intangible assets and property, plant and equipment	-	55
- Impairments of property, plant and equipment and business activities	(10)	(26)
- Other costs	(38)	-
	(48)	29
Research and development:		
- Impairment of intangible assets	-	(12)
- Other costs	-	(2)
	-	(14)
General and administrative:		
- Other costs	(13)	-
	(13)	-
Other operating income:		
- Release of provisions	-	45
- Book gain on disposals	12	10
	12	55
Other operating expense:		
- Additions to provisions	(28)	-
- Other costs	-	(58)
	(28)	(58)
Operating profit	**(77)**	**12**
Other financial income and expense	140	-
Total, before income tax expense	**63**	**12**
Income tax expense	25	(4)
Profit for the year	**88**	**8**
Reclassification of the net result from activities disposed of	111	(48)
Net result from exceptional items	**199**	**(40)**

2011

The exceptional items in 2011 are listed below:

- The impairments of property, plant and equipment and business activities in Cost of sales relate to DSM Resins (see also Other operating expense).
- Other costs in Cost of sales and General and administrative mainly relate to the acquisition of Martek and include the acquisition costs (€ 13 million) and non-recurring costs related to value adjustments of inventories (€ 33 million).
- Legal claims have been included under other costs in Cost of sales (€ 5 million) and Other operating expense (€ 5 million).
- The book profit on disposals relates to the establishment of the DSM Sinochem Pharmaceuticals joint venture. For further information see note 2 Changes in the scope of consolidation.
- A restructuring program of € 28 million within DSM Resins has been included under Cost of sales (€ 5 million) and Other operating expense (€ 23 million). For further information see note 18 Provisions.
- Other financial income and expense relates to the book profit before tax on the sale of the Danisco shares (€ 140 million). For further information see note 11 Other financial assets.
- The reclassification of the net result from activities disposed of relates to the result from the disposal of activities. This consists of the book profit after tax on the disposal of DSM Elastomers For further information see note 2 Changes in the scope of consolidation.

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.

7 Income tax

The income tax expense on the total result was € 129 million, which represents an effective income tax rate of 13.1% (2010: € 189 million, representing an effective income tax rate of 26.5%) and can be broken down as follows:

	2011	2010
Current tax expense:		
- Current year	(84)	(58)
- Prior-year adjustments	4	4
	(80)	**(54)**
Deferred tax expense:		
- Originating from temporary differences and their reversal	(50)	(68)
- Prior-year adjustments	(8)	6
- Change in tax rate	4	(2)
- Change in tax losses and tax credits recognized	5	(71)
	(49)	**(135)**
Total	**(129)**	**(189)**
Of which related to:		
- The result from continuing operations before exceptional items	(147)	(162)
- The result from exceptional items continuing operations	25	(4)
- The result from discontinued operations	(7)	(23)

The effective income tax rate on the result from continuing operations before exceptional items was 18.7% in 2011 (2010: 24.4%). This decrease was mainly caused by a different geographic spread of results after the divestments and acquisitions, and the application of preferential tax regimes in countries where DSM is operating. The tax rate for continuing operations for 2012 is estimated at 19% (same as actual tax rate in 2011). 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 %	2011	2010
Domestic income tax rate	25.0	25.5
Tax effects of:		
- Deviating rates	(4.9)	(6.4)
- Tax-exempt income and non-deductible expense	(0.5)	0.3
- Other effects	(0.9)	5.0
Effective tax rate continuing operations	**18.7**	**24.4**
Discontinued operations	0.3	0.3
Exceptional items	(5.9)	1.8
Total effective tax rate	**13.1**	**26.5**

The balance of deferred tax assets and deferred tax liabilities decreased by € 71 million owing to the changes presented in the table below:

	2011	2010
Balance at 1 January		
Deferred tax assets	326	322
Deferred tax liabilities	(155)	(115)
Total	**171**	**207**
Changes:		
- Income tax expense in income statement	(49)	(135)
- Income tax expense in Other comprehensive income	60	108
- Acquisitions and disposals	(77)	(6)
- Change in scope of consolidation	2	-
- Exchange differences	(7)	-
- Reclassification to held for sale	-	(3)
Balance at 31 December	**100**	**171**
Of which:		
- Deferred tax assets	292	326
- Deferred tax liabilities	(192)	(155)

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:

	2011		2010	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	34	(112)	41	(32)
Property, plant and equipment	32	(254)	36	(221)
Financial assets	2	(3)	18	(37)
Inventories	53	(30)	66	(40)
Receivables	2	(20)	9	(29)
Equity	-	-	1	-
Other non-current liabilities	41	(2)	10	(1)
Non-current provisions	58	(8)	71	(20)
Non-current borrowings	4	-	3	-
Other current liabilities	49	(6)	88	(11)
	275	**(435)**	**343**	**(391)**
Tax losses carried forward	260	-	222	-
Reclassification to held for sale		-	(5)	2
Set-off	(243)	243	(234)	234
Total	**292**	**(192)**	**326**	**(155)**

No deferred tax assets were recognized for loss carryforwards amounting to € 103 million (2010: € 88 million). Unrecognized loss carryforwards amounting to € 40 million will expire in the years up to and including 2016, € 26 million between 2017 and 2021 and the remaining € 37 million between 2022 and 2026.

The valuation of deferred tax assets depends on the probability of the reversal of temporary 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 will start to expire in 2019. Other foreign tax loss carryforwards primarily exist in the US and Austria. US tax losses will start to expire in 2024. 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 2010						
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
- Reclassifications to held for sale	(17)	-	(1)	(2)	-	(14)
- Other reclassifications	9	-	(9)	40	(30)	8
- Other	(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**
Changes in carrying amount:						
- Capital expenditure	54	-	5	49	-	-
- Put into operation	-	-	-	(23)	-	23
- Acquisitions	679	387	21	-	-	271
- Disposals and deconsolidations	2	-	(32)	31	(2)	5
- Amortization	(83)	-	(6)	-	(1)	(76)
- Impairments	(7)	-	-	-	-	(7)
- Exchange differences	56	34	2	4	-	16
- Other reclassifications	15	-	2	1	-	12
	716	**421**	**(8)**	**62**	**(3)**	**244**
Balance at 31 December 2011						
Cost	2,393	1,281	134	115	22	841
Amortization and impairment losses	607	169	71	-	4	363
Carrying amount	**1,786**	**1,112**	**63**	**115**	**18**	**478**

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 2011 is as follows:

Acquisition	**2011**	2010	Cash generating unit	Currency	Year of acquisition
Martek	360	-	DSM Nutritional Products	USD	2011
NeoResins	358	358	DSM Resins	EUR	2005
Catalytica	170	165	DSM Pharmaceuticals, Inc.	USD	2001
The Polymer Technology Group	68	66	DSM PTG	USD	2008
Pentapharm	31	31	DSM Nutritional Products	CHF	2007
Shandong ICD	23	-	DSM Dyneema	CNY	2011
Novamid	17	12	DSM Engineering Plastics	JPY	2010
AGI Corporation	15	-	DSM Resins	TWD	2011
Syntech Far East	10	10	DSM Resins	HKD	2005
Zhejiang Zhongken Biotechnology	10	9	DSM Food Specialties	CNY	2010
C5 Yeast Company	9	-	DSM Innovation Center	EUR	2011
Crina	8	7	DSM Nutritional Products	CHF	2006
DSM Japan Engineering Plastics	6	6	DSM Engineering Plastics	EUR	2003
Fatrom	5	-	DSM Nutritional Products	RON	2011
Other acquisitions	22	27			
Total	**1,112**	**691**			

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. DSM Nutritional Products, DSM Resins and DSM Pharmaceuticals, Inc. are the three cash generating units to which significant amounts of goodwill are allocated. The growth assumptions for these cash generating units are based on the growth of the global food and feed markets, the demand for advanced coating resins that is influenced by growth in the building and construction markets and the growth of the American market for pharmaceutical custom manufacturing services, respectively. The pre-tax discount rate is between 7.5% and 14% (same as 2010) 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:

	2011				2010
	Cost	Amortization	Carrying amount	Of which acquisition-related	Of which acquisition-related
Application software	181	(125)	56	5	1
Marketing-related	56	(7)	49	49	6
Customer-related	189	(34)	155	154	8
Technology-based	377	(179)	198	169	109
Other	38	(18)	20	1	-
Total	**841**	**(363)**	**478**	**378**	**124**
Total 2010	516	(282)	234	124	

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 2010						
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	-
- Reclassifications 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**
Changes in carrying amount:						
- Capital expenditure	474	4	34	3	433	-
- Put into operation	-	59	178	22	(259)	-
- Acquisitions	241	84	111	6	40	-
- Disposals	(4)	(1)	6	1	(10)	-
- Deconsolidations	(1)	(1)	-	-	-	-
- Depreciation	(314)	(62)	(238)	(14)	-	-
- Impairment (losses) / reversals	(98)	(6)	(89)	(1)	(2)	-
- Exchange differences	73	19	34	1	19	-
- Reclassification from held for sale	108	18	95	-	(5)	-
- Other reclassifications	(15)	-	-	(8)	(7)	-
- Other changes	(2)	-	-	-	(2)	-
	462	**114**	**131**	**10**	**207**	**-**
Balance at 31 December 2011						
Cost	7,651	1,943	4,867	221	593	27
Depreciation and impairment losses	4,246	883	3,182	159	1	21
Carrying amount	**3,405**	**1,060**	**1,685**	**62**	**592**	**6**

Property, plant and equipment includes assets acquired under finance lease agreements with a carrying amount of € 7 million (31 December 2010: € 9 million). The related commitments are included under Borrowings and amount to € 7 million (31 December 2010: € 10 million). The total of the minimum lease payments at the balance sheet date amounts to € 7 million (31 December 2010: € 11 million) and their present values to € 6 million (31 December 2010: € 10 million).

