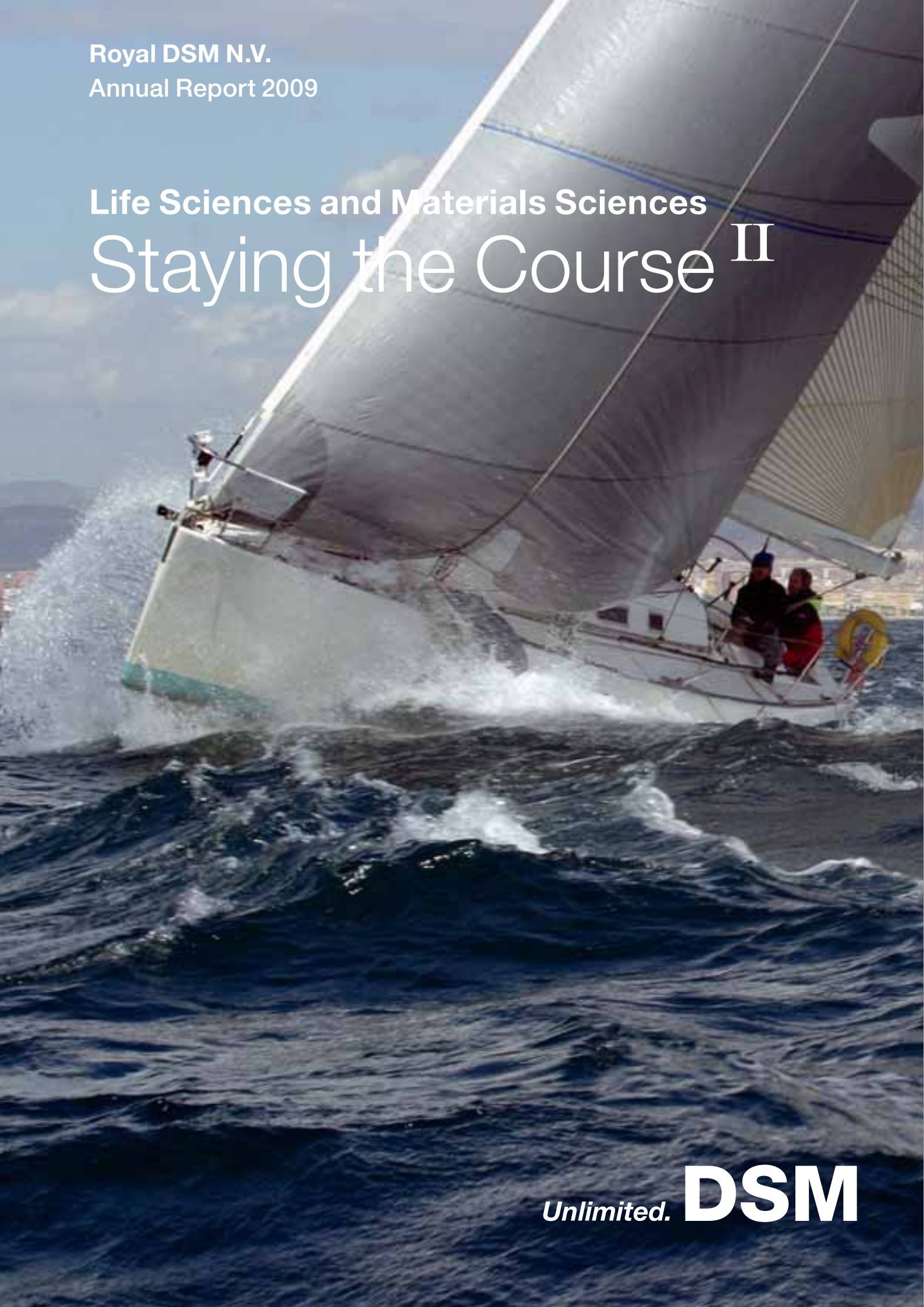
Royal DSM N.V.
Annual Report 2009

Life Sciences and Materials Sciences

Staying the Course II



Unlimited. DSM

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 five clusters.

Nutrition

DSM Nutritional Products
DSM Nutritional Products is the world's largest supplier of nutritional ingredients, such as vitamins, carotenoids (antioxidants and pigments), enzymes, other biochemicals and fine chemicals and premixes for humans and animals.

- Human Nutrition and Health
Leading developer and manufacturer of a wide range of food ingredients for the food industry and personal care ingredients for cosmetics and skin care product companies, often providing health benefits.

- Animal Nutrition and Health
World market leader in vitamins, carotenoids, enzymes and premixes for the feed industry. Its products contribute to animal performance and the environment.

DSM Food Specialties
DSM Food Specialties is a global supplier of advanced ingredients for the food industry, mainly manufactured with the aid of fermentation and enzyme technology, among other technologies, based on in-depth application knowledge of the chosen market segments.

Pharma

DSM Pharmaceutical Products
DSM Pharmaceutical Products is one of the world's leading providers of high-quality global primary and secondary custom manufacturing services (small as well as large molecules) to the pharmaceutical, biotech and agrochemical industries.

DSM Anti-Infectives
DSM Anti-Infectives holds global leadership positions in penicillin G and penicillin intermediates (6-APA and 7-ADCA), in active pharmaceutical ingredients such as semi-synthetic penicillins and semi-synthetic cefalosporins (beta-lactams) and in other active pharmaceutical ingredients such as nystatin.

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

Performance Materials

DSM Engineering Plastics
DSM Engineering Plastics is a global player in polyamides, polyesters and extrudable adhesive resins. These materials are used mainly in technical components for the electrical and electronics, automotive, engineering and packaging industries.

DSM Dyneema
DSM Dyneema is the inventor and manufacturer of Dyneema®, the world's strongest fiber™. This polyethylene fiber is used in many applications in various end-markets, such as life protection, shipping, fishing, offshore, sailing, medical and textiles.

DSM Resins
DSM Resins manufactures and sells high-quality resins which are used in a wide variety of applications such as paints, wind mills and automotive. End-markets include building and construction, transport and industry.

Polymer Intermediates

DSM Fibre Intermediates
DSM Fibre Intermediates produces caprolactam and acrylonitrile, which are raw materials for synthetic fibers and engineering plastics. Caprolactam is the raw material for polyamide 6, a versatile material that is used in textiles, floor coverings, industrial yarns and engineering plastics.

Base Chemicals and Materials

DSM Agro
DSM Agro produces ammonia and nitrogen fertilizers for grasslands and agricultural crops, which it supplies to agricultural wholesalers.

DSM Melamine
DSM Melamine produces melamine, a product used in impregnating resins and adhesive resins for the wood processing industry.

DSM Elastomers
DSM Elastomers manufactures synthetic rubbers and thermoplastic elastomers for use in cars, white goods, various industrial products, construction materials and as motor-oil additives.

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 – the Life Sciences and Materials Sciences Company

Royal DSM N.V. creates solutions that nourish, protect and improve performance. Its end markets include human and animal nutrition and health, personal care, pharmaceuticals, automotive, coatings and paint, electrical and electronics, life protection and housing. DSM manages its business with a focus on the triple bottom line of economic prosperity, environmental quality and social equity, which it pursues simultaneously and in parallel. DSM has annual net sales of € 8 billion and employs some 22,700 people worldwide. The company is headquartered in the Netherlands, with locations on five continents. DSM is listed on Euronext Amsterdam. More information: www.dsm.com

Key data for 2009

Net sales, continuing operations
(x million)

€ 7,732

Operating profit, continuing operations[1]
(x million)

€ 370

Net profit, continuing operations[1]
(x million)

€ 197

Net profit, total DSM
(x million)

€ 337

Capital expenditure and acquisitions
(x million)

€ 467

Net earnings per ordinary share

€ 2.01

Dividend per ordinary share

€ 1.20

Workforce (at year-end)

22,738

Cash provided by operating activities, total DSM
(x million)

€ 1,276

[1] Before exceptional items

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

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

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Key financial data

(consolidated)

Throughout this report:
- operating profit (EBIT) and EBITDA do not include exceptional items;
- net profit (before exceptional items) is defined as net profit available for profit appropriation (before exceptional items).

	2009	2008
Key figures (x € million):		
Net sales, continuing operations	7,732	9,079
Operating profit plus depreciation and amortization, continuing operations (EBITDA)	836	1,209
Operating profit, continuing operations (EBIT)	370	769
Operating profit	443	903
Net profit before exceptional items	244	608
Net result from exceptional items	93	(31)
Net profit	337	577
Depreciation and amortization, before exceptional items	474	454
Cash provided by operating activites	1,276	910
Dividend	205	204
Capital expenditure including acquisitions	467	739
Net debt	830	1,781
Shareholders' equity	4,949	4,633
Total assets	9,614	9,653
Capital employed, continuing operations	5,673	6,471
Per ordinary share in €:		
Net earnings before exceptional items	1.44	3.64
Net earnings	2.01	3.45
Dividend	1.20[1]	1.20
Royal DSM N.V. Shareholders' equity	28.92	27.12
Ratios (%):		
EBIT / net sales (continuing operations)	4.8	8.5
EBITDA / net sales (continuing operations)	10.8	13.3
Operating working capital / net sales	19.5	22.6
CFROI[2]	6.1	8.7
ROCE[2]	7.2	14.4
Gearing (net debt / equity plus net debt)	14.2	27.5
Equity / total assets	52.1	48.6
Cash flow from operating activities / net sales	16.2	9.8
Workforce, continuing operations:		
Workforce at 31 December (headcount)	22,738	23,539

[1] Subject to approval by the Annual General Meeting of Shareholders
[2] Excluding discontinued operations CFROI is 5.7% and ROCE is 6.1%

Letter from the Chairman

Dear reader,

The year 2009 was perhaps one of the most challenging years in DSM's history. A substantial part of our business was heavily impacted by the economic downturn that swept across the world. Although our Life Sciences businesses showed themselves to be relatively resilient, with Nutrition performing particularly well, the DSM businesses supplying to the automotive, electronics and construction industries (in particular our Materials Sciences businesses and the non-core Base Chemicals and Materials cluster) suffered badly, especially in the first half of the year. Despite a recovery in the second half, our overall sales and operating profit were much lower than in the record year 2008.

To remain competitive and to stay financially healthy amidst the downturn, we had to implement tough measures to manage cash and reduce costs. This involved the announcement of a planned reduction of our global workforce by 1250 positions – very painful, but a necessary part of a € 150-200 million per annum cost saving program to be fully achieved by 2010. Although our sales and operating profit showed a clear decrease compared to 2008, our actions to focus on cost and cash resulted in very strong cash generation, even stronger than in our record year 2008. Our response to the changing economic circumstances was fast, strong and effective, securing the strength of our company and the interests of our shareholders.

Our actions to focus on cash delivered a cash flow in 2009 of almost € 1.3 billion provided by operating activities and a reduction of more than 50% in our net debt from almost € 1.8 billion to € 830 million.

DSM's solid financial position was once again recognized, as the major credit rating agencies – Standard & Poor's and Moody's – confirmed their single A credit rating for our company. This ensures that we are able to pursue our strategy, even in current times when creditworthiness is more important than ever.

Our robust financial position allows us to propose an annual dividend for 2009 of € 1.20 per ordinary share, in line with our policy of providing a stable and preferably rising dividend to our shareholders, to whom we are grateful for their trust in our company.

In the second half of 2009 we completed the disposal of our urea licensing and energy businesses, in line with our drive to transform DSM into a true Life Sciences and Materials Sciences company capable of leveraging the cross-fertilization between the two segments. We remain committed to exiting the remaining non-core operations (mainly our Base Chemicals and Materials businesses), although we have slowed down the disposal process in view of the current financial and economic environment. I am grateful to the employees involved in these businesses for their professionalism in dealing with their new futures.

During this challenging year 2009, we focused even more on our markets and customers, and we continued to push our innovation drive to further develop DSM, including our capability to provide solutions for a more sustainable world. We thank our customers for their trust in our company and we are pleased and ready to serve them.

Our efforts in the field of innovation were rewarded in November when we received the 2009 Outstanding Corporate Innovator Award from the Product Development and Management Association. This award is one of the world's most important innovation awards. The Selection Committee for the Award indicated that they were particularly impressed with our strategic commitment to Open Innovation as a fundamental corporate strategy and source of competitive advantage. Our innovation-related sales in 2009 amounted to about € 810 million, a good basis to reach our objective of € 1 billion in innovation-related sales by the year 2010.

Our growth plans for China remain unchanged. The sales of DSM in China in 2009 showed a new record of nearly USD 1.2 billion, representing 11% of our net sales. We decided to suspend the contracts to establish nutrition and anti-infectives joint ventures in China with North China Pharmaceutical Group Corporation Ltd. We are continuing our growth strategy in China as well as our search for partnerships.

We also made good progress in making our operations even safer and further reducing our eco-footprint. We did not compromise our commitment to meeting the 'triple bottom line' of People, Planet and Profit. We stuck firmly to our values, beliefs and principles. In short, we stayed our strategic course on all fronts.

We were rewarded for this in September, when the Dow Jones Sustainability Index once again named DSM the number one in the area of sustainability in the global chemical industry. We are very proud of this result. It is external recognition of the fact that sustainability remains at the heart of our company, especially in current times when values are put to the test.



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

Our sustainability focus is also reflected in the new remuneration system that our Supervisory Board is proposing to the Annual General Meeting of Shareholders, which embodies a balanced approach regarding the interests of different stakeholders, short-term and long-term goals and financial and other value creating measures, including measures linked to sustainability.

Our *Vision 2010* strategy is a response to key long-term global issues such as the need for alternative energy sources, the need to address climate change and the need to provide health and a balanced diet for all, against the background of demographic trends, globalization and emerging economies. We are convinced that these issues and trends offer DSM a healthy long-term market perspective, enabling our company to not only flourish and create value but also contribute to the wellbeing of a great many people on our planet – and of the planet itself.

We at DSM have continued to contribute to the solution of these issues. For example, in 2009 we developed key nutritional innovations together with the World Food Programme of the United Nations, innovations that will help save millions of lives. We also continued to develop solutions to reduce greenhouse-gas emissions and solutions promoting a sustainable bio-based economy – not just to reduce our own eco-footprint but also to enable our customers to reduce their eco-footprint.

Our achievements over the years in the fields of sustainability, emerging economies and innovation are in no small part due to the dedication of Jan Zuidam, our Deputy Chairman, who retired on 1 January 2010. I would like to thank him for his contribution and for the leadership he showed during his 36-year career at DSM, of which he served 12 years as Managing Board member. I have taken over his role as sustainability champion on the Managing Board.

In order to be even better able to fulfill our strategy of meeting key global needs, we are currently addressing our culture via a corporate Change Agenda, which is supported by the outcome of our latest (March 2009) Employee Engagement Survey. The Change Agenda focuses on three improvement areas: external orientation (linked to innovation), stronger accountability for performance (a high-performance attitude) and more inspirational leadership to manage our company's transition.

Letter from the Chairman

These elements are based on our shared values and our joint belief in sustainability and the added value of diversity.

Our continued success will to a very large extent depend on the support of our employees, in whom we have great trust. We have collectively shown over the years that we are capable of delivering great results and that we are fully engaged with our company. I would like to thank all employees in particular for the way they helped DSM stay the course and successfully steer through the challenges of 2009, thus paving the way for our agenda for the future.



Feike Sijbesma

CEO/Chairman of the Managing Board

feike.sijbesma@dsm.com

Staying the Course II

Since the early 1990s, DSM has consistently been transforming itself by optimizing existing activities, disposing of non-core activities and expanding in both Life Sciences and Materials Sciences. This process of transformation and portfolio change has continued throughout periods of economic expansion as well as economic downturns. Although the current economic downturn, which became visible in DSM's results in the fourth quarter of 2008, is in many respects unprecedented, DSM did not deviate from its strategy.

Weathering the storm

Turmoil in the financial markets at the end of the third quarter of 2008 resulted in a tightening of credit markets while raw material prices went down rapidly and then remained highly volatile. This, combined with significantly lower market demand, translated into severe pressure on both top and bottom line.

Most of DSM's businesses in Materials Sciences and in the Base Chemicals and Materials cluster – the latter being earmarked for disposal – were heavily impacted. DSM's Life Sciences businesses on the other hand were largely able to weather the storm.

Despite the significant deterioration in market conditions in some of its businesses since the end of 2008, DSM is convinced it has chosen the right strategy by opting for an accelerated transformation towards a Life Sciences and Materials Sciences company.

This transformation includes a change in portfolio. In 2009 DSM made progress on this front and completed the disposal of its urea licensing and energy businesses. The selling process is underway for the other activities grouped in the non-core Base Chemicals and Materials cluster. DSM still aims to complete these disposals by the end of 2010.

Focusing on societal trends

DSM's focus on Life Sciences and Materials Sciences is fueled by four major societal trends, which it has labeled Climate and Energy; Health and Wellness; Functionality and Performance; and Emerging Economies. These trends have not changed as a result of the economic recession and have become even more prominent as a result of changes in demographics and globalization.

By focusing on Life Sciences and Materials Sciences as well as the combination of the two, DSM can address the unmet needs reflected in these main societal trends.

Climate and Energy

The effects of climate change and the adverse consequences of the world's dependency on fossil fuels are becoming increasingly apparent, calling for fundamentally new approaches. Fossil fuels will become scarce (and therefore also more expensive) in the future and alternative renewable energy sources such as biomass, wind and solar are needed to respond to the ever-increasing need for energy, driven by high growth and demand in emerging economies amongst others.

In addition, CO_2 emissions and the global debate on the need to prevent further global warming are highlighting the need for alternative renewable energy sources even more. In its World Energy Outlook the OECD asserts that, to meet global energy demand in 2030 and reduce CO_2 emissions to an acceptable level, the capacity of alternative sources such as wind and other renewables needs to be multiplied by a factor of about 12 compared to today's use. Also, energy saving solutions are urgently needed to achieve the desired reduction in emissions.

DSM's strategy, focusing on solutions for renewable energy, fuel efficiency and improving the eco-footprint throughout the value chain, is a response to these societal trends. It is DSM's strong conviction that these trends will persist and will gain even more interest and profile when the current recession comes to an end.

Health and Wellness

With a growing and aging world population, interest in health and wellness is on the rise. Diseases such as Alzheimer's and other age-related diseases require new (bio)pharmaceutical treatments. Of growing concern in the Western world is the rapid increase in diseases and disorders induced by modern lifestyles and eating patterns. The rapid increase in cardiovascular disorders and conditions such as diabetes type 2 is to a large extent related to lifestyle and diet. Phenomena such as obesity are increasingly affecting not just the Western world but also emerging economies.

Societies in the world cannot afford to keep trying to address these conditions via medicines alone. Prevention has to gain in importance and efficacy, and food ingredients that help to make our daily diet healthier can and will play a pivotal role in this. DSM, being the global leader in nutritional ingredients, is well positioned to contribute.

DSM is also well positioned to help food companies to reduce the amount of salt in food. Eating too much salt is a significant risk factor in developing high blood pressure. This can increase the risk of heart disease and stroke.

The increased interest in health and wellness also has an impact in Materials Sciences. Biomedical materials for spinal disks, joints and catheters are increasingly being used in healthcare. In the workplace, too, there is increased focus on health and wellness. For example, solvent-free coatings not only have a better environmental footprint, but are also much safer for workers, and the same holds for energy-friendly UV-curable coatings.

Functionality and Performance

Despite the economic recession, demand for broadband capacity continues to increase, in both the developed and the developing world. Video is at the top of the list of bandwidth-demanding applications. Upstream speeds will become more important as today's internet users seek to share and store more content.

In an increasingly connected world, remote learning and virtual classrooms aided by real-time collaboration systems will give education a new dimension. In addition there are many healthcare applications that will require massive amounts of data transmission.

In the mobile arena, the emergence of 'super phones', such as the Apple iPhone and Google G-1, is creating a demand for mobile data and entertainment that will grow mobile bandwidth requirements tenfold.

Globalization and connectivity also trigger a need for more fiber optic cables. DSM is the world's leading supplier of coatings for fiber optics.

At the same time, new materials are needed to support new functionalities. In automotive, synthetic materials are increasingly used to replace metal, reducing weight and therefore fuel consumption. As a result of the economic recession, fuel efficiency has gained in importance in North America, while in Europe, too, demand for smaller, more fuel-efficient cars is increasing.

The limited availability and the environmental impact of fossil-based raw materials create a need for new and sustainable raw materials. EcoPaXX™, DSM's new green bio-based polymer, is now in its market introduction phase.

In consumer electronics there is a trend towards replacing harmful halogen-containing flame retardants with halogen-free ones while the replacement of traditional light bulbs with eco-friendly LED lamps opens new possibilities for thermally conductive plastics.

Emerging economies

The global trends that DSM has identified and which form the basis of the *Vision 2010* strategy are also very visible in China and other emerging economies. Economic growth in China started to recover as early as the second quarter of 2009 after a brief period of lower growth at the end of 2008 and the beginning of the year. Economic growth in India in 2009 was also impressive. The current economic downturn has made even more visible how important the emerging markets are for future economic growth.

In China, too, climate change and the adverse effects of dependency on fossil fuels are high on the agenda of policymakers. The change in lifestyle of the middle classes and the younger generation will increase demand for food and bio-ingredients. The expected substantial rise in the number of Chinese citizens older than 65 years, especially in the next two decades, will drive demand for pharmaceutical products and biomedical materials. And with increasing prosperity, demand for new, better, high-performing materials that contribute to new functionalities in for example connectivity continues to rise. Against this background, DSM is very well positioned in China.

Grasping opportunities

DSM continued its strategy in 2009 and is convinced that, based on the actions announced and the company's continued full commitment to customers, innovation and sustainability, it will be in an even stronger position in the future, even though the challenging economic circumstances required some additional measures in 2009 such as a very strong focus on cash and the execution of the savings program announced at the end of 2008.

The challenging conditions also offer new opportunities for DSM in its markets, coming from government stimulus programs and customers who are looking for efficiency improvements or ways to differentiate themselves from the competition.

Therefore DSM continues to focus on its customers and although the company reduced its workforce in 2009, the people facing customers – for instance in marketing and sales – were hardly affected.

The trends DSM has identified, such as the need for new bio(medical) materials, very much support DSM's chosen strategy to focus on Life Sciences and Materials Sciences. The cross-fertilization between the two provides DSM with a unique position to grow platforms in biomedical materials and industrial (white) biotechnology.

Staying the Course[II]

As in sailing, however, staying the course means that, although the destination is unchanged, the route taken can be different. The challenging economic circumstances required some additional measures such as a successful focus on cash and the execution of the cost savings program announced at the end of 2008.

The current recession not only calls for workforce reduction but also for retaining and selectively hiring top talents in specific areas. These people are being offered exceptional opportunities: they receive special assignments to manage a business or activity through difficult times or to develop promising new businesses, for example at the crossroads of Life Sciences and Materials Sciences.

Changing culture

Simultaneously, DSM is speeding up its efforts to transform its company culture; not just to manage the recession but also to facilitate the company's strategic transformation. Recession-targeted actions and culture improvement go hand in hand at DSM.

DSM's cultural change agenda comprises three main building blocks: external orientation and innovation, accountability for performance and inspirational leadership, all of which are based on our joint values, our belief in sustainability and our conviction that a more diverse organization will translate into a stronger company better equipped to reach its goals. More information can be found in the Human resources chapter on page 40.

Staying the Course[II]

DSM's capability to benefit from an upturn has not been materially affected by the cost savings program. In the event of a market recovery, DSM will be able to react fast by increasing production output to meet the additional demand. The company moreover has the financial strength to finance the potentially required cash to grow its business again.

DSM is convinced it has chosen the right course and will continue this strategy, even if the current weak economic conditions do not significantly improve or if they worsen again in 2010. The company will be strongly focused on cash generation and will continue to execute the announced cost savings programs. This will secure that DSM's financial flexibility and strong balance sheet will not be affected and that DSM will be able to invest further in customer intimacy, innovation and sustainability.

In any case, DSM is *Staying the Course*.

Nutrition

Staying the Course





The trend towards increased individuality in modern society, together with demographic changes such as an increase in the number of one-person households, an aging population and educated consumers, reinforce the demand for more convenient, yet high quality foods.

At the same time, consumers are increasingly interested in the connection between the foods they consume and their health status. While taste remains a key qualifier, there is a strong interest in reducing the levels of ingredients like salt, sugar and fat as well as including more nutritional health ingredients.

Net sales

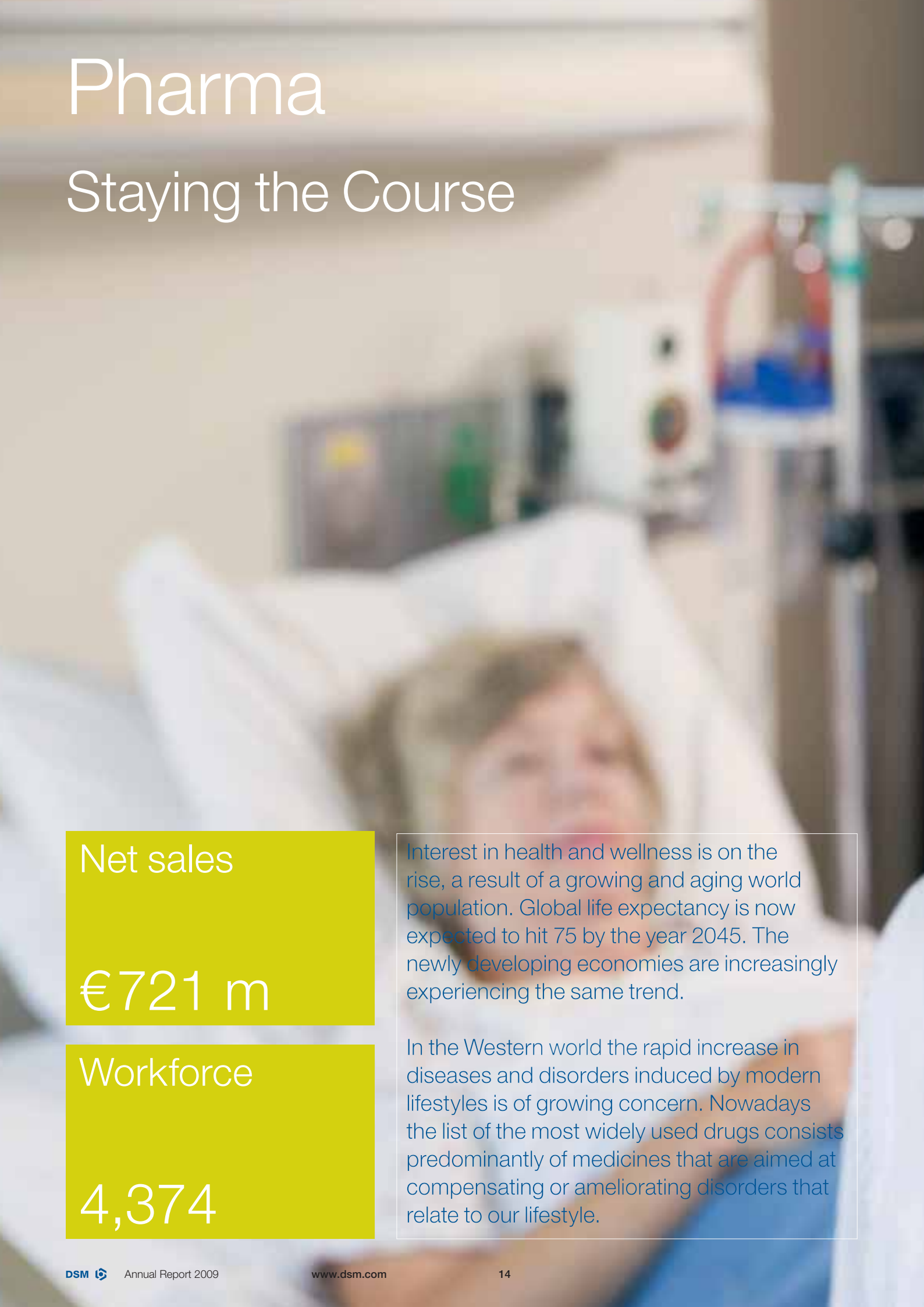
€2,824 m

Workforce

7,110

Pharma

Staying the Course



Net sales

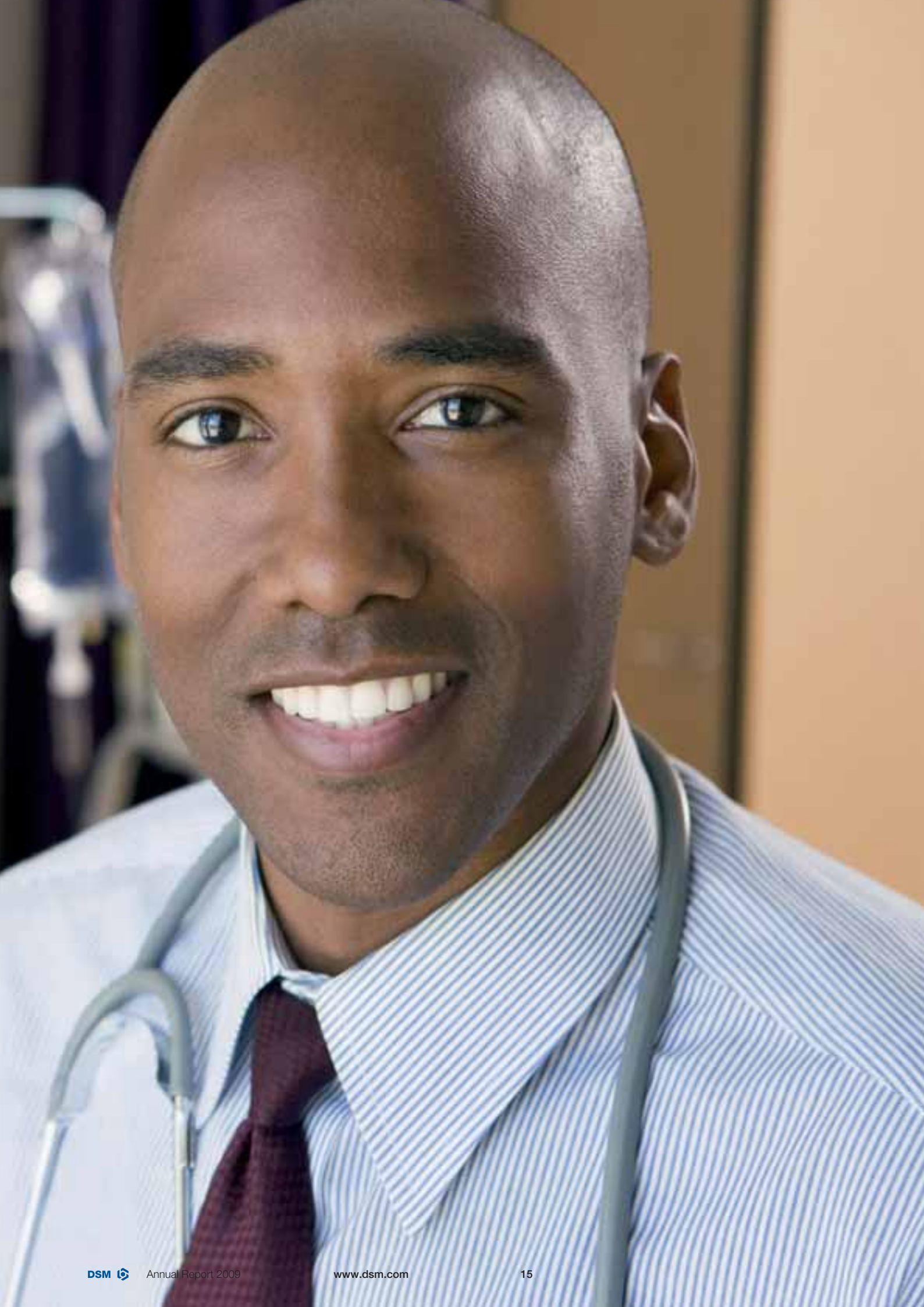
€721 m

Workforce

4,374

Interest in health and wellness is on the rise, a result of a growing and aging world population. Global life expectancy is now expected to hit 75 by the year 2045. The newly developing economies are increasingly experiencing the same trend.

In the Western world the rapid increase in diseases and disorders induced by modern lifestyles is of growing concern. Nowadays the list of the most widely used drugs consists predominantly of medicines that are aimed at compensating or ameliorating disorders that relate to our lifestyle.



Performance Materials

Staying the Course





The effects of climate change and the adverse consequences of the world's dependency on fossil fuels are becoming increasingly apparent, calling for fundamentally new approaches. Fossil fuels will become scarce (and therefore also more expensive) in the future and alternative renewable energy sources such as biomass, wind and solar are needed to respond to the ever-increasing need for energy, driven by high growth and demand in emerging economies amongst others.

A variety of solutions to reduce CO_2 emissions and to improve fuel and energy efficiency are already being provided, such as materials for the production of windmill blades and solar panels and lightweight materials for the automotive and transportation sectors.

Net sales

€1,823 m

Workforce

4,633

Polymer Intermediates

Staying the Course



Net sales

€ 849 m

Workforce

1,321



Caprolactam is an intermediate primarily used in the production of polyamide 6 fibers and resins. More than two-thirds of caprolactam is used for the production of fibers for textile, carpet and industrial yarns. The rest is used for engineering plastics and packaging films.

Polyamide 6 resins are increasingly used in engineering plastics due to a combination of high stiffness and strength at higher temperatures. For example, they can be used to replace metal in automotive applications. Resistance to oil and grease allows these plastics to be used in for instance engine covers and gears. Other applications are for example in technical components for the electrical and electronics and packaging industries.

Report by the Managing Board

Highlights of 2009

General

In what was undoubtedly one of the most challenging years in DSM's history, the company stayed the course and remained fully committed to its customers, innovation and sustainability. After a difficult first half year, DSM delivered improved results in the second half of the year as the Materials Sciences businesses started to recover.

Net sales, continuing operations

x € million	**2009**	2008
Nutrition	2,824	2,710
Pharma	721	863
Performance Materials	1,823	2,297
Polymer Intermediates	849	1,201
Base Chemicals and Materials	1,134	1,572
Other activities	381	436
Total DSM	**7,732**	9,079

Although DSM's full-year operating profit from continuing operations halved compared to the record performance of 2008, the decline in the core activities was limited to 26%. A continued robust performance from the Nutrition business and the benefits of early actions to improve DSM's competitive position contributed to this performance. The company's initiatives to reduce costs delivered over € 150 million in savings during the year, whilst the focus on cash resulted in an unprecedented operating cash flow of almost € 1.3 billion in 2009. DSM's strong financial position leaves the company well placed to capitalize on any opportunity that might arise.

As the company has entered an uncertain 2010, DSM will continue its strategic transformation into a Life Sciences and Materials Sciences company. DSM completed the disposal of two businesses during the year and remains committed to exiting the remaining non-core operations. Whilst recognizing the uneven nature of the current economic recovery, DSM is cautiously optimistic.

The full year 2009 was strongly affected by the impact of the economic downturn. However, the operating result of the core part of DSM (continuing activities, excluding Base Chemicals and Materials) was down only 26% (from € 595 million to € 438 million). This not only underlines DSM's resilience as a Life Sciences and Materials Sciences company, but also shows the company's ability to act fast if circumstances so require.

This agility is also reflected in the excellent cash performance in 2009. Total operating cash flow amounted to € 1,276 million, which was substantially more than in 2008, when DSM achieved the best operating profit in its history. On top of that, capital expenditure was reduced by about 25% compared to 2008 and two non-core activities were sold. As a result, net debt more than halved during the year to € 830 million.

DSM made good progress in 2009 towards two important targets of its *Vision 2010* strategy. Sales in China in 2009 increased to almost USD 1.2 billion, a new record for the company, strongly driven by volumes. DSM expects to come close to the USD 1.5 billion target for 2010. In 2009 innovation sales were about € 810 million, 35% more than in 2008, which is a good basis to reach the target of € 1 billion additional sales in 2010 compared to 2005.

At year-end DSM had to recognize a substantial impairment. The goodwill impairment test for Catalytica (part of DSM Pharmaceutical Products) showed that the value in use had significantly decreased compared to earlier years due to the depressed current market conditions and lower future growth rates for the business. As a result of the reduction in the recoverable amount a non-cash goodwill impairment charge of € 154 million was recognized.

Full-year sales were strongly affected by the economic downturn, overall showing a negative organic development of 16%. Sales volumes were lower in all clusters, although in Nutrition this was mainly due to some de-stocking in the value chain in the first half of the year. In the Materials Sciences clusters and in Base Chemicals and Materials, volumes clearly improved in the course of the year, but the operating level is on average still 10 to 20% below the pre-downturn level. DSM Fibre Intermediates, with its strong position in China, is the positive exception with an operating level close to pre-downturn.

The operating profit (€ 370 million) more than halved compared to 2008, but this was strongly dominated by the activities in the non-core Base Chemicals and Materials cluster. Especially DSM Agro went from an excellent result in 2008 to a loss in 2009. DSM Elastomers and DSM Melamine also posted a loss for the year. The core activities in Life Sciences and Materials Sciences, however, showed resilience in this very difficult year.

Nutrition

Organic sales growth was 1%, reflecting the resilience of this business. After a period of de-stocking in the first half of 2009, volume growth returned later in the year with a continued focus on value. The increase in operating profit at DSM Nutritional

Products compared to 2008 was to a large extent based on favorable margins for most products, a relatively strong dollar and ongoing cost management and efficiency improvements. DSM Food Specialties' operating profit was above 2008 with strong performance in enzymes, such as Brewers Clarex®, and ARA (an infant nutrition ingredient).

Pharma

Organic sales development was -11%. DSM Pharmaceutical Products' activity level remained subdued as a result of low demand from pharmaceutical companies, delay in approvals and the loss of some large contracts. DSM Anti-Infectives faced weak market conditions. As a result, the lower demand at DSM Pharmaceutical Products and lower prices for penicillin derivatives led to a much lower operating profit compared to 2008.

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

x € million	**2009**	2008
Nutrition	655	585
Pharma	91	150
Performance Materials	174	266
Polymer Intermediates	36	43
Base Chemicals and Materials	2	245
Other activities	(122)	(80)
Total DSM	**836**	1,209

Performance Materials

Organic sales development for the cluster was -23%, reflecting depressed economic conditions during most of 2009 whereas the negative impact for 2008 was limited to the fourth quarter of 2008. During the year, market conditions for DSM Engineering Plastics and DSM Resins improved from a very low starting point. On the other hand, in 2009 DSM Dyneema felt the effects of unfavorable market conditions that were not as prevalent during the fourth quarter of 2008. The effect of lower cluster sales on operating profit was well controlled through active margin management and cost control measures. Nevertheless, operating profit was well short of last year.

Polymer Intermediates

Organic sales development was -32%, reflecting difficult economic conditions during most of the year 2009 whereas the negative impact for 2008 was mainly limited to the fourth quarter of 2008. Sales volume in 2009 recovered quarter on quarter and the total is in line with 2008 volume. However, prices were volatile at a lower level, which reflects raw-material developments. The lower margins were partly offset by cost saving programs but still resulted in a lower operating profit.

Base Chemicals and Materials

Organic sales development in this cluster was -29% as volumes and prices decreased with the exception of DSM Agro, which showed a firm increase in sales volumes but a substantial decline in prices. Lower raw-material costs and cost-reduction programs could only partly compensate for this impact, resulting in a drop in the operating result. DSM Agro, DSM Melamine and DSM Elastomers had to report losses for the year 2009.

Operating profit (EBIT), continuing operations

x € million	**2009**	2008
Nutrition	521	447
Pharma	32	89
Performance Materials	68	175
Polymer Intermediates	6	19
Base Chemicals and Materials	(68)	174
Other activities	(189)	(135)
Total DSM	**370**	769

Financials

Net profit amounted to € 337 million, which was € 240 million lower than in 2008. Net earnings per share (total DSM, including exceptional items) amounted to € 2.01 versus € 3.45 in 2008.

Net finance costs amounted to € 111 million, which is € 10 million higher than 2008. The effective tax rate for the full year decreased to 23%, being 1% below the previous year, due to changes in the geographic distribution of taxable results.

As a result of DSM's continued strong focus on cash, cash flow from operating activities increased to € 1,276 million for the full year 2009 compared to € 910 million in 2008.

Total cash used for capital expenditure was € 457 million in 2009, which was € 134 million lower than in the previous year (2008 € 591 million).

Net debt ended the year at a level of € 830 million (€ 1,781 million at year-end 2008) mainly as a result of a further reduction in operating working capital. Operating working capital finished the year at € 1,511 million (€ 591 million less than year-end 2008), being 19.5% of the 2009 net sales.

Report by the Managing Board

Vision 2010 progress

DSM's *Vision 2010 – Building on Strengths* strategy builds on the company's track record of portfolio transformation and sharpens its focus on Life Sciences and Materials Sciences at an increased pace. This focus is fueled by a number of societal trends. DSM aims to capture the opportunities offered by these trends.

Climate change and the adverse effects of dependency on fossil fuels are gaining in dominance, requiring new strategic inroads. Interest in health and wellness is increasing as a result of global population growth and aging. Also, society is asking for increased functionalities related to globalization, connectivity and life protection. The emerging economies continue to grow rapidly, leading to a more even spread of economic prosperity across the world.

DSM's focus on Life Sciences and Materials Sciences offers attractive growth potential, not just in the two individual fields but also in their combination. The cross-fertilization potential between Life Sciences and Materials Sciences is high. DSM is convinced that biotechnology, traditionally associated with Life Sciences, will increasingly play a role in developing new, greener and cleaner (bio)materials while at the same time performance materials will increasingly be used in medical applications in the field of Life Sciences.

DSM has defined four Emerging Business Areas (EBAs) to create growth platforms that are based on the strengths and synergies of its positions in Life Sciences and Materials Sciences. These EBAs are Biomedical, Personalized Nutrition, Specialty Packaging and White Biotechnology. In the Innovation and R&D chapter beginning on page 28 more information can be found on the development of these EBAs.

With a unique combination of market positions and technologies, as illustrated by the company's leading position in industrial biotechnology, its long history in advanced chemical synthesis and its strong know-how with regard to Materials Sciences, DSM has ample opportunities for innovative growth.

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

At the same time DSM continues to see market-driven growth and innovation, an increased presence in emerging economies and operational excellence as its key strategic drivers.

Despite the significant deterioration of market conditions in some of its businesses since the end of 2008, DSM is convinced it has chosen the right strategy by opting for an accelerated transformation towards a Life Sciences and Materials Sciences company. DSM will therefore continue this strategy. DSM is staying the course.

As the timeframe of *Vision 2010* will end in 2010, DSM will present the results of a new Corporate Strategy Dialogue in September 2010 ahead of its annual Capital Markets Day.

Reshaping the portfolio

The acceleration of DSM's portfolio transformation is an important prerequisite for increasing the focus on Life Sciences and Materials Sciences. The activities that do not fit with this focus have been carved out and will be disposed of or partnered. These activities are grouped in the Base Chemicals and Materials cluster.

This cluster comprises DSM Agro, DSM Melamine, DSM Elastomers, Citric Acid, DSM Special Products and Maleic Anhydride and derivatives. The selling process is underway for most of these businesses. As announced earlier, DSM has slowed down the process in view of the current financial and economic environment but still has the ambition of completing the disposals before the end of 2010.

Although the current economic climate does not favor a swift execution of business disposals, DSM accomplished some important portfolio changes.

In 2009 DSM finalized two disposals: it sold its urea-licensing business (Stamicarbon B.V.) to Maire Tecnimont S.p.A. (Italy) and the participations in oil and gas exploration and pipelines (DSM Energie Holding B.V.) to TAQA Abu Dhabi National Energy Company PJSC. These disposals resulted in combined net cash proceeds of € 283 million and a book profit of € 311 million.

DSM is also continuing the partnering strategy (possibly with partial disposals) for the Anti-Infectives business. DSM Anti-Infectives implemented the announced closure of its clavulanic acid production site in Sweden in 2009.

DSM's polyamide activities will be reinforced by a swap deal with Mitsubishi Chemical Company (MCC). DSM intends to acquire MCC's Novamid® polyamide business in exchange for DSM's Xantar® polycarbonate business. DSM's polycarbonate business is recognized as Assets held for sale. Closing of this transaction is expected in the first half of 2010.

In 2009, DSM acquired four companies. In Germany, DSM acquired Berlin-based Biopract GmbH. This acquisition serves as an entry point into the promising biogas market, which is showing 15-20% growth per year. The impact of the acquisition on DSM's net sales in 2010 is not expected to be material.

DSM has acquired full control of the polyamide 6 polymerization facility of Nylon Polymer Company, LLC (NPC) in Augusta (Georgia, United States). Previously Shaw Industries and DSM Chemicals North America were joint venture partners in NPC. As a result of the transaction, the facility was fully integrated into DSM Engineering Plastics' activities as of 1 January 2010.

DSM Composite Resins completed two joint venture agreements with BÜFA, one to create the first comprehensive pan-European distribution and support network for the composites industry (Euroresins) and a second (BÜFA Gelcoat+) to become a key developer and manufacturer of gelcoats, adhesives, pigment pastes and fire retardant products. DSM owns a majority share in Euroresins and a minority share in BÜFA Gelcoat+.

DSM Biomedical obtained an exclusive worldwide license for a unique drug and biologics delivery system developed by MediVas, LLC. Integration of this system with DSM's Trancerta™ Drug Delivery platform will generate a broad range of opportunities for next-generation drug delivery.

DSM is continuing its stepped-up search for acquisition opportunities to further accelerate its evolution towards a Life Sciences and Materials Sciences company. DSM will however maintain its disciplined acquisition policy.

Measuring performance

The targets of DSM's *Vision 2010* strategy were defined and set in a period of generally favorable global economic conditions. The targets have deliberately been left unchanged. DSM has chosen to report against these targets, which were set against the background of an assumed economic scenario, including an average annual GDP growth rate of 3.0% for the United States and 2.5% for the European Union.

The following table shows the *Vision 2010* targets and progress against these targets in 2009.

***Vision 2010* targets**

	Actual 2009	Target 2010
Organic sales growth	2%[1]	> 5% per year on average
EBITDA / net sales margin per cluster:		
- Nutrition	23%	> 18%
- Pharma	13%	> 19%
- Performance Materials	10%	> 17%
- Polymer Intermediates	4%	> 13%[2]
Growth from innovation	€ 810 million	€ 1 billion
Sales in China	USD 1.2 billion	USD 1.5 billion
CFROI	6.1%	WACC (7.5%) + 100 basis points
Sustainability	all on track	
- Retaining top position in important sustainability rankings		
- Achieving leadership in industrial (white) biotechnology		
- Continuously improving eco-footprint		
- Increasing diversity of workforce		
- Reducing energy usage per unit of product by 8% over the period 2006-2010		
Total shareholder return	195% vs. 161% for peer group[3]	Above peer-group average

[1] Average over the period 2006-2009. Organic sales development in 2009: -16%. Average over the period 2006-2008: +7%
[2] On average over the cycle
[3] This peer group consists of AkzoNobel, BASF, Clariant, Danisco, DuPont, EMS Chemie Holding, Kerry, Lanxess, Lonza Group, Novozymes, Rhodia and Solvay

It is clear that the economic downturn stands in the way of achieving all of these targets, although – barring unforeseen developments – the objectives with regard to the EBITDA / net sales target of the Nutrition cluster and the innovation sales target of € 1 billion and most of the sustainability targets are expected to be met. DSM expects to come close to the USD 1.5 billion sales target for China.

DSM is active with a broad array of programs to combat the negative effects of the economic downturn, varying from improving cost efficiencies, stronger cash management and net debt reduction to exploiting current and new business opportunities and exploring the crossroads of Life Sciences and Materials Sciences. Nevertheless, achieving all or most of the *Vision 2010* targets will require short-term economic recovery to a material degree in various parts of the world.

