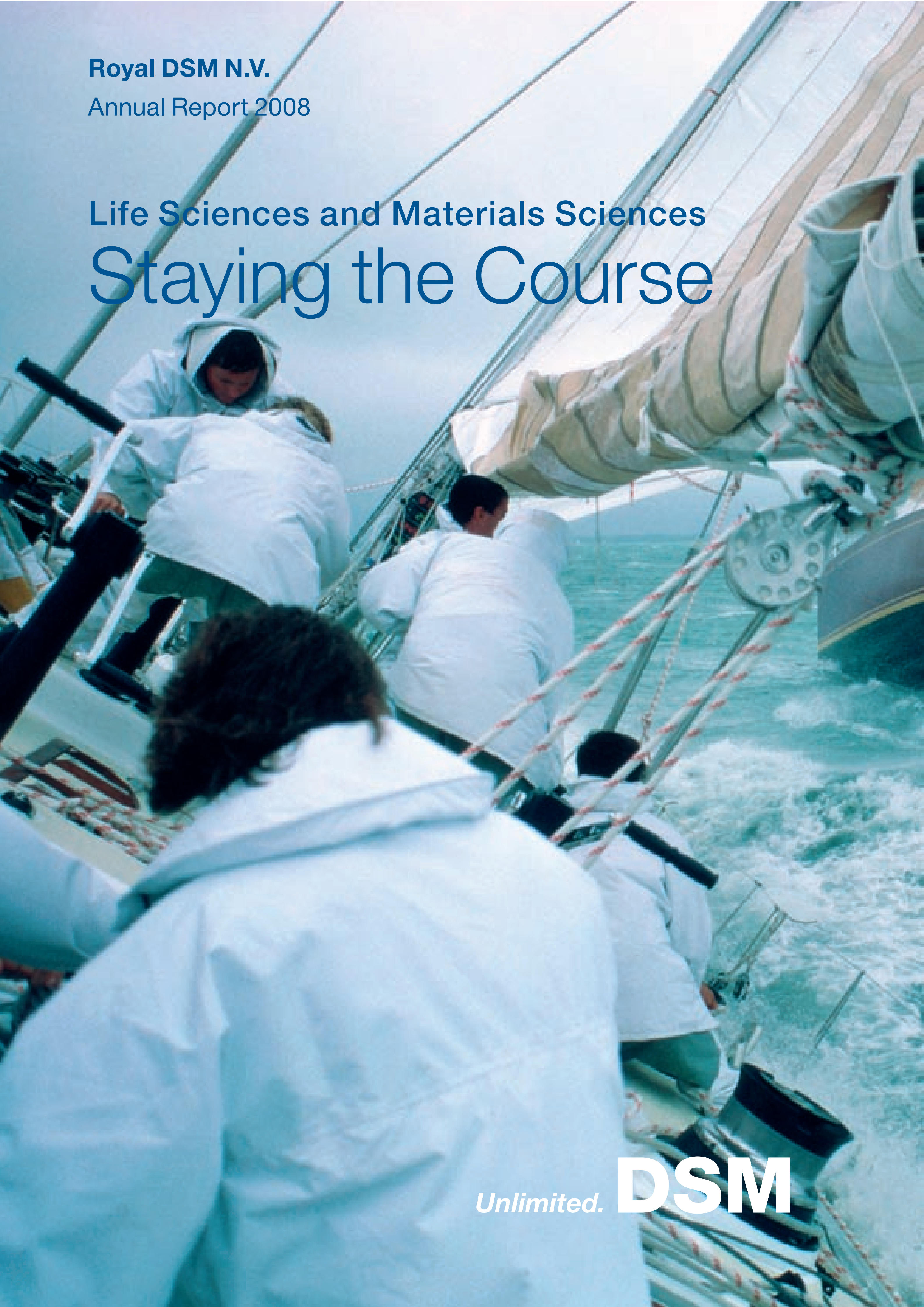
Royal DSM N.V.

Annual Report 2008

Life Sciences and Materials Sciences

Staying the Course



Unlimited. DSM

Every day, millions of people use products containing our ingredients or materials – often without realizing that it is a DSM ingredient that sets these products apart. We supply numerous innovative ingredients and applications to a wide variety of producers in various markets all over the world.

Responsible innovation is the key to our success. With a relentless drive to innovate we are defining our future today. At the same time we focus on more sustainable products to help secure a better future for the world.

With products and services in Life Sciences and Materials Sciences we are contributing to the quality life of millions of people around the globe. We support a healthier, more sustainable and more enjoyable way of life.

DSM – the Life Sciences and Materials Sciences Company
Royal DSM N.V. creates innovative products and services in Life Sciences and Materials Sciences that contribute to the quality of life. DSM's products and services are used globally in a wide range of markets and applications, supporting a healthier, more sustainable and more enjoyable way of life. End markets include human and animal nutrition and health, personal care, pharmaceuticals, automotive, coatings and paint, electrical and electronics, life protection and housing. DSM has annual net sales of almost € 9.3 billion and employs some 23,500 people worldwide. The company is headquartered in the Netherlands, with locations on five continents. DSM is listed on Euronext Amsterdam.
More information: www.dsm.com

*As the innovative Partner in Sports of the Dutch Olympic Committee (NOC*NSF), DSM works closely together with sportsmen and women in their quest for success – and together we help the world of sports move forward.*

Unlimited. DSM NOC*NSF partners in sport

DSM at a glance

DSM's activities have been grouped into business groups representing coherent product/market combinations. The business group directors report directly to the Managing Board. For reporting purposes the activities are grouped into five clusters:

Nutrition

€ 2,710 m Net sales

DSM Nutritional Products
DSM Nutritional Products is the world's largest supplier of nutritional ingredients, such as vitamins, carotenoids (antioxidants and pigments), other biochemicals and fine chemicals, and premixes.

- Human Nutrition and Health
Leading developer and manufacturer of functional food ingredients for the food industry and personal care ingredients for cosmetics and skin care product companies.

- Animal Nutrition and Health
World market leader in vitamins, carotenoids, enzymes and premixes for the feed industry. Its products contribute to animal performance (for example by enhancing gut flora or bone health) and the environment.

DSM Food Specialties
DSM Food Specialties is a global supplier of advanced ingredients for the food industry, manufactured with the aid of fermentation and enzyme technology, among other technologies, based on in-depth application knowledge of the chosen market segments

Pharma

€ 863 m Net sales

DSM Pharmaceutical Products
DSM Pharmaceutical Products is one of the world's leading providers of high-quality global primary and secondary custom manufacturing services to the pharmaceutical, biotech and agrochemical industries.

DSM Anti-Infectives
DSM Anti-Infectives holds global leadership positions in penicillin G and penicillin intermediates (6-APA and 7-ADCA), in active pharmaceutical ingredients such as semi-synthetic penicillins and semi-synthetic cefalosporins (beta-lactams) and in other active ingredients such as nystatin.

Base Chemicals and Materials

€ 1,733 m Net sales

DSM Agro
DSM Agro produces ammonia and nitrogen fertilizers for grasslands and agricultural crops, which it supplies to agricultural wholesalers.

DSM Melamine
DSM Melamine produces melamine, a product used in impregnating resins and adhesive resins for the wood processing industry. Applications further include laminate flooring, flame retardants, paper money, car paints and durable plastic tableware.

Nutrition, Pharma, Performance Materials, Polymer Intermediates and the non-core Base Chemicals and Materials cluster. In addition, DSM reports on a number of other activities, which have been grouped under Other activities.

Performance Materials

€ 2,297 m Net sales

DSM Engineering Plastics

DSM Engineering Plastics is a global player in polyamides, polyesters, polycarbonate and extrudable adhesive resins. These materials are used mainly in technical components for the electrical & electronics, automotive, engineering and packaging industries.

DSM Dyneema

DSM Dyneema is the inventor and manufacturer of Dyneema®, the world's strongest fiber™. This polyethylene fiber offers maximum strength combined with minimum weight. It is up to 15 times stronger than quality steel and up to 40% stronger than aramid fibers, both on a weight-for-weight basis. The applications are more or less unlimited and can be found in fishing, life protection and shipping.

DSM Resins

DSM Resins manufactures and sells high-quality resins which are used in a wide variety of applications such as paints, wind mills and automotive. By focusing on value-added and eco-friendly solutions, DSM Resins is able to capture many growth opportunities thanks to its market-driven innovation efforts.

Polymer Intermediates

€ 1,201 m Net sales

DSM Fibre Intermediates

DSM Fibre Intermediates produces caprolactam and acrylonitrile, which are raw materials for synthetic fibers and engineering plastics. Caprolactam is the raw material for polyamide 6, a versatile material that is used in for example sports and leisure clothes, tires and carpets and increasingly also as a high-performance construction material.

DSM Elastomers

DSM Elastomers manufactures synthetic rubbers (EPDM) and thermoplastic elastomers (TPEs) for use in cars, white goods, various industrial products, construction materials and as motor-oil additives.

DSM Energy

DSM Energy participates in the exploration and production of oil and gas on the Dutch Continental Shelf.

Key data for 2008

Net sales (x million)	Operating profit, continuing operations (before exceptional items) (x million)	Net profit, continuing operations (before exceptional items) (x million)
€ 9,297	€ 903	€ 608

Net profit (x million)	Capital expenditure and acquisitions (x million)	Net earnings before exceptional items per ordinary share
€ 577	€ 739	€ 3.64

Dividend per ordinary share	Workforce (at year-end)	CFROI
€ 1.20	23,591	8.7%

Forward-looking statements

This document may contain forward-looking statements with respect to DSM's future (financial) performance and position. Such statements are based on current expectations, estimates and projections of DSM and information currently available to the company. Examples of forward-looking statements include statements made or implied about the company's strategy, estimates of sales growth, financial results, cost savings and future developments in its existing business as well as the impact of future acquisitions, and the company's financial position. These statements can be management estimates based on information provided by specialized agencies or advisors.

DSM cautions readers that such statements involve certain risks and uncertainties that are difficult to predict and therefore it should be understood that many factors can cause the company's actual performance and position to differ materially from these statements. These factors include, but are not limited to, macro-economic, market and business trends and conditions, (low-cost) competition, legal claims, the ability to protect intellectual property, changes in legislation, changes in exchange and interest rates, changes in tax rates, pension costs, raw material and energy prices, employee costs, the implementation of the company's strategy, the company's ability to identify and complete acquisitions and to successfully integrate acquired companies, the company's ability to realize planned disposals, savings, restructuring or benefits, the company's ability to identify, develop and successfully commercialize new products, markets or technologies, economic and/or political changes and other developments in countries and markets in which DSM operates.

As a result, DSM's actual future performance, position and/or financial results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. DSM has no obligation to update the statements contained in this document, unless required by law. The English language version of this document is leading.

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Key financial data

(consolidated)

Throughout this report:
- operating profit (EBIT) and EBITDA do not include exceptional items;
- net profit (before exceptional items) is defined as net profit available for profit appropriation (before exceptional items).

	2008	2007
Key figures (x € million):		
Net sales, continuing operations	9,297	8,757
Operating profit plus depreciation and amortization, continuing operations (EBITDA)	1,357	1,247
Operating profit, continuing operations (EBIT)	903	823
Net profit before exceptional items	608	558
Net result from exceptional items	(31)	(129)
Net profit	577	429
Depreciation and amortization	451	574
Cash flow (net profit plus amortization and depreciation)	1,028	1,003
Dividend	204	214
Capital expenditure (excluding acquisitions)	587	475
Acquisitions	152	93
Net debt	1,781	1,338
Shareholders' equity	4,633	5,310
Total assets	9,653	9,828
Capital employed	6,558	5,982
Per ordinary share in €:		
Net profit before exceptional items	3.64	3.07
Net profit	3.45	2.35
Dividend	1.20[1]	1.20
Shareholders' equity	27.12	30.42
Ratios (%):		
EBIT / net sales	9.7	9.4
EBITDA / net sales	14.6	14.2
Operating working capital / net sales	22.6	21.4
CFROI	8.7	8.3
ROCE	14.4	13.4
Gearing (net debt / equity plus net debt)	27.5	19.9
Equity / total assets	48.6	54.8
Cash flow from operating activities / net sales	9.8	9.4
EBITDA / net finance costs	13.3	16.6
Workforce:		
Year-average workforce	23,157	22,433
Workforce at 31 December	23,591	23,254

1 Subject to approval by the Annual General Meeting of Shareholders.

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) cyclicality 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 N_2O 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 CO_2, 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.

Letter from the Chairman

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

feike.sijbesma@dsm.com

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Investing in future profitable growth

In 2008, DSM invested in several projects in order to secure sustainable profitable growth in the future. Investments form an integral and important part of the *Vision 2010* strategy. In light of the current more difficult market conditions, the company is re-evaluating planned projects and postponing some investments without jeopardizing its strategic thrust.

Within the current more difficult environment, DSM is also identifying new growth opportunities, such as small-scale technology-based acquisitions that will complement the company's knowledge and capabilities in Life Sciences, Materials Sciences or both.

DSM remains fully committed to continued investments in innovation and will also continue to invest in growth businesses. Venturing remains an important activity to explore new technologies and business areas.

In 2008 capital expenditure on intangible assets and property, plant and equipment (excluding acquisitions) amounted to € 587 million compared to € 475 million in 2007. This was above the level of amortization and depreciation. For 2009, DSM expects capital expenditure to decline versus 2008 as a result of the focus on cash.

DSM acquired seven companies in 2008, while five investments were made by DSM Venturing. An amount of € 200 million has been earmarked for venturing activities over the period 2005-2012. DSM expects to spend around € 75 million per year on small new business acquisitions until 2010.

Announcements made by DSM in 2008, especially those relating to major investments and acquisitions, are summarized in the following list:

9 January
DSM announces that it will invest nearly € 15 million in the construction of a new plant for the production of wet polyesters and other specialty resins in Meppen, Germany. The new production line will be built at the existing site of DSM NeoResins+ in Meppen. The plant will be completed in the first half of 2009 and will allow for further expansions in the future.

16 January
DSM acquires the US-based company Soluol, a developer and producer of high-performance polyurethane resins which are used in a wide range of applications, with annual sales of USD 20 million. The acquisition of Soluol enhances DSM's specialty-resins presence in North America and adds new technology as well as a state-of-the-art production facility in East Providence, Rhode Island (United States).

18 January
DSM and the French starch and starch-derivatives company Roquette announce that they have joined forces to implement and commercialize the fermentative production of biorenewable succinic acid, which – amongst other applications – opens the possibility to produce bio-based performance materials. By the end of 2009 a demonstration plant in Lestrem (France) will be operational.

14 February
DSM Food Specialties acquires CMT Srl, an Italian company dedicated to the production of the Copan Milk Test, a microbiological test for the detection of antibiotic residues in milk.

27 February
DSM receives a grant from the US Department of Energy for an innovative biotechnological approach to bioproducts and biofuels. The grant will co-fund an extensive enzyme development program which will focus on finding applications in cellulose-based biorefineries for the production of bio-based products, including biofuels. The research will be carried out by a technical consortium in which DSM will be the lead partner.

3 March
DSM announces an agreement in principle with Arsenal Capital Partners (United States) on the sale of DSM Special Products B.V. In February 2009, DSM announced that the transaction would not be completed.

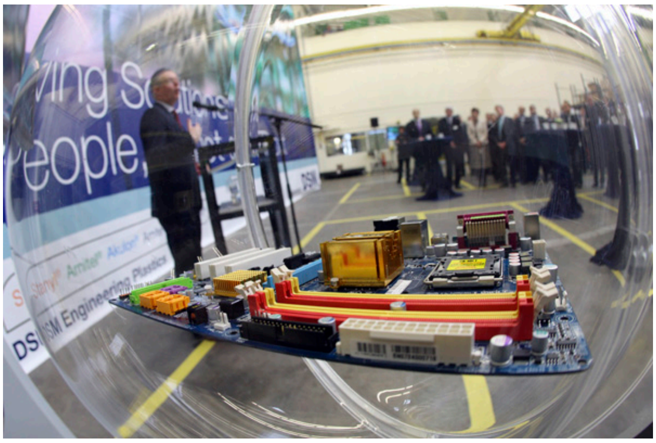
5 March
DSM Venturing announces its participation in a USD 20 million financing round in Tianjin Green Bio-Science Co. Ltd. (China). The proceeds will be used to build China's largest manufacturing plant for polyhydroxyalkanoates in the Tianjin Economic Development Area. This is the first venturing investment by DSM in China.

6 March
DSM Venturing makes an equity investment in the Dutch company IQ Therapeutics B.V. The company develops antibody-based products for biodefense and for the prevention and treatment of infectious diseases.

18 March
The acquisition of the assets of US-based Polymeric Processes, Inc., accelerates the efforts of DSM Desotech's UVention™ group, which develops innovative custom UV-curable materials for select markets in the United States and Europe.


DSM Dyneema in Greenville, North Carolina (United States)

17 April
DSM announces plans for a substantial capital expenditure program, expected to involve up to USD 450 million, to increase production capacity in its Dyneema® business. This will enable DSM to capitalize on expected continuous growth in demand in the United States for the world's strongest fiber™.


DSM Engineering Plastics in Sittard-Geleen (Netherlands)

25 April
DSM opens the market development plant for Stanyl® ForTii™, the new polymer for use in electronics and other applications. The plant is located in Sittard-Geleen, the Netherlands. With the opening of the market development plant, customers' access to Stanyl® ForTii™ will be extended.

28 April
DSM announces an agreement to acquire The Polymer Technology Group, Inc. (PTG) of Berkeley, California (United States). Through this acquisition DSM obtains a leading position in the field of biomedical polymers, one of DSM's future key growth areas. PTG expects more than 20% annual sales growth in the next 3-5 years, based on existing business and the pipeline of new products.

DSM Desotech in Xinghou (China)

12 June
DSM opens the newly expanded China ink manufacturing facility, DSM Desotech Specialty Chemicals (Shanghai) Ltd. The operation has been relocated from Gonglu to Xinghou (China), into a new facility that has doubled in size and is positioned for growth.

12 June
DSM NeoResins+ finalizes the construction of a new factory for the production of waterborne acrylic resins in Shunde (China). The investment amounted to almost € 20 million.

Investing in future profitable growth

13 June
DSM announces an extensive engineering study that could lead to a large expansion to the DSM Composite Resins manufacturing facilities in Compiègne (France). If the plant expansion gets the go-ahead from the engineering study, capacity will be expanded by up to 20,000 tonnes per year, particularly for specialty products.

16 June
DSM Biologics and Crucell N.V. announce another breakthrough in the production of IgG antibodies using PER.C6® technology. By employing the PER.C6® human cell line and proprietary XD™ technology, a record yield of over 27 grams per liter has been achieved.

11 July
DSM announces the acquisition of the business and substantially all of the assets of Valley Research, Inc. of South Bend, Indiana (United States). Through this acquisition, DSM has further reinforced its leading global position in food enzymes.

20 August
DSM Engineering Plastics acquires the polymerization assets of Diolen Industrial Fibers B.V., including the facilities for polyester polymer production in Emmen (Netherlands). The facilities will be integrated with DSM's polyester compounding facility.

27 August
DSM Venturing acquires an equity stake of 29.3% in Provexis plc, a UK listed company that develops and licenses ingredients for the functional food, medical food and dietary supplement markets. The investment makes DSM the largest shareholder of Provexis.

27 August
DSM announces the closure of its citric acid manufacturing plant in Wuxi (China) by Q1 2009. The closure follows a request from the local government to relocate the plant from its current location as this location is needed for future urban developments. DSM has decided not to rebuild the capacity elsewhere but concentrate its production at the site in Tienen (Belgium).

DSM Engineering Plastics in Jiangyin (China)

3 September
DSM inaugurates its new polymer plant in Jiangyin (China). The plant produces high-viscosity grades of Akulon® polyamide 6 (PA6) aimed at the fast growing high-end food packaging market in Asia. Construction of the plant, which was announced in September 2006, involved several tens of millions of USD.

17 September
DSM Biomedical and Caliber Therapeutics, Inc. of Boston, Massachusetts (United States) will partner on the development of a novel drug delivery balloon catheter that can be used to treat vascular diseases such as atherosclerosis. This cooperation is another step for DSM to leverage its competences in Materials Sciences into Life Sciences applications.

17 September
DSM announces a major capacity expansion for its innovative picture glass ®claryl. Within a year after its launch, market demand for this innovative product has risen so quickly that DSM has decided to build an additional oven at its manufacturing facility in Sittard-Geleen (Netherlands), increasing production capacity by 50%.

DSM Engineering Plastics in Sittard-Geleen (Netherlands)

17 September
DSM opens the second polymerization plant for Stanyl® polyamide 46 at the Chemelot site in Sittard-Geleen (Netherlands). The new plant doubles DSM's worldwide production capacity for this high-performance plastic, supporting expected continuous strong growth in the coming years based on Stanyl®'s leading position in electronics and its growing usage in automotive applications due to higher demand for metal replacement. DSM has invested several tens of millions of euros in the new plant.

26 September
DSM Venturing makes an equity investment in The Compliers Group International B.V. The Netherlands-based company focuses on the development of smart pharmaceutical packaging solutions that contain microchips which enable the monitoring of a patient's therapy compliance.

26 September
DSM NeoResins+ announces a capacity expansion worth € 10 million for waterborne polyurethane resins in Parets (Spain), building on continuous growth for these products due to new legislation in Europe.

2 October
DSM Anti-Infectives announces the closure of the production site in Strängnäs (Sweden). The site mainly produces clavulanic acid and will cease operations towards the end of 2009.

13 October
DSM Venturing makes an investment in Accelerated Technologies II L.P. in Hackensack, New Jersey (United States), the new business incubator in the field of medical devices, further strengthening DSM's position in the biomedical materials market.

19 November
DSM Anti-Infectives announces that it has reached an agreement with the management of DSM Deretil on a management buy-out. The sale allows DSM Anti-Infectives to fully focus on its core future activity as a leading player in generic active pharmaceutical ingredients.

DSM Nutritional Products in Hengyang (China)

28 November
DSM Nutritional Products opens its third premix plant in China. The facility allows DSM to serve a larger geographical area in China, enabling the company to capitalize on opportunities that arise from the rapidly growing animal nutrition and health industry in one of the key countries for DSM.

2 December
DSM announces the sale of its Solutech business to Lydall, Inc., the US-based specialty engineering products manufacturer. DSM Solutech is the manufacturer of Solupor® specialty microporous membranes for air and liquid filtration.

Increasing efficiency

Climate and Energy

DSM's Functional Coatings program is developing an innovative coating for solar panels in order to improve their efficiency. This coating allows for extra light transmission that leads to higher energy output. The coating technology for this application is already commercially applied in ®claryl picture framing glass.

Improving lives

Health and Wellness

With Resvida® DSM has introduced a pure resveratrol for use in dietary supplements and as a food ingredient. Resveratrol, a powerful antioxidant found in red grapes, has been closely linked to the ’French Paradox’: due to their regular consumption of red wine, the French suffer from a much lower incidence of cardiovascular disease than other Western populations despite their diet of high-fat foods.

Increasing connections

Functionality and Performance

Many of today's MP3 players, mobile phones, car parts and other advanced products incorporate DSM materials. DSM's new polymer Stanyl® ForTii™ can be applied in memory card connectors and LEDs and helps to enable tomorrow's electronic gadgets.

