

# Key figures 2008

	2008	2007
<b>People</b>		
Number of employees (year-end)	23,591	23,254
Number of employees by region		
Europe	14,493	14,343
- the Netherlands	7,452	7,219
- Rest of Europe	7,041	7,124
Asia	4,793	4,760
- China	3,557	3,564
- Rest of Asia	1,236	1,196
North and South America	4,030	3,873
Rest of the world	275	278
Female/male ratio, %	23/77	24/76
Total employee benefits costs (in € million)	1,465	1,389
Frequency Index of recordable accidents (per 100 employees; DSM and contractors)	0.72	0.82
<b>Planet</b>		
Energy use in PetaJoules	71	77
Greenhouse gas emissions in CO <sub>2</sub> equivalents (x million tons)	7.5	9.6
Emission of volatile organic compounds (x 1000 tons)	8.8	9.2
COD load (chemical oxygen demand) on surface waters (x 1000 tons)	7.6	11.0
Environmental incidents	539	540
Environmental complaints	78	96
<b>Profit (in € million)</b>		
Net sales, continuing operations	9,297	8,757
Operating profit plus depreciation and amortization (EBITDA), continuing operations	1,357	1,247
Operating profit (EBIT), continuing operations	903	823
Capital expenditure including acquisitions	739	568
R&D expenditure	394	372
Net profit	577	429
Cash flow (net profit plus amortization and depreciation)	1,028	1,003
Cash Flow Return on Investment (CFROI in %)	8.7	8.3
Return on capital employed (ROCE in %)	14.4	13.4
Net profit per ordinary share before exceptional items (€)	3.64	3.07
Net profit per ordinary share (€)	3.45	2.35
Dividend per ordinary share (€)	1.20	1.20

# Our sustainability strategy

## Better products, better health, better eco-footprint, better value propositions

### How we work towards greater sustainability

#### PEOPLE

- By offering our employees an inspiring working environment, a culture of accountability and a stable source of income
- By supporting the career development of our people
- By striving to continuously improve the safety and health of our employees, our customers and the people who live near our sites
- By being a responsible partner to society and all our stakeholders
- By working with works councils and other representative employee organizations in a mutually respectful manner
- By developing, manufacturing and marketing sustainable products and services in the fields of Life Sciences and Materials Sciences to support a healthier, more sustainable and more enjoyable way of life

#### PLANET

- By using energy and raw materials efficiently
- By continuously improving the eco-efficiency of our processes
- By developing, manufacturing and marketing products that help to reduce the eco-footprint of our (end-) customers
- By increasing the sustainability of our value chains

#### PROFIT

- By showing a solid long-term financial performance and thus creating attractive opportunities for investors
- By listening and responding to customers and prospects, shareholders and stakeholders and offering them sustainable, innovative solutions
- By cooperating with third parties in business and technology ventures
- By implementing, in developing countries, projects which are directly beneficial to the economic development of local communities and at the same time deliver profit for our company

Our mission as a company is to create sustainable growth. We do this by creating value via our products and services. At the same time, we aim to reduce our own eco-footprint, that of our customers and that of the value chain in which we operate.

#### Creating more value with less environmental impact is achieved by combining:

- **Eco-efficiency** – reducing the negative impact of (running) activities
- **Eco-effectiveness** – developing and designing products with end-of-life in mind
- **Sustainable production and consumption** – more functionality using less material

We engage with our stakeholders to identify the changing needs of the world in which we operate. As part of our strategy and stakeholder dialogue, we have identified four global mega trends: Climate and Energy, Health and Wellness, Functionality and Performance and Emerging Economies. We believe that by focusing our sustainability efforts on these four trends, we can seize on new commercial opportunities. Addressing the changing needs of society within the framework of these four trends is integral to our corporate strategy *Vision 2010*.

Having identified currently unmet needs, we aim to develop innovative product and process concepts to meet them, either as part of DSM's innovation efforts or within the framework of partnerships. In developing products to meet society's changing needs, we pay close attention to the ethical management of our supply chain. Our objective is not only to apply high ethical standards to our own activities but also to agree with our suppliers to do the same. This we achieve by means of our Global Supplier Sustainability Program. Offering innovative products helps our customers in turn to operate in a sustainable manner. The benefits are ultimately passed on to the end-consumer. We attempt to communicate as fully, accurately and transparently as possible about the contribution we make, our progress against targets, and challenges still to be resolved.

