

## New form of annual review

The members and pensioners of PDN receive the annual review every spring. In the past, the review took the form of a book containing figures, names and a great deal of pension information from the previous year. From this year onward, the annual review will have a different look. Members and pensioners will receive a newsletter which will still contain information about the funding level, investments and the returns on investments, but will focus primarily on developments in the pension fund in the past year. Jos Schneiders, Chair of the fund, and Deputy Chair Ton de Boer explain more about this in an extensive interview.

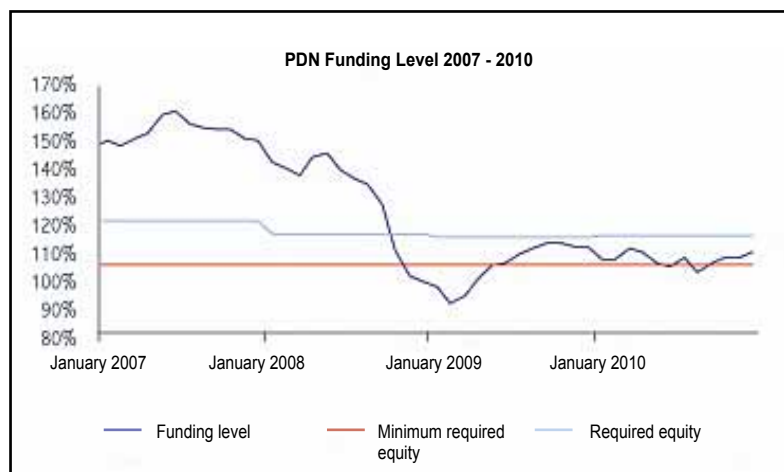
The annual review is and has always been a popular summary of the PDN annual report. The much more detailed annual report, which contains more facts and figures, is available to everyone on the PDN website ([www.PDNpensioen.nl](http://www.PDNpensioen.nl)). If you would prefer a paper copy, you can request one from the PDN Pension Desk (045-5788100).



If you have any questions about your pension, you can find information on the website ([www.PDNpensioen.nl](http://www.PDNpensioen.nl)) or contact our Pension Desk on 045-5788100, email: [Info.pdn@dsm.com](mailto:Info.pdn@dsm.com)

## Funding level

The funding level fell slightly in 2010 from 111% to 109%. The 10.2% return on investments was not enough to compensate for the negative effects of a drop in the actuarial interest rate the fund has to use to calculate its pension liabilities and the higher than expected increase in life expectancy. When life expectancy is longer, the fund has to take account of the fact that pensions must be paid for longer, although there is no (additional) contribution to cover this.



|                         | 2010 | 2009 | 2008 | 2007 |
|-------------------------|------|------|------|------|
| Funding level           | 109% | 111% | 98%  | 150% |
| Actuarial interest rate | 3.4% | 3.7% | 3.6% | 4.8% |

## From the Annual Report

2010 was another eventful year for Stichting Pensioenfonds DSM Nederland. The Board did its utmost to respond to the changes in the pensions environment.

The recovery of the financial position was monitored continuously in 2010. The Board constantly weighed the potential risks of its financial policy against the expected returns. In view of the uncertainty on the financial markets, it opted for a prudent policy taking account both of the recovering financial position of the fund and the uncertainties in the fund environment, knowing that in doing so it was choosing a slower but less risky path to recovery. The fund achieved a 10.2% return on its investments in 2010 in comparison with a benchmark return of 8.4%.

The financial uncertainties affected the fund's liabilities as well as its investments. The life expectancy of members rose again, increasing liabilities by 1.3% following on from the rise of 4% at the end of 2009. Interest rates also fell in comparison with the end of 2009, which contributed to the increase in liabilities. As 75% of the interest risk is covered strategically, some of this was absorbed by an increase in the market value of investments.

As the funding level increased in 2009 and again in the first quarter of 2010, the Board decided in March 2010 to grant supplements to active members and a partial supplement to pensioners and other non-active members.

The above factors combined to reduce the funding level from 111% at the end of 2009 to 109% at the end of 2010.

The pension scheme administration agreement between the fund and the employer ran until December 31, 2010. The Board advised the social partners and the employer about the new pension agreement and indexation objectives via a committee. The new pension agreement runs from January 1, 2011 to December 31, 2015. At the end of 2010 the Board established that the pension agreement can be administered in principle. The agreements on administration are set down in a new administration agreement with the same term.