Changing lifestyles

Emerging economies

DSM opened its first representative office in Beijing in 1993. Since then, sales have grown from USD 20 million in the first year to USD 1,151 million in 2008. DSM's history in China goes back even further: in 1963 the company started its first licensing activities and in 1986 its first joint venture in China. DSM today is a leading manufacturer in China and now increasingly serves the Chinese domestic market with many of its products.

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.

Report by the Managing Board

Highlights of 2008

General
2008 was a year of stark contrasts, with strong performances across DSM's businesses in the first nine months of the year being partly offset by the effects of the global economic downturn since the beginning of the fourth quarter. Whilst DSM's Life Sciences businesses continued to perform well through the fourth quarter, most Materials Sciences businesses have been severely impacted by the sharp drop in demand. DSM has implemented actions to prioritize the generation of cash and has swiftly taken the necessary steps to reduce costs in the affected businesses. Further such measures will be implemented as required, although the company is also conscious of the need to preserve its capabilities for the future, once market conditions improve again. DSM will continue its customer focus as well as its strategic commitment to innovation and sustainability.

DSM's unique combination of activities together with its healthy financial situation puts the company in an excellent position to take advantage of opportunities that will arise from the current economic climate. Although the difficult market conditions in some of DSM's businesses are currently leaving their mark on the results, the company's strategic direction, fueled by long-term societal trends, is the right one: DSM is staying the course.

In spite of the developments in the last quarter, the full-year 2008 result shows a record operating profit for DSM, due to excellent performance throughout the year from DSM Nutritional Products, DSM Dyneema and DSM Agro.

Net sales

x € million	**2008**	2007
Nutrition	2,710	2,302
Pharma	863	903
Performance Materials	2,297	2,390
Polymer Intermediates	1,201	1,232
Base Chemicals and Materials	1,733	1,529
Other activities	493	401
Total DSM	**9,297**	8,757

Organic growth for 2008 of 8% was clearly above DSM's strategic target (5%). The relatively weak volume development (-3%) was due to the economic weakness, which materialized in the last part of the year.

DSM was able to post a record operating profit in 2008, in spite of the economic turmoil in the fourth quarter. The main contributor was Nutrition, where DSM's focus on innovation and differentiation in combination with structural changes in the vitamin industry has resulted in significantly higher profitability. In addition, DSM Dyneema was able to sustain its solid growth and DSM Agro showed substantial pricing strength resulting in higher profits.

Nutrition
Organic sales were up 21%. Nutrition clearly benefited from its successful innovation and differentiation strategy, which was amplified by the changing dynamics in the industry. DSM Nutritional Products was able to increase sales and profits substantially despite negative exchange rate effects. DSM Food Specialties' sales and operating profit declined because of the exchange rates.

Pharma
Organic sales in the Pharma cluster were stable. DSM Pharmaceutical Products saw its sales and profitability levels affected in 2008 as a result of the phasing-out of contracts related to the Roche Vitamins acquisition, insourcing by large pharma houses to address cost pressures and delays in the commercial development of new products.

At DSM Anti-Infectives, prices were clearly below the peak seen in the 2007 rally, but remained at a good level. The operating profit stayed at a healthy level.

Operating profit plus depreciation and amortization (EBITDA)

x € million	**2008**	2007
Nutrition	585	403
Pharma	150	168
Performance Materials	266	371
Polymer Intermediates	43	133
Base Chemicals and Materials	342	209
Other activities	(29)	(37)
Total DSM	**1,357**	1,247

Performance Materials

Organic sales in the Performance Materials cluster showed a decline of 3% which was mainly caused by lower volumes at DSM Engineering Plastics and DSM Resins since these businesses are exposed to end-markets that are affected by the economic turmoil. DSM Engineering Plastics posted a loss for the year. DSM Dyneema was barely affected by the current economic conditions and continued to show strong growth. Notwithstanding the higher operating profit at DSM Dyneema, overall operating profit of the cluster went down by 40% due to the full impact of the downturn during the last quarter.

Polymer Intermediates

Organic sales in this cluster were stable. The caprolactam and acrylonitrile businesses started to face difficult market conditions since the beginning of the fourth quarter with falling demand mostly due to downstream destocking. Up until the third quarter the operating profit stayed at a healthy level but during the final months of the year the economic downturn hit with full force and virtually wiped out the operating profit.

Base Chemicals and Materials

Organic sales in this cluster were up by 14%, mainly as a result of continuously increasing fertilizer prices and a positive market environment until the last quarter. The operating profit of DSM Energy increased due to on average higher gas prices. The operating results of DSM Melamine and DSM Elastomers were negative, with both businesses being heavily impacted by the global economic downturn.

Operating profit (EBIT)

x € million	**2008**	2007
Nutrition	447	276
Pharma	89	92
Performance Materials	175	291
Polymer Intermediates	19	105
Base Chemicals and Materials	260	137
Other activities	(87)	(78)
Total DSM	**903**	823

Financials

Net profit before exceptional items increased from € 558 million to € 608 million (+9%). Earnings per share (before exceptional items) increased to € 3.64 per ordinary share (+19%) for the full year due to the higher net profit and the share buy-back.

Net finance costs increased from € 75 million to € 102 million. The increase was mainly caused by the higher net debt and some fair-value adjustments in Other financial assets.

The effective tax rate was 25%, the same as last year.

Cash flow from operating activities amounted to € 910 million for the full year, of which € 392 million was generated in the fourth quarter.

Capital expenditure of € 587 million was clearly higher than last year (€ 475 million) and above the level of depreciation and amortization. The amount spent on acquisitions in 2008 was € 152 million, mainly related to the acquisition of The Polymer Technology Group.

Compared to year-end 2007 net debt increased by € 443 million to € 1,781 million, representing a gearing level of 28%. This increase was amongst other things caused by the share buy-back program.

Report by the Managing Board

Vision 2010 progress

DSM's *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.

Climate change and the adverse effects of dependency on fossil fuels are gaining in dominance, requiring new strategic inroads. Interest in health and wellness is increasing as a result of global population growth and aging. Also, society is asking for increased functionalities related to globalization, connectivity and life protection. Rapid growth in emerging economies continues, leading to a more even spread of economic prosperity over the world.

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.

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. In the Innovation and R&D chapter beginning on page 27 more information can be found on the development of these EBAs.

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.

Reshaping the portfolio

The acceleration of DSM's portfolio transformation is an important prerequisite for increasing the focus on Life Sciences and Materials Sciences. The activities that do not fit in with this focus have been carved out and will be disposed of or partnered. These activities are grouped in the Base Chemicals and Materials cluster.

This cluster comprises DSM Agro, DSM Melamine, DSM Elastomers, Urea Licensing, DSM Energy, Citric Acid, DSM Special Products and Maleic Anhydride and derivatives. The selling process has started for most businesses. DSM has slowed down the process in view of the current financial and economic environment but still has the ambition of completing the disposals within the timeframe of *Vision 2010*.

For the Citric Acid business DSM has opted for a partnership scenario. During the year it was announced that the production site in Wuxi (China) will be closed and that production will be concentrated in Tienen (Belgium), where competitiveness has improved due to restructuring and process optimizations.

The closure of the Citric Acid production site in Wuxi follows a request from the local government to relocate the plant from its current location as this location is needed for future urban development. DSM will receive a compensation amount from the Wuxi government and does not expect to incur a book loss.

DSM is also continuing the partnering strategy (possibly with partial disposals) for the Anti-Infectives business. DSM Anti-Infectives, carved out into a separate entity, announced the closure of its clavulanic acid production site in Sweden. The business group also announced the management buy-out of DSM Deretil.

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 *Vision 2010* strategy.

With already an established presence and a broad portfolio of products and services for the healthcare industry, DSM aims to generate over € 100 million in sales in the biomedical materials market by 2012, to which PTG will contribute a significant part.

Another acquisition in 2008 was enzymes producer Valley Research, allowing DSM Food Specialties to strengthen its product portfolio while at the same time offering regional blending and solution providing platforms to customers in the United States.

DSM also acquired US-based Soluol, a developer and producer of high-performance polyurethane resins which are used in a wide range of applications, with annual sales of USD 20 million. The acquisition of Soluol has enhanced DSM's specialty-resins presence in North America and added new technology as well as a state-of-the-art production facility in East Providence, Rhode Island (United States).

DSM Food Specialties acquired CMT Srl, a company dedicated to the production of the Copan Milk Test, a microbiological test for the detection of antibiotic residues in milk. The acquisition of the assets of US-based Polymeric Processes, Inc. has accelerated the efforts of DSM Desotech's UVention™ group, which develops innovative custom UV-curable materials for select markets in the United States and Europe.

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.

Measuring performance

Within the *Vision 2010 – Building on Strengths* strategy DSM has defined a number of ambitious targets, including targets for organic sales growth, EBITDA margins and value creation.

In 2008 DSM continued to create value. The CFROI (cash flow return on investment) amounted to 8.7%. This means that DSM achieved a CFROI that exceeded the annual weighted average cost of capital (WACC) by 120 basis points. The target is a difference of at least 100 basis points.

The following table shows the EBITDA margin achieved per cluster in 2008, compared to the targets.

The EBITDA / net sales margin targets set per cluster

	Target	Actual
Nutrition	> 18%	22%
Pharma	> 19%	17%
Performance Materials	> 17%	12%
Polymer Intermediates	> 13%[1]	4%

1 On average over the cycle

DSM has also defined targets for growth from innovation, growth in China and sustainability. Progress against these targets can be found further on in this chapter.

Other *Vision 2010* targets

	Target
Organic sales growth	> 5%
Sales in China by 2010	USD 1.5 billion
Growth from innovation by 2010	€ 1 billion
CFROI	WACC (7.5%) + 100 basis points
Sustainability	Double energy savings; other targets confirmed
Total shareholder return	Above peer-group average

By realizing the *Vision 2010* targets, DSM intends to achieve a total shareholder return that exceeds the average of its peer group.[1]

Shareholder returns

An overview of the development of the DSM share in 2008 can be found in the 'Information about the DSM share' chapter on page 88.

In 2008 DSM executed the second phase of the share buy-back program of € 750 million. During this phase DSM repurchased 6,615,000 shares for a total consideration of € 250 million. In view of the situation in the global credit markets, among other reasons, DSM decided in April 2008 to prudently review the timing of the buy-back of the final € 250 million at the beginning of 2009 to retain financial flexibility. DSM has decided to cancel the remaining € 250 million part of the share buy-back program of € 750 million which was announced in 2007.

The company proposes to the Annual General Meeting of Shareholders to declare a dividend per ordinary share of € 1.20, of which € 0.40 has already been paid as an interim dividend.

1 This peer group consists of Akzo Nobel, BASF, Ciba, Clariant, Danisco, EMS Chemie Holding, Lanxess, Lonza Group, Novozymes, Rhodia and Solvay.

Report by the Managing Board

Market-driven growth and innovation

Market-driven growth and innovation is a key driver in DSM's *Vision 2010* strategy and is expected to contribute significantly to growth. DSM aims for sales growth based on existing leadership positions, accelerated by innovation as well as selective acquisitions. This should lead to organic sales growth of more than 5% per year. Organic sales growth in 2008 amounted to 8%.

DSM is fully committed to its *Vision 2010* target of generating an additional € 1 billion in sales from innovation by 2010. The company is confident that the pipeline of products currently in development will enable this target to be met. In 2008 innovation-driven sales were about € 600 million.

An additional objective is that DSM should become an intrinsically innovative company, with excellent innovation practices and an above-average return on innovation investments and with employees to whom innovation comes naturally. More information on DSM's progress in innovation can be found in the Innovation and R&D chapter on page 27.

DSM Venturing announced five investments in 2008. More information on DSM Venturing and DSM's innovation efforts in 2008 can be found in the Innovation and R&D chapter on page 27.

Increased presence in emerging economies

DSM continues to experience growth in emerging economies. As a percentage of total revenues, sales in the emerging economies remained at 15% in 2008.

In China, DSM has had a significant presence for a number of years. China is transforming from the world's manufacturing base into one of the world's leading economies with the highest growth rates. Chinese industrial production has been growing on average some 10% per year over the last 30 years, but as a result of the global economic downturn this growth slowed down in the last few months of 2008.

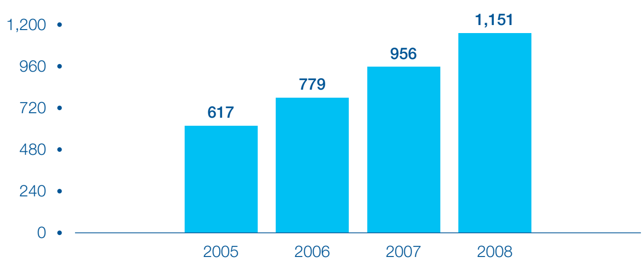
China has become one of the largest markets in the world, accompanied by an increasing demand for Life Sciences and Materials Sciences products to improve people's lives. Economic prosperity and strong domestic demand, driven by a fast-rising income level, are expected to fuel economic growth in China for the coming decades.

The global trends identified by DSM which form the basis of the *Vision 2010* strategy are also very visible in China. Climate change and the adverse effects of dependency on fossil fuels are high on the agenda of policymakers. The change in lifestyle of the middle class and the younger generation will increase demand for food and bio-ingredients. The expected substantial rise in the number of Chinese citizens older than 65 years will drive demand for pharmaceutical products. And with increasing prosperity, demand for new, better, high-performing materials that contribute to new functionalities in for example connectivity continues to rise. Against this background, DSM is very well positioned in China.

Over the past few years DSM has been experiencing growth rates in China of around 20% per year. Sales in China in 2008 amounted to USD 1,151 million, approximately 20% more than in 2007. Towards the end of the year, demand in some areas declined, as the export-related areas of the Chinese economy were affected by the economic slowdown in the United States and Europe.

Sales in China

x USD million



As in previous years, DSM invested substantially in China in 2008. Early 2009 the company opened the DSM China Campus, comprising DSM China's headquarters and R&D Center, in the Zhangjiang Hi-Tech Park in the Pudong New Area of Shanghai. The building achieved 'Gold' certification with the LEED® (Leadership in Energy and Environmental Design) program.

China offers DSM a large market, a good manufacturing base and increasingly also innovation opportunities. An overview of the inaugurations and investments in China in 2008 can be found in the 'Investing in future profitable growth' chapter on page 8.

Fengxi Fertilizer Industry (Group) Co. Ltd. and DSM Melamine established the joint venture Shanxi FengHe Melamine Co. Ltd. The joint venture produces melamine, which is broadly used in melamine-formaldehyde resin for laminates, furniture, flooring, coating resins, textiles, and flame-retardant applications.

DSM continues to seek government approval for two joint ventures with North China Pharmaceutical Group Corporation. One joint venture is in the area of nutritional products and the other in anti-infective products.

DSM is also continuing its growth path in other emerging economies, such as Brazil, Russia and India. In India DSM Engineering Plastics opened a greenfield compounding site in Ranjangaon industrial zone, which doubled DSM's production capacity in the country.

Operational excellence

Operational excellence continues to be an important area in the pursuit of sustainable value creation. DSM enjoys a strong track record in establishing efficiency enhancements that represent step changes in performance and add to the bottom line. DSM remains fully committed to the pursuit of operational excellence and intends to continue and further strengthen its Operational Excellence program with new initiatives in advanced manufacturing (yield improvements and energy savings), commercialization (product launch program) and pricing.

The turmoil in the financial markets in 2008 both substantially restricted the availability and increased the pricing of credit. Some of DSM's businesses, in particular in Materials Sciences, experienced more difficult market conditions in the last quarter of the year after the turmoil spread to the real economy.

To address the effects of the economic downturn, DSM swiftly took a number of actions to improve its cash flow and reduce costs. Inventories were reduced by temporary plant shutdowns in some business groups. Tight credit risk management and credit control was put in place for accounts receivable to prevent increasing payment terms and insolvency losses. With these measures, DSM achieved a cash flow from operating activities of € 392 million in Q4 2008.

DSM also announced a number of structural cost-saving actions. DSM has prepared plans for most of these actions, which cover three areas: a reduction in workforce, a stronger focus on purchasing and other efficiency improvement measures such as a reduction in the number of temporary contract workers. The actions are expected to result in a reduction in DSM's workforce by about 5% or 1000 positions, mainly at DSM Engineering Plastics, DSM Resins, DSM Fibre Intermediates, some businesses within Base Chemicals and Materials and in corporate overhead. The actions are expected to result in total savings of up to € 100 million per year, to be fully achieved by 2010.

DSM is confident that its operational excellence in all business processes will be the basis for a strong competitive position in the current market conditions. The company is convinced that with the actions announced and its continued full commitment to innovation it will be in an even stronger position in the future.

Innovation and R&D

Innovation is a key element of DSM's *Vision 2010* strategy. In order to achieve its target of € 1 billion in additional innovation-related sales in 2010, DSM continues to focus on research & development, product introductions, acquisitions, open innovation and cooperation with the academic world.

The fine-tuning of the business group innovation strategies has led to the acceleration of 50 key projects. These are expected to generate the main part of the € 1 billion growth target. Many innovations emerging from these projects have already found their way to the market and they all have projections that show considerably higher margins than DSM's traditional portfolio.

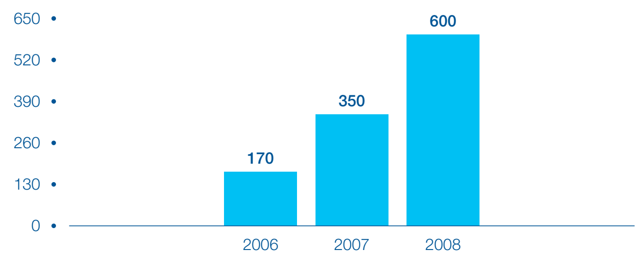
Substantial additional funding has been made available to step up DSM's innovation efforts. In-house activities are complemented by open innovation tools, such as venturing, licensing-in, marketing alliances and R&D collaborations.

Following a positive evaluation of the venturing activities in 2007, from both a strategic and a financial point of view, DSM has earmarked up to € 200 million for venturing investments until 2012. Furthermore, the New Business Development centers of the clusters together with the DSM Innovation Center scan the market for acquisitions to strengthen DSM's innovative power. So far, this has resulted in the acquisition of Crina, Pentapharm, Lipid Technologies Provider, Pamako and The Polymer Technology Group.

All this resulted in additional innovation sales, compared to 2005, of around € 600 million in 2008 (2007: € 350 million). The number of innovation launches remained at the high level achieved in 2007 (59 vs. 66). DSM is confident it will be able to keep up this accelerated launch rate in the coming years.

Development of innovation-related sales

x € million



Since the start of DSM's innovation boost in 2006, 151 innovations have been launched.

DSM uses a self-assessment tool, which the company developed together with McKinsey, to map the innovation practices in all business groups and compare them with the practices in peer companies. Overall results now confirm that DSM performs better than the industry average.

Research & Development

Research & Development (R&D) plays a key role in the realization of DSM's innovation strategy. Most of the annual R&D expenditure is directed towards business-focused R&D programs. In addition, DSM has a Corporate Research Program in place to build and strengthen the technological competences the company needs to execute development projects.

R&D expenditure

x € million (including associated IP expenditure)	**2008**	2007
Nutrition	135	135
Pharma	74	67
Performance Materials	127	113
Polymer Intermediates	22	13
Base Chemicals and Materials	22	30
Other activities	14	14
Total	**394**	372
Total R&D expenditure as % of net sales	4.2	4.2
Staff employed in R&D activities	2,200	2,130

Innovation and R&D in Life Sciences

In the Nutrition cluster, innovation relates mainly to product innovation, namely the development of new nutritional ingredients and supplements. In the Life Sciences clusters, 75 new launches took place between 2006 and year-end 2008, of which 31 were launched in 2008.

In 2008, ongoing innovation and R&D efforts in the Nutrition cluster resulted in the launch of a number of new ingredients developed in-house or in cooperation with partners in the human nutrition, animal nutrition and personal care industries.

Examples are Alpaflor®, Abi Complex Ao®, a new natural Ecocert certified treatment for irritated and sensitive skins, a new formulation of Omega-3 fish oil powder for maternal and infant nutrition, Panamore™, a breakthrough alternative to chemical emulsifiers, MaxiCurd™, a new granulated protein hydrolysate range to improve curd strength and boost cheese yield and a new form of oily vitamin A.

DSM was granted a patent in January 2008 for the use of lutein and zeaxanthin for glare protection. Also, a study was published demonstrating protection against glare discomfort and improved glare recovery in normal healthy individuals after supplementation with FloraGLO® lutein and Optisharp® zeaxanthin. Glare, caused for instance by upcoming headlights, is the cause of many traffic accidents.

With Resvida® DSM has introduced a pure resveratrol for use in dietary supplements and as a food ingredient. Resveratrol, a powerful antioxidant found in red grapes, has been closely linked to the 'French paradox': due to their regular consumption of red wine, the French suffer from a much lower incidence of cardiovascular disease than other Western populations despite their diet of high-fat foods.

For the baking industry DSM introduced a breakthrough alternative to chemical emulsifiers in bread production: Panamore™. Also, new PreventASe® solutions were announced. The product is now available in three formulations covering specific food applications under the sub-brands Panna™, Bicra™ and Xtru™. PreventASe®, introduced in 2007, has demonstrated its potential to significantly mitigate the formation of the unwanted by-product acrylamide in baked products whilst leaving the nutritional properties of food products as well as the browning and taste aspects unaffected.

DSM introduced four new products for the cheese industry; MaxiCurd™, a new granulated protein hydrolysate range to improve curd strength and boost cheese yield, DELVO-TEC®

TS-80 for pasta filata cheeses, Maxiren® Gold to maximize cheese manufacturers' production efficiency and DELVO-STAR®, a breakthrough starter culture system.

Rapidase® Expression was brought to the market. It is a white grape maceration enzyme, specifically developed to assist the production of popular premium white wines with an intense aromatic profile.

In Savoury Ingredients DSM launched two new products in 2008: Gistex® HUM LS and Maxavor® Chicken YE. A natural yeast extract, Gistex® HUM LS provides an intense and complex umami taste perception and powerful bouillon taste to a wide range of savory applications. Maxavor® Chicken YE is an innovative new range of chicken flavors. As a 100% natural ingredient, Maxavor® Chicken YE is the first ingredient of its kind to deliver an authentic chicken taste direction to a diverse range of savory foods.

DSM launched Ronozyme® ProAct, the world's first pure protease specially developed for animal nutrition. The protease significantly improves feed protein digestibility and reduces feed costs. At the same time it increases meat production and reduces nitrogen excretion.

For the 2008 Olympic Games in Beijing (China), DSM developed a powdered form of the recovery product PeptoPro®, which is easier to transport and preserve. In total, 20,000 servings of PeptoPro® powder were shipped to China where they helped Dutch athletes to speed up their muscle recovery process, also fitting in DSM's partnership with the Dutch Olympic Committee (NOC*NSF).

A major research project initiated by DSM in which seven international research groups participated successfully analyzed the DNA sequence of the fungus *Penicillium chrysogenum*. It was a major landmark in the history of penicillin, arguably the most important drug of the 20th century. The insights gained through this research will help DSM Anti-Infectives to improve current production methods for beta-lactam antibiotics. They will also allow greater innovations in the development of production mechanisms.

