Operational performance Q3 2010

Summary of DSM in motion: driving focused growth
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Agenda

- Operational performance Q3 2010
- DSM in motion: driving focused growth
Dear Investor,

“I am pleased to report another strong quarter. Operating profit increased by almost 30% compared to the same period last year. Nutrition delivered a continued excellent performance, whilst Materials Sciences also posted very good results. Our strong market focus, disciplined cost and cash management and a broadly improving business environment helped drive these results. Based on the continued positive business environment we expect 2010 to be a strong year for DSM.

The announcement of our new corporate strategy – DSM in motion: driving focused growth – marks the shift from a period of intensive portfolio management to an era of maximizing sustainable, profitable growth of the ‘new’ DSM. We are committed to fully leverage the unique opportunities in Life Sciences and Materials Sciences. With our focus on high growth economies, innovation and sustainability and with our strong capital structure and leadership in biotechnology we are in an excellent position to deliver on our ambitious sales and profit targets.”

Feike Sijbesma
Chairman of the Managing Board
• The general economic conditions continued to be good in Q3. Most western economies sustained their growth, although at a low pace. In most high growth economies the growth is very strong.

• Most end-markets that are relevant for DSM continued to grow. Those end-markets (especially Materials Sciences related markets) which experienced a downswing in demand have largely closed the gap with the 2008 level, with some exceptions like building and construction, which is still clearly lagging behind. Re-stocking downstream in the value chain, which was one of the drivers for the excellent result in Q2 2010, did not have much of an impact in Q3, with order patterns appearing to normalize.

• The euro was clearly weaker against most other currencies compared to Q3 2009. Compared to Q2 2010, currency exchange rates were on average fairly stable, with the exception of the relatively strong Swiss franc, which negatively affects DSM Nutritional Products because of its Swiss activity base.

• Operating profit was almost 30% higher than in Q3 2009, which is a reflection of the continuing improvement in business conditions. Nutrition and Polymer Intermediates continued to deliver very strong results. Pharma posted a small loss, as expected. Performance Materials posted an improved result compared to Q3 2009, although the current level is not satisfactory yet.

• The result was lower than the very high level of Q2 2010 mainly because there were more planned maintenance activities in manufacturing operations, the Swiss franc was very strong, and there was margin pressure in Performance Materials.

• In total, exceptional items amounted to a loss of €53 million before tax (€49 million after tax) in Q3 2010. In view of the sale of S.A. Citrique Belge N.V., this business was reclassified to assets held for sale at the end of Q3 2010. The business was valued at fair value less costs to sell upon reclassification, resulting in a loss of €38 million. The transfer of DSM assets to PERCIVIA LLC resulted in a book loss of €15 million before tax (€11 million after tax) for DSM, which was recognized as an exceptional item.

• Net profit before exceptional items increased from €100 million in Q3 2009 to €128 million in Q3 2010. Total net profit in Q3 2010 was €79 million compared to €374 million in Q3 2009, which included a €274 million net profit from exceptional items as a result of the disposal of DSM Energy.

• Net earnings per share decreased from €2.29 per ordinary share in Q3 2009 (which included the above-mentioned book profit) to €0.46 in Q3 2010.
Nutrition continued its strong financial performance, driven by good business conditions and a very strong market position. The overall business environment normalized compared to the very good situation in Q2.

For Pharma, Q3 2010 saw no change in the challenging business dynamics that the entire pharmaceutical industry is facing. Results were negative, as expected.

Performance Materials is delivering continued strong organic sales growth. The recovery in operating profit was slowed down by margin pressure at DSM Engineering Plastics and to a lesser extent at DSM Resins, due to a time lag in passing on increased raw material prices.

Polymer Intermediates continued to perform very well, in spite of a maintenance shutdown in China and, as expected, somewhat lower margins compared to the very high level in Q2.

A large proportion of group revenues and earnings are now in high margin, high quality businesses that have significantly lower cyclicality. Illustrative of the quality of these businesses is that in Q3 2010 profits from these
Organic sales growth from continuing operations was a healthy 13% compared to Q3 2009, a period when economic recovery already was underway. The organic growth consisted of 8% autonomous volume growth and 5% higher prices. All business groups benefited from the weaker euro, which was on average 10% lower against the US dollar compared to Q3 2009.

In Nutrition somewhat lower prices were compensated for by higher volumes. Pharma growth was moderate, mainly driven by DSM Anti-Infectives. Organic growth was very strong in the Materials Sciences clusters, driven by prices as well as volumes.
Nutrition

<table>
<thead>
<tr>
<th>Q3-10</th>
<th>Q3-09</th>
<th>Δ%</th>
<th>(€ million)</th>
<th>YTD-10</th>
<th>YTD-09</th>
<th>Δ%</th>
</tr>
</thead>
<tbody>
<tr>
<td>751</td>
<td>702</td>
<td>+7%</td>
<td>Net sales</td>
<td>2,247</td>
<td>2,108</td>
<td>+7%</td>
</tr>
<tr>
<td>171</td>
<td>151</td>
<td>+13%</td>
<td>EBITDA</td>
<td>535</td>
<td>481</td>
<td>+11%</td>
</tr>
<tr>
<td>137</td>
<td>119</td>
<td>+15%</td>
<td>EBIT</td>
<td>433</td>
<td>384</td>
<td>+13%</td>
</tr>
<tr>
<td>22.8%</td>
<td>21.5%</td>
<td></td>
<td>EBITDA margin</td>
<td>23.8%</td>
<td>22.8%</td>
<td></td>
</tr>
</tbody>
</table>

- Sales growth was 7%, driven by currency
- Operating profit was 15% higher than last year due to continued good market conditions

- Compared to Q3 2009 sales growth was 7%, driven by currency exchange rates. Nutrition experienced some volume growth in most of its businesses but prices were somewhat lower than last year.

