

Report by the Managing Board

addition, programs to support Customer Relationship Management and Sales Force Automation and to reduce energy usage have been started.

Purchasing

The global DSM purchasing organization that was set up in 2006 enabled DSM to realize a better total cost of ownership and a corresponding competitive advantage. In 2008 the purchasing activities were further professionalized and spend and competences were leveraged. The execution of the DSM purchasing strategy is being supported by standard processes and systems. DSM Purchasing realized its targets for the year. Risk management (security of supply), further alignment with business requirements and further development of supplier relations were key topics during the year. Other focus areas were business intelligence and innovation.

Code of Conduct

DSM Purchasing has further implemented the Sustainability Code of Conduct (CoC) for the DSM supplier base. This code helps suppliers to comply with DSM's high sustainability standards. It prescribes minimum requirements regarding DSM's corporate Triple P values (People, Planet and Profit). The CoC is part of the comprehensive program that has been developed in order to embed sustainable performance in all of DSM's supply base processes and procedures. At year-end 2008, more than 760 suppliers had signed the CoC, covering 67% of DSM's supply base. The other targets of the program, the performance of 44 supplier self-assessment questionnaires and 22 sustainability supplier audits, were exceeded. Apart from good compliance, DSM's suppliers increasingly contribute to the substitution of oil-based raw materials by renewable resources. In the Energy and Indirect spend area DSM has best practices of green energy and more energy efficient transport which also support the company's sustainability efforts.

REACH in the supply chain

REACH, the new European regulation for Registration, Evaluation, Authorization and Restriction of Chemicals, requires that all substances manufactured in or imported into the European Union in quantities above one ton per year are registered. Raw materials used by DSM need to be pre-registered by the partners up the supply chain. Therefore, DSM carried out an extensive program in which it achieved pre-registration confirmations of nearly 5,000 substances from the company's suppliers.

Marketing and product branding

DSM has an internal consulting team specialized in accelerating the commercialization of innovations. The scope of the initiative

is to strengthen, optimize and accelerate new product launches. Also, the aim is to develop strategies to shorten time-to-market and create innovative business models.

Dedicated marketing professionals have been assigned to coach project teams of innovation projects in all clusters. In 2008 this resulted in a number of accelerated product launches.

External recognition

DSM and its business groups have been awarded a variety of awards and other recognitions by its customers, suppliers, the academic world, non-governmental and trade organizations. In this chapter an overview is given of the external recognition awarded by and received by DSM.

DSM Engineering Plastics was awarded the European Process Enhanced Engineering Plastics Excellence in Technology Award by Frost & Sullivan for Stanyl® Super Flow. The Minister of Economic Affairs in the German state of Hessen awarded the Innovation Award to Hoffmann ACE and DSM Dyneema for their innovative and environmentally conscious third-generation lightweight air cargo pallet net design.

DSM's UK-based vitamin manufacturing facility was awarded Carbon Trust Standard Certification, the world's first accreditation scheme designed to allow companies to measure the carbon footprint of their operations and facilitate an independent, specialist review of energy management practices. The Standard is awarded by The Carbon Trust, an independent organization set up by the UK Government in 2001 to accelerate the move to a low-carbon economy by working with organizations to reduce carbon emissions and develop commercial low-carbon technologies.

DSM Nutritional Products and the United Nations World Food Programme (WFP) won the 2008 ICIS Innovation Award for Best Business Innovation for the MixMe™ micronutrient powder. DSM NeoResins+ was nominated for the ICIS Innovation Award for most innovative Corporate Social Responsibility (CSR) project for the Decovery™ family of high solids decorative coatings.

DSM's blood pressure controlling lactotripeptide ingredient, TensGuard™, received the gold award for most innovative new health ingredient at the 2008 Health Ingredients Europe exhibition. DSM Nutritional Products received the Innov'Space prize from Salon des Productions Animales, an international trade fair for livestock, for its iCheck™ Egg product, a kit allowing rapid monitoring of the color of eggs and egg products.

DSM Composite Resins won the environment prize at the AVK Innovation Awards for Palapreg® Premium, a new resins system for use in automotive exterior applications. DSM Composite Resins also received an award for best innovation in composite resin materials at the International China Composites Expo in Shanghai (China).

DSM Food Specialties received the Ringier Technology Innovation Award, a prestigious award within the food and beverage industry in China. The award was in recognition of DSM Food Specialties' product Brewers Clarex®. It also won the Food Product Design Scientific Excellence Award at SupplySide West for PreventASe™.

In the Dow Jones Sustainability World Index 2008, DSM was once again listed as one of the leaders in the chemical industry sector. In 2003 DSM was included in the Dow Jones STOXX sustainability index for Europe for the first time. Also, DSM was independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to remain a constituent of the FTSE4Good Index Series.

Dr. Ad Overbeek, Global Science Manager DSM NeoResins+, has been selected by the Federation of Societies for Coatings Technology to deliver the Joseph J. Mattiello Memorial Lecture. This award, considered by many to be the most prestigious in the international coatings scientific community, recognizes individuals who have made an outstanding contribution to the field of coatings science and technology.

Dr. Viviane Verlhac, principal scientist in the research center for Animal Nutrition and Health at DSM Nutritional Products, received a special award for her contribution as invited speaker at the XIII International Symposium on Fish Nutrition and Feeding held in Brazil in June 2008.

Four researchers of DSM Nutritional Products were awarded the prestigious Sandmeyer Prize by the Swiss Chemical Society for outstanding work on a new synthesis for biotin (vitamin H).

For the second year in a row, DSM Desotech was named among Chicago's '101 Best & Brightest Companies to Work For' in 2008, as published by the National Association for Business Resources and the Michigan Business & Professional Association.