DSM Biologics together with joint-venture partner Crucell N.V. realized another breakthrough in the production of IgG antibodies using PER.C6® technology. By employing the PER.C6® human cell line and DSM's proprietary XD™ technology, a record yield of over 27 grams per liter was achieved. This record surpasses all other production systems including the results previously achieved by the PER.C6® technology itself.

Innovation and R&D in Materials Sciences

With 76 launches between 2006 and year-end 2008, the Materials Sciences clusters are well underway to reaching the desired portfolio size of successful applications. In 2008 there were 28 launches.

Further steps were taken in the commercial development of Stanyl® ForTii™, previously known as PA4T and the first new polymer to be introduced in the 21st century worldwide, among other things with the opening of a market development plant. Numerous trials at selected customers have been completed and the initial results and customer feedback are very positive. The opening of the market development plant will extend customers' access to Stanyl® ForTii™. During 2008, the first products containing Stanyl® ForTii™ appeared in selected mobile phones.

DSM Resins introduced the Decovery™ range of products that more than meet the environmental and technical requirements of solvent emission legislation while at the same time improving the performance of the paints in which they are processed. More information can be found in the Sustainability chapter on page 34.

After the successful introduction of the HiTone™ Uralac® Indoor grades in 2007, Uralac® P 780 was launched, the first product within the HiTone™ Uralac® range for outdoor applications. HiTone™ Uralac® accepts pigment and filler loadings beyond industry standards and provides customers with a broadened formulation and application window as well as superior flow and coating finish. As additional benefits HiTone™ Uralac® P 780 has excellent heat resistance and is easy to process.

Technology developed at DSM Composite Resins helped to optimize the performance of the Dutch Olympic sailing team's 470 class racing dinghy at the 2008 Beijing Olympic Games. The boat 's hull became stronger and more stable than ever before at minimum weight. DSM's technology increased the rigidity of the boat by 120%, made it 200% stronger. It also minimized energy loss for maximum speed and reduced swing. The Dutch female 470 class sailing team won a silver medal during the 2008 Olympic Games.

In response to the automotive industry's strict demands for low emissions of volatile organic components (VOCs), DSM developed Palapreg® Premium for exterior Bulk and Sheet Moulding Compounds with the highest-quality surface technically achievable. This new development resulted in a breakthrough reduction in VOC emissions, setting a new industry standard.

DSM Composite Resins supplied the fiber composite nose and rear panels that are being used in the next generation of Dutch InterCity trains. Using composite resins instead of metal for these parts will remove 1000 kg of weight from the train, which translates directly into cost savings and environmental benefits.

DSM Desotech, the world's largest supplier of UV-curable coatings, inks and ribbon matrix materials for fiber optic cables, developed next-generation optical fiber coating systems which significantly reduce light loss induced by fiber optic cable manufacturing or installation processes. These systems are essential in the drive for Fiber to the Home initiatives, because they facilitate improved signal integrity which is critical for enabling high bandwidth applications such as HDTV, downloading and uploading video, gaming and medical imaging.

At DSM Engineering Plastics several innovations were announced, such as new additions to its Arnitel® line of copolyester thermoplastic elastomers (TPC), designed to meet the stringent performance and compliance needs of today's automotive designers. Also, Akulon® Ultraflow™ with added gloss was announced. The new grades will have improved surface finish, even with glass fiber loadings as high as 60%.

For Stanyl®, too, new grades were announced. One grade has very high stiffness and outstanding wear resistance, ideally suited for taking very high loads in sliding and roller bearing applications. Another grade is used in plastic lead chip carriers for high brightness LEDs used in mobile phones, PDAs and other handheld devices.

DSM Engineering Plastics is the first producer to include halogen-free grades in all its product lines. More information can be found in the Sustainability chapter on page 34.

DSM Dyneema continued its successful innovation path with the release of several new products in 2008. It announced a new tape technology platform that will extend the material choice for vehicle protection of the future. The platform will allow designers and decision makers to balance the requirements for better performing vehicles and increased protection, and will create room for future weight growth.

Two new grades for Dyneema Purity® were introduced and cooperation with the University Hospital of Maastricht (Netherlands) was announced to conduct research into new solutions that can improve surgical outcomes for patients with spinal deformities.

Badinotti Group, the global leader in netting for commercial fishing, entered into an expanded collaboration with DSM Dyneema to develop enhanced netting technologies using Dyneema® fiber. One area of focus will be reducing fish escapes in South America's fish farming industry.

Capewell Components, LLC, a US manufacturer of aerial delivery and life support systems, developed a new air cargo pallet and net system featuring Dyneema® fiber. The new pallet and cargo net system, the lightest in the world, delivers an unmatched combination of durability, low maintenance, very low weight and mass for easier handling, expanded freight capacity, the ability to fly longer and at higher altitudes, environmentally conscious design, and better fuel economy.

More than 350 new patent applications

In 2008, DSM filed more than 350 new patent applications, bringing the company's total number of patents to over 15,000. DSM further strengthened its Intellectual Property position in the emerging economies with an excellent position in China, a very high number of filings in India and good positions in Brazil and Russia.

DSM Innovation Center

The DSM Innovation Center was set up in 2006 to support the achievement of DSM's innovation targets as set out in *Vision 2010 – Building on Strengths*. This includes the targets related to the overall objective of achieving € 1 billion in additional, innovation-related sales in 2010, an extended technology base, an improved innovation process, an innovation-oriented culture and the establishment of long-term growth platforms.

The DSM Innovation Center comprises an Innovation Program Office, a Corporate Technology department, an Intellectual Property department, Licensing and Venturing units, a Business Incubator and four Emerging Business Areas (Biomedical, Personalized Nutrition, Specialty Packaging and White Biotechnology).

In 2008 the DSM Innovation Center continued to further enhance DSM's innovation capabilities and competences. Much emphasis was placed on firming up the innovation infrastructure by focusing on selected areas in the existing activities (Accelerated Growth Areas) and beyond the current activities (Emerging Business Areas). Also, programs have been expanded to drive medium and long-term innovation growth.

The medium-term innovation programs mainly build on the competences in the different clusters and are focused on securing the greater part of the € 1 billion additional sales growth target. The main innovation pockets which will accelerate DSM's innovation growth include programs such as Obesity & Diabetes, Improved Animal Performance and Eco-Friendly Materials. Each of these Accelerated Growth Areas represents a number of innovation programs which all focus on bringing solutions to the specific needs identified in the market segments.

To secure delivery of mid-term innovation targets 50 key projects have been selected. They have in common that they show considerably higher margins than DSM's traditional portfolio. These projects are constantly being monitored in terms of sales potential and probability of success in 2010.

The longer-term innovation programs also create new growth platforms based on DSM's strengths and synergies in Life Sciences and Materials Sciences. These longer-term programs include the Emerging Business Areas and additional platforms such as Bio Performance Materials.

The Emerging Business Area programs – Biomedical, Personalized Nutrition, Specialty Packaging and White Biotechnology – set up within the DSM Innovation Center to secure DSM's long-term innovative growth, found themselves in various stages of development at the end of 2008. These Emerging Business Areas optimally combine expected social and technological trends with DSM's current market strongholds and technology positions.

Most of the Emerging Business Area programs are excellent examples of how DSM captures its cross-cluster opportunities as these – to varying degrees – combine DSM's competences in Life Sciences and Materials Sciences.

DSM Biomedical has shown a very rapid development since its inception in 2006. It is actively building a leading position in this fast-growing market by linking technological developments to patient needs, creating and enabling new and more effective therapies. In 2012 DSM aims to generate over € 100 million in sales in this market.

A major milestone in 2008 was the acquisition of US company The Polymer Technology Group (PTG). This market leader in new specialty chemicals and polymer-based solutions is a key player in the development of critical material-intensive applications. The main applications include pacemakers and neural stimulation leads, contact lens materials, spinal applications, catheters and implantable sensors. In 2008, PTG realized USD 43 million in annual net sales. In the next 3-5 years more than 20% sales growth per year is expected.

Another big step for DSM Biomedical was the launch of its drug delivery platform Trancerta™. It covers an extensive portfolio of advanced resorbable materials, synthesis methods, formulation and processing techniques, which provide the foundation for designing tailored drug delivery systems to treat both ophthalmic and vascular diseases.

Caliber Therapeutics, Inc. and DSM Biomedical announced a partnership on the development of a novel drug delivery balloon catheter that can be used to treat vascular diseases such as atherosclerosis. This disease can develop into coronary artery diseases, the leading cause of death in the western world.

DSM Biomedical is one of the partners in the Biomedical Materials Program (BMM), a Dutch public-private partnership in biomedical materials. In total BMM allocated over € 50 million to seven R&D projects, four of which were initiated by DSM Biomedical. This will help DSM Biomedical to expand its technology platform and shorten the development time of new biomedical materials.

In the White Biotechnology EBA DSM announced a major cooperation with Roquette. More information can be found in the section on Open Innovation later in this chapter. In the same chapter the grant DSM received from the US Department of Energy for biotechnology research is described in more detail.

In its White Biotechnology EBA DSM strives to create practical solutions for the biorefineries of the future, using feedstocks that are not in competition with food and feed supplies. At present micro-organisms can grow only on the basis of sugar or starch derivatives.

Therefore, in close collaboration with ethanol producer Abengoa and several research institutes, DSM is intensively working on what is called the second generation of biofuels. This means searching for a way to recover carbohydrates from what is currently disposed of as a waste material, such as the non-edible parts of corn plants. There are still major hurdles to take but as DSM is one of the very few companies that are able to independently carry out the complete chain from pre-treatment via enzyme technology to fermentation technology, the company is confident that it will become a major technology supplier in this area, at different stages of the value chain.

DSM Specialty Packaging focuses on developing unique packaging solutions to enhance many aspects of food quality such as freshness, safety and authenticity through active, intelligent and smart packaging systems. DSM's ambition in this field is to become a recognized solution provider throughout the whole food packaging chain.

Innovative packaging solutions in development by DSM aim to increase the quality of fresh foods such as fruits, fresh-cut vegetables, meats and fish during their shelf life. This not only means that consumers can enjoy fresher and tastier foods, but also that retailers can reduce their waste and out-of-stock situations.

Besides developing intelligent food packaging systems, DSM Specialty Packaging is also exploring opportunities in the rapidly developing smart packaging market for pharma and nutraceuticals.

The link between nutrition and health is widely recognized, but it is less well known that this connection is different for each individual. The Personalized Nutrition EBA is dedicated to improving health by helping people understand their unique food-health connection, and to apply this knowledge to enjoy greater health and well-being. The business' initial product is a corporate wellness solution offered to US employers. Employees in these organizations will gain insight into their health and receive personalized recommendations and support for making changes to increase their wellness. Employers will be able to offer a valuable service to their employees, and will gain advantages from a healthier workforce, including lower health care costs and higher productivity.

DSM Venturing

To DSM, venturing is an integral part of its open innovation approach, focused on teaming up with innovative players all over the world.

In 2008 DSM Venturing announced its first investment in China by participating in a USD 20 million financing round in Tianjin Green Bio-Science Co. Ltd. The proceeds will be used to build China's largest manufacturing plant for polyhydroxyalkanoates in the Tianjin Economic Development Area.

DSM Venturing also made an equity investment in the Dutch company IQ Therapeutics B.V. This company develops antibody-based products for biodefense and for the prevention and treatment of infectious diseases.

With an equity investment in The Compliers Group International B.V., DSM Venturing participates in the development of smart pharmaceutical packaging solutions that contain microchips which enable the monitoring of a patient's therapy compliance.

DSM Venturing also acquired an equity stake of 29.3% in Provexis plc, a UK listed company that develops and licenses ingredients for the functional food, medical food and dietary supplement markets. This investment is in line with DSM's strategy to further expand in ingredients for functional food and dietary supplements focusing on for example cardiovascular and digestive health, two areas also addressed by Provexis.

DSM has earmarked up to € 200 million for future venturing investments until 2012 and is also considering investing in more grown-up young companies as well as in companies in the emerging economies, as was illustrated by the company's participation in Tianjin Green Bio-Science Co. Ltd.

DSM Venturing's mission is to explore emerging markets and technologies in order to support DSM's innovation and growth strategy. Besides financial support, DSM Venturing supports start-up companies with DSM's knowledge, resources and networks in order to establish mutual benefits and learning opportunities. DSM Venturing participates in early and expansion-stage companies or venture capital funds as a value-adding partner.

Investments typically range between € 250,000 and € 5 million. The target range for participation in these companies is from 5% to 20%. DSM Venturing currently has about € 60 million invested in promising companies and leading venture capital funds. The diversity of the venturing portfolio gives DSM a broad window on the world in a wide range of markets and in some cases it leads to even closer forms of cooperation. Following a venturing investment in 2007, for example, DSM and Upfront Chromatography announced a collaboration program to optimize Upfront's chromatography system for use with DSM's proprietary manufacturing technology, offering biopharmaceutical manufacturers significant efficiency and productivity benefits.

At year-end 2008, DSM Venturing had participations in 20 companies and 11 funds. Below is a list of the current company participations of DSM Venturing:

CreAgri, Inc. (United States)
Discovery and development of antioxidant polyphenols from olive pulp.

Ganeden Biotech, Inc. (United States)
Probiotics company which markets supplements focused on digestive health.

Harland Medical Systems, Inc. (United States)
Coating solutions for medical device customers.

Inmat, Inc. (United States)
Flexible nanocomposite barrier coatings for the tire and packaging industries.

IntegraGen S.A. (France)
Discovery of genes associated with complex diseases and commercializing molecular diagnostic tests to enable personalized healthcare.

IQ Therapeutics B.V. (Netherlands)
Development of human antibodies for the prevention and treatment of infectious diseases.

Jurilab Ltd. (Finland)
Discovery of gene-disease associations and their application to healthcare.

Novomer, Inc. (United States)
Technology platform to use carbon dioxide and other renewable materials to produce performance polymers, plastics and other chemicals.

Oryxe Energy, Inc. (United States)
Solutions to meet the world's dual need for dependable fuel supplies and a cleaner environment.

Provexis plc (United Kingdom)
Scientifically proven technologies for the global functional food, medical food and dietary supplement sectors.

Sciona, Inc. (United States)
Genetic tests for personalized health and wellness advice with applications in nutrition, sports performance and skin care.

Sol-Gel Technologies Ltd. (Israel)
Technology platform for customized encapsulation of active ingredients for skin care and dermatology products.

Suprapolix B.V. (Netherlands)
Supramolecular chemistry platform based on quadruple hydrogen bonds aiming at applications in consumer and industry markets.

Terreco B.V. (Netherlands)
Complete remediation of polluted soil.

The Compliers Group International B.V. (Netherlands)
Develops and supplies intelligent medication packaging for improved patient adherence.

Tianjin Green Bio-Science Co. Ltd. (China)
Development and production of biodegradable polymers and products.

Upfront Chromatography A/S (Denmark)
Products and technologies for extraction and recovery of biotherapeutics, functional biomolecules, macromolecular complexes, and even living cells.

Van Technologies, Inc. (United States)
Innovative performance coating solutions using technologies that are environmentally responsible.

Xylos Corporation (United States)
Healthcare products based on biosynthesized cellulose.

Open Innovation

DSM has announced numerous partnerships, venturing investments, acquisitions and other forms of collaboration that show that open innovation is becoming more and more ingrained in the company's innovation approach. Interaction with industry partners and technology thought leaders enable DSM to be active at the forefront of the most promising developments in the areas the company focuses on: Life Sciences and Materials Sciences.

Various acquisitions were concluded during the year. They are described in more detail in the section 'Investing in future profitable growth' on page 8. DSM Venturing is described in more detail on the previous page.

Various partnerships with customers were announced. DSM Dyneema for example expanded its collaboration with Badinotti (as discussed in the section on Innovation and R&D in Materials

Sciences earlier in this chapter) and DSM Nutritional Products together with the Chinese pharmaceutical company Dafeng DESANO has developed a leading chemical synthesis biotin technology. This has led to the setting up of a joint production facility.

DSM and the French starch and starch-derivatives company Roquette announced a partnership to implement and commercialize the fermentative production of biorenewable succinic acid, which – amongst other applications – opens the possibility to produce bio-based performance materials. By the end of 2009 a demonstration plant in Lestrem (France) will be operational.

DSM also received a grant from the US Department of Energy for an innovative biotechnological approach to bioproducts and biofuels. The grant will fund an extensive enzyme development program which will focus on finding applications in cellulose-based biorefineries for the production of bio-based products, including biofuels. The research will be carried out by a technical consortium in which DSM will be the lead partner.

DSM Pharma Chemicals published a joint paper with Corning, Inc., describing a successful commercially viable production of an active pharmaceutical ingredient (API) using Corning's micro reactor technology under cGMP (current Good Manufacturing Practices) conditions. Working together, teams from the two companies demonstrated the safe, industrial-scale operation of a hazardous nitration reaction under cGMP conditions, processing more than 25 metric tons of material in only four weeks. The French pharmaceutical company NicOx will use this compound for the production of a new anti-inflammatory drug which is currently in clinical phase 3 trials.

DSM Engineering Plastics accomplished major breakthroughs in the design and functionality of airbag canisters together with automotive supplier Autoliv. Palapreg® Premium, described in more detail in the section on Innovation and R&D in Materials Sciences earlier in this chapter, has been developed in cooperation with Pergan GmbH and the Fachhochschule Steinfurt (Germany).

Sustainability

DSM's activities are aimed at creating value: value for customers and shareholders, as well as for employees and the communities in which the company operates. DSM aims to achieve this goal by combining entrepreneurial drive with an awareness of the need for continuity and a strong sense of responsibility.

Sustainability is in this respect one of the most important elements of DSM's Values (Respect for People, Valuable Partnerships, Good Corporate Citizenship); the company is continuously looking to improve the safety and health of its employees. A further reduction of DSM's eco-footprint (including the value chain) and increased utilization of renewable resources are key elements in the company's sustainability policy, which forms an integral part of DSM's overall strategy.

Many DSM products and innovations help reduce CO_2 and other emissions at customers. DSM furthermore takes sustainability explicitly into account in the selection and evaluation of suppliers by applying a Supplier Code of Conduct for suppliers, which is based on the company's own values.

In 2008 DSM was once again ranked among the global leaders in sustainability in the chemical sector of the Dow Jones Sustainability Index and the company has the ambition to remain a global leader.

DSM actively participates in a dialogue with stakeholders, such as (trade) associations and networks, the United Nations and non-governmental organizations. The company also engages in several global and local community programs, the partnership with the United Nations' World Food Programme (WFP) being a notable example. Society's demands are changing, and through these partnerships DSM recognizes how it can contribute and add value to its stakeholders in a sustainable way. This leads to joined advocacy on for instance hidden hunger and further development of knowledge and products, such as NutriRice® and MixMe™. It also catalyzes actions with organizations such as UNICEF and GAIN (Global Alliance for Improved Nutrition).

More on DSM and sustainability can be found in the 2008 Triple P Report.

Safety

DSM has set itself the target of reducing the total number of recordable injuries among DSM personnel and contractors by 50% between 2005 and 2010. In 2008 the total number of recordable injuries per 100 employees was 0.72, compared to 0.95 in 2005, a reduction of 24% in three years. By continuing to pay attention to safety improvement and by consistently executing the programs in this field, DSM still aims to achieve this ambitious target, although the company is aware of the fact that this will be challenging.

On 28 August a fatal accident occurred at DSM Pharmaceutical Products in Venlo (Netherlands). A DSM employee was blown off an empty nitrogen-pressurized tank container while he was depressurizing the tank via the manhole. The manhole suddenly opened and he was lifted to a height of 15-20 meters. He fell to the concrete floor and died instantly. In response to this tragic occurrence all DSM units have reviewed their loading and unloading procedures. During the Global Manufacturing Conference held in Shanghai in November 2008, a 'closing the safety loop' initiative was started by Feike Sijbesma, Chairman of the DSM Managing Board.

Health

Health and wellness are very important for DSM and its employees. The Global Health Management initiative involves a health promotion program for DSM executives as well as a web-based tool for helping employees to assess their health risks and set themselves healthy lifestyle goals. This program is called DSM Vitality Checkpoint and offers a facility for the self-monitoring of health by employees. Where DSM Vitality Checkpoint has been introduced, it has been combined with comprehensive health checkups and individual follow-up on any health issues identified.

Health management is also included in learning programs. For example, 'Health at Work' forms an integral part of SHE training programs for managers and engineers.

In 2008, 18 cases of work-related illness were reported, compared to 18 in 2007 and 19 in 2005.

Environment

DSM has set itself environmental targets for 2010 on the basis of the principle that all DSM plants, wherever they are in the world, should comply with at least the same environmental standards as in the European Union or the United States. In 2007, based on findings in pilots, the target for the reduction of energy use was doubled from 1% to 2% per year. As a result of the fact that several of DSM's facilities reduced their output in the fourth quarter, energy efficiency declined in 2008.

A significant step in 2008 towards the realization of the environmental targets was the large reduction of N_2O emissions by DSM Agro. The reduction is the equivalent of two million tons of CO_2, which equals more than 20% of DSM's worldwide greenhouse-gas emissions and is in line with the target. Overall DSM made good progress in 2008 towards achieving the environmental targets for the period 2005-2010. However, it will be challenging to achieve all environmental targets.

Community

True solutions start with listening to and understanding the needs of various stakeholders. Hunger is the number one cause of death in the world, killing more people than AIDS, malaria and tuberculosis combined. But even if people have enough food to survive, this food often lacks certain key nutrients. This type of malnutrition is referred to as 'hidden hunger'.

In March 2007, DSM announced an official partnership with the United Nations' World Food Programme (WFP). WFP is the largest provider of food aid to the world's hungry, feeding and nourishing an average of 90 million people (including 58 million children) in over 80 countries each year. DSM provides WFP with expertise, high-nutrient products as well as financial assistance. In 2008, DSM made several million euros available to WFP and other community initiatives and partnerships.

DSM's Nutrition Improvement Program (NIP) develops sustainable business models to deliver safe and effective solutions for large-scale fortification with vitamins and minerals in developing countries. NIP also provides technical and scientific support to organizations and governments to support the fight against hidden hunger.

The company is also active with SIGHT AND LIFE, a humanitarian initiative that was set up in 1986 to help combat vitamin A deficiency in developing countries. SIGHT AND LIFE nowadays also aims to address other essential micronutrient deficiencies including nutritional anemia. It has invested some USD 30 million to support humanitarian projects in the public domain. In 2008 it launched a podcast series on the subject.

In cooperation with WFP, DSM developed MixMe™ micronutrient sachets for home-fortification in developing countries. It is a high-quality micronutrient powder packed in individual sachets. A year's supply of 150 sachets for one person costs € 2.75. In 2008 the MixMe™ sachets reached over 250,000 beneficiaries in Nepal, Kenya and Bangladesh. DSM intends to increase distribution in the coming years.

DSM continued its Innovation is our Sport™ program, sponsoring various athletes and supporting them with innovations. Athletes from the Netherlands, United States, Switzerland and China were sponsored by the company. DSM is also partner of the Dutch Olympic organization NOC*NSF. The DSM Unlimited Sports Team won six gold and two silver medals at the 2008 Beijing Olympics and Paralympics.

