Bright Science. Brighter Living.™

Royal DSM Integrated Annual Report 2012

HEALTH · NUTRITION · MATERIALS

DSM
BRIGHT SCIENCE. BRIGHTER LIVING.

Life Sciences and Materials Sciences

DSM, the Life Sciences and Materials Sciences company

Our purpose is to create brighter lives for people today and generations to come. We connect our unique competences in Life Sciences and Materials Sciences to create solutions that nourish, protect and improve performance.

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

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

DSM – Bright Science. Brighter Living.™
Royal DSM is a global science-based company active in health, nutrition and materials. By connecting its unique competences in Life Sciences and Materials Sciences DSM is driving economic prosperity, environmental progress and social advances to create sustainable value for all stakeholders. DSM delivers innovative solutions that nourish, protect and improve performance in global markets such as food and dietary supplements, personal care, feed, pharmaceuticals, medical devices, automotive, paints, electrical and electronics, life protection, alternative energy and bio-based materials. DSM's 23,500 employees deliver annual net sales of around € 9 billion. The company is listed on NYSE Euronext. More information can be found at www.dsm.com.

Key data for 2012

Net sales, continuing operations (x million) € 9,131	**Operating profit plus depreciation and amortization, continuing operations**[1] (x million) € 1,109	**Net profit, continuing operations**[1] (x million) € 437	**Net profit, total DSM** (x million) € 288
Cash provided by operating activities, total DSM (x million) € 730	**Capital expenditure including acquisitions** (x million) € 1,980	**Core earnings per ordinary share, continuing operations**[3] € 2.78	**Dividend per ordinary share**[2] € 1.50
ROCE, continuing operations (in %) 8.9	**Innovation sales as % of total sales** 18	**Sales in High Growth Economies as % of total sales** 38	**China sales, continuing operations** (x USD million) 1,700
ECO+ solutions as % of innovation pipeline, total DSM 80	**ECO+ solutions as % of running business, total DSM** 43	**Energy use, continuing operations** (in petajoules) 41	**Water use, continuing operations** (in million m^3) 150
Greenhouse-gas emissions, continuing operations (x million tons) 4.2	**Workforce** (at year-end) 23,498	**Employee engagement - favorable score** (in %) 72	**Frequency Index of recordable injuries** (per 100 DSM employees and contractor employees) 0.44

1 Before exceptional items
2 Subject to approval by the Annual General Meeting of Shareholders
3 Before exceptional items and excluding amortization of intangible assets related to purchase accounting

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Key data

	2012	2011
People		
Workforce at 31 December (headcount)	23,498	22,224
Female/male ratio	26/74	26/74
Total employee benefits costs in € million	1,761	1,655
Frequency Index of recordable injuries (per 100 DSM employees and contractor employees)	0.44	0.53
Employee engagement - favorable score (in %)	72	71
Planet		
Energy use (in petajoules), continuing operations	41	44
Water use (in million m^3), continuing operations	150	157
Greenhouse-gas emissions in CO_2 equivalents (x million tons), continuing operations	4.2	4.6
Emission of volatile organic compounds (x 1000 tons), continuing operations	3.4	4.2
COD (Chemical Oxygen Demand) discharges (x 1000 tons), continuing operations	5.5	7.1
ECO+ solutions as % of innovation pipeline, total DSM[1]	80	94
ECO+ solutions as % of running business, total DSM	43	41
Profit (in € million, unless otherwise indicated)		
Net sales, continuing operations	9,131	9,048
China sales in USD million, continuing operations	1,700	2,002
Operating profit plus depreciation and amortization, continuing operations (EBITDA)[4]	1,109	1,296
Operating profit, continuing operations (EBIT)[4]	635	866
Net profit, total DSM	288	814
Cash provided by operating activities	730	882
Dividend for DSM shareholders	263	247
Capital expenditure including acquisitions	1,980	1,502
Net debt	1,668	318
Shareholders' equity	5,874	5,784
Total assets	11,966	11,157
Capital employed, continuing operations	8,084	6,581
Market capitalization at 31 December[2]	8,307	6,504
Per ordinary share in €		
Core earnings, continuing operations	2.78	3.66
Dividend	1.50[3]	1.45
Ratios (%)		
Sales in High Growth Economies / net sales (total DSM)	38	39
Innovation sales / net sales (total DSM)	18	18
EBITDA / net sales (continuing operations)	12.1	14.3
Operating working capital / annualized net sales (continuing operations)	20.7	20.2
ROCE (continuing operations)	8.9	14.0
Gearing (net debt / equity plus net debt)	21.6	5.1
Equity / total assets	50.5	53.5
Cash provided by operating activities / net sales (total DSM)	8.0	9.6

[1] For a definition of ECO+ see page 224
[2] Source: Bloomberg
[3] Subject to approval by the Annual General Meeting of Shareholders
[4] Before exceptional items

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

Life Sciences

Nutrition

Continued value growth

The Nutrition cluster comprises DSM Nutritional Products and DSM Food Specialties. These serve the food and beverage, feed, personal care, dietary supplements and pharmaceutical industries with global capabilities and a deep understanding of customer and market needs. With customized formulation activities at more than 60 locations and a presence in more than a hundred countries, customer intimacy is key. DSM's nutrition technologies are broad, utilizing competences in biotechnology (including fermentation) and state-of-the-art process technology. DSM has the world's broadest ingredients portfolio and holds leading positions in many large ingredient markets for animal and human nutrition and health, like vitamins, carotenoids, enzymes, cultures, yeast extracts, polyunsaturated fatty acids, premixes and formulations.

Pharma

Leveraging partnerships for growth

The Pharma cluster includes the business group DSM Pharmaceutical Products (DPP), one of the world's leading custom manufacturing suppliers to pharmaceutical and biopharmaceutical industries. Many of today's medicines around the world contain ingredients produced by DPP. The cluster also contains DSM's 50 percent interest in the DSM Sinochem Pharmaceuticals joint venture (DSP). DSP was formed in 2011 from the former DSM business group DSM Anti-Infectives. DSP is one of the few producers and marketers of beta-lactam active pharmaceutical ingredients with a global presence, using cutting-edge manufacturing technology with a low environmental footprint.

Materials Sciences

Performance Materials

Growing via sustainable, innovative solutions

The Performance Materials cluster comprises DSM Engineering Plastics, DSM Dyneema and DSM Resins & Functional Materials. These business groups specialize in the manufacture of technologically sophisticated, high-quality materials that are tailored to meet customers' performance criteria, and that help customers substitute traditional solutions with more sustainable and durable alternatives. DSM's performance materials are used in a wide variety of end-use markets like automotive, aviation, electrical and electronics, marine, sports and leisure, paint and coatings, and construction. Sustainability is a true driver of new business and innovations in materials. DSM's materials portfolio is shifting towards a higher value added mix by introducing innovative, more sustainable solutions.

Polymer Intermediates

Strengthening backward integration for DSM Engineering Plastics

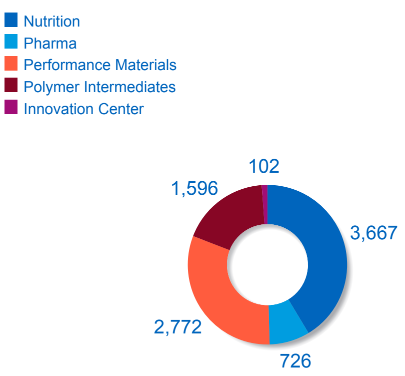
The Polymer Intermediates product cluster comprises caprolactam and acrylonitrile produced by DSM Fibre Intermediates (DFI). These products are raw materials for synthetic fibers and plastics. Caprolactam is a key feedstock for DSM Engineering Plastics' polyamide production. Globally, DFI is the largest merchant caprolactam supplier and the third largest merchant acrylonitrile supplier. In addition, the business group produces ammonium sulfate, sodium cyanide, cyclohexanone and diaminobutane.

Innovation Center

As an enabler and accelerator of innovation, the Innovation Center facilitates DSM's strategic transition towards becoming an intrinsically innovative organization. Innovation at DSM is guided by functional excellence in order to find the best sustainable and commercially viable solutions to market needs, helping create profitable growth. In addition to the activities of the DSM Innovation Center (including DSM Venturing), this part of the company also includes the three Emerging Business Areas (EBAs). These EBAs are growth engines that focus on new business areas outside the scope of the company's business groups. DSM Biomedical develops novel materials-based solutions to meet the needs of the medical device and biopharmaceutical industries with coatings, drug delivery platforms and a wide range of biomedical materials for use in implantable medical devices. The EBA Bio-based Products & Services creates solutions for bioconversion of feedstocks for the production of bio-based chemicals and materials and develops the technologies to enable the production of bio-energy such as cellulosic biofuels. DSM Advanced Surfaces provides solutions for the development and application of smart coatings and is focused on solutions for the solar industry.

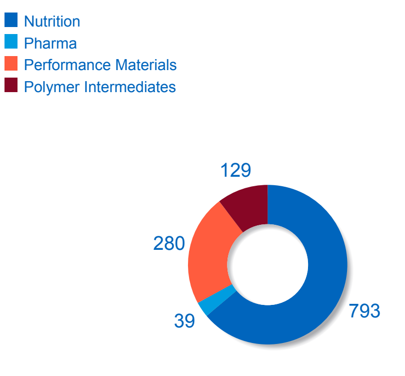
Sales per cluster in 2012

net sales in € million



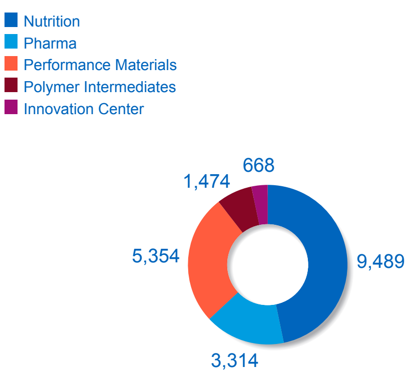
EBITDA per cluster in 2012

EBITDA in € million
excl. Innovation Center (-€ 38 million)



Workforce per cluster in 2012

headcount at year-end 2012



Letter from the Chairman

Dear reader,

As the world continues to face unprecedented challenges from both an economic, environmental and societal perspective, our existing approaches are being put to the test. Navigating through a decade that is already being dubbed the 'Turbulent Teens' is becoming increasingly challenging, as developments in our complex and interconnected world are happening with great speed. However, to DSM these challenges are also providing opportunities. We believe we can contribute to solutions and new approaches and we are committed to turning them into reality.

The innovative and sustainable solutions that we offer our customers help them address their current and future needs. These needs are a response to global trends and challenges. The global population is growing and aging, and is increasingly urban and increasingly wealthy. This all leads to increased consumption per capita and a bigger claim on the world's resources.

We see all this come together in the three key global societal trends that we have on our corporate radar screen: a global demographic shift, challenges in the field of the global climate and (alternative) energy use, and a growing focus on how to secure nutrition, health and wellness for all.

Our strategy in addressing these trends and meeting these needs has led us to focus on four growth drivers: High Growth Economies, Innovation, Sustainability and Acquisitions & Partnerships. In 2012 we once again delivered progress on all four growth drivers.

In the High Growth Economies, we continue to increase our sales and presence. In 2012 these economies accounted for 38 percent of our total sales versus 39 percent in 2011. This decrease was mainly due to lower caprolactam sales in China. Five years ago this was less than 30 percent. Most notable in 2012 were our investments in China (nutrition, resins and caprolactam) and our announcement of our upcoming expansion in Brazil, where we are preparing to acquire Tortuga, a leading company in nutritional supplements with a focus on pasture raised cattle.

We remain committed to R&D and innovation and have built further on our best practices. Evidence of this commitment is our new investment in R&D facilities in Delft and Sittard-Geleen (both in the Netherlands). During 2012 we further added over 300 new patents to our rich patent portfolio. In India and China we continued to develop regional innovation centers. We are firmly on track towards our target for innovation sales as a percentage of total sales. In 2012 this was 18 percent. Our target for 2015 is 20 percent.

Our Emerging Business Areas (EBAs) are doing very well. The acquisition of Kensey Nash has further strengthened the Biomedical EBA, making DSM a leading medical device materials supplier. And together with POET in the United States, we started POET-DSM Advanced Biofuels, a joint venture to commercially develop the production of cellulosic biofuels, made out of plant residues. The construction of the POET-DSM biofuels facility in Emmetsburg, Iowa (USA), is proceeding according to plan. In the field of bio-based chemicals, too, we saw good progress, including the start-up of our new bio-succinic acid plant in Italy, in cooperation with Roquette.

Besides being a core value and a responsibility to contribute to society, sustainability has become a real business driver for DSM. Our ECO+ products and solutions, which have a clearly smaller environmental footprint than mainstream solutions, increased in 2012 to 43 percent of our total sales and accounted for 80 percent of our innovation pipeline. Our list of ECO+ solutions continues to grow. In 2012, we further enhanced our leadership position in sustainability. DSM is developing a People+ strategy that aims to deliver measurably better solutions for improving people's lives. People+ will do for the 'people' element of our Triple P approach what ECO+ has done for 'planet'.

In 2012 DSM was very active on the Acquisitions & Partnerships front. In addition to the biofuels partnership with POET and the biomedical acquisition of Kensey Nash, we announced more than five acquisitions in the nutrition field, including Ocean Nutrition Canada (Canada; polyunsaturated fatty acids, such as Omega-3/DHA), Tortuga (Brazil; organic chelates and other feed ingredients), Verenium Enzymes (USA; enzymes), the cultures and enzymes business of Cargill (USA and Europe, cultures) and Fortitech (USA; food (premix) ingredients).

In total we have invested €2.8 billion in acquisitions since September 2010, when we adopted our current strategy. The acquisitions will result in stronger and more stable growth and profitability for DSM overall and will contribute to the current and future growth of DSM. Due to synergies the internal value of the acquisitions is significantly higher than the total acquisition amount. All acquisitions immediately contribute to earnings per share.

As a result of the acquisitions announced in 2012, we are welcoming approximately 2,700 new colleagues to our increasingly global workforce. Their smooth integration into the DSM family in a timely and efficient manner, while ensuring business continuity and customer satisfaction, is a key priority for us.

When all of the announced acquisitions have been completed, the majority of DSM's portfolio will be geared towards attractive end-markets with low GDP sensitivity. In the Nutrition cluster, DSM has announced around € 2.4 billion in acquisitions since 2010, broadening our product portfolio, extending and enhancing our presence across the value chain and strengthening our global footprint. On a pro forma basis, the cluster now has a size of around € 4.6 billion in sales and an EBITDA margin in the range of 20-23 percent.

As the world's largest supplier of nutritional ingredients, DSM has created a unique position with the broadest, deepest and most global offering to customers, positioning our company for further profitable growth. Nutrition now represents more than 70 percent of total EBITDA and has become a high value, global business with attractive growth prospects across the full value chain.

During 2012 we continued to experience a challenging macro-economic environment, with low growth in Europe. Asia continued to show good levels of economic activity whilst the US has maintained a modest rate of recovery. In the context of these conditions, DSM delivered growth across all clusters in 2012, excluding caprolactam. For the full year EBITDA amounted to € 1,109 million, 14 percent lower compared to 2011. Profit growth in all clusters was more than offset by approximately € 300 million lower results from DSM's caprolactam activities in Polymer Intermediates and Performance Materials.

The Profit Improvement Program that was launched in August 2012, on top of the previously announced program in DSM Resins & Functional Materials, is fully on track and is expected to deliver structural annual EBITDA benefits of € 150 million by 2014 of which more than half is expected in 2013. As anticipated, DSM has expanded the profit improvement initiative and now expects to achieve another € 50-100 million in benefits on top of the € 150 million. The benefits following this extension are expected to be fully achieved by 2015.

During 2012, we transitioned our Change Agenda into a ONE DSM Culture Agenda in order to develop the culture required to achieve our strategic ambitions, mirror the world that we operate in, and become a high performance organization. The ONE DSM agenda consists of four themes: external orientation, accountability for performance, collaboration with speed and inclusion & diversity.

DSM's fifth worldwide Employee Engagement Survey showed a very high response rate of 87 percent. The Employee Engagement Index, the percentage of employees scoring favorable, was 72 percent compared to 71 percent in 2011, which means that it was once again above the global overall norm. An engaged workforce is critical to DSM in realizing our ambitions.

Our hard work to further improve safety is bearing fruit. During the year we focused on the improvement of our safety culture and performance, among other things by securing compliance with the Life Saving Rules. The Frequency Index of recordable injuries fell to 0.44 in 2012 from 0.53 a year earlier. Although this is a considerable improvement, we still need to work on further reducing this Frequency Index.

We also need to improve further with regard to diversity, among other things by implementing best practices.

For DSM, People, Planet and Profit are equally important. Our company's primary goal is to provide value for all stakeholders on all three dimensions. We stay committed to aligning our strategy and operations with the principles of the United Nations Global Compact. We are very proud that in 2012 we were again named among the leaders in the Dow Jones Sustainability World Index.

We are also proud that during 2012 DSM won several prestigious awards and received a great deal of recognition for its achievements regarding its integrated Triple P approach, developing a sustainable business that creates value for all stakeholders.

We continue to further develop our integrated reporting based on the guidelines of the Global Reporting Initiative (GRI). We have determined that this integrated annual report, our third, once again merits the GRI A+ rating, representing a high level of transparency.

The significant strategic progress we made during 2012 through our value creating acquisitions and the profit improvement initiatives we have taken, leave us well positioned to achieve our long term objectives. In 2013 we will focus on the operational performance and integration of the acquisitions we completed in 2012 with special attention to capturing synergies. We expect strong EBITDA growth in 2013, moving towards € 1.4 billion. The Board’s proposal to increase the dividend for the third consecutive year is testament to the stronger DSM we have built in recent years, with more stable growth and profitability going forward.

At DSM we are committed to creating value for all stakeholders by fully leveraging the unique opportunities in Life Sciences and Materials Sciences, for the benefit of people today and for generations to come. It is a collective effort whose success depends on the engagement not only of our employees but also of the people that we cooperate with: at our customers, at our suppliers and at the civil society organizations that we engage with. I would like to extend my sincere appreciation and gratitude to all who are traveling with us on this very exciting journey. We look forward to reporting further progress.

Feike Sijbesma
CEO/Chairman of the Managing Board

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Report by the Managing Board

Highlights of 2012

General

Despite ongoing global economic headwinds, DSM delivered growth across all clusters in 2012, except for caprolactam. The Managing Board proposes to increase the dividend for the third consecutive year as a testament to the stronger DSM that has been built in recent years, with more stable growth and profitability going forward.

Full year EBITDA was € 1,109 million, 14 percent lower compared to 2011. Profit growth in all clusters was more than offset by approximately € 300 million lower results from DSM's caprolactam activities in Polymer Intermediates and Performance Materials. Full year sales from continuing operations increased to € 9,131 million.

Significant strategic progress was made during 2012 through value creating acquisitions and profit improvement initiatives. As a result, DSM is well positioned to achieve its long-term objectives. Nutrition now represents more than 70 percent of total EBITDA and has become a high value, global business with growth prospects across the full value chain.

Overall, based on current economic assumptions, DSM expects a step-up in EBITDA during 2013 due to stronger organic growth, supported by DSM's Profit Improvement Program and as the benefits of acquisitions and a more resilient portfolio start to have impact. In 2013 the focus will be on the operational performance and integration of the acquisitions DSM completed in 2012 with special attention to capturing synergies. Overall, based on current economic assumptions, the above will enable DSM to move towards its 2013 EBITDA target of € 1.4 billion.

Net sales, continuing operations

x € million	2012	2011
Nutrition	3,667	3,370
Pharma	726	677
Performance Materials	2,772	2,752
Polymer Intermediates	1,596	1,820
Innovation Center	102	60
Corporate Activities	268	369
Total	**9,131**	**9,048**

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

x € million	2012	2011
Nutrition	793	735
Pharma	39	36
Performance Materials	280	293
Polymer Intermediates	129	380
Innovation Center	(38)	(57)
Corporate Activities	(94)	(91)
Total	**1,109**	**1,296**

Nutrition

Full year organic growth was 2 percent driven by volumes and stable prices. EBITDA was € 793 million and increased by 8 percent as a result of continued growth in advanced forms, premixes and nutritional lipids and contributions from acquisitions.

Pharma

Full year organic sales growth was 9 percent. EBITDA for the full year slightly increased due to improved volumes at DSM Pharmaceutical Products and somewhat higher prices at DSM Sinochem Pharmaceuticals. This more than offset the higher costs partly associated with the startup of the new 6-APA plant for the anti-infectives business as well as the effect of the 50 percent deconsolidation of DSM Sinochem Pharmaceuticals as of 1 September 2011.

Performance Materials

Full year organic sales development was -4 percent due to lower volumes (-3 percent) and lower prices (-1 percent). EBITDA was slightly below last year. The result of DSM Resins & Functional Materials showed an impressive improvement in 2012 due to cost reductions and pricing, despite weakness in building and construction industries. Strong underlying improvements at DSM Engineering Plastics were partly offset by the weakness in the polyamide 6 chain (caprolactam effect). DSM Dyneema's full year result was below previous year due to the absence of new large vehicle protection tenders, which had been supporting DSM Dyneema in the first half of 2011.

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

Polymer Intermediates

Full year organic sales development was -16 percent due to 6 percent lower volumes as a result of the turnarounds and 10 percent lower prices. EBITDA was significantly lower. High benzene prices could not be passed on to the market due to weaker demand for caprolactam in combination with new production capacity coming on-stream.

Innovation Center

Full year results showed good sales and EBITDA improvement primarily driven by continued strong growth in DSM Biomedical, supported by the contribution of Kensey Nash, which was acquired in 2012.

High growth economies

Sales to high growth economies accounted for 38 percent of total sales in 2012 versus 39 percent of total sales in 2011. The decrease was mainly due to lower caprolactam sales in China. Net sales to China amounted to USD 1.7 billion versus USD 2.0 billion in 2011 which was because of lower sales prices at DSM Polymer Intermediates.

Innovation

DSM is targeting innovative products and solutions to account for 20 percent of total sales by 2015. Innovation sales, defined as sales created by new products and applications introduced in the past five years, accounted for 18 percent of total sales in 2012, the same as in 2011. DSM is firmly on track to reach its 2015 innovation sales target.

Sustainability

In 2012 the percentage of ECO+ solutions in the innovation pipeline was 80 percent, equal to the aspiration set at 80 percent. ECO+ solutions as a percentage of running business increased to 43 percent in 2012. DSM is on its way toward the 50 percent aspiration for 2015.

Financials

Net finance costs increased by € 12 million compared to the previous year to a level of € 94 million due to a lower average cash position at lower average interest rates and € 7 million impairment of certain financial assets.

The effective tax rate before exceptional items for the full year was 18 percent versus 19 percent in 2011.

Net profit before exceptional items amounted to € 437 million, compared to € 615 million in 2011.

Total net profit for 2012 amounted to € 288 million compared to € 814 million in 2011. This was due to the lower operating profit in 2012 and the restructuring and acquisition costs which were included in the exceptional items of 2012. In 2011 exceptional items included the book profit on divestments (€ 262 million).

Net earnings per ordinary share (continuing operations, excluding exceptional items) amounted to € 2.58 versus € 3.53 in 2011.

Safety, Health & Environment

Considerable improvement was achieved in safety in 2012. The Frequency Index for recordable injuries dropped to 0.44 from 0.53 in 2011. The number of serious incidents decreased significantly from 19 to 9.

Profit Improvement Program

In the second quarter of 2012 DSM launched a company-wide Profit Improvement Program (on top of the previously announced program in DSM Resins & Functional Materials), mainly focused on cost reductions and efficiency improvements, but also on sales growth and pricing. This program is fully on track and is expected to deliver structural annual EBITDA benefits of € 150 million by 2014 of which more than half is expected in 2013. One-off cash costs for the Profit Improvement Program recognized in 2012 were approximately € 120 million, in line with the guidance given in the second quarter.

DSM continued to look for opportunities to expand this program, and this has resulted in an increase in the program's scope to € 200-250 million in benefits. The one-off cash cost related to this extension of the Profit Improvement Program are expected to be in the order of € 70-80 million. The benefits following this extension are expected to be fully achieved by 2015.

"As a scientist, I am proud of the way we work within DSM, especially the sharing of knowledge and expertise. We are able to explore our own opinions and goals, but in the end we all work toward the same goal: bright science for brighter living."

Ren Bao is a polymer scientist at the DSM China R&D Campus in Shanghai. She conducts fundamental research on materials used in components for electronic devices, including mobile phones. Such components have unique requirements, and it is up to scientists like Ren to keep DSM in a position to deliver on these requirements from both a technology and a sustainability perspective.

DSM in motion: *driving focused growth*

The strategy that DSM embarked on in September 2010, DSM in motion: *driving focused growth*, marks the shift from a time of intensive portfolio transformation to a new era of maximizing sustainable and profitable growth. After a long history of successful transformations, DSM is now halfway this next development phase, becoming a truly global leader in health, nutrition and materials, delivering on its mission of creating brighter lives for people today and generations to come.

Embedded in this mission is DSM's core value that its activities should contribute to a more sustainable world. This guides how DSM pursues sustainable value creation for all stakeholders on three dimensions simultaneously: People, Planet and Profit.

The businesses that form DSM's core in Life Sciences and Materials Sciences are built around finding innovative and sustainable solutions to some of the world's main challenges, based on a clear understanding of key global societal trends and their consequences for the planet, consumers and societies.

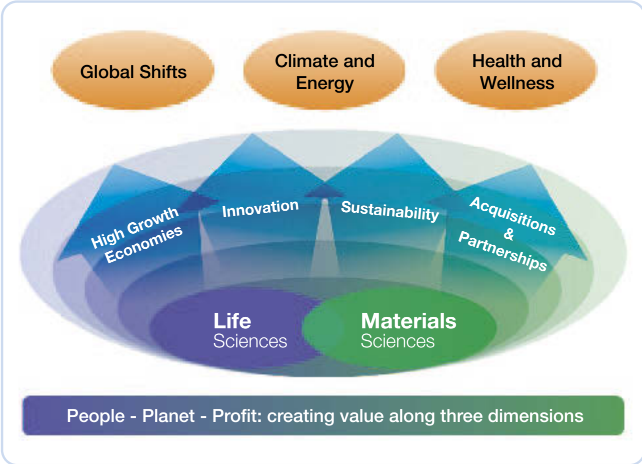
Most of the world's biggest challenges stem from population growth. The global population has surpassed seven billion people and is expected to grow to nine billion by 2050. The population is aging and becoming increasingly urban and wealthy. This leads to increased consumption per capita and a bigger claim on the world's resources. All this comes together in three key global societal trends: a global demographic shift, challenges in the field of climate and energy usage and a growing focus on how to secure health and wellness for all.

DSM's strategic focus on Life Sciences and Materials Sciences is fueled by the three main societal trends that it explored with stakeholders as part of its strategy development process: Global Shifts, Climate and Energy, and Health and Wellness. The company aims to meet the unmet needs resulting from these societal trends with innovative and sustainable solutions.

Global Shifts

The accelerating shift of wealth from West to East and from North to South is the basis of a whole series of global shifts which are creating a more urban, more connected and more prosperous world – but with huge resource and cultural challenges as a result.

We live in a world which is changing faster than ever. These changes influence where demand comes from, how and where people are living and how we connect with one another. Urbanization and economic prosperity are promoting dietary changes and increased spending on housing, transport, lifestyle



and energy. Increased demand around the world is also driving a higher use of natural resources, underlining the need for further efficiency improvements. Several new technologies, especially in the communications industry, are having a high impact on society and behavior.

Climate and Energy

The accepted reality that our fossil age is causing considerable change to our climate is driving the search for alternative energy, chemicals and materials sources as well as efforts to reduce resource consumption in a multitude of ways as the world will enter an era of resource scarcity.

Climate change is a reality and future energy is a central challenge for society both in terms of how to create it and how to get more out of it. In this context, customers are seeking sustainable value chains with higher yields, reduced waste, lower energy use and fewer greenhouse-gas emissions. At the same time there is a growing focus on renewable energy sources.

Health and Wellness

The impact of a growing, aging, increasingly urban population is being felt across the world, but in remarkably different ways. The drive to improve well-being and the increasing life span among the growing middle classes of the high growth economies contrasts with the continuing struggle to effectively feed the populations in less well-off parts of the world, especially children in their first 1000 days after conception.

There is an increasing need to address core health issues, whether through nutrition, medicines or lifestyle improvements. In the West, cost pressure on all healthcare systems is rising because of the aging population. Healthcare demand in high growth economies is increasing. Nutrition security and access is increasingly important, and there is also growing demand for safer and healthier foods and for pharmaceuticals.

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

In responding to these three megatrends, it is DSM's ambition to fully leverage the unique opportunities in Life Sciences and Materials Sciences, using the four growth drivers defined in its corporate strategy: High Growth Economies, Innovation, Sustainability and Acquisitions & Partnerships. The company wants to bring all four drivers to the next level. At the same time DSM aims to make maximum use of the potential of all four growth drivers to mutually reinforce each other and generate a greater number of compelling business opportunities.

Regional organizations, functional excellence groups and shared services enhance the performance of the business groups. DSM will capture regional business opportunities and synergies and implement excellence throughout its organization.

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

In 2012, DSM delivered on its strategic ambitions in particular with acquisitions and partnerships, helping the company expand its presence in high growth economies and boost its range of innovative products and solutions. See also: New acquisitions and partnerships in 2012 (page 29).

Targets and aspirations as set in September 2010

Financial targets	
Profitability targets 2013	
- EBITDA	€ 1.4 - 1.6 bn
- ROCE	> 15%
Sales targets 2015	
- Organic sales growth	5-7% annually
- China sales	from USD 1.5 bn to > USD 3 bn
- High growth economies sales	from ~32% towards 50% of sales
- Innovation sales	from ~12% to 20% of sales
Aspiration regarding Emerging Business Areas for 2020	
- EBA sales	> € 1 bn
Sustainability aspirations 2011-2015	
Dow Jones Sustainability Index	
Top ranking (SAM Gold Class)[1]	
ECO+ (innovation)	
At least 80% of pipeline is ECO+[2]	
ECO+ (running business)	
From approximately 34% towards 50%	
Energy efficiency	
20% improvement in 2020, compared to 2008	
Greenhouse-gas emissions	
-25% (absolute) by 2020, compared to 2008	
Employee Engagement Survey	
Towards High Performance Norm[3]	
Diversity and People+	
To be updated[4]	

1 This means a total score within 1% of the SAM sector leader.
2 See page 224 for a definition of ECO+.
3 The High Performance Norm (80% favorable) is the composite of the top 25% employee responses of the selected external benchmark organizations.
4 The aspirations for Diversity and People+ were both updated in 2012. Targets have now been set. See page 45 and page 50 .

Strategic targets and aspirations

Financial targets

When DSM presented its current strategy in September 2010, it set two profitability targets for 2013: an increase in EBITDA to a level of € 1.4-1.6 billion and an increase in Return on Capital Employed (ROCE) to more than 15 percent. In 2012 EBITDA was € 1,109 million, compared to € 1,296 million in 2011. ROCE in 2012 was 8.9 percent, compared to 14.0 percent in 2011.

At its Capital Markets Days presentation for investors and financial analysts in Basel (Switzerland) in September 2012, the company confirmed the 2013 EBITDA target. Assuming no further deterioration of the economic conditions, and based on its strategy, financial strength, and the additional actions now taken, DSM will move towards the 2013 strategic targets. The ROCE target is unlikely to be achieved due to (a) the fact that despite DSM's drive to accelerate acquisitions, many of these acquisitions — and hence also their synergy effects — came later than expected, and (b) the deterioration of the global macro-economic conditions.

Sales in high growth economies amounted to 38 percent of total sales in 2012, bringing the company closer to its announced goal of moving from 34 percent in 2009 towards 50 percent of total net sales. Innovation sales – measured as sales from innovative products and applications introduced in the last five years – reached 18 percent of total net sales in 2012, near the company's 2015 target of approximately 20 percent.

During the year, significant further progress was made in the Emerging Business Areas (EBAs), in particular in DSM

Biomedical, with the acquisition of Kensey Nash, and in DSM Bio-based Products & Services, with the POET-DSM Advanced Biofuels partnership. See also: POET-DSM Advanced Biofuels (page 106).

Sustainability aspirations

DSM continued to make good progress towards meeting the ambitious sustainability aspirations that are part of its DSM in motion: *driving focused growth* strategy, as evidenced by the following highlights.

DSM once again was listed among the chemical industry leaders in the Dow Jones Sustainability World Index. See also: External recognition (page 43).

The share of ECO+ solutions in the running business portfolio continued to steadily increase to 43 percent in 2012 from 41 percent a year earlier. This reflects DSM's efforts to expand the share of ECO+ solutions in its portfolio and shows that these solutions are increasingly well received by customers. The share of ECO+ solutions in DSM's innovation pipeline was 80 percent in 2012 as major ECO+ innovations were launched during the second half of the year. ECO+ solutions are products and services that, when considered over their whole life cycle, offer clear ecological benefits compared to the mainstream solutions they compete with. See also: ECO+ (page 57).

DSM is on track with its drive to improve energy efficiency by 20 percent by 2020 compared to 2008. Between 2008 and 2012, energy efficiency improved by 14 percent. See also: Energy consumption (page 63).

Greenhouse-gas emissions in 2012 were 4.2 million tons, a 1 percent reduction compared to 2008. DSM aspires to achieve an absolute reduction of 25 percent by 2020, compared to 2008. See also: Greenhouse-gas emissions (page 64).

In 2012 the company executed its fifth worldwide Employee Engagement Survey. The main element in the survey is the measurement of DSM's Employee Engagement Index, the percentage of employees scoring favorable on a combination of four attributes: commitment, pride, advocacy and satisfaction. The Employee Engagement Index measured in 2012 was 72 percent (2011: 71 percent). This is above the global overall norm of 69 percent. The score takes DSM within an 8 percentage point range of the external benchmark of high performing companies (scoring 80 percent favorable), which is the league DSM wants to be part of. See also: DSM Employee Engagement Survey (page 47).

DSM's People+ concept, being designed to deliver measurably better solutions to improve the lives of people, was further defined in 2012. The dimensions of health, comfort and well-being, working conditions and community development have been identified as distinct and instrumental categories to measure People+ impact at product level. See also: People+ (page 45).

Organization and culture

During 2012, DSM transitioned its Change Agenda into a ONE DSM Culture Agenda with an emphasis on collaboration and speed of execution to support the strategy. The themes of the ONE DSM Culture Agenda have been simplified and more aligned with DSM's business environment and business strategy as well as with its global footprint. See also: ONE DSM Culture Agenda (page 47).

The ONE DSM cultural identity is further supported by the new corporate brand that the company introduced in 2011. This brand is a symbol of the company's transition in recent years and demonstrates very clearly to all stakeholders that DSM has turned a page. During 2012, the global roll-out of the brand was nearly completed.

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

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

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

"Experiencing the effects of Alzheimer from up close made me keenly aware of the value of memory. Since then, I have not only trained and improved my own memory but helped others do the same."

Nelson Dellis is the 2011 and 2012 USA Memory Champion. He can memorize the order of a full deck of cards in about a minute yet he has no photographic memory. It's all about training, practice and the right nutrition, he says. Together with DSM's *life'sDHA*™, Nelson goes around the world to convince others that the mind is a muscle that can be trained and improved by exercise and diet. This will not turn everyone into a Memory Champion, but it can help in ensuring a healthy, brighter life.

Growth Driver: High Growth Economies

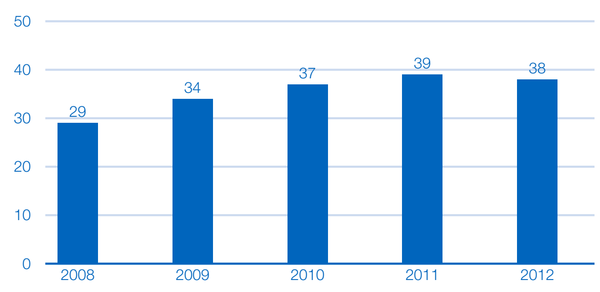
From 'reaching out' to becoming truly global

A key element of DSM in motion: *driving focused growth* is for DSM to move from being a European company reaching out to the world to becoming a truly global company. Fast-growing economies such as China, India, Brazil and Russia are proving to be the main growth engines for the world economy this decade. The share of high growth economies in DSM's total sales has increased significantly in recent years and reached 38 percent in 2012. DSM's strategic target is to increase this share towards 50 percent by 2015. DSM expects more than 70 percent of its growth in the 2010-2015 strategy period to come from high growth economies.

To achieve its 2015 targets for high growth economies, DSM continued the global reorganization of its operations. The headquarters of DSM Engineering Plastics were moved to Singapore in 2012 and the headquarters of DSM Fibre Intermediates are now in Shanghai (China). The headquarters of DSM Sinochem Pharmaceuticals are in Singapore.

A structure of country presidents in China, India, Russia and Latin America, as well as in Japan and North America, facilitates regional decision making. Regional innovation centers have been established in India and China. At Managing Board level, clear accountability has been established for regional growth.

Sales in high growth economies
as % of total sales, including China

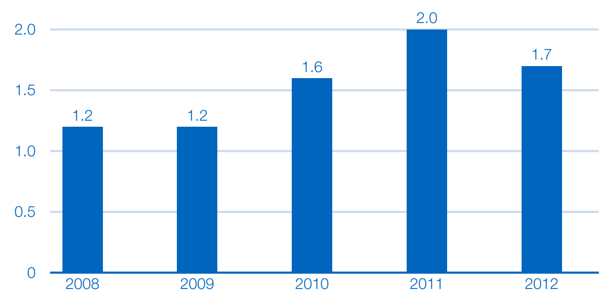


China

As in previous years, sales in China in 2012 contributed significantly to DSM's total sales in high growth economies. The company has a clear focus on China, where it aims to increase its sales to at least USD 3 billion by 2015. In 2012 DSM's sales in China declined to USD 1.7 billion from USD 2.0 billion a year earlier, mainly due to lower sales prices for caprolactam at DSM Polymer Intermediates.

To support its strategic growth in China, DSM is investing USD 1 billion in the country during the current strategy period. Part of that investment is being made in an expansion project to double the caprolactam capacity of DSM Nanjing Chemical Company, a partnership with Sinopec Nanjing Chemical Industries, to 400 kilotons. The new facility is due to come on stream at the end of 2013 and is expected to operate at full capacity in early 2014. See also: Polymer Intermediates (page 101).

China sales
in billion USD



Latin America, India and Russia

DSM is also increasing its presence in other markets, mostly through acquisitions and partnerships, seeking to double or even triple sales in Latin America, India and Russia.

In 2012 the company achieved a major leap in Latin America by agreeing to acquire Tortuga, a leading nutritional ingredients provider to cattle farmers. The acquisition is expected to close at the end of the first quarter of 2013. With annual sales of €385 million, Tortuga will significantly boost DSM's Latin America sales. The acquisition will more than double DSM's workforce in Latin America to approximately 2,000 people. See also: New acquisitions and partnerships in 2012 (page 29).

Ocean Nutrition Canada and Fortitech, both acquired in 2012, also have a presence in Latin America. Fortitech is present in all major regions and generates about 16 percent of its revenues in Latin America and 13 percent in Asia. Besides the United Sates, Denmark and Poland, it also has production sites in Brazil and Malaysia and sales offices in Mexico and China. Ocean Nutrition Canada has a production site in Peru, in addition to Canada and the United States.

Sustainability in high growth economies

As the first regional organization in DSM globally, DSM China established a regional China sustainability committee in 2012. This committee helps to contribute to more awareness of sustainability as a business driver at DSM China by establishing quarterly reporting and by organizing sustainability events.

DSM India has defined a sustainability roadmap with specific focus areas. The president of DSM India chairs the India sustainability committee.

In December, DSM organized an event in São Paulo (Brazil) to discuss the internal Latin America sustainability agenda. See also: Growth Driver: Sustainability (page 24).

> *"DSM's transformation proves very successful with the right approach to innovation and sustainability."*
> Professor Cheng Siwei, former vice chairman, Standing Committee of the National People's Congress of the **People's Republic of China**, Chinese Economist

Innovation in India and China

Part of DSM's innovation efforts in the coming years is to further develop the new Innovation Centers in China and India that were established in 2011. Innovation is increasingly happening in high growth economies, especially in Asia.

The DSM China Science and Technology Center in Shanghai is being developed to become DSM's main innovation base in Asia. It will form a vital part of the company's global science and technology innovation network. The center integrates research and application technology activities in the areas of materials sciences, chemistry and biotechnology. It also provides advanced business development capabilities and can support creating new ventures.

"Given the scarcity of resources in India, DSM's bright science and its focus on sustainable solutions can have quite an impact in this country."

Murali Sastry is DSM's Innovation Director in Gurgaon (India). He leads a team of scientists focusing on solving major challenges that India is facing, some of which have become quite urgent due to the country's rapid growth. Together with Indian research institutes and other parties, Murali and his team look for opportunities to use DSM's bright science to support local authorities and businesses. For example, DSM's nutrition expertise can help enhance protein production in India.

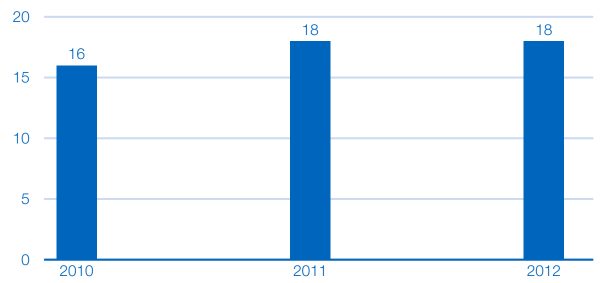
Growth Driver: Innovation

From building the machine to doubling the output

At DSM, innovation is about turning 'Bright Science' into 'Brighter Living'. This 'Bright Science' is not just about great ideas, state-of-the-art technology and high-tech laboratories. It is about finding and integrating the best sustainable and commercially viable solutions to market needs, in order to create profitable growth.

DSM creates solutions that nourish, protect and improve performance, using its unique competences in Life Sciences and Materials Sciences. This way DSM helps create a healthier, more sustainable and more enjoyable way of life.

Innovation sales
as % of continuing sales



By 2015, DSM wants innovative products and solutions to account for 20 percent of its total sales. Innovation sales, defined as sales created by new products and applications introduced in the last five years, accounted for 18 percent of total sales in 2012. The inflow of innovations continued. Significant process innovations at DSM Fibre Intermediates no longer qualified as innovation solutions because they were introduced more than five years ago.

Achieving the 2015 innovation sales target is a cornerstone of DSM's innovation strategy. DSM is firmly on track to reach this target and expects to be able to maintain its innovation sales at this level after 2015.

DSM is deeply committed to becoming an intrinsically innovative company. An internal benchmarking of DSM's innovation process with that of its peers in 2012, based on the DSM Innovation Diagnostic, developed with McKinsey, for the 2006-2012 period, shows that the company has consistently increased its innovation score since 2006 and now ranks among the top quartile of its peer group.

Governance

DSM actively manages its innovation activities at a platform level. The platforms include for example food & nutrition security, functional materials, sustainable manufacturing, and energy security.

The platforms create a solid base for the management of company-wide competence building programs in Research & Development, directed from the office of the Chief Technology Officer, and guide explorative searches for DSM's Business Incubator. See also: Innovation Center (page 105).

This platform-based approach to innovation enables the company to increase cohesion between various projects and business development activities, giving more focus to its efforts. The innovation platforms draw on DSM's competences, have real and significant commercial potential and address key global trends.

DSM's Emerging Business Areas, or EBAs, are instrumental in turning innovations into major businesses. The EBAs are growth engines within the Innovation Center that focus on new business areas outside the scope of the company's business groups. DSM aspires to achieve EBA sales of up to one billion euro by 2020. See also: Emerging Business Areas (page 105).

Research & Development

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

x € million	2012	2011
Nutrition	202	200
Pharma	56	67
Performance Materials	131	128
Polymer Intermediates	18	18
Innovation Center	61	42
Corporate Activities	22	21
Total	**490**	**476**
Total as % of net sales	5.4	5.3
Staff employed in R&D activities	2,511	2,520

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

Key technological competences are Materials Sciences, Nutritional Sciences, Process Technology, Biotechnology, Materials Chemistry & Advanced Synthesis and Analysis & Characterization. These competences form the basis for the overarching innovation platforms.

The DSM Science Network is globally spread and consists of approximately 2,500 internal scientists. These scientists extensively cooperate with external R&D institutions. Many of these collaborations are specific and bilateral. In addition DSM works extensively in broader public private partnerships to increase its scientific scope.

One example is the Dutch Polymer Institute, known as DPI. This is a partnership between polymer producing and processing industries and knowledge institutes involved in polymer research. Founded in 1997, at the initiative of DSM and others, DPI is a leading European technology institute in the area of polymer science and engineering.

BioMedical Materials (BMM) is a partnership program established in 2008 with a research budget of € 90 million for 18 pre-competitive research projects in three areas: cardiovascular (heart), musculoskeletal (locomotive system or ability to move) and nephrology (kidneys).

Patents

DSM filed 319 patents in 2012, compared to about 300 in 2011. In addition to filing own patents, DSM strengthened its Intellectual Property position through in-licensing. This is a logical outcome of DSM's open innovation strategy, in which the company's own R&D efforts and patent filings are complemented by the in-licensing of patents filed by other companies.

Value Creation through best practices

DSM has continued its extensive Excellence in Innovation program. This program aims to optimize DSM's innovation infrastructure and also builds on the work already done to improve the 'soft' aspects of innovation (such as effective behavior, personal leadership skills and teamwork) in order to secure an even more favorable innovation culture at DSM.

In 2012, the program focused on market understanding, optimal delivery of the top 50 innovation projects, entrepreneurship and opportunity engineering. Opportunity engineering is a tool that helps project managers to identify the main risks of a project at an early stage and, based on this, to improve the outcome of the project as well as reducing its time to market.

After achieving the 'best in class' quartile of the McKinsey Innovation Diagnostic assessment in 2012, DSM will continue the Excellence in Innovation program in order to maintain its top ranking position and further improve its capabilities.

DSM Licensing

DSM Licensing, a unit of the DSM Innovation Center, is the company's center of excellence for value creation from intellectual property (IP).

DSM views its IP rights as a tool for creating partnerships. DSM Licensing assists the company's business groups and Emerging Business Areas with the initiation and management of collaboration based on IP, including patents, trademarks and know-how. DSM approaches licensing as a completely integrated, powerful way of creating shared value with partners.

In DSM's Emerging Business Areas, licensing is regarded as one of the most important elements of the business model, helping enhance the value proposition and increasing the speed with which products can be brought to the market.

Open Innovation

An essential element of DSM's approach to innovation is Open Innovation, which means combining internal and external ideas and capabilities. The company is proud of the capabilities of its employees, but is at the same time aware that there is a vast store of ideas, know-how and expertise outside the company. Cooperating with others is the best way to develop and discover solutions for the challenges facing today's society.

DSM is keen to continuously improve the quality of its Open Innovation. Licensing its know-how and expertise is one example that perfectly fits its drive toward new business models. DSM is eager to speed up its venturing activities and to increase its partnering activities, not only in its key business areas but also in technology areas, given that it aims to broaden and strengthen its technological competence base.

An example of DSM's approach to Open Innovation is its partnership in the Bioprocess Pilot Facility, known as BPF, which was established in 2012 on the DSM site in Delft (Netherlands). The BPF is an open facility in which other companies, universities, institutes, etc. can conduct their upscaling research for bio-processes. DSM, CSM and Delft University of Technology are joining forces to create a world-class facility for testing new bio-processes that are upscaled from laboratory and pilot plant to industrial production. The pilot facility is of key importance for upscaling fermentation and purification processes as well as for the pretreatment of vegetable residues to convert them into fermentation feedstock, for instance as used for advanced biofuels. Thanks to a joint contribution from the European Regional Development Fund (ERDF) and regional authorities, the BPF will also be available for use by smaller start-ups.

Another example of Open Innovation at DSM is Fruitflow®, a breakthrough ingredient. It is the first natural, scientifically substantiated solution contributing to healthy blood flow. This product, an extract from tomatoes, was created by Provexis, a small UK start-up. DSM invested in Provexis through its venturing subsidiary in 2008. Subsequently this collaboration was extended with DSM obtaining the distribution rights for the product. Fruitflow® was commercially launched in 2010. In 2012 Fruitflow® was named one of the most innovative products of the year at the Food Ingredients South America trade show. See also: DSM Venturing (page 107).

DSM Bright Science Awards

Keen to promote pioneering research that leads to products or solutions enhancing people's quality of life, DSM has put in place a Bright Science Awards program. The program recognizes achievements of DSM scientists as well as those working outside DSM who have displayed excellence in innovative research. The awards program is an integral part of the company's open innovation approach.

The DSM Science & Technology Awards recognize outstanding, innovative PhD research. From 2013, DSM will grant a Science & Technology Award every year in three regions: Europe, the USA and China. The North/South structure, organized around the Netherlands and Switzerland, will be replaced by a single European award. The new award structure will also be implemented in the USA, where it replaces the Polymer Technology Award, and in China.

In 2012, the first prize in the DSM Science & Technology Awards (North) 2012 was presented to Dr. Chang Chen, KU Leuven (Belgium), for his PhD research in the field of nano science for label-free genomic sequencing. The first prize in the DSM Science & Technology Awards (South) was presented to Dr. Ruth Lohwasser, Bayreuth University in Germany, for her PhD research in the field of applied functional polymers.

Dr. Frank Leibfarth of the University of California in Santa Barbara, California (USA), was awarded the DSM Polymer Technology Award 2012 for his PhD research in the field of functional polymeric materials.

In addition, DSM each year grants a major award to an established scientist who has made a significant, peer-acknowledged contribution to the advancement of science. This award alternates between Nutritional Sciences and Materials Sciences. The DSM Materials Sciences Award 2012 was awarded to Geoffrey W. Coates, Tisch University Professor of Chemistry and Chemical Biology at Cornell University, Ithaca, New York (USA), in recognition of his exceptional contributions to the advancement of polymer chemistry and the materials sciences. In 2013 DSM will grant a Nutritional Sciences Award for research in human nutrition.

Innovation partner to the top-level sports community

DSM and the Dutch Olympic Committee (NOC*NSF) were 'Partners in Sport' between 2001 and the end of 2012. As the committee's innovation partner, DSM developed new products in the field of health, nutrition and materials.

For the 2012 Olympic and Paralympic Games in London, rowing and cycling were made the spearheads in this innovation program. In cycling, two innovations were used in competition by the athletes: Dyneema® reinforced cycling shorts, providing effective protection in the event of a fall, and ultra-light and strong chains and sprockets made of DSM's high performance polyamide Stanyl®. The latter were used by the paralympic cycling team. In rowing DSM introduced rowing boats with a rigid hull using its styrene-free resins. The Dutch women's eight won a bronze medal with their new olympic boat. In addition, DSM provided nutritional support to a large number of sportsmen and women, from vitamin D to eye care products with lutein and zeaxanthin, which prevent athletes being dazzled by direct sunlight or by light reflected off the water.

Growth Driver: Sustainability

From responsibility to business driver

DSM's mission is about creating brighter lives for people today and generations to come. The company's core value, contributing to a more sustainable world, supports this mission. As part of its 2010-2015 strategy, DSM in motion: *driving focused growth*, the company formulated the ambition to go to the next level in sustainability: sustainability remains a core value and a responsibility to contribute to society, but in addition DSM is now developing sustainability into a strategic growth driver as well.

By 2050 there will be nine billion people living on the planet. The growth in the modern world requires innovative solutions to meet the needs of all, and to generate a stable, prosperous and fair future, within planetary boundaries.

By 'sustainable' DSM means 'meeting the needs of the present generation without compromising the ability of future generations to meet their own needs'. That is the widely accepted definition that was first published in 1987 by the Brundtland Commission set up by the United Nations to encourage countries to jointly pursue sustainable development. Like this commission, DSM believes that achieving sustainability means simultaneously pursuing social responsibility, environmental quality and economic performance, creating value on the three dimensions of People, Planet and Profit.

DSM believes sustainability will be the key differentiator and value driver in the coming decades. The company is uniquely positioned to capture new opportunities across the value chain.

Sustainability is an integral part of the company's operations, strategic actions and decisions. DSM's businesses are coming up with new science-based products and solutions that contribute to brighter living while also helping grow the bottom line of the business.

ECO+

ECO+ is DSM's strategic concept for promoting the development of sustainable, innovative products and solutions with ecological benefits. Products qualify as ECO+ when their environmental footprint is reduced compared with competing products or solutions. ECO+ solutions offer, when considered over their entire life cycle, not only superior performance but also ecological benefits such as a clearly lower eco-footprint when compared to the mainstream solutions they compete with. ECO+ solutions, in short, create more value with less environmental impact. The 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+ is determined using Life Cycle Assessments.

Sustainability aspirations 2011-2015	Realization 2012
Dow Jones Sustainability Index	
Top ranking (SAM Gold Class)[1]	Gold Class
ECO+ (innovation)	
At least 80% of pipeline is ECO+[2]	80%
ECO+ (running business)	
From approximately 34% towards 50%	43%
Energy efficiency	
20% improvement in 2020, compared to 2008	14% improvement
Greenhouse-gas emissions	
-25% (absolute) by 2020, compared to 2008	1% decrease
Employee Engagement Survey	
Towards High Performance Norm[3]	72% favorable
Diversity and People+	
To be updated	Diversity aspirations defined[4]
	People+ framework defined[4]

[1] This means a total score of within1% of the SAM sector leader
[2] See page 224 for a definition of ECO+
[3] The High Performance Norm (80% favorable) is the composite of the top 25% employee responses of the selected external benchmark organizations
[4] See page 45 and page 50 in the People chapter

Typical ECO+ examples are DSM's engineering plastics that enable customers to produce lower-drag, lighter-weight and therefore more fuel-efficient cars. A life-science example is Brewers Clarex™, which enables brewers to prevent chill haze without having to cool their beers to sub-zero temperatures. Resins for the production of high performance coatings based on water, instead of harmful solvents, also help reduce emissions.

In 2015 DSM aims for at least 80 percent of its innovation pipeline to be ECO+ products or solutions and in 2015 their share of total net sales is expected to grow towards 50 percent.

A comprehensive description of the ECO+ program can be found in the 'Planet in 2012' chapter. See also: ECO+ (page 57).

People+

DSM is developing a People+ strategy for measurably improving the lives of consumers, workers and communities across the value chains in which the company is active. People+ will do for the 'people' element of Triple P what ECO+ has done for 'planet', giving further impetus to sustainability as a business driver for the company. DSM refined its People+ strategy in 2012 and also defined and road tested new metrics for it, thereby further enhancing its leadership position in sustainability.

Until recently a tool to measure a product's impacts on the People dimension was not available. By contrast, a product's eco-benefits (its ECO+ effect) can readily be measured using the well-known Life Cycle Assessment (LCA) methodology. The LCA method is widely accepted as a tool to assess environmental impacts associated with all the stages of a product's life.

The People+ program was further defined in 2012, including developing a new tool to measure the impact on people, in cooperation with a broad group of stakeholders. Business can use this first version of the 'DSM People LCA tool', a Life Cycle Assessment method, as a tool to further develop value propositions, taking into account the impact of DSM products on the lives of people involved in making and using the product. This also encourages innovation and R&D.

> "DSM is exploring a social metrics system to steer sustainable and innovative purchasing in Europe and Asia by realistically looking at challenges through stakeholders' eyes. This approach not only increases DSM's insight into the challenges that come with social issues but also enhances its determination to address these challenges. As a global player, DSM can make a difference."
> Nico Roozen, executive director, **Solidaridad Network**

A comprehensive description of the People+ framework can be found in the 'People in 2012' chapter. See also: People+ (page 45).

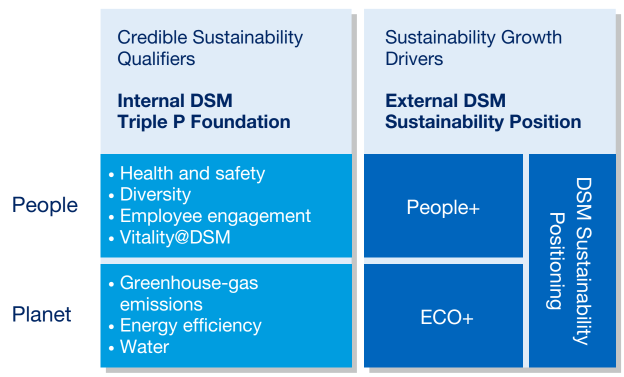
People, Planet, Profit

The People dimension of the Triple P approach is twofold. Firstly, DSM addresses the needs of its employees and people working in the value chains where the company is active, looking for a positive impact in areas such as employee health and vitality, employee safety, diversity and employee engagement, as these are critical components in delivering DSM's strategy. Improving employee engagement and encouraging diversity are defined as sustainability aspirations in the current strategy period. Secondly, DSM seeks to improve people's lives with its activities, solutions and innovations. This includes the People+ program, DSM's strategy for measurably improving people's lives. See also: People in 2012 (page 45).

On the Planet dimension, DSM delivers activities, solutions and innovations that improve the environmental footprint of its own businesses and those of its customers and suppliers. This includes the ECO+ program. Improving energy efficiency and reducing greenhouse-gas emissions are also among the sustainability aspirations for the current strategy period. DSM aspires to realize a 20 percent improvement in energy efficiency by 2020, compared to 2008. The company seeks an absolute reduction in greenhouse-gas emissions of 25 percent by 2020, compared to 2008. See also: Planet in 2012 (page 57).

DSM's Triple P approach to profit aims to translate sustainable innovations into strong and profitable businesses that meet the needs of today's global society while at the same time creating true value for the company's shareholders. Because of its engagement with stakeholders, DSM has a deep understanding of societal needs and therefore is well positioned to develop new products and solutions that can effectively grow its business. See also: Sharing value among stakeholders (page 37).

Growing profitable business on a strong foundation



Sustainability governance

Sustainability is the responsibility of the entire Managing Board, with its Chairman Feike Sijbesma as primary point of contact. Members of the Managing Board chair various sustainability projects and areas. Managing Board member Stephan Tanda is the primary point of contact for DSM's partnership with the World Food Programme, Feike Sijbesma for Inclusion and Diversity, and Managing Board member Nico Gerardu for Safety, Health and Environment.

DSM's Supervisory Board clearly recognizes sustainability as an important element on its agenda. The overall strategic importance of sustainability for DSM is illustrated by the fact that the Supervisory Board has a Corporate Social Responsibility Committee. See also: Corporate Social Responsibility (page 124).

At a corporate level, sustainability is organized in a network supported by the Corporate Sustainability department under the responsibility of the Executive Vice President Corporate Affairs, who reports directly to Mr. Sijbesma as Chairman of the Managing Board.

DSM also has a dedicated Corporate Operations & Responsible Care department, which, among other things, is responsible for all corporate issues in the area of Safety, Health and Environment (SHE). The Vice President Corporate Operations & Responsible Care reports directly to Managing Board member Nico Gerardu.

An internal network of people dedicated to sustainability, known as Sustainability Champions, supports line management in all business and functional groups and at the DSM Innovation Center. SHE managers provide support at business group level. The DSM SHE Council, which includes all business group SHE managers, is instrumental in sharing experiences and developing practices and communications regarding SHE issues.

Sustainability is also addressed at a regional level, with internal sustainability networks established in India, China and Latin America. See also: Sustainability in high growth economies (page 19).

Sustainability in manufacturing

In DSM's manufacturing organization, sustainability is embedded in Functional Excellence programs and expert networks for maintaining and improving specific competences. Functional Excellence programs help make DSM's pooled manufacturing expertise available wherever and whenever it is needed throughout the global organization. Competence networks have been set up to develop shared solutions to DSM-wide issues. The programs and networks help DSM to achieve its objectives in the People, Planet and Profit fields. They are driven and supported by stakeholder engagement activities.

After implementing standard business processes in the entire operations area in the early 2000s and executing the Advanced Manufacturing program – delivering a value exceeding €200 million over 36 site implementation projects – in 2008-2011, DSM further integrated manufacturing and supply chain activities in 2012 and made new steps towards world class manufacturing. The company achieved this by further implementing Lean Six Sigma, advanced process control and by extending its use of the Advanced Manufacturing toolbox, among other things. In addition, the company placed focus on increasing the alignment of DSM's asset footprint with defined business strategies by running a process called Business Operations Strategy in several units.

Sustainability in supply chains

Suppliers help DSM be successful in the field of sustainability by closely cooperating on steps and actions that make value chains more sustainable.

DSM strives for full adherence to the Greenhouse Gas Protocol, as defined in 2011 under the international Corporate Accounting and Reporting Standard, Revised Edition. This means the company reports not only emissions from its own production processes and those related to the electricity and steam it purchases, but also emissions coming from the value chains in which it operates. See also: Sustainable value chains (page 67).

DSM takes sustainability explicitly into account in the selection, evaluation and development of suppliers by applying a Supplier Code of Conduct that is based on the company's Code of Business Conduct. At the end of 2012, 91 percent of DSM's suppliers had signed the Supplier Code of Conduct. See also: Global Supplier Sustainability Program (page 39).

External Sustainability Advisory Board

DSM's external Sustainability Advisory Board met two times in 2012. The board is a diverse international group of thought leaders on key sustainability topics. Its members are Amir Dossal, Paul Gilding, Pamela Hartigan, David King, Ye Qi and Josette Sheeran, all leading international sustainability experts. They provide advice and act as a sounding board for the DSM Managing Board. The external Sustainability Advisory Board supports DSM in deepening its understanding of stakeholder needs and strategic issues such as the bio-based economy and malnutrition, sharpening its focus, conducting advocacy efforts and handling dilemmas. See also: Stakeholder engagement (page 33).

Integrated reporting

Since sustainability was defined as a key growth driver in 2010, DSM has reported a number of sustainability metrics on a semi-annual basis. Since 2010 the company has published an Integrated Annual Report.

The transparency of DSM's sustainability reporting is measured by applying criteria of the Global Reporting Initiative (GRI). DSM has determined that this Integrated Annual Report once again merits GRI application level A+, representing a high level of transparency. Ernst & Young has reviewed compliance of the Sustainability Information with this application level. See also: Independent Assurance Report on Sustainability Information (page 217).

"The people are what makes DSM so special, as they are behind all bright ideas, products and services that we are able to offer to our customers."

Elise Meulenbroeks is key account manager for DSM in Austria, servicing multinational clients in the crop protection industry. Today's world is challenged to do more with less and DSM's goal is to use its bright science to make a difference here. Crop protection can support in solving this challenge; it is vital to develop sustainable ways of protecting and enhancing the world's key food crops to avoid food scarcity.

Growth Driver: Acquisitions & Partnerships

From portfolio transformation to growth

When DSM presented its current strategy back in 2010, the company said that besides defining more ambitious targets for organic growth it also aimed to accelerate growth through acquisitions and partnerships. These partnerships need to make clear strategic sense and must meet the criteria that the company has defined. By the end of 2012, significant progress had been achieved with Acquisitions & Partnerships, with the company investing €2.8 billion in acquisitions, of which €2.4 billion in Nutrition.

DSM applies stringent strategic and financial criteria to any potential acquisition or partnership. During the screening process, a first selection is made to determine the strategic fit. This results in a shortlist to which DSM then applies financial criteria. A key strategic consideration is that the business or partner needs to add or improve a leadership position and needs to add value to DSM in terms of technological and/or market competences.

The key financial criteria for acquisitions are:

- Acquisitions should enable DSM to remain within the boundaries defined for maintaining its desired Single A credit rating.
- They should contribute to cash earnings per share from the beginning.
- They should contribute to earnings per share from year two.
- They should support DSM's other financial targets.

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

In 2012 DSM continued to be involved in a number of specific partnerships that serve a strategic business purpose, in addition to regular contract arrangements with suppliers and customers. Often, but not always, these specific business partnerships involve long-term supply agreements. These strategic business partnerships are material to DSM's business performance.