Report by the Managing Board

The CFROI (cash flow return on investment) amounted to 6.1% compared to 8.7% in 2008. DSM's target is for the CFROI to exceed the annual weighted average cost of capital (WACC) by 100 basis points, which was not achieved in 2009 because of the economic downturn.

Shareholder returns

An overview of the development of the DSM share in 2009 can be found in the 'Information about the DSM share' chapter on page 116.

The company proposes to the Annual General Meeting of Shareholders to declare a dividend per ordinary share of € 1.20, of which € 0.40 has already been paid as an interim dividend.

Market-driven growth and innovation

Market-driven growth and innovation is a key driver of DSM's *Vision 2010* strategy and is expected to contribute significantly to growth. DSM aims for sales growth based on existing leadership positions, accelerated by innovation as well as selective acquisitions. In normal economic times this should lead to organic sales growth of more than 5% per year. Organic sales from continuing operations in 2009 declined 16%, of which 7% as a result of lower volumes and 9% due to lower prices.

DSM is fully committed to its *Vision 2010* target of generating an additional € 1 billion in sales from innovation by 2010 compared to 2005. The company is relatively confident that the pipeline of products currently in development will enable this target to be met. In 2009 innovation-driven sales were about € 810 million compared to about € 600 million in 2008.

An additional objective is that DSM should become an intrinsically innovative company, with excellent innovation practices and an above-average return on innovation investments and with employees to whom innovation comes naturally. More information on DSM's progress in innovation can be found on page 28.

DSM Venturing announced one investment in 2009. More information on DSM Venturing and DSM's innovation efforts in 2009 can be found in the Innovation and R&D chapter on page 28.

Increased presence in emerging economies

DSM continues to experience growth in emerging economies. As a percentage of total revenues, sales in the emerging economies (Central and Eastern Europe, Latin America, China and Emerging Asia Pacific) increased from 28% in 2008 to 32% in 2009.

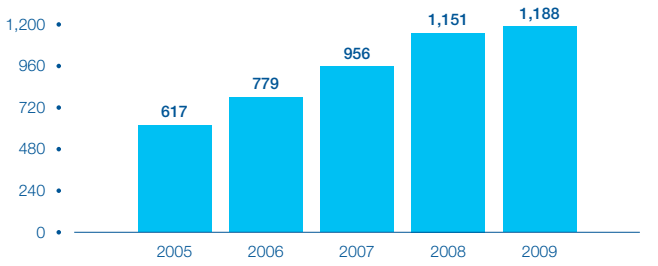
Although there are clearly differences between the various emerging economies, DSM's increased focus on these countries has been paying off, even during the recession.

In China, DSM has had a significant presence for a number of years. China is transforming from the world's manufacturing base into one of the world's leading economies with the highest growth rates. Chinese industrial production has been growing by on average some 10% per year over the last 30 years, but as a result of the global economic downturn this growth slowed down in the last few months of 2008 as well as the first few months of 2009. Higher growth resumed from the second quarter of the year.

Almost all DSM businesses, especially DSM Fibre Intermediates, experienced a strong recovery in Chinese demand. Over the last few years DSM has been experiencing growth rates in China of around 20% per year. Sales in China in 2009 amounted to USD 1,188 million, 3% more than in 2008 and a new record for the company, strongly driven by volumes.

Sales in China

x USD million



Despite the economic downturn, DSM continued to invest in China in 2009, although less than in previous years. Early 2009 the company opened the DSM China Campus, comprising DSM China's headquarters and R&D Center, in the Zhangjiang Hi-Tech Park in the Pudong New Area of Shanghai.

In March 2009 DSM signed the contracts regarding its investment in North China Pharmaceutical Group Corporation (NCPC) and the establishment of three joint ventures in the areas of nutritional products and anti-infectives. Due to a change of ownership at NCPC later in the year, the implementation of these contracts was delayed and could not be effectuated within a reasonable timeframe. The contracts have been suspended, while both parties are maintaining their ongoing business relationships. At the same time, DSM is looking for alternative solutions for the prospective partnerships.

DSM signed a long-term strategic cooperation agreement with Guangzhou Baiyunshan Pharmaceuticals Co. Ltd. to promote the application of green technology in the Chinese pharmaceutical industry.

In contrast to Russia, where business development and markets are still depressed, developments in India and Brazil were relatively positive and the various DSM businesses active in these countries showed a good performance.

In India DSM Anti-Infectives inaugurated its new plant at Toansa for the production of ampicillin using its newly developed enzymatic process, the first ever commercial-scale implementation of biotechnology for the production of this active pharmaceutical ingredient.

Also in India, DSM opened a new facility for manufacturing engineering plastics compounds. The plant, located at MIDC Ranjangaon industrial zone, tripled DSM's capacity for the production of compounds of Akulon® PA6, Arnite® PBT and PET and Stanyl® PA46 in India. It is also the largest polyamide and polyester compounding facility in the country. Materials produced by the facility are used in manufacturing molded components for the automotive, electrical and electronics and consumer goods industries.

DSM Nutritional Products signed a Letter of Intent with Tatenergo JSC and the Government of the Republic of Tatarstan (Russian Federation) for the construction of a micronutrient premix plant for animal nutrition and the establishment of a joint venture in Tatarstan.

Operational excellence

Operational excellence continues to be an important focus area in the pursuit of sustainable value creation. DSM enjoys a strong track record in establishing efficiency enhancements that represent step changes in performance and add to the bottom line. DSM remains fully committed to the pursuit of operational excellence and intends to continue and further strengthen its Operational Excellence program with new initiatives in advanced manufacturing (yield improvements and energy savings), commercialization (product launch program) and pricing.

To address the effects of the economic downturn, DSM announced and took a number of actions in the fourth quarter of 2008 to improve its cash flow and reduce costs. In 2009 the company improved and implemented systems to better manage the cash flow in the business. The measures resulted in a significant improvement of DSM's cash flow from operating activities, despite the depressed external environment.

Several initiatives and programs are currently in place to help the businesses focus on cash and to improve cost efficiencies. Some programs that were already running before the recession have been redesigned towards cash generation. Two new initiatives were taken: one program with the objective of reducing the cash conversion cycle and another to identify short-term cash improvements at the manufacturing sites.

These programs are yielding benefits not only individually, but also in synergy. Reliable plant performance for instance impacts on the level of safety stock, which may also decrease because of changing market demand to which the company has adapted. Thus activities on various fronts contributed to a reduction in operating working capital of € 566 million in 2009. Cash provided by operating activities amounted to € 1,276 million in 2009 compared to € 910 million in 2008, in which year DSM achieved a record operating profit.

During the year DSM also implemented a number of structural cost-saving actions. These cover areas such as better production and process efficiency, a stronger focus on purchasing, a reduction in workforce and other efficiency improvement measures such as a reduction in the number of temporary contract workers. The actions are expected to result in a reduction in DSM's workforce by about 1250 positions.

The program to reduce costs, which was started in Q4 2008, was very successful, delivering already more than € 150 million in cost savings in 2009, which is the lower limit of the amount that was announced to be achieved in 2010. The upper limit (€ 200 million) is clearly in reach for 2010. The expected one-off costs for the savings program are approximately € 80 million before tax. In 2008 and 2009 € 47 million was spent and the remainder of the cash out is expected in 2010.

DSM is confident that its operational excellence in all business processes will be the basis for a strong competitive position in the current market conditions. The company is convinced that with the actions announced and its continued full commitment to innovation it will be in an even stronger position in the future.

Report by the Managing Board

Retirement of Jan Zuidam

Jan Zuidam, Deputy Chairman of the Managing Board of DSM, retired on 1 January 2010 after 36 years of service with DSM, of which 12 years as member of the Managing Board.

Jan Zuidam joined DSM Research in Geleen (Netherlands) in 1973. He worked in a wide variety of positions, including those of Plant Manager, Head of Purchasing and Head of Production for different business groups. Jan Zuidam was Director of DSM Andeno and also Director of Corporate Strategy. In 1992 he was appointed Director of DSM Research and in 1998 he joined DSM's Managing Board.

The Supervisory Board and the Managing Board have agreed not to fill the vacancy resulting from Jan Zuidam's retirement at this point in time and to distribute his tasks among the other members of the Managing Board.

The following table gives an overview of the main responsibilities of the individual Managing Board members as from 1 January 2010:

Feike Sijbesma	Chairman/CEO	Overall
Rolf-Dieter Schwalb	CFO	Finance Information and Communication Technology (ICT) Risk Management
Nico Gerardu	Member	Performance Materials Polymer Intermediates Base Chemicals and Materials
Stephan Tanda	Member	Nutrition Pharma



Costbusters

As a result of the recession it became a necessity to rapidly identify cash-improvement and cost-saving opportunities. For the manufacturing environment an existing program was used to design an approach aimed at getting fast results.

This program is called Rapid Cash Generation and executes a manufacturing quick scan to generate cash and cost savings within 90 days. Within a week, a team of experienced professionals – nicknamed Costbusters – visits a manufacturing site and investigates possibilities for fast cash improvements. At the end of the week a plan is presented after which action and implementation begins.

The main areas for the fast cash improvements are in operations and process control by optimizing batch size and campaign length, optimizing control systems to improve stability at the chosen production speed, controlling processes at maximum yield at a given production rate and optimizing specific unit operations.

In maintenance, savings can be achieved by adjusting preventive maintenance plans and reviewing service contracts. In energy and materials, reductions are achieved by lowering stock levels, realizing yield improvements, and optimizing energy conversions and transport. Around 20 sites were visited in 2009 and all of these visits yielded significant results, often more than €1 million per site.





Innovation and R&D

Innovation is a key element of DSM's *Vision 2010* strategy. 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.

Despite the downturn in the global economy, DSM has not backed away from its commitment to innovation. The company is fully on track to achieve the 2010 target of € 1 billion in additional sales from innovation compared to 2005.

In order to achieve this target DSM continues to focus on research and development, product introductions, acquisitions, open innovation and cooperation with the academic world.

The fine-tuning of the business groups' innovation strategies has led to the acceleration of 50 key projects. These are expected to generate the main part of the € 1 billion growth target. Analysis has shown that projects that went through this innovation boost on average have a projected value that is twice as high as that of projects that did not go through these improvement actions. Many innovations emerging from these projects have already found their way to the market and they all have projections that show considerably higher margins than DSM's traditional portfolio.

The short-to-mid-term innovation programs running in the business groups mainly build on the competences in the different clusters. The main innovation pockets that will accelerate DSM's innovation growth include programs such as Obesity & Diabetes, Improved animal yield and Eco-friendly materials. Each of these so-called Accelerated Growth Areas represents a number of innovation programs which all focus on bringing solutions to the specific needs identified in the market segments.

Since 2005, substantial additional funding has been made available to step up DSM's innovation efforts. In-house activities are complemented by open innovation tools, such as venturing, licensing-in, marketing alliances and R&D collaborations as well as small acquisitions in the chosen fields of New Business Development.

Following a positive evaluation of the venturing activities in 2007, from both a strategic and a financial point of view, DSM has earmarked a substantial amount for venturing investments until 2012. However, due to the crisis in the financial markets and DSM's focus on cash in 2009, DSM has been cautious in making venturing investments. Furthermore, the New Business Development centers of the clusters together with the DSM Innovation Center scan the market for acquisitions to strengthen DSM's innovative power. So far, this has resulted in the acquisition of Crina (feed ingredients), Pentapharm (personal care), Lipid Technologies Provider (food ingredients), Pamako (technology for DSM Dyneema), The Polymer Technology Group (biomedical materials) and Biopract (biogas).

To prepare itself for future challenges and opportunities, DSM has expanded its extensive innovation program by setting up a Functional Excellence in Innovation program which will build on the innovation boost experience started in 2006. The Functional Excellence in Innovation program will further build DSM's organizational infrastructure and will also expand the work already done to improve the 'soft aspects' of innovation (such as effective behavior, personal leadership skills, teamwork) in order to secure an even more favorable innovation culture at DSM. The Functional Excellence in Innovation program will focus on five key areas: market understanding, the innovativeness of the business groups, the delivery of DSM's top 50 innovation projects, entrepreneurship and performance orientation.

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

Furthermore the team focuses on identifying and spreading best practices throughout DSM. The sharpened focus on market-driven innovation and the desire to increase the specialty portion of DSM's portfolio has resulted in more attention being paid to branding within DSM. Products with a distinct brand personality are of paramount importance to DSM's business success as they position the company to capture the added value created by DSM's offering.

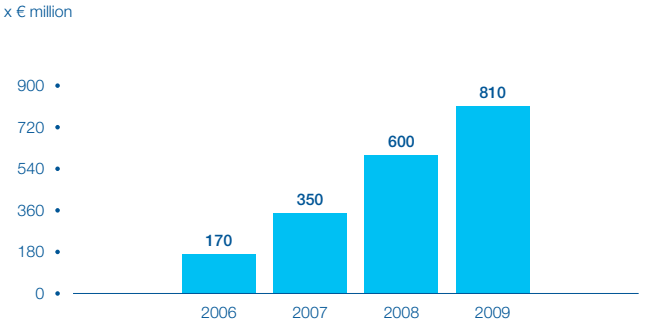
To maximize this value, DSM investigates the needs of parties further down the value chain and tailors its products to fulfill the needs of customers and consumers.

DSM's innovation strategy is founded on global opportunity areas which were identified via analysis of global megatrends as part the Corporate Strategy Program *Vision 2010 – Building on Strengths*. This has resulted in a focused portfolio in which

DSM's key technological skills are optimally leveraged to meet (emerging) market needs.

In 2009 DSM showed continued strong growth in innovation. However, this growth was slightly impacted by a delay in customer orders and tenders. Additional innovation sales, compared to 2005, amounted to about € 810 million in 2009 compared to around € 600 million in 2008. The 2010 target for additional innovation sales of € 1 billion compared to 2005 has been confirmed and – barring unforeseen circumstances – is expected to be met. This is about twice the level of additional innovation sales achieved in the period 2000-2005.

Development of innovation-related sales



The number of innovation launches in 2009 (62) remained at the high level achieved in 2008 (59). The large diversified portfolio of innovations yields a stable income profile, which will be complemented by a broad range of new launches which the company is currently developing. With its well-filled pipeline of about 200 projects in various phases of development, DSM is confident the innovation contribution will remain high after 2010. The potential of the current innovation pipeline represents a sales value above another € 1 billion, to be reached by the middle of the next decade.

DSM uses a self-assessment tool, which the company developed together with McKinsey, to map the innovation practices in all business groups and compare them with the practices in peer companies. Overall results from this self-assessment now confirm that DSM performs better than the industry average. With its Functional Excellence in Innovation program the company wants to raise the bar even further, since it aims to be among the top innovation performers in the business. This assessment will be repeated in the course of 2010.

Research and Development

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

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

x € million	**2009**	2008
Nutrition	144	135
Pharma	73	74
Performance Materials	138	127
Polymer Intermediates	13	22
Base Chemicals and Materials	16	22
Other activities	9	14
Total	**393**	394
Total R&D expenditure as % of net sales	5.1	4.3
Staff employed in R&D activities	2,160	2,200

In 2009, expenditure on R&D amounted to 5.1% of net sales compared to 4.3% in 2008. Excluding the non-core Base Chemicals and Materials cluster, R&D expenditure as a percentage of net sales was 5.7% in 2009 (5.0% in 2008).

Innovation and R&D in Life Sciences

In the Nutrition cluster, innovation is a key driver of differentiation, covering the entire product cycle. In the Life Sciences clusters, 98 new launches took place between 2006 and year-end 2009, of which 23 were launched in 2009.

DSM Nutritional Products aims to innovate close to its global markets. For this purpose it is currently establishing new Nutrition Innovation and Application Centers, one in Shanghai (China) to serve the Asian markets and one in Parsippany (New Jersey, United States) for the North American market. DSM, as the largest vitamin producer in the world, is strongly committed to innovation in vitamins and micronutrients.

In 2009, ongoing innovation and R&D efforts in the Nutrition cluster resulted in the launch of a number of new ingredients developed in-house or in cooperation with partners in the human nutrition, animal nutrition and personal care industries.

DSM developed a novel technology to fortify sugar with vitamin A, overcoming issues in the current sugar fortification

process. The World Health Organization estimates that over 250 million children worldwide suffer from vitamin A deficiency. The new patent-protected form provides optimum vitamin A content and uniformity in the final sugar and ensures easy handling. It will allow better access to fortified sugar, benefiting a broader population that is deficient in vitamin A.

The company also announced a scientific breakthrough in tackling iron deficiency and malaria in partnership with the World Food Programme (WFP). The widespread iron deficiencies in populations of regions like Africa, for example, stunt children's development. The normal strategy to prevent this would be to fortify the local staple foods with iron. However, the cereal-based staple foods that are common in these regions contain phytic acid, which inhibits iron absorption by the human body. High iron dosing would therefore be needed, but this is dangerous in malaria regions because the malaria parasite thrives on iron.

DSM found a new way to resolve this long-standing nutrition problem – using its enzyme expertise to provide iron to those suffering from iron deficiency without increasing the risk of malaria. The enzyme phytase was added to DSM's food supplement MixMe™, which is added as a single-serving supplement to regular meals. The results were a fivefold increase in iron absorption, even from meals like maize porridge that are high in phytic acid.

The BR-Test Accelerator®, a fully-automated milk testing system specifically designed to comply with official screening regulations in Germany and Austria, was also introduced. Thanks to breakthrough technology the BR-Test Accelerator® offers milk control stations and dairy laboratories a flexible system which delivers accurate, reliable and consistent results every time.

DSM introduced an industry first with MaxiBright™. A food grade, fungal-based enzyme, MaxiBright™ has been specifically designed for whey and soy milk decoloring. With MaxiBright™, producers can benefit from a natural and cost-effective solution for consistent product quality.

Delvocid® L is a new, easy to use, liquid food preservation solution developed to offer small dairies and sausage manufacturers a high level of protection against mold and yeast growth in a cost-effective format.

Rapidase® Glucalees, a new enzyme introduced in 2009, has the ability to optimize filtration and enhance aging on lees, thereby improving the clarification and mouth feel of wine. Another new enzyme launched in 2009 is Tolerase®, a food grade acid lactase specifically developed for use in dietary supplements. Its suitability for tablet applications means those suffering from lactose intolerance or malabsorption can now enjoy dairy products as part of their daily lifestyles by simply adjusting the dosage to match their needs.

DSM also extended and optimized its DELVO®-YOG range of cultures, which are specifically developed for yoghurt applications. This highly versatile portfolio offers yoghurt manufacturers the flexibility to create any type of yoghurt and enables them to better respond to consumer demands.

In addition to the successful introduction of DSM's breakthrough enzyme technology Panamore™ Golden, a second product was added to the range. Panamore™ Spring is an enzyme preparation that offers bread manufacturers a cost-effective and sustainable alternative to the emulsifiers CSL and SSL (calcium and sodium stearoyl lactylate).

Matching the challenges of the current phytase, the most widely used enzyme in the animal feed industry, DSM and its alliance partner Novozymes are working on candidates with optimized efficacy in phytase hydrolysis. The new products will offer significant benefits for both animal nutrition and the environment.

In the alliance of DSM Nutritional Products with Novozymes further breakthrough developments in feed enzymes occurred, all targeting improved feed conversion and a reduced environmental impact. RONOZYME ProAct®, launched at the end of 2008, was further introduced in markets around the world in 2009. RONOZYME ProAct® significantly improves protein uptake, boosting feed nutritional value while at the same time enhancing its conversion. Phytase is still the most widely used feed enzyme as it enjoys a high penetration rate in diets for pigs and poultry. At the end of 2009 RONOZYME NP®, an improved phytase, was launched in Europe.

DSM Nutritional Products launched an innovative addition to its eubiotics portfolio: CRINA® Poultry Plus, a new digestive stimulant / flavoring for supplementing broiler feeds.

In the area of personal care, DSM developed REGU®-CEA, a unique complex of highly active ingredients to help fight skin redness and visible blood vessels – two of the symptoms of rosacea. SYN®-GLYCAN, a new peptide formula that can be used as a bioactive ingredient in cosmetic products to reduce the most visible signs of aging, was also introduced in 2009. The cosmetics industry has long been searching for ways to meet the increasingly higher expectations of consumers for effective anti-aging products.

In the Pharma cluster, DSM announced that its proprietary XD® technology boosts bioreactor productivity and titers of mammalian cell culture processes by a factor of 5-10 for the production of proteins and antibodies. Studies completed at the R&D labs of DSM Biologics in Groningen (Netherlands) demonstrated that the yields from Chinese Hamster Ovaries (CHO) based cell cultures can be increased by a factor of 5-10 over their previous fed-batch processes using only off-the-shelf, commercially available media.

Within the Corporate Research Program a broad platform of oxidative biocatalysts was set up to address the continuously increasing demand for greener and more sustainable manufacturing solutions. DSM has been using such biocatalysts for some large-volume products for a long time. Now the product spectrum can be expanded because DSM has gained access to a wide range of enzymes that accelerate these reactions highly selectively under mild reaction conditions, in other words in a more sustainable manner.

Innovation and R&D in Materials Sciences

With 110 launches between 2006 and year-end 2009, the Materials Sciences clusters are well underway to reaching the desired portfolio size of successful applications. In 2009 there were 34 launches.

DSM Engineering Plastics introduced both new materials and specific grades of existing materials for automotive electrical and electronics applications such as junction boxes, engine control unit housings, e-motors, gear housings, bobbins, connectors, switches and wire harness insulation.

Stanyl® TC, launched in 2009, is a new portfolio of thermally conductive materials based on Stanyl® PA46. The first key use of the new material is in LED Retrofit Lamps. An example is the high-power retrofit lamp from Philips, MASTER LED MR16, which uses Stanyl® TC instead of aluminum for the housing structure.

A new Arnite® Low Outgassing PET XL grade was introduced. The new material has been applied successfully in the production of a new Xenon AFX module for the new Mercedes S-Class, integrating additional features such as automatic high beam adjustment.

Further commercial success was recorded for Stanyl® ForTii™, the first new polymer that was introduced in the 21st century worldwide. Molex, a leading supplier of interconnect products, selected Stanyl® ForTii™ as a halogen-free flame retardant solution in interconnects for solid state disk drives. Stocko Contact switched to Stanyl® ForTii™ for all its surface mount connectors, used in domestic appliances such as dishwashers and refrigerators.

DSM Resins added three new products to the Decovery™ range for paints and coatings. The new products more than meet the environmental and technical requirements of solvent emission legislation while at the same time improving the performance of the paints in which they are processed.

DSM also introduced a new waterborne plastic coating resin for use in automotive interiors. This is the first in the market to meet future original equipment manufacturer specifications to comply with environmental regulations. In addition, a new range of waterborne 2-component polyurethane coatings that are completely solvent-free and deliver high gloss, body and filling performance was introduced for metal applications.

For the graphic arts industry NeoRez® U-430 was introduced. Tin and chlorine free, the product can be used to replace the current vinyl copolymers and PVB resins used in gravure inks while offering similar performance. Another new resin introduced in 2009 was NeoRad® R-1500, a water-based UV curable polyurethane dispersion. Being completely solvent free, it can be used for a special effect coating in inks and varnishes for luxury packaging.

A new powder coating resin for low temperature curing under the name of Uralac® EasyCure™ was brought to the market, leading the next generation of low-temperature curing resins for outdoor powder coating applications.

DSM Desotech introduced an innovative solution for concrete floor finishing that combines high performance with cost-effectiveness in a fast, eco-friendly process. UVolve® Instant Floor Coatings cure immediately via a UV light dose, providing fast return to service, low odor and no VOCs: a desirable alternative to traditional epoxy, methyl methacrylate and urethane floor coatings.

DSM Desotech developed DeSolite Supercoatings™ optical fiber coatings which enhance the resistance of glass fibers to dynamic fatigue, which is critical to the protection of signal integrity in telecom networks. The coatings will benefit network investments through decreased need for fiber replacement and will enable broadband connectivity to high population density areas.

Using enzymes to reverse global warming

Enzymes are natural proteins that are vital to the survival and sustainability of all living organisms. They keep our bodies alive by stimulating, or rather catalyzing, natural reactions, helping us eat, digest, sleep and exercise. Mankind has exploited enzymes – without realizing it – for thousands of years by using enzyme-producing bacteria, yeast and fungi to make beer, bread, cheese, yoghurt and other staples. Now, new progress in unlocking nature's toolkit means enzymes will have a key role to play in the battle against climate change.

Enzymes' attractiveness lies in their ability to perform very specific tasks, as well as the fact that they can be inactivated once their task is complete. This makes them a versatile and safe option for use in advanced manufacturing. For example, some types of enzymes, called xylanases and arabinases, which occur naturally and in large quantities in micro-organisms in elephant dung, were the inspiration for DSM in the quest to find new ways to produce bio-based chemicals from plant materials, the main component in the elephant diet.

The simple beauty of enzymes is that they enable us to mimic nature and do things more efficiently. In the case of xylanase and arabinase, DSM's idea was to use them to break down plant waste (trees, bamboo, stems and leaves of maize, barley, wheat, etc.) and to convert them to sugary substances that 'feed' micro-organisms in fermentation processes.

This idea of using enzymes for converting agricultural waste into sugars, and then using micro-organisms to grow on those sugars and produce bio-degradable chemicals and fuel, may seem like science fiction, but it is not. DSM has already created these bio-based building blocks in the laboratory and they will be commercially available as soon as technology enables them to be created at a price that is competitive with current conventional chemical routes.

On a large, industrial scale this technology has the potential to significantly lessen our collective dependence on fossil fuels and other scarce resources.

Since the 1970s, when industry first tuned into the idea of using enzymes to make things better, cheaper or faster than had previously been possible using chemical routes, scientists have increasingly been looking to nature to improve the efficiency of man-made processes.

This renewed effort to unlock nature's toolkit is leading scientists to some unusual places, like volcanoes, geysers or the deep sea. No one really knows where our search for more ways to use enzymes will take us, although there are already biodegradable plastics available and there are many more innovations to come.

With only 5% of the world's biodiversity having been explored so far, and with the genome structures of bacteria, fungi and yeasts only now starting to be mapped, the potential for finding new ways to use enzymes for the benefit of society in a safe and contained manner is huge.



Two high-performance stereolithography (SL) resins from DSM became the only currently available SL resins to meet ISO 10993 standards for use as prototyping method in medical device applications. This underscores the continued growth of DSM Somos as a leading provider of innovative additive fabrication materials for Life Sciences applications.

DSM Dyneema and Hoffmann Air Cargo Equipment (ACE) GmbH together developed a new, third-generation lightweight air cargo net that is one of the first worldwide to achieve a total weight below 8 kilograms. DoKaSch GmbH, a leading manufacturer of air cargo equipment, introduced the new AKE lw-65 air cargo containers that are the first to be made with RP10 panels made from advanced composite material technology from DSM, including Dyneema® fiber and Aeronite® Turane resin. The panels are designed to provide maximum strength at a minimum weight and are both stronger and lighter than traditional aluminum used in cargo containers.

Bluewater Energy Services introduced a composite cryogenic hose made with Dyneema® fiber which is the first truly flexible large bore hose for high volume offshore LNG transfer. This is the first cryogenic application in which Dyneema® fiber has been used.

DSM Dyneema also launched Dyneema® BT10, its first commercially available product made from a novel, proprietary ballistic tape (BT) technology. Ten Cate Advanced Armour has selected Dyneema® BT10 for armor upgrading on vehicles.

Another DSM Dyneema product introduced in 2009 was Dyneema® HB80, a unidirectional (UD) composite. It is the latest product in an expanding series of materials being developed by DSM Dyneema to create lightweight applications for life protection.

Innovation and R&D at the intersection of Life Sciences and Materials Sciences

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

DSM is working on a full product range of bio-based performance materials. With EcoPaXX™ DSM launched its first bio-based performance material. More information on EcoPaXX™ can be found in the Sustainability chapter on page 37.

DSM Biomedical launched Bionate® II PCU, a versatile medical polymer with built-in surface technology designed for chronic implants such as pacemaker leads, ventricular assist devices, catheters, stents, spinal disks, neurostimulation devices, hip and knee joints and spinal fixation systems.

DSM Biomedical announced the development of Vitrostealth™, a non-biofouling coating technology used in life science consumables, pre-analytics and point of care diagnostics. It also extended its lubricious ComfortCoat™ technology platform with the design of a hemocompatible antimicrobial coating to thwart intravascular catheter-related bloodstream infections.

A major step forward in the development of a new polyethylene polymer platform was achieved. In 2007, DSM Biomedical had commenced an R&D program focused on improving ultra high molecular weight polyethylene (UHMwPE) used in artificial joints. Although UHMwPE has been used for more than 45 years in artificial joints, improvements in the material's wear resistance are still necessary to help avoid revision surgeries.

DSM Biomedical has now developed an easily cross-linkable UHMwPE. The newly developed polymer platform creates a family of UHMwPE polymers that incorporate small, highly reactive molecules that can produce the required cross-linking network at significantly lower radiation doses, thereby lessening the adverse effects on the polymer's mechanical properties and allowing for stronger implants with better long-term stability. DSM Biomedical is the first company to apply this technique to UHMwPE.

About 300 new patent applications

DSM filed about 300 patents in 2009, compared to more than 350 in 2008. The reduced number of filed patents was mainly caused by the decision to refocus the activities in DSM's Functional Foods business and the completion of the industrial biotechnology genomics project.

In addition to filing own patents, DSM strengthened its Intellectual Property position through in-licensing of IP positions. This is a logical outcome of DSM's open innovation strategy, in which own R&D efforts and patent filings are complemented by in-licensing of patents that have been filed by other companies. A specific example of this approach is the exclusive worldwide license for about 40 issued or pending patents from MediVas, LLC which DSM obtained to speed up its drug delivery development efforts.

DSM Innovation Center

The DSM Innovation Center was set up in 2006 to support the achievement of DSM's innovation targets as set out in *Vision 2010 – Building on Strengths*. This includes the targets related to the overall objective of achieving € 1 billion in additional, innovation-related sales in 2010, an extended technology base, an improved innovation process, an innovation-oriented culture and the establishment of long-term growth platforms.

The DSM Innovation Center comprises an Innovation Program Office, a Corporate Technology department, Licensing and Venturing units, a Business Incubator and four Emerging Business Areas (Biomedical, Personalized Nutrition, Specialty Packaging and White Biotechnology).

Furthermore, the unit has the lead in the Functional Excellence in Innovation program, started in 2009, which will focus on further boosting DSM's innovation performance. More information can be found on page 28.

In 2009 the DSM Innovation Center continued to further enhance DSM's innovation capabilities and competences. Much emphasis was placed on firming up the innovation infrastructure by helping the business groups to boost their innovation practices.

The longer-term innovation programs also create new growth platforms based on DSM's strengths and synergies in Life Sciences and Materials Sciences. These longer-term programs include the Emerging Business Areas and additional platforms such as Bio-based Performance Materials. Furthermore, a dedicated incubator was established to identify new growth platforms at the interface of DSM's Life Sciences and Materials Sciences competences and businesses.

The Emerging Business Area programs – Biomedical, Personalized Nutrition, Specialty Packaging and White Biotechnology – set up within the DSM Innovation Center to secure DSM's long-term innovative growth, found themselves in various stages of development at the end of 2009. These Emerging Business Areas optimally combine expected social and technological trends with DSM's current market strongholds and technology positions.

Most of the Emerging Business Area programs are excellent examples of how DSM captures its cross-cluster opportunities as these – to varying degrees – combine DSM's competences in Life Sciences and Materials Sciences.

DSM Biomedical showed further growth in 2009 and is well on its way to achieving its ambitious target of reaching € 100 million in sales by 2012. It is actively building a leading position in this fast-growing market by linking technological developments to patient needs, creating and enabling new and more effective therapies. In 2009, DSM Biomedical entered into 14 new license and supply agreements, bringing the total number to 40.

The acquisition and subsequent integration of The Polymer Technology Group (PTG) in 2008 has given DSM access to valuable technical know-how and client relationships. Following a swift integration, DSM PTG is already harvesting synergies from its increased scale.

In its White Biotechnology EBA DSM strives to create practical solutions for the biorefineries of the future, using feedstocks that are not in competition with food and feed supplies. At present micro-organisms can grow only on the basis of sugar or starch derivatives. In the future it will be possible to grow micro-organisms on an industrial scale on other carbohydrate substances, such as cellulose, from for instance agricultural waste or energy crops.

In close collaboration with ethanol producer Abengoa and several research institutes, DSM is intensively working on what is called the second generation of biofuels. This means searching for a way to recover carbohydrates from what is currently disposed of as a waste material, such as the non-edible parts of corn plants or switchgrass.

There are still major hurdles to take but as DSM is one of the very few companies that are able to independently carry out the complete chain from pre-treatment via enzyme technology to fermentation technology, the company is confident that it will become a major technology supplier in this area, at different stages of the value chain. DSM aims to be a co-creator and technology provider for a refinery that will optimize the production of biofuels, as well as several side streams.

DSM not only has the unique biotechnological capabilities but also the know-how of materials and markets needed in order to find the right product-market combinations and fine-tune the refinery for specific purposes. The estimated market size for ethanol in 2010 is USD 50 billion and the enzyme, yeast and other micro-organisms part around USD 0.5 billion.

In 2009 DSM White Biotechnology made further progress in its cooperation with Roquette to commercialize bio-based succinic acid. A demonstration plant was completed at the end of 2009. Its capacity will be building up to several hundred tons of bio-

succinic acid per annum. After the testing phase, a decision will be made on a production facility.

Bio-succinic acid is likely to replace existing (chemically based) succinic acid, but most probably new applications will be feasible in established and new market segments. There are already quite a few commercial parties that are interested in testing the bio-succinic acid. The lower eco-footprint and low-cost aspect are attractive to them and offer new opportunities from feed to materials.

DSM Specialty Packaging focuses on developing unique packaging solutions to enhance many aspects of food quality such as freshness, safety and authenticity through active, intelligent and smart packaging systems. DSM's ambition in this field is to become a recognized solution provider throughout the whole food packaging chain.

In 2009, DSM Specialty Packaging introduced Pack-Age™, an innovative packaging concept which allows cheese to be ripened naturally in a film with an optimum taste and texture yet without the risk of mold formation.

Besides developing intelligent food packaging systems, DSM Specialty Packaging is also exploring opportunities in the rapidly developing smart packaging market for pharma. The unit is working on smart pharmaceutical medication packaging solutions that enable a patient's therapy compliance to be monitored accurately. The DSM OtCM™ system measures and monitors patient therapy compliance while interacting with home diagnostic devices to correlate compliance with drug therapy.

The link between nutrition and health is widely recognized, but it is less well known that this connection is different for each individual. The Personalized Nutrition EBA is dedicated to improving health by helping people understand their unique food-health connection, and to apply this knowledge to enjoy greater health and well-being. The business' initial product is the Global Personal Nutrition System (GPNS™) – a corporate wellness solution offered to help employers invest in the health of their employees. Through the GPNS™ solution employers will get the opportunity to gain advantages from a healthier workforce, including lower health care costs and higher productivity.

Alongside the Emerging Business Area programs and the New Business Development organizations, DSM's Incubator plays an important role in securing DSM's longer term innovative growth. While the business groups dedicate themselves to innovation that is relatively close to their current activities or at least builds on existing in-house competences, the Incubator focuses on radical innovation.

The Incubator houses innovation projects for which completely new business models are applied. One example is DSM Neev. This unit focuses on developing sustainable business targeted at the world's four billion poorest people which form the 'base' of the global economic pyramid.

Another activity in DSM's Incubator is the Climate Change Induced Innovation program. This program was started to tap into the opportunities following from global climate change and energy developments. The objective of this program is to realize added value by innovatively responding to these global macro drivers from DSM's *Vision 2010* strategy.

A third example is the Incubator's Functional Coatings program that focuses on using DSM's nanotechnology-based proprietary coating technology platform in applications such as picture framing glass (already commercial under the name of ®claryl) and solar panels (improving their efficiency).

With its KhepriCoat™ anti-reflective coating system DSM contributed to achieving the highest energy conversion ever of a full-size solar module. Given the ever-increasing demand for sustainably generated energy, solar power will play a critically important role in future energy supply. KhepriCoat™ offers the best performance in terms of light transmission, durability and flexibility.

DSM Venturing

To DSM, venturing is an integral part of its open innovation approach, focused on teaming up with innovative players all over the world. DSM has earmarked significant funds for future venturing investments until 2012 and is also considering investing in more grown-up young companies as well as in companies in the emerging economies.

DSM Venturing's mission is to explore emerging markets and technologies in order to support DSM's innovation and growth strategy. Besides financial support, DSM Venturing supports start-up companies with DSM's knowledge, resources and networks in order to establish mutual benefits and learning opportunities. DSM Venturing participates in early and expansion-stage companies or venture capital funds as a value-adding partner.

Investments typically range between € 1 million and € 5 million. The target range for participation in these companies is from 5% to 20%. DSM Venturing currently has about € 60 million

committed in promising companies and leading venture capital funds.

In 2009 DSM Venturing's activities were subdued as a result of the economic downturn. An investment in Viocare, Inc. (New Jersey, United States) was announced to support its activities in the field of personalized nutrition. Viocare develops sophisticated web-based technologies that analyze dietary and physical activity behavior to generate personalized lifestyle plans for patients and consumers.

Early 2010 DSM Venturing announced investments in Segetis, Inc. (Minnesota, United States) and Bioprocess Control AB (Sweden).

DSM Venturing sold its stake in Oxford Performance Materials Inc. to Arkema. It also sold its stakes in CreAgri, Inc. and Terreco B.V. to the respective founders. DSM Venturing's portfolio at year-end consisted of 16 companies and 10 funds.

Open Innovation

DSM has announced numerous partnerships, venturing investments, acquisitions and other forms of collaboration that show that Open Innovation is becoming more and more embedded in the company's innovation approach. Interaction with industry partners and technology thought leaders enables DSM to be active at the forefront of the most promising developments in the areas the company focuses on: Life Sciences and Materials Sciences.

The heart of DSM's Open Innovation process is a funnel model, which represents a business' project portfolio (a collection of projects). In this process, there is a continuous interaction between the projects in the funnel and the external world.

As a result of this interaction (for which various tools are available), potentially interesting opportunities can enter the funnel sideways. Similarly, to optimize the project portfolio, developments that have a less favorable fit, show less progress or have insufficient prospects can leave the funnel sideways.

Interaction with the external world takes place throughout the innovation process. In the first phase, cross-functional idea-generation teams link opportunities in the market to the capabilities of the organization. In this phase, DSM's Scientific Advisory Board, consisting of renowned opinion leaders, also plays an important part in steering the company's R&D focus and validating the approach.

To boost innovation DSM also actively uses licensing to bring innovative ideas to market faster. DSM regards licensing first and foremost as a partnership where both organizations work together to make the best use of mutual technologies and interests.

Another open innovation tool DSM actively uses is venturing. More information on DSM Venturing can be found elsewhere in this chapter.

To keep the right balance and focus in its innovation efforts, the company also makes sure that non-viable products and processes are stopped and that good opportunities that are not consistent with the corporate strategic focus are spun out.

Ideas that enter the Open Innovation funnel go through a Project Management Process (PMP). The funnel is continuously fed with embryonic business ideas. Potentially successful new products or new processes leave the funnel. They are ready to start their contribution to the strategic goals of the business.

It is important to realize that less than 5% of the embryonic business ideas ultimately result in economically viable products and processes. This means that the funnel continuously needs to be fed with a large number of new embryonic business ideas.

DSM has recently developed a Business Innovation Analysis (BINA) methodology in order to systematically explore innovation opportunities. The six sources of innovation include (in random order): Brands and Design, Business Model / Monetization, Market and Application, Business Biotope, Process / Costs, and Technology.

The basis for the BINA is the Innovation Dataset including mega trends, business position, opportunity landscapes and capabilities. These four basic elements are made specific in a Business Innovation Dialogue to finally create strategic opportunities.

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.

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 equity, environmental quality and economic prosperity, 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, which reports directly to the Chairman.

Furthermore, members of the Managing Board chair different sustainability-related projects, such as DSM's partnership with the World Food Programme (Stephan Tanda/Feike Sijbesma), Diversity (Feike Sijbesma), Base of the Pyramid (Jan Zuidam until 1 January 2010; succeeded by Feike Sijbesma) and SHE (Safety, Health and Environment) (Jan Zuidam until 1 January 2010; succeeded by Nico Gerardu).

DSM has dedicated departments for Corporate Sustainability and Corporate Operations & Responsible Care. The latter is responsible for all corporate SHE issues. Line management is supported by sustainability and SHE managers at business group level. The DSM SHE Council, which is composed of all business group SHE managers, plays an important role in developing practices and communications regarding SHE issues.

In 2009 DSM appointed Sustainability Champions in all business groups and the DSM Innovation Center. In doing so the company integrated and strengthened the functional approach to sustainability, which focuses on sustainability performance, with a business approach focusing on business opportunities coming from sustainable development.

Many DSM products and innovations help reduce CO_2 and other GHG emissions along the value chain. In 2009, 78% of DSM's innovations were ECO+ solutions – products and services that, when considered over their whole life cycle, offer clear ecological benefits compared to the mainstream solutions they compete with.

DSM furthermore takes sustainability explicitly into account in the selection and evaluation of suppliers by applying a Supplier Code of Conduct for suppliers, which is based on the company's own values.

In 2009 DSM was once again ranked the global number one in sustainability in the chemical sector of the Dow Jones Sustainability Index. From 2004 to 2006 DSM had also been named the global number one in this sector and in 2007 and 2008 it ranked amongst the top leaders in the sector. DSM has the ambition to at least rank amongst the top leaders in the sector.

In 2009 the Corporate Social Responsibility Committee was installed as a new sub-committee of the Supervisory Board, demonstrating the strategic importance of sustainability for DSM.

DSM actively participates in a dialogue with stakeholders, such as (trade) associations and networks, the United Nations and non-governmental organizations. The company also engages in several global and local community programs, the partnership with the United Nations World Food Programme (WFP) being a notable example.

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

More on DSM and sustainability can be found in the 2009 Triple P Report.

Safety

DSM has set itself the target of reducing the frequency index of recordable injuries (number of recordable injuries per 100 DSM employees and contractors in one year) by 50% between 2005 and 2010. In 2009 the frequency index was 0.56, compared to 0.95 in 2005. By continuing to pay attention to safety improvement and by consistently executing its programs in this field, DSM still aims to achieve this ambitious target, although the company is aware of the fact that this will be challenging.

In 2009, the frequency index of Lost Workday Cases involving DSM employees was 0.14 compared to 0.33 in 2005.

Health

Health and wellness are very important for DSM and its employees. The Global Health Management initiative involves a health promotion program for DSM executives as well as a web-based tool for helping employees to assess their health risks and set themselves healthy lifestyle goals. This program is called DSM Vitality Checkpoint and offers a facility for the self-monitoring of health by employees. Where DSM Vitality Checkpoint has been introduced, it has been combined with comprehensive health checkups and individual follow-up on any health issues identified.

Health management is also included in learning programs. For example, 'Health at Work' forms an integral part of SHE training programs for managers and engineers.

In 2009, 20 cases of work-related illness were reported compared to 18 in 2008 and 19 in 2005. DSM's primary aim is to increase its employees' awareness of occupational health issues and to encourage them to report all Occupational Health Cases they encounter.

Key environmental indicators

	2009	2008
Energy use in PetaJoules	63	72
Greenhouse-gas emissions in CO_2 equivalents (x million tons)	6.7	7.4
Emission of volatile organic compounds (x 1000 tons)	7.7	9.5
COD load (chemical oxygen demand) on surface waters (x 1000 tons)	5.5	7.6
Environmental incidents	421	539
Environmental complaints	79	78

Environment

DSM has set itself environmental targets for 2010 on the basis of the principle that all DSM plants, wherever they are in the world, should comply with at least the same environmental standards as set in the European Union or the United States. In 2007, based on findings in pilots, the target for the reduction of energy use was doubled from 1% to 2% per year, targeting an 8% reduction in 2010, compared to 2006. Of the set environmental targets, five were realized in 2009, ahead of schedule. As in 2008, total energy consumption in 2009 decreased considerably (from 72 to 63 PetaJoules) as a result of lower production volumes. Although the lower production volumes had an adverse effect on energy efficiency, this efficiency was still 7% better than in 2005.

Community

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

In March 2007, DSM announced an official partnership with the United Nations' World Food Programme (WFP). WFP is the world's largest humanitarian organization, fighting hunger worldwide. WFP brings food assistance to an average of 90 million people each year, most of them women and children, in nearly 80 countries. DSM provides WFP with expertise, high-nutrient products as well as financial assistance. In 2009, DSM made several million Euros available to WFP and other community initiatives and partnerships.

DSM and a number of other leading multinational companies such as Heinz, Kraft Foods and Unilever joined a United Nations scheme called Project Laser Beam. This groundbreaking program to radically reduce malnutrition was announced at the Annual Meeting of the Clinton Global Initiative.

Ahead of the International Conference on Nutrition in Bangkok, in October 2009, SIGHT AND LIFE, a non-profit humanitarian initiative of DSM that was set up in 1986 to help combat vitamin A deficiency in developing countries, organized a high-level meeting of experts that agreed on the need to prioritize the problem of hidden hunger on the global health and development agenda and identified the current priority of micronutrients towards achieving nutrition security.

In July 2009 DSM was the first company to announce its official endorsement of the 'Roadmap to End Global Hunger', an advocacy initiative laying out a comprehensive strategy for the US government to set the stage for a permanent end to global hunger and poverty. Among other things, the Roadmap calls for increased allocation of resources to address the challenges of hunger and malnutrition and the creation of a White House Office on Global Hunger and Food Security.

DSM's Nutrition Improvement Program (NIP) develops sustainable business models to deliver safe and effective solutions for large-scale fortification with vitamins and minerals in developing countries. NIP also provides technical and

scientific support to organizations and governments to support the fight against hidden hunger.



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. As Partner in Sport of the Dutch Olympic organization NOC*NSF DSM developed and built the cowling of the first Dutch-built two-man bobsled to compete in the Winter Olympics (Vancouver 2010).

DSM has an extensive art collection that currently comprises 750 works. The DSM Art Collection was originally based on works from the Limburg region (Netherlands) but has been expanded in scope since 2003 to include works from national and international artists. The works of art in the collection represent creativeness, innovativeness and concern for the global and local environment.

Sustainable innovations

DSM's innovation efforts, which are extensively described in the Innovation chapter starting on page 28, have resulted in the launch of several products that help to reduce CO_2, GHG and other emissions, such as volatile organic compounds (VOCs), at DSM's customers. Besides helping to reduce emissions, DSM's innovations in both Life Sciences and Materials Sciences contribute to a better quality of life.

In 2009 DSM launched Delvotest® MT, a breakthrough immunoassay detecting the presence of melamine in milk. The testing system was specifically developed for the Chinese dairy industry, which in 2008 had been plagued by a scandal over melamine-contaminated milk.

DSM Food Specialties' Panamore™ is an enzyme preparation offering an alternative to traditional emulsifiers in the bread industry. Panamore™ can be used at significantly lower levels than traditional emulsifiers (typically 150 times less) to give the same effect. This means that the required amount of Panamore™ has a much lower environmental footprint (80% lower CO_2 emissions, 90% less fossil fuel usage and 70% less respiratory inorganic emissions) than the quantity of the emulsifiers it replaces.

DSM Engineering Plastics reached a breakthrough with the commercial launch of EcoPaXX™, a bio-based, zero-carbon-footprint, high-performance engineering plastic. EcoPaXX™ is a long-chain polyamide whose properties make it suitable for demanding applications in for example the automotive and electrical markets. Approximately 70% of the polymer consists of building blocks derived from castor oil as a renewable resource. Castor oil is obtained from the beans of the *Ricinus Communis* plant, which is grown in relatively poor soil conditions that are unsuitable for food crops. This means that castor oil production does not compete with the food chain.