DSM has an extensive art collection that currently comprises 750 works. The DSM Art Collection is based on works from the Limburg region (Netherlands) but has been expanded in scope since 2003 to include works from national and international artists. The works of art in the collection represent creativeness, innovativeness and concern for the global and local environment.

Sustainable innovations

DSM's innovation efforts, more extensively described in the Innovation chapter starting on page 27, have resulted in the launch of several products that help to reduce CO_2 and other emissions, such as volatile organic compounds (VOCs), at DSM's customers. Besides helping to reduce emissions, DSM's innovations in both Life Sciences and Materials Sciences contribute to a better quality of life.

In 2008 DSM announced the launch of a new mark of excellence in nutrition – the Quality for Life™ seal. Introduced to guarantee ingredient quality, this concept responds to growing demand for reliable and traceable products which meet today's stringent safety and sustainability requirements. It offers a clear point of differentiation and the assurance that DSM is committed to ensuring product quality, safety, reliability, traceability and sustainability.

DSM Engineering Plastics has extended its product offerings to include halogen-free grades in all its product lines, ahead of future legislation. The short life cycles of electronic appliances such as laptops, mobile phones and PDAs make it important to re-use valuable materials such as copper through recycling and extraction. These processes introduce risks of generating hazardous by-products from halogen-containing compounds, such as flame retardants, when recycling processes are not optimal.

Following an urgent demand from an Original Equipment Manufacturer in the electronics industry, DSM Engineering Plastics developed within one year a halogen-free grade of Stanyl® for connectors and other electronic parts.

Traditional decorative paints for professional painters contain VOCs. By offering the new Decovery™ product family, DSM NeoResins+ offers a zero to low-VOC waterborne and solvent-based product portfolio that is beyond all environmental and technical requirements the industry demands. Between today and 2013, more than 50% of the € 1 billion-plus European and North American decorative resins market (excluding wall paints) is expected to transfer to these new types of technologies. Similar trends are to be expected in Asia at a later stage.

DSM Powder Coating Resins launched Uralac® Corres – a new technology platform, based on breakthrough innovative polyester resins for corrosion protective coatings. This new technology brings some big advantages to the coating process. Through a reduction in the use of pre-treatment chemicals, less process waste is created, and so Uralac® Corres can contribute to a reduction in the metal-coating process impact on the environment.

Human resources

DSM workforce at year-end in:

	2008	2007
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
Total DSM	**23,591**	23,254

Passion for People

On the basis of the *Vision 2010* strategy, DSM's human resources strategy *Passion for People* has been formulated. A key element of this strategy is to help employees to deal successfully with the challenges of a changing company in a fast-moving global marketplace.

The shift towards a Life Sciences and Materials Sciences company means changes not only in the portfolio of activities but also in the way of working, including behavior and culture. A committed workforce is critical to the company in realizing its *Vision 2010* ambitions. The concept of employee engagement is very important in this respect. In 2007 DSM launched its first ever worldwide Employee Engagement Survey, to be repeated on an annual basis. The outcome of this engagement survey has been assessed and has led to a number of focus areas:

Inspirational leadership supported by a new learning architecture

The acceleration of *Vision 2010* requires a change in behavior on the part of the employees. This change calls for leaders that raise the bar on performance, show accountability, take ownership and demonstrate role-model behavior in the DSM Behaviors, in short, truly inspirational leaders.

Therefore, DSM significantly reviewed its approach to learning and development of the executive and management population in 2008. A new DSM Learning Architecture ensures a stronger alignment with the strategy, focuses on the key drivers for success (external orientation/growth/innovation, a high-performance culture with clear accountability and a sustainable diversity drive), creates a common and coherent concept of learning and program design, facilitates the development of a DSM learning culture and provides enhanced learning for top performers and high potentials. With full support from the Managing Board, DSM invested in the leadership development of top management.

The architecture has been developed in close collaboration with leading international business schools, supported by a diverse internal faculty, primarily consisting of DSM's top management.

The new programs have a modular set-up with a strong focus on innovative learning methods, such as round-table discussions, business simulations, web-casting, (team) assignments and e-learning. The key building blocks are: Executive Leadership Programs, Management Leadership Programs, Executive & Management Toolkits, Executive Coaching and Functional Learning Programs.

In addition to the improved training and learning programs for DSM executives and managers, all other DSM Business Academy programs are being redesigned and aligned with the change the company is currently going through.

Moving towards a high-performance culture

In 2008 a new career management design was developed. The new design stimulates a high-performance culture, introduces simplified tools and processes, links career management and performance management, gives transparency in career opportunities within DSM, increases global talent visibility and employee engagement and increases ownership and accountability for career development with managers and employees.

To prepare for the roll-out, workshops were held in all business groups and staff/support groups, with additional regional training sessions being organized in the Netherlands, China and the United States. The new career management process was introduced in January 2009.

Clear performance-based remuneration of DSM's people is key in accomplishing the required changes, and the remuneration systems will be adjusted to reflect the objectives of external orientation, entrepreneurship, creativity and accountability.

Further increasing diversity

The intensified efforts with regard to diversity are paying off. The number of non-Dutch and female professionals entering DSM continues to grow. DSM continued in 2008 to establish a stronger regional recruitment footprint, which enables the company to attract talents across the globe. DSM is strengthening the diversity of the leadership team, not only in terms of gender and nationality but also in terms of leadership style. DSM focuses on selecting leaders with inspiring leadership styles to support the company's cultural change agenda.

While recognizing the need to attract external talent, DSM also recognizes the need to stimulate existing talent across the company. A new global recruitment management system was designed in 2008, giving employees access to all worldwide DSM vacancies. This will provide greater transparancy concerning career opportunities and will also further internationalize the employee base.

The percentage of non-Dutch members in DSM's management group increased from 45% in 2007 to 53% in 2008, and the percentage of women in this group increased from 17% to 20% in 2008. DSM attracted in total 486 top talents from across the globe, of whom 77% were non-Dutch and 38% were women.

Throughout 2008 DSM also continued to strengthen its presence in the academic arena by further strengthening its strategic collaborations with universities and key business schools in Europe. Collaborations are also now being initiated with academic institutions in both China and the United States with the aim of further strengthening these relationships in 2009. All activities are designed to boost the talent pipeline, to ensure that DSM is appropriately resourced to retain its position as one of the pioneers in the Life Sciences and Materials Sciences sectors.

Corporate services

DSM has a decentralized organizational structure built around business groups. The company also has a number of shared service departments and on a corporate level there are a number of staff departments that support the Managing Board and the business groups.

ICT

In recent years DSM's ICT initiatives have led to a high-standard and high-performing ICT landscape supporting the businesses globally. Besides the existing programs the ICT teams are now starting up a number of new initiatives to increase collaboration and communication between internal and external parties. In 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 light-weight 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 (N_2O).

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 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

have been implemented. Nevertheless, uncertainties with respect to the eventual success of new products and applications remain, especially in today's economic environment, where some of DSM's customers might re-prioritize their needs.

- People, organization and culture. The ability to attract and retain the right people and to create an entrepreneurial yet responsible culture is key to the achievement of the *Vision 2010* targets. During the reporting year new recruiting, management development and learning practices were implemented. Organizational changes were set in motion and programs to support the entrepreneurial spirit and cultural change were initiated. Nevertheless, the above remains a critical success factor in the implementation of DSM's strategy.

Functioning of the risk management system

The implementation of the Corporate Requirements, which represent common controls for the most important commonly occurring risks, was continued in those business groups which were allowed by the Managing Board to delay parts of the implementation until after the general due-date of 1 January 2008. In these units, much attention was given to the implementation of temporary controls where necessary.

All business groups and the major operational service units have an Audit Committee, which, under the direction of the director, sets up annual risk management plans, monitors their implementation and reviews risk management issues on a regular basis. Major risk management events, such as the outcome of corporate audits and business risk assessments and the occurrence of material control failures or weaknesses were discussed with the responsible Managing Board member.

Information on the functioning of the system was collected on a continuous basis. Business groups tracked compliance with Corporate Requirements and follow-up of actions from risk assessments; they conducted assessments on the effectiveness of their internal controls and reported and investigated incidents. The business group controllers confirmed that the quarterly financial statements were produced according to the internal accounting rules and reporting procedures by signing an affidavit. Independent audits on the effectiveness of the risk management implementation were executed by Corporate Operational Audit according to a program agreed with the Audit Committee of the Supervisory Board.

The information thus gathered was used for improvements to the risk management system as described on page 84, while any critical findings were addressed immediately.

Together with the annual financial accounts, all business groups, staff and service departments reported on any material operational, reporting and compliance risks or incidents over the past year in their Letter of Representation. The Corporate Risk Management department consolidated the reported risks and incidents and compared them with the outcome of corporate audits.

These data were used to spot weaknesses and formulate recommendations for reinforcement of the risk management system. The reported risks were also compared with the outcome of the Corporate Risk Assessment; on that basis the final overview of main risks and responses was produced. The main risks were discussed with the Audit Committee of the Supervisory Board on 16 February 2009.

Statements of the Managing Board

On the basis of the above and in accordance with best practice II.1.4 of the Dutch corporate governance code of December 2003, taking into account the recommendation of the Corporate Governance Code Monitoring Committee on the application thereof, the Managing Board confirms that internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies, and confirms that these controls functioned properly in the year under review and that there are no indications that they will not continue to do so. The financial statements fairly represent the company's financial condition and the results of the company's operations and provide the required disclosures.

It should be noted that the above does not imply that these systems and procedures provide absolute assurance as to the realization of operational and strategic business objectives, or that they can prevent all misstatements, inaccuracies, errors, fraud and non-compliances with legislation, rules and regulations.

In view of all of the above, the Managing Board confirms that, to its knowledge, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the annual report includes a fair review of the position at the balance sheet date and the development and performance of the business during the financial year together with a description of the principal risks and uncertainties that the company faces.

Report by the Managing Board

Macro-economic environment

Macro-economic environment in 2008

The financial and economic crisis severely affected economic activity during 2008 and left the developed economies in recession at year-end. During 2008, the global economy managed to expand by 2.4%, down from 3.8% in 2007. The effects on the US economy of the housing and subsequent financial crisis were much deeper than anticipated. US GDP growth slowed to 1.2%, down from 2.0% in 2007. The US government intervened heavily and the Federal Reserve lowered interest rates in order to boost the economy. The effects were offset by rising unemployment, increased savings rates and lower investment levels. The US economy is expected to pick up some pace at the end of 2009, but still contract by more than 1% over the year.

Even the Asian economies cannot escape the global downturn. China managed growth of 9.3% in 2008, followed by India with 6.9%. Chinese exports were impacted strongly during the final quarter of 2008, but the government-sponsored investment program is expected to boost the economy from the third quarter of 2009 onwards. Economic activity in China was very weak at year-end; manufacturing activity contracted at a record pace, employment fell for the fifth month and backlogs of work fell at the sharpest pace on record. China may see GDP growth slipping to a range of 5 to 7.5% in 2009. Indian GDP will continue to ease in 2009 to a currently expected range of 5.5 to 6.5%. The Japanese economy is continuing its period of weakness, mainly caused by the strong Yen, lower exports and slack domestic demand.

The European economy has entered a severe recession with rising unemployment, government intervention programs and thinning order books. The Eurozone manufacturing sector has undergone a deep retrenchment.

Commodity prices reached historic highs in 2008, driving inflation up globally. But it took only five months for the price of oil to plummet from nearly USD 150 to under USD 40 per barrel at the end of the year.

Macro-economic outlook for 2009

The US and world economies are about to experience a serious recession. Nearly all economic indicators dropped sharply at the end of 2008 and are likely to continue down that path for at least the first half of 2009. Many European countries followed the US downturn in 2008. At the same time, growth in most emerging markets is faltering. The overall economic consensus is that there are severe downward risks to the global economy even with all the unprecedented, government-led, fiscal stimulation and quantitative easing. No economy will show higher growth than in 2008. Global GDP growth is forecast by economists to be between -0.5% and +0.4%; the US and European economies are expected to contract by more than 1%, with Asia growing by 2 to 3%. All in all 2009 will be a year of great uncertainty and many surprises.

Financial results

Income statement

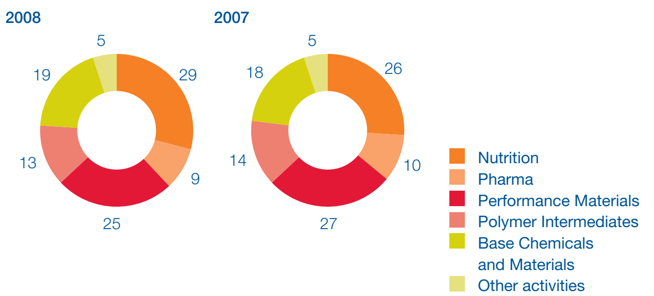
x € million	**2008**	2007
Continuing operations:		
Net sales	9,297	8,757
Other operating income	142	164
Total operating income	**9,439**	8,921
Total operating costs	(8,536)	(8,098)
Operating profit before exceptional items	**903**	823
Net finance costs	(102)	(75)
Share of the profit of associates	(3)	(2)
Income tax expense	(196)	(183)
Profit attributable to minority interests	6	(5)
Net profit before exceptional items	**608**	558
Net result from discontinued operations	-	-
Net result from exceptional items	(31)	(129)
Net profit attributable to equity holders of Royal DSM N.V.	**577**	429

Net sales

At € 9.3 billion, organic net sales from continuing operations in 2008 were 8% higher than in the previous year. Organic volume development accounted for a 3% decrease in net sales. Selling prices were on average 11% higher than in 2007. Exchange rates, acquisitions and disposals on balance had a negative effect of 2%. In total, net sales increased by 6%.

Net sales by segment

in %



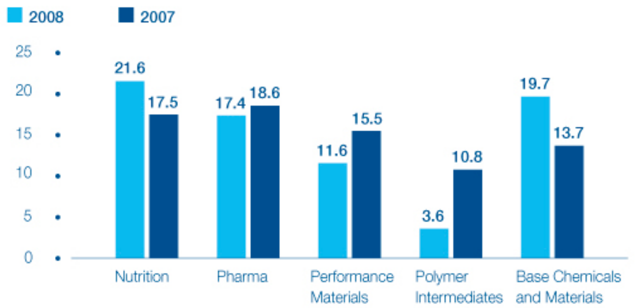
Operating costs

Operating costs rose compared to 2007, closing the year at € 8.5 billion. The main component of these costs, the cost of raw materials and consumables for goods sold, corrected for acquisitions and disposals, rose by approximately € 200 million.

Total autonomous fixed costs increased slightly, mainly due to higher innovation expenditure and capacity expansions.

EBITDA / net sales

in %

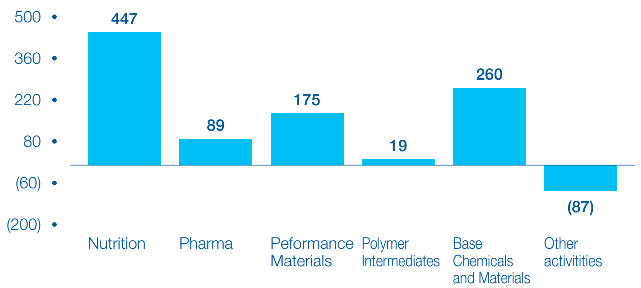


Operating profit

The operating profit from continuing operations before exceptional items increased by € 80 million (10%), from € 823 million in 2007 to € 903 million in 2008. The EBITDA margin (operating profit before depreciation and amortization as a percentage of net sales) rose from 14.2% in 2007 to 14.6% in 2008 as higher organic sales growth compensated for higher feedstock costs and lower average exchange rates. With selling prices increasing more than raw-material prices, the average margin (the selling price per unit of product less variable costs) was above the 2007 level.

Operating profit by segment

x € million



Net profit

The net profit from continuing operations before exceptional items increased by € 50 million to € 608 million. Per ordinary share, net earnings from continuing operations before exceptional items increased from € 3.07 in 2007 to € 3.64 in 2008.

Net finance costs, before exceptional items, stood at € 102 million in 2008, compared to € 75 million in 2007. The increase was mainly caused by the higher net debt and some fair-value adjustments in Other financial assets.

At 25%, the effective tax rate in 2008 remained stable.

Net profit increased from € 429 million in 2007 to € 577 million in 2008. Net profit per ordinary share rose from € 2.35 in 2007 to € 3.45 in 2008.

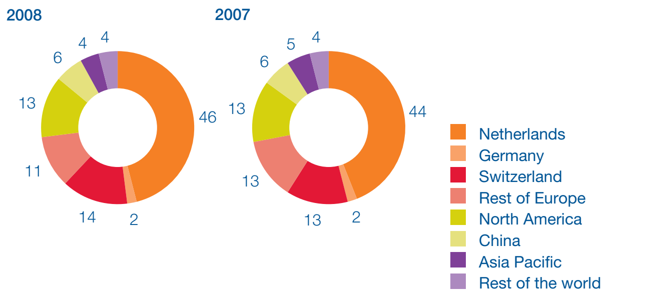
Exceptional items

In accordance with the strategic review of DSM Anti-Infectives, DSM Deretil was disposed of in Q4, leading to a book loss of € 11 million (€ 6 million after tax). The closure of the clavulanic acid site in Strängnäs (Sweden) resulted in an asset impairment charge and restructuring provision totaling € 23 million (€ 18 million after tax).

Part of the impairment charge recognized in 2007 at DSM Anti-Infectives was reversed for an amount of € 15 million before tax (€ 11 million after tax), reflecting the improved cash flow outlook for DSM Anti-Infectives. As a consequence of the announced cost-saving actions, a provision for restructuring was recognized amounting to € 25 million (€ 18 million after tax).

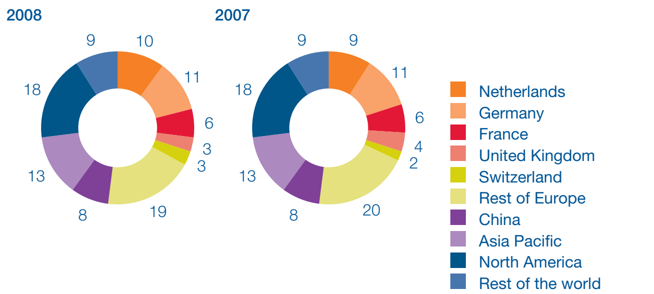
Net sales by origin

in %



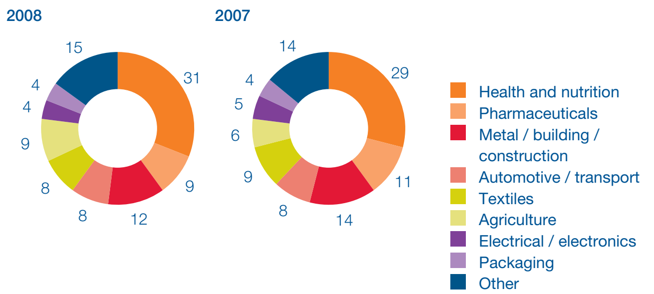
Net sales by destination

in %



End-use markets

in %



Cash flow

At € 910 million, net cash provided by operating activities was 9.8% of net sales.

Cash flow statement

x € million	**2008**	2007
Cash and cash equivalents at 1 January	369	552
Operating activities:		
- Net profit plus amortization and depreciation	1,028	1,003
- Changes in operating working capital	(180)	(124)
- Other changes	62	(54)
Cash flow provided by operating activities	910	825
Investing activities:		
- Capital expenditure	(591)	(434)
- Acquisitions	(120)	(85)
- Sale of subsidiaries	8	-
- Divestments	19	51
- Other	(110)	74
Net cash used in investing activities	(794)	(394)
Dividend	(220)	(193)
Net cash from / used in financing activities	305	(426)
Effects of changes in consolidation and exchange differences	31	5
Cash and cash equivalents at 31 December	**601**	369

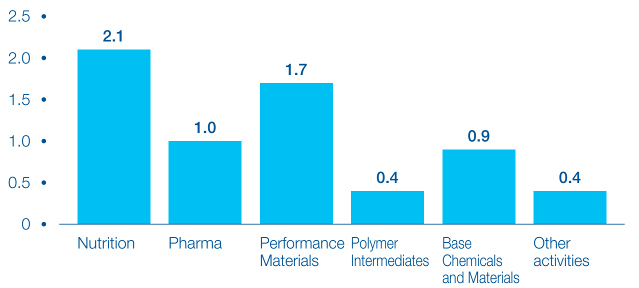
The balance sheet total (total assets) decreased by € 175 million in 2008 and amounted to € 9.7 billion at year-end (2007: € 9.8 billion). Equity decreased by € 688 million compared to the position at the end of 2007; this was due mainly to the decrease in the value of pension assets which is recognized in equity and to the repurchase of own shares. Equity as a percentage of total assets decreased from 55% at the end of 2007 to 49% at the end of 2008. The current ratio (current assets divided by current liabilities) decreased from 1.78 in 2007 to 1.51 in 2008. Net debt stood at 28% of equity plus net debt at the end of 2008.

Capital expenditure on intangible assets and property, plant and equipment amounted to € 587 million in 2008 and was € 136 million above the level of amortization and depreciation. In 2009 the level of capital expenditure is expected to be lower.

The operating working capital was € 227 million higher than in 2007. Cash and cash equivalents increased and amounted to € 601 million.

Capital employed by segment at 31 December 2008

x € billion

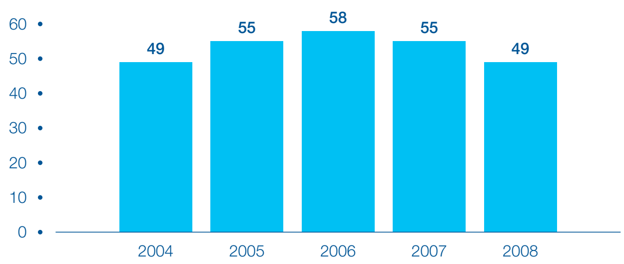


Balance sheet profile

As %	2008	2007
Intangible assets	12	10
Property, plant and equipment	38	35
Other non-current assets	8	17
Cash and cash equivalents	6	4
Other current assets	36	34
Total assets	**100**	100
Equity	49	55
Provisions	3	3
Other non-current liabilities	21	22
Other current liabilities	27	20
Total liabilities	**100**	100

Equity

as a % of balance sheet total



Dividend

DSM aims to provide a stable and preferably rising dividend. The dividend on ordinary shares proposed for the year 2008 amounts to € 1.20 per share (2007: € 1.20 per share). An interim dividend of € 0.40 per ordinary share having been paid in August 2008, the final dividend would then amount to € 0.80 per ordinary share, subject to approval by the Annual General Meeting of Shareholders. The ex-dividend date is 27 March 2009.

Outlook

The general economic outlook is poor, financial markets are unstable, consumer confidence is low and feedstock prices, energy prices and exchange rates continue to be highly volatile. Although half of DSM's businesses (the Nutrition and Pharma clusters and DSM Dyneema) have been relatively unaffected, most of its Materials Sciences and Base Chemicals and Materials activities, particularly those exposed to vulnerable consumer end-markets, have been significantly impacted. During the fourth quarter market conditions in the automotive, electrical and electronics, and building and construction industries deteriorated with unprecedented speed. Conditions in these markets have not improved early 2009 compared to the low level of December and are on average worse than in the fourth quarter.

