Remuneration policy

Managing Board Koninklijke DSM N.V.

Adopted by the Annual General Meeting on 8 May 2019
Remuneration Policy Managing Board Koninklijke DSM N.V.

Objective
The objective of DSM’s Remuneration policy is to attract, reward and retain qualified leaders, improving company performance and enhancing a purpose led, long-term value creation over multiple dimensions (People, Planet and Profit; societally, environmentally, economically), while acknowledging the societal context around remuneration and recognizing the interests of all DSM’s stakeholders. The following elements are taken into consideration:

• Where the emphasis is on long-term value creation and on balancing the interests of all stakeholders, the remuneration policy supports both short- and long-term business objectives. DSM aims to continuously improve business results and to deliver on sustainability aspirations, maintaining a balance between economic gain, respect for people and concern for the environment, in line with DSM’s purpose and strategy.
• To ensure that qualified senior leaders can be attracted, DSM’s rewards practices must be competitive compared to those of other (Dutch and European) multinational companies, similar in size, international scope and complexity.
• The principles underlying the remuneration policies for the Managing Board, the Executive Committee and other senior executives of DSM are aligned. In this respect DSM strives for internal consistency in remuneration in the main markets of operation. In establishing this policy, the Company’s other remuneration programs have been taken into account, amongst others by ensuring consistency within the salary structure, the design of incentive plans and guidelines for salary increases for all employees.
• The policy design takes into account statutory and other legal provisions (amongst others the implementation of European Directives and the Dutch Corporate Governance Code).

Labor-market peer group
To attract and retain qualified leaders, external reference data will be considered in determining adequate remuneration levels. A labor-market peer group has been defined, consisting of Dutch and European companies (50:50) comparable to DSM in size, international scope and complexity of business portfolio. The Supervisory Board regularly reviews this peer group to ensure that its composition remains relevant.
As of 2019, the labor-market peer group consists of the following 16 companies:

<table>
<thead>
<tr>
<th>Koninklijke Ahold Delhaize</th>
<th>Clariant</th>
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<tbody>
<tr>
<td>Akzo Nobel</td>
<td>Covestro</td>
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<tr>
<td>ASML Holding</td>
<td>Evonik Industries</td>
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<tr>
<td>Heineken</td>
<td>Givaudan</td>
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<tr>
<td>Koninklijke KPN</td>
<td>Johnson Matthey</td>
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<tr>
<td>Koninklijke Philips</td>
<td>LANXESS</td>
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<tr>
<td>Randstad Holding</td>
<td>Lonza Group</td>
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<tr>
<td>WoltersKluwer</td>
<td>Solvay</td>
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</tbody>
</table>

DSM will benchmark its remuneration against the labor-market peer group once every three years. To safeguard consistency with senior executives located in major DSM hubs, local benchmarking data will also be considered. Based on such benchmarking, adjustments of the remuneration policy and/or its application might be considered.

Total Direct Compensation (TDC)
The Total Direct Compensation of the Managing Board includes:
1. Base salary;
2. Variable income:
   • Performance-related Short-Term Incentive (STI) Plan, and in addition a Deferral and Share Matching Plan;
   • Performance-related Long-Term Incentive (LTI) Plan (Performance Share Plan).
In addition to Total Direct Compensation, members of the Managing Board are entitled to certain benefits, such as pension benefits, risk insurances, company car and representation allowance.
The goal of DSM’s Remuneration policy is to offer an on target total remuneration package, approaching the median (from below) of the labor market peer group.

**Base salary**
In line with the overall goal of the Remuneration policy, base salaries are determined taking into account the median (approached from below) of the labor market peer group. Whilst benchmarking against the labor market peer group is conducted every three years, the Supervisory Board reviews base salary on an annual basis and may, at their sole discretion, apply an annual increase to the base salary based on market movement for DSM Executives in the Netherlands as well as adjustments made by the labor-market peer group.

**Variable income**
The variable income part of the remuneration consists of Short- and Long-Term Incentives. The design of both incentive schemes aims to achieve a balance between short-term result and long-term value creation and growth. At their sole discretion, the Supervisory Board establishes and where needed adjusts the parameters regarding variable income, taking into account the general rules and principles of the Remuneration policy itself.