Our approach is inspired from start to finish by our Values: Respect for People, Valuable Partnerships and Good Corporate Citizenship. Our achievements are made possible by the talents, skills, experience and commitment of our employees. At the same time, we draw on our unique science base and technological capabilities to deliver innovative solutions that open up new possibilities and serve new markets.

“The good thing about DSM is that we don’t just say we care about sustainability but really put it into practice.”

**John Meijs**  
VP HR DSM China  
With DSM since July 1977



## Dow Jones Sustainability World Index

**Launched in 1999, the Dow Jones Sustainability Indexes (DJSI) are the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide. They provide asset managers with reliable and objective benchmarks to manage sustainability portfolios. DSM has been included in the top rank of the chemical sector of the DJSI since 2003 and was ranked number one for three years in a row from 2004–2006.**

In 2008 we retained our listing in the top rank of the Dow Jones Sustainability World Index. DSM's score showed an overall improvement from the 2007 figure of 85 to 86 points out of 100, and was one point behind the global leader for the chemical sector, BASF.

Our Climate Strategy was identified as having very strongly improved since 2007. Sustainable business development, environmental management system & transparent reporting, corporate governance and standards for suppliers were all marked as strengths. The main area pointed out for improvement was operational eco-efficiency (emissions to air and water). Occupational health & safety, human capital development and customer relationship management were also identified as requiring improvement.

Our response is as follows:

- In the area of operational eco-efficiency, we are addressing direct and indirect greenhouse-gas emissions as well as energy and water consumption.
- As regards occupational health & safety, we are fully committed to providing a safe and healthy work environment for our employees and contractors. To this end, we are rolling out a global health management program. We are also continuing our existing safety programs, including our behavior-based safety training program.
- Our activities in the field of human capital development involve the implementation of a new career development process and a new learning architecture in 2008, which will play a key role in helping us to achieve our strategic objectives as a company. Furthermore, Global Sharing ICT tools are being implemented to further support existing organizational learning. These tools support competence networks and enable further competence development in areas such as SHE, Manufacturing, Innovation, ICT and R&D.
- Our operational and strategic CRM (customer relationship management) performance dashboards will be further developed by our business groups.

# Our sustainability strategy

## Sustainability targets

**Sustainability is integral to our Vision 2010 strategy. Our publicly stated sustainability objectives are to:**

- retain our top position in SHE and Sustainability rankings;
- maintain a global leadership position in industrial or 'white' biotechnology, providing among other things biobased food ingredients, biopharmaceuticals, biorenewable materials and second-generation biofuels;
- continuously reduce our eco-footprint;
- develop a more diverse, international workforce;
- double our energy reduction target from 1% to 2% per year.

We are currently working on new targets for the years to 2020 regarding:

- continued reduction of greenhouse-gas emissions;
- further improvement of our energy efficiency;
- reduction of greenhouse gases in our value chains;
- further reduction of water consumption.

In order to set concrete targets and monitor progress towards these targets, we are in the process of establishing product eco-footprints for the majority of our products and their impact in the most relevant value chains by 2010. Detailed sustainability targets will form part of our Vision 2015 strategy.

## How we organize Sustainability

**Sustainability is integrated into DSM's Vision 2010 strategy and objectives. Relevant disciplines incorporate sustainability in their approaches. At corporate level, our progress against sustainability targets is reported on a quarterly basis. DSM has dedicated departments for Corporate Sustainability and Corporate SHE (Safety, Health, Environment) and Manufacturing, while line management is supported by sustainability and SHE managers at business group level. Our sustainability performance was audited by Corporate Operational Audit in 2008, and proposed improvements were integrated into our ongoing sustainability activities.**

Sustainability has the attention of the entire Managing Board, with Jan Zuidam, Deputy Chairman of the Managing Board, as the primary focal point. He chairs both the DSM Sustainability Network and the Corporate SHE Committee. The DSM Sustainability Network is supported by the Corporate Sustainability Department.

The Corporate SHE Committee is supported by the DSM SHE Council, which is composed of all business group SHE managers. The DSM SHE Council plays an important role in developing practices and communications regarding SHE issues.