It is expected that business conditions in Nutrition will remain favorable during 2009. In the Pharma cluster, on average lower prices are expected at DSM Anti-Infectives and DSM Pharmaceutical Products will face challenges due to the loss of some of the larger custom manufacturing contracts.

At the current time, there is a high degree of uncertainty regarding demand in Performance Materials, except for DSM Dyneema, where continued growth is expected. There is a similar lack of clarity at Polymer Intermediates which will most likely be loss-making in 2009. Price pressure is currently being seen at DSM Agro.

IFRS pension costs (non cash) will increase in 2009 by approximately € 70 million compared to 2008. It is not expected that additional cash contributions will be required on top of the normal contributions to the defined benefit plans.

DSM's swift response to the changing market conditions and successful focus on cash flow have secured its strong balance sheet and financing position. DSM is committed to generating sufficient cash from operations in 2009 to secure DSM's future profitable growth.

DSM will provide no quantitative outlook for 2009 in view of the uncertain economic conditions.

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Review of business

In 2008 DSM's activities were grouped into five clusters: Nutrition, Pharma, Performance Materials, Polymer Intermediates and Base Chemicals and Materials.

Net sales

x € million	2008	2007
Nutrition	2,710	2,302
Pharma	863	903
Performance Materials	2,297	2,390
Polymer Intermediates	1,201	1,232
Base Chemicals and Materials	1,733	1,529
Other activities	493	401
Total DSM	**9,297**	8,757

Operating profit (EBIT)

x € million	2008	2007
Nutrition	447	276
Pharma	89	92
Performance Materials	175	291
Polymer Intermediates	19	105
Base Chemicals and Materials	260	137
Other activities	(87)	(78)
Total DSM	**903**	823

Operating profit plus depreciation and amortization (EBITDA)

x € million	2008	2007
Nutrition	585	403
Pharma	150	168
Performance Materials	266	371
Polymer Intermediates	43	133
Base Chemicals and Materials	342	209
Other activities	(29)	(37)
Total DSM	**1,357**	1,247

Capital employed at 31 December

x € million	2008	2007
Nutrition	2,054	1,909
Pharma	1,001	1,034
Performance Materials	1,689	1,568
Polymer Intermediates	431	408
Base Chemicals and Materials	945	765
Other activities	438	298
Total DSM	**6,558**	5,982

EBITDA / net sales

in %	2008	2007
Nutrition	21.6	17.5
Pharma	17.4	18.6
Performance Materials	11.6	15.5
Polymer Intermediates	3.6	10.8
Base Chemicals and Materials	19.7	13.7

Capital expenditure and acquisitions

x € million	2008	2007
Nutrition	135	142
Pharma	49	60
Performance Materials	231	196
Polymer Intermediates	54	51
Base Chemicals and Materials	82	65
Other activities	188	54
Total DSM	**739**	568

R&D expenditure (including associated IP expenditure)

	x € million		as % of net sales	
	2008	2007	**2008**	2007
Nutrition	135	135	5.0	5.9
Pharma	74	67	8.6	7.4
Performance Materials	127	113	5.5	4.7
Polymer Intermediates	22	13	1.8	1.1
Base Chemicals and Materials	22	30	1.3	2.0
Other activities	14	14	2.8	3.5
Total DSM	**394**	372	**4.2**	4.2

Workforce at 31 December

	2008	2007
Nutrition	7,043	6,998
Pharma	4,401	4,888
Performance Materials	4,978	4,592
Polymer Intermediates	1,427	1,421
Base Chemicals and Materials	2,357	2,282
Other activities	3,385	3,073
Total DSM	**23,591**	23,254

Nutrition

Net sales

€2,710 m

Workforce

7,043

Nutrition

The Nutrition cluster comprises DSM Nutritional Products and DSM Food Specialties.

The main customers are feed, food, dietary supplements, beverages, personal care, and flavor/fragrance companies across the world. The activities in this cluster are to a large extent based on DSM's knowledge of biotechnology (including fermentation, genomics and biocatalysis), organic chemistry and formulation technologies and on the company's broad application knowledge. DSM holds leading positions in the markets for ingredients for human and animal nutrition and health and personal care.

x € million	**2008**	2007
Net sales:		
DSM Nutritional Products:		
- Animal Nutrition and Health	1,409	1,192
- Human Nutrition and Health	945	740
	2,354	1,932
DSM Food Specialties	356	370
Total	**2,710**	2,302
Operating profit	447	276
Operating profit plus amortization and depreciation	585	403
Capital expenditure and acquisitions	135	142
Capital employed at 31 December	2,054	1,909
ROCE	22.6	14.3
EBITDA as % of net sales	21.6	17.5
R&D expenditure	135	135
Workforce at 31 December	7,043	6,998

DSM Nutritional Products

As the world's leading supplier of vitamins, carotenoids, feed enzymes, premixes, UV filters and nutritional ingredients, DSM Nutritional Products has a strong presence in all major international markets with a unique completeness and positioning of its portfolio. With producers and consumers putting more emphasis on health, wellness and safety, market dynamics have become very positive.

DSM Nutritional Products offers state-of-the-art formulations and is forward integrated into premixing – the customized blending of nutritional ingredients. With 44 dedicated premix plants in total, of which 36 for animal and 8 for human applications, as well as 8 large actives production sites, 5 R&D centers and 40 sales and support offices in all main regions of the world, the business group is never far away from its customers. It is also well recognized for its innovative solutions.

DSM Nutritional Products is organized around two market-facing entities: Animal Nutrition and Health (ANH) and Human Nutrition and Health (HNH). ANH realized € 1.409 million in sales in 2008 and HNH € 945 million, 18% and 28% higher than in 2007, respectively.

Within the global food ingredients market, estimated at € 32 billion in 2008, HNH largely addresses the nutritional ingredients part. This is the fastest growing segment of the food ingredients market, representing some € 7 billion in 2008, with market growth rates at around 7%.

ANH addresses the nutritional additives segment of the feed additives market in 2008, worth some € 16 billion in 2008. This nutritional additives market segment, estimated at € 6.5 billion in 2008, also shows market growth rates of around 7%.

The Dual Track Strategy of DSM Nutritional Products, addressing on the one hand the dynamics in the established business via product and volume management, application leadership and differentiation and on the other hand innovation and new business development, is generating success.

In 2007, the 'Aspire to Win' profit improvement plan was announced. Part of this program – which is well underway – focuses on cost reduction and operational excellence. Moreover, the program is about further increasing momentum in differentiation and innovation. Its overall aim is to improve EBITDA by € 100 million, a target that will be reached well before the end of 2010.

In vitamins, the competitive landscape has changed drastically over the last ten years. Where other western players experienced severe erosion of their position or even decided to exit certain products, DSM Nutritional Products managed to continue growth in 2008.

As an example, the world's vitamin C production is currently taking place in five plants, four of which are located in China. The one remaining plant in the western world is operated by DSM and located in Dalry (United Kingdom). This plant celebrated its 50th anniversary in 2008.

As the only fully integrated player, DSM Nutritional Products is uniquely positioned to innovate and differentiate across the entire value chain, with full quality assurance and traceability. In this value chain there are three distinct steps: the production of actives such as vitamins and carotenoids, the production of forms resulting in improved stability and delivery, and the production of premixes.

In the production of actives, added value is created through product and process innovation and strict quality controls. The development of forms technology requires an in-depth understanding of in-use requirements and optimum delivery. In premixes added value is created by offering customers customized blends delivered through efficient logistics and distribution channels.

By buying premix from DSM Nutritional Products, customers can reduce their need for raw materials as well as complexity, cost and working capital. About 20% of DSM Nutritional Products' products are delivered as pure actives and around 80% as forms and premix formulations

Customers' heightened awareness of food safety issues further increases their need for quality assurance and traceability. DSM Nutritional Products – adhering to the highest standards in this area – is recognized as an industry leader by customers and regulatory authorities alike.

Quality assurance and traceability at DSM Nutritional Products are embedded in operating procedures, facilities, environmental and microbiological control, calibration and validation. Due to the high dilution factor when applied in end products, ingredients can have a profound effect on the quality in the value chain. As an example, one kilogram of vitamin A can translate to the production of 400,000-1,000,000 cereal bars.

As a result of the market shift described above, DSM Nutritional Products enjoyed substantial sales growth in 2008, mostly driven by organic growth. The company's competitive position has benefited from efficiencies in production and economies of scale. Operating profit rose substantially in 2008.

Changing business dynamics in China have impacted industry dynamics globally. For vitamin A, C and E there has been a more balanced demand-supply situation. Ongoing privatization for some Chinese players has put more emphasis on shareholder value creation and hence on profitability. Currency appreciation has added to increased upward pressure on export pricing. Also, China's current Five Year Plan dictates a considerable clean-up of the environment, not just for the Olympic Games. Those businesses that cannot comply with tighter restrictions are forced to reduce activities.

In China, DSM Nutritional Products has seen triple-digit growth over the last four years. In 2008, its sales in China amounted to approximately USD 230 million. With one HNH and three ANH premix facilities – the third was opened in November 2008 – and one under construction, the company's strategy is to maintain its market leadership position and support strong growth through localization and local presence.

In this country, which today represents approximately 20% of global meat consumption, DSM Nutritional Products has also introduced a new business model for ANH. By establishing a network of franchises of small distributors in rural areas, selling to local farmers, a new and promising segment has been created. The network is growing rapidly, with more than 70 stores at the end of 2008 and the ambition to double this number during 2009.

DSM Food Specialties

DSM Food Specialties is a global supplier of advanced ingredients for the food and beverage industries, primarily manufactured with the aid of fermentation and enzyme technology. Ingredients made by DSM Food Specialties form an essential part of many everyday products and contribute to the success of the world's favorite dairy, baking, savory, fruit juice, beer, wine and functional food brands. DSM Food Specialties' technology base covers all required disciplines from genetics and fermentation to application and nutrition.

Increasing demand for healthy nutrition, including low-salt and low-fat foods, the need for natural ingredients, convenience, and food safety are the trends that characterize the markets in which DSM Food Specialties operates. Awareness of the fine balance between nutrition, health and beauty has never been so high.

The size of the global food ingredients market in which DSM Food Specialties operates is estimated to be around €32 billion, with an average annual growth of 4-5%. This growth exceeds the average growth of 2-3% of the food market due to higher organic growth in emerging economies and a shift towards higher-value ingredients and processed food. In general the growth of the food market is less sensitive to the development of the world economy.

It is estimated that around 10% of the global food ingredients market consists of bio-ingredients, specialty products based on fermentation processes such as yeast extracts, cultures and food enzymes. DSM Food Specialties is the bio-ingredient leader in food.

DSM Food Specialties comprises three business units and an Ingredients Development Unit. Enzymes & Dairy Ingredients supplies a wide range of food enzymes for applications such as baking, fruit processing, brewing and manufacturing of other alcoholic beverages, starter cultures and preservation solutions for cheese, yogurt and meat, and tests for the detection of residues of antibiotics in milk. DSM is one of the biggest suppliers of dairy ingredients in the world.

Savoury Ingredients is a major supplier of ingredients for flavorings and flavor enhancers (such as yeast extracts) used in products such as soups, instant meals, sauces and savory snacks. Functional Food Ingredients focuses on arachidonic acid (ARA) and functional food ingredients with clinically proven health benefits for dietary supplements and functional foods. Together with DSM Nutritional Products, DSM Food Specialties offers a broad portfolio of functional food ingredients.

For DSM Food Specialties a major focus in functional food ingredients is on metabolic health solutions, helping consumers to take preventative action to cope with future health concerns, such as high blood pressure (TensGuard™), high glucose levels (InsuVital®) and obesity (Fabuless®). Fueled by market demand, Fabuless® continued in 2008 its significant growth of 2007.

ARA remains an important product for DSM. In 2008 ARA performed according to expectations. ARA is naturally found in breast milk and is applied in baby food. DSM Food Specialties partners with the US-based Martek Biosciences Corporation in the production and supply of ARA.

In 2008, DSM Food Specialties' sales showed a satisfactory volume growth of 4%. Primarily as a result of a weaker US dollar and amended contract conditions for ARA, DSM Food Specialties' sales declined by 1%. Food enzymes grew significantly, in particular in the area of brewing. Sales of functional food ingredients showed a strong increase. Sales of savory ingredients accelerated in the second half of the year, due to the expansion of the production facility in the Netherlands by 35% in response to the sharp rise in demand for yeast extracts. The weaker US dollar, amended ARA contract conditions and higher raw material and energy costs had a negative impact, resulting in a lower operating profit.

DSM Food Specialties realized two acquisitions in 2008. With the acquisition of CMT Srl the business group strengthened its position and know-how in antibiotic residue testing. DSM developed this market with its Delvotest® product, which today is the industry standard. CMT produces the Copan Milk Test, a microbiological test for the detection of antibiotic residues in milk. The Copan Milk Test has been recognized worldwide and validated by key international scientific institutes and is today the primary reference microbiological test for the detection of antibiotic residues in milk in some of the most important milk control stations and dairies worldwide.

DSM Food Specialties also acquired the business and substantially all of the assets of Valley Research, Inc., further reinforcing its leading global position in food enzymes. Valley Research, founded in 1984, offers a broad range of enzymes, supported by technical laboratories and production facilities. Its products are used in dietary supplements, dairy, juices and wines.

The acquisition of Valley Research enables DSM Food Specialties to strengthen its product portfolio, while at the same time the company can now offer regional blending and solution providing platforms to customers. Both acquisitions contributed to DSM Food Specialties' sales and operating profit in 2008.

Looking ahead to 2009, DSM Food Specialties will further strengthen its position as a leader and innovator in bio-ingredients. It is expected that DSM Food Specialties will show increasing profitability in the coming years due to market demand and success of the well-filled innovation pipeline. The high food and oil prices create additional opportunities for more efficient and renewables based biotechnology.

Review of business

Pharma

Net sales

€ 863 m

Workforce

4,401

Pharma

The Pharma cluster comprises the business groups DSM Pharmaceutical Products and DSM Anti-Infectives.

DSM is one of the world's leading independent suppliers to the pharmaceutical industry. Many of today's medicines around the world contain ingredients produced by DSM. DSM Anti-Infectives is one of the few penicillin producers outside of China.

x € million	**2008**	2007
Net sales:		
DSM Pharmaceutical Products	419	445
DSM Anti-Infectives	444	458
Total	**863**	903
Operating profit	89	92
Operating profit plus amortization and depreciation	150	168
Capital expenditure and acquisitions	49	60
Capital employed at 31 December	1,001	1,034
ROCE	8.7	8.1
EBITDA as % of net sales	17.4	18.6
R&D expenditure	74	67
Workforce at 31 December	4,401	4,888

DSM Pharmaceutical Products

DSM Pharmaceutical Products is a leading provider of high-quality custom contract manufacturing and development services to the pharmaceutical, biopharmaceutical and agrochemical industries. Customers around the world are serviced from six manufacturing sites in the United States and Europe. Among these customers are seventeen of the top twenty pharmaceutical companies and the top three agrochemical companies as well as a large number of biotech, specialty and emerging companies across the globe.

DSM Pharmaceutical Products consists of four business units. DSM Pharma Chemicals is a provider of custom chemical manufacturing services for complex registered intermediates and active pharmaceutical ingredients (APIs). DSM Biologics provides biopharmaceutical manufacturing technology and services. DSM Pharmaceuticals, Inc. is a provider of high-quality finished-dose-form manufacturing services. DSM Exclusive Synthesis is a global provider of custom manufacturing services for the crop protection industry.

DSM Pharma Chemicals saw its project pipeline improve in 2008 in both clinical and launch material, and the business unit has broadened its customer base. The successful development of micro reaction technology for continuous processes was a highlight of the year and will offer good opportunities in the future for the production of small molecule APIs.

DSM Biologics continues to make progress with the development of PER.C6® with joint-venture partner Crucell N.V. DSM Biologics and Crucell have co-exclusive rights to license the high-producing PER.C6® technology platform to the biopharmaceutical industry as a production platform for recombinant proteins and monoclonal antibodies. With the help of DSM's innovative XD™ technology much higher yields in manufacturing were achieved during the year.

DSM Pharmaceuticals, Inc. is a service provider to the pharmaceutical and biotech industries. Services include oral, topical and sterile finished-dose forms and the related formulation and process development. The business unit recently added sterile cytotoxic and sterile clinical trial manufacturing facilities to its capabilities.

DSM Exclusive Synthesis is a service provider to the crop protection industry. This market has been growing at a high pace since the end of 2007 and DSM Exclusive Synthesis has been able to capture the growth in the market resulting in increased sales and increased profitability. The main focus for the years to come is on filling the pipeline to secure the future growth of the business.

Overall, DSM Pharmaceutical Products saw its profitability levels affected in 2008, as a result of the phasing-out of the contracts related to the Roche Vitamins acquisition, insourcing by large pharma houses to address cost pressures and delays in commercial development of products. Operating profit declined. Sales declined by 6%.

During 2009 some large-volume products will not be manufactured by DSM Pharmaceutical Products due to customer insourcing, while other product volumes will be diminished until inventory is reduced. This will result in cost pressure for DSM Pharmaceutical Products.

The business group has set up a program to take corrective action. Cost restructuring measures, such as reorganization of the Greenville, North Carolina (United States) site announced in October, are designed to deliver results in the short term.

Improved account management should lead to stronger customer intimacy and closer involvement with various players across the value chain and an improved innovation pipeline. More efficient processes will be implemented to ensure low cost levels while maintaining the high quality and compliance for which DSM Pharmaceutical Products is known. The business group will also expand its offering by building on value-added technologies, expertise and customer relations within the business units. This should reinforce the business group's offering and contribute to a stronger market position. However, 2009 will be a difficult year for the business group.

DSM Anti-Infectives

DSM Anti-Infectives holds global leadership positions in penicillin G, penicillin intermediates (6-APA and 7-ADCA), in active pharmaceutical ingredients (APIs) such as semi-synthetic penicillins and semi-synthetic cefalosporins (beta-lactams) and in other active ingredients such as nystatin.

Penicillin-based anti-infectives are among the most important pharmaceutical products in the world in terms of volume. The products in DSM Anti-Infectives' current portfolio are very effective in combating a broad spectrum of bacterial and fungal infections in both humans and animals and as such are of vital importance for people's well-being and healthier economics in farming.

As a relatively cheap treatment against infectious diseases, penicillin-derived pharmaceuticals can be afforded by a large and growing part of mankind, with pronounced growth in China, India and other countries in Asia, Africa and Latin America. Consumption in the Western world with its highly regulated markets is more or less stable. Within the Western world, DSM is one of the few remaining independent (merchant) beta-lactam producers, serving the needs of patients suffering from infectious diseases.

Growth of the market for penicillin derivatives is estimated to be between 4-7% per year, the greater part of which comes from the emerging economies. In 2008, penicillin prices recovered quickly from a relatively weak start but declined again in the second half of the year. Overall prices were below the peak seen in the third quarter of 2007, but remained on average at a good but lower level.

Based on this, and on the continued implementation of the announced restructuring measures, the results of DSM Anti-Infectives in 2008 stayed at a healthy level. Sales declined 3% in 2008.

DSM Anti-Infectives – as the leading supplier of bulk active ingredients and important intermediates – defined a strategy in 2007 that is aimed at actively maintaining this leadership position via customer intimacy in the different markets and technological innovations leading to both further improved production and a strengthened product portfolio in generic active ingredients. This will be achieved by actively seeking partnerships and where necessary rationalizing parts of the portfolio.

In 2008 the business group made further progress with its actions to structurally improve profitability. In addition to restructuring measures, mainly related to lower fixed costs, a further strengthening is taking place through the introduction of new products and the implementation of enzymatic technologies for the production of APIs in its global asset base. At the same time the business group stepped up its efforts to broaden the portfolio to include active pharmaceutical ingredients that will become generic in the coming years.

In relation to the rationalization of the portfolio, during the year the decision was taken to close the clavulanic acid manufacturing site in Sweden at the end of 2009. Also, DSM Deretil, active in side chains, was sold in a management buy-out with effect from 1 October 2008. In view of these decisions the value of the remaining business was reviewed and it was determined that a partial reversal of the 2007 impairment of the assets of the cash generating unit DSM Anti-Infectives was required, resulting in a € 15 million reversal leading to an increase in the carrying amount of assets. The intended partnership with North China Pharmaceutical Group Corporation to create a joint venture for the production and marketing of anti-infectives in China is in the stage of approval by the Chinese authorities.

In 2008 DSM Anti-Infectives announced a partnership with Arch Pharmalabs from India to accelerate the introduction of new products. DSM will contribute its innovative fermentative technologies and market access to the partnership, whereas Arch will utilize its asset base and its competences in chemical conversion.

In addition, DSM Anti-Infectives is currently investing to upgrade activities in India, Mexico, Europe and China towards enzymatic processes. DSM's enzymatic technology provides not only substantial environmental advantages – such as a strong reduction in emissions and energy consumption – but also superior quality and is more cost-effective throughout the value chain.

Looking ahead, DSM Anti-Infectives expects its profitability to be sustainable in the years to come.

Review of business

Performance Materials

Net sales

€2,297 m

Workforce

4,978

Performance Materials

The Performance Materials cluster comprises the business groups DSM Engineering Plastics, DSM Dyneema and DSM Resins.

The business groups specialize in the manufacture of technologically sophisticated, high-quality products that are tailored to meet customers' performance criteria. The products are used in a wide variety of end-use markets: the automotive industry, the aviation industry, the electrical & electronics industry, the sports and leisure industries, the paint and coatings industry and the construction industry.

x € million	**2008**	2007
Net sales:		
DSM Engineering Plastics	761	807
DSM Dyneema	305	259
DSM Resins	1,231	1,324
Total	**2,297**	2,390
Operating profit	175	291
Operating profit plus amortization and depreciation	266	371
Capital expenditure and acquisitions	231	196
Capital employed at 31 December	1,689	1,568
ROCE	10.7	19.3
EBITDA as % of net sales	11.6	15.5
R&D expenditure	127	113
Workforce at 31 December	4,978	4,592

DSM Engineering Plastics

With a global market share of about 5% DSM Engineering Plastics is one of the world leaders in polyamides (polyamide 6, polyamide 46 and polyamide 66), polyesters (PBT, PET and TPC), polycarbonate (PC and PC blends) and extrudable adhesive resins. DSM Engineering Plastics is the global leader in high-heat polyamide. The materials produced by the business group are used mainly in technical components for the electrical and electronics, automotive, engineering and packaging industries.

The engineering plastics market has grown at a rate of about 6% per year in the last few years, higher than average worldwide GDP growth. The largest growth area has been Asia Pacific, most notably China and India, where growth has been in the range of 10% per year, fueled by local demand and a shift of manufacturing to the region.

In the second half of 2008, however, the market for engineering plastics was faced with an unprecedented decline in demand following a strong decline in end-markets, in combination with significant destocking due to scarcity of credit and the rapid decrease in the price of raw materials. The strong decline in the end-markets was a result of both the turmoil in the financial markets and an economic recession in the United States and Europe. DSM Engineering Plastics was faced with strong headwinds in the last few months of the year and temporarily stopped production at several plants to align inventories with the lower demand.