It has been shown that the carbon dioxide that is generated during the production process of the polymer is fully compensated for by the amount of carbon dioxide absorbed in the growth phase of the castor beans. In other words, the product's carbon footprint 'from cradle to gate' is zero, as determined by means of the Intergovernmental Panel on Climate Change (IPCC) standard method. This is a strong selling point in today's plastics market and fully compatible with DSM's strategy of sustainable innovation.

A changeover to enzymatic technologies in the production of anti-infectives and their intermediates was one of the main reasons why DSM Anti-Infectives managed to increase its energy efficiency by approximately 30% between 2005 and 2009, making it the largest contributor to DSM's overall energy efficiency improvement of 7% in this period.

In addition, the introduction of enzymatic technologies enabled DSM Anti-Infectives to roughly halve its overall specific volatile organic compound (VOC) emissions compared to 2005, and it will lead to further reductions in 2010.

Human resources

DSM workforce at year-end, continuing operations:

	2009	2008
Europe	14,255	14,441
- the Netherlands	7,331	7,400
- rest of Europe	6,924	7,041
Asia	4,348	4,793
- China	3,098[1]	3,557
- rest of Asia	1,250	1,236
North and South America	3,868	4,030
Rest of the world	267	275
Total DSM	**22,738**	23,539

[1] Decrease due to the closure of the Wuxi plant

Introduction

DSM developed its human resources strategy, *Passion for People*, in 2007 to help deliver the *Vision 2010* strategy. The main elements of this HR strategy are: People and Management Development, among other things via the newly introduced Performance Development Reviews (DSM's new personal appraisal system), the newly introduced global vacancy system, sharper target-setting (linked to remuneration), the development of people via training and the new DSM Learning Architecture and a stronger succession planning approach.

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

An engaged workforce is critical to DSM in realizing its *Vision 2010* ambitions. Engagement is about creating an inclusive and high-energy working environment, where employees are aligned and energized to contribute to the company's business success. An engaged workforce delivers a competitive advantage – because engaged employees are highly motivated to give their best every day.

In 2009 DSM held its second worldwide Employee Engagement Survey. Almost 20,000 employees completed the questionnaire that was distributed on-line and on paper in 17 languages to all DSM employees. This high number of participants gave a response rate of 86%, an industry record.

The main element in the survey is the measurement of DSM's Engagement Index, a combination of four attributes: commitment, pride, advocacy and satisfaction. The results showed a 10% improvement in the level of engagement of employees compared to the first survey in 2007.

Taking all responses together, 68% scored favorably on the DSM Engagement Index and 21% scored a neutral response. This means that 89% of DSM's employees are to a greater or lesser degree satisfied with working at DSM and that the majority of DSM employees are committed and proud and would recommend DSM as a great place to work. The engagement score takes DSM within a five percentage point range of the external engagement benchmark of high-performing companies (73% favorable), which is the league DSM wants to be part of.

In order to be better able to fulfill its strategy of meeting key global needs, DSM will need to further adapt its culture. DSM is addressing this via the DSM Change Agenda. This Agenda is supported by the outcome of the 2009 DSM Employee Engagement Survey. The three main themes of the Change Agenda are:

- stronger **External Orientation** and Innovation focus;
- stronger **Accountability** as a performance driver;
- development of **Inspirational Leadership** to lead the transformation of DSM,

all based on DSM's key value of **sustainability** and our joint belief that **diversity** will contribute to a better performing company.

External Orientation and Innovation

DSM has anchored its strategy in key long-term trends 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 the state of the art and best practices for key business functions, broadening networks, engaging stakeholder groups, shaping the debate and collaborating more fully with external stakeholders. External orientation is thus not reserved for sales and marketing but is critical for all disciplines.

In 2009 DSM further raised the profile of External Orientation across the organization with several initiatives and key decisions. Several business groups implemented pilot programs to significantly strengthen sales effectiveness and sales excellence

based on external benchmarks. Furthermore, a number of Customer Relationship Management (CRM) projects were deployed. And finally, in addition to its very successful external Scientific Advisory Board, DSM has decided to also install external Advisory Boards for its Functional Excellence Programs in Manufacturing and in Sales and Marketing.

As described in this report and in more detail in the DSM Triple P report, DSM has, through engagement and active participation in key events around the world, contributed significantly to, and helped advance the debate on, major issues such as the potential eradication of Hidden Hunger and the significant opportunities accessible through the practice of industrial (white) biotechnology.

One of the many achievements in this respect was that DSM won the 2009 Outstanding Corporate Innovator (OCI) Award from the Product Development and Management Association (PDMA) in recognition of its strategic commitment to Open Innovation. This award is recognized as one of world's most important Innovation Awards.

Accountability for Performance

DSM's work is critical to its customers; *our employees take ownership and deliver upon targets established to meet our customers' needs.* DSM's people want to take responsibility for their actions and for the performance of their teams. Successes, individual and collective, are recognized and celebrated. Issues are surfaced and minor problems are viewed as learning opportunities.

DSM's new career management design was introduced in January 2009. The new design stimulates a high-performance culture, introduces simplified tools and processes, links career management and performance management, gives transparency in career opportunities within DSM, increases global talent visibility and employee engagement and increases ownership and accountability for career development with managers and employees. As part of the career management design, the Performance Development Review (PDR) was introduced. The PDR focuses on five critical behaviors in addition to the results-oriented targets. The behaviors that are assessed and discussed are: Customer and External Focus; Improve, Innovate and Change; Engage People; Drive for Results; and Act Responsibly. The PDR discussion also focuses on individual development plans designed to address learning and development needs.

Clear performance-based remuneration of DSM's people is key in accomplishing the required changes, and the remuneration systems are adjusted to reflect the objectives of external orientation, innovation and accountability. In addition to the DSM Employee Engagement Survey (organizational progress) and the Performance Development Review (individual progress), metrics have been agreed upon that focus on agreed targets.

Inspirational Leadership

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

The acceleration of *Vision 2010*, greater external orientation, innovation and accountability for performance require more inspiration from DSM's leaders, who recognize that they must role-model the behaviors that the company is emphasizing.

In 2008 DSM significantly reviewed its approach to learning and development of the Executive and Management population and launched a brand-new DSM Learning Architecture. This ensures a stronger alignment with DSM's *Vision 2010* strategy and focuses on the key drivers for success. The programs have been designed in close cooperation with leading international business schools and are supported by a diverse internal faculty.

In 2009, DSM further invested in leadership development with the launch of Executive Leadership Programs, aimed at DSM's top 30 leaders, as well as three levels of Management Leadership Programs. All DSM leadership programs are designed in close cooperation with leading international business schools and focus on developing the DSM behaviors and mindsets at the core of DSM's cultural change. In total 12 new or redesigned programs were successfully introduced and piloted in 2009, establishing a sustainable learning platform that will support the development of DSM's current and future Managers and Executives in 2010 and beyond.

Diversity

Diversity is not an isolated agenda at DSM, but is firmly anchored in the transformation of the company's culture and will continue to be one of the fundamentals of DSM's values.

DSM will need to attract and keep the best talent available and encourage as much innovation as possible in order to be able to compete in its complex and fast-moving marketplace. Having people from different nationalities and genders will help to create a better mix of opinions and interactions and will better reflect the markets DSM serves. Diversity reduces organizational

myopia. Research has shown that gender and nationality are the strongest differentiators for diversity in stimulating creativity and innovation. At DSM, diversity is centered on gender balance and nationality, underpinned by a clear link to the company's innovation strategy.

DSM will focus on three key areas, which will support the company in building a sustainable culture that welcomes and embraces difference:

- Create an inclusive workplace
- Attract and hire
- Develop and retain

The role of the DSM Diversity Council, chaired by Feike Sijbesma, is to facilitate diversity at DSM and to ultimately support all DSM businesses in creating a sustainable inclusive environment, where diversity is embraced. Examples include the launch of the DSM Women's Network and website, and the inclusion of diversity as a major theme in all leadership and management programs and as a strong criterion in the selection of DSM's recruitment vendor partners. Other initiatives that are being developed and launched in 2010 include a major communications campaign that will touch all corners of DSM.

In the end this should result in a more diverse management of DSM contributing to a better performance of the company in the short and long term. DSM reports on the progress of its efforts in the Triple P report.

Corporate Services

DSM has a decentralized organizational structure built around business groups. The company also has a number of shared service and functional excellence activities and on a corporate level there are a number of staff departments that support the Managing Board and the business groups.

In 2009 DSM carried out a project called Alfa, which was part of the accelerated *Vision 2010* strategy, focusing on Governance and Functional Excellence. Its first goal was to create clarity regarding the governance of DSM and the steering by the Managing Board, including the role of headquarters and the corporate departments.

Secondly the Managing Board wanted to create state-of-the-art corporate staff and service departments that add value to the businesses in the best possible way. A third goal was to boost functional excellence at DSM. With the economic downturn at the end of 2008, realizing savings was added as a fourth goal.

The project has resulted in clear roles of the collective Managing Board (Chairman/CEO, CFO, members), business groups and regions. The collective Managing Board now focuses more strongly on strategic decisions, external orientation, and talent development.

Steering of the shared services is delegated to the business group directors while functional excellence responsibilities as well as more decision power on investments and acquisitions are delegated to the Board members.

In order to achieve the set goals, the Managing Board took a series of decisions on the roles and responsibilities of the corporate staff and service entities, as well as decisions on the governance and the organizational set-up of these departments. Corporate staff and service activities are now split into three different organizational groups with revised roles and responsibilities:

- Corporate Staff
- Shared Services
- Functional Excellence activities

The new organization and reporting lines came into effect on 1 July 2009.

ICT

In 2009 the DSM ICT organization achieved significant cost savings on the one hand and introduced a number of new services on the other. The new services were in the area of collaboration tools such as video-conferencing, a new global intranet, instant messaging and video-messaging. Based on these new technologies the yearly Top Management Conference (TMC) for executives was held in an unprecedented way: by connecting five locations worldwide via video, reducing the need for travel. This not only saved costs but also reduced greenhouse-gas emissions. These new ways of working will remain a focus for the coming years.

DSM ICT also introduced a customer relationship management solution for many of the business groups to enable them to align their offerings more explicitly with their customers' demands. All these new capabilities require additional network capacities. The global networks have already been upgraded; in 2010 the focus will be on the local networks.

Purchasing

The global DSM purchasing organization focuses on continuously improving the total cost of ownership and on achieving a corresponding competitive advantage by

professionalizing purchasing activities and by leveraging spend and competences. The execution of the DSM purchasing strategy is supported by standard processes and systems.

Risk management (security of supply), cash management, reduction of costs, and further development of supplier relations with a keen eye on suppliers' contribution to sustainability and innovation were key topics during the year.

In light of the unpredictable economic situation, risk analysis and market intelligence received particular attention within DSM's supplier development program. A new risk analysis method has been developed, focusing on the risk of bankruptcy or bankruptcy protection filings by suppliers. Critical single-source situations were resolved and supply was secured at all times to keep plants running.

DSM Sourcing together with the purchasing departments of the business groups was an important contributor to DSM's focus on cash and cost throughout the year. Suppliers were asked to cooperate in cost reduction efforts. DSM has decided to further focus on lowering its operational costs in 2010 and the purchasing organization is a main contributor in reaching this goal. In 2009 DSM Sourcing together with the purchasing departments of the business groups started a dedicated program to increase organizational and system efficiency and further leverage spend across business groups. From 2010 onwards all indirect goods and services will be commercially managed by a centrally steered organization. This will provide suppliers with the opportunity to increase business with DSM regionally or even worldwide.

Code of Conduct

Suppliers are requested to sign the DSM Supplier Code of Conduct, which is based on the DSM Values (to be replaced by the DSM Code of Business Conduct in 2010). In addition, a number of selected suppliers (based on risk potential and size) are invited to complete a self-assessment questionnaire. Some are additionally audited to verify the status of their sustainability profile or to develop joint improvement programs where appropriate.

In the Dow Jones Sustainability Index published in 2009, supplier standards were rated as a DSM strength. DSM Purchasing has developed a comprehensive program in order to embed sustainable performance in all of DSM's supply base processes and procedures. In 2009 the Sustainability Code of Conduct for the DSM supplier base was further implemented. At year-end the code covered 91% of this base, which means that the target of achieving more than 90% coverage in 2010 has already been met. The code helps suppliers to comply with DSM's high sustainability standards by prescribing a number of Triple P minimum requirements. The other targets of the program, the performance of 40 supplier self-assessment questionnaires and 20 sustainability supplier audits, were exceeded.

Apart from ensuring good compliance, DSM increasingly cooperates with suppliers to create opportunities for achieving DSM's sustainability and innovation goals, for example with the substitution of oil-based raw materials by renewable resources and in the area of renewable energy.

Marketing and branding

DSM has various initiatives to support its businesses in marketing. A number of programs and services are in place to offer support in all phases of a product launch and to translate business strategy into an online marketing plan. The Excellerate program offers price and profitability analysis and helps businesses to get real customer insights.

After the change in the portfolio and the culture change, the next step will be to rebrand the company to capture all these elements and to position DSM even more strongly.

External recognition

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

DSM regained its number one position in the chemical industry sector in the Dow Jones Sustainability Index. From 2004 to 2006 DSM was named the worldwide sustainability No. 1 in this sector. In 2007 and 2008 it ranked amongst the top leaders in the sector.

Also, DSM was independently assessed according to the FTSE4Good criteria, and satisfied the requirements to remain a constituent of the FTSE4Good Index Series.

The Product Development and Management Association (PDMA), the leading advocate and comprehensive resource for the profession of product development and innovation, selected DSM as the winner of the 2009 Outstanding Corporate Innovator Award, thus honoring the company's strategic commitment to open innovation and its exceptional skill in continuously creating and capturing value through new product and service development.

In 2009 DSM was awarded the international GAIN (Global Alliance for Improved Nutrition) Business Award for Innovation in Nutrition 2008 for NutriRice®. The GAIN Business Award for Innovation in Nutrition was set up to recognize companies displaying outstanding innovation in the development of new products and services to combat malnutrition, improve public health and promote sustainable development.

According to the corporate websites performance study of the leading European web ranking agency Hallvarsson & Halvarsson, dsm.com was ranked second best corporate website in the Netherlands for the second consecutive year. DSM won the prize for best financial website and was once again nominated for the FD Henri Sijthoff Prijs, the prize for the best annual report.

Rolf-Dieter Schwalb, DSM CFO since 2006, won the CFO of the Year Award 2009. He outperformed the CFOs of all other AEX-listed companies. Feike Sijbesma received the RSM Distinguished Alumni Award from the Rotterdam School of Management (RSM, Erasmus University) in the Netherlands.

The 2009 Frost & Sullivan Award for Global Excellence in Quality in the infant nutrition market was presented to DSM Nutritional Products. The award was conferred in recognition of DSM's outstanding contribution in setting new safety standards.

DSM was awarded the international AVK Innovation Award in the Environment category for a new, lightweight version of air-cargo containers. The containers help airlines to cut carbon emissions by 28,000 tons a year.

®claryl picture glass was awarded the 2009 ICIS Innovation Award for Best Business Innovation.

®claryl is the first commercial product in DSM's Functional Coatings program that focuses on applying DSM's proprietary anti-reflective coating technology in various fields.

Maxilact®, a world standard lactase enzyme, won the 2009 China Ringier Technology Innovation Award – confirming its industry-wide recognition as an effective, market leading product. As the second consecutive win for DSM Food Specialties in these international awards, the award further reinforces the company's position as a major contributor to the advancement of the food and beverage industry through innovation.

DSM's tensVida® (formerly known as TensGuard™) won the NutrAward for the most innovative, evidence-based health and nutrition ingredient. Selected by a panel of industry experts, scientists and nutritionists, plus votes from Nutracon attendees, tensVida® saw off tough competition from two other finalists to claim this prestigious award.

Etenia™, developed by AVEBE together with DSM Food Specialties, received the prestigious Food Valley Award in the Netherlands.

DSM Engineering Plastics has been recognized as a leading solutions provider that supports the electronics industry and enables it to move away from chemicals that can lead to health and environmental problems. In the report *Greening Consumer Electronics: Moving Away from Bromine and Chlorine*, the International Chemical Secretariat (ChemSec) and US based environmental organization Clean Production Action (CPA) identified seven companies who have engineered environmental solutions that negate the need for most – or in some cases all – uses of brominated and chlorinated chemicals. The seven companies include Apple, Sony Ericsson and DSM Engineering Plastics.

Business consultancy firm Frost & Sullivan awarded their annual Product Innovation Award to DSM Composite Resins and its latest grade of Aeronite® Turane resin in the Global Aerospace Polymers & Composites category, designed specifically to meet the needs of aerospace manufacturers.

Frost & Sullivan also awarded DSM Engineering Plastics the European Product Innovation of the Year Award in the field of high-performance polymers for electronics for Stanyl® ForTii™.

DSM Anti-Infectives was presented with the Green Manufacturing Award for its Toansa (India) site. The Toansa site has its own water management facility, utilities and power station, thus making it self-sustaining. The manufacturing practices at Toansa demonstrate a holistic development approach in realizing green initiatives and have made the site a leader in enzymatic technologies.

The Institute for Scientific Information ranked the 2007 publication of DSM scientists and external coworkers on the sequence and annotation of the *Aspergillus niger* genome in 2009 as the most cited scientific paper in the field of industrial biotechnology in 2008.

Innovation Awards Program

DSM is highly committed to promoting pioneering research that leads to products or applications that enhance people's quality of life and has set up an Innovation Awards Program to recognize

and reward exceptional achievements by DSM employees as well as by innovative scientists working outside DSM.

In 2009, the DSM Science & Technology Awards were presented for the twenty-fourth time in the North region (Belgium, the Netherlands and Northern Germany) and for the third time in the South region (Austria, Northeastern France, Southern Germany and Switzerland). These awards, granted annually, aim to encourage young scientists to undertake creative and groundbreaking PhD research.

The first prize for the North region was awarded to Belgian researcher Peter Dedecker of the Catholic University of Leuven for his PhD thesis entitled *The Photophysics of the Photoswitchable Fluorescent Protein Dronpa and its Applications in Diffraction-unlimited Fluorescence Microscopy.* The first prize for the South region went to Swiss researcher Alexandra Teleki, who obtained her doctorate from the Swiss Federal Institute of Technology ETH Zurich (Switzerland), for her PhD research on the production and application of coated nanoparticles.

The DSM Nutrition Award 2009 for research on Human Nutrition was granted jointly to Michael F. Holick, Professor of Molecular Medicine at the Boston University School of Medicine in Boston in the USA, and Heike A. Bischoff-Ferrari, Director of the Centre on Aging and Mobility at the Department of Rheumatology and the Institute of Physical Medicine at the University of Zurich in Switzerland, in recognition of their seminal contributions to research on vitamin D and its role in human nutrition and health.

Macro-economic environment

Macro-economic environment in 2009

The global macro-economic developments in 2009 can be summed up in one word: recession. The effects of the financial system freezing up after the fall of Lehman Brothers in September 2008 resulted in a stronger-than-expected contraction of economic activity in nearly all economies. Several emerging economies, in particular the emerging Asian economies, managed to record continuous economic growth in 2009 and have now truly emerged as the engines for global growth.

In 2009 global output contracted by roughly 2% on average. There are three main drivers behind the output decline. First, higher savings rates, deflated assets, higher unemployment rates and decreasing credit availability reduced consumer spending. Second, a lack of credit availability, insolvencies and a focus on cash resulted in a sharp decrease in business investments. Third, there was a general absence of confidence in an economic recovery. These drivers were countered by the unprecedented deployment of financial and monetary instruments by policymakers in nearly every economy in the world. There was however a stark contrast between the developed and the emerging economies. Whilst the US and EU economies shrank by 2.5% and 4%, respectively, China witnessed 8.5% growth and India 7%.

The decline in real GDP in the US from the fourth quarter of 2008 to the second quarter of 2009 was the sharpest since the Great Depression. Only during the third quarter 2009 did the US economy cease contracting. This reversal did not prevent the US economy from shrinking by 2.5% year on year. US consumers started to increase their savings rates, thereby limiting their consumption and slowing down the economy. Unemployment reached 10% in 2009 and is likely to only slowly retreat during 2010.

Commodity prices retreated from their record 2008 levels. Crude oil prices hovered around the USD 70 per barrel mark.

Macro-economic outlook for 2010

The general economic outlook remains uncertain. Although most economies have emerged from the downturn, the recovery remains uneven. Consumer confidence remains low. The increase in unemployment rates in especially the developed world in the course of 2009 could further dampen consumer spending in 2010 as consumers will tend to increase their financial buffers.

In addition, several industries seem to be cautious with regard to their capital expenditure in 2010, as their focus remains on cash and their ability to further cut back their operating working capital might be reduced. The stability of the financial sector is still fragile. In most developed economies, ongoing deleveraging and credit constraints may affect investment rates more persistently.

Large government deficits, in combination with a high level of government debts, increase the need for cutbacks in government spending in both Europe and the United States to reduce these deficits. This could hamper the fragile growth of the global economy, just as it could negatively influence consumer confidence. Increased worries about the financial stability of countries such as Greece are weighing on investor sentiment worldwide. In addition governmental stimulus packages are drying up especially in the developed world.

Bearing in mind these downside risks, the overall consensus on the global economy for 2010 is a growth of 2-3%. The Chinese economy is expected to be one of the fastest growing global economies with an expanded growth rate of about 9%. India is growing at a more moderate pace, but remains on a robust growth trajectory driven by strengthening exports and investments. In 2010, the Indian economy is expected to grow by 7-8%. The economies of the United States and the European Union are likely to see growth of 2-3% and 1-2%, respectively.

Unlike previous economic downturns, the momentum for sustainability related initiatives is currently very good, which creates growth opportunities beyond the level of macro-economic growth.

Financial policy

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

One of the key targets of *Vision 2010* is to achieve a cash flow return on investment (CFROI) which exceeds the weighted average cost of capital (WACC) by at least 100 basis points in normal times. DSM further aims for a net debt which in normal times is between 30 and 40% of equity plus net debt (currently the objective is to stay below 30%), and an operating profit before amortization and depreciation (EBITDA) which is at least 8.5 times the balance of financial income and expense. This underlines the company's aim of maintaining its single A long-term credit rating.

An important element of DSM's financial strategy is the allocation of cash flow. DSM primarily allocates cash flow to investments aimed at strengthening its business positions and to dividend payments to its shareholders. The cash flow is further used for strengthening the Life Sciences and Materials Sciences businesses by means of selective acquisitions. As the occasion arises, the company may choose to buy back shares if excess cash is available in the context of a medium-term analysis of primary cash-flow-allocation requirements and a sustained single A rating.

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.

An important acquisition criterion is that the business concerned should be compatible with DSM in terms of technological and/or market competencies. Acquired companies are in principle required to contribute to DSM's cash earnings per share from the very beginning and to meet the company's profitability and growth requirements. There are however exceptions to this rule; the requirement may for instance not be appropriate in the case of small innovative growth acquisitions.

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

Financial results

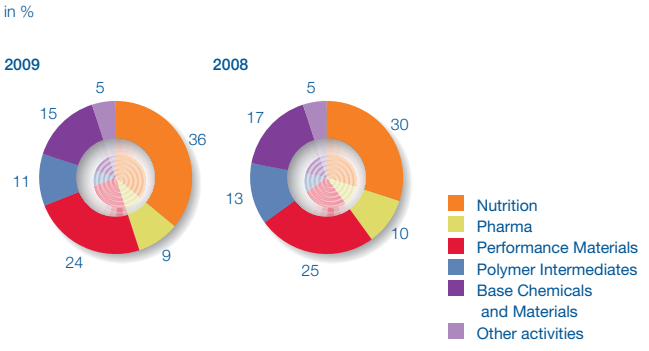
Income statement

x € million	**2009**	2008
Continuing operations:		
Net sales	7,732	9,079
Other operating income	115	139
Total operating income	**7,847**	9,218
Total operating costs	(7,477)	(8,449)
Operating profit before exceptional items	**370**	769
Net finance costs	(111)	(101)
Share of the profit of associates	(4)	(3)
Income tax expense	(59)	(162)
Profit attributable to minority interests	1	6
Net profit before exceptional items	**197**	509
Net profit from discontinued operations, excluding exceptional items	47	99
Net result from exceptional items	93	(31)
Net profit attributable to equity holders of Royal DSM N.V.	**337**	577

Net sales

At € 7.7 billion, net sales from continuing operations in 2009 were 15% lower than in the previous year. Organic volume development accounted for a 7% decrease in net sales. Selling prices were on average 9% lower than in 2008. Exchange rates, acquisitions and disposals on balance had a positive effect of 1%. Net sales total DSM also decreased by 15%.

Net sales by business segment, continuing operations

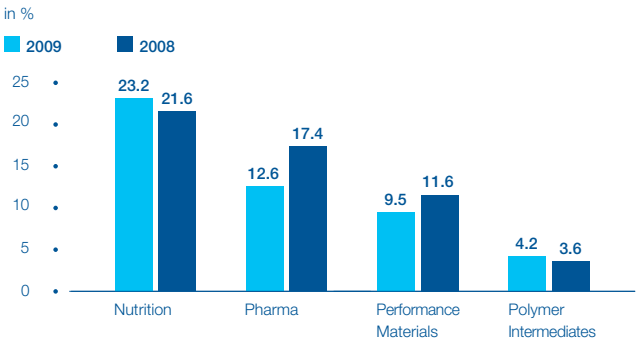


Operating costs

Operating costs declined compared to 2008, closing the year at € 7.5 billion. The main component of these costs, the cost of raw materials and consumables for goods sold, corrected for acquisitions and disposals, declined by approximately € 1.3 billion.

Total autonomous fixed costs decreased as a balance of cost reductions and growth in selected areas.

EBITDA / net sales, continuing operations



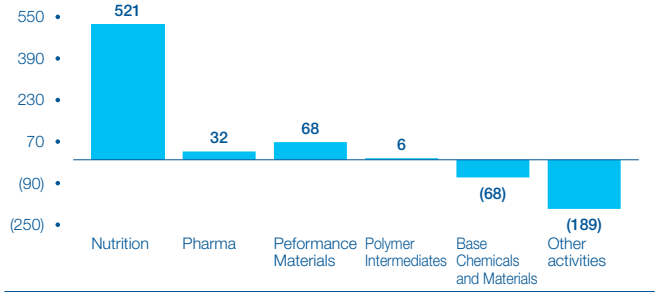
Report by the Managing Board

Operating profit

The operating profit from continuing operations before exceptional items decreased by € 399 million (52%), from € 769 million in 2008 to € 370 million in 2009. The EBITDA margin (operating profit before depreciation and amortization as a percentage of net sales) declined from 13.3% in 2008 to 10.8% in 2009.

Operating profit by business segment, continuing operations

x € million

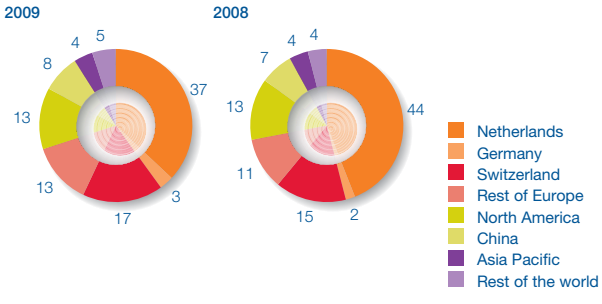


Net profit

The net profit from continuing operations before exceptional items decreased by € 312 million to € 197 million. Per ordinary share, net earnings from continuing operations before exceptional items decreased from € 3.04 in 2008 to € 1.15 in 2009.

Net sales by origin, continuing operations

in %



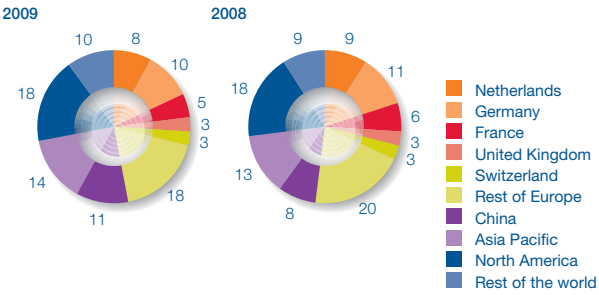
Net finance costs (continuing operations), before exceptional items, stood at € 111 million in 2009, compared to € 101 million in 2008. The increase is mainly a result of the issue of a new long-term € 500 million bond.

At 23%, the effective tax rate in 2009 was 1 percentage point lower than in 2008 due to changes in the geographical distribution of taxable results.

The net profit (total DSM) decreased from € 577 million in 2008 to € 337 million in 2009. Net profit per ordinary share decreased from € 3.45 in 2008 to € 2.01 in 2009.

Net sales by destination, continuing operations

in %

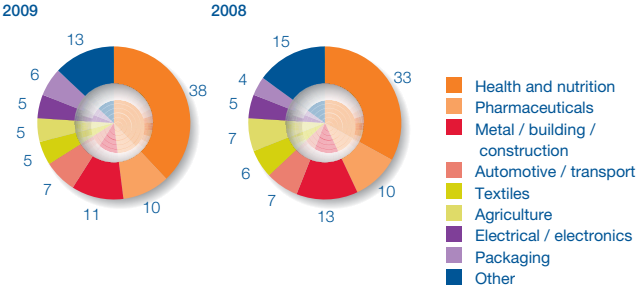


Exceptional items

Total exceptional items after tax amounted to a profit of € 93 million in 2009. Pre-tax gains on the disposals of DSM Energy and Stamicarbon amounted to € 302 million and a gain of € 19 million was recognized due to compensation for the closure of the Citric Acid manufacturing plant in Wuxi (China). As a result of a reduction in entitlements under certain defined benefit plans a gain of € 19 million was posted. Additions to provisions were recognized for an amount of € 48 million relating to restructuring charges in connection with actions to strengthen DSM's competitive position. Total other costs related to cost savings actions and organizational changes related to the economic downturn amounted to € 11 million. Impairments of € 166 million were recognized for goodwill of Catalytica (€ 154 million) and Lipid Technologies Provider (€ 12 million). Furthermore, € 23 million was written-off as a result of the decision to cancel certain ICT projects.

Net sales by end-use market, continuing operations

in %



Cash flow

At € 1,276 million, net cash provided by operating activities was 16.2% of net sales.

Cash flow statement

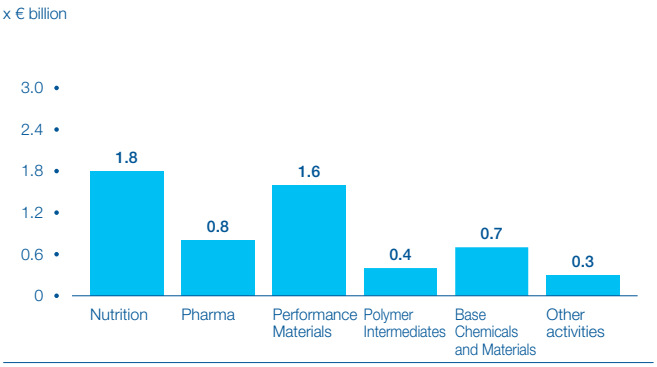
x € million	**2009**	2008
Cash and cash equivalents at 1 January	601	369
Operating activities:		
- Net profit plus amortization and depreciation	811	1,028
- Changes in operating working capital	566	(180)
- Other changes	(101)	62
Cash flow provided by operating activities	1,276	910
Investing activities:		
- Capital expenditure	(457)	(591)
- Acquisitions	(16)	(120)
- Sale of subsidiaries	279	8
- Disposals	8	19
- Other	(87)	(110)
Net cash used in investing activities	(273)	(794)
Dividend	(205)	(220)
Net cash from / used in financing activities	(64)	305
Effects of changes in consolidation and exchange differences	5	31
Cash and cash equivalents at 31 December	**1,340**	601

The balance sheet total (total assets) decreased by € 39 million in 2009 and amounted to € 9.6 billion at year-end (2008: € 9.7 billion). Equity increased by € 316 million compared to the position at the end of 2008; this was due mainly to the positive net result and the increase in the value of pension assets which is recognized in equity. Equity as a percentage of total assets increased from 49% at the end of 2008 to 52% at the end of 2009. The current ratio (current assets divided by current liabilities) increased from 1.51 in 2008 to 2.14 in 2009. Net debt stood at 14.2% of equity plus net debt at the end of 2009.

Capital expenditure on intangible assets and property, plant and equipment amounted to € 472 million in 2009 and was slightly above the level of amortization and depreciation.

The operating working capital was € 566 million lower than in 2008. Cash and cash equivalents increased and amounted to € 1,340 million.

Capital employed by business segment at 31 December 2009



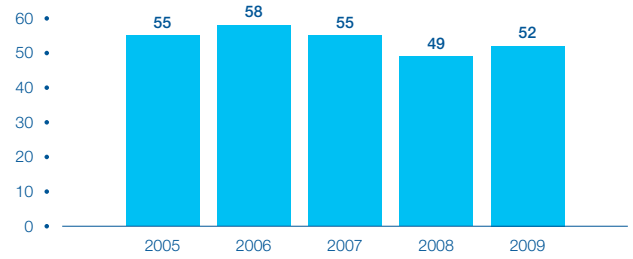
Report by the Managing Board

Balance sheet profile

as %	2009	2008
Intangible assets	11	12
Property, plant and equipment	36	38
Other non-current assets	9	8
Cash and cash equivalents	14	6
Other current assets	30	36
Total assets	**100**	100
Equity	52	49
Provisions	2	3
Other non-current liabilities	26	21
Other current liabilities	20	27
Total liabilities	**100**	100

Equity

as a % of balance sheet total



Dividend

DSM's dividend policy is to provide a stable and preferably rising dividend. For 2009 an unchanged dividend of € 1.20 per ordinary share will be proposed to the Annual General Meeting of Shareholders. An interim dividend of € 0.40 per ordinary share having been paid in August 2009, the final dividend would then amount to € 0.80 per ordinary share, to be paid in cash. The ex-dividend date is 6 April 2010.

Outlook

The general economic outlook remains uncertain. Although most economies are showing a partial recovery from the downturn, this recovery remains uneven. There are still risks that could affect the recovery. Financial systems are not stable yet and higher solvency ratios required for banks have an impact on their lending willingness. Government incentives are drying up and their large deficits and debts will necessitate contractive actions sooner or later. The high unemployment rate will be a burden on consumer confidence. The continued cash focus in the private sector can be a limiting factor for a fast recovery in private investments. However, continued growth is expected in emerging economies, with Asia (especially China) and Latin America having the largest impact on DSM.

The food and feed markets, which are resilient, are expected to grow with GDP in 2010. The Nutrition cluster is expected to achieve sustained good performance with an ongoing increase in demand and relatively stable price levels in both the food and feed markets.

For Pharma, results are expected to be lower due to continued low prices at DSM Anti-Infectives, ongoing challenges at DSM Pharmaceutical Products and the loss of temporary demand related to the flu-related sterile vaccine business.

Currently DSM is expecting further recovery in the automotive, electronics and textile markets although with uncertainty about the development for the second half of 2010. Building and construction and marine markets are expected to show limited recovery in the first half of 2010. Business conditions are currently similar to the second half of 2009 and therefore results in Performance Materials and Polymer Intermediates are expected to be substantially better than last year. DSM Dyneema is expected to return to double digit sales growth after a difficult 2009.

Operating profit in Base Chemicals and Materials is expected to be positive in 2010.

The actions taken by DSM in 2009 leave the business well prepared to capitalize on gradually improving market conditions in 2010. In view of expected developments DSM is cautiously optimistic. However, as the economic outlook still remains uncertain, no quantitative outlook will be provided for 2010.

Inspired by Nature

Nature is a far more efficient and creative manufacturer than man. Therefore, as the challenges of resource scarcity, climate change, and health and wellness, are addressed and the search for more cost-effective and energy efficient production processes and products with new and enhanced functionalities continues, the business community is increasingly looking to nature as the inspiration for innovation.

Ultimately, this trend is going to transform the chemical industry and it is going to affect industry at large and society more broadly. It will allow more advanced and genuinely sustainable economies and societies to be created.

Using nature as an inspiration for innovation is nothing new. Humans have been doing this for thousands of years. Man has always used natural products, mimicked natural products via chemical synthesis when these products were too difficult or too expensive to extract, and exploited natural production processes and micro-organisms.

What is new is the breadth and sophistication of the new types of innovations, and their potential impact on the very nature of modern businesses and on society at large.

DSM is being inspired by nature in several ways. On the one hand the company is mimicking nature to achieve new product functionalities and on the other hand it is involved in industrial biotechnology: using nature's toolbox to improve industrial production processes or develop new ones.

DSM uses industrial biotechnology to produce for example bio-based succinic acid and to discover and develop enzymes for milling and improving bread, cake and other cereal-based ingredients. DSM tries to mimic nature in developing advanced functional coatings. Anti-reflective coatings have been realized that mimic the moth's eye. Coatings for various surfaces that are dust or water repellent are inspired by the dirt and water repellent functionalities of the lotus flower.

Another way in which inspiration from nature plays a role in DSM's activities is the wide range of nutritional ingredients and functional foods that the company is developing in response to the world's growing preference for healthy and natural products.

Examples are Teavigo® (a natural extract that allows people to enjoy the health benefits of green tea) and resVida® (DSM's branded resveratrol, the substance that gives red wine many of its health benefits). DSM also mimics nature in the production of folic acid. In addition it is using knowledge obtained in snake venom research for synthetically producing active ingredients for personal care products.

DSM is able to do this because of its wide-ranging expertise in chemical synthesis, in biotechnology, in materials sciences and in food and nutritional sciences. Especially the cross-fertilization between Life Sciences and Materials Sciences provides a unique position.





Pharmaceutical manufacturing at a scale smaller than the human hair

In order to produce pharmaceuticals, a large number of complex chemical steps need to take place. In the traditional production method, starting materials, solvents and catalysts are added to large vessels in a specified order and kept there for a certain time to convert the starting materials into intermediate products.

These are in turn purified and tested for quality. Then they enter the following reaction step in the next set of reactors. Complex syntheses of pharmaceutical products can consist of more than 20 of these steps.

Using large vessels to produce pharmaceuticals has a number of disadvantages. Most importantly, large-scale chemical reactions in these large vessels deliver large quantities of unwanted – sometimes dangerous – by-products. These by-products have to be disposed of, resulting in a negative environmental impact.

The traditional production method – which also requires heavy use of energy resources and can generate a lot of heat that needs to be cooled – is not very efficient; more solvents, catalysts and other starting materials are needed than is desirable.

To address all these issues, a new technology is emerging to produce pharmaceuticals: micro reactors.

This technology has left the drawing board and is used by DSM Fine Chemicals in Linz (Austria), for the production of for example naproxcinod, an arthritis drug in development, for the French pharmaceutical company NicOx.

A micro reactor is a continuous tube reactor with a small channel diameter. To reach the desired throughput such a reactor contains thousands of small channels in parallel, each of them surrounded by coolant. In this way, the average micro reactor can be as small as a small cupboard and can handle 1000-2000 kilograms of product per hour, with yields that are more than 20% higher than in the traditional large vessels, a much lower CO_2 footprint and lower costs. Productivity increases by a factor of 10^3-10^4 measured per cubic meter (kg/m^3h).

A micro reactor has a volume of around 3 liters, compared to 10,000 liters for a large vessel. Due to the smaller scale the reaction rate is much quicker and also easier to control, resulting in a higher yield and a lower rate of unwanted by-products. It is also more cost-efficient, as micro reactors consume less energy and are scalable as well.

The key lies in the small and short tubes used in micro reactors. Conventional large vessels use tubes with a diameter of up to 4 meters; micro reactor tubes can have diameters ranging from 10 microns (which is equal to one-tenth of a human hair) up to 5 millimeters. As reactions in these narrow spaces can be very fast, the tubes can be short, which allows a typical micro reactor to be small enough to be carried by one person.

At its Linz facility DSM – as one of the front-runners in applying this technology on a larger scale to pharmaceutical production – has already produced nearly 1 million kilograms of pharmaceutical products using micro reactors.

Micro reactors show superior processing performance in chemical processes, allowing process conditions that otherwise would not be possible.

And there is more: micro reactors can handle sequences of operations on hazardous reaction mixtures such as mixing, dilution, extraction and neutralization in a safe, well controlled way. This allows keeping all dangerous operations and reaction mixtures within the boundaries of the reactor. The mixture that leaves the reactor is harmless again.

Working with glass specialist Corning, Inc. DSM designed a micro reactor system that combines three key process steps – the nitration reaction, neutralization, and workup. Due to the small scale of the system, it took only 18 months from feasibility studies to large-scale production.
Researchers believe that as much as 30% of fine chemicals and pharmaceuticals currently in production could be made more efficiently using micro reactors.

For DSM, the potential of micro reactor technology is not limited to the production of pharmaceutical products or fine chemicals. Research currently focuses on the production of other specialty chemicals.

Review of business

In 2009 DSM's activities were grouped into five clusters: Nutrition, Pharma, Performance Materials, Polymer Intermediates and Base Chemicals and Materials.

Net sales, continuing operations

x € million	2009	2008
Nutrition	2,824	2,710
Pharma	721	863
Performance Materials	1,823	2,297
Polymer Intermediates	849	1,201
Base Chemicals and Materials	1,134	1,572
Other activities	381	436
Total DSM	**7,732**	9,079

Operating profit (EBIT), continuing operations

x € million	2009	2008
Nutrition	521	447
Pharma	32	89
Performance Materials	68	175
Polymer Intermediates	6	19
Base Chemicals and Materials	(68)	174
Other activities	(189)	(135)
Total DSM	**370**	769

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

x € million	2009	2008
Nutrition	655	585
Pharma	91	150
Performance Materials	174	266
Polymer Intermediates	36	43
Base Chemicals and Materials	2	245
Other activities	(122)	(80)
Total DSM	**836**	1,209

Capital employed[1] at 31 December, continuing operations

x € million	2009	2008
Nutrition	1,802	2,054
Pharma	789	1,001
Performance Materials	1,641	1,689
Polymer Intermediates	369	431
Base Chemicals and Materials	730	904
Other activities	342	392
Total DSM	**5,673**	6,471

[1] Before reclassification to Assets held for sale

EBITDA / net sales, continuing operations

in %	2009	2008
Nutrition	23.2	21.6
Pharma	12.6	17.4
Performance Materials	9.5	11.6
Polymer Intermediates	4.2	3.6
Base Chemicals and Materials	0.2	15.6

Capital expenditure and acquisitions

x € million	2009	2008
Nutrition	82	135
Pharma	63	49
Performance Materials	139	231
Polymer Intermediates	25	54
Base Chemicals and Materials	78	82
Other activities	80	188
Total DSM	**467**	739

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

	x € million		as % of net sales	
	2009	2008	**2009**	2008
Nutrition	144	135	5.1	5.0
Pharma	73	74	10.1	8.6
Performance Materials	138	127	7.6	5.5
Polymer Intermediates	13	22	1.5	1.8
Base Chemicals and Materials	16	22	1.4	1.4
Other activities	9	14	2.4	3.2
Total DSM	**393**	394	**5.1**	4.3

Workforce at 31 December, continuing operations

	2009	2008
Nutrition	7,110	7,043
Pharma	4,374	4,401
Performance Materials	4,633	4,978
Polymer Intermediates	1,321	1,427
Base Chemicals and Materials	1,846	2,305
Other activities	3,454	3,385
Total DSM	**22,738**	23,539

Nutrition

Net sales

€2,824 m

Workforce

7,110

Nutrition

The Nutrition cluster comprises DSM Nutritional Products and DSM Food Specialties. The nutrition and food ingredients businesses serve the food, feed, cosmetic and pharmaceutical industries. Activities are based on an in-depth knowledge of customer/market needs. With customized formulation activities in more than 44 locations and a marketing/sales presence reaching over 60 countries, customer intimacy is a key success factor. Technical skills are based on application know-how and innovation translating market needs into products/services with new benefits. Manufacturing technologies in the Nutrition cluster are largely based on biotechnology, fermentation, chemical process technology and particle engineering. The cluster holds leading positions in the ingredient markets for human and animal nutrition and health.

x € million	**2009**	2008
Net sales:		
DSM Nutritional Products:		
- Animal Nutrition and Health	1,478	1,409
- Human Nutrition and Health	985	945
	2,463	2,354
DSM Food Specialties	361	356
Total	**2,824**	2,710
Operating profit	521	447
Operating profit plus amortization and depreciation	655	585
Capital expenditure and acquisitions	82	135
Capital employed at 31 December	1,802	2,054
ROCE	27.0	22.6
EBITDA as % of net sales	23.2	21.6
R&D expenditure	144	135
Workforce at 31 December	7,110	7,043

Strategic context

The growing world population and ongoing urbanization in emerging economies continue to drive the demand for processed food and meat products as the standards of living rise and a larger proportion of the population can afford processed foods. An increasing number of people depend on shops rather than backyards to provide their food.

In order to meet the rapidly growing demand for protein-rich diets, meat production is rising and agriculture is being industrialized even further to increase productivity. This requires feed ingredients that foster animal growth and help reduce the ecological impact of industrial farming, while at the same time safeguarding the health of both the farmed animal and the ultimate consumer.

The trend towards increased individuality in modern society, together with demographic changes such as an increase in the number of one-person households, an aging population and educated consumers, reinforce the demand for more convenient, yet high quality foods.

At the same time, consumers are increasingly interested in the connection between the foods they consume and their health status. While taste remains a key qualifier, there is a strong interest in reducing the levels of ingredients like salt, sugar and fat as well as including more nutritional health ingredients.

As a result of the food safety scandals over the past few years, consumers are also increasingly paying attention to the safety, quality and sustainability of food products. Food producers therefore strive for full supply chain traceability to safeguard their brands and they reduce risks by choosing quality ingredients from reputable suppliers. Ultimately, only the solid reputation and track record of an ingredient supplier can truly guarantee peace of mind for the value chain and for the consumer.

Food and beverage manufacturers are under ever-increasing pressure to differentiate their branded products from competition and from retailers' store brands. With these Private Label Products quickly following the A brands and increasingly innovating themselves, there is a significant 'pull' from the value chain for differentiating ingredient innovation by companies such as DSM, supporting the solid growth of specialty food ingredients.

The combination of a growing world population and the other trends and growth drivers described above ultimately results in sustainable, non-cyclical growth for the specialty food and feed ingredients markets at above GDP rates.

DSM Nutritional Products

DSM Nutritional Products is the leading supplier of vitamins, carotenoids, nutritional ingredients, UV filters and premixes for human and animal nutrition and health. It also has the most complete feed enzymes portfolio worldwide. Its main customers

are feed, food, beverage, dietary supplement, pharmaceutical, personal care and flavor/fragrance companies.

Key drivers of profitability
- Leadership in global markets: scale, cost, differentiation, innovation and quality
- Strong customer value proposition – Quality for Life™ program
- Long history of nutrition innovation
- Focus on value-before-volume strategy

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

Organization and market position

DSM Nutritional Products is organized around two market-facing entities: Animal Nutrition and Health (ANH) and Human Nutrition and Health (HNH). ANH realized € 1,478 million in sales in 2009 and HNH € 985 million, 5% and 4% higher than in 2008, respectively.

Within the global food ingredients market, estimated at € 34 billion in 2009, HNH largely addresses the nutritional ingredients part. This is the fastest growing segment of the food ingredients market, approaching € 8 billion in 2009.

ANH addresses the nutritional additives segment of the feed additives market, worth some € 16 billion in total in 2009. This nutritional additives market segment is estimated at € 7 billion in 2009.

DSM Nutritional Products is the only producer who can supply the complete range of vitamins and carotenoids in the most suitable forms for all possible human and animal uses. It thus has the ability to differentiate across the entire value chain.

This starts with the production of pure 'actives': vitamins, carotenoids, enzymes and other nutritional ingredients. Their cost is an important factor, but significant added value is generated, for example, through quality management, traceability, reliability of supply, sustainable production practices, and physical product attributes such as stability.