Acquisitions in the current strategy period (2010-2012)

Company	Business group / EBA	Enterprise value in € m	Year
Martek	DSM Nutritional Products	790	2011
Ocean Nutrition Canada	DSM Nutritional Products	420	2012
Tortuga[1]	DSM Nutritional Products	465-490	2012
Cultures and enzymes business of Cargill	DSM Food Specialties	85	2012
Fortitech	DSM Nutritional Products	495	2012
Kensey Nash	DSM Biomedical	275	2012
Other acquisitions		235	
Total enterprise value		approx. 2,800	

[1] Expected closing Q1 2013.

Value creation via acquisitions & partnerships since 2010

Acquisitions & Partnerships	Leadership	Market Position	Geographic Ambition	Innovation/ Technology
Martek	●	●	●	●
Vitatene		●		●
Microbia			●	●
Premix plants		●	●	
AGI Taiwan	●	●	●	●
KuibyshevAzot		●	●	
Shandong ICD		●	●	
C5 Yeast Company	●	●		●
POET-DSM Advanced Biofuels	●	●	●	●
Kensey Nash	●	●	●	●
Verenium assets			●	●
Ocean Nutrition Canada	●	●	●	●
Tortuga	●	●	●	
Enzymes and cultures business of Cargill	●	●	●	●
Fortitech	●	●	●	●

●Nutrition & Health ●Performance Materials ●Emerging Business Areas

New acquisitions and partnerships in 2012

POET-DSM Advanced Biofuels

A major strategic decision that DSM made at the beginning of the year was to join forces with POET LLC, one of the world's largest ethanol producers. Together, the two companies will commercially demonstrate and license cellulosic ethanol by combining their proprietary and complementary technologies. POET-DSM Advanced Biofuels, LLC will produce cellulosic ethanol from corn crop residue through a biological process using enzymatic hydrolysis followed by fermentation, providing for a sustainable biofuel. See also: POET-DSM Advanced Biofuels (page 106).

Verenium assets

DSM acquired certain assets, licenses and other agreements in the area of food enzymes and oilseed processing from Verenium, based in San Diego, California (USA). Verenium's enzyme products can help minimize pollution by reducing or replacing harsh chemicals used in industrial processes while also enhancing yields in customers' processes. See also: DSM Food Specialties (page 84).

Kensey Nash

DSM further strengthened its industry leadership in the biomedical field by completing the acquisition of Kensey Nash, a US based technology-driven biomedical company with 325 employees. Kensey Nash primarily focuses on regenerative medicine utilizing its proprietary collagen and synthetic polymer technology. The transaction strengthens and complements DSM's biomedical business, one of the company's three Emerging Business Areas, and positions DSM Biomedical as a profitable growth platform. See also: DSM Biomedical (page 105).

Ocean Nutrition Canada

DSM completed the acquisition of Ocean Nutrition Canada, a Canada-based supplier of fish-oil derived Omega-3 fatty acids to the dietary supplement and food and beverage markets. The company is headquartered in Halifax, Nova Scotia (Canada) with approximately 415 employees. Ocean Nutrition Canada, founded in 1997, has production sites in Canada, the US and Peru. Every day over 21 million servings of its MEG-3® product line are consumed in supplements and foods and beverages across the world. The company's average annual growth over the past five years in local currency amounted to nearly 20 percent. See also: Acquisitions in Nutrition (page 80).

Tortuga

DSM agreed to acquire Tortuga Companhia Zootécnica Agrária (Tortuga), a privately held Brazilian company with a leadership position in nutritional supplements with a focus on pasture-raised beef and dairy cattle. The company is headquartered in São Paulo (Brazil) with approximately 1,200 employees. Tortuga has three production sites in Brazil. The transaction is expected to close at the end of the first quarter of 2013. See also: Animal Nutrition & Health (page 83).

The cultures and enzymes business of Cargill
DSM acquired the cultures and enzymes business of Cargill. This business is a leading global manufacturer of cultures and enzymes for the dairy and meat industries with manufacturing operations in the state of Wisconsin (USA) and France. It has a strong pipeline of new products built on three pillars of technology: culture texture toolbox, fast acidification for cheese yield improvements and culture flavor systems. The business has approximately 200 employees. The transaction closed just before the end of the year. See also: DSM Food Specialties (page 84).

Fortitech
At the end of the year, DSM completed the acquisition of Fortitech, Inc., a privately held company based in Schenectady (New York, USA). Fortitech is a leader in customized, value-added food ingredient blends for food & beverage, infant nutrition and dietary supplements industries. The company has approximately 520 employees. Fortitech has six production sites located in New York (USA), California (USA), Campinas (Brazil), Kuala Lumpur (Malaysia), Gastrup (Denmark) and Poznan (Poland), with sales offices in China and Mexico. See also: Human Nutrition & Health (page 83).

"With our foundation, we connect the people with the greatest resources to the people with the greatest need. As the largest producer of vitamin A in the world, DSM helps us in preventing children from going blind."

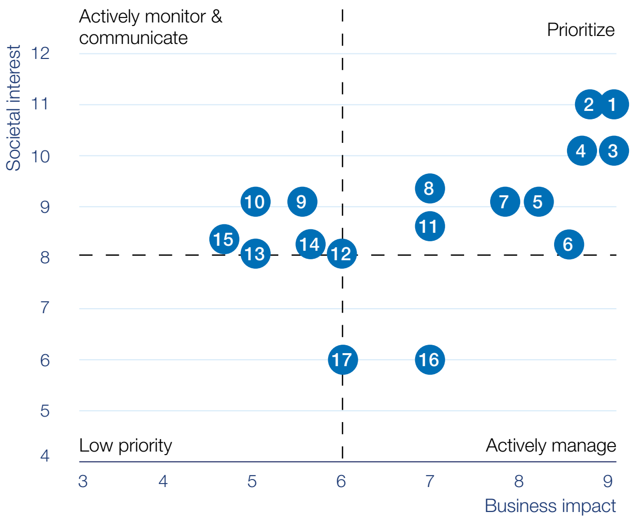
Howard Schiffer is the founder and president of Vitamin Angels, a charitable organization whose mission is to advance the availability, access and use of micronutrients, especially vitamin A, among at-risk populations in need. Together with industry partners such as DSM and other supporters, Vitamin Angels reached almost 27 million children in 49 countries around the world in 2012. Having access to essential micronutrients prevents blindness and reduces childhood morbidity and mortality rates while improving these children's chances for a brighter future.

Stakeholder engagement

DSM believes and invests in a strategic and pro-active dialogue with its key stakeholders not only to share thoughts and views, but also to deepen the company's insights into governmental, societal and customer trends, drivers and needs. The company wants to achieve its engagement objectives in a focused manner by taking part in stakeholder dialogues on relevant topics.
It aspires to resolve issues, receive endorsement and build trust, and, by doing so, create more shared value.

Based upon the discussions with stakeholders DSM has mapped the issues that are important to both DSM's businesses and society.

Materiality matrix



1 Climate change
2 Food safety & quality
3 Health & wellness
4 Bio-based economy
5 High growth / emerging economies
6 Hidden hunger
7 Careers & employment
8 Renewable energy
9 Diseases & health
10 Human rights
11 Water management
12 Resource constraints
13 Nanotechnology
14 Advocacy
15 Poverty alleviation
16 Environmental labeling
17 Bioethics

The strategy that DSM adopted in 2010 – DSM in motion: *driving focused growth* – was influenced by the company's dialogue with its stakeholders: shareholders, customers, suppliers, local communities, end-consumers, industry peers, financial institutions, governments, investors, non-governmental organizations (NGOs), special interest groups and the company's own employees. Based on the input from these stakeholders, DSM has defined the following needs and topics as strategic.

Hidden hunger

Malnutrition caused by deficiencies of vitamins and minerals is also known as hidden hunger because most of the people affected by it do not show the physical symptoms usually associated with hunger and malnutrition. An estimated two billion people globally suffer from the effects of micronutrient deficiencies. Hidden hunger is therefore a global problem of enormous magnitude that, until recently, was largely ignored.

In many countries, poor people consume the same starchy foods (such as rice, corn or wheat flour) every day. While such a diet may have enough calories to ease hunger pangs, it does not provide the micronutrients needed for good health. A balanced diet, containing adequate amounts of all essential micronutrients, includes a variety of fruits, vegetables, pulses, dairy, eggs and possibly other foods from animal sources. People who do not consume such foods for any reason, like cost, availability, traditions or ignorance, will sooner or later develop hidden hunger.

The Copenhagen Consensus Center 2012 Expert Panel, which includes four Nobel Laureates, has stated that fighting malnourishment should be the top priority for policymakers and philanthropists. It identified "bundled interventions to reduce malnutrition in preschoolers" as the smartest way to allocate money in response to ten of the world's biggest challenges. Nobel Laureate economist Vernon Smith said the panel concluded that getting nutrients to the world's undernourished is one of the most compelling investments. Building better nutrition begins early. It is vital to deliver proper nutrition and provide the right micronutrients during the 1000 day window of opportunity between a mother's pregnancy and her child's second birthday. The negative effects of malnutrition during this critical period cannot be reversed and permanently stunt a child's development.

DSM actively engages to build greater awareness about the importance of improved nutrition, which is one of its main businesses in both the developing and the developed world. In recent years the company has emerged as one of the industry leaders in this area, and it is often consulted by United Nations agencies, governments and NGOs.

DSM's Nutrition Improvement Program (NIP) aspires to be the partner of choice in the global fight against hidden hunger in emerging economies. The company offers nutritious, safe and affordable solutions and sustainable business models tailored to the needs of local communities in the developing world, with a special focus on women and children. NIP works in Latin America, Africa and Asia. The target population is at the base of the socio-economic pyramid, also known as BoP. In the last year, NIP increasingly focused on BoP consumers, giving them the opportunity to have access to nutritious products. See also: NIP website.

Through various partnerships DSM invests its scientific expertise, employee capability, broad network and funds, and benefits from greater credibility, access to new markets and distribution channels and knowledge of consumer behavior. New nutrition innovations result from this win-win model and provide treatment and prevention of malnutrition. See also: Sustainability (page 82).

In 2012 DSM celebrated the 100th anniversary of vitamins with a campaign, events and a dedicated website. In 1912, the term 'vitamin' was coined to describe the bioactive substances proven to be essential to human health. Over the past century, the world has seen remarkable advancements in the understanding of vitamins. Exciting new breakthroughs continue as researchers around the world uncover new benefits vitamins have for human health. See also: 100 Years of Vitamins website.

Bio-based economy

Biomass is a renewable resource that, if managed carefully, can sustainably supply the world with food, feed, energy, chemicals and materials. With the help of biotechnology, biomass can be converted into almost anything. As a pioneer, using its chemical and biotechnological toolbox for the development of bio-based routes to chemicals and materials, DSM teams up with leading innovators in the value chain to speed up this development process.

DSM promotes the bio-based economy as a sustainable solution. The company strives for broader societal acceptance and a better understanding in order to generate political traction that can improve the industrial policy framework for bio-based industries and technologies, and that contributes to a more conducive climate for investment in these sustainable solutions.

DSM's increasing involvement in industrial biotechnology is inspired by its sustainability ambitions, which make the company strive to use resources that do not compete with the food supply chain. The company closely cooperates with parties such as the International Union for the Conservation of Nature (IUCN), several other NGOs that co-signed the Dutch Manifesto on the Bio-based Economy, the Dutch Sustainability Criteria Commission (Corbey commission) and EuropaBio.

To further support its drive towards realizing a bio-based economy DSM became a member of Growth Energy, a US based group which represents ethanol producers. In Europe, the company joined the biofuel partnership ePure, which represents and supports companies that produce renewable ethanol in the European Union. In addition, DSM continued to promote the bio-based economy in a number of industry organizations in the chemical and biotechnological areas.

DSM promotes the development of industrial biotechnology in several ways. DSM's Bio-based Products & Services unit continues to invest in this field and seeks to help create a bio-based economy as an alternative to a fossil-fuel based economy. DSM Managing Board member Stephan Tanda serves as chairman of EuropaBio, the European Association for Bio-industries. In the Netherlands, the company is involved in a multi-stakeholder initiative that resulted in a Manifesto on the Bio-based Economy. DSM is represented on the board of SusChem, the European technology platform for sustainable chemistry, and leads the industrial biotechnology working group of this organization. In the United States, DSM is a member of the Biotechnology Industry Organization (BIO).

Role of business in society

DSM believes that in this ever more complicated world, companies, governments, academia, NGOs and international institutions have to work together to solve the big global issues of today. These issues include the question of how to deal with the big demographic changes in the world, including the rise of new economies and an aging population, but also how to address climate change and the development of alternative energy, and how to secure the health and well-being of all by resolving food and nutrition security and water issues, among other things. All of the world's problems are simply too big to be solved by just one entity.

The company is an active member of the World Economic Forum, an independent international organization based in Switzerland that is committed to "improving the state of the world". This Forum brings together leaders from governments, businesses, academia and NGOs to exchange and synchronize thoughts and to work together on important agenda topics to make the world a better place. DSM is a also co-developer of the UN Business Partnership concept as an active participant in the UN Global Compact LEAD, a platform for corporate sustainability leadership.

In 2012 the company actively participated in the annual meeting of the World Economic Forum (WEF) in Davos (Switzerland), organizing a session on nutrition security. At the Annual Meeting of the New Champions in Tianjin (China), DSM CEO Feike Sijbesma participated as one of eight mentors on the theme of Creating the Future Economy, in several sessions on subjects including sustainability, innovation and the bio-based economy. At the United Nations Conference on Sustainable Development, also known as Rio+20, which took place in Rio de Janeiro (Brazil), Mr. Sijbesma led a panel debate on the role of the public and private sectors.

Climate change

DSM believes industry can and must play a positive role in securing economic growth while simultaneously reducing the total carbon footprint of both its own operations and the value chains in which it operates. The company is involved in multiple supply-chain initiatives and sector organizations such as the World Business Council for Sustainable Development (WBCSD), the Dutch Sustainable Growth Coalition and The Sustainability Consortium to address the topic of how to measure the environmental impact in the value chain and collectively steer towards products with minimum environmental impact. In the World Economic Forum DSM has been involved in the climate change ambassadors group.

Food safety and quality

As a leading nutritional ingredients supplier, DSM considers it its duty to address concerns about health issues related to food safety and quality. The company helps develop programs together with various external stakeholders, including for example the Chinese government. DSM's Quality for Life™ seal reflects its commitment to create safer, fully traceable, more reliable and more sustainable business processes. It also incorporates DSM's commitment to the environment and society, extending beyond products and services. The seal symbolizes DSM's pledge to uphold ethical values in relationships with customers, employees and partners.

Careers and employment

Each year DSM conducts a company-wide Employee Engagement Survey to gauge the needs and concerns of its employees worldwide and to hear their opinions on all aspects of its operations. The company encourages employees to actively engage with some organizations in its partnership network, in particular with the United Nations World Food Programme (WFP). An employee volunteer program offers DSM employees the opportunity to take on WFP assignments. See also: People at DSM (page 47).

Water management

DSM acknowledges that sustainable water management, taking into account the needs of present and future users, is a necessity. DSM executes water risk assessments at its sites in order to mitigate environmental, societal, operational, regulatory, reputational and financial risks. Mr. Sijbesma has endorsed the UN Global Compact's CEO Water Mandate, a public-private initiative that helps develop and implement sustainable water practices and policies. DSM also takes part in the water task force of the WBCSD. See also: Full transparency in reporting water performance (page 65).

Biodiversity

Biodiversity and healthy ecosystems are key conditions for a more sustainable world. They provide what are known as ecosystem services: by fulfilling basic human needs such as food, materials, clean water and fresh air, they sustain human life. DSM considers the conservation of biodiversity and ecosystems an essential part of sustainable development and corporate social responsibility. It is DSM's belief that companies have an important role to play in the conservation of nature. This is a learning process; it starts with building awareness, to be followed up with actions to (1) assess DSM's impact on biodiversity and (2) mitigate the impact in order to preserve biodiversity. Together with some of the partners in the Inspirational Programme of the Leaders for Nature platform of IUCN, DSM is working on a 'business area of the future' concept. See also: Biodiversity (page 65).

Sustainable value chains

DSM is engaged in an ongoing dialogue with suppliers, customers, NGOs and industry peers that seek to increase the sustainability of the various value chains in which the company operates. This includes both environmental and societal sustainability. See also: Sustainable value chains (page 67).

Public-Private Partnerships

DSM is engaged in a range of partnerships. Besides the United Nations World Food Programme (WFP), this includes the Global Alliance for Improved Nutrition (GAIN), the US Agency for International Development (USAID) and, together with General Mills and Cargill, the Partnership in Food Solutions. DSM is also a partner in the Mercy Corps' food cart social enterprise KeBAL and World Vision International.

In 2012 DSM contributed to the development of an interactive global vitamin D map published by the International Osteoporosis Foundation (IOF). The map and the accompanying publication confirm that vitamin D insufficiency is a major public health issue in both the developing and the industrialized world, with more than one-third of all the populations studied showing insufficient levels of vitamin D. DSM strongly supports IOF's call for healthcare decision makers to take immediate action to address vitamin D deficiency as a priority public issue and to emphasize the role of supplementation as a key tool for preventing bone diseases such as osteoporosis. See also: IOF Vitamin D map website.

The company continued its participation in Project Laser Beam, a five-year, USD 50 million public-private partnership that seeks to eradicate child malnutrition. The partnership was established in 2009 on behalf of founding partners WFP, DSM, Unilever, Kraft Foods, and GAIN. DSM is working with these partners to fortify a range of foods and create a sustainable business model for fortified foods.

Through its continued support of the non-profit humanitarian nutrition think tank Sight and Life, DSM is helping improve the world's knowledge, understanding and awareness of hidden hunger. Sight and Life promotes nutrition research, shares best practices and mobilizes support for the world's undernourished.

In 2012, Sight and Life extended its partnership with Vitamin Angels for the distribution of vitamin A capsules. Vitamin A deficiency is a major contributing cause to poor health and death among young children. Sight and Life has transferred to Vitamin Angels the responsibility for the management of vitamin A capsule distribution and both partners have started initiatives intended to catalyze locally sustainable vitamin A supply and distribution systems.

To stimulate the nutrition science agenda, DSM engages with the New York Academy of Sciences, Johns-Hopkins-University School of Public Health, Tufts University, the University of Groningen (Netherlands) and a number of other academic institutions.

WFP World Food Programme wfp.org | DSM

Improving nutrition. Improving lives.

Improving 30 million lives

DSM's public-private partnership with the United Nations World Food Programme (WFP), in place since 2007, has contributed to improving the diets of people, using essential vitamins and nutrients, in countries that include Nepal, Kenya, Bangladesh and Afghanistan. The strengthened partnership will focus on pregnant and nursing women, young children and vulnerable households, as well as on rice fortification. Nine food products have been created or improved and two new food aid delivery methods developed. Early in 2013 DSM and WFP announced a three-year extension of their global partnership to 2015. DSM and WFP will seek to double the number of people who benefit from their cooperation, from the current annual reach of 15 million to 25-30 million per year by 2015.

"With DSM's continued support, WFP is committed to providing the right food at the right time, especially for children in the first 1,000 days of life. When building the potential of future generations, there is no substitute for good nutrition," said Ertharin Cousin, WFP Executive Director.

The partnership has provided nutrition-related assistance to 16 WFP country offices and helped develop WFP nutrition policy. DSM nutrition training materials for 12,000 WFP employees also helped build capability in 16 countries.

The body of research produced by partnership scientists has created additional evidence around the efficacy of these nutrition interventions. This represents shared value for both parties. The partnership jointly developed new products (such as micronutrient powders) that would otherwise not exist. These are now an integral part of WFP's programs and are sold commercially. One existing WFP-distributed product, Corn Soy Blend, was reformulated to include a higher content of vitamins and minerals. The revenues of the staple food fortification segment (managed by the Nutrition Improvement Program) doubled in the period from 2008 to 2012. See also: WFP website.

Sharing value among stakeholders

DSM is committed to creating value for all stakeholders by fully leveraging the unique opportunities in Life Sciences and Materials Sciences for the benefit of people today and for generations to come. It is a collective effort whose success depends on the engagement of the company's employees and of the people, companies and organizations that it cooperates with. In addition to sharing financial value, as outlined in the graphic below, DSM creates environmental and societal value through for example employee development, product development, education and Public Private Partnerships.

Creating shared value among stakeholders in 2012

Customers
DSM's customers increasingly seek comprehensive and unique solutions to the challenges that they face. In 2012 they spent some € 9.1 billion on DSM's products and solutions.

Suppliers
Suppliers are an integral part of DSM's strategy for achieving the sustainability aspirations. The company in 2012 spent a total of € 6.7 billion on goods and services.

Employees
The company in 2012 spent a total of € 1.8 billion on salaries and wages, to compensate the employees for their added value.

Shareholders
In return for their investments, DSM in 2012 made available € 263 million in dividends to shareholders. Total shareholder return in 2012 was 27 percent.

NGOs and associations
Partnerships such as those with the UN World Food Programme are of strategic importance for DSM and help alleviate global problems such as hidden hunger.

Governments
Governments received a total of € 85 million in tax payments, excluding income taxes and social security payments for employees. DSM's 2012 income statement included € 20 million in government grants.

Bondholders
In 2012 DSM paid € 101 million in interest to bondholders.

Customers
DSM's customers increasingly seek comprehensive and unique solutions to their needs and the challenges that they face. They want high performing value propositions that help them to deliver against their strategy and meet their business objectives.

Customers operate in a dynamic and complex international business environment that constantly creates new customer and market needs, as well as significant opportunities. To enhance its competitiveness and profitability and to offer sustainable solutions, DSM embraces true customer centricity in its focus on excellence in marketing and sales.

DSM's nutrition businesses have used the Net Promoter Score, or NPS®, over the last few years to monitor customer engagement. In 2011, a best practice was developed for the whole of DSM, validated with two pilots in 2012. By now, four business groups have adopted the NPS® system as a strategic tool. The system is to be rolled out to all other DSM business groups in 2013.

> *"It was clear from the start that DSM had the scientific and technical expertise and a great materials portfolio that perfectly matched our needs. What really surprised and impressed us, though, was the way they approached the collaboration. The DSM team didn't arrive with preconceived notions about our needs: they asked open-ended questions, were very transparent and provided us with genuine insights."*
> Simon de Jong, Director, **FiberCore Europe**, Rotterdam, Netherlands

True customer-centric relationships help DSM remain competitive, providing best possible insights into nutrition, health and materials markets in which it operates and the particular challenges and opportunities facing its customers. Focusing on customer centricity enables DSM to go beyond traditional sales-driven relationships and develop a much more rounded, sophisticated and in-depth understanding of its customers' needs and the evolving markets in which they operate.

Suppliers

Suppliers help DSM be successful in the field of sustainability by closely cooperating on steps and actions that make value chains in which both operate more sustainable. Improving production processes and reducing raw materials usage are crucial to DSM's sustainability performance. Moreover, in order to reduce the overall footprint of the value chains in which it operates, the company needs to closely collaborate with its suppliers.

To gain better insight into the environmental impact of its products and to improve their environmental footprint, DSM pays close attention to the entire value chain in which it operates. In the past, DSM used to focus primarily on the effects of its own production activities, including the greenhouse-gas emissions from the power plants that supply the company with electricity and steam. Today, DSM increasingly takes into account the emissions from the value chains in which it is active. These emissions reflect the wider impact of DSM's activities both upstream and downstream in the value chains. DSM is looking for suppliers who can support the company in the areas of ECO+ and People+.

"Both our organizations see sustainability as a real business driver. We add tangible value to DSM's people agenda. We are proud to be working with and for you."
Jeffrey van Meerkerk, **ManpowerGroup** Global Account Director

A comprehensive description of the company's approach to sustainable value chains can be found in the Planet chapter. See also: Sustainable value chains (page 66).

DSM's award-winning Global Supplier Sustainability Program is part of the company's strategy for achieving its sustainability aspirations. A comprehensive description of this program can be found on the next page.

Shareholders

In 2012 DSM actively engaged with investors and financial analysts by organizing conference calls following the publication of quarterly results and announcements of major acquisitions. The company organized capital market days with a special focus on its Nutrition business, participated in investor conferences and interacted with investors in roadshows in Europe, North America and Asia. A seminar was organized for financial analysts and investors on DSM's bio-based business activities.

All relevant information was made available to all interested parties via publication on the DSM Investor Relations website, ensuring that such information was equally and simultaneously provided and accessible to all interested parties See also: Information about the DSM share (page 138).

Governments

The company believes that dialogue between business and government authorities is a constructive part of the legislative decision-making process. DSM wants to be transparent when it comes to sharing its expertise with policymakers and government authorities in all markets. The company is for example registered in the European Commission's voluntary register of lobbyists active in Brussels. DSM engages with policymakers worldwide on various topics, including nutrition, sustainability and industrial biotechnology.

"DSM's efforts are helping the nation benefit from energy efficiency. Together with the other partners in the Better Buildings, Better Plants Program, DSM's actions will save billions in energy costs, create new manufacturing jobs, strengthen the nation's economic competitiveness, and help protect the environment."
Kathleen Hogan, Acting Program Manager, Advanced Manufacturing Office, **US Department of Energy**, Washington DC

Employees

People are at the heart of DSM's business and the company wants its employees to reach their full potential. The main elements of its human resources approach are recruitment, talent management, leadership development and performance management, supported by the implementation of DSM's ONE DSM Culture Agenda and the career management process. The company's human resources strategy also supports DSM's internationalization goal.

The company's performance is linked directly to the health and well-being of its employees. That is why DSM has a single, comprehensive health and safety policy that is consistent around the world. The policy includes Safety, Health and Environment (SHE) training programs and vitality programs that help employees assess their health risks and set personal goals. See also: Employee health management (page 54).

Global Supplier Sustainability Program

A powerful factor in the award-winning DSM Global Supplier Sustainability Program is the company's willingness to help suppliers achieve the level of compliance that it demands, and to initiate co-developments. The audits are not just a check on performance and compliance. They also help build sustainable relationships with suppliers. The program, operated by DSM Sourcing, helps bring the company closer to its sustainability aspirations and innovation targets by selecting suppliers based on their potential to contribute.

DSM uses a quantitative supplier evaluation tool with clear criteria to identify significant issues. Based on their overall score, suppliers are categorized as follows: sustainable supplier: no follow up needed; acceptable supplier: specific improvements need to be addressed; unacceptable supplier: an improvement program needs to be implemented; rejected supplier: supplier to be replaced.

DSM Sourcing has started cooperation with an NGO to engage with suppliers in order to jointly improve working conditions, reduce CO_2 emissions and identify supplier solutions for DSM's Innovation pipeline. In 2012 one supplier did not pass the sustainability audit, which meant that DSM had to freeze the contract with that supplier.

The program started in 2006 with the introduction of the first Supplier Code of Conduct. Since then, DSM has added self-assessment questionnaires and audits. In 2012 DSM updated the program to keep up with the changes in the legislative environment and sustainability trends. Targets are aligned with key climate change initiatives and conventions such as the Kyoto protocol and the Copenhagen agenda.

The program comprises two main elements: supplier compliance and supplier solutions. It engages both direct (raw materials and energy) and indirect (professional services, packaging and transportation) suppliers. It is primarily aimed at critical suppliers. After internal screenings, the company has identified approximately 1,500 out of a total of about 100,000 suppliers as critical in the sense of providing DSM with critical components, being located in potentially high risk countries, supplying high volumes, or having a potential to create joint value in the areas of innovation and sustainability.

Three-step approach towards supplier compliance

The Supplier Code of Conduct sets sustainability guidelines for suppliers. DSM's mission statement and the DSM Code of Business Conduct, based on DSM's core value – sustainability, create the basis for this code. In addition to basic rights, laws and principles, DSM also asks suppliers to look at their supplier base and make sustainable choices, to pay attention not only to the safety but also to the health of their employees as well as to demonstrate their ability to ensure business continuity. A clear distinction is made between people, planet and profit dimensions. In 2012 the supplier code was updated and further aligned with ECO+ and People+ programs and also with the Life Saving Rules. Moreover, short guidelines on biodiversity, biomass policy to prevent potential competition with food/feed as well as water scarcity have been incorporated.

Some 93 percent of total procurement spend was covered by the Supplier Code of Conduct in 2012. Suppliers have either accepted the DSM code or presented their own code of conduct that is materially similar to that of DSM. The code is an integral part of each supplier contract and is incorporated into DSM's general purchase conditions.

A self-assessment questionnaire enables suppliers to measure their activities against DSM's code. In 2012 DSM received 59 self-assessment questionnaires. From 2013 DSM will be using a third-party sustainability assessment tool and will send specific requests for sustainability information to suppliers during supplier selection or on-boarding processes. The results of these self-assessments will determine if DSM wants to do business with that supplier and will guide actions to be agreed before signing a contract.

In 2012 DSM audited 62 suppliers. A total of 40 audits were done by an external party, whereas 22 were performed by internal DSM auditors who were independent from purchasing functions (mostly from SHE and quality assurance departments). For 13 suppliers an improvement program had to be agreed. The majority of these improvements are in the area of working conditions as defined in the various country labor laws.

Having a third party perform sustainability audits at its suppliers means DSM can benchmark its suppliers in terms of environmental and social performance against their peers. These benchmarked results show that DSM's suppliers perform above average. Suppliers generally were more aware of their water consumption and restricted their emissions. On the other hand, they could do better when it comes to increasing employee awareness on sustainable production and setting energy efficiency targets.

More information about the program is available at DSM's website.

Human rights and United Nations Global Compact

DSM has been a signatory to the United Nations Global Compact since 2007. The company remains committed to aligning its operations and strategy with the principles of the UN Global Compact for human rights, labor, environment and anti-corruption. By doing so, DSM helps ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere. The company fully supports the Global Compact's principles and continues to integrate them further into its business. For example, DSM will refrain from any form of corruption, including active or passive bribery and extortion, even if it loses business as a consequence.

The company is firmly committed to supporting the Universal Declaration of Human Rights of the United Nations and commits to the UN Framework and Guiding Principles on Business and Human Rights.

DSM also follows United Nations guidance on embargoed and sanctioned countries and adheres to national and international legislation where relevant. The company blocks vendors from embargoed countries in its book keeping systems so that no transactions can be made with blacklisted suppliers.

Principles of the UN Global Compact[1]

		DSM Code of Business Conduct and relevant page(s) in the Integrated Annual Report 2012
Principle 1	Support of human rights	page 44 to page 54
Principle 2	Exclusion of human rights violation	page 44 to page 54
Principle 3	Observance of the right to freedom of association	page 44 to page 54
Principle 4	Abolition of all forms of forced labor	page 44 to page 54
Principle 5	Abolition of child labor	page 44 to page 54
Principle 6	Elimination of discrimination	page 44 to page 54
Principle 7	Precautionary environmental protection	page 21 to page 26 , page 44 to page 66 , page 229
Principle 8	Specific commitment to environmental protection	page 21 to page 26 , page 44 to page 66 , page 229
Principle 9	Diffusion of environmentally friendly technologies	page 21 to page 26 , page 44 to page 66 , page 229
Principle 10	Measures to fight corruption	page 40 , page 44 to page 54

[1] In 2012 DSM once again renewed its commitment to the UN Global Compact's CEO Water Mandate; see the Planet chapter page 56

Donations and sponsoring

Sponsoring provides DSM with an opportunity to connect and interact with the people around it, to show them that DSM is a sustainable and innovative partner, both worldwide and in local communities.

DSM's Code of Business Conduct creates an agenda for making a positive contribution not only to the world of business but also to society as a whole. In line with this Code, DSM does not make any payments nor donations in kind to political parties or their institutions, agencies or representatives. DSM focuses its donations and sponsorships on activities that are connected to its know-how and competence base, its business position or its present and future geographical presence (in this case the donations and sponsorships are part of 'being an active neighbor').

In 2012, DSM donated and/or made available more than €4 million to a range of initiatives. DSM continued its long-term commitments such as that to WFP. DSM continued its humanitarian initiative Sight and Life and made charitable donations to a number of local causes. Many of DSM's contributions draw on the expertise of its micronutrient scientists or materials specialists.

As in previous years, DSM and its employees developed many initiatives to create awareness for WFP and to collect money. Employees at 39 DSM sites in 17 countries took part in the Bright Experience for WFP event, a global engagement and fund raising event to end child hunger. DSM employees again raised a considerable contribution for WFP with events and a World Food Day campaign, helping provide meals to children through WFP's School Meals program. In 2012 two DSM employees went on WFP volunteer assignments in Indonesia and Kenya.

Legally required safety studies

As an innovative company, DSM continuously develops new products. Legal requirements require the company to assess the properties and safety profiles of these products. These assessments can necessitate the use of live animals. The company only uses animals in studies for safety assessment if this is required by regulation and only if no accepted and validated non-animal alternative methods are available. DSM is committed to constantly pursuing opportunities to further improve its performance and to ‘reduce, replace and refine’ methods in which the use of animals is the only alternative. The examples below illustrate this ‘3R’ approach. DSM will continue to make reasoned requests to the authorities to waive safety tests with animals in cases where the company considers that requirements are excessive and in cases where the information can be provided by other means. The company increasingly makes use of *in silico* (computer modeling) and *in vitro* techniques (e.g. cell arrays) to identify candidate substances.

DSM conducts in-house projects to develop and promote alternative testing methods. The company develops ‘early safety’ and ‘early efficacy’ assessments aimed at predicting these effects by computer calculations, based on comparison of new compounds to known effects of existing compounds. DSM also cooperates actively in external networks and with academic partners. Examples are the International Council of Chemical Associations’ Long-Range Research Initiative and the joint government-industry initiative European Partnership for Alternatives to Animal Testing, or EPAA.

DSM remains concerned about the increasing need for assessments because of the implementation of REACH (Registration, Evaluation, Authorization and Restriction of Chemical substances), the European chemicals legislation. DSM has already observed an increase in animal tests performed for this purpose even though the company has, where possible, used alternative ways to fulfill the data requirements and has worked together with other companies in consortia. Further reduction will require adjustment of legal requirements and the development, validation, dissemination and implementation of new testing methods. DSM does not want the safety and efficacy of its products to be compromised. However, for many test systems validated alternative *in vitro* methods acceptable to the authorities are presently not available. This means that studies involving animals will continue to be necessary in the foreseeable future. However, DSM believes that its approach is sensible and responsible and the company is committed to further reducing, refining and replacing these studies where possible.

Position papers

As part of its transparency in reporting, DSM has posted on its website a number of position papers. These are available on the following topics: sustainable biomass, biodiversity, CO_2 emissions trading, nanotechnologies, biotechnology and industrial biotechnology. A position paper on infant formula is due to be published in the first quarter of 2013. DSM also has available a large number of documents that provide background information on relevant topics, including bio-based performance materials, the bio-based economy and the Cradle to Cradle® concept. See also: Position papers section on dsm.com

DSM discloses to its customers how its products are manufactured and, where possible, offers them a choice regarding the production system used. Some DSM products are produced with the help of genetically modified micro-organisms in contained use. When a product is produced by such micro-organisms, the company clearly states this in the information that accompanies the product.

External recognition

In 2012 DSM and its business groups were awarded a variety of awards and other forms of recognition by customers, suppliers, the academic world, non-governmental organizations and trade organizations. A few illustrative examples are given below.

DSM was again among the leaders in the chemical industry sector in the Dow Jones Sustainability World Index in 2012. Since 2004 DSM has held the worldwide sustainability leader position in the chemicals sector six times. In the other three years, the company ranked among the top leaders in the sector.

DSM received two Sustainability Awards from investment fund SAM, based on SAM's yearly corporate sustainability assessment. The awards represent recognition for DSM's Gold Class status in 2012 and for its Sustainability Leadership in the Chemical Sector of the Dow Jones Sustainability World Index in 2011.

Dow Jones Sustainability Indexes
Member 2012/13

The US Chamber of Commerce awarded DSM its Corporate Steward Award 2012 for the company's integrated Triple P approach to creating a sustainable business and shared value with all stakeholders. The prize was awarded in Washington DC at the 13th annual awards ceremony of the chamber's Commerce Business Civic Leadership Center.

The Dutch Association of Investors for Sustainable Development (VBDO) recognized DSM with the 2012 Sustainable Supply Chain Award. The VBDO jury awarded DSM for a robust and transparent sustainable supplier program as well as ongoing dialogues with stakeholders to keep sustainability a true business driver.

DSM's 2011 Integrated Annual Report was awarded the *De Kristal* award for the most transparent sustainability report for the second year in a row by the Dutch Ministry for Economic Affairs. In the Netherlands DSM also won the *FD Henri Sijthoff-Prijs* for financial reporting, and on top of that it won the *Publieksprijs* after emerging as the winner in a survey among private and institutional investors for best annual report.

At the Annual Brazilian Bioenergy Awards, Brazilian biofuels producer GraalBio in conjunction with its suppliers, including DSM, was presented with the Brazilian Bioenergy Deal of the Year Award for 2012 in São Paulo, Brazil. The award recognizes the initiative to launch commercial scale production of cellulosic ethanol in Brazil by 2013.

At the end of the year Maastricht University in the Netherlands announced that it had selected CEO Feike Sijbesma for an honorary doctorate. The university conferred this honor on Mr. Sijbesma because of the way he embodies DSM's core value, sustainability.

At the Transform Awards 2012, a European award recognizing excellence in rebranding, DSM won gold in the 'Internal Communication of a Rebrand' category. The judging panel particularly applauded the good combination of strategy and creativity with which the DSM brand was launched in 2011, with global cinema events and a movie.

DSM's corporate website received recognition in KWD Webranking's 2011-2012 annual survey of 950 corporate websites in 40 countries, including the 27 largest companies by market capitalization in the Netherlands. In 2012 DSM topped the ranking of AEX-listed companies. According to KWD, DSM's website scored particularly highly for the insight it provides into the company's growth factors, financial targets and social responsibility endeavors.

A full list of the many awards and other forms of external recognition that DSM received in 2012 can be found on the company website, www.dsm.com.

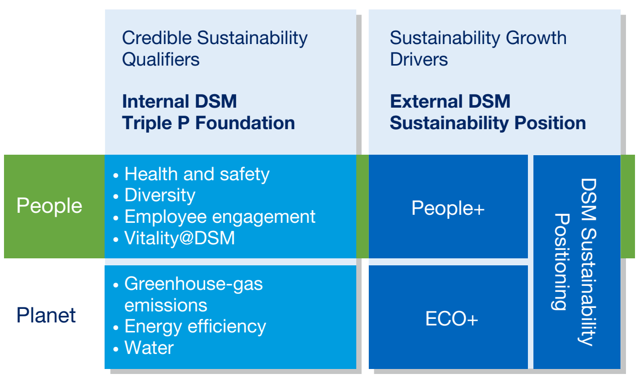
"Having grown up in a country ravaged by war and malnutrition, I wanted to work for a company that contributes to a better world."

Prosper Ndayiragije was born in Burundi but had to flee the country at age 24. He is now a Controller at DSM. As a DSM volunteer on a World Food Programme assignment in Indonesia, he witnessed first-hand how the products of DSM's bright nutrition science enable millions of underprivileged people to build healthy and productive lives.

People in 2012

The People dimension of DSM's Triple P strategy is about improving people's lives through the company's activities, solutions and innovations. 'People' here includes consumers, workers and communities across the value chains in which DSM is active. This chapter includes both the People+ strategy, which is the external component of the People dimension, and, under 'People at DSM', the human resources strategy as the internal component. For DSM, sustainability provides both a growth driver and a strong foundation for its human resources strategy.
See also: Growth Driver: Sustainability (page 24).

Growing profitable business on a strong foundation



People+

DSM is developing a People+ strategy for measurably improving the lives of consumers, workers and communities across the value chains in which the company is active. People+ will do for the 'people' element of Triple P what ECO+ has done for 'planet', giving further impetus to sustainability as a business driver for the company. DSM refined its People+ strategy in 2012 and also defined and road tested new metrics for it, thereby further enhancing its leadership position in sustainability.
See also: ECO+ (page 56).

Until recently a tool to measure a product's impacts on the People dimension was not available. By contrast, a product's eco-benefits (its ECO+ effect) can readily be measured using the well-known Life Cycle Assessment (LCA) methodology. The LCA method is widely accepted as a tool to assess environmental impacts associated with all the stages of a product's life.

In 2012 DSM, together with a broad group of stakeholders, developed a new metric to measure the People+ effect of products and solutions by assessing the impact on both the consumer and the people involved in the value chain for a product or solution. The new metric, the 'DSM People LCA', takes into account the product's impact on the health condition, the perceived comfort and well-being of end-users, the working conditions of the employees involved, as well as the impact on communities across the value chains in which DSM is active.

The People+ approach focuses on four distinct dimensions:

(I) Health Condition
(II) Comfort & Well-Being
(III) Working Conditions
(IV) Community Development

The DSM 'People LCA' indicators are based on international standards, such as those formulated by the World Health Organization, the International Labor Organization and the Global Reporting Initiative.

DSM is road testing the new metrics in R&D and value proposition projects.

On the next page a few illustrative examples are given, such as the disposable medical gown for surgeons based on DSM's Arnitel® VT. This gown incorporates a membrane that provides a higher barrier to viruses and bacteria than competing solutions. The Arnitel-based solution also allows perspiration to pass easily, which increases surgeon comfort. Another example is FloraGLO®[1] Lutein which can be used in dietary supplements. Lutein is a component of the eye and supplemental use may help visual performance. It has also been linked to the prevention of age related eye diseases. The BluCure™ Technology for cobalt-free curing of synthetic resins also illustrates the People+ concept. This technology eliminates exposure of workers to cobalt during manufacturing, while enabling a high quality of the cured resin product.

The new assessment will make it possible for DSM to quantify its brand promise of 'Brighter Living'. The company aims to further develop the methodology and align with external stakeholders in the years to come.

FloraGLO® [1] Lutein: natural ingredient for eye health dietary supplements.

End user benefits

Lutein is a component of the retina, which is responsible for central vision. Lutein has been linked to reduction of age-related eye diseases and improved visual performance.

Value chain benefits

DSM is a reliable business partner. FloraGLO® Lutein is manufactured exclusively with food grade marigold oleoresin, ensuring high standards in safety and health of workers involved in the supply chain.

Dyneema Purity® fiber: medical grade material applied in high strength orthopedic sutures and devices.

End user benefits

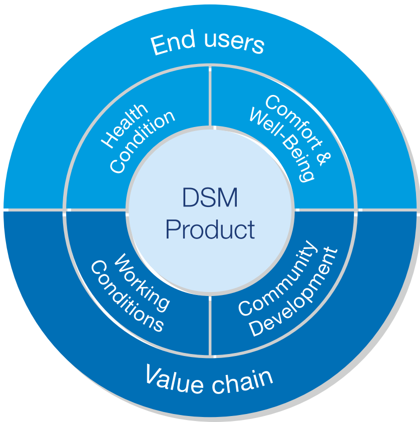
Less breakage of sutures during the surgical procedure and a smaller suture and knot diameter compared to polyester based orthopedic sutures. Supports faster healing and causes less discomfort.

Value chain benefits

DSM advocates science-based biomedical technologies, contributing to better understanding and application of innovative materials and device designs.

People+

DSM's People LCA



Arnitel® VT: bacterial and viral barrier in disposable medical gowns for surgeons.

End user benefits

Surgeons profit from an effective barrier against bacteria and viruses. Membranes allow perspiration to pass easily, keeping the surgeon comfortable and safe.

Value chain benefits

As Sustainability leader, DSM applies high standards in safe and healthy working conditions and environmental policies in operations, partnerships and innovations.

Vitamin D3: an essential nutrient for all age groups to help improve or maintain health.

End user benefits

Vitamin D3 is important for the activity of genes. An adequate intake helps maintain the health of bones and muscles and the functioning of the immune system.

Value chain benefits

DSM has set high standards for its production processes and way of doing business, based on its Business and Supplier Codes of Conduct and following Global Compact rules.

BluCure™: cobalt-free curing Technology for composites applied in boats and constructions.

End user benefits

End users can enjoy the benefits of composite materials such as low weight, design freedom and durability.

Value chain benefits

This Technology eliminates the need for using cobalt for curing, and consequently eliminates any exposure of workers to cobalt in resin and composite part manufacturing.

[1] FloraGLO® is a trademark of Kemin Industries, Inc., a DSM business partner.

People at DSM

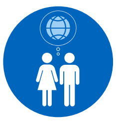
DSM's human resources strategy contributes to the development of inspiring and collaborative leaders, creates an engaged and competitive workforce and fosters an inclusive environment where people trust and respect one another, and where they encourage each other to achieve sustainable focused business growth. The approach is supported by the ONE DSM Culture Agenda.

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

ONE DSM Culture Agenda

During 2012, DSM transitioned its Change Agenda into the ONE DSM Culture Agenda. The themes of the ONE DSM Culture Agenda have been simplified and more aligned with DSM's business environment and business strategy, as well as with its global footprint. With the ONE DSM Culture Agenda, DSM is developing the culture required to achieve its strategic ambitions, to mirror the world it operates in, and to become a high performance organization. The four themes of the agenda are: External Orientation, Accountability for Performance, Collaboration with Speed and Inclusion & Diversity. Accelerating the four themes across DSM will lead to a more agile organization that is fit to cope with fast moving developments in the business environment.

External Orientation



DSM is convinced that, in order to be able to execute its growth strategy and rapidly adapt to changing customer and industry requirements, the vast majority of its employees need to be fully in tune with the challenges the external world offers. This means not just anticipating customer needs to drive marketing & sales and innovation priorities, but also tracking, learning and competing with best practices for all functions. External Orientation is also needed to broaden DSM's networks and engage with stakeholder groups.

Accountability for Performance

DSM expects its employees to set ambitious targets and take ownership to deliver these. Accountability for Performance is about people taking responsibility for their actions and for the performance of their teams, about recognizing and celebrating successes, but also about bringing issues to the surface and viewing mistakes as individual and collective learning opportunities.

Collaboration with Speed

DSM expects that in an ever more connected world, where collaboration is becoming an important source of competitive advantage, DSM employees will actively (co-)create, share and build on ideas, information, knowledge and expertise of their colleagues and the external world. By fostering collaboration, DSM will harvest the power of its growing global workforce, as anchored in its leveraged organizational model with businesses, functions and regions. Besides increased collaboration, there is a need for faster decision making and execution. DSM needs to build a ONE DSM Culture in which its employees trust each other's skills and have a sense of togetherness, of being ONE DSM.

Inclusion & Diversity

DSM believes that fostering an inclusive culture that embraces differences will help to create a more diverse workforce which will drive a high performance organization achieving its business and strategic goals, especially in view of DSM's focus on further internationalization, innovation and sustainability. A more balanced DSM leadership group (in terms of gender, nationality and background) will improve the decision-making process as well as the implementation of DSM's strategy. Inclusion & Diversity requires thoughtful bridging skills and a full commitment to DSM's joint corporate values.

DSM Employee Engagement Survey

DSM's HR strategy is about helping employees to successfully deal with the challenges of a changing company in a fast-moving global marketplace. The concept of employee engagement is very important in this respect. An engaged workforce is critical to DSM in realizing its ambitions. Engagement is about creating an inclusive and high-energy working environment, where employees are aligned and energized to contribute to the company's success.

In 2012 DSM executed its fifth worldwide Employee Engagement Survey. A total of 19,039 employees, including 631 contractor employees, completed the questionnaire, which was distributed online and on paper in 19 languages to all DSM employees. This represents a very high response rate of 87 percent. The main element in the survey is the measurement of DSM's Employee Engagement Index, the percentage of employees scoring favorable on a combination of four attributes: commitment, pride, advocacy and satisfaction. The Employee Engagement Index measured in 2012 was 72 percent

(2011: 71 percent). This is above the global overall norm of 69 percent. The neutral responses amounted to 19 percent, the same as 2011. DSM continued to create a more inclusive working environment for its employees. The Inclusion Index, a subset of survey items to measure inclusion, improved for the third year in a row. Of the respondents 68 percent scored favorable on this index in 2012 (2011: 66 percent).

The DSM Engagement Index score takes DSM within an 8 percentage point range of the external benchmark of high performing companies (scoring 80 percent favorable), which is the league DSM wants to be part of. The 2012 results are in general at a good level and show a positive trend in almost all areas. Items are mostly at or above the external average benchmarks. The survey results for the individual DSM units and regions have been translated into measurable action plans. DSM will continue to use the Employee Engagement Survey to guide its ONE DSM Culture Agenda.

Talent management

DSM strongly believes that successful talent management requires leaders who have the right focus, mindset and capability to identify, develop, engage and share diverse talent. Leaders who are inclusive and who are focused on growing themselves, their people and the business. In addition, the company believes in creating opportunities for its talented employees to maximize their development. In 2012 the company started many initiatives aimed at (1) empowering employees to take ownership of their career and (2) empowering leaders to take accountability for both talent performance and talent development.

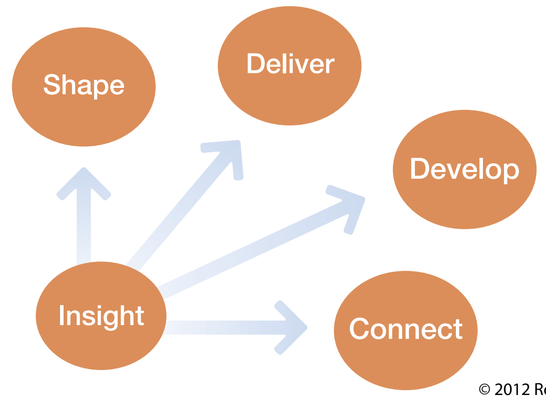
DSM Leadership Model

In 2012 DSM presented a new leadership model that specifies the characteristics expected from leaders now and in the future in a simple, understandable and compelling way. The DSM Leadership Model provides a common vision and language regarding the leadership DSM desires, and it describes an inspirational mindset to raise the bar on the performance of leaders and to grow people. The model sets out the expectation for leaders to be role models and developers of a sustainable, successful organization for the future. It is the basis for high quality processes to hire people, to grow and develop talent and build high performing teams.

The DSM Leadership Model consists of five imperatives. First, DSM expects its leaders to have:

- **Insight** - being a leader in DSM starts with having insight into oneself and others. DSM expects its leaders to recognize the strengths and the development areas of themselves and others by listening, asking questions, observing, and dealing with feedback. And then: learn and act accordingly.

DSM Leadership Model: expectations



© 2012 Royal DSM

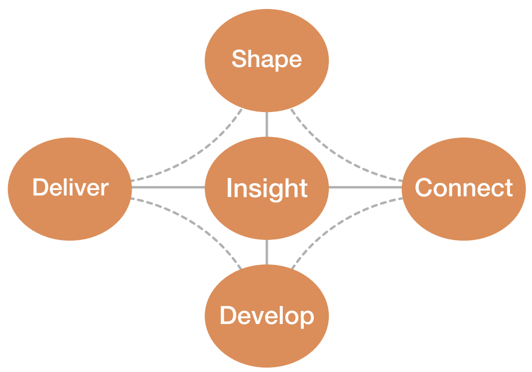
Secondly, DSM expects its leaders to:

- **Shape** by setting the direction and targets based on vision, driven by external orientation and a view on competences and options. Use an entrepreneurial approach with passion and a sense of urgency and show a relentless drive for performance, continuous improvement, innovation and business growth.
- **Connect** internally and externally, forge collaboration whilst leveraging the benefits of 'ONE DSM' and build relationships based upon a genuine, authentic and motivational trust and interest in people, with respect and humility based on self-insights and a deep understanding of others.

Thirdly, DSM expect its leaders to:

- **Develop** themselves and others, recognize and take ownership for leadership and talent development and delivery, and maximize the power of inclusion and diversity to build high performance teams.
- **Deliver** against ambitious targets and commitments and take accountability for performance, empowering people to act with speed and agility. Celebrate and reward successes and learn openly from failures. Show a drive to win and be decisive.

DSM Leadership Model: leadership capabilities



DSM is now working on the full roll-out of the DSM Leadership Model, encompassing training and integration of its leadership model in all talent management processes.

Organizational learning

DSM strongly believes in the need to invest in the knowledge, skills and experience of its employees to ensure their long-term employability. The company provides its employees with various kinds of learning opportunities, including classroom and virtual programs, on-the-job training, coaching and mentoring. The DSM Learning Architecture consists of four program clusters: executive programs, management programs, functional programs and e-learning programs.

This architecture creates a common and coherent concept of learning and program design, facilitates the development of a DSM learning culture and provides enhanced learning for talent. The programs are designed and delivered in close cooperation with leading international business schools and global training providers (IMD, Wharton, Erasmus University) and are supported by a diverse internal faculty, primarily consisting of DSM's top management. Other learning methods such as round table discussions, business simulations, virtual classrooms, web-casting and team assignments are integrated into the programs.

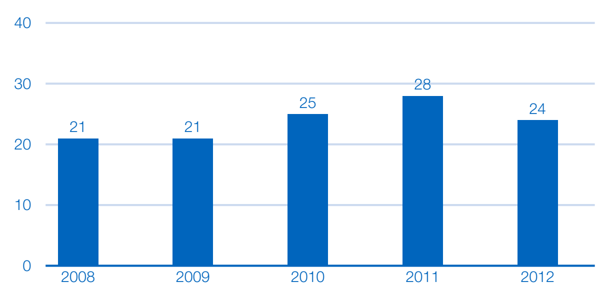
This enables interactive knowledge sharing and stimulates peer-to-peer networking in the organization. In 2012 further progress was made in designing and rolling out new curricula for marketing, sales and innovation. In addition a brand-new offering for DSM talent, the Bright Talent Program, was launched, reconfirming DSM's commitment to talent development. In 2012, 19 new programs were designed and introduced, bringing the total number of available learning programs to 96 across three different regions: Europe, Asia and the Americas.

In 2012, a total of 3,706 DSM employees worldwide (from 35 different countries; 2,239 male and 1,467 female) participated in the learning programs of the DSM Business Academy (DBA). This is an increase of 21 percent compared to 2011. The total number of programs delivered in 2012 was 212.

Program portfolio	**Available programs 2012**	Available programs 2011
Executive programs	8	8
Management programs	31	27
Functional programs	45	34
e-Learning programs	12	8
Total	96	77

In addition to the DBA offerings, DSM employees at all levels in the organization are offered a wide variety of training opportunities (both on-the-job and classroom training). The number of training hours per employee decreased from 28 in 2011 to 24 in 2012. The previously reported number for training hours in 2011 has been adjusted.

Training per FTE
in hours



Workforce composition

Inclusion & Diversity

The number of women in executive positions (40) remained at the same level, 10 percent, as in 2011. This will require attention going forward. In addition to recruiting female executives from the external market, DSM also makes an effort to recruit female executives from its internal pool of women candidates.

The growth of the non-European executive population, relative to the growth of DSM in high growth economies, will also continue to demand full attention from the businesses and regional organizations. DSM has defined inclusion and diversity aspirations (in terms of gender and nationality) for its business groups for the period 2011-2015 to ensure that its organizational readiness is in line with its stretched growth ambitions for 2015. DSM continues to address the geographical distribution of management and other key functions, with a keen eye on gender and nationality balance. In this respect it can also be noted that new appointments to the Supervisory Board contributed to gender and nationality balance.

Inclusion & Diversity aspirations

As part of its strategy DSM in motion: *driving focused growth*, the company in 2012 defined the following aspirations for Inclusion & Diversity:

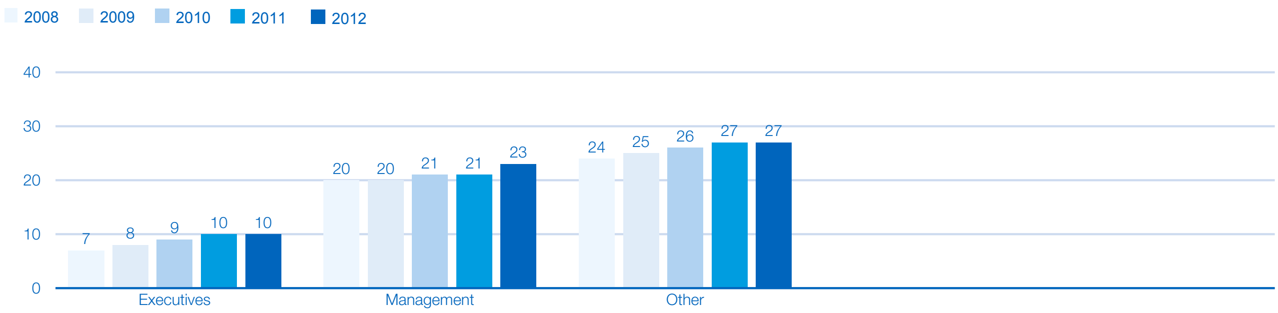
- Women in executive positions: 21% by 2015
- BRIC+ nationals in executive positions: 24% by 2015
- Inclusion Index: year-on-year improvement

See also: Strategic targets and aspirations (page 15).

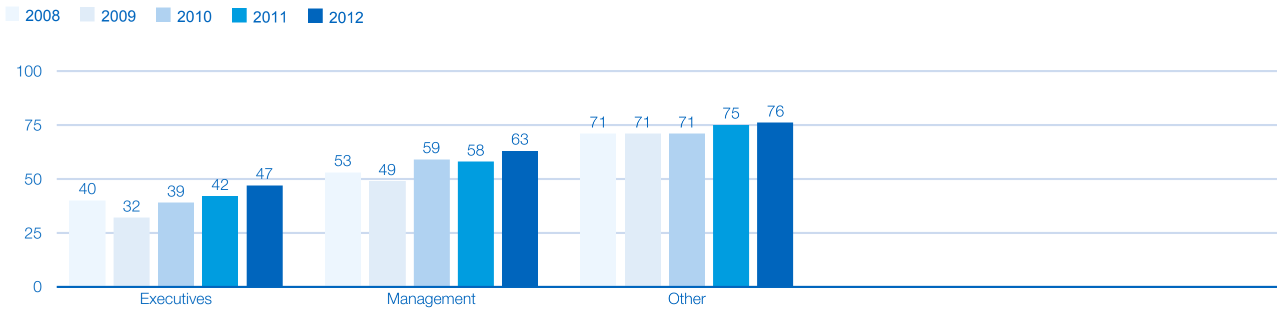
The role of the DSM Inclusion & Diversity Council, chaired by DSM CEO Feike Sijbesma, is to facilitate inclusion and diversity at DSM and to ultimately support all DSM businesses in creating a sustainable inclusive environment, where diversity is fully embraced. This Council is strongly aligned with DSM's internationalization efforts to make further progress with the company-wide ONE DSM Culture Agenda.

Gender diversity

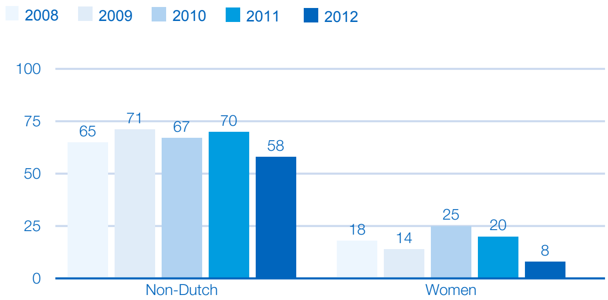
% women



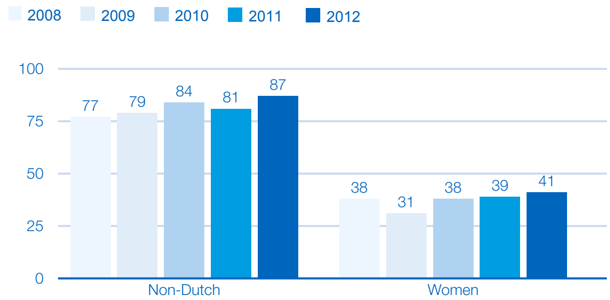
Workforce diversity
% non-Dutch



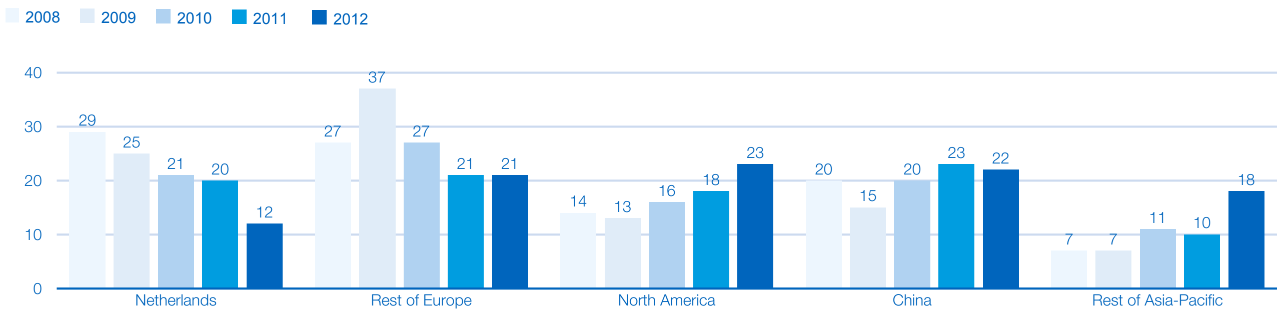
Executive hires
diversity in %



Professional hires
diversity in %



New hires by region
in %



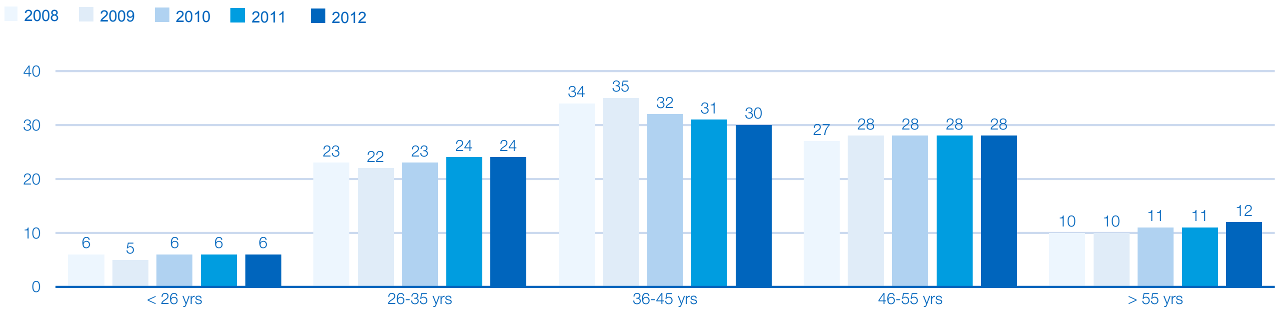
New employees

The total inflow of new employees into DSM in 2012 was 2,073 not including the inflow of employees due to acquisitions. As a result of acquisitions a total of 1,493 people were added to DSM's workforce in 2012.

In 2012, DSM recruited a total of 719 professionals (graduates and experienced hires), of whom 41 percent were women. The company wants to keep its focus on the diversity of these hires (nationality/gender) and build a strong diverse talent pipeline to achieve sufficient 'diverse critical mass' in the organization. DSM wants to improve its labor market positioning as an employer of choice, to ensure that the company is an attractive career option for talented individuals across all groups of potential employees.