Heat-resistant resins are the product area that has shown the highest growth within the engineering plastics market in recent years. DSM Engineering Plastics is active in this market with Stanyl® and the newly introduced Stanyl® ForTii™.

In automotive DSM Engineering Plastics' products are used in the engine compartment and in the exterior and interior of the vehicle. Applications include turbo parts and airbag containers. The replacement of metal to reduce weight and fuel consumption continues to be a high growth area as consumers and car manufacturers alike increasingly focus on smaller, lighter and more economical cars with improved fuel efficiency.

With interconnect components from Stanyl® DSM Engineering Plastics is a leading supplier to the electronics industry, benefiting from trends that call for increased connectivity in the world. With Akulon® polyamide 6 DSM has a European leadership position in the food packaging industry. To become a leader in the food packaging industry in Asia Pacific as well within two years, DSM Engineering Plastics opened a polymerization plant in China.

In the coming years DSM Engineering Plastics wants to further strengthen its leadership position with a strong focus on performance materials and specialties, while innovation programs continue unabated despite the more difficult market conditions. As part of its ambitious investment program, four new plants came on stream in 2008.

Apart from the aforementioned polymerization plant in China for Akulon® polyamide 6, the second Stanyl® polymerization plant was opened in Sittard-Geleen (Netherlands), doubling existing capacity.

A green field compounding site in Pune (India) doubled DSM's capacity in India after it started production in the fourth quarter of the year. In April, DSM opened its market development plant for Stanyl® ForTii™, the world's first new polymer in the new millennium.

As a result of increasing economic headwinds, especially in the last few months of the year, the markets for engineering plastics contracted in 2008. DSM Engineering Plastics was faced with 6% lower sales and a negative operating result in 2008, as a result of a decline in demand from the automotive and electronics industries. Both markets increasingly felt the impact of reduced consumer spending.

A temporary production stop at several facilities in the last few months of the year combined with the lower sales level resulted in a strong decline in operating profit in 2008. In the short term, the focus will be on navigating through the current difficult market situation while continuing the innovation programs as DSM Engineering Plastics prepares to seize opportunities once a recovery sets in. For the longer term, DSM Engineering Plastics continues to target a yearly sales growth of 10% via innovation and expansion.

DSM Dyneema

DSM invented and developed Dyneema®, a high-modulus polyethylene fiber made from Ultra High Molecular Weight Polyethylene (UHMWPE). It is the strongest fiber in the world on a weight-for-weight basis. It floats on water and is extremely durable and resistant to moisture, UV light and chemicals.

Dyneema® fiber is an important component in ropes, cables and nets in the fishing, shipping and offshore industries. It is also used in safety gloves for the metalworking industry and in fine yarns for applications in sporting goods. In addition, it is applied in bullet-resistant armor and clothing for law-enforcement personnel and the military. Dyneema Purity® is a special grade for applications in the medical sector.

DSM produces Dyneema® fiber and UD (unidirectional) in Heerlen (Netherlands) and in Greenville, North Carolina (United States) through its proprietary gel-spinning process. In 2008 DSM completed the commercial introduction of a new tape technology, manufactured at a dedicated facility in Flaach (Switzerland). DSM Dyneema is also a partner in a UHMWPE fiber manufacturing joint venture in Japan.

DSM Dyneema is expanding around the world in selected, high value-in-use applications and markets offering high profitability. The business group will continue to focus on the further development of ultra high-performance polyethylene materials and technologies.

The Dyneema® fiber was invented at DSM's research laboratories in the late 1960s, the proprietary gel-spinning manufacturing process was developed and patented in 1978. Commercial production started in 1990.

Between 1998 and 2008 sales volumes for DSM Dyneema rose sixfold and the business clearly outgrew all direct competitors. Demand for light but strong, high value-in-use material continues to show steady and rapid growth, driven by a range of social and economic factors such as the general increase in safety awareness in production industries, an increasing demand for personal-safety products, the growing demand for easy-to-handle, durable materials in the marine industry and the increase in leisure time and prosperity.

DSM Dyneema's position in the market relies on strong collaboration down the value chains in which it operates. The business group not only gives focus to direct buyers of Dyneema® fiber, but also provides support to the customers' customers in the form of processing and application know-how. Support is aimed at co-development of innovative new applications and improved products.

At the same time, the business group protects its current and future market positions through market-driven innovation, increased customer intimacy and an active branding policy, supported by a strong manufacturing and technological base. This is backed by an active policy to protect DSM's intellectual property.

The business group continued its growth path in 2008. All markets for DSM Dyneema products showed growth, and sales increased in all geographic regions. Sales growth was particularly strong in North America and Asia. Total sales increased by 18%. DSM Dyneema's operating profit was up from 2007 as a result of higher volumes as capacity further increased during the year.

In April 2008, DSM Dyneema announced plans for a substantial capital expenditure program, expected to involve up to USD 450 million, to increase production capacity to enable the business group to capitalize on expected continuous growth in demand especially in the United States but also in the rest of the world.

DSM Dyneema is set to begin the construction of a large-scale manufacturing facility in Greenville for its new proprietary tape technology. This facility, planned to be on stream at the beginning of 2010, is a key component of the investment program of USD 450 million. DSM also is expanding capacity for UD (UniDirectional) and fiber.

In addition to the USD 450 million program, DSM Dyneema will build the first dedicated line for manufacturing Dyneema Purity® fiber at the Greenville facility. The line is expected to be operational by mid 2010.

In September 2008, DSM Dyneema successfully brought on stream substantial additional raw material capacity to support future growth of the business.

Looking ahead, DSM Dyneema expects its growth path – sales have grown by more than 15% per year in recent years – to continue and accelerate as new capacity comes on stream in the coming years with above-average profit margins.

DSM Resins

With 2008 sales of € 1,231 million, DSM Resins is the largest business group in the Performance Materials cluster. DSM Resins is a leading global player in the manufacturing and sale of high-quality resins. The group's products are used in a wide variety of everyday applications.

By focusing on value-added and eco-friendly solutions, DSM Resins is able to capture many growth opportunities thanks to its market-driven innovation efforts. The group consists of four business units: DSM NeoResins+, DSM Powder Coating Resins, DSM Desotech and DSM Composite Resins.

In 2008 DSM Resins made further progress in all of its four business units and introduced a broad range of new, innovative products. These will contribute to the ambition of achieving strong sales growth towards 2010.

DSM Resins aims to achieve about € 250 million in extra sales in 2010 through innovation. By the year 2010, 20% of the resins portfolio will be based on new products. At the same time, the existing product portfolio will be rejuvenated.

However, towards the end of the year the business group encountered more difficult market conditions in combination with significant destocking by customers. This resulted in a sales decline of 7% for the year and increased pressure on operating profit in the last few months of the year. DSM Resins ended the year with a lower operating profit.

During the year the construction of a new factory for waterborne resins in Meppen (Germany) was completed. In China, a new ink manufacturing facility was opened in Xinghou for DSM Desotech. Construction of a new factory for waterborne emulsion resins in Waalwijk (Netherlands) is on schedule. The factory will be opened in Q1 2009. DSM NeoResins+ announced a capacity expansion for waterborne polyurethane resins in Parets (Spain). Also a feasibility study to expand the composite resins facility in Compiègne (France) was announced.

Apart from capacity expansions, DSM Resins is investing heavily in market-driven innovation by developing new technologies and products for existing and new applications.

Market trends in the materials market call for eco-efficiency and eco-effectiveness, in part driven by stronger legislation in combination with the customers' need for improved durability, lower weight, ease of use and lower system costs.

The innovation drive at DSM Resins is aimed at providing solutions that lead to lower emissions and energy savings. By offering lightweight composite resins to replace metal, significant savings can be achieved. Specific resin systems have been developed for high-quality paints and coatings that can be applied with lower or zero solvent emissions while being competitive with more conventional systems.

Through its focus on market-trend-driven innovation, DSM Resins is well on track in changing itself into a specialty company, with improved profitability, in the coming years.

Polymer Intermediates

Net sales

€ 1,201 m

Workforce

1,427

Polymer Intermediates

The Polymer Intermediates cluster consists of DSM Fibre Intermediates.

x €million	2008	2007
Net sales		
DSM Fibre Intermediates	1,201	1,232
Total	**1,201**	1,232
Operating profit	19	105
Operating profit plus amortization and depreciation	43	133
Capital expenditure and acquisitions	54	51
Capital employed at 31 December	431	408
ROCE	4.5	26.2
EBITDA as % of net sales	3.6	10.8
R&D expenditure	22	13
Workforce at 31 December	1,427	1,421

DSM Fibre Intermediates

DSM Fibre Intermediates produces caprolactam and acrylonitrile, which are raw materials for synthetic fibers and plastics. Other products include ammonium sulfate, a fertilizer, diaminobutane, sodium cyanide and cyclohexanone. DSM Fibre Intermediates, with plants in the Netherlands, the United States and China, is with a market share of 20% the largest merchant caprolactam producer in the world. With a market share of 25%, DSM is a major player in the merchant acrylonitrile market in Europe.

Caprolactam is the raw material for polyamide 6, a thermoplastic polymer. This is a versatile material, which in the form of fibers is used in carpets, sports and leisure clothes and textiles. It also has applications in engineering plastics applications including electronics, automotive industries and specialty packaging materials and in tires as tire cord. DSM's caprolactam production capacity is more than 600,000 tons per annum (tpa). In addition, the business group produces about 1.2 million tpa of fertilizer (ammonium sulfate) as a co-product.

Polyamide 6 is also used in dentists' chairs, hooligan-proof stadium seats, food packaging, medical packaging, lingerie, sleeping bags, parachutes and tennis racket strings. It is the most widely used material in carpets, having excellent resistance to wear, crushing, matting and dirt. It also has a more favorable eco-footprint compared to other materials and is recyclable.

Polyamide 6 has reached the mature phase of its life cycle, where market demand and selling prices are strongly influenced by supply/demand cycles. It is facing competition from other materials, such as polyamide 66, polyester and polypropylene.

Acrylonitrile is a raw material used in textile fibers (acrylic or modacrylic), ABS plastics used in automotive, toys and computers, latex rubber, paints, coatings and water-purification products. It is also used in baby-food jar closures.

The business group's acrylonitrile production capacity is 260,000 tpa. DSM Fibre Intermediates also produces about 25,000 tpa of sodium cyanide, which is used in detergents and in the synthesis of vitamins. It also produces diaminobutane, an intermediate for Stanyl®.

DSM Fibre Intermediates' distinguishing characteristics are its process technology, reliability and service. The business group aims to exploit its global cost and technology leadership position in caprolactam while growing its position in China parallel to a further strengthening in Europe and North America in close cooperation with DSM Engineering Plastics, for which caprolactam is a very important raw material. For acrylonitrile the business group aims to strengthen its manufacturing base in Sittard-Geleen (Netherlands).

During most of 2008, there was a healthy supply and demand balance in caprolactam and acrylonitrile with a global utilization rate above 90%. At the beginning of the fourth quarter, however, market conditions became significantly more difficult as demand weakened strongly in combination with significant customer destocking in anticipation of lower prices following the drop in oil prices and a recession in North America and Europe.

The business group responded by temporarily shutting down a number of plants. Slow demand and lower feedstock costs resulting in a drop in caprolactam prices put pressure on operating profit and margins towards the end of the year. For the full year, sales decreased by 3%; operating profit showed a strong decrease.

Looking ahead, the impact of the turmoil in the financial markets and the current difficult economic situation will be significant for DSM Fibre Intermediates and lower global utilization rates are expected.

Base Chemicals and Materials

The Base Chemicals and Materials cluster consists of DSM Agro, DSM Melamine, DSM Elastomers, DSM Energy, and a number of activities that have been carved out from other clusters.

DSM Agro produces fertilizers and is active in Northwestern Europe. DSM Melamine is the world's largest producer of melamine, used in wood-based panels and laminates for furniture and flooring. DSM Elastomers manufactures synthetic rubbers (EPDM) for use in cars and other transportation vehicles, white goods, various industrial products and construction materials and as motor-oil additives. DSM Energy has small but profitable stakes in various oil and gas fields in the Dutch part of the Continental Shelf.

x € million	**2008**	2007
Net sales:		
DSM Agro	578	408
DSM Melamine	200	181
DSM Elastomers	469	505
DSM Energy	104	81
Other	382	354
Total	**1,733**	1,529
Operating profit	260	137
Operating profit plus amortization and depreciation	342	209
Capital expenditure and acquisitions	82	65
Capital employed at 31 December	945	765
ROCE	30.4	18.6
EBITDA as % of net sales	19.7	13.7
R&D expenditure	22	30
Workforce at 31 December	2,357	2,282

DSM Agro

DSM Agro supplies products and services for responsible fertilization. The company produces and markets nitrogenous mineral fertilizers and industrial products, mainly for the Northwest European market. In agriculture, nitrogen is the prime determinant of crop growth and yield.

The business group operates production sites at Sittard-Geleen and – until 2010 – IJmuiden in the Netherlands. DSM Agro produces and sells about 2.4 million tons of fertilizers per year. DSM Agro also produces products that serve as raw materials for products of other DSM business groups.

In 2008 DSM Agro continued to benefit from the change in market sentiment that had started in 2007. Growing global food and feed demand as a result of positive economic developments in the large new economies in Asia drove high world grain prices, which led to a further increase in demand for fertilizers and a strong worldwide fertilizer market.

The growing of energy crops for biofuels strengthened this development. High grain prices had a strong positive effect on international fertilizer prices. As a result, DSM Agro significantly improved its operating profit in comparison with previous years. Sales rose by 42% and DSM Agro had its best year ever.

This higher result was achieved despite an interruption in production at one of the ammonia plants in the Netherlands which lasted several months.

In March 2008 DSM Agro reached agreement with the Dutch government on the termination of ammonia transport by rail between Sittard-Geleen and IJmuiden by 31 December 2009. When these transports are terminated, the site in IJmuiden will lose its reason for being. DSM has therefore decided to close the site in 2010.

DSM Agro became the first company in the world to greatly reduce emissions of dinitrogen oxide (N_2O). The nitric acid plants in both Sittard-Geleen and IJmuiden managed to reduce their N_2O emissions by 6,500 tons, which has the same effect as reducing CO_2 emissions by two million tons.

Apart from being ISO 9001 certified, DSM Agro is also a member of EFMA (European Fertilizer Manufacturers Association) and complies with its Product Stewardship requirements. DSM Agro was ranked number one in the recent audit of all EFMA members.

The Product Stewardship program is to ensure that fertilizers and their raw materials, additives and intermediate products are processed and manufactured, handled, stored, distributed and used in a safe way with regard to health, occupational and public safety, environment and security. DSM Agro promotes good agricultural practices by encouraging farmers to use correct amounts of fertilizers of the required quality at the required time, applied by means of properly adjusted fertilizer spreaders. To this end, DSM Agro provides its customers with high-quality fertilizers plus internet application services to ensure that fertilizers are used in a responsible manner.

DSM Melamine

With a market share of close to 20%, DSM Melamine is the global market leader. The main application of melamine is in wood-based panels and laminates used for furniture and flooring. It is also used in car paints, durable plastic tableware and flame retardants. The growing number of consumers in emerging economies, notably China, is driving demand.

Melamine is used in impregnating resins and adhesive resins for the wood-processing industry. It boosts the scratch, moisture and heat resistance of wood products. Melamine can be combined with softwood from rapidly growing trees to obtain high-quality panels that can replace hardwood. The growing scarcity of hardwood is boosting the use of melamine. Stricter legislation on emission of formaldehyde is expected to have a positive impact as well.

The product is also used in paper money, lipstick, glossy magazines, ice hockey sticks and printed textiles. The bridge that links Sweden and Denmark across the Øresund contains MelaminebyDSM™ to improve concrete flow characteristics.

The market for melamine is growing at an average rate of 4% per annum. Several new plants of a small scale are being built in China. Total capacity in China still exceeds local demand. In addition, new world-scale plants will be built in areas with low-priced natural gas in the next few years.

DSM Melamine has plants in Sittard-Geleen (Netherlands), Pinglu and Jishan (China), and Bontang (Indonesia). The Chinese melamine is produced by Shanxi FengHe Melamine Co. Ltd. (DSM 49%). The plant in Indonesia is a joint venture with P.T. Pupuk Kalimantan Timur and P.T. Barito Pacific Lumber Company.

Sales increased by 10% in 2008; operating result was negative. Excluding China, worldwide demand and production capacity in 2008 were below the 2007 levels. Prices for melamine increased during the year, but at a lower pace than the price of urea, ammonia and natural gas, the main raw materials for melamine.

However, with increasing economic headwinds towards the end of the year, price increases for melamine in the last quarter were lower than envisaged. Lower demand together with destocking in the downstream industry put pressure on sales. The planned shutdown of the plant in Indonesia in September was prolonged until the end of the year and in the Netherlands, too, DSM Melamine closed one plant temporarily.

In China DSM started a 49/51 joint venture with Shanxi Fengxi Fertilizers, Shanxi FengHe Melamine Co. Ltd. The output – 52,000 tons per annum in 2008 – is sold on both the domestic and international markets under the MelaminebyDSM™ brand.

DSM Melamine's objective is to consolidate its leading position and improve profitability. The business group will continue its efforts together with customers to grow further via innovation. Examples are cost reductions across the value chain, exploitation of the handling advantages of melamine-based resins over competing glue systems based on phenol or isocyanates, and the use of alternative fibers for panels.

DSM Elastomers

With a market share of around 16%, DSM Elastomers is one of the global market leaders in EPDM (Ethylene Propylene Diene Monomer) rubber under the brand name Keltan®. It is also the number two player in the market for EPDM-based – fully vulcanized – thermoplastic elastomers (TPVs). DSM sells these TPVs under the brand name Sarlink®.

Production plants for Keltan® are based in Sittard-Geleen (Netherlands) and Triunfo (Brazil). Plants for Sarlink® are found in Genk (Belgium) and Leominster, Massachusetts (United States).

Keltan® EPDM is used in cars and other transportation vehicles, white goods, various industrial products and construction materials and as motor-oil additives. It is also used as a waterproof covering for roofs.

DSM has maintained the position of Keltan® as the global innovative leader in the EPDM market in 2008. The customer survey executed in June amongst 180 customers confirmed this position and the main brand values (high quality, high security of supply and high service) were clearly recognized.

DSM launched several new Ziegler-Natta catalyst based Keltan® products and built a new reactive extrusion line in Triunfo (Brazil). With this new line, the company is able to strengthen its position in the oil additives business but the line also offers possibilities for new functionalized materials. The first commercial products were delivered in February. At the end of the year, the line was fully operational.

In the development of the Advanced Catalysis Elastomers (ACE™) technology 2008 was an important year. After a very successful trial run, commercial-scale production of the first innovative range of products commenced at the end of 2008. The ACE™ technology enables DSM to produce products with a high VNB (2-vinyl-5-norbornene) content, which is unique in the world of EPDM.

Sarlink® TPVs are used in a wide variety of applications including automotive, consumer, electrical, food, building, medical and industrial applications. It is also used as infill material in artificial turf sports surfaces, mainly soccer fields, under the brand name Terra® XPS.

DSM's strategy for Sarlink® is to maximize growth, replacing thermoset rubber and PVC, through the development of new advanced technology solutions.

Global demand at DSM Elastomers was strong in the first half of 2008, driven by healthy growth in the emerging economies.

Raw-material prices continued to increase in the first half of the year. The further weakening of the US dollar – especially in the first eight months of the year – caused pressure on both prices and margins. By passing on the cost increases to the market the business group was nearly able to safeguard its margins.

In the second half of the year, demand in both North America and Europe fell, mainly driven by a continuous restructuring of the automotive industry and its suppliers. Moreover, the downturn in the housing market continued to affect the building and construction industry.

The business group's sales decreased by 7% in 2008; operating result was negative.

DSM Energy

DSM Energy participates in the exploration and production of oil and gas on the Dutch Continental Shelf. The business group is also involved in the transportation of oil and gas through its ownership of pipelines on the Shelf. DSM participates as non-operator with a stake of up to 25% in the oil and gas joint ventures and up to 40% in pipeline systems.

At year-end, the business group had a share in twenty producing oil and gas fields and during the year participated in two gas field developments. All fields are located in 25 production licenses. DSM Energy's strategic mission is to maximize cash flow by minimizing cost and maximizing production in the existing licenses.

During the first half of the year the oil market saw very large price increases, followed by similar decreases after the onset of the turmoil in the financial markets in the third quarter. Over the entire year the average Brent oil price was USD 97 per barrel, which was substantially above the average level in 2007. The sales prices for natural gas follow those of oil with some delay and were also above the 2007 level. The business group's operating profit was once again at a high level.

One development project, the A6/B12 field, delivered first gas in 2008. Another project, the M7-A field, suffered from installation delays due to poor weather conditions and start-up is now expected in Q1 2009. The business group's total production of 1.8 million barrels of oil equivalent in 2008 was slightly less than in 2007. The remaining reserves at the end of the year were about 7.9 million barrels of oil equivalent, of which 7.3 million in the producing fields, compared to 8.1 million and 7.4 million respectievely in 2007. Without new developments the remaining reserves are expected to continue to decrease in the years ahead.

In cooperation with RWTH Aachen (Germany) and Delft University of Technology (Netherlands) investigations into the monetizing of coal concessions continued in 2008. Results so far indicate that these concessions at present do not have a positive value, but DSM continues to work on the valuation of these concessions.

Further, the business group provided geological support to DSM Agro in a potential CO_2 underground storage project. DSM Energy is one of the founding members of the DAP foundation (Delft Aardwarmte Project) in the Netherlands to produce warm water for the energy benefit of the entire Delft University campus and surrounding housing areas. During 2008 the feasibility of the project was established and the next phase of the project was prepared. The necessary sub-surface permits have been applied for with the Dutch Ministry of Economic Affairs.

Other

The Base Chemicals and Materials cluster also includes several activities that have been carved out from other clusters. These include Stamicarbon, Citric Acid, DSM Special Products and the Maleic Anhydride and derivatives business. These activities together achieved a higher operating profit and higher sales in 2008.

Other activities

Other activities comprises various activities and businesses that do not belong to any of the five reporting clusters. It consists of both operating and service activities and also includes a number of costs that cannot be logically allocated to the clusters.

Other activities includes the DSM Innovation Center, DSM Venturing, Noordgastransport and a number of other activities such as DSM Industrial Services, EdeA, DSM Insurances and part of the costs of corporate activities. Due to their very nature the volume of these units and activities can be subject to change. They normally have a negative operating result.

x € million	**2008**	2007
Net sales	493	401
Operating profit	(87)	(78)
Operating profit plus amortization and depreciation	(29)	(37)
Capital expenditure and acquisitions	188	54
Workforce at 31 December	**3,385**	3,073

DSM Innovation Center

The DSM Innovation Center has been set up to facilitate the *Vision 2010* change program towards an intrinsically innovative organization. To the extent that costs of the DSM Innovation Center cannot be directly allocated to clusters, they are reported in Other activities. A comprehensive description of the activities of the DSM Innovation Center is provided in the Innovation and R&D chapter starting on page 27. As a result of the structural increase in innovation efforts in the DSM Innovation Center itself and in the Emerging Business Areas, the costs of the Innovation Center increased in 2008, which had a negative impact on the result of Other activities.