In the next step of the value chain the active ingredients are incorporated in so-called 'forms'. Forms are tailored to increase nutritional or health impact, providing stability, extended shelf life, bio-availability, or dispersability: the ability to achieve stable suspensions in liquids, for instance beverages.

In the third step, customized blends are produced in 'premix' operations which are spread across 46 locations worldwide. Approximately 85% of DSM Nutritional Products' sales are based on the two steps closest to the customer, namely forms and premixes.

As a result of its involvement in all three steps of the value chain, combined with a uniquely spread worldwide production and sales and marketing network, the company is able to offer the most comprehensive quality assurance, traceability and sustainability framework. Interdependencies between actives, forms, premixes and local/global presence also have an important implication for innovation, logistics, reliability, safety, and end-consumer perception. Consequently, DSM Nutritional Products follows a growth strategy leveraging its leadership position.

Developments in 2009

As a result of the recession, consumers have become even more conscious of the value of the products they buy. Typical behavioral changes are: cutting back on restaurant expenses, reducing in-home stocks, buying more at discount stores and smaller packaging sizes.

Furthermore, a shift from well-known branded products to private labels is taking place. In the United States, people are still spending money on supplements and ingredients, in order to avoid the more expensive health care costs. Sales of dietary supplements kept growing in 2009 despite the recession, but consumers traded down from branded supplements to private labels. In meat consumption, a shift from more expensive beef to pork and especially to poultry and eggs could be observed.

Each of these developments represents a challenge to all stakeholders, but to DSM Nutritional Products they represent above all an opportunity to emphasize its special role as a broad and differentiated player across the board and always close to the markets.

Over the past two years and throughout the economic downturn DSM Nutritional Products has stayed focused on value over volume. A significant boost to profitability was achieved through its strong emphasis on a differentiated value proposition.

Customer intimacy has been further increased and geographically expanded through new premix facilities,

enhanced sales processes and new strategic partnerships with global customers.

The premix footprint expansions are mainly focused on the BRIC countries (Brazil, Russia, India and China) as well as the emerging economies of Vietnam, Indonesia, the Philippines and South Africa. DSM Nutritional Products aims to continuously expand its premix network as a channel to market, a vehicle to deliver full quality assurance and supply chain traceability, as well as an enabler of growing customer intimacy.

DSM's Quality for Life™ seal represents the company's comprehensive commitment to the quality, reliability, traceability and sustainability of its products and services. This unique approach has been very well received by customers. In 2009, the promises behind the seal were further substantiated in the Quality for Life™ white paper.

Fish feed demand in Chile, where roughly one third of the world's Atlantic salmon farms are located, has been affected by the downturn due to a species specific infection already visible in 2008. This lost production could be partly compensated for in other geographies such as Norway, where fish feed production went up by approximately 15% in 2009. DSM's contract positions with the main global industry players have once again minimized the downturn effect in a specific area.

In 2009, the Functional Food Marketing activities – focusing on ingredients with clinically proven health benefits – was integrated into DSM Nutritional Products and renamed New Nutritional Ingredients.

The Aspire to Win profit improvement plan, announced in 2007, was successfully completed in 2009, having reached the previously set targets.

The long-standing alliance with Lonza, which was renewed in 2009, leverages complementary strengths to the mutual benefit of both companies. A recently established alliance with Desano in the production of biotin is based on combining the process technology skills of both companies to establish state-of-the-art manufacturing leveraging DSM's channel to market.

DSM Nutritional Products continued to show resilience and steady growth throughout 2009, capitalizing on its leading market position which was underlined by the economic downturn. Operating profit continued to be strong, despite underutilization of assets due to inventory reduction. Following the value over volume approach, prices in both food and feed ingredients from DSM remained robust, although at slightly lower levels than in 2008.

DSM Food Specialties

DSM Food Specialties is a leading global manufacturer of food enzymes, cultures, yeast extracts and other specialty ingredients for the food and beverage industries. DSM Food Specialties' advanced ingredients make a considerable contribution to the success of the world's favorite food brands for the dairy, baking, fruit juice, beer, wine, savory and functional food segments.

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

Organization and market position

The total food ingredients market adds up to € 34 billion. The 2008 advanced bio-ingredients market is estimated at approximately € 2.5 billion. The bio-ingredients market consists of specialty products based on fermentation processes such as yeast extracts, cultures and food enzymes (excluding lower value-added products such as active baker's yeast, soy sauce, etc.).

Food processing ingredients represent no more than 2% of the value of the final product (hence a small percentage of the purchase value for food manufacturers), whilst the added value of the ingredients in terms of taste, texture and other functionalities is significant. Differentiation at ingredients level directly impacts on differentiation at food end-products level.

Increasing demand for healthy nutrition, including low-salt and low-fat foods, the need for sustainable production, natural ingredients, convenience and food safety – while maintaining taste – are the trends that characterize the markets in which DSM Food Specialties operates.

Ingredient suppliers are increasingly leading innovation in the value chain. Strategic partnerships between food & beverage manufacturers and ingredient suppliers are becoming more important. DSM has a good partnership basis with all leading food manufacturers. The characteristics of the bio-Ingredients market make it a high investment market for new entrants.

Review of business

DSM Food Specialties is the global market leader in bio-ingredients in food & beverages. DSM Food Specialties holds leading positions (#1 or #2) 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 emerging economies, and acquisitions.

DSM Food Specialties comprises two business units and an Ingredients Development Unit. Enzymes & Dairy Ingredients supplies a wide range of food enzymes for applications such as dairy, baking, fruit processing, brewing and wine, starter cultures for cheese and yogurt, preservation solutions for cheese and meat, and tests for the detection of residues of antibiotics in milk. DSM is one of the leading suppliers of food enzymes and dairy ingredients in the world.

Savoury Ingredients is a major supplier of ingredients for flavorings and flavor enhancers (such as yeast extracts) used in products such as soups, instant meals, sauces and savory snacks.

Developments in 2009

Despite the economic downturn, DSM Food Specialties has shown sustained resilience in performance with particularly strong growth in food enzymes and arachidonic acid (ARA). Throughout 2009, the specialty food ingredient market remained a growth market. DSM Food Specialties has a strong specialty portfolio in place in line with the key trends to capitalize on this growth.

Thanks to its strong position in fast growing market segments (for example enzymes in dairy, baking and brewing), DSM Food Specialties remained leading worldwide in almost all of its product/market combinations. The growth in food enzymes is expected to continue, despite the economic downturn. Food enzymes play a decisive role in cost savings and sustainable production. As a result, these products even benefit from today's market conditions and are experiencing high growth as customers have become more focused on production efficiency, reduction in formulation costs or reduced energy consumption. With its leading enzyme technology the company is well positioned to capture this further growth.

DSM Food Specialties supplies a wide variety of ingredients that will enable either cost saving formulations (direct cost savings on raw materials spent) or generate better output for production. In addition, DSM Food Specialties also presents new, revolutionary technologies that are far more efficient in generating the same product quality with less raw-material outlay, lower energy costs and no need for capital expenditure.

In line with DSM's *Vision 2010* goal of increased sales from innovation, DSM Food Specialties shows accelerating sales of products from radical innovation. DSM Food Specialties was able to realize double-digit growth in food enzymes, fueled by growth in sales of innovative enzymes, such as Brewers Clarex™ (preventing chill haze in beer), PreventASe® (to mitigate the formation of acrylamide in baked products) and Panamore™ Golden (to replace diacetyl tartaric acid ester of monoglyceride in bread). The continuous growth experienced in food enzymes was somewhat offset by the lower growth in high-value savory applications.

ARA sales continue to grow very well and ARA remains an important product for DSM. It is naturally found in breast milk and is applied in baby food. DSM Food Specialties partners with the US-based Martek Biosciences Corporation in the production and supply of ARA.

The acquisition of Valley Research, Inc. in 2008 resulted in a strong local basis in food enzymes in the United States and enables DSM to offer regional blends and formulations to its customers.

In the innovation pipeline DSM Food Specialties stays focused on developing ingredient solutions to sustainable food manufacturing at an affordable cost and enhancing the taste, texture and quality (removing potentially harmful substances) in food and beverages. For DSM Food Specialties there is still significant headroom for growth due to developments in emerging markets and growing consumer demand for natural and sustainable products.

DSM Food Specialties' operating profit increased compared to the previous year due to strong performance in enzymes and ARA and favorable exchange rates. By expanding its global reach and footprint DSM Food Specialties has been able to benefit from the rapid growth in emerging markets such as China.

An apple a day…

Producing one liter of apple juice (including growing the apples needed for this) on average generates over half a kilogram of CO_2 that is emitted into the atmosphere. This impact can be positively affected through modern solutions.

An enzyme, Rapidase® Smart, developed by DSM, breaks down the fruit more efficiently so that more juice is produced from the same amount of fruit. As a consequence, the amount of CO_2 released per liter of apple juice is lowered significantly.

The production of enzymes of course also generates CO_2 due to the use of energy and raw materials. However, in a Life Cycle Analysis (LCA) it can be shown that in this case, because of the enzyme, the CO_2 savings in the application are 18 times higher than the emission. The LCA shows the real impact of a (chemical) product, taking into account all CO_2 emissions and all savings in the whole life cycle.

DSM has actively contributed to an LCA project in 2009 carried out by the International Chemical Industry Association (ICCA) with the aid of McKinsey to determine the impact on greenhouse-gas emissions of the global chemical industry.

The results show that on average the CO_2 savings in the applications of chemical products are 2-3 times higher than the emissions during production, transport and waste handling. For products like insulation materials the savings are quite obvious, but even for fertilizers the factor is between 1 and 2 since higher yields result in reduced land use for the same amount of food and feed. And as shown in the example above, for products like enzymes the factor is significantly higher than average.





Pharma

Net sales

€721 m

Workforce

4,374

Pharma

The Pharma cluster comprises the business groups DSM Pharmaceutical Products (DPP) and DSM Anti-Infectives. For reporting purposes the business unit DSM BioSolutions is part of DPP. DSM is one of the world's leading independent suppliers to the pharmaceutical industry. Many of today's medicines around the world contain ingredients produced by DSM. DSM Anti-Infectives is one of the few penicillin producers outside of China.

x € million	**2009**	2008
Net sales:		
DSM Pharmaceutical Products	395	419
DSM Anti-Infectives	326	444
Total	**721**	863
Operating profit	32	89
Operating profit plus amortization and depreciation	91	150
Capital expenditure and acquisitions	63	49
Capital employed at 31 December	789	1,001
ROCE	3.6	8.7
EBITDA as % of net sales	12.6	17.4
R&D expenditure	73	74
Workforce at 31 December	4,374	4,401

Strategic context

Interest in health and wellness is on the rise, a result of a growing and aging world population. Global life expectancy is now expected to hit 75 by the year 2045. The newly developing economies are increasingly experiencing the same trend.

In the Western world the rapid increase in diseases and disorders induced by modern lifestyles is of growing concern. Nowadays the list of the most widely used drugs consists predominantly of medicines that are aimed at compensating or ameliorating disorders that relate to our lifestyle.

The rapid increase in cardiovascular disorders and conditions like diabetes type 2 is also to a large extent related to lifestyle and diet. Moreover, phenomena such as obesity are also increasingly affecting emerging economies – diabetes almost doubled in China between 2000 and 2007.

All these trends create additional demand, which is driving continued growth for the pharmaceutical industry in the world. At the same time the pharmaceutical industry is facing a number of challenges.

For instance, fewer new drug approvals and a strong growth in generic medicines are putting pressure on large pharmaceutical companies. One of their responses is to increase outsourcing of production to reduce costs. Another important driver is the trend of increased focus on biotech-based drugs. DSM is one of the leading providers of high-quality custom manufacturing services in the global pharmaceutical and biopharmaceutical markets.

Start-up companies have emerged as important drivers of innovation, but they lack facilities for pre-clinical and early clinical synthesis. The generic segment is expected to continue to grow with a rich pipeline of products coming off-patent.

Regulators and all other players involved in the manufacturing and distribution of drug products are increasingly focused on monitoring and controlling the quality of active pharmaceutical ingredients (APIs).

Sustainability, too, has gained attention throughout the pharmaceutical manufacturing industry, which – because of its many, complex, chemical reaction steps – is rather inefficient in converting raw materials into the final, pure API. Therefore, designing new, cleaner, more effective routes to the desired molecules is the subject of many research initiatives. Low-temperature, mild, enzymatic (biocatalytic) conversions are of particular interest in this respect, and DSM has created a large library of enzymes useful for this purpose.

DSM Pharmaceutical Products

DSM Pharmaceutical Products is a leading provider of high-quality custom contract manufacturing and development services to the pharmaceutical, biopharmaceutical and agrochemical industries. Customers around the world are serviced from five manufacturing sites in the United States and Europe. Among these customers are eighteen of the top twenty pharmaceutical companies and the top three agrochemical companies as well as a large number of biotech, specialty and emerging companies across the globe.

Key drivers of profitability

- New products pipeline in pharma industry
- Innovative technologies for the future of pharma manufacturing
- Increased outsourcing of tech transfers

Key success factors
- Strong new product pipeline
- Outstanding c-GMP and regulatory compliance
- Operational excellence
- Customer service and intimacy
- Technology

Organization and market position

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

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

The average growth of worldwide pharmaceuticals sales for 2008/2009 was 4.5-5.5% and for biopharmaceuticals 11-12%. The global contract manufacturing market is expected to grow at a compound annual rate of 9% (2003-2013) with primary manufacturing growing at 7%, secondary manufacturing at 11% and biopharmaceutical at 13%.

The business group is well-placed in the industry as it ranks among the leaders on a global scale and is broadly recognized both as a preferred supplier and as an innovative front-runner due to its interlinkage with the development of the PER.C6® platform, XD™ technology, its technology capabilities in small molecule chemistry and its high-quality sterile facilities.

Developments in 2009

DSM Pharmaceutical Products is to some extent a 'lumpy business' with large contributions from some products. Unfortunately during 2009 some of the larger CMO products were no longer part of the business group's offering or had a reduced off take, resulting in performance pressure which is expected to continue in 2010. DPP is executing a program to take corrective action, with improved account management, a more integrated business and technology approach, and further cost savings.

This has already resulted in an improved pipeline in the early stage from which the business is expected to benefit in the future. Shorter-term improvements are expected to come from cost restructuring and technical transfer products. In 2009 an outsourcing agreement with Shire US Manufacturing Inc., a subsidiary of Shire plc., was announced; this will start to contribute in 2010, but the full effect is expected to be thereafter.

The business group also concluded additional agreements related to the H1N1 flu, which are partly seasonal.

In 2009, three PER.C6® licenses were signed. Currently there are 30 active licenses. The capacity expansion for mammalian CMO of DSM Biologics in Groningen (Netherlands) has been planned and will be completed in the first quarter of 2010.

DSM Anti-Infectives

DSM Anti-Infectives holds global leadership positions in penicillin G, penicillin intermediates (6-APA and 7-ADCA), active pharmaceutical ingredients such as semi-synthetic penicillins and semi-synthetic cefalosporins (beta-lactams), and other active ingredients such as nystatin.

Key drivers of profitability
- Basic penicillin (PEN) price
- Access to regulated markets
- Currency exchange rate
- Cost development of PEN and derivatives

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

Organization and market position

DSM Anti-Infectives is one of the world's leading suppliers of active pharmaceutical ingredients (APIs). Not only is DSM Anti-Infectives one of the few penicillin producers outside of China, it is also one of the few API manufacturers that continuously invest in R&D for generic antibiotics.

Penicillin-based anti-infectives are among the most important pharmaceutical products in the world in terms of volume. The products in DSM Anti-Infectives' current portfolio are very effective in combating a broad spectrum of bacterial and fungal infections in both humans and animals and as such are of vital importance to people's well-being and to healthier economics in farming.

As a relatively cheap treatment against infectious diseases, penicillin-derived pharmaceuticals can be afforded by a large and growing part of mankind, with pronounced growth in China, India and other countries in Asia, Africa and Latin America.

Consumption in the western world with its highly regulated markets is more or less stable. Within the western world, DSM is one of the few remaining independent (merchant) beta-lactam producers, serving the needs of patients suffering from infectious diseases.

Growth of the market for penicillin derivatives is estimated to be between 4 and 6% per year, the greater part of which comes from the emerging economies.

DSM Anti-Infectives defined a strategy in 2007 that is aimed at actively maintaining this leadership position via customer intimacy in the different markets and technological innovations leading to both further improved production and a strengthened product portfolio in generic active ingredients. This will be achieved by actively seeking partnerships and where necessary rationalizing parts of the portfolio.

Developments in 2009

The highly competitive environment for DSM Anti-Infectives (DAI) remains. Prices for DSM's products came down in 2009 from the high levels of mid 2008.

In 2009 DSM continued its actions to structurally improve the profitability of DSM Anti-Infectives. In addition to restructuring measures, such as the sale of the DSM Deretil side chain business in 2008, the closure of the clavulanic acid business by the end of 2009 and fixed cost savings, DSM is strengthening its variable cost position via the introduction of cost-reducing 'green' technologies in India, Mexico, Spain and China based on its competence in biotechnology.

In addition DAI is investing in new products. Early 2010 atorvastatine, the active substance of a drug commonly known as Lipitor®, was launched to generic pharma houses. This product too is based on innovative, proprietary DSM biotechnological routes.

In 2009 a 'deep dive' into every business area of DSM Anti-Infectives was done in order to find solutions to accelerate further structural improvement of the business. Over 55 customers, potential customers, customers' customers and stakeholders were visited and interviewed. This revenue mining exercise resulted not only in additional business from existing and new customers, but also in new initiatives and projects.

Can zero-emission racing save motor racing and the car industry?

The worlds of Formula One and car manufacturing are facing profound questions about their long-term financial and environmental viability. Both need to adapt to tougher economic climates by cutting costs at the same time as needing to invest in the sustainability of their industries. It is helpful, then, that a brand new class of racing is launched that combines sustainability, cost effectiveness and cutting-edge technology as well as offering a scintillating glimpse into the future of motoring.

Formula Zero, the world's first zero-emission motor racing championship, has been created with the dual purposes of creating a truly original racing environment, while at the same time providing a platform for research into cutting-edge new propulsion and vehicle technologies.

Powered by hydrogen fuel cells, the racing karts are capable of speeds of up to 100 kph and acceleration the envy of normal combustion-powered engines. And because of the unique properties of their propulsion, the karts make absolutely no noise at all, which makes for a unique and compelling spectator experience.

Formula Zero's appeal to new and existing generations of race fans does not stop with the propulsion. Many of the vehicles, all of which are designed, built and driven by teams from leading universities around Europe, are experimenting with new technology which could soon find itself on the assembly lines of the world's major car manufacturers.

One good example of cutting-edge technology is the resin bodywork that will adorn the kart of The Netherlands' University of Delft team. The team, which won the series' inaugural race in Rotterdam last year, unveiled in July 2009 a genuine world first for motor racing: resin bodywork that is manufactured 70% from biorenewable materials, or materials that have been 'grown' rather than extracted from the ground like oil or minerals, which are traditionally used for resin materials.

These materials, which have been developed by DSM, not only comply with all FIA guidelines on strength and safety, but they also boast a considerably smaller carbon footprint than traditional, non-renewable-based materials. On the track, meanwhile, Team Delft will of course benefit from increased speed brought on by the body's lighter frame.

DSM plans to launch this technology into the commercial car market and it is quite feasible that cars in the near future could contain some part made from biorenewable materials. It has been estimated that in the future, it may be possible to create bodywork comprised of as much as 80% biorenewable materials.



Performance Materials

Net sales

€ 1,823 m

Workforce

4,633

Performance Materials

The Performance Materials cluster comprises the business groups DSM Engineering Plastics, DSM Dyneema and DSM Resins.

The business groups specialize in the manufacture of technologically sophisticated, high-quality products that are tailored to meet customers' performance criteria. The products are used in a wide variety of end-use markets: the automotive industry, the aviation industry, the electrical and electronics industry, the sports and leisure industries, the paint and coatings industry and the construction industry.

x € million	**2009**	2008
Net sales:		
DSM Engineering Plastics	648	761
DSM Dyneema	222	305
DSM Resins	953	1,231
Total	**1,823**	2,297
Operating profit	68	175
Operating profit plus amortization and depreciation	174	266
Capital expenditure and acquisitions	139	231
Capital employed at 31 December	1,641	1,689
ROCE	4.1	10.7
EBITDA as % of net sales	9.5	11.6
R&D expenditure	138	127
Workforce at 31 December	4,633	4,978

Strategic context

Climate change and the adverse effects of dependency on fossil fuels are gaining in dominance, requiring new strategic inroads. The expected limited availability of fossil-based raw materials in the future creates a need for new and eco-effective raw materials as well. New business models, processes and products are required.

A variety of solutions to reduce CO_2 emissions and to improve fuel and energy efficiency are already being provided, such as materials for the production of windmill blades and solar panels and lightweight materials for the automotive and transportation sectors.

There is a growing demand for environmentally friendly materials – partly as a result of tighter regulation but also as a result of greater awareness among consumers – that can replace materials that are harmful to health. Waterborne coating resins, powder coatings, halogen-free materials and UV-curable coatings are examples of this.

The quest for lighter and stronger materials, miniaturization and the ongoing digitalization trend drive the development of new functionalities and ever better performance. Society is asking for functionalities related to connectivity and the protection of people.

Replacement of traditional light bulbs with energy-saving LED lights is opening up new markets for thermally conductive plastics for retrofitting.

As economic prosperity is being spread more evenly over the world, rapid market growth in the emerging economies is expected to continue. Growth of engineering plastics and resins is high in these regions as a result of increased local demand and a shift in global manufacturing bases.

A substantial part of the capacity expansions of the Materials Sciences businesses have been built in emerging economies such as China and India. This will enable DSM to capture the opportunities that the fast-growing emerging economies offer to its Materials Sciences businesses.

DSM Engineering Plastics

DSM Engineering Plastics is a global player in polyamides, polyesters, polycarbonates and adhesive resins. These materials are used in components for the electrical and electronics, automotive, engineering and packaging industries.

Key drivers of profitability
- Market growth in key segments and regions
- Sustainability: green materials, weight reduction
- 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

Organization and market position

With a global market share of about 5%, DSM Engineering Plastics is one of the world leaders in polyamides (polyamide 6 and polyamide 46), polyesters (PBT, PET and TPC) and extrudable adhesive resins. DSM Engineering Plastics is the global leader in high-heat polyamide. The materials produced by the business group are used mainly in technical components for the electrical and electronics, automotive, engineering and packaging industries.

The total global market size for engineering plastics was about €25 billion in 2008. The engineering plastics market has grown at a rate of about 6% per year in the last few years, higher than average worldwide GDP growth. The largest growth area has been Asia Pacific, most notably China and India, where growth has been in the range of 10% per year, fueled by local demand and a shift of manufacturing to the region. The highest growth per product is in heat-resistant resins.

Developments in 2009

The downturn in the economy, which started at the end of 2008 following the financial crisis, had a deep impact on business conditions in Q4 2008 and in the first half of 2009. Volumes declined significantly in the first half, whereas prices remained at the levels of last year. The most affected end-markets were automotive and electronics.

Less affected, but with organic sales growth still down significantly, was the electrical end-market for engineering plastics. Resilience came from the food packaging end market.

Despite the difficult market circumstances, DSM Engineering Plastics came out of the storm a stronger company. The business group has clearly gained market share in key segments by staying focused on innovation and remaining close to customers. DSM Engineering Plastics brought costs in line with the new reality within 6 months; it has kept its innovation and customer interface potential.

Through a continued high focus on sustainability, such as halogen-free solutions, DSM Engineering Plastics has gained significant business with household names in consumer electronics.

During the year, DSM announced an intended business swap with Mitsubishi Chemical to acquire Mitsubishi's PA6 business in exchange for DSM's polycarbonate business. This will give DSM Engineering Plastics a leadership position in Japan in PA6, and will further strengthen DSM's global leadership position in this product line. Finalization of the swap is expected in the first half of 2010.

DSM Engineering Plastics' new green field plant in India, opened at the end of 2008, is running very well, and supporting DSM's leadership position in India. The market development of Stanyl® ForTii™ is progressing well, and DSM Engineering Plastics quadrupled capacity of the market development plant for this product at year-end to keep up with demand.

The recently introduced EcoPaXX™ has a neutral carbon footprint and is capable of bringing carbon neutral green solutions to very demanding applications such as automotive engine parts.

DSM Dyneema

DSM Dyneema is the inventor, manufacturer and marketer of Dyneema®, the world's strongest fiber™. This product, based on ultra high molecular weight polyethylene (UHMwPE), is produced by means of DSM's proprietary processes. The Dyneema® brand enjoys very high recognition in the value chains served.

Key drivers of profitability

- Market growth and penetration into existing applications
- Success of innovations, new launches
- Dyneema® and Dyneema Purity® brands

Key success factors

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

Organization and market position

DSM produces Dyneema® fiber and UD (unidirectional textile sheets) in Heerlen (Netherlands) and in Greenville (North Carolina, United States) through its proprietary gel-spinning process. In 2008 DSM completed the commercial introduction of a new tape technology, operated at a dedicated facility in Flaach (Switzerland). DSM Dyneema is also a partner in a UHMwPE fiber manufacturing joint venture in Japan.

DSM Dyneema is a market leader in UHMwPE and the overall leader in high-performance fibers in many segments. The business group is expanding around the world in selected, high value-in-use applications and markets offering high profitability.

DSM will continue to focus on the further development of ultra-high-performance polyethylene materials and technologies.

Dyneema® fiber is an important component in ropes, cables and nets in the fishing, shipping and offshore industries. It is also used in safety gloves for the metalworking industry and in fine yarns for applications in sporting goods. In addition, it is used in life protection applications for law-enforcement personnel and armed forces. Dyneema Purity® is a special grade for applications in the medical sector.

Increased attention to safety, security and protection is driving sales in life protection end-uses at DSM Dyneema. The same drivers continue to stimulate demand for cut-resistant gloves, as well as providing entry into other work-wear textiles protecting other body parts. Performance and value-in-use are the mainstays of Commercial Marine, where long-term fuel and people costs can be cut by investing in solutions based on Dyneema®.

The position and value of Dyneema Purity® in the medical arena is driven by improved performance and efficiency in a number of medical procedures.

DSM Dyneema focuses on strong collaboration down the value chains in which it operates by offering processing and application know-how. Support is aimed at co-development of innovative new applications and improved products.

At the same time, the business group protects its current and future market positions through market-driven innovation, increased customer intimacy and an active branding policy, supported by a strong manufacturing and technological base.

This is backed by an active policy to protect DSM's intellectual property. DSM Dyneema's intellectual property strategy enables it to rapidly drive innovation and to maintain a course far ahead of the competition. This delivers value not only to DSM Dyneema, but also to its business partners, who benefit from DSM's extensive patent portfolio. The Dyneema® brand has recognition of over 90% amongst its target markets.

Developments in 2009

DSM Dyneema experienced weaker demand in 2009, mainly in industrial applications. Commercial marine, sports and high-performance textiles were all affected by this weaker demand. In the second part of the year some improvement in demand was seen in these sectors compared to the first half year.

DSM Dyneema's medical applications business showed relative resilience during the downturn. Demand in life protection was lower than expected due to tender delays.

As a result of the weaker demand, DSM Dyneema's sales dropped 27% in 2009. DSM Dyneema reduced its inventories by temporarily shutting down a limited number of production lines in order to optimize working capital.

A part of the planned investments were delayed, also because DSM Dyneema managed to increase the output of existing lines as a result of an Advanced Manufacturing Program.

Sales growth in 2010 is expected to be back to double digit numbers again.

DSM Resins

DSM Resins is a global player in the manufacturing, marketing and sale of high-quality resins for the coatings and composites industries. DSM is also the world leader in fiber optic coatings. The business group employs over 2,400 people and has 22 large manufacturing plants across the world. This reflects DSM Resins' global activities and its dedication to local and global customers.

Key drivers of profitability

- Market growth in key segments and regions
- Sustainability: lighter materials and environmentally friendly, safer 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 technology platforms geared towards markets

Organization and market position

By focusing on value-added and eco-friendly solutions, DSM Resins is able to capture many growth opportunities thanks to its market-driven innovation efforts. The group consists of four business units: DSM NeoResins+, DSM Powder Coating Resins, DSM Desotech and DSM Composite Resins.

The global market for coating resins is estimated to be approximately USD 20 billion, with architectural and automotive being the largest segments. The global market for composite resins is approximately USD 6 billion, of which more than 50% is building and construction related.

Review of business

DSM Resins holds global No.1 positions in powder coating resins, liquid specialty resins and coatings for fiber optic materials. DSM Resins is the European leader in composite resins.

The resins business is strongly driven by the four societal trends: climate and energy, health and wellness, functionality and performance and emerging economies. The importance of these trends in terms of demand for new materials has further emerged in the economic downturn. The relevance of new innovative resins for climate and energy is undisputed.

Examples are lightweight composites for vehicles (metal replacement), windmill blades, eco-friendlier and safer materials such as powder coating resins and waterborne resins, and coatings to improve the yield of solar cells. The waterborne resins of DSM meet the growing needs of the coatings market by being almost completely solvent free. This is important not only for the environment, but also for the health and wellness of customers and painters.

The functionality and performance of the resin are key to the performance of the end-product. Ease of use, functionality and lower system costs are important drivers. Furthermore, with both manufacturing and end-consumer demand shifting to emerging economies, DSM Resins is actively targeting China and India to grow.

In many cases, the resin is the key differentiator for the end-product. With its range of innovative specialty resins, DSM is able to differentiate itself from the competition. Innovation, especially in combination with sustainability, is the driver behind the growth of DSM Resins. DSM Resins' ongoing focus on and commitment to both customers and innovation gives DSM a strong competitive advantage versus the competition.

The global economic downturn has not changed DSM Resins' strategic course. The business group continues to focus on growing its leadership in selected key segments: the right combination of end-markets, regions and technologies to capture the fastest growth. DSM Resins aims to achieve about € 250 million in extra sales in 2010 through innovation compared to 2005.

Developments in 2009

The economic downturn, which started at the end of 2008 following the financial crisis, had a deep impact on business conditions in Q4 2008 and in the first half of 2009. Volumes declined significantly in the first half, whereas prices remained close to the levels of 2008.

The most affected end-markets were automotive, transportation, textiles, electronics, and building and construction. Less affected, but with organic sales growth still down significantly, were the consumer-related end-markets for resins. Resilience came from optical fiber and graphic arts.

DSM Resins was very successful in generating cash in 2009 due to its strong focus on operating working capital reduction. The cost-saving plans initiated at the beginning of the downturn are in full progress. Fixed costs are being reduced by implementing programs focusing on reduction of headcount and spend, among other things. Furthermore, capital expenditure is being monitored very closely and is at significantly lower levels than in previous years.

A new factory for waterborne emulsion resins in Waalwijk (Netherlands) was opened in Q1 2009 and in Meppen (Germany) a new plant for the production of wet polyesters and other specialty resins was opened in Q1 2010.

Despite a recovery in the second half of the year, uncertainty remains. The transportation, trucks and marine yachts end-markets (mainly related to capital investments) are still down. Building and construction, too, is still not showing any significant signs of improvement of end-market demand.

Building new bridges

Bridge builders have always been conservative – and perhaps rightly so, given the loads that bridges have to bear and their importance to social and economic life. However, a revolutionary new method of making bridges from environmentally-friendly composite material may well make town planners and architects rethink their concepts.

An estimated 7% of global CO_2 emissions come from the making and use of concrete. Scientists in the Netherlands have proven that vast energy savings are possible if bridges are made of lightweight glass-fiber-reinforced composite resin instead of concrete or steel. Building a small 12-meter long traffic bridge using composite material instead of concrete would save 1300 GigaJoules, and compared to a steel bridge the energy saved would even be 2,700 GigaJoules. This is a massive improvement, making resin 3-5 times more energy-efficient than conventional materials.

To put this into context: if Amsterdam were to use composite resin rather than other materials when replacing its 2,000 bridges, the energy saving would be equivalent to the total annual energy bill of 310,000 households.

Composite bridges not only offer extreme energy savings compared to their concrete peers; they are also stronger and require less maintenance. And on top of that, the virtually unlimited design freedom offered by composite materials allows these bridges to also look great, opening up vast new possibilities for architects and town planners to improve the look and feel of the urban environment. Construction companies also benefit from the very low cost of installation compared to concrete: in a recent project in the Netherlands, an entire road bridge was maneuvered into position in less than an hour.

In the future, composites will not only be used as an alternative material to conventional materials but will also be used in conjunction with conventional materials in a hybrid scenario. Bearing in mind that composites have in the past been considered as a cosmetic material and excluded from infrastructure, the growth potential is sensational. And so are the environmental benefits. It is expected that 20 years from now, around 20% of all bridges will feature composite materials.





Polymer Intermediates

Net sales

€849 m

Workforce

1,321

Polymer Intermediates

The Polymer Intermediates cluster consists of DSM Fibre Intermediates.

x € million	**2009**	2008
Net sales		
DSM Fibre Intermediates	849	1,201
Total	**849**	1,201
Operating profit	6	19
Operating profit plus amortization and depreciation	36	43
Capital expenditure and acquisitions	25	54
Capital employed at 31 December	369	431
ROCE	1.5	4.5
EBITDA as % of net sales	4.2	3.6
R&D expenditure	13	22
Workforce at 31 December	1,321	1,427

Strategic context

Caprolactam – the main product of DSM Fibre Intermediates – is an intermediate primarily used in the production of polyamide 6 fibers and resins. More than two-thirds of caprolactam is used for the production of fibers for textile, carpet and industrial yarns. The rest is used for engineering plastics and packaging films.

Polyamide 6 resins are increasingly used in engineering plastics due to a combination of high stiffness and strength at higher temperatures. For example, they can be used to replace metal in automotive applications. Resistance to oil and grease allows these plastics to be used in for instance engine covers and gears. Other applications are for example in technical components for the electrical and electronics and packaging industries.

The market for polyamide 6 fibers is mature and has been declining in the western world, with growth in Asia. However, in the engineering plastics market, demand for polyamide 6 resins is growing by about 6% per year. This fast growth of polyamide 6 for engineering plastics is expected to result in ongoing expansions of polyamide 6 polymerization capacity while expansions of caprolactam capacities are lagging behind.

Another product of DSM Fibre Intermediates is acrylonitrile. Within this mature market the main growth area is the acrylonitrile-butadiene-styrene (ABS) market. ABS is increasingly used in the electronics industry (mobile phones, computers, MP3-players) while the automotive industry is also an important market.

A strong advantage for DSM is the backward integration of DSM Engineering Plastics in DSM Fibre Intermediates. DSM Fibre Intermediates supplies important intermediates (caprolactam and acrylonitrile) to DSM Engineering Plastics. As such, the business group provides security of supply and enables growth in all areas, provides margin stability and thus contributes to the success of DSM Engineering Plastics.

DSM Fibre Intermediates

DSM Fibre Intermediates produces caprolactam and acrylonitrile, which are raw materials for synthetic fibers and engineering plastics. Other products include ammonium sulfate (a fertilizer), diaminobutane, sodium cyanide and cyclohexanone.

Key drivers of profitability
- Growth (applications and Asia)
- Utilization rates
- Volatility of raw material prices

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

Organization and market position

DSM Fibre Intermediates, with plants in the Netherlands, the United States and China, is the largest merchant caprolactam producer in the world, with a market share of 20%. DSM is a major player in the merchant acrylonitrile market in Europe with a market share of 25%.

DSM's caprolactam production capacity is more than 600,000 tons per annum (tpa). In addition, the business group produces about 1.2 million tpa of fertilizer (ammonium sulfate) as a co-product.

Total global demand for caprolactam was about 4,500 kt (merchant and captive) in 2009. Global growth is about 1-2% per year, with the United States and Europe being relatively stable and China showing a growth rate of about 5% per year.

Caprolactam is the intermediate for polyamide 6, used in dentists' chairs, hooligan-proof stadium seats, food packaging,

medical packaging, lingerie, sleeping bags, parachutes and tennis racket strings. Polyamide 6 is also the most widely used material in carpets, having excellent resistance to wear, crushing, matting and dirt. It is recyclable.

Polyamide 6 has reached the mature phase of its life cycle, where market demand and selling prices are strongly influenced by supply/demand cycles. It is facing mild competition from other materials, such as polyamide 66, polyester and polypropylene.

Acrylonitrile is a raw material used in textile fibers (acrylic or modacrylic), ABS plastics used in automotive, toys and computers, latex rubber, paints, coatings and water-purification products. It is also used in baby-food jar closures.

The business group's acrylonitrile production capacity is 260,000 tpa. DSM Fibre Intermediates also produces about 25,000 tpa of sodium cyanide, which is used in detergents and in the synthesis of vitamins. It also produces diaminobutane, an intermediate for the engineering plastic Stanyl®.

DSM Fibre Intermediates' distinguishing characteristics are its process technology, reliability and service. The business group aims to exploit its global cost and technology leadership position in caprolactam while growing its position in China parallel to a further strengthening in Europe and North America in close cooperation with DSM Engineering Plastics, for which caprolactam is a main raw material. For acrylonitrile the business group aims to strengthen its manufacturing base in Sittard-Geleen (Netherlands).

Developments in 2009

The beginning of the year was characterized by very difficult market conditions as demand in the last quarter of 2008 had weakened strongly in combination with significant customer de-stocking in anticipation of lower prices following the drop in oil prices and a recession in North America and Europe. DSM Fibre Intermediates responded by temporarily shutting down a number of plants.

The slow demand and lower feedstock costs resulting in a drop in caprolactam prices put pressure on operating profit and margins. In the first two quarters of the year, DSM Fibre Intermediates was loss-making.

The downturn in China and Taiwan was steep but shorter than in other regions. Imports of caprolactam into China started to recover as early as the end of Q1 2009. DSM Fibre Intermediates could quickly increase its sales to Asia, compensating for part of the decline in sales in other regions.

Throughout the downturn, the business group remained close to its customers. This enabled it to quickly benefit from the recovery. The business group became profitable again in Q2 2009 and managed to finish the year with a positive operating result.

Base Chemicals and Materials

Net sales	Workforce
€1,134 m	1,846

Other activities

Net sales	Workforce
€381 m	3,454

Base Chemicals and Materials

The Base Chemicals and Materials cluster consists of DSM Agro, DSM Melamine, DSM Elastomers and a number of activities that have been carved out from other clusters.

DSM Agro produces fertilizers and is active in Northwestern Europe. DSM Melamine is the world's largest producer of melamine, used in wood-based panels and laminates for furniture and flooring. DSM Elastomers manufactures synthetic rubbers (EPDM) for use in cars and other transportation vehicles, white goods, various industrial products and construction materials and as motor-oil additives.

x € million	**2009**	2008
Net sales:		
DSM Agro	338	578
DSM Melamine	151	200
DSM Elastomers	387	469
Other	258	325
Total	**1,134**	1,572
Operating profit	(68)	174
Operating profit plus amortization and depreciation	2	245
Capital expenditure and acquisitions	78	82
Capital employed at 31 December	730	904
ROCE	(8.3)	21.1
EBITDA as % of net sales	0.2	15.6
R&D expenditure	16	22
Workforce at 31 December	1,846	2,305

DSM Agro

DSM Agro is a producer of ammonia and high-nitrogen fertilizers for grasslands and agricultural crops; products and services for responsible fertilization. In agriculture, nitrogen is the prime determinant of crop growth and yield.

DSM Agro is the market leader in the Netherlands and ranks among the market leaders in Germany, France and Belgium. DSM Agro operates production sites at Sittard-Geleen and – until the end of 2009 – IJmuiden in the Netherlands. DSM Agro sells about 2.4 million tons of fertilizers per year, which includes a part of the ammonium sulfate produced by DSM Fibre Intermediates. DSM Agro also produces products that serve as raw materials for products of other DSM business groups.

In March 2008 DSM Agro reached agreement with the Dutch government on the termination of ammonia transport by rail between Sittard-Geleen and IJmuiden by 31 December 2009. As a result of the termination of these transports, the site in IJmuiden lost its reason for being. DSM therefore closed the site at the end of 2009.

In 2009, DSM Agro was once again faced with volatile business and market developments. The record profitability over 2008 sharply reversed into a loss in Q2 2009 as a result of much lower prices. In the latter part of the year, results recovered but remained considerably below those of 2008.

DSM Melamine

With a market share of over 15%, MelaminebyDSM™ is the leading global melamine brand. The main application of melamine is in wood-based panels and laminates used for furniture and flooring. It is also used in car paints, durable melamine tableware and flame retardants. The growing number of consumers in emerging economies, notably China, is driving demand.

Melamine is used in impregnating resins and adhesive resins for the wood-processing industry. It boosts the scratch, moisture and heat resistance of laminates. Melamine can be combined with softwood from fast-growing trees to obtain high-quality panels that can replace hardwood. The growing scarcity of hardwood is boosting the use of melamine. Stricter legislation on emission of formaldehyde is expected to have a positive impact as well.

The product is also used in paper money, glossy magazines, ice hockey sticks and printed textiles. The market for melamine is growing at an average rate of 4% per annum. Several new plants are being built in China. Total capacity in China still exceeds local demand. In addition, new world-scale plants will be built in areas with low-priced natural gas in the next few years.

DSM Melamine has plants in Sittard-Geleen (Netherlands), Pinglu and Jishan (China), and Bontang (Indonesia). The Chinese melamine is produced by Shanxi FengHe Melamine Co. Ltd., a joint venture with Shanxi Yangmei Fengxi Fertilizer Industry (Group) Ltd. (DSM 49%). The plant in Indonesia is a joint venture (DSM 60%) with P.T. Pupuk Kalimantan Timur and P.T. Barito Pacific Lumber Company.

The business group had a difficult first half of 2009. Lower demand together with de-stocking in the value chain downstream industry put pressure on sales volumes. Also, sales prices declined, more than those for raw materials, resulting in losses in the first half year.

In the second half of the year, there were some signs of a recovery (mainly in Asia). Supply was scaled down in the industry to meet the current – lower – demand levels.

DSM Elastomers

With a market share of around 16%, DSM Elastomers is one of the global market leaders in EPDM (Ethylene Propylene Diene Monomer) rubber under the brand name Keltan®. It is also the number two player in the market for EPDM-based – fully vulcanized – thermoplastic elastomers (TPVs). DSM sells these TPVs under the brand name Sarlink®.

Production plants for Keltan® are based in Sittard-Geleen (Netherlands) and Triunfo (Brazil). Plants for Sarlink® are found in Genk (Belgium) and Leominster (Massachusetts, United States).

Keltan® EPDM is used in cars and other transportation vehicles, white goods, various industrial products and construction materials and as a motor-oil additive. It is also used as a waterproof covering for roofs.

DSM maintained the position of Keltan® as the global innovative leader in the EPDM market in 2009. The first EPDM grade manufactured using Keltan ACE™ technology was introduced. This technology enables DSM to produce products with a high amount of VNB (2-vinyl-5-norbornene) as a third monomer, which is unique in the world of EPDM.

Despite the economic downturn, the business group maintained its innovation strategy, as illustrated by the development and launch of six new Keltan® grades.

Sarlink® TPVs are used in a wide variety of applications including automotive, consumer electronics, electrical, food, building, medical and industrial applications.

DSM Elastomers was severely influenced by the economic downturn but showed a recovery from the bottom reached in Q1 2009. As a result of a pickup in volumes, DSM Elastomers' operating profit approached a level comparable to last year. Fixed-cost saving programs contributed considerably to the result.

Other

The Base Chemicals and Materials cluster also includes several activities that have been carved out from other clusters. These include Citric Acid, DSM Special Products and the Maleic Anhydride and derivatives business. These activities together achieved a higher operating profit and lower sales in 2009.

Other activities

Other activities comprises various activities and businesses that do not belong to any of the five reporting clusters. It consists of both operating and service activities and also includes a number of costs that cannot be logically allocated to the clusters.

Other activities includes the DSM Innovation Center, DSM Venturing and a number of other activities such as Sitech Services, EdeA, DSM Insurances and part of the costs of corporate activities. They normally have a negative operating result.

x € million	**2009**	2008
Net sales	381	436
Operating profit	(189)	(135)
of which:		
- Defined benefit plans	(75)	(3)
- Innovation Center	(54)	(59)
- Other	(60)	(73)
Operating profit plus amortization and depreciation	(122)	(80)
Capital expenditure and acquisitions	80	188
Workforce at 31 December	3,454	3,385

DSM Innovation Center

The DSM Innovation Center has been set up to facilitate the *Vision 2010* change program towards an intrinsically innovative organization. To the extent that costs of the DSM Innovation Center cannot be directly allocated to clusters, they are reported in Other activities. A comprehensive description of the activities of the DSM Innovation Center is provided in the Innovation and R&D chapter starting on page 28.

DSM Venturing

DSM Venturing participates in external start-up companies or funds and is constantly on the lookout for investment opportunities in innovative businesses or technologies in the fields of Life Sciences and Materials Sciences. DSM Venturing plays an important part in DSM's open innovation policy and invests in activities that are of immediate or potential relevance to DSM. In addition to direct investments DSM Venturing is also involved in a number of venture capital funds. For more information see the Innovation and R&D section on page 28.

Sitech Services

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

EdeA

EdeA VoF owns, operates and maintains most of the production and distribution facilities for utilities (for example steam, power and water) at the Chemelot site in Sittard-Geleen (Netherlands). EdeA VoF is a joint venture with Essent, an energy production and distribution company. DSM's stake is 50%.

Corporate activities

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

DSM Insurances

DSM retains a limited part of its Property Damage and Business Interruption and Product Liability risks via a captive insurance company. Damages incurred in 2009 were very limited.

Defined Benefit Plans

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

Associates

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

Discontinued activities

DSM completed the disposal of DSM Energie Holding B.V. (DSM Energy) to TAQA Abu Dhabi National Energy Company PJSC on 30 September 2009. The disposal consisted of the participations which DSM had in oil and gas exploration and pipelines, including the 40% participation in Noordgastransport B.V. The related activities are reported as discontinued operations. Before reclassification the activities were reported in the Base Chemicals and Materials cluster and Other activities, respectively.

Review of business

On 6 October 2009 DSM completed the agreement with Maire Tecnimont S.p.A. for the disposal of DSM's urea-licensing subsidiary Stamicarbon B.V. The activities are reported as discontinued operations. Before reclassification Stamicarbon B.V. was reported in the Base Chemicals and Materials cluster.

Corporate governance and risk management

Introduction

This chapter includes, amongst 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).

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

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

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

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

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

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

Managing Board

The Managing Board consists of three or more members to be determined by the Supervisory Board. The current composition of the Managing Board can be found in the Corporate organization section starting on page 112. 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, functional areas and 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 112. 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 and a Remuneration Committee. The task of these committees is to prepare the decision-making of the Supervisory Board. In 2009 the Corporate Social Responsibility Committee was established as a fourth sub-committee for the purpose of supervising and preparing decision-making by the Supervisory Board regarding corporate social responsibility issues of the company.

The functioning and tasks of these committees are governed by charters that have been drawn up in line with the Dutch corporate governance code and can be found on the company's website.

General Meeting of Shareholders

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

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

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

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

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

On 25 March 2009, the Annual General Meeting of Shareholders was held. The agenda was to a large extent similar to that of previous years. Mr. P. Hochuli and Mr. C. Sonder were re-appointed as members of the Supervisory Board. The following amendments to the Articles of Association were approved:

- Art. 13.1 regarding the repurchase of own shares of the company was brought in line with changes in Dutch legislation arising from European Directives.
- Art. 30.4 was amended to reflect the implementation of the Act regarding the EU Transparency Directive in Dutch law, as a result of which the term for preparing the annual accounts is now four months after expiry of the financial year.
- The class C cumulative preference shares were removed from the Articles of Association.
- Art. 37.2 was amended to the effect that the announcement of the General Meeting of Shareholders is made not later than the fifteenth day before the day of the meeting, or not later than on the day as prescribed by law at any time in the future.