- Compared to the previous quarter, volumes in Animal Nutrition & Health increased, whereas volumes in Human Nutrition & Health, Personal Care and DSM Food Specialties were somewhat lower due to seasonal effects.

- Operating profit in Q3 2010 was 15% higher than last year due to continued good market conditions resulting in strong performance in DSM Nutritional Products and DSM Food Specialties. As expected, operating profit was below the very strong Q2 2010 results due to the planned maintenance activities and less favorable exchange rates (especially for the Swiss franc). The strategic focus on value over volume continues to be successful and sustainable.
Pharma

<table>
<thead>
<tr>
<th></th>
<th>Q3-10</th>
<th>Q3-09</th>
<th>△%</th>
<th>(€ million)</th>
<th>YTD-10</th>
<th>YTD-09</th>
<th>△%</th>
</tr>
</thead>
<tbody>
<tr>
<td>168</td>
<td>152</td>
<td>+11%</td>
<td>Net sales</td>
<td>549</td>
<td>526</td>
<td>+4%</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>14</td>
<td>-43%</td>
<td>EBITDA</td>
<td>38</td>
<td>57</td>
<td>-33%</td>
<td></td>
</tr>
<tr>
<td>-6</td>
<td>2</td>
<td></td>
<td>EBIT</td>
<td>-5</td>
<td>16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.8%</td>
<td>9.2%</td>
<td></td>
<td>EBITDA margin</td>
<td>6.9%</td>
<td>10.8%</td>
<td></td>
<td></td>
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</tbody>
</table>

- Organic sales growth +4% driven by higher sales volumes and prices at DSM Anti-Infectives
- Operating profit was below the Q3 2009 result; the business environment remained very challenging

• Organic sales growth was +4%, driven by higher sales volumes and prices at DSM Anti-Infectives. Favorable exchange rates contributed to top line growth for DSM Anti-Infectives as well as DSM Pharmaceutical Products.

• Operating profit was below the Q3 2009 result. DSM Pharmaceutical Products’ business environment remained very challenging during the third quarter of 2010. At DSM Anti-Infectives higher PEN prices and improved costs were partially offset by the loss of margin as a result of the termination of clavulanic acid production last year.
The Performance Materials cluster showed strong organic sales growth of +25% compared to Q3 2009. The drivers of this growth were both volumes and prices.

Operating profit for Q3 2010 improved slightly. Time lag in passing on higher raw material costs at DSM Engineering Plastics and to a lesser extent at DSM Resins. DSM Dyneema's results were somewhat lower than in Q2 2010 due to a lower impact of a large life protection order.
Organic sales growth was +29% compared to Q3 2009 due to higher selling prices and continued strong demand.

Consequently operating profit showed a strong increase compared to Q3 2009 in spite of the scheduled maintenance turnaround in China.
Base Chemicals and Materials

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<thead>
<tr>
<th>Q3-10</th>
<th>Q3-09</th>
<th>Δ%</th>
<th>(€ million)</th>
<th>YTD-10</th>
<th>YTD-09</th>
<th>Δ%</th>
</tr>
</thead>
<tbody>
<tr>
<td>154</td>
<td>124</td>
<td>+24%</td>
<td>Net sales</td>
<td>452</td>
<td>323</td>
<td>+40%</td>
</tr>
<tr>
<td>25</td>
<td>13</td>
<td>+92%</td>
<td>EBITDA</td>
<td>70</td>
<td>-6</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>7</td>
<td>+171%</td>
<td>EBIT</td>
<td>54</td>
<td>-23</td>
<td></td>
</tr>
<tr>
<td>16.2%</td>
<td>10.5%</td>
<td></td>
<td>EBITDA margin</td>
<td>15.5%</td>
<td>-1.9%</td>
<td></td>
</tr>
</tbody>
</table>

- Organic sales growth +18% due to increased prices and higher volumes
- Resulting in a higher operating profit for all units in this cluster

- Organic sales growth in Q3 2010 was +18% compared to Q3 2009, due mainly to increased prices and also partly to volume increases.

- Higher margins together with higher volumes resulted in a higher operating profit for all units in this cluster.
Cash flow from operating activities in Q3 amounted to €330 million. This includes a €66 million contribution from a reduction in working capital. Operating working capital as a percentage of sales decreased from 21.0% to 19.7% during the quarter. Year-to-date cash flow from operating activities amounted to €690 million. This is amply sufficient to cover capital expenditure and dividends.

Cash flow related to capital expenditure amounted to €63 million in Q3 2010 (€102 million in Q3 2009).

<table>
<thead>
<tr>
<th>Cash Flow (€ million)</th>
<th>YTD-10</th>
<th>YTD-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash from operating activities</td>
<td>690</td>
<td>950</td>
</tr>
<tr>
<td>Cash from investing activities</td>
<td>43</td>
<td>-142</td>
</tr>
<tr>
<td>Free cash flow from operations</td>
<td>733</td>
<td>808</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Balance Sheet (€ million)</th>
<th>Ult. Q3-10</th>
<th>YE 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt</td>
<td>275</td>
<td>830</td>
</tr>
<tr>
<td>Gearing</td>
<td>5%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Cash flow from operating activities was €330 m in Q3

Investor Relations

DSM
The operating cash flow in combination with the proceeds from divestments has led to a considerable reduction in net debt during the year.

Compared to year-end 2009 net debt decreased by €555 million to €275 million. At the end of Q3 2010 gearing was 5%, coming down from 28% at the end of 2008.

Most of DSM’s external funding needs are financed through long-term debt. There are no covenants included in the outstanding bonds. The spread of the maturity dates of the long-term debt provides adequate flexibility. Most long-term debt will mature as from 2014.

