

Letter from the Chairman

Dear reader,

On 1 May 2007 I was pleased to take over the role of Chairman from Peter Elverding, who contributed a great deal to DSM.

One of my resolutions was to communicate with all DSM stakeholders about our direction, developments and achievements. In my opinion, a dialogue with everyone who has an interest in DSM is very important.

In this annual report you will read about innovation, which is at the core of our business. Another element that is at the heart of our organization is responsibility. And finally, you will find in this annual report many examples of why we call ourselves *Unlimited*. DSM.

The year behind us was in many respects an important and exciting one. We announced the acceleration of our *Vision 2010 – Building on Strengths* strategy with ambitious, but attainable, new growth targets aimed at further value creation.

By accelerating our shift to a Life Sciences and Materials Sciences company we are convinced that we can contribute to unmet needs in the area of climate change, health & wellness and a more sophisticated society.

The unique combination of Life Sciences and Materials Sciences offers us an interesting platform for growth, amongst others in (white) biotechnology and biomedical materials.

At the same time we are stepping up our search for acquisitions, while maintaining our disciplined acquisition criteria. The businesses that do not fit in with our new strategic thrust are being carved out and divested or partnered with other companies. I admire the professionalism of the employees of these businesses in dealing with their new futures.

In 2007 we announced several new investments which will contribute to future growth.

Also, we announced a second share buy-back program of €750 million and we proposed to increase the annual dividend for 2007 by 20% to €1.20 per ordinary share, the largest dividend increase in 12 years.

DSM performed well in 2007. We surpassed our sales growth objective and our operating profit from continued operations almost mirrored the record achieved in 2006. Our earnings per share before exceptional items clearly increased.

All this was achieved despite considerable headwind such as the weak US dollar, continued high oil and raw-material prices and the phasing out of some favorable contracts. At the same time we stepped up our investments in innovations and expansion, as planned.

Innovation-related sales surpassed €350 million in 2007. We are well on our way to reaching our objective of €1 billion in innovation-related sales by the year 2010.

With many new innovative products launched in 2007 and many more in the pipeline for the coming years, we are showing that innovation is really embedded in our organization. It is becoming a part of our culture. The same goes for knowing what our customers want and need. A company's success depends on its ability to anticipate its customers' future needs.

Growth in the emerging markets remains very strong. We have raised our sales target for China from USD 1.0 billion to USD 1.5 billion in 2010. In 2007 we realized USD 956 million in sales in China, up 23% from almost USD 775 million in 2006. For countries such as Brazil, India and Russia we are also seeing further growth.

In the area of sustainability, we have doubled our energy savings target from 1% to 2% per year. All our other targets have been confirmed. Safety, of course, remains a priority for us. We are once again ranked among the global leaders in sustainability in our sector and have the ambition to remain a global leader.

A further reduction of our eco-footprint and increased utilization of renewable resources are other key elements in our sustainability policy. Many of our products help reduce CO₂ and other emissions.

At the end of 2007 we conducted our first employee-engagement survey on a global scale. An engaged workforce is critical and I have every confidence that our employees are able to make *Vision 2010* a success. We have proven before that we are able to transform ourselves.

A word of thanks to Peter Elverding, who in May 2007 stepped down as Chairman of the Managing Board after eight years. He played a pivotal and inspiring role in guiding DSM through the transformations set out in especially *Vision 2005*.



The DSM Managing Board (from left to right): Jan Zuidam (deputy chairman), Rolf-Dieter Schwalb, Feike Sijbesma (chairman), Nico Gerardu and Stephan Tanda.

With the appointment of Stephan Tanda as member of the Managing Board, we have completed our management team. With two of the five current Managing Board members being non-Dutch nationals, international diversity of our top management has further increased.

The composition of our Supervisory Board also changed in 2007. Okko Müller stepped down after serving the maximum term of twelve years on the Supervisory Board. I would like to thank him for his commitment and his valuable contribution to DSM.

Our progress in 2007 would not have been possible without the efforts of all our 23,000 employees and the continued support of our customers and shareholders. I am confident that our accelerated *Vision 2010* strategy with a focus on Life Sciences and Materials Sciences will create significant value for all our stakeholders in the years to come.

Feike Sijbesma

Chairman of the Managing Board

feike.sijbesma@dsm.com