On the basis of the 2009 fund strategy study, we have made changes to the organizational structure, reducing the number of Board members from sixteen to ten. The Board committees have also been abolished and all matters relevant to the management of the fund are discussed in full by the Board. The administrative relationship with the service provision organization DPS is conducted via Board consultants.

Communication from pension funds to members is a high priority and in the past the fund has chosen to approach fund members in a variety of (proactive) ways. In 2010, the fund's communication activities were further extended in various ways. From 2010, active members can use the pension planner on the website to make a number of different calculations for their own pension situation. Like all funds in the Netherlands, the fund also joined the National Pension Register on January 1, 2011, which allows all accrued rights to be consulted. The fund website has also been made more accessible.

We have reviewed the level of the service provided to PDN members by participating in an independent benchmark study of a number of pension funds. This shows that the fund offers its members the highest level of service of all comparable funds.

Finally, the Board would like to thank everyone who has worked for Stichting Pensioenfonds DSM Nederland and to express its great appreciation for the efforts and involvement of the Supervisory Board, the Board of Stakeholders, external consultants and the management and staff of DSM Pension Services for the excellent service they have provided.

**The Board,  
Stichting Pensioenfonds DSM Nederland**

---

## ”Shock-resistance of the fund increased”

Pensions did not have an easier ride in 2010, but PDN Chair Jos Schneiders says that the fund was in better shape on December 31, 2010 than on January 1, 2010. This view requires some explanation, as it isn't the obvious conclusion to make if you look at the funding level, which fell from 111% at the beginning of 2010 to 109% at the end of the same year.

The funding level is not the only indicator of the health of a pension fund. A great many factors play a part, as Schneiders explains. "After 2008, which was a crisis year for the world economy and so for pension funds as well, the fund had to revise its policy to prevent future crises from having such an impact on the pension fund again. That is what we were working on after 2008 and particularly also in 2010. The fund has been made more shock resistant and also has more cash now than it did before the crisis."



*Jos Schneiders (left) and Ton de Boer  
Photo Sanne Linssen*

There are many aspects to making the fund more shock resistant. The employer DSM and the unions have made new pension agreements for the next five years, in which they have already taken account proactively of the national pensions debate. PDN has translated these agreements into new pension regulations which set out the rights and obligations of members and pensioners. They explain, for example, that in future supplements will be granted (indexation) at a slightly higher funding level than they are at present. This will allow the fund to build up its financial reserves. More robust reserves will help the fund to weather financial crises more easily in the future and will provide more security for PDN pensions. It has also been agreed that measures will be taken if the pension contributions are no longer sufficient to cover the cost of pensions as a result of an adverse financial situation or for other reasons. These measures affect the grant of supplements or the level of pensions and pension accrual. "In the past we set up a pension scheme and then calculated what it would cost. Now a number of different developments have made pensions more expensive and we have to act differently. Employers and unions agree the maximum contribution they can pay and then work out the content of the scheme on the basis of this contribution," says Schneiders.

Increasing the shock-resistance and ensuring that the fund is better prepared for a crisis has also had consequences for the internal organization and management of PDN itself, as

Ton de Boer, who was recently appointed Deputy Chair of PDN, explains. "We've changed the way the fund is managed so that we can react faster and more decisively than in the past if we need to. In 2010 the Board was reduced from 16 members to 10 and Board committees were abolished. We've already worked out what effect a variety of crises could have on the fund and we know the measures we need to take to deal with a variety of scenarios. The Board now has a more comprehensive view of the risks. The skill requirements for Board members are increasing all the time, so we have a training plan in place to allow each member to develop his pensions expertise. We also subject ourselves to strict audits. The statutory audits are conducted by the auditor and the actuary and we also have the Supervisory Board and the Board of Stakeholders. The powers of the Supervisory Board, which includes pension experts from outside PDN, were extended in 2010. Finally, De Nederlandsche Bank also imposes strict supervisory measures."