**Goal setting**
The Supervisory Board, at their discretion, will set goals, their respective weights and targets (i.e. the metric) for the respective performance year, in alignment with the company strategy and the overall structure and weighting of both financial and planet/environmental, people/societal and -in the case of STI- also individual goal areas. In doing so, the Supervisory Board may respond in an agile way to changed business needs and / or strategy adjustments in a changing environment. Thereby the Supervisory Board shall consider the following:
- Goals must be derived from the company strategy;
- Focus on objectives instrumental to achieving long-term value creation;
- Historical performance, business outlook & circumstances and priorities;
- Stakeholders expectations.

Whereas financial goals and goals regarding planet/environment or people/society focus on the realization of overall strategic business objectives and sustainability aspirations, individual goals shall concern the specific role of the individual incumbents within the Managing Board; these may include financial goals.

DSM operates on a principle of maximum transparency. Within the limits of business sensitive information, DSM will give stakeholders insight into target setting and achievement. Following the end of an applicable performance period, the Supervisory Board will compare the actual performance to the targets set and assess the achievement per set of goals/targets. Both the goal-setting process and the verification of the achievement are subject to a review by the external auditor.

**Short-Term Incentive (STI)**
The scheme is designed to reward short-term operational performance within the long-term objective of creating sustainable value and growth, considering the interests of all stakeholders. For at-target performance, the annual STI opportunity amounts to 50% of annual base salary. Half of the STI opportunity is related to financial goals, the other half to goals concerning Planet/environment or People/society and individual goals:

<table>
<thead>
<tr>
<th>Goal areas</th>
<th>In % of target opportunity</th>
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</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Total</td>
</tr>
<tr>
<td>Financial</td>
<td>50%</td>
</tr>
<tr>
<td>Planet/environment or People/society and individual</td>
<td>50%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>
The maximum pay-out of the STI is 200% of the target opportunity (i.e. 100% of annual base salary). In this respect the target definition includes target ranges and correlating pay-out schemes, i.e. defined incremental steps in performance and respective pay-out. In addition, a minimum threshold with regard to the achievement of the financial goals applies to deliver any pay-out. Pay-out will be delivered in the first feasible payroll run after the achievements have been assessed.

**STI linked to financial goals**
The STI-part linked to shared financial goals (50% of the STI opportunity for at-target performance; 25% of annual base salary) concerns measures related to DSM’s strategy. Subject to the provision that the Supervisory Board may alter the parameters of the STI scheme, the goals identified for 2019 are:
- Adjusted EBITDA (excl. currency fluctuations, acquisitions and divestments);
- Adjusted net operating free cash flow;
- Organic net sales growth.

**STI linked to goals regarding planet/environment or people/society and individual goals**
The STI-part linked to pre-dominantly non-financial goals (50% of the STI opportunity for at-target performance, 25% of annual base salary) concerns shared goals regarding planet/environment or people/society and individual goals. Subject to the provision that the Supervisory Board may alter the parameters of the STI scheme, the goals identified for 2019 are:
- Brighter Living Solutions (BLS): percentage of running business that meets ECO+ and People+ criteria;
- Employee Engagement Index: related to the High-Performance Norm in the industry;
- Safety Performance: defined as Frequency Index for Recordable Injuries.

In addition to the shared sustainability goals a limited number of individual goals applies (this may include financial goals).

**Mandatory and voluntary deferral of STI**
Under the STI Deferral and Share Matching Plan, 25% of the gross STI pay-out is mandatorily deferred and converted into DSM shares with a three-year holding period. In addition, Managing Board members may decide to convert an additional piece of the STI payout into DSM shares (minimum 5%; maximum 25%; incremental steps of 5%). The company matches these shares with an equivalent number of Performance Share Units (PSU’s), subject to the condition that, at the end of the three-year vesting period, the incumbent still holds the deferred shares and provided that predefined performance goals are met. The performance goals are equivalent to the measures under the Long-Term Incentive Plan. The Deferral and Share Matching Plan thus provides an additional link between Managing Board remuneration and long-term sustainable value creation and growth.