Furthermore, members of the Managing Board chair different sustainability-related projects, such as the World Food Programme (Stephan Tanda), Diversity (Feike Sijbesma) and Base of the Pyramid (Jan Zuidam).

## Ensuring sustainability in the value chain: Global Supplier Sustainability Program

**Approximately 60% of DSM's total spend is globally sourced, the remainder being sourced from regional or local suppliers. DSM's supplier sustainability programme, which covers both global and local suppliers, comprises two main elements: compliance and reduction of DSM's eco-footprint.**

### • Compliance

Suppliers are requested to sign the DSM Supplier Code of Conduct, which is based on the DSM Values. In addition, a number of selected suppliers (based on risk potential and size) are invited to complete a self-assessment questionnaire. Some are additionally audited to verify the status of their sustainability profile or to develop joint improvement programs where appropriate.

During 2008 we made considerable progress regarding compliance:

- Approximately 67% of spend was covered by suppliers who had signed the Code of Conduct as at 31 December 2008 (6% ahead of our target for the year). Our target is for 90% of our suppliers to operate under the DSM Supplier Code of Conduct as of 2011.
- More than 100 positive self assessments occurred (more than doubling our target figure of 44 for the year).
- 28 audits took place (target 22) with good results including various joint improvement programs. DSM additionally verified the progress of several improvement programs which had been agreed with suppliers in 2007.

Our supplier program has worked so well to date that no contracts have had to be terminated on grounds of non-compliance. A small number of potential suppliers failed to achieve selection purely due to sustainability considerations.

“If we consider it necessary in the West to adhere to stringent standards in order to protect our environment, I can see no justification for applying lower standards in other countries.”

**Robert Donker**  
DSM Corporate SHE Manager  
With DSM since August 1981



#### • Reduction of eco-footprint

In our efforts to reduce our eco-footprint we work closely with our suppliers. We achieve this reduction by various means, including the use of biobased chemicals and renewable energy, the use of lighter packaging and the use of more energy-efficient transport options.

During 2008 we defined and implemented the first eco-footprint improvements jointly with our suppliers:

- Renewable electricity contracts have been initiated on a trial basis for some of our European sites – Tienen and Genk, Belgium and Meppen, Germany.
- A number of environmental friendly biobased raw materials have been identified as replacements for more hazardous ones which are oil based.
- New packaging solutions involving lower weight/less waste have been identified. For example, DSM Resins, DSM Food Specialties, DSM Nutritional Products and DSM Pharmaceutical Products now make use of 1000-liter Intermediate Bulk Containers (IBC), which replace the 250-liter steel drums formerly used. The main advantages are:
  - avoidance of waste via re-use of the IBCs, which saves the need for 2000 tons of new steel per year;
  - higher transport efficiency;
  - re-use of inner polyethylene IBC lining to produce plastic pallets, which saves almost 1000 tons of polyethylene per year;
  - significantly improved SHE aspects for the operators involved, on account of the replacement of manual handling by automated handling.

The eco-footprint of our lease car fleet in the Netherlands has been improved by 5% on account of increasing numbers of employees opting for company cars with lower fuel consumption and/or CO<sub>2</sub>-emissions. The number of ABC-label lease cars rose from 51% in Q1 2008 to 59% in Q4 2008.

#### Stakeholder views shape policy development

**Society’s requirements are changing and giving rise to new needs. Working together with our stakeholders through partnerships and projects, we strive to develop long-term, mutually beneficial relationships. These help us to better understand the needs of the world around us, identify business opportunities and reduce our risk exposure.**

We are involved with the World Business Council for Sustainable Development, the China Business Council for Sustainable Development, the United Nations World Food Programme, the World Economic Forum, BioVision, The United Nations Global Compact and Young Leaders for Nature, an initiative of IUCN (the International Union for the Conservation of Nature), as well as a number of industry associations such as ICCA (the International Council of Chemical Associations), ACC (the American Chemistry Council), CEFIC (the European Chemical Industry Council), VNCI (the Dutch Association for the Chemical Industry), EuropaBio and the American Biotechnology Industry Organization.