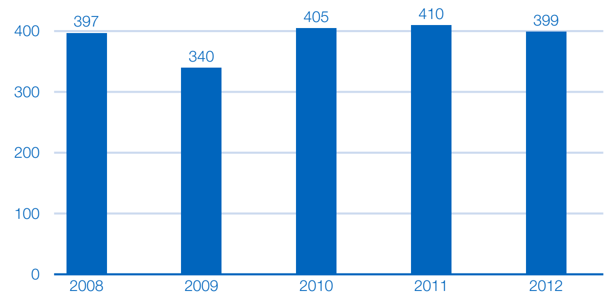
Employees by age category

in %



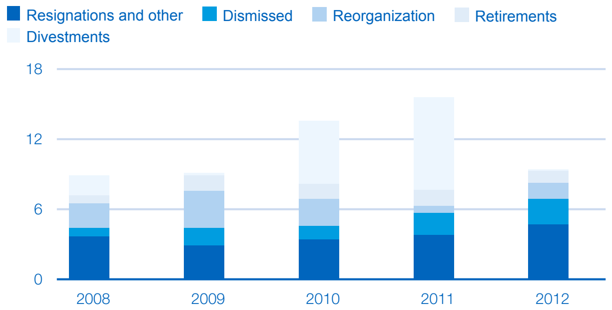
Net sales per employee

x € 1000, based on weighted average headcount



Outflow of employees

in % of total workforce



Outflow of employees

The total outflow of employees at DSM in 2012 was 2,189. A total of 225 employees retired, 1,094 resigned of their own will and, sadly, 22 employees passed away. In 2012, a total of 507 employees were requested to leave the company for non-performance or non-compliance reasons. A further 323 were made redundant due to reorganizations that took place across DSM in 2012. A part of the outflow (18 employees in total) was related to divestments.

International labor standards

Respect for people is an essential part of the business principles outlined in the DSM Code of Business Conduct that DSM launched in 2010. DSM supports and respects human values as outlined in the United Nations Universal Declaration of Human Rights. DSM's employees represent about 50 different nationalities and the company supports the equal treatment of all employees irrespective of race, nationality, ethnic background, age, religion, gender, sexual orientation or disability. Respect for human rights is also integral to DSM's sourcing policy and Supplier Code of Conduct. DSM utterly rejects and condemns any form of forced labor or child labor. This is clearly stated in the DSM Code of Business Conduct. DSM conducts due diligence before making any investment decisions in order to exclude, among other things, any relationships or practices which may be in contravention of human rights. DSM is unaware of any cases of breach of human rights or the use of forced or child labor within its operations in 2012.

DSM is a Dutch signatory to the United Nations Global Compact. DSM also meets the recommendations made in the OECD (Organization for Economic Cooperation and Development) Guidelines for Multinational Enterprises. Furthermore, DSM supports the work-related rights defined by the ILO (International Labor Organization) and recognizes the International Labor Standards. In countries or businesses where employees have third-party representation via a works council or collective bargaining, DSM respects these relationships and works with these third parties in a mutually respectful manner. See also: Stakeholder engagement (page 33).

In the event of an organizational restructuring that results in the loss of a significant number of jobs, DSM develops and implements either a social program (aimed at assisting employees to continue in employment, whether inside or outside the company) or else a severance program. DSM promotes employee empowerment and human rights protection and therefore seeks dialogue with its employees and their representatives (works councils, labor unions). See also: People at DSM (page 46).

DSM Code of Business Conduct

The DSM Code of Business Conduct, as introduced in 2010, contains the company's business principles across the three dimensions of People, Planet and Profit. All DSM employees are expected to act in accordance with the Code, and the Managing Board holds DSM management accountable for compliance therewith. The full text of the DSM Code of Business Conduct is available on www.dsm.com.

The code serves as an umbrella for several other DSM regulations, such as those regarding global trade controls and global competition law principles and practices. The implementation of these regulations is structurally embedded in DSM's systems and processes. For example, as part of the global trade controls process, DSM master data is screened overnight to check customers and suppliers against embargoes and lists of sanctioned parties. Furthermore, compliance with competition law and trade controls is being addressed via regular classroom training sessions and e-learning. Those employees who are most exposed to competition laws have to complete an annual statement to confirm their compliance with the rules set forth in the DSM Competition Law Compliance Manual. In 2012 DSM was not subject to any investigations by competition authorities related to potential anticompetitive behavior.

DSM also has rules in place on the holding of and execution of transactions in DSM financial instruments and certain other financial instruments related to trading in DSM shares and if applicable other company shares and related financial instruments, which apply to all DSM employees, including members of the Managing Board and Supervisory Board.

DSM applies zero-tolerance consequence management with respect to deliberate violation of its Code of Business Conduct policy. A whistleblower procedure (DSM Alert) and a consequence management policy are in place to support compliance with the Code. The DSM Compliance Officer responsible for dealing with violations of the DSM Code of Business Conduct reports to the CEO and is invited to report independently to the Supervisory Board once a year. Proven violations of the Code can result in dismissal. In line with this policy, 28 employees were requested to leave the company because they had breached the Code of Conduct or other legal or local company regulations, for example by committing fraud or theft.

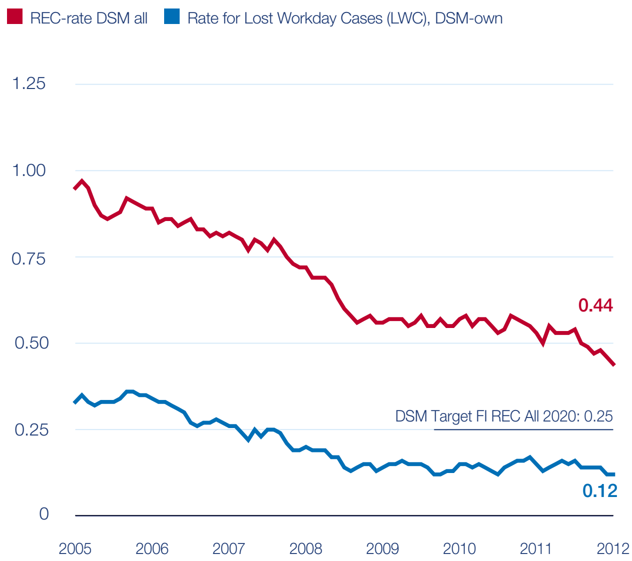
Safety and health

Occupational safety

For the first time since mid-2009 DSM's safety performance is showing clear improvement. The Frequency Index of Recordable Injuries for 2012 was the lowest ever, thanks to an improvement of DSM's safety culture and performance, among other things by securing compliance with the Life Saving Rules.

It is DSM's goal to have an injury and incident free working environment. DSM has set itself the target of reducing the Frequency Index of recordable injuries by 50 percent or more by the year 2020, from 0.57 in 2010 to less than or equal to 0.25 in 2020. This index measures Lost Workday Cases (LWCs), restricted workday cases, medical treatment cases and/or fatalaties per 100 DSM employees and contractor employees in one year. At the end of 2012 this Frequency Index was 0.44 (2011: 0.53).

Frequency Index of recordable injuries
12-month moving average



The Frequency Index of Lost Workday Cases involving DSM employees was 0.12 in 2012 (2011: 0.15). By 2020 the number of serious safety incidents should be reduced by 65 percent compared to 2010, when there were 15 such incidents. In 2012, the number of serious safety incidents was 7 (4 DSM employees and 3 contractor employees). The third quarter of 2012 was the first quarter ever in DSM's history during which no serious safety incidents occurred.

The improvements are attributable to increased efforts at all levels and in all disciplines in the organization to focus on safe work practices. The renewed implementation of the Life Saving Rules was a major program in 2012. Although aimed at preventing very serious accidents (fatalities), the reintroduction of these Life Saving Rules resulted in a general increase in safety awareness. Management attention and leadership as well as peer-to-peer and other audits further enhanced the focus on safe work practices. This resulted in in-depth discussions with the people involved in activities to which the Life Saving Rules apply, leading to improved general awareness as well as practical solutions for safety issues encountered. The Life Saving Rules are now also introduced in all new organizations that join DSM through acquisitions. The company has set ambitious safety targets and continues its journey towards creating a workplace free of incidents and injuries. See also: What still went wrong in 2012 (page 136).

e-Learning courses

In 2012 two e-learning courses for all employees and contractor employees were issued in eight languages. One course introduces the DSM Life Saving Rules and the other gives an overview of SHE and security at DSM. Both courses are mandatory for all employees.

Safety in logistics

In 2012 DSM paid extra attention to load securing. Poorly secured loads are dangerous not only during transport but also during unloading operations at customers' premises or DSM sites. Despite this extra attention, DSM still experienced near-misses and incidents relating to poorly secured loads in 2012. The company's overall SHE performance in logistics further improved compared to 2011. The number of safety incidents in the supply chain once again decreased and reached its lowest level ever: 16 cases (compared to 24 in 2011). Currently, about 12.5 percent of safety cases are supply chain related. The main causes are ergonomic issues (spraining muscles and joints when moving heavy objects or when moving things in an uncomfortable position).

Process safety

As of 2011, DSM follows the European Chemical Industry Council (CEFIC) guidance in defining which incidents qualify as process safety incidents (PSI). Of the total number of incidents reported, 162 (2011: 173) have also been classified as a process safety incident. This translates into a Frequency Index for PSI of 0.55 (2011: 0.58). The performance is similar to last year. DSM's targets for reducing the Frequency Index for PSI are 50 percent in 2015 and 75 percent in 2020, starting with a baseline Frequency Index of 0.68.

When it comes to reporting on process safety incidents there currently are two approaches commonly used. One has been developed in the US and has been condensed in Recommended Practice 754 of the American Petroleum Institute. The other has been developed in Europe, condensed in a CEFIC guidance. Although the principles of these approaches are similar, the results are not comparable. DSM is of the opinion that this reduces transparency on process safety performance to its stakeholders and is in favor of migrating to a harmonized, globally applicable approach for reporting on process safety performance. DSM is working with organizations like CEFIC and EPSC (European Process Safety Centre) and has contributed to process safety conferences in Brazil, Argentina and Germany. DSM is member of an ICCA Task Force to develop a harmonized international approach.

Global Safety, Health and Environment (SHE) Conference

On 12 and 13 June 2012, Corporate Operations & Responsible Care hosted a global DSM SHE Conference in Noordwijk (Netherlands) around the theme of 'Creating our legacy; a never ending journey'. Attendees included 135 line managers from all levels in the company and experts on Safety, Health, Environment and Sustainability representing DSM locations all over the world. The participants rated the conference 4.5 out of 5, which illustrates the successful set-up. The attention paid to storytelling and sharing personal experiences very much appealed to those present. The program included panel discussions with external keynote speakers and DSM top managers, as well as break-out sessions. One of the keynote lectures was about health and focused on how employees can sustainably improve their personal performance. The conference underlined the importance of employee health and indicated that a sustainable employee health and wellness program should be an integral part of every DSM site's SHE plan.

SHE Award and SHE Improvement Award

To stimulate excellence in the field of SHE, DSM annually grants a SHE Award to the DSM site that showed the best SHE performance, and a SHE Improvement Award to the site that has made the greatest progress in improving its SHE performance over a number of years. All business groups were invited to nominate sites or other parts of their organization for these awards. The nominees are ranked on the basis of approximately 30 criteria. Besides SHE elements, these include sustainability aspects, for example how the unit has supported the local community. The winner of the SHE Award receives a bronze sculpture and a check of € 10,000, to be spent on the local community. This reflects the importance that DSM attaches to the communities around its sites. To emphasize the importance of the awards, a member of the Managing Board hands over the prizes to the winning organizations. In 2012, DSM Nutritional Products in Dalry, Scotland (United Kingdom) won the SHE Award and donated its prize to the MacMillan Cancer Support Ayrshire. DSM Engineering Plastics in Evansville, Indiana (USA) won the SHE Improvement Award.

Employee health management

DSM has a global employee health management program, Vitality@DSM. Participants are offered a Vitality Check (an extensive periodic medical check-up) and are asked to fill out an electronic questionnaire. This provides DSM employees with a personal scorecard, and the company with anonymized, tangible and quantitative data on health at work. This enables the company to monitor progress through performance indicators, compare results by region as a basis for defining the content and priorities of health promotion campaigns at site and regional level, and create scorecards at relevant levels in the company. Vitality@DSM fits the company's mission very well as it creates 'brighter lives' for the employees and addresses one of the global trends, Health and Wellness, defined in DSM's strategy for the years 2010-2015. The roll-out in the Netherlands started in 2009 and was virtually completed in 2012. The program is also being piloted in DSM China, DSM India and DSM North-America. The implementation in the various regions is a joint effort of the DSM Netherlands Occupational Health Center, Corporate Operations & Responsible Care and the business groups.

One of the key focus areas of Vitality@DSM is to increase awareness about the importance of healthy choices in lifestyle. Therefore, employees are invited to set their personal goals, and are being coached individually. This has been combined with comprehensive health check-ups. The role of departments overall is to support making action plans with the objective of improving individual and group performances.

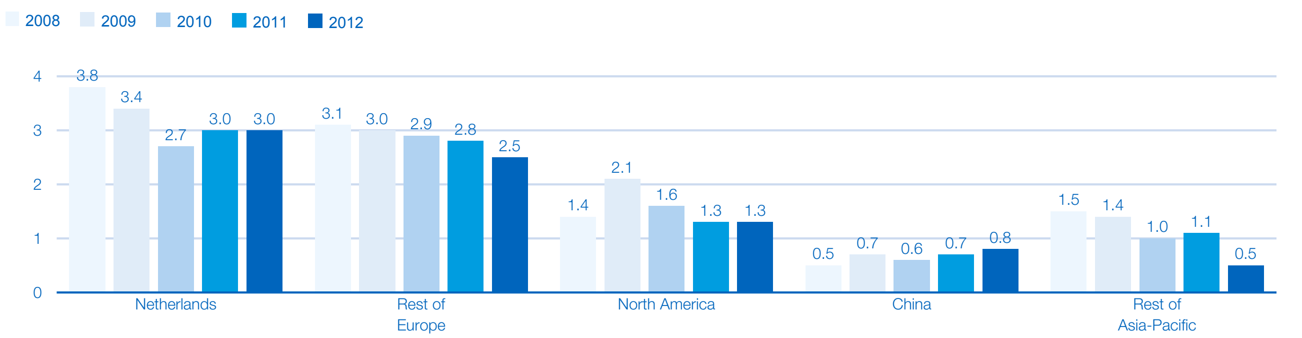
At the end of 2012 nearly 7,000 DSM employees all over the world had participated in Vitality@DSM. Participation rates at all sites where the program has been introduced vary from 65 percent to 95 percent. The scorecard gives an overview of how the various business groups and business units perform with respect to 'Health at Work'. Overall, the highest risks according to the scorecard relate to lack of exercise, a Body Mass Index (BMI) of more than 25 and low satisfaction and high stress at work. Several DSM units that had already participated in Vitality@DSM defined the content and priorities of health promotion campaigns at site level in 2012. This follow-up is very important to make Vitality@DSM sustainable. The scorecard is presented to business group and business unit management each quarter.

Occupational health

In 2012 a total of 13 occupational health cases were reported.

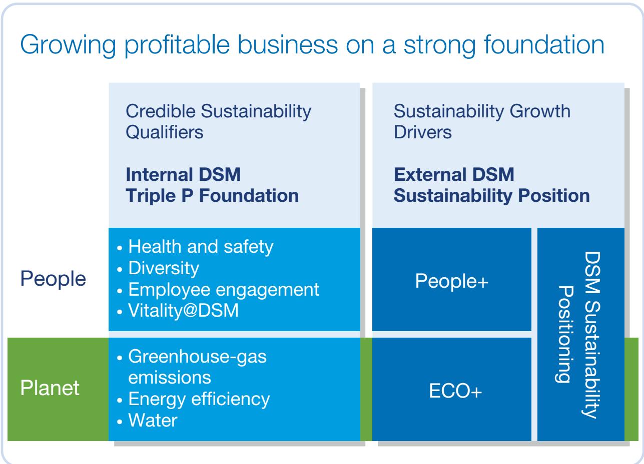
Absenteeism

in %



Planet in 2012

On the Planet dimension of its Triple P approach, DSM delivers activities, solutions and innovations that improve the environmental footprint of its own business and that of its external stakeholders in the value chains in which the company operates (customers, supplier and end consumers). This approach includes the ECO+ program, which defines sustainability as a growth driver. This chapter also addresses the reporting on DSM's environmental footprint and on its implementation of the Greenhouse Gas Protocol for scope 3 emissions. See also: Growth Driver: Sustainability (page 24).



ECO+

ECO+ is DSM's strategic concept for promoting the development of sustainable, innovative products and solutions with ecological benefits, and for measuring these benefits. ECO+ solutions create more value with less environmental impact. The 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. To measure them, the ECO+ framework uses the Life Cycle Assessment (LCA) methodology. For a full definition of ECO+, see page 224.

In 2012 the percentage of ECO+ solutions in the innovation pipeline was 80 percent, equal to the aspiration set for 2015. ECO+ solutions as a percentage of running business increased to 43 percent. DSM is on its way toward the 50 percent aspiration for 2015.

Typical ECO+ examples are DSM's engineering plastics that enable customers to produce lower-drag, lighter-weight and therefore more fuel-efficient cars. A life-science example is Brewers Clarex™, which enables brewers to prevent chill haze without having to cool their beers to sub-zero temperatures.

Other ECO+ benefits are the minimization of the use of natural resources such as water or minerals (including metals), or the reduction of waste. A typical example is phytase used in animal feed. Phytase enables animals to absorb more phosphorus from their feed. This translates into less phosphorus supplementation and less phosphate pollution from animal manure. Another example are Akulon®-based flexible packaging films such as Pack-Age™, a cheese ripening solution in the form of a breathable film bag that gives cheese the same taste and texture as the traditional coating method, but without the labor and without the waste.

All the above examples might be characterized as 'eco-efficient'. They help minimize environmental impact. DSM's long-term goal is to become fully eco-effective, by providing solutions that close the loop and have a truly positive, rather than less negative, environmental impact. To achieve a truly circular economy, it is essential to invest in the development of products made from renewable, bio-based raw materials rather than fossil fuels. Palapreg Eco™ is an example of such a product. See also: DSM Bio-based Products & Services (page 106).

To promote a circular economy, DSM also proactively seeks to develop safer alternatives to existing solutions. Many products that are on the market today contain ingredients that bring specific benefits during use but that may cause problems in the end-of-life stage or make the product difficult to recycle. Considering safer alternatives creates new business opportunities that are not available to companies that are merely compliant with regulations. Good examples of safer alternatives are BluCure™, the 100 percent cobalt free curing technology for composite resins, and halogen-free flame retardant plastics such as Arnitel® XG and Stanyl® ForTii™. DSM also continues to focus on Cradle to Cradle® closed-loop solutions.

Some DSM ECO+ solutions carry an Environmental Product Declaration (EPD). An EPD is a standardized way of communicating the environmental performance of a product or system. It is based on ISO standard 14025/TR and Life Cycle Assessment. Eighty percent of DSM's ECO+ solutions are supported by LCAs.

Finally, most ECO+ solutions generate downstream cost benefits coupled to their environmental benefits at specific stages of the value chain. These effects include generating less waste in the use phase, making the application more durable and reducing energy consumption in the application or disposal phase.

Value chain benefits of innovative ECO+ solutions

	Applications	Higher eco-efficiency[1]	Renewable content	Safer alternative[2]	Environmental Product Declaration (EPD)	Downstream cost benefits
Materials						
Arnitel® VT	Breathable film	●				●
Arnitel® XG	Wires and cables			●		●
Akulon® Fuel Lock	Fuel tanks	●		●		●
Arnitel® Eco	Pan liners	●	●		●	●
BluCure™ Technology	Marine, building & construction			●		
Dyneema®	Aquaculture and fishing nets, cut-resistant gloves	●		●		●
EcoPaXX®	Engine covers	●	●			●
HighQ™ Container	Lightweight containers	●				●
Hybrane® CY-245	Car refinish	●		●		●
KhepriCoat™ [3]	Solar panels	●				●
Neocryl® XK-238	Industrial coating	●		●		
Neocryl® XK-555	Anti-graffiti coating	●		●		
NeoPac® PU-480	Architectural coating	●	●	●		
NeoRez® U-475	Graphic arts printing	●	●	●		●
Palapreg® ECO	Composite bridges	●	●			●
Stanyl® ForTii™	Micro-electronics	●		●		●
Stanyl® polyamide 46	Chain tensioners	●				●
Stanyl® TC	LED lighting	●		●		●
Synolite® 7524-N-1 FC resin	Artificial stone		●	●		●
Uradil® AZ-785	Architectural interior wall paint	●	●	●		
Uralac® P32 series	Construction, heavy steel, part powder coating	●		●		●
Uralac® P752/755/3307	Construction sheet molding compounds	●		●		●
Health & Nutrition						
Bakezyme®	Bread	●				●
Brewers Clarex™	Beer	●			●	●
Brewers Compass™	Beer	●			●	●
Claristar®	Wine	●				●
Delvotest®	Milk	●		●		●
Panamore®	Bread	●			●	●
Phytase	Animal feed	●			●	●
Purifine® PLA2	Soy oil	●				●
DSMPureActives™	Antibiotics	●	●	●		●
Rapidase®	Fruit juices	●			●	●
Vitamin E	Vitamins	●		●		
Combined						
Pack-Age™	Cheese packaging	●			●	●

[1] Better resource efficiency and/or reduced GHG emissions thanks to e.g. higher energy efficiency in the product life cycle
[2] Product can be used instead of existing products that contain materials that may contain substances of hazardous concern
[3] LCA pending

Environmental impact of DSM's operations

DSM's energy efficiency improved by 14 percent compared to the reference year 2008, which is a further improvement of approximately 2 percent compared to 2011.

Greenhouse-gas emissions decreased slightly compared to the reference year 2008, from 4.3 million tons of CO_2 equivalents to 4.2 million. This is a strong reduction compared to 2011, when greenhouse-gas emissions were 4.6 million tons of CO_2 equivalents, in spite of the fact that several new reporting units were consolidated for the first time in 2012. An important structural improvement was realized at DSM Fiber Intermediates (DFI) Nanjing, where an N_2O abatement system was taken into operation in September 2012. See also: Sustainability in Polymer Intermediates (page 102).

Key environmental indicators, continuing operations

	2012	2011
Energy use in petajoules (PJ)	40.6	44.6
Water use (x million m^3)	150	153
Greenhouse-gas emissions in CO_2 equivalents (x million tons)	4.2	4.6
Emission of volatile organic compounds (x 1000 tons)	3.4	4.2
COD (Chemical Oxygen Demand) discharges to surface waters (x 1000 tons)	5.5	7.0

Total water withdrawal in 2012 decreased by approximately 3 million m^3 to 150 million m^3. The decrease is the balance of reductions at some sites and increases at other sites. Positive changes were also obtained by specific water projects.

Significant improvements were achieved in emissions to air. VOC, NO_x and SO_2 emissions were significantly reduced due to structural improvements, as well as several changes in production volumes.

The landfilling of non-hazardous waste increased significantly in absolute terms, mainly due to the fact that two newly acquired sites land-filled relatively large amounts of non-hazardous waste. Relative to production volumes, the amount of landfilled non-hazardous waste has decreased since 2010.

The discharge of COD decreased significantly in 2012 compared to 2011. This is the balance of an increase due to the fact that several newly acquired units were consolidated for the first time in 2012, and lower production volumes at several other sites.

Environmental targets

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

The eco-efficiency targets, representing the main emissions from DSM's plants, are based on the principle that all DSM sites in the world should as a minimum meet the standards as applied in the European Union or the US. New plants and major plant modifications should meet this requirement right from the start, whereas existing plants should meet it within five years.

The CMP was reviewed according to plan in 2012. The target for water availability and use has been confirmed at 15 percent reduction of water use. In the coming years once through cooling will be excluded in those cases where it is shown that this does not result in thermal pollution. Water risk assessments will focus on sites located in water scarcity areas and sites that contribute significantly to DSM's discharge to water and/or water use. The impact of the discharge of nitrogen and phosphorus is now included in the local water risk assessments. Risk assessments on biodiversity and ecosystem services, taking 'no net loss' as long term (2020) ambition, were added as a new item.

Safety, Health and Environment targets[1]

	2015		2020
Safety at work			- Reduction in number of serious incidents by 65%
			- Frequency Index of recordable injuries ≤ 0.25
Process safety[2]	Reduction in number of process safety incidents (PSI) by 50%		Reduction of PSI by 75%
Health at work	Vitality@DSM target: at least 75% uptake per project done, and ambition to reach 15,000 entries by 2015		
Eco-efficiency	Reduction of discharges to water:		
	- COD	20%	
	Reduction of emissions to air:		
	- VOC	40%	
	- SO_2	70%	
	- NO_x	30%	
	Reduction of waste:		
	- Landfilling non-hazardous waste	15%	
Climate change			- Energy-efficiency improvement of 20% by 2020 compared to 2008 - Reduction (absolute) in GHG emissions of 25% by 2020 compared to 2008
Water availability and use	Reduction of water use	15%	

1 Reductions compared to 2010, unless otherwise stated
2 See page 53

Progress made in 2012 towards environmental reduction targets

		% Reduction realized up to 2011 compared to reference year[2]	% Reduction realized up to 2012 compared to reference year[1]	Reduction target (%, reference year-target year)
Discharges to water	COD	5%	8%	20% (2010-2015)
Emissions to air	VOC	29%	31%	40% (2010-2015)
	SO_2	65%	92%	70% (2010-2015)
	NO_x	21%	39%	30% (2010-2015)
Waste	Landfilling non-hazardous waste	6% increase	6%	15% (2010-2015)
Climate change	Improvement of energy efficiency	12%	14%	20% (2008-2020)
	Greenhouse gases	8% increase	1%	25% (2008-2020)
Water availability and use	Total water consumption	5% increase	0%	15% (2010-2015)

1 Corrected for changes in production volumes and product portfolio relative to the reference year (except greenhouse-gas emissions, which is an absolute target). Acquisitions made during the target period are not taken into account. Divested units have been excluded.
2 Some minor differences compared to the numbers reported in last year's report are the result of corrections that have been applied.

All environmental targets, except for the target for greenhouse-gas emissions, are relative targets, i.e. emissions and consumption relative to production volumes. This means that the reduction percentages in the table above are the result of calculations incorporating changes in production volumes. Acquisitions and divestments in the target period are excluded for the determination of target realization in order to have a like-for-like comparison.

The target for greenhouse-gas emissions is an absolute target. The previously divested units DSM Agro, DSM Melamine, DSM Elastomers, Citric acid, and DSM Special Products Rotterdam were excluded from the base year 2008, but the impact of other acquisitions and divestments is reflected in these figures.

The reported figures are the result of improvements achieved in the year 2012, changes in production volumes, the impact of acquisitions, divestments and site closures carried out in the same year and the fact that the planet data for DSM Sinochem Pharmaceuticals (DSP) are consolidated for 50 percent as of January 2012, compared to 100 percent in previous years. See also Pharma (page 101).

The graphs on the following pages show the absolute DSM totals over the years 2008-2012. This can give rise to some apparent differences with the target realization figures, as the latter are corrected for changes in production volumes and do not include companies that were acquired or divested in this period.

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

Data reporting by the sites is regularly audited by DSM's Corporate Operational Audit department. See also: Reporting policy (page 110).

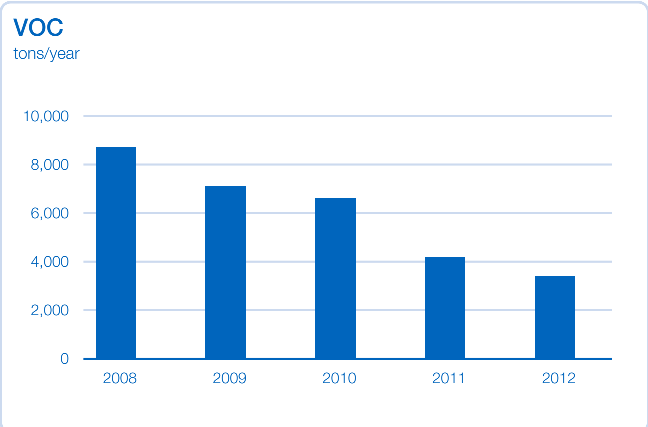
Emissions to air

Volatile Organic Compounds

Emissions of Volatile Organic Compounds (VOC) decreased strongly from 4,200 tons in 2011 to 3,400 tons in 2012 due to several causes. The largest decrease results from the fact that planet data from DSP is only consolidated for 50 percent as of January 2012, compared to 100 percent in previous years. In addition, significant reductions are the result of improvements at DSM Nutritional Products in Dalry, Scotland (UK) and DSM Engineering Plastics in Emmen (Netherlands), the closure of the DSP site in Zhangjiakou (China) and several process changes at DSP in Ramos Arizpe (Mexico).

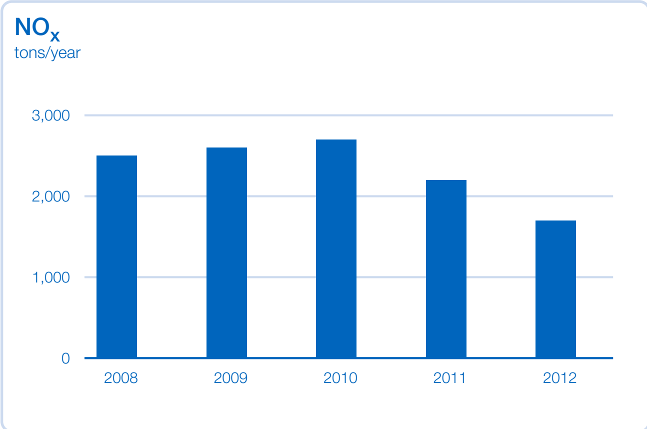
On the other hand, there are several new reporting sites, such as DSM Food Specialties Zhongken (China), DSM Dyneema in Laiwu (China) and DSP in Yushu (China), which contribute to DSM's VOC emissions as of January 2012. Shifts in production processes at DSP Toansa (India), which realized higher output of processes with higher emissions per ton of product, and operational issues at DFI Augusta, Georgia (USA), also resulted in higher emissions.

In addition, VOC emissions at DFI Nanjing have increased as a result of a change in the processing of a waste stream. This waste stream used to be incinerated on site. The incineration process required a large amount of energy and yielded an aqueous waste stream of sodium carbonate which was drained to the Yangtze river. A more sustainable solution to treat the waste stream was found. Various (valuable) components are recovered and energy consumption is considerably lower. However, the existing incinerator was also used to burn off-gases (VOC), and these are now temporarily released to the air. A new (small) incinerator to burn the off-gases is under construction. A high workload at the vendor and additional safety requirements unfortunately caused a delay.



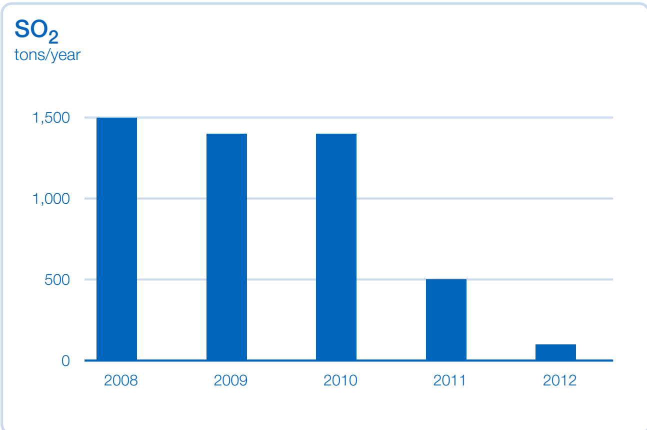
Nitrogen oxide

Nitrogen oxide (NO_x) emissions decreased significantly, from 2,200 tons in 2011 to 1,700 tons in 2012. This is mainly because the two coal-fired steam boilers at DFI Nanjing were closed in July 2011, as was already mentioned in the 2011 annual report. A smaller contribution resulted from the closure of DSP Zhangjiakou, the fact that planet data for DSP are only consolidated for 50 percent as of January 2012 and a decrease at DFI Augusta as a result of lower production volumes.



Sulfur dioxide

DSM's sulfur dioxide (SO_2) emissions decreased significantly, from 500 tons in 2011 to 100 tons in 2012. The main reason is that the two coal-fired steam boilers at DFI Nanjing were closed in July 2011. A smaller reduction resulted from the closure of DSP Zhangjiakou and the fact that as of January 2012 DSP is only consolidated for 50 percent, compared to 100 percent in previous years.

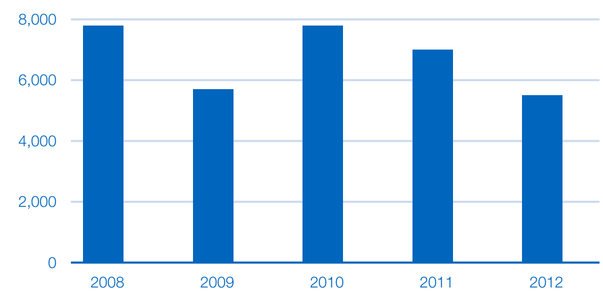


Discharges to water and landfilling of waste

Chemical Oxygen Demand

The discharge of COD (Chemical Oxygen Demand; an indicator of the degree of pollution of wastewater by organic substances) decreased from 7,000 tons in 2011 to 5,500 tons in 2012. The main reductions were achieved by the closure of DSP Zhangjiakou and shutdowns of production units at DNP Dalry and DSP Ramos Arizpe and lower production volumes due to turnarounds and less demand at DFI Augusta and DPP Capua (Italy). On the other hand, new reporting sites, including DNP Leon (Spain), DNP Kingstree, South Carolina (USA) and DSP Yushu, caused an increase in COD discharge.

COD
tons/year

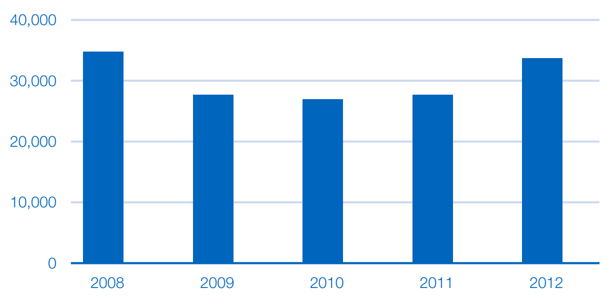


Non-hazardous waste

The landfilling of non-hazardous waste increased from 27,700 tons in 2011 to 33,700 tons in 2012. The main reason for this significant increase is the fact that two new sites, DNP Kingstree and DSP Yushu both landfilled significant amounts of non-hazardous waste. On the other hand, a significant decrease resulted from shifts in production processes at DSP Ramos Arizpe.

Other sites show fluctuations that are the result of changes in production processes. These are not considered structural.

Landfilling non-hazardous waste
tons/year



Energy and greenhouse gases

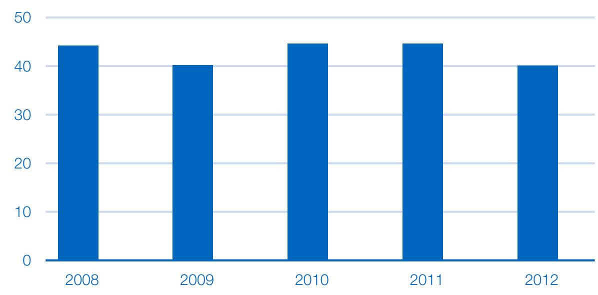
Energy consumption

DSM's total energy consumption decreased by approximately 10 percent from 44.6 petajoules in 2011 to 40.6 petajoules in 2012.

DFI Nanjing realized a significant improvement in energy efficiency, resulting in lower energy consumption at the same production volume. The replacement of steam supplied from its own relatively inefficient coal-fired boilers with steam supplied from a more efficient external supplier, as was already mentioned in last year's report, was now effective in the whole year.

Significant further reductions resulted from the closure of DSP Zhangjiakou and reductions and/or shifts in production volumes at DSP Ramos Arizpe, DNP Dalry, DFI Augusta and DFI Sittard-Geleen (Netherlands).

Energy consumption
PJ

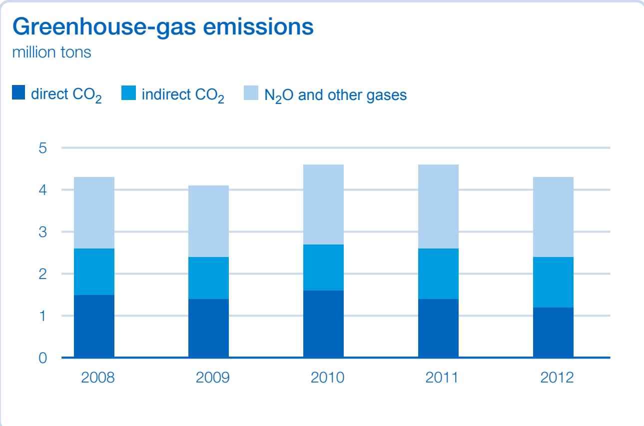


On the other hand, the new reporting plants DNP Kingstree, DSP Yushu and DFS Zhongken caused an increase in DSM's total energy consumption.

As was mentioned in the 2011 Integrated Annual Report, DNP Belvidere has taken a new combined heat and power unit into operation. The unit was started up in November/December, which means that there is not yet any significant impact on energy efficiency improvement. Energy efficiency at DSM Pharmaceutical Products (DPP) in Greenville, North Carolina (USA) improved, as was expected based on the project that was mentioned in the 2011 report.

Greenhouse-gas emissions

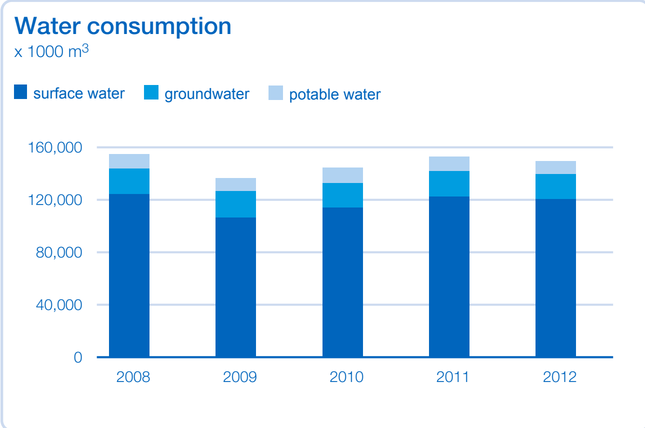
DSM's greenhouse-gas emissions decreased from 4.6 million tons in 2011 to 4.2 million tons in 2012. A structural improvement was realized at DFI Nanjing, where an N_2O abatement system was taken into operation in September 2012. A significant reduction resulted from lower production volumes at DFI Augusta, and the fact that planet data for DSP are only consolidated for 50 percent as of January 2012, compared to 100 percent in previous years. Smaller reductions at several other sites and the closure of DSP Zhangjiakou are offset by the contribution of three new reporting sites (DNP Kingstree, DSP Yushu, DFS Zhongken).



Water consumption

The graph in the next column shows DSM's global water consumption, split up into surface water, groundwater and potable (tap) water. Total water withdrawal decreased from 153 million m^3 in 2011 to 150 million m^3 in 2012. This is the balance of reductions at some sites and increases at other sites. Specific water projects at DEP Emmen, DNP Grenzach (Germany) and DEP Jiangyin (China) resulted in significant local reductions. Further reductions were achieved by the closure of DSP Zhangjiakou and shutdowns of large water-consuming production units at DFI Nanjing and DSP Ramos Arizpe, as well as turnarounds at DFI Augusta and DFI Sittard-Geleen. The main increase was due to new reporting sites, including DNP Leon, DNP Kingstree, DSP Yushu and DFS Zhongken, and changes in production processes at DNP Lalden (Switzerland), DFI Sittard-Geleen, DPP Linz (Austria), DSP and DFS Delft (Netherlands).

A significant part of DSM's total water consumption is for once through cooling. These volumes were influenced by incoming river water temperatures, in particular at DNP Sisseln (Switzerland), DNP Grenzach, DNP Lalden and DPP Linz.



DSM aims to achieve a situation where its operations have no adverse effect on the quality and quantity of water in the regions in which the company operates. In regions that face water scarcity, DSM actively assesses the local impact of its operations, based on a watershed approach as part of a water risk assessment. In these water risk assessments, the focus is not only on reducing water consumption in DSM's own operations but also on promoting an overall sustainable water management system in cooperation with other stakeholders in the watershed area and in the supply chain.

Operational improvement and increased awareness

In 2012, a number of DSM sites in areas of extreme water scarcity as defined by the Global Water Tool executed a water risk assessment using a dedicated Sustainable Water Management methodology. The assessment included water governance capability, (local) stakeholder integration,

DSM supports UN CEO Water Mandate

"Sustainability is a core value and growth driver for DSM. Our mission is to create brighter lives for people today and generations to come. One of the essential elements in people's lives is water. It is becoming increasingly scarce and polluted. But increasingly water is also becoming too abundant due to natural effects, increased by climate changes and therefore threatening lives within our society. DSM truly values initiatives like the United Nations Global Compact CEO Water Mandate, to the principles of which I express my continued support. We need to keep each other focused on the essentials in life. The topic of water and sustainable water management has our full attention."

Feike Sijbesma, CEO of Royal DSM

business risks related to existing and future operations, and value chain and ecosystem impact.

Based on the results and insights gained, DSM updated its roadmap to sustainable water management. The company confirmed its overall water intensity target of reducing water withdrawal by 15 percent by 2015. In 2013 and 2014 the water risk assessment methodology will be applied to other sites of extreme water scarcity as well as to significant water withdrawers and significant polluters (including thermal pollution of once-through cooling). The impact studies on scarcity and pollution set priorities for local mitigation actions (e.g. water reduction projects, local stakeholder participation and cooperation projects) as defined in business group roadmaps for 2015/2020.

Based on the water impact and risk assessments, DSM has created a transparent overview of its impact on water scarcity and water pollution (COD, nitrogen, phosphorus) at specific locations. There are a number of small sites where water scarcity may occur for up to a few months per year in their area of operation, but their impact is relatively insignificant as they consume less than one percent of available fresh water sources. There are also a number of big sites where the risk of water scarcity is low but the potential impact is high. These sites have prepared local water consumption reduction plans in line with DSM's water aspiration. Depending on the specific location and impact, DSM will create awareness and seek cooperation with industrial and governmental stakeholders to make sure there will be no adverse impacts at the local level. Water risk assessments provided additional insight into improvements to achieve DSM's 'no adverse effect' policy. While no violations were observed with regard to local permit conditions, some water discharges were using a significant part of the rivers' assimilation capacity. Further investigations will be conducted and mitigation measures will be taken where necessary.

Full transparency in reporting water performance
DSM continues to publish location reports on all DSM sites worldwide on the internet, providing external stakeholders with detailed insight into local situations. DSM remains committed to the CEO Water Mandate that it signed in 2009, and the company has reported its water performance within the Carbon Disclosure Project since 2011, although it is not rated to be a high water intensity business.

Promote improvements in value chain
DSM is engaged in an ongoing dialogue with suppliers, customers and industry peers to create sustainable value chains by progressively enhancing the eco-footprint (including water footprint) of products and processes across each chain. Moreover, in the coming years DSM will increasingly require suppliers to commit themselves to targets and assessments similar to those applied by DSM. In 2012, the company developed a new supplier water performance and risk assessment tool, which integrates relevant parts of the DSM Sustainable Water Management tool and impact analysis. This helps DSM suppliers to develop sustainable water management supply chains. See also: Water management (page 35).

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

Biodiversity

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

DSM supports the terms of the Convention on Biological Diversity, being the conservation of biological diversity, the sustainable use of the components of biological diversity and the fair and equitable sharing of the benefits arising out of the utilization of genetic resources. This has been embedded in DSM's management systems.

In 2012 some DSM employees from the SHE, business and purchasing communities were trained by IUCN on the basics of Biodiversity and Ecosystem Services. This training was developed by the World Business Council for Sustainable Development, or WBCSD. This was a first step in raising awareness, which needs to be taken to a next level, including more insights into the impact on biodiversity of DSM's operations in the value chain. See also: Biodiversity (page 35).

In addition DSM requested its production sites to assess their potential impact on legally protected areas, as well as areas of high biodiversity value outside protected areas. In a first analysis, 40 percent of DSM's sites were identified as being located in or adjacent to high biodiversity value areas. This is significantly more than previously reported numbers, as a result of the application of new criteria. The distance to these protected and/or high biodiversity value areas ranged from 500 meters up to 25 km. In all cases DSM has no indication of any adverse impact on these areas and all sites operate within the permit levels of local governments.

Together with some of the partners in the Inspirational Programme of the Leaders for Nature platform of IUCN DSM is working on a 'business area of the future' concept. This concept includes assessing a company's impact and dependency on biodiversity and ecosystem services. DSM aspires to prevent further degradation of biodiversity and wishes to contribute to the preservation of biodiversity wherever possible and wherever the company's activities have impact.

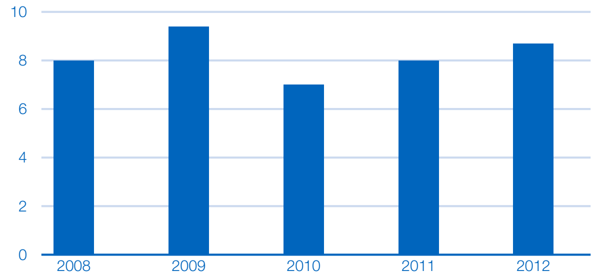
Renewable energy

DSM acknowledges that the world urgently needs to shift its energy mix from fossil based towards renewable, while securing energy supply, and aims to be a front-runner in combating global warming and resource depletion. DSM is investing heavily in the production of cellulosic bio-ethanol. DSM considers growth enabled by just buying more energy – which currently predominantly drives the demand for cheap fossil energy – a vicious circle which needs to be broken. It considers the limited prospect of timely availability of sufficient renewable energy a matter of deep concern and a huge challenge to deal with properly. DSM, although not involved in the business of energy generation, nevertheless realizes its dependency on the timely future availability of reliable and economically viable energy sources. DSM considers a worldwide shift towards renewable energy as necessary and urgent.

Raw materials

In 2012 approximately 8.7 percent of DSM's total spend on raw materials related to renewable raw materials. This represents an increase compared to 2010 and 2011, which is in line with the DSM portfolio changes. A further increase is expected in the coming years.

Renewable raw materials
in % of total raw materials spend



Fines and sanctions
A total of four environmental sanctions were given to DSM sites.

The total amount paid in fines by DSM amounted to approximately €45,000, which is much lower than in 2011 (€70,000) and previous years.

To the best of DSM's knowledge, no other fines or non-monetary sanctions for environmental issues were incurred in 2012.

Environmental incidents and complaints
The total number of registered environmental complaints was 35 (24 in 2011), of which 22 were about odor, 10 about noise and 1 about flaring.

The total number of environmental incidents was 316, compared to 300 in 2011. Of these incidents, only two were rated as serious (11 in 2011). In previous years health incidents were also included in these numbers but these are now separately reported in the occupational health paragraph of the 'People in 2012' chapter. See also: Occupational health (page 54).

Sharing information on the safe use of chemicals
Within the scope of REACH (Registration, Evaluation, Authorization and Restriction of Chemical substances), the European legislation on chemicals, DSM is running a program to share with its peers all available information on the properties and safe use of chemical substances. The importance of REACH cannot be overestimated: companies that fail to comply with REACH will at some point no longer be able to do business in the European Union. DSM is on track with its registration process for the next REACH deadline, 31 May 2013.

DSM continuously monitors developments with regard to the UN Globally Harmonized System (GHS) on Classification and Labeling of dangerous chemicals and takes the necessary actions to ensure implementation according to national or regional deadlines. Products have been relabeled, and revised

Safety Data Sheets are provided according to the new requirements. The DSM employees involved are made aware and trained accordingly on the new information.

DSM has also committed itself to actively participate in the Global Product Strategy (GPS) initiated by ICCA. The aim of the GPS initiative is threefold:

- To reduce differences in the safe handling of chemical substances between developing, emerging and industrialized countries
- To ensure the correct handling and use of chemicals across the value chain and across geographical boundaries by providing relevant and reliable information
- To increase transparency by helping companies provide stakeholders with information about marketed chemicals in an easily understandable format: the GPS Product Safety Summary

With a focus on high volume chemicals, DSM published GPS Product Safety Summaries on its website and on the GPS portal of ICCA in 2012. In addition, DSM contributed to one of the capability-building workshops organized in Bogotá (Colombia). These workshops are critical to advancing the capability of small and medium sized companies which would otherwise lack the knowledge and skills necessary to implement product safety.

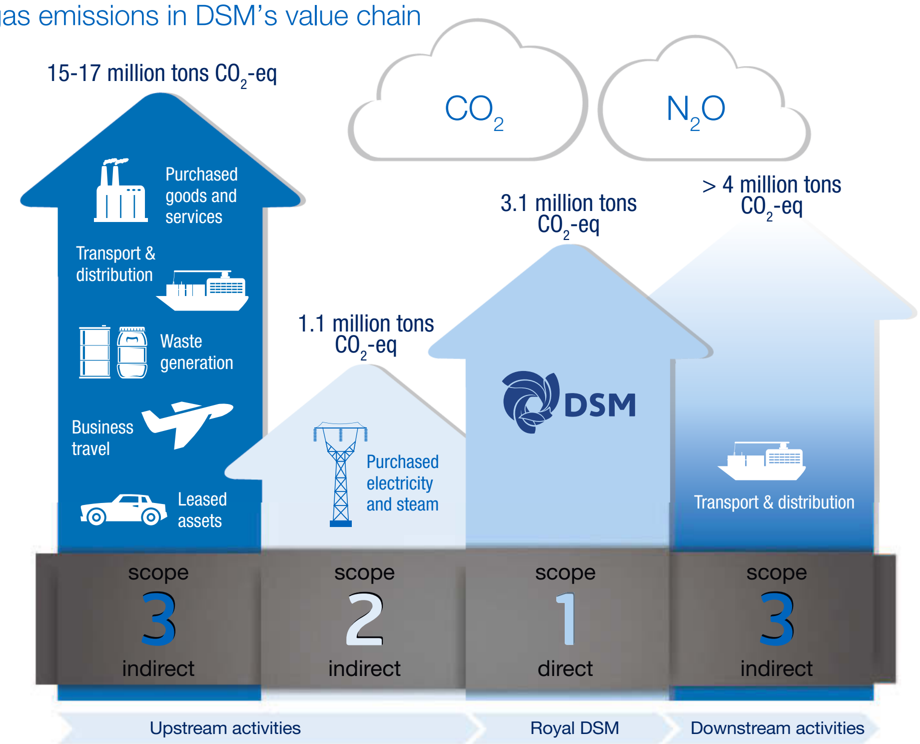
DSM supported the launch of SUBSPORT, Substitution Support Portal, a case story database presenting practical real-case examples of companies and other stakeholders that have done successful substitution work. DSM brought two real-case examples to this database at the official launch of this portal at a side event of the Helsinki Chemicals Forum, both relating to the substitution of hazardous chemicals by safer alternatives.

Sustainable value chains

To gain better insights into the environmental impact of its products and to improve their eco-efficiency, DSM pays close attention to the entire value chain in which it operates. In the past, DSM used to focus primarily on the greenhouse-gas emissions of its own production activities, including the greenhouse-gas emissions from the power plants that supply electricity and steam, known as 'scope 1' and 'scope 2' emissions. Taking into account also the greenhouse-gas emissions coming from the value chains in which DSM operates, known as the 'scope 3' emissions, provides a more complete picture of DSM's environmental impact.

The Greenhouse Gas Protocol for scope 3 emissions, issued in 2011 by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute, distinguishes a total of 15 different categories. Based on this protocol, the Chemical Sector Working Group of the World Business Council for Sustainable Development has developed a guidance for scope 3 reporting by chemical companies. The protocol and the guidance have been used as starting point for a materiality assessment to identify which categories are most important for DSM. Both the business impact and the societal impact were evaluated in the materiality assessment, in addition to the estimated size of the different categories and the availability of data. The outcome was used to set priorities for improving the quality of the data.

Greenhouse-gas emissions in DSM's value chain



Scope 3 emissions under Greenhouse Gas Protocol

Category	Emissions[1]
1 Purchased goods and services	13,500
2 Capital goods	1,000 - 1,750
3 Fuel and energy-related activities	250 - 500
4 Upstream transportation and distribution	186
5 Waste generated in operations	173
6 Business travel	77
7 Employee commuting	40 - 60
8 Upstream leased assets (company cars)	29
9 Downstream transportation & distribution	10 - 25
10 Processing of sold products	not relevant
11 Use of sold products	not relevant
12 End-of-life treatment of sold products	3,000 - 4,000
13 Downstream leased assets	not relevant
14 Franchises	not relevant
15 Investments	10 - 30

[1] in kilotons of CO_2 equivalents

Based on a materiality assessment, which also considers aspects such as business impact and societal interest, DSM has determined the following five categories as most relevant:

- Purchased goods and services
- Upstream transportation and distribution (includes transport of DSM products to customers)
- Waste generated by operations
- Business travel
- Upstream leased assets

For these five material categories, the greenhouse-gas emissions are based on primary data and are considered to be relatively accurate. In the materiality assessment, four categories are considered to be irrelevant, based on the guidance from the chemical sector working group of the WBCSD. For the remaining six non-material categories, the order of magnitude has been estimated.

The table on the left provides an overview of all 15 categories.

Profit in 2012

Financial results

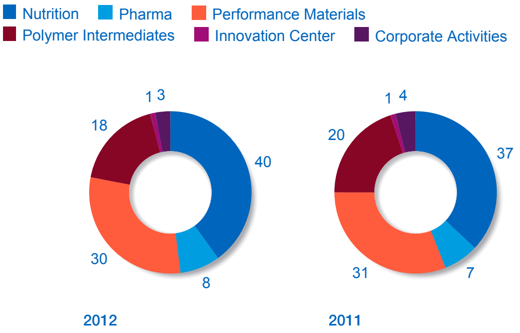
Income statement

x € million, continuing operations	**2012**	2011
Net sales	9,131	9,048
Operating profit before depreciation and amortization (EBITDA)	**1,109**	**1,296**
Operating profit before exceptional items	**635**	**866**
Net finance costs	(94)	(82)
Share of the profit of associates	2	3
Income tax expense	(96)	(147)
Profit attributable to non-controlling interests	(10)	(46)
Net profit before exceptional items	**437**	**594**
Net profit from discontinued operations, excluding exceptional items	-	21
Net result from exceptional items	(149)	199
Total net profit attributable to equity holders of Koninklijke DSM N.V.	**288**	**814**
ROCE, continuing operations (in %)	8.9	14.0
EBITDA / net sales, continuing operations (in %)	12.1	14.3

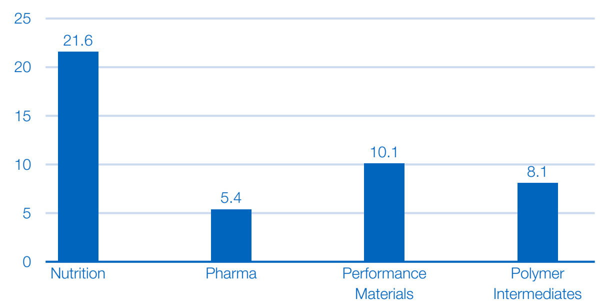
Net sales

At €9.1 billion, net sales from continuing operations in 2012 were 1 percent higher than in the previous year. Volume development accounted for a 1 percent decrease in net sales. Selling prices were on average 2 percent lower than in 2011. Exchange rate fluctuations had a positive impact of 3 percent, while acquisitions contributed 1 percent.

Net sales by business segment, continuing operations
in %



EBITDA / net sales, continuing operations in 2012
in %



The graphs on the next page show the development of sales by origin, by destination and by end-use market.

Operating profit

The operating profit from continuing operations before exceptional items decreased by € 231 million (27 percent), from € 866 million in 2011 to € 635 million in 2012. The EBITDA margin (operating profit before depreciation and amortization as a percentage of net sales) decreased from 14.3 percent in 2011 to 12.1 percent in 2012.

Net profit

The net profit from continuing operations before exceptional items decreased by € 157 million to € 437 million. Expressed per ordinary share, net earnings from continuing operations before exceptional items decreased from € 3.53 in 2011 to € 2.58 in 2012.

Net finance costs increased by € 12 million compared to the previous year to a level of € 94 million due to a lower average cash position at lower average interest rates and a € 7 million impairment of certain financial assets.

At 18 percent, the effective tax rate (before exceptional items) in 2012 was 1 percentage point lower than in 2011. The lower tax rate was a result of a different geographical spread of results and the application of preferential tax regimes in countries where DSM is operating.

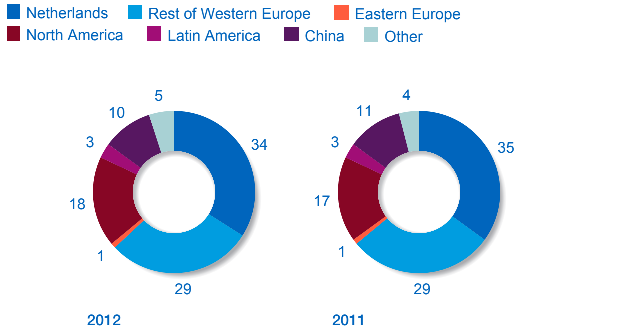
Total net profit for the full year amounted to € 288 million compared to € 814 million in 2011. This was due to the lower operating profit in 2012 and the restructuring and acquisition costs which were included in the exceptional items of 2012. In 2011 exceptional items included a book profit on divestments (€ 262 million).

Exceptional items

Full year exceptional items before taxes resulted in a loss of € 194 million (2011: gain of € 174 million), comprising costs of restructuring actions based on the profit improvement program, losses regarding non-recurring value adjustments and acquisition costs relating to the various acquisitions in 2012, and costs for litigation.

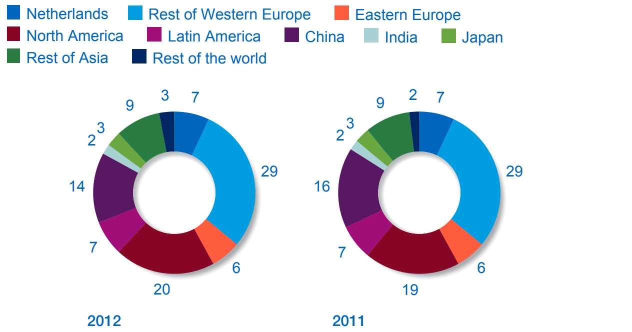
Net sales by origin, continuing operations

in %



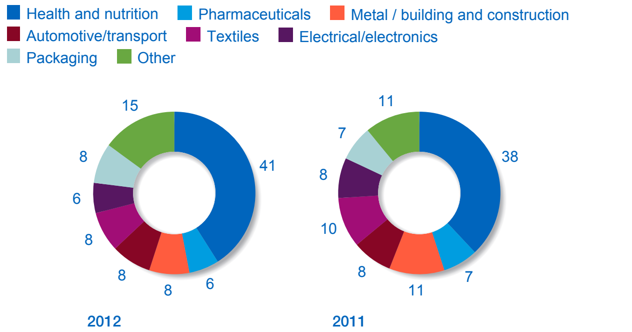
Net sales by destination, continuing operations

in %



Net sales by end-use market, continuing operations

in %



Cash flow

At € 730 million, cash provided by operating activities (total DSM) was 8.0 percent of net sales.

Cash flow statement

x € million	2012	2011
Cash, cash equivalents and current investments at 1 January	**2,147**	**2,290**
Current investments at 1 January	89	837
Cash and cash equivalents at 1 January	**2,058**	**1,453**
Operating activities:		
- Earnings before interest, tax, depreciation and amortization	941	1,430
- Changes in operating working capital	(16)	(260)
- Other changes	(195)	(288)
Cash flow provided by operating activities	730	882
Investing activities:		
- Capital expenditure	(686)	(477)
- Acquisitions	(1,262)	(929)
- Sale of subsidiaries	7	513
- Disposals	39	229
- Change in current investments	77	748
- Other	(31)	(77)
Cash from / used in investing activities	(1,856)	7
Dividend	(210)	(155)
Repurchase of shares	-	(357)
Proceeds from re-issued shares	90	111
Other cash from / used in financing activities	291	59
Cash used in financing activities	171	(342)
Effect of exchange differences	18	58
Cash and cash equivalents at 31 December	**1,121**	**2,058**
Current investments at 31 December	12	89
Cash, cash equivalents and current investments at 31 December	**1,133**	**2,147**

Balance sheet

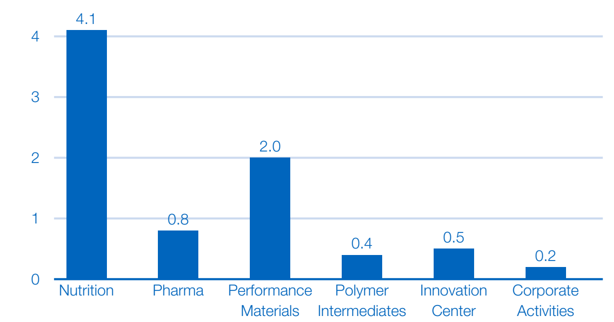
The balance sheet total (total assets) increased by € 0.8 billion in 2012 and amounted to € 12.0 billion at year-end (2011: € 11.2 billion). Equity increased by € 68 million compared to the position at the end of 2011. The increase was due to the net profit for the year and the proceeds from reissued shares, which were partly offset by the dividend and the actuarial losses on defined benefit obligations. Equity as a percentage of total assets decreased from 54 percent at the end of 2011 to 50 percent at the end of 2012.

Compared to year-end 2011, net debt increased by € 1,350 million. The gearing was 22 percent at year-end.

Capital expenditure on intangible assets and property, plant and equipment amounted to € 715 million in 2012 and was above the level of amortization and depreciation.

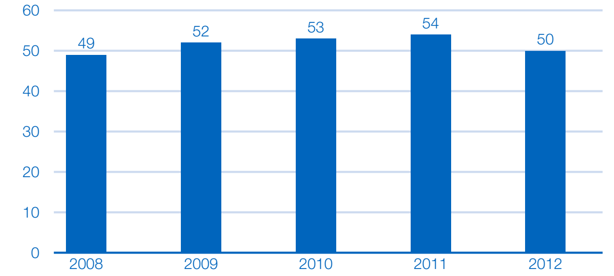
The operating working capital (continuing operations before reclassification to held for sale) was € 141 million higher than in 2011 and amounted to 20.7 percent of annualized net sales (2011: 20.2 percent). Excluding acquisitions operating working capital amounted to 20 percent of sales. Cash and cash equivalents including current investments decreased by € 1,014 million and amounted to € 1,133 million.

Capital employed by business segment at 31 December 2012, continuing operations x € billion



Equity at 31 December

as a % of balance sheet total



Balance sheet profile[1]

in %	**2012**	2011
Intangible assets	24	16
Property, plant and equipment	32	31
Other non-current assets	4	4
Cash and cash equivalents	9	18
Other current assets	31	31
Total assets	**100**	**100**
Equity	50	54
Provisions	2	1
Other non-current liabilities	22	23
Other current liabilities	26	22
Total liabilities	**100**	**100**

[1] Before reclassification to held for sale

Dividend

DSM's dividend policy is to provide a stable and preferably rising dividend. DSM therefore proposes a dividend of € 1.50 per ordinary share compared to € 1.45 per ordinary share for 2011. This will be proposed to the Annual General Meeting of Shareholders to be held on 3 May 2013. An interim dividend of € 0.48 per ordinary share having been paid in August 2012, the final dividend would then amount to € 1.02 per ordinary share. The dividend will be payable in cash or in the form of ordinary shares at the option of the shareholder. Dividend in cash will be paid after deduction of 15 percent Dutch dividend withholding tax. The ex-dividend date is 7 May 2013.

Outlook

The challenging macro-economic environment experienced during Q4 2012 has continued into 2013, with low growth in Europe. Asia continues to show good levels of economic activity whilst the US has maintained a modest rate of recovery.

The Profit Improvement Program that was launched in August 2012 is fully on track and is expected to deliver structural annual EBITDA benefits of € 150 million by 2014 of which more than half is expected in 2013. As anticipated, DSM has expanded the profit improvement initiative and now expects to achieve another € 50-100 million in benefits on top of the € 150 million. The benefits following this extension are expected to be fully achieved by 2015.