DSM Venturing

DSM Venturing participates in external start-up companies or funds and is constantly on the lookout for investment opportunities in innovative businesses or technologies in the fields of Life Sciences and Materials Sciences. DSM Venturing plays an important part in DSM's open innovation policy and invests in activities that are of immediate or potential relevance to DSM. A total of five new participations were announced in 2008. In addition to direct investments DSM Venturing is also involved in a number of venture capital funds. For more information see the Innovation and R&D section on page 27.

DSM Licensing Center

DSM Licensing Center (formerly part of Stamicarbon) uses its long-standing experience and licensing best practices to generate added value from DSM's intellectual property. It had a successful year in broadening its portfolio.

Noordgastransport

Noordgastransport transports gas produced offshore through a system of pipelines from gas fields in the North Sea to a processing plant in Uithuizen in the north of the Netherlands. Here, the gas is treated so that it matches customers' specifications, before being delivered to these customers. Without new developments the transport of gas is expected to decrease in the years ahead. For DSM this is a non-core activity.

DSM Industrial Services

DSM Industrial Services consists of various units. Some services are provided for the Sittard-Geleen site (Netherlands), others are targeted at DSM organizations all over the world. These services include technological consultancy, expertise in energy and auxiliary materials, the supply of utilities, human resources and the management of the Chemelot site in Sittard-Geleen.

EdeA

EdeA VoF owns, operates and maintains most of the production and distribution facilities for utilities (for example steam, power and water) at the Chemelot site in Sittard-Geleen (Netherlands). EdeA VoF is a joint venture with Essent, an energy production and distribution company. DSM's stake is 50%.

Corporate activities

Various holding companies and corporate overheads are reported in Other activities. The most important cost elements in this respect are related to defined benefit pension plans and share-based compensations for the group. The captive insurance company posted lower results in 2008 due to the production interruption at DSM Agro.

Associates

DSM has a share in a limited number of associates. The contribution to the result was negligible.

Heerlen, 16 February 2009

The Managing Board
Feike Sijbesma, chairman
Jan Zuidam, deputy chairman
Rolf-Dieter Schwalb, CFO
Nico Gerardu
Stephan Tanda

Report by the Supervisory Board

Supervisory Board report

The composition of the Supervisory Board changed during the year under review. Mr. Henk Bodt stepped down at the Annual General Meeting of Shareholders as he had served the maximum term of 12 years on the Supervisory Board. The Supervisory Board is grateful to Mr. Bodt for his commitment to the company during his membership and his constructive and valuable contribution to the Board's work. The General Meeting of Shareholders appointed Mrs. Louise Gunning-Schepers as a new member of the Supervisory Board and reappointed Mr. Cor Herkströter and Mr. Ewald Kist. The Supervisory Board appointed Mr. Ewald Kist as its Deputy Chairman, succeeding Mr. Henk Bodt.

The Supervisory Board held six meetings in the presence of the Managing Board during the year under review. Each of these meetings was preceded by a Supervisory Board meeting without the Managing Board being present. The subjects discussed in these regular Supervisory Board meetings outside the presence of the Managing Board included the establishment and the outcome of the Managing Board bonus targets and the Managing Board overall remuneration package and a proposal to the Annual General Meeting of Shareholders in 2009 to adjust the remuneration policy for the members of the Managing Board. These subjects were all prepared by the Remuneration Committee. In addition to remuneration subjects, these Supervisory-Board-only meetings were also used for pre-discussion of for instance corporate governance issues. The Supervisory Board also devoted a separate meeting to its profile, composition and functioning. The meeting concluded that all members of the Supervisory Board were independent, as defined by the Dutch corporate governance code, and that the competences of its individual members in aggregate were in line with the Board's profile. At the same meeting the Managing Board's composition and performance and the performance of its individual members were also discussed.

The Supervisory Board meetings in 2008 were all attended by at least six of the seven members. None of the Supervisory Board members was regularly absent.

The composition of the Audit Committee changed in 2008. Mr. Henk Bodt stepped down, Mr. Tom de Swaan took over the chairmanship and Mr. Ewald Kist was appointed as a member. The Audit Committee, thus consisting of Messrs. Tom de Swaan (chairman), Claudio Sonder and Ewald Kist, held eight meetings in 2008. Five meetings were specifically devoted to discussing and approving the content of press releases on financial results and guidances for the full-year results. During the other three regular meetings various subjects were discussed; the external auditor was in attendance at these meetings, and the internal – operational – auditor was present or represented as well. The main topics of discussion during these meetings were the adoption of the group's financial statements, the external auditor's comments and their assessment of DSM's systems such as internal control and ICT. The Audit Committee discussed and endorsed the dividend proposal for the year 2007. The Committee acknowledged the receipt of the independence letter of the external auditor. The Committee discussed the work of the Corporate Operational Audit department and approved its audit plan. The review of strategic and operational risks reported by the business groups was discussed as well as the follow-up actions following the Corporate Risks Assessment 2007. The Committee discussed the wish voiced in the 2008 Annual General Meeting of Shareholders to further increase the quantification of the risk disclosures and endorsed the decision of the Managing Board not to do so for competitive reasons. The system and status of the Letters of Representation issued by the managers directly reporting to the Managing Board were evaluated. An assessment of the performance of the external auditors Ernst & Young Accountants was discussed. The Committee discussed at year-end the potential accounting issues for 2008 and observations by the external auditor regarding their assessment of internal control at DSM as well as some recommendations. The status of the whistle-blower system was discussed. The adequacy of the charter of the Audit Committee was reassessed; no recommendations were made for any changes.

The Audit Committee had its regular private discussion with the auditors without members of the Managing Board being present.

The Chairman of the Audit Committee verbally reported the main issues discussed to the Supervisory Board in their subsequent meeting. The Audit Committee furthermore provided the Supervisory Board with written reports on its deliberations, findings and recommendations. These reports were distributed among all members of the Supervisory Board.

The composition of the Nomination and Remuneration Committee changed in 2008. Mr. Ewald Kist stepped down and was succeeded by Mr. Pierre Hochuli. In 2008 the combined Nomination and Remuneration Committee was formally split into two separate committees, both consisting of Messrs. Cor Herkströter (chairman), Cees van Woudenberg and Pierre Hochuli.

The Nomination Committee met once in 2008. The Committee recommended Mrs. Louise Gunning-Schepers as a successor of Mr. Henk Bodt. The Committee also discussed longer-term developments regarding the composition of the Supervisory Board and the succession planning for the Managing Board and the top executives within the company. The Chairman of the Nomination Committee verbally reported the issues discussed to the Supervisory Board in their subsequent regular Supervisory Board meetings outside the presence of the Managing Board.

The Remuneration Committee met five times in 2008. On behalf of the Supervisory Board the Committee prepared an overview of the manner in which the remuneration policy was implemented in the year 2008 as well as an overview of the remuneration policy for the Managing Board members in subsequent years. The Committee prepared proposals to the full Supervisory Board on the realization of the 2007 targets, the short-term incentive targets for 2008 and an increase in the base salary of the Managing Board with effect from 1 July 2008. These proposals were adopted by the Supervisory Board. Information on DSM's remuneration policy is to be found on page 70 of this annual report and is posted on the company's website.

As a consequence of *Vision 2010* as well as some comments by institutional investors during the Annual General Meeting of Shareholders on 26 March 2008 the Supervisory Board decided to review in particular the variable compensation elements (bonus and stock incentives) of the remuneration policy for the Managing Board. The Remuneration Committee prepared a proposal to the full Supervisory Board to adjust the bonus scheme to further strengthen the alignment of the bonus-related financial targets with *Vision 2010* and to adjust the Total Shareholder Return (TSR) vesting scheme. The Supervisory Board adopted the proposals; the proposal to adjust the TSR vesting scheme is to be submitted for approval to the 2009 Annual General Meeting of Shareholders. Information regarding changes to the remuneration policy expected in 2009 is to be found in the remainder of this chapter.

The Remuneration Committee provided the Supervisory Board with written reports on its deliberations, findings and recommendations. These reports were distributed among all members of the Supervisory Board.

Six regular Supervisory Board meetings were held in 2008. The Supervisory Board and the Managing Board discussed company matters on a regular basis during the year under review. One of the issues discussed was DSM's executive development and succession planning for the top executives within the company. Also various aspects of the alignment of the organization with the *Vision 2010* strategy as well as the progress made in this alignment were discussed.

The financial results recorded by the various units and developments at these units were discussed at every meeting. Special attention was paid to the consequences of the financial crisis that became apparent as from October 2008. The Supervisory Board discussed and monitored various aspects concerning the progress of the implementation of the *Vision 2010 – Building on Strengths* strategy program adopted in 2005 and the acceleration of the shift to a specialty Life Sciences and Materials Sciences company. The Board discussed the Annual Strategic Review which included an assessment by the Managing Board of the main risks to the company.

The Supervisory Board held discussions with the Managing Board on possible future acquisitions that would fit in with the strategy, one of the aims being to strengthen the Nutrition and Performance Materials clusters, and approved the exploration of possible acquisitions fitting into this strategy. The Supervisory Board was regularly updated on the progress of the so-called Batavia project aimed at cooperation with NCPC (North China Pharmaceutical Group Corporation) in vitamin C and in anti-infectives and granted an amended mandate for the set-up of the agreements. The Supervisory Board approved the acquisition of The Polymer Technology Group active in the biomedical sector. The Board approved DSM Dyneema investment proposals.

The Board was regularly updated on the progress of the so-called Pearl divestment project regarding the sale of DSM Agro, DSM Melamine, DSM Elastomers and Urea Licensing. The Supervisory Board discussed and approved the proposal to close the IJmuiden (Netherlands) fertilizer plants of DSM Agro. The Board also approved the closure of the Nutritional Products site in Wuxi (China). The Board gave the mandate to dispose of the DSM Special Products business and approved the sale of the Side Chains business unit, part of DSM Anti-Infectives, to the management of DSM Deretil in Spain. The Board discussed and approved a restructuring program for DSM Pharmaceutical Products aimed at improving top line growth and cost reduction.

The Supervisory Board discussed and approved the (Revised) Capital Expenditure Plan and the Financing and Guarantee Plan for 2008.

The Supervisory Board approved the proposal to re-open the existing €300 million bond issued in 2005 and increase the outstanding amount from €300 million to €500 million.

The Board approved a proposal to the Annual General Meeting of Shareholders in March 2008 to adopt a resolution for the annual report for the financial year 2008 and subsequent years to be drawn up in English. The Board also approved the proposal to increase the dividend per ordinary share for 2007 by 20% and the proposal made to the Annual General Meeting of Shareholders regarding the final dividend to be paid out for 2007. The Supervisory Board approved the interim dividend to be paid for 2008.

As in previous years, the Supervisory Board invited managers from a number of DSM business groups and corporate staff and services departments to its meetings, to present relevant developments in their units in person. The Supervisory Board visited DSM Pharmaceutical Products' site in Linz (Austria) and was updated by local management on the business and production activities.

Discussions were held with the external auditor, Ernst & Young Accountants, about the financial statements for 2008. The Report by the Managing Board and the financial statements for 2008 were submitted to the Supervisory Board by the Managing Board, in accordance with the provisions of Article 30 of the Articles of Association, and subsequently approved by the Supervisory Board in its meeting on 17 February 2009. The financial statements were audited by Ernst & Young Accountants, who issued an unqualified opinion (see page 156 of this report). The Supervisory Board concluded that the external auditor was independent of DSM.

We submit the financial statements to the Annual General Meeting of Shareholders, and propose that the shareholders adopt them and discharge the Managing Board from all liability in respect of its managerial activities and the Supervisory Board from all liability in respect of its supervision of the Managing Board. The profit appropriation as approved by the Supervisory Board is presented on page 157 of this report.

Despite increasing economic headwinds, DSM succeeded in recording good results for 2008. The Supervisory Board wishes to express its sincere appreciation for all the efforts made by the employees and the Managing Board.

Remuneration policy regarding the Managing Board and the Supervisory Board

This chapter comprises two parts. The first part outlines the remuneration policy as approved in 2005 and adapted in 2008 by the Annual General Meeting of Shareholders. The second part contains details of the remuneration in 2008 and expected changes in 2009.

Remuneration policy

The objective of DSM's remuneration policy is to attract, motivate and retain the qualified and expert individuals that the company needs in order to achieve its strategic and operational objectives.

- DSM strives for a high performance in the field of sustainability and aims to maintain a good balance between economic gain, respect for people and concern for the environment in accordance with the Triple P concept (People, Planet, Profit). The remuneration policy reflects a balance between the interests of DSM's main stakeholders as well as a balance between the company's short-term and long-term strategy. In the light of the remuneration policy, the structure of the remuneration package for the Managing Board is designed to balance short-term operational performance with the long-term objective of creating sustainable value within the company, while taking account of the interests of all stakeholders.
- To ensure that highly skilled and qualified senior executives can be attracted and retained, DSM aims for a total remuneration level that is comparable to levels provided by other (predominantly Dutch) multinational companies that are similar to DSM in terms of size and complexity. For that purpose, external reference data are used.
- The remuneration policy for the members of the Managing Board is aligned with the remuneration of other senior executives of DSM.
- In designing and setting the levels of remuneration for the Managing Board, the Supervisory Board also takes into account the relevant provisions of statutory requirements, corporate governance guidelines and other best practices applicable to DSM. DSM's policy is to offer the Managing Board a total direct compensation comparable with the median of the (predominantly Dutch) labor-market peer group.

Labor-market peer group

In order to be able to recruit the right caliber of people for the Managing Board and to secure long-term retention of the current Board members, DSM has taken external reference data into account in determining adequate salary levels. For that purpose, a specific labor-market peer group has been defined which consists of a number of Dutch and some European companies that are more or less comparable to DSM in terms of size, international scope and business portfolio.

The labor-market peer group currently consists of the following twelve companies:

Aegon	Nutreco
Akzo Nobel	Océ
Ciba[1]	Rhodia
Clariant	Solvay
Heineken	TNT
KPN	Wolters Kluwer

1 Will be eliminated from the peer group and replaced due to the expected de-listing of the company.

Professional independent remuneration experts (Towers Perrin, Amsterdam) have adapted the raw data of the peer-group companies using a statistical empirical model, so as to make them comparable with a company the size of DSM, with the associated scope and responsibilities of the Managing Board. Peer-group data are updated on an annual basis. The peer group is verified by the Supervisory Board each year based on market circumstances (mergers, acquisitions) which determine the appropriateness of the composition of the labor-market peer group.

DSM operates in a competitive international industry. Therefore, DSM will also closely monitor industry and company-specific international developments with respect to remuneration.

Below, the various remuneration components are addressed separately.

Base salary

On joining the Board, the Managing Board members receive a base salary that is comparable with the median of the labor-market peer group. Every year base-salary levels are reviewed. Adjustment of the base salary is at the discretion of the Supervisory Board, which takes into account external and internal developments.

Bonus

Managing Board members can earn a bonus amounting to 60% of their annual base salary for on-target performance. Under the bonus plan, the part of the bonus that is related to financial targets accounts for 42% of base salary, which can increase to 84% in the case of an exceptionally good financial performance.

The part of the bonus that is not related to financial targets accounts for 18% of the base salary and cannot increase beyond that. Targets are defined in the areas of the company's strategic development and Triple P, among other things.

Bonus part linked to financial targets

The part of the bonus that is linked to financial targets includes elements related to operational performance, being operating profit (EBIT), net cash and net sales growth (organic), reflecting short-term financial results.

The weighting given to the individual financial elements in the bonus is as follows: EBIT 21%, net cash 12% and net sales growth 9% of annual base salary for on-target performance.

Targets	On-target pay-out (% of base salary)	Maximum pay-out (% of base salary)
Financial targets:		
- Operating profit	21	42
- Net cash	12	24
- Net sales growth	9	18
Non-financial targets:		
- Shared	12	12
- Individual	6	6
Total	**60**	**102**

Operational performance

Three financial-target-related bonus elements can be derived from the financial statements:

- Operating profit: EBIT before exceptional items
- Net cash, defined as cash provided by operating activities
- Net sales growth, excluding currency fluctuation

Targets are determined each year by the Supervisory Board, based on historical performance, the operational and strategic outlook of the company in the short term and expectations of the company's management and stakeholders, among other things. The targets contribute to the realization of the objective of long-term value creation.

The company does not disclose the actual targets, as they qualify as commercially sensitive information.

Stock incentives

The Managing Board members are eligible to receive performance-related stock options and shares. Both stock options and performance shares operate on the basis of the same performance schedule.

The vesting of stock options and performance shares is conditional on the achievement after three years of previously determined target levels of total shareholder return (TSR) compared to the peer group (see also table below).

The Chairman will receive 10,000 performance shares and 37,500 performance options; the members of the Board will receive 8,000 performance shares and 30,000 performance options.

Exercise price

The stock options and shares are granted on the first 'ex-dividend' day following the Annual General Meeting of Shareholders at which DSM's financial statements are adopted. The exercise price of the stock incentives is equal to the opening price of the share on the date of grant at Euronext Amsterdam.

TSR as a performance measure

DSM's TSR performance is compared to the average TSR performance of a set of pre-defined peer companies.

The TSR peer group for 2008 consists of the following companies:

Akzo Nobel	Lanxess
BASF	Lonza Group
Ciba[1]	Novozymes
Clariant	Rhodia
Danisco	Solvay
EMS Chemie Holding	

1 Will be eliminated from the peer group and replaced due to the expected de-listing of the company.

The peer group used for benchmarking TSR performance reflects the relevant market in which DSM competes for shareholder preference. It includes sector-specific competitors that the Supervisory Board considers to be suitable benchmarks for DSM.

The peer group is verified by the Supervisory Board each year based on market circumstances (mergers, acquisitions) that determine the appropriateness of the composition of the performance peer group. Depending on DSM's performance compared to the peer group a certain number of options will become exercisable and a certain number of shares will be unconditionally awarded. The stock options can be kept for a maximum of eight years (including the three-year vesting period) while the shares shall be retained by the members of the Managing Board for a period of at least five years (after the three-year vesting period) or at least until termination of employment if this period is shorter. The final performance of DSM versus its peers will be determined and validated by a bank and audited by the external auditor at the end of the performance period.

Performance incentive zone

The number of options and shares that become unconditional after three years is determined on the basis of DSM's performance relative to the average TSR performance of the peer group. The difference between DSM's performance and the peer group's performance (in percentage points) determines the vesting.

The following table gives an overview of the vesting conditions.

DSM performance minus peer-group performance in % points	Percentage of stock incentives that vest
≥ 20	100
≥ 10 and < 20	75
≥ (10) and < 10 (target)	50
≥ (20) and < (10)	25
< (20)	0

For the 2009 TSR vesting scheme see the discussion of changes expected in 2009 at the end of this chapter.

Pensions

The members of the Managing Board are participants in the Dutch pension fund Stichting Pensioenfonds DSM Nederland (PDN). PDN operates similar pension plans for various DSM companies. The pension provision of the Managing Board is equal to the pension provision for the employees of DSM Limburg B.V. and DSM Executive Services B.V. employed in the Limburg area.

Employment contracts

Term of employment

The employment contracts of the members of the Managing Board appointed before 1 January 2005 have been entered into for an indefinite period of time. Newly appointed members of the Managing Board are also offered an employment contract for an indefinite period of time. The employment contract ends on the date of retirement or by notice of either party.

Term of appointment

Members of the Managing Board appointed before 1 January 2005 are appointed for an indefinite period of time. New members of the Managing Board (appointed after 1 January 2005) will be appointed for a period of four years.

Newly appointed members are subject to reappointment by the shareholders after a period of four years.

Notice period

Termination of employment by a member of the Managing Board is subject to three months' notice. A notice period of six months will for legal reasons be applicable in the case of termination by the company.

Severance arrangement

There are no specific contractual exit arrangements for the members of the Managing Board appointed before 1 January 2005. Should a situation arise in which a severance payment is appropriate for these Board members, the Remuneration Committee will recommend the terms and conditions. The Supervisory Board will decide upon this, taking into account usual practices for these types of situations, as well as applicable laws and corporate governance requirements.

The employment contracts of newly appointed members of the Managing Board (appointed after 1 January 2005) include an exit-arrangement provision which is in accordance with best-practice provision II.2.7 of the Dutch corporate governance code (that is, a sum equivalent to the fixed annual salary, or if this is manifestly unreasonable in the case of dismissal during the first term of office, two times the fixed annual salary).

Remuneration policy for the Supervisory Board

The remuneration package of the Supervisory Board comprises an annual fixed fee and an annual committee-membership fee. The fixed fee for the Chairman of the Supervisory Board is € 50,000. The members of the Supervisory Board each receive a fixed fee of € 35,000. Committee membership is awarded € 5,000 per member and € 7,500 for the Chairman. Following the splitting-up of the Nomination and Remuneration Committee into two separate committees in 2008, the membership and chairmanship fees for each of these committees were halved.

In accordance with good corporate governance, the remuneration of the Supervisory Board is not dependent on the results of the company. This implies that neither stock options nor shares are granted to Supervisory Board members by way of remuneration.

If any shareholdings in DSM are held by Supervisory Board members, they serve as a long-term investment in the company. At year-end 2008 the members of the Supervisory Board together held no shares in Royal DSM N.V.

DSM does not provide any loans to its Supervisory Board members.

Remuneration in 2008 and changes expected in 2009

Remuneration of Managing Board in 2008

The remuneration package for the Managing Board is subject to annual review. The market competitiveness of the remuneration package of the Managing Board for 2008 was reviewed, based on the labor-market peer group. The data reflect the July 2008 remuneration levels. All values are denominated in euros.

On-target bonus and stock-incentive grants are expressed as a percentage of base salary. The remuneration data of peer group companies are regressed to reflect the size and scope of DSM. Stock-incentive valuations are based on the Black-Scholes method.

Furthermore, data are presented as median actual levels.

Benchmark against labor-market peer group 2008

Managing Board Chairman

	DSM (1 July 2008)	Peer-group median
Base salary	€ 766,000	€ 755,000
On-target bonus	60%	100%
Total cash on target	€ 1,225,600	€ 1,510,000
Annualized stock incentive value	38%	80%
Total direct compensation	€ 1,516,680	€ 2,114,000

Other Board members

	DSM (1 July 2008)	Peer-group median
Base salary	€ 509,000	€ 500,000
On-target bonus	60%	70%
Total cash on target	€ 814,400	€ 850,000
Annualized stock incentive value	46%	55%
Total direct compensation	€ 1,048,540	€ 1,125,000

Base salary in 2008

The Supervisory Board reviewed whether circumstances justified an adjustment of the base-salary levels. Based on the benchmark against the peer group, it was concluded that the base salary for the chairman was well below the median whilst the salaries of the other members of the Managing Board were around the median level.

As stated in the 2007 annual report, it was decided to close the gap with the median of the benchmark in 2008. As a consequence the Supervisory Board decided in 2007 to increase the base salary of the chairman of the Managing Board by an extra 10% with effect from 1 January 2008 to close the gap with the median of the market, as already mentioned in the 2007 annual report.

External and internal circumstances justified a general increase in the base salary of the Managing Board of 3.0% as of 1 July 2008 to compensate for inflation and to reflect market developments.