DSM has a Commercial Paper program amounting to €1,500 million and two committed credit facilities of €500 million (until October 2012) and €400 million (until April 2013). At present, no commercial paper is outstanding and the credit facilities are fully undrawn.

DSM’s conservative approach has proven its value during the recession. Throughout the economic downturn, DSM has managed to maintain its Single A credit rating. This is another example of DSM’s conservative financial policy and its strong financial position.
• DSM has made substantial progress with its portfolio transformation. With the divestment of DSM Energy and the urea licensing subsidiary Stamicarbon B.V. last year and the divestment of DSM Agro and DSM Melamine to Orascom Construction Industries earlier in the year a significant proportion of the planned divestment program has now been completed.

• During the quarter DSM reached an agreement regarding the sale of the business unit Thermoplastic Elastomers (Sarlink®), part of the business group DSM Elastomers, to Teknor Apex Company. The sale closed on 1 November 2010. DSM expects to recognize a small book profit in Q4 as a result of this transaction.

• DSM also reached an agreement regarding the sale of S.A. Citrique Belge N.V. to Adcuram. The transaction closed on 1 October 2010.

• The selling process for the remaining businesses in Base Chemicals and Materials is underway.

• DSM remains committed to pursuing attractive growth opportunities to further accelerate its evolution towards a Life Sciences and Materials Sciences company. DSM will maintain its disciplined acquisition policy.

• During the quarter, DSM announced the acquisition of Microbia, Inc. (Lexington, Massachusetts, United States) from Ironwood Pharmaceuticals, Inc. Microbia is a successful industrial biotechnology research and development specialist. Microbia’s sales are still limited. The acquisition will allow DSM to incorporate Microbia’s proprietary platform and world class research and development capabilities and support DSM’s ongoing development of the natural carotenoids market.

• DSM and Dutch biopharmaceutical company Crucell N.V. announced an expansion of the activities in their existing joint venture, the PERCIVIA PER.C6® Development Center (Cambridge, Massachusetts, United States), to transform the company from a development center into a full biopharmaceutical company for the development of PER.C6®-based biobetter proteins and monoclonal antibodies as well as global licensing of the PER.C6® human cell line for production of third party monoclonal antibodies and other proteins.

• A large proportion of group revenues and earnings are now in high margin, high quality businesses that have significantly lower cyclicality. Illustrative of the quality of these businesses is that YTD Q3 2010 profits from these core operations were 8% higher than in the same period of 2008.
• DSM once again realized very healthy sales growth in China in Q3 2010. Net sales increased by 15% compared to Q3 2009 to USD 385 million. In the first nine months of 2010 net sales in China increased by 44% to USD 1169 million. DSM expects to achieve the USD 1.5 billion target for 2010. DSM's sales in China in the first nine months of 2010 represent 13% of DSM's total net sales compared to 10% in the first nine months of 2009.

• Construction began on the fifth DSM premix plant in China, located in Pixian County, Sichuan. This plant is anticipated to be operational in the third quarter of 2011.

• DSM expects to clearly surpass the € 1 billion target for additional innovation sales.

• DSM Composite Resins announced that it was going to boost its innovation capabilities in China with the opening of a new R&D Center at the DSM Campus in Shanghai. DSM announced and introduced many other innovations as well.

• During the quarter, DSM announced several partnerships. DSM Engineering Plastics and RESINEX entered into a distribution agreement to strengthen our position in Eastern Europe. DSM and DuPont announced an agreement to form a joint venture to develop, manufacture and commercialize advanced surgical biomedical materials, pending EU regulatory approval. DSM Biomedical also extended its partnership with Spinelab Ltd., a privately held company specialized in developing a dynamic stabilization system for the spine.

• DSM is very proud to be once again listed as number one in the chemical industry sector in the Dow Jones Sustainability World Index 2010. In 2004, 2005, 2006, 2009 and 2010 DSM has been named the worldwide sustainability No. 1 in this sector. In 2007 and 2008 it also ranked amongst the top leaders in the sector.

• DSM CEO Feike Sijbesma received the prestigious 2010 Humanitarian of the Year Award from the United Nations Association of New York for his outstanding commitment to corporate social responsibility and in particular for DSM’s partnership with the United Nations World Food Programme (WFP). DSM is active in helping to make progress towards achieving the Millennium Development Goals (MDGs). By partnering with the UN-WFP, DSM has made a commitment to fight hunger and malnutrition around the world and has been raising awareness of the pressing issue of malnutrition – also known as hidden hunger.
Outlook 2010 per cluster

- Nutrition FY results are expected to be clearly above 2009
- Pharma FY results are expected to be slightly positive
- Performance Materials Q4 results lower than Q3 2010, but clearly above Q4 2009
- Polymer Intermediates Q4 results higher than Q3 2010
- Other activities additional project related expenses (€ 10-15m)

2010 is expected to be a strong year for DSM

Investor Relations

- DSM expects further end-market growth especially in high growth economies. Medium term macro-economic uncertainties remain. Investing in future growth is a core objective whilst a focus on cash generation and cost savings continues to be important.
- The growth in food and feed markets will continue in line with long-term trends and prices are expected to remain stable at the current level. The full year results for Nutrition are expected to be clearly above 2009.
- For Pharma, full year results are expected to be slightly positive due to ongoing challenges at DSM Pharmaceutical Products and relatively low prices at DSM Anti-Infectives.
- A further increase in demand is expected in the Performance Materials end-markets. Strict margin management is being applied to pass on the higher raw material costs. The 2010 cluster results are expected to be substantially better than in 2009, though results in Q4 2010, which is traditionally a seasonally weaker quarter, are expected to be lower than in Q3 2010, but clearly above Q4 2009.
- Polymer Intermediates is expected to deliver an outstanding 2010 result. Healthy demand and margins are expected to be continued in the last quarter of the year. Results in Q4 2010 are expected to be higher than Q3 2010.
- Operating profit in the non-core Base Chemicals and Materials cluster is expected to be clearly positive in Q4 2010, despite a maintenance turnaround at DSM Elastomers.
- In relation to the announced strategy, additional project related expenses (amongst others investing in internationalization and branding) will amount to € 10 – 15 million in Q4 2010 which will be reflected in Other activities.
- Trading activities of the individual clusters are expected to continue to be in line with earlier expectations. Based on the continued positive business environment, 2010 is expected to be a strong year for DSM and a good basis for delivering on the new strategy “DSM in motion: driving focused growth”
Agenda