Nutrition is expected to show clearly higher results than in 2012 due to organic growth moving towards the target of 2 percent above GDP and the acquisitions.

Business conditions in Pharma are likely to remain challenging though DSM is confident of being able to deliver substantially better results notwithstanding the usual uneven delivery patterns between quarters.

Performance Materials is expected to show improved results in 2013, despite the expected negative effects of caprolactam especially compared to the first half of 2012.

Polymer Intermediates is expected to show lower results than in 2012.

For the Innovation Center the activity level will be in line with 2012, with EBITDA clearly improving following the full year contribution of Kensey Nash.

Overall, based on current economic assumptions, DSM expects a step-up in EBITDA during 2013 due to stronger organic growth, supported by DSM's Profit Improvement Program and as the benefits of acquisitions and a more resilient portfolio start to have impact. In 2013 the focus will be on the operational performance and integration of the acquisitions DSM completed in 2012 with special attention to capturing synergies. Overall, based on current economic assumptions, the above will enable DSM to move towards its 2013 EBITDA target of € 1.4 billion.

Review of business in 2012

In 2012 DSM's activities were grouped into five clusters: Nutrition, Pharma, Performance Materials, Polymer Intermediates and DSM Innovation Center. In addition, DSM reports separately on Corporate Activities.

Net sales, continuing operations

x € million	**2012**	2011
Nutrition	3,667	3,370
Pharma	726	677
Performance Materials	2,772	2,752
Polymer Intermediates	1,596	1,820
Innovation Center	102	60
Corporate Activities	268	369
Total	**9,131**	**9,048**

Operating profit (EBIT), continuing operations

x € million	**2012**	2011
Nutrition	613	577
Pharma	(19)	(8)
Performance Materials	146	162
Polymer Intermediates	97	339
Innovation Center	(63)	(69)
Corporate Activities	(139)	(135)
Total	**635**	**866**

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

x € million	**2012**	2011
Nutrition	793	735
Pharma	39	36
Performance Materials	280	293
Polymer Intermediates	129	380
Innovation Center	(38)	(57)
Corporate Activities	(94)	(91)
Total	**1,109**	**1,296**

Capital employed at 31 December

x € million	**2012**	2011
Nutrition	4,122	3,019
Pharma	766	802
Performance Materials	2,026	2,016
Polymer Intermediates	447	397
Innovation Center	507	174
Corporate Activities	216	173
Total	**8,084**	**6,581**

EBITDA / net sales, continuing operations

in %	**2012**	2011
Nutrition	21.6	21.8
Pharma	5.4	5.3
Performance Materials	10.1	10.6
Polymer Intermediates	8.1	20.9
Total DSM	**12.1**	**14.3**

ROCE

in %	**2012**	2011
Nutrition	18.3	20.7
Pharma	(2.3)	(1.0)
Performance Materials	7.2	8.7
Polymer Intermediates	23.3	91.5
Total DSM	**8.9**	**14.3**

Capital expenditure and acquisitions

x € million	2012	2011
Nutrition	1,193	950
Pharma	72	87
Performance Materials	109	258
Polymer Intermediates	214	81
Innovation Center	303	40
Corporate Activities	89	84
Total continuing operations	**1,980**	**1,500**
Discontinued operations	-	2
Total	**1,980**	**1,502**

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

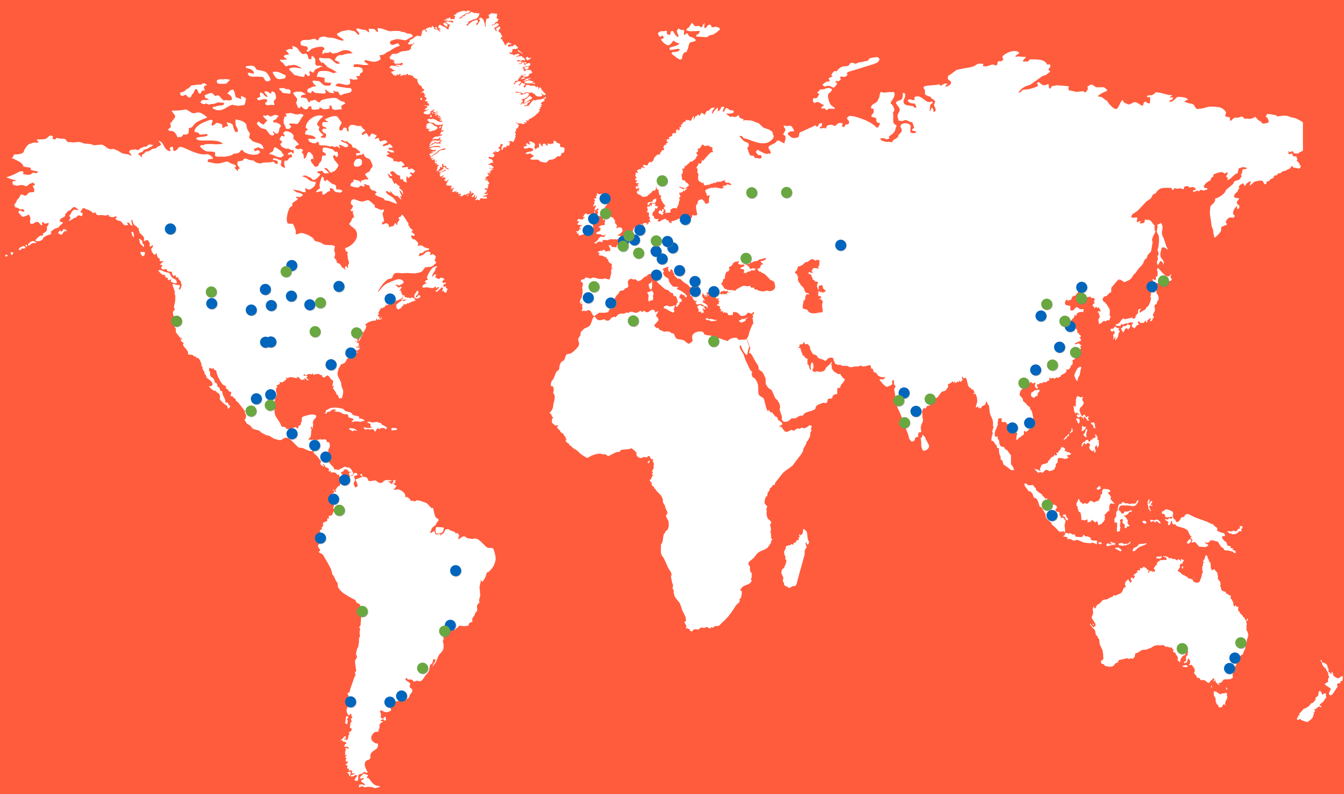
	x € million		as % of net sales	
	2012	2011	**2012**	2011
Nutrition	202	200	5.5	5.9
Pharma	56	67	7.7	10.0
Performance Materials	131	128	4.7	4.7
Polymer Intermediates	18	18	1.1	1.0
Innovation Center	61	42	59.8	70.0
Corporate Activities	22	21	8.2	5.7
Total	**490**	**476**	**5.4**	**5.3**

Workforce at 31 December

headcount	2012	2011
Nutrition	9,489	8,329
Pharma	3,314	3,324
Performance Materials	5,354	5,599
Polymer Intermediates	1,474	1,439
Innovation Center	668	383
Corporate Activities	3,199	3,150
Total	**23,498**	**22,224**

Life Sciences

DSM's Life Sciences activities are bundled into two clusters: Nutrition and Pharma. In 2012, these two clusters represented 48 percent of DSM's total net sales.



- Production Facilities
- Main/Regional Sales Offices

"We need to minimize our eco-footprint, which is why we focus our bright science on developing advanced production processes that use less energy."

Kai Yang is a scientist at DSM's Nutritional Products Research Center in Shanghai, where he focuses his research on optimizing the production of vitamin B6. With applications ranging from medicine to human and animal nutrition, this product has an impact on many lives around the world. Scientists such as Kai dedicate their efforts to improving both the product and the process, to ensure that DSM offers sustainably produced vitamins at a competitive price.

Review of business in 2012: Nutrition

Continued value growth

Net sales

€ 3,667 m

x € million	2012	2011
Net sales:		
DSM Nutritional Products:		
- Animal Nutrition & Health	1,717	1,627
- Human Nutrition & Health	1,407	1,219
- Personal Care	174	168
	3,298	3,014
DSM Food Specialties	369	356
Total	**3,667**	**3,370**
Organic sales development (in %)	2	4
Operating profit	613	577
Operating profit plus depreciation and amortization (EBITDA)	793	735
Capital expenditure and acquisitions	1,193	950
Capital employed at 31 December	4,122	3,019
ROCE (in %)	18.3	20.7
EBITDA as % of net sales	21.6	21.8
R&D expenditure	202	200
Workforce at 31 December (headcount)	9,489	8,329

Business

The Nutrition cluster consists of DSM Nutritional Products and DSM Food Specialties. These businesses serve the feed, food and beverage, pharmaceutical, dietary supplements and personal care industries. The activities are based on in-depth knowledge of local and global customer and market needs.

With continued strong fundamentals, the Nutrition cluster again achieved solid value growth in 2012. A series of strategic actions in recent years have driven continuous sales growth and safeguarded profitability. By sustaining high margins even during the global downturn, the cluster has proven to be largely resilient to economic turmoil.

The Nutrition cluster has delivered a compounded annual growth rate of 7 percent over the last five years, taking net sales to €3.7 billion in 2012.

A focus on 'value before volume' has led to increased understanding among customers of where DSM can add value. Moreover, this strategy is further enhancing the company's differentiation, ensuring that it focuses on profitable approaches, including activities that take it further down the value chain.

With customized formulation and premix (blending) activities and a marketing & sales presence reaching more than sixty countries, customer intimacy is a key success factor. The technical expertise in the cluster is based on application know-how and innovation, translating market trends into products and services with new benefits. Formulation for example is a key expertise that DSM offers its customers. Specialist teams work closely with customers to jointly develop the right ingredient formulation for their wide range of end products. Formulations, sometimes referred to as 'forms', need to be customized in order to ensure the best ingredient characteristics for each specific end product.

DSM has particularly strong positions in vitamins, nutritional lipids, enzymes, cultures and carotenoids. New nature-identical or natural ingredients as well as the expansion of the premix footprint in emerging economies are important drivers in the areas of human and animal nutrition and health.

DSM offers the world's widest range of nutritional ingredients, addressing existing markets based on fermentation, chemical synthesis as well as key niches of active compounds derived from plant extracts.

Trends

Key societal trends in the world driving the company's nutrition and health business remain intact despite the difficult macro-economic environment. With more than half of the world's population now living in cities, the need for convenience and processed food continues to grow. This perfectly matches the company's ability to deliver tailor-made local applications and blends.

Shifting age pyramids and growing awareness about hidden hunger, where people consume enough calories but lack key nutrients, promote health consciousness and encourage the uptake of additional supplementation or fortified foods.

Growing middle classes in emerging markets and the increasing world population also translate into a higher demand for animal protein. This boosts the demand for feed. Scarcity of resources continues to foster the drive towards better, more efficient feed conversion and towards further reductions of undesirable waste components.

Legislators increasingly focus on food safety due to increasing awareness of contamination issues, and standards are being raised further. Critical authorities now prefer producers to work with suppliers such as DSM, who are rigorously diligent in their application of science and who have adopted state-of-the-art quality assurance systems.

Policy initiatives addressing more sustainable food production systems are a major opportunity for the company's enzymes business, particularly given the potential of these products to help boost resource efficiency.

Strategic context

The Nutrition cluster has a growth ambition of 2 percent above GDP growth. While well-established ingredient markets grow at more modest growth rates and in some cases even below GDP growth levels, DSM relies on innovation and new product introductions to outpace GDP growth. This is accompanied by a continuous drive to improve DSM's value proposition to customers by broadening and deepening its offering on the one hand and raising standards of quality, reliability, traceability and sustainability on the other hand. In addition, DSM looks for opportunities to increase its participation in the value chain to serve customer needs more holistically.

Acquisitions

Since the launch of the DSM in motion: *driving focused growth* strategy in 2010, the company has announced acquisitions in Nutrition for a total of €2.4 billion, taking annual cluster sales to €4.6 billion on a pro forma basis. The Nutrition cluster now accounts for approximately half of total company sales and for about three-quarters of EBITDA, with EBITDA margins of 20-23 percent. See also: Growth Driver: Acquisitions & Partnerships (page 28).

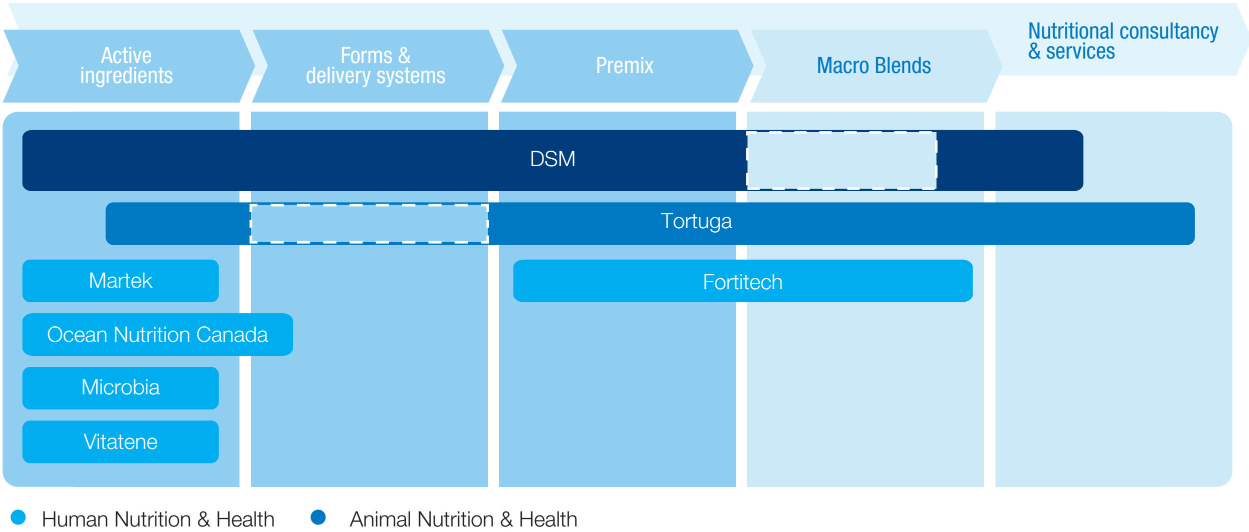
The successfully integrated Martek business completed its first full business year with DSM. The nutritional lipids business was further boosted in 2012 by the acquisition of Ocean Nutrition Canada. Martek's and Ocean Nutrition Canada's offerings, algae based and fish oil based omega-3 and omega-6 fatty acids, respectively, are highly complementary. Combining them in DSM's nutritional lipids business has turned the company into a global leader in this very dynamic ingredients category.

Nutrition acquisitions 2010-2012

Company	Business group	Enterprise value in € m	Year
Martek	DNP	790	2011
Ocean Nutrition Canada	DNP	420	2012
Tortuga[1]	DNP	465-490	2012
Cultures and enzymes business of Cargill	DFS	85	2012
Fortitech	DNP	495	2012
Other acquisitions		70	
Total enterprise value		approx. 2,400	

[1] Expected closing Q1 2013.

Acquisitions further strengthen DSM's value chain presence



The addition to DSM Food Specialties of the cultures and enzymes business previously owned by Cargill enhances DSM's strong position in ingredients for dairy markets. The expansion into carotenoids from natural sources through Microbia and Vitatene anticipates increasing consumer demand for 'clean labels'.

With Fortitech, world leader in customized food ingredient blends for food & beverage and infant nutrition industries, and Tortuga, the Brazilian market leader in organic trace minerals for animal nutrition and health, DSM Nutritional Products is building an exceptionally comprehensive portfolio, with number one or runner-up positions in all fields of activity, further reinforcing its leadership in vitamins and nutritional ingredients.

Value chain
DSM is involved in all three main steps of the ingredients value chain:

- Producing pure actives
- Creating sophisticated formulations out of actives
- Providing localized, tailored premixes

With the acquisitions of Fortitech and Tortuga, DSM has significantly expanded and strengthened its value chain presence and business model downstream, adding macro blends and strengthening nutritional consultancy and services. As the only fully integrated player, the company can differentiate all the way through the value chain in which it is active. Managing interdependencies between active ingredients, formulations, premixes and macro blends drives innovations, optimizes logistics and boosts final value delivery to customers and the end consumer.

As an industry pioneer and key driver of the global science agenda in the field of ingredients, DSM's Nutrition business focuses on advancing the world's understanding of intricate relationships between nutrition, health, product development and food production processes.

The company also has a unique global role, based on a considerable presence across all large ingredients markets and a highly developed 'local for local' infrastructure around the world. This gives it unparalleled depth and breadth across sizeable markets, and economies of scale are contributing to resilience in the marketplace.

DSM's Nutrition cluster is working from its strong base as a global market leader in key value-added ingredients offered through an international infrastructure that is highly competitive. This enables the company to be a front-runner in terms of product quality and innovation, regulatory and technical expertise and customer and consumer understanding. This strategic position will lead to further growth in the coming years.

The company will continuously strengthen the core of its business by improving its operations and supply chain, by innovating and upgrading delivery systems (application and formulation technologies), by expanding premix networks and services, through nutritional science and advocacy, by maintaining investment in state-of-the-art quality management, and by building the capability to deliver more value, more efficiently.

DSM also seeks to ensure that the cluster increasingly leverages the company's unique full value chain position by further expanding its ingredients portfolio, which already is the broadest in the industry. Finally, it seeks to establish new growth platforms in adjacent areas which expand the breadth of DSM's global presence in identified areas of strength. Acquisitions are seen as the vehicle to deliver additional new growth platforms, particularly in emerging markets.

The company is increasingly recognized as a thought leader in the field of nutrition and health. This is becoming a key element in its ongoing development. Thought leadership potentially enables DSM to actively engage in discussions on nutrition guidelines, policy and practices with high-level decision makers and authorities around the world and helps build proprietary institutional knowledge while boosting confidence among customers and other stakeholders.

Sustainability

Sustainability is a significant growth driver for DSM's Nutrition cluster. Programs such as DSM's Nutrition Improvement Program and partnerships with the United Nations World Food Programme help fight malnutrition and hidden hunger while encouraging innovation. See also: Hidden hunger (page 33).

Good nutrition is an important requirement for physical and mental development, and a key factor for unlocking the human potential in every man, woman and child. The elimination of malnutrition is a global responsibility that the company supports wholeheartedly. A global team of committed experts works to eliminate micronutrient deficiencies through customized quality products, scientific and technical expertise, and educational support. The DSM Nutrition Improvement Program aims to be the preferred partner for implementing sustainable solutions. See also: Nutrition Improvement Program website.

Notable examples of ECO+ solutions in the Nutrition cluster are animal feed with phytase, which reduces the need for phosphorus in feed and improves the efficiency of feed conversion, and Brewers Clarex™, which significantly reduces energy use in beer brewing processes. See also: ECO+ (page 56).

In 2012 DSM Nutritional Products helped the company move closer towards fulfilling its overall sustainability aspirations by improving energy efficiency at its sites, such as by building a new combined heat and power generation plant at its site in Belvidere, New Jersey (USA) and by reducing greenhouse-gas emissions in Belvidere and the site in Dalry, Scotland (UK).

DSM Nutritional Products

Key drivers of profitability

- Leadership in global markets: scale, costs, differentiation, innovation and quality
- Strong customer value proposition - Quality for Life™ seal
- Long history of nutrition innovation
- Focus on value before volume

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
- Integration of acquisitions

DSM Nutritional Products is organized around three market-facing entities: Animal Nutrition & Health, Human Nutrition & Health and Personal Care. In 2012, DSM Nutritional Products posted sales of €3,298 million compared to €3,014 million in 2011.

While expanding its portfolio during 2012, DSM achieved solid progress in the consolidation of key competitive strengths, particularly in the most cost competitive vitamin categories. The company's center for water soluble vitamins in Grenzach (Germany) saw a restructuring which will significantly improve its cost position in the B vitamins. In DSM's Quali-C® production center in Dalry, a restructuring project was finalized to improve efficiency and to reduce the cost base. DSM is the only producer of vitamin C in the western hemisphere, thanks to a clear premium position.

In 2012, increased emphasis was placed on category management, focused on:

- Nutritional lipids
- Water soluble vitamins and strategically sourced products
- Fat soluble vitamins
- Carotenoids

The category-based structure helps provide the right focus required to find answers to critical strategic questions.

Various new opportunities are emerging. For example, by introducing the products of Martek and Ocean Nutrition Canada the company leveraged combined innovation expertise that helped develop new formulations and made it possible to enter new market segments. For some of these opportunities a dedicated task force has been established.

DSM Nutritional Products is the only producer who can supply the complete range of vitamins, nutritional lipids, enzymes and carotenoids in the most suitable formulations for a broad range of human and animal applications.

Animal Nutrition & Health

The Animal Nutrition & Health (ANH) business achieved sales of € 1,717 million in 2012 compared to € 1,627 million in 2011.

Animal Nutrition & Health delivered a good result in 2012. This was achieved despite a challenging world economic environment and high raw material prices for the animal industry. Sales growth in premix was in the high single digits in line with strategy and ambition. The acquisition of Tortuga will enable DSM to continue with its successful strategy.

ANH addresses the nutritional additives segment of the animal nutrition market, which continues to grow as GDP and population growth drive protein consumption. Especially high growth economies show increased meat, milk, egg and fish consumption.

ANH holds a strong global position with sales distributed in markets for poultry, swine, aquaculture and ruminants. The company is positioned as a full value chain player with a broad product portfolio that includes active ingredients, delivery systems, blends and premix solutions. Its premix network is by far the largest in the industry.

The acquisition of Brazil-based Tortuga, which is expected to close in the first quarter of 2013, will further increase ANH’s presence in the ruminants market. Thanks to Tortuga’s unique position in organic trace minerals DSM will be able to expand its global position in this market segment. See also: Growth Driver: Acquisitions & Partnerships (page 28).

Human Nutrition & Health

DSM’s Human Nutrition & Health (HNH) business reported 2012 sales of € 1,407 million compared to € 1,219 million in 2011.

In 2012 Human Nutrition & Health sales were driven by: premix growth in all regions; nutritional lipids in infant nutrition; and high growth economies, with Asia leading the way. The Ocean Nutrition Canada and Fortitech acquisitions will strengthen DSM's position in these key market segments in 2013 and beyond.

HNH largely addresses the nutritional ingredients part of the food and beverage market and the dietary supplements market. Fundamental drivers are the indisputable link between nutrition and wellness, the aging population and rising healthcare costs, and higher standards of living in developing countries.

In the global market, HNH provides ingredients for food & beverage, dairy products, dietary supplements and infant nutrition with an unrivalled portfolio that provides a full palette to meet customer needs.

DSM’s ambition to deeply understand customer needs runs from product conception through manufacturing all the way to after-sales support. This has led to the Quality for Life™ seal of excellence. The seal assures customers that the ingredients are safe, reliable and traceable and that they are manufactured in a safe and sustainable way. More than 40 customer brands have now adopted the seal on their products. The seal also stands for sustainability. It symbolizes DSM's commitment to the environment, consumers, business partners and the regulatory framework that governs the company's operations.

Personal Care

DSM's sales in Personal Care in 2012 were € 174 million, compared to € 168 million in 2011.

Personal Care again showed healthy growth in all its product segments of skin, sun and hair care, despite the phasing out of some non-strategic products in 2012. Latin America and Asia were leading the way in geographic growth whereas Europe was affected by the general economic climate.

The Personal Care business targets the market for specialty ingredients with a focus on premium value adding products such as peptides, natural bio-actives, UV filters and vitamins. It is DSM's ambition to expand its position in personal care ingredients. This market offers considerable opportunities for accelerated growth.

This business is driven by global trends, in particular the aging population and growth in emerging markets, particularly Brazil, India and China. Skin and hair care are the largest markets, while sun care is showing strong growth.

DSM Food Specialties

Key drivers of profitability

- Innovation in enzymes, cultures, savory ingredients and other bio-ingredients
- Scale and production efficiency
- Volume growth
- Margin growth

Key success factors

- Innovation and value differentiation
- Key customer intimacy
- Global distribution network
- Quality and regional application know-how

DSM Food Specialties is a leading global manufacturer of food enzymes, cultures, taste ingredients and other specialties for the food and beverage industries. In 2012 this business group realized sales of € 369 million compared to € 356 million in 2011.

DSM Food Specialties realized growth in all market segments. Especially enzymes and savory ingredients showed strong organic growth.

In 2012, DSM Food Specialties established itself as a tier one dairy cultures and enzymes player with the acquisition of the enzymes and cultures business previously owned by Cargill. The market for cultures and enzymes is valued at over € 1 billion, growing steadily at more than 5 percent per year. The combination of Cargill's former cultures and enzymes business with the dairy business of DSM Food Specialties enables DSM to capture sizeable synergies in manufacturing, customer reach and R&D.

DSM further strengthened its industrial biotechnology activities with the acquisition of Verenium's enzymes business for oil seed processing. This business is mainly active in high growth economies, and its innovation portfolio includes various promising products.

DSM's advanced ingredients make a considerable contribution to the success of the world's favorite food brands for the dairy, baking, fruit juice, beverage, oils and fats and savory segments. DSM Food Specialties is the global market leader in bio-ingredients for food and beverages. It holds leading positions in the relevant segments of its portfolio.

Food ingredients represent on average approximately two percent of the cost of the final product. The added value of the ingredients in terms of taste, texture, flavor and other functionalities is significant. Differentiation, for instance through enzymes or cultures, directly impacts the end-product.

DSM Food Specialties has defined ambitious growth aspirations for 2015. It aims to be the fastest growing force in enzymes, cultures, savory taste and other bio-ingredients by competing aggressively at the highest level, building business in high growth economies, and helping customers to succeed through innovation.

DSM has the required expertise in enzyme and fermentation technology to take a leadership position in this market. Growth in food enzymes is expected to continue. Enzymes enable food manufacturers to achieve cost savings and more sustainable production by accelerating certain reactions during production, reducing raw material usage, and reducing waste, emissions and energy need. The market for cultures and probiotics is expected to continue to grow as a result of the trend toward health and the growing consumption of fermented milk products, while savory ingredients meet the growing market demand for authentic ingredients and sodium reduction for the processed food industry.

DSM Food Specialties succeeded in strengthening its position in the various regions in 2012 by focusing on the creation of value for customers and other stakeholders through innovations, by developing and producing products tailored specifically to local markets, and through regional cooperation, regional application labs and acquisitions and partnerships.

"The realization that you're helping produce drugs to treat some of the world's most impactful diseases gives you a great sense of accomplishment."

Maria Perlasca is a Mexican scientist with DSM in Groningen (Netherlands), where she's involved in the production of monoclonal antibodies that can play an important role in the treatment of cancer and auto-immune diseases. She works with global biopharmaceutical companies and acts as a link between the initial discovery of a possible treatment and the production of an approved medicine. As our society ages, medicines will become increasingly important for sustaining brighter living.

Review of business in 2012: Pharma

Leveraging partnerships for growth

Net sales

€ 726 m

x € million	2012	2011
Net sales:		
DSM Pharmaceutical Products	543	409
DSM Sinochem Pharmaceuticals[1]	183	268
Total	**726**	**677**
Organic sales development (in %)	9	3
Operating profit	(19)	(8)
Operating profit plus depreciation and amortization (EBITDA)	39	36
Capital expenditure and acquisitions	72	87
Capital employed at 31 December	766	802
ROCE (in %)	(2.3)	(1.0)
EBITDA as % of net sales	5.4	5.3
R&D expenditure	56	67
Workforce at 31 December (headcount)	3,314	3,324

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

Business

The Pharma cluster includes the business group DSM Pharmaceutical Products (DPP), one of the world's leading custom manufacturing suppliers to the pharmaceutical industry. Many of today's medicines around the world contain ingredients produced by DPP. The cluster also includes DSM's 50 percent interest in the DSM Sinochem Pharmaceuticals joint venture (DSP).

DPP is a leading provider of high-quality custom manufacturing and development services to the pharmaceutical, biopharmaceutical and crop protection industries. Customers around the world are serviced from two research and development sites and seven manufacturing sites with a range of clinical to commercial capacity in the US and Europe. Among these customers are nine of the top ten pharmaceutical companies as well as the top crop protection companies. In addition, DPP serves a large number of biotech, specialty and emerging pharma companies across the globe. DSM Pharmaceutical Products' facilities have been approved by the US Food and Drug Administration (FDA) and similar agencies in Europe, the Middle East, Africa and Japan. DSM Pharmaceuticals, Inc. is licensed by the US Drug Enforcement Administration to manufacture scheduled drugs.

DSP was formed in 2011 from the former DSM business group DSM Anti-Infectives (DAI). DSP is one of the few producers and marketers of beta-lactam active pharmaceutical ingredients with a global presence, using cutting-edge low eco-footprint manufacturing technology.

In 2012 sales in the Pharma cluster rose to € 726 million from € 677 million in 2011. Full year organic sales growth was 9 percent. EBITDA for the full year slightly increased due to improved volumes at DSM Pharmaceutical Products and somewhat higher prices at DSM Sinochem Pharmaceuticals, offsetting higher costs partly associated with the start-up of the new 6-APA plant for the anti-infectives business. DSM Sinochem Pharmaceuticals was proportionally deconsolidated for 50 percent as of September 2011.

Trends

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

For DPP's customers, innovative pharmaceutical companies, it is becoming more difficult to discover new active molecules which have sufficient additional patient benefits, which have an acceptable risk profile and which can obtain approval from the FDA and other regulatory bodies. The cost of developing such molecules is rising, while at the same time health service providers – governments or insurance companies – are under enormous pressure to reduce healthcare costs. As medicines are becoming an increasingly important element of total healthcare costs, typically accounting for around 10 percent of total healthcare spend, the pressure on reducing the costs of pharmaceuticals is high.

Pharmaceutical companies are consolidating, reviewing their business models and product ranges, and competing to develop increasingly niche, narrow spectrum and specialized drugs. These can be highly active pharmaceutical ingredients (APIs), often biopharmaceutical products, and volumes are typically lower. The intensity of cost pressure and the need to review business models result in above-GDP growth in the pharmaceutical outsourcing market, especially for drugs nearing the end of their (patented) life cycle. The imperative for pharmaceutical companies to optimize their asset base leads to a strong focus on finding experienced, cost-efficient and highly qualified partners to take on manufacturing challenges as a supplier.

Although outsourcing is becoming increasingly common, the business remains inherently volatile. Customer demand fluctuates, sometimes quite violently, as customers take manufacturing back in house to fill their own capacity, or see planned production phases delayed by regulatory agencies. The rise of competitors from Asia is particularly felt in the domain of DSM Pharma Chemicals.

In most countries governments and regulators are increasingly paying attention to the responsible consumption of antibiotics. However infectious diseases continue to be a major life threat, especially in high growth economies, and the beta-lactam anti-infectives – DSP's area of leadership – continue to be most physicians' first choice of cure. As the coverage and quality of healthcare in these economies expands, and given that these products are very safe and cost-effective, DSP's market continues to grow. DSP is seen as an industry leader with clear market advantages, communicated via the DSMPureActives™ brand.

The Asian market currently represents only about 6-7 percent of total global pharmaceutical spend, but this is estimated to rise to 20 percent by 2020 (Source: Credit Suisse/IMS). DSM is well positioned to take advantage of this, with its anti-infectives business having two production sites in China and one in India, supported by a network of sales offices.

Strategic context

DSM will further optimize DPP's current assets and refocus them towards new customer requirements. This essentially means rebalancing towards smaller volume products and lower cost assets in the high growth economies. The inherent volatility of the custom manufacturing business model makes optimizing asset utilization very challenging. In order to address this, DSM is strengthening its technology platforms and is expanding its range of own products. Operational excellence in a cGMP context and respective efficiency and cost measures will further strengthen the profitability of DPP. DSM believes it will drive positive results most rapidly if DPP partners with another company which has strengths complementary to its own.

DSP is well placed to deliver continued growth, with its strategy to strengthen its core business and to broaden its portfolio with for instance generic atorvastatin and cefaclor. DSP is placing more emphasis on moving forward in the value chain. In 2012 it delivered its first commercial sales as a player forward-integrated into finished dosage forms to provide a complete generic solution matching customers' requirements.

Sustainability

To further reduce their environmental footprint, both DPP and DSP are deploying their technological toolbox to reduce the use of scarce resources and energy where possible and are actively implementing the use of renewable energy sources in their operations. See also: Environmental impact of DSM's operations (page 58).

The use of proprietary biotechnology makes DSP an industry leader in terms of both cost and sustainability. Emissions are considerably lower than with conventional technology, while product quality is higher. The opening of the new 6-APA plant in China in 2012 marks the completion of this technology roll-out across all of DSP's production facilities around the world.

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

DSM Pharmaceutical Products

Key drivers of profitability

- Focus on new innovative products pipeline and end-of-lifecycle drugs
- Operational excellence
- Innovative technologies
- Expansion of proprietary product portfolio

Key success factors

- Commitment to first-time-right principles and DSM Quality for Life™ standards
- Continued demonstration of sustainable and innovative solutions for customers
- Strong relations with strategic partners
- Increased presence in Asia and high growth economies

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

In 2012 sales at DPP amounted to €543 million compared to €409 million in 2011. The DSM Intermediates business (maleic anhydride and derivatives), which in 2011 was accounted for under Corporate Activities, was reintegrated in the DSM Exclusive Synthesis business of DPP.

Business conditions in DPC remained challenging, whereas noticeable progress was made in outsourcing services for crop protection chemicals. In 2012 DPC strengthened its technology offering by entering into a collaboration with Almac Group that augments DSM's rich portfolio in biocatalytic solutions. The collaboration agreement with Almac provides sustainable manufacturing solutions that give customers access to even broader enzyme expertise and assets in order to achieve cost-effective, green processing at all phases of API development, from preclinical to commercial manufacturing.

DSM Pharmaceuticals, Inc. further strengthened its project pipeline, working closely with a number of strategic partners.

At DSM Biologics, the business group strengthened its biopharmaceutical operations in Groningen (Netherlands). The new ‘biologics plant of the future’, which is being built in Brisbane (Australia) in conjunction with the government of Queensland and the federal government of Australia, is set to go into operation in 2013 to serve the regional and global biopharma markets. During 2012, notable growth was experienced in biopharmaceutical services, including agreements for the supply of clinical trials for cancer treatments in Brazil and drug development for treatments of respiratory diseases in Australia. In 2012 DSM Biologics expanded its global customer base to include additional customers in Japan, Brazil and Australia. DSM entered into a non-exclusive license agreement with Amgen for use of DSM's proprietary XD® high cell density process patents.

DSM BioSolutions experienced a setback with the lead CMO product that had negative phase III clinical trial results, which subsequently led to a substantial restructuring project. Actions

Developing new ways of working

In 2012, DSM Pharmaceutical Products celebrated the third anniversary of its partnership with **Shire Pharmaceuticals**. Shire is one of the world’s leading specialty biopharmaceutical companies. Since its creation in the UK some 25 years ago, Shire has expanded its global presence and products portfolio with an emphasis on behavioral health and gastrointestinal conditions, rare diseases, and regenerative medicine.

Shire in 2009 transitioned the manufacture of five specialty pharma products, including Vyvanse®, to DSM Pharmaceutical Products' facility in Greenville, North Carolina (USA). At that time, DSM had already been manufacturing two other products for Shire.

"In transferring operations from Shire to DSM, we have witnessed first-hand DSM's flexibility in supporting us through various supply challenges," said David Lowndes, Shire's Senior Vice President of Global Supply Chain and Quality. "With DSM's partnership, we have developed new ways of working to strengthen our performance so that we continue to fulfill our commitment to patients and physicians."

to further improve DPP's business performance have triggered efficiency and cost reduction projects in several areas that will further strengthen the unit's performance in 2013.

DSM Sinochem Pharmaceuticals

Key drivers of profitability

- Glucose and energy prices
- Access to regulated markets
- Currency exchange rate
- Operational excellence

Key success factors

- Market access through global presence/alliances
- New products
- Product differentiation / brand value
- Low environmental footprint

DSM Sinochem Pharmaceuticals is the global market leader in beta-lactam APIs such as semi-synthetic penicillins (SSPs) and semi-synthetic cephalosporins (SSCs), which represent the biggest class of APIs in anti-infectives, and other active ingredients such as nystatin. The joint venture manufactures nearly all its beta-lactam APIs and the related intermediates using proprietary biotechnology.

Sales for DSP in 2012, on a 100 percent basis, rose to € 366 million from € 323 million in the previous year due to higher volumes and higher prices. Results however remained under pressure due to higher raw materials and energy costs, costs related to the start-up of the 6-APA plant in China and costs relating to the closure of the site in Zhangjiakou. DSM has proportionally deconsolidated its 50 percent share in DSP as of September 2011.

Industry dynamics remained challenging due to significant overcapacity, especially in China. The Chinese market contracted slightly, creating additional price pressure and increasing exports to mainly the rest of Asia, Africa and Latin America, as a result of the stronger focus of the Chinese authorities on the responsible use of antibiotics. The effects of these measures slowly disappeared towards the end of the year, with demand in China picking up again. The majority of the developing economies outside China saw steady growth of around five percent.

During 2012, DSP's beta-lactam business realized market share growth in the emerging and developing economies of Asia and Africa and DSP sustained its positions in the regulated markets.

The completion of the construction of its 6-APA intermediates plant in Yushu, Jilin (China) was an important step for DSP in 2012. This facility completes the company's backward integration in SSPs.

The year 2012 marked ten years of commercial activity in enzymatically produced active ingredients (SSCs and SSPs), clearly showing DSP's technology leadership in beta-lactam anti-infectives. This was demonstrated once again in China's Shandong province, where DSP finalized the construction of its facility to produce APIs for new generations of SSCs using its proprietary technologies. This will enable DSP to further strengthen its position as a sustainable producer of anti-infectives via green routes, and to reinforce its position in China.

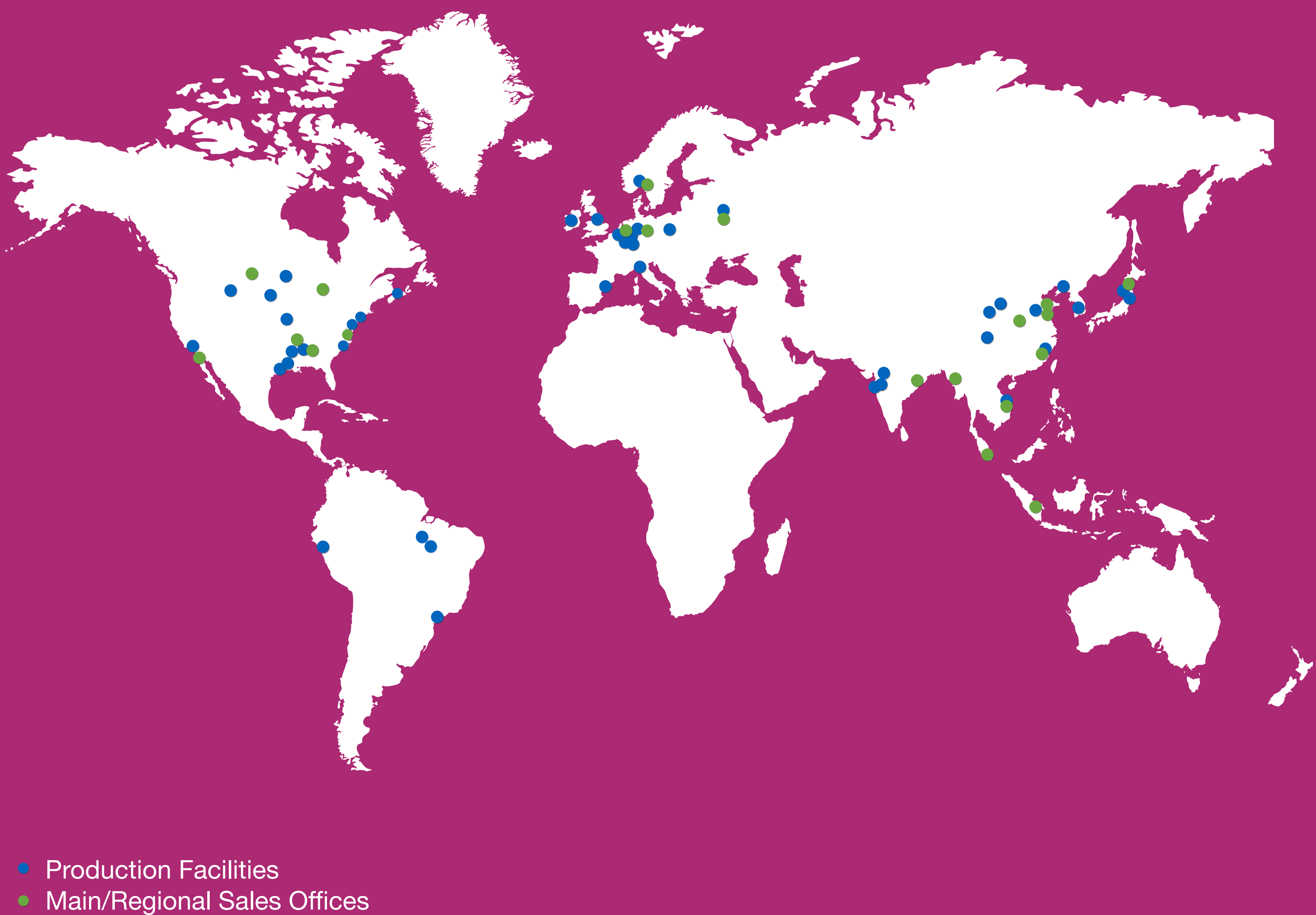
Generic pharmaceuticals other than beta-lactams showed double-digit growth in 2012. DSP obtained the Certification of Suitability to the Monograph of the European Pharmacopoeia, or CEP, for its generic atorvastatin. Using a unique fully backward integrated process based on proprietary technologies, DSM Sinochem Pharmaceuticals is the first company worldwide that will offer generic atorvastatin active ingredients under CEP.

Receiving the European Pharmacopoeia certification confirms compliance of DSP's atorvastatin with the European standards. CEP certification enables more efficient registration and life cycle management of products, supporting both DSP and its customers.

Atorvastatin is the most prescribed drug globally for high cholesterol and cardiovascular disease. First synthesized in 1985, it has topped the list of best-selling drugs worldwide for more than a decade.

Materials Sciences

DSM's Materials Sciences businesses comprise the Performance Materials and Polymer Intermediates clusters. In 2012 the two clusters represented 48 percent of DSM's total net sales.



"Working with DSM has helped us to constantly improve the formulation of our coatings, thereby enhancing the quality and making the product healthier and more sustainable."

Fenglin Shi is the owner of Beijing Yulin, a company that produces high-end paints and coatings. Together with DSM, Yulin has developed a waterborne coating that, among other things, is used on part of the over 28,000 buses of the Beijing Public Bus fleet. A more sustainable alternative compared to solvent-based coatings, this product is just one example of how DSM cooperates with external companies to continue its successful track record in innovation.

Review of business in 2012: Performance Materials

Growing via innovative sustainable solutions

Net sales

€ 2,772 m

x € million	2012	2011
Net sales:		
DSM Engineering Plastics	1,260	1,249
DSM Dyneema	235	234
DSM Resins & Functional Materials	1,277	1,269
Total	**2,772**	**2,752**
Organic sales development (in %)	(4)	9
Operating profit	146	162
Operating profit plus depreciation and amortization (EBITDA)	280	293
Capital expenditure and acquisitions	109	258
Capital employed at 31 December	2,026	2,016
ROCE (in %)	7.2	8.7
EBITDA as % of net sales	10.1	10.6
R&D expenditure	131	128
Workforce at 31 December (headcount)	5,354	5,599

Business

The cluster consists of DSM Engineering Plastics, DSM Dyneema and DSM Resins & Functional Materials. These business groups manufacture technologically sophisticated high-quality products and offer specialized value propositions that meet the needs of customers. DSM Engineering Plastics is a global supplier of high-performance engineering thermoplastic solutions. DSM Dyneema is the global supplier of Dyneema®, the world's strongest fiber™. DSM Resins & Functional Materials is a global supplier of innovative high-quality resins solutions for paints and coatings, composite materials and optical fiber coatings.

With major investments in high growth economies, notably China and India, the Performance Materials cluster is a significant contributor to DSM's growth in Asia. The portfolio has evolved in recent years towards more specialized, higher value-added businesses, turning it into a front-runner in creating and introducing more sustainable innovations.

The businesses in the cluster have achieved strong leadership positions in their chosen segments of the global markets for advanced performance materials. In 2012 the cluster managed to grow its market share and sales in specific, attractive key markets.

Trends

The most important trends in the materials industry continue to be related to resource scarcity and climate change. Customers in virtually every industry ask for products that reduce energy use or emissions in their own operations or, even more importantly, throughout the value chains. DSM offers materials that reduce weight versus metals and other traditional materials and supports customers who want polymer solutions based on bio-based raw materials, as opposed to fossil feedstocks.

The end market most sensitive to economic developments, building & construction, has remained weak without immediate prospects for a recovery. The risk of further deterioration in this market is limited.

Demand for alternative solutions without substances of hazardous concern is increasing in line with regulatory scrutiny. Against this background, DSM Engineering Plastics and DSM Resins & Functional Materials actively seek to provide customers with new products and solutions that eliminate or reduce the content of substances such as halogens, styrene or cobalt.

Strategic context

With a key focus on growth via innovative sustainable solutions, DSM has set its sales growth aspiration for the Performance Materials cluster at double GDP growth level and has set an EBITDA margin aspiration of 17 percent in 2015.

The Profit Improvement Program helps the cluster mitigate the impact of macro-economic headwinds and actively manage margins and costs. DSM Engineering Plastics specifically targets reduced fixed costs and improved operational efficiency, combined with innovative growth. At DSM Dyneema, the organization is being aligned with the development of the vehicle protection business. The restructuring program previously announced at DSM Resins & Functional Materials already had a positive impact in 2012 and will fully contribute in 2013, with further initiatives focusing on Composite Resins.

Sustainability

Sustainability is a true driver of new business and innovations in Materials Sciences. New applications are required to address key challenges relating to the global trends. DSM is committed to creating innovative solutions that make a positive difference to people's lives and that reduce the environmental footprint.

The company has shifted its materials portfolio towards a higher added-value mix by introducing innovative, more sustainable solutions, some examples of which are outlined elsewhere in this chapter. See also: Planet in 2012 (page 56).

DSM Engineering Plastics

Key drivers of profitability

- Market growth in key segments and high growth economies
- Sustainability: materials reducing the carbon footprint over the value chain
- Innovation: be at the forefront of functionality and performance
- Growth in market share in high-end innovative applications
- Improved cost position

Key success factors

- Global market leadership in chosen markets
- Global presence (follow customers)
- Engineering plastics portfolio
- Ability to commercialize market-driven innovations
- Products, application and value chain know-how

Sales for DSM Engineering Plastics in 2012 amounted to € 1,260 million compared to € 1,249 million a year earlier. This is a result of strong underlying growth in the key segments combined with lower sales prices in Akulon® polyamide 6 due to lower caprolactam prices.

DSM Engineering Plastics began executing a comprehensive program in 2012 to cut fixed costs, to improve operational efficiency, pricing and margin management, and to accelerate the growth of innovative specialty products. The Profit Improvement Program that was launched during the year in this business is expected to contribute annual savings of more than € 30 million by 2014 and involve a headcount reduction of approximately 250 people.

DSM Engineering Plastics has a focused portfolio with global leadership positions in many of its products. It is the global number three in the overall market for semi-crystalline engineering plastics and is the global market leader in high-temperature polyamides. In polyamide 6 and thermoplastic copolyester elastomers the business holds a global number two position. DSM Engineering Plastics' leadership is underlined by its strong upstream integration in the polyamide 6 value chain with DSM Fibre Intermediates.

Early in 2012 DSM Engineering Plastics completed the move of its global headquarters to Singapore from Sittard-Geleen (Netherlands) in order to underline its commitment to the Asian market, which is expected to account for the bulk of its growth in the next decade. The business has production and R&D facilities in the Netherlands, the United States, Japan, China, Taiwan, India, Belgium and Russia.

Seeking to create shared value in its end markets, DSM Engineering Plastics targets four key industries: automotive, electrical & electronics, flexible food packaging and consumer goods. In each of these, DSM Engineering Plastics offers materials and solutions that can lower the carbon footprint, eliminate the use of substances of hazardous concern and/or offer improved recyclability (Cradle to Cradle®). These include bio-based polymers able to perform in critical technical components.

In the automotive sector, advanced materials from DSM enable manufacturers to reduce the carbon footprint over the life cycle of their vehicles, help preserve scarce raw materials and meet future regulation on greater re-use and recovery of materials at the end of a vehicle's life, while at the same time helping end users reduce fuel consumption.

In the electrical and electronics industry, DSM Engineering Plastics contributes to finding a solution to the growing problem of e-waste, helping foster recycling initiatives and helping deliver improvements in safety, health and environment. The company is able to do this through its unique portfolio of high temperature materials with high flow combined with solutions for, for example, lead-free soldering. In the electronics sector, the business group is actively replacing substances of hazardous concern, particularly by introducing halogen-free alternatives such as Arnitel® XG, used in consumer electronics cables. Another example is a product used for miniaturized electronic connectors that is based on a new breakthrough high-temperature polyamide with halogen-free flame retardant grades.

To meet strong growth in demand for the Stanyl® ForTii™ high performance polyamide in electronics, automotive and other markets, DSM Engineering Plastics in 2012 increased its capacity for the new polymer and opened its third market development unit. The plant is co-located with DSM's two existing units in Sittard-Geleen (Netherlands).

Improving environmental performance

DSM Engineering Plastics continuously strives to further improve the environmental performance of its products. Among the most innovative developments in this field are bio-based polymers and bio-based building blocks. The company is making very good progress with EcoPaXX®, a high performance durable bio-engineering plastic with up to 70 percent bio-based content.

Three grades of EcoPaXX® polyamide 4,10 received the 'Certified Biobased Product' label of the United States Department of Agriculture (USDA) in 2012 and are included in USDA's catalog of 'Biopreferred' products. The polymer contains building blocks derived from castor oil obtained from plants that can grow on poor soil otherwise not used for food products.

DSM also has introduced Arnitel® Eco, a thermoplastic copolyester elastomer, creating more value with a lower environmental impact. With a bio-based content of up to 50 percent Arnitel® Eco has a lower carbon footprint than traditional elastomers and rubber materials.
See also ECO+ (page 56).

Other notable achievements in 2012 were substantial investments in DSM's polyester manufacturing capabilities for Arnite® and Arnitel® in Emmen (Netherlands), which had a positive impact on quantity and quality. The polymerization facility in Kaohsiung (Taiwan) was upgraded, developing capabilities in specialty polyamide for Novamid® and Akulon® engineering plastics. At the Chemelot site in Sittard-Geleen, ground was broken for a new R&D building.

In the flexible food packaging industry, DSM's leadership in polyamide 6 film and specialty packaging is enabling customers to provide better solutions to the world's rapidly changing food packaging needs, helping meet global demands for food waste reduction.

In consumer goods, DSM Engineering Plastics meets sustainability demands and addresses the future performance and functionality needs of the industry by moving towards a full range of innovative products with reduced substances of hazardous concern, bio-based content, recyclability and/or reduced environmental impact. See also: ECO+ (page 56).

DSM Dyneema

Key drivers of profitability

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

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 (trust and innovation)

DSM Dyneema reported sales of € 235 million in 2012 compared to € 234 million in 2011. The overall growth achieved was limited despite close to double digit growth in areas like commercial marine and sports. The tender driven defense market remained weak.

Over the course of 2012, DSM Dyneema adjusted its operations to a changing market outlook, especially in the global vehicle protection markets. A full review of all functions and business areas was undertaken across all sites and locations, and a key reorganization of the business towards greater regional autonomy led to consolidation of several roles and positions. At DSM Dyneema, the Profit Improvement Program is expected to contribute more than € 15 million in annual savings. The full impact of these cost savings on Dyneema's financial performance will occur in 2013. Other steps to improve flexibility of operations through enhanced workforce skills training allowed a number of mainly contractor positions in operations to be eliminated. The total program involves a headcount reduction of approximately 150 people.

Concurrent with the completion of a multi-year investment in a new, state-of-the-art full commercial scale UHMwPE tape manufacturing facility in Greenville, North Carolina (USA), DSM Dyneema closed its Flaach (Switzerland) tape development and small-scale production unit which was acquired in 2007 and moved key equipment to Greenville.

DSM Dyneema's ICD facility in Laiwu, Shandong (China) has rapidly established a reputation for innovation and leadership in the Chinese market. Operating independently under the Trevo™ name, ICD, a UHMwPE fiber manufacturer acquired by DSM in 2011, has delivered some early breakthroughs in new applications in China by leveraging existing know-how within DSM Dyneema and applying local knowledge and application development approaches. Some of the applications are new to DSM Dyneema overall, thus further adding to the breadth of the business.

The Dyneema® brand is licensed for use in a wide and ever-increasing range of applications such as medical sutures, commercial fishing and aquaculture nets, ropes, slings, high-performance fabrics such as cut-resistant gloves and apparel and vehicle and personal ballistic protection. The Dyneema® brand is well known in the industries served. DSM is implementing a comprehensive brand licensing strategy which will result in a number of new licensees and enhanced control of the brand. This strategy is particularly targeted at supporting key customers.

DSM will accelerate innovations and get these to market even quicker by extending its co-creation partnerships with leading value chain players. This will help DSM to extend the penetration of the product into new markets. The combination of light weight and high strength of Dyneema® fiber has huge potential in areas yet untouched. Growth will be driven by creative application development.

As part of a continuing commitment to innovation in high growth economies, and in order to provide application development support close to customers around the world, DSM Dyneema completed the construction and commissioning of a new regional technical development center in Singapore. It is the third facility of this kind worldwide. This facility features a state-of-the-art test firing range in support of the Life Protection business.

Among notable examples of business developments in 2012 is the development of Dyneema® Max Technology DM20, a new fiber designed for the production of incredibly strong ropes that provide unrivaled strength, safety and durability. This fiber provides a pathway into several new (marine) applications. And in conjunction with Net Systems, a leading manufacturer of netting for the aquaculture market, DSM Dyneema developed a new construction of netting featuring Dyneema® which helps improve predator protection and positions both companies to benefit from the resulting anticipated growth in warm water aquaculture.

DSM Dyneema has conducted eco-footprint studies throughout the commercial marine (both wild catch and aquaculture), cut-resistant gloves and personal (ballistic) protection end-use industries. The results demonstrate that solutions developed with Dyneema® have a lower impact on resources and the environment than traditional solutions involving steel, nylon or aramid fibers. This is due to a combination of low weight, which results in production and transport benefits, and inherent product durability as well as end-use specific benefits. For example, trawlers equipped with nets and ropes made from Dyneema® are more fuel efficient and safer to operate than those employing conventional steel and nylon equipment.

Building on the inherently positive environmental impact of replacing traditional solutions with Dyneema®, DSM Dyneema embarked on several end-user education initiatives. DSM Dyneema had joined forces with partners from industry, media and education to launch 'Below 100,' a train-the-trainer program aimed at reducing law enforcement officer fatalities in the US in 2011. The program was rolled out nationwide in 2012. A similar approach was launched in the worker safety market with 'Zero Excuses', which aims to educate manual workers on the benefits of routinely wearing safety equipment. The wearability and comfort of gloves with Dyneema® (close-fitting, cooling and yet highly protective) are a distinct benefit. Both these programs demonstrate DSM Dyneema's commitment to end-user benefits, and the delivery of the brand promise – *With You When It Matters*.

DSM Resins & Functional Materials

Key drivers of profitability

- Market growth in key segments and regions
- Sustainability: lighter materials and environmentally friendlier, 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 low footprint technology platforms geared towards markets

DSM Resins & Functional Materials reported 2012 sales of €1,277 million compared to €1,269 million a year earlier.

Despite ongoing subdued market conditions DSM Resins & Functional Materials delivered improved results due to better margins and the implementation of cost saving actions.

DSM Resins & Functional Materials is recognized as a global leader in the development and production of environmentally friendly resins such as water-based coating resins and powder coating resins for industrial and decorative coatings. DSM Resins & Functional Materials is the European market leader in unsaturated polyester resins and is rapidly building a position in the fast growing markets of China. In functional materials, it is a niche player with a global leadership position in fiber-optic coatings, protecting more than one billion kilometers of fiber-optic cables around the world.

In 2012 DSM Resins & Functional Materials benefited from the successful execution of the restructuring programs as started in 2011 when facing uncertain market conditions. These previously announced restructuring initiatives, which involve a headcount reduction of approximately 300 people, already had a positive impact in 2012 and are expected to contribute approximately €25-30 million to annual savings by 2013. These restructuring initiatives were intensified in 2012 with further initiatives focused on the business unit DSM Composite Resins, which will lead to additional savings in 2013.

DSM Composite Resins faced a challenging year in 2012 as a result of deteriorating markets in transportation, building and construction. Overall, the business group had a continued focus on innovation in sustainable technology, with DSM Coating Resins and DSM Functional Materials successfully addressing a growing demand for more sustainable and environmentally friendly materials.

DSM Coating Resins

DSM Coating Resins continued to support the coating industry with resins that allow the manufacture and application of sustainable coating technologies such as water based, powder and UV-curing coatings. These resins are being used in coatings for, for example, architectural, industrial wood, flooring, graphic arts, can, coil and powder coating applications. Weakness in the building and construction industry created challenging market conditions in 2012. The business has continued its success by staying focused on continuing to innovate jointly with customers and other major players in the value chain.

Growth is targeted through a continuous drive to innovate in core segments and technologies, and through innovation that allows sustainable technologies to grow at the expense of less sustainable coating solutions. Market penetration of sustainable coatings currently is the highest in Europe and the US. Coating resins market growth stems from innovation as well as increased awareness in the value chain of the detrimental effect of non-sustainable coatings. DSM Coating Resins seeks to grow the market for sustainable coating solutions with resins for three types of coatings: powder coatings, water-based coatings and UV-curing coatings. DSM's solvent borne coating resins business, based in Hoek van Holland (Netherlands), was reorganized and positioned as a separate unit, and was branded as DSM Synres.

To confirm the value of its innovation products DSM Coating Resins conducts numerous carbon footprint measurements. This data driven approach fosters cooperation throughout the value chain. DSM is making a significant contribution to the transformation of the entire coating industry, helping it move towards more sustainable coating solutions.

In water-based paint for decorative applications, product developments have been focused on bio-based water-based coatings. With new product development in urethane-based technologies the need in the industry for odorless indoor air quality compliant coatings has been met. In powder coatings DSM is investing in technologies that expand the potential application of this sustainable technology to a wider range of substrates, including wood and plastic. In graphic arts, DSM's flexible packaging coating anticipates the industry's need to differentiate and become more competitive.

DSM Functional Materials

DSM Functional Materials is a leading developer of formulated coatings and composites designed to address the growing demand for more sustainable, more environmentally friendly and lighter-weight materials.

In the telecommunications market, DSM's UV-curable optical fiber materials set the standard for fiber protection and identification worldwide, helping ensure greater signal reliability and field performance within optical fiber networks. Bandwidth demand is surging worldwide, placing increasing performance requirements on optical fiber networks.

DSM's newest generation of optical fiber coatings, DeSolite® Supercoatings, helps network owners get higher levels of signal reliability and field performance from their optical fiber. DSM's coating solutions help protect network investments, give greater signal reliability and make higher bandwidths possible, ensuring future-proof fiber networks for the world's telecommunications leaders.

DSM Composite Resins

DSM Composite Resins provides resins solutions for lightweight composites used in containers, cars, trucks and trains, wind-turbine blades and other applications to improve energy efficiency.

For DSM Composite Resins 2012 was a challenging year as transportation, building and construction markets in Europe were under pressure. The business partially offset the effects of lower volumes by maintaining tight cost control. The market will remain difficult in 2013 due to a cautious investment climate, predominantly in building and construction.

DSM made significant investments to secure continued business growth in Asia by finalizing the construction of a new resin manufacturing plant in Nanjing. This plant is the largest of its kind in the world, and will help introduce the latest DSM resins innovations in Asia.

Among the resins examples worth noting in 2012 are the launch, together with AkzoNobel, of BluCure™ Technology and the BluCure™ Seal for cobalt-free curing of synthetic resins. BluCure™ is a sustainable cobalt-free technology made available through licensing for the whole composite industry. The BluCure™ Seal is an easy way for the industry to recognize that products and parts are 100 percent cobalt-free.

Also, DSM has introduced Synolite® a new resin based on biological raw materials and manufactured in line with Good Manufacturing Practices. By using this resin, DSM's customer Compac, based in Spain, was able to create a new range of artificial stone products suitable for food contact applications, setting a new standard for the industry.

Another notable example are the composite lightweight bridges in infrastructure projects that bridge manufacturer FiberCore, infrastructure company Heijmans and DSM have introduced jointly. The companies for example installed an award-winning 140 meter long bridge over one of the busiest roads in the Netherlands. Because of the bridge's low weight, its installation took little time and caused minimal interference with ongoing traffic.

"Polymers are my favorite puzzle, and at DSM I get the chance to further unlock their potential."

People perform best when they are challenged. Luigi Balzano is no exception. As a materials scientist, he is intrigued by the relationship between structure and properties in DSM materials such as Stanyl® ForTii™ and Dyneema®, and dedicates himself to solving the puzzle and expanding DSM's knowledge base. Understanding why materials perform the way they do is vital to improving them to meet future needs.

Review of business in 2012: Polymer Intermediates

Strengthening backward integration for DSM Engineering Plastics

Net sales

€ 1,596 m

x € million	2012	2011
Net sales:		
DSM Fibre Intermediates	1,596	1,820
Total	**1,596**	**1,820**
Organic sales development (in %)	(16)	32
Operating profit	97	339
Operating profit plus depreciation and amortization (EBITDA)	129	380
Capital expenditure and acquisitions	214	81
Capital employed at 31 December	447	397
ROCE (in %)	23.3	91.5
EBITDA as % of net sales	8.1	20.9
R&D expenditure	18	18
Workforce at 31 December (headcount)	1,474	1,439

Business

The Polymer Intermediates cluster comprises DSM Fibre Intermediates, the global market and technology leader in caprolactam and the leading acrylonitrile supplier in Europe. Its head office is in Shanghai, China.

DSM Fibre Intermediates has three operating companies for caprolactam with a combined annual capacity of over 700 kilotons:

- DSM Caprolactam Europe: office and plant in Sittard-Geleen (Netherlands).
- DSM Chemicals North America: office and plant in Augusta, Georgia (USA).
- DSM Nanjing Chemical Company (DNCC): office and plant in Nanjing, Jiangsu (China). DNCC is a cooperation with Sinopec Nanjing Chemical Industries.

The company's two acrylonitrile plants are located in Sittard-Geleen.

DSM Fibre Intermediates supplies key intermediates to DSM Engineering Plastics. This backward integration secures a base-load and provides security of supply to DSM Engineering Plastics and is an important element to DSM's operations. See also: DSM Engineering Plastics (page 94).

In 2012, DSM Fibre Intermediates posted sales of € 1,596 million, compared to € 1,820 million the previous year. Organic sales development was minus 16 percent due to 6 percent lower volumes as a result of turnarounds and 10 percent lower prices. EBITDA was significantly lower as high benzene prices could not be passed on to the market due to weaker demand for caprolactam in combination with new production capacity coming on stream.

During 2012 major turnarounds were completed at DSM's caprolactam plants in the US, Europe and China. No major turnarounds are expected in the coming years.