Shares delivered upon the vesting of Performance Share Units are (as of 2019) subject to a holding period of 2 years, starting as per the date the respective share units will vest. The holding period expires two years after the three-year vesting period or at the date of cessation of the engagement of a Managing Board member if this occurs earlier.

Implementation of the STI deferral will be conducted in the payroll run in which the achieved STI is settled.

**Long-Term Incentives (LTI)**
Under the Performance Share Plan, ordinary shares DSM will conditionally be granted to Managing Board members. Vesting of these shares is conditional on the achievement of predetermined performance goals at the end of a three-year period. Targets will be linked to financial metrics and goals concerning planet/environment and people/society:

<table>
<thead>
<tr>
<th>Goal areas</th>
<th>Weighting (in % of grant value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>50%</td>
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<tr>
<td>Planet/environment or People/society</td>
<td>50%</td>
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<tr>
<td>Total</td>
<td>100%</td>
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Koninklijke DSM N.V.
Remuneration Policy Managing Board

The target definition includes target ranges and correlating pay-out schemes, i.e. defined levels of vesting (incremental steps) are determined by the performance against the respective goals. For each goal a threshold applies; if the realization of a goal is significantly below target level, the vesting for the respective goal will be zero.

LTI grant and holding period
In determining the number of shares to be conditionally granted, the face value of the DSM share is considered.\(^1\) The at-target value of the LTI is set at 100% of annual base salary. The maximum pay-out of the LTI is 150%. The number of shares to be conditionally granted is set by dividing the policy level at maximum (150% of base salary) by the share price at the beginning of the respective year of grant. As a result, the annual number of performance shares granted will fluctuate year by year.

The grant date will be the last trading day of March of each year. Upon vesting, performance shares will (as of 2019) be subject to a holding period of two years. Therefore, the performance shares will be blocked for a period of 5 years in total, starting at the grant date (three-year vesting period plus two-year holding period). The blocking period for performance shares expires two years after the three-year vesting period or at the date of cessation of the engagement of a Managing Board member if this occurs earlier.

LTI linked to performance goals
As set forth herein, goals and their weighting will be set by the Supervisory Board. Subject to the provision that the Supervisory Board may alter the parameters of the LTI scheme, the goals identified for 2019:

- Relative Total Shareholder Return (TSR). Comparing the performance of different companies' stock 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. DSM's TSR performance is compared to the average TSR performance of a set of predefined peer companies. The peer group is verified and updated 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.

As of 2019, the TSR peer group consists of the following companies:

<table>
<thead>
<tr>
<th>Company</th>
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<tbody>
<tr>
<td>Arkema</td>
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<td>Evonik Industries</td>
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<td>BASF</td>
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<td>Givaudan</td>
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<td>Celanese Corporation</td>
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<td>Kerry Group</td>
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<td>Chr. Hansen Holding</td>
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<td>Lonza Group</td>
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<td>Clariant</td>
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<td>Novozymes</td>
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<td>Croda International</td>
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<td>Solvay</td>
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<td>Dow Dupont</td>
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<td>Symrise</td>
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- Adjusted Return on Capital Employed (ROCE) growth. Operating profit as a percentage of weighted average capital employed, corrected for the impact of M&A activities.
- Energy Efficiency Improvement (EEI). Concerns the reduction of the amount of energy that is used per unit of product on a three-year rolling average basis.
- Structural Greenhouse-gas Emissions (GHGE) reduction. Concerns the absolute reduction of the amount of greenhouse-gas emissions.

The scope for calculation of GHGE reduction is as follows:

- DSM's direct emissions (on-site or from DSM assets) mainly comprising CO\(_2\) (scope 1);
- 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) relating to electricity from the grid. DSM relies on local suppliers (scope 2).

\(^1\) Applying a discounted fair value approach, the grant value represents approximately 50% of annual salary.
Pension and other benefits
Participation in the basic pension plan provided by the Dutch pension fund (Stichting Pensioenfonds DSM Nederland - PDN) to all DSM employees in The Netherlands is mandatory. Regarding pensionable salary not covered by the basic pension plan, a company paid pension contribution as determined by the Supervisory Board applies. This contribution can be used by Managing Board members to participate in the so-called Net Pension Plan under conditions as applicable to all participating DSM employees. The overall contribution shall be aligned with the contribution scheme that applies to employees participating in the Dutch pension fund. The company provides various insurances, a company car and a fixed representation allowance in line with market practice.