- Operational performance Q3 2010
- DSM in motion: *driving focused growth*
• DSM’s strategy is based on global trends that are affecting economies, people and markets in different ways. They underpin DSM’s thinking and planning and the same holds for our customers, who are also developing plans and products to meet these current and future needs.

• The continuous growth of the world population is the main cause for these global trends. The US Census Bureau currently estimates the world population to be around 6.9 billion people. The United Nations expects this figure to reach 9 billion in 2050.

• **Global Shifts.** Customers know that we live in a world which is changing faster than ever – influencing where demand comes from, how and where people are living and how we connect with one another. Urbanization and economic prosperity are promoting dietary changes and increased spending on housing, transport, lifestyle and energy, all benefiting the chemical industry. In 2009, per-capita demand for chemicals in developed economies was 6 times greater than in High Growth Economies, showing the latter’s huge potential. Increased demand around the world is also driving a higher use of natural resources, leading to a search for further efficiency. Several new technologies, especially in the communications industry, are having a high impact on society and behavior.

• **Climate and Energy.** Customers know that climate change is a reality and future energy is a central challenge for society both in terms of how to create it and how to get more out of it. In this context, customers are seeking sustainable value chains with higher yields, reduced waste, lower energy use and fewer GHG emissions. For example: the use of lightweight plastics in US cars grew from 27 kg to 150 kg per vehicle in 2007. At the same time there is a growing focus on renewable energy sources.

• **Health and Wellness.** Customers know they need to address core health needs; whether through nutrition, medicines or lifestyle improvements. The population in the West is ageing and there is cost pressure in all healthcare systems. For example: according to Goldman Sachs the cost of healthcare for the over 65s is 3–5 times higher than for a young person. At the same time, healthcare demand in High Growth Economies is increasing. Nutrition security and access is increasingly important, and there is also growing demand for safer and healthier foods and pharmaceuticals.
As the timeframe of Vision 2010 will end in 2010, DSM announced its new strategy: DSM in motion: driving focused growth on 23 September 2010. This strategy marks the shift from an era of intensive portfolio management to a strategy of maximizing sustainable, profitable growth of the ‘new’ DSM. It is the company’s ambition to fully leverage the unique opportunities in Life Sciences and Materials Sciences.

DSM’s focus on Life Sciences (Nutrition and Pharma) and Materials Sciences (Performance Materials and Polymer Intermediates) is fueled by three main societal trends. DSM aims to provide solutions for issues posed by: Global Shifts (demographic shifts, urbanization, high growth economies, usage of resources, impact of new technology); Climate Change and Energy; and Health and Wellness. The main underlying drivers for these trends are the world’s population growth and increasing life expectancy on the one hand, and increasing economic prosperity in the High Growth Economies on the other. DSM aims to contribute to the unmet needs resulting from these societal trends with innovative and sustainable solutions.

It is DSM’s ambition to fully leverage the unique opportunities in Life Sciences and Materials Sciences, using four growth drivers: a focus on High Growth Economies, Innovation, Sustainability and Acquisitions & Partnerships. It is DSM’s ambition to bring all four growth 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.

DSM will use the regions, functional excellence groups and shared services in creating ‘One DSM’ to capture regional business opportunities and synergies and to implement excellence throughout the global organization.

The culture change program that is currently in progress (external orientation, accountability for performance, inspirational leadership, based on the joint beliefs in sustainability and diversity) will be further rolled out with an emphasis on collaboration and speed of execution to support this strategy. All this is based on DSM’s joint belief in sustainability and diversity, including internationalization.
The four growth drivers – High Growth Economies, Innovation, Sustainability and Acquisitions & Partnerships – will result in growth across all businesses and regions. DSM expects that these growth drivers will enable DSM to grow its sales organically by 5% – 7% per year.

High Growth Economies: from reaching out to becoming truly global;
DSM's ambition is to accelerate growth in high growth economies. DSM expects the high growth economies to contribute from currently ~32% towards 50% of DSM's total net sales by 2015. Over 70% of DSM's total growth in the period to 2015 is expected to come from high growth economies. DSM will continue its strong focus on China and expects to more than double its China sales to > $ 3.0 billion by 2015, supported by intended capital expenditures of $ 1 billion.

Innovation: from ‘building the machine’ to doubling the output;
DSM aspires to take value creation from innovation to the next level. In addition to its regional R&D centers, DSM will open new Innovation Centers in China and India. The next level will result in an even higher speed of innovation. Consequently a new ambitious innovation target has been set. DSM aims to grow innovation sales (new products and applications introduced in the last five years) from ~12% currently to 20% of total net sales by 2015.

Sustainability: from responsibility to business driver;
DSM believes sustainability will be the key differentiator and value driver in the coming decades. DSM is uniquely positioned to capture new opportunities across the value chain. DSM aims for eighty percent of its pipeline to be ECO+ products. In 2015 ECO+ products are expected to account for 50% of total net sales compared to less than 35% now.