The end of 2011 saw dropping caprolactam prices. Early in 2012, the Chinese textile chain expected a strong demand later on in the year. This drove caprolactam and nylon 6 inventory building and price rises. However, at the end of the first quarter, demand growth from the textile segment was not as strong as generally anticipated. Besides, the economic outlooks for the US and Europe, China's main export outlets, steadily worsened. With two new caprolactam producers appearing in the Chinese market, it became clear that caprolactam was no longer short in supply and prices steadily declined.

On the raw materials side, benzene prices rose by approximately 50 percent over the course of 2012, driven by tight supply. The price of ammonia, another important raw material for caprolactam production, also increased throughout 2012. This, together with low caprolactam prices, put significant pressure on margins.

The acrylonitrile market also experienced more volatility, with two clear dips in prices during 2012, but due to fairly stable demand from contract customers in mainland Europe the business was still performing well.

Trends

Overall, global demand for caprolactam and acrylonitrile is expected to grow by approximately 3 percent per year in the coming period. The strongest growth, at up to 6 percent per year, will be seen in China. Demand from the US and Europe is expected to be relatively stable. By 2015, China and Taiwan are expected to consume over half of the world's caprolactam.

The caprolactam business will be affected by a rapidly changing industry landscape in China. New caprolactam plants are being built which bring more product to the local market, resulting in significant price pressure. A number of new market entrants are announcing further plans for new caprolactam plants, raising the likelihood of additional capacity. However, it remains to be seen to what extent all of these announced caprolactam initiatives will materialize.

Key drivers of profitability

- Growth (DSM Engineering Plastics and China)
- High utilization rates
- Raw material prices
- Low-cost operations

Key success factors

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

Strategic context

DSM Fibre Intermediates seeks to capitalize on the opportunities in the caprolactam market by:

- doubling production capacity in China by 2014;
- implementing new sustainable technology;
- further improving competitive position;
- reducing merchant exposure; and
- achieving an EBITDA margin of approximately 14 percent on average over the cycle.

In China, an expansion project to double DNCC's capacity to 400,000 tons started in 2011. The new facility is due to come on stream at the end of 2013 and is expected to operate at full capacity in early 2014. The expansion is on track, within timing and budget. Once completed, the DNCC site will be the largest caprolactam site in the world.

DSM is securing its technology leadership position by pursuing an assertive approach to licensing its proprietary caprolactam technology and protecting its patents.

In acrylonitrile, the company seeks to maintain its sustainable position as one of the leading players in Europe.

DSM expects its fiber intermediates business to maintain its global leadership position in caprolactam thanks to its strong focus on the potential of high growth economies, sustainability and technological innovation, coupled with its unwavering commitment to customers.

The company intends to further reduce its exposure to the merchant caprolactam market.

Sustainability

Energy conservation and recovery projects were implemented at the caprolactam sites, reducing variable costs and improving sustainability.

DSM Fibre Intermediates has inaugurated an N_2O abatement facility at its plant in Nanjing, China. The facility's construction started in 2011, and the system was successfully started up after DNCC's turnaround in August 2012. It reduces nitrous oxide emissions by more than half. This is the first N_2O abatement system installed in a HPO®-based caprolactam plant. N_2O is a strong greenhouse gas. This new facility removes emissions of 550 tons of N_2O per year, equivalent to 170,000 tons of CO_2, or the annual emissions of 30,000 cars. See also: Environmental impact of DSM's operations (page 58).

Caprolactam

Caprolactam is the raw material for polyamide 6, also known as nylon 6, of which about 4.5 million tons are produced annually worldwide. The applications of polyamide 6 are very diverse, covering many end-markets, from carpets and textiles to car parts, electrical devices and packaging film.

DSM is the major supplier to the merchant caprolactam market. A major part of all caprolactam produced globally is made using DSM's proprietary technology. The company actively licenses this technology.

The company has established a strong caprolactam position in China thanks to its local production facilities, reinforced by its strong partnership with winning customers in the downstream polyamide 6 industries.

Acrylonitrile

DSM Fibre Intermediates also is the leading supplier in the European merchant acrylonitrile market with a market share of 25 percent. Globally, it ranks third.

Acrylonitrile is a raw material for acrylic fibers, plastics, rubber, water treatment chemicals and a wide range of specialty products. It is a key ingredient for bright, fashionable acrylic textile and carpet fibers and for materials such as acrylonitrile-butadiene-styrene (ABS) and styrene-acrylonitrile (SAN) that are used for automobile components, electronic devices, toys and sports equipment. The application of acrylonitrile in a wide range of valuable specialty products like carbon fibers, water treatment additives and detergents is rapidly growing.

"DSM helped brighten my life, and now I get to help DSM in delivering our bright science to a world that needs it."

Nelson Cooke has a special story, one in which the company he works for has changed his personal life. To repair a long-time shoulder injury and regain full motion in his right arm, he underwent arthroscopic surgery that used DSM's Dyneema Purity®, the world's strongest medical grade fiber Once fully recovered, he was not only able to live a healthier, more active life, but also to continue to focus on his work with DSM Biomedical in Berkeley, California (USA). Here he gets to make a difference in the life of others, by supplying medical device companies with innovative polymers for eye health products such as contact lenses, intra-ocular lenses, and drug delivery devices.

Review of business in 2012: Innovation Center

Connecting bright science to brighter living

Net sales

€ 102 m

x € million	2012	2011
Net sales	102	60
Operating profit	(63)	(69)
Operating profit plus depreciation and amortization (EBITDA)	(38)	(57)
Capital expenditure and acquisitions	303	40
R&D expenditure	61	42
Workforce at 31 December (headcount)	668	383

DSM Innovation Center

The DSM Innovation Center was originally set up in 2006 to help facilitate the company's strategic transition toward an intrinsically innovative organization. It serves as an enabler and accelerator of innovation within DSM. With its Emerging Business Areas and the business incubator, the DSM Innovation Center has a general business development role, focusing on areas outside the current scope of the business groups. See also: Growth Driver: Innovation (page 21).

Emerging Business Areas

DSM's Emerging Business Areas provide strong long-term growth platforms based on the company's core competences in Life Sciences and Materials Sciences. The company has three Emerging Business Areas:

- DSM Biomedical
- DSM Bio-based Products & Services
- DSM Advanced Surfaces

DSM aspires to realize € 1 billion in sales by 2020 in its combined Emerging Business Areas.

DSM Biomedical

DSM Biomedical intends to be the medical industry's leading development partner, trusted to shape the future of biomaterials and regenerative medicine devices that improve and brighten patients' lives throughout the world.

DSM Biomedical provides a proprietary product portfolio with coatings, drug delivery platforms and a wide range of biomedical materials that enable the replacement, repair, enhancement and the regeneration of tissue and organ functions in the body. Its novel materials-based solutions are designed to meet the needs of the medical device and pharmaceutical industries. The ultimate objective is to improve the outcome for patients.

Continued market growth in medical devices and the need for increasingly sophisticated drug delivery systems are the drivers for this market, which is estimated at USD 1.5-2 billion, with annual growth rates of 10-15 percent. With the aging population, it has good prospects for future growth.

DSM entered the medical field more than a decade ago, starting with R&D efforts to develop medical applications based on Dyneema®, which led to Dyneema Purity® fiber, a new material for orthopedic sutures. DSM Biomedical was established in 2006 as an Emerging Business Area. DSM Biomedical has become a leading biomedical business with an annual growth rate of 19 percent over the last three years.

DSM Biomedical further strengthened its industry leadership in 2012 with the acquisition of Kensey Nash, a US based, technology-driven biomedical company, primarily focused on regenerative medicine utilizing its proprietary collagen and synthetic polymer technology. Since July 2012 Kensey Nash has realized sales of € 35 million with an EBITDA margin of 38.9 percent.

DSM's medical device expertise nowadays spans one of the broadest portfolios of medical materials, including biostable polyurethanes, ultra high molecular weight polyethylenes, resorbable polymers, ceramics, collagens, extracellular matrices, silicone hydrogels, device coatings, and drug delivery platforms. Millions of products are produced each year for applications in some of the most attractive high growth markets, including orthopedics, sports medicine, ophthalmology, general surgery and cardiology.

DSM Biomedical applies materials science to create solutions that help the human body heal. Its investments are focused on research and product development, building further opportunities for future growth. These efforts are focused towards applying a wide range of materials and device technologies to create clinically targeted products for its customers. These products extend the capabilities of physicians by providing tools that enhance their skills and help them transform the quality of life for patients, replenishing mobility and vitality. With each innovation, DSM Biomedical provides new opportunities for collaboration with business partners, thereby helping physicians and patients across the world.

Other notable developments in DSM Biomedical during 2012:

- A multi-year collaboration with the Utrecht University Medical Center (Netherlands) was agreed for a feasibility study of novel transcatheter heart valves made with Dyneema Purity® fibers.
- DSM's VitroStealth® coating was used in Axis-Shield's next generation Afinion® Point-of-Care Cartridge.
- DSM extended its license to supply CarboSil® TSPCU for use in AxioMed Spine Corporation's Freedom® Spinal Discs.
- A clinical trial was initiated to assess the ability of DSM's Meso Biomatrix to help patients undergoing post cancer therapy reconstructive surgery.
- Initial product launch of the Norian® Fiber Reinforced bone repair technology.
- DSM expanded its capabilities for manufacturing metal orthopedic products.
- DSM started commercial production of the ActiFit® meniscal repair scaffold for Orteq.

Looking to the future, DSM Biomedical intends to be the leading creator of clinically targeted biomedical materials and products for the benefit of society, customers, employees and stakeholders.

DSM Bio-based Products & Services

At the core of DSM's strategic focus on Life Sciences and Materials Sciences is its key competence in industrial biotechnology. The move towards a bio-based economy presents significant opportunities, particularly in renewable energies such as cellulosic ethanol, renewable diesel and biogas as well as renewable building blocks and materials like bio-based succinic acid. See also: Bio-based economy (page 34).

Drawing on DSM's unique position in biotechnology, materials science and chemistry, this unit is pioneering advances in biomass conversion and seeks to demonstrate the commercial viability of renewable technologies in collaboration with strategic partners in the value chain. The development and supply of high value knowledge, ingredients and expertise in the field of bio-conversion technology are critical success factors determining its future. DSM's strategy is to license its technology and expertise to bio-based entrepreneurs, enabling them to convert biomass in a commercially viable and sustainable way.

POET-DSM Advanced Biofuels

A major strategic milestone in 2012 was DSM's partnership with POET LLC, one of the world's largest ethanol producers, to commercially demonstrate and license cellulosic ethanol based on the two companies' proprietary and complementary technologies. POET-DSM Advanced Biofuels, LLC will produce cellulosic ethanol from corn crop residue through a biological process using enzymatic hydrolysis followed by fermentation. The first commercial demonstration of the technology will be at Project Liberty, which is being constructed adjacent to POET's existing corn ethanol plant in Emmetsburg, Iowa (USA). The initial capacity is expected to be 20 million gallons in the first year, growing to approximately 25 million gallons per year.

POET-DSM Advanced Biofuels intends to replicate and license the technology to additional plants to be built at the other 26 corn ethanol facilities in POET's network and license it to other producers in the United States and the rest of the world. DSM and POET each hold a 50 percent share in the joint venture, headquartered in Sioux Falls, South Dakota (USA). The initial capital expenditure in Project Liberty amounts to about USD 250 million. POET-DSM Advanced Biofuels is expected to be profitable in the first full year of production and to deliver substantial revenues with an above-average EBITDA contribution in the medium/longer term.

Organic residue streams

Researchers from DSM have developed a novel process concept for pre-treating organic residue streams. In 2012 the concept was proven at lab scale. With this process, residues can be converted into biogas in around a week – with competitive gas yields. This advancement is crucial for the growth of the biogas sector. It makes the management and storage of these organic streams much easier to handle, which means more companies can capture biogas on-site from their own residue streams and convert it into energy for their own use. The DSM Biotechnology Center in Delft (Netherlands) is in the midst of developing its pre-treatment and fermentation process. The center has already established that the new process works at pilot scale, using animal manure and brewers' spent grains as feedstocks.

Advanced bio-diesel

In 2012 DSM entered into the next phase of a partnership with British Petroleum to jointly develop a large-scale, cost effective microbial oil technology to convert sugars from sugar cane into renewable diesel. The partnership has created a leading biotechnology platform that produces high yields of synthetic bio-oil from plant sugars, which is in turn converted to a renewable diesel. About half of today's world demand for transport fuel is for diesel and it is expected to grow to a larger percentage in the upcoming decades. This makes innovative solutions such as this route from sugars to diesel highly attractive from a business point of view. Today, biodiesel is produced from vegetable oils such as palm oil, soy bean oil and rape seed oil. These oils are increasingly associated with concerns about sustainability and availability. Finding alternative ways to produce diesel from renewable sources that do not compete with the food chain is crucial if growing demand is to be met in a sustainable way.

Bio-succinic acid
Reverdia's bio-succinic acid plant in Cassano Spinola (Italy) commenced its start-up process in 2012, leading to full production in 2013. Reverdia, established in 2010, is a 50-50 joint venture between DSM and French starch and starch derivatives company Roquette Frères. The plant is designed for commercial scale production of bio-based succinic acid. This is the first non-fossil feedstock derived chemical building block that allows customers in the chemical industry to opt for a bio-based alternative with a lower eco-footprint for a broad range of applications, from packaging to footwear.

Looking ahead, the first sales of technology licenses by POET-DSM Advanced Biofuels and Reverdia (Roquette-DSM) for cellulosic ethanol and bio-succinic acid, respectively, are expected once production has been demonstrated on a commercial scale. In the next few years, DSM expects to develop additional strategic partnerships to demonstrate the commercial viability of a wider range of bio-based solutions. Examples include bio-based adipic acid, a renewable building block for, for example, polyamide 6,6. DSM has achieved considerable technological progress in bio-based adipic acid and is in advanced discussions with prospective partners both on the biomass side and on the application side.

DSM Advanced Surfaces

DSM Advanced Surfaces provides solutions for smart coatings. In 2012, the unit recalibrated its strategic approach, which led to a decision to fully focus on solutions for the solar industry, with its anti-reflective coating KhepriCoat™.

KhepriCoat™ is increasingly recognized and valued by customers as a very high performing durable product. It improves the average efficiency of solar panels by four percent. This benefit is welcomed by an increasingly competitive global industry hungry for innovations that increase the efficiency of solar panels.

In India, a 1 MW solar power plant is now being built using panels with this antireflective coating. At the end of 2012, DSM decided to increase the installed manufacturing capacity for KhepriCoat™ in Sittard-Geleen (Netherlands).

Looking ahead, DSM Advanced Surfaces has identified potential partnerships that could address novel surface technologies, which would help expand its product range. DSM's Business Incubator has been instrumental in feeding the pipeline with opportunities that address customer needs. Partnerships and acquisitions will remain a critical factor for accelerated growth in advanced surfaces.

DSM Business Incubator

The DSM Business Incubator is an independent unit of the DSM Innovation Center. It explores opportunities and technologies in new areas where its technologies can meet current and future market demands. Platforms are created within the scope of securing food, health and energy requirements of society, in close collaboration with industry partners and existing and potential customers. See also: Open Innovation (page 22).

DSM Venturing

DSM Venturing actively invests in early stage companies that create innovative products and services in health, nutrition and materials. DSM Venturing plays an important part in DSM's open innovation policy and invests in activities that are of immediate or future strategic relevance to DSM business groups and/or the DSM Innovation Center.

DSM has invested in Regentis Biomaterials, a tissue repair company based in Israel that is developing and commercializing innovative biodegradable hydrogels for the local repair of damaged cartilage and bone.

In 2012, the company also invested in Optiwind, a US-based producer of medium-sized wind turbines.

In addition to direct investments DSM Venturing is also involved in a limited number of venture capital funds.

In 2012, DSM invested in the 4^{th} China Environment Fund of Tsing Capital. This is DSM's first venture capital fund investment in Asia. The China Environment Fund is a series of four funds, managed by Hong Kong based Tsing Capital.

"My greatest dream as an athlete was to peak during the 2012 Olympic Games, and DSM has helped me achieve this."

Carline Bouw was a member of the Dutch Women's Eight rowing team that won a bronze medal at the London 2012 Olympics. Doing up to three training sessions per day, being away from home a lot and having little time for family and friends were just some of the sacrifices Carline made to ensure she and her team performed at their best on the Olympic rowing course. Using a boat developed with DSM materials, they rewarded themselves for years of hard work and preparation, and inscribed their names in the Olympic records.

Corporate Activities

Various activities and businesses that do not belong to any of the five reporting clusters are included under Corporate Activities. This consists of both operating and service activities and also includes a number of costs that cannot be logically allocated to the clusters. The segment normally has a negative operating result.

Various holding companies and corporate overheads are included in Corporate Activities. The most important cost elements included under this heading are corporate departments and share-based compensation for the group.

x € million	**2012**	2011
Net sales	268	369
Operating profit	(139)	(135)
Operating profit plus depreciation and amortization (EBITDA)	(94)	(91)
Capital expenditure and acquisitions	89	84
R&D expenditure	22	21
Workforce at 31 December (headcount)	3,199	3,150

Sitech Services

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

DSM Insurances

The company retains a limited part of its property damage and business interruption and product liability risks via a captive insurance company, DSM Insurances BV. Total retained damages in 2012 were less than € 10 million.

Corporate Research

Since 2011, the total costs of the Corporate Research Program have been reported under Corporate Activities.

Assets held for sale

At the end of the year, the company reached an agreement with Borealis AG for the sale of DEXPlastomers, a 50-50 joint venture of DSM with ExxonMobil. Subject to customary approvals and notifications, the transaction is expected to close in Q1 2013. In 2012 DSM's 50 percent participation in DEXPlastomers was included under Corporate Activities.

Agreement was reached with BÜFA GmbH & Co. on the divestment of parts of Euroresins. These units were reclassified as assets held for sale.

In 2011, DSM's Maleic Anhydride and Derivatives business was included under Corporate Activities. As from 2012 this business is included in the Pharma cluster.

Associates

DSM has a share in a limited number of associates. Their contribution to the result in 2012 was negligible.

Financial and reporting policy

Financial policy

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

The current strategy, DSM in motion: *driving focused growth*, has ambitious strategic and financial targets which are outlined on page 15. DSM targets a gearing that is 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. Under certain circumstances the gearing could be raised to a level between 30% and 40%, provided that the boundaries of the desired Single A credit rating remain attainable. Furthermore, funds from operations need to be at least 30% of net debt in accordance with the definitions of the major credit rating agencies. This underlines the company's aim of maintaining its Single A long-term credit rating.

Most of DSM's external funding needs are financed through long-term debt. Debt covenants are not included in the terms and conditions of outstanding bonds and financing arrangements. DSM aims to spread the maturity profile of outstanding bonds in order to have adequate financial flexibility.

DSM has a commercial paper program of € 1,500 million and two committed credit facilities totaling € 900 million, consisting of € 500 million until September 2018 and € 400 million until April 2013.

An important element of DSM’s financial policy is the allocation of cash flow. DSM primarily allocates cash flow to investments aimed at strengthening its business positions and to dividend payments to its shareholders. The cash flow is further used for Acquisitions & Partnerships to strengthen DSM's competences and market positions in Life Sciences and Materials Sciences supported by the other three strategic growth drivers: High Growth Economies, Innovation and Sustainability. As the occasion arises, the company may choose to return cash to shareholders if excess cash is available over a longer period to such an extent that the above-mentioned cash flow priorities can be satisfied without an increase in gearing toward a level of 30%.

DSM aims to provide a stable and preferably rising dividend.

In order to avoid dilution of earnings per share as a result of the exercise of management and employee options, DSM buys back shares insofar as this is desirable and feasible. In 2012 no share repurchase took place.

It is DSM’s policy to hedge 100% of the currency risks resulting from sales and purchases at the moment of recognition of trade receivables and payables. In addition, operating companies may – under strict conditions – opt for hedging currency risks from firm commitments and forecasted transactions. The currencies giving rise to these risks are primarily USD, CHF, JPY and GBP. The risks arising from currency exposures are regularly reviewed and hedged when appropriate.

Important acquisition criteria are strategic fit and financial condition. A business or partner should add value to DSM in terms of technological and/or market competences. Acquired companies are in principle required to contribute to DSM's cash earnings per share from the very beginning and to earnings per share from year two. In addition, they are required to meet the company's profitability, sustainability and growth requirements. There are, however, exceptions to this rule; a requirement may for instance not be appropriate in the case of small innovative growth acquisitions, although the sustainability requirement will be upheld at all times.

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

Reporting policy

Reporting policy and justification of choices made

In the sustainability information in this Integrated Annual Report, DSM explains its vision and policy with respect to sustainable enterprise and reports on its activities in this field during 2012. Besides presenting developments and data for the three categories of People, Planet and Profit, DSM reports on its sustainability strategy, its stakeholder engagement activities, and the organization of sustainability at DSM. Furthermore, DSM discusses the global trends that drive its strategy.

It is DSM’s policy to proactively canvas the views of its employees on issues of material importance to the company. The preparation of this report was facilitated by experts who were supported by a review group comprising employees selected from across the DSM organization.

Global Reporting Initiative

DSM bases its sustainability reporting on the guidelines of the Global Reporting Initiative (GRI). For this report, the company used the GRI matrix G3 (see www.dsm.com). DSM has determined that this report once again merits GRI application level A+, representing a high level of transparency. Ernst & Young has reviewed compliance of the Sustainability Information with this application level. See also: Independent Assurance Report on Sustainability Information (page 217).

Assurance

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

Selection of topics

The topics covered in this report were selected on the basis of input from stakeholders, GRI guidelines and DSM's own management systems and their relevance and impact for DSM and its various stakeholders. See also: Stakeholder engagement (page 33).

On the basis of the principle of materiality (see the materiality matrix in Stakeholder engagement), DSM distinguishes between topics whose importance warrants publication in this annual report (relevant to both DSM and its stakeholders), and topics whose importance warrants publication on the company website only (topics important to either DSM or its stakeholders).

As in the 2011 report, DSM reports on its external recognition in a separate section. DSM also reports separately on its progress in implementing the principles of the UN Global Compact. See also: Human rights and United Nations Global Compact (page 40).

Scope

The People data in this report cover all entities that belong to the consolidation scope of the consolidated financial statements. The Planet data cover all production entities of DSM that are controlled by DSM. Offices and R&D facilities are excluded from Planet reporting. The ECO+ data cover all DSM business groups and the Innovation Center and are reported as consolidated global DSM key performance indicators (KPIs).

Acquisitions and divestments

The **HR data** (People) for newly acquired companies are reported from the first full month after the acquisition date. Historical HR data are not restated for divestments. The **Safety**, **Health** (People) and **Environment** (Planet) data for newly acquired companies are reported at the latest in the year following the first full year after acquisition, because these companies' reporting procedures first have to be aligned with those of DSM. Acquired and divested units are excluded from the evaluation of progress on environmental targets but are included in absolute figures (unless stated otherwise). **ECO+** data for newly acquired companies are reported in line with the financial reporting guidelines. Historical ECO+ data are not restated for divestments.

Quality of data

The data for the sites are based on these sites' own measurements and calculations, which are based on definitions, methods and procedures established at corporate level. The year-on-year comparability of the data can be affected by changes in the portfolio as well as by improvements made in the measurement and recording systems at the various sites. Whenever impact is relevant, it is stated in the report. Details for the individual sites are published on www.dsm.com, together with an explanation of the definitions used.

Manner of reporting

Quantitative data are reported per business group. All data are consolidated at corporate level by the relevant departments. The qualitative reports on various subjects were provided by experts throughout the organization.

Planet methodology

Environmental indicators are evaluated and established on a yearly basis by the experts and process owners involved. Data on these indicators are collected on a yearly basis, while an additional mid-year measurement is done for the most relevant indicators and reporting units. The methodology and calculations can be found on www.dsm.com.

The site managers of reporting units are responsible for the quality of the data. Data are collected based on measurements in the production process, information from external parties (e.g. on waste and external energy) and estimates based on expert knowledge. Reporting units have direct insight into their performance compared to previous years and are required to provide justifications for deviations above the threshold. For most parameters the threshold is set at 10 percent.

People methodology

All People and HR data are collected per business group and consolidated at corporate level.

ECO+

All financial ECO+ data are collected from the relevant financial and innovation systems by the controllers of the business groups and the Innovation Center. All assessments of ECO+ involve internal LCA experts. All data are internally validated with Corporate Sustainability and consolidated in global DSM ECO+ KPIs.

Corporate governance and risk management

Introduction[1]

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

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

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

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

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

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

Managing Board

The Managing Board consists of three or more members to be determined by the Supervisory Board. The current composition of the Managing Board can be found in the chapter Supervisory Board and Managing Board starting on page 134. Since 2005, members of the Managing Board have been appointed for a maximum period of four years.

The members of the Managing Board are collectively responsible for the management of the company. Notwithstanding their collective responsibility within the Managing Board, certain tasks and responsibilities for business clusters and functional areas as well as regional responsibilities have been assigned to individual members.

The remuneration of the members of the Managing Board is determined by the Supervisory Board based on the remuneration policy approved by the General Meeting of Shareholders.

The functioning of and decision making within the Managing Board are governed by the Regulations of the Managing Board, which have been drawn up in line with the Dutch corporate governance code and can be found on the company's website.

In 2012 the Managing Board met 54 times with the entire Board. In six meetings one member was excused due to another commitment. In one meeting two members were excused. In all cases, members not able to attend provided their input to the meeting in advance in writing.

Supervisory Board

The Supervisory Board consists of at least five members. The current composition of the Supervisory Board can be found on page 134. 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.

[1] This chapter contains, among other things, the information regarding corporate governance as referred to in Section 2 of the Dutch governmental decree of 23 December 2004 establishing further instructions concerning the content of the annual report (*Besluit van 23 december 2004 tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag*, *Staatsblad* [Bulletin of Acts and Decrees] 2004, 747) as amended in April 2009 (*Staatsblad* 2009, 154) and December 2009 (*Staatsblad* 2009, 545).

The functioning of and decision making within the Supervisory Board are governed by the Regulations of the Supervisory Board, which have been drawn up in line with the Dutch corporate governance code and can be found on the company's website.

In line with the Dutch corporate governance code the Supervisory Board has established from among its members an Audit Committee, a Nomination Committee, a Remuneration Committee and a Corporate Social Responsibility Committee. The task of these committees is to prepare the decision making of the Supervisory Board. The functioning and tasks of these committees are governed by charters that have been drawn up in line with the Dutch corporate governance code and can be found on the company's website.

Diversity

DSM has taken notice of recently adopted legislation effective as of 1 January 2013 as a consequence of which a 'large' company, when nominating or appointing members of the Management Board or Supervisory Board, should take into account as much as possible a balanced composition of these Boards in terms of gender, to the effect that at least 30 percent of the positions are held by women and at least 30 percent by men.

The current composition of the Supervisory Board is already in line with the new legislation and the Supervisory Board profile will be amended to reflect this change in law.

The current composition of the Managing Board deviates from the above-mentioned percentages. With regard to future nominations and appointments, the Managing Board and the Supervisory Board will take the gender diversity objectives into account as much as possible.

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 the 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 the Supervisory Board;
- issuance of shares or rights to shares, restriction or exclusion of pre-emptive rights of shareholders and repurchase or cancellation of shares;
- amendments to the Articles of Association; and
- decisions of the Managing Board that would entail a significant change in the identity or character of DSM or its business.

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

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

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

On 11 May 2012 the Annual General Meeting of Shareholders was held. The agenda was to a large extent similar to that of previous years. Mr. Ewald Kist was reappointed as member of the Supervisory Board. Mrs. Victoria Haynes and Mrs. Eileen Kennedy were appointed as members of the Supervisory Board. An amendment to the remuneration of the Supervisory Board was adopted. Further details can be found on the company's website.

External auditor

In accordance with the Dutch corporate governance code (V. 2.3), the Managing Board and the Audit Committee have conducted a thorough assessment of the functioning of the external auditor in 2012 following an extensive external review of the activities of the external auditor by Maastricht University. The main conclusions of the assessment have been discussed in the Audit Committee and will be presented to the General Meeting of Shareholders.

Article 10 of Directive 2004/25

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

- Information on major shareholdings can be found below (Distribution of shares).
- There are no special statutory rights attached to the shares of the company.

- There are no restrictions on the voting rights of the company's shares. When convening a General Meeting of Shareholders the Managing Board is entitled to determine a registration date in accordance with the relevant provisions of the Dutch Civil Code.
- The applicable provisions regarding the appointment and dismissal of members of the Managing Board and the Supervisory Board and amendments to the Articles of Association are set forth above.
- The powers of the Managing Board regarding the issue and repurchase of shares in the company can be found below (Issue of shares, Repurchase of own shares).
- Other information can be found in the notes to the consolidated financial statements (16 Equity, 19 Borrowings, 27 Share-based compensation) and in the chapters Information on the DSM share and Other information.

Issue of shares

The issue of shares takes place by a decision of the Managing Board. The decision is subject to the approval of the Supervisory Board. The scope of this power of the Managing Board shall be determined by a resolution of the General Meeting of Shareholders and shall relate to at most all unissued shares of the authorized capital, as applicable now or at any time in the future. In the Annual General Meeting of Shareholders of 11 May 2012 this power was extended up to and including 11 November 2013, on the understanding that this authorization of the Managing Board is limited to a number of ordinary shares with a nominal value amounting to 10% of the issued capital at the time of issue, and to an additional 10% of the issued capital at the time of issue if the issue takes place within the context of a merger or acquisition within the scope of DSM's strategy as published on DSM's website. The issue price will be determined by the Managing Board and shall as much as possible be calculated on the basis of the trading prices of ordinary shares on the Euronext Amsterdam Stock Exchange.

Distribution of shares

Under the Dutch Financial Markets Supervision Act shareholdings of 5% or more in any Dutch company must be disclosed to the Netherlands Authority for the Financial Markets (AFM). According to the register kept by the AFM the following shareholders had disclosed that they owned between 5 and 10% of DSM's total share capital on 1 January 2013:

- ASR Nederland B.V.
- Rabobank Nederland Participatie B.V.
- Delta Lloyd N.V.
- Capital Research and Management Company and Capital Group International

Repurchase of own shares

The company may acquire paid-up own shares by virtue of a decision of the Managing Board, provided that the par value of the acquired shares in its capital amounts to no more than one tenth of the issued capital. Such a decision is subject to the approval of the Supervisory Board. In the Annual General Meeting of Shareholders of 11 May 2012 the Managing Board was authorized to acquire own shares for a period of 18 months from said date. In 2012, no ordinary shares were repurchased.

Dutch corporate governance code

DSM supports the Dutch corporate governance code adopted in 2003 and amended in 2008, which can be found on www.commissiecorporategovernance.nl.

DSM can confirm that it applies all of the code's 113 Best Practices.

With respect to the appointment of members of the Managing Board for a period of at most four years (Best Practice II.1.1) it should be noted that DSM has adhered to this Best Practice since the introduction of the corporate governance code in 2004.

Since DSM respects agreements made before the introduction of said code, the current chairman of the Managing Board will remain appointed for an indefinite period.

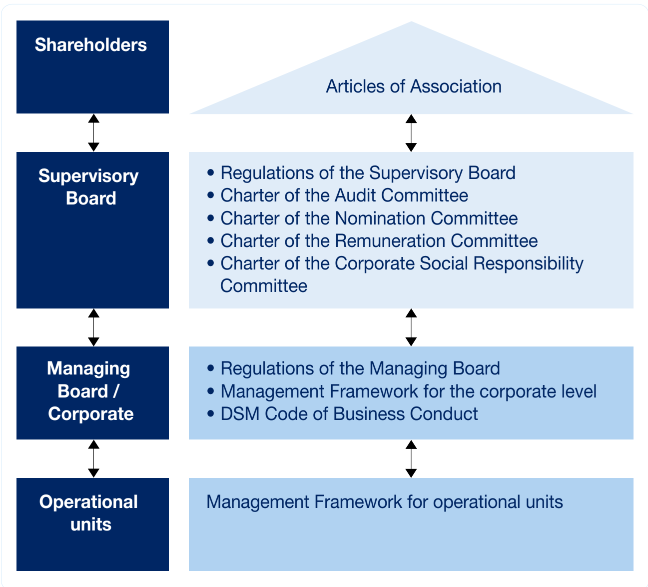
With respect to the Dutch corporate governance code it should be noted that any substantial change in the corporate governance structure of the company and in the company's compliance with the code shall be submitted to the General Meeting of Shareholders for discussion under a separate agenda item.

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

Governance framework

Business groups are the main building blocks of DSM's organization; they have integral long-term and short-term business responsibility and have at their disposal all functions that are crucial to their business success. The business groups within a specific cluster report to one and the same member of the Managing Board. This Board member manages the coherence of operations and the leveraging of resources within the cluster and is accountable for the overall performance of the cluster within limits defined by the collective responsibility of the total Managing Board for the overall management of the company. The clusters are the main entities for external strategic and financial reporting. In order to ensure sufficient independence with regard to financial management, the Chief Financial Officer has no business groups reporting to him.

The following figure depicts DSM's overall governance framework and the most important governance elements and regulations at each level.



Note: all internal regulations apply in addition to applicable national and international laws and regulations. In cases where internal regulations are incompatible with national or international laws and regulations, the latter prevail.

For the sake of clarity, a short summary of the main aspects of the framework at Managing Board / corporate level and operational level is given here:

- The Managing Board adheres to the Regulations of the Managing Board.
- In addition, the Managing Board works according to the Management Framework for the corporate level. This implies among other things that it adheres to the DSM Code of Business Conduct and applicable corporate policies and requirements.
- The Management Framework for the corporate level further provides a description of the most important (decision-making) processes, responsibilities and 'rules of the game' at the Managing Board, functional and regional levels and includes the governance relations with the next-higher levels (Supervisory Board and Shareholders) and the operational units. In particular, the framework defines the roles of corporate staff, functional excellence and shared service departments as follows:

  - Corporate Staff departments: small, high level groups, supporting the Managing Board and reporting directly to a Managing Board member (in most cases CEO or CFO);
  - Functional Excellence departments, in which expert capabilities in selected functions are concentrated and which are steered by Functional Excellence Advisory Boards, chaired by a Managing Board member; the Director of a Functional Excellence department reports to a Managing Board member; and
  - Shared Service departments, in which selected service functions are leveraged and which are steered by Shared Service Boards, chaired by a business group director. The director of a Shared Service department reports to a Managing Board member, who is also a member of the Shared Services Board.

The company's strategic direction and objectives are set in a Corporate Strategy Dialogue. In 2010 such a Corporate Strategy Dialogue was executed, resulting in the current strategy DSM in motion: *driving focused growth*. As part of this strategy, the regional functions have been further strengthened, especially in the high growth economies. Regional management reports directly to a Managing Board member.

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

- establish the strategy and objectives of their business according to the Business Strategy Dialogue, aligned with the Corporate Strategy Dialogue, in which process various scenarios and related risk profiles are investigated;
- implement risk management actions according to an Annual Risk Management Plan and in line with corporate policies and multi-year plans in several functional areas;
- comply with the Corporate Requirements and Directives; and
- monitor the effectiveness of the risk management and internal control system and regularly discuss the findings with the Managing Board.

On average once every three years, the operational units are audited by Corporate Operational Audit (COA). The director of COA reports to the chairman of the Managing Board and has access to the external auditor and the chairman of the Audit Committee of the Supervisory Board. Furthermore, the director of COA acts as the compliance officer with regard to inside information and is the chairman of the DSM Alert Committee, which is responsible for the DSM whistleblower policy, systems and processes.

In the Fraud Committee, relevant corporate functions participate under the chairmanship of the CFO. The objective of the committee is to ensure structural follow-up of fraud cases with the aim of reducing fraud risks.

Risk management

The Managing Board is responsible for risk management in the company and, supported by the Corporate Risk Office, has designed and implemented a risk management system and a risk management organization. The system and the organization are documented in the DSM risk management policy, the DSM Code of Business Conduct, DSM policies in several functional areas and the DSM Corporate Requirements and Directives. The aim of the system is to ensure that the extent to which the company's strategic and operational objectives are being achieved is understood, that the company's reporting is reliable and that the company complies with relevant laws and regulations.

The DSM risk management system is based on the COSO-ERM framework. It has been designed to achieve maximum integration of the risk management process in the normal business processes. It provides for risk assessment tools, controls for risks that commonly occur in the company and monitoring and reporting procedures and systems. The internal controls for the goods and money flows have been 'built into' business processes, and tools have been developed to support their implementation and to monitor their effectiveness in operation. In this way, a high level of internal control is achieved efficiently.

Simultaneously with the publication of this Integrated Annual Report, an updated version of the full description of DSM's risk management system and process together with a description of the identified risks will be placed on the company's website. These descriptions are to be considered an integral part of this Integrated Annual Report.

The functioning of the system in 2012

The important events in risk management in 2012 are reported below. This section is structured according to the elements of the COSO-ERM risk management framework.

Internal environment for risk management

Values and business principles are an important element of the internal environment for risk management. Directly related to its mission to create brighter lives for people today and generations to come, DSM has chosen sustainability as its core value.

DSM's business principles, which are defined in the DSM Code of Business Conduct, are based on this core value. The DSM Code of Business Conduct, which is available on the company's website, describes principles in the areas of People (social and humanitarian standards), Planet (principles with regard to the environment) and Profit (principles regarding fair and ethical business practices). In 2012, the e-learning course on the Code of Business Conduct was completed by virtually all eligible employees. Classroom training is ongoing for a restricted group of employees without access to e-mail. A company-wide inventory was made of bribery and corruption risks. This inventory will be used to complement the general policy against corruption and bribery with business and region specific actions and practices.

Another important factor determining the internal environment for risk management is the risk appetite. This risk appetite cannot be captured in one figure or formula, but varies per category of risks. The Managing Board has reviewed the company's desired risk appetite. The main characteristics can be described as follows:

- To fulfill its strategic intent, DSM is prepared to accept considerable risks in its drive to develop its people and organizational base into a competitive advantage, in its innovation programs, in its expansion to high growth economies and in developing sustainability as a business driver. Of course these risks will always be limited by defined hurdle criteria and rigorous implementation programs.
- In risk areas such as intellectual property protection, acquisitions and joint ventures, production-process reliability, business continuity, and product liability the company is cautious to conservative.
- With regard to reputation, safety, health and environment and internal and external non-compliance the company is risk averse.

This risk appetite gives guidance for the responses to the risks identified in the Corporate Risk Assessment (see below). For specific units, the risk appetite may deviate from the overall company profile.

Objectives and risk identification, assessment and response

In line with the mandatory risk management process, business groups that updated their strategy in 2012 performed a business risk assessment to identify and assess the implementation risks of the chosen strategy and agree on responses. At mid-year and at year-end, all units review and report their risks and incidents as part of the semi-annual risk reporting process. Additionally, risk assessments were performed by a number of central functions, on major projects and as part of the compliance programs of new acquisitions. A risk assessment was conducted on the Sustainability Program, covering both the risks and opportunities regarding the 'corporate responsibility' as well as the 'business driver' elements in this program.

In 2012, the Managing Board updated the Corporate Risk Assessment (CRA). Based on the results of the CRA conducted in 2011, internal risk and incident reports and risk information from external sources, the Managing Board, supported by the Corporate Risk Office, identified the risks that are relevant in relation to the achievement of the targets of the strategy DSM in motion: *driving focused growth*. Board members individually identified and assessed risks, and during a Managing Board session they reached consensus on these risks and related risk appetites. They identified any necessary responses to be made in addition to the mitigating actions already in place in order to bring the risks within the defined risk appetite.

The preliminary outcomes of the CRA were reported to and discussed with the Audit Committee of the Supervisory Board in the meeting of 10 December 2012. These 'top-down' outcomes were compared with the risks and incidents as reported 'bottom-up' by the operational units in their Letters of Representation and with findings from internal and external audits. The final risk profile was reported to and discussed with the Audit Committee of the Supervisory Board on 18 February 2013. It is the basis for the main risks and responses as reported on the following pages.

The company's top risks

The CRA identifies the likelihood and impacts of events that could jeopardize the achievement of the targets for 2013, 2015 and 2020 set in the DSM in motion: *driving focused growth* strategy. In setting these targets, assumptions were made about the macro-economic and global financial developments (basic scenario).

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

The top risks and related mitigating actions	
Description of risks	*Mitigating actions*
Competition and commoditization in existing markets, especially also referring to caprolactam outlook	
DSM has considerably reduced its exposure to cyclical and commodity markets. Price pressure and other competitive challenges may cause the profitability of DSM's activities to deviate from the projected levels.	Specific projects are being defined to reduce the exposure to the merchant caprolactam market. Cost reductions in all businesses are being continued to increase competitiveness. Further innovation drives a focus on high-end markets with less exposure to commoditization, which will also mitigate this risk.
Risks related to High Growth Economies, especially in Asia	
In the current strategy, the relative importance of the High Growth Economies has further increased. There is, however, always a risk that the markets will not grow as expected and/or that opportunities in these markets will be missed.	DSM will further detail country and region specific strategies of the business groups. More power and freedom will be given to regions like China, India and Brazil to achieve the strategic goals. DSM does not only focus on High Growth Economies but has also invested significantly in the US during recent years (mainly via acquisitions).
People, organization and culture	
The implementation of the business strategy is supported by organizational measures to enhance regional and functional effectiveness. These measures may lack sufficient clarity and/or speed, resulting in inadequate collaborative and result-oriented behavior and/or insufficient speed in achieving the projected diverse and international human resource base.	DSM has launched the ONE DSM Culture Agenda focusing on: - External Orientation - Accountability for Performance - Collaboration with Speed - Inclusion & Diversity Attention will be given to the implementation of stronger regional and functional talent efforts and career development.
Global financial and economic developments (including currency effects)	
An economic downturn could have a significant detrimental effect on the achievement of the targets. This effect could be aggravated by volatility in currencies. The sensitivities to variations in several key currencies are given in note 23 'Financial instruments and risks' from page 186.	DSM will proceed with its profit protection plans, including further control on operating working capital.
Growth and profitability in the Pharma cluster	
DSM has made a successful start with its partnering strategy in the Pharma cluster, but there remain considerable uncertainties in realizing the desired growth and returning to adequate profitability levels in this business area.	DSM will continue to pay maximum attention to implementing the Pharma partnering strategy in making DSP successful and achieving an improvement in DPP, in the knowledge that establishing partnerships always takes time.

Other important risks
After the Corporate Risk Assessment 2012, two risks were moved to the 'other important risks' category because it was concluded that they no longer represented top risks. These were:

- Acquisitions & Partnerships (excluding Pharma)

This risk has been reduced significantly by realizing several key acquisitions in line with the strategy DSM in motion: *driving focused growth.* The risk on Acquisitions & Partnerships shifted from finding sufficient additional value adding acquisitions to getting the recent acquisitions effectively integrated. The company has developed good practices and structured processes to mitigate this.

- Innovation

The Emerging Business Areas are developing well. The focus and concentration of efforts, as well as the reinforcement of the talent base, ensure that DSM capitalizes on talent. The current outlook is that DSM is on track to realize the innovation ambitions as set in its strategy.

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

- **Raw material and energy price and availability risks**
  DSM implements various policies to avoid supply chain disruptions (e.g. multiple supplier strategy) and decrease price volatility (e.g. commodity hedging). Nevertheless, the increasing complexity and interdependence of worldwide supply streams as well as increasing (perceived) pressure on the availability of resources may lead to price fluctuations and availability issues, influencing DSM's profitability.
- **Intellectual property (IP) risks**
  The policy of accelerated growth through speeding up innovation and expansion in high growth economies holds the risk of increased exposure in the IP area. Measures will continue to be taken to contain these risks, but these may not always be completely effective in mitigating IP risks.
- **Security (including information security)**
  Especially in the area of the security of and access to data in ICT systems, a continued focus on monitoring and mitigating actions is required, given the increasing tension between the growing professionalism of cybercrime and widespread use of (mobile) IT.
- **Business continuity risks**
  Major disruptions, especially in the supply chain, in manufacturing and in the ICT environment, remain a low likelihood but possibly high impact risk. Actions are being continued to recognize and prepare for the most important scenarios.
- **Safety, Health and Environmental (SHE) risks**
  After a number of fatalities in prior years DSM has enhanced its already strict safety policies even further, among other things by strengthening the implementation of the Life Saving Rules. Nevertheless, SHE risks cannot be excluded altogether and any accidents may have a deep impact in terms of human suffering and (reputation) damage to the company.
- **Product liability risks**
  To reduce product liability risks, product risk evaluations have been carried out, contractual and quality procedures have been updated and insurance policies have been reviewed. Unexpected effects of or undetected flaws in DSM's products or services may, however, still cause considerable product liability exposures.
- **Production process risks**
  These risks are identified and mitigated frequently. This demonstrates awareness for the normal operational risks of the company.

Overview of risk categories
On the next page an overview is given of all risk categories that have been identified as potentially important and from which the main risks described above have been derived. Simultaneously with the publication of this Integrated Annual Report, an updated comprehensive description of DSM's risk categories will be published on the company's website (Governance section under Risk Management).

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

Control activities

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

Generic/strategic risks

- Global financial and economic development risks
- Risks related to high growth economies
- Risks of competition and commoditization in existing markets
- Political and country 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
- Sustainability risks
- Other generic/strategic risks

Operational risks

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

Financial and reporting risks

- Liquidity and market risks
- Pension risks
- Reporting integrity risks
- Other financial risks (e.g. credit, tax)

Legal and compliance risks

- Risks of non-compliance with the DSM Code of Business Conduct, Policies, Requirements and Management Directives
- Risks of legal non-compliance
- Risks related to regulatory developments
- Other legal and compliance risks

See www.dsm.com*, Governance section.*

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

Information and communication

A continuous effort is being made to inform employees about the DSM risk management system and train them in its use. A special version of the risk management training course was conducted for financial and other staff in North America. Regional risk management platforms were created in North America and India and the platform in China was reinforced. To increase general awareness of risk management, internal webinars were started. On 14 June 2012 a comprehensive presentation of the risk management system was given to and discussed with the full Supervisory Board.

Monitoring and reporting

Information on the functioning of the system was collected on a continuous basis. Business groups tracked compliance with Corporate Requirements and the follow-up of actions arising from risk assessments. They conducted assessments on the effectiveness of their internal controls and reported and investigated incidents. Independent audits on the effectiveness of risk management implementation were executed by the Corporate Operational Audit department according to a program agreed with the Audit Committee of the Supervisory Board. Information coming in via the DSM Alert whistleblowing channel was also used as a source for reviewing the effectiveness of the risk management system. Any critical findings were addressed immediately.

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

Based on developments within and external to the company, as well as findings from the various risk assessments, audits and monitoring and reporting efforts, the Corporate Risk Office drew up a consolidated risk report, including recommendations for further improvement of the risk management system. These recommendations were integrated into an update of the Corporate Risk Management Plan 2011-2015.

In the June 2012 meeting of the Supervisory Board the most important enhancements to the risk management system were discussed. At the end of the second quarter, the operational units were asked to provide an update of their material risks and incidents over the first half of 2012 and the status of the mitigation of the risks reported over 2011, and to specify any material risks or uncertainties for the rest of the year. The consolidated overview of these risks, incidents and mitigation measures was the basis for the risk section and the statements of the Managing Board as provided with the first-half figures in accordance with the requirements of the Dutch Financial Markets Supervision Act.

Together with the annual financial accounts, the directors of all entities reporting to the Managing Board reported on any material strategic, operational, reporting and compliance risks or incidents over the year 2012 in their Letter of Representation.

The Corporate Risk Office consolidated the reported risks and incidents and compared them with the outcome of internal and external audits and of the Corporate Risk Assessment. The findings were reported to and discussed with the Audit Committee of the Supervisory Board in its meeting of 18 February 2013.

Enhancements to the risk management system

During 2012, the enhanced focus on risk controls in the safety area (Life Saving Rules) was continued. New and enhanced controls were introduced to answer to the ever changing risk profile in the area of ICT (for example increased mobile use, increased intruder sophistication, cloud solutions, off-shored shared services). The corporate requirements for sustainability were established, incorporating and sharpening the ECO+ requirements. A corporate directive to improve Master Data Management in all standard business processes was agreed and communicated.

Strategic developments within DSM were supported by risk management actions as follows:

- **High Growth Economies:** Enhancement of regional risk management capabilities with a focus on China and India.
- **Sustainability:** Enhancement of the control framework for ECO+ solutions and start of the development of a framework for People+.
- **Innovation:** Improved risk assessment practices, including Monte Carlo business simulations and value engineering.
- **Acquisitions & Partnerships:** Creation of best practices for (risk) management in the integration and operation of acquisitions and joint ventures. Enhancement of regional risk management capabilities in North America.

Statements of the Managing Board

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

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

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

Heerlen, 18 February 2013

The Managing Board

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

Report by the Supervisory Board

Supervisory Board report

Introduction

The DSM Supervisory Board is in charge of supervising and advising the DSM Managing Board in setting and achieving the company's objectives, strategy, policies and succession planning. In 2012 an important part of this task was focused on acquisitions related to the strategy DSM in motion: *driving focused growth* and discussions on next strategic steps.

In DSM's two-tier corporate structure under Dutch law, the Supervisory Board is a separate body operating fully independently of the Managing Board. Members of the Supervisory Board and the Managing Board are (re)appointed by the General Meeting of Shareholders.

Composition of Supervisory Board

The composition of the DSM Supervisory Board is diverse in gender, nationality, background, knowledge and experience, in particular after the appointment of two new Supervisory Board members in 2012: Mrs. Eileen Kennedy and Mrs. Victoria Haynes. The newly appointed members both contribute to key areas of DSM's development as well as to the internationalization of the company. For detailed background information on all Supervisory Board members, being Mr. Rob Routs (chair), Mr. Ewald Kist (deputy chair), Mr. Pierre Hochuli, Mr. Claudio Sonder, Mr. Tom de Swaan, Mrs. Pauline van der Meer Mohr, Mrs. Haynes and Mrs. Kennedy, see the DSM website under Corporate Governance. Also the targeted profile of the Supervisory Board is published on the DSM website under Corporate Governance. Within the Supervisory Board four committees have been established to cover four key areas in more detail, being auditing, Supervisory Board and Managing Board nominations, remunerations and corporate social responsibility. More information on these four areas is given below. Charters of the committees are published on the DSM website under Corporate Governance.

Composition of the Managing Board

The composition of the Managing Board is diverse in nationality, background, knowledge and experience, and provides a good foundation to support all clusters and business groups in achieving their targets contributing to the company strategy to drive focused growth. With regard to future nominations and appointments, gender diversity objectives will be taken into account as much as possible.

Meetings and business topics

In 2012 the Supervisory Board had six meetings and five conference calls with the Managing Board; in three meetings one member was excused due to other commitments. In addition to the standard agenda items of the meetings, such as the development of the financials and the running business performance, a number of acquisition projects were discussed and approved. Other agenda topics were issue management and progress on the implementation of the strategy, including opportunities to reduce exposure to the merchant caprolactam markets. Conference calls were organized to discuss the latest information and the mandate requests related to the recent acquisitions. The Supervisory Board greatly appreciated all open and in-depth discussions with the Managing Board enabling the Board to give relevant advice and to take well-considered decisions. One of the meetings was held at the DSM Delft site and combined with a well-organized site visit explaining and showing the Supervisory Board all day-to-day operational activities on the Delft site of the DSM Food Specialties business and the anti-infectives joint venture with Sinochem, established in 2011. In another meeting an in-depth business update was given on DSM Resins & Functional Materials.

Financials and auditing

Financials and auditing topics were extensively discussed in the Audit Committee meetings. The Audit Committee met four times in 2012 and in addition had three phone calls to discuss the quarterly and half-year figures. As of 11 May 2012 the following Supervisory Board members were a member of the Audit Committee: Mr. de Swaan (chair), Mr. Sonder, Mr. Hochuli and Mrs. Haynes. With the exception of one meeting all members were present; only one member was unable to join one conference call. The chairman of the Supervisory Board also attended all meetings. All discussions were considered to be very open and constructive. The outcome of all meetings and minutes were shared with the full Supervisory Board. Based on these summaries and all additionally provided information on financials and business performance, the Supervisory Board was able to obtain in-depth background information on all financial and business results.

The committee discussed among other items the 2011 Integrated Annual Report, the disclosure of financial information by the company, the financing and guarantee plan, the capital expenditure plan, the dividend proposals, financial statements, internal risk management and control systems, compliance with recommendations and observations of internal and external auditors, and the role and functioning of the operational audit department, including the endorsement of its proposed audit plan. The application of information and communication technology received special attention in 2012.

DSM's risk management system and its risk profile were extensively discussed and challenged. In 2012 special attention was given to security risks by performing an unannounced security check. It was concluded that DSM is properly managing and mitigating its potential risks. DSM's risk management and risk profile are further elucidated on page 112 of this report.

In addition to the above-mentioned topics, DSM Alert cases, submitted under DSM's whistleblower policy, and mitigating actions to prevent recurrence were evaluated and discussed, and recommendations were made.

When relevant, financial, auditing, risk and compliance responsible managers were present in the meetings of the Audit Committee together with the CEO and the CFO.

Relevant topics to be approved by the full Supervisory Board were submitted to the full Supervisory Board together with an appropriate recommendation from the Audit Committee.

In addition to the audit work, the external auditor of the company carried out non-audit work, to the extent allowed under applicable legislation and regulations and the internal procedures of the company. Important areas where non-audit services were provided by Ernst & Young related to due diligence support in acquisitions, tax compliance work for certain foreign subsidiaries and expatriate tax services. All audit and non-audit work carried out by the external auditor for the company were performed in line with the conditions and instructions approved by the Supervisory Board on the recommendation of the Audit Committee and after consultation with the Managing Board. Fees and conditions of the external auditor for audit and non-audit work were approved by the Audit Committee.

With the external auditor, Ernst & Young Accountants LLP, discussions were held about the financial statements for 2012. The Report by the Managing Board and the financial statements for 2012 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 19 February 2013. The financial statements were audited by Ernst & Young Accountants, who issued an unqualified opinion (see the Independent Auditor's Report on the Financial Statements on page 216 of this report). The Supervisory Board concluded that the external auditor was independent of DSM.

In accordance with the Dutch corporate governance code (V. 2.3), the Managing Board and the Audit Committee have conducted a thorough assessment of the functioning of the external auditor following an extensive external review of the activities of the external auditor by Maastricht University based on a large number of interviews and questionnaires. The main conclusions of the assessment were that the external auditor fully meets the expectations of DSM and provides a good service. In addition to its expertise, respondents rated highly the independence and critical approach towards DSM in the performance of the audit, the integrity and pro-active as well as responsive attitude of Ernst & Young. Key strengths were the level of audit and accounting knowledge, the pro-active identification of potential concerns, the global reach and the presence of the auditor in DSM's growth markets. Communication by the auditors was timely and clear.

Given the very positive outcome of the assessment, it has been decided to continue the audit services provided by the audit firm Ernst & Young based on a revised contract. This will give the company the flexibility to terminate the audit services on an annual basis taking into consideration new legislation in the Netherlands with regard to the independence of auditors (mandatory audit firm rotation by 2016 after eight consecutive financial years of audit services), as well as anticipated European legislation which may affect the audit profession in the coming years.

Financial statements 2012

The Supervisory Board will submit the 2012 financial statements to the 2013 Annual General Meeting of Shareholders, and will propose that the shareholders adopt them and discharge the Managing Board from all liability in respect of its managerial activities and discharge the Supervisory Board from all liability in respect of its supervision of the Managing Board. The profit appropriation as approved by the Supervisory Board is presented in the section Profit appropriation on page 218 of the 2012 Annual Report. Despite ongoing global economic headwinds, DSM continued to deliver solid operational results in 2012 with growth across all clusters, except for caprolactam. Significant strategic progress was made during 2012 through value creating acquisitions and profit improvement initiatives. The Supervisory Board wishes to express its sincere appreciation for the results achieved and would like to thank the employees and the Managing Board for their efforts.

Board nominations

In 2012 nomination discussions were focused on the succession planning of the Managing Board and top management and the reappointment of the Supervisory Board members. According to the rotation schedule the term of appointment of Mr. Hochuli and Mr. Sonder expires in 2013. In-depth discussions were held within the Nomination Committee, which as of 11 May 2012 consisted of Mr. Routs (chair), Mr. Kist and Mrs. Van der Meer Mohr. Mr. Sijbesma and Mr. Chris Van Steenbergen, Executive Vice President of the Corporate Human Resources department, were also involved in these discussions. The committee met four times in 2012; one member could not be present in one meeting. The outcome and the minutes of all committee discussions were shared with the entire Supervisory Board. The reappointment of Mr. Hochuli as a member of the Supervisory Board for another term of four years will be proposed to the Annual General Meeting of Shareholders to be held on 3 May 2013. Mr. Sonder has indicated that he prefers to resign from the Board with effect from 3 May 2013. Although the Board will miss his much appreciated good contributions to all discussions, it respects his choice. The Nomination Committee advised starting discussions on his succession in 2013. Following their appointment, Mrs. Haynes and Mrs. Kennedy took part in an extensive introduction program, including site visits and meetings with top management, to familiarize themselves with all DSM businesses, cultures and governance.

Board remuneration

The Remuneration Committee had five meetings and three conference calls in 2012; in one call one member was absent. As of 11 May 2012 Mr. Kist (chair), Mr. Routs and Mr. de Swaan were members of this committee. The main topics in 2012 were the remuneration of the Managing Board and executives of DSM, all discussed in the presence of Mr. Sijbesma and Mr. Van Steenbergen. The outcome and minutes of the Remuneration Committee meetings were shared with the full Supervisory Board.

During 2012 the Remuneration Committee continued the discussion and evaluation of a number of adjustments to the remuneration policy of the Managing Board which it had already started in 2011. These adjustments aim to align the Managing Board remuneration even more with long term stakeholder interests and to update the remuneration policy to the most recent relevant market practices. The Remuneration Committee has advised the full Supervisory Board on the proposed adjustments. The adjustments to the current remuneration policy for the Managing Board will be submitted for approval to the Annual General Meeting of Shareholders to be held on 3 May 2013.

Corporate Social Responsibility

The Corporate Social Responsibility Committee met twice in 2012. All members were present in both meetings. As of 11 May 2012 Mrs. Van der Meer Mohr (chair), Mr. Hochuli, Mr. Sonder and Mrs. Kennedy were members of this committee. In the first meeting the Sustainability chapter to be included in the Integrated Annual Report of 2011 was extensively discussed and agreed on. The second meeting focused on progress made with the implementation of sustainability aspirations set by the company. In addition to the progress made with ECO+, People+, energy efficiency and greenhouse-gas emissions, DSM’s external sustainability recognition was evaluated. The committee's view that DSM is doing well when it comes to corporate social responsibility was supported by the external recognition that the company has received. This includes winning the Dutch ’De Kristal’ award for the most transparent sustainability reporting in the 2011 Integrated Annual Report, being again named among the leaders in the Dow Jones Sustainability World Index and the CEO receiving an honorary doctorate from Maastricht University for the way DSM is dealing with sustainability.

The CEO, the Managing Board member responsible for Corporate Operations & Responsible Care, the Senior Vice President Corporate Affairs, the Vice President Corporate Operations & Responsible Care and the Director Sustainable Development were present during both meetings of the CSR Committee. The outcome and minutes of both meetings were shared and discussed with the entire Supervisory Board.

In view of its supervision of corporate social responsibility issues relevant to the company, the sections 'Growth driver: Sustainability', 'Stakeholder Engagement', 'People in 2012' and 'Planet in 2012' (the Sustainability Information) in the Integrated Annual Report 2012 were reviewed and subsequently discussed by the Supervisory Board in its meeting of 19 February 2013, based on the advice of the CSR committee. Taking into consideration the Independent Assurance Report on the Sustainability Information by Ernst & Young on page 217 of this Integrated Annual Report, the full Supervisory Board approved the reporting in these sections. The Sustainability Information is in compliance with the sustainability reporting guidelines of GRI (G3) and the international reporting criteria of DSM included on page 110 of this Integrated Annual Report.

Supervisory Board meetings and performance evaluation

The December meeting was used to discuss the outcome of the Supervisory Board effectiveness assessment, which was organized by the Company Secretary by means of questionnaires filled out by all individual Supervisory Board members, followed up by individual interviews by the chair of the Supervisory Board. The evaluation of the functioning of the chair was done by the vice-chairman. The outcome of the assessment was very positive and some actions for further improvement will be followed up. An external assessment is considered for 2013.

Remuneration policy for the Managing Board and the Supervisory Board

This chapter comprises two parts. The first part outlines the remuneration policy as approved by the Annual General Meeting of Shareholders. The second part contains details of the remuneration in 2012 and changes expected in 2013.

Remuneration policy

The objective of DSM's remuneration policy is to attract, motivate and retain qualified and expert individuals that the company needs in order to achieve its strategic and operational objectives, whilst acknowledging the societal context around remuneration and recognizing the interests of DSM's stakeholders. The following elements are taken into consideration:

- DSM strives for a high performance in the field of sustainability and aims to maintain a good balance between economic gain, respect for people and concern for the environment in line with the DSM values and business principles as reflected in the DSM Code of Business Conduct. The remuneration policy reflects a balance between the interests of DSM's main stakeholders as well as a balance between the company's short-term and long-term strategy. As a result, the structure of the remuneration package for the Managing Board is designed to balance short-term operational performance with the medium and long-term objective of creating sustainable value within the company, while taking into account the interests of its stakeholders.
- To ensure that highly skilled and qualified senior executives can be attracted and retained, DSM aims for a total remuneration level that is comparable to levels provided by other (Dutch and European) multinational companies that are similar to DSM in terms of size and complexity.
- The remuneration policies for the members of the Managing Board and for other senior executives of DSM are aligned.
- In designing and setting the levels of remuneration for the Managing Board, the Supervisory Board also takes into account the relevant provisions of statutory requirements, amended Dutch corporate governance clauses, societal and market trends and the interests of stakeholders.
- DSM's policy is to offer the Managing Board a total direct compensation approaching the median of the labor-market peer group.

Labor-market peer group

In order to be able to recruit the right caliber of people for the Managing Board and to secure long-term retention of the current Board members, DSM will take external reference data into account in determining adequate remuneration levels. For this purpose, a specific labor-market peer group has been defined which consists of a number of Dutch and European companies that are more or less comparable to DSM in terms of size, international scope and business portfolio. The Supervisory Board regularly reviews the peer group to ensure that its composition is still appropriate.

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

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

As part of its remuneration policy DSM will benchmark its remuneration package against the packages offered by the labor-market peer group once every three years. In addition, the company will apply a yearly increase to the package based on the 'general increase' (market movement) for DSM executives in the Netherlands. The remuneration policy was last benchmarked against the peer group in 2011.

Total Direct Compensation (TDC)

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

(I) Base salary
(II) Variable income
  - Performance-related Short-Term Incentive (STI)
  - Performance-related Long-Term Incentive (LTI)

In addition to this total direct compensation, the members of the Managing Board participate in the Dutch pension scheme for DSM employees in the Netherlands and are entitled to other benefits, such as a company car and representation allowance.

As a matter of policy, the balance between fixed income and variable income (Short-Term plus Long-Term Incentive) within total direct compensation (on target) will be 50% - 50%.

Value in % of Total Direct Compensation (on target):

A: Base Salary	50%
B: Variable income (STI + LTI)	50%
Total Direct Compensation (TDC)	100%

Base salary

On joining the Board, the Managing Board members receive a base salary that is comparable with the median of the labor-market peer group. Every year, base salary levels are reviewed based on a three-year remuneration benchmark. Adjustment of the base salary is at the discretion of the Supervisory Board. In addition, the company will, when appropriate, apply a yearly increase to the package based on the 'general increase' (market movement) for DSM executives in the Netherlands.

Variable income

The variable income part of remuneration consists of the Short-Term and Long-Term Incentives. As a matter of policy, the distribution between Short-Term and Long-Term Incentives for (on target) performance has been fixed at 50% - 50%. This results in a balance between short-term result and long-term value creation. As indicated above, the on-target incentive potential of the variable income (Short-Term and Long-Term Incentives) will be 100% of base salary.