Overview of minimum lease payments in time:

2012	4
2013-2016	3
After 2016	-
Total	**7**

In 2011, on balance an impairment of € 98 million was recognized. This mainly related to an impairment at DSM Anti-Infectives of € 62 million, at DSM Fibre Intermediates of € 14 million and at DSM Dyneema of € 7 million. In the context of the formation of the joint venture with Sinochem, management determined that DSM Sinochem Pharmaceuticals comprised ten individual cash generating units. On the basis of this new cash generating unit structure and the business plan for the joint venture agreed between DSM and Sinochem an impairment test was performed. It was determined that the carrying value of certain cash generating units exceeded their value in use and therefore an impairment charge of € 62 million was recognized. Subsequently DSM contributed the impaired assets of DSM Anti-infectives (reported in the Pharma segment) to the joint venture.

In 2010 on balance an impairment reversal of € 15 million was recognized. This mainly related to the reversal of the previously recognized impairment of the cash generating unit DSM Anti-infectives of € 51 million on the basis of the fair value less cost to sell of that unit. The fair value was based on the bid of Sinochem Group for 50% of the business in the context of the establishment of the joint venture DSM Sinochem Pharmaceuticals. Furthermore, an impairment loss of € 26 million at DSM Pharmaceutical Products and various smaller impairments were recognized.

10 Associates

	2011	2010
Balance at 1 January	**25**	**18**
Changes:		
- Share of profit	5	5
- Capital payments	1	3
- Dividend received	(1)	(1)
- New loans	4	4
- Disposals	-	(1)
- Consolidation changes	1	(0)
- Reclassification to held for sale	0	(3)
- Transfers	(1)	(1)
- Exchange differences	1	1
Balance at 31 December	**35**	**25**
Of which loans granted	13	9

DSM's share in its most important associates and the financial information on all associates on a 100% basis is disclosed in note 29 Interests in associates.

11 Other financial assets

	Total	Other participations	Other receivables	Other deferred items
Balance at 1 January 2010	**233**	**170**	**51**	**12**
Changes:				
- Charged to the income statement	(2)	-	-	(2)
- Capital payments	5	5	-	-
- Earn-out payments related to disposals	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**
Changes:				
- Charged to the income statement	(15)	-	(8)	(7)
- Acquisitions	15	2	12	1
- Capital payments	6	6	-	-
- Earn-out payments related to disposals	0	-	0	-
- Disposals	(222)	(222)	-	-
- Consolidation changes	15	-	15	-
- Loans granted	12	-	12	-
- Repayments	(4)	-	(4)	-
- Exchange differences	1	-	2	(1)
- Transfers	(6)	-	(12)	6
- Changes in fair value	54	54	-	-
- Reclassification from held for sale	8	-	8	0
- Other changes	1	-	2	(1)
Balance at 31 December 2011	**135**	**47**	**70**	**18**

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 € 30 million is included that relates to equity instruments whose fair value cannot be measured reliably (2010: € 24 million). These instruments are therefore measured at cost.

The disposal within Other participations relates to the sale of the shares in Danisco, which resulted in a profit of € 140 million before tax, which is reported as an exceptional item.

12 Inventories

	2011	2010
Raw materials and consumables	473	422
Intermediates and finished goods	1,143	968
	1,616	**1,390**
Adjustments to lower net realizable value	(43)	(50)
Total	**1,573**	**1,340**

The carrying amount of inventories adjusted to net realizable value (before reclassification to held for sale) was € 159 million (2010: € 140 million).

Changes in the adjustment to net realizable value

Balance at 1 January 2011	**(50)**
Additions charged to income statement	(90)
Utilization / reversals	99
Exchange differences	(1)
Other	(1)
Balance at 31 December 2011	**(43)**

13 Receivables

	2011	2010
Trade receivables		
Trade accounts receivable	1,536	1,352
Deferred items	19	20
Receivables from associates	16	7
	1,571	**1,379**
Adjustment for bad debts	(20)	(18)
Total	**1,551**	**1,361**
Other receivables		
Income taxes receivable	24	27
Other taxes and social security contributions	15	10
Government grants	-	1
Loans	11	13
Other receivables	94	60
Deferred items	9	5
Total	**153**	**116**

Deferred items comprise € 28 million (2010: € 25 million) in prepaid expenses that will impact profit or loss in future periods but have already been paid.

The increase in other receivables mainly relates to the outstanding part of the consideration relating to the establishment of the DSM Sinochem Pharmaceuticals joint venture.

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 € 1,367 million is provided below. The remaining balance reported as trade receivables amounting to € 169 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 %	2011	2010
Neither past due nor impaired	86	88
1-29 days overdue	11	10
30-89 days overdue	1	1
90 days or more overdue	2	1

The changes in the allowance for doubtful accounts receivable are as follows:

Balance at 1 January 2011	**(18)**
Additions charged to income statement	(5)
Deductions	4
Acquisitions	(1)
Exchange differences	0
Balance at 31 December 2011	**(20)**

14 Current investments

	2011	2010
Fixed term deposits	89	837
Total	**89**	**837**

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

	2011	2010
Deposits	920	536
Cash at bank and in hand	1,122	640
Commercial paper	-	244
Payments in transit	2	19
Bills of exchange	14	14
Total	**2,058**	**1,453**

Cash at year-end 2011 was not being used as collateral (same as in 2010). It was restricted for an amount of € 2 million (in 2010 no restriction).

16 Equity

	2011	2010
Balance at 1 January	**5,577**	**5,011**
Net profit	860	525
Net exchange differences	63	340
Net actuarial gains/(losses) on defined benefit obligations	(31)	(139)
Net asset ceiling related to defined benefit obligations	1	(127)
Dividend	(246)	(207)
Proceeds from reissue of ordinary shares	201	95
Repurchase of shares	(357)	-
Other changes	(94)	79
Balance at 31 December	**5,974**	**5,577**

After the balance sheet date the following dividends were declared by the Managing Board:

	2011	2010
Per cumulative preference share A: € 0.23 (2010: € 0.23)	10	10
Per ordinary share: € 1.45 (2010: € 1.35)	237	224
Total	**247**	**234**

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.

For a description of the rules of profit appropriation and of the statutory rights attached to preference shares B, see page 218.

Share capital

On 31 December 2011 the authorized capital amounted to € 1,125 million (2010: € 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. All shares have a nominal value of € 1.50 each.

The changes in the number of issued and outstanding shares in 2010 and 2011 are shown in the following table.

	Issued shares		Treasury shares
	Ordinary	Cumprefs A	Ordinary
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)
Other	-	-	(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**	
Balance at 1 January 2011	**181,425,000**	**44,040,000**	14, 957,368
Reissue of shares in connection with share-based payments			(3,568,018)
Repurchase of shares			9,000,000
Dividend in the form of ordinary shares			(2,221,738)
Balance at 31 December 2011	181,425,000	44,040,000	18,167,612
Number of treasury shares at 31 December 2011	(18,167,612)	-	
Number of shares outstanding at 31 December 2011	**163,257,388**	**44,040,000**	

The average number of ordinary shares outstanding in 2011 was 165,566,944 (2010: 164,047,019). All shares issued are fully paid.

The cumulative preference shares A have been classified as equity because there is no mandatory redemption and distributions to the shareholders are at the discretion of DSM.

On 31 December 2011 no cumulative preference shares B were outstanding.

Share premium

Of the total share premium of €489 million (2010: €489 million), an amount of €114 million (2010: €116 million) can be regarded as entirely free of tax.

Treasury shares

On 31 December 2010 DSM possessed 14,957,368 ordinary shares (nominal value €22 million, 6.6% of the share capital). In 2011, DSM repurchased 9,000,000 ordinary shares and used 3,568,018 ordinary shares for servicing management and personnel share-option rights. Furthermore, 2,221,738 treasury shares were reissued as stock dividend.

On 31 December 2011 DSM possessed 18,167,612 ordinary shares (nominal value €27 million, 8.1% of the share capital). The average purchase price of the ordinary treasury shares was €37.75. As at 31 December 2011, 6,919,350 of the total number of treasury shares outstanding were held for servicing management and personnel share-option rights. The remainder, 11,248,262 shares, is the balance of shares that were purchased under the company's share buy-back program in 2007 and 2008 and shares that were reissued as stock dividend in 2011.