We seek to engage with relevant key stakeholders: shareholders, suppliers, customers, local communities, industry peers, NGOs (non-governmental organizations), special interest groups and, of course, our own employees. Engaging with our stakeholders enables us to identify key societal and technological trends, to develop and test our responses to these, to anticipate and manage any potential conflicts of interest, and, above all, to cultivate trust in our company and its people.

During 2008 we continued to develop our Stakeholder Engagement Road Map. This identifies the strengths and weaknesses in our current network of stakeholder

# Our sustainability strategy

“The company’s sustainability policy attracts people. And they stay longer with DSM as a result. It is one of the main reasons why DSM is so strong.”

**Wei Lin Zhou**  
HR Manager DSM Engineering Plastics Asia Pacific  
With DSM since January 2007



relationships and provides us with a structured agenda for intensifying our dialogue with key groups. Within the framework of the four global trends, we are identifying and strengthening contacts with selected thought leaders, policymakers, business partners, NGOs (non-governmental organizations) and other influential bodies. We have been actively engaged in dialogues concerning:

- Food safety and quality. Addressing society’s growing concern about health issues related to food quality, we have launched our Quality for Life™ programme, which offers exemplary standards of product quality, traceability and reliability.
- Climate change. DSM believes industry can and must play a positive role in securing economic growth while simultaneously reducing the total carbon footprint.
- White biotechnology. We continue to invest in white biotechnology, which is considered to create alternatives to the fossil-fuel-based economy.
- Hidden hunger. Our contribution to the fight against one of the world’s biggest public health issues is ongoing.
- Sustainable biomass. Our growing involvement in white biotechnology is attended by the need to secure a sustainable raw material base, and we are seeking further engagements in this area. Our activities must take into account both environmental biodiversity and possible societal effects.
- Active engagement with the societies in which we operate. As part of our License to Operate, we encourage local DSM organizations to actively support their local communities, as evidenced by for instance our ‘Torch’ program (see pages 32, 34, 50, 52).

Our stakeholder engagement activities, in which we strive to include the views of our stakeholders in our sustainability activities, are discussed in further detail in our chapters on Climate and Energy, Health and Wellness, Functionality and Performance and Emerging Economies.

## Involving stakeholders in this report

It is DSM’s policy to proactively canvas the views of its employees on issues of material importance to the company. The preparation of this report was facilitated by experts who were supported by a review group comprising employees selected from across the DSM organization. Building on the issue analysis we conducted with SustainAbility Ltd. in 2007, their views were taken into account when finalizing this report.

## Seeking constructive political dialogue

DSM actively seeks constructive dialogue with politicians and society. Our objective is to contribute in a transparent, constructive and sustainable manner, basing our arguments on facts and on scientifically sound, publicly stated positions. Examples of topics discussed in such dialogue are the EU emission trading system, EU industrial sugar regulation, food safety and the bio-based economy.

## DSM in Society

**Our Values create an agenda for making a positive contribution not only to the world of business but also to society as a whole. DSM has a long tradition of encouraging local initiatives in support of the communities in which our sites are located. We report on these at various points throughout this document.**

DSM donated and/or made available approximately € 5 million to a wide range of initiatives in 2008. These included our partnerships with the United Nations World Food Programme (WFP) and the Dutch Olympic and Paralympic teams, our humanitarian initiative SIGHT AND LIFE, and charitable donations to a number of local causes.

## Respect for People; Human Rights

**Respect for People is one of the DSM Values, and we support and respect human values as outlined in the UN's Universal Declaration of Human Rights. Our employees represent 50 different nationalities: we support the equal treatment of all our employees irrespective of race, nationality, ethnic background, age, religion, gender, sexual orientation or disability. Respect for human rights is also integral to DSM's sourcing policy and Supplier Code of Conduct.**

DSM is a Dutch signatory of the United Nations Global Compact. We report on our implementation of these principles within our company on page 75.

DSM supports the work-related rights defined by the ILO (International Labor Organization) and therefore recognizes the International Labor Standards. In countries or companies where employees have third-party representation via a works council or collective bargaining, we respect these relationships and work with these third parties in a mutually respectful manner. In the event of an organizational restructuring which results in the reduction of a significant number of positions, DSM develops and implements either a Social Program (aimed at assisting employees to continue in employment, whether inside or outside the company) or else a Severance Pay Program. We promote employee empowerment and human rights protection, and thus seek dialogue with our employees and their representatives (Works Councils, Labor Unions).

