

Letter from the Chairman

Dear reader,

The year behind us was in many ways a remarkable and exciting year. Not only did we achieve record sales and a record operating profit; we also made significant progress with our strategy to focus on Life Sciences and Materials Sciences. Towards the end of the year, the turmoil in the financial markets resulted in strong economic headwinds, setting the stage for more challenging conditions, to which we responded swiftly.

These more difficult conditions are no reason for us to change the course we have charted for the coming years. Instead, we will tighten the rig to continue our journey against the wind. We are staying the course.

Our focus on Life Sciences and Materials Sciences is fueled by a number of long-term societal trends. For example, climate change and the world's dependency on fossil fuels highlight the need to find new ways to produce energy and materials. The growing and aging world population is driving an increased interest in health and wellness.

At the same time society is asking for new functionalities related to an increased need for connectivity and life protection. And the emerging economies continue to grow at a high pace as economic prosperity is spread more evenly across the world.

These trends offer numerous opportunities for DSM to help meet needs that are as yet unmet, especially in the areas where Life Sciences and Materials Sciences come together, for instance in the fields of (bio)medical materials, biomaterials and biofuels.

Our unique combination of activities offers us an interesting platform for growth, as we increasingly believe – and also prove with our innovations – that the opportunities for cross-fertilization between the two areas are numerous.

Our current strategy *Vision 2010* builds on choices that we made in the past. The acquisition of Gist-brocades in 1998 for instance gave us our know-how and expertise in biotechnology, and the acquisition of Roche Vitamins and Fine Chemicals in 2003 put us even more at the forefront of Life Sciences and Nutrition.

Our Materials Sciences activities have throughout this period increasingly focused on high-performance materials, both through innovation – take for instance Stanyl® and Dyneema® – and through selected acquisitions such as NeoResins in 2005. Our ambition to divest the activities in the Base Chemicals and Materials cluster will further reduce our (supply driven) cyclicalities and further enhance the specialty profile of our portfolio.

In 2008 we undertook several steps in further shaping our accelerated strategy to focus on Life Sciences and Materials Sciences and in further exploring cross-fertilization between the two. The acquisition of The Polymer Technology Group for instance gave us a leading position in the field of biomedical polymers, one of our future key growth areas and a prime example of how Life Sciences and Materials Sciences come together to improve the quality of life. The latter also applies to some other acquisitions and venturing participations we announced during the year.

We announced several new investments aimed at future profitable growth, most notably the largest-ever investment program for DSM Dyneema. The announcement of the first dedicated production line for Dyneema Purity® is proof that the market for this innovative product for the medical industry is growing rapidly.

We completed the carve-out of the activities that do not fit in with our strategic thrust and made a start with the disposal process. Although we have slowed down the process in view of the current financial and economic environment we still have the ambition of completing the disposals within the timeframe of *Vision 2010*. I continue to admire the professionalism of the employees involved in these businesses in dealing with their new futures.

Safety, of course, remains a priority for us. We were shocked and sad to learn of the fatal accident at DSM Pharmaceutical Products in Venlo (Netherlands). Our thoughts are with the family of our employee who died as a result of this tragic accident.

We are and remain fully committed to innovation and sustainability. Innovation-related sales rose to about € 600 million in 2008, fully on track to reaching our objective of € 1 billion in innovation-related sales by the year 2010.

The same applies to our target of achieving USD 1.5 billion in sales in China by 2010. In China our sales rose by about 20% to USD 1,151 million in 2008. In other emerging economies such as Brazil, Russia and India we continued our growth path.

We made good progress in the area of sustainability. The large cut in N₂O emissions by DSM Agro reduced DSM's worldwide greenhouse-gas emissions by more than 20%, which is in line with the 2010 target. The reduction is the equivalent of two million tons of CO₂, which has the same effect as having one million fewer cars on the road. Through continuous innovations, we help our customers to reduce the carbon footprint of their products.



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

As the year progressed, economic headwinds increased, especially in the fourth quarter, affecting in particular the results of most of our Materials Sciences activities. Turmoil in the financial markets severely restricted the availability of credit to some of our customers, while consumers cut their spending.

In view of the situation in the global credit markets we postponed the third and final € 250 million tranche of the € 750 million share buy-back program in April and have now decided to cancel the remaining part. DSM is and remains conservatively financed with adequate short-term financing and healthy long-term funding in place.

To address the more difficult market conditions we announced several measures to improve cash flow, reduce costs and strengthen our profitability and future competitiveness. We made it a top priority to give our customers full attention in order to meet their needs and priorities. We will also stay alert to identify new growth opportunities within the current market conditions.

The change into a Life Sciences and Materials Sciences company not only means a portfolio change, but also a change in the way we work, which includes our systems and our culture. DSM is changing into a company which is even more market and customer oriented and even more alert to innovation opportunities.

Collaboration and creativity are two key elements to focus on. This needs to be done against the background of a commitment to results, driving DSM's performance in a sustainable manner. As our efforts to further increase DSM's diversity continue, we stimulate our senior executives to become even more inspirational leaders in order for us to succeed in our strategy.

This is supported by a new learning architecture for our executives and managers. The number of non-Dutch executives has grown; around 70% of our total workforce is non-Dutch.

Our shareholders appointed a new member of the Supervisory Board, Louise Gunning-Schepers. She replaced Henk Bodt, who stepped down at the Annual General Meeting of Shareholders, having served the maximum term of 12 years on the Supervisory Board. I would like to express my thanks to him for his commitment and valuable contribution to DSM during his membership of the Supervisory Board.

To our shareholders we propose an annual dividend for 2008 of € 1.20 per ordinary share. DSM aims to provide a stable and preferably rising dividend.

Our progress in 2008 would not have been possible without the efforts of all our 23,500 employees all over the world and the continued support of our customers and shareholders. I have every confidence that we will reach our goal of creating significant value for all our stakeholders in the years to come as we further focus on Life Sciences and Materials Sciences.

Feike Sijbesma

Chairman of the Managing Board
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