Other reserves in Shareholder's equity

	Total	Translation reserve	Hedging reserve	Reserve for share-based compensation	Fair value reserve
Balance at 1 January 2010	**(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/cancelled	(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**
Changes:					
Fair-value changes of derivatives	(116)	-	(116)	-	-
Release to income statement	(4)	-	(4)	-	-
Disposals	(139)	-	-	-	(139)
Fair-value changes of other financial assets	54	-	-	-	54
Exchange differences	47	47	-	-	-
Options and performance shares granted	19	-	-	19	-
Options and performance shares exercised/cancelled	(18)	-	-	(18)	-
Income tax	50	6	24	-	20
Total changes	(107)	53	(96)	1	(65)
Balance at 31 December 2011	**274**	**271**	**(21)**	**40**	**(16)**

17 Earnings per ordinary share

in €	Continuing operations			Discontinued operations	Total
	Before exceptional items	Exceptional items	Total		
2010					
- Basic earnings	**2.89**	**0.05**	**2.94**	**0.09**	**3.03**
- Impact of reclassification of net result from activities disposed of	-	(0.29)	(0.29)	0.29	-
- Basic earnings after reclassification of the net result from discontinued operations to exceptional items	2.89	(0.24)	2.65	0.38	3.03
- Diluted earnings	**2.87**	**0.05**	**2.92**	**0.09**	**3.01**
- Impact of reclassification of net result from activities disposed of	-	(0.29)	(0.29)	0.29	-
- Diluted earnings after reclassification of the net result from discontinued operations to exceptional items	2.87	(0.24)	2.63	0.38	3.01
- Dividend distributed in the period					1.20
- Dividend for the year					1.35
- 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
2011					
- Basic earnings	**3.53**	**0.53**	**4.06**	**0.80**	**4.86**
- Impact of reclassification of net result from activities disposed of	-	0.67	0.67	(0.67)	-
- Basic earnings after reclassification of the net result from discontinued operations to exceptional items	3.53	1.20	4.73	0.13	4.86
- Diluted earnings	**3.50**	**0.53**	**4.03**	**0.79**	**4.82**
- Impact of reclassification of net result from activities disposed of	-	0.66	0.66	(0.66)	-
- Diluted earnings after reclassification of the net result from discontinued operations to exceptional items	3.50	1.19	4.69	0.13	4.82
- Dividend distributed in the period (including stock dividend)					1.40
- Dividend for the year					1.45
- Average number of ordinary shares outstanding (x 1000)					165,567
- Effect of dilution due to share options (x 1000)					1,068
- Adjusted average number of ordinary shares (x 1000)					166,635

18 Provisions

The total of non-current and current provisions increased by €33 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 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
Balance at 1 January 2011	**28**	**35**	**41**	**22**	**126**
Changes in 2011:					
- Additions	31	2	2	34	69
- Releases	(8)	(4)	-	(5)	(17)
- Uses	(13)	(3)	(2)	(11)	(29)
- Acquisitions	-	4	-	1	5
- Exchange differences	1	0	0	0	1
- Reclassifications	3	-	1	-	4
Total changes	14	(1)	1	19	33
Balance at 31 December 2011	**42**	**34**	**42**	**41**	**159**
Of which current	16	4	4	19	43

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 2011 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.

The provisions for other long-term employee benefits mainly relate to the length-of-service and the end-of-service payment.

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 restructuring project at DSM Resins (€ 23 million).

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 litigation claims and onerous contracts.

19 Borrowings

		2011		2010
	Total	Of which current	Total	Of which current
Debenture loans	1,729	-	1,738	-
Private loans	308	11	292	46
Finance lease liabilities	7	4	10	2
Credit institutions / commercial paper	145	145	57	57
Total	**2,189**	**160**	**2,097**	**105**

In agreements governing loans with a residual amount at year-end 2011 of € 1,962 million, none of which were of a short-term nature (31 December 2010: € 1,964 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 2011 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 with a stable outlook, which was reconfirmed in 2011.

At 31 December 2011, borrowings to a total of € 744 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:

	2011	2010
2011	-	48
2012	15	22
2013	130	117
2014	537	505
2015 and 2016	618	606
2017 through 2021	744	742
Total	**2,044**	**2,040**

A breakdown of the borrowings by currency (excluding debt to credit institutions and commercial paper) is given in the following table:

	2011	2010
EUR	1,752	1,756
USD	240	238
CNY	36	34
Other	16	12
Total	**2,044**	**2,040**

On balance, total borrowings increased by €92 million owing to the following changes:

	2011	2010
Balance at 1 January	**2,097**	**2,204**
Loans taken up	41	14
Repayments	(50)	(14)
Changes in fair value	(13)	11
Acquisitions/disposals	2	(1)
(De)consolidations	14	(78)
Changes in debt to credit institutions/commercial paper	54	(71)
Exchange differences	10	22
Reclassification from held for sale	15	-
Other changes	19	10
Balance at 31 December	**2,189**	**2,097**

The average effective interest rate on the portfolio of borrowings outstanding in 2011, including financial instruments related to these borrowings, amounted to 4.3% (2010: 4.0%).

A breakdown of debenture loans is given below:

			2011	2010
EUR loan	4.00%	2005-2015	488	492
EUR loan	5.25%	2007-2017	744	743
EUR loan	5.75%	2009-2014	497	503
Total			**1,729**	**1,738**

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). In August 2011 the swap to floating was unwound and an interest advantage of 1.54% per annum was locked in for the remaining life time. The effective interest rate for the increase now amounts to 3.67% (2010: floating at 2.17% above 1 month Euribor).

As in 2010, at year-end 2011 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). In August 2011 the swap to floating was unwound and an interest advantage of 1.31% per annum was locked in for the remaining life time. The effective interest now amounts to 5.1% for the whole loan (year-end 2010 5.88% on the fixed rate part of €200 million and 3.48% above 1 month Euribor for the floating part of €300 million).

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 year interest rate of 3.42% excluding DSM spread.

In November 2011 pre-hedge contracts were concluded for an intended refinancing in 2015 of the 4% EUR loan 2005-2015 at a 10 year interest rate of 3.20% excluding DSM spread. At year-end 2011 the fair value of the pre-hedge contracts amounted to €27 million negative (year-end 2010 €31 million positive), which is recognized in the hedging reserve.

A breakdown of private loans is given below:

			2011	2010
CNY loan	floating (12 months)	2008-2014	36	34
USD loan	5.51%	2003-2013	117	113
USD loan	5.61%	2003-2015	116	113
Other loans			39	32
Total			**308**	**292**

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 liability 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 23.

20 Other non-current liabilities

	2011	2010
Investment grants	10	12
Deferred items	50	4
Other non-current liabilities	9	17
Total	**69**	**33**

The increase in deferred items mainly relates to the settlement of an interest rate swap and to customer funded projects.

21 Current liabilities

	2011	2010
Trade payables		
Received in advance	29	20
Trade accounts payable	1,300	1,245
Notes and cheques due	3	11
Owing to associates	16	1
Total	**1,348**	**1,277**
Other current liabilities		
Income taxes payable	42	41
Other taxes and social security contributions	59	42
Pensions	4	4
Other liabilities	399	368
Deferred items	53	57
Total	**557**	**512**

22 Contingent liabilities and other financial obligations

The contingent liabilities and other financial obligations in the following table are not recognized in the balance sheet.

	2011	2010
Operating leases and rents	84	82
Guarantee obligations on behalf of associates and third parties	156	143
Outstanding orders for projects under construction	10	5
Other	21	24
Total	**271**	**254**

Most of the outstanding orders for projects under construction will be completed in 2012. Property, plant and equipment under operating leases primarily concerns catalysts, buildings and various equipment items.

The commitments for operating leases and rents are spread as follows:

	2011	2010
2011	-	12
2012	18	15
2013	14	10
2014	11	9
2015 and 2016	12	8
After 2016	29	28
Total	**84**	**82**

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 proceedings to result in liabilities that have a material effect on the company's financial position. In cases 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.

23 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 104 of the Report by the Managing Board.

Liquidity risk

DSM has two committed credit facilities: one of € 400 million maturing in April 2013 and one of € 500 million refinanced in September 2011 and maturing in September 2016. The latter has an extension option in 2012 (to extend the final maturity with one year) and in 2013 (to extend the final maturity by another year). Together, the facilities amount to a total of € 900 million (same as 2010) and a commercial-paper program amounting to € 1,500 million (same as 2010). The company will use the commercial-paper program to a total of not more than € 900 million (same as 2010). The agreements for the committed credit facilities neither have financial covenants nor material adverse changes clauses. On 31 December 2011 no loans were taken up under either of the facilities. DSM has no derivative contracts to manage currency risk or interest rate risk outstanding under which margin calls by the counterparty would be permitted.

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**
2011							
Within 1 year	11	4	2,050	2,065	95	-	2,160
Within 1 to 2 years	121	9	-	130	93	-	223
Within 2 to 3 years	499	38	-	537	68	2	607
Within 3 to 4 years	605	2	-	607	56	12	675
Within 4 to 5 years	-	11	-	11	36	-	47
After 5 years	744	-	-	744	30	6	780
Total	**1,980**	**64**	**2,050**	**4,094**	**378**	**20**	**4,492**

[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 2011, DSM no longer had any outstanding interest rate swaps. In August 2011 DSM unwound two interest rate swaps of €500 million, generating an immediate cash-in of €29.9 million and locking in an average interest advantage of 1.43% for the remaining average life time of 3.24 years.

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 2011, with all other variables held constant. A 1% reduction in interest rates would result in a €19 million pre-tax loss in the income statement on the basis of the composition of financial instruments on 31 December 2011 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 2011 to changes in interest rates is set out in the following table.

				2011				2010
	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	89	89	-	-	837	837	-	-
Cash and cash equivalents	2,058	2,058	-	-	1,453	1,453	-	-
Short-term borrowings	(160)	(160)	-	-	(105)	(105)	-	-
Long-term borrowings	2,029	(2,239)	80	(85)	(1,992)	(2,150)	92	(97)
Interest rate swaps (fixed to floating and pre-hedges)	(27)	(27)	77	(91)	39	39	15	(20)

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, GBP 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. Apart from an internal loan with a notional amount of €732 million, hedge accounting is not applied for these instruments. On 31 December 2011, the notional amount of the currency forward contracts was €3,358 million (2010: €2,121 million).