We utterly reject and condemn any form of forced labor or child labor, whether at our own premises or within our supply chain. This is clearly stated in our Values and the DSM Supplier Code of Conduct. We exercise due diligence when making investment decisions with the aim of excluding any relationships or practices which may be in contravention of human rights.

Our employees are trained in the meaning and application of the DSM Values, and the Managing Board holds management accountable for compliance with these. This training involves, among other things, awareness of potential corruption or fraud or other breaches of the DSM Values. A whistle-blower procedure (DSM Alert) and a consequence management policy are in place to support compliance in this respect. The DSM Compliance Officer responsible for dealing with violations of the DSM Values reports to the CEO and is invited to report independently once a year to the Supervisory Board.

Proven violations result in immediate discharge. In line with this policy, 29 employees were requested to leave the company during 2008 for breach of the DSM Values or of other legal or local company regulations. Compliance with the DSM Values, legal and local regulations is regularly audited. In one case, an audit in 2008 led to a remark about excess of overtime in one of our Asian units. This situation was analyzed and is being monitored for follow-up. DSM is unaware of any cases of breach of human rights or the use of forced or child labor within its operations.



“I think that everyone should try to do what they can for sustainability, and I am very happy to be associated with a company with a strong sustainability agenda. DSM's reputation is important to me as a sportswoman, just as my reputation as a sportswoman is important to DSM.”

**Marleen Veldhuis**  
Dutch Olympic swimmer  
Sponsored by DSM since August 2008

DSM is the innovation Partner in Sport of the Dutch Olympic Committee (NOC\*NSF) and personal sponsor of Marleen Veldhuis.

Marleen Veldhuis holds various world records and won a gold medal in the 4 x 100 Freestyle Relay at the 2008 Summer Olympic Games in Beijing, China.

# Vision 2010 strategy update



“To address the economic downturn, DSM is committed to taking swift action, including cost savings, to support its profitability and cash generation. However, DSM will never compromise its Values, including Sustainability.”

**Rolf-Dieter Schwalb**  
Member of the DSM Managing Board and Chief Financial Officer  
With DSM since October 2006

DSM's accelerated *Vision 2010* — *Building on Strengths* strategy builds on the company's track record of portfolio transformation and sharpens its focus on Life Sciences and Materials Sciences at an increased pace. This focus is fueled by a number of societal trends. DSM aims to capture the opportunities offered by these trends.

DSM's focus on Life Sciences and Materials Sciences offers attractive growth potential, not just in the two individual fields but also in their combination. The cross-fertilization potential between Life Sciences and Materials Sciences is high. DSM is convinced that biotechnology, traditionally associated with Life Sciences, will increasingly play a role in developing new biomaterials while at the same time materials will be increasingly used in Life Sciences applications.

Description	Accelerated <i>Vision 2010</i> target
Organic Sales growth	> 5%
EBITDA margins	
• Nutrition	> 18%
• Pharma	> 19%
• Performance Materials	> 17%
• Polymer Intermediates	> 13% (average)
Sales in China	USD 1.5 bn by 2010
Growth from innovation	€ 1 bn by 2010
CFROI	WACC (7.5%) + 100bp
Sustainability	Energy savings target doubled Other targets confirmed
Total shareholder return	Above average for peer group

The company has defined four Emerging Business Areas (EBAs) to create growth platforms that are based on the strengths and synergies of DSM's positions in Life Sciences and Materials Sciences. These EBAs are Biomedical, Personalized Nutrition, Specialty Packaging and White Biotechnology.

With a unique combination of market positions and technologies, as illustrated by the company's leading position in white biotechnology, its long history in advanced chemical synthesis and its strong know-how with regard to Materials Sciences DSM has ample opportunities for innovative growth.

The main building blocks of DSM's accelerated *Vision 2010* transformation include reshaping the portfolio at an increased pace, the setting of ambitious new targets, measures related to DSM's shareholders and a reinforcement of DSM's Triple P policy.

At the same time DSM continues to see market-driven growth and innovation, an increased presence in emerging economies and operational excellence as its key strategic drivers.