The parameters relating to the various elements of the variable income part of the remuneration are established and where necessary adjusted by and at the discretion of the Supervisory Board, taking into account the general rules and principles of the remuneration policy itself.

Distribution of variable income (on target):

A: Short-Term Incentive (STI)	50%
B: Long-Term Incentive (LTI)	50%
Total variable income as % of base salary	100%

Short-Term Incentive (STI)

Managing Board members are eligible to participate in a Short-Term Incentive (STI) scheme. The scheme is designed to reward short-term operational performance with the long-term objective of creating sustainable value, taking into account the interests of all stakeholders.

The Short-Term Incentive opportunity amounts to 50% of the annual base salary for on-target performance (100% in the case of excellent performance). The part of the STI that is related to financial targets accounts for 25% of base salary and the other 25% relates to sustainability and individual targets.

Target areas	Distribution	Shared	Individual
Financial	25%	25%	0%
Sustainability and individual	25%	20%	5%
Total	50%	45%	5%

Short-Term Incentive (STI) linked to financial targets

The part of the STI that is linked to financial targets (25%) includes elements related to operational performance, being EBITDA before exceptional items, gross free cash flow and net sales growth (organic), reflecting short-term financial results.

The weighting given to the individual financial elements in the bonus is as follows: EBITDA 10%, gross free cash flow 7.5% and organic net sales growth 7.5% of annual base salary for on-target performance.

Target areas	On-target pay-out (% of base salary)
Financial targets	
- EBITDA before exceptional items	10
- Gross free cash flow	7.5
- Organic net sales growth[1]	7.5
Total	25

[1] Excluding currency fluctuations, divestments and acquisitions

The three financial-target-related Short-Term Incentive elements can be derived from the financial statements.

Short-Term Incentive (STI) linked to sustainability and individual targets

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

For 2011/2012 three 'first tier' value-creating-performance measures were defined in the area of sustainability. The distribution over these three targets was set by the Supervisory Board. On a regular basis, following proper evaluation, further refinement/adaptations of performance measures in the area of sustainability and their weight will take place.

The following shared targets linked to sustainability were defined for the STI:

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

The STI targets on sustainability are defined as follows:

- **ECO+ solutions**
  ECO+ solutions are products and services that, when considered over their whole life cycle, offer clear ecological benefits (in other words, a clearly lower eco-footprint) compared to the mainstream solutions they compete with. These ecological benefits can be created at any stage of the product life cycle – from raw material through manufacturing and use to potential re-use and end-of-life disposal. ECO+ solutions, in short, create more value with less environmental impact.
- **Energy-efficiency improvement**
  Reduction of the amount of energy that is used per unit of product (known as energy efficiency) on a three-year rolling average basis.
- **Employee Engagement Index**
  An Employee Engagement Survey is conducted annually, focusing on a combination of perceptions that have a consistent impact on behavior and create a sense of ownership. Research has consistently shown that the four key elements (satisfaction, commitment, pride and advocacy) define engagement and link engagement to business performance metrics.

In addition to shared sustainability targets (20%), a limited number of individual non-financial targets (5%) will apply.

Target area	On-target pay-out (% of base salary)
Non-financial targets	
- Sustainability	20
- Individual	5
Total	25

The targets are determined each year by the Supervisory Board, based on historical performance, the operational and strategic outlook of the company in the short term and expectations of the company's management and stakeholders, among other things. The targets contribute to the realization of the objective of long-term value creation.

The company does not disclose the actual targets, as they qualify as commercially sensitive information. However, full transparency will be given on target areas and definitions. Target setting and realization are audited by external auditors.

Long-Term Incentives (LTI)

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

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

Two performance targets will apply for the vesting of performance shares:

- Comparable Total Shareholder Return (TSR) performance versus a peer group
- Greenhouse-gas emissions (GHGE) reduction over volume related revenue

The LTI performance targets can be defined as follows:

- **Total shareholder return (TSR)**
  This is used to compare the performance of different companies' stocks and shares over time. It combines share price appreciation and dividends paid to show the total return to shareholders. The relative TSR position reflects the market perception of overall performance relative to a reference group.
- **Greenhouse-gas emissions (GHGE) reduction**
  The definition of greenhouse gases (GHG) according to the Kyoto Protocol includes carbon dioxide (CO_2), methane,

nitrous oxide (N_2O), sulfur hexafluoride, hydrofluorocarbons and perfluorocarbons. The scope for calculation of GHGE reduction is as follows:

(I) DSM's direct emissions (on site or from DSM assets) mainly comprise CO_2 and N_2O (scope 1).
(II) DSM's indirect emissions (emissions created on behalf of DSM in the generation of electricity or the delivery of energy via hot water or steam) relate to electricity from the grid. DSM relies on local suppliers (scope 2).
(III) DSM has so far not reported in detail on scope 3 emissions (catch-all for remaining emissions that result from activities of the company (e.g. business travel).

In the LTI plan, 50% of the performance-shares grant is linked to relative TSR, while 50% is based on GHGE reduction. The policy level for the value of the Long-Term Incentive is set (on target) at 50% of base salary (75% in the case of excellent performance). The number of conditionally granted shares is set by dividing the policy level (50% of base salary) by a share price at the beginning of the year of the conditional grant. The annual grant level will fluctuate as a consequence of this mechanism.

In determining the number of shares to be conditionally granted, the Supervisory Board takes into account a discounted face value of shares. This method incorporates the actual share price and a fixed vesting probability multiplier.

Granting date
The shares are granted on the first 'ex-dividend' day following the Annual General Meeting of Shareholders at which DSM's financial statements are adopted.

TSR as a performance measure
DSM's TSR performance is compared to the average TSR performance of a set of predefined peer companies.

The TSR peer group for 2012 consists of the following companies:	
AkzoNobel	EMS Chemie Holding
Arkema	Kerry
BASF	LANXESS
Christian Hansen	Lonza Group
Clariant	Novozymes
DuPont	Solvay

The TSR peer group reflects the relevant market in which DSM competes for shareholder preference. It includes sector-specific competitors that the Supervisory Board considers to be suitable benchmarks for DSM. As announced in the 2011 annual report, Arkema and Christian Hansen were added to the peer group in 2012.

The peer group is verified by the Supervisory Board each year based on market circumstances (such as mergers and acquisitions) that determine the appropriateness of the composition of the performance peer group.

GHGE reduction as a performance measure
GHGE reduction over volume-related revenues in percentage points (over a 3-year period) will be used as a basis for the vesting of 50% of the performance shares.

Performance Incentive Zones
The number of shares that become unconditional after three years ('vesting') is determined on the basis of two equally weighted factors: DSM's performance relative to the average TSR performance of the peer group and DSM's GHGE reduction over volume-related revenue.

The following vesting schemes will apply:

TSR vesting scheme		**GHGE vesting scheme**	
DSM performance minus peer-group performance in % points	% of shares that vest	DSM GHGE reduction over volume-related revenue in % points	% of shares that vest
≥ 30	100	5.27	100
≥ 25 and < 30	89	4.68	89
≥ 20 and < 25	78	4.09	78
≥ 15 and < 20	67	3.50	67
≥ 10 and < 15	56	2.91	56
≥ 5 and < 10	45	2.32	45
≥ 0 and < 5	34	1.73	34
< 0	0	<1.73	0

The retention period for performance shares expires five years after the three-year vesting period or at termination of employment if this occurs earlier.

The final TSR performance of DSM versus its peers will be determined and validated by a bank and audited by the external auditor at the end of the vesting period.

Pensions

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

Employment contracts

Term of employment

The employment contracts of the members of the Managing Board appointed before 1 January 2005 have been entered into for an indefinite period of time. Members of the Managing Board appointed between 1 January 2005 and 1 January 2013 were also offered an employment contract for an indefinite period of time. Managing Board members to be appointed after 1 January 2013 will no longer have a contract for an indefinite period of time. The employment contract ends on the date of retirement or by notice of either party.

Term of appointment

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

Notice period

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

Severance arrangement

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

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

Claw-back / change-in-control

The appropriate claw-back and change-in-control provisions that were introduced in 2011 in the employment agreements of the members of the Managing Board as well as in the LTI rules remained in place in 2012.

Share ownership

The Supervisory Board will encourage the Managing Board to hold shares in the company to emphasize their confidence in the strategy and the company.

Loans

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

Scenario analysis

The amended Dutch corporate governance code requires that the Supervisory Board 'shall analyze possible outcomes of the variable income components and the effect on Managing Board remuneration'. Within DSM this analysis is conducted at least every three years.

Managing Board remuneration in 2012

As part of its remuneration policy for the Managing Board, DSM will benchmark its remuneration package against the packages offered by the labor-market peer group once every three years. Benchmarking of the Managing Board remuneration policy was conducted in Q1 2011 and clearly showed that the remuneration of the members of the Managing Board, particularly the variable part, was well below the median at target level of the peer group.

Base salary in 2012

Given the uncertain economic circumstances, the base salaries of the Managing Board members were not increased in 2012.

Short-Term Incentives (STI) for 2012

STI targets are revised annually so as to ensure that they are stretching but realistic. Considerations regarding the performance targets are influenced by the operational and strategic course taken by the company and are directly linked to the company's ambitions. The targets are determined at the beginning of the year for each Board member.

Target STI level and pay-out

When they achieve all their targets, Managing Board members receive an incentive of 50% of their annual base salary. Outstanding performance can increase the STI level to 100% of the annual base salary.

The 2012 Integrated Annual Report presents the Short-Term Incentives that have been earned on the basis of results achieved in 2012. These Short-Term Incentives will be paid out in 2013.

The Supervisory Board has established the extent to which the targets for 2012 were achieved. The realization of the 2012 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 25.6% of base salary. This reflects a prudent interpretation of the realization of the targets.

See the next page for a tabular overview of the actual Short-Term Incentive pay-out per individual Board member in 2012.

Performance shares in 2012

Performance shares were granted to the Managing Board on 15 May 2012. The following table shows the number of performance shares granted to the individual Board members:

Number of stock incentives granted

	Performance shares	
	2012	2011
Feike Sijbesma	31,000	24,000
Stefan Doboczky	20,000	16,000
Nico Gerardu	20,000	16,000
Rolf-Dieter Schwalb	20,000	16,000
Stephan Tanda	20,000	16,000

For an overview of all granted and vested stock options and performance shares see page 212 and page 213.

Pensions in 2012

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

As already mentioned in previous annual reports, a new pension plan for DSM in the Netherlands has been agreed with labor unions with effect from 1 January 2011. The plan, which also applies to the Managing Board, comprises the following elements:

- Career-average pay plan, with annual accrual of pension rights (old-age pension) over base salary exceeding € 13,062 (reviewed annually) at a rate of 2%. The old pension plan was a final pay plan.
- Retirement age 66 years for accrual from 2012 onwards. Until 2011 the accrual was linked to a pensionable age of 65 years.
- The scheme includes a partner pension as well as a disability pension.
- Employee's contribution of 3.5% of base salary up to € 58,074 and 7.5% of pensionable salary above this amount (reviewed annually).
- Collective defined contribution: indexation of pensions and pension rights, depending on PDN's coverage ratio.
- For participants who started participating before 2006, transitional arrangements related to the plan changes in 2006 apply as described in previous annual reports.

Loans

DSM did not provide any loans to members of the Managing Board in 2012.

Purchasing shares

All members of the Managing Board have purchased shares in the company to emphasize their confidence in the strategy and the company. At 31 December 2012 the members of the Managing Board together held 139,012 shares in Koninklijke DSM N.V., compared to 117,512 at 31 December 2011. These shares were bought through private transactions with private funds, and obtained through vested performance shares.

Total remuneration

The remuneration and related costs of the Managing Board (including pension costs and a non-recurring Dutch crisis levy, which is a payment to the Dutch tax authorities based on salaries paid to executives that does not benefit the executives privately) amounted to €6.5 million in 2012 (2011: €5.5 million).

Overview of remuneration awarded to the Managing Board in 2012

The tables below show the remuneration awarded to the Managing Board in 2012.

Fixed annual salary

in €	**1 July 2012**	1 July 2011
Feike Sijbesma	840,000	840,000
Stefan Doboczky	545,000	545,000
Nico Gerardu	545,000	545,000
Rolf-Dieter Schwalb	545,000	545,000
Stephan Tanda	545,000	545,000

Short-Term Incentives

in €	**2012**[1]	2011[2]
Feike Sijbesma	231,000	657,460
Stefan Doboczky	117,175	279,315
Nico Gerardu	128,075	431,485
Rolf-Dieter Schwalb	138,975	423,580
Stephan Tanda	163,500	411,722

1 Based on results achieved in 2012 and therefore payable in 2013
2 Short-Term Incentives paid in 2012 based on results achieved in 2011

Pensions

	Pension costs (employer)		Accrued pension[1]	
in €	**2012**	2011	**31 Dec. 2012**	31 Dec. 2011
Feike Sijbesma	124,123	110,595	433,123	416,584
Stefan Doboczky	81,348	49,386	17,253	6,615
Nico Gerardu	81,348	74,755	346,858	336,220
Rolf-Dieter Schwalb	81,348	74,755	64,252	53,613
Stephan Tanda	81,348	74,755	82,244	71,605

1 Pensions built up in the Dutch Pension Plan

Long-Term Incentives (LTI)

For 2013, the number of conditionally granted ordinary shares under the LTI program will be:
Chairman 24,000
Members 16,000

Adjustments to remuneration policy Managing Board

During 2011 and 2012 the Supervisory Board and its Remuneration Committee have discussed and evaluated a number of adjustments to the current remuneration policy for the Managing Board. These adjustments aim to align the Managing Board remuneration even more with long term stakeholder interests and to update the remuneration policy to the most recent relevant market practices. The adjustments to the current remuneration policy for the Managing Board will be submitted for approval to the Annual General Meeting (AGM) of Shareholders to be held on 3 May 2013. Details will be included in the notes to the AGM agenda.

Supervisory Board remuneration in 2012

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

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 € 70,000. The members of the Supervisory Board each receive a fixed fee of € 50,000. Audit Committee membership is awarded € 10,000 per member and € 12,500 for the Chairman. Nomination Committee, Corporate Social Responsibility Committee and Remuneration Committee membership is awarded € 5,000 per member and € 7,500 for the Chairman.

In addition, Supervisory Board members will receive an intercontinental travel allowance of € 3,000 for each meeting that they attend outside their continent of residence.

If any shares in DSM are held by Supervisory Board members, they serve as a long-term investment in the company. At year-end 2012 the members of the Supervisory Board held no shares in Koninklijke DSM N.V. (same as in 2011).

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

Overview of remuneration awarded to the Supervisory Board in 2012

The following tables provide an overview of the remuneration awarded to the Supervisory Board in 2012.

Annual Supervisory Board remuneration up to 11 May 2012

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

Annual Supervisory Board remuneration as per 11 May 2012

Fee in €	Supervisory Board	Audit Committee	Corporate Social Responsibility Committee	Nomination Committee	Remuneration Committee	Total
Rob Routs, chairman	70,000	-	-	7,500	5,000	82,500
Ewald Kist, deputy chairman	50,000	-	-	5,000	7,500	62,500
Victoria Haynes	50,000	10,000	-	-	-	60,000
Pierre Hochuli	50,000	10,000	5,000	-	-	65,000
Eileen Kennedy	50,000	-	5,000	-	-	55,000
Pauline van der Meer Mohr	50,000	-	7,500	5,000	-	62,500
Claudio Sonder	50,000	10,000	5,000	-	-	65,000
Tom de Swaan	50,000	12,500	-	-	5,000	67,500
Total	**420,000**	**42,500**	**22,500**	**17,500**	**17,500**	**520,000**

For information on remuneration paid out to the members of the Supervisory Board in 2012 and 2011 please refer to Note 11 Remuneration of the members of the Supervisory Board in the Parent company financial statements.

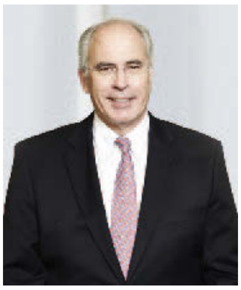
Heerlen, 19 February 2013

The Supervisory Board

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

Supervisory Board and Managing Board

Supervisory Board



Rob Routs (1946, m), chairman

First appointed: 2010. End of current term: 2014. Position: retired; last position held: executive director Downstream and member of the Board of Royal Dutch Shell plc. Nationality: Dutch. Supervisory directorships and other positions held: chairman of the Supervisory Board of Aegon N.V., member of the Supervisory Board of Royal KPN N.V., member of the Board of Directors of Aecom Technology Corporation, ATCO Group Ltd. and A.P. Moeller-Maersk Group.

Ewald Kist (1944, m), deputy chairman

First appointed: 2004. End of current term: 2016. 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 Royal Philips Electronics N.V., Stage Entertainment and Moody's Investor Services.

Victoria Haynes (1947, f)

First appointed: 2012. End of current term: 2016. Position: retired; last position held: President and CEO of the Research Triangle Institute International. Nationality: American. Supervisory directorships and other positions held: member of the Board of Directors of PPG, Nucor, Ziptronix and, as of 2013, Axiall.

Pierre Hochuli (1947, m)

First appointed: 2005. End of current term: 2013. Position: retired; last position held: chairman of the Board of Directors of Devgen N.V. Nationality: Swiss. Supervisory directorships and other positions held: member of the Board of Directors of Domes of Silence Holdings Ltd.

Eileen Kennedy (1947, f)

First appointed: 2012. End of current term: 2016. Position: Professor of Nutrition Friedman School of Nutrition Science and Policy at Tufts University in Boston (USA). Nationality: American. Supervisory directorships and other positions held: Dean of Nutrition Friedman School of Nutrition Science and Policy at Tufts University in Boston (USA), Global Executive Director of the International Life Sciences Institute, Washington D.C. (USA), Deputy Under Secretary for Research, Education and Economics at the US Department of Agriculture.

Pauline van der Meer Mohr (1960, f)

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

Claudio Sonder (1942, m)

First appointed: 2005. End of current term: 2013. Position: retired; last position held: chairman of the Managing Board of Celanese. Nationality: Brazilian and German. Supervisory directorships and other positions held: chairman of the Board of Lojas Renner S.A., member of the Supervisory Boards of Companhia Suzano de Papel e Celulose S.A., RBS S.A. Media Group, Hospital Albert Einstein, OGX S.A. and Executive Vice President of Suzano Holding S.A.

Tom de Swaan (1946, m)

First appointed: 2006. End of current term: 2014. Position: retired; last position held: member of the Managing Board and Chief Financial Officer / Chief Risk Officer ABN AMRO. Nationality: Dutch. Supervisory directorships and other positions held: non-executive director of the Board of GlaxoSmithKline plc, vice-chairman of the Board of Zurich Insurance Group, chairman of the Supervisory Board of Van Lanschot Bankiers, vice chairman of the Supervisory Board of Royal Ahold, member of the Public Interest Committee of KPMG, chairman of the Board of Trustees of Netherlands Cancer Institute-Antoni van Leeuwenhoek Hospital and chairman Advisory Board Rotterdam School of Management.

Managing Board

Feike Sijbesma (1959, m), CEO/ chairman

Position: CEO/chairman of DSM's Managing Board since May 2007; member of DSM's Managing Board since July 2000.
Nationality: Dutch.
Supervisory directorships and other positions held: member of the Supervisory Board of De Nederlandsche Bank N.V. (Dutch Central Bank), board member of CEFIC (European Chemical Industry Council), member of the Advisory Board of RSM Erasmus University and of ECP-EPN (Electronic Commerce Platform Netherlands).
e-mail: feike.sijbesma@dsm.com

Rolf-Dieter Schwalb (1952, m), CFO

Position: member of DSM's Managing Board and CFO since October 2006.
Nationality: German.
Supervisory directorships and other positions held: none.
e-mail: rolf-dieter.schwalb@dsm.com

Stefan Doboczky (1967, m)

Position: member of DSM's Managing Board since May 2011.
Nationality: Austrian.
Supervisory directorships and other positions held: none.
e-mail: stefan.doboczky@dsm.com

Nico Gerardu (1951, m)

Position: member of DSM's Managing Board since April 2006.
Nationality: Dutch.
Supervisory directorships and other positions held: member of the Supervisory Board of Voestalpine Polynorm B.V. and the Bonnefanten Museum in Maastricht (Netherlands) and board member of VNCI (Association of the Dutch Chemical Industry).
e-mail: nicolaas.gerardu@dsm.com

Stephan Tanda (1965, m)

Position: member of DSM's Managing Board since May 2007.
Nationality: Austrian.
Supervisory directorships and other positions held: chairman of EuropaBio (European Biotechnology Industry Association), board member of scienceindustries (Swiss association for the chemical, pharmaceutical and biotech industries) and BIO (US Biotechnology Industry Organization).
e-mail: stephan.tanda@dsm.com

What still went wrong in 2012

DSM strives to continuously improve its performance in the field of safety, health and environment. However, there is always the possibility of something going wrong.

The number of serious incidents in 2012 was significantly lower than in previous years. This reflects DSM's improved safety performance. Serious incidents fall into various categories: safety, occupational health, environment, containment and process safety, and they include incidents that cause financial or reputation damage. For each category DSM has established detailed threshold criteria. Examples are incidents leading to a fatality, occupational health incidents leading to job transfer, incidents causing perceptible damage to ecosystems or any SHE incident resulting in damage of more than €100,000. See also: Safety and health (page 52).

The following overview summarizes the most important incidents in 2012. In line with DSM's reporting policy, the company includes in this overview some serious near-misses. These are incidents that did not result in an injury, illness or damage but had the potential to do so and are therefore used as a learning opportunity.

Q1

- At DSM Pharma Chemicals in Venlo (Netherlands), an operator got stuck with his safety shoe between a concrete pillar and an electrical hand-pallet truck, resulting in serious foot injuries.
- At DSM Nutritional Products in Harbin City, Heilongjiang province (China) an employee was seriously injured in a traffic accident while on a business trip.
- At DSM Pharmaceutical Products in Greenville, North Carolina (USA), a contractor employee suffered a leg injury when his leg was pinned between a working platform and a cross beam of the rack system.
- At DSM Chemicals North America in Augusta, Georgia (USA), an explosion followed by a fire occurred in the regenerative thermal oxidizer unit due to the presence of combustible liquid. There were no injuries.
- At the same site, a small fire occurred on the head flange of the methanator vessel, caused by high temperatures.

Q2

- At DSM Pharmaceuticals in Greenville, a contractor employee was utilizing a one-man lift extended to a height of approximately 3.5 meters to check the fit of a new access door. The access door flipped, and in an attempt to avoid being hit by the falling door, the employee moved away, causing the lift to overturn. He fell down and suffered a serious laceration (open wound) in his neck area.
- At DSM Nutritional Products Latin America in Villa Nueva (Guatemala), a maintenance worker opened the metal cover of an elevator service pit and covered it with a piece of cardboard. On the next day, a contractor employee who entered the area stepped onto the cardboard and fell into the pit.
- At DSM Pharmaceuticals in Greenville, a material handler who was backing a fork truck away from the pallet transfer station stepped off the fork truck while it was still rolling. She caught her foot between the fork truck and a piece of angle iron.
- At DSM Resins & Functional Materials in Compiègne (France) a serious near-miss occurred when a truck driver finished unloading his truck and climbed on the tank car without a harness or other safety measure to protect him from falling from a height.
- At DSM Nutritional Products in Venlo (Netherlands), a serious near-miss was reported when it was noted during loading of a vehicle that a different type of tire had been mounted on the tractor, which compromised safe driving conditions.

Q3

No serious incidents or near misses occurred in the third quarter.

Q4

- At DSM Dyneema in Greenville, two operators were separating yarns on pink rollers. A new creel was being started and the yarns were at thread speed of 15 meters a minute. In this process the hand of one employee was seriously injured.
- At DSM Trading Company in Shanghai, a warehouse was completely burnt down, destroying the enzyme product that was stored there.
- At DSM Engineering Plastics in Genk (Belgium) contractor employees were doing a welding job inside a cooling tower. The internals caught fire and the fire spread rapidly. All escaped without injuries.
- At DSM Fibre Intermediates in Augusta a serious near-miss was reported. Using a LOTOTO (lock out, tag out, try out) procedure, equipment was isolated from the electrical power supply for a maintenance job. The job was put on hold when it became clear that a spare part (a new starter) that was required was not on-site. When several days later a work permit was issued to install the spare part, the electrician checked the voltage on the starter leads and found them energized.

Information about the DSM share

Shares and listings

Ordinary shares in Koninklijke DSM N.V. are listed on the NYSE Euronext stock exchange in Amsterdam, the Netherlands (Stock code 00982, ISIN code NL0000009827). Options on ordinary DSM shares are traded on the European Option Exchange in Amsterdam, the Netherlands (Euronext.liffe). In the US a sponsored unlisted American Depositary Receipts (ADR) program is offered by Deutsche Bank Trust Co. Americas (Cusip 780249108), with four ADRs representing the value of one ordinary DSM share.

Besides the ordinary shares, 44.04 million cumulative preference shares A are in issue, which are not listed on the stock exchange; these have been placed with institutional investors. The cumprefs A have the same voting rights as ordinary shares, as their nominal value of € 1.50 per share is equal to the nominal value of the ordinary shares. Transfer of the cumprefs A requires the approval of the Managing Board, unless the shareholder is obliged to transfer his shares to a previous shareholder by virtue of the law.

The average number of ordinary shares outstanding in 2012 was 165,543,091. All shares in issue are fully paid. On 31 December 2012 the company had 168,684,088 ordinary shares outstanding.

Development of the number of ordinary DSM shares

	2012			2011
	Issued	Repurchased	Outstanding	Outstanding
Balance at 1 January	181,425,000	18,167,612	163,257,388	166,467,632
Changes:				
Reissue of shares in connection with exercise of option rights	-	(3,049,509)	3,049,509	3,568,018
Repurchase of shares	-	-	-	(9,000,000)
Dividend in the form of ordinary shares	-	(2,377,191)	2,377,191	2,221,738
Balance at 31 December	181,425,000	12,740,912	168,684,088	163,257,388
DSM share prices on Euronext Amsterdam (€ per ordinary share):				
Highest closing price			46.29	46.82
Lowest closing price			36.33	30.54
At 31 December			45.79	35.85
Market capitalization at 31 December (€ million)[1]			8,307	6,504

[1] Source: Bloomberg

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

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

DSM proposes to the Annual General Meeting of Shareholders for the total dividend for the financial year 2012 to be € 1.50 per ordinary share. An interim dividend of € 0.48 per ordinary share having been paid in August 2012, the final dividend would then amount to € 1.02 per ordinary share. The dividend will be payable in cash or in the form of ordinary shares, at the option of the shareholder. Dividend in cash will be paid after deduction of 15% Dutch dividend withholding tax. The ex-dividend date is 7 May 2013.

Managing Board holdings of DSM shares

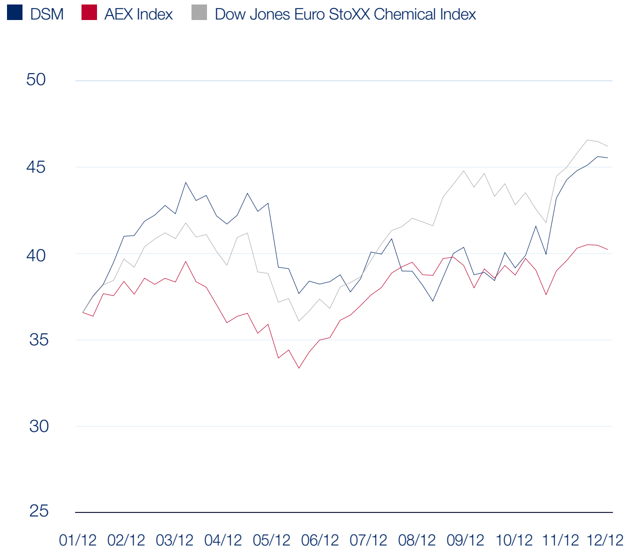
Board member	31 December 2012			31 December 2011		
	Shares purchased with private money	Vested performance shares	Total holdings	Shares purchased with private money	Vested performance shares	Total holdings
Feike Sijbesma, CEO/chairman	33,000	24,500	57,500	30,500	19,500	50,000
Rolf-Dieter Schwalb, CFO	10,000	16,000	26,000	8,000	12,000	20,000
Stefan Doboczky	5,000	-	5,000	5,000	-	5,000
Nico Gerardu	8,556	20,000	28,556	8,556	16,000	24,556
Stephan Tanda	8,000	13,956	21,956	8,000	9,956	17,956
Total holdings	**64,556**	**74,456**	**139,012**	**60,056**	**57,456**	**117,512**

Geographical spread of DSM shares outstanding

in % (excl. cumprefs A)	2012	2011
Netherlands	23	23
United Kingdom	19	19
North America	19	22
Germany	8	9
Switzerland	6	5
France	9	7
Asia Pacific	5	6
Other countries	11	9

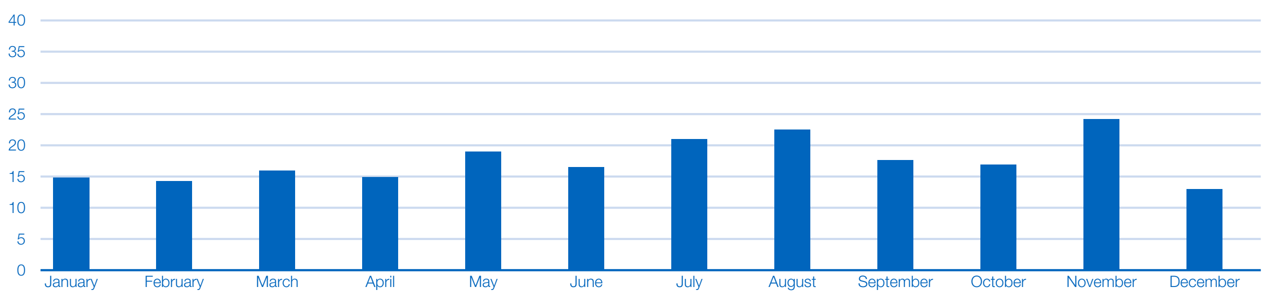
DSM share price development versus AEX and Dow Jones Euro StoXX Chemical Index, 2012

in €



Trading volume DSM shares 2012

x million shares



Consolidated financial statements

Summary of significant accounting policies

Basis of preparation
DSM's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The accounting policies applied by DSM comply with IFRS and the pronouncements of the International Financial Reporting Interpretation Committee (IFRIC) effective at 31 December 2012.

Consolidation
The consolidated financial statements include Royal DSM and its subsidiaries as well as the proportion of DSM's ownership of joint ventures (together 'DSM' or 'group'). A subsidiary is an entity over which DSM has control. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The financial data of subsidiaries are fully consolidated. Non-controlling interests in the group's equity and profit and loss are stated separately. A joint venture is an entity in which DSM holds an interest and which is jointly controlled by DSM and one or more other venturers under a contractual arrangement. Joint ventures are included in the consolidated financial statements according to the method of proportionate consolidation.

Subsidiaries and joint ventures are consolidated from the acquisition date until the date on which DSM ceases to have control or joint control, respectively. From the acquisition date onwards, all intra-group balances and transactions and unrealized profits or losses from intra-group transactions are eliminated, with one exception: unrealized losses are not eliminated if there is evidence of an impairment of the asset transferred. In such cases a value adjustment for impairment of the asset is recognized.

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

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

Segmentation
Segment information is presented in respect of the group's operating segments about which separate financial information is available that is regularly evaluated by the chief operating decision maker. DSM has determined that the Nutrition, Pharma, Performance Materials, Polymer Intermediates and Innovation Center clusters represent reportable segments in addition to Corporate Activities. The Managing Board decides how to allocate resources and assesses the performance of the clusters. Cluster performance is reported and reviewed down to the level of operating profit before exceptional items. The clusters are organized based on the type of products produced and the nature of the markets served. The same accounting policies that are applied for these consolidated financial statements are also applied by the operating segments. Prices for transactions between segments are determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can reasonably and consistently be allocated. Selected information on a country and regional basis is provided in addition to the information about operating segments.

Foreign currency translation
The presentation currency of the group is the euro.

Each entity of the group records transactions and balance sheet items in its functional currency. Transactions denominated in currency other than the functional currency are recorded at the spot exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in a currency other than the functional currency of the entity are translated at the closing rates. Exchange differences resulting from the settlement of these transactions and from the translation of monetary items are recognized in the income statement.

Non-monetary assets denominated in a currency other than the functional currency continue to be translated against the rate at initial recognition and will not result in exchange differences.

On consolidation, the balance sheets of subsidiaries and joint ventures whose functional currency is not the euro are translated into euro at the closing rate. The income statements of these entities are translated into euro at the average rates for the relevant period. Goodwill paid on acquisition is recorded in the functional currency of the acquired entity. Exchange differences arising from the translation of the net investment in entities with a functional currency other than the euro are recorded in Other comprehensive income. 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 4 to 20 years.

Acquired licenses, patents and application software are carried at historical cost less straight-line amortization and less any impairment losses. The expected useful lives vary from 4 to 15 years. Costs of software maintenance are expensed when incurred. Capital expenditure that is directly related to the development of application software is recognized as an intangible asset and amortized over its estimated useful life (5-8 years).

Research costs are expensed when incurred. Development expenditure is capitalized if the recognition criteria are met and if it is demonstrated that it is technically feasible to complete the asset, that the entity intends to complete the asset, that the entity is able to sell the asset, that the asset is capable of generating future economic benefits, that adequate resources are available to complete the asset and that the expenditure attributable to the asset can be reliably measured. Development expenditure is amortized over the asset's useful life.

Property, plant and equipment

Property, plant and equipment are measured at cost less depreciation calculated on a straight-line basis and less any impairment losses. Interest during construction is capitalized. Expenditures relating to major scheduled turnarounds are capitalized and depreciated over the period up to the next turnaround.

Property, plant and equipment are systematically depreciated over their estimated useful lives. The estimated remaining lives of assets are reviewed every year, taking account of commercial and technological obsolescence as well as normal wear and tear. The initially assumed expected useful lives are in principle as follows: for buildings 10-50 years, for plant and machinery 5-15 years, for other equipment 4-10 years. Land is not depreciated.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use or the sale of the asset. Any gain or loss arising on derecognition of the asset is recorded in the income statement.

Leases

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. All other leases are operating leases.

Lease payments for finance leases are apportioned to finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in interest costs. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Operating lease payments are recognized as an expense over the lease term.

Associates

An associate is an entity over which DSM has significant influence but no control, usually evidenced by a shareholding that entitles DSM to between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method, which involves recognition in the income statement of DSM's share of the associate's profit or loss for the year. DSM's interest in an associate is carried in the balance sheet at its share in the net assets of the associate together with goodwill paid on acquisition, less any impairment loss.

When DSM's share in the loss of an associate exceeds the carrying amount of the associate, including any other receivables, the carrying amount is reduced to zero. No further losses are recognized, unless DSM has responsibility for obligations relating to the associate.

Other financial assets

Other financial assets comprise other participations, other receivables and other deferred items.

Other participations comprise equity interests in entities in which DSM has no significant influence; they are accounted for as available-for-sale securities. These other participations are measured against fair value, with changes in fair value being recognized in Other comprehensive income (Fair value reserve). A significant or prolonged decline of the fair value of an equity interest below cost represents an impairment, which is recognized in the income statement. On disposal, the cumulative fair value adjustments of the related other participations are released from equity and included in the income statement. If a reliable fair value cannot be established, the other participations are recognized at cost. The proceeds from these other participations and the gain or loss upon their disposal are recognized in the income statement.

Loans and long-term receivables are measured at fair value upon initial recognition and subsequently at amortized cost, if necessary after deduction of a value adjustment for bad debts. The proceeds from these assets and the gain or loss upon their disposal are recognized in the income statement.

Impairment of assets

When there are indications that the carrying amount of a non-current asset (an intangible asset or an item of property, plant and equipment) may exceed the estimated recoverable amount (the higher of its value in use and fair value less costs to sell), the possible existence of an impairment loss is investigated. If an asset does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market interest rates and the risks specific to the asset.

When the recoverable amount of a non-current asset is less than its carrying amount, the carrying amount is impaired to its recoverable amount and an impairment charge is recognized in the income statement. An impairment loss is reversed when there has been a change in estimate that is relevant for the determination of the asset's recoverable amount since the last impairment loss was recognized.

All financial assets are reviewed for impairment. If there is objective evidence of impairment as a result of one or more events after initial recognition, an impairment loss is recognized in the income statement. Impairment losses for goodwill and other participations are never reversed.

Inventories

Inventories are stated at the lower of cost and net realizable value. The first in, first out (FIFO) method of valuation is used unless the nature of the inventories requires the use of a different cost formula, in which case the weighted average cost method is used. The cost of intermediates and finished goods includes directly attributable costs and related production overhead expenses. Net realizable value is determined as the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Products whose manufacturing cost cannot be calculated because of joint cost components are stated at net realizable value after deduction of a margin for selling and distribution efforts.

Current receivables

Current receivables are measured at amortized cost, which generally corresponds to nominal value, less an adjustment for bad debts.

Current investments

Deposits held at call with banks with a remaining maturity between 3 and 12 months are classified as current investments. They are measured at amortized cost. Proceeds from these deposits are recognized in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and deposits held at call with banks with a maturity of less than three months at inception. Bank overdrafts are included in current liabilities. Cash and cash equivalents are measured at nominal value.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups (assets and liabilities relating to an activity that is to be sold) are classified as 'held for sale' if their carrying amount is to be recovered principally through a sales transaction rather than through continuing use. The reclassification takes place when the assets are available for immediate sale and the sale is highly probable. These conditions are usually met as from the date on which a first draft of an agreement to sell is ready for discussion. Non-current assets held for sale and disposal groups are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets held for sale are not depreciated or amortized. For the sake of clarity, non-current assets and disposal groups that will be contributed to joint ventures are reported separately from other assets and liabilities held for sale.

Discontinued operations

Discontinued operations comprise those activities that were disposed of during the period or which were classified as held for sale at the end of the period, and represent a separate major line of business or geographical area that can be clearly distinguished for operational and financial reporting purposes.

Royal DSM Shareholders' equity

DSM's ordinary shares and cumulative preference shares are classified as Royal DSM Shareholders' equity. The price paid for repurchased DSM shares (treasury shares) is deducted from Royal DSM Shareholders' equity until the shares are canceled or reissued. Dividend to be distributed to holders of cumulative preference shares is recognized as a liability when the Supervisory Board approves the proposal for profit distribution. Dividend to be distributed to holders of ordinary shares is recognized as a liability when the Annual General Meeting of Shareholders approves the profit appropriation.

Provisions

Provisions are recognized when all of the following conditions are met: 1) there is a present legal or constructive obligation as a result of past events; 2) it is probable that a transfer of economic benefits will settle the obligation; and 3) a reliable estimate can be made of the amount of the obligation.

The probable amount required to settle long-term obligations is discounted if the effect of discounting is material. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest costs. However, the interest costs relating to pension obligations are included in pension costs.

Borrowings

Borrowings are initially recognized at cost, being the fair value of the proceeds received, net of transaction costs. Subsequently, borrowings are stated at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium. Interest expenses are accrued and recorded in the income statement for each period.

Where the interest rate risk relating to a long-term borrowing is hedged, and the hedge is regarded as effective, the carrying amount of the long-term loan is adjusted for changes in fair value of the interest component of the loan.

Other current liabilities

Other current liabilities are measured 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 or in Net sales 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 in the case of equity settled options or Other non-current liabilities in the case of cash-settled options (Share Appreciation Rights). No expense is recognized for options that do not ultimately vest, except for options whose vesting is conditional upon a market condition, which are treated as vesting, irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are met.

Performance shares are granted free of charge and vest after three years on the achievement of previously determined targets. The cost of performance shares is measured by reference to the fair value of the DSM shares on the date on which the performance shares were granted and is recognized in the income statement (Employee benefits costs) during the vesting period, together with a corresponding increase in equity.

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
- acquisition costs incurred and integration costs in the first year after a business combination
- non-recurring inventory value adjustments related to business combinations
- restructurings of the activities of an entity
- releases of provisions
- disposals of property, plant and equipment
- disposals of associates or other financial assets
- book results on discontinued operations
- onerous contracts
- litigation settlements

To provide a better understanding of the underlying results of the period, exceptional items are reported separately if the aggregate amount of the event or project exceeds € 10 million.

Income tax expense

Income tax expense is recognized in the income statement except to the extent that it relates to an item recognized directly within Other comprehensive income or Shareholders' equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect to previous years. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the carrying amount of assets and liabilities and their tax base. Deferred tax assets and liabilities are measured at the tax rates and under the tax laws that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred tax assets are realized or the deferred tax liabilities are settled. Deferred tax assets, including assets arising from losses carried forward, are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilized. Deferred tax assets and liabilities are stated at nominal value.

Deferred taxes are not provided for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

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

Financial derivatives

The group uses financial derivatives such as foreign currency forward contracts and interest rate swaps to hedge risks associated with foreign currency and interest rate fluctuations. Financial derivatives are initially recognized in the balance sheet at fair value including transaction costs and subsequently measured at their fair value on each balance sheet date. Changes in fair value are recognized in the income statement unless cash flow hedge accounting or net investment hedge accounting is applied.

Changes in the fair value of financial derivatives designated and qualifying as cash flow hedges are recognized in Other comprehensive income (Hedging reserve) to the extent that the hedge is effective. Upon recognition of the related asset or liability the cumulative gain or loss is transferred from the Hedging reserve and included in the carrying amount of the hedged item if it is a non-financial asset or liability. If the hedged item is a financial asset or liability, the cumulative gain or loss is transferred to profit or loss. Changes in the fair value of financial derivatives designated and qualifying as net investment hedges are recognized in Other comprehensive income 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 Other comprehensive income and are included in the income statement when the net investment is disposed of. Changes in the fair value of financial derivatives designated and qualifying as fair value hedges are immediately recognized in the income statement, together with any changes in the fair value of the hedged assets or liabilities attributable to the hedged risk.

Pensions and other post-employment benefits

For defined benefit plans, pension costs are determined using the projected-unit-credit method. Actuarial gains and losses are recognized in Other comprehensive income in the period in which they occur. Prepaid pension costs relating to defined benefit plans are capitalized only if they lead to refunds to the employer or to reductions in future contributions to the plan by the employer. Prepaid pension costs that do not meet this recoverability criterion are charged to Other comprehensive income in the period in which they occur and are recognized as effects of the asset ceiling. Payments to defined contribution plans are charged as an expense as they fall due.

Effect of new accounting standards

The International Accounting Standards Board (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 2012. The adoption of these standards and interpretations did not have a material effect on the group's financial performance or position.

The following new or amended standards became effective in 2012.

The amendment to International Accounting Standard (IAS) 12, ‘Income Taxes’, clarifies the determination of deferred tax on investment property measured at fair value. DSM holds no investment property and the amendment had no impact on DSM’s financial position or performance.

The amendment to IFRS 7, 'Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements', requires additional disclosures about financial assets that have been transferred but not derecognized. Furthermore, the amendment requires disclosures about continuing involvement in derecognized assets. The amendment had no impact on DSM’s financial position, performance or disclosures because such transfers did not occur in 2012.

Effect of forthcoming accounting standards

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

The amendments to IAS 1, ‘Presentation of Items of Other Comprehensive Income’, changes the grouping of items presented in other comprehensive income into items that will be reclassified (or ‘recycled’) to profit or loss at a future point in time and items that will never be reclassified. The amendment affects presentation only and has no impact on DSM’s financial position or performance. It becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied from 1 January 2013 onwards.

Various amendments to IAS 19, ‘Employee Benefits’, have been introduced that, among other things, result in the removal of the corridor mechanism, a change in the concept of expected returns on plan assets and in the presentation of interest expense and return on plan assets in financial income and expense. DSM voluntarily adopted the option to recognize actuarial gains and losses in Other comprehensive income from 2006 onwards and is therefore not affected by the removal of the corridor mechanism. The new presentation and measurement requirements for the benefit expense will be applied from 1 January 2013 onwards and will have a limited impact on DSM’s financial position and performance, which is explained in more detail in note 24: Post-employment benefits.

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

IFRS 10, 'Consolidated Financial Statements', establishes a single control model that applies to all entities, including special purpose entities. DSM is in the process of verifying which entities meet the new criteria for control and therefore have to be consolidated. The standard will be applied for annual periods beginning on 1 January 2014 and is not expected to have a material impact on DSM’s financial position or performance.

IFRS 11, 'Joint Arrangements', removes the option to apply proportionate consolidation for joint ventures and mandates the use of the equity method for jointly controlled entities that meet the new definition of a joint venture. The introduction of this new standard will change DSM’s financial position and reported performance because the equity method will replace proportionate consolidation for these entities. Information on joint ventures that are affected is provided in note 28: Interests in joint ventures. The standard will be applied for annual periods beginning on 1 January 2014.

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

IFRS 13, 'Fair Value Measurement', becomes the single source of guidance in IFRS for all fair value measurements. The standard becomes effective for annual periods beginning on 1 January 2013. The impact of this standard on DSM’s financial position and performance is being assessed but is not expected to be material because the standard further clarifies requirements that already exist.

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

Consolidated statements

Consolidated income statement for the year ended 31 December 2012

x €million	Notes	Continuing operations: Before exceptional items	Continuing operations: Exceptional items (note 6)	Continuing operations: Total	Discontinued operations	Total
Net sales		9,131	-	9,131	-	9,131
Cost of sales	4	(6,719)	(29)	(6,748)	-	(6,748)
Gross margin		**2,412**	**(29)**	**2,383**	**-**	**2,383**
Marketing and sales		(952)	-	(952)	-	(952)
Research and development		(381)	(2)	(383)	-	(383)
General and administrative		(492)	(60)	(552)	-	(552)
Other operating income		80	3	83	-	83
Other operating expense		(32)	(106)	(138)	-	(138)
	4	(1,777)	(165)	(1,942)	-	(1,942)
Operating profit		**635**	**(194)**	**441**	**-**	**441**
Interest costs	5	(102)	-	(102)	-	(102)
Other financial income and expense	5	8	-	8	-	8
Share of the profit of associates		2	-	2	-	2
Profit before income tax expense		543	(194)	349	-	349
Income tax expense	7	(96)	45	(51)	-	(51)
Profit for the year		**447**	**(149)**	**298**	**-**	**298**
Reclassification of the net result from activities disposed of		-	-	-	-	-
Total		447	(149)	298	-	298
Of which:						
- Profit attributable to non-controlling interests		10	-	10	-	10
- Net profit attributable to equity holders of Koninklijke DSM N.V.		437	(149)	288	-	288
Net profit attributable to equity holders of Koninklijke DSM N.V.		**437**	**(149)**	**288**	**-**	**288**
Dividend on cumulative preference shares		(10)	-	(10)	-	(10)
Net profit available to holders of ordinary shares		427	(149)	278	-	278
Earnings per share (in €) (see note 17 Earnings per ordinary share):						
- Basic				1.68		1.68
- Diluted				1.67		1.67

Consolidated income statement for the year ended 31 December 2011

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

Consolidated statement of comprehensive income

x € million	Other reserves	Retained earnings: Actuarial gains and losses	Retained earnings: Other	Total	Non-controlling interests	Total
2011						
Change in Dutch pension plan	-	765	(765)	-	-	-
Exchange differences on translation of foreign operations	47	-	-	47	10	57
- Related income tax expense	6	-	-	6	-	6
Change in Actuarial gains and losses	-	(41)	-	(41)	-	(41)
- Related income tax expense	-	10	-	10	-	10
Change in asset ceiling	-	1	-	1	-	1
- Related income tax expense	-	-	-	-	-	-
Change in Fair value reserve	(85)	-	-	(85)	-	(85)
- Related income tax expense	20	-	-	20	-	20
Change in Hedging reserve	(120)	-	-	(120)	-	(120)
- Related income tax expense	24	-	-	24	-	24
Other comprehensive income	**(108)**	**735**	**(765)**	**(138)**	**10**	**(128)**
Profit for the year	-	-	814	814	46	860
Total comprehensive income	**(108)**	**735**	**49**	**676**	**56**	**732**
2012						
Exchange differences on translation of foreign operations	(28)	-	-	(28)	1	(27)
- Related income tax expense	1	-	-	1	-	1
Change in Actuarial gains and losses	-	(133)	-	(133)	-	(133)
- Related income tax expense	-	33	-	33	-	33
Change in Fair value reserve	(8)	-	-	(8)	-	(8)
- Related income tax expense	-	-	-	-	-	-
Change in Hedging reserve	(22)	-	-	(22)	-	(22)
- Related income tax expense	13	-	-	13	-	13
Other comprehensive income	**(44)**	**(100)**	**-**	**(144)**	**1**	**(143)**
Profit for the year	-	-	288	288	10	298
Total comprehensive income	**(44)**	**(100)**	**288**	**144**	**11**	**155**

Consolidated balance sheet as at 31 December

x € million	Notes	2012	2011
Assets			
Non-current assets			
Intangible assets	8	2,793	1,786
Property, plant and equipment	9	3,811	3,405
Deferred tax assets	7	340	292
Associates	10	40	35
Other financial assets	11	141	135
		7,125	**5,653**
Current assets			
Inventories	12	1,803	1,573
Trade receivables	13	1,569	1,551
Other receivables	13	230	153
Financial derivatives	23	62	50
Current investments	14	12	89
Cash and cash equivalents	15	1,121	2,058
		4,797	5,474
Assets held for sale		44	30
		4,841	**5,504**
Total		**11,966**	**11,157**
Equity and liabilities			
Equity	16		
Shareholders' equity		5,874	5,784
Non-controlling interests		168	190
		6,042	**5,974**
Non-current liabilities			
Deferred tax liabilities	7	236	192
Employee benefits liabilities	24	388	322
Provisions	18	125	116
Borrowings	19	1,922	2,029
Other non-current liabilities	20	94	69
		2,765	**2,728**
Current liabilities			
Employee benefits liabilities	24	42	6
Provisions	18	81	43
Borrowings	19	642	160
Financial derivatives	23	299	326
Trade payables	21	1,453	1,348
Other current liabilities	21	628	557
		3,145	2,440
Liabilities held for sale		14	15
		3,159	**2,455**
Total		**11,966**	**11,157**

Consolidated statement of changes in equity (note 16)

x € million	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings: Actuarial gains and losses	Retained earnings: Other	Total	Non-controlling interests	Total Equity
Balance at 1 January 2011	**338**	**489**	**(542)**	**381**	**(647)**	**5,462**	**5,481**	**96**	**5,577**
Dividend paid	-	-	-	-	-	(242)	(242)	(4)	(246)
Options / performance shares granted	-	-	-	19	-	-	19	-	19
Options / performance shares exercised / cancelled and SARs cancelled	-	-	-	(18)	-	24	6	-	6
Proceeds from reissued shares	-	-	213	-	-	(12)	201	-	201
Change in DSM's share in subsidiaries	-	-	-	-	-	-	-	42	42
Repurchase of shares	-	-	(357)	-	-	-	(357)	-	(357)
Total comprehensive income	-	-	-	(108)	735	49	676	56	732
Balance at 31 December 2011	**338**	**489**	**(686)**	**274**	**88**	**5,281**	**5,784**	**190**	**5,974**
Dividend paid	-	-	-	-	-	(254)	(254)	(48)	(302)
Options / performance shares granted	-	-	-	18	-	-	18	-	18
Options / performance shares exercised / cancelled and SARs cancelled	-	-	-	(13)	-	13	-	-	-
Proceeds from reissued shares	-	-	207	-	-	(25)	182	-	182
Change in DSM's share in subsidiaries	-	-	-	-	-	-	-	15	15
Total comprehensive income	-	-	-	(44)	(100)	288	144	11	155
Balance at 31 December 2012	**338**	**489**	**(479)**	**235**	**(12)**	**5,303**	**5,874**	**168**	**6,042**

Consolidated cash flow statement (note 26)

x € million		**2012**		2011
Operating activities				
Profit for the year		298		860
Income tax		51		129
Profit before income tax expense		349		989
Share of the profit of associates		(2)		(3)
Net finance costs				
- Before exceptional items		94		82
- Exceptional items		-		(140)
Operating profit		441		928
Depreciation, amortization and impairments		500		502
Earnings before interest, tax, depreciation and amortization		941		1,430
Adjustments for:				
- (Gain) or loss from disposals	(7)		(201)	
- Change in provisions	38		23	
- Defined benefit plans	(28)		(33)	
	3		(211)	
Interest received	103		103	
Interest paid	(196)		(161)	
Income tax received	9		7	
Income tax paid	(79)		(95)	
Other	(34)		41	
Changes, excluding working capital		(194)		(316)
Operating cash flow before changes in working capital		**747**		**1,114**
Changes in operating working capital:				
- Inventories	(140)		(112)	
- Trade receivables	41		(123)	
- Trade payables	83		(25)	
	(16)		(260)	
Changes in other working capital	(1)		28	
Changes in working capital		(17)		(232)
Cash provided by operating activities		**730**		**882**

Consolidated cash flow statement (note 26) continued

x € million	2012		2011	
Cash provided by operating activities		**730**		**882**
Investing activities				
Capital expenditure for:				
- Intangible assets	(82)		(54)	
- Property, plant and equipment	(604)		(423)	
Proceeds from disposal of property, plant and equipment	36		8	
Acquisition of subsidiaries and associates	(1,262)		(929)	
Cash from net investment hedge	-		(77)	
Proceeds from disposal of subsidiaries and businesses	7		513	
Change in fixed-term deposits	77		748	
Other financial assets:				
- Capital payments and acquisitions	(12)		(3)	
- Change in loans granted	(19)		3	
- Proceeds from disposals	3		221	
Cash from / used in investing activities		**(1,856)**		**7**
Financing activities				
Capital payments non-controlling interests	15		-	
Loans taken up	30		35	
Repayment of loans	(114)		(50)	
Change in debt to credit institutions	60		74	
Issue of commercial paper	300		-	
Dividend paid	(210)		(155)	
Proceeds from reissued shares	90		111	
Repurchase of shares	-		(357)	
Cash used in financing activities		**171**		**(342)**
Change in cash and cash equivalents		**(955)**		**547**
Cash and cash equivalents at 1 January		**2,058**		**1,453**
Exchange differences relating to cash held		18		58
Cash and cash equivalents at 31 December		**1,121**		**2,058**

Notes to the consolidated financial statements of Royal DSM

1 General information

Unless stated otherwise, all amounts are in € million.

In conformity with article 402, Book 2 of the Dutch Civil Code, a condensed income statement is included in the separate financial statements of the parent company.

A list of DSM participations has been filed with the Chamber of Commerce for Limburg (Netherlands) and is available from the company upon request. The list can also be downloaded from the company's website.

The preparation of financial statements requires estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements. The policies that management considers to be the most important to the presentation of the financial condition and results of operations are discussed in the relevant notes. The same holds for the issues that require management judgments or estimates about matters that are inherently uncertain. Management cautions that future events often vary from forecasts and that estimates routinely require adjustment. Areas of judgment that have the most significant effect on the amounts recognized in the financial statements relate to the categorization of certain items as 'exceptional', the identification of cash generating units and the classification of activities as 'held for sale' and 'discontinued operations'.

Key assumptions and estimates that need to be made by management relate to the useful lives of non-current assets (notes 8 and 9), the establishment of provisions for retirement and other post-employment benefits (note 24), the recognition and measurement of income taxes (note 7) and the determination of fair values for financial instruments (note 23) and for share-based compensation (note 27). Estimates are based on historical quoted market prices, experience and 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	
	2012	2011	**2012**	2011
US dollar	1.32	1.29	1.29	1.39
Swiss franc	1.21	1.22	1.21	1.23
Pound sterling	0.82	0.84	0.81	0.87
100 Japanese yen	1.14	1.00	1.03	1.11
Chinese renminbi	8.29	8.24	8.11	9.00

Presentation of consolidated income statement

From 2010 onwards DSM has presented expenses in the consolidated income statement in accordance with their function. This allows the presentation of gross margin on the face of the income statement, which is a widely used performance measure in the industry. The composition of the costs allocated to the individual functions is explained below.

Cost of sales encompasses all manufacturing cost (including raw materials and energy) related to goods and services captured in net sales. They are measured at their actual cost based on FIFO, or weighted average cost.

Marketing and sales relates to the selling and marketing of goods and services, and also includes all costs that are directly related to the sale of goods, but that are not originated by the manufacturing of the goods (e.g. freight).

Research and development consists of:

- research, which is defined as original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding;
- development, which is defined as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

General and administrative relates to the strategic and governance role of the general management of the company as well as the representation of DSM as a whole in the financial, political or business community. It also relates to business support activities of staff departments that are not directly related to the other functional areas.

Segment reporting

Since 2011 DSM has presented business segments and geographical information in accordance with the strategy DSM in motion: *driving focused growth*. Geographical information is provided for Western Europe, Eastern Europe, North America, Latin America, Asia and rest of the world, with separate specifications for the Netherlands, China, India and Japan. Information on the activities, products and services of the segments is available in the Review of business in the Report by the Managing Board.

2 Change in the scope of the consolidation

Acquisitions

2012
On 22 June 2012 DSM obtained control of Kensey Nash Corporation by acquiring 100% of the shares. From that date onwards the financial statements of Kensey Nash have been consolidated by DSM and reported in the segment Innovation Center. The acquisition will strengthen and complement DSM's biomedical business, one of the Emerging Business Areas of DSM. Kensey Nash is a US based, technology-driven biomedical company, primarily focused on regenerative medicine utilizing its proprietary collagen and synthetic polymer technology. Kensey Nash has annual sales of approximately USD 90 million and employs about 325 people. In accordance with IFRS 3 the purchase price of Kensey Nash needs to be allocated to identifiable assets and liabilities acquired. Goodwill paid for the acquisition of Kensey Nash amounted to € 128 million. The goodwill primarily resulted from the skills and knowledge of the workforce, sales synergies in relation to the opportunities for cross-selling and certain fixed cost synergies that are unique to DSM.

On 18 July 2012 DSM obtained control of Ocean Nutrition Canada (ONC) by acquiring 100% of the shares. From that date onwards the financial statements of ONC are consolidated by DSM and reported in the Nutrition segment. The acquisition expands DSM's Nutritional Lipids growth platform. ONC is a leader in fish-oil derived Omega-3 fatty acids for dietary supplements, highly complementary to DSM's acquisition of Martek in 2011. ONC has annual sales of approximately CAD 190 million and employs about 415 people. In accordance with IFRS 3 the purchase price of ONC needs to be allocated to identifiable assets and liabilities acquired. Goodwill paid for the acquisition of ONC amounted to € 238 million. The goodwill primarily resulted from the skills and knowledge of the workforce, sales synergies in relation to the opportunities for cross-selling and certain operating and variable cost synergies that are unique to DSM.

On 18 December 2012 DSM obtained control of Fortitech, Inc. by acquiring 100 % of the shares. From that date onwards the financial statements of Fortitech are consolidated by DSM and reported in the Nutrition segment. The acquisition strengthens DSM's Human Nutrition and Health business, by expanding the company's value chain presence and adding additional capabilities. Fortitech has annual sales of approximately USD 270 million and employs about 520 people. In accordance with IFRS 3 the purchase price of Fortitech needs to be allocated to identifiable assets and liabilities acquired. This so-called purchase price allocation together with the conversion of the financial statements to IFRS has not been completed and therefore the consolidation is based on the unadjusted balance sheet of Fortitech. Once the purchase price allocation is completed the value of assets and liabilities will be adjusted and the final goodwill will be determined. Sales and profit of Fortitech in the period between the acquisition and the end of the year 2012 were immaterial for DSM as a result of the limited number of working days that remained and the impact of the holiday period.

Up to one year from the acquisition date the initial accounting for business combinations needs to be adjusted to reflect additional information that has been received about facts and circumstances that existed at the acquisition date and would have affected the measurement of amounts recognized as of that date. As a result of such adjustments the values of assets and liabilities recognized may change in the one year period from the acquisition date.

The impact of all acquisitions made in 2012 on DSM's consolidated balance sheet, at the date of acquisition, is summarized in the following table.

2012	Kensey Nash		Ocean Nutrition		Fortitech, Inc.		Other acquisitions		Total	
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
Assets										
Intangible assets	18	136	-	114	1	1	-	35	19	286
Property, plant and equipment	45	55	57	63	53	53	30	33	185	204
Other non-current assets	3	2	-	-	4	4	-	-	7	6
Inventories	12	16	35	47	38	38	14	16	99	117
Receivables	25	12	41	49	29	29	8	8	103	98
Cash and cash equivalents	29	29	10	10	8	8	-	-	47	47
Total assets	**132**	**250**	**143**	**283**	**133**	**133**	**52**	**92**	**460**	**758**
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Liabilities										
Non-current liabilities	5	39	5	48	5	5	-	1	15	93
Current liabilities	71	72	84	84	46	46	5	5	206	207
Non-controlling interests and liabilities	**76**	**111**	**89**	**132**	**51**	**51**	**5**	**6**	**221**	**300**
Net assets	**56**	**139**	**54**	**151**	**82**	**82**	**47**	**86**	**239**	**458**
Acquisition price (in cash)		216		390		474		120		1,200
Acquisition price (payable)		51		(1)		13		2		65
Consideration		**267**		**389**		**487**		**122**		**1,265**
Goodwill		**128**		**238**		**405**		**36**		**807**
Goodwill available for tax purposes (included in the above)		-		-		-		32		32
Acquisition costs recognized in exceptional items		3		2		1		2		8
Contingent liabilities included in fair value		-		-		-		-		-

The acquisition of Kensey Nash contributed € 35 million to net sales in 2012. If the acquisition had occurred on 1 January 2012, additional net sales would have been approximately € 67 million. The acquisition contributed € 14 million to EBITDA. Kensey Nash related exceptional items amounted to € 8 before tax (see note 6: Exceptional items).

The acquisition of ONC contributed € 60 million to net sales in 2012. If the acquisition had occurred on 1 January 2012, additional net sales would have been approximately € 131 million. The acquisition contributed € 15 million to EBITDA. ONC related exceptional items amounted to € 20 before tax (see note 6: Exceptional items).

Other acquisitions comprise Verenium, Cilpaz & Laba, the cultures and enzymes business of Cargill and Oatwell.

Together, the acquisitions in 2012 contributed € 103 million to net sales. If all acquisitions had occurred on 1 January 2012, additional net sales would have been approximately € 253 million (excluding Fortitech). The acquisitions in 2012 contributed € 26 million to EBITDA; this would have been approximately € 53 million (excluding Fortitech) if they had all occurred on 1 January 2012.

2011

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

The acquisition of Martek contributed € 284 million to net sales. If the acquisition had occurred on 1 January 2011, additional net sales would have been approximately € 335 million. The acquisition of Martek contributed € 88 million to EBITDA. Martek related exceptional items amounted to € 46 million before tax (for further information on exceptional items see note 6: Exceptional items).

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

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

The acquisitions in 2011 contributed € 316 million to net sales. If all acquisitions had occurred on 1 January 2011, additional net sales would have been approximately € 400 million. The acquisitions in 2011 contributed € 90 million to EBITDA; this would have been approximately € 109 million if they had all occurred on 1 January 2011.