Acquisitions & Partnerships: from portfolio transformation to growth;
DSM's focus for the future will be on market-driven organic growth enhanced by acquisitions and partnerships. DSM applies stringent strategic and financial criteria to potential acquisitions or partnerships.
DSM has set itself ambitious targets for the next strategy period. With the transformation completed, DSM can now focus on, and accelerate, growth.

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 2013. The EBITDA and ROCE targets are a combination of organic growth of DSM’s core businesses and bolt-on acquisitions, where the major contribution is expected to come from organic growth.

The following sales targets have been set for 2015. DSM aims for organic sales growth of 5% – 7% per year, enhanced by acquisitions and partnerships. It strives to more than double its sales in China from $ 1.5 billion in 2010 to more than $ 3.0 billion in 2015. Towards 50% of DSM’s total net sales should be in High Growth Economies by 2015 compared with approximately 32% in 2010. Innovation sales – which from now on will be measured as sales from innovation products introduced in the last five years – are targeted to be approximately 20% of total net sales by 2015.

For the period 2011 – 2015 capital expenditure can be expected to be comparable to the Accelerated Vision 2010 period: between € 450 – 600 million per year. For the total period, capital expenditure is expected to amount to € 2.5 – 2.7 billion, of which $ 1 billion is foreseen in China. In addition, DSM aspires to keep working capital as percentage of net sales below 19%.

For the Emerging Business Areas a sales target of more than € 1 billion has been set for 2020.
In the field of sustainability too, a number of ambitious targets and aspirations have been set.

For 2011 – 2015 the following value-creating-performance aspirations have been defined regarding sustainability:
- Top ranking in the Dow Jones Sustainability Index
- ECO+ products as percentage of running business should increase from about 34% toward 50%
- Percentage of ECO+ products in the innovation pipeline at least 80%.
- Energy consumption reduction of 2% annually
- Greenhouse gas emissions reduction of ~ 3.5% per year over a time period of 3 – 5 years
- Satisfaction as measured in the employee engagement survey over 68%
- Further diversity and People+ aspirations will be defined in 2011.
The strategy of DSM for Nutrition, continued value growth, is built on the industry trending towards sustainable solutions in food and feed chains, the changing demand patterns in high growth economies, the ever-deepening concern about health and nutrition, and an ongoing innovation and cost focus.

Building on the successful value creation of the past few years, the Nutrition cluster will focus on further improving the quality of earnings and leveraging the scale and scope of its global activities. This will be done by:

- Ensuring its cost position is at a par with the best in the industry via continued process innovations and improvements, rigorous site selection, and pursuing ‘asset light’ strategies;
- Differentiation and innovation: continuing to be the Quality player in the sector, pursuing product and process innovation, marrying technological advances with consumer trends and customer needs;
- Continuing to expand its global pemix network to increase DSM’s customer proximity and access;
- Enhancing the aspired growth by pursuing acquisitions and partnerships: focusing on complementary ingredients, with a bias towards naturals, which can be marketed through DSM’s existing global infrastructure.

The aspirations for the Nutrition cluster are: a sales growth of 2% above GDP and a sustainable EBITDA-margin level of more than 20% towards 23%.
• DSM Anti-Infectives (DAI) has successfully tackled key issues and transformed its business. To exploit its unique technology position, DSM is building a new, industry leading 6-APA plant in China, which will make the business less dependent on external penicillin sources.

• Growth will come from market share gains in the present business scope and by expanding the portfolio to include differentiated, higher-value specialty products. Moreover, DSM will also grow its range of APIs and, in certain regions, also forward integrate into finished dosage (FD) products and, additionally, provide the regulatory approval support (dossiers) that customers need.

• Nevertheless, DSM remains convinced that growth and profit improvement in DAI can be accelerated via an alliance or partnership in Asia and is actively pursuing this option. A partnership would allow DSM to maximize the value of its technology and grow market share by bringing high-quality, high-value and sustainable products to fast growing markets through existing and new sales channels.

• DSM aspires to restore the cluster’s profitability back towards an EBITDA margin of 15 – 20% by 2015.
• DSM Pharmaceutical Products’ (DPP) business environment is very challenging as its customers continue to focus more on cost, especially in view of healthcare budget pressures. At the same time, there is a shift towards generics and high growth economies. A partnership strategy for DPP – with a focus on Asia – to enhance and accelerate growth is the fastest way to improve results.

• DSM will further optimize its current assets and re-focus them towards new customer requirements. This essentially means re-balancing towards lower cost assets in the high growth economies.

• The inherent volatility of the CMO business model makes optimizing asset utilization very challenging. In order to address this, DSM intends to significantly expand its range of own products. DSM also intends to pursue more complete value chain deals (like the one with Shire). It can deliver most value when it operates as a full-service strategic value chain partner.

• DSM Biologics continues to develop its technology and will open the world’s first commercial scale biopharmaceutical manufacturing site in Australia in 2013.

In addition, DSM recently extended its Percivia JV with Crucell in the field of biobetters.

• DSM aspires to restore the cluster’s profitability back towards an EBITDA margin of 15 – 20% by 2015.
In Performance Materials, DSM continues to focus on high performance, ECO+ solutions, driven by customer and end-user demand for stronger and lighter materials and environmentally friendly coatings. The businesses in the cluster have achieved strong leadership positions in chosen segments of the global markets for advanced materials.

DSM Engineering Plastics has a focused portfolio of products: its leadership in sustainable solutions is demonstrated by its complete portfolio of halogen-free engineering plastics, developed for a wide range of high-performance applications, further strengthened by the launch of new innovations such Stanyl® ForTii™. Dyneema® is respected as the global premium brand for Ultra-High-Molecular-Weight Polyethylene fiber. DSM Resins ranks among the global leaders in the markets for resin systems for industrial coatings and decorative coatings, and as the global leader in fiber optic coatings. Furthermore, DSM Resins is the European market leader in unsaturated polyester resins and is rapidly building a position in the fast growing markets of China.