Share ownership
Minimum shareholding guidelines apply emphasizing confidence in the strategy and performance of the company. The minimum shareholding requirement for the CEO is equivalent to three times the base salary and for other Managing Board members two times the base salary. These shareholdings can be built up over four years. At their discretion the Supervisory Board may waive this obligation for a limited period of time in the event of extraordinary circumstances.

Contractual arrangements

Term of employment
Managing Board members are engaged on the basis of a Management Services Agreement with a four-year term, to be renewed at reappointment. Members of the Managing Board who joined DSM prior to 1 January 2013 are engaged on the basis of an individual employment agreement for an indefinite period of time.

Term of appointment
Members of the Managing Board are appointed for four years, subject to reappointment by the Annual General Meeting of Shareholders. Managing Board members appointed before 1 January 2005 have been appointed for an indefinite period of time.

Notice period
Termination of a Management Services Agreement is subject to a notice period of 6 months for either party. Board Members engaged on the basis of an employment agreement for an indefinite period must observe a notice period of 3 months; a notice period of 6 months applies in the event of termination by the company.

Severance arrangement
Severance payments are capped at one annual base salary. There are no specific contractual exit arrangements for members of the Managing Board appointed before 1 January 2005. Should a situation arise in which a severance payment is appropriate for such a Managing Board member, 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.

Claw-back / change-of-control
A claw-back arrangement is in place and concerns the possibility (1) to revise an incentive prior to payment, if unaltered payment of the incentive would be unreasonable and unfair, and (2) to claw back an incentive, if payment took place on the basis of incorrect information on the fulfilment of the incentive goals or the conditions for payment of the incentive.

Non-Compete
For Managing Board members appointed after 1 January 2019 non-compete and non-soliciting arrangements will be in place, taking into account the severance arrangement included herein.

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Loans
DSM does not provide any loans to members of the Managing Board.

Hiring policy
In case of an internal appointment into Managing Board level or an external hire, the Supervisory Board will determine the Remuneration in accordance with the policy as set herein. In addition, and at their sole discretion, the Supervisory Board may consider applying some or all of the following items:

- Concerning STI, the scheme as defined in this policy, and the goals, weighting and targets as set by the Supervisory Board in a given year shall apply. Depending on the date of appointment / hire, the Supervisory Board may apply its discretion in setting the amount over the first (partial) performance year.
- Concerning LTI, the scheme as defined in this policy, and the goals, weighting and targets as set by the Supervisory Board in a given year shall apply. The first LTI grant to be made at the first possible grant date applicable to the Managing Board after appointment as Managing Board member.
- Benefits will be provided in accordance with the policy.
- The following arrangements can be considered by the Supervisory Board:
  - Relocation budget, covering actual relocation cost.
  - Arrangement to reimburse international schooling and temporary housing.
  - Arrangement to set a sign-on award covering (often equity based) compensation that incoming MB members will lose by leaving previous employers, taking into account the following constraints:
    - The sign-on award shall not exceed the target STI % and target LTI grant level applicable at DSM in a comparable time frame;
    - The sign-on award can be delivered in cash or (preferably) Performance Share Units (subject to respective plan rules, whereas such additional grants shall not vest before shareholding requirements are met).

Derogation
The Supervisory Board may, upon recommendation of the Remuneration Committee, deviate from the policy if circumstances provide valid reasons to do so (e.g. for management continuity purposes). This may concern all aspects of the policy. Deviations shall be aligned with the main objectives of the policy applying a consistent approach.

In case of internal promotions, commitments made prior to the appointment as Managing Board member may continue to be honored as new remuneration arrangements apply. In international settings, flexibility is retained to tailor benefits to the circumstances.

Policy review
In establishing this policy, the Supervisory Board has considered the external environment in which the Company operates, legislation and best practice recommendations of the Dutch Corporate Governance Code, new requirements under the EU Shareholders’ Rights Directive, competitive market practice and the guidance issued by organizations representing institutional shareholders. The Company’s major investors have also been consulted.