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

2011	Martek		AGI Taiwan		Shandong ICD		Other acquisitions		Total	
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
Assets										
Intangible assets	124	243	-	10	11	15	5	24	140	292
Property, plant and equipment	150	131	37	45	34	34	29	31	250	241
Other non-current assets	10	10	4	4	-	-	-	1	14	15
Inventories	75	88	13	13	8	8	1	1	97	110
Receivables	55	55	29	29	3	3	2	2	89	89
Cash and cash equivalents	60	60	11	11	-	-	1	1	72	72
Total assets	**474**	**587**	**94**	**112**	**56**	**60**	**38**	**60**	**662**	**819**
Non-controlling interests	-	-	19	26	4	4	-	-	23	30
Liabilities										
Non-current liabilities	45	79	10	16	-	-	1	1	56	96
Current liabilities	48	56	39	43	1	1	6	6	94	106
Non-controlling interests and liabilities	**93**	**135**	**68**	**85**	**5**	**5**	**7**	**7**	**173**	**232**
Net assets	**381**	**452**	**26**	**27**	**51**	**55**	**31**	**53**	**489**	**587**
Acquisition price (in cash)		789		41		48		61		939
Acquisition price (payable)		-		-		30		5		35
Consideration		**789**		**41**		**78**		**66**		**974**
Goodwill		**337**		**14**		**23**		**13**		**387**
Goodwill available for tax purposes (include in the above)		-		-		-		5		5
Acquisition costs recognized in exceptional items		7		-		-		-		7
Contingent liabilities included in fair value		-		-		-		-		-

Other acquisitions comprise C5 Yeast Company, Vitatene, the premix unit of Fatrom and Volgaplast.

Disposals

2012
There were no material disposals in 2012.

2011
In the second quarter of 2011 DSM completed the sale of DSM Elastomers (Keltan®) to LANXESS for €338 million on a cash and debt-free basis. In view of the disposal the related activities are reported as discontinued operations and comparatives have been re-presented. The impact of the deconsolidation of these activities on the DSM financial statements is presented in the following table:

Assets		
Intangible assets and Property, plant and equipment	(132)	
Other non-current assets	(5)	
Inventories	(84)	
Receivables	(50)	
Cash and cash equivalents	(40)	
Total assets		**(311)**
Non-controlling interests	5	
Liabilities		
Non-current liabilities	(2)	
Current liabilities	(37)	
Non-controlling interests and liabilities		**(34)**
Net assets at fair value		**(277)**
Consideration, net of selling costs, translation differences and net debt		387
Book profit		**110**
Income tax		1
Net book profit		**111**

Before disposal the business was classified as assets and liabilities held for sale.

The impact of the disposal on the cash flow statement is presented in the following table:

	2011
Net cash provided by operating activities	(14)
Net cash used in investing activities	(3)
Net cash used in financing activities	0
Net change in cash and cash equivalents	(17)

In the third quarter of 2011 DSM completed the formation of the DSM Sinochem Pharmaceuticals joint venture, which has been consolidated on a 50% proportionate basis from 1 September 2011 onwards. As a consequence of the transaction 50% of the assets and liabilities of DSM's Anti-Infectives business were effectively sold to the joint venture partner. DSM continues to account for the assets and liabilities that are retained in the business on the basis of existing book values. In view of DSM's continuing involvement with the business the related activities remain part of continuing operations. The impact of the 50% disposal is presented in the following table:

Assets		
Intangible assets and Property, plant and equipment	(72)	
Other non-current assets	(17)	
Inventories	(41)	
Receivables	(67)	
Cash and cash equivalents	(17)	
Total assets		**(214)**
Non-controlling interests	(4)	
Liabilities		
Non-current liabilities	(26)	
Current liabilities	(92)	
Non-controlling interests and liabilities		**(122)**
Net assets at fair value		**(92)**
Consideration, net of selling costs, translation differences and net debt		166
Impairment		(62)
Book profit		**12**
Income tax		17
Net book profit		**29**

Before disposal the business was classified as assets/liabilities to be contributed to joint ventures.

Assets and liabilities held for sale

2012
DSM stopped actively trying to dispose of the Maleic Anhydride and Derivatives business of DSM Pharmaceutical Products in Linz (Austria) in 2012 and this business is no longer classified as 'assets/liabilities held for sale'. The activities were re-integrated into the Pharma Cluster and reported in that segment from the first quarter of 2012 onwards. Comparative information for the previous period has not been adjusted.

In view of the agreements reached regarding the sale of DEXPlastomers and parts of Euroresins, these businesses were reclassified as held for sale. Before reclassification these activities were reported under Corporate Activities and DSM Resins & Functional Materials, respectively.

2011
In view of the expected disposal of the Maleic Anhydride and Derivatives business of DSM Pharmaceutical Products in Linz (Austria), this business was classified as held for sale.

Deconsolidation

2012
There were no material deconsolidations in 2012.

2011
As a result of the divestment of DSM Elastomers, DSM's interests in Sitech Manufacturing Services C.V., Sitech Utility Holding Beheer B.V. and Sitech Utility Holding C.V. were also reduced. At the end of June DSM only retained significant influence on the financial and operating policy decisions of these companies and therefore consolidation was terminated. The remaining investments in these entities were recognized at their fair value at the time when consolidation was terminated and accounted for in accordance with the equity method. The impact of the derecognition on the balance sheet and on the result was immaterial.

Other changes

2012
There were no material changes in the percentage of ownership of subsidiaries in 2012.

2011
In 2011 the following changes in DSM's share in subsidiaries occurred without impacting the classification of the participations.

	DSM share	
	Old	New[1]
Sitech Services B.V.	77%	70%
Sitech Manufacturing Services Beheer B.V.	77%	70%
Sitech IAZI B.V.	77%	70%
Sitech Site Services B.V.	77%	70%

[1] All as a result of the disposal of DSM Elastomers

3 Segment information

Business segments[1]

2012	Continuing operations								Discon-tinued opera-tions	Elimina-tions	Total
	Nutrition	Pharma	Perform-ance Materials	Polymer Interme-diates	Inno-vation Center	Corpo-rate Activities[2]	Elimina-tions	Total			
Financial performance											
Net sales	3,667	726	2,772	1,596	102	268	-	9,131	-	-	9,131
Supplies to other clusters	85	39	25	448	3	1	(601)	-	-	-	-
Supplies	**3,752**	**765**	**2,797**	**2,044**	**105**	**269**	**(601)**	**9,131**	**-**	**-**	**9,131**
EBITDA	793	39	280	129	(38)	(94)	-	1,109	-	-	1,109
Operating profit	613	(19)	146	97	(63)	(139)	-	635	-	-	635
Exceptional items	(85)	(19)	(40)	(11)	-	(39)	-	(194)	-	-	(194)
Operating profit including exceptional items	**528**	**(38)**	**106**	**86**	**(63)**	**(178)**	**-**	**441**	**-**	**-**	**441**
Depreciation and amortization	177	49	128	30	24	43	-	451	-	-	451
Impairments	3	9	6	2	1	2	-	23	-	-	23
Impairments in exceptional items	23	2[5]	1	-	-	-	-	26	-	-	26
Additions to provisions	30	25	24	-	3	40	-	122	-	-	122
Share of the profit of associates	1	-	-	1	-	-	-	2	-	-	2
R&D costs[3]	151	12	105	12	66	35	-	381	-	-	381
Wages, salaries and social security costs	657	187	338	75	53	326	-	1,636	-	-	1,636
Financial position											
Total assets	5,157	1,051	2,174	964	559	2,061	-	11,966	-	-	11,966
Total liabilities	1,324	333	666	446	75	3,080	-	5,924	-	-	5,924
Capital employed at year-end	4,122	766	2,026	447	507	216	-	8,084	-	-	8,084
Capital expenditure and acquisitions	1,193	72	109	214	303	89	-	1,980	-	-	1,980
Share in equity of associates	3	-	2	10	2	10	-	27	-	-	27
EBITDA / net sales (in %)	21.6	5.4	10.1	8.1				12.1			12.1
Workforce[4]											
Average in fte	9,208	3,281	5,359	1,444	622	3,012	-	22,926	-	-	22,926
Year-end (headcount)	9,489	3,314	5,354	1,474	668	3,199	-	23,498	-	-	23,498

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. Supplies from DSM Polymer Intermediates to DSM Engineering Plastics were executed at cost. Transfers between other segments were fairly limited and were generally executed at market-based prices.
2 Corporate Activities also includes costs for regional holdings, corporate overhead and share-based compensation.
3 R&D costs relate to the functional area Research and development and exclude R&D costs included in the functional areas Costs of sales and Marketing and sales as well as R&D expenditure capitalized.
4 The workforces of joint ventures have been included on a proportionate basis.
5 Including the reversal of previously recognized impairment losses for € 12 million at DSM Sinochem Parmaceuticals.

Business segments[1]

2011	Continuing operations: Nutrition	Pharma	Performance Materials	Polymer Intermediates	Innovation Center	Corporate Activities[2]	Eliminations	Total	Discontinued operations	Eliminations	Total
Financial performance											
Net sales	3,370	677	2,752	1,820	60	369	-	9,048	145	-	9,193
Supplies to other clusters	68	21	21	435	4	23	(571)	1	6	(7)	-
Supplies	**3,438**	**698**	**2,773**	**2,255**	**64**	**392**	**(571)**	**9,049**	**151**	**(7)**	**9,193**
EBITDA	735	36	293	380	(57)	(91)	-	1,296	29	-	1,325
Operating profit	577	(8)	162	339	(69)	(135)	-	866	29	-	895
Exceptional items	(51)	22	(33)	-	-	(15)	-	(77)	110	-	33
Operating profit including exceptional items	**526**	**14**	**129**	**339**	**(69)**	**(150)**	**-**	**789**	**139**	**-**	**928**
Depreciation and amortization	155	44	121	25	11	41	-	397	-	-	397
Impairments	3	-	10	16	1	3	-	33	-	-	33
Impairments in exceptional items	-	62	10	-	-	-	-	72	-	-	72
Additions to provisions	6	30	24	-	-	9	-	69	-	-	69
Share of the profit of associates	-	2	-	-	-	1	-	3	-	-	3
R&D costs[3]	146	14	107	13	63	35	-	378	3	-	381
Wages, salaries and social security costs	597	179	319	67	34	322	-	1,518	11	-	1,529
Financial position											
Total assets	3,826	1,104	2,085	835	255	3,052	-	11,157	-	-	11,157
Total liabilities	1,115	294	601	417	23	2,733	-	5,183	-	-	5,183
Capital employed at year-end	3,015	800	2,013	387	174	173		6,562	-	-	6,562
Capital expenditure and acquisitions	950	87	258	81	40	84	-	1,500	2	-	1,502
Share in equity of associates	2	-	2	8	3	7	-	22	-	-	22
EBITDA / net sales (in %)	21.8	5.3	10.6	20.9				14.3			14.4
Workforce[4]											
Average in fte	8,051	3,174	5,454	1,376	348	3,417	-	21,820	-	-	21,820
Year-end (headcount)	8,329	3,324	5,599	1,439	383	3,150	-	22,224	-	-	22,224

1 For a description of the types of products and services of each segment please refer to the Review of business in the Report by the Managing Board. Supplies from DSM Polymer Intermediates to DSM Engineering Plastics were executed at cost. Transfers between other segments were fairly limited and were generally executed at market-based prices.
2 Corporate Activities also includes costs for regional holdings, corporate overhead and share-based compensation.
3 R&D costs relate to the functional area Research and development and exclude R&D costs included in the functional areas Costs of sales and Marketing and sales as well as R&D expenditure capitalized.
4 The workforces of joint ventures have been included on a proportionate basis.

Geographical information

2012	The Nether-lands	Rest of Western Europe	Eastern Europe	North America	Latin America	China	India	Japan	Rest of Asia	Rest of the world	Total
	Continuing operations										
Net sales by origin											
In € million	3,046	2,655	119	1,628	309	939	95	118	172	50	9,131
In %	34	29	1	18	3	10	1	1	2	1	100
Net sales by destination											
In € million	605	2,684	538	1,819	671	1,323	163	317	783	228	9,131
In %	7	29	6	20	7	14	2	3	9	3	100
Total assets	3,613	2,556	109	3,554	347	1,187	90	134	310	66	11,966
Intangible assets and Property, plant and equipment											
Capital expenditure	226	129	2	127	6	174	3	2	33	13	715
Carrying amount	1,568	1,406	30	2,676	53	672	18	36	119	26	6,604
Workforce at year-end[1]	6,007	6,305	438	4,724	978	3,449	541	146	746	164	23,498
2011											
Net sales by origin											
In € million	3,151	2,601	91	1,505	247	987	118	78	228	42	9,048
In %	35	29	1	17	3	11	1	0	3	0	100
Net sales by destination											
In € million	662	2,689	514	1,692	589	1,438	167	299	793	205	9,048
In %	7	29	6	19	7	16	2	3	9	2	100
Total assets	4,184	2,594	93	2,342	269	1,121	72	150	273	59	11,157
Intangible assets and Property, plant and equipment											
Capital expenditure	154	114	4	86	5	148	1	0	10	4	526
Carrying amount	1,445	1,266	29	1,723	25	539	12	39	97	16	5,191
Workforce at year-end[1]	6,205	6,398	334	3,650	824	3,423	481	146	627	136	22,224

[1] The workforces of joint ventures have been included on a proportionate basis

DSM has no single external customer that represents 10 percent or more of revenues and therefore information about major customers is not provided.

4 Total costs

In 2012 total operating costs of continuing operations before exceptional items amounted to €8.5 billion, €0.3 billion higher than in 2011, when these costs stood at €8.2 billion. Total operating costs in 2012 included Cost of sales to an amount of €6.7 billion (2011: €6.5 billion); gross margin in % of net sales stood at 26% (2011: 28%).

Employee benefits costs

	2012	2011
Continuing operations before exceptional items		
Wages and salaries	1,398	1,310
Social security costs	213	189
Pension costs (see also note 24)	125	125
Share-based compensation (see also note 27)	25	19
Total	**1,761**	**1,643**

Depreciation, amortization and impairments

	2012	2011
Continuing operations before exceptional items		
Amortization of intangible assets	111	83
Depreciation of property, plant and equipment	340	314
Impairment losses	23	33
Total	**474**	**430**

Other operating income

	2012	2011
Continuing operations before exceptional items		
Release of provisions	3	16
Gain on assets, activities, scrap, waste material, emission rights, royalties and licenses sold	27	15
Insurance benefits	8	14
Claims	11	7
Earn-out payments	5	4
Sundry	26	15
Total	**80**	**71**

Other operating expense

	2012	2011
Continuing operations before exceptional items		
Additions to provisions	1	8
Loss from the disposal or closure of assets and activities	1	1
Exchange differences	7	9
Costs of financial instruments	7	5
Earn-out payments	5	-
Damages	9	12
Sundry	2	5
Total	**32**	**40**

5 Net finance costs

	2012	2011
Continuing operations before exceptional items		
Interest costs		
Interest expense	107	100
Capitalized interest during construction	(6)	(2)
Interest charge on discounted provisions	1	1
Total	**102**	**99**
Other financial income and expense		
Interest income	(12)	(18)
Exchange differences	4	4
Result from other securities	1	(4)
Sundry	(1)	1
Total	**(8)**	**(17)**
Net finance costs	**94**	**82**

In 2012 the interest rate applied in the capitalization of interest during construction was 5% (2011: 5%).

6 Exceptional items

	2012	2011
Cost of sales:		
- Impairments of property, plant and equipment and business activities	(25)	(10)
- Other costs	(4)	(38)
	(29)	(48)
Research and development:		
- Impairment of intangible assets	-	-
- Other costs	(2)	-
	(2)	-
General and administrative:		
- Impairment of Property, Plant and Equipment	(1)	-
- Other costs	(59)	(13)
	(60)	(13)
Other operating income:		
- Release of provisions	3	-
- Book gain on disposals	-	12
	3	12
Other operating expense:		
- Additions to provisions	(106)	(28)
- Other costs	-	-
	(106)	(28)
Operating profit	**(194)**	**(77)**
Other financial income and expense	-	140
Total, before income tax expense	**(194)**	**63**
Income tax expense	45	25
Profit for the year	**(149)**	**88**
Reclassification of the net result from activities disposed of	-	111
Net result from exceptional items	**(149)**	**199**

2012

The exceptional items in 2012 are listed below:

- The impairments of property, plant and equipment and business activities in Cost of sales mainly relate to DSM Nutritional Products, DSM Pharmaceutical Products and DSM Sinochem Pharmaceuticals. Also included is the reversal of an impairment at DSM Sinochem Pharmaceuticals of € 12 million. For further information see note 9 Property, plant and equipment.
- Other costs in Cost of sales mainly relate to restructuring costs.
- Other costs in General and administrative relate to acquisition and integration costs (€ 34 million) and restructuring costs (€ 25 million).
- Additions to provisions relate to the costs of restructuring, as part of the Profit Improvement Program (€ 95 million) and to legal costs (€ 11 million). For further information see note 18 Provisions.

2011

The exceptional items in 2011 are listed below:

- The impairments of property, plant and equipment and business activities in Cost of sales relate to DSM Resins (see also Other operating expense).
- Other costs in Cost of sales and General and administrative mainly relate to the acquisition of Martek and include the acquisition costs (€ 13 million) and non-recurring costs related to value adjustments of inventories (€ 33 million).
- Legal claims have been included under other costs in Cost of sales (€ 5 million) and Other operating expense (€ 5 million).
- The book profit on disposals relates to the establishment of the DSM Sinochem Pharmaceuticals joint venture. For further information see note 2 Changes in the scope of consolidation.
- A restructuring program of € 28 million within DSM Resins has been included under Cost of sales (€ 5 million) and Other operating expense (€ 23 million). For further information see note 18 Provisions.
- Other financial income and expense relates to the book profit before tax on the sale of the Danisco shares (€ 140 million). For further information see note 11 Other financial assets.
- The reclassification of the net result from activities disposed of relates to the result from the disposal of activities. This consists of the book profit after tax on the disposal of DSM Elastomers For further information see note 2 Changes in the scope of consolidation.

7 Income tax

The income tax expense on the total result was € 51 million, which represents an effective income tax rate of 14.6% (2011: € 129 million, representing an effective income tax rate of 13.1%) and can be broken down as follows:

	2012	2011
Current tax expense:		
- Current year	(87)	(84)
- Prior-year adjustments	5	4
	(82)	**(80)**
Deferred tax expense:		
- Originating from temporary differences and their reversal	(10)	(50)
- Prior-year adjustments	11	(8)
- Change in tax rate	6	4
- Change in tax losses and tax credits recognized	24	5
	31	**(49)**
Total	**(51)**	**(129)**
Of which related to:		
- The result from continuing operations before exceptional items	(96)	(147)
- The result from exceptional items continuing operations	45	25
- The result from discontinued operations	-	(7)

The effective income tax rate on the result from continuing operations before exceptional items was 17.6% in 2012 (2011: 18.7%). This decrease was mainly caused by a different geographic spread of results and the application of preferential tax regimes in countries where DSM is operating. The tax rate for continuing operations for 2013 will be at about the same level as 2012. 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 %	2012	2011
Domestic income tax rate	25.0	25.0
Tax effects of:		
- Deviating rates	(5.6)	(4.9)
- Tax-exempt income and non-deductible expense	(5.6)	(0.5)
- Other effects	3.8	(0.9)
Effective tax rate continuing operations	**17.6**	**18.7**
Discontinued operations	-	0.3
Exceptional items	(3.0)	(5.9)
Total effective tax rate	**14.6**	**13.1**

The balance of deferred tax assets and deferred tax liabilities increased by € 4 million owing to the changes presented in the table below:

	2012	2011
Balance at 1 January		
Deferred tax assets	292	326
Deferred tax liabilities	(192)	(155)
Total	**100**	**171**
Changes:		
- Income tax expense in income statement	31	(49)
- Income tax expense in other comprehensive income	47	60
- Acquisitions and disposals	(78)	(77)
- Change in scope of consolidation	-	2
- Exchange differences	4	(7)
- Reclassification to held for sale	-	-
Balance at 31 December	**104**	**100**
Of which:		
- Deferred tax assets	340	292
- Deferred tax liabilities	(236)	(192)

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:

		2012		2011
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	30	(170)	34	(112)
Property, plant and equipment	22	(266)	32	(254)
Financial assets	2	(2)	2	(3)
Inventories	56	(34)	53	(30)
Receivables	10	(18)	2	(20)
Other non-current liabilities	46	(2)	41	(2)
Non-current provisions	81	(5)	58	(8)
Non-current borrowings	-	-	4	-
Other current liabilities	73	(5)	49	(6)
	320	**(502)**	**275**	**(435)**
Tax losses carried forward	286	-	260	-
Set-off	(266)	266	(243)	243
Total	**340**	**(236)**	**292**	**(192)**

No deferred tax assets were recognized for loss carryforwards amounting to €91 million (2011: €103 million). Unrecognized loss carryforwards amounting to €32 million will expire in the years up to and including 2017, (2011: €40 million up to and including 2016), €29 million between 2018 and 2022 (2011: €26 million between 2017 and 2021) and the remaining €30 million between 2023 and 2027 (2011: €37 million between 2022 and 2026).

The valuation of deferred tax assets depends on the probability of the reversal of temporary differences and the utilization of tax loss carryforwards. Deferred tax assets are recognized for future tax benefits arising from temporary differences and for tax loss carryforwards to the extent that the tax benefits are likely to be realized. In the Netherlands tax losses may be carried forward for 9 years. For the entities in the Dutch tax consolidation, losses will start to expire in 2019. Other foreign tax loss carryforwards primarily exist in the US and Austria. US tax losses will start to expire in 2024. Austrian tax losses can be carried forward for an indefinite period of time. DSM has to assess the likelihood that deferred tax assets will be recovered from future taxable profit. 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 profit for the year.

8 Intangible assets

	Total	Goodwill	Licenses and patents	Under construction	Development projects	Other
Balance at 1 January 2011						
Cost	1,605	855	158	53	23	516
Amortization and impairment losses	535	164	87	-	2	282
Carrying amount	**1,070**	**691**	**71**	**53**	**21**	**234**
Changes in carrying amount:						
- Capital expenditure	54	-	5	49	-	-
- Put into operation	-	-	-	(23)	-	23
- Acquisitions	679	387	21	-	-	271
- Disposals and deconsolidations	2	-	(32)	31	(2)	5
- Amortization	(83)	-	(6)	-	(1)	(76)
- Impairments	(7)	-	-	-	-	(7)
- Exchange differences	56	34	2	4	-	16
- Other reclassifications	15	-	2	1	-	12
	716	**421**	**(8)**	**62**	**(3)**	**244**
Balance at 31 December 2011						
Cost	2,393	1,281	134	115	22	841
Amortization and impairment losses	607	169	71	-	4	363
Carrying amount	**1,786**	**1,112**	**63**	**115**	**18**	**478**
Changes in carrying amount:						
- Capital expenditure	82	-	1	76	-	5
- Put into operation	-	-	32	(59)	1	26
- Acquisitions	1,093	807	1	-	7	278
- Disposals and deconsolidations	-	-	-	-	-	-
- Amortization	(111)	-	(11)	-	(1)	(99)
- Impairments	(19)	(1)	(4)	(9)	-	(5)
- Exchange differences	(44)	(31)	(1)	-	(1)	(11)
- Reclassifications to held for sale	-	-	-	-	-	-
- Other reclassifications	6	1	18	1	-	(14)
	1,007	**776**	**36**	**9**	**6**	**180**
Balance at 31 December 2012						
Cost	3,519	2,052	185	131	28	1,123
Amortization and impairment losses	726	164	86	7	4	465
Carrying amount	**2,793**	**1,888**	**99**	**124**	**24**	**658**

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 2012 is as follows:

Acquisition	2012	2011	Cash generating unit	Functional Currency	Year of acquisition
Fortitech[1]	405	-	DSM Nutritional Products	USD	2012
Martek	352	360	DSM Nutritional Products	USD	2011
NeoResins	358	358	DSM Resins & Functional Materials	EUR	2005
Ocean Nutrition	227	-	DSM Nutritional Products	CAD	2012
Catalytica	166	170	DSM Pharmaceuticals, Inc.	USD	2001
Kensey Nash	123	-	DSM Biomedical	USD	2012
The Polymer Technology Group	66	68	DSM Biomedical	USD	2008
Pentapharm	32	31	DSM Nutritional Products	CHF	2007
Culture and enzymes business of Cargill	23	-	DSM Food Specialties	EUR/USD	2012
Shandong ICD	23	23	DSM Dyneema	CNY	2011
Novamid	15	17	DSM Engineering Plastics	JPY	2010
AGI Corporation	17	15	DSM Resins & Functional Materials	TWD	2011
Syntech Far East	10	10	DSM Resins & Functional Materials	HKD	2005
Zhejiang Zhongken Biotechnology	10	10	DSM Food Specialties	CNY	2010
C5 Yeast Company	9	9	DSM Bio-based Products & Services	EUR	2011
Crina	8	8	DSM Nutritional Products	CHF	2006
DSM Japan Engineering Plastics	6	6	DSM Engineering Plastics	EUR	2003
Fatrom	5	5	DSM Nutritional Products	RON	2011
Other acquisitions	33	22			
Total	**1,888**	**1,112**			

[1] Goodwill related to the acquisition of Fortitech is a preliminary amount based upon the purchase price minus the book value according to US GAAP

The annual impairment tests of goodwill are performed in the fourth quarter. The recoverable amount of the cash generating units concerned is based on a value-in-use calculation. The cash flow projections for the first five years are derived from DSM's business plan (Corporate Strategy Dialogue) as adopted by the Managing Board. Cash flow projections beyond the five year planning period are extrapolated taking into account the growth rates that have been determined to apply for the specific cash generating unit in the Annual Strategic Review. The key assumptions in the cash flow projections relate to the market growth for the cash generating units and the related revenue projections. DSM Nutritional Products, DSM Resins & Functional Materials and DSM Pharmaceuticals, Inc. are three cash generating units to which significant amounts of goodwill are allocated. The growth assumptions for these cash generating units are based on the growth of the global food and feed markets, the demand for advanced coating resins that is influenced by growth in the building and construction markets and the growth of the American market for pharmaceutical custom manufacturing services, respectively, and range between 0% and 5%. From 2012 onwards the DSM Innovation Center is split into two separate cash generating units: DSM Biomedical and DSM Bio-based Products & Services. The goodwill of both Kensey Nash and the Polymer Technology Group (PTG) is allocated to DSM Biomedical, which therefore is the fourth cash generating unit to which a significant amount of goodwill is allocated. Growth in this cash generating unit is dependent on developments in the market for medical devices. The pre-tax discount rate is between 7.5% and 11.5% (2011: between 7.5% and 14%) depending on the risk profile of the cash generating unit. The terminal value for the period after ten years is determined with the assumption of no growth.

A stress test was performed on the impairment tests of the cash generating units. This showed that the conclusions of these tests would not have been different if reasonably possible adverse changes in key parameters had been assumed. The value-in-use of cash generating units with significant amounts of goodwill clearly exceeds their carrying amount. The market capitalization of DSM at 31 December 2012 amounted to € 8,307 million (31 December 2011: € 6,502 million) and was clearly above the carrying amount of net assets, providing an additional indication that goodwill is not impaired.

The other intangible assets are listed in the following table:

				2012	2011
	Cost	Amortization	Carrying amount	Of which acquisition-related	Of which acquisition-related
Application software	195	(143)	52	10	5
Marketing-related	63	(13)	50	50	49
Customer-related	305	(60)	245	245	154
Technology-based	496	(225)	271	236	169
Other	64	(24)	40	25	1
Total	**1,123**	**(465)**	**658**	**566**	**378**
Total 2011	841	(363)	478	378	

9 Property, plant and equipment

	Total	Land and buildings	Plant and machinery	Other equip-ment	Under construc-tion	Not used for operating activities
Balance at 1 January 2011						
Cost	6,684	1,749	4,323	199	386	27
Depreciation and impairment losses	3,741	803	2,769	147	1	21
Carrying amount	**2,943**	**946**	**1,554**	**52**	**385**	**6**
Changes in carrying amount:						
- Capital expenditure	474	4	34	3	433	-
- Put into operation	-	59	178	22	(259)	-
- Acquisitions	241	84	111	6	40	-
- Disposals	(4)	(1)	6	1	(10)	-
- Deconsolidations	(1)	(1)	-	-	-	-
- Depreciation	(314)	(62)	(238)	(14)	-	-
- Impairment losses	(98)	(6)	(89)	(1)	(2)	-
- Exchange differences	73	19	34	1	19	-
- Reclassification from held for sale	108	18	95	-	(5)	-
- Other reclassifications	(15)	-	-	(8)	(7)	-
- Other changes	(2)	-	-	-	(2)	-
	462	**114**	**131**	**10**	**207**	**-**
Balance at 31 December 2011						
Cost	7,651	1,943	4,867	221	593	27
Depreciation and impairment losses	4,246	883	3,182	159	1	21
Carrying amount	**3,405**	**1,060**	**1,685**	**62**	**592**	**6**
Changes in carrying amount:						
- Capital expenditure	633	21	34	5	573	-
- Put into operation	-	136	423	34	(593)	-
- Acquisitions	204	97	92	1	14	-
- Disposals	(23)	(20)	(3)	-	-	-
- Deconsolidations	-	-	-	-	-	-
- Depreciation	(340)	(68)	(256)	(16)	-	-
- Impairment losses	(42)	(10)	(29)	(1)	(2)	-
- Impairment reversals	12	-	12	-	-	-
- Exchange differences	(25)	(8)	(13)	-	(4)	-
- Reclassification from held for sale	(7)	(1)	(3)	-	(3)	-
- Other reclassifications	(5)	1	3	(3)	(6)	-
- Other changes	(1)	-	2	-	(3)	-
	406	**148**	**262**	**20**	**(24)**	**-**
Balance at 31 December 2012						
Cost	8,265	2,155	5,271	252	570	17
Depreciation and impairment losses	4,454	947	3,324	170	2	11
Carrying amount	**3,811**	**1,208**	**1,947**	**82**	**568**	**6**

Property, plant and equipment includes assets acquired under finance lease agreements with a carrying amount of € 4 million (31 December 2011: € 7 million). The related commitments are included under Borrowings and amount to € 4 million (31 December 2011: € 7 million). The total of the minimum lease payments at the balance sheet date amounts to € 4 million (31 December 2011: € 7 million) and their present values to € 3 million (31 December 2011: € 6 million).

Overview of minimum lease payments in time:

2013	1
2014-2017	3
After 2017	-
Total	**4**

In 2012 an impairment on Property, plant & equipment of € 42 million was recognized. This mainly related to an impairment of € 18 million at DSM Nutritional Products and an impairment of € 7 million at DSM Pharmaceutical Products. Furthermore an impairment of € 6 million was recognized in a cash generating unit of DSM Sinochem Pharmaceuticals which was more than off set by reversals of previous impairments in three other cash generating units of € 12 million. In all cases the recoverable amount was determined on the basis of the value in use the assets or cash generating units.

In 2011, on balance an impairment of € 98 million was recognized. This mainly related to an impairment at DSM Anti-Infectives of € 62 million, at DSM Fibre Intermediates of € 14 million and an impairment at DSM Dyneema of € 7 million. In the context of the formation of the joint venture with Sinochem, management determined that DSM Sinochem Pharmaceuticals comprised ten individual cash generating units. On the basis of this new cash generating unit structure and the business plan for the joint venture agreed between DSM and Sinochem an impairment test was performed. It was determined that the carrying value of certain cash generating units exceeded their value in use and therefore an impairment charge of € 62 million was recognized. Subsequently DSM contributed the impaired assets of DSM Anti-infectives (reported in the Pharma segment) to the joint venture.

10 Associates

	2012	2011
Balance at 1 January	**35**	**25**
Changes:		
- Share of profit	2	5
- Capital payments	4	1
- Dividend received	(1)	(1)
- New loans	-	4
- Disposals	-	-
- Consolidation changes	-	1
- Reclassification to held for sale	-	0
- Transfers	-	(1)
- Exchange differences	-	1
Balance at 31 December	**40**	**35**
Of which loans granted	13	13

DSM's share in its most important associates and the financial information on all associates on a 100% basis is disclosed in note 29: Interests in associates.

11 Other financial assets

	Total	Other participations	Other receivables	Other deferred items
Balance at 1 January 2011	**270**	**207**	**43**	**20**
Changes:				
- Charged to the income statement	(15)	-	(8)	(7)
- Acquisitions	15	2	12	1
- Capital payments	6	6	-	-
- Earn-out payments related to disposals	0	-	0	-
- Disposals	(222)	(222)	-	-
- Consolidation changes	15	-	15	-
- Loans granted	12	-	12	-
- Repayments	(4)	-	(4)	-
- Exchange differences	1	-	2	(1)
- Transfers	(6)	-	(12)	6
- Changes in fair value	54	54	-	-
- Reclassification from held for sale	8	-	8	0
- Other changes	1	-	2	(1)
Balance at 31 December 2011	**135**	**47**	**70**	**18**
Changes:				
- Charged to the income statement	(13)	(3)	(3)	(7)
- Acquisitions	2	2	-	-
- Capital payments	8	8	-	-
- Earn-out payments related to disposals	-	-	-	-
- Disposals	(3)	(3)	-	-
- Consolidation changes	-	-	-	-
- Loans granted	9	-	9	-
- Repayments	(1)	-	(1)	-
- Exchange differences	(3)	-	(1)	(2)
- Transfers	18	-	(17)	35
- Changes in fair value	(8)	(8)	-	-
- Reclassification from held for sale	-	-	-	-
- Other changes	(3)	(1)	(3)	1
Balance at 31 December 2012	**141**	**42**	**54**	**45**

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 € 31 million is included that relates to equity instruments whose fair value cannot be measured reliably (2011: € 30 million). These instruments are therefore measured at cost.

The disposal in 2011 within Other participations relates to the sale of the shares in Danisco, which resulted in a profit of € 140 million before tax, which was reported as an exceptional item.

12 Inventories

	2012	2011
Raw materials and consumables	533	473
Intermediates and finished goods	1,320	1,143
	1,853	**1,616**
Adjustments to lower net realizable value	(50)	(43)
Total	**1,803**	**1,573**

The carrying amount of inventories adjusted to net realizable value (before reclassification to held for sale) was € 161 million (2011: € 159 million).

Changes in the adjustment to net realizable value

Balance at 1 January 2011	**(50)**
Additions charged to income statement	(90)
Utilization / reversals	99
Exchange differences	(1)
Other	(1)
Balance at 31 December 2011	**(43)**
Additions charged to income statement	(57)
Utilization / reversals	50
Exchange differences	-
Other	-
Balance at 31 December 2012	**(50)**

13 Receivables

	2012	2011
Trade receivables		
Trade accounts receivable	1,544	1,536
Deferred items	26	19
Receivables from associates	22	16
	1,592	**1,571**
Adjustment for bad debts	(23)	(20)
Total	**1,569**	**1,551**
Other receivables		
Income taxes receivable	42	24
Other taxes and social security contributions	18	15
Government grants	21	-
Loans	41	11
Other receivables	103	94
Deferred items	5	9
Total	**230**	**153**

Deferred items comprise € 31 million (2011: € 28 million) in prepaid expenses that will impact profit or loss in future periods.

The increase in government grants mainly related to DSM Food Specialties. The increase in loans was partly caused by the joint financing with local government of an innovation campus in the Netherlands.

DSM has a deferred receivable of € 39 million excluding accrued interest (2011: € 39 million) from Sinochem Group (the joint venture partner in DSM Sinochem Pharmaceuticals) that is due when the new Yushu factory is ready for commercial full production which is included in other receivables.

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 € 1,411 million (2011: € 1,367 million) is provided below. The remaining balance reported as trade receivables amounting to € 133 million (2011: € 169 million) is excluded from this analysis because it principally concerns reclaimable VAT and accruals that are not related to the payment behavior of customers.

Aging overview

in %	**2012**	2011
Neither past due nor impaired	84	86
1-29 days overdue	12	11
30-89 days overdue	2	1
90 days or more overdue	2	2

The changes in the allowance for doubtful accounts receivable are as follows:

Balance at 1 January 2011	**(18)**
Additions charged to income statement	(5)
Deductions	4
Acquisitions	(1)
Exchange differences	0
Balance at 31 December 2011	**(20)**
Additions charged to income statement	(11)
Deductions	8
Acquisitions	-
Exchange differences	-
Balance at 31 December 2012	**(23)**

14 Current investments

	2012	2011
Fixed term deposits	12	89
Total	**12**	**89**

15 Cash and cash equivalents

	2012	2011
Deposits	75	920
Cash at bank and in hand	1,034	1,122
Payments in transit	4	2
Bills of exchange	8	14
Total	**1,121**	**2,058**

Cash at year-end 2012 was not being used as collateral (same as in 2011). It was restricted for an amount of € 5 million (in 2011: € 2 million).

16 Equity

	2012	2011
Balance at 1 January	**5,974**	**5,577**
Net profit	298	860
Net exchange differences	(26)	63
Net actuarial gains/(losses) on defined benefit obligations	(100)	(31)
Net asset ceiling related to defined benefit obligations	-	1
Dividend	(302)	(246)
Proceeds from reissue of ordinary shares	182	201
Repurchase of shares	-	(357)
Other changes	16	(94)
Balance at 31 December	**6,042**	**5,974**

After the balance sheet date the following dividends were declared by the Managing Board:

	2012	2011
Per cumulative preference share A: €0.23 (2011: €0.23)	10	10
Per ordinary share: €1.50 (2011: €1.45)	253	237
Total	**263**	**247**

The proposed final dividend on ordinary shares is subject to approval by the Annual General Meeting of Shareholders and has not been deducted from Equity. Shareholders will be provided with the opportunity to receive dividends in cash or in the form of ordinary shares.

For a description of the rules of profit appropriation and of the statutory rights attached to preference shares B, see page 218.

Share capital

On 31 December 2012 the authorized capital amounted to €1,125 million (2011: €1,125 million), distributed over 330,960,000 ordinary shares, 44,040,000 cumulative preference shares A and 375,000,000 cumulative preference shares B. All shares have a nominal value of €1.50 each.

The changes in the number of issued and outstanding shares in 2011 and 2012 are shown in the following table.

	Issued shares		Treasury shares
	Ordinary	Cumprefs A	Ordinary
Balance at 1 January 2011	**181,425,000**	**44,040,000**	14,957,368
Reissue of shares in connection with share-based payments			(3,568,018)
Repurchase of shares			9,000,000
Dividend in the form of ordinary shares			(2,221,738)
Balance at 31 December 2011	181,425,000	44,040,000	18,167,612
Number of treasury shares at 31 December 2011	(18,167,612)	-	
Number of shares outstanding at 31 December 2011	**163,257,388**	**44,040,000**	
Balance at 1 January 2012	**181,425,000**	**44,040,000**	18,167,612
Reissue of shares in connection with share-based payments			(3,049,509)
Repurchase of shares			-
Dividend in the form of ordinary shares			(2,377,191)
Balance at 31 December 2012	181,425,000	44,040,000	12,740,912
Number of treasury shares at 31 December 2012	(12,740,912)	-	
Number of shares outstanding at 31 December 2012	**168,684,088**	**44,040,000**	

The average number of ordinary shares outstanding in 2012 was 165,543,091 (2011: 165,566,944). All shares issued are fully paid.

The cumulative preference shares A have been classified as equity because there is no mandatory redemption and distributions to the shareholders are at the discretion of DSM.

On 31 December 2012 no cumulative preference shares B were outstanding.

Share premium
Of the total share premium of €489 million (2011: €489 million), an amount of €112 million (2011: €114 million) can be regarded as entirely free of tax.

Treasury shares
On 31 December 2011 DSM possessed 18,167,612 ordinary shares (nominal value €27 million, 8.1% of the share capital). The average purchase price of the ordinary treasury shares was €37.75. As at 31 December 2011, 6,919,350 of the total number of treasury shares outstanding were held for servicing management and personnel share-option rights. The remainder, 11,248,262 shares, is the balance of shares that were purchased under the company's share buy-back program in 2007 and 2008 and shares that were reissued as stock dividend in 2011.

On 31 December 2012 DSM possessed 12,740,912 ordinary shares (nominal value €19 million, 5.7% of the share capital). The average purchase price of the ordinary treasury shares was €37.61. As at 31 December 2012, 3,869,841 of the total number of treasury shares outstanding were held for servicing management and personnel share-option rights. The remainder, 8,871,071 shares, is the balance of shares that were purchased under the company's share buy-back program in 2007 and 2008 and shares that were reissued as stock dividend in 2011 and 2012.

Other reserves in Shareholder's equity

	Total	Translation reserve	Hedging reserve	Reserve for share-based compensation	Fair value reserve
Balance at 1 January 2011	**381**	**218**	**75**	**39**	**49**
Changes:					
Fair-value changes of derivatives	(116)	-	(116)	-	-
Release to income statement	(4)	-	(4)	-	-
Disposals	(139)	-	-	-	(139)
Fair-value changes of other financial assets	54	-	-	-	54
Exchange differences	47	47	-	-	-
Options and performance shares granted	19	-	-	19	-
Options and performance shares exercised/cancelled	(18)	-	-	(18)	-
Income tax	50	6	24	-	20
Total changes	(107)	53	(96)	1	(65)
Balance at 31 December 2011	**274**	**271**	**(21)**	**40**	**(16)**
Changes:					
Fair-value changes of derivatives	(44)	-	(44)	-	-
Release to income statement	22	-	22	-	-
Disposals	-	-	-	-	-
Fair-value changes of other financial assets	(8)	-	-	-	(8)
Exchange differences	(28)	(28)	-	-	-
Options and performance shares granted	18	-	-	18	-
Options and performance shares exercised/cancelled	(13)	-	-	(13)	-
Income tax	14	1	13	-	-
Total changes	(39)	(27)	(9)	5	(8)
Balance at 31 December 2012	**235**	**244**	**(30)**	**45**	**(24)**

17 Earnings per ordinary share

in €	Continuing operations			Discontinued operations	Total
	Before exceptional items	Exceptional items	Total		
2011					
Net profit available to holders of ordinary shares (in € million)[1]	**584**	**199**	**783**	**21**	**804**
- Basic earnings	**3.53**	**0.53**	**4.06**	**0.80**	**4.86**
- Impact of reclassification of net result from activities disposed of	-	0.67	0.67	(0.67)	-
- Basic earnings after reclassification of the net result from discontinued operations to exceptional items	3.53	1.20	4.73	0.13	4.86
- Diluted earnings	**3.50**	**0.53**	**4.03**	**0.79**	**4.82**
- Impact of reclassification of net result from activities disposed of	-	0.66	0.66	(0.66)	-
- Diluted earnings after reclassification of the net result from discontinued operations to exceptional items	3.50	1.19	4.69	0.13	4.82
- Dividend distributed in the period (including stock dividend)					1.40
- Dividend for the year					1.45
- Average number of ordinary shares outstanding (x 1000)					165,567
- Effect of dilution due to share options (x 1000)					1,068
- Adjusted average number of ordinary shares (x 1000)					166,635
2012					
Net profit available to holders of ordinary shares (in € million)[1]	**427**	**(149)**	**278**	**-**	**278**
- Basic earnings	**2.58**	**(0.90)**	**1.68**	**-**	**1.68**
- Diluted earnings	**2.56**	**(0.89)**	**1.67**	**-**	**1.67**
- Dividend distributed in the period (including stock dividend)					1.48
- Dividend for the year					1.50
- Average number of ordinary shares outstanding (x 1000)					165,543
- Effect of dilution due to share options (x 1000)					1,345
- Adjusted average number of ordinary shares (x 1000)					166,888

[1] Reconciliation to profit for the year is provided in the consolidated income statement

18 Provisions

The total of non-current and current provisions increased by € 47 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 2011	**28**	**35**	**41**	**22**	**126**
Changes in 2011:					
- Additions	31	2	2	34	69
- Releases	(8)	(4)	-	(5)	(17)
- Uses	(13)	(3)	(2)	(11)	(29)
- Acquisitions	-	4	-	1	5
- Exchange differences	1	0	0	0	1
- Reclassifications	3	-	1	-	4
Total changes	14	(1)	1	19	33
Balance at 1 January 2012	**42**	**34**	**42**	**41**	**159**
Of which current	16	4	4	19	43
Changes in 2012:					
- Additions	99	1	10	12	122
- Releases	(2)	-	-	(1)	(3)
- Uses	(51)	(5)	(3)	(23)	(82)
- Acquisitions	-	-	-	1	1
- Exchange differences	1	-	-	-	1
- Reclassifications	5	3	-	-	8
Total changes	52	(1)	7	(11)	47
Balance at 31 December 2012	**94**	**33**	**49**	**30**	**206**
Of which current	62	6	4	9	81

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 € 1 million in 2012 in view of the passage of time and changes in the discount rate.

The provisions for restructuring costs and termination benefits mainly relate to the costs of redundancy schemes connected to the dismissal and transfer of employees and costs of termination of contracts. These provisions have an average life of 1 to 3 years.

The provisions for environmental costs relate to soil clean-up obligations, among other things. These provisions have an average life of more than 10 years.

The provisions for other long-term employee benefits mainly relate to length-of-service and end-of-service payments.

Several items have been combined under Other provisions, for example onerous contracts and legal fees. These provisions have an average life of 1 to 3 years.

The additions to the provisions for restructuring costs and termination benefits in 2012 mainly relate to the restructuring projects in connection with the Profit Improvement Program.

19 Borrowings

	2012		2011	
	Total	Of which current	Total	Of which current
Debenture loans	1,734	-	1,729	-
Private loans	320	135	308	11
Finance lease liabilities	4	1	7	4
Credit institutions / commercial paper	506	506	145	145
Total	**2,564**	**642**	**2,189**	**160**

In agreements governing loans with a residual amount at year-end 2012 of € 1,962 million, of which USD 150 million of a short-term nature (31 December 2011: € 1,962 million, of which none of a short-term nature), clauses have been included which restrict the provision of security. The documentation of the € 300 million bond issued in November 2005, which was increased by € 200 million in September 2008, the documentation of the € 750 million bond issued in October 2007 and the documentation of the € 500 million bond issued in March 2009 include a change-of-control clause. This clause allows the bond investors to request repayment at par if 50% or more of the DSM shares are controlled by a third party or if the company is downgraded below investment grade (< BBB-). In December 2012 Moody's confirmed their A3 credit rating for DSM but upgraded the outlook from stable to positive. Standard & Poor's upgraded DSM's credit rating in 2010 from A- to A with a stable outlook, which was reconfirmed in 2012.

At 31 December 2012, there were no borrowings with a remaining term of more than five years (31 December 2011: € 744 million).

The schedule of repayment of borrowings (excluding debt to credit institutions and commercial paper) is as follows:

	2012	2011
2012	-	15
2013	137	130
2014	543	537
2015	618	607
2016 and 2017	760	755
After 2017	-	-
Total	**2,058**	**2,044**

A breakdown of the borrowings by currency (excluding debt to credit institutions and commercial paper) is given in the following table:

	2012	2011
EUR	1,753	1,752
USD	231	240
CNY	48	36
Other	26	16
Total	**2,058**	**2,044**

On balance, total borrowings increased by €375 million owing to the following changes:

	2012	2011
Balance at 1 January	**2,189**	**2,097**
Loans taken up	35	41
Repayments	(114)	(50)
Changes in fair value	-	(13)
Acquisitions/disposals	103	2
(De)consolidations	-	14
Changes in debt to credit institutions/commercial paper	361	54
Exchange differences	(10)	10
Reclassification from held for sale	-	15
Other changes	-	19
Balance at 31 December	**2,564**	**2,189**

The average effective interest rate on the portfolio of borrowings outstanding in 2012, including financial instruments related to these borrowings, amounted to 4.3% (2011: 4.3%).

A breakdown of debenture loans is given below:

			2012	2011
EUR loan	4.00%	2005-2015	490	488
EUR loan	5.25%	2007-2017	745	744
EUR loan	5.75%	2009-2014	499	497
Total			**1,734**	**1,729**

All debenture loans have a fixed interest rate.

The original amount of €300 million of the 4% EUR loan 2005-2015 was swapped into CHF to hedge the currency risk of net investments in CHF-denominated subsidiaries. This original amount of the loan was pre-hedged (cash flow hedge) in 2005 by means of a forward starting swap, which led to a lower effective fixed interest rate of 3.66%. The loan increase of €192 million (after discount and fair value adjustments), was swapped to floating rates in August 2009 by means of an interest rate swap (fair value hedge). In August 2011 the swap to floating was unwound and an interest advantage of 1.54% per annum was locked in for the remaining life time. The effective interest rate for the increase now amounts to 3.67% (2011: floating at 2.17% above 1 month Euribor until unwinding of fixed-floating swap).

As in 2011, at year-end 2012 the 5.25% EUR loan 2007-2017 was swapped into CHF for an amount of €325 million to hedge the currency risk of net investments in CHF-denominated subsidiaries. In 2006 and 2007 the loan had been partly pre-hedged (cash flow hedge) by means of forward starting swaps, leading to a lower effective fixed interest rate of 4.89% for the full loan.

Of the €500 million 5.75% EUR loan 2009-2014 €300 million was swapped to floating rates in September 2009 by means of an interest rate swap (fair value hedge). In August 2011 the swap to floating was unwound and an interest advantage of 1.31% per annum was locked in for the remaining life time. The effective interest now amounts to 5.1% for the whole loan (2011: until unwinding of swap floating part at 3.48% above 1 month Euribor and 5.88% on fixed part).

In November 2010 pre-hedge contracts were concluded for an intended refinancing in 2014 of the 5.75% EUR loan 2009-2014 at a 10 year interest rate of 3.42% excluding DSM spread.

In November 2011 pre-hedge contracts were concluded for an intended refinancing in 2015 of the 4% EUR loan 2005-2015 at a 10 year interest rate of 3.20% excluding DSM spread. At year-end 2012 the fair value of the pre-hedge contracts amounted to € 112 million negative (year-end 2011 € 27 million negative), which is recognized in the hedging reserve.

A breakdown of private loans is given below:

			2012	2011
CNY loan	floating (12 months)	2008-2014	36	36
USD loan	5.51%	2003-2013	114	117
USD loan	5.61%	2003-2015	114	116
Other loans			56	39
Total			**320**	**308**

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 transaction is recognized in income over the remaing life of the bond, leading to an effective fixed USD interest rate of 4.29% for the loan. This 5.51% USD loan was assigned as a net investment hedge to hedge the currency risk of net investments in USD-denominated subsidiaries.

The currency component of the 5.61% USD loan 2003-2015 was swapped into euros (cash flow hedge). The resulting EUR liability was swapped into CHF to hedge the currency risk of net-investments in CHF-denominated subsidiaries (net-investment hedge).

DSM's policy regarding financial-risk management is described in note 23.

20 Other non-current liabilities

	2012	2011
Investment grants	49	10
Deferred items	40	50
Other non-current liabilities	5	9
Total	**94**	**69**

The increase in investment grants is mainly relating to DSM Food Specialties. The decrease in deferred items mainly relates to the amortization of interest rate swaps.

21 Current liabilities

	2012	2011
Trade payables		
Received in advance	41	29
Trade accounts payable	1,374	1,300
Notes and cheques due	19	3
Owing to associates	19	16
Total	**1,453**	**1,348**
Other current liabilities		
Income taxes payable	55	42
Other taxes and social security contributions	54	59
Interest	51	47
Pensions	5	4
Investment creditors	141	106
Other liabilities	318	292
Deferred items	4	7
Total	**628**	**557**

22 Contingent liabilities and other financial obligations

The contingent liabilities and other financial obligations in the following table are not recognized in the balance sheet.

	2012	2011
Operating leases and rents	76	84
Guarantee obligations on behalf of associates and third parties	158	156
Outstanding orders for projects under construction	15	10
Other	10	21
Total	**259**	**271**

Guarantee obligations are principally related to value added tax and duties on the one hand and to financing obligations of associates on the other. Most of the outstanding orders for projects under construction will be completed in 2013. Property, plant and equipment under operating leases primarily concerns catalysts, buildings and various equipment items.

The commitments for operating leases and rents are spread as follows:

	2012	2011
2012	-	18
2013	16	14
2014	12	11
2015	11	10
2016 and 2017	11	3
After 2017	26	28
Total	**76**	**84**

Litigation

DSM has a process in place to monitor legal claims periodically and systematically.

DSM is involved in several legal proceedings, most of which are related to the ordinary course of business. DSM does not expect these proceedings to result in liabilities that have a material effect on the company's financial position. In cases where it is probable that the outcome of the proceedings will be unfavorable, and the financial outcome can be measured reliably, a provision has been recognized in the financial statements and disclosed in note 18: Provisions.

23 Financial instruments and risks

Policies on financial risks

General

The main financial risks faced by DSM relate to liquidity risk and market risk (comprising interest rate risk, currency risk, price risk and credit risk). DSM’s financial policy is aimed at minimizing the effects of fluctuations in currency-exchange and interest rates on its results in the short term and following market rates in the long term. DSM uses financial derivatives to manage financial risks relating to business operations and does not enter into speculative derivative positions. DSM's financial policy, including policies and processes for managing capital, is discussed more extensively on page 110 of the Report by the Managing Board.

Liquidity risk

DSM has two committed credit facilities: one of € 400 million maturing in April 2013 and one of € 500 million refinanced in September 2011 and maturing in September 2016. The latter had an extension option in 2012, which was utilized, bringing the maturity to September 2017. In 2013 there is a second extension option (to extend the final maturity by another year). Together, the facilities amount to a total of € 900 million (2011: € 900 million). Furthermore, DSM has a commercial-paper program amounting to € 1,500 million (2011: € 1,500 million). The company will use the commercial-paper program to a total of not more than € 900 million (2011: € 900 million). The agreements for the committed credit facilities neither have financial covenants nor material adverse changes clauses. On 31 December 2012 no loans were taken up under the committed credit facilities. DSM has no derivative contracts to manage currency risk or interest rate risk outstanding under which margin calls by the counterparty would be permitted.

Floating-rate and fixed-rate borrowings and short-term monetary liabilities analyzed by maturity are summarized in the following table. Borrowings excluding credit institutions are shown after taking into account related interest rate derivatives in designated hedging relationships. DSM manages financial liabilities and related derivative contracts on the basis of the remaining contractual maturities of these instruments. Therefore the remaining maturities presented in the following table provide an appropriate understanding of the timing of the cash flows related to these instruments, and amounts are not expected to differ from those reported. Financial assets are not linked to financial liabilities in order to meet cash outflows on these liabilities.

2011	Fixed-rate borrowings	Floating-rate borrowings	Short-term monetary liabilities	Subtotal	Interest payments	Cash at[1] redemption	Total cash out
Within 1 year	11	4	2,050	2,065	95	-	2,160
Within 1 to 2 years	121	9	-	130	93	-	223
Within 2 to 3 years	499	38	-	537	68	2	607
Within 3 to 4 years	605	2	-	607	56	12	675
Within 4 to 5 years	-	11	-	11	36	-	47
After 5 years	744	-	-	744	30	6	780
Total	**1,980**	**64**	**2,050**	**4,094**	**378**	**20**	**4,492**
2012							
Within 1 year	121	16	2,587	2,724	95	-	2,819
Within 1 to 2 years	505	38	-	543	69	2	614
Within 2 to 3 years	618	-	-	618	57	9	684
Within 3 to 4 years	1	9	-	10	37	-	47
Within 4 to 5 years	751	-	-	751	30	5	786
After 5 years	-	-	-	-	-	-	-
Total	**1,996**	**63**	**2,587**	**4,646**	**288**	**16**	**4,950**

[1] Difference between nominal redemption and amortized costs

Interest rate risk

DSM's interest rate risk policy is aimed at minimizing the interest rate risks associated with the financing of the company and thus at the same time optimizing the net interest costs. This policy translates into a certain desired profile of fixed-interest and floating-interest positions, including cash and cash equivalents, with the floating-interest position in principle not exceeding 60% of net debt.

On 31 December 2012, DSM had no outstanding fixed-floating interest rate swaps other than the pre-hedges for refinancing in 2014 and 2015, respectively (see note 19).

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 2012, with all other variables held constant. A 1% reduction in interest rates would result in a €6 million pre-tax loss in the income statement on the basis of the composition of financial instruments on 31 December 2012 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 2012 to changes in interest rates is set out in the following table.

	2012				2011			
	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	12	12	-	-	89	89	-	-
Cash and cash equivalents	1,121	1,121	-	-	2,058	2,058	-	-
Short-term borrowings	(642)	(646)	1	(1)	(160)	(160)	-	-
Long-term borrowings	(1,922)	(2,142)	63	(66)	2,029	(2,239)	80	(85)
Interest rate swaps (fixed to floating and pre-hedges)	(112)	(112)	90	(104)	(27)	(27)	77	(91)

Currency risk

It is DSM's policy to hedge 100% of the currency risks resulting from sales and purchases at the moment of recognition of the trade receivables and trade payables. In addition, operating companies may – under strict conditions – opt for hedging currency risks from firm commitments and forecasted transactions. The currencies giving rise to these risks are primarily USD, GBP and JPY. The risks arising from currency exposures are regularly reviewed and hedged when appropriate. DSM uses average-rate currency forward contracts, currency forward contracts, spot contracts, and average-rate currency options to hedge the exposure to fluctuations in foreign exchange rates. At year-end, these instruments had remaining maturities of less than one year.

To hedge intercompany loans, receivables and payables denominated in currencies other than the functional currency of the subsidiaries, DSM uses currency swaps or forward contracts. Only for some larger internal loans with a total notional amount of €1,482 million, hedge accounting is applied for these instruments. On 31 December 2012, the notional amount of the currency forward contracts was €3,458 million (2011: €3,358 million).

In 2012 DSM hedged USD 919 million (2011 USD 812 million) of its projected net cash flow in USD in 2013, of which USD 379 million against EUR and USD 540 million against CHF by means of average-rate currency forward contracts at an average exchange rate of USD 1.28 per euro and CHF 0.94 per US dollar, respectively, for the four quarters of 2013. In 2012 DSM also hedged JPY 5,100 million (2011: JPY 7,000 million) of its projected net cash flow in JPY in 2013, of which JPY 4,000 million against Swiss franc and JPY 1,100 million against the euro by means of average-rate currency forward contracts at an average exchange rate of JPY 83 per Swiss franc and JPY 99 per euro, respectively, for the four quarters of 2013. DSM continued the hedge, started in 2011, of projected GBP cash obligation against CHF: GBP 50 million at an average exchange rate of CHF 1.46 per British pound. These hedges have fixed the exchange rate for part of the USD and JPY receipts and GBP payments in 2013. Cash flow hedge accounting is applied for these hedges. As a result of similar hedges concluded in 2011 for the year 2012, in 2012 €25 million negative (2011: €68 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 2012. CHF-denominated net assets have been partially hedged by currency swaps (2012: CHF 1,061 million; 2011: CHF 1,061 million). USD-denominated net assets have been partially hedged through a USD loan (2012: USD 150 million; 2011 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, with all other variables held constant. A +10% change indicates a strengthening of the foreign currencies against the euro. A -10% change represents a weakening of the foreign currencies against the euro.

In 2012 no gains or losses relating to fair value hedges were included in Other financial income and expense (2011: €13 million gain).

	2012				2011			
	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	12	12	-	-	89	89	-	-
Cash and cash equivalents	1,121	1,121	56	(56)	2,058	2,058	76	(76)
Short-term borrowings	(642)	(646)	(24)	24	(160)	(160)	(6)	6
Long-term borrowings	(1,922)	(2,142)	(20)	20	(2,029)	(2,239)	(31)	31
Interest rate swaps	(112)	(112)	-	-	(27)	(27)	-	-
Cross currency swaps	(53)	(53)	(216)	216	(104)	(104)	(132)	132
Currency forward contracts	14	14	29	(29)	(1)	(1)	66	(66)
Cross currency swaps related to net investments in foreign entities[1]	(113)	(113)	(92)	92	(117)	(117)	(94)	94
Average-rate forwards used for economic hedging[2]	27	27	(28)	28	(27)	(27)	(31)	31

[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, with all other variables held constant. A +10% change indicates a strengthening of the USD against the foreign currencies and the euro and a -10% change represents a weakening of the USD against the foreign currencies and the euro.

	2012				2011			
	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	12	12	-	-	89	89	-	-
Cash and cash equivalents	1,121	1,121	7	(7)	2,058	2,058	3	(3)
Short-term borrowings	(642)	(646)	(13)	13	(160)	(160)	(1)	1
Long-term borrowings	(1,922)	(2,142)	(13)	13	(2,029)	(2,239)	(26)	26
Interest rate swaps	(112)	(112)	-	-	(27)	(27)	-	-
Cross currency swaps	(53)	(53)	(184)	184	(104)	(104)	(126)	126
Currency forward contracts	14	14	(8)	8	(1)	(1)	5	(5)
Cross currency swaps related to net investments in foreign entities[1]	(113)	(113)	-	-	(117)	(117)	-	-
Average-rate forwards used for economic hedging[2]	27	27	(70)	70	(27)	(27)	(63)	63

[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 2012 price risks related to investments in securities were limited.

Credit risk

DSM manages the credit risk to which it is exposed by applying credit limits per institution and by dealing exclusively with institutions having a high credit rating. In September 2011 individual credit limits for financial institutions were reviewed and reduced by about 50% in anticipation of increasing exposure to credit risk as rising cash levels of DSM coincided with a still questionable stability of banks. Given this economic environment, DSM decided to invest most of its cash position in deposits with a maximum maturity of one month and with banks with a Moody's credit rating of AA3 or higher. This policy has been consistently applied since that time.

At the balance sheet date there were no significant concentrations of credit risk.

With regard to treasury activities it is ensured that financial transactions are only concluded with counterparties that have at least a Moody's credit rating of P1 for short-term instruments or A3 for long-term instruments. At business group level, outstanding receivables are continuously monitored by the management of the operating companies. Appropriate allowances are made for credit risks that have been identified (as listed in note 13). It is therefore unlikely that significant losses will arise in relation to receivables that have not been provided for.

The maximum exposure to credit risk is represented by the carrying amounts of financial assets that are recognized in the balance sheet, including derivative financial instruments. No significant agreements or financial instruments were available at the reporting date that would reduce the maximum exposure to credit risk. Information about financial assets is presented in note 10 Associates, note 11 Other financial assets, note 13 Receivables, note 14 Current investments, note 15 Cash and cash equivalents and note 23 Financial instruments and risks.

Fair value of financial instruments

In the following table the carrying amounts and the estimated fair values of financial instruments are disclosed:

	31 December 2012		31 December 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Other participations	42	42	47	47
Other non-current receivables	54	54	70	70
Current receivables	1,799	1,799	1,704	1,704
Financial derivatives	62	62	50	50
Current investments	12	12	89	89
Cash and cash equivalents	1,121	1,121	2,058	2,058
Liabilities				
Non-current borrowings	1,922	2,142	2,029	2,239
Other non-current liabilities	94	94	69	69
Current borrowings	642	646	160	160
Financial derivatives	299	299	326	326
Other current liabilities	2,081	2,081	1,905	1,905

The following methods and assumptions were used to determine the fair value of financial instruments: cash, current investments, current receivables, current borrowings and other current liabilities are stated at carrying amount, which approximates fair value in view of the short maturity of these instruments. The fair values of financial derivatives and long-term instruments are based on calculations, quoted market prices or quotes obtained from intermediaries.

The portfolio of derivatives consists of average rate forward contracts that are valued against average foreign exchange forward rates obtained from Bloomberg and other derivatives that are valued using a discounted cash flow model, applicable market yield curves and foreign exchange spot rates. All inputs for the fair value calculations represent observable market data that are obtained from external sources that are deemed to be independent and reliable.

DSM uses the following hierarchy for determining the fair value of financial instruments measured at fair value:

- Level 1: quoted prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs that have a significant effect on the fair value are observable, either directly or indirectly
- Level 3: techniques that use inputs that have a significant effect on the fair value that are not based on observable market data.

The following table shows the carrying amounts of the financial derivatives recognized, broken down by type and purpose:

	Fair value hierarchy	Assets	Liabilities	Total
Interest rate swaps	Level 2	-	(27)	(27)
Currency swaps	Level 2	3	(224)	(221)
Total financial derivatives related to borrowings		**3**	**(251)**	**(248)**
Currency forward contracts	Level 2	47	(75)	(28)
Balance at 31 December 2011		**50**	**(326)**	**(276)**
Interest rate swaps	Level 2	-	(112)	(112)
Currency swaps	Level 2	16	(182)	(166)
Total financial derivatives related to borrowings		**16**	**(294)**	**(278)**
Currency forward contracts	Level 2	46	(5)	41
Balance at 31 December 2012		**62**	**(299)**	**(237)**

During the year there were no transfers between individual levels of the fair value hierarchy.