In 2011 DSM hedged USD 812 million (2010 USD 846 million) of its projected net cash flow in USD in 2012, of which USD 362 million against EUR and USD 450 million against CHF by means of average-rate currency forward contracts at an average exchange rate of USD 1.38 per euro and CHF 0.90 per US dollar respectively for the four quarters of 2012. In 2011 DSM also hedged JPY 7,000 million (2010: JPY 5,000 million) of its projected net cash flow in JPY in 2012 of which JPY 5,600 million against Swiss franc and JPY 1,400 million against the euro by means of average-rate currency forward contracts at an average exchange rate of JPY 91 per Swiss franc and JPY 108 per euro, respectively, for the four quarters of 2012. In 2011 DSM started to hedge projected GBP cash obligation against CHF: GBP 72.5 million at an average exchange rate of CHF 1.29 per British pound. These hedges have fixed the exchange rate for part of the USD and JPY receipts and GBP payments in 2012. Cash flow hedge accounting is applied for these hedges. As a result of similar hedges concluded in 2010 for the year 2011, in 2011 €68 million positive (2010: €3 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 2011. CHF-denominated net assets have been partially hedged by currency swaps (2011: CHF 1,061 million; 2010: CHF 1,157 million). USD-denominated net assets have been partially hedged through a USD loan (2011: USD 150 million, same as 2010). 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 2011, 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.

	2011				2010			
	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	89	89	-	-	837	837	-	-
Cash and cash equivalents	2,058	2,058	76	(76)	1,453	1,453	27	(27)
Short-term borrowings	(160)	(160)	(6)	6	(105)	(105)	(8)	8
Long-term borrowings	(2,029)	(2,239)	(31)	31	(1,992)	(2,150)	(27)	27
Interest rate swaps	(27)	(27)	-	-	39	39	-	-
Cross currency swaps	(104)	(104)	(132)	132	(29)	(29)	(48)	48
Currency forward contracts	(1)	(1)	66	(66)	38	38	83	(83)
Cross currency swaps related to net investments in foreign entities[1]	(117)	(117)	(94)	94	(171)	(171)	(97)	97
Average-rate forwards used for economic hedging[2]	(27)	(27)	(31)	31	38	38	(29)	29

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 2011, 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.

	2011				2010			
	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	89	89	-	-	837	837	-	-
Cash and cash equivalents	2,058	2,058	3	(3)	1,453	1,453	-	-
Short-term borrowings	(160)	(160)	(1)	1	(105)	(105)	-	-
Long-term borrowings	(2,029)	(2,239)	(26)	26	(1,992)	(2,150)	(27)	27
Interest rate swaps	(27)	(27)	-	-	39	39	-	-
Cross currency swaps	(104)	(104)	(126)	126	(29)	(29)	(35)	35
Currency forward contracts	(1)	(1)	5	(5)	38	38	(14)	14
Cross currency swaps related to net investments in foreign entities[1]	(117)	(117)	-	-	(171)	(171)	-	-
Average-rate forwards used for economic hedging[2]	(27)	(27)	(63)	63	38	38	(64)	64

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 2011 price risks related to investments in securities were 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 September 2011 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. Given this economic environment, DSM decided to invest most of its cash position in deposits with a maximum maturity of one month and with banks with a Moody's credit rating of AA3 or higher.

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 23 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 2011		31 December 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Other participations	47	47	207	207
Other non-current receivables	70	70	43	43
Current receivables	1,704	1,704	1,477	1,477
Financial derivatives	50	50	134	134
Current investments	89	89	837	837
Cash and cash equivalents	2,058	2,058	1,453	1,453
Liabilities				
Non-current borrowings	2,029	2,239	1,992	2,150
Other non-current liabilities	69	69	33	33
Current borrowings	160	160	105	105
Financial derivatives	326	326	219	219
Other current liabilities	1,905	1,905	1,789	1,789

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	39	-	39
Currency swaps	5	(205)	(200)
Total financial derivatives related to borrowings	**44**	**(205)**	**(161)**
Currency forward contracts	90	(14)	76
Balance at 31 December 2010	**134**	**(219)**	**(85)**
Interest rate swaps	-	(27)	(27)
Currency swaps	3	(224)	(221)
Total financial derivatives related to borrowings	**3**	**(251)**	**(248)**
Currency forward contracts	47	(75)	(28)
Balance at 31 December 2011	**50**	**(326)**	**(276)**

24 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 US.

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:

	2011	2010
Defined benefit plans:		
- Pension plans	29	58
- Healthcare plans	1	2
- Other post-employment benefits	2	6
Defined contribution plans	93	21
Total continuing activities	**125**	**87**
Discontinued activities	1	6
Exceptional items	-	(6)
Total	**126**	**87**

In 2010 DSM agreed with the labor unions to change the Dutch pension plan as of 2011. The plan was converted from final-pay to average-pay and as of 1 January 2012 the pensionable age was 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 is accounted for as a defined contribution plan in 2011.

For 2012, costs for the defined benefit plans relating to pensions and healthcare, excluding gains and losses on curtailments and settlements, will be € 34 million (2011: € 30 million).

Changes in Prepaid pension costs and Employee benefits liabilities recognized in the balance sheet are disclosed in the following overview:

	2011	2010
Prepaid pension costs	1	282
Employee benefits liabilities	(321)	(324)
Balance at 1 January	**(320)**	**(42)**
Changes:		
- Balance of actuarial gains/(losses)	(41)	(186)
- Balance of asset ceiling	1	(171)
- Employee benefits costs	(32)	(65)
- Contributions by employer	65	144
- Exchange differences	(2)	(8)
- Reclassification from/to held for sale	(1)	4
- Acquisitions / disposals	(1)	-
- Other changes	3	4
Total changes	**(8)**	**(278)**
Balance at 31 December	**(328)**	**(320)**
Of which:		
- Prepaid pension costs	**-**	**1**
- Employee benefits liabilities	**(328)**	**(321)**

The Employee benefits liabilities of € 328 million (2010: € 321 million) consist of € 288 million (2010: € 281 million) related to pensions, € 28 million (2010: € 23 million) related to healthcare and other costs and € 12 million (2010: € 17 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 Germany, the UK, Switzerland, the US 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 amount to €213 million (2010: €216 million).

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

	2011	2010
Balance at 1 January	**5,543**	**4,942**
- Change in Dutch pension plan	(4,524)	-
	1,019	4,942
Changes:		
- Service costs	27	93
- Interest costs	40	246
- Contributions by employees	11	24
- Actuarial (gains)/losses	20	431
- Curtailments	-	(69)
- Transfer	-	21
- Exchange differences on foreign plans	24	94
- Benefits paid	(36)	(240)
- Other changes	-	1
Balance at 31 December	**1,105**	**5,543**

Fair value of plan assets

	2011	2010
Balance at 1 January	**5,440**	**4,876**
- Change in Dutch pension plan	(4,699)	-
	741	4,876
Changes:		
- Expected return on plan assets	38	290
- Actuarial gains/(losses)	(18)	245
Actual return on plan assets	**20**	**535**
- Contributions by employer	59	136
- Contributions by employees	11	24
- Transfer	-	20
- Exchange differences on foreign plans	22	89
- Benefits paid	(36)	(240)
Balance at 31 December	**817**	**5,440**

The amounts recognized in the balance sheet are as follows:

	2011	2010
Present value of funded obligations	(886)	(5,322)
Fair value of plan assets	817	5,440
	(69)	**118**
Present value of unfunded obligations	(219)	(221)
Funded status	**(288)**	**(103)**
Effect of asset ceiling	-	(177)
Net liabilities / net assets	**(288)**	**(280)**
Of which:		
- Liabilities (Employee benefits liabilities)	(288)	(281)
- Assets (Prepaid pension costs)	-	1

The changes in the net assets / liabilities recognized in the balance sheet are as follows:

	2011	2010
Balance at 1 January	**(280)**	**2**
Expense recognized in the income statement	(29)	(56)
Actuarial gains/(losses) recognized directly in Other comprehensive income during the year	(38)	(186)
Asset ceiling recognized directly in Other comprehensive income during the year	1	(171)
Contributions by employer	59	136
Exchange differences on foreign plans	(1)	(5)
Balance at 31 December	**(288)**	**(280)**

In 2012 DSM is expected to contribute € 42 million (actual 2011: € 59 million including one-off funding in US of € 15 million) to its defined benefit plans.

The major categories of pension-plan assets as a percentage of total plan assets are as follows:

	2011	2010
Bonds	61%	57%
Equities	28%	34%
Property	8%	5%
Other	3%	4%

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:

	2011	2010
Current service costs	27	93
Interest on obligation	40	246
Expected return on plan assets	(38)	(290)
Past service costs	0	70
(Gains)/losses on curtailments and settlements	0	(64)
Other	-	1
Costs related to defined benefit plans	**29**	**56**

The main actuarial assumptions for the year (weighted averages) are:

	2011		2010	
	The Netherlands[1]	Other countries	The Netherlands	Other countries
Discount rate	n.a.	3.90%	5.10%	4.04%
Price inflation	n.a.	2.03%	1.75%	2.01%
Salary increase	n.a.	2.87%	1.75%	2.89%
Pension increase	n.a.	2.17%	1.75%	1.53%
Expected return on plan assets	n.a.	2.25%-6.57%	5.56%	2.25%-7.80%

[1] In the Netherlands there is only one defined benefit plan left (NeoResins), which is immaterial for the group

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 2011 assumptions are used for the determination of costs related to defined benefit plans for 2012.