Bonus for 2008

Bonus targets are revised annually so as to ensure that they are stretching but realistic. Considerations regarding the performance targets are influenced by the operational and strategic course taken by the company and are directly linked to the company's ambitions. The targets are determined at the beginning of the year for each Board member.

Target bonus level and pay-out

When they achieve all their targets, Managing Board members receive a bonus of 60% of their annual base salary. Outstanding performance can increase the bonus level to 102% of the annual base salary.

The 2008 annual report presents the bonuses that have been earned on the basis of results achieved in 2008. These bonuses will be paid out in 2009.

The Supervisory Board has established the extent to which the targets for 2008 were achieved. The realization of the 2008 financial bonus targets has been reviewed by Ernst & Young Accountants. Furthermore, Ernst & Young has reviewed the process with respect to the target setting and realization of the non-financial bonus targets. The targets relating to the group's financial performance were all met and even exceeded. The other, non-financial targets were almost fully achieved. The average realization percentage was 97.3%.

See the next page for a tabular overview of the actual bonus pay-out per individual Board member in 2008.

Stock options and performance shares in 2008

In 2008 performance-related stock options and performance shares were granted to the Managing Board on 28 March 2008 at an exercise price of €29.79. The table below shows the number of stock incentives granted to the individual Board members:

Number of stock incentives granted

	Stock options	Performance shares
Feike Sijbesma	37,500	10,000
Jan Zuidam	30,000	8,000
Nico Gerardu	30,000	8,000
Rolf-Dieter Schwalb	30,000	8,000
Stephan Tanda	30,000	8,000

Pensions in 2008

The members of the Managing Board are participants in the Dutch pension fund Stichting Pensioenfonds DSM Nederland (PDN).

The pension scheme (revised as of 1 January 2006) comprises the following elements:

- Retirement age 65 years (early retirement possible only by actuarial reduction of pension rights).
- The scheme includes a spouse pension as well as a disability pension.
- Annual accrual of pension rights (old-age pension) over base salary exceeding € 12,209 (reviewed annually) at a rate of 2%.
- Employee's contribution of 2.5% of base salary up to € 53,660 and 6.5% of pensionable salary above this amount (to be reviewed annually).
- Conditional defined benefit: indexation of pensions and pension rights, conditional depending on PDN's cover ratio.

Members of the Managing Board born before 1 January 1950 (Mr. Zuidam) continue to participate in the old pension plan. Other Board members participate in the revised PDN pension plan (due to changed legislation on pre-pensions). For Mr. Sijbesma a transitional arrangement is applicable.

Loans

DSM does not provide any loans to members of the Managing Board.

Purchasing shares

As announced in the press release on the third-quarter results of 2007, all members of the Managing Board have decided to purchase more shares in the company to emphasize their confidence in the strategy. These share purchases are private transactions with private money. At year-end 2008 the members of the Managing Board together held 23,027 shares in Royal DSM N.V.

Total remuneration

The total remuneration (including pension costs relating to current and former Board members) of the Managing Board amounted to €4.6 million in 2008 (2007: €3.8 million). The increase of €0.8 million was mainly due to higher bonus pay-out and pension expenditures.

Overview of remuneration awarded to the Managing Board in 2008

The tables below show the remuneration awarded to the Managing Board in 2008.

Fixed annual salary

in €	**1 July 2008**	1 July 2007
Feike Sijbesma	766,000	676,000
Jan Zuidam	509,000	494,000
Nico Gerardu	509,000	494,000
Rolf-Dieter Schwalb	509,000	494,000
Stephan Tanda	509,000	494,000

Bonus

in €	**2008[1]**	2007[2]
Feike Sijbesma	735,930	395,633
Jan Zuidam	481,440	317,200
Nico Gerardu	496,485	317,200
Rolf-Dieter Schwalb	483,948	317,200
Stephan Tanda (as from 1 May 2007)	488,963	212,767

1 Based on results achieved in 2008 and therefore payable in 2009
2 Bonus paid in 2008 based on results achieved in 2007

Pensions

	Pension costs (employer)		Accrued pension as of age 65	
in €	**2008[1]**	2007[2]	**31 Dec. 2008**	31 Dec. 2007
Feike Sijbesma	56,532	-	331,487	167,562
Jan Zuidam	35,232	-	272,809	256,509
Nico Gerardu	38,272	-	282,294	261,615
Rolf-Dieter Schwalb	38,272	-	21,681	11,755
Stephan Tanda	38,272	-	38,543	28,208[3]

1 Partial pension discount
2 Discount on employer contribution
3 Including additional accrual (one-off) for compensation of loss of pension from previous employer

Overview of remuneration awarded to the Supervisory Board in 2008

In the following table an overview is given of the remuneration awarded to the Supervisory Board in 2008.

Supervisory Board remuneration in 2008

in €	Annual fixed fee	Committee fee	Total
Cor Herkströter, chairman	50,000	7,500	57,500
Henk Bodt, deputy chairman (until 26 March 2008)	8,750	1,875	10,625
Ewald Kist, deputy chairman (as from 26 March 2008)	35,000	5,000	40,000
Louise Gunning-Schepers (as from 26 March 2008)	26,250	-	26,250
Pierre Hochuli	35,000	3,750	38,750
Claudio Sonder	35,000	5,000	40,000
Tom de Swaan	35,000	6,875	41,875
Cees van Woudenberg	35,000	5,000	40,000
Total	**260,000**	**35,000**	**295,000**

Changes expected to the remuneration policy in 2009 for the Managing Board

As a consequence of *Vision 2010* as well as some comments made by institutional investors during the Annual General Meeting of Shareholders on 26 March 2008 the Supervisory Board decided to review the remuneration policy for the Managing Board.

This review predominantly addressed the variable compensation elements (bonus and stock incentives).

Bonus

To further strengthen the alignment of the bonus-related financial targets with *Vision 2010* and in line with requests and remarks made by shareholders during the 2008 Annual General Meeting of Shareholders, the Supervisory Board has decided to include in the bonus scheme for the Managing Board only two financial targets related to *Vision 2010*, namely EBIT and organic sales growth.

Net cash as a target will be discontinued because of the complexity of target setting for this element.

Therefore the pay-out scheme will be adjusted as shown below:

	On-target pay-out (% of base salary)	Maximum pay-out (% of base salary)
Financial targets:		
- EBIT	30	60
- Net sales growth (organic)	12	24
Non-financial targets:		
- Shared	12	12
- Individual	6	6
Total	60	102

Stock incentives

During the Annual General Meeting of Shareholders on 26 March 2008 shareholders made comments on the TSR scheme for vesting of stock incentives.

The current performance incentive zone (TSR) for stock incentives allows pay-out ('vesting') for below-median performance versus the peer group.

The Supervisory Board agreed to review the TSR vesting scheme.

A proposal for 2009 will be submitted to the 2009 Annual General Meeting of Shareholders to adjust the TSR vesting scheme as follows:

TSR vesting scheme

DSM performance minus peer-group performance in % points	Percentage of stock incentives that vest	
	Current plan	Proposal
≥ 30%	100	150
≥ 25% and < 30%	100	133
≥ 20% and < 25%	100	117
≥ 15% and < 20%	75	100
≥ 10% and < 15%	75	83
≥ 5% and < 10%	50	67
≥ 0% and < 5%	50	50
≥ (10%) and < 0%	50	0
≥ (20%) and < (10%)	25	0

The expected value of the stock incentives in the proposed TSR scheme will not change, whilst vesting for below-median performance will no longer be possible.

The remuneration policy for the Managing Board (as approved by the Annual General Meetings in 2005 and 2008) is to offer a total direct compensation (base salary, bonus and stock incentives) at the median of the labor market peer group. The annualized stock incentive value for the Managing Board is below the median of the peer group.

In Q3 2008 the Supervisory Board concluded that a first step in closing the gap with the peer group should be implemented. A proposal to increase the number of stock incentives has been prepared. However, in the context of the current economic climate, the Supervisory Board and Managing Board agreed that such a proposal would not be appropriate at this moment. An adjustment of the number of stock incentives will be proposed once it is more appropriate.

The Managing Board has decided to request the Supervisory Board not to increase their base salaries in 2009. For DSM's almost 400 executives worldwide it has been decided not to implement general salary increases in 2009.

Recommendations from corporate governance code

In response to the recently amended Dutch corporate governance code (December 2008) the Supervisory Board assessed to what extent DSM was compliant in terms of remuneration aspects and which recommendations will require further consideration in the course of 2009.

Currently DSM complies with the majority of the recommendations.

The position taken by DSM with respect to the key recommendations is as follows:

- The Supervisory Board closely supervises the independence of the Remuneration Committee and the external remuneration consultant (Towers Perrin) in relation to the Managing Board as a key feature in the process for determining remuneration.
- The Supervisory Board applies internal guidelines for the total remuneration package of the members of the Managing Board. In the event of a change of ownership, the Supervisory Board, at its discretion, will take such measures as are reasonably necessary to control the total remuneration potentially to be received by members of the Managing Board. In the course of 2009, the Supervisory Board intends to define more precise remuneration criteria which would apply in a change-of-control situation.
- The Supervisory Board monitors the accuracy of the (financial) data on the basis of which variable pay is granted. Before unconditionally granting variable pay to a member of the

Managing Board, the Supervisory Board evaluates the consequences of doing so, from the point of view of reasonableness and fairness, taking the values of the societies in which the company operates into consideration.
- It is the intention of the Supervisory Board to continuously improve communication to all stakeholders about the remuneration policy and its results. In the 2009 annual report we will further report in more detail on compliance with the revised governance code.

Heerlen, 17 February 2009

The Supervisory Board

Cor Herkströter, chairman
Ewald Kist, deputy chairman
Louise Gunning-Schepers
Pierre Hochuli
Claudio Sonder
Tom de Swaan
Cees van Woudenberg

Corporate organization

Supervisory Board

Cor Herkströter (1937, m), chairman
First appointed: 2000. End of current term: 2012.
Position: retired; last position held: President of Koninklijke Nederlandsche Petroleum Maatschappij N.V. and chairman of the Committee of Managing Directors of Royal Dutch/Shell Group.
Nationality: Dutch.
Supervisory directorships and other positions held: chairman of the Advisory Committee of Royal NIVRA, member of the Capital Market Committee (Netherlands Authority for the Financial Markets), member of the Advisory Council of Robert Bosch, Emeritus Professor of International Management at the University of Amsterdam.

Ewald Kist (1944, m), deputy chairman
First appointed: 2004. End of current term: 2012.
Position: retired; last position held: chairman of the Managing Board of the ING Group.
Nationality: Dutch.
Supervisory directorships and other positions held: member of the Supervisory Boards of De Nederlandsche Bank N.V., Royal Philips Electronics N.V., Stage Entertainment and Moody's Investor Services, chairman of the Van Gogh Museum, member of the Board of Governors of the Peace Palace in The Hague (Netherlands) and of the Netherlands America Foundation.

Louise Gunning-Schepers (1951, f)
First appointed: 2008. End of current term: 2012.
Position: Chairman of the Executive Board of the Academic Medical Centre of the University of Amsterdam and Dean of the Medical Faculty of the University of Amsterdam.
Nationality: Dutch.
Supervisory directorships and other positions held: chairperson of the Supervisory Board of Rijksakademie van beeldende kunsten (Amsterdam), member of the Board of the Amsterdam Concertgebouw Committee Foundation, the Board of Arbo Unie (Netherlands) and the Board of Sanquin.

Pierre Hochuli (1947, m)
First appointed: 2005. End of current term: 2009.
Position: retired; last position held: Chairman of the Board of Directors of Devgen N.V.
Nationality: Swiss.
Supervisory directorships and other positions held: none.

Claudio Sonder (1942, m)
First appointed: 2005. End of current term: 2009.
Position: retired; last position held: chairman of the Managing Board of Celanese.
Nationality: Brazilian and German.
Supervisory directorships and other positions held: chairman of the Board of Lojas Renner S.A., member of the Supervisory Boards of Companhia Suzano de Papel e Celulose S.A., RBS S.A. Media Group, Cyrela Brazil Realty S.A., OGX S.A. and Hospital Albert Einstein.

Tom de Swaan (1946, m)
First appointed: 2006. End of current term: 2010.
Position: retired; last position held: member of the Managing Board and Chief Financial Officer / Chief Risk Officer ABN AMRO.
Nationality: Dutch.
Supervisory directorships and other positions held: non-executive director of the Board of GlaxoSmithKline Plc and of the Board of Zurich Financial Services, chairman of the Supervisory Board of Van Lanschot Bankiers N.V., member of the Supervisory Board of Royal Ahold N.V., board member of Royal Concertgebouw Orchestra and member of the Board of Trustees of Netherlands Cancer Institute-Antoni van Leeuwenhoek Hospital.

Cees van Woudenberg (1948, m)
First appointed: 1998. End of current term: 2010.
Position: retired; last position held: member of the Executive Committee of Air France-KLM.
Nationality: Dutch.
Supervisory directorships and other positions held: member of the Supervisory Boards of Transavia C.V., Royal Boskalis Westminster N.V., Mercurius Group Wormerveer B.V., Netherlands Chamber of Commerce and Royal Grolsch N.V.

Managing Board

Feike Sijbesma (1959, m), chairman
Position: chairman of DSM's Managing Board since May 2007; member of DSM's Managing Board since July 2000.
Nationality: Dutch.
Supervisory directorships and other positions held: board member of Cefic (European Chemical Industry Council), member of the Supervisory Board of Utrecht University (Netherlands) and the Supervisory Board of the Dutch Genomics Initiative, member of the Dutch Innovation Platform 2.0, member of the Advisory Board of RSM Erasmus University and of ECP.NL.
e-mail: feike.sijbesma@dsm.com

Jan Zuidam (1948, m), deputy chairman
Position: deputy chairman of DSM's Managing Board since January 2001; member of the Managing Board since January 1998.
Nationality: Dutch.
Supervisory directorships and other positions held: member of the Supervisory Board of Gamma Holding N.V., chairman of the Dutch Chemical Industry Association (VNCI), chairman of the Supervisory Board of the ORBIS medicare group, member of the Netherlands Academy of Technology and Innovation, member of the Platform Beta technology (Netherlands), member of the Board of Recommendation of Leaders for Nature.
e-mail: jan.zuidam@dsm.com

Rolf-Dieter Schwalb (1952, m), CFO
Position: member of DSM's Managing Board and CFO since October 2006.
Nationality: German.
Supervisory directorships and other positions held: None.
e-mail: rolf-dieter.schwalb@dsm.com

Nico Gerardu (1951, m)
Position: member of DSM's Managing Board since April 2006.
Nationality: Dutch.
Supervisory directorships and other positions held: member of the Supervisory Board of Voestalpine Polynorm N.V. and chairman of the Supervisory Board of Holland Colours N.V.
e-mail: nicolaas.gerardu@dsm.com

Stephan Tanda (1965, m)
Position: member of DSM's Managing Board since May 2007.
Nationality: Austrian.
Supervisory directorships and other positions held: board member of EuropaBio (European Biotechnology Industries Association), SGCI (Swiss Chemical and Pharmaceutical Industry Association) and ACC (American Chemistry Council).
e-mail: stephan.tanda@dsm.com

Other corporate officers
(as of 1 January 2009)

Directors of business groups		
DSM Nutritional Products	Leendert Staal	(1953)
- Human Nutrition and Health	Mauricio Adade	(1963)
- Animal Nutrition and Health	Antonio-Ruy Freire	(1949)
DSM Food Specialties	Alexander Wessels	(1964)
DSM Pharmaceutical Products	Bob Hartmayer	(1952)
DSM Anti-Infectives	Gerard de Reuver	(1956)
DSM Resins	Ben van Kooten	(1951)
DSM Engineering Plastics	Roelof Westerbeek	(1963)
DSM Dyneema	Christophe Dardel	(1960)
DSM Elastomers	Jan Paul de Vries	(1958)
DSM Fibre Intermediates	Edward Sheu	(1953)
DSM Melamine	Anton Robek	(1959)
DSM Agro	Renso Zwiers	(1955)
DSM Energy	Frank Chouffoer	(1951)

Corporate organization

Directors of corporate staff departments and services		
Corporate Secretariat	Paul Fuchs	(1946)
Control & Accounting	Loek Radix	(1956)
Human Resources	Ben van Dijk	(1951)
Strategy & Acquisitions	Hein Schreuder	(1951)
DSM Innovation Center	Rob van Leen	(1957)
Communications	Angelique Paulussen	(1959)
Marketing	Vacancy	-
Legal Affairs	Pieter de Haan	(1954)
Operational Audit	Vacancy	-
Safety, Health, Environment & Manufacturing	John Prooi	(1946)
ICT	Aloys Kregting	(1967)
Sourcing	Ton Trommelen	(1950)
DSM Nederland	Jos Schneiders	(1951)
DSM China	Wei-Ming Jiang	(1956)
Strategic Projects	Jos Goessens	(1951)
Strategic Projects	Hans van Suijdam	(1950)

In 2009 DSM announced a number of appointments. As of 1 April 2009 Hans van Suijdam, at present Director Strategic Projects in China, will be Director Corporate Operational Audit and Compliance Offer. He succeeds Roelof Mulder, who unexpectedly passed away in November 2008. Luca Rosetto (1963) will be Corporate Vice President Safety, Health, Environment and Manufacturing with effect from 1 March 2009, succeeding John Prooi who will retire with effect from 1 March 2009. Gerard de Reuver, at present Business Group Director DSM Anti-Infectives, will be appointed Director Strategic Projects with effect from 1 March 2009. He will be responsible for coordination and support of the program addressing the current economic circumstances and DSM's change agenda. He will be succeeded by Stefan Doboczky (1967).

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Corporate governance, risk management, financial policy and related functions

Organization

Royal DSM N.V. is a company limited by shares listed on the Euronext Amsterdam Stock Exchange, with a Managing Board and an independent Supervisory Board. The Managing Board is responsible for the company's strategy, its portfolio policy, the deployment of human and capital resources and the company's financial performance. The Supervisory Board supervises the policy pursued by the Managing Board, the Managing Board's performance of its managerial duties and the company's general state, taking account of the interests of all the company's stakeholders. The annual financial statements are approved by the Supervisory Board and then submitted for adoption to the Annual General Meeting of Shareholders, accompanied by an explanation by the Supervisory Board of how it carried out its supervisory duties during the year concerned.

The company is governed by its Articles of Association, which can be consulted at the DSM website, www.dsm.com. The General Meeting of Shareholders decides on an amendment to the Articles of Association by an absolute majority of the votes cast. A decision to amend the Articles of Association may only be taken at the proposal of the Managing Board, subject to approval of the Supervisory Board.

Members of the Managing Board and the Supervisory Board are appointed (and, if necessary, dismissed) by the General Meeting of Shareholders.

DSM fully informs its stakeholders about its corporate objectives, the way the company is managed and the company's performance. Its aim in doing so is to pursue an open dialogue with its shareholders and other stakeholders.

DSM has a decentralized organizational structure built around business groups that are empowered to carry out all short-term and long-term business functions. This structure ensures a flexible, efficient and fast response to market changes. At the corporate level, DSM has a number of staff departments to support the Managing Board and the business groups. Intra-group product supplies and the services of a number of shared service departments and research departments are contracted by the business groups at arm's length basis.

Dutch corporate governance code

DSM supports the current Dutch corporate governance code (Tabaksblat Code) and applies all but one of its 113 Best Practices. The only exception is Best Practice III.5.11, which stipulates that the remuneration committee shall not be chaired by the chairman of the Supervisory Board. DSM considers remuneration to be an integral part of its nomination and retention policy and hence of its human resource management policy for its senior management. DSM therefore considers it desirable for the Chairman of the Supervisory Board to be directly involved in preparing decisions taken by the full Board, also in view of the role played by the Supervisory Board Chairman vis-á-vis the Managing Board. This exception to the code was discussed in the Annual General Meeting of Shareholders in 2005, where it met with no objections.

With respect to Best Practice provision II.1.7 it is to be reported that in the course of 2007 Mr. Nico Gerardu, member of the Managing Board, assumed the duties of chairman of the Supervisory Board of a listed company (see section on Corporate organization). This is a temporary arrangement pending the appointment of a successor as chairman of the Supervisory Board of this listed company.

With respect to the appointment of members of the Managing Board for a period of at most four years (Best Practice II.1.1) it should be noted that DSM has adhered to this Best Practice since the introduction of the corporate governance code in 2004. Since DSM respects agreements made before the introduction of said code, two current members of the Managing Board will remain appointed for an indefinite period.

In respect to the Dutch corporate governance code it should be noted that any substantial change in the corporate governance structure of the company and in the company's compliance with the code shall be submitted to the General Meeting of Shareholders for discussion under a separate agenda item.

All documents related to the implementation at DSM of the Dutch corporate governance code can be found in the Governance section of the corporate website (www.dsm.com).

DSM has taken note of the amended Dutch corporate governance code as published on 10 December 2008. In its 2009 annual report DSM will include a chapter on the company's compliance with the amended code and present this chapter to the Annual General Meeting of Shareholders in 2010 for discussion as a separate agenda item. During 2009 DSM will review the code and implement the amended principles and best practices where appropriate.

Annual General Meeting of Shareholders

On 26 March 2008 the Annual General Meeting of Shareholders was held. The agenda was to a large extent similar to that of previous years. A special item on the agenda was a resolution for the annual report and financial statements for the financial year 2008 and subsequent years to be drawn up in English. All resolutions that were tabled were passed.

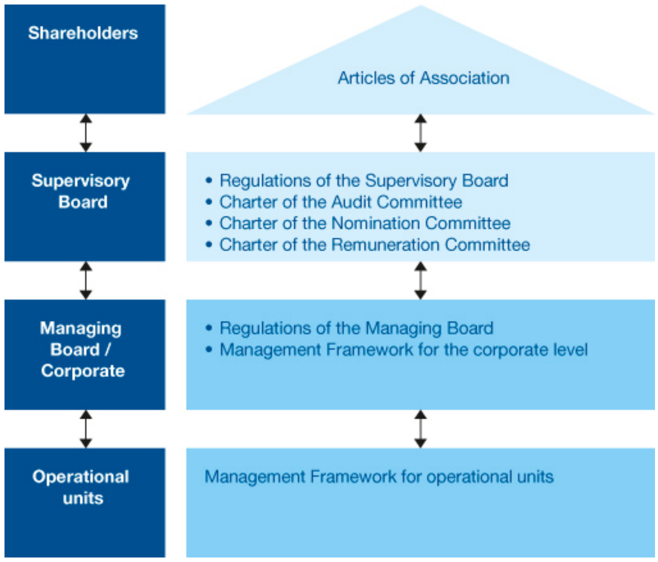
Governance framework

DSM's business-steering model remained unchanged in 2008, after having been adapted to the *Vision 2010* strategy in 2006. The business groups are the main building blocks of the organization; they have integral long-term and short-term business responsibility and have at their disposal all functions that are crucial to their business success. In order to facilitate selective leveraging of expertise and implementation capabilities in the approach to markets, products and technologies, business groups with the most important commonalities in these areas are grouped into clusters. The business groups within a specific cluster report to a member of the Managing Board. This Board member has the responsibility of managing synergy within