Article 10 of Directive 2004/25

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

- Information on major shareholdings can be found below (Distribution of shares).
- There are no special statutory rights related to the shares of the company.
- There are no restrictions on the voting rights on the company's shares. When convening a General Meeting of Shareholders the Managing Board is entitled to determine a registration date in accordance with the relevant provisions of the Dutch Civil Code.
- The applicable provisions regarding the appointment and dismissal of members of the Managing Board and Supervisory Board and amendments to the Articles of Association are set forth above.

- The powers of the Managing Board regarding the issue and repurchase of shares in the company can be found below (Issue of shares, Repurchase of own shares).
- Other information can be found in the notes to the financial statements (18 Equity, 20 Borrowings, 28 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 25 March 2009 this power was extended up to and including 25 September 2010, 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 *Vision 2010* strategy. The issue price will be determined by the Managing Board and shall as much as possible be calculated on the basis of the trading prices of ordinary shares on the Euronext Amsterdam Stock Exchange.

Distribution of shares

Under the Dutch Financial Supervision Act, shareholdings of 5% or more in any Dutch company must be disclosed to the Netherlands Authority for the Financial Markets (AFM). According to the register kept by the AFM the following shareholders had disclosed that they owned between 5 and 10% of DSM's total share capital on 1 January 2010:

- ASR Nederland N.V.
- Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.
- Aviva plc (Delta Lloyd Levensverzekering N.V.)
- Capital Research and Management Company

Repurchase of own shares

The company may acquire paid-up own shares by virtue of a decision of the Managing Board, provided that the par value of the shares in its capital amounts to no more than one tenth of the issued capital. Such a decision is subject to the approval of the Supervisory Board. In the Annual General Meeting of Shareholders of 25 March 2009 the Managing Board was authorized to acquire own shares for a period of 18 months from said date.

Dutch corporate governance code

DSM supports the amended Dutch corporate governance code 2008 (Frijns Code), which can be found on www.commissiecorporategovernance.nl.

Following the publication of the amended Dutch corporate governance code in December 2008 DSM has reviewed all Principles and Best Practice provisions of the amended code and has, where applicable, taken measures to implement the amended Principles and Best Practice provisions. The Regulations of the Managing Board and the Supervisory Board and the Charters of the Supervisory Board committees have been brought in line with the amended code.

The proposed new Remuneration Policy, which is intended to be placed on the agenda of the Annual General Meeting of Shareholders on 31 March 2010, is in line with the Best Practice provisions on Remuneration of the amended code.

In view of this DSM can confirm that it applies all but one of the amended code's 113 Best Practices. The only exception is Best Practice III.5.11, which stipulates that the remuneration committee shall not be chaired by the chairman of the Supervisory Board. DSM considers remuneration to be an integral part of its nomination and retention policy and hence of its human resource management policy for its senior management. DSM therefore considers it desirable for the Chairman of the Supervisory Board to be directly involved in preparing decisions taken by the full Board, also in view of the role played by the Supervisory Board Chairman vis-à-vis the Managing Board. This exception to the code was discussed in the Annual General Meeting of Shareholders in 2005, where it met with no objections.

With respect to Best Practice provision II.1.8 it is to be reported that in the course of 2007 Mr. Nico Gerardu, member of the Managing Board, assumed the duties of chairman of the Supervisory Board of a listed company (see section on Corporate organization). This is a temporary arrangement pending the appointment of a successor as chairman of the Supervisory Board of this listed company.

With respect to the appointment of members of the Managing Board for a period of at most four years (Best Practice II.1.1) it should be noted that DSM has adhered to this Best Practice since the introduction of the corporate governance code in 2004. Since DSM respects agreements made before the introduction of said code, the chairman of the Managing Board will remain appointed for an indefinite period.

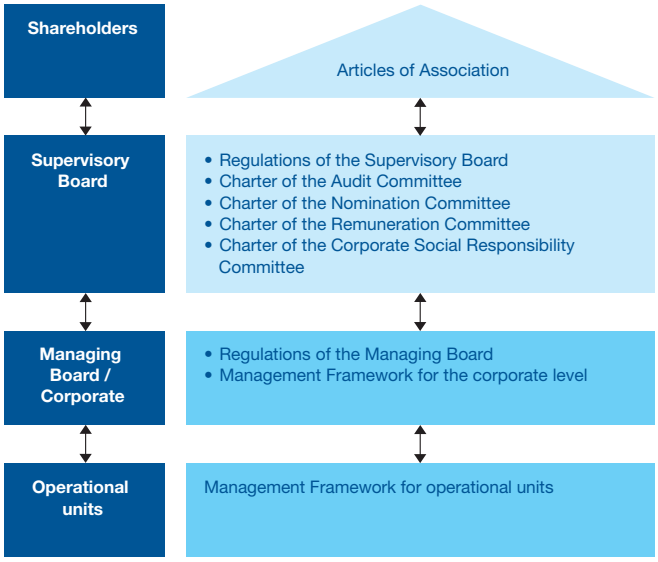
With respect to the Dutch corporate governance code it should be noted that any substantial change in the corporate governance structure of the company and in the company's compliance with the code shall be submitted to the General Meeting of Shareholders for discussion under a separate agenda item.

All documents related to the implementation at DSM of the Dutch corporate governance code can be found in the Governance section of the corporate website (www.dsm.com).

Governance framework

Business groups are the main building blocks of DSM's organization; they have integral long-term and short-term business responsibility and have at their disposal all functions that are crucial to their business success. In order to facilitate selective leveraging of expertise and implementation capabilities in the approach to markets, products and technologies, business groups with the most important commonalities in these areas are grouped into clusters. The business groups within a specific cluster report to a member of the Managing Board. This Board member manages the coherence and leveraging 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 amongst other things that it adheres to the DSM Values (to be replaced by the DSM Code of Business Conduct in 2010) and applicable corporate policies and requirements. The company's strategic direction and objectives are set in the Corporate Strategy Dialogue. The framework further defines the roles of business groups, clusters, central and regional structures. During the year under review, the corporate structure was adjusted in the so-called Alfa project. A clear split was made between:

  - Corporate Staff Departments; small, high level groups, supporting the Managing Board and reporting directly to a Managing Board member (in most cases CEO or CFO);
  - Functional Excellence Departments, in which expert capabilities in selected functions are concentrated and which are steered by Functional Excellence Advisory

Boards, chaired by a Managing Board member; the Director of a Functional Excellence department reports to a Managing Board member;
- Shared Service Departments, in which selected service functions are leveraged and which are steered by Shared Service Boards, chaired by a Business Group Director. The Director of a Shared Service Department reports to a Managing Board member, who is also member of the Shared Services Board.

In addition, regional functions were reinforced, especially in the emerging economies. Overall, the reorganization led to considerable cost reductions and it is expected to make the interplay between business groups and central functions more effective. The Management Framework for the corporate level also 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 2009, the framework was adapted to reflect the changes resulting from the Alfa project.

- The operational units conduct their business within the parameters of the Management Framework for operational units. This implies amongst other things that the operational units establish the strategy and objectives of their business according to the Business Strategy Dialogue, in which process various scenarios and related risk profiles are investigated. The framework further stipulates that strategy implementation must take place in line with corporate policies and multi-year plans in several functional areas and in compliance with the Corporate Requirements and Directives.

Compliance with the Corporate Requirements and Directives and the effectiveness of the risk management and internal control system are monitored by the entities themselves and discussed regularly between the Managing Board and the operational units. On average once every three years, the units are audited by Corporate Operational Audit (COA). The director of the COA department reports to the chairman of the Managing Board and has access to the external auditor and the chairman of the Audit Committee of the Supervisory Board. Furthermore, the director of COA acts as the compliance officer with regard to inside information and is the chairman of the DSM Alert Committee, which implements the whistle-blower policy.

Risk management

The Managing Board is responsible for risk management in the company and, supported by the Corporate Risk Management department, has designed and implemented a risk management system and organization which is documented in the DSM risk management policy, the DSM Values (to be replaced by the DSM Code of Business Conduct in 2010), 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 risk management system

The DSM risk management system is based on the COSO-ERM framework. It has been designed to achieve maximum integration of the risk management process in the normal business processes. It provides for risk assessment tools, controls for risks that commonly occur in the company and monitoring and reporting procedures and systems. The internal controls for the goods and money flows have been 'built into' standard business processes and tools have been developed to support their implementation and to monitor their effectiveness in operation. In this way, a high level of internal control is achieved efficiently. Simultaneously with the publication of this annual report, an updated version of the full description of DSM's risk management system and process will be placed on the company's internet site (www.dsm.com, Governance section). This description is to be considered an integral part of this annual report.

The functioning of the system in 2009

Risk assessments

Following the mandatory risk management process, business groups that updated their strategy in 2009 performed a business risk assessment to identify and assess the implementation risks of the chosen strategy and agree on responses. Towards year-end, all business groups updated their risk assessments as part of the annual strategic review and budgeting process. Additionally, risk assessments were performed by a number of central functions (including the Legal Affairs and Investor Relations departments) and on major projects and programs (including the company's sustainability program).

As part of the annual risk management calendar, the Managing Board updated the Corporate Risk Assessment (CRA) in 2009.

Based on last year's CRA results, internal risk and incident reports and risk information from external sources, the Managing Board, facilitated by Corporate Risk Management, identified the risks that are relevant in relation to the achievement of the *Vision 2010* strategy and objectives. This strategy is described in the *Vision 2010* progress section on page 22 of this report and in the individual business group reports. In two sessions, the Board Members assessed and ranked these risks and identified any responses additional to the mitigating actions already in place. As part of the CRA, risks with a possibly considerable impact beyond 2010 were earmarked as input for the upcoming Corporate Strategy Dialogue.

In the CRA, the responses were chosen to bring the risks within DSM's risk appetite. This risk appetite is not 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 (innovation, greater presence in the emerging economies) DSM is prepared to accept the considerable risks involved, for instance in innovation, acquisitions and disposal programs. These risks will, however, always be limited by rigorous implementation programs and well-defined hurdle criteria.
- 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 injury'. The financial impact of operational mishaps is limited by several insurance policies.
- With regard to legal compliance issues and ethical business conduct, DSM takes a 'zero tolerance' approach.
- Risk tolerance in the areas of stakeholder relations, reputation, sustainability and social responsibility is low. Progressive policies and implementation programs are in place in these areas.

In the Financial policy discussed on page 46 of this report and in the description of risk categories on the website, the risk appetite is quantified for several risk areas.

The main risks and responses as identified in the CRA were reported to the Audit Committee of the Supervisory Board and discussed in the December 2009 meeting.

The company's top five risks

The top five risks for the *Vision 2010* period and the related mitigating actions as resulting from the CRA are reported in the table below.

The top five risks and related mitigating actions

Description of risk	*Mitigating actions*
Disposals and acquisitions	
Disposals and acquisitions are an integral part of the *Vision 2010* strategy implementation. Due to the financial crisis and economic downturn, the probability that transactions cannot be made at reasonable conditions has increased.	In view of the current economic downturn, DSM has slowed down the disposal process. The ambition remains to complete these disposals before the end of 2010. In order to maximize the chance of success, DSM will apply a variety of approaches, all based on the disposal and acquisition identification and implementation practices and capabilities that have been proven successful in the past.
Global financial and economic developments	
DSM's financial performance improved in the second half of the year but the global economy is still very fragile and a 'double dip recession' or a very slow pace of recovery cannot be excluded. This could jeopardize DSM's projected growth and profitability.	In reaction to the economic downturn, DSM has successfully initiated measures to reduce costs and focus on cash generation among other things by reducing working capital and limiting capital investments. In this way it has effectively safeguarded its cash position. These measures have been and will be pursued with vigor. Economic and market developments will be closely watched and additional measures will be taken if necessary.
Growth in the Pharma portfolio	
Market position and conditions may put the projected growth in the Pharma cluster under considerable pressure.	In custom manufacturing, development efforts are ongoing to improve the pipeline and implement new projects. In China, the search for strategic cooperation in the anti-infectives area is being continued, following the suspension of the contracts for joint ventures with North China Pharmaceutical Group Corporation.
Emerging economies	
The crisis has further increased the relative importance of the emerging economies for the success of DSM's growth strategy. There is a risk that opportunities in these markets will be missed. Also, price pressure from these countries may jeopardize profitability in established markets.	In order to take full advantage of the opportunities in the emerging economies, DSM has built extensive local capabilities in China and has created a firm local presence in other emerging areas as well (India, Russia, Latin America). The establishment of a local presence in such regions is being enhanced further, also to cope with the fast changing regulatory environment.
Culture change	
A culture change program with a focus on external orientation, accountability for performance and inspirational leadership is underway in all parts of DSM. Nevertheless, the risk remains that the change will not be effective or not fast enough, leading to difficulties in attracting or retaining diverse people in key positions and successfully implementing innovative projects.	The Inpact-Motion program that has been started to support the culture change with facilitating tools will be followed through. Further efforts will be made to track the success of the change program and increase the diversity of the workforce. More information on this program can be found in the Human resources section starting on page 40.

Other important risks

A number of other risks as identified in the CRA are reported here, as they have either specific importance for some of the clusters, or need additional mitigation:

- Innovation. Although it is expected that, notwithstanding the economic downturn, the innovation objectives for the *Vision 2010* period will be largely met, the longer term success of DSM's innovation efforts has a considerable degree of uncertainty. Actions to maximize chances of success will be pursued further. These actions include the further roll-out and development of Innovation Excellence, the creation of an outside-in mindset as part of the culture change and the re-evaluation of the potential of some innovation areas.
- Price volatility of raw materials and energy. This risk is of particular importance to the Performance Materials, Polymer Intermediates and Base Chemicals and Materials clusters. Business groups analyze the influence of major cost components on their results and, if needed, take appropriate actions, such as commodity hedging. A commodity hedge always needs to be approved at the corporate level in order to ensure alignment of hedging actions and proper accounting.
- Product liability risks. These risks are limited by contracting policies, quality assurance and insurance policies. To further limit liabilities, extra steps are being taken to assess risks in the value chain and to limit risks in contractual relations.
- Business continuity risks. As stipulated in the Corporate Requirements, operational units have identified major business disruptions that could affect business continuity and have developed continuity plans for these risks. Additional attention will be given to the quantification and reporting of the most important cases.
- Project management. Major elements of the implementation of DSM's strategy are contingent on the successful implementation of major projects. A project management process and tooling are in place to support project management. Additional training in and guidance on the use of these processes and tools are being set up in order to ensure a more reliable project execution.
- Security (including information security) and internal control. DSM has a high level of internal control and security. On the basis of ongoing monitoring and auditing of the effectiveness of the controls and given the zero-tolerance policies in these fields, it has nevertheless been decided to further enhance the risk controls in these areas by creating a high-level Fraud Committee, by stringently following up extra measures in the payment systems and by reviewing and enhancing authorization management in the IT field.

Overview of risk categories

Next, 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. A description of the nature of these risk categories can be found on the DSM website (www.dsm.com). Additionally, information on the risks related to financial instruments is also provided in the Financial statements in the section on Financial derivatives.

Corporate governance and risk management

Generic/strategic risks
- Global financial and economic developments
- Risks related to emerging economies
- Risk of competition and commoditization in existing markets
- Political risks
- Risks related to disposals, acquisitions and joint ventures
- Innovation risks (new markets, products and technologies)
- People, organization and culture risks
- Intellectual Property protection risks
- Raw material / energy price and availability risks

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

Financial risks
- Liquidity and market risk
- Pension risks
- Other financial risks

Legal and compliance risks
- Risks of non-compliance with the DSM Values (to be replaced by the DSM Code of Business Conduct in 2010), Policies, Requirements and Management Directives
- Risk of legal non-compliance

See www.dsm.com, Governance section.

For the management of all these categories of risks, strategies, controls and/or mitigating measures have been put in place as part of DSM's risk management practices. These nevertheless involve uncertainties that may lead to the actual results differing from those projected. There may also be risks that the company has not yet fully assessed and that are currently qualified as 'minor' but that could have a material impact on the company's performance at a later stage. The company's risk management and internal control system has been designed to identify and respond to these developments on time, but 100% assurance can never be achieved.

Control activities

Each business group and each major operational service unit has an Audit Committee which, under the direction of the director of the group or unit, sets up annual risk management plans, monitors their implementation and reviews risk management issues on a regular basis. Major risk management events, such as business risk assessments, corporate audits and the occurrence of material control failures or weaknesses, were discussed with the responsible Managing Board member.

During the year under review, the implementation of the Corporate Requirements, which represent common controls for the most important commonly occurring risks, was continued in those business groups which had been allowed by the Managing Board to postpone the implementation of parts of the Requirements until after the general due-date of 1 January 2008. In most units the implementation process neared completion in 2009. A limited number of waivers were granted for temporary exceptions and much attention was given to the implementation of temporary controls where necessary.

There are two exceptions to the above: Firstly, the units that are to be divested have been allowed some exceptions to the Corporate Requirements; this is mainly due to the fact that some parts have not migrated to the standard DSM ERP solution and implementation of the requirements that are related to the goods and money flows would therefore be overly costly. The units are required to have adequate mitigating controls in place. Secondly, at DSM Nutritional Products the project to migrate to the DSM standard ERP solution has been postponed. In this business group, however, a major project has started to ensure compliance with the requirements relating to goods and money flows. Completion is projected in 2011. Mitigating controls have been installed and are being closely monitored in the meantime.

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 the risk management implementation were executed by Corporate Operational Audit according to a program agreed with the Audit Committee of the Supervisory Board. If applicable,

information coming in via the DSM Alert whistle-blowing channel was also used as a source for reviewing the effectiveness of the risk management system. Any critical findings were addressed immediately.

By signing an affidavit, the business group controllers confirmed that the quarterly financial statements had been produced according to the internal accounting rules and reporting procedures.

Based on developments within and external to the company, as well as findings from the various risk assessments, audits and monitoring and reporting efforts, Corporate Risk Management drew up a consolidated risk report, including recommendations for further improvement of the risk management system. This report was discussed with the Managing Board and in the June 2009 meeting of the Audit Committee of the Supervisory Board and resulted in a number of actions and enhancements to the risk management system. The enhancements are described in the next section.

At the end of the second quarter, the operational units were asked to provide an update of their material risks and incidents over the first half year of 2009 and the status of the mitigation of the risks reported over 2008 and to specify any material risks or uncertainties for the rest of the year. The consolidated overview of these risks, incidents and mitigation measures was the basis for the risk section and Managing Board statement as provided with the first-half figures in accordance with the requirements of the Dutch Financial Governance Law.

Together with the annual financial accounts, the directors of all entities reporting to the Managing Board reported on any material operational, reporting and compliance risks or incidents over the year 2009 in their Letter of Representation. They provided an update of the most important strategic risks and mitigation measures in the risk section of the Annual Strategic Review. The Corporate Risk Management department consolidated the reported risks and incidents and compared them with the outcome of corporate audits and of the Corporate Risk Assessment. The findings were reported to and discussed with the Audit Committee of the Supervisory Board in the meeting of February 2010.

Enhancements of the risk management system

During 2009, an analysis was made of the authorization design and implementation within those business groups that have implemented the standard ERP solution. It was found that the authorization rules (segregation of duties) are generally being respected and that agreed waivers and mitigating controls are in place for the exceptions. In a number of areas, however, the design of the standard business processes needs to be adapted in order to meet the needs of the business groups. These changes are foreseen for 2010.

Another important development in 2009 was the updating of the DSM Values. The new DSM Code of Business Conduct that embodies DSM's business principles is organized along the three sustainability dimensions of People, Planet and Profit, sustainability being DSM's single overriding value. The updated principles were approved by the Managing Board in 2009 and will be launched in 2010.

Statements of the Managing Board

On the basis of the above and in accordance with best practice II.1.5 of the Dutch corporate governance code of December 2008, and Article 5:25c of the Financial Markets Supervision Act the Managing Board confirms that internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies, and confirms that these controls functioned properly in the year under review and that there are no indications that they will not continue to do so. The financial statements fairly represent the company's financial condition and the results of the company's operations and provide the required disclosures.

It should be noted that the above does not imply that these systems and procedures provide absolute assurance as to the realization of operational and strategic business objectives, or that they can prevent all misstatements, inaccuracies, errors, fraud and non-compliances with legislation, rules and regulations.

In view of all of the above, the Managing Board confirms that, to the best of its knowledge, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the annual report includes a fair review of the position at the balance sheet date and the development and performance of the business during the financial year together with a description of the principal risks and uncertainties that the company faces.

Heerlen, 22 February 2010

The Managing Board

Feike Sijbesma, Chairman/CEO
Rolf-Dieter Schwalb, CFO
Nico Gerardu
Stephan Tanda

Report by the Supervisory Board

Supervisory Board report



The DSM Supervisory Board (from left to right): Claudio Sonder, Ewald Kist, Cor Herkströter, Louise Gunning-Schepers, Pierre Hochuli, Cees van Woudenberg, Tom de Swaan

Composition of Supervisory Board and Managing Board

The composition of the Supervisory Board and the Managing Board did not change during the year under review. For information about the individual Supervisory Board members see page 112 of this annual report. According to the rotation scheme, Mr. Pierre Hochuli's and Mr. Claudio Sonder's term came to an end. The Annual General Meeting of Shareholders reappointed Mr. Hochuli and Mr. Sonder as members of the Supervisory Board.

The Supervisory Board approved Mr. Jan Zuidam's retirement as of 1 January 2010. The Supervisory Board would like to express its deep appreciation for Mr. Zuidam´s achievements as a member and later on as Deputy Chairman of the Managing Board. The Supervisory Board and the Managing Board have agreed not to fill the resulting vacancy at this point in time and to distribute Mr. Zuidam's tasks among the other members of the Managing Board. The Supervisory Board approved the distribution of Managing Board responsibilities as of 1 January 2010.

Activities of the Supervisory Board

The Supervisory Board held seven meetings in the presence of the Managing Board during the year under review. Six of these meetings were preceded by a Supervisory Board meeting without the Managing Board being present. The Supervisory Board meetings in 2009 were all attended by at least six of the seven members. None of the Supervisory Board members was regularly absent.

The subjects discussed in the regular Supervisory Board meetings outside the presence of the Managing Board included the establishment and the outcome of the Managing Board short-term incentive targets and the Managing Board overall remuneration package. The Supervisory Board also discussed a proposal to be submitted to the Annual General Meeting of Shareholders in 2010 to adjust the remuneration policy for the

members of the Managing Board in line with the amended Dutch corporate governance code. These subjects were all prepared by the Remuneration Committee. In addition to remuneration subjects, these Supervisory-Board-only meetings were also used for pre-discussion of for instance corporate governance issues; special attention was given to the other consequences of the amended Dutch corporate governance code.

During a separate meeting the Supervisory Board discussed its profile, the composition of the Supervisory Board and its Committees and the functioning of the Supervisory Board, its Committees and its individual members. The meeting concluded that all members of the Supervisory Board were independent, as defined by the Dutch corporate governance code, that the functioning of the Supervisory Board and its Committees was appropriate and that the competences of its individual members in aggregate were in line with the Board's profile. At the same meeting, the Managing Board's composition and the functioning of the Managing Board and the performance of its individual members were also discussed. It was concluded that the Managing Board as a whole as well as the individual members of the Managing Board were functioning well and appropriately.

The Supervisory Board approved the proposal from the Managing Board to appoint Mrs. Femke Weijtens as Company Secretary with effect from 1 September 2009, as the successor to Mr. Paul Fuchs, who retired on the same date.

The Supervisory Board and the Managing Board discussed company matters on a regular basis during the year under review. The financial results recorded by the various units and developments at these units were discussed at every meeting. Special attention was paid to the consequences of the financial crisis and DSM's approach to mitigating the crisis impact and taking advantage of growth opportunities that the current market conditions provide. The alignment of the organization with the *Vision 2010* strategy was discussed. The Supervisory Board approved the proposal on DSM's governance structure and the steering by the Managing Board. At several meetings the Supervisory Board discussed and monitored various aspects concerning the progress of the implementation of the *Vision 2010 – Building on Strengths* strategy program adopted in 2005 and the acceleration of the shift to a specialty Life Sciences and Materials Sciences company. The Board discussed the Annual Strategic Review, which included an assessment by the Managing Board of the main risks to the company. The Board also discussed the approach and specific studies to be done in preparation of defining DSM's strategy for the years after 2010.

The Supervisory Board held discussions with the Managing Board on possible future acquisitions that would fit in with the strategy, one of the aims being to strengthen the Nutrition and Performance Materials clusters, and approved the exploration of possible acquisitions fitting into this strategy. The Supervisory Board was regularly updated on the progress of the project aimed at cooperation with NCPC (North China Pharmaceutical Group Corporation) in vitamin C and in anti-infectives; as published at the end of October 2009 the contracts for this cooperation have been suspended. The Supervisory Board approved the debottlenecking of the fertilizer (calcium ammonium nitrate) granulate factory at the Chemelot site in Sittard-Geleen (Netherlands) and the investment in the replacement of two boilers for the supply of steam at the same site.

The Board was regularly updated on the progress of the Pearl disposal project regarding the sale of DSM Agro, DSM Melamine, DSM Elastomers and Urea Licensing (Stamicarbon). The Supervisory Board approved the disposal of Stamicarbon B.V. to Maire Tecnimont S.p.A. The Board also approved the disposal of the shares in DSM Energie Holding B.V. to TAQA Abu Dhabi National Energy Company PJSC.

The Supervisory Board discussed and approved the (Revised) Capital Expenditure Plan and the Financing and Guarantee Plan for 2009. The Supervisory Board approved the amount for granting new guarantees and financing of associates up to a maximum of € 75 million. The Board approved the raising of the absolute threshold of guarantees issued on behalf of associates from € 30 million to € 35 million. The Supervisory Board approved the proposal not to execute the final € 250 million of the share buy-back program announced in September 2007. The Supervisory Board mandated the Managing Board to issue a new bond for an amount of € 500 million.

The Board approved a proposal to the Annual General Meeting of Shareholders in March 2009 to amend the Articles of Association in order to bring them in line with the recently changed Dutch legislation, which changes had arisen from European directives, and to remove the class C cumulative preference shares from the Articles of Association. The Board also approved the proposal to keep the dividend per ordinary share for 2008 at the level of 2007 and the proposal to be made to the Annual General Meeting of Shareholders regarding the final dividend to be paid out for 2008. The Supervisory Board approved the interim dividend to be paid for 2009.

The Board discussed the consequences of the amended Dutch corporate governance code and approved the related changes

to the Regulations of the Managing Board and the Supervisory Board, including the adapted profile of the Supervisory Board, as well as the related changes to the charters of the Audit Committee, the Nomination Committee and the Remuneration Committee. The Supervisory Board concluded that the Managing Board had defined a policy regarding bilateral contacts of the company with shareholders. The Supervisory Board also concluded that the information on the company-shareholder relationship was regularly distributed, enabling the Supervisory Board to supervise the company-shareholder relationship. The Supervisory Board decided to install a new Corporate Social Responsibility Committee. The Committee, at its start consisting of all members of the Supervisory Board, will prepare discussions by the Supervisory Board on the supervision of the Managing Board with respect to formulating, developing, implementing, monitoring and reporting on DSM's social and environmental policies; the Supervisory Board decided that the Triple P Report for the year 2009 and subsequent years will be submitted for approval to the Supervisory Board and pre-discussed by the Corporate Social Responsibility Committee. The Board approved the charter of the Corporate Social Responsibility Committee. The Board also approved the regulations governing ownership of and transactions in securities held by the Managing Board or Supervisory Board members, other than securities issued by DSM.

As in previous years, the Supervisory Board invited managers from a number of DSM business groups and corporate staff and service departments to its meetings, to present relevant developments in their units in person. The Supervisory Board visited DSM Dyneema's site in Heerlen (Netherlands) and was updated by local management on the business and production activities. Discussions were held with the external auditor, Ernst & Young Accountants, about the financial statements for 2008 and 2009. The Report by the Managing Board and the financial statements for 2009 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 23 February 2010. The financial statements were audited by Ernst & Young Accountants, who issued an unqualified opinion (see page 188 of this report). The Supervisory Board concluded that the external auditor was independent of DSM.

Audit Committee

The composition of the Audit Committee did not change in 2009. The Audit Committee, consisting of Messrs. Tom de Swaan (chairman), Claudio Sonder and Ewald Kist, held seven meetings in 2009. Five meetings were specifically devoted to discussing and approving the content of press releases on financial results and guidance for the full-year results. As from the second half of the year the external auditor attended these Audit Committee meetings. During the other two regular meetings various subjects were discussed in the presence of the external auditor; during part of these meetings the internal – operational – auditor was in attendance as well. The main topics of discussion during these meetings were the adoption of the group's financial statements, the 2009 financing plan, the external auditor's comments and their assessment of DSM's systems such as internal control and ICT. The Audit Committee discussed and endorsed the dividend proposals for the years 2008 and 2009. The Committee acknowledged the receipt of the independence letter of the external auditor. Since the content of the independence letter is also addressed in the audit report, it was agreed that the separate letter would no longer be issued in future years. The Audit Committee approved the policy that other services provided by Ernst & Young to DSM would also require pre-approval in future in order to enable the Audit Committee to determine that the independence of the auditor was not compromised by the scope and/or nature of these services.

The design and effectiveness of the internal risk management and control systems were reviewed. The Committee discussed the work of the Corporate Operational Audit department and approved its audit plan. The review of strategic and operational risks reported by the business groups was discussed as well as the follow-up actions following the Corporate Risk Assessment 2008. The system and status of the Letters of Representation issued by the managers directly reporting to the Managing Board were evaluated.

The Committee agreed to continue with Ernst & Young Accountants as external auditor for another four years. The Committee discussed in December the potential accounting issues for 2009 and observations by the external auditor regarding their assessment of internal control at DSM as well as some recommendations. The status of the whistle-blower system was discussed.

The adequacy of the charter of the Audit Committee was reassessed; no changes were recommended. The Audit Committee had its regular private discussion with the auditors without members of the Managing Board being present. The Chairman of the Audit Committee verbally reported the main issues discussed to the Supervisory Board in its subsequent meeting. The Audit Committee furthermore provided the Supervisory Board with written reports on its deliberations, findings and recommendations. These reports were distributed among all members of the Supervisory Board.

Nomination Committee

The composition of the Nomination Committee did not change in 2009. The Nomination Committee, consisting of Messrs. Cor Herkströter (chairman), Cees van Woudenberg and Pierre Hochuli, met once in 2009. The Committee discussed longer-term developments regarding the composition of the Supervisory Board and the succession planning for the Managing Board. The Committee recommended Mr. Rob Routs as a successor to Mr. Cees van Woudenberg, who will step down at the Annual General meeting in 2010 as he will by then have served the maximum term of 12 years on the Supervisory Board of DSM. The Committee also discussed the retirement of Mr. Jan Zuidam as member and Deputy Chairman of the Managing Board. The Chairman of the Nomination Committee verbally reported the issues discussed to the Supervisory Board in its subsequent regular Supervisory Board meetings outside the presence of the Managing Board.

Remuneration Committee

The composition of the Remuneration Committee did not change in 2009. The Remuneration Committee, consisting of Messrs. Cor Herkströter (chairman), Cees van Woudenberg and Pierre Hochuli, met six times in 2009. On behalf of the Remuneration Committee the Chairman and the Secretary also had a meeting with external remuneration experts on market developments and the remuneration redesign. The Committee prepared a proposal to amend the remuneration policy for the Managing Board members with effect from 2009. Although this was initially adopted by the Supervisory Board, the Managing Board and Supervisory Board ultimately decided to withdraw a proposal to the 2009 Annual General Meeting of Shareholders. On behalf of the Supervisory Board the Committee prepared an overview of the manner in which the remuneration policy was implemented in the year 2009. The Committee prepared proposals to the full Supervisory Board on the realization of the 2008 targets, the short-term incentive targets for 2009 and an increase in the base salary of the Managing Board with effect from 1 July 2009. These proposals were adopted by the Supervisory Board; the Managing Board and the Supervisory Board later on agreed that the base salaries of the members of the Managing Board would not be increased for 2009. Information on DSM's remuneration policy is to be found in the section on Remuneration policy regarding the Managing Board and the Supervisory Board starting in the following section of this annual report and is posted on the company's website.

The Remuneration Committee prepared a proposal to the full Supervisory Board to adjust the remuneration policy for the Managing Board members with effect from 2010, thus, among other things, ensuring compliance with the amended Dutch corporate governance code. The Supervisory Board adopted the proposal; the proposal is to be submitted for approval to the 2010 Annual General Meeting of Shareholders. Information regarding changes to the remuneration policy expected in 2010 is to be found later in this chapter. The Remuneration Committee provided the Supervisory Board with written reports on its deliberations, findings and recommendations. These reports were distributed among all members of the Supervisory Board.

Financial statements 2009

The Supervisory Board submits the financial statements to the Annual General Meeting of Shareholders, and proposes 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 on page 189 of this report. Taking into account the depressed business climate due to the economic crisis, DSM succeeded in recording reasonably good results for 2009. The Supervisory Board wishes to express its sincere appreciation for the results achieved in difficult circumstances and would like to thank the employees and the Managing Board for their efforts.

Remuneration policy regarding the Managing Board and the Supervisory Board

This chapter comprises two parts. The first part outlines the remuneration policy as approved in 2005 and adapted in 2008 by the Annual General Meeting of Shareholders and the remuneration in 2009. The second part contains details of the proposed changes in 2010.

Remuneration policy

The objective of DSM's remuneration policy is to attract, motivate and retain the qualified and expert individuals that the company needs in order to achieve its strategic and operational objectives.

- DSM strives for 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 accordance with the Triple P concept (People, Planet, Profit). The company's remuneration policy reflects a balance between the interests of its main stakeholders as well as a balance between its short-term and long-term strategy. In the light of the remuneration policy, the structure of the

remuneration package for the Managing Board is designed to balance short-term operational performance with the long-term objective of creating sustainable value within the company, while taking account of the interests of all 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 (predominantly Dutch) multinational companies that are similar to DSM in terms of size and complexity. For this purpose, external reference data are used.
- 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, corporate governance guidelines and other best practices applicable to DSM. DSM's policy is to offer the Managing Board a total direct compensation comparable to the median of the (predominantly Dutch) 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 has taken external reference data into account in determining adequate salary levels. For this purpose, a specific labor-market peer group has been defined which consists of a number of Dutch and some European companies (no US-based companies) that are more or less comparable to DSM in terms of size, international scope and business portfolio.

The labor-market peer group currently consists of the following thirteen companies:

Aegon	Océ[1]
AkzoNobel	Rhodia
Clariant	Solvay
Heineken	Syngenta
KPN	TNT
Lanxess	Wolters Kluwer
Nutreco	

[1] Will be eliminated from the peer group due to expected de-listing

Professional independent remuneration experts (Towers Watson, Amsterdam, the Netherlands) have adapted the raw data of the peer-group companies using a statistical empirical model, so as to make them comparable to a company the size of DSM, with the associated scope and responsibilities of the Managing Board. Peer-group data are updated on an annual basis. The peer group is verified by the Supervisory Board each year based on market circumstances (mergers, acquisitions) which determine the appropriateness of the composition of the labor-market peer group.

DSM operates in a competitive international industry. Therefore, DSM will also closely monitor industry and company-specific international developments with respect to remuneration.

Below, the various remuneration components are addressed separately.

Base salary

On joining the Board, the Managing Board members receive a base salary that is comparable to the median of the labor-market peer group. Every year base-salary levels are reviewed. Adjustment of the base salary is at the discretion of the Supervisory Board, which takes into account external and internal developments.

Short-term Incentives (STI)

Managing Board members can earn a short-term incentive (STI) amounting to 60% of their annual base salary for on-target performance. Under the STI plan, the part of the incentive that is related to financial targets accounts for 42% of base salary, which can increase to 84% in the case of an exceptionally good financial performance.

The part of the STI that is not related to financial targets accounts for 18% of the base salary and cannot increase beyond that. Targets are defined in the areas of the company's strategic development and Triple P, among other things.

Short-term Incentives linked to financial targets

The part of the STI that is linked to financial targets includes elements related to operational performance, being operating profit (EBIT) and net sales growth (organic), reflecting short-term financial results.

The weighting given to the individual financial elements in the STI is as follows: EBIT 30% and net sales growth 12% of annual base salary for on-target performance.

Targets	On-target pay-out (% of base salary)	Maximum pay-out (% of base salary)
Financial targets:		
- Operating profit (EBIT)	30	60
- Net sales growth	12	24
Non-financial targets:		
- Shared	12	12
- Individual	6	6
Total	**60**	**102**

Operational performance

The two financial-target-related STI elements that can be derived from the financial statements:

- Operating profit: EBIT before exceptional items
- Net sales growth, excluding currency fluctuation

Targets are determined each year by the Supervisory Board, based on historical performance, the company's operational and strategic outlook 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.

Long-term Incentives (LTI)

Stock incentives

The Managing Board members are eligible to receive performance-related stock options and shares. Both stock options and performance shares operate on the basis of the same performance schedule.

The vesting of stock options and performance shares is conditional on the achievement after three years of previously determined target levels of total shareholder return (TSR) compared to the peer group (see also table below).

The Chairman will receive 10,000 performance shares and 37,500 performance options; the members of the Board will receive 8,000 performance shares and 30,000 performance options.

Exercise price

The stock options and shares are granted on the first 'ex-dividend' day following the Annual General Meeting of Shareholders at which DSM's financial statements are adopted. The exercise price of the stock incentives is equal to the opening price of the share on the date of grant at Euronext Amsterdam.

TSR as a performance measure

DSM's TSR performance is compared to the average TSR performance of a set of pre-defined peer companies.

The TSR peer group for 2009 consists of the following companies:

AkzoNobel	Kerry
BASF	Lanxess
Clariant	Lonza Group
Danisco	Novozymes
DuPont	Rhodia
EMS Chemie Holding	Solvay

The peer group used for benchmarking TSR performance 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 (mergers, acquisitions) that determine the appropriateness of the composition of the performance peer group. Depending on DSM's performance compared to the peer group a certain number of options will become exercisable and a certain number of shares will be unconditionally awarded.

The stock options can be kept for a maximum of eight years (including the three-year vesting period) while the shares shall be retained by the members of the Managing Board for a period of at least five years (after the three-year vesting period) or at least until termination of employment if this period is shorter. The final 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 performance period.

Performance incentive zone

The number of options and shares that become unconditional after three years is determined on the basis of DSM's performance relative to the average TSR performance of the peer group. The difference between DSM's performance and the peer group's performance (in percentage points) determines the vesting of the options and shares.

The following table gives an overview of the vesting conditions.

DSM performance minus peer-group performance in % points	Percentage of stock incentives that vest
≥ 20	100
≥ 10 and < 20	75
≥ (10) and < 10 (target)	50
≥ (20) and < (10)	25
< (20)	0

For the 2010 TSR vesting scheme see the discussion of changes expected in 2010 at the end of this chapter.

Pensions

The members of the Managing Board are participants in the Dutch pension fund *Stichting Pensioenfonds DSM Nederland* (PDN). PDN operates similar pension plans for various DSM companies. The pension scheme of the Managing Board is equal to the pension scheme for the employees of DSM Executive Services B.V. and DSM employees in the Netherlands.

Employment contracts

Term of employment

The employment contracts of the members of the Managing Board appointed before 1 January 2005 have been entered into for an indefinite period of time. Newly appointed members of the Managing Board are also offered an employment contract for an indefinite period of time. The employment contract ends on the date of retirement or by notice of either party.

Term of appointment

Members of the Managing Board appointed before 1 January 2005 are appointed for an indefinite period of time. New members of the Managing Board (appointed after 1 January 2005) will be appointed for a period of four years. Newly appointed members are subject to reappointment by the shareholders after a period of four years.

Notice period

Termination of employment by a member of the Managing Board is subject to three months' notice. A notice period of six months will for legal reasons be applicable in the case of termination by the company.

Severance arrangement

There are no specific contractual exit arrangements for the members of the Managing Board appointed before 1 January 2005. Should a situation arise in which a severance payment is appropriate for these Board members, the Remuneration Committee will recommend the terms and conditions. The Supervisory Board will decide upon this, taking into account usual practices for these types of situations, as well as applicable laws and corporate governance requirements.

The employment contracts of newly appointed members of the Managing Board (appointed after 1 January 2005) include an exit-arrangement provision which is in accordance with best-practice provision II.2.8 of the Dutch corporate governance code (that is, a sum equivalent to the fixed base salary, or if this is manifestly unreasonable in the case of dismissal during the first term of office, two times the fixed base salary).

Remuneration in 2009

Remuneration of Managing Board in 2009

The remuneration package for the Managing Board is subject to annual review. The market competitiveness of the remuneration package of the Managing Board for 2009 was reviewed, based on the labor-market peer group. The data in the table below reflect the July 2009 remuneration levels. All values are denominated in euros.

On-target short-term incentive and stock-incentive grants are expressed as a percentage of base salary. The remuneration data of peer group companies are regressed to reflect the size and scope of DSM. Stock-incentive valuations are based on the Black-Scholes method.

Furthermore, data are presented as median actual levels.

Benchmark against labor-market peer group 2009

Chairman of Managing Board

	DSM (1 July 2009)	Peer-group median
Base salary	€ 766,000	€ 760,000
On-target STI	60%	90%
Total cash on target	€ 1,225,600	€ 1,444,000
Annualized stock incentive value	30%	75%
Total direct compensation	€ 1,455,400	€ 2,014,000

Other Board members

	DSM (1 July 2009)	Peer-group median
Base salary	€ 509,000	€ 505,000
On-target STI	60%	65%
Total cash on target	€ 814,400	€ 833,250
Annualized stock incentive value	37%	60%
Total direct compensation	€ 1,002,730	€ 1,136,250

Base salary in 2009

The Supervisory Board reviewed whether circumstances justified an adjustment of the base-salary levels.

As a result of the economic downturn and its focus on cash, DSM paid close attention across the company to limiting salary increases. Against this background, the Supervisory Board granted the Managing Board's request not to increase their base salaries in 2009. For DSM's almost 400 executives worldwide no general salary increases in 2009 were implemented.

Short-term Incentives (STI) for 2009

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 60% of their annual base salary. Outstanding performance can increase the STI level to 102% of the annual base salary.

The 2009 annual report presents the short-term incentives that have been earned on the basis of results achieved in 2009. These short-term incentives will be paid out in 2010.

The Supervisory Board has established the extent to which the targets for 2009 were achieved. The realization of the 2009 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 32%. 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 2009.

Stock options and performance shares in 2009

In 2009 performance-related stock options and performance shares were granted to the Managing Board on 27 March 2009. The stock options were granted at an exercise price of € 21.10. The following table shows the number of stock incentives granted to the individual Board members:

Number of stock incentives granted

	Stock options	Performance shares
Feike Sijbesma	37,500	10,000
Jan Zuidam[1]	30,000	8,000
Nico Gerardu	30,000	8,000
Rolf-Dieter Schwalb	30,000	8,000
Stephan Tanda	30,000	8,000

[1] Retired as of 1 January 2010

For an overview of all granted and vested stock options and performance shares see page 183 under note 10.

Pensions in 2009

The members of the Managing Board are participants in the Dutch pension fund *Stichting Pensioenfonds DSM Nederland* (PDN). The pension scheme (revised as of 1 January 2006) comprises the following elements:

- Retirement age 65 years (early retirement possible only by actuarial reduction of pension rights).
- The scheme includes a partner pension as well as a disability pension.
- Annual accrual of pension rights (old-age pension) over base salary exceeding € 12,466 (reviewed annually) at a rate of 2%.
- Employee's contribution of 2.5% of base salary up to € 55,538 and 6.5% of pensionable salary above this amount (to be reviewed annually).
- Conditional defined benefit: indexation of pensions and pension rights, depending on PDN's cover ratio.

Members of the Managing Board born before 1 January 1950 (Mr. Zuidam) continue to participate in the old pension plan. Other Board members participate in the revised PDN pension plan (due to changed legislation on pre-pensions). For Mr. Sijbesma a transitional arrangement is applicable.

Loans

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

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 2010 the members of the Managing Board together held 32,056 shares in Royal DSM N.V.

Report by the Supervisory Board

Total remuneration

The total remuneration paid (including pension costs relating to current and former Board members) of the Managing Board amounted to € 6.1 million in 2009 (2008: € 4.6 million). The increase of € 1.5 million was mainly due to STI pay-outs over 2008 paid in 2009 and the absence of a pension premium discount in 2009.

Overview of remuneration awarded to the Managing Board in 2009

The tables below show the remuneration awarded to the Managing Board in 2009.

Fixed annual salary

in €	**1 July 2009**	1 July 2008
Feike Sijbesma	766,000	766,000
Jan Zuidam[1]	509,000	509,000
Nico Gerardu	509,000	509,000
Rolf-Dieter Schwalb	509,000	509,000
Stephan Tanda	509,000	509,000

[1] Retired as of 1 January 2010

Short-term incentives

in €	**2009**[2]	2008[3]
Feike Sijbesma	252,780	735,930
Jan Zuidam[1]	160,335	481,440
Nico Gerardu	157,790	496,485
Rolf-Dieter Schwalb	162,880	483,948
Stephan Tanda	160,335	488,963

[1] Retired as of 1 January 2010
[2] Based on results achieved in 2009 and therefore payable in 2010
[3] Short-term incentives paid in 2009 based on results achieved in 2008

Pensions

	Pension costs (employer)		Accrued pension (retirement age is 65)	
in €	**2009**	2008[2]	**31 Dec. 2009**	31 Dec. 2008
Feike Sijbesma	113,292	56,532	348,911	331,487
Jan Zuidam[1]	65,847	35,232	282,759	272,809
Nico Gerardu	76,027	38,272	293,839	282,294
Rolf-Dieter Schwalb	76,027	38,272	31,619	21,681
Stephan Tanda	76,027	38,272	48,488	38,543

[1] Retired as of 1 January 2010
[2] Partial premium discount

Changes expected to the remuneration for the Managing Board in 2010

Revised remuneration policy

As announced in Q1 2009, DSM will present a redesign of the remuneration policy for the Managing Board to be approved by the Annual General Meeting of Shareholders on 31 March 2010.

Base salary 2010 and short-term incentive 2009

The Supervisory Board and the Managing Board have agreed not to increase the base salaries for the Managing Board in 2010, just as they did for 2009. This reflects DSM's cautious remuneration policy in view of the current economic circumstances. The short-term incentive realization over 2009 (pay-out in 2010) has been determined by the Supervisory Board at 32% of base salary (2008: 97% average realization).

Supervisory Board remuneration in 2009

Remuneration policy for the Supervisory Board in 2009

The remuneration package for the Supervisory Board comprises an annual fixed fee and an annual committee-membership fee. The fixed fee for the Chairman of the Supervisory Board is € 50,000. The members of the Supervisory Board each receive a fixed fee of € 35,000.

Audit Committee membership is awarded € 5,000 per member and € 7,500 for the Chairman. Nomination Committee and Remuneration Committee membership is awarded € 2,500 per member and € 3,750 for the Chairman. No fee is awarded to Corporate Social Responsibility Committee members since the related tasks are considered to be an extension of the Supervisory Board activities.

In accordance with good corporate governance, the remuneration of the Supervisory Board is not dependent on the results of the company. This implies that neither stock options nor shares are granted to Supervisory Board members by way of remuneration.

If any shareholdings in DSM are held by Supervisory Board members, they serve as a long-term investment in the company. At year-end 2009 the members of the Supervisory Board held no shares in Royal DSM N.V.

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

Overview of remuneration awarded to the Supervisory Board in 2009

In the following table an overview is given of the remuneration awarded to the Supervisory Board in 2009.