Year-end amounts for the current and previous periods are as follows:

	2011	2010	2009	2008
Defined benefit obligations	(1,105)	(5,543)	(4,942)	(4,454)
Plan assets	817	5,440	4,876	4,213
Funded status of asset/(liability)	**(288)**	**(103)**	**(66)**	**(241)**
Experience adjustments on plan assets, gain/(loss)	(18)	245	485	(1,402)
Experience adjustments on plan liabilities, gain/(loss)	(8)	35	(40)	26
Gain/(loss) on liabilities due to changes in assumptions	(12)	(466)	(336)	106

Healthcare and other costs

In some countries, particularly in the US, 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:

	2011	2010
Present value of funded obligations	(13)	(10)
Fair value of plan assets (including reimbursement rights)	7	6
	(6)	**(4)**
Present value of unfunded obligations	(22)	(19)
Funded status	**(28)**	**(23)**
Unrecognized past service costs	-	-
Net liability (Employee benefits liabilities)	**(28)**	**(23)**

The amounts recognized in the income statement are as follows:

	2011	2010
Current service costs	1	1
Interest costs	2	2
Expected return on plan assets and reimbursement rights	(2)	(1)
Costs related to healthcare plans	**1**	**2**

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:

	2011	2010
Balance at 1 January	**(23)**	**(22)**
Expense recognized in the income statement	(2)	(2)
Actuarial gains/(losses) recognized directly in equity	(3)	1
Benefits paid/employer contributions	1	2
Exchange differences	(1)	(2)
Balance at 31 December	**(28)**	**(23)**

In 2012 DSM is expected to contribute €2 million (actual 2011: €1 million) to its post-employment healthcare and other plans.

The main actuarial assumptions for post-employment healthcare costs (weighted averages) for the year are:

	2011	2010
Discount rate	5.00%	5.75%
Price inflation	2.75%	2.75%
Salary increase	3.75%	3.75%
Healthcare-cost trend (initial rate)[1]	7.00-11.00%	7.00%
Healthcare-cost trend (ultimate rate)	4.75%	4.75%

[1] Initial pre-medicare trend: 11.00%; initial post-medicare trend: 7.00%

The 2011 assumptions are used for the determination of post-employment healthcare costs for 2012.

A one-percentage-point change in assumed healthcare cost trend rates would have the following impact:

	One-percentage-point increase	One-percentage-point decrease
2010		
Effect on the aggregate of service costs and interest costs (increase)	(0)	0
Effect on defined obligation (increase)	(2)	2
2011		
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:

	2011	2010	2009	2008
Defined benefit obligations	(35)	(29)	(28)	(43)
Plan assets (including reimbursement rights)	7	6	6	8
Funded status of asset/(liability)	**(28)**	**(23)**	**(22)**	**(35)**
Experience adjustments on plan assets / liabilities (loss)	(1)	2	(1)	1
Gain / (loss) on liabilities due to changes in assumptions	(2)	(1)	1	(2)

25 Net debt

The development of the components of net debt is as follows:

	2011	2010
Borrowings:		
- Non-current borrowings	2,029	1,992
- Current borrowings	160	105
Total borrowings	**2,189**	**2,097**
Current investments	(89)	(837)
Cash and cash equivalents	(2,058)	(1,453)
Financial derivatives, assets (see also note 23)	(50)	(134)
Financial derivatives, liabilities (see also note 23)	326	219
Net debt	**318**	**(108)**

26 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:

	2011	2010
Operating working capital		
Balance at 1 January	1,424	1,511
Balance at 31 December	1,776	1,424
Balance sheet change	**352**	**(87)**
Adjustments:		
- Exchange differences	(27)	(141)
- Changes in consolidation (including acquisitions and disposals)	33	72
- Reclassification from / to held for sale	(121)	140
- Transfers	23	35
Total	**260**	**19**

In 2011 the operating working capital of continuing operations (€ 1,795 million) as a percentage of annualized net sales was 20.2% (2010: 17.9%). Besides the business impact this increase was due to acquisitions, changes in consolidation and an exchange rate effect.

27 Share-based compensation

Under the DSM Stock Incentive Plan, performance based and non-performance based stock options or Share 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.

Starting in 2011 only stock options are granted and Share Appreciation Rights are no longer used as share-based compensation.

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 based 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 based 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.

Starting in 2010 only performance shares have been granted to the members of the Managing Board (no longer stock options). 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 Share Appreciation Rights for management

Year of issue	Outstanding at 31 Dec. 2010	In 2011 Granted	Exercised	Forfeited/ expired	Outstanding at 31 Dec. 2011	Fair value on grant date (€)	Exercise price (€)	Expiry date
2003	53,250	-	(50,750)	(2,500)	-	3.09	18.195	4 Apr. 2011
2003[1]	39,300	-	(30,200)	(9,100)	-	3.64	19.770	3 Nov. 2011
2004	300,368	-	(176,093)	-	124,275	2.97	17.895	2 Apr. 2012
2005	459,853	-	(213,625)	-	246,228	6.15	29.050	8 Apr. 2013
2006[2]	1,364,581	-	(685,750)	(10,000)	668,831	8.95	38.300	31 Mar. 2014
2007[2]	1,774,814	-	(690,797)	(5,625)	1,078,392	7.69	33.600	30 Mar. 2015
2008[2,3]	2,870,800	-	(899,600)	(479,674)	1,491,526	5.73	29.790	28 Mar. 2016
2009[2]	3,146,713	-	(198,150)	(147,250)	2,801,313	2.83	21.100	27 Mar. 2017
2010[2]	3,206,213	-	(114,350)	(170,100)	2,921,763	6.07	33.100	6 Apr. 2018
2011[2]	-	3,286,038	-	(71,600)	3,214,438	9.60	46.200	2 May 2019
2011 Total	**13,215,892**	**3,286,038**	**(3,059,315)**	**(895,849)**	**12,546,766**			
Of which vested	4,379,866				4,104,602			
	at 31 Dec. 2009				at 31 Dec. 2010			
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			

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 2008 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. 2010	In 2011 Granted	In 2011 Exercised	In 2011 Forfeited/ expired	Outstanding at 31 Dec. 2011	Fair value on grant date (€)	Exercise price (€)	Exercise period until
2006	293,774	-	(224,375)	(69,399)	-	6.03	38.30	Mar. 2011
2007	248,098	-	(106,267)	(4,517)	137,314	4.27	33.60	Mar. 2012
2008	205,325	-	(74,595)	(2,087)	128,643	3.27	29.79	Mar. 2013
2009	226,870	-	(77,216)	(2,640)	147,014	2.31	21.10	Mar. 2014
2011	-	694,490	(750)	(91,435)	602,305	10.35	46.20	May 2016
2011 Total	**974,067**	**694,490**	**(483,203)**	**(170,078)**	**1,015,276**			
2010 Total	2,122,851	-	(972,148)	(176,636)	974,067			

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:

	2011	2010
Risk-free interest rate of management option rights (6 years)	2.79%	2.56%
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	40%	26%

In the costs for wages and salaries an amount of € 19 million is included for share-based compensation (2010: € 16 million). In the following table the share-based compensation is specified:

	2011	2010
Stock options	18	9
Share appreciation rights	0	6
Performance shares	1	1
Total expense	**19**	**16**

28 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 2011	DSM interest 2010
DSM Sinochem Pharmaceuticals, Ltd.[1]	Hong Kong	CN	50%	-
DEX-Plastomers v.o.f.	Heerlen	NL	50%	50%
Percivia LLC	Wilmington	US	50%	50%

[1] The joint venture was started on 1 September 2011

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 (on a 50% basis):

	2011	2010
Non-current assets	130	17
Current assets	207	42
Non-current liabilities	(37)	0
Current liabilities	(154)	(23)
Net assets	**146**	**36**
Net sales	112	75
Expenses	(106)	(56)
Net profit	**6**	**19**

29 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	
			2011	2010
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.

	2011	2010[1]
Non-current assets	149	185
Current assets	230	133
Non-current liabilities	(99)	(146)
Current liabilities	(219)	(114)
Net assets	**61**	**58**
Net sales	933	603
Net result	5	4

[1] Before reclassification to held for sale

30 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 2011 significant transactions with Sitech Manufacturing Services C.V. occurred. This unit was consolidated until the second quarter of 2011 and became associate as of July 2011 (see note 2). Transactions and relationships with related parties are reported in the table below.

	2011[1]	2010[1]
Sales to related parties	135	40
Purchases from related parties	249	132
Loans to related parties	13	9
Receivables from related parties	33	2
Payables to related parties	20	9

[1] Relates to continuing operations of DSM and includes the full year

DSM has provided guarantees to third parties for debts of associates for an amount of € 85 million (2010: € 96 million).

Other related-parties disclosure relates entirely to the key management of DSM, being represented by the company's Managing Board and Supervisory Board.

The total remuneration (including pension expenditures and other commitments) paid to the current members of the Managing Board amounted to €5.5 million (2010: €3.5 million). This includes fixed annual salary including other items to the amount of €3.1 million (2010: €2.4 million), short-term incentives to the amount of €2.0 million (2010: €0.8 million), and pension expenditure amounting to €0.4 million (2010: €0.3 million). For further information about the remuneration of the members of the Managing Board see note 10 to the financial statements of the parent company.

Members of the Supervisory Board received a fixed remuneration (included in General and administrative) totaling €0.3 million (2010: €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 120 onwards.

31 Service fees paid to external auditors

The service fees recognized in the financial statements 2011 for Ernst & Young network amounted to €8.0 million (same as in 2010). The amounts per service category are shown in the following table.