DSM has invested considerably in High Growth Economies, building its asset base in countries which will see the majority of global growth. It has built a new engineering plastics compounding plant in India, opened an Akulon® PA6 polymer plant in China, expanded compounding facilities in China, invested in waterborne acrylic resins production in China and expanded the manufacturing facility of DSM Desotech in Shanghai. In addition, more R&D will move to the East: DSM Engineering Plastics will set up a Materials Research and Automotive Development Center in Shanghai. All this will drive sales growth in High Growth Economies.

Exciting examples of new innovative sustainable solutions of the cluster are EcoPaXX™, (the green polymer that is being enthusiastically welcomed in multiple end-use markets), Palapreg® ECO (the new bio-based composite resins used in the automotive industry) and for instance the new ultra lightweight air cargo container panels made with DSM’s Dyneema® fiber and DSM’s Aeronite® resins.

DSM seeks to strengthen and expand its leadership positions, among other things through acquisitions and partnerships. In high growth economies, strong sales growth is foreseen. With the great majority of innovations driven by sustainability, the cluster is recognized as a front-runner. For the cluster, DSM aspires to achieve sales growth at double GDP level and an EBITDA-margin level of more than 17% by 2015.
Polymer Intermediates has a uniquely strong starting point: its global market position, a solid partnership in China, excellent performance, technological leadership and a growing, captive supply to DSM Engineering Plastics in the three key regions.

Due to the backward integration, DSM Engineering Plastics will benefit from a further strengthening of Polymer Intermediates’ market and technology position. By building a next generation second production line as part of its joint venture in China, DSM aims to double its capacity in the country by 2014. At the same time, DSM will limit its exposure and capital intensity via partnerships and joint ventures.

The rapidly increasing demand, both captive and merchant, the Chinese government’s intention to replace imported caprolactam by local production, and improving margins provide sound foundations for expanding capacity.

The actual capital expenditure on the second line in Nanjing will be lower for DSM because of the participation of Sinopec in the project. At the same time, DSM Fibre Intermediates will limit capital exposure in general by pursuing further partnership deals with customers who acquire a certain share of DSM’s capacity, following the model of the existing partnership with Shaw.

DSM’s caprolactam technology is one of the most energy efficient and least wasteful available, which makes DSM the front-runner in ‘green’ caprolactam. By further investing in sustainability improvement, DSM Fibre Intermediates will be able to add “green value” to the polyamide 6 its customers produce, thereby further increasing its own margins at the same time.

The aspiration for the cluster is an EBITDA margin of approximately 14% over the cycle.
Emerging Business Areas (EBAs) were launched five years ago to develop new growth platforms, building on the strengths and synergies of DSM’s position in Life Sciences and Materials Sciences. Two EBAs have developed well and have evolved into large business opportunities: White Biotechnology (which will be renamed to DSM Bio-based Products & Services) and DSM Biomedical. Both DSM Biomedical and DSM Bio-based Products & Services will be taken to the next level. Both EBAs will accelerate organic growth and growth via Acquisitions & Partnerships. A new EBA, DSM Advanced Surfaces, will be established.

An ambitious growth perspective of a combined turnover of €1 billion by 2020, with an above average profitability, has been formulated for the Emerging Business Areas.

For DSM Bio-based Products & Services, DSM will amongst other things develop a license and service model with regard to its second-generation biofuels efforts for the cellulosic ethanol industry. For the production of bio-based chemicals and polymers DSM will initially focus on traditional crops as starting materials. Innovation efforts will focus on green and high-performance materials.

For Biomedical, DSM is looking to expand its current biomaterials, application and technology portfolio. In drug delivery DSM will establish a strong market presence building on a robust technology portfolio. For the future market of regenerative medicine and tissue engineering, the business will look for venturing and/or partnership opportunities.

For DSM Bio-based Products & Services, DSM will amongst other things develop a license and service model with regard to its second-generation biofuels efforts for the cellulosic ethanol industry. For the production of bio-based chemicals and polymers DSM will initially focus on traditional crops as starting materials. Innovation efforts will focus on green and high-performance materials.
To meet the next-level ambitions for all four growth drivers, DSM is transforming its organization and culture to create a genuinely global organization to achieve our strategic ambitions. By strengthening and empowering regional businesses, DSM will deepen local market insights and relationships. In parallel, the ‘One DSM’ program will progressively enhance knowledge-sharing and collaboration across businesses, functions and regions, enabling the company to capture the full benefits of diversity.

‘One DSM’ – which will contain a global drive for a high-performance organization – will be equipped to enable DSM to reach its targets and ambitions. The business groups are the primary organizational and entrepreneurial building blocks with a primary focus on customers and markets. The regions will strengthen the business groups by providing infrastructure and capabilities to support the businesses. The regions will also cater for local innovation in designated countries and present the ‘One DSM’ face to the external constituencies. As a shared responsibility, the regions will also drive top-line growth.

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

The transformation of DSM’s organization will be supported by DSM’s culture change program, which has established a shared understanding of essential DSM values and principles to drive growth:
- External orientation and drive for innovation: bringing DSM closer to customers, suppliers, partners and other key influencers;
- Accountability for performance: instilling individual responsibility at all levels;
- Inspirational leadership: the complementary and consistent combination of setting direction with ambition and passion, taking decisions based on a healthy sense of urgency, and demonstrating authenticity, engagement and strong motivation along the way.