Supervisory Board remuneration in 2009[1]

annual fee in €	Total	Membership			
		Supervisory Board	Audit Committee	Nomination Committee	Remuneration Committee
Cor Herkströter, chairman	57,500	50,000	-	3,750	3,750
Ewald Kist, deputy chairman	40,000	35,000	5,000	-	-
Louise Gunning-Schepers	35,000	35,000	-	-	-
Pierre Hochuli	40,000	35,000	-	2,500	2,500
Claudio Sonder	40,000	35,000	5,000	-	-
Tom de Swaan	42,500	35,000	7,500	-	-
Cees van Woudenberg	40,000	35,000	-	2,500	2,500
Total	**295,000**	**260,000**	**17,500**	**8,750**	**8,750**

[1] The CSR Committee will convene as of 2010

Report by the Supervisory Board

Revised remuneration policy regarding the Managing Board

In Q1 2009, DSM announced that it was proposing a redesign of the remuneration policy for the Managing Board and would submit this proposal to the 2010 Annual General Meeting of Shareholders.

This redesigned remuneration policy for the Managing Board – which is outlined below – ensures further alignment with DSM's strategy and corporate values, taking into account the interests of all stakeholders. In addition, changes have been made to further comply with the amended Dutch corporate governance code.

DSM recognizes that a remuneration policy should generate an internally and externally acceptable level of compensation as part of the sustainable development of the company. With the redesign of the remuneration policy the Supervisory Board also intends to contribute to a change in the landscape of Top Executive remuneration. DSM will evaluate the remuneration policy on a regular basis and further improve it if and when necessary.

A number of anchor points have been taken into consideration in the redesign of the remuneration policy:

- Improved simplicity and transparency
- Focus on medium and long-term value creation for stakeholders
- Variable components of remuneration based on predetermined and measurable value-creating performance criteria, predominantly of a long-term nature
- Supportive to the sustainable development of the company and linked to DSM's corporate values and strategy
- 'Reasonable' and competitive remuneration levels, stimulating the required management performance
- Yearly salary review based on three-year remuneration benchmark

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 giving recognition to 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 corporate values as reflected in the DSM Values (to be replaced by the DSM Code of Business Conduct in 2010). 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. In the light of the remuneration policy, 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 all 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 thirteen companies:

Aegon	Océ[1]
AkzoNobel	Rhodia
Clariant	Solvay
Heineken	Syngenta
KPN	TNT
Lanxess	Wolters Kluwer
Nutreco	

[1] Will be eliminated from the peer group due to expected de-listing

Previously, remuneration levels were reviewed on an annual basis, based on external benchmarks derived from the labor-market peer group. However, it was observed that annual reviews based on external benchmarking might produce volatile results and could lead to upward pressure on remuneration levels.

Within the revised remuneration policy DSM will apply external benchmarks ('labor-market peer group') only every three years, combined with a yearly aging mechanism based on the 'general increase' (market movement) for DSM executives in the Netherlands. The initial benchmarking part of the revised policy will be conducted in January 2011.

Total Direct Compensation (TDC)

The total direct compensation of the Managing Board consists of:

(I) Base salary
(II) Variable income
- Performance-related Short-Term Incentive (STI)
- Performance-related Long-Term Incentive (LTI)

In addition to this total direct compensation, the members of the Managing Board participate in the Dutch pension scheme for DSM employees in the Netherlands and they are entitled to other benefits, such as a company car and representation allowance.

As a matter of policy, the balance between fixed income and variable income (Short-Term plus Long-Term Incentive) within total direct compensation (on target) will be 50% - 50%.

Value in % of Total Direct Compensation (on target)

A: Base Salary	50%
B: Variable income (STI + LTI)	50%
Total Direct Compensation (TDC)	100%

Base salary

On joining the Board, the Managing Board members receive a base salary that is comparable with the median of the labor-market peer group. Every year, base-salary levels are reviewed based on a three-year remuneration benchmark. Adjustment of the base salary is at the discretion of the Supervisory Board.

Variable income

The variable income part of remuneration consists of the Short-Term and Long-Term Incentives.

As a matter of policy, the distribution between Short-Term and Long-Term Incentives (on target) has been fixed at 50% - 50%. This will result 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.

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, while 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 (in case of excellent performance 100%). The part of the STI that is related to financial targets accounts for 25% of base salary and the other 25% relates to sustainability and other value-creating targets.

Target areas	Distribution	Shared	Individual
Financial	25%	25%	0%
Sustainability and individual	25%	20%	5%
Total	50%	45%	5%

Short-Term Incentive (STI) linked to financial targets

The part of the STI that is linked to financial targets (25%) includes elements related to operational performance, being operating profit (EBIT), gross free cash flow and net sales growth (organic), reflecting short-term financial results.

The weighting given to the individual financial elements in the bonus is as follows: EBIT 10%, gross free cash flow 7.5% and net sales growth 7.5% of annual base salary for on-target performance.

Target areas	On-target pay-out (% of base salary)
Financial targets	
- Operating profit (EBIT before exceptional items)	10
- Gross free cash flow[1]	7.5
- Net sales growth (organic)[2]	7.5
Total	25

[1] Cash flow from operating activities minus CAPEX
[2] Excluding currency fluctuations and disposals and acquisitions

The three financial-target-related Short-Term-Incentive elements can be derived from the financial statements.

Short-Term-Incentive (STI) linked to sustainability and other value-creating areas

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

For 2010/2011 three 'first tier' value-creating-performance measures have been defined in the area of sustainability. The distribution over these three targets is set by the Supervisory Board. On a regular basis, further refinement / adaptations of performance measures in the area of sustainability and their weight will take place, following proper evaluation.

The following shared targets linked to sustainability have been defined for the STI:

- **ECO+ products** – Profitable ECO+ product development, consisting of:
  - Percentage of phase transitions from 'Feasibility' (phase 2) to 'Development' (phase 3) that meet ECO+ criteria
  - Percentage of successful product launches that meet ECO+ criteria
- **Energy consumption reduction** – linked to Triple P target of 20% less energy consumption in 2020 compared to 2008
- **Employee Engagement Index** – related to the High Performance (HP) norm in industry (2008 score: 5% below HP norm)

The STI targets on sustainability can be defined as follows:

- **ECO+ products** – ECO+ solutions are products and services that, when considered over their whole life cycle, offer clear ecological benefits (in other words, a clearly lower eco-footprint) compared to the mainstream solutions they compete with. These ecological benefits can be created at any stage of the product life cycle – from raw material through manufacturing and use to potential re-use and end-of-life disposal. ECO+ solutions, in short, create more value with less environmental impact.
- **Energy consumption reduction** – reduction of the amount of energy that is used per unit of product (known as energy efficiency).
- **Engagement Index** – An Employee Engagement Survey is conducted annually, focusing on a combination of perceptions that have a consistent impact on behavior and create a sense of ownership. Research has consistently shown that the four key elements (satisfaction, commitment, pride and advocacy) define engagement and link engagement to business performance metrics.

In addition to shared sustainability targets (20%), a limited number of individual non-financial targets (5%) will apply.

Target area	On-target pay-out (% of base salary)
Non-financial targets	
- Sustainability	20
- Individual	5
Total	25

The targets are determined each year by the Supervisory Board, based on historical performance, the operational and strategic outlook of the company in the short term and expectations of the company's management and stakeholders, among other things. The targets contribute to the realization of the objective of long-term value creation.

The company does not disclose the actual targets, as they qualify as commercially sensitive information. However, full transparency will be given on target areas and definitions. Target setting and realization will be audited by external auditors.

Long-Term Incentives (LTI)
The Managing Board members will be eligible to receive performance-related shares. Stock options will no longer be part of their Long-Term Incentive program.

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

Two performance targets will apply for vesting of performance shares:

- Comparable TSR versus a peer group
- Greenhouse-gas emissions (GHGE) reduction over volume related revenue

The LTI performance targets can be defined as follows:

- **Total shareholder return (TSR)**
  Used to compare the performance of different companies' stocks and shares over time. It combines share price appreciation and dividends paid to show the total return to the shareholder. The relative TSR position reflects the market perception of overall performance relative to a reference group.
- **Greenhouse-gas emission (GHGE) reduction**
  The definition of greenhouse gases (GHG) according to the Kyoto protocol includes carbon dioxide (CO_2), methane, nitrous oxide (N_2O), sulphur hexafluoride, hydrofluorocarbons and perfluorocarbons.

  (I) DSM's direct emissions (on site or from DSM assets) are 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 scope 3 emissions (catch-all for remaining emissions that result from activities of the company (e.g. business travel)).

In the revised LTI plan, 50% of the performance-shares grant remains linked to relative TSR, while 50% will be based on GHGE reduction.

The policy level for the value of the Long-Term Incentive is set (on target) at 50% of base salary (in case of excellent performance 75%). 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. For 2010 the number of conditionally granted ordinary shares will be:
Chairman 28,500
Members 19,000

Granting date
The shares are granted on the first 'ex-dividend' day following the Annual General Meeting of Shareholders at which DSM's financial statements are adopted.

TSR as a performance measure
DSM's TSR performance is compared to the average TSR performance of a set of pre-defined peer companies.

The TSR peer group for 2010 consists of the following companies:

AkzoNobel	Kerry
BASF	Lanxess
Clariant	Lonza Group
Danisco	Novozymes
DuPont	Rhodia
EMS Chemie Holding	Solvay

The peer group used for benchmarking TSR performance 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 % points (over a 3 year period) will be used for the vesting of 50% of the performance shares.

Performance Incentive Zones

The number of shares that become unconditional after three years ('vesting') is determined on the basis of two equally weighted factors: DSM's performance relative to the average TSR performance of the peer group and DSM's GHGE reduction over volume-related revenue.

The following vesting schemes will apply:

TSR vesting scheme		GHGE vesting scheme	
DSM performance minus peer-group performance in % points	Percentage of shares that vest	DSM GHGE reduction over volume-related revenue in % points	Percentage 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 performance of DSM versus its peers will be determined and validated by a bank and audited by the external auditor at the end of the vesting period.

Pensions

The members of the Managing Board are participants in the Dutch pension fund *Stichting Pensioenfonds DSM Nederland* (PDN). PDN operates similar pension plans for various DSM companies. The pension scheme of the Managing Board is equal to the pension scheme for the employees of DSM Executive Services B.V. and DSM employees in the Netherlands.

Employment contracts

Term of employment

The employment contracts of the members of the Managing Board appointed before 1 January 2005 have been entered into for an indefinite period of time. Newly appointed members of the Managing Board are also offered an employment contract for an indefinite period of time. The employment contract ends on the date of retirement or by notice of either party.

Term of appointment

Members of the Managing Board appointed before 1 January 2005 are appointed for an indefinite period of time. New members of the Managing Board (appointed after 1 January 2005) will be appointed for a period of four years. Newly appointed members are subject to reappointment by the shareholders after a period of four years.

Notice period

Termination of employment by a member of the Managing Board is subject to three months' notice. A notice period of six months will for legal reasons be applicable in the case of termination by the company.

Severance arrangement

There are no specific contractual exit arrangements for the members of the Managing Board appointed before 1 January 2005. Should a situation arise in which a severance payment is appropriate for these Board members, the Remuneration Committee will recommend the terms and conditions. The Supervisory Board will decide upon this, taking into account usual practices for these types of situations, as well as applicable laws and corporate governance requirements.

The employment contracts of newly appointed members of the Managing Board (appointed after 1 January 2005) include an exit-arrangement provision which is in accordance with the Dutch corporate governance code (that is, a sum equivalent to the fixed annual salary, or if this is manifestly unreasonable in the case of dismissal during the first term of office, two times the fixed annual salary).

Claw back

There is no specific claw back clause in employment contracts for the Managing Board. New legislation is in preparation by the Dutch Government. As soon as the new legislation has entered into force, DSM will apply this.

Change in control

There is no specific change-in-control arrangement in employment contracts for the Managing Board. New legislation is in preparation by the Dutch Government. As soon as the new legislation has entered into force, DSM will apply this.

Share ownership

The Supervisory Board will encourage the Managing Board to hold shares in the company to emphasize their confidence in the strategy and the company.

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

Scenario analysis
The amended Dutch corporate governance code requires that the Supervisory Board 'shall analyze possible outcomes of the variable income components and the effect on Managing Board remuneration'. Within DSM this analysis will be conducted at least every three years.

A scenario analysis has been conducted on the effects of the revised remuneration policy for the Managing Board.

Heerlen, 23 February 2010

The Supervisory Board

Cor Herkströter, Chairman
Ewald Kist, Deputy Chairman
Louise Gunning-Schepers
Pierre Hochuli
Claudio Sonder
Tom de Swaan
Cees van Woudenberg

Corporate organization

Supervisory Board

Cor Herkströter (1937, m), chairman
First appointed: 2000. End of current term: 2012.
Position: retired; last position held: President of Koninklijke Nederlandsche Petroleum Maatschappij N.V. and chairman of the Committee of Managing Directors of Royal Dutch/Shell Group.
Nationality: Dutch.
Supervisory directorships and other positions held: chairman of the Advisory Committee of Royal NIVRA, member of the Capital Market Committee (Netherlands Authority for the Financial Markets), member of the Advisory Council of Robert Bosch, Emeritus Professor of International Management at the University of Amsterdam.

Ewald Kist (1944, m), deputy chairman
First appointed: 2004. End of current term: 2012.
Position: retired; last position held: chairman of the Managing Board of the ING Group.
Nationality: Dutch.
Supervisory directorships and other positions held: member of the Supervisory Boards of De Nederlandsche Bank N.V., Royal Philips Electronics N.V., Stage Entertainment and Moody's Investor Services, chairman of the Van Gogh Museum, member of the Board of Governors of the Peace Palace in The Hague (Netherlands) and of the Netherlands America Foundation.

Louise Gunning-Schepers (1951, f)
First appointed: 2008. End of current term: 2012.
Position: Chairman of the Executive Board of the Academic Medical Centre of the University of Amsterdam and Dean of the Medical Faculty of the University of Amsterdam.
Nationality: Dutch.
Supervisory directorships and other positions held: chairperson of the Supervisory Board of Rijksakademie van beeldende kunsten (Amsterdam), member of the Board of the Amsterdam Concertgebouw Committee Foundation, the Board of Arbo Unie (Netherlands) and the Board of Sanquin.

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: none.

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, Cyrela Brazil Realty S.A., OGX S.A. and Hospital Albert Einstein.

Tom de Swaan (1946, m)
First appointed: 2006. End of current term: 2010.
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.

Cees van Woudenberg (1948, m)
First appointed: 1998. End of current term: 2010.
Position: retired; last position held: member of the Executive Committee of Air France-KLM.
Nationality: Dutch.
Supervisory directorships and other positions held: member of the Supervisory Boards of Transavia C.V., Royal Boskalis Westminster N.V., Mercurius Group Wormerveer B.V., Netherlands Chamber of Commerce and Royal Grolsch N.V.

Managing Board

Feike Sijbesma (1959, m), chairman
Position: chairman of DSM's Managing Board since May 2007; member of DSM's Managing Board since July 2000.
Nationality: Dutch.
Supervisory directorships and other positions held: board member of Cefic (European Chemical Industry Council), member of the Supervisory Board of Utrecht University (Netherlands) and the Supervisory Board of the Dutch Genomics Initiative, member of the Dutch Innovation Platform 2.0, member of the Advisory Board of RSM Erasmus University and of ECP.NL.
e-mail: feike.sijbesma@dsm.com

Rolf-Dieter Schwalb (1952, m), CFO
Position: member of DSM's Managing Board and CFO since October 2006.
Nationality: German.
Supervisory directorships and other positions held: None.
e-mail: rolf-dieter.schwalb@dsm.com

Nico Gerardu (1951, m)
Position: member of DSM's Managing Board since April 2006.
Nationality: Dutch.
Supervisory directorships and other positions held: member of the Supervisory Board of Voestalpine Polynorm N.V. and the Bonnefanten Museum in Maastricht (Netherlands) and chairman of the Supervisory Board of Holland Colours N.V.
e-mail: nicolaas.gerardu@dsm.com

Stephan Tanda (1965, m)
Position: member of DSM's Managing Board since May 2007.
Nationality: Austrian.
Supervisory directorships and other positions held: board member of EuropaBio (European Biotechnology Industries Association), SGCI (Swiss Chemical and Pharmaceutical Industry Association) and ACC (American Chemistry Council).
e-mail: stephan.tanda@dsm.com

DSM Leadership Council

(as of 1 January 2010)

Directors of business groups		
DSM Nutritional Products	Leendert Staal	(1953)
- Human Nutrition and Health	Mauricio Adade[1]	(1963)
- Animal Nutrition and Health	Antonio-Ruy Freire	(1949)
DSM Food Specialties	Alexander Wessels	(1964)
DSM Pharmaceutical Products	Bob Hartmayer	(1952)
DSM Anti-Infectives	Stefan Doboczky	(1967)
DSM Engineering Plastics	Roelof Westerbeek	(1963)
DSM Dyneema	Christophe Dardel[2]	(1960)
DSM Resins	Ben van Kooten	(1951)
DSM Fibre Intermediates	Edward Sheu	(1953)
DSM Agro	Renso Zwiers	(1955)
DSM Melamine	Anton Robek	(1959)
DSM Elastomers	Jan Paul de Vries	(1958)

Directors of Corporate Staff departments		
Corporate Secretariat	Femke Weijtens	(1967)
Control & Accounting	Loek Radix	(1956)
Human Resources	Paul Jarrell	(1962)
Strategy & Acquisitions	Hein Schreuder	(1951)
Communications	Angelique Paulussen	(1959)
Legal Affairs	Pieter de Haan	(1954)
Operational Audit	Hans van Suijdam	(1950)
Strategic Projects	Ben van Dijk	(1951)
Strategic Projects	Gerard de Reuver[2]	(1956)

Directors of Functional Excellence departments		
DSM Innovation Center	Rob van Leen	(1957)
Marketing	Vacancy[1]	-
Operations and Responsible Care	Luca Rosetto	(1963)

Directors of Shared Services departments		
ICT	Aloys Kregting	(1967)
Sourcing	Tim Tolhurst	(1961)
DSM Expert Center	Jos Goessens	(1951)

Directors of regions / countries		
DSM Netherlands	Jos Schneiders	(1951)
DSM China	Wei-Ming Jiang	(1956)

1) Mr. Mauricio Adade has been appointed Chief Marketing Officer (CMO) with effect from 1 May 2010. Mr. Rick Greubel

Corporate organization

will succeed Mauricio Adade as President HNH of DSM Nutritional Products with effect from 1 May 2010

2) Mr. Gerard de Reuver has been appointed business group director DSM Dyneema with effect from 1 April 2010. Mr. Christophe Dardel, at present business group director DSM Dyneema, has been appointed President of DSM Biomedical with effect from 15 May 2010.

Information about the DSM share

Shares and listings

Ordinary shares in Royal DSM N.V. are listed on the Euronext stock exchange in Amsterdam, the Netherlands (Stock code 00982, ISIN code NL0000009827).

Options on ordinary DSM shares are traded on the European Option Exchange in Amsterdam, the Netherlands (Euronext.liffe).

In the United States a sponsored unlisted American Depositary Receipts (ADR) program is offered by Citibank NA (Cusip 780249108), with four ADRs representing the value of one ordinary DSM share.

Besides the ordinary shares, 44.04 million cumulative preference shares A are in issue, which are not listed on the stock exchange; these have been placed with institutional investors. The cumprefs A have the same voting rights as ordinary shares, as their nominal value of € 1.50 per share is equal to the nominal value of the ordinary shares.

Transfer of the cumprefs A requires the approval of the Managing Board, unless the shareholder is obliged to transfer his shares to a previous shareholder by virtue of the law.

In 2009 the Annual General Meeting of Shareholders approved an amendment to remove the cumulative preference shares C from the Articles of Association.

The average number of ordinary shares outstanding in 2009 was 162,364,142. All shares in issue are fully paid.

On 31 December 2009 the company had 163,037,329 shares outstanding.

Development of the number of ordinary DSM shares

	2009			2008
	Issued	Repurchased	Outstanding	Outstanding
Balance at 1 January	181,425,000	19,197,938	162,227,062	166,896,860
Changes:				
Reissue of shares in connection with exercise of option rights	-	(810,267)	810,267	1,945,202
Repurchase of own shares	-	-	-	(6,615,000)
Balance at 31 December	181,425,000	18,387,671	163,037,329	162,227,062
DSM share prices on Euronext Amsterdam (€ per ordinary share):				
Highest closing price			34.84	41.27
Lowest closing price			16.93	15.76
At 31 December			34.46	18.33

Dividend Re-Investment Plan for shareholders of Royal DSM N.V.

ABN AMRO Bank N.V. offers DSM's shareholders the option of participating in a Dividend Re-Investment Plan (DRIP). By participating in this plan, DSM shareholders are able to directly reinvest their net dividends in additional DSM shares.

DSM Managing Board members' holdings in DSM shares

The cumulative holdings of the four DSM Managing Board members increased in 2009 from 20,604 to 32,056 shares on 1 January 2010. These shareholdings serve as a long-term investment in the company. These share purchases were private transactions with private money. The holdings do not include vested performance shares.

Board member	**Holdings on 1 January 2010**	Holdings on 1 January 2009
Feike Sijbesma, chairman / CEO	14,000	5,500
Rolf-Dieter Schwalb, CFO	7,000	5,500
Nico Gerardu	5,056	5,056
Stephan Tanda	6,000	4,548

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

in %	2009	2008
Netherlands	24	23
United Kingdom	22	21
North America	21	28
Germany	10	8
Switzerland	4	4
Belgium and Luxemburg	3	4
France	3	4
Other countries	13	8

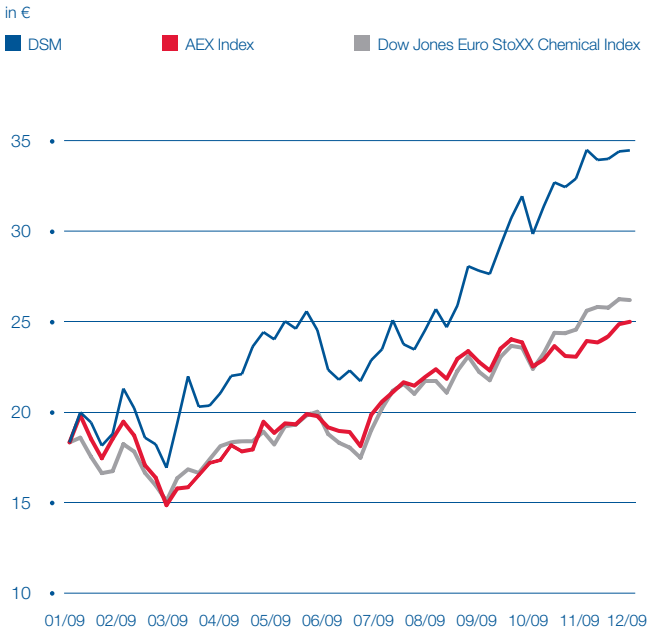
DSM share

The year 2009 proved to be a very successful year for the DSM share. The share had its best performance since 1989, the year when DSM shares were first listed on Euronext Amsterdam.

With the exception of February, the DSM share price rose every month during the year, as sentiment on the financial markets improved and news regarding the economy gradually became more positive.

The DSM share managed to outperform both the AEX index and the Dow Jones Euro StoXX Chem Index in 2009. It ended the year at € 34.46. This was 88% higher than at the end of 2008, more than reversing the losses of that year.

DSM share price development versus AEX and Dow Jones Euro StoXX Chemical Index, 2009



AEX and Dow Jones Euro StoXX Chemical Index are rebased to enable comparison with the DSM share price

Trading volumes DSM shares 2009



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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 2009.

Consolidation

The consolidated financial statements include Royal DSM N.V. and its subsidiaries as well as the proportion of DSM's ownership of joint ventures (together 'DSM' or 'group'). A subsidiary is an entity over which DSM has control. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The financial data of subsidiaries are fully consolidated. Minority interests in the group's equity and profit and loss are stated separately. A joint venture is an entity in which DSM holds an interest and which is jointly controlled by DSM and one or more other venturers under a contractual arrangement. Joint ventures are included in the consolidated financial statements according to the method of proportionate consolidation.

Subsidiaries and joint ventures are consolidated from the acquisition date until the date on which DSM ceases to have control or joint control, respectively. On consolidation, all intra-group balances and transactions and unrealized profits or losses from intra-group transactions are eliminated. Unrealized losses are not eliminated if these losses indicate an impairment of the asset transferred. In such cases a value adjustment for impairment of the asset is recognized.

Segmentation

Segment information is presented in respect of the group's operating segments about which separate financial information is available that is regularly evaluated by the chief operating decision maker. 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. DSM has determined that the Nutrition, Pharma, Performance Materials, Polymer Intermediates and Base Chemicals and Materials clusters represent reportable segments in addition to Other activities. 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 equity (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 5-15 years.

Acquired licenses, patents and application software are carried at historic cost less straight-line amortization and less any impairment losses. The expected useful lives vary from 4-10 years. Costs of software maintenance are expensed when incurred. Capital expenditure that is directly related to the development of application software is recognized as an intangible asset and amortized over its estimated useful life (5-8 years).

Research costs are expensed when incurred. Where the recognition criteria are met, development expenditure is capitalized and amortized over its useful life from the moment the product is launched commercially. The carrying amount of assets arising from development expenditures is reviewed for impairment at each balance sheet date or earlier upon indication of impairment. Development assets in use are tested for impairment when there are indications that the carrying amount may exceed the recoverable amount. Any impairment losses are recorded in the income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation calculated on a straight-line basis and less any impairment losses. Interest during construction is capitalized. Expenditures relating to major scheduled turnarounds are capitalized and depreciated over the period up to the next turnaround.

Property, plant and equipment are systematically depreciated over their estimated useful lives. Reviews are made annually of the estimated remaining lives of assets, taking account of commercial and technological obsolescence as well as normal wear and tear. The initially assumed expected useful lives are in principle as follows: for buildings 10-50 years, for plant and machinery 5-15 years, for other equipment 4-10 years. Land is not depreciated.

In oil and gas exploration, development and production costs are accounted for using the successful efforts method. Costs of successful and incomplete oil and gas drilling operations are capitalized as Property, plant and equipment. The estimated discounted costs for future drilling platform decommissioning and site restoration are capitalized and depreciated. Items of property, plant and equipment related to oil and gas exploration are depreciated on the basis of the unit of production method.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use or the sale of the asset. Any gain or loss arising on derecognition of the asset is recorded in the income statement.

Leases

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. All other leases are operating leases.

Lease payments for finance leases are apportioned to finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in interest costs. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Operating lease payments are recognized as an expense over the lease term.

Associates

An associate is an entity over which DSM has significant influence but no control, usually evidenced by a shareholding that entitles DSM to between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method, which involves recognition in the income statement of DSM's share of the associate's profit or loss for the year. DSM's interest in an associate is carried in the balance sheet at its share in the net assets of the associate together with goodwill paid on acquisition, less any impairment loss.

When DSM's share in the loss of an associate exceeds the carrying amount of the associate, including any other receivables, the carrying amount is reduced to zero. No further losses are recognized, unless DSM has responsibility for obligations relating to the associate.

Other financial assets

Other financial assets comprise other participations, other receivables and other deferred items.

Other participations comprise equity interests in entities in which DSM has no significant influence; they are accounted for as available-for-sale securities. These other participations are measured against fair value, with changes in fair value being recognized in equity (Fair value reserve). On disposal, the cumulative fair value adjustments of the related other participations are released from equity and included in the income statement. If a reliable fair value cannot be established, the other participations are recognized at cost. The proceeds from these other participations and the gain or loss upon their disposal are recognized in the income statement.

Loans and long-term receivables are measured at 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 rate 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. The cost of intermediates and finished goods includes directly attributable costs and related production overhead expenses. Net realizable value is determined as the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Products whose manufacturing cost cannot be calculated because of joint cost components are stated at net realizable price after deduction of a margin.

Current receivables

Current receivables are stated at amortized cost, which generally corresponds to face value, less an adjustment for bad debts.

Current investments

Deposits held at call with banks with a remaining maturity between 3 and 12 months are classified as current investments. They are measured at amortized cost. Proceeds from these deposits are recognized in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and deposits held at call with banks with a remaining maturity of less than three months. Bank overdrafts are included in current liabilities. Cash and cash equivalents are measured at nominal value.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups (assets and liabilities relating to an activity that is to be sold) are classified as 'held for sale' if their carrying amount is to be recovered principally through a sales transaction rather than through continuing use. The reclassification takes place when the assets are available for immediate sale and the sale is highly probable. These conditions are usually met as from the date on which a first draft of an agreement to sell is ready for discussion. Non-current assets held for sale and disposal groups are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets held for sale are not depreciated or amortized.

Discontinued operations

Discontinued operations comprise those activities that have been disposed of during the period or which have been classified as held for sale at the end of the period, and represent a separate major line of business or geographical area that can be clearly distinguished for operational and financial reporting purposes. DSM has identified its cash generating units as the components of the company that will be reported as discontinued operations in the event of their disposal.

Royal DSM N.V. Shareholders' equity

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

from Royal DSM N.V. Shareholders' equity until the shares are canceled or reissued. Dividend to be distributed to holders of cumulative preference shares is recognized as a liability when the Supervisory Board approves the proposal for profit distribution. Dividend to be distributed to holders of ordinary shares is recognized as a liability when the Annual General Meeting of Shareholders approves the profit appropriation.

Provisions

Provisions are recognized when all of the following conditions are met: 1) there is a present legal or constructive obligation as a result of past events; 2) it is probable that a transfer of economic benefits will settle the obligation; and 3) a reliable estimate can be made of the amount of the obligation.

The probable amount required to settle long-term obligations is discounted if the effect of discounting is material. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest costs. However, the interest costs relating to pension obligations are included in pension costs.

Any provision for costs that will arise from future drilling platform decommissioning and site restoration is made when the investment project concerned is taken into operation. These are included in Property, plant and equipment, along with the historic cost of the related asset, and depreciated over the useful life of the asset.

Borrowings

Borrowings are initially recognized at cost, being the fair value of the proceeds received, net of transaction costs. Subsequently, borrowings are stated at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium. Interest expenses are accrued and recorded in the income statement for each period.

Where the interest rate risk relating to a long-term borrowing is hedged, and the hedge is regarded as effective, the carrying amount of the long-term loan is adjusted for changes in fair value of the interest component of the loan.

Other current liabilities

Other current liabilities are stated at amortized cost, which generally corresponds to the nominal value.

Revenue recognition

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership are transferred to the buyer. Net sales represent the invoice value less estimated rebates and cash discounts, and excluding indirect taxes.

Royalty income is recognized in Other operating income on an accrual basis in accordance with the substance of the relevant agreements. Interest income is recognized on a time-proportion basis using the effective interest method. Dividend income is recognized when the right to receive payment is established.

Government grants

Government grants are recognized at their fair value if there is reasonable assurance that the grant will be received and all related conditions will be complied with. Cost grants are recognized as income over the periods necessary to match the grant on a systematic basis to the cost that it is intended to compensate. If the grant is an investment grant, its fair value is initially recognized as deferred income in Other non-current liabilities and then released to the income statement over the expected useful life of the relevant asset by equal annual amounts.

Share-based compensation

The costs of option plans are measured by reference to the fair value of the options on the date on which the options are granted. The fair value is determined using the Black-Scholes model, taking into account market conditions linked to the price of the DSM share. The costs of these options are recognized in the income statement (Employee benefits costs) during the vesting period, together with a corresponding increase in equity (Reserve for share-based compensation) in the case of share-settled options or Other non-current liabilities in the case of cash-settled options (Share Appreciation Rights). No expense is recognized for options that do not ultimately vest, except for options whose vesting is conditional upon a market condition, which are treated as vesting, irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are met.

Performance shares are granted free of charge and vest after three years on the achievement of previously determined targets. The cost of performance shares is measured by reference to the fair value of the DSM shares on the date on which the performance shares were granted and is recognized in the income statement (Employee benefits costs) during the vesting period, together with a corresponding increase in equity (Reserve for share-based compensation).

Emission rights

DSM is subject to legislation encouraging reductions in greenhouse-gas emissions and has been awarded emission

rights (principally CO_2 emission rights) in a number of jurisdictions. Emission rights are reserved for meeting delivery obligations and are recognized at cost (usually zero). Revenue is recognized when surplus emission rights are sold to third parties. When actual emissions exceed the emission rights available to DSM, a provision is recognized for the expected additional costs.

Exceptional items

Exceptional items relate to material non-recurring items of income and expense arising from circumstances such as:

- write-downs of inventories to net realizable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
- restructurings of the activities of an entity;
- releases of provisions;
- disposals of property, plant and equipment;
- disposals of associates or other financial assets;
- book gain or loss on discontinued operations;
- onerous contracts;
- litigation settlements.

To provide a better understanding of the underlying results of the period, exceptional items are reported separately if the aggregate amount of the specific event or project exceeds € 10 million.

Income tax expense

Income tax expense is recognized in the income statement except to the extent that it relates to an item recognized directly within Shareholders' equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect to previous years. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the carrying amount of assets and liabilities and their tax base. Deferred tax assets and liabilities are measured at the tax rates and under the tax laws that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred tax assets are realized or the deferred tax liabilities are settled. Deferred tax assets, including assets arising from losses carried forward, are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilized. Deferred tax assets and liabilities are stated at face value.

Deferred taxes are not provided for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Financial derivatives

The group uses financial derivatives such as foreign currency forward contracts and interest rate swaps to hedge risks associated with foreign currency and interest rate fluctuations. Financial derivatives are initially recognized in the balance sheet at fair value including transaction costs and subsequently measured at their fair value on each balance sheet date. Changes in fair value are recognized in the income statement unless cash flow hedge accounting or net investment hedge accounting is applied.

Changes in the fair value of financial derivatives designated and qualifying as cash flow hedges are recognized in equity (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 equity (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 equity 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 equity 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 2009. The adoption of these standards and interpretations did not have any effect on the group's financial performance or position.

The amendment to IFRS 2, 'Share-based Payment: Vesting Conditions and Cancellations', clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions that are to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. DSM adopted this amendment as of 1 January 2009. This has not had a material effect on the financial performance or position of the company.

The amendment to IFRS 7, 'Financial Instruments: Disclosures' requires additional disclosures about fair value measurement and liquidity risk. Where required, the new disclosures have been added.

IFRS 8, 'Operating Segments', issued in November 2006, introduces the requirement to report financial and descriptive information about operating segments on the same basis as is used internally for evaluating operating segment performance. DSM adopted the standard in advance of its effective date and applied it as of 1 January 2008.

The amendment to IAS 1, 'Presentation of Financial Statements', which introduces the requirement to report total comprehensive income in either a single statement of total comprehensive income or a separate statement of comprehensive income, became effective as of 1 January 2009. It was already standard practice at DSM to provide a separate consolidated statement of other comprehensive income (previously called 'consolidated statement of recognized income and expense') and the company has aligned the presentation and title with the requirements of the amended standard.

The amendment to IAS 23, 'Borrowing Costs', which removes the option of immediately recognizing as an expense borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, became effective as of 1 January 2009. The removal of the option had no effect on the consolidated financial statements because the option was not applied by DSM.

The amendments to IAS 32, 'Financial Instruments: Presentation' and IAS 1, 'Presentation of Financial Statements', with respect to puttable financial instruments and obligations arising on liquidation became effective as of 1 January 2009 and have been implemented without any impact on the financial position or performance of the company.

The amendment to IAS 39, 'Financial Instruments: Recognition and Measurement', which clarifies the designation of certain risks as hedged items, has been adopted but without any impact because DSM has not entered into hedges that are addressed by this amendment.

The October 2008 amendment to IAS 39 and IFRS 7 that permitted the reclassification of certain non-derivative financial instruments was not applied by DSM.

The IASB's annual improvement projects resulted in smaller amendments to several existing standards. These amendments were implemented on their respective effective dates and did not have a significant impact on the financial statements.

Effect of forthcoming accounting standards

The adoption of other standards with an effective date after the date of these financial statements is not expected to have a material impact on the financial statements. Certain additional disclosures and accounting changes will be required and will be introduced as of the effective date of the standards and interpretations.

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

The amendment to IFRS 2, 'Share-based Payment: Group-Cash Settled Share-based Payment Transactions', clarifying the scope and the accounting for certain share-based payment transactions. The amendment will not have an effect for DSM.

The revised IFRS 3, 'Business Combinations', and the amended IAS 27, 'Consolidated and Separate Financial Statements', will become effective for DSM as of 2010. They introduce a number of changes that will be relevant to the group's operations:

- The requirement that contingent consideration must be measured at fair value with subsequent changes in this value being recognized in the income statement.
- The requirement to expense transaction costs for business combinations when incurred.
- Additional guidance for step-acquisitions and for the measurement of non-controlling interests.

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

IFRIC 13, 'Customer Loyalty Programs', which requires customer loyalty credits to be accounted for, is not relevant because such credits are not granted by DSM.

IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation', clarifies which exchange differences can be designated as a hedged item in the hedge of a net investment. This interpretation will not have an effect for DSM.

IFRIC 17, 'Distributions of Non-cash Assets to Owners', provides guidance on the appropriate accounting for the distribution of assets other than cash as dividend to shareholders. This interpretation has been applied since 1 July 2009 but it does not have any effect on the financial performance or position of DSM because dividends are paid in cash.

IFRIC 18, 'Transfers of Assets from Customers', deals with agreements in which an entity receives an asset from a customer in order to either connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. This interpretation has been applied since 1 July 2009. It has not had a material effect on the financial performance or position of DSM.

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Consolidated income statement for the year ended 31 December 2009

x € million	Notes	Continuing operations			Discontinued operations	Total
		Before exceptional items	Exceptional items (note 9)	Total		
Net sales		7,732	-	7,732	134	7,866
Exceptional items related to discontinued operations		-	-	-	302	302
Other operating income	4	115	38	153	1	154
		7,847	**38**	**7,885**	**437**	**8,322**
Own work capitalized		64	-	64	-	64
Change in inventories of intermediates and finished goods		(300)	-	(300)	1	(299)
Raw materials and consumables used		(3,660)	-	(3,660)	-	(3,660)
Work subcontracted and other external costs		(1,550)	-	(1,550)	(50)	(1,600)
Employee benefits costs	5	(1,527)	-	(1,527)	(5)	(1,532)
Depreciation, amortization and impairments	6	(466)	(182)	(648)	(8)	(656)
Other operating costs	7	(38)	(66)	(104)	-	(104)
Operating profit		**370**	**(210)**	**160**	**375**	**535**
Interest costs	8	(102)	-	(102)	(2)	(104)
Other financial income and expense	8	(9)	-	(9)	-	(9)
Share of the profit of associates		(4)	-	(4)	-	(4)
Profit before income tax expense		**255**	**(210)**	**45**	**373**	**418**
Income tax expense	10	(59)	13	(46)	(36)	(82)
Profit for the year		**196**	**(197)**	**(1)**	**337**	**336**
Reclassification net gains from disposed activities		-	290	290	(290)	-
Total		196	93	289	47	336
Of which:						
- Profit attributable to minority interests						(1)
- Net profit attributable to equity holders of Royal DSM N.V.						337
Net profit attributable to equity holders of Royal DSM N.V.						337
Dividend on cumulative preference shares						(10)
Net profit available to holders of ordinary shares						**327**
Average number of ordinary shares outstanding (x 1000)						162,364
Effect of dilution due to share options (x 1000)						454
Adjusted average number of ordinary shares (x 1000)						**162,818**
Per ordinary share in euro:						
- Basic earnings		1.15	0.57	1.72	0.29	2.01
- Basic earnings before reclassification net gains from disposed activities		1.15	(1.21)	(0.06)	2.07	2.01
- Diluted earnings		1.15	0.57	1.72	0.29	2.01
- Dividend paid in the period						1.20
- Dividend for the year						1.20

Consolidated income statement for the year ended 31 December 2008

x € million	Notes	Continuing operations			Discontinued operations	Total
		Before exceptional items	Exceptional items (note 9)	Total		
Net sales		9,079	-	9,079	218	9,297
Other operating income	4	139	-	139	3	142
		9,218	**-**	**9,218**	**221**	**9,439**
Own work capitalized		75	-	75	-	75
Change in inventories of intermediates and finished goods		174	-	174	(1)	173
Raw materials and consumables used		(4,984)	-	(4,984)	-	(4,984)
Work subcontracted and other external costs		(1,695)	-	(1,695)	(67)	(1,762)
Employee benefits costs	5	(1,460)	(1)	(1,461)	(5)	(1,466)
Depreciation, amortization and impairments	6	(440)	3	(437)	(14)	(451)
Other operating costs	7	(119)	(47)	(166)	-	(166)
Operating profit		**769**	**(45)**	**724**	**134**	**858**
Interest costs	8	(90)	-	(90)	(4)	(94)
Other financial income and expense	8	(11)	-	(11)	3	(8)
Share of the profit of associates		(3)	-	(3)	-	(3)
Profit before income tax expense		**665**	**(45)**	**620**	**133**	**753**
Income tax expense	10	(162)	14	(148)	(34)	(182)
Profit for the year		**503**	**(31)**	**472**	**99**	**571**
Of which:						
- Profit attributable to minority interests						(6)
- Net profit attributable to equity holders of Royal DSM N.V.						577
Net profit attributable to equity holders of Royal DSM N.V.						577
Dividend on cumulative preference shares						(10)
Net profit available to holders of ordinary shares						**567**
Average number of ordinary shares outstanding (x 1000)						164,196
Effect of dilution due to share options (x 1000)						874
Adjusted average number of ordinary shares (x 1000)						**165,070**
Per ordinary share in euro:						
- Basic earnings		3.04	(0.19)	2.85	0.60	3.45
- Diluted earnings		3.02	(0.19)	2.83	0.60	3.43
- Dividend paid in the period						1.27
- Dividend for the year						1.20

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Consolidated statement of comprehensive income

x € million	Other reserves	Retained earnings		Total	Minority interests	Total
		Actuarial gains and losses	Other			
2008						
Exchange differences on translation of foreign operations	45	-	-	45	6	51
- Related income tax expense	26	-	-	26	-	26
Change in actuarial gains and losses	-	(1,270)	-	(1,270)	-	(1,270)
- Related income tax expense	-	326	-	326	-	326
Change in asset ceiling	-	85	-	85	-	85
- Related income tax expense	-	(21)	-	(21)	-	(21)
Change in Fair value reserve	(30)	-	-	(30)	-	(30)
- Related income tax expense	8	-	-	8	-	8
Change in Hedging reserve	(26)	-	-	(26)	-	(26)
- Related income tax expense	8	-	-	8	-	8
Other comprehensive income	**31**	**(880)**	**1**	**(848)**	**6**	**(842)**
Profit for the year	-	-	577	577	(6)	571
Total comprehensive income	**31**	**(880)**	**578**	**(271)**	**0**	**(271)**
2009						
Exchange differences on translation of foreign operations	3	-	-	3	(1)	2
- Related income tax expense	4	-	-	4	-	4
Change in actuarial gains and losses	-	110	-	110	-	110
- Related income tax expense	-	(29)	-	(29)	-	(29)
Change in asset ceiling	-	(6)	-	(6)	-	(6)
- Related income tax expense	-	2	-	2	-	2
Change in Fair value reserve	75	-	-	75	-	75
- Related income tax expense	(15)	-	-	(15)	-	(15)
Change in Hedging reserve	14	-	-	14	-	14
- Related income tax expense	(5)	-	-	(5)	-	(5)
Other comprehensive income	**76**	**77**	**-**	**153**	**(1)**	**152**
Profit for the year	-	-	337	337	(1)	336
Total comprehensive income	**76**	**77**	**337**	**490**	**(2)**	**488**

Consolidated balance sheet as at 31 December

x € million	Notes	2009	2008
Assets			
Non-current assets			
Intangible assets	11	1,053	1,200
Property, plant and equipment	12	3,477	3,641
Deferred tax assets	10	322	392
Prepaid pension costs	25	282	137
Associates	13	18	19
Other financial assets	14	233	176
		5,385	**5,565**
Current assets			
Inventories	15	1,359	1,765
Trade receivables	16	1,321	1,525
Other receivables	16	89	107
Financial derivatives	24	88	86
Current investments		7	4
Cash and cash equivalents	17	1,340	601
		4,204	**4,088**
Assets held for sale		25	-
		4,229	**4,088**
Total		**9,614**	**9,653**
Equity and liabilities			
Equity	18		
Royal DSM N.V. Shareholders' equity		4,949	4,633
Minority interests		62	62
		5,011	**4,695**
Non-current liabilities			
Deferred tax liabilities	10	115	122
Employee benefits liabilities	25	298	314
Provisions	19	103	190
Borrowings	20	2,066	1,559
Other non-current liabilities	21	49	65
		2,631	**2,250**
Current liabilities			
Employee benefits liabilities	25	26	33
Provisions	19	102	82
Borrowings	20	138	734
Financial derivatives	24	61	179
Trade payables	22	1,169	1,188
Other current liabilities	22	469	492
		1,965	**2,708**
Liabilities held for sale		7	-
		1,972	**2,708**
Total		**9,614**	**9,653**

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Consolidated statement of changes in equity (note 18)

x € million	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings		Total	Minority interests	Total Equity
					Actuarial gains and losses	Other			
Balance at 1 January 2008	**339**	**489**	**(575)**	**(123)**	**422**	**4,758**	**5,310**	**73**	**5,383**
Dividend paid	-	-	-	-	-	(220)	(220)	(4)	(224)
Options granted	-	-	-	15	-	-	15	-	15
Options / performance shares exercised / canceled	-	-	-	(8)	-	10	2	-	2
Repurchase of shares	-	-	(250)	-	-	-	(250)	-	(250)
Proceeds from reissued shares	-	-	52	-	-	(5)	47	-	47
Change in DSM's share in subsidiaries	-	-	-	-	-	-	-	(7)	(7)
Total comprehensive income	-	-	-	32	(880)	577	(271)	0	(271)
Reclassifications	-	-	-	(1)	-	1	-	-	-
Balance at 31 December 2008	**339**	**489**	**(773)**	**(85)**	**(458)**	**5,121**	**4,633**	**62**	**4,695**
Dividend paid	-	-	-	-	-	(205)	(205)	(2)	(207)
Options granted	-	-	-	13	-	-	13	-	13
Options / performance shares exercised / canceled	-	-	-	(6)	-	6	-	-	-
Cancellation of cumprefs C	(1)	-	113	-	-	(112)	-	-	-
Proceeds from reissued shares	-	-	23	-	-	(5)	18	-	18
Change in DSM's share in subsidiaries	-	-	-	-	-	-	-	4	4
Total comprehensive income	-	-	-	76	77	337	490	(2)	488
Balance at 31 December 2009	**338**	**489**	**(637)**	**(2)**	**(381)**	**5,142**	**4,949**	**62**	**5,011**

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Consolidated cash flow statement (note 27)

x € million		2009		2008
Operating activities				
Profit for the year		336		571
Income tax		82		182
Profit before income tax expense		**418**		**753**
Share of the profit of associates		4		3
Other financial income and expense		9		8
Interests costs		104		94
Operating profit		535		858
Depreciation and amortization		656		451
Earnings before interest, tax, depreciation and amortization		1,191		1,309
Adjustments for:				
- Gain from disposals	(313)		(8)	
- Change in provisions	24		(2)	
- Defined benefits plans	(68)		(84)	
		(357)		(94)
Interest received		10		10
Interest paid		(84)		(92)
Income tax received		13		5
Income tax paid		(90)		(90)
Other		25		28
Operating cash flow before changes in working capital		**708**		**1,076**
Changes in operating working capital:				
- Inventories	409		(188)	
- Trade receivables	157		(69)	
- Trade payables	0		77	
		566		(180)
Changes in other working capital		2		14
Cash provided by operating activities		**1,276**		**910**

Consolidated cash flow statement (note 27) continued

x € million	2009	2008
Cash provided by operating activities	**1,276**	**910**
Investing activities		
Capital expenditure for:		
- Intangible assets	(72)	(50)
- Property, plant and equipment	(385)	(541)
Proceeds from disposal of property, plant and equipment	8	18
Acquisition of subsidiaries and associates	(16)	(120)
Cash from net investment hedge	(69)	(11)
Proceeds from disposal of subsidiaries and businesses	279	8
Other financial assets:		
- Capital payments and acquisitions	(6)	(97)
- Change in loans granted	(12)	(2)
- Proceeds from disposals	-	1
Cash used in investing activities	**(273)**	**(794)**
Financing activities		
Loans taken up	517	219
Repayment of loans	(242)	(49)
Change in debt to credit institutions / commercial paper	(355)	341
Dividend paid	(205)	(220)
Repurchase of own shares	-	(250)
Proceeds from reissued shares	18	47
Change in minority interests	(2)	(3)
Cash from / used in financing activities	**(269)**	**85**
Change in cash and cash equivalents	**734**	**201**
Cash and cash equivalents at 1 January	**601**	**369**
Exchange differences relating to cash held	5	31
Changes in the scope of the consolidation	-	-
Cash and cash equivalents at 31 December	**1,340**	**601**

Notes to the consolidated financial statements of Royal DSM N.V.