	Total service fee		Of which Ernst & Young Accountants LLP (Netherlands)	
	2011	2010	**2011**	2010
Audit of the financial statements	4.4	4.4	1.9	2.1
Other assurance services	1.3	0.6	1.3	0.4
Total assurance services	5.7	5.0	3.2	2.5
Tax services	1.9	1.9	-	-
Sundry services	0.4	1.1	-	-
Total	**8.0**	**8.0**	**3.2**	**2.5**

Parent company financial statements

Balance sheet at 31 December of Koninklijke DSM N.V.

x € million	Notes	2011	2010
Assets			
Non-current assets			
Intangible assets	2	411	409
Property, plant and equipment	3	10	9
Financial assets	4	12,118	11,383
Deferred tax assets		91	76
Other non-current assets		5	7
		12,635	**11,884**
Current assets			
Receivables	5	135	237
Financial derivatives		0	39
Cash and cash equivalents		40	1
		175	**277**
Total		**12,810**	**12,161**
Shareholders' equity and liabilities			
Shareholders' equity	6		
Share capital		338	338
Share premium		489	489
Treasury shares		(698)	(542)
Other reserves		274	381
Retained earnings		5,381	4,815
		5,784	**5,481**
Non-current liabilities			
Deferred tax liabilities		-	-
Provisions	7	2	2
Borrowings	8	1,962	1,964
		1,964	**1,966**
Current liabilities			
Provisions	7	1	4
Financial derivatives		181	190
Other current liabilities	9	4,880	4,520
		5,062	**4,714**
Total		**12,810**	**12,161**

Income statement

x € million	2011	2010
Share in results of subsidiaries, joint ventures and associates (after income tax expense)	868	732
Other income and expense	(54)	(225)
Net profit attributable to equity holders of Koninklijke DSM N.V.	**814**	**507**

Notes to the parent company financial statements

1 General

Unless stated otherwise, all amounts are in € million.

The Parent company financial statements are the financial statements of Koninklijke DSM N.V., which 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 the parent company.

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.

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.

2 Intangible assets

The carrying amount of intangible assets mainly comprises goodwill on the acquisition of NeoResins in 2005 (€ 358 million), Crina in 2006 (€ 8 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 2011 was € 2 million (2010: € 0 million), while the depreciation charge in 2011 was € 1 million (2010: € 2 million). The historical cost of property, plant and equipment as at 31 December 2011 was € 48 million (2010: € 46 million); accumulated depreciation amounted to € 38 million (2010: € 37 million).

4 Financial assets

	Total	Subsidiaries		Other	Other loans
		Share in equity	Loans	participations	
Balance at 1 January 2010	**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**
Changes:					
- Share in profit	868	868			
- Dividend received	(593)	(593)			
- Capital payments	553	553			
- Net actuarial gains/(losses)	(31)	(31)			
- Net asset ceiling	1	1			
- Intra-group transfers	81	81			
- Change in Fair value reserve	(65)	(65)			
- Change in Hedging reserve	(48)	(48)			
- Exchange differences	67	67			
- Disposals	(94)	(94)			
- New loans	2				2
- Transfers	(6)				(6)
Balance at 31 December 2011	**12,118**	**11,794**	**315**	**0**	**9**

5 Receivables

	2011	2010
Receivable from subsidiaries	92	37
Loans to subsidiaries	8	169
Other receivables / deferred items	35	31
Total	**135**	**237**

6 Shareholders' equity

	2011	2010
Balance at 1 January	**5,481**	**4,949**
Net profit	814	507
Exchange differences, net of income tax	53	333
Net actuarial gains/(losses) on defined benefit obligations	(31)	(139)
Net asset ceiling related to defined benefit plans	1	(127)
Dividend	(242)	(206)
Repurchase of shares	(357)	-
Proceeds from reissue of ordinary shares	201	95
Other changes	(136)	69
Balance at 31 December	**5,784**	**5,481**

For details see the consolidated statement of changes in equity (note 16).

Legal reserve

Since the profits retained in Koninklijke DSM N.V.'s subsidiaries, joint ventures and associates can be distributed, and received in the Netherlands no legal reserve for retained profits is required. In Shareholders' equity an amount of €273 million (2010: €218 million) is included for Translation reserve, -€21 million (2010: €75 million) for Hedging reserve and -€16 million (2010: €49 million) for Fair value reserve.

7 Provisions

The total of non-current and current provisions decreased by €3 million compared to 2010. This is the net effect of the following changes:

	Environmental costs	Other provisions	Total
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
Balance at 1 January 2011	**3**	**3**	**6**
Changes in 2011:			
- Additions			
- Uses	(1)		(1)
- Releases		(2)	(2)
Total changes	(1)	(2)	(3)
Balance at 31 December 2011	**2**	**1**	**3**
Of which current	1	0	1

8 Borrowings

	2011		2010	
	Total	Of which current	Total	Of which current
Debenture loans	1,729	-	1,738	-
Private loans	233	-	226	-
Total	**1,962**	**-**	**1,964**	**-**

Of the total amount of borrowings outstanding at 31 December 2011, €744 million had a remaining term of more than five years.

The repayment schedule for borrowings is as follows:

	2011	2010
2012	-	-
2013	117	113
2014	497	503
2015 and 2016	604	605
2017 through 2021	744	743
Total	**1,962**	**1,964**

In agreements governing loans with a residual amount at year-end 2011 of € 1,962 million, none of which were of a current nature (31 December 2010: € 1,964 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 19 (Borrowings) to the consolidated financial statements.

9 Other current liabilities

	2011	2010
Owing to subsidiaries	4,781	4,418
Other liabilities	57	57
Deferred items	42	45
Total	**4,880**	**4,520**

Contingent liabilities
Guarantee obligations on behalf of affiliated companies and third parties amounted to € 178 million (31 December 2010: € 182 million). Koninklijke DSM N.V. has declared in writing that it accepts several liabilities 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 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 120 onwards.

The total remuneration (including pension expenditure and other commitments) paid to the current members of the Managing Board amounted to €5.5 million (2010: €3.5 million). The remuneration of the individual current members of the Managing Board was as follows:

x € thousand	Salary including other items		Short-term incentive		Pension expenditure	
	2011	2010	**2011**	2010	**2011**	2010
Feike Sijbesma	847	808	684	253	110	113
Stefan Doboczky	601	n.a.	n.a.	n.a.	49	n.a.
Nico Gerardu	532	514	464	158	75	76
Rolf-Dieter Schwalb	532	514	444	163	75	76
Stephan Tanda	559	545	452	160	75	76
Total	**3,071**	**2,381**	**2,044**	**734**	**384**	**341**

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. 2010	In 2011 Exercised	Forfeited/ expired	Outstanding at 31 Dec. 2011	Average share price at exercise (€)	Exercise price (€)	Expiry date
Feike Sijbesma	2005	7,500			7,500		29.050	8 Apr. 2013
	2006	15,000			15,000		38.300	31 Mar. 2014
	2007	22,500			22,500		33.600	30 Mar. 2015
	2008	37,500		(9,375)	28,125		29.790	28 Mar. 2016
	2009	37,500			37,500		21.100	27 Mar. 2017
	Total	**120,000**		**(9,375)**	**110,625**			
Of which vested		45,000			73,125			
Stefan Doboczky	2008	11,250		(1,875)	9,375		29.790	28 Mar. 2016
	2009	36,000			36,000		21.100	27 Mar. 2017
	2010	36,000			36,000		33.100	6 Apr. 2018
	Total	**83,250**		**(1,875)**	**81,375**			
Of which vested		-			9,375			
Nico Gerardu	2004	36,000	(36,000)		-	42,833	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	22,500			22,500		33.600	30 Mar. 2015
	2008	30,000		(7,500)	22,500		29.790	28 Mar. 2016
	2009	30,000			30,000		21.100	27 Mar. 2017
	Total	**151,500**	**(36,000)**	**(7,500)**	**108,000**			
Of which vested		91,500			78,000			
Rolf-Dieter Schwalb	2007	22,500			22,500		33.600	30 Mar. 2015
	2008	30,000		(7,500)	22,500		29.790	28 Mar. 2016
	2009	30,000			30,000		21.100	27 Mar. 2017
	Total	**82,500**		**(7,500)**	**75,000**			
Of which vested		22,500			45,000			
Stephan Tanda	2007	22,500			22,500		33.600	30 Mar. 2015
	2008	30,000		(7,500)	22,500		29.790	28 Mar. 2016
	2009	30,000			30,000		21.100	27 Mar. 2017
	Total	**82,500**		**(7,500)**	**75,000**			
Of which vested		22,500			45,000			

