

Financial statements

Consolidated financial statements

27 Notes to the cash flow statement

The cash flow statement provides an explanation of the changes in cash and cash equivalents. It is prepared on the basis of a comparison of the balance sheets as at 1 January and 31 December. Changes that do not involve cash flows, such as changes in exchange rates, amortization, depreciation, impairment losses and transfers to other balance sheet items, are eliminated.

Changes in working capital due to the acquisition or disposal of consolidated companies are included under Investing activities.

Most of the changes in the cash flow statement can be traced back to the detailed statements of changes for the balance sheet items concerned. For those balance sheet items for which no detailed statement of changes is included, the table below shows the link between the change according to the balance sheet and the change according to the cash flow statement:

	2008		2007	
	Operating working capital	In % of net sales (from continuing operations)	Operating working capital	In % of net sales (from continuing operations)
Balance at 1 January	1,875		1,801	
Balance at 31 December	2,102	22.6	1,875	21.4
Balance sheet change	227		74	
Adjustments:				
- Exchange differences	(59)		69	
- Changes in consolidation	7		(19)	
- Transfers	5		-	
Total	180		124	
Change in cash flow	(180)		(124)	

28 Share-based compensation

Under the DSM Stock Incentive Plan, performance and non-performance stock options or Stock Appreciation Rights (SARs) are granted to senior management. Such a grant takes place on the first day on which the DSM stock is quoted ex-dividend following the Annual General Meeting of Shareholders. The opening price of the DSM stock on that day is the exercise price of the stock options and SARs.

Stock Options and SARs have a term of eight years and are subject to a vesting period of three years. After this three-year period one third of the stock options and SARs (non-performance-related) will vest and two thirds of the stock options and SARs that are performance-related will become exercisable in whole, in part, or not at all, depending on the total shareholder return (TSR) achieved by DSM in comparison with a peer group. Non-vested stock options and SARs will be forfeited. If employment is terminated prior to the vesting date, specific rules regarding vesting and forfeitures apply. The exercise of stock incentives is regulated.

Besides stock options tied to performance, performance shares have been granted to the members of the Managing Board. Performance shares vest after three years upon the realization of a predefined performance measure (same performance schedule as operated for stock options).

All stock options and performance shares are settled by physical delivery of DSM shares, while SARs are settled in cash.

Overview of stock options and Stock Appreciation Rights for management

Year of issue	Out-standing on 31 Dec. 2007	In 2008			Out-standing on 31 Dec. 2008	Fair value on grant date (€)	Exercise price (€)	Expiry date
		Granted	Exercised	Forfeited/ expired				
2000	15,000	-	(15,000)	-	-	3.52	18.240	31 Mar. 2008
2001	229,625	-	(187,175)	-	42,450	3.88	19.990	30 Mar. 2009
2002	510,300	-	(111,250)	-	399,050	5.22	23.505	4 Apr. 2010
2003	632,000	-	(250,800)	-	381,200	3.09	18.195	4 Apr. 2011
2003 ¹	92,200	-	(11,000)	-	81,200	3.64	19.770	3 Nov. 2011
2004	1,278,321	-	(478,320)	-	800,001	2.97	17.895	2 Apr. 2012
2005 ^{2,3,4}	2,441,028	-	(360,900)	(1,130,786)	949,342	6.15	29.050	8 Apr. 2013
2006 ²	2,817,725	-	(44,000)	(158,500)	2,615,225	8.95	38.300	31 Mar. 2014
2007 ²	3,176,800	-	(2,500)	(132,850)	3,041,450	7.69	33.600	30 Mar. 2015
2008 ²	-	3,377,350	(2,500)	(67,850)	3,307,000	5.73	29.790	28 Mar. 2016
2008 Total	11,192,999	3,377,350	(1,463,445)	(1,489,986)	11,616,918			
Of which vested	3,330,396				3,287,143			
	at 31 Dec. 2006				at 31 Dec. 2007			
2007 Total	10,833,702	3,271,300	(2,479,053)	(432,950)	11,192,999			
Of which vested	2,831,473				3,330,396			

¹ On 3 November 2003 a select group of DSM Nutritional Products employees received stock options and SARs on a one-off basis.

² Stock options will partly vest, and may therefore immediately be exercised, upon termination of employment in connection with retirement or early retirement.

³ 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).

⁴ Based on TSR performance, the stock incentives tied to performance granted in 2005 did only partially vest; the remaining part has been forfeited.

Certain employees in the Netherlands are entitled to employee stock options that are granted on the first day on which the DSM stock is quoted ex-dividend following the Annual General Meeting of Shareholders. The opening price of the DSM stock on that day is the exercise price of the stock options. Employee stock options can immediately be exercised and have a term of 5 years.

Overview of stock options for employees

Year of issue	Outstanding on 31 Dec. 2007	In 2008			Outstanding on 31 Dec. 2008	Fair value on grant date (€)	Exercise price (€)	Exercise period
		Granted	Exercised	Forfeited/expired				
2003	50,214	-	(47,428)	(2,786)	-	2.33	18.19	until Apr. 2008
2005	184,412	-	(46,950)	(400)	137,062	4.29	29.05	until Apr. 2010
2006	584,533	-	(41,704)	(3,030)	539,799	6.03	38.30	until Mar. 2011
2007	599,488	-	(133,713)	(2,090)	463,685	4.27	33.60	until Mar. 2012
2008	-	657,428	(210,462)	(998)	445,968	3.27	29.79	until Mar. 2013
Total	1,418,647	657,428	(480,257)	(9,304)	1,586,514			
Changes in 2007		648,828	(198,203)	(33,948)				

Based on the 2007 result, 657,428 employee option rights were granted in 2008.