1 General information

Unless stated otherwise, all amounts are in € million.

In conformity with article 402, Book 2 of the Dutch Civil Code, a condensed income statement is included in the separate financial statements of Royal DSM N.V.

A list of DSM participations has been filed with the Chamber of Commerce for Limburg in Maastricht (Netherlands) and is available from the company upon request. The list can also be downloaded from the company's website (www.dsm.com).

The preparation of financial statements requires estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements. The policies that management considers to be the most important to the presentation of financial condition and results of operations are discussed in the relevant notes. The same holds for the issues that require management judgments or estimates about matters that are inherently uncertain. Management cautions that future events often vary from forecasts and that estimates routinely require adjustment. Areas of judgment that have the most significant effect on the amounts recognized in the financial statements relate to the categorization of certain items as 'exceptional', the identification of 'cash generating units' and the classification of activities as 'held for sale' and 'discontinued operations'.

Estimates that need to be made by management relate to the useful lives of non-current assets (notes 11 and 12), the establishment of provisions for retirement and other post-employment benefits (note 25), income taxes (note 10) and the determination of fair values for share-based compensation (note 28). Estimates are based on historical 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	
	2009	2008	**2009**	2008
US dollar	1.43	1.41	1.39	1.47
Swiss franc	1.49	1.50	1.51	1.59
Pound sterling	0.90	0.97	0.89	0.80
100 Japanese yen	1.32	1.27	1.30	1.52

2 Change in the scope of the consolidation

Acquisitions

2009

Acquisitions, both individually and in aggregate, were immaterial with respect to IFRS disclosure requirements. In view of reductions in contingent consideration for certain acquisitions from earlier years, related liabilities and goodwill were reduced by € 5 million.

2008

In May, DSM acquired 100% of the shares of The Polymer Technology Group, Inc. (PTG), a market leader in the field of biomedical polymers, for a total consideration of € 107 million. The goodwill of € 61 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 PTG's technology through the DSM network. PTG has annual sales of approximately USD 43 million and employs about 100 people in Berkeley, California (USA). The impact of the acquisition of PTG 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	-	41	41
Property, plant and equipment	2	0	2
Other non-current assets	0	-	0
Inventories	3	(0)	3
Receivables	4	-	4
Cash and cash equivalents	1	-	1
Total assets	**10**	**41**	**51**
Liabilities			
Current liabilities	5	(0)	5
Total liabilities	**5**	**(0)**	**5**
Net assets, at fair value	**5**	**41**	**46**
Acquisition price (in cash)			61
Acquisition price (payable)			46
Acquisition costs			0
Consideration			**107**
Goodwill			**61**

The impact of all acquisitions made in 2008 (CMT, Soluol, Valley Research, Shanxi FengHe Melamine, The Polymer Technology Group, Polymeric Processes, Diolen Industrial Fibers) on DSM's consolidated balance sheet, at the date of acquisition, is summarized in the following table.

	PTG	Other acquisitions	Opening balance sheet DSM
Assets			
Intangible assets	41	3	44
Property, plant and equipment	2	24	26
Other non-current assets	0	1	1
Inventories	3	3	6
Receivables	4	3	7
Cash and cash equivalents	1	0	1
Total assets	**51**	**34**	**85**
Liabilities			
Other non-current liabilities	-	0	0
Current liabilities	5	2	7
Total liabilities	**5**	**2**	**7**
Net assets, at fair value	**46**	**32**	**78**
Acquisition price (in cash)	61	44	105
Acquisition price (payable)	46	1	47
Acquisition costs	0	1	1
Consideration	**107**	**46**	**153**
Goodwill	**61**	**14**	**75**

The acquisitions in 2008 contributed € 26 million to net sales. If all acquisitions had occurred on 1 January 2008, additional net sales would have been € 46 million. The acquisitions in 2008 contributed € 3 million to the profit for the year; this would have been € 5 million if they had all occurred on 1 January 2008.

Disposals

2009

DSM completed the sale of DSM Energie Holding B.V. (DSM Energy) to TAQA Abu Dhabi National Energy Company PJSC on 30 September 2009. The disposal consisted of the participations that DSM had in oil and gas exploration and pipelines, including the 40% participation in Noordgastransport B.V. In view of the disposal the related activities are reported as discontinued operations and comparatives have been restated.

The sale of DSM's urea-licensing subsidiary Stamicarbon B.V. to Maire Tecnimont S.p.A. was finalized on 6 October 2009.

The impact that the disposal of DSM Energy and Stamicarbon made on DSM's consolidated balance sheet in 2009, at the date of disposal, is summarized in the following table. The impact of other disposals is immaterial.

	DSM Energy	Stamicarbon	Total
Assets			
Property, plant and equipment	(80)	0	(80)
Inventories	(2)	-	(2)
Receivables	(12)	(34)	(46)
Cash and cash equivalents	(73)	(4)	(77)
Total assets	**(167)**	**(38)**	**(205)**
Liabilities			
Provisions	(99)	0	(99)
Other non-current liabilities	(5)	-	(5)
Current liabilities	(24)	(28)	(52)
Total liabilities	**(128)**	**(28)**	**(156)**
Net asset value	**(39)**	**(10)**	**(49)**
Sales price, after costs and settlements	308	52	360
Book profit	269	42	311
Income tax expense	(2)	(11)	(13)
Net book profit	**267**	**31**	**298**

Impact on cash flow

	DSM Energy	Stamicarbon	**Total 2009**	Total 2008
Net cash provided by operating activities	63	13	76	114
Net cash used in investing activities	(5)	0	(5)	(8)
Net cash used in financing activities	(2)	0	(2)	(4)
Net change in cash and cash equivalents	56	13	69	102

2008

In 2008 DSM disposed of various small participations that were immaterial with respect to IFRS disclosure requirements.

Assets held for sale

On 31 December 2009 the Xantar® polycarbonate business of DSM Engineering Plastics was reported as asset held for sale in view of the intended transfer to Mitsubishi Chemical Corporation announced on 29 May 2009.

3 Segment information

Business segments[1]

2009	Continuing operations								Discontinued operations	Total
	Nutrition	Pharma	Performance Materials	Polymer Intermediates	Base Chemicals and Materials	Other activities[2]	Eliminations	Total		
Financial performance										
Net sales	2,824	721	1,823	849	1,134	381	-	7,732	134	7,866
Supplies to other clusters	61	11	25	256	150	34	(537)	-	-	-
Supplies	**2,885**	**732**	**1,848**	**1,105**	**1,284**	**415**	**(537)**	**7,732**	**134**	**7,866**
Operating profit before exceptional items	521	32	68	6	(68)	(189)	-	370	73	443
Exceptional items	(30)	(175)	(10)	(1)	(4)	10	-	(210)	302	92
Operating profit	**491**	**(143)**	**58**	**5**	**(72)**	**(179)**	**-**	**160**	**375**	**535**
Depreciation and amortization	134	59	106	30	70	67	-	466	8	474
Additions to provisions	6	13	16	9	40	18	-	102	5	107
Share of the profit of associates	0	0	0	0	0	(4)	-	(4)	-	(4)
R&D expenditure	144	73	138	13	16	9	-	393	-	393
R&D expenditure / net sales (in %)	5.1	10.1	7.6	1.5	1.4	2.4	-	5.1	-	5.0
Wages, salaries and social security costs	483	170	282	54	126	316	-	1,431	5	1,436
Financial position										
Total assets	4,233	1,250	2,555	793	1,049	9,331	(9,597)	9,614	-	9,614
Total liabilities	1,547	1,344	1,226	499	636	4,562	(5,211)	4,603	-	4,603
Capital employed at year-end	1,802	789	1,641	369	730	342	-	5,673	-	5,673
Capital expenditure and acquisitions	82	63	139	25	78	80	-	467	-	467
Share in equity of associates	2	1	0	6	0	8	-	17	-	17
EBITDA / net sales (in %)	23.2	12.6	9.5	4.2	0.2					
Workforce[3]										
Average in fte	6,825	4,372	4,670	1,346	1,912	3,341	-	22,466	38	22,504
Year-end (headcount)	7,110	4,374	4,633	1,321	1,846	3,454	-	22,738	-	22,738

1 For a description of the types of products and services of each segment please refer to the Review of business in the Report by the Managing Board.
2 Other activities also includes costs for defined benefit plans, corporate overhead and share-based compensation. A reasonable basis for the allocation of the costs for defined benefit plans to the individual clusters is not available, because these costs relate to both current and former employees.
3 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]

2008	Continuing operations								Discontinued operations	Total
	Nutrition	Pharma	Performance Materials	Polymer Intermediates	Base Chemicals and Materials	Other activities[2]	Eliminations	Total		
Financial performance										
Net sales	2,710	863	2,297	1,201	1,572	436	-	9,079	218	9,297
Supplies to other clusters	50	27	29	390	244	32	(772)	-	-	-
Supplies	**2,760**	**890**	**2,326**	**1,591**	**1,816**	**468**	**(772)**	**9,079**	**218**	**9,297**
Operating profit before exceptional items	447	89	175	19	174	(135)	-	769	134	903
Exceptional items	(3)	(24)	(15)	(1)	-	(2)	-	(45)	-	(45)
Operating profit	**444**	**65**	**160**	**18**	**174**	**(137)**	**-**	**724**	**134**	**858**
Depreciation and amortization	138	61	91	24	71	55	-	440	14	454
Additions to provisions	10	27	19	-	22	8	-	86	4	90
Share of the profit of associates	0	0	0	(4)	-	1	-	(3)	-	(3)
R&D expenditure	135	74	127	22	22	14	-	394	-	394
R&D expenditure / net sales (in %)	5.0	8.6	5.5	1.8	1.4	3.2	-	4.3	-	4.2
Wages, salaries and social security costs	475	185	277	55	135	299	-	1,426	5	1,431
Financial position										
Total assets	3,835	1,445	2,706	710	1,333	8,730	(9,106)	9,653	-	9,653
Total liabilities	1,501	1,393	1,274	426	676	4,415	(4,727)	4,958	-	4,958
Capital employed at year-end	2,054	1,001	1,689	431	904	392	-	6,471	87	6,558
Capital expenditure and acquisitions	135	49	231	54	82	188	-	739	-	739
Share in equity of associates	2	1	0	10	-	5	-	18	-	18
EBITDA / net sales (in %)	21.6	17.4	11.6	3.6	15.6					
Workforce[3]										
Average in fte	6,789	4,677	4,819	1,414	2,288	3,120	-	23,107	50	23,157
Year-end (headcount)	7,043	4,401	4,978	1,427	2,305	3,385	-	23,539	52	23,591

[1] For a description of the types of products and services of each segment please refer to the Review of business in the Report by the Managing Board.
[2] Other activities also includes costs for defined benefit plans, corporate overhead and share-based compensation. A reasonable basis for the allocation of the costs for defined benefit plans to the individual clusters is not available, because these costs relate to both current and former employees.
[3] 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

2009	Continuing operations									
	The Nether-lands	Germany	Switzer-land	Rest of Europe	North America	China	Rest of Asia-Pacific	Rest of the world	Elimina-tions	Total
Net sales by origin										
In € million	2,909	224	1,314	984	989	598	311	403	-	7,732
In %	37	3	17	13	13	8	4	5	-	100
Net sales by destination										
In € million	602	748	271	2,044	1,401	829	1,075	762	-	7,732
In %	8	10	3	26	18	11	14	10	-	100
Total assets	9,652	478	3,017	3,327	1,425	739	410	476	(9,910)	9,614
Intangible assets and Property, plant and equipment										
Capital expenditure	221	13	48	49	96	25	9	11	-	472
Carrying amount	1,957	153	574	537	827	349	72	61	-	4,530
Workforce at year-end[1]	7,331	830	2,296	3,798	2,764	3,098	1,317	1,304	-	22,738
2008										
Net sales by origin										
In € million	4,022	216	1,313	1,021	1,184	583	365	375	-	9,079
In %	44	2	15	11	13	7	4	4	-	100
Net sales by destination										
In € million	785	985	264	2,620	1,645	756	1,161	863	-	9,079
In %	9	11	3	29	18	8	13	9	-	100
Total assets	9,397	246	2,595	2,946	1,643	711	461	509	(8,855)	9,653
Intangible assets and Property, plant and equipment										
Capital expenditure	291	20	49	67	64	69	19	8	-	587
Carrying amount	2,032	164	584	573	972	396	70	50	-	4,841
Workforce at year-end[1]	7,400	827	2,265	3,949	2,907	3,557	1,308	1,326	-	23,539

[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 Other operating income

	2009	2008
Continuing operations before exceptional items		
Release of provisions	18	41
Gain on assets, activities, scrap, waste material, emission rigths, royalties and licences sold	36	27
Government grants	24	24
Compensations for transfer of production	8	12
Insurance benefits	5	5
Sundry	24	30
Total	**115**	**139**

5 Employee benefits costs

	2009	2008
Continuing operations before exceptional items		
Wages and salaries	1,196	1,194
Social security costs	215	219
Pension costs (see also note 25)	96	34
Share-based compensation (see also note 28)	20	13
Total	**1,527**	**1,460**

6 Depreciation, amortization and impairments

	2009	2008
Continuing operations before exceptional items		
Amortization of intangible assets	52	49
Depreciation of property, plant and equipment	382	375
Impairment losses	32	16
Total	**466**	**440**

7 Other operating costs

	2009	2008
Continuing operations before exceptional items		
Additions to provisions	16	19
Loss from the disposal or closure of assets and activities	1	12
Bad debts	7	7
Derecognition of assets under construction	-	19
Claims	-	7
Exchange differences	3	19
Sundry	11	36
Total	**38**	**119**

8 Net finance costs

	2009	2008
Continuing operations before exceptional items		
Interest costs		
Interest expense	99	93
Capitalized interest during construction	(3)	(7)
Interest charge on discounted provisions and accruals	6	4
Total	**102**	**90**
Other financial income and expense		
Interest income	(5)	(7)
Exchange differences	2	(6)
Result from other securities	14	15
Sundry	(2)	9
Total	**9**	**11**
Net finance costs	**111**	**101**

In 2009 the interest rate applied in the capitalization of interest during construction was 5% (2008: 5%).

9 Exceptional items

	2009	2008
Exceptional gains:		
- Releases of provisions	19	-
- Other gains	19	-
Total exceptional gains	**38**	**-**
Exceptional expense:		
- Losses from the disposal of activities	-	(11)
- Additions to provisions	(48)	(37)
- Impairment of intangible assets and property, plant and equipment	(182)	(12)
- Reversal of impairments	-	15
- Other cost	(18)	-
Total exceptional expense	**(248)**	**(45)**
Operating profit from exceptional items	**(210)**	**(45)**
Net finance costs	-	-
Share of the profit of associates	-	-
Total, before income tax expense	**(210)**	**(45)**
Income tax expense	13	14
Profit for the year	**(197)**	**(31)**
Reclassification net gains from disposed activities	**290**	**-**
Minority interests	-	-
Net result from exceptional items	**93**	**(31)**

2009

The exceptional items in 2009 are listed below:

- The releases of provisions relate to plan changes and curtailments of certain defined benefit plans in the United States and Switzerland.
- A € 19 million gain was recognized due to compensation for the closure of the Citric Acid Manufacturing plant in Wuxi (China).
- The additions to provisions relate to restructuring charges in connection with actions to strengthen DSM's competitive position and reduce the cost base for an amount of € 48 million.
- Impairments of € 182 million are recognized for goodwill of Catalytica (€ 154 million) and Lipid Technologies Provider (€ 12 million) and € 16 million as a result of the decision to cancel certain ICT projects.
- Other costs (€ 18 million) related to cost saving actions and other organizational changes related to the financial crisis.
- The reclassification of net gains from disposed activities relates to the gains from the disposal of activities. These mainly include the pre-tax book profit of € 269 million on the disposal of DSM Energy and the pre-tax book profit of € 42 million on the disposal of Stamicarbon. For more details see note 2 Change in the scope of the consolidation, under Disposals 2009.

2008

The exceptional items in 2008 are listed below:

- The book loss from the management buy-out of Deretil, part of DSM Anti-Infectives, amounted to € 11 million before taxation.
- The following restructuring charges have been recognized: € 25 million before taxation in connection with the actions to strengthen DSM's competitive position announced on 15 December 2008 and € 12 million in connection with the closure of the Clavulanic Acid site of DSM Anti-Infectives in Sweden.
- The impairment of € 12 million related to the closure of the Clavulanic Acid site of DSM Anti-Infectives in Sweden and principally consisted of the write-down of Property, plant and equipment to the remaining value in use.
- The reversal of impairments related to DSM Anti-Infectives and was due to improved business conditions.

10 Income tax

The income tax expense on the total result was € 82 million which represents an effective income tax rate of 19.6% (2008: € 182 million, representing an effective income tax rate of 24.2%) and can be broken down as follows:

	2009	2008
Current tax expense:		
- Current year	(68)	(93)
- Prior-year adjustments	12	9
	(56)	**(84)**
Deferred tax expense:		
- Originating from temporary differences and their reversal	(59)	(22)
- Prior-year adjustments	(3)	(2)
- Change in tax rate	6	3
- Benefit of tax losses and tax credits recognized	30	(77)
	(26)	**(98)**
Total	**(82)**	**(182)**
Of which related to:		
- The result from discontinuing operations	**(36)**	**(34)**
- The result from exceptional items continuing operations	**13**	**14**
- The result from continuing operations before exceptional items	**(59)**	**(162)**

The effective income tax rate on the result from continuing operations before exceptional items was 23.1% in 2009 (2008: 24.4%). 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 %	**2009**	2008
Domestic income tax rate	25.5	25.5
Tax effects of:		
- Deviating rates	(5.6)	1.6
- Tax-exempt income and non-deductible expense	(0.3)	(1.3)
- Other effects	3.5	(1.4)
Effective tax rate	**23.1**	**24.4**

The balance of deferred tax assets and deferred tax liabilities decreased by € 63 million owing to the changes presented in the table below:

	2009	2008
Balance at 1 January		
Deferred tax assets	392	346
Deferred tax liabilities	(122)	(344)
Total	**270**	**2**
Changes:		
- Income tax expense in income statement	(26)	(98)
- Income tax expense in equity	(44)	346
- Acquisitions and disposals	11	1
- Exchange differences	(4)	19
Balance at 31 December	**207**	**270**
Of which:		
- Deferred tax assets	322	392
- Deferred tax liabilities	(115)	(122)

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:

	2009		2008	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	33	(32)	84	(45)
Property, plant and equipment	58	(217)	65	(237)
Financial assets	13	(45)	23	(39)
Inventories	42	(17)	53	(22)
Receivables	5	(19)	5	(23)
Equity	-	(1)	-	(3)
Other non-current liabilities	10	(1)	5	(1)
Non-current provisions	82	(58)	94	(32)
Non-current borrowings	1	-	1	-
Other current liabilities	51	(11)	59	(8)
	295	**(401)**	**389**	**(410)**
Tax losses carried forward	313	-	291	-
Set-off	(286)	286	(288)	288
Total	**322**	**(115)**	**392**	**(122)**

No deferred tax assets were recognized for loss carryforwards amounting to €62 million (2008: €51 million).

The valuation of deferred tax assets depends on the probability of the reversal of valuation differences and the utilization of tax loss carryforwards. Deferred tax assets are recognized for future tax benefits arising from temporary differences and for tax loss carryforwards to the extent that the tax benefits are likely to be realized. In the Netherlands tax losses may be carried forward for 9 years. For the entities in the Dutch tax consolidation losses expire in 2019. Other foreign tax loss carryforwards primarily exist in the United States and Austria. US tax losses expire in 2023. Austrian tax losses can be carried forward for an indefinite period of time. DSM has to assess the likelihood that deferred tax assets will be recovered from future taxable income. Deferred tax assets are reduced if, and to the extent that, it is not probable that all or some portion of the deferred tax assets will be realized. In the event that actual future results differ from estimates, and depending on tax strategies that DSM may be able to implement, changes to the measurement of deferred taxes could be required, which could impact on the company's financial position and net profit.

11 Intangible assets

	Total	Goodwill	Licenses and patents	Under construction	Development projects	Other
Balance at 1 January 2008						
Cost	1,224	725	139	-	14	346
Amortization and impairment losses	187	1	57	-	-	129
Carrying amount	**1,037**	**724**	**82**	**-**	**14**	**217**
Changes in carrying amount:						
- Capital expenditure	50	-	5	14	11	20
- Put into operation	-	-	-	(7)	-	7
- Acquisitions	119	75	-	-	-	44
- Disposals	(6)	-	-	-	-	(6)
- Amortization	(49)	-	(11)	-	(1)	(37)
- Impairments	(3)	-	-	-	-	(3)
- Exchange differences	35	23	4	-	-	8
- Reclassifications	17	-	10	10	(4)	1
	163	**98**	**8**	**17**	**6**	**34**
Balance at 31 December 2008						
Cost	1,443	822	157	17	21	426
Amortization and impairment losses	243	-	67	-	1	175
Carrying amount	**1,200**	**822**	**90**	**17**	**20**	**251**
Changes in carrying amount:						
- Capital expenditure	72	-	3	47	4	18
- Put into operation	-	-	-	(31)	1	30
- Acquisitions	(2)	(5)	-	-	-	3
- Disposals	(5)	-	(1)	-	-	(4)
- Amortization	(52)	-	(7)	-	(2)	(43)
- Impairments	(193)	(166)	-	(4)	-	(23)
- Exchange differences	(2)	(2)	-	-	-	-
- Reclassifications	35	-	(14)	29	11	9
	(147)	**(173)**	**(19)**	**41**	**14**	**(10)**
Balance at 31 December 2009						
Cost	1,527	799	144	62	37	485
Amortization and impairment losses	474	150	73	4	3	244
Carrying amount	**1,053**	**649**	**71**	**58**	**34**	**241**

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 2009 is as follows:

Acquisition	**2009**	2008	Cash generating unit	Functional currency	Year of acquisition
NeoResins	358	358	DSM Resins	EUR	2005
Catalytica	153	308	DSM Pharmaceuticals, Inc.	USD	2001
The Polymer Technology Group	61	68	DSM PTG	USD	2008
Pentapharm	34	34	DSM Nutritional Products	CHF	2007
Lipid Technologies Provider	-	12	DSM Food Specialties	SEK	2006
Syntech Far East	10	10	DSM Resins	HKD	2005
DSM Japan Engineering Plastics	6	6	DSM Engineering Plastics	EUR	2003
Crina	6	6	DSM Nutritional Products	CHF	2006
CMT	4	4	DSM Food Specialties	EUR	2008
Pamako Engineering	4	4	DSM Dyneema	CHF	2007
Valley Research	4	7	DSM Food Specialties	USD	2008
Soluol	3	3	DSM Resins	USD	2008
Fontanals Composite Resins	1	1	DSM Resins	EUR	2007
Other acquisitions	5	1			
Total	**649**	**822**			

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 (Annual Strategic Review) as adopted by the Managing Board. Cash flow projections beyond the five year planning period are extrapolated taking into account the growth rates that have been determined to apply for the specific cash generating unit in the Annual Strategic Review. The terminal value for the period after ten years is determined with the assumption of no growth. The key assumptions in the cash flow projections relate to the market growth for the cash generating units and the related revenue projections. The pre-tax discount rate is between 8.5% and 14.5% (2008: between 7 and 10%) depending on the risk profile of the cash generating unit.

The goodwill impairment test for the cash generating unit DSM Pharmaceuticals, Inc. showed that the value in use had significantly decreased compared to earlier years due to the depressed current market conditions and lower future growth rates for the business. As a result of the reduction of the recoverable amount a non-cash goodwill impairment charge of € 154 million was recognized. Furthermore the fair value of Lipid Technology Provider was determined because the business was transferred from the cash generating unit DSM Food Specialties to the cash generating unit DSM Nutritional Products in the course of the year. This resulted in a non-cash goodwill impairment charge of € 12 million.

A stress test was performed on the impairment tests of other cash generating units not affected by the current impairment. This showed that the conclusions of these tests would not be different if reasonably possible adverse changes in key parameters were assumed. The value in use of the cash generating unit DSM Anti-Infectives was determined in order to establish whether a (partial) reversal of the 2007 impairment was required, which was found not to be the case.

The other intangible assets are listed in the following table:

				2009	2008
	Cost	Amortization	Carrying amount	Of which acquisition-related	Acquisition-related
Application software	177	(106)	71	11	11
Marketing-related	12	(5)	7	7	7
Customer-related	26	(11)	15	10	13
Technology-based	238	(104)	134	110	115
Other	32	(18)	14	-	-
Total	**485**	**(244)**	**241**	**138**	**146**
Total 2008	426	(175)	251		146

Impairments of other intangible assets in 2009 principally relate to decisions to stop certain IT and business development projects because it was no longer probable that they would generate sufficient future economic benefits to justify the investment.

12 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 2008						
Cost	8,688	1,634	6,309	246	481	18
Depreciation and impairment losses	5,248	693	4,342	203	3	7
Carrying amount	**3,440**	**941**	**1,967**	**43**	**478**	**11**
Changes in carrying amount:						
- Capital expenditure	537	3	53	2	479	-
- Put into operation	-	84	334	13	(431)	-
- Acquisitions	26	10	16	-	-	-
- Disposals	(23)	(8)	(13)	-	(2)	-
- Depreciation	(389)	(64)	(313)	(12)	-	-
- Impairment losses	(24)	(11)	(7)	-	(6)	-
- Reversal of impairments	15	-	15	-	-	-
- Change in estimate of decommissioning costs	10	-	10	-	-	-
- Exchange differences	70	22	45	-	3	-
- Reclassifications	(18)	1	(1)	-	(18)	-
- Other changes	(3)	-	(2)	-	(1)	-
	201	**37**	**137**	**3**	**24**	**-**
Balance at 31 December 2008						
Cost	9,068	1,727	6,568	245	507	21
Depreciation and impairment losses	5,427	749	4,464	199	5	10
Carrying amount	**3,641**	**978**	**2,104**	**46**	**502**	**11**
Changes in carrying amount:						
- Capital expenditure	400	9	36	1	354	-
- Put into operation	-	54	339	20	(413)	-
- Acquisitions	4	3	-	1	-	-
- Disposals	(123)	(17)	(99)	(1)	(6)	-
- Depreciation	(390)	(62)	(314)	(14)	-	-
- Impairment losses	(20)	(1)	(10)	-	(6)	(3)
- Exchange differences	2	1	1	-	-	-
- Reclassifications	(37)	12	(8)	(6)	(37)	2
- Other changes	-	-	(1)	-	1	-
	(164)	**(1)**	**(56)**	**1**	**(107)**	**(1)**
Balance at 31 December 2009						
Cost	8,548	1,757	6,170	189	401	31
Depreciation and impairment losses	5,071	780	4,122	142	6	21
Carrying amount	**3,477**	**977**	**2,048**	**47**	**395**	**10**

Property, plant and equipment includes assets acquired under finance lease agreements with a carrying amount of € 7 million (31 December 2008: € 6 million). The related commitments are included under Borrowings and amount to € 8 million (31 December 2008: € 6 million). The total of the minimum lease payments at the balance sheet date amounts to € 9 million (31 December 2008: € 6 million) and their present values to € 8 million (31 December 2008: € 5 million).

Overview of minimum lease payments in time:

2010	2
2011-2014	7
After 2014	-
Total	**9**

In 2009, on balance € 20 million in impairment losses was recognized. In 2009 the asset impairment losses mainly related to various assets that are no longer used at DSM Research (€ 8 million), at DSM Resins (€ 5 million), at DSM Food Specialties (€ 2 million), at DSM Specialty Intermediates (€ 2 million) and at DSM Nutritional Products, DSM Elastomers and Other activities (€ 1 million each).

In 2008 the asset impairment losses mainly related to the closure of the Clavulanic Acid site of DSM Anti-Infectives in Sweden (€ 12 million) and to various assets which are no longer used at DSM Nutritional Products (€ 6 million), at DSM Dyneema (€ 2 million), at DSM Business Support (€ 2 million) and at DSM Resins (€ 1 million); at DSM Anti-Infectives the impairments made in 2007 were partly (€ 15 million) reversed due to improved business conditions.

13 Associates

	2009	2008
Balance at 1 January	**19**	**20**
Changes:		
- Share of profit	(1)	1
- Capital payments	1	-
- Dividend received	0	(1)
- Acquisitions	-	1
- Impairments	(3)	(4)
- Transfers	2	-
- Exchange differences	0	2
- Other changes	0	0
Balance at 31 December	**18**	**19**
Of which loans granted	1	1

14 Other financial assets

	Total	Other participations	Other receivables	Other deferred items
Balance at 1 January 2008	**126**	**73**	**31**	**22**
Changes:				
- Charged to the income statement	(4)	-	-	(4)
- Capital payments	96	96	-	-
- Impairments	(20)	(20)	(0)	-
- Disposals	(1)	(1)	-	-
- Loans granted	23	-	23	-
- Repayments	(1)	-	(1)	-
- Transfers	(13)	0	(11)	(2)
- Changes in fair value	(30)	(30)	-	-
Balance at 31 December 2008	**176**	**118**	**42**	**16**
Changes:				
- Charged to the income statement	(2)	-	-	(2)
- Capital payments	4	4	-	-
- Impairments	(20)	(20)	-	-
- Acquisitions	1	1	-	-
- Disposals	(3)	(3)	-	-
- Loans granted	14	-	14	-
- Repayments	(3)	-	(3)	-
- Exchange differences	(1)	-	-	(1)
- Transfers	(6)	(5)	0	(1)
- Changes in fair value	74	74	-	-
- Other changes	(1)	1	(2)	-
Balance at 31 December 2009	**233**	**170**	**51**	**12**

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 € 23 million is included that relates to equity instruments whose fair value cannot be measured reliably (2008: € 32 million). These instruments are therefore measured at cost.

15 Inventories

	2009	2008
Raw materials and consumables	423	510
Intermediates and finished goods	979	1,299
	1,402	**1,809**
Adjustments to lower net realizable value	(43)	(44)
Total	**1,359**	**1,765**

The carrying amount of inventories adjusted to net realizable value was € 114 million (2008: € 155 million); the value adjustment of inventories recognized in the income statement was € 38 million expense (2008: € 83 million expense).

16 Receivables

	2009	2008
Trade receivables		
Trade accounts receivable	1,300	1,476
Deferred items	39	69
Receivables from associates	5	4
	1,344	**1,549**
Adjustment for bad debts	(23)	(24)
Total	**1,321**	**1,525**
Other receivables		
Income taxes receivable	18	17
Other taxes and social security contributions	18	16
Government grants	0	1
Loans	7	19
Other receivables	33	35
Deferred items	13	19
Total	**89**	**107**

Deferred items comprise € 31 million (31 December 2008: € 63 million) in prepaid expenses that will impact profit or loss in future periods but have already been paid.

With respect to 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 € 1,077 million is provided below. The remaining balance reported as trade receivables amounting to € 244 million is excluded from this analysis because it principally concerns reclaimable VAT, deferred items and accruals that are not related to the payment behavior of customers.

in %	2009	2008
Neither past due nor impaired	87	81
1-29 days overdue	9	14
30-89 days overdue	2	3
90 days or more overdue	2	2

17 Cash and cash equivalents

	2009	2008
Deposits	893	192
Cash at bank and in hand	411	377
Payments in transit	3	1
Bills of exchange	33	31
Total	**1,340**	**601**

18 Equity

	2009	2008
Balance at 1 January	**4,695**	**5,383**
Net profit	336	571
Net exchange differences	7	77
Net actuarial gains/(losses) on defined benefit obligations	81	(944)
Net asset ceiling related to defined benefit obligations	(4)	64
Dividend	(207)	(224)
Repurchase of ordinary shares	-	(250)
Proceeds from reissue of ordinary shares	18	47
Other changes	85	(29)
Balance at 31 December	**5,011**	**4,695**

After the balance sheet date the following dividends were declared by the Managing Board:

	2009	2008
Per cumulative preference share A: € 0.23 (2008: € 0.23)	10	10
Per ordinary share: € 1.20 (2008: € 1.20)	195	194
Total	**205**	**204**

The proposed dividend on ordinary shares is subject to approval by the Annual General Meeting of Shareholders and has not been deducted from Equity.

Share capital

On 31 December 2009 the authorized capital amounted to € 1,125 million, distributed over 330,960,000 ordinary shares (including 1,200,000,000 cumprefs C in 2009 transferred into 24,000,000 ordinary shares), 44,040,000 cumulative preference shares A and 375,000,000 cumulative preference shares B with a nominal value of € 1.50 each. The changes in the number of outstanding shares in 2009 are shown in the table below.

	Issued shares			Treasury shares	
	Ordinary	Cumprefs A	Cumprefs C	Ordinary	Cumprefs C
Balance at 1 January 2009	181,425,000	44,040,000	37,500,000	19,197,938	37,500,000
Reissue of shares in connection with exercise of option rights	-	-	-	(810,267)	-
Cancellation cumprefs C	-	-	(37,500,000)	-	(37,500,000)
Balance at 31 December 2009	**181,425,000**	**44,040,000**	**-**	18,387,671	**-**
Number of treasury shares at 31 December 2009	(18,387,671)	-	-		
Number of shares outstanding at 31 December 2009	**163,037,329**	**44,040,000**	**-**		

The average number of ordinary shares outstanding in 2009 was 162,364,142 (2008: 164,195,834). All shares issued are fully paid.

Share premium

Of the total share premium of € 489 million, an amount of € 125 million can be regarded as entirely free of tax.

Treasury shares

On 31 December 2008 DSM possessed 19,197,938 ordinary shares (nominal value € 29 million, 8.5% of the share capital). In 2009, DSM used 810,267 ordinary shares for servicing option rights and performance shares.

On 31 December 2009 DSM possessed 18,387,671 ordinary shares (nominal value € 28 million, 8.2% of the share capital). The average purchase price of the ordinary treasury shares was € 34.64. As at 31 December 2009, 4,917,671of the total number of treasury shares outstanding were held for servicing management and personnel share-option rights. The remainder, 13,470,000 shares, were purchased under the company's share buy-back program in 2007 and 2008. On 3 June 2009, all 37,500,000 cumprefs C included in the treasury shares were canceled.

Other reserves in Shareholder's equity

	Total	Translation reserve	Hedging reserve	Reserve for share-based compensation	Fair value reserve
Balance at 1 January 2008	**(123)**	**(193)**	**48**	**31**	**(9)**
Changes:					
Fair-value changes of derivatives	8	-	8	-	-
Release to income statement	(33)	-	(33)	-	-
Fair-value changes of other financial assets	(30)	-	-	-	(30)
Exchange differences	45	45	-	-	-
Options and performance shares granted	15	-	-	15	-
Options and performance shares exercised/canceled	(8)	-	-	(8)	-
Reclassifications	(1)	-	(1)	-	-
Income tax	42	26	8	-	8
Total changes	38	71	(18)	7	(22)
Balance at 31 December 2008	**(85)**	**(122)**	**30**	**38**	**(31)**
Changes:					
Fair-value changes of derivatives	5	-	5	-	-
Release to income statement	9	-	9	-	-
Fair-value changes of other financial assets	75	-	-	-	75
Exchange differences	3	3	-	-	-
Options and performance shares granted	13	-	-	13	-
Options and performance shares exercised/canceled	(6)	-	-	(6)	-
Income tax	(16)	4	(5)	-	(15)
Total changes	83	7	9	7	60
Balance at 31 December 2009	**(2)**	**(115)**	**39**	**45**	**29**

19 Provisions

The total of non-current and current provisions decreased by €67 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 2008	**75**	**38**	**36**	**112**	**261**
Changes in 2008:					
- Additions	59	14	1	16	90
- Releases	(18)	(7)	(2)	(14)	(41)
- Uses	(34)	(7)	0	(10)	(51)
- Exchange differences	1	1	-	-	2
- Other changes	-	3	-	8	11
Total changes	8	4	(1)	-	11
Balance at 31 December 2008	**83**	**42**	**35**	**112**	**272**
Of which current	44	19	2	17	82
Balance at 1 January 2009	**83**	**42**	**35**	**112**	**272**
Changes in 2009:					
- Additions	81	4	3	19	107
- Releases	(3)	(6)	-	(9)	(18)
- Uses	(53)	(3)	(3)	(6)	(65)
- Disposals	-	-	-	(88)	(88)
- Exchange differences	-	-	-	1	1
- Reclassifications	-	(3)	-	3	-
- Other changes	(4)	-	-	-	(4)
Total changes	21	(8)	-	(80)	(67)
Balance at 31 December 2009	**104**	**34**	**35**	**32**	**205**
Of which current	80	5	3	14	102

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 2009 in view of the passage of time and changes in the discount rate.

The provisions for restructuring costs and termination benefits mainly relate to the costs of redundancy schemes connected to the dismissal and transfer of employees and costs of termination of contracts. These provisions have an average life of 1 to 3 years.

The provisions for environmental costs relate to soil clean-up obligations, among other things. These provisions have an average life of more than 10 years.

Several items have been combined under Other provisions, for example expenses relating to claims. These provisions have an average life of 5 to 10 years.

The other changes included in the provisions for restructuring costs and termination benefits relate to reclassifications to the employer benefits liability.

The additions to the provisions for restructuring costs and termination benefits mainly relate to expenditures for the closure of the DSM Agro production site in IJmuiden (Netherlands), which were offset by compensation from the local authorities, and to charges in connection with actions to strengthen DSM's competitive position and reduce the cost base. The latter charges were recognized in exceptional items.

The addition to the environmental provision mainly relates to expenditures for soil cleaning at the Chemelot site in Sittard-Geleen (Netherlands).

The additions to the Other provisions mainly relate to various claims.

The item 'disposals' in the changes of other provisions completely relates to the disposal of DSM Energy and consists of costs for future drilling-platform decommissioning and site restoration.

20 Borrowings

	2009		2008	
	Total	Of which current	Total	Of which current
Debenture loans	1,722	-	1,398	177
Private loans	346	8	391	58
Finance lease liabilities	8	2	6	1
Credit institutions / commercial paper	128	128	498	498
Total	**2,204**	**138**	**2,293**	**734**

In agreements governing loans with a residual amount at year-end 2009 of € 1,932 million, none of which were of a short-term nature (31 December 2008: € 1,614 million, of which € 177 million 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 2009 the major credit rating agencies – Standard & Poors and Moody's – confirmed their single A credit rating for our company.

At 31 December 2009, borrowings to a total of € 1,331 million had a remaining term of more than 5 years.

The schedule of repayment of borrowings (excluding debt to credit institutions and commercial paper) is as follows:

	2009	2008
2009	-	236
2010	10	7
2011	48	3
2012	8	43
2013 and 2014	679	177
2015 through 2019	1,331	1,329
Total	**2,076**	**1,795**

A breakdown of the borrowings by currency (excluding debt to credit institutions and commercial paper) is given in the following table:

	2009	2008
EUR	1,820	1,324
USD	211	391
CNY	34	69
Other	11	11
Total	**2,076**	**1,795**

On balance, total borrowings decreased by € 89 million owing to the following changes:

	2009	2008
Balance at 1 January	**2,293**	**1,752**
Loans taken up	530	219
Repayments	(242)	(49)
Changes in fair value	2	1
Acquisitions / disposals	(4)	0
Changes in debt to credit institutions / commercial paper	(370)	349
Exchange differences	(4)	22
Other changes	(1)	(1)
Balance at 31 December	**2,204**	**2,293**

The average effective interest rate on the portfolio of borrowings outstanding in 2009, including financial instruments related to these borrowings, amounted to 3.8% (2008: 3.9%).

A breakdown of debenture loans is given below:

			2009	2008
USD loan	6.75%	1999-2009	-	177
EUR loan	4.00%	2005-2015	484	480
EUR loan	5.25%	2007-2017	742	741
EUR loan	5.75%	2009-2014	496	-
Total			**1,722**	**1,398**

All debenture loans have a fixed interest rate.

The 6.75% USD loan 1999-2009, which was swapped to floating rates by means of interest rate swaps and which was assigned as net investment hedge to hedge the currency risk of net investments in USD-denominated subsidiaries, was redeemed on the maturity date.

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 € 184 million (after discount of € 16 million), which was not pre-hedged, was swapped to floating rates in August 2009 by means of an interest rate swap (fair value hedge). The effective interest rate for this floating part of the loan is 2.17% above 1 month Euribor.

At year-end 2009, the 5.25% EUR loan 2007-2017 was swapped into CHF for an amount of € 325 million to hedge the currency risk of net investments in CHF-denominated subsidiaries. At year-end 2008, this loan had been completely swapped into CHF for this purpose. 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.

The new 5.75% EUR loan 2009-2014 was not pre-hedged; € 300 million of this loan was swapped to floating rates in November 2009 by means of an interest rate swap (fair value hedge). The effective interest on the fixed rate part of € 200 million is 5.88% and the effective interest rate for the floating part of € 300 million is 3.48% above 1 month Euribor.

A breakdown of private loans is given below:

			2009	2008
CNY loan	floating (12 months)	2002-2009	-	38
CNY loan	floating (12 months)	2008-2011	31	31
USD loan	5.51%	2003-2013	105	107
NLG loan	floating (6 months)	2000-2014	70	65
USD loan	5.61%	2003-2015	105	106
Other loans			35	44
Total			**346**	**391**

The fixed interest rate of the 5.51% USD loan 2003-2013 was swapped into a floating rate by means of an interest rate swap (fair value hedge). During 2005 this interest rate swap was unwound. The gain from this will be amortized until maturity, leading to an effective fixed USD interest rate of 4.29% for the loan. This 5.51% USD loan was assigned as a net investment hedge to hedge the currency risk of net investments in USD-denominated subsidiaries.

The currency component of the 5.61% USD loan 2003-2015 was swapped into euros (cash flow hedge). The resulting EUR obligation was swapped into CHF to hedge the currency risk of net investments in CHF-denominated subsidiaries (net investment hedge).

DSM's policy regarding financial-risk management is described in note 24.

21 Other non-current liabilities

	2009	2008
Investment grants	18	15
Other non-current liabilities	31	50
Total	**49**	**65**

22 Current liabilities

	2009	2008
Trade payables		
Received in advance	27	18
Trade accounts payable	1,138	1,165
Notes and cheques due	3	1
Owing to associates	1	4
Total	**1,169**	**1,188**
Other current liabilities		
Income taxes payable	39	70
Other taxes and social security contributions	42	76
Pensions	3	4
Other liabilities	233	207
Deferred items	152	135
Total	**469**	**492**

23 Contingent liabilities and other financial obligations

	2009	2008
Operating leases and rents	81	70
Guarantee obligations on behalf of associates and third parties	40	65
Outstanding orders for projects under construction	23	16
Other	18	25
Total	**162**	**176**

Most of the outstanding orders for projects under construction will be completed in 2010. Property, plant and equipment under operating leases primarily concern catalysts, buildings and various equipment items.

The commitments for operating leases and rents are spread as follows:

2010	11
2011	13
2012	10
2013 and 2014	16
After 2014	31
Total	**81**

Litigation

The investigations into possible restrictive and/or concerted practices involving a number of EPDM producers, including DSM, which had been launched at the end of 2002 by the European Commission, the US Department of Justice and the Canadian Competition Bureau, were closed mid 2006 without charges of any kind being brought against DSM or its affiliates. Several civil actions in the United States and Canada are still ongoing.

DSM has a process in place to monitor legal claims periodically and systematically.

24 Financial derivatives

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 is discussed more extensively on page 46 of the Report by the Managing Board.

Liquidity risk

DSM has two confirmed credit facilities of € 400 million and € 500 million amounting to a total of € 900 million (2008: two confirmed credit facilities amounting to a total of € 900 million) and a commercial-paper program amounting to € 1,500 million (2008: € 1,500 million). The company will use the commercial-paper program to a total of not more than € 900 million (2008: € 900 million). The agreements for the committed credit facilities neither have financial covenants nor material adverse changes clauses. On 31 December 2009 no loans were taken up under either of the facilities.

Floating-rate and fixed-rate borrowings analyzed by maturity are summarized in the following able. 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.

2009	Fixed-rate borrowings	Floating-rate borrowings	Subtotal	Interest payments	Cash at redemption[1]	Total cash out
Within 1 year	8	2	10	90	-	100
Within 1 to 2 years	9	39	48	90	-	138
Within 2 to 3 years	6	2	8	88	-	96
Within 3 to 4 years	107	1	108	87	-	195
Within 4 to 5 years	199	372	571	62	4	637
After 5 years	1,147	184	1,331	116	24	1,471
Total	**1,476**	**600**	**2,076**	**533**	**28**	**2,637**
2008						
Within 1 year	13	223	236	86	-	322
Within 1 to 2 years	6	1	7	78	-	85
Within 2 to 3 years	2	1	3	78	-	81
Within 3 to 4 years	4	39	43	77	-	120
Within 4 to 5 years	108	-	108	74	-	182
After 5 years	1,329	69	1,398	199	29	1,626
Total	**1,462**	**333**	**1,795**	**592**	**29**	**2,416**

[1] Difference between nominal redemption and amortized costs

Notes to the Royal DSM N.V. financial statements

1 General

Unless stated otherwise, all amounts are in € million.

The company financial statements have been prepared in accordance with accounting principles generally accepted in the Netherlands.

The accounting policies used are the same as those used in the consolidated financial statements, in accordance with the provisions of article 362-8 of Book 2 of the Dutch Civil Code. In these separate financial statements investments in subsidiaries are accounted for using the net asset value. The balance sheet presentation is aligned with the consolidated financial statements in order to enhance transparency and facilitate understanding. In conformity with article 402, Book 2 of the Dutch Civil Code, a condensed income statement is included in the separate financial statements of Royal DSM N.V.

A list of DSM participations has been filed with the Chamber of Commerce for Limburg in Maastricht (Netherlands) and is available from the company upon request. The list can also be downloaded from the company's website (www.dsm.com).

Information on the use of financial instruments and on related risks for the group is provided in the Notes to the consolidated financial statements of Royal DSM N.V.

2 Intangible assets

The carrying amount of intangible assets mainly comprises goodwill for the acquisition of NeoResins in 2005 (€ 358 million), Crina in 2006 (€ 6 million) and Pentapharm in 2007 (€ 34 million).

3 Property, plant and equipment

This item mainly relates to land and buildings and corporate IT projects. Capital expenditure in 2009 was € 5 million, while the depreciation charge in 2009 was € 1 million. In addition, a transfer to subsidiaries was recognized for an amount of € -14 million. The historic cost of property, plant and equipment as at 31 December 2009 was € 50 million (2008: € 75 million); accumulated depreciation amounted to € 36 million (2008: € 39 million).

Financial statements of Royal DSM N.V.