Jos Schneiders believes that awareness of pension risks is just as important for members as it is for the Board. "Pensions are beset by risks and uncertainties. That's the way it's always been, although the risks used to be different. The risks have become clear over the past few years. So members have to be aware of their pension situation, and we help them with this. Members receive a Uniform Pension Statement every year, which gives them a clear and concise summary of what they can expect from their pension. In 2010 we

put a pension planner on the website for members born after 1949. Members can use the planner to make pension calculations, for example to see what it means for their pension if they retire earlier. People who keep track of their pensions like this aren't faced with surprises when they retire. Younger people in particular have little interest in their pension, and this is a concern. So we send every member a birthday card from PDN on their 40th birthday, to remind them that, although retirement is still a long way off, now is a good time to be thinking about their pensions. At 40, you still can do a lot to improve (the amount of) your pension yourself if you aren't happy with it. We also carried out a member survey in 2010, in which nearly 1000 DSM employees took part. This kind of survey also asks everyone to give some thought to their pension."

In 2010 there are no longer any certainties in pensions and there will definitely be new crises. At present we are dealing with several crises at the same time. The stability of the euro is at risk as individual countries experience financial problems, there is unrest in the Middle East and North Africa and the nuclear disaster in Japan is causing new uncertainties. All of this affects the world economy and pensions as well. The pension fund must be on the alert all the time and react to a large number of developments.

"In 2010 we protected ourselves from the negative effects of falling interest rates by increasing interest coverage. The share portfolio was limited in favor of other less risky investments. However, these measures restricted the fund's ability to recover. We must keep a constant watch on all kinds of financial risks. If the long-term interest rate falls by one tenth of a percent, the funding level will fall by more than one percent. If inflation rises, more money will be needed to ensure that pensions and pension accrual keep pace. Fluctuations in foreign currencies can increase or reduce the value of foreign investments. So we have to take account of a lot of developments," says Schneiders.

One development that had a significant effect on the funding level of pension funds in 2010 is the fact that life expectancy is increasing. The pension funds have known that for some time and have taken it into account, but in 2010 the increase in life expectancy was found to be much higher than had previously been thought. Studies showed that men born in 1965 live to around 73. In 2005 that increased to 76. For women, the age increased from 77 to 81.

"Of course it's fantastic that people are living longer, but for pension funds, however, it means that the contributions paid in the past do not cover the actual number of retirement years. We took this into account when calculating the funding level in 2010 and this alone reduced the funding level by 1.3%. If you also know that the interest rate at the end of 2010 was lower than it was at the beginning of the year, then you know the two main factors that reduced the funding level from 111% in 2009 to 109%, says Schneiders.

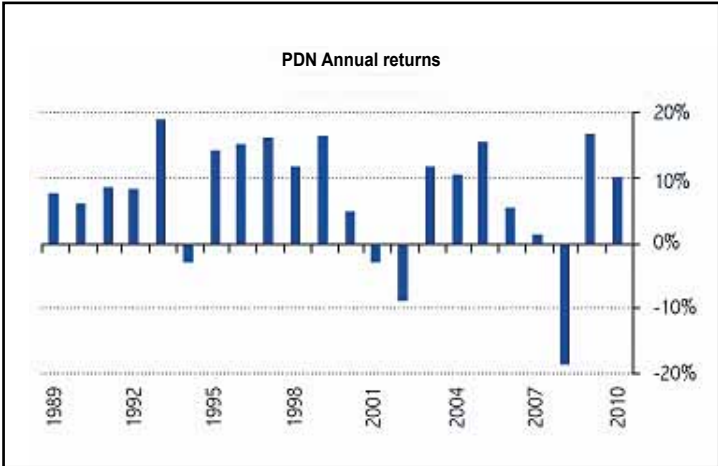
A low funding level means that pensions or pension accrual cannot always be adjusted in line with inflation. "If you receive slightly less pension but for years longer than expected, is that a positive or a negative thing? I think it's positive, but we have to be very careful to ensure that we don't eat into the pensions of future generations. The PDN pension must be sustainable; it must be a good pension in the distant future as well," explains Schneiders.

## Recovery plan

In 2008 the funding level of PDN had fallen so far as a result of the credit crisis that PDN had to draw up a recovery plan. In March 2009 the plan was submitted to De Nederlandsche Bank, who then approved it. The plan describes how the pension fund intends to achieve a funding level of 104.2% within five years and a funding level of 114.7% within fifteen years.

According to the plan the funding level at the end of 2010 should have been 102.1%. At the time it was higher, at 109.1%. At the end of 2011 the funding level under the recovery plan should be 104.3%. At the end of March 2011 it was already 113%.