24 Post-employment benefits

The group operates a number of defined benefit plans and defined contribution plans throughout the world, the assets of which are generally held in separately administered funds. The pension plans are generally funded by payments from employees and from the relevant group companies. The group also provides certain additional healthcare benefits to retired employees in the US.

Post-employment benefits relate to obligations that will be settled in the future and require assumptions to project benefit obligations. Post-employment benefit accounting is intended to reflect the recognition of post-employment benefits over the employee's approximate service period, based on the terms of the plans and the investment and funding. The accounting requires management to make assumptions regarding variables such as discount rate, future salary increases, life expectancy, and future healthcare costs. Management consults with external actuaries regarding these assumptions at least annually for significant plans.

Changes in these key assumptions can have a significant impact on the projected defined benefit obligations, funding requirements and periodic costs incurred.

The charges for pension costs recognized in the income statement (note 4) relate to the following:

	2012	2011
Defined benefit plans:		
- Pension plans	20	29
- Healthcare plans	2	1
- Other post-employment benefits	2	2
Defined contribution plans	101	93
Total continuing activities	**125**	**125**
Discontinued activities	-	1
Exceptional items	-	-
Total	**125**	**126**

In 2010 DSM agreed with the labor unions to change the Dutch pension plan as of 2011. The plan was converted from final-pay to average-pay and as of 1 January 2012 the pensionable age was raised from 65 to 66 years, in line with developments in the Netherlands. The new agreement covers a period of 5 years and obliges DSM to pay a fixed premium. In view of the fact that DSM has no further obligation than to pay the agreed premium, the changed plan has been accounted for as a defined contribution plan since 2011.

On 1 January 2013 accounting for defined benefit pension plans changed as a result of the introduction of the revised IAS 19, 'Employee Benefits'. Three important changes were introduced.

- The application of the corridor mechanism was abolished which means that all actuarial gains and losses had to be recognized in other comprehensive income immediately. This change will not impact DSM because immediate recognition of actuarial gains and losses is already applied since 2006.
- The expected return on pension assets were no longer used for the determination of annual pension costs. Instead interest costs or benefits are calculated on the net balance of pension assets and liabilities. Because the expected return on plan assets was usually higher than the discount rate this change will increase annual defined benefit pension costs for DSM by approximately € 10 million.
- Return on plan assets and interest costs on defined benefit obligations which are currently reported in EBITDA will be reported in financial income and expense from 2013 onwards which will shift approximately € 15 million out of operating profit to financial income and expense.

All these changes have been taken into account for the determination of the expected costs for 2013 that are presented below.

For 2013, costs for the defined benefit plans relating to pensions and healthcare will be € 48 million (2012 € 24 million).

Changes in Prepaid pension costs and Employee benefits liabilities recognized in the balance sheet are disclosed in the following overview:

	2012	2011
Prepaid pension costs	-	1
Employee benefits liabilities	(328)	(321)
Balance at 1 January	**(328)**	**(320)**
Changes:		
- Balance of actuarial gains/(losses)	(133)	(41)
- Balance of asset ceiling	-	1
- Employee benefits costs	(24)	(32)
- Contributions by employer	53	65
- Exchange differences	1	(2)
- Reclassification from/to held for sale	(2)	(1)
- Acquisitions / disposals	-	(1)
- Other changes	3	3
Total changes	**(102)**	**(8)**
Balance at 31 December	**(430)**	**(328)**
Of which:		
- Prepaid pension costs	**-**	**-**
- Employee benefits liabilities	**(430)**	**(328)**

The Employee benefits liabilities of € 430 million (2011: € 328 million) consist of € 386 million (2011: € 288 million) related to pensions, € 31 million (2011: € 28 million) related to healthcare and other costs and € 13 million (2011: € 12 million) related to other post-employment benefits.

Pensions

The DSM group companies have various pension plans, which are geared to the local regulations and practices in the countries in which they operate. As these plans are designed to comply with the statutory framework, tax legislation, local customs and economic situation of the countries concerned, it follows that the nature of the plans varies from country to country. The plans are based on local legal and contractual obligations.

Defined benefit plans are applicable to certain employees in Germany, the UK, Switzerland, the US and Austria. The rights that can be derived from these plans are based primarily on length of service and the majority of the plans are based on final salary. The majority of the obligations are funded and have been transferred to independent pension funds and life-insurance companies.

The most important unfunded plans are in Germany and Austria. Together they amount to €274 million (2011: €213 million).

The changes in the present value of the defined benefit obligations and in the fair value of plan assets of the major plans are listed below:

Present value of defined benefit obligations

	2012	2011
Balance at 1 January	**1,105**	**5,543**
- Change in Dutch pension plan	-	(4,524)
	1,105	1,019
Changes:		
- Service costs	27	27
- Interest costs	42	40
- Contributions by employees	12	11
- Actuarial (gains)/losses	183	20
- Past service costs	(8)	-
- Curtailments	(1)	-
- Exchange differences	2	24
- Benefits paid	(45)	(36)
Balance at 31 December	**1,317**	**1,105**

Fair value of plan assets

	2012	2011
Balance at 1 January	**817**	**5,440**
- Change in Dutch pension plan	-	(4,699)
	817	741
Changes:		
- Expected return on plan assets	40	38
- Actuarial gains/(losses)	54	(18)
Actual return on plan assets	**94**	**20**
- Contributions by employer	50	59
- Contributions by employees	12	11
- Exchange differences	3	22
- Benefits paid	(45)	(36)
Balance at 31 December	**931**	**817**

The amounts recognized in the balance sheet are as follows:

	2012	2011
Present value of funded obligations	(1,036)	(886)
Fair value of plan assets	931	817
	(105)	**(69)**
Present value of unfunded obligations	(281)	(219)
Funded status	**(386)**	**(288)**
Effect of asset ceiling	-	-
Net liabilities / net assets	**(386)**	**(288)**
Of which:		
- Liabilities (Employee benefits liabilities)	(386)	(288)
- Assets (Prepaid pension costs)	-	-

The changes in the net assets / liabilities recognized in the balance sheet are as follows:

	2012	2011
Balance at 1 January	**(288)**	**(280)**
Expense recognized in the income statement	(20)	(29)
Actuarial gains/(losses) recognized directly in Other comprehensive income during the year	(129)	(38)
Asset ceiling recognized directly in Other comprehensive income during the year	-	1
Contributions by employer	50	59
Exchange differences	1	(1)
Balance at 31 December	**(386)**	**(288)**

In 2013 DSM is expected to contribute € 42 million (actual 2012: € 50 million) to its defined benefit plans.

The major categories of pension-plan assets as a percentage of total plan assets are as follows:

	2012	2011
Bonds	59%	61%
Equities	27%	28%
Property	7%	8%
Other	7%	3%

The pension-plan assets include neither ordinary DSM shares nor property occupied by DSM.

The total expense recognized in the income statement is as follows:

	2012	2011
Current service costs	27	27
Interest on obligation	42	40
Expected return on plan assets	(40)	(38)
Past service costs	(8)	-
(Gains)/losses on curtailments	(1)	-
Costs related to defined benefit plans	**20**	**29**

The main actuarial assumptions for the year (weighted averages) are:

	2012	2011
	Plans outside the[1] Netherlands	Plans outside the[1] Netherlands
Discount rate	2.80%	3.90%
Price inflation	1.82%	2.03%
Salary increase	2.69%	2.87%
Pension increase	2.13%	2.17%
Expected return on plan assets	2.25%-6.57%	2.25%-6.57%

[1] In the Netherlands there is only one defined benefit plan which is immaterial for the group

The assumptions for the expected return on plan assets are based on a review of historical returns of the asset classes in which the assets of the pension plans are invested and the expected long-term allocation of the assets over these classes. The 2012 assumptions are used for the determination of costs related to defined benefit plans for 2013 with the exception of the expected return on plan assets.

Year-end amounts for the current and previous periods are as follows:

	2012	2011	2010	2009	2008
Defined benefit obligations	(1,317)	(1,105)	(5,543)	(4,942)	(4,454)
Plan assets	931	817	5,440	4,876	4,213
Funded status of asset/(liability)	**(386)**	**(288)**	**(103)**	**(66)**	**(241)**
Experience adjustments on plan assets, gain/(loss)	55	(18)	245	485	(1,402)
Experience adjustments on plan liabilities, gain/(loss)	(27)	(8)	35	(40)	26
Gain/(loss) on liabilities due to changes in assumptions	(157)	(12)	(466)	(336)	106

Healthcare and other costs

In some countries, particularly in the US, group companies provide retired employees and their surviving dependants with post-employment benefits other than pensions, mainly allowances for healthcare expenses and life-insurance premiums. Some of these are unfunded; in these cases, approved expense claims are reimbursed out of the financial resources of the group companies concerned.

The amounts included in the balance sheet are as follows:

	2012	2011
Present value of funded obligations	(14)	(13)
Fair value of plan assets (including reimbursement rights)	7	7
	(7)	**(6)**
Present value of unfunded obligations	(24)	(22)
Funded status	**(31)**	**(28)**
Unrecognized past service costs	-	-
Net liability (Employee benefits liabilities)	**(31)**	**(28)**

The amounts recognized in the income statement are as follows:

	2012	2011
Current service costs	1	1
Interest costs	2	2
Expected return on plan assets and reimbursement rights	(1)	(2)
Costs related to healthcare plans	**2**	**1**

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:

	2012	2011
Balance at 1 January	**(28)**	**(23)**
Expense recognized in the income statement	(2)	(2)
Actuarial gains/(losses) recognized directly in equity	(3)	(3)
Benefits paid/employer contributions	1	1
Exchange differences	1	(1)
Balance at 31 December	**(31)**	**(28)**

In 2013 DSM is expected to contribute €2 million (actual 2012: €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:

	2012	2011
Discount rate	4.10%	5.00%
Price inflation	2.00%	2.75%
Salary increase	3.00%	3.75%
Healthcare-cost trend (initial rate)[1]	10.94%	11.00%
Healthcare-cost trend (ultimate rate)	4.75%	4.75%

[1] Initial pre-medicare trend: 11.00%; initial post-medicare trend: 7.00%

The 2012 assumptions are used for the determination of post-employment healthcare costs for 2013.

A one-percentage-point change in assumed healthcare cost trend rates would have the following impact:

	One-percentage-point increase	One-percentage-point decrease
2011		
Effect on the aggregate of service costs and interest costs (increase)	-	-
Effect on defined obligation (increase)	(2)	2
2012		
Effect on the aggregate of service costs and interest costs (increase)	-	-
Effect on defined obligation (increase)	(2)	2

Amounts for the current and previous periods are as follows:

	2012	2011	2010	2009	2008
Defined benefit obligations	(38)	(35)	(29)	(28)	(43)
Plan assets (including reimbursement rights)	7	7	6	6	8
Funded status of asset/(liability)	**(31)**	**(28)**	**(23)**	**(22)**	**(35)**
Experience adjustments on plan assets / liabilities (loss)	-	(1)	2	(1)	1
Gain/(loss) on liabilities due to changes in assumptions	(4)	(2)	(1)	1	(2)

25 Net debt

The development of the components of net debt is as follows:

	2012	2011
Borrowings:		
- Non-current borrowings	1,922	2,029
- Current borrowings	642	160
Total borrowings	**2,564**	**2,189**
Current investments	(12)	(89)
Cash and cash equivalents	(1,121)	(2,058)
Financial derivatives, assets (see also note 23)	(62)	(50)
Financial derivatives, liabilities (see also note 23)	299	326
Net debt	**1,668**	**318**

26 Notes to the cash flow statement

The cash flow statement provides an explanation of the changes in cash and cash equivalents. It is prepared on the basis of a comparison of the balance sheets as at 1 January and 31 December. Changes that do not involve cash flows, such as changes in exchange rates, amortization, depreciation, impairment losses and transfers to other balance sheet items, are eliminated.

Changes in working capital due to the acquisition or disposal of consolidated companies are included under Investing activities.

Most of the changes in the cash flow statement can be traced back to the detailed statements of changes for the balance sheet items concerned. For those balance sheet items for which no detailed statement of changes is included, the table below shows the link between the change according to the balance sheet and the change according to the cash flow statement:

	2012	2011
Operating working capital		
Balance at 1 January	1,776	1,424
Balance at 31 December	1,919	1,776
Balance sheet change	**143**	**352**
Adjustments:		
- Exchange differences	20	(27)
- Changes in consolidation (including acquisitions and disposals)	(169)	33
- Reclassification from / to held for sale	(2)	(121)
- Transfers / non cash value adjustments	24	23
Total change in perating working capital according to the cash flow statement	**16**	**260**

In 2012 the operating working capital of continuing operations, before reclassification to assets held for sale was € 1,936 million, which amounts to 20.7% of annualized fourth quarter net sales (2011: 20.2%). Besides the business impact this increase was due to acquisitions, changes in consolidation and an exchange rate effect.

27 Share-based compensation

Under the DSM Stock Incentive Plan, performance based and non-performance based stock options or Share Appreciation Rights (SARs) are granted to senior management. Such a grant takes place on the first day on which the DSM stock is quoted ex-dividend following the Annual General Meeting of Shareholders. The opening price of the DSM stock on that day is the exercise price of the stock options and SARs.

Since 2011 only stock options have been granted, and Share Appreciation Rights are no longer used as share-based compensation.

Stock Options and SARs have a term of eight years and are subject to a vesting period of three years. After this three-year period one third of the stock options and SARs (non-performance-related) will vest and two thirds of the stock options and SARs that are performance based will become exercisable in whole, in part, or not at all, depending on the total shareholder return (TSR) achieved by DSM in comparison with a peer group. Non-vested performance based stock options and SARs will be forfeited. If employment is terminated prior to the vesting date, specific rules regarding vesting and forfeitures apply. The exercise of stock incentives is regulated.

Since 2010 only performance shares have been granted to the members of the Managing Board (no longer stock options). Performance shares vest after three years upon the realization of a predefined performance measure. The performance schedule is the same as that for stock options.

All stock options and performance shares are settled by physical delivery of DSM shares, while SARs are settled in cash.

Overview of stock options and Share Appreciation Rights for management

Year of issue	Outstanding at 31 Dec. 2011	In 2012 Granted	Exercised	Average price (€)	Forfeited/ expired	Outstanding at 31 Dec. 2012	Fair value on grant date (€)	Exercise price (€)	Expiry date
2004	124,275	-	(113,725)	41.99	(10,550)	-	2.97	17.90	2 Apr. 2012
2005	246,228	-	(211,953)	42.51	(1,875)	32,400	6.15	29.05	8 Apr. 2013
2006	668,831	-	(278,931)	43.77	(5,000)	384,900	8.95	38.30	31 Mar. 2014
2007	1,078,392	-	(381,516)	43.69	(3,125)	693,751	7.69	33.60	30 Mar. 2015
2008	1,491,526	-	(621,800)	43.28	(3,125)	866,601	5.73	29.79	28 Mar. 2016
2009[1,2]	2,801,313	-	(1,042,951)	43.22	(862,287)[3]	896,075	2.83	21.10	27 Mar. 2017
2010[1]	2,921,763	-	(135,450)	42.94	(186,875)[3]	2,599,438	6.07	33.10	6 Apr. 2018
2011[1]	3,214,438	-	-	-	(196,000)[3]	3,018,438	9.60	46.20	2 May 2019
2012	-	3,304,813	-	-	(24,000)[3]	3,280,813	6.88	40.90	15 May 2020
2012 Total	**12,546,766**	**3,304,813**	**(2,786,326)**	**43.23**	**(1,292,837)**	**11,772,416**			
Of which vested	4,104,602					3,382,177			
	at 31 Dec. 2010					at 31 Dec. 2011			
2011 Total	**13,215,892**	**3,286,038**	**(3,059,315)**	**44.68**	**(895,849)**	**12,546,766**			
Of which vested	4,379,866					4,104,602			

1 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).
2 Based on TSR performance, the stock incentives tied to performance granted in 2009 did only partially vest; the remaining part has been forfeited.
3 Number of forfeited options included: (2009) 862.287, (2010) 174.875, (2011) 184.000 and (2012) 24.000.

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. 2011	In 2012 Granted	Exercised	Average price (€)	Forfeited/ expired	Outstanding at 31 Dec. 2012	Fair value on grant date (€)	Exercise price (€)	Exercise period until
2007	137,314	-	(117,937)	42.74	(19,377)	-	4.27	33.60	Mar. 2012
2008	128,643	-	(48,174)	43.00	(1,665)	78,804	3.27	29.79	Mar. 2013
2009	147,014	-	(39,507)	42.85	(2,058)	105,449	2.31	21.10	Mar. 2014
2011	602,305	-	-	-	(28,295)	574,010	10.35	46.20	May 2016
2012	-	636,810	(40,565)	44.99	(16,440)	579,805	6.79	40.90	May 2017
2012 Total	**1,015,276**	**636,810**	**(246,183)**	**43.18**	**(67,835)**	**1,338,068**			
2011 Total	974,067	694,490	(483,203)	43.30	(170,078)	1,015,276			

Based on the 2009 result, no employee option rights were granted in 2010.

Measurement of fair value

The costs of option plans are measured by reference to the fair value of the options at the date at which the options are granted. The fair value is determined using the Black-Scholes model, taking into account market conditions linked to the price of the DSM share. Stock-price volatility is determined on the basis of historical volatilities of the DSM share price measured each month over a period equal to the expected option life. The costs of these options are recognized in the income statement (Employee benefits costs).

The following assumptions were used in the Black-Scholes model to determine the fair value at grant date:

	2012	2011
Management options		
Risk-free rate	0.80%	2.79%
Expected option life in years	6	6
Nominal option life in years	8	8
Share price	40.9	46.2
Exercise price	40.9	46.2
Volatility	28%	26%
Expected dividend	3.55%	2.92%
Fair value of option granted	6.88	9.6
Employee options		
Risk-free rate	0.25%	2.11%
Expected option life in years	2.5	2.5
Nominal option life in years	5	5
Share price	40.9	46.2
Exercise price	40.9	46.2
Volatility	34%	40%
Expected dividend	3.55%	2.92%
Fair value of option granted	6.79	10.35

In the costs for wages and salaries an amount of € 25 million is included for share-based compensation (2011: € 19 million). In the following table the share-based compensation is specified:

	2012	2011
Stock options	17	18
Share appreciation rights	7	0
Performance shares	1	1
Total expense	**25**	**19**

28 Interests in joint ventures

DSM's share in its most important joint ventures (joint ventures with a net asset value higher than €25 million on a 100% basis) is disclosed below:

Company	Location	Country	DSM interest 2012	DSM interest 2011
DSM Sinochem Pharmaceuticals, Ltd.[1]	Hong Kong	CN	50%	50%
DEXPlastomers V.o.F.	Heerlen	NL	50%	50%
Percivia LLC	Wilmington	US	50%	50%
POET-DSM Advanced Biofuels LLC	Sioux Falls	US	50%	

[1] The joint venture was started on 1 September 2011

The financial data of all joint ventures are included in the consolidated financial statements according to the method of proportionate consolidation. DSM's interests in the assets and liabilities, income and expense of all these joint ventures, before reclassification to held for sale, are disclosed below (on a 50% basis):

	2012	2011
Non-current assets	201	130
Current assets	232	207
Non-current liabilities	(32)	(37)
Current liabilities	(182)	(154)
Net assets	**219**	**146**
Net sales	254	112
Expenses	(284)	(106)
Net profit	**(30)**	**6**

29 Interests in associates

DSM's share in its most important associates (associates with a net asset value higher than € 25 million on a 100% basis) is disclosed below:

Company	Location	Country	DSM interest 2012	DSM interest 2011
Xinhui Meida - DSM Nylon Chips Co., Ltd.	Guangzhou	CN	25%	25%

Investments in associates are accounted for by the equity method. The following table provides summarized financial information on all associates on a 100% basis.

	2012	2011[1]
Non-current assets	79	77
Current assets	145	176
Non-current liabilities	(48)	(43)
Current liabilities	(92)	(159)
Net assets	**84**	**51**
Net sales	460	443
Net result	-	5

[1] Before reclassification to held for sale

30 Related parties

Koninklijke DSM N.V. is the group holding company that is listed on the NYSE Euronext stock exchange in Amsterdam. The financial statements of the company are included in the chapter Parent company financial statements.

In the ordinary course of business, DSM buys and sells goods and services to various related parties in which DSM has significant influence. Transactions are conducted under terms and conditions that are equivalent to those that apply to arm's length transactions. In 2011 significant transactions with Sitech Manufacturing Services C.V. occurred. This unit was consolidated until the second quarter of 2011 and became associate as of July 2011 (see note 2).

Transactions and relationships with related parties are reported in the table below.

	2012[1]	2011[1]
Sales to related parties	147	135
Purchases from related parties	266	249
Loans to related parties	13	13
Receivables from related parties	23	33
Payables to related parties	40	20

[1] Relates to continuing operations of DSM and includes the full year

DSM has provided guarantees to third parties for debts of associates for an amount of €85 million (2011: €85 million).

Other related-parties disclosure relates entirely to the key management of DSM, being represented by the company's Managing Board and Supervisory Board.

The total remuneration and related costs (including pension expenditures and other commitments and excluding costs related to long term incentives) of the current members of the Managing Board amounted to €6.5 million (2011: €5.5 million). This includes fixed annual salary including other items to the amount of €3.2 million (2011: €3.1 million), short-term incentives to the amount of €2.2 million (2011: €2.0 million), and pension expenditure amounting to €0.4 million (2011: €0.4 million). In 2012 the costs included an amount of €0.7 million in respect of the non-recurring Dutch crisis levy. For further information about the remuneration of the members of the Managing Board see note 10 to the financial statements of the parent company.

Members of the Supervisory Board received a fixed remuneration (included in General and administrative) totaling €0.5 million (2011: €0.3 million).

Further information about the remuneration of Managing Board members and Supervisory Board members and their share option rights is given in the report by the Supervisory Board, from page 122 onwards.

31 Service fees paid to external auditors

The service fees recognized in the financial statements 2012 for the service of Ernst & Young amounted to €2.7 million (2011: €3.2 million). The amounts per service category are shown in the following table.

	Total service fee		Of which Ernst & Young Accountants LLP (Netherlands)	
	2012	2011	**2012**	2011
Audit of the financial statements	4.8	4.4	2.2	1.9
Other assurance services	0.5	1.3	0.5	1.3
Total assurance services	5.3	5.7	2.7	3.2
Tax services	2.1	1.9	-	-
Sundry services	0.5	0.4	-	-
Total	**7.9**	**8.0**	**2.7**	**3.2**

Parent company financial statements

Balance sheet at 31 December of Koninklijke DSM N.V.

x € million	Notes	**2012**	2011
Assets			
Non-current assets			
Intangible assets	2	424	411
Property, plant and equipment	3	18	10
Financial assets	4	12,336	12,118
Deferred tax assets		114	91
Other non-current assets		2	5
		12,894	**12,635**
Current assets			
Receivables	5	131	135
Cash and cash equivalents		41	40
		172	**175**
Total		**13,066**	**12,810**
Shareholders' equity and liabilities			
Shareholders' equity	6		
Share capital		338	338
Share premium		489	489
Treasury shares		(479)	(698)
Other reserves		429	274
Retained earnings		4,809	4,567
Proft for the year		288	814
		5,874	**5,784**
Non-current liabilities			
Provisions	7	1	2
Borrowings	8	1,848	1,962
		1,849	**1,964**
Current liabilities			
Provisions	7	-	1
Borrowings	8	414	-
Financial derivatives		262	181
Other current liabilities	9	4,667	4,880
		5,343	**5,062**
Total		**13,066**	**12,810**

Income statement

x € million	**2012**	2011
Share in results of subsidiaries, joint ventures and associates (after income tax expense)	406	868
Other income and expense	(118)	(54)
Net profit attributable to equity holders of Koninklijke DSM N.V.	**288**	**814**

Notes to the parent company financial statements

1 General

Unless stated otherwise, all amounts are in € million.

The Parent company financial statements are the financial statements of Koninklijke DSM N.V., which have been prepared in accordance with accounting principles generally accepted in the Netherlands.

The accounting policies used are the same as those used in the consolidated financial statements, in accordance with the provisions of article 362-8 of Book 2 of the Dutch Civil Code. In these separate financial statements investments in subsidiaries are accounted for using the net asset value. The balance sheet presentation is aligned with the consolidated financial statements in order to enhance transparency and facilitate understanding. In conformity with article 402, Book 2 of the Dutch Civil Code, a condensed income statement is included in the separate financial statements of the parent company.

A list of DSM participations has been filed with the Chamber of Commerce for Limburg (Netherlands) and is available from the company upon request. The list can also be downloaded from the company's website.

Information on the use of financial instruments and on related risks for the group is provided in the Notes to the consolidated financial statements of Royal DSM.

2 Intangible assets

The carrying amount of intangible assets mainly comprises goodwill on the acquisition of NeoResins in 2005 (€ 358 million), Crina in 2006 (€ 8 million) and Pentapharm in 2007 (€ 32 million).

3 Property, plant and equipment

This item mainly relates to land and buildings and corporate IT projects. Capital expenditure in 2012 was € 9 million (2011: € 2 million), while the depreciation charge in 2012 was € 1 million (2011: € 1 million). The historical cost of property, plant and equipment as at 31 December 2012 was € 57 million (2011: € 48 million); accumulated depreciation amounted to € 39 million (2011: € 38 million).

4 Financial assets

	Total	Subsidiaries		Other loans
		Share in equity	Loans	
Balance at 1 January 2011	**11,383**	**11,055**	**315**	**13**
- Changes:				
- Share in profit	868	868	-	-
- Dividend received	(593)	(593)	-	-
- Capital payments	553	553	-	-
- Net actuarial gains/(losses)	(31)	(31)	-	-
- Net asset ceiling	1	1	-	-
- Intra-group transfers	81	81	-	-
- Change in Fair value reserve	(65)	(65)	-	-
- Change in Hedging reserve	(48)	(48)	-	-
- Exchange differences	67	67	-	-
- Disposals	(94)	(94)	-	-
- New loans	2	-	-	2
- Transfers	(6)	-	-	(6)
Balance at 31 December 2011	**12,118**	**11,794**	**315**	**9**
Changes:				
- Share in profit	406	406	-	-
- Dividend received	(557)	(557)	-	-
- Capital payments	442	442	-	-
- Net actuarial gains/(losses)	(100)	(100)	-	-
- Change in Fair value reserve	(7)	(7)	-	-
- Change in Hedging reserve	62	62	-	-
- Exchange differences	(23)	(23)	-	-
- New loans	1	-	-	1
- Transfers	(6)	-	-	(6)
Balance at 31 December 2012	**12,336**	**12,017**	**315**	**4**

5 Receivables

	2012	2011
Receivable from subsidiaries	113	92
Loans to subsidiaries	-	8
Other receivables / deferred items	18	35
Total	**131**	**135**

6 Shareholders' equity

	2012	2011
Balance at 1 January	**5,784**	**5,481**
Net profit	288	814
Exchange differences, net of income tax	(27)	53
Net actuarial gains/(losses) on defined benefit obligations	(100)	(31)
Net asset ceiling related to defined benefit plans	-	1
Dividend	(254)	(242)
Repurchase of shares	-	(357)
Proceeds from reissue of ordinary shares	182	201
Other changes	1	(136)
Balance at 31 December	**5,874**	**5,784**

For details see the consolidated statement of changes in equity (note 16).

Legal reserve

Since the profits retained in Koninklijke DSM N.V.'s subsidiaries can be distributed, and received in the Netherlands, no legal reserve for retained profits is required. In Shareholders' equity an amount of €245 million (2011: €273 million) is included for Translation reserve, -€29 million (2011: -€21 million) for Hedging reserve and -€24 million (2011: -€16 million) for Fair value reserve.

7 Provisions

The total of non-current and current provisions decreased by €2 million compared to 2011. This is the net effect of the following changes:

	Environmental costs	Other provisions	Total
Balance at 1 January 2011	**3**	**3**	**6**
Changes in 2011:			
- Additions	-	-	-
- Uses	(1)	-	(1)
- Releases	-	(2)	(2)
Total changes	(1)	(2)	(3)
Balance at 31 December 2011	**2**	**1**	**3**
Of which current	1	-	1
Balance at 1 January 2012	**2**	**1**	**3**
Changes in 2012:			
- Additions	-	-	-
- Uses	(1)	(1)	(2)
- Releases	-	-	-
Total changes	(1)	(1)	(2)
Balance at 31 December 2012	**1**	**-**	**1**
Of which current	-	-	-

8 Borrowings

	2012		2011	
	Total	Of which current	Total	Of which current
Debenture loans	1,734	-	1,729	-
Private loans	228	114	233	-
Commercial paper	300	300	-	-
Total	**2,262**	**414**	**1,962**	**-**

At 31 December 2012, there were no borrowings with a remaining term of more than 5 years (31 December 2011: €744 million).

The repayment schedule for borrowings (excluding commercial paper) is as follows:

	2012	2011
2013	114	117
2014	499	497
2015	604	604
2016 and 2017	745	744
2018 through 2022	-	-
Total	**1,962**	**1,962**

In agreements governing loans with a residual amount at year-end 2012 of € 1,962 million, of which € 114 million of a current nature (31 December 2011: € 1,962 million, of which none of a current nature), clauses have been included which restrict the provision of security. More information on borrowings is provided in note 19 (Borrowings) to the consolidated financial statements.

9 Other current liabilities

	2012	2011
Owing to subsidiaries	4,585	4,781
Other liabilities	38	57
Deferred items	44	42
Total	**4,667**	**4,880**

Contingent liabilities
Guarantee obligations on behalf of affiliated companies and third parties amounted to € 199 million (31 December 2011: € 178 million). Koninklijke DSM N.V. has declared in writing that it accepts several liabilities for debts arising from acts-in-law of a number of consolidated companies. These debts are included in the consolidated balance sheet.

10 Remuneration of the members of the Managing Board

Remuneration
The remuneration of the members of the Managing Board is determined by the Supervisory Board within the framework of the remuneration policy as approved by the Annual General Meeting of Shareholders. More details about the remuneration policy are included in the Report by the Supervisory Board from page 122 onwards.

The remuneration and related costs (including pension expenditure and other commitments and excluding costs related to long term incentives) of the current members of the Managing Board amounted to € 6.5 million (2011: € 5.5 million). Total costs for DSM in 2012 included € 0.7 million in respect of the non-recurring Dutch crisis levy, which is a payment to the Dutch tax authorities based on salaries paid to executives that does not benefit the executives privately. The remuneration of the individual current members of the Managing Board and the related amounts of crisis levy were as follows:

x € thousand	Salary including other items		Short-term incentive		Pension expenditure		Crisis levy
	2012	2011	**2012**	2011	**2012**	2011	**2012**
Feike Sijbesma	957[1]	847	657	684	124	110	255
Stefan Doboczky	554	601	279	n.a.	81	49	72
Nico Gerardu	551	532	431	464	81	75	195
Rolf-Dieter Schwalb	551	532	424	444	81	75	101
Stephan Tanda	554	559	412	452	81	75	75
Total	**3,167**	**3,071**	**2,203**	**2,044**	**448**	**384**	**698**

1 Including a one time payment in 2012 with respect to 25 years of service

Outstanding and exercised stock incentives

The following table shows the stock incentives of the individual members of the Managing Board and the rights exercised.

Overview of stock options

	Year of issue	Outstanding at 31 Dec. 2011	In 2012 Exercised	In 2012 Forfeited/ expired	Outstanding at 31 Dec. 2012	Average share price at exercise (€)	Exercise price (€)	Expiry date
Feike Sijbesma	2005	7,500	(7,500)		-	40.51	29.05	8 Apr. 2013
	2006	15,000			15,000		38.30	31 Mar. 2014
	2007	22,500			22,500		33.60	30 Mar. 2015
	2008	28,125			28,125		29.79	28 Mar. 2016
	2009	37,500		(18,750)	18,750		21.10	27 Mar. 2017
	Total	**110,625**	**(7,500)**	**(18,750)**	**84,375**			
Of which vested		73,125			84,375			
Stefan Doboczky	2008	9,375	(9,375)		-	40.83	29.79	28 Mar. 2016
	2009	36,000	(24,000)	(12,000)	-	40.83	21.10	27 Mar. 2017
	2010	36,000			36,000		33.10	6 Apr. 2018
	Total	**81,375**	(33,375)	**(12,000)**	**36,000**			
Of which vested		9,375			-			
Nico Gerardu	2005	18,000	(18,000)		-	43.14	29.05	8 Apr. 2013
	2006	15,000			15,000		38.30	31 Mar. 2014
	2007	22,500			22,500		33.60	30 Mar. 2015
	2008	22,500			22,500		29.79	28 Mar. 2016
	2009	30,000		(15,000)	15,000		21.10	27 Mar. 2017
	Total	**108,000**	**(18,000)**	**(15,000)**	**75,000**			
Of which vested		78,000			75,000			
Rolf-Dieter Schwalb	2007	22,500			22,500		33.60	30 Mar. 2015
	2008	22,500			22,500		29.79	28 Mar. 2016
	2009	30,000		(15,000)	15,000		21.10	27 Mar. 2017
	Total	**75,000**	**-**	**(15,000)**	**60,000**			
Of which vested		45,000			60,000			
Stephan Tanda	2007	22,500			22,500		33.60	30 Mar. 2015
	2008	22,500			22,500		29.79	28 Mar. 2016
	2009	30,000		(15,000)	15,000		21.10	27 Mar. 2017
	Total	**75,000**	**-**	**(15,000)**	**60,000**			
Of which vested		45,000			60,000			

Since 2010 the Managing Board has been granted performance shares instead of stock options.

Overview of performance shares

	Year of issue	Outstanding at 31 Dec. 2011	In 2012 Granted	Exercised	Forfeited / expired	Outstanding at 31 Dec. 2012	Vested as of 31 Dec. 2012	Year of vesting	Share price at date of grant (€)
Feike Sijbesma	2005[1]	2,000				2,000	2,000	2008	29.05
	2006[1]	4,000				4,000	4,000	2009	38.30
	2007[1]	6,000				6,000	6,000	2010	33.60
	2008[1]	7,500				7,500	7,500	2011	29.79
	2009[1]	10,000			(5,000)	5,000	5,000	2012	21.10
	2010	28,500				28,500			33.10
	2011	24,000				24,000			46.20
	2012	-	31,000			31,000			40.90
	Total	**82,000**	**31,000**	**-**	**(5,000)**	**108,000**	**24,500**		
Stefan Doboczky	2011	16,000				16,000			46.20
	2012	-	20,000			20,000			40.90
	Total	**16,000**	**20,000**	**-**	**-**	**36,000**			
Nico Gerardu	2006[1]	4,000				4,000	4,000	2009	38.30
	2007[1]	6,000				6,000	6,000	2010	33.60
	2008[1]	6,000				6,000	6,000	2011	29.79
	2009[1]	8,000			(4,000)	4,000	4,000	2012	21.10
	2010	19,000				19,000			33.10
	2011	16,000				16,000			46.20
	2012	-	20,000			20,000			40.90
	Total	**59,000**	**20,000**	**-**	**(4,000)**	**75,000**	**20,000**		
Rolf-Dieter Schwalb	2007[1]	6,000				6,000	6,000	2010	33.60
	2008[1]	6,000				6,000	6,000	2011	29.79
	2009[1]	8,000			(4,000)	4,000	4,000	2012	21.10
	2010	19,000				19,000			33.10
	2011	16,000				16,000			46.20
	2012	-	20,000			20,000			40.90
	Total	**55,000**	**20,000**	**-**	**(4,000)**	**71,000**	**16,000**		
Stephan Tanda	2007[1]	3,956				3,956	3,956	2010	33.60
	2008[1]	6,000				6,000	6,000	2011	29.79
	2009[1]	8,000			(4,000)	4,000	4,000	2012	21.10
	2010	19,000				19,000			33.10
	2011	16,000				16,000			46.20
	2012	-	20,000			20,000			40.90
	Total	**52,956**	**20,000**	**-**	**(4,000)**	**68,956**	**13,956**		

[1] The shares of the series 2005, 2006, 2007, 2008 and 2009 have vested and have been delivered to the individual Board members. The retention period expires in the fifth year after the year of vesting or at termination of employment if this occurs earlier.

Shares
In addition to the performance shares granted under the DSM Stock Incentive Plan, the current members of the Managing Board have themselves invested in DSM shares. At year-end 2012 the current members of the Managing Board together held 64,556 shares (year-end 2011: 60,056) in Koninklijke DSM N.V.

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

11 Remuneration of the members of the Supervisory Board

The total remuneration (annual fixed fee and annual committee membership fee) of the members of the Supervisory Board amounted to €0.5 million (2011: €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	
				2012	2011
Rob Routs, chairman from 28 April 2011	64,602	12,333	1,250	78,185	59,268
Ewald Kist, deputy chairman	46,401	12,333	4,804	63,538	51,845
Victoria Haynes (from 11 May 2012)	31,923	6,666	9,938	48,527	n.a.
Pierre Hochuli	46,401	13,500	1,250	61,151	48,255
Eileen Kennedy (from 11 May 2012)	31,923	3,333	9,938	45,194	n.a.
Pauline van der Meer Mohr (from 28 April 2011)	46,401	12,333	4,804	63,538	37,544
Claudio Sonder	46,401	13,500	7,250	67,151	48,255
Tom de Swaan	46,401	16,167	4,804	67,372	53,678
Cor Herkströter, chairman until 28 April 2011	-	-	-	-	20,750
Total	**360,453**	**90,165**	**44,038**	**494,656**	**319,595**
Total 2011	245,010	58,668	15,917		319,595

At year-end 2012 the members of the Supervisory Board held no shares in Koninklijke DSM N.V. (same as in 2011).

Heerlen, 18 February 2013

Managing Board,

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

Heerlen, 19 February 2013

Supervisory Board,

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

Other information

Independent Auditor's Report on the Financial Statements

To the Shareholders and the Supervisory Board of Royal DSM

Report on the financial statements

We have audited the accompanying financial statements 2012 of Koninklijke DSM N.V. (hereafter: Royal DSM), Heerlen. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The parent company financial statements comprise the company balance sheet as at 31 December 2012, the company income statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Report by the Managing Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Royal DSM as at 31 December 2012, its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Royal DSM as at 31 December 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Report by the Managing Board as set out on page 10 to page 122, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Report by the Managing Board as set out on page 10 to page 122, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Eindhoven, February 19, 2013

P.J.A.M. Jongstra, Ernst & Young Accountants LLP

Independent Assurance Report on Sustainability Information

To the Supervisory Board and shareholders of Royal DSM

Engagement

We have reviewed the Sustainability Information in the accompanying Integrated Annual Report 2012 of Koninklijke DSM N.V. (hereafter Royal DSM). The Sustainability Information comprises the following sections DSM in motion: *driving focused growth*, Growth driver: Sustainability, Stakeholder engagement, People in 2012 and Planet in 2012 (hereafter 'the Sustainability Information'), as included in the Report by the Managing Board on page 10 to page 122 in the Integrated Annual Report 2012.

Responsibility

The Managing Board of Royal DSM is responsible for the preparation of the Sustainability Information, stakeholder engagement and the selection of material topics in accordance with the criteria applied. The decisions made by management in respect of the scope of the Integrated Report and the internal reporting guidelines are set forth in the section entitled Reporting policy in the Integrated report from page 110 . Our responsibility is to provide limited assurance that the Sustainability Information is correctly presented in accordance with the criteria applied.

Criteria applied

Royal DSM applies the G3 guidelines of the Global Reporting Initiative supported with the internal reporting guidelines as described in the Reporting Policy from page 110 . It is important to view the performance data in the context of these criteria. We believe that these criteria are suitable in the view of the purpose of our assurance engagement.

Procedures performed

We conducted our engagement in accordance with Dutch law, including the Dutch Standards 3410N, Assurance Engagements with respect to Sustainability Reports. This requires that we comply with ethical requirements and plan and perform procedures to obtain sufficient and appropriate evidence to substantiate our conclusion. Procedures to obtain limited level of assurance are less extensive in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks, than those for a reasonable level of assurance and therefore less assurance is provided.

The main procedures that we have performed with respect to the Sustainability Information are:

- assessing the suitability of the reporting principles used and its consistent application;
- reviewing the design and existence of systems and processes for information management, internal control and processing of the qualitative and quantitative data in the Sustainability Information, at corporate level;
- interviews of relevant staff at corporate level responsible for the reported information on specific issues including sustainability strategy, employee engagement survey, ECO+ and safety;
- reviewing, on a test basis, whether the qualitative information is supported by sufficient evidence;
- reviewing the environmental data submitted by all sites for central aggregation, together with an assessment of the quality of the data validation process at corporate level;
- reviewing the people data submitted by all Business Groups for central aggregation, together with an assessment of the quality of the data validation process at corporate level;
- reviewing the results of procedures performed as part of the Operational Audits at key Royal DSM sites in 2010-2012 with respect to Sustainability Information carried out by the Corporate Operational Audit department of Royal DSM;
- reviews on the results of people and environmental data trends and the explanations provided in the Sustainability Information and discussed these with management at corporate level;
- media and internet searches on environmental, safety and social issues relating to Royal DSM, to obtain information on relevant sustainability issues in the reporting period;
- evaluating the overall view presented in the Sustainability Information and reviewing it against the GRI application level declared by Royal DSM in the letter of the Chairman from page 6 .

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

Based on our assurance procedures performed to obtain limited assurance on the Sustainability Information, nothing came to our attention that causes us to believe that the Sustainability Information is not, in all material respects, correctly presented in accordance with the Sustainability Reporting Guidelines (G3) of the Global Reporting Initiative and the internal reporting criteria as described from page 110 .

DSM

Other

We also report, to the extent of our competence, that information on sustainability in other sections of the Integrated Annual Report is consistent with the Sustainability Information.

Eindhoven, 19 February 2013

P.J.A.M. Jongstra, Ernst & Young Accountants LLP

Profit appropriation

According to article 32 of the Articles of Association of Koninklijke DSM N.V. and with the approval of the Supervisory Board, every year the Managing Board determines the portion of the net profit to be appropriated to the reserves. For the year 2012 the net profit is € 288 million and the amount to be appropriated to the reserves has been established at € 25 million. From the subsequent balance of the net profit (€ 263 million), dividend is first distributed on the cumulative preference shares B. At the end of 2012 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 2012 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 2012, the final dividend will then amount to € 0.15 per cumulative preference share A.

The profits remaining after distribution of these dividends on the cumulative preference shares A (€ 278 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.

The Managing Board proposes a dividend on ordinary shares outstanding for the year 2012 of € 1.50 per share. An interim dividend of € 0.48 per ordinary share having been paid in August 2012, the final dividend would then amount to € 1.02 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	**2012**	2011
Net profit	288	814
Profit appropriation:		
- To be added to the reserves	25	567
- Dividend on cumprefs A	10	10
- Interim dividend on ordinary shares	80	74
- Final dividend distributable on ordinary shares	173	163

Special statutory rights

DSM Preference Shares Foundation

The DSM Preference Shares Foundation was established in 1989.

By virtue of DSM's Articles of Association, 375,000,000 cumulative preference shares B can be issued. The listing prospectus of 1989 stated that if, without the approval of the Managing Board and Supervisory Board, either a bid is made for the ordinary shares or a significant participation in ordinary shares is built up, or such an event is likely to occur, then these preference shares B may be issued, which shares shall have the same voting rights as the ordinary shares.

Under an agreement entered into in 1999, and subsequently amended, between the DSM Preference Shares Foundation and DSM, the Foundation has the right to acquire such preference shares (call option) to a maximum corresponding to 100% of the capital issued in any form other than preference shares B, less one.

The objective of the Foundation is to promote the interest of DSM, and the enterprise maintained by DSM and all parties connected therewith, whereby influences that would threaten the continuity, independence or identity, contrary to the aforementioned interests, are resisted to the maximum extent possible.

The purpose of the agreement with the Foundation is, among other things, for the Foundation to allow DSM the opportunity to determine its position, for example with regard to a possible bidder for DSM shares or a party or parties tempting to obtain (de facto) control, to examine any plans in detail and, to the extent applicable, to look for (better) alternatives. Preference shares B will not be outstanding longer than necessary. As soon as there are no longer any reasons for the preference shares B to remain outstanding, the Managing Board will convene a General Meeting of Shareholders and recommend the cancellation of the preference shares B that are still outstanding.

The Foundation acquired no preference shares B in 2012.

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 2012 the board of the Foundation was composed as follows:

Gerard Kleisterlee, chairman
Cees Maas, vice-chairman
Mick den Boogert

Important dates

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders is to be held at the DSM head office in Heerlen (Netherlands) on Friday, 3 May 2013 at 14.00 hours.

Important dates

Publication of first-quarter results	Thursday, 2 May 2013
Ex-dividend quotation	Tuesday, 7 May 2013
Publication of second-quarter results	Tuesday, 6 August 2013
Publication of third-quarter results	Tuesday, 5 November 2013
Annual report 2013	Wednesday, 26 February 2014

DSM figures: five-year summary

Balance sheet

x € million	2012	2011	2010	2009	2008
Assets					
Intangible assets	2,793	1,786	1,070	1,053	1,200
Property, plant and equipment	3,811	3,405	2,943	3,477	3,641
Deferred tax assets	340	292	326	322	392
Prepaid pension costs	-	-	1	282	137
Associates	40	35	25	18	19
Other financial assets	141	135	270	233	176
Non-current assets	**7,125**	**5,653**	**4,635**	**5,385**	**5,565**
Inventories	1,803	1,573	1,340	1,359	1,765
Receivables	1,799	1,704	1,477	1,410	1,632
Financial derivatives	62	50	134	88	86
Current investments	12	89	837	7	4
Cash and cash equivalents	1,121	2,058	1,453	1,340	601
	4,797	5,474	5,241	4,204	4,088
Assets to be contributed to joint ventures	-	-	317	-	-
Other assets held for sale	44	30	287	25	-
Current assets	**4,841**	**5,504**	**5,845**	**4,229**	**4,088**
Total assets	**11,966**	**11,157**	**10,480**	**9,614**	**9,653**
Equity and liabilities					
Shareholders' equity	5,874	5,784	5,481	4,949	4,633
Non-controlling interests	168	190	96	62	62
Equity	**6,042**	**5,974**	**5,577**	**5,011**	**4,695**
Deferred tax liabilities	236	192	155	115	122
Employee benefits liabilities	388	322	297	298	314
Provisions	125	116	93	103	190
Borrowings	1,922	2,029	1,992	2,066	1,559
Other non-current liabilities	94	69	33	49	65
Non-current liabilities	**2,765**	**2,728**	**2,570**	**2,631**	**2,250**
Employee benefits liabilities	42	6	24	26	33
Provisions	81	43	33	102	82
Borrowings	642	160	105	138	734
Financial derivatives	299	326	219	61	179
Current liabilities	2,081	1,905	1,789	1,638	1,680
	3,145	2,440	2,170	1,965	2,708
Liabilities to be contributed to joint ventures	-	-	104	-	-
Other liabilities held for sale	14	15	59	7	-
Current liabilities	**3,159**	**2,455**	**2,333**	**1,972**	**2,708**
Total equity and liabilities	**11,966**	**11,157**	**10,480**	**9,614**	**9,653**

Income statement

x € million	2012	2011	2010	2009	2008
Net sales	9,131	9,193	9,050	7,866	9,297
Operating profit plus depreciation and amortization (EBITDA)	1,109	1,325	1,278	917	1,357
Operating profit (EBIT)	635	895	838	443	903
Net finance costs	(94)	(82)	(93)	(113)	(102)
Income tax expense	(96)	(155)	(185)	(83)	(196)
Share of the profit of associates	2	3	5	(4)	(3)
Net profit before exceptional items	**447**	**661**	**565**	**243**	**602**
Net profit from exceptional items	(149)	199	(40)	93	(31)
Profit for the year	**298**	**860**	**525**	**336**	**571**
Profit attributable to non-controlling interests	(10)	(46)	(18)	1	6
Net profit attributable to equity holders of Koninklijke DSM N.V.	**288**	**814**	**507**	**337**	**577**
Dividend on cumulative preference shares	(10)	(10)	(10)	(10)	(10)
Net profit available to holders of ordinary shares	**278**	**804**	**497**	**327**	**567**
Key figures and ratios					
Capital employed[1]	8,084	6,581	5,468	5,673	6,558
Capital expenditure:					
- Intangible assets and Property, plant and equipment	715	528	427	472	587
- Acquisitions	1,265	974	49	(5)	152
Disposals	46	742	377	287	27
Depreciation, amortization and impairments	474	430	440	474	454
Net debt	1,668	318	(108)	830	1,781
Dividend	263	247	234	205	204
Workforce at 31 December, headcount	23,498	22,224	21,911	22,738	23,591
Employee benefits costs (x € million)	1,761	1,655	1,566	1,532	1,465
Ratios[1]					
- ROCE in %	8.9	14.3	15.0	7.2	14.4
- Net sales / average capital employed	1.29	1.53	1.62	1.29	1.48
- Current assets / current liabilities	1.53	2.24	2.42	2.14	1.51
- Equity / total assets	0.50	0.54	0.53	0.52	0.49
- Gearing (net debt / equity plus net debt)	0.22	0.05	(0.02)	0.14	0.28
- EBIT / net sales in %	7.0	9.7	9.3	5.6	9.7
- Net profit / average Shareholders' equity available to holders of ordinary shares in %	5.0	14.9	10.0	7.2	11.9
- EBITDA / net finance costs	11.8	16.2	13.7	8.1	13.3

[1] Before reclassification to held for sale

Information about ordinary DSM shares

per ordinary share in €	**2012**	2011	2010	2009	2008
Core earnings	2.78	3.66	2.97	1.52	3.72
Net profit before exceptional items	2.58	3.66	3.27	1.44	3.64
Net profit	1.68	4.86	3.03	2.01	3.45
Cash flow	4.82	7.89	5.62	6.05	6.20
Dividend:	1.50[1]	1.45	1.35	1.20	1.20
- Interim dividend	0.48	0.45	0.40	0.40	0.40
- Final dividend	1.02	1.00	0.95	0.80	0.80
Pay-out including dividend on cumulative preference shares as % of net profit before exceptional items	58	39	38	84	36
Dividend yield (dividend as % of average price of an ordinary DSM share)	3.7	3.6	3.8	4.8	3.9
Share prices on NYSE Euronext Amsterdam (closing price):					
- Highest price	46.29	46.82	42.85	34.84	41.27
- Lowest price	36.33	30.54	30.43	16.93	15.76
- At 31 December	45.79	35.85	42.61	34.46	18.33
(x 1000)					
Number of ordinary shares outstanding:					
- At 31 December	168,684	163,257	166,468	163,037	162,227
- Average	165,543	165,567	164,047	162,364	164,196
Daily trading volumes on NYSE Euronext Amsterdam:					
- Average	823	1,028	995	1,270	1,783
- Lowest	225	191	85	75	152
- Highest	2,720	3,512	3,629	4,376	5,894

[1] Subject to approval by the Annual General Meeting of Shareholders

Explanation of some concepts and ratios

PEOPLE

Absenteeism

Absenteeism at DSM is determined by calculating the total absence due to illness in hours as a percentage of the total number of available working hours. The total number of available working hours is calculated by multiplying the average actual workforce in FTEs for the period in question by the number of hours corresponding to one FTE (52 weeks multiplied by the 'normal' number of hours per week, not taking into account leave of absence and holidays).

FI

Frequency Index: a way to measure for safety performance. The number of accidents of a particular category per 100 employees per year.

LWC-rate DSM own

The LWC-rate DSM own is the number of lost workday cases per 100 DSM employees in the past 12 months:
LWC-rate = 100 * (number of LWCs (past 12 months) / average effective manpower (past 12 months))

People+

DSM's People+ strategy will deliver measurably better solutions to improve the lives of people. The company has defined a new People+ framework based on broad stakeholder analyses. The dimensions of health, comfort and well-being, working conditions and community development have been identified as distinct and instrumental categories to measure People+ impact at product level. Based upon the stakeholder input DSM has designed a measurement tool, which will be further developed in collaboration with The Sustainability Consortium, customers and other stakeholders.

REC-rate DSM all

The REC-rate DSM all is the number of recordable injuries per 100 DSM employees and contractor employees in the past 12 months:
REC-rate = 100 * (number of RECs (past 12 months) / average effective manpower including contractor employees (past 12 months))

SHE

Safety, Health and Environment.

United Nations Global Compact

A strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption.

United Nations' Universal Declaration of Human Rights

On 10 December 1948, the General Assembly of the United Nations adopted and proclaimed the Universal Declaration of Human Rights. Following this historic act, the Assembly called upon all Member countries to publicize the text of the Declaration and 'to cause it to be disseminated, displayed, read and expounded principally in schools and other educational institutions, without distinction based on the political status of countries or territories.'

PLANET

Biofuel

A fuel which is derived from renewable organic resources, as distinct from one which is derived from non-renewable resources such as oil and natural gas.

Carbon footprint

The impact of a certain activity in terms of the emission of non-renewable CO_2 to the atmosphere.

Circular economy

Circular economy refers to an economy that is restorative and in which materials flows are of two types, biological nutrients, designed to reenter the biosphere safely, and technical nutrients, which are designed to circulate at high quality without entering the biosphere throughout their entire lifecycle.

CO_2

Carbon dioxide, a gas that naturally occurs in the atmosphere. It is part of the natural carbon cycle through photosynthesis and respiration. It is also generated as a by-product of combustion. Carbon dioxide is a greenhouse gas.

Cradle to Cradle®

A holistic economic, industrial and social framework that seeks to create solutions that are not only eco-efficient but also essentially waste free throughout their lifecycle.

Chemical Oxygen Demand (COD)

COD is an indicator of the degree of pollution of wastewater by organic substances.

ECO+

ECO+ solutions are products and services that, when considered over their whole life cycle, offer clear ecological benefits (in other words, a clearly lower eco-footprint) compared to the mainstream solutions they compete with. These ecological benefits can be created at any stage of the product life cycle – from raw material through manufacturing and use to potential re-use and end-of-life disposal. ECO+ solutions, in short, create more value with less environmental impact. The qualification ECO+ is based upon internal expert opinions where various impact categories are evaluated. For a growing number of products these expert opinions are supported by Life Cycle Assessments.

Eco-efficiency
Eco-efficiency is a concept (created in 1992 by WBCSD) that refers to the creation of more goods and services while using less resources and creating less waste and pollution throughout their entire life cycle. DSM applies the concept to its ECO+ program. In the context of DSM's SHE targets, eco-efficiency relates specifically to the reduction of emissions and energy and water consumption, relative to the production volumes of DSM's plants.

Greenhouse-gas emissions (GHGE) reduction over volume related revenue (VRR)
The GHGE definition is according to the Kyoto Protocol and includes carbon dioxide (CO_2), methane, nitrous oxide (N_2O), sulfur hexafluoride, hydrofluorocarbons and perfluorocarbons. VRR is net sales adjusted for changes in selling prices, exchange rates and the impact of acquisitions and divestments. GHGE/VRR is one of the ratios in the Long-Term Incentive part of the Managing Board remuneration and relates to a three-year period.

GRI
The Global Reporting Initiative (GRI) has developed Sustainability Reporting Guidelines that strive to increase the transparency and accountability of economic, environmental, and social performance. The GRI was established in 1997 in partnership with the United Nations' Environment Programme. It is an international, multi-stakeholder and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organizations for reporting on the economic, environmental, and social dimensions of their activities, products, and services.

LCA
Life Cycle Assessment (LCA) identifies the material, energy and waste flows associated with a product or process over its entire life cycle to determine environmental impacts and potential improvements; this full life cycle approach is also referred to as 'Cradle to Grave'. It is also possible to assess a partial life cycle of a product or process with the most common type being 'Cradle to Gate' which assesses the environmental impacts of a manufacturing process without accounting for use phase or end of life impacts. There are many different environmental impact categories that can be assessed using LCA; at DSM the standard approach is to evaluate the carbon footprint and eco-footprint.

N
Nitrogen. A mostly inert gas constituting 78% of the earth's atmosphere, nitrogen is present in all living organisms.

N_2O
Nitrous oxide. A gas that is formed during combustion. When emitted to the environment, it contributes to global warming.

NO_x
Nitrogen oxides. These gases are released mainly during combustion and cause acidification.

Renewable resources
A natural resource which is replenished by natural processes at a rate comparable to, or faster than, its rate of consumption by humans or other users. The term covers perpetual resources such as solar radiation, tides, winds and hydroelectricity as well as fuels derived from organic matter (bio-based fuels).

SO_2
Sulfur dioxide. This gas is formed during the combustion of fossil fuels and cause acidification.

VOC
Volatile organic compounds. The term covers a wide range of chemical compounds, such as organic solvents, some of which can be harmful.

PROFIT

General
In calculating financial profitability ratios, use is made of the average of the opening and closing values of balance sheet items in the year under review.

The financial indicators per ordinary share are calculated on the basis of the average number of ordinary shares outstanding (average daily number). In calculating Shareholders' equity per ordinary share, however, the number of shares outstanding at year-end is used.

In calculating the figures per ordinary share and the 'net profit as a percentage of average Shareholders' equity available to holders of ordinary shares', the amounts available to the holders of cumulative preference shares are deducted from the profits and from Shareholders' equity.

Capital employed
The total of the carrying amount of intangible assets and property, plant and equipment, inventories, trade receivables and other receivables, less trade payables and other current liabilities.

Capital expenditure
This includes all investments in intangible assets and property, plant and equipment as well as the acquisition of subsidiaries and associates and related cash flows.

Cash flow
Cash flow is net profit plus depreciation, amortization and impairments.

Core earnings
Core earnings represent profit or loss from continuing operations excluding exceptional items and excluding amortization of intangible assets recognized from the application of purchase accounting for business combinations.

Disposals
This includes the disposal of intangible assets and property, plant and equipment as well as the disposal of participating interests and other securities.

Earnings before interest, tax, depreciation and amortization (EBITDA)
EBITDA is the sum total of operating profit plus depreciation and amortization.

Earnings per ordinary share
Net profit attributable to equity holders of Koninklijke DSM N.V. minus dividend on cumulative preference shares, divided by the average number of ordinary shares outstanding.

Operating working capital
The total of inventories and trade receivables, less trade payables.

Return on capital employed (ROCE)
Operating profit as a percentage of weighted average capital employed.

Total shareholder return (TSR)
Total shareholder return is capital gain plus dividend paid.

List of abbreviations

ADR	American Depositary Receipts
AFM	Netherlands Authority for the Financial Markets
ANH	Animal Nutrition & Health
APA	Aminopenicillanic acid
API	Active pharmaceutical ingredients
ARA	Arachidonic acid
BIO	Biotechnology Industry Organization
BMI	Body mass index
BMM	BioMedical Materials
BRIC	Brazil, Russia, India and China
CEFIC	Conseil Européen des Fédérations de l'Industrie Chimique (European Chemical Industry Council)
CEP	Certification of suitability to the monograph of the European Pharmacopoeia
cGMP	Current Good Manufacturing Practice
CMO	Contract manufacturing organization
CMP	Corporate Multi-year Plan Responsible Care
COA	Corporate Operational Auditing department
COD	Chemical oxygen demand
CRA	Corporate Risk Assessment
CSR	Corporate Social Responsibility
DAI	DSM Anti-Infectives
DBA	DSM Business Academy
DEP	DSM Engineering Plastics
DFI	DSM Fibre Intermediates
DFS	DSM Food Specialties
DHA	Docosahexaenoic acid
DNCC	DSM Nanjing Chemical Co., Ltd.
DNP	DSM Nutritional Products
DPC	DSM Pharma Chemicals
DPP	DSM Pharmaceutical Products
DSP	DSM Sinochem Pharmaceuticals
EBA	Emerging Business Area
EBIT	Earnings before interest and taxes (Operating Profit)
EBITDA	Earnings before interest, taxes, depreciation and amortization
ECP-EPN	Electronic Commerce Platform Netherlands
EPAA	European Partnership for Alternatives to Animal Testing
ERDF	European Regional Development Fund
FDA	The US Food and Drug Administration
FIFO	First in, first out
FTE	Full-time equivalent
GAIN	Global Alliance for Improved Nutrition
GDP	Gross domestic product
GHG	Greenhouse gas
GHGE	Greenhouse-gas emissions
GHS	Globally Harmonized System
GMP	Good Manufacturing Practice
GPS	Global Product Strategy
GRI	Global Reporting Initiative
HNH	Human Nutrition & Health
HPO	Hydroxylamine phosphate oxime
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICCA	International Council of Chemical Associations
IFRIC	International Financial Reporting Interpretation Committee
IFRS	International Financial Reporting Standards
ILO	International Labor Organization
IOF	International Osteoporosis Foundation
IP	Intellectual property
IUCN	International Union for the Conservation of Nature
KPI	Key performance indicator
LCA	Life cycle assessment
LTI	Long-Term Incentive
LWC	Lost workday case
NGO	Non-governmental organization
NIP	DSM's Nutrition Improvement Program
NOC*NSF	Dutch Olympic Committee
NPS	Net Promoter Score
NYSE	New York Stock Exchange
OECD	Organization for Economic Cooperation and Development
PDN	Stichting Pensioenfonds DSM Nederland
PJ	Petajoule
PSI	Process safety incident
PUFA	Polyunsatured fatty acid
R&D	Research & development
REACH	Registration, Evaluation, Authorization and Restriction of Chemical substances
ROCE	Return on capital employed
SAM	Sustainable Asset Management
SAR	Share appreciation rights
SHE	Safety, Health and Environment
SSC	Semi-synthetic cephalosporins
SSP	Semi-synthetic penicillins
STI	Short-Term Incentive
TDC	Total direct compensation
TJ	Terajoule
TSR	Total shareholder return
UHMwPE	Ultra high molecular weight polyethylene
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
VNCI	Association of the Dutch Chemical Industry
VOC	Volatile organic compound
VRR	Volume related revenue
WBCSD	World Business Council for Sustainable Development
WEF	World Economic Forum
WFP	United Nations World Food Programme

Photographs by Bart Koetsier

The photographs[1] in this 2012 Integrated Annual Report were made by Bart Koetsier from Hollandse Hoogte Photo Agency in Amsterdam. They were shot on locations in Europe, Asia and North America. Being portraits of scientists working for DSM and people whose lives have been positively affected by DSM products or solutions, the photographs capture the company's brand promise of Bright Science. Brighter Living.™

Bart Koetsier graduated with honors from the Amsterdam Photo Academy in 2009. His photographs have appeared in leading newspapers in the Netherlands and Belgium. In January 2013 he was nominated for the prestigious Dutch Silver Camera award for photo journalism and won second prize in the category Portraits.

The portraits in this annual report are part of DSM's extensive art collection, which currently comprises approximately 700 works. The collection supports and reinforces DSM's strategy and image by connecting to major themes such as innovation, sustainability and high growth economies. The aim of the DSM Art Collection is to bring DSM employees worldwide into contact with contemporary art, and to offer them an inspiring work environment.

The portraits are currently being exhibited at the DSM offices in Shanghai (CN), Heerlen (NL) and Sittard-Geleen (NL).

[1] With the exception of the photograph on page 11.

Royal DSM
Bright Science. Brighter Living.™

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

DSM has a very strong starting position to realize its ambitious growth targets as set in its strategy for the period till 2015, all based on its strong global market position (with about 38 percent of its total sales of €9.1 billion coming from high growth economies), its unique technological knowledge as a basis for innovation, its strong track record in sustainability, its very solid balance sheet, and the experience and expertise of its 23,500 people.

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

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

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

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

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

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

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

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

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

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

DSM
BRIGHT SCIENCE. BRIGHTER LIVING.

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