4 Financial assets

	Total	Subsidiaries		Other participations
		Share in equity	Loans	
Balance at 1 January 2008	**9,738**	**9,299**	**408**	**31**
Changes:				
- Share in profit	765	765	-	-
- Dividend received	(85)	(85)	-	-
- Capital payments	176	95	-	81
- Net actuarial gains/(losses)	(944)	(944)	-	-
- Net asset ceiling	64	64	-	-
- Intra-group transactions	(2)	(2)	-	-
- Change in Fair value reserve	(30)	-	-	(30)
- Change in Hedging reserve	(20)	(20)	-	-
- Exchange differences	165	165	-	-
- Other changes	(11)	17	(15)	(13)
Balance at 31 December 2008	**9,816**	**9,354**	**393**	**69**
Changes:				
- Share in profit	669	669	-	-
- Dividend received	(66)	(66)	-	-
- Capital payments	218	218	-	-
- Net actuarial gains/(losses)	93	93	-	-
- Net asset ceiling	(4)	(4)	-	-
- Intra-group transactions	66	66	-	-
- Change in Fair value reserve	75	16	-	59
- Change in Hedging reserve	23	23	-	-
- Exchange differences	18	18		
- Reclassifications	-	78	(78)	-
- Other changes	(6)	10	-	(16)
Balance at 31 December 2009	**10,902**	**10,475**	**315**	**112**

5 Receivables

	2009	2008
Receivable from subsidiaries	114	93
Other receivables	12	62
Total	**126**	**155**

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 2009, the notional amount of two new interest rate swaps in relation to long-term borrowings amounted € 500 million (2008: one swap of € 177 million). For these swaps fair value hedge accounting was applied.

The following analysis of the sensitivity of borrowings and related financial derivatives to interest rate movements assumes an immediate 1% change in interest rates for all currencies and maturities from their level on 31 December 2009, with all other variables held constant. A 1% reduction in interest rates would result in a € 6 million loss in the income statement on the basis of the composition of financial instruments on 31 December 2009 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 2009 to changes in interest rates is set out in the following table.

	2009				2008			
	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	7	7	-	-	4	4	-	-
Cash and cash equivalents	1,340	1,340	-	-	601	601	-	-
Short-term borrowings	(138)	(138)	-	-	(734)	(737)	1	(1)
Long-term borrowings	(2,066)	(2,191)	108	(116)	(1,559)	(1,621)	97	(105)
Interest rate swaps (fixed to floating)	(3)	(3)	(22)	23	1	1	-	-

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, CHF and JPY. The risks arising from currency exposures are regularly reviewed by the business groups and hedged when appropriate. DSM uses average-rate currency forward contracts, currency forward contracts, spot contracts, and average-rate currency options to hedge the exposure to fluctuations in foreign exchange rates. At year-end, these instruments had remaining maturities of less than one year.

To hedge intercompany loans, receivables and payables denominated in currencies other than the functional currency of the subsidiaries, DSM uses currency swaps or forward contracts. Hedge accounting is not applied for these instruments. On 31 December 2009, the notional amount of the currency forward contracts was € 2,212 million (2008: € 1,977 million).

In 2009 DSM hedged USD 733 million (2008: USD 869 million) of its projected net cash flow in USD in 2010 (partly against CHF) by means of average-rate currency forward contracts at an average exchange rate of USD 1.39 per euro for the four quarters of 2010. In 2009 DSM also hedged JPY 4,960 million (2008: JPY 5,475 million) of its projected net cash flow in JPY in 2010 (mostly against CHF) by means of average-rate currency forward contracts at an average exchange rate of JPY 124 per euro for the four quarters of 2010. These hedges have fixed the exchange rate for part of the USD and JPY receipts in 2010. Cash flow hedge accounting is applied for these hedges. As a result of similar hedges concluded in 2008 for the year 2009, in 2009 € 13 million negative (2008: € 29 million positive) 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 2009. CHF-denominated net assets have been partially hedged by currency swaps (CHF 1,157 million). USD-denominated net assets have been partially hedged through a USD loan (USD 150 million). There was no material ineffectiveness in relation to these hedges.

The following analysis of the sensitivity of net borrowings and derivative financial instruments to currency movements against the euro assumes a 10% change in all foreign currency rates against the euro from their level on 31 December 2009, with all other variables held constant. A +10% change indicates a weakening of the euro against foreign currencies. A -10% change represents a strenghtening of the euro against foreign currencies.

	2009				2008			
	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	7	7	-	-	4	4	-	-
Cash and cash equivalents	1,340	1,340	27	(22)	601	601	17	(14)
Short-term borrowings	(138)	(138)	(9)	8	(734)	(737)	(37)	30
Long-term borrowings	(2,066)	(2,191)	(30)	25	(1,559)	(1,621)	(31)	25
Cross currency swaps	(32)	(32)	13	(11)	(19)	(19)	14	(12)
Currency forward contracts	55	55	46	(38)	20	20	(7)	6
Cross currency swaps related to net investments in foreign entities[1]	(14)	(14)	(91)	75	(87)	(87)	(145)	119
Average-rate forwards used for economic hedging[2]	21	21	(27)	22	(7)	(7)	(40)	32

[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 2009, with all other variables held constant. A +10% change indicates a weakening of the foreign currencies and the euro against the USD and a -10% change represents a strengthening of the foreign currencies and the euro against the USD.

	2009				2008			
	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	7	7	-	-	4	4	-	-
Cash and cash equivalents	1,340	1,340	-	-	601	601	1	-
Short-term borrowings	(138)	(138)	-	-	(734)	(737)	(20)	17
Long-term borrowings	(2,066)	(2,191)	(26)	21	(1,559)	(1,621)	(27)	22
Cross currency swaps	(32)	(32)	13	(11)	(19)	(19)	14	(12)
Currency forward contracts	55	55	(62)	51	20	20	(76)	62
Cross currency swaps related to net investments in foreign entities[1]	(14)	(14)	-	-	(87)	(87)	-	-
Average-rate forwards used for economic hedging[2]	21	21	(57)	46	(7)	(7)	(68)	56

[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 2009 DSM had a limited exposure to price risk in relation to investments in available-for-sale securities.

Credit risk

DSM manages the credit risk to which it is exposed by applying credit limits per financial institution and by dealing exclusively with financial institutions having a high credit rating. In February 2009 individual credit limits for financial institutions were reviewed and reduced by about 50% in anticipation of increasing exposure to credit risk as rising cash levels of DSM coincided with a still questionable stability of banks. In September 2009, credit limits were eased again – but not to pre-crisis levels – based on signs of increasing stability and availability of government backing for banks when necessary.

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 16). 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.

Fair value of financial instruments

In the following table the carrying amounts and the estimated fair values of financial instruments are disclosed:

	31 December 2009		31 December 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Other participations	170	170	118	118
Other non-current receivables	51	51	42	42
Current receivables	1,410	1,410	1,632	1,632
Financial derivatives	88	88	86	86
Current investments	7	7	4	4
Cash and cash equivalents	1,340	1,340	601	601
Liabilities				
Non-current borrowings	2,066	2,191	1,559	1,621
Other non-current liabilities	49	49	65	65
Current borrowings	138	138	734	737
Financial derivatives	61	61	179	179
Other current liabilities	1,638	1,638	1,680	1,680

The following methods and assumptions were used to determine the fair value of financial instruments: cash, current investments, current and non-current receivables, current borrowings and other current and non-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	1	-	1
Currency swaps	-	(106)	(106)
Total financial derivatives related to borrowings	**1**	**(106)**	**(105)**
Currency forward contracts	85	(73)	12
Currency options	-	-	-
Balance at 31 December 2008	**86**	**(179)**	**(93)**
Interest rate swaps	-	(3)	(3)
Currency swaps	-	(46)	(46)
Total financial derivatives related to borrowings	**-**	**(49)**	**(49)**
Currency forward contracts	88	(12)	76
Currency options	-	-	-
Balance at 31 December 2009	**88**	**(61)**	**27**

25 Post-employment benefits

The group operates a number of defined benefit plans and defined contribution plans throughout the world, the assets of which are generally held in separately administered funds. The pension plans are generally funded by payments from employees and by the relevant group companies. The group also provides certain additional healthcare benefits to retired employees in the United States.

Post-employment benefits relate to obligations that will be settled in the future and require assumptions to project benefit obligations. Post-employment benefit accounting is intended to reflect the recognition of post-employment benefits over the employee's approximate service period, based on the terms of the plans and the investment and funding. The accounting requires management to make assumptions regarding variables such as discount rate, future salary increases, return on assets, and future healthcare costs. Management consults with external actuaries regarding these assumptions at least annually for significant plans. Changes in these key assumptions can have a significant impact on the projected defined benefit obligations, funding requirements and periodic costs incurred.

The charges for pension costs recognized in the income statement (note 5) relate to the following:

	2009	2008
Pension plans	67	0
Healthcare plans	2	3
Other post-employment benefits	6	5
Defined contribution plans	21	26
Total continuing activities	**96**	**34**
Discontinuing activities	-	-
Exceptional items	(19)	-
Total	**77**	**34**

For 2010 costs related to pensions and healthcare, excluding gains and losses on curtailments and settlements, will be slightly lower than the costs for 2009 (€ 69 million).

Changes in Prepaid pension costs and Employee benefits liabilities recognized in the balance sheet are disclosed in the following overview:

	2009	2008
Prepaid pension costs	137	1,169
Employee benefits liabilities	(347)	(282)
Balance at 1 January	**(210)**	**887**
Changes:		
- Balance of actuarial gains/(losses)	109	(1,270)
- Balance of asset ceiling	(6)	85
- Employee benefits costs	(56)	(9)
- Contributions by employer	124	93
- Exchange differences	1	(1)
- Other changes	(4)	5
Total changes	**168**	**(1,097)**
Balance at 31 December	**(42)**	**(210)**
Of which:		
- Prepaid pension costs	**282**	**137**
- Employee benefits liabilities	**(324)**	**(347)**

In the Netherlands the net prepaid pension asset amounted to € 280 million at 31 December 2009 (2008: € 135 million).

The Employee benefits liabilities of € 324 million (2008: € 347 million) consist of € 280 million (2008: € 291 million) related to pensions, € 22 million (2008: € 36 million) related to healthcare and other costs and € 22 million (2008: € 20 million) related to other post-employment benefits.

Pensions

The DSM group companies have various pension plans, which are geared to the local regulations and practices in the countries in which they operate. As these plans are designed to comply with the statutory framework, tax legislation, local customs and economic situation of the countries concerned, it follows that the nature of the plans varies from country to country. The plans are based on local legal and contractual obligations.

Defined benefit plans are applicable to certain employees in the Netherlands, Germany, the United Kingdom, Switzerland, the United States and Austria. The rights that can be derived from these plans are based primarily on length of service and the majority of the plans are based on final salary. The majority of the obligations are funded and have been transferred to independent pension funds and life-insurance companies. The German and the Austrian plan are wholly unfunded.

Together they represent 4% of the total defined benefit obligation.

The changes in the present value of the defined benefit obligations and in the fair value of plan assets of the major plans are listed below:

Present value of defined benefit obligations

	2009	2008
Balance at 1 January	**4,454**	**4,478**
Changes:		
- Service costs	81	80
- Interest costs	241	236
- Contributions by employees	23	21
- Actuarial (gains)/losses	376	(132)
- Curtailments	(1)	-
- Settlements	(4)	-
- Past service costs	(7)	2
- Exchange differences on foreign plans	5	7
- Benefits paid	(227)	(239)
- Other changes	1	1
Balance at 31 December	**4,942**	**4,454**

Fair value of plan assets

	2009	2008
Balance at 1 January	**4,213**	**5,400**
Changes:		
- Expected return on plan assets	266	330
- Actuarial gains/(losses)	485	(1,402)
Actual return on plan assets	**751**	**(1,072)**
- Settlements	(3)	-
- Contributions by employer	113	92
- Contributions by employees	23	21
- Exchange differences on foreign plans	6	11
- Benefits paid	(227)	(239)
- Other changes	-	-
Balance at 31 December	**4,876**	**4,213**

The amounts recognized in the balance sheet are as follows:

	2009	2008
Present value of funded obligations	(4,722)	(4,252)
Fair value of plan assets	4,876	4,213
	154	**(39)**
Present value of unfunded obligations	(220)	(202)
Funded status	**(66)**	**(241)**
Unrecognized past service costs	74	87
Effect of asset ceiling	(6)	-
Net liabilities / net assets	**2**	**(154)**
Of which:		
- Liabilities (Employee benefits liabilities)	(280)	(291)
- Assets (Prepaid pension costs)	282	137

The changes in the net assets recognized in the balance sheet are as follows:

	2009	2008
Balance at 1 January	**(154)**	**940**
Net expense recognized in the income statement	(61)	0
Actuarial gains/(losses) recognized directly in equity during the year	109	(1,270)
Asset ceiling recognized directly in equity during the year	(6)	85
Contributions by employer	113	92
Exchange differences on foreign plans	1	0
Other changes	-	(1)
Balance at 31 December	**2**	**(154)**

In 2010 DSM is expected to contribute € 117 million (actual 2009: € 113 million) to its defined benefit plans.

The major categories of pension-plan assets as a percentage of total plan assets are as follows:

	2009	2008
Bonds	57%	63%
Equities	37%	29%
Property	4%	4%
Other	2%	4%

The pension-plan assets do not include ordinary DSM shares nor property occupied by DSM.

The total expense recognized in the income statement is as follows:

	2009	2008
Current service costs	81	80
Interest on obligation	241	236
Expected return on plan assets	(266)	(330)
Past service costs	5	14
(Gains)/losses on curtailments and settlements	0	-
Costs related to defined benefit plans	**61**	**(0)**

The main actuarial assumptions for the year (weighted averages) are:

	2009		2008	
	The Netherlands	Other countries	The Netherlands	Other countries
Discount rate	5.20%	4.52%	5.75%	4.70%
Price inflation	1.75%	2.09%	1.75%	2.19%
Salary increase	1.75%	2.97%	1.75%	3.10%
Pension increase	1.75%	1.63%	1.75%	1.48%
Expected return on plan assets	5.96%	4.91%-8.00%	6.45%	4.8%-8.75%

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 2009 assumptions are used for the determination costs related to defined benefit plans for 2010.

Year-end amounts for the current and previous periods are as follows:

	2009	2008	2007	2006
Defined benefit obligations	(4,942)	(4,454)	(4,478)	(4,906)
Plan assets	4.876	4,213	5,400	5,466
Funded status of asset/(liability)	**(66)**	**(241)**	**922**	**560**
Experience adjustments on plan assets, gain/(loss)	485	(1,402)	(331)	25
Experience adjustments on plan liabilities, gain/(loss)	(40)	26	21	(94)
Gain/(loss) on liabilities due to changes in assumptions	(336)	106	519	459

Healthcare and other costs

In some countries, particularly in the United States, group companies provide retired employees and their surviving dependants with post-employment benefits other than pensions, mainly allowances for healthcare expenses and life-insurance premiums. Some of these are unfunded; in these cases, approved expense claims are reimbursed out of the financial resources of the group companies concerned.

The amounts included in the balance sheet are as follows:

	2009	2008
Present value of funded obligations	(25)	(37)
Fair value of plan assets (including reimbursement rights)	6	8
	(19)	**(29)**
Present value of unfunded obligations	(3)	(6)
Funded status	**(22)**	**(35)**
Unrecognized past service costs	-	(1)
Net liability (Employee benefits liabilities)	**(22)**	**(36)**

The amounts recognized in the income statement are as follows:

	2009	2008
Current service costs	1	2
Interest costs	2	2
Expected return on plan assets and reimbursement rights	(1)	(1)
Past service costs	0	(0)
(Gains)/losses on curtailments or settlements	(15)	-
Costs related to healthcare plans	**(13)**	**3**

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:

	2009	2008
Balance at 1 January	**(36)**	**(33)**
Expense recognized in the income statement	13	(3)
Actuarial gains/(losses) recognized directly in equity	0	0
Benefits paid/employer contributions	1	2
Exchange differences	0	(2)
Balance at 31 December	**(22)**	**(36)**

In 2010 DSM is expected to contribute € 1 million (2009: € 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:

	2009	2008
Discount rate	6.00%	6.25%
Price inflation	2.75%	3.5%
Salary increase	3.75%	4.5%
Healthcare-cost trend (initial rate)	8.00%	9.0%
Healthcare-cost trend (ultimate rate)	4.75%	4.75%

The 2009 assumptions are used for the determination post-employment healthcare costs for 2010.

A one-percentage-point change in assumed healthcare cost trend rates would have the following impact:

	One-percentage-point increase	One-percentage-point decrease
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:

	2009	2008	2007	2006
Defined benefit obligations	(28)	(43)	(40)	(40)
Plan assets (including reimbursement rights)	6	8	8	8
Funded status of asset/(liability)	**(22)**	**(35)**	**(32)**	**(32)**
Experience adjustments of plan liabilities (loss)	0	1	1	0

26 Net debt

Net debt is an important parameter for DSM's financial policy. In order to maintain a single A credit rating DSM aims for a net debt that is between 30 and 40% of net debt plus equity. Furthermore, operating profit before amortization and depreciation should amount to at least 8.5 times the balance of financial income and expense. DSM's financial policy is discussed in depth in the section on Financial policy on page 46.

	2009	2008
Borrowings:		
- Non-current borrowings	2,066	1,559
- Current borrowings	138	734
Total borrowings	**2,204**	**2,293**
Current investments	(7)	(4)
Cash and cash equivalents	(1,340)	(601)
Financial derivatives, assets (see also note 24)	(88)	(86)
Financial derivatives, liabilities (see also note 24)	61	179
Net debt	**830**	**1,781**

Cash at year-end 2009 was not being used as collateral and was not restricted (2008: also zero).

27 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:

	2009		2008	
	Operating working capital	In % of net sales	Operating working capital	In % of net sales
Balance at 1 January	2,102		1,875	
Balance at 31 December	1,511	19.5	2,102	22.6
Balance sheet change	**(591)**		**227**	
Adjustments:				
- Exchange differences	(7)		(59)	
- Changes in consolidation	18		7	
- Reclassification to assets held for sale	12		-	
- Transfers	2		5	
Total	**(566)**		**180**	

28 Share-based compensation

Under the DSM Stock Incentive Plan, performance and non-performance stock options or Stock Appreciation Rights (SARs) are granted to senior management. Such a grant takes place on the first day on which the DSM stock is quoted ex-dividend following the Annual General Meeting of Shareholders. The opening price of the DSM stock on that day is the exercise price of the stock options and SARs.

Stock Options and SARs have a term of eight years and are subject to a vesting period of three years. After this three-year period one third of the stock options and SARs (non-performance-related) will vest and two thirds of the stock options and SARs that are performance-related will become exercisable in whole, in part, or not at all, depending on the total shareholder return (TSR) achieved by DSM in comparison with a peer group. Non-vested performance-related stock options and SARs will be forfeited. If employment is terminated prior to the vesting date, specific rules regarding vesting and forfeitures apply. The exercise of stock incentives is regulated.

Besides stock options tied to performance, performance shares have been granted to the members of the Managing Board. Performance shares vest after three years upon the realization of a predefined performance measure. The performance schedule is the same as that for stock options.

All stock options and performance shares are settled by physical delivery of DSM shares, while SARs are settled in cash.

Overview of stock options and Stock Appreciation Rights for management

Year of issue	Out-standing at 31 Dec. 2008	In 2009			Out-standing at 31 Dec. 2009	Fair value on grant date (€)	Exercise price (€)	Expiry date
		Granted	Exercised	Forfeited/ expired				
2001	42,450	-	(16,500)	(25,950)	-	3.88	19.990	30 Mar. 2009
2002	399,050	-	(288,250)	-	110,800	5.22	23.505	4 Apr. 2010
2003	381,200	-	(22,600)	-	358,600	3.09	18.195	4 Apr. 2011
2003[1]	81,200	-	(6,700)	-	74,500	3.64	19.770	3 Nov. 2011
2004	800,001	-	(124,808)	-	675,193	2.97	17.895	2 Apr. 2012
2005[2]	949,342	-	(27,250)	(13,000)	909,092	6.15	29.050	8 Apr. 2013
2006[2,3]	2,615,225	-	-	(921,875)	1,693,350	8.95	38.300	31 Mar. 2014
2007[2]	3,041,450	-	-	(149,000)	2,892,450	7.69	33.600	30 Mar. 2015
2008[2]	3,307,000	-	(26,450)	(128,250)	3,152,300	5.73	29.790	28 Mar. 2016
2009[2]	-	3,439,013	(1,250)	(51,000)	3,386,763	2.83	21.100	27 Mar. 2017
2009 Total	**11,616,918**	**3,439,013**	**(513,808)**	**(1,289,075)**	**13,253,048**			
Of which vested	3,287,143				4,340,485			
	at 31 Dec. 2007				at 31 Dec. 2008			
2008 Total	**11,192,999**	**3,377,350**	**(1,463,445)**	**(1,489,986)**	**11,616,918**			
Of which vested	3,330,396				3,287,143			

[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 2006 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. 2008	In 2009			Outstanding at 31 Dec. 2009	Fair value on grant date (€)	Exercise price (€)	Exercise period
		Granted	Exercised	Forfeited/expired				
2005	137,062	-	(10,804)	(440)	125,818	4.29	29.05	until Apr. 2010
2006	539,799	-	-	(2,291)	537,508	6.03	38.30	until Mar. 2011
2007	463,685	-	(1,924)	(1,849)	459,912	4.27	33.60	until Mar. 2012
2008	445,968	-	(22,251)	(1,586)	422,131	3.27	29.79	until Mar. 2013
2009	-	825,632	(246,980)	(1,170)	577,482	2.31	21.10	until Mar. 2014
Total	**1,586,514**	**825,632**	**(281,959)**	**(7,336)**	**2,122,851**			
2008	1,418,647	657,428	(480,257)	(9,304)	1,586,514			

Based on the 2008 result, 825,632 employee option rights were granted in 2009.

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 benefit costs).

The following assumptions were used in the Black-Scholes model to determine the fair value at grant date:

	2009	2008
Risk-free interest rate (6 years risk free)	2.59%	3.75%
Expected option life of management option rights	6 years	6 years
Nominal option life of management option rights	8 years	8 years
Expected option life of employee option rights	2.5 years	2.5 years
Nominal option life of employee option rights	5 years	5 years
Stock-price volatility of management option rights	26%	26%
Stock-price volatility of employee option rights	26%	20%

In the costs for wages and salaries an amount of € 20 million is included for share-based compensation (2008: € 13 million). In the following table the share-based compensation is specified:

	2009	2008
Stock options	12	14
Stock appreciation rights	7	(2)
Performance shares	1	1
Total expense	20	13

29 Interests in joint ventures

DSM's share in its most important joint ventures is disclosed below:

Company	Location	Country	DSM interest	
			2009	2008
DEX-Plastomers VoF	Heerlen	NL	50%	50%
Noordgastransport B.V.[1]	Zoetermeer	NL	-	40%
EdeA VoF	Sittard-Geleen	NL	50%	50%

[1] Disposed of in 2009

The financial data of 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 these joint ventures are disclosed below:

	2009	2008
Non-current assets	115	159
Current assets	56	68
Non-current liabilities	(79)	(100)
Current liabilities	(33)	(44)
Net assets	**59**	**83**
Net sales	68	134[1]
Expenses	(57)	(95)
Net profit	**11**	**39**[1]

[1] After disposal of Noordgastransport B.V. in 2009, the restated net sales amount to € 77 million and the net profit to € 4 million

30 Interests in associates

DSM's share in its most important associates is disclosed below:

Company	Location	Country	DSM interest	
			2009	2008
Nylon Polymer Company, LLC[1]	Augusta	US	-	25%
Xinhui Meida - DSM Nylon Chips Co. Ltd.	Guangzhou	CN	25%	25%

[1] Remaining 75% acquired in 2009

Investments in associates are accounted for by the equity method. The following table provides summarized financial information on associates on a 100% basis.

	2009	2008
Non-current assets	57	61
Current assets	76	45
Non-current liabilities	(41)	(15)
Current liabilities	(37)	(35)
Net assets	**55**	**56**
Net sales	134	256
Net result	2	(16)

31 Related parties

Related-parties disclosure relates entirely to the key management of DSM, being represented by the Managing Board and Supervisory Board of DSM.

The total remuneration paid (including pension expenditures and other commitments) of the members of the Managing Board amounted to € 6.1 million (2008: € 4.6 million). This includes fixed annual salary including other items to the amount of € 3.0 million (2008: € 2.8 million), short-term incentives to the amount of € 2.7 million (2008: € 1.6 million), and pension expenditure amounting to € 0.4 million (2008: € 0.2 million). For further information about the remuneration of the members of the Managing Board see note 10 to the financial statements of Royal DSM N.V.

Members of the Supervisory Board received a fixed remuneration (included in Other operating costs) totaling € 0.3 million (2008: € 0.3 million).

Further information about the remuneration of Managing Board members and Supervisory Board members and their share option rights is given on page 99 of the Report by the Supervisory Board.

32 Service fees paid to external auditors

The service fees recognized in the financial statements 2009 for Ernst & Young network amounted to € 7.8 million (2008: € 11.6 million). The amounts per service category are shown in the following table.

	Total service fee		Of which Ernst & Young Accountants LLP	
	2009	2008	**2009**	2008
Audit of the financial statements	4.5	4.7	2.1	1.6
Other assurances services	0.6	1.1[1]	0.5	0.7
Tax services	2.0	2.2	-	-
Sundry services	0.7	3.6[1]	-	-
Total	**7.8**	**11.6**	**2.6**	**2.3**

[1] In 2008 the other assurance services and sundry services included additional services related to the carve-out process of DSM businesses now included in the Base Chemicals and Materials cluster

Financial statements

Financial statements of Royal DSM N.V.

Balance sheet at 31 December

x € million	Notes	2009	2008
Assets			
Non-current assets			
Intangible assets	2	414	409
Property, plant and equipment	3	14	36
Financial assets	4	10,902	9,816
Deferred tax assets		30	40
Other non-current assets		9	5
		11,369	**10,306**
Current assets			
Receivables	5	126	155
Financial derivatives		-	1
Cash and cash equivalents		2	0
		128	**156**
Total		**11,497**	**10,462**
Shareholders' equity and liabilities			
Royal DSM N.V. Shareholders' equity	6	4,949	4,633
Non-current liabilities			
Deferred tax liabilities		-	-
Provisions	7	2	2
Borrowings	8	1,932	1,437
		1,934	**1,439**
Current liabilities			
Provisions	7	4	2
Borrowings	8	-	536
Financial derivatives		49	106
Other current liabilities	9	4,561	3,746
		4,614	**4,390**
Total		**11,497**	**10,462**

Income statement

x € million	2009	2008
Share in results of subsidiaries, joint ventures and associates (after income tax expense)	669	765
Other income and expense	(332)	(188)
Net profit attributable to equity holders of Royal DSM N.V.	**337**	**577**

6 Royal DSM N.V. Shareholders' equity

	2009	2008
Balance at 1 January	**4,633**	**5,310**
Net profit	337	577
Exchange differences, net of income tax	7	71
Net actuarial gains/(losses) on defined benefit obligations	81	(944)
Net asset ceiling related to defined benefit plans	(4)	64
Dividend	(205)	(220)
Repurchase of ordinary shares	-	(250)
Proceeds from reissue of ordinary shares	18	47
Other changes	82	(22)
Balance at 31 December	**4,949**	**4,633**

For details see the consolidated statement of changes in equity (note 18).

Legal reserve
Since the profits retained in Royal DSM N.V.'s subsidiaries, joint ventures and associates can be distributed, and received in the Netherlands, without restriction, no legal reserve for retained profits is required. In Royal DSM N.V. Shareholders' equity an amount of € -115 million (2008: € -122 million) is included for Translation reserve, € 39 million (2008: € 30 million) for Hedging reserve and € 29 million (2008: € -31 million) for Fair value reserve.

7 Provisions

The total of non-current and current provisions increased by € 2 million. This is the net effect of the following changes:

	Environmental costs	Other provisions	Total
Balance at 1 January 2008	**3**	**3**	**6**
Changes in 2008:			
- Additions	1	0	1
- Releases	(0)	(2)	(2)
- Uses	(1)	(0)	(1)
Total changes	0	(2)	(2)
Balance at 31 December 2008	**3**	**1**	**4**
Of which current	1	1	2
Balance at 1 January 2009	**3**	**1**	**4**
Changes in 2009:			
- Additions	-	3	3
- Uses	(1)	-	(1)
Total changes	(1)	3	2
Balance at 31 December 2009	**2**	**4**	**6**
Of which current	1	3	4

8 Borrowings

	2009		2008	
	Total	Of which current	Total	Of which current
Debenture loans	1,722	-	1,398	177
Private loans	210	-	216	-
Credit institutions / commercial paper	-	-	359	359
Total	**1,932**	**-**	**1,973**	**536**

Of the total amount of borrowings outstanding at 31 December 2009, € 1,331 million had a remaining term of more than five years.

The repayment schedule for borrowings is as follows:

	2009	2008
2009	-	177
2010	-	-
2011	-	-
2012	-	-
2013 and 2014	601	108
2015 through 2019	1,331	1,329
Total	**1,932**	**1,614**

In agreements governing loans with a residual amount at year-end 2009 of € 1,932 million, none of which were of a current nature (31 December 2008: € 1,614 million, of which € 177 million of a current nature), clauses have been included which restrict the provision of security.

9 Other current liabilities

	2009	2008
Owing to subsidiaries	4,503	3,649
Other liabilities	16	94
Deferred items	42	3
Total	**4,561**	**3,746**

Contingent liabilities
Guarantee obligations on behalf of affiliated companies and third parties amounted to € 178 million (31 December 2008: € 200 million). Royal DSM N.V. has declared in writing that it accepts several liability for debts arising from acts-in-law of a number of consolidated companies. These debts are included in the consolidated balance sheet.

10 Remuneration of the members of the Managing Board

Total remuneration
The remuneration of the members of the Managing Board is determined by the Supervisory Board within the framework of the remuneration policy for 2008 and subsequent years as approved by the Annual General Meeting of Shareholders on 26 March 2008. More details about the remuneration policy are included in the Report by the Supervisory Board starting on page 99.

The total remuneration paid (including pension expenditure and other commitments) of the members of the Managing Board amounted to € 6.1 million (2008: € 4.6 million). The remuneration of the individual members of the Managing Board was as follows:

Feike Sijbesma: salary including other items € 808,000 (2008: € 796,000), short-term incentive € 736,000 (2008: € 396,000), pension expenditure € 113,000 (2008: € 57,000); Jan Zuidam: salary including other items € 664,000 (2008: € 529,000), short-term incentive € 481,000 (2008: € 317,000), pension expenditure € 66,000 (2008: € 35,000); Nico Gerardu: salary including other items € 513,000 (2008: € 506,000), short-term incentive € 496,000 (2008: € 317,000), pension expenditure € 76,000 (2008: € 38,000); Rolf-Dieter Schwalb: salary including other items € 513,000 (2008: € 506,000), short-term incentive € 484,000 (2008: € 317,000), pension expenditure € 76,000 (2008: € 38,000); Stephan Tanda: salary including other items € 516,000 (2008: € 508,000), short-term incentive € 489,000 (2008: € 213,000), pension expenditure € 76,000 (2008: € 38,000).

Outstanding and exercised stock incentives
The following table shows the stock incentives of the individual members of the Managing Board and the rights exercised.

Financial statements of Royal DSM N.V.

Overview of stock options

	Year of issue	Outstanding at 31 Dec. 2008	In 2009			Outstanding at 31 Dec. 2009	Average share price at exercise (€)	Exercise price (€)	Expiry date
			Granted	Exercised	Forfeited/ expired				
Feike Sijbesma	2002	60,000	-	(60,000)	-	-	30.767	23.505	4 Apr. 2010
	2003	60,000	-	-	-	60,000		18.195	4 Apr. 2011
	2004	60,000	-	-	-	60,000		17.895	2 Apr. 2012
	2005	7,500	-	-	-	7,500		29.050	8 Apr. 2013
	2006	30,000	-	-	(15,000)	15,000		38.300	31 Mar. 2014
	2007	30,000	-	-	-	30,000		33.600	30 Mar. 2015
	2008	37,500	-	-	-	37,500		29.790	28 Mar. 2016
	2009	-	37,500	-	-	37,500		21.100	27 Mar. 2017
	Total	**285,000**	**37,500**	**(60,000)**	**(15,000)**	**247,500**			
Of which vested		187,500				142,500			
Jan Zuidam	2002	60,000	-	(60,000)	-	-	30.687	23.505	4 Apr. 2010
	2003	60,000	-	-	-	60,000		18.195	4 Apr. 2011
	2004	60,000	-	-	-	60,000		17.895	2 Apr. 2012
	2005	7,500	-	-	-	7,500		29.050	8 Apr. 2013
	2006	30,000	-	-	(15,000)	15,000		38.300	31 Mar. 2014
	2007	30,000	-	-	-	30,000		33.600	30 Mar. 2015
	2008	30,000	-	-	-	30,000		29.790	28 Mar. 2016
	2009	-	30,000	-	-	30,000		21.100	27 Mar. 2017
	Total	**277,500**	**30,000**	**(60,000)**	**(15,000)**	232,500			
Of which vested		187,500				142,500			
Nico Gerardu	2002	36,000	-	(36,000)	-	-	32.876	23.505	4 Apr. 2010
	2003	36,000	-	-	-	36,000		18.195	4 Apr. 2011
	2004	36,000	-	-	-	36,000		17.895	2 Apr. 2012
	2005	18,000	-	-	-	18,000		29.050	8 Apr. 2013
	2006	30,000	-	-	(15,000)	15,000		38.300	31 Mar. 2014
	2007	30,000	-	-	-	30,000		33.600	30 Mar. 2015
	2008	30,000	-	-	-	30,000		29.790	28 Mar. 2016
	2009	-	30,000	-	-	30,000		21.100	27 Mar. 2017
	Total	**216,000**	**30,000**	**(36,000)**	**(15,000)**	**195,000**			
Of which vested		126,000				105,000			
Rolf-Dieter Schwalb	2007	30,000	-	-	-	30,000		33.600	30 Mar. 2015
	2008	30,000	-	-	-	30,000		29.790	28 Mar. 2016
	2009	-	30,000	-	-	30,000		21.100	17 Mar. 2017
	Total	**60,000**	**30,000**	**-**	**-**	**90,000**			
Of which vested		-				-			
Stephan Tanda	2007	30,000	-	-	-	30,000		33.600	30 Mar. 2015
	2008	30,000	-	-	-	30,000		29.790	28 Mar. 2016
	2009	-	30,000	-	-	30,000		21.100	17 Mar. 2017
	Total	**60,000**	**30,000**	**-**	**-**	**90,000**			
Of which vested		-				-			

Overview of performance shares

	Year of issue	Outstanding at 31 Dec. 2008	In 2009		Outstanding at 31 Dec. 2009	Vested as of 31 Dec. 2009	Year of vesting	Share price at date of grant (€)
			Granted	Forfeited / expired				
Feike Sijbesma	2005[1]	2,000	-	-	2,000	2,000	2008	29.050
	2006[1]	8,000	-	(4,000)	4,000	4,000	2009	38.300
	2007	8,000	-	-	8,000	-		33.600
	2008	10,000	-	-	10,000	-		29.790
	2009	-	10,000	-	10,000	-		21.100
	Total	**28,000**	**10,000**	**(4,000)**	**34,000**	6,000		
Jan Zuidam	2005[1]	2,000	-	-	2,000	2,000	2008	29.050
	2006[1]	8,000	-	(4,000)	4,000	4,000	2009	38.300
	2007	8,000	-	-	8,000	-		33.600
	2008	8,000	-	-	8,000	-		29.790
	2009	-	8,000	-	8,000	-		21.100
	Total	**26,000**	**8,000**	**(4,000)**	**30,000**	6,000		
Nico Gerardu	2006[1]	8,000	-	(4,000)	4,000	4,000	2009	38.300
	2007	8,000	-	-	8,000	-		33.600
	2008	8,000	-	-	8,000	-		29.790
	2009	-	8,000	-	8,000	-		21.100
	Total	**24,000**	**8,000**	**(4,000)**	**28,000**	4,000		
Rolf-Dieter Schwalb	2007	8,000	-	-	8,000	-		33.600
	2008	8,000	-	-	8,000	-		29.790
	2009	-	8,000	-	8,000	-		21.100
	Total	**16,000**	**8,000**	**-**	**24,000**	-		
Stephan Tanda	2007	8,000	-	-	8,000	-		33.600
	2008	8,000	-	-	8,000	-		29.790
	2009	-	8,000	-	8,000	-		21.100
	Total	**16,000**	**8,000**	**-**	**24,000**	-		

[1] The shares of the series 2005 and 2006 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 members of the Managing Board have themselves invested in DSM shares. At year-end 2009 the members of the Managing Board (including Jan Zuidam, retired at 1 January 2010) together held (excluding performance shares) 34,479 shares (year-end 2008: 23,027) in Royal DSM N.V.

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

11 Remuneration of the members of the Supervisory Board

The total remuneration (annual fixed fee and annual committee membership fee) of the members of the Supervisory Board amounted to €0.3 million (2008: €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	
				2009	2008
Cor Herkströter, chairman	50,000	7,500	3,483	60,983	60,999
Henk Bodt, deputy chairman till 26 March 2008	-	-	-	-	10,937
Ewald Kist, deputy chairman as from 26 March 2008	35,000	5,000	3,483	43,483	43,499
Louise Gunning-Schepers as from 26 March 2008	35,000	-	3,483	38,483	28,874
Pierre Hochuli	35,000	5,000	1,250	41,250	40,000
Claudio Sonder	35,000	5,000	1,250	41,250	41,250
Tom de Swaan	35,000	7,500	3,483	45,983	45,374
Cees van Woudenberg	35,000	5,000	3,483	43,483	43,499
Total	**260,000**	**35,000**	**19,915**	**314,915**	
Total 2008	260,000	35,000	19,432	-	314,432

At year-end 2009 the members of the Supervisory Board held no shares in Royal DSM N.V. (same as in 2008).

Heerlen, 22 February 2010

Managing Board,

Feike Sijbesma, Chairman/CEO
Rolf-Dieter Schwalb, CFO
Nico Gerardu
Stephan Tanda

Heerlen, 23 February 2010

Supervisory Board,

Cor Herkströter, Chairman
Ewald Kist, Deputy Chairman
Louise Gunning-Schepers
Pierre Hochuli
Claudio Sonder
Tom de Swaan
Cees van Woudenberg

Auditor's report

To the Shareholders and the Supervisory Board of Royal DSM N.V.

Report on the financial statements

We have audited the accompanying financial statements of Royal DSM N.V., Heerlen. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2009, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at December 31, 2009, the company income statement for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Report by the Managing Board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Royal DSM N.V. as at December 31, 2009, and of its result and its cash flow 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 Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Royal DSM N.V. as at December 31, 2009, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the Report by the Managing Board as set out on page 20 to 96 is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Maastricht, 23 February 2010
Ernst & Young Accountants LLP

was signed by P.J.A.M. Jongstra

Profit appropriation

According to Article 32 of the Royal DSM N.V. Articles of Association and with the approval of the Supervisory Board, every year the Managing Board determines the portion of the net profit to be appropriated to the reserves. For the year 2009 the net profit is € 337 million and the amount to be appropriated to the reserves has been established at € 132 million. From the subsequent balance of the net profit (€ 205 million), dividend is first distributed on the cumulative preference shares B. At the end of 2009 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 2009 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 2009, the final dividend will then amount to € 0.15 per cumulative preference share A.

The profits remaining after distribution of these dividends (€ 195 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 2009 would amount to € 1.20 per share. An interim dividend of € 0.40 per ordinary share having been paid in August 2009, the final dividend would then amount to € 0.80 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	**2009**	2008
Net profit	337	577
Profit appropriation:		
- To be added to the reserves	132	373
- Dividend on cumprefs A	10	10
- Interim dividend on ordinary shares	65	65
- Final dividend payable on ordinary shares	130	129

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. 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 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 purpose of such agreement is, amongst other things, for the Foundation to allow DSM the opportunity to determine its position, for example with regard to a possible bidder for DSM shares, to examine his 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 outstanding.

The Foundation acquired no preference shares B in 2009.

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 2009 the Foundation Committee was composed as follows:

Floris Maljers, chairman
Maarten van Veen, vice-chairman
Mick den Boogert

Financial statements

Other information

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders is to be held at the DSM head office in Heerlen (Netherlands) on Wednesday, 31 March 2010 at 14.00 hours.

Important dates

Ex-dividend quotation	Tuesday, 6 April 2010
Publication of first-quarter results	Wednesday, 28 April 2010
Publication of second-quarter results	Tuesday, 3 August 2010
Publication of third-quarter results	Tuesday, 2 November 2010
Annual report 2010	Wednesday, 23 February 2011

Financial statements

DSM figures: five-year summary

Balance sheet

x € million	2009	2008	2007	2006	2005
Assets					
Intangible assets	1,053	1,200	1,037	1,008	1,003
Property, plant and equipment	3,477	3,641	3,440	3,655	3,750
Deferred tax assets	322	392	346	496	533
Prepaid pension costs	282	137	1,169	918	478
Associates	18	19	20	26	43
Other financial assets	233	176	126	100	189
Non-current assets	**5,385**	**5,565**	**6,138**	**6,203**	**5,996**
Inventories	1,359	1,765	1,547	1,515	1,535
Receivables	1,410	1,632	1,687	1,739	1,597
Financial derivatives	88	86	83	79	36
Current investments	7	4	4	3	5
Cash and cash equivalents	1,340	601	369	552	902
	4,204	**4,088**	**3,690**	**3,888**	**4,075**
Assets held for sale	25	-	-	-	43
Current assets	**4,229**	**4,088**	**3,690**	**3,888**	**4,118**
Total assets	**9,614**	**9,653**	**9,828**	**10,091**	**10,114**
Equity and liabilities					
Royal DSM N.V. Shareholders' equity	4,949	4,633	5,310	5,784	5,501
Minority interests	62	62	73	71	67
Equity	**5,011**	**4,695**	**5,383**	**5,855**	**5,568**
Deferred tax liabilities	115	122	344	383	219
Employee benefits liabilities	298	314	273	304	383
Provisions	103	190	170	188	166
Borrowings	2,066	1,559	1,560	907	1,381
Other non-current liabilities	49	65	35	44	53
Non-current liabilities	**2,631**	**2,250**	**2,382**	**1,826**	**2,202**
Employee benefits liabilities	26	33	9	21	23
Provisions	102	82	91	127	220
Borrowings	138	734	192	607	329
Financial derivatives	61	179	42	41	65
Other current liabilities	1,638	1,680	1,729	1,614	1,699
	1,965	**2,708**	**2,063**	**2,410**	**2,336**
Liabilities held for sale	7	-	-	-	8
Current liabilities	**1,972**	**2,708**	**2,063**	**2,410**	**2,344**
Total equity and liabilities	**9,614**	**9,653**	**9,828**	**10,091**	**10,114**

Income statement

x € million	**2009**	2008	2007	2006	2005
Net sales	7,866	9,297	8,757	8,380	8,195
Operating profit plus depreciation and amortization (EBITDA)	917	1,357	1,247	1,274	1,311
Operating profit (EBIT)	443	903	823	834	808
Net finance costs	(113)	(102)	(75)	(81)	(70)
Income tax expense	(83)	(196)	(183)	(198)	(180)
Share of the profit of associates	(4)	(3)	(2)	1	(2)
Net profit before exceptional items	**243**	**602**	**563**	**556**	**556**
Net profit from exceptional items	93	(31)	(129)	(4)	(36)
Profit for the year	**336**	**571**	**434**	**552**	**520**
Profit attributable to minority interests	1	6	(5)	(5)	7
Net profit attributable to equity holders of Royal DSM N.V.	**337**	**577**	**429**	**547**	**527**
Net profit attributable to holders of cumulative preference shares	(10)	(10)	(10)	(10)	(16)
Net profit used for calculating earnings per share	**327**	**567**	**419**	**537**	**511**
Capital employed[1]	5,673	6,558	5,982	6,303	6,221
Capital expenditure:					
- Intangible assets and Property, plant and equipment	472	587	475	457	401
- Acquisitions	(5)	152	93	44	573
Disposals	287	27	52	165	222
Depreciation and amortization	474	454	424	451	567
Net debt	830	1,781	1,338	921	832
Dividend	205	204	214	197	207
Workforce at 31 December in headcounts (x 1000)	23	24	23	22	22
Employee benefits costs (x € million)	1,532	1,465	1,389	1,332	1,385
Ratios[1]					
- Net sales / average capital employed	1.29	1.48	1.43	1.34	1.34
- Current assets / current liabilities	2.14	1.51	1.78	1.61	1.76
- Equity / total assets	0.52	0.49	0.55	0.58	0.55
- Gearing (net debt / equity plus net debt)	0.14	0.28	0.20	0.14	0.13
- EBIT / net sales in %	5.6	9.7	9.4	10.0	9.9
- CFROI in %	6.1	8.7	8.3	8.5	9.1
- Net profit / average Royal DSM N.V. Shareholders' equity available to holders of ordinary shares in %	7.2	11.9	7.9	9.9	10.1
- EBITDA / net finance costs	8.1	13.3	16.6	15.7	18.7

[1] Before reclassification to Assets held for sale

Financial statements

DSM figures: five-year summary

Information about ordinary DSM shares per ordinary share in €	2009	2008	2007	2006	2005
Net profit before exceptional items	1.44	3.64	3.07	2.85	2.82
Net profit	2.01	3.45	2.35	2.83	2.68
Cash flow	6.05	6.20	5.56	5.21	5.65
Royal DSM N.V. Shareholders' equity	28.92	27.12	30.42	30.03	27.59
Dividend:	1.20[1]	1.20	1.20	1.00	1.00
- Interim dividend	0.40	0.40	0.33	0.33	0.29
- Final dividend	0.80	0.80	0.87	0.67	0.71
Pay-out including dividend on cumulative preference shares as % of net profit before exceptional items	84	36	35	38	33
Dividend yield (dividend as % of average price of an ordinary DSM share)	4.8	3.9	3.3	2.9	3.4
Share prices on Euronext Amsterdam:					
- Highest price	34.84	41.27	39.87	39.70	35.22
- Lowest price	16.93	15.76	31.63	28.58	23.07
- At 31 December	34.46	18.33	32.33	37.43	34.50
(x 1000)					
Number of ordinary shares outstanding:					
- At 31 December	163,037	162,227	166,897	184,850	190,923
- Average	162,364	164,196	178,541	189,550	190,783
Daily trading volumes on Euronext Amsterdam:					
- Average	1,270	1,783	1,590	1,301	1,063
- Lowest	75	152	94	267	238
- Highest	4,376	5,894	11,347	5,268	6,563

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

Financial statements

Explanation of some financial concepts and ratios

General

In calculating financial profitability ratios, use is made of the average of the opening and closing values of balance sheet items in the year under review.

The financial indicators per ordinary share are calculated on the basis of the average number of ordinary shares outstanding (average daily number). In calculating Royal DSM N.V. Shareholders' equity per ordinary share, however, the number of shares outstanding at year-end is used.

In calculating the figures per ordinary share and the 'net profit as a percentage of average Royal DSM N.V. Shareholders' equity available to holders of ordinary shares', the amounts available to the holders of cumulative preference shares are deducted from the profits and from Royal DSM N.V. Shareholders' equity.

Definitions

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.

Cash flow
Cash flow is net profit plus depreciation and amortization.

Cash flow return on investment (CFROI)
Cash flow return on investment is the sustainable cash flow (recurring EBITDA minus related annual tax and minus 1% depreciation on weighted average historic asset base) divided by weighted average asset base plus average working capital.

Disposals
This includes the disposal of intangible assets and property, plant and equipment as well as the disposal of participating interests and other securities.

Earnings before interest, tax, depreciation and amortization (EBITDA)
EBITDA is the sum total of operating profit plus depreciation and amortization.

Earnings per ordinary share
Net profit attributable to equity holders of Royal DSM N.V. minus dividend on cumulative preference shares, divided by the average number of ordinary shares outstanding.

Operating working capital
The total of inventories and trade receivables, less trade payables.

Return on capital employed (ROCE)
Operating profit as a percentage of average capital employed.

Total shareholder return (TSR)
Total shareholder return is capital gain plus dividend paid.


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