Although these are uncertain times for pension funds and members, Schneiders and De Boer are still cautiously optimistic. "We mustn't be doom merchants," says Schneiders. "The impact of a crisis can be severe in the short term, but history teaches us that crises are always followed by recovery. In 2010 we took measures to enable us to manage any new crisis well." De Boer explains: "The Netherlands has one of the best pension systems in the world, based on collectivity and solidarity, but pensions, and above all preserving as much of their value as possible, still depend on the returns we make on pension money."

"That's certainly the case now that new agreements have been made on the amount of the pension contributions. Our aim is to make the highest possible returns with the minimum possible risk to allow indexation."



---

## Supervisory Board

The Supervisory Board supervises the Board of PDN and evaluates the processes used by the Board and its operation. The Supervisory Board has three independent members.

In the opinion of the Supervisory Board, the Board's methods for monitoring the investment process are good. It takes a positive view of the interest coverage measures taken. The Supervisory Board also approves of the moves to make PDN's investment policy more dynamic, which means that the investment policy is scrutinized more often and at specific times. This also applies to the new working method, which ensures that a connection is made in advance between changes in the investment policy and the influence of these changes on the pension fund's liability risks.

The Supervisory Board is satisfied with the changes made to the board structure (governance) in 2010. One aspect of this is that the Supervisory Board now has greater powers of control over the Board.

The Supervisory Board also believes that members and pensioners must be given 'crystal clear' information about the nature of the PDN scheme, the risks associated with it and the way in which the Board handles these risks.

*(The full text of the Supervisory Board report can be found in the PDN Annual Report on the PDN-website).*

## Board of Stakeholders

The Board of Stakeholders gives an opinion on the actions of the PDN Board. The Board of Stakeholders looks at the decisions made by the Board and at whether the Board's policy has given fair consideration to the interests of the different target groups within PDN.

The Board of Stakeholders has three members appointed by DSM, three members appointed by the Central Works Council of DSM and lastly three members chosen by and from among the pensioners.

The Board of Stakeholders believes that the Board handled the investment policy risks well in 2010. It also gives its approval to the changes to the Board structure (governance).

In the matter of communication, the Board of Stakeholders appreciates the fact that the Board has added a new objective to the communication policy, undertaking to communicate the risks as clearly as possible to promote awareness among members of the risks associated with the pension scheme. These risks include the conditional nature of supplements.

*(The full text of the Board of Stakeholders' report can be found in the PDN Annual Report on the PDN-website.)*

### Planner

Since spring 2010 a pension planner has been provided on the PDN website for members born after 1949. The planner shows the pension being accrued and can be used to make simple calculations. For example, you can calculate what effect it would have on your pension if you stopped working a year or two earlier.



## Move out of shares?

Studies have shown that many Dutch people would prefer it if their pension money were not invested, as investment entails risk.

However, people who feel this way estimate the income from saving alone as high, and in some cases too high. They also have no real understanding of the returns the pension fund makes on its investments over a longer period.

So what are the facts? A fund that invested 100 euros 25 years ago has seen that sum grow to 650 euros, in spite of the stock market crashes in 2002 and 2008. If the pension fund had put the same 100 euros into a savings account 25 years ago, it would now 'only' have grown to 310 euros (according to the calculations of the Pension Federation).

PDN's average return over the past 15 years was 6.5%, even taking account of the major loss in 2008.

That return would never have been achieved with a savings account.

If the pension fund had put all contributions into a savings account, the pension contributions paid by the employer and the employees would have to have been 50% higher, as calculated by the Pension Federation. It is essential to invest the contributions responsibly, as PDN does. In the past, bad years have almost always been compensated for by good years.

### Key Figures

|  | 2010   | 2009   |
|--|--------|--------|
| Active members of pension schemes          | 8,228  | 8,364  |
| Pensioners (incl. surviving relatives)     | 14,946 | 14,828 |
| Disabled                                   | 436    | 447    |
| Deferred pensioners                        | 7,893  | 8,270  |
| Total members                              | 31,503 | 31,909 |
| Members of Voluntary Pension Saving (VPS)* | 289    | 292    |
| Active members of early retirement schemes | 111    | 217    |
| Invested capital (in million euros)        | 5,029  | 4,665  |
| Pension fund liabilities                   | 4,615  | 4,223  |
| Funding level (in %)                       | 109    | 111    |
| Contributions (in million euros)           | 124    | 99     |
| Payments (in million euros)                | 223    | 216    |
| Return on investments (in %)               | 10.2   | 16.9   |
| Pension reserve (in million euros)         | 396    | 422    |

\* VPS and the Available Contribution Scheme are at the risk of the member and are therefore not included in the pension liabilities when calculating the funding level.