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. 2010	In 2011 Granted	In 2011 Exercised	In 2011 Forfeited / expired	Outstanding at 31 Dec. 2011	Vested as of 31 Dec. 2011	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]	6,000				6,000	6,000	2010	33.600
	2008[1]	10,000			(2,500)	7,500	7,500	2011	29.790
	2009	10,000				10,000			21.100
	2010	28,500				28,500			33.100
	2011	-	24,000			24,000			46.200
	Total	**60,500**	**24,000**		**(2,500)**	**82,000**	**19,500**		
Stefan Doboczky	2011	-	16,000			16,000			46.200
	Total	**-**	**16,000**			**16,000**			
Nico Gerardu	2006[1]	4,000				4,000	4,000	2009	38.300
	2007[1]	6,000				6,000	6,000	2010	33.600
	2008[1]	8,000			(2,000)	6,000	6,000	2011	29.790
	2009	8,000				8,000			21.100
	2010	19,000				19,000			33.100
	2011	-	16,000			16,000			46.200
	Total	**45,000**	**16,000**		**(2,000)**	**59,000**	**16,000**		
Rolf-Dieter Schwalb	2007[1]	6,000				6,000	6,000	2010	33.600
	2008[1]	8,000			(2,000)	6,000	6,000	2011	29.790
	2009	8,000				8,000			21.100
	2010	19,000				19,000			33.100
	2011	-	16,000			16,000			46.200
	Total	**41,000**	**16,000**		**(2,000)**	**55,000**	**12,000**		
Stephan Tanda	2007[1]	3,956				3,956	3,956	2010	33.600
	2008[1]	8,000			(2,000)	6,000	6,000	2011	29.790
	2009	8,000				8,000			21.100
	2010	19,000				19,000			33.100
	2011	-	16,000			16,000			46.200
	Total	**38,956**	**16,000**		**(2,000)**	**52,956**	**9,956**		

[1] The shares of the series 2005, 2006, 2007 and 2008 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 2011 the current members of the Managing Board together held 60,056 shares (year-end 2010: 45,556) in Koninklijke 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 (2010: €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	
				2011	2010
Cor Herkströter, chairman until 28 April 2011	16,538	2,500	1,712	20,750	61,090
Rob Routs, chairman from 28 April 2011	48,351	9,667	1,250	59,268	30,938
Ewald Kist, deputy chairman	38,338	9,667	3,840	51,845	43,590
Louise Gunning-Schepers	-	-	-	-	25,811
Pierre Hochuli	38,338	8,667	1,250	48,255	41,250
Pauline van der Meer Mohr from 28 April 2011	26,769	8,000	2,775	37,544	n.a.
Claudio Sonder	38,338	8,667	1,250	48,255	41,250
Tom de Swaan	38,338	11,500	3,840	53,678	46,090
Cees van Woudenberg until 28 April 2011	-	-	-	-	10,897
Total	**245,010**	**58,668**	**15,917**	**319,595**	**300,916**
Total 2010	248,333	35,000	17,583		300,916

At year-end 2011 the members of the Supervisory Board held no shares in Koninklijke DSM N.V. (same as in 2010).

Heerlen, 27 February 2012

Managing Board,

Feike Sijbesma, CEO/Chairman
Rolf-Dieter Schwalb, CFO
Stefan Doboczky
Nico Gerardu
Stephan Tanda

Heerlen, 28 February 2012

Supervisory Board,

Rob Routs, Chairman
Ewald Kist, Deputy Chairman
Pierre Hochuli
Pauline van der Meer Mohr
Claudio Sonder
Tom de Swaan

Other information

Independent Assurance Report on Sustainability Information

To the Stakeholders and the Supervisory Board of Royal DSM

Introduction

We have examined the Sustainability information in the accompanying Integrated Annual Report 2011 of Koninklijke DSM N.V. (hereafter Royal DSM). The Sustainability information comprises the sections ‘Sustainability’, 'Stakeholder engagement', ‘People in 2011’ and ‘Planet in 2011’ (hereinafter ’the Sustainability Information‘), included on pages 32-58 in the Integrated Annual Report 2011. The Managing Board of Royal DSM is responsible for the preparation of the Sustainability information, stakeholder engagement and the selection of material topics in accordance with the criteria applied. The decisions made by management in respect of the scope of the Integrated Report and the internal reporting guidelines are set forth in the section entitled "Reporting policy" in the Integrated report from page 104. Our responsibility is to provide limited assurance on the Sustainability information.

Criteria applied

Royal DSM applies the G3 guidelines of the Global Reporting Initiative supported with the internal reporting guidelines as described in the Reporting policy from page 104. It is important to view the performance data in the context of these criteria. We believe that these criteria are suitable in the view of the purpose of our assurance engagement.

Procedures performed

We conducted our engagement in accordance with Dutch law, including the Dutch Standards 3410N, "Assurance Engagements with respect to Sustainability Reports". Procedures to obtain limited level of assurance are less extensive than those for a reasonable level of assurance and therefore less assurance is provided.

The main procedures that we have performed with respect to the Sustainability Information are:

- reviews of the design and existence of systems and processes for information management, internal control and processing of the qualitative and quantitative data in the Sustainability information, at corporate level;
- interviews of relevant staff at corporate level responsible for the reported information on specific issues including sustainability strategy, employee engagement survey, ECO+ and safety;
- reviews, on a test basis, whether the qualitative information is supported by sufficient evidence;
- reviews on 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;
- reviews on the results of procedures performed as part of the Operational Audits at key Royal DSM sites in 2009-2011 with respect to sustainability information carried out by the Corporate Operational Audit department of Royal DSM;
- reviews on the results of environmental data trends and the explanations provided in the Sustainability information and discussed these with management at corporate level;
- media and internet searches on environmental, safety and social issues relating to Royal DSM, to obtain information on relevant sustainability issues in the reporting period;
- checked the GRI application level declared by Royal DSM in the letter of the Chairman from page 6.

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

Based on our examination of the Sustainability Information, nothing came to our attention that causes us to believe that the Sustainability Information is not, in all material respects, fairly stated in accordance with the Sustainability Reporting Guidelines (G3) of the Global Reporting Initiative and the internal reporting criteria as described in the Reporting policy from page 104.

We also report, to the extent of our competence, that information on sustainability in other sections of the Integrated Annual Report is consistent with the Sustainability Information.

Eindhoven, 28 February 2012
Ernst & Young Accountants LLP

P.J.A.M. Jongstra

Independent Auditor's Report on the Financial Statements

To the Shareholders and the Supervisory Board of Royal DSM

Report on the financial statements

We have audited the accompanying financial statements 2011 of Koninklijke DSM N.V. (hereafter: Royal DSM), 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 2011, 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 2011, 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 as at 31 December 2011, 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 as at 31 December 2011 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 set out on page 26–115, 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 set out on page 26–115, 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, 28 February 2012
Ernst & Young Accountants LLP

P.J.A.M. Jongstra

Events after the reporting period

In January 2012 DSM and POET, LLC have announced a joint venture to commercially demonstrate and license cellulosic bio-ethanol. The formation of the joint venture, POET–DSM Advanced Biofuels, LLC, is described in more detail in Note 1 General information to the consolidated financial statements of Royal DSM.

Profit appropriation

According to article 32 of the Articles of Association of Koninklijke DSM N.V. 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 2011 the net profit is € 814 million and the amount to be appropriated to the reserves has been established at € 567 million. From the subsequent balance of the net profit (€ 247 million), dividend is first distributed on the cumulative preference shares B. At the end of 2011 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 2011 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 2011, the final dividend will then amount to € 0.15 per cumulative preference share A.

The profits remaining after distribution of these dividends (€ 237 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 2011 would amount to € 1.45 per share. An interim dividend of € 0.45 per ordinary share having been paid in August 2011, the final dividend would then amount to € 1.00 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	**2011**	2010
Net profit	814	507
Profit appropriation:		
- To be added to the reserves	567	273
- Dividend on cumprefs A	10	10
- Interim dividend on ordinary shares	74	66
- Final dividend distributable on ordinary shares	163	158

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, among 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 2011.

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 2011 the board of the Foundation was composed as follows:

Gerard Kleisterlee, chairman
Cees Maas, vice-chairman
Mick den Boogert

Important dates

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders is to be held at the DSM head office in Heerlen (Netherlands) on Friday, 11 May 2012 at 14.00 hours.

Important dates

Publication of first-quarter results	Tuesday, 8 May 2012
Ex-dividend quotation	Tuesday, 15 May 2012
Publication of second-quarter results	Tuesday, 7 August 2012
Publication of third-quarter results	Tuesday, 6 November 2012
Annual report 2012	Wednesday, 20 February 2013

DSM figures: five-year summary

Balance sheet

x € million	2011	2010	2009	2008	2007
Assets					
Intangible assets	1,786	1,070	1,053	1,200	1,037
Property, plant and equipment	3,405	2,943	3,477	3,641	3,440
Deferred tax assets	292	326	322	392	346
Prepaid pension costs	-	1	282	137	1,169
Associates	35	25	18	19	20
Other financial assets	135	270	233	176	126
Non-current assets	**5,653**	**4,635**	**5,385**	**5,565**	**6,138**
Inventories	1,573	1,340	1,359	1,765	1,547
Receivables	1,704	1,477	1,410	1,632	1,687
Financial derivatives	50	134	88	86	83
Current investments	89	837	7	4	4
Cash and cash equivalents	2,058	1,453	1,340	601	369
	5,474	5,241	4,204	4,088	3,690
Assets to be contributed to joint ventures	-	317	-	-	-
Other assets held for sale	30	287	25	-	-
Current assets	**5,504**	**5,845**	**4,229**	**4,088**	**3,690**
Total assets	**11,157**	**10,480**	**9,614**	**9,653**	**9,828**
Equity and liabilities					
Shareholders' equity	5,784	5,481	4,949	4,633	5,310
Non-controlling interests	190	96	62	62	73
Equity	**5,974**	**5,577**	**5,011**	**4,695**	**5,383**
Deferred tax liabilities	192	155	115	122	344
Employee benefits liabilities	322	297	298	314	273
Provisions	116	93	103	190	170
Borrowings	2,029	1,992	2,066	1,559	1,560
Other non-current liabilities	69	33	49	65	35
Non-current liabilities	**2,728**	**2,570**	**2,631**	**2,250**	**2,382**
Employee benefits liabilities	6	24	26	33	9
Provisions	43	33	102	82	91
Borrowings	160	105	138	734	192
Financial derivatives	326	219	61	179	42
Current liabilities	1,905	1,789	1,638	1,680	1,729
	2,440	2,170	1,965	2,708	2,063
Liabilities to be contributed to joint ventures	-	104	-	-	-
Other liabilities held for sale	15	59	7	-	-
Current liabilities	**2,455**	**2,333**	**1,972**	**2,708**	**2,063**
Total equity and liabilities	**11,157**	**10,480**	**9,614**	**9,653**	**9,828**

