

Staying the Course

Measures to strengthen competitive position do not change strategic direction

With the turmoil in the financial markets having spread to the real economy, the global economic downturn has resulted in more difficult market conditions in some of DSM's businesses, putting pressure on the company's financial results.

So far, DSM's Life Sciences businesses have seen only a very limited impact of the current difficult economic climate, and the same holds for DSM Dyneema. In the fourth quarter of 2008 the effects of the economic downturn were mainly visible in DSM's Materials Sciences businesses that supply to the automotive, electrical and electronics and building and construction industries.

Against this backdrop DSM has taken a number of actions and measures that are aimed at improving cash flow and reducing costs in the short term. These actions include a reduction in working capital as well as a review of investments and projects.

Other actions include several initiatives regarding cost reduction, for instance a stronger focus on purchasing, a reduction in the number of temporary contract workers and temporary plant shutdowns. In addition, all corporate and regional staff activities are being reviewed.

At the same time, DSM remains fully focused on customers in order to meet their needs and priorities. While travels are being greatly reduced for cost reasons, there are no such cuts in travels to customers. A number of DSM employees have been assigned to specific tasks to further deepen relationships with existing and new customers.

DSM also remains fully focused on innovation and sustainability. The company is identifying new growth opportunities that the current market conditions provide, such as small-scale technology-related acquisitions. DSM continues to fully adhere to its values.

In addition, a number of structural cost-saving actions are being taken to strengthen the company's profitability and future

competitiveness. These actions will result in a reduction in DSM's total workforce by about 5% or 1000 positions and are expected to lead to savings totaling up to € 100 million per year, to be fully achieved in 2010. A corporate team has been installed to coordinate all measures taken.

Navigating an unchanged strategy

With the actions and measures described above, DSM remains fully committed to the strategic direction and cultural change agenda it has defined and will further navigate its course as set out in *Vision 2010*. This involves continuing the company's accelerated transformation into a Life Sciences and Materials Sciences company with a higher level and better quality of earnings.

Economic cycles come and go, but the main societal trends DSM has identified in its *Vision 2010* strategy have not changed and will continue to be valid in the coming decade.

Energy and climate change

Climate change and energy for instance continue to offer a variety of business opportunities, despite the significant drop in oil prices in the second half of 2008. Depletion of natural resources is urging companies to develop alternative routes and strategies regarding the use of both materials and energy.

New, tighter emission regulations will further increase the need for metal replacement by high-performance plastics in cars, despite the current dire market conditions for many of the world's car manufacturers.

Increasing awareness of and attention for climate change – also in the United States – together with the wish in some countries to reduce dependency on oil imports, is expected to drive demand for windmills and solar cells energy equipment.

Exploiting bio-based opportunities

The development of second-generation biofuels, based on biomass instead of edible crops, is an example where DSM's unique knowledge and technologies in the fields of Life Sciences and Materials Sciences come together.

DSM has used biotechnological methods to produce ingredients for the food and pharmaceutical industries for more than 100 years. Biotechnology is a vital enabler in exploiting opportunities to develop not only these second-generation biofuels but also bio-based chemicals and polymers.

Some 20% of DSM's sales are currently related to biotechnology. The combination of technological know-how, decades of experience and a deep understanding of the materials markets gives DSM a strong competitive advantage not only in the development of materials based on renewable sources but also in the further development of biomedical materials.

DSM's unique and complementary expertise in Life Sciences and Materials Sciences results in a host of opportunities in health and wellness as well, for example in biomedical materials. More and more materials are used to replace parts in the human body and to reduce invasive surgery.

At the same time, increasing healthcare costs in the western world are driving the development of new medicines. DSM is actively engaged in the development of biopharmaceuticals and significant progress has been made in the clinical development stage of these products. The company's cooperation with Crucell on PER.C6® plays an important role in this respect.

Changing lifestyles

A considerable number of diseases in the western world are lifestyle-induced and related to food patterns. DSM develops functional food ingredients that help to combat these diseases.

Especially in the western world, various lifestyle developments are stimulating a change-over among consumers to more health-conscious food patterns. At the same time, global consumption of meat is increasing, especially in the emerging economies as a result of higher disposable income. The livestock needed to produce this meat has a considerable environmental impact. Various products developed by DSM help to decrease this impact.

The growing middle class with increased spending power in the emerging economies also has an increased appetite for the newest products, for instance in the areas of communications and cars.

Increasing connections

With more than two thirds of the world's current mobile handset volume sold outside Western Europe, Japan and North America, manufacturers increasingly need reliable and affordable materials to produce handsets that consumers in emerging economies are able to afford.

In Western Europe, Japan and North America, consumers and companies are increasingly using modern communication techniques, such as mobile internet and high-capacity broadband connections. With slowing replacement sales, manufacturers need to offer new functionalities and better performance to persuade consumers to buy a new mobile phone.

Thanks to ongoing innovations in the semiconductor industry, an ever increasing number of computer chips can fit on the same surface, enabling new and faster applications and smaller equipment. DSM's new polymer Stanyl® ForTii™ for instance can be applied in memory card connectors and LEDs and thus helps to enable tomorrow's electronic gadgets.

The deployment of next-generation broadband technology in the United States, Europe and other parts of the world will further increase connectivity and enable more collaboration both in the home and at the workplace. Already millions of miles of glass fiber optic cables have been coated with materials developed and manufactured by DSM.

Improving lives

Despite continued economic growth in emerging economies there are still an estimated three to four billion people who are poor or ultra-poor. They are at the bottom of the population pyramid and often lack basic vitamins and minerals in their daily food.

DSM is engaged in several projects, including projects in partnership with the United Nations' World Food Programme, to improve the living standards of the ultra-poor, for example by providing vitamin sachets to enrich carbohydrates to address malnutrition. With the world economy experiencing a downturn, DSM remains fully committed to these projects that improve lives by improving nutrition.

Coming out stronger

Like many companies, DSM too is seeing the impact of the current economic downturn in certain parts of its businesses. The company has taken swift action, is conservatively financed and has a strong portfolio. DSM will weather this period and emerge as a stronger company. It remains focused on its strategic shift towards a Life Sciences and Materials Sciences company addressing the main issues of today: energy, climate, food and health.