DSM’s culture change program will be further rolled out with the emphasis on collaboration and speed of execution. All this is based on DSM’s joint belief in sustainability and diversity.
• DSM’s goal now is to truly internationalize its business. This will bring the company closer to its key markets and customers (where DSM expects 70% of its growth), strengthen the regional businesses and stimulate diversity and innovation.

• DSM will combine a stronger regional infrastructure with clear board level accountability for regional growth. Over the next two years DSM intends to:
  – Relocate the headquarters of the business groups DSM Fibre Intermediates, DSM Engineering Plastics and DSM Anti-Infectives to Asia.
  – Relocate the DSM Biomedical (DBM) business headquarters to the United States.
  – Establish new Innovation Centers in China and India, and expand the existing Innovation Centers in the US and Japan.
  – Strengthen regional capabilities, infrastructure and management to provide regional views to the business and support growth and innovation in the regions. We will establish full-time presidents in China, India, Russia and the US and, initially, a combined business / president role in Latin America.
  – Allocate regional growth and synergy accountability to designated members of the Managing Board (dual desk in combination with cluster oversight).
• DSM is leaving its cash allocation priorities unchanged:
  1. CAPEX for organic growth
  2. Dividend (stable and preferably rising)
  3. Acquisitions
  4. Cash return to shareholders

• DSM will only consider returning cash to shareholders if over a longer period not enough cash can be allocated to the first three priorities to bring DSM's gearing towards a 30% level.

• DSM is keeping its dividend policy unchanged. The company aims to provide a stable and preferably rising dividend to its shareholders. The dividend per ordinary share has been increased by almost 40% since 2004.

• For the coming years DSM intends to further increase the dividend by €0.20 per share to €1.50 per share, barring unforeseen circumstances and assuming that DSM will be able to fulfill its growth aspirations.

• DSM will continue its systematic, risk-management-oriented hedging strategy.

• For 2010 DSM will propose to the Annual General Meeting of Shareholders (AGM) to increase the dividend by €0.10. The company will also introduce an optional stock dividend in line with the request made by shareholders and it will discontinue the Dividend Re-Investment Plan for shareholders as a consequence.
DSM is rated A3 (stable) by Moody’s and A- (stable) by S&P. The rating agencies base their judgment on three main, interrelated parameters: EBITDA/interest cover, Gearing, and Adjusted Funds from Operations / Adjusted Net Debt (Adj.FfO / Adj.Net Debt).

DSM targets a gearing below 30%. However, within the boundaries of the desired Single A credit rating, gearing could be raised to a level of 30 – 40%, based on a balanced approach regarding the three ratios mentioned above.

DSM’s gearing, defined as net debt divided by total capital, was 5% at the end of Q3 2010. From this perspective DSM is conservatively financed.

With regard to the second main yardstick, Adj.FfO / Adj.Net Debt, Moody’s in principle requires a minimum score of at least 30% for a Single A rating. DSM's is expected to be far above this yardstick by the end of 2010.

DSM’s EBITDA/interest cover will be around 12 at year-end 2010, well above the minimum level of 8.5 required for a Single A rating.

Due to its focus on cash (including working capital) and its divestments, DSM has a very strong financial position with a net debt of only around € 275 million at the end of Q3 2010, which provides the company with ample room for growth.
In order to secure sustainable profitable growth in the future, investments will remain an integral and important part of DSM’s strategy. The capital expenditure levels to be expected for the period 2011 – 2015 are comparable to the (Accelerated) Vision 2010 period: between € 450 and 600 million per year. For the entire 2011 – 2015 period € 2.5 – 2.7 billion CAPEX is foreseen.

Despite the comparable capital expenditure level, DSM expects to be able to increase its Return on Capital Employed (ROCE) to more than 15% in 2013. This will come from better business results and an improved capital efficiency.

The capital efficiency will improve through the following changes:
- DSM will increase the share of growth investments as a percentage of total CAPEX. For instance, a large part of the $ 1 billion investment that is expected in China in the coming years will be aimed at further growth in the region such as the second production line for caprolactam. Traditionally, a large part of DSM’s capital expenditure is invested in existing assets (e.g. maintenance, license to operate, life time expansion, optimizations, improvement). These investments have to continue, but compared to previous periods the focus will be more on growth investments.
- There will also be a change in DSM’s investment approach. DSM wants to increase its flexibility by building more modular production units, but even more important will first look at alternatives to source the product from a third party before investing in own production capacity.
- DSM also seeks to optimize the current asset footprint via the Advanced Manufacturing program as well as asset restructuring. DSM Anti-Infectives’ production facilities have successfully been reorganized. Currently, DSM is investigating a possible restructuring at DNP’s production site in Grenzach. Within the Pharma cluster there will also be further asset optimizations. Further restructuring projects for DSM’s production assets in Europe are to be expected.
- At the same time, DSM will continue to reduce its working capital, building on its recent efforts which were very successful.
- Finally, DSM also seeks to grow without CAPEX or with only limited CAPEX. Examples are new business models, deriving revenues through royalties, licensing or venturing.
DSM applies stringent strategic and financial criteria to any potential acquisition or partnership. In the screening process a first selection is made on the basis of strategic fit. On the resulting shortlist, DSM’s financial criteria are applied.

A key strategic criterion is that the business or partner should add value to DSM in terms of technological and/or market competencies.

DSM will also look for opportunities to strengthen competencies and market positions with regard to the other three strategic growth drivers: expansion in High Growth Economies, innovation potential and sustainability.

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

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

There are exceptions to the cash EPS criterion for potential acquisitions or partnerships; this requirement may for instance not be appropriate in the case of small innovative growth acquisitions.
According to the IFRS rules DSM’s Dutch pension plan currently is a Defined Benefit Plan, though with a fixed premium contribution. It is currently being considered to adapt the Dutch pension plan in such a way that the new set up has to be recognized as a Defined Contribution Plan.