Income statement

x € million	**2011**	2010	2009	2008	2007
Net sales	9,193	9,050	7,866	9,297	8,757
Operating profit plus depreciation and amortization (EBITDA)	1,325	1,278	917	1,357	1,247
Operating profit (EBIT)	895	838	443	903	823
Net finance costs	(82)	(93)	(113)	(102)	(75)
Income tax expense	(155)	(185)	(83)	(196)	(183)
Share of the profit of associates	3	5	(4)	(3)	(2)
Net profit before exceptional items	**661**	**565**	**243**	**602**	**563**
Net profit from exceptional items	199	(40)	93	(31)	(129)
Profit for the year	**860**	**525**	**336**	**571**	**434**
Profit attributable to non-controlling interests	(46)	(18)	1	6	(5)
Net profit attributable to equity holders of Koninklijke DSM N.V.	**814**	**507**	**337**	**577**	**429**
Dividend on cumulative preference shares	(10)	(10)	(10)	(10)	(10)
Net profit available to holders of ordinary shares	**804**	**497**	**327**	**567**	**419**
Key figures and ratios					
Capital employed[1]	6,581	5,468	5,673	6,558	5,982
Capital expenditure:					
- Intangible assets and Property, plant and equipment	528	427	472	587	475
- Acquisitions	974	49	(5)	152	93
Disposals	742	377	287	27	52
Depreciation, amortization and impairments	430	440	474	454	424
Net debt	318	(108)	830	1,781	1,338
Dividend	247	234	205	204	214
Workforce at 31 December, headcount	22,224	21,911	22,738	23,591	23,254
Employee benefits costs (x € million)	1,655	1,566	1,532	1,465	1,389
Ratios[1]					
- ROCE in %	14.3	15.0	7.2	14.4	13.4
- Net sales / average capital employed	1.53	1.62	1.29	1.48	1.43
- Current assets / current liabilities	2.24	2.42	2.14	1.51	1.78
- Equity / total assets	0.54	0.53	0.52	0.49	0.55
- Gearing (net debt / equity plus net debt)	0.05	(0.02)	0.14	0.28	0.20
- EBIT / net sales in %	9.7	9.3	5.6	9.7	9.4
- Net profit / average Shareholders' equity available to holders of ordinary shares in %	14.9	10.0	7.2	11.9	7.9
- EBITDA / net finance costs	16.2	13.7	8.1	13.3	16.6

[1] Before reclassification to held for sale

Information about ordinary DSM shares

per ordinary share in €	**2011**	2010	2009	2008	2007
Net profit before exceptional items	3.66	3.27	1.44	3.64	3.07
Net profit	4.86	3.03	2.01	3.45	2.35
Cash flow	7.89	5.62	6.05	6.20	5.56
Shareholders' equity	34.00	31.52	28.92	27.12	30.42
Dividend:	1.45[1]	1.35	1.20	1.20	1.20
- Interim dividend	0.45	0.40	0.40	0.40	0.33
- Final dividend	1.00	0.95	0.80	0.80	0.87
Pay-out including dividend on cumulative preference shares as % of net profit before exceptional items	39	38	84	36	35
Dividend yield (dividend as % of average price of an ordinary DSM share)	3.6	3.8	4.8	3.9	3.3
Share prices on NYSE Euronext Amsterdam (closing price):					
- Highest price	46.82	42.85	34.84	41.27	39.87
- Lowest price	30.54	30.43	16.93	15.76	31.63
- At 31 December	35.85	42.61	34.46	18.33	32.33
(x 1000)					
Number of ordinary shares outstanding:					
- At 31 December	163,257	166,468	163,037	162,227	166,897
- Average	165,567	164,047	162,364	164,196	178,541
Daily trading volumes on NYSE Euronext Amsterdam:					
- Average	1,028	995	1,270	1,783	1,590
- Lowest	191	85	75	152	94
- Highest	3,512	3,629	4,376	5,894	11,347

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

Explanation of some concepts and ratios

PEOPLE

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).

FI

Frequency Index: a unit of measurement for safety. The number of accidents of a particular category per 100 employees per year.

People+

DSM's People+ strategy will deliver measurably better solutions to improve the lives of people. The company has defined a new People+ framework based on broad stakeholder analyses. The dimensions of health, comfort and well-being, working conditions and community development have been identified as distinct and instrumental categories to measure People+ impact at product level. Based upon the stakeholder input DSM has designed a measurement tool, which will be further developed in collaboration with The Sustainability Consortium, customers and other stakeholders.

SHE

Safety, Health and 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 more value with less environmental impact. The qualification ECO+ is based upon internal expert opinions where various impact categories are evaluated. For a growing number of products these expert opinions are 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 divestments. 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.

GRI

The Global Reporting Initiative (GRI) has developed Sustainability Reporting Guidelines that strive to increase the transparency and accountability of economic, environmental, and social performance. The GRI was established in 1997 in partnership with the United Nations' Environment Programme. It is an international, multi-stakeholder and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organizations for reporting on the economic, environmental, and social dimensions of their activities, products, and services.

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 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 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 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, amortization and impairments.

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 Koninklijke 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 weighted average capital employed.

Total shareholder return (TSR)
Total shareholder return is capital gain plus dividend paid.

List of abbreviations

ACS	American Chemical Society
ADR	American Depositary Receipts
AFM	Netherlands Authority for the Financial Markets
AM	Advanced Manufacturing
AMD	Age-related macular degeneration
ANH	Animal Nutrition & Health
API	Active Pharmaceutical Ingredients
BRIC	Brazil, Russia, India and China
CAGR	Compound Annual Growth Rate
CCTF	China Children and Teenagers Foundation
CEFIC	European Chemical Industry Council
CMP	Corporate Multi-year Plan Responsible Care
COA	Corporate Operational Auditing department
COD	Chemical Oxygen Demand
CRA	Corporate Risk Assessment
CSD	Corporate Strategy Dialogue
DAI	DSM Anti-Infectives
DBA	DSM Business Academy
DD	DSM Dyneema
DEP	DSM Engineering Plastics
DFI	DSM Fibre Intermediates
DFS	DSM Food Specialties
DNCC	DSM Nanjing Chemical Co., Ltd.
DNP	DSM Nutritional Products
DPP	DSM Pharmaceutical Products
DR	DSM Resins
DSP	DSM Sinochem Pharmaceuticals
EBA	Emerging Business Area
EBIT	Earnings before interest and taxes (Operating Profit)
EBITDA	Earnings before interest, taxes, depreciation and amortization
ECP-EPN	Electronic Commerce Platform Netherlands
ECUST	East China University of Science and Technology
EES	Employee Engagement Survey
EFSA	The European Food Safety Authority
EPAA	European Partnership for Alternatives to Animal Testing
FDA	The US Food and Drug Administration
FIFO	First in, first out
GAIN	Global Alliance for Improved Nutrition
GDP	Gross Domestic Product
GHG	Greenhouse gas
GHGE	Greenhouse-gas emissions
GHS	Globally Harmonized System
GMM	Genetically Modified Micro-organism
GMP	Good Manufacturing Practice
GPS	Global Product Strategy
GRI	Global Reporting Initiative
HFA	Human Factors Analysis
HNH	Human Nutrition & Health
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICCA	International Council of Chemical Associations
IFRIC	International Financial Reporting Interpretation Committee
IFRS	International Financial Reporting Standards
ILO	International Labor Organization
IP	Intellectual Property
IUCN	International Union for the Conservation of Nature
LCA	Life Cycle Assessments
LTI	Long-term Incentive
MP	Macular Pigment
NCD	Non-communicable diseases
NGO	Non-governmental organization
NIP	DSM's Nutrition Improvement Program
NOC*NSF	Dutch Olympic Committee
NSF	Public Health and Safety Program
NYSE	New York Stock Exchange
OECD	Organization for Economic Cooperation and Development
PC	Personal Care
PDN	Stichting Pensioenfonds DSM Nederland
PEF	Product Eco-Footprinting
PEN	Basic Penicillin
PJ	PetaJoule
PLB	Project Laser Beam
PSA	Prostate Specific Antigen
PUFA	Polyunsatured Fatty Acid
R&D	Research & Development
REACH	Registration, Evaluation, Authorization and Restriction of Chemical substances
ROCE	Return on Capital Employed
SAR	Share Appreciation Rights
SCoC	Supplier Code of Conduct
SHE	Safety, Health and Environment
SSC	Semi-synthetic cephalosporins
SSP	Semi-synthetic penicillins
STI	Short-Term Incentive
SUN	Scaling up Nutrition
TDC	Total Direct Compensation
TJ	TeraJoule
TSR	Total Shareholder Return
UHMWPE	Ultra high molecular weight polyethylene
USAID	United States Agency for International Development
UV	Ultraviolet
VNCI	Association of the Dutch Chemical Industry
VOC	Volatile Organic Compound
VRR	Volume Related Revenue
WBCSD	World Business Council for Sustainable Development
WFP	United Nations World Food Programme

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