The acceleration of DSM's portfolio transformation is an important prerequisite for increasing the focus on Life Sciences and Materials Sciences. *Vision 2010* entails the carve-out of businesses which do not fit with the accelerated strategy. These activities are grouped in the Base Chemicals and Materials cluster.

DSM has slowed down the process given the current financial and economic environment but still has the ambition of completing the divestments within the timeframe of *Vision 2010*.

In 2008, DSM acquired seven companies. Most notably, the acquisition of The Polymer Technology Group (PTG) allowed DSM to further expand its biomedical materials business. The acquisition of PTG was an important step for DSM in realizing its ambitions in Biomedical, one of the Emerging Business Areas defined in the accelerated *Vision 2010* strategy.

DSM is continuing its stepped-up search for acquisition opportunities to further accelerate its evolution towards a Life Sciences and Materials Sciences company. DSM will however maintain its disciplined acquisition policy. Within the current market conditions, the company is identifying new growth opportunities, such as small-scale technology-related acquisitions.

By realizing the accelerated *Vision 2010* targets, DSM intends to achieve a total shareholder return that exceeds the average of its peer group<sup>1</sup>.

<sup>1</sup> This peer group consists of AkzoNobel, BASF, Ciba, Clariant, Danisco, EMS Chemie Holding, Lanxess, Lonza Group, Novozymes, Rhodia and Solvay.

## Listening to our employees, making necessary changes

**A committed workforce is critical for realizing our ambitious targets and managing the complex demands of the fast-moving global markets in which we operate. Our HR strategy *Passion for People* was therefore formulated in 2007 specifically to help deliver *Vision 2010*. *Passion for People* is founded on the concept of employee engagement. To assess levels of engagement throughout our company, we launched our first comprehensive DSM Employee Engagement Survey at the end of 2007.**

Almost 12,000 employees worldwide participated in this online survey. This figure represents 63% of the total target group population of 19,000 employees who have access to our company email system and were therefore able to participate. Working conditions and safety standards, job satisfaction, support from the relevant line manager and teamwork all received positive scores: most notably, 81% of respondents gave a high rating to working conditions and safety standards. In total, 62% of participants scored favorably on the DSM Engagement Index, while 25% scored a neutral response, indicating that 87% are to a greater or lesser degree pleased with their job, and that at least 62% of our employees are committed and proud and would recommend DSM as a great place to work. Compared with the average external benchmark (64%) we are pleased with this score. Nevertheless we will have to improve on it in coming years.

The consolidated results of the DSM Employee Engagement Survey led to the identification of three main areas for improvement across our company: Inspirational Leadership, High Performance Culture, and Diversity.

**“Sustainability is no longer an adjunct to profitability: it is a core component of profitability. Today’s investors understand that companies with a fully integrated sustainability strategy will survive.”**

**Marc Silvertand**  
DSM Investor Relations Officer  
With DSM since January 1996



# Vision 2010 strategy update

The management of DSM units around the world discussed their unit's results with their employees and in some cases determined issues that required specific local attention. They initiated actions to address these in the second half of 2008. These actions varied from site to site, depending on specific requirements. Representative responses included the integration in running change programs, organization of leadership training programs, the link to career development activities, the creation of new briefing formats and feedback mechanisms for employee interaction, the publication of dedicated newsletters, and the link to safety behavior programs. The survey will be repeated in March 2009 in order to check progress of both global and local action plans. The lessons learned from the first survey will be incorporated into the design of the second survey. The same global approach, giving rise to local action plans, will be employed. The survey will be available not only via e-mail but also on paper, and will be conducted in a total in 20 languages, allowing all our employees worldwide to participate.

Besides the survey, *Passion for People* resulted in a range of interconnected activities during 2008 designed to cultivate a skilled, diverse and engaged workforce. These activities include the implementation of a new learning architecture (supporting Inspirational Leadership), a new career management design and a global recruitment management system (both supporting High Performance), a global health management system, a global diversity drive (likewise in response to the findings of the Employee Engagement Survey), a global ICT platform facilitating interactive group-wide knowledge exchange, the DSM 'Torch' campaign and other initiatives in support of local communities, and also the voluntary participation of employees in our partnership with the World Food Programme.