This would lower DSM’s financial risk for more than 80% of its pension liabilities, which are in the Dutch pension scheme. The change would make the pension costs in the P&L more stable and better predictable than in the current situation and would bring these costs in line with the payments toward the pension plan (cash outflow).

If, in 2010, the plan had been recognized as a Defined Contribution Plan, this would have resulted in a lower (non-cash) operating result of about € 40 million. A potential shift from a Defined Benefit Plan to a Defined Contribution Plan will also give a balance sheet impact with a non-cash exceptional item in the P&L.

Currently DSM is in talks with the social partners about the possible change and the future contributions towards the pension scheme.
Conclusions

- Transformation nearing completion: a new era starts
- High growth aspirations going forward
- Bringing all four growth drivers to the next level
- Solid balance sheet, sufficient financing for growth
- Resulting in:
  - Higher sales growth and stronger results
  - Improving ROCE
  - Further increasing dividend
  - Being truly international and innovative with sustainability as a clear business driver
DISCLAIMER

This document may contain forward-looking statements with respect to DSM’s future (financial) performance and position. Such statements are based on current expectations, estimates and projections of DSM and information currently available to the company.

Examples of forward-looking statements include statements made or implied about the company’s strategy, estimates of sales growth, financial results, cost savings and future developments in its existing business as well as the impact of future acquisitions, and the company’s financial position. These statements can be management estimates based on information provided by specialized agencies or advisors.

DSM cautions readers that such statements involve certain risks and uncertainties that are difficult to predict and therefore it should be understood that many factors can cause the company’s actual performance and position to differ materially from these statements.

These factors include, but are not limited to, macro-economic, market and business trends and conditions, (low-cost) competition, legal claims, the ability to protect intellectual property, changes in legislation, changes in exchange and interest rates, changes in tax rates, pension costs, raw material and energy prices, employee costs, the implementation of the company’s strategy, the company’s ability to identify and complete acquisitions and to successfully integrate acquired companies, the company’s ability to realize planned disposals, savings, restructuring or benefits, the company’s ability to identify, develop and successfully commercialize new products, markets or technologies, economic and/or political changes and other developments in countries and markets in which DSM operates.

As a result, DSM’s actual future performance, position and/or financial results may differ materially from the plans, goals and expectations set forth in such forward-looking statements.

DSM has no obligation to update the statements contained in this document, unless required by law. The English language version of this document is leading.

A more comprehensive discussion of the risk factors affecting DSM’s business can be found in the company’s latest Annual Report, a copy of which can be found on the company’s corporate website, www.dsm.com
DSM ordinary shares [ISIN code NL0000009827, fondscode 00982] are listed on the stock exchanges of Amsterdam. Options on DSM shares are traded on the European Option Exchange in Amsterdam. In the USA a sponsored unlisted American Depositary Receipts program is being run via Citibank NA [Cusip 780249108]; four ADRs represent one ordinary DSM share.

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<tbody>
<tr>
<td>net profit before exceptional items</td>
<td>1.44</td>
<td>3.64</td>
<td>3.07</td>
<td>2.85</td>
<td>2.82</td>
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<td>net profit</td>
<td>2.01</td>
<td>3.45</td>
<td>2.35</td>
<td>2.83</td>
<td>2.68</td>
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<tr>
<td>cash flow</td>
<td>6.05</td>
<td>6.20</td>
<td>5.56</td>
<td>5.21</td>
<td>5.65</td>
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<tr>
<td>shareholders' equity</td>
<td>28.92</td>
<td>27.12</td>
<td>30.42</td>
<td>30.03</td>
<td>27.59</td>
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<tr>
<td>interim dividend</td>
<td>0.40</td>
<td>0.40</td>
<td>0.33</td>
<td>0.33</td>
<td>0.29</td>
</tr>
<tr>
<td>final dividend</td>
<td>0.80</td>
<td>0.80</td>
<td>0.87</td>
<td>0.67</td>
<td>0.71</td>
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<tr>
<th>Pay-out including dividend on cumulative preference shares as % of net profit before exceptional items</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
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<tr>
<td>dividend yield (based on average price of an ordinary DSM share)</td>
<td>4.8%</td>
<td>3.9%</td>
<td>3.3%</td>
<td>2.9%</td>
<td>3.4%</td>
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<tr>
<td>highest price</td>
<td>34.84</td>
<td>41.27</td>
<td>39.87</td>
<td>39.70</td>
<td>35.22</td>
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<tr>
<td>lowest price</td>
<td>16.93</td>
<td>15.76</td>
<td>31.63</td>
<td>28.58</td>
<td>23.07</td>
</tr>
<tr>
<td>at 31 December</td>
<td>34.46</td>
<td>18.33</td>
<td>32.33</td>
<td>37.43</td>
<td>34.50</td>
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<tr>
<th>Number of ordinary shares outstanding: (x 1,000)</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
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<tr>
<td>at 31 December</td>
<td>163,037</td>
<td>162,227</td>
<td>166,897</td>
<td>184,850</td>
<td>190,923</td>
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<tr>
<td>average</td>
<td>162,364</td>
<td>164,196</td>
<td>178,541</td>
<td>189,550</td>
<td>190,783</td>
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<tr>
<td>average</td>
<td>1,270</td>
<td>1,783</td>
<td>1,590</td>
<td>1,301</td>
<td>1,063</td>
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<tr>
<td>lowest</td>
<td>75</td>
<td>152</td>
<td>94</td>
<td>267</td>
<td>238</td>
</tr>
<tr>
<td>highest</td>
<td>4,376</td>
<td>5,894</td>
<td>11,347</td>
<td>5,208</td>
<td>6,563</td>
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