In the Netherlands, DSM won the NIMA Marketing Excellence Award for Innovation. DSM was also awarded the Prix de Mazars 2008 for its 2007 annual report and received a nomination for the FD Henri Sijthoff Prijs 2008 for its annual report as well. The

DSM corporate website was awarded as best performing website in the European chemical sector by Halvarson and Halvarson.

The VNCI (Association of the Dutch Chemical Industry) awarded DSM Agro the prestigious Responsible Care Award 2008. Responsible Care® is a global chemical industry performance initiative that is implemented in the Netherlands through the VNCI. This year's award recognized the achievement of DSM Agro in Sittard-Geleen (Netherlands) in being the first company in the world to greatly reduce its emissions of dinitrogen oxide (N₂O).

Innovation Awards Program

As DSM is very committed to promoting pioneering research that leads to products or applications that enhance people's quality of life, an Innovation Awards Program is in place to recognize and reward exceptional achievements by DSM employees as well as by innovative scientists working outside DSM.

In 2008, the DSM Science & Technology Awards were presented for the twenty-third time in the North region (Belgium, the Netherlands and the German state of North Rhine-Westphalia) and for the second time in the South region (Austria, Northeastern France, Southern Germany and Switzerland). These awards, granted annually, aim to encourage young scientists to undertake creative and groundbreaking PhD research.

The first prize for the North region was awarded to Belgian researcher Maarten Roeffaers of the Catholic University of Leuven, who has pioneered the use of fluorescence microscopy in catalysis research. The first prize for the South region went to German researcher Andreas Walther of the University of Bayreuth, who has succeeded in developing new classes of polymeric materials with unusual properties based on so-called Janus particles.

In 2008 DSM launched the new DSM Performance Materials Award. This award, which DSM grants in cooperation with the International Union of Pure and Applied Chemistry (IUPAC), will be presented every two years and recognizes established scientists worldwide whose work has made a significant contribution to the advancement of the materials sciences, with special emphasis on polymeric materials.

The 2008 award was granted to Craig J. Hawker, Professor of Chemistry, Biochemistry and Materials and director of the Materials Research Laboratory at the University of California, Santa Barbara (United States), in recognition of his outstanding

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fundamental and applied research and his dedication to innovative science. The award was presented at the IUPAC Macro 2008 Congress in Taipei (Taiwan).

Risk management

Responsibility

The Managing Board is responsible for risk management in the company and has designed and implemented a risk management system. The aim of the system is to ensure that the extent to which the company's strategic and operational objectives are being achieved is understood, that the company's reporting is reliable and that the company complies with relevant laws and regulations.

Reporting structure

In this annual report, reporting on risk management is organized as follows:

- Below, the Managing Board describes the most important risks and responses in relation to the achievements of the *Vision 2010* targets. It is also described how the risk management system is used to arrive at conclusions regarding the functioning of the internal controls over financial reporting (the 'In Control Statement').
- In the risk management section (page 84) of the chapter on corporate governance, risk management, financial policies and related functions, a general description is given of the risk management system, the most important adaptations of the system and the risks that are relevant for the company.
- Information on financial risks is provided in the financial statements on page 131.
- On the day of publication of this report, an updated full description of the DSM Risk Management System as well as a more elaborate description of relevant risks will be published on the DSM Internet site. The descriptions are to be found on the Risk Management pages of the Governance section of DSM's website (www.dsm.com) and should be considered an integral part of DSM's risk management reporting over the year 2008.

Main risks

As part of the annual risk management calendar, the Managing Board updated the Corporate Risk Assessment. For this assessment, last year's list of risks was reviewed and supplemented by information from external and internal risk reports, events and other views and information obtained. These risks were ranked and responses were formulated by the Managing Board. The outcome of the assessment was checked

against internal risk reports. The most important risks and responses are reported here:

- The impact of the global financial crisis and economic downturn is seen as one of the most important risks for the remainder of the *Vision 2010* period. Especially in the end markets for most of the Materials Sciences businesses an unprecedented decline has occurred, whose depth and duration is still very hard to predict. Although the emerging economies have been less affected, their growth rates have also declined below earlier expectations and prospects have larger uncertainties than before. The financial crisis is making access to cash more difficult and more expensive. The pension reserves have been diminished by the stock price developments; this is expected to have a considerable negative non-cash EBIT effect in 2009 compared to 2008. DSM's response to the financial and economic downturn covers all of the above aspects and is coordinated by a newly installed dedicated corporate team that works with the full Managing Board and the DSM Leadership Council. The responses include cost-cutting measures, reduction of capital expenditure programs, as well as an extra focus on cash and credit management. Opportunities are, however, also investigated and promising innovation initiatives are preserved as much as possible in order to safeguard future growth opportunities.

Other main risks are:

- Disposals and acquisitions. DSM has tested methods to conduct these processes successfully. There is, however, always the risk that suitable candidates do not present themselves against affordable conditions. This risk has increased due to the financial crisis.
- Price volatility (and secured supply) of raw materials and energy. Hedging policies have been put in place and are now being reviewed and extra focus has been put on single source situations. Extreme volatility can, however, always lead to unavoidable losses and the stability of suppliers may be affected by the crisis.
- Deteriorating market conditions and/or commoditization for the existing product portfolio. This risk may be aggravated by the global downturn, due to lower global utilization rates. DSM continues to counter this risk by innovation and product differentiation, but also by low-cost country sourcing, cost savings and process improvement measures.
- The ability to turn innovation efforts into profitable business. Close monitoring of the innovation portfolio is in place and best practice solutions for new product development and launch