---

## Investments in 2010

| Investment policy 2010<br>(excl. Other Investments) | End of 2010     |                           |               |
|---|-----------------|---------------------------|---------------|
|   | Euros (million) | In % of total investments | Bandwidth*    |
| Shares  | 1630            | 32.4                      | 25.0% - 40.0% |
| Fixed interest investments                          | 2825            | 56.2                      | 40.0% - 60.0% |
| Real estate   | 187             | 3.7                       | 0.0% - 10.0%  |
| Alternative investments                             | 343             | 6.8                       | 5.0% - 15.0%  |
| Liquid funds  | 59              | 1.2                       | -2.0% - 2.0%  |

\* *Bandwidth shows the percentages within which PDN's investments may fluctuate in the short term.*

## 2010 Benchmark Study

In 2010 PDN took part in an independent benchmark study, which compared the costs and service level of PDN with a number of other Dutch and foreign pension funds. The costs of asset management at PDN are significantly lower than at other pension funds. This is mainly because PDN manages 80% of its investments internally, with only 20% being provided by external asset managers. These are investments in highly specialized markets, which require special knowledge. Other pension funds contract out an average of 75% of their investments to external asset managers and this pushes up their costs. The benchmark study also showed that PDN has achieved a higher average return than the other funds.

PDN's cost advantage over other funds is around 10 basis points of the invested capital, which is equivalent to around 5 million euros (0.1% of 5 billion euros).



---

## New pension scheme agreed in 2010

### **CDC Scheme**

Pensions can be organized in a number of different ways. DSM and the unions have opted for a CDC (Collective Defined Contribution) scheme, which is based on the understanding that the employer and employees will agree to pay a certain percentage of salary into the pension fund as the pension contribution. In December 2010, the unions and DSM agreed that the contribution will be 22% from 2011. Once the contribution has been paid, DSM cannot be called upon to cover any pension fund deficits which may arise as a result of poor investment results, a low interest rate, the longevity risk (members living longer) or other factors. Conversely, DSM cannot claim any part of the capital of the pension fund when the fund is doing well either. The risks are therefore borne entirely by the pensioners and the members.

### **Average salary**

When DSM and the employees have paid their contribution, it is up to the pension fund to use that contribution to accrue pension for its members. To determine the extent of the pension rights accrued, the new DSM pension scheme has opted for an average salary system. The amount of pension a member accrues is calculated on the basis of a percentage of the salary in a specific year. Up to and including 2010, this accrual was still based on the final salary. In a final salary scheme, the pay that a person earned at the time of retirement is the basis used for pension accrual for all the preceding years.

### **Conditional average salary / cost-covering contribution**

The contribution the pension fund receives from the employer and employees may no longer be sufficient to operate the pension scheme in an unchanged manner, as it no longer covers the costs of pensions. If that happens, it is agreed that the contributions will not be increased in the new pension agreement, but the accrual of pension rights for employees will be reduced accordingly from that time on. The pension rights and the accrual of pension by employees are thus both conditional.



## Grant of supplements from 2007 to 2010 inclusive

### (Pre)pensioners

PDN endeavors to increase the pensions in payment and the accrued pensions of deferred pensioners in line with price increases every year.

The pensions in payment were increased by 1% in 2010 (compared with 2009). In the three preceding years, PDN increased the accrued pensions and pensions in payment as follows:

PDN grants supplements to: pensioners, surviving relatives, deferred pensioners, people receiving a disability pension, ex-partners and employees who have taken early retirement (excluding employees of DSM Gist Services who have taken early retirement)

| 2009       |                          | On June 1, 2008 |                          | On June 1, 2007 |                          |
|------------|--------------------------|-----------------|--------------------------|-----------------|--------------------------|
| Supplement | In 2008, prices* rose by | Supplement      | In 2007, prices* rose by | Supplement      | In 2006, prices* rose by |
| 0%         | 1.93%                    | 0%              | 2.03%                    | 1.50%**         | 1.42%                    |

\* These prices are 'CPI non-derived'. PDN uses 'CPI derived' figures.

\*\* The supplement on June 1, 2007 was 1.25% at DSM Gist Services and 1.80% at DSM Neo Resins.

PDN pays the future increases in pensions in payment and the accrued pensions of deferred pensioners from the returns on its investments. Past increases do not automatically grant the right to increases in the future.

### DSM employees

The accrued pensions were increased by 3.5% in 2010 (for 2009; the increase for DSM Executive Services B.V. was 2%). In the three preceding years PDN increased the accrued pensions as follows:

PDN pays the future increases in accrued pensions from the returns on its investments. Past increases do not automatically grant the right to increases in the future.

Supplements granted by PDN to: DSM employees

| DSM Company  | 2009       |                          | 2008       |                          | 2007       |                          |
|--|------------|--------------------------|------------|--------------------------|------------|--------------------------|
|  | Supplement | In 2008, prices* rose by | Supplement | In 2007, prices* rose by | Supplement | In 2006, prices* rose by |
| DSM Limburg<br>DSM Executive Services<br>DSM Resins<br>DSM Pharma<br>Chemicals Venlo | 0%         | 1.93%                    | 2.00%      | 2.03%                    | 2.51%      | 1.42%                    |
| DSM Engineering<br>Plastics Emmen<br>DSM Gist Services                               | 0%         |                          | 2.00%      |                          | 1.75%      |                          |
| DSM Biologics Company  | 0%         |                          | 2.00%      |                          | 2.26%      |                          |
| DSM NeoResins  | 0%         |                          | 1.75%      |                          | 1.75%      |                          |

The above percentages also apply to employees of DSM Gist Services who have taken early retirement and employees of DSM Limburg to whom the 1993 transitional provision (Article 15 (1)) applies.

\* These prices are 'CPI non-derived'. PDN uses 'CPI derived' figures.

---

## Risks to members and pensioners (from 2011)

- The risk that supplements cannot be granted at all, or can only be granted partially, on the pensions of pensioners or the pension accrual of members (indexation) in one or more years.
- If the pension contributions no longer cover the costs, the pension fund may decide to reduce the pensions of pensioners, the pension accrual of members and accrued pensions of deferred pensioners.

## Pension register

From January 4, 2011 the Pension Register provides information about pensions accrued with pension funds in the Netherlands. Visit [www.mijnpensioenoverzicht.nl](http://www.mijnpensioenoverzicht.nl) to see the pension you have accrued with various pension funds (excluding state pension).

## Changes to the Board

On July 1, 2010, the composition of the PDN Board was changed. The number of members was reduced from 16 to 10. Four of the ten members (including the non-voting chair) are nominated by DSM Nederland BV, three by the Central Works Council of DSM Nederland BV and three are chosen by and from among pensioners. Mr Robeerst and Mr Ubachs stepped down and Mr De Boer and Mr Van den Boorn were appointed. The following stepped down from the Board on its reorganization: Ms Caubo and Messrs Nederstich, Nieboer, Noordover, Van Baarle and Waltmans.

## New pension agreement

The employer DSM and the unions concluded a new pension agreement in December 2010, which delivers a new pension scheme. The main points of the agreement are that the pension age for calculation purposes will be 66 years from 2012, the fund is changing from a conditional final salary scheme to a conditional average salary scheme, the contribution received by PDN has been increased and supplements will be paid at a funding level five percentage points higher than was previously the case.



---

### **Disclaimer**

The information about Stichting Pensioenfonds DSM Nederland, established at Heerlen (the Pension Fund) provided in this Annual Review is of a general nature, purely indicative and subject to change. The data are intended only to provide members with general information. The information is assumed to be reliable, but the use of this information is solely at the risk of the user. Neither the administrator (DSM Pension Services BV) nor the pension fund accepts any liability for losses arising from errors or omissions in the information, or for losses arising in connection with the use, reliance on, or distribution of, information. Rights can be derived only from the pension scheme applying to the member.

### **Imprint**

Production + text: DSM Pension Services

Design + printing: PPM Event & Media Support [www.ppm-events.nl](http://www.ppm-events.nl)

Postal address: Postbus 6500, 6401 JH Heerlen

Office address: Pensioenfonds DSM Nederland  
Het Overloon 1, 6411 TE Heerlen

Pension Desk: 045-5788100

E-mail: [info.pdn@dsm.com](mailto:info.pdn@dsm.com)

Website: [www.PDNpensioen.nl](http://www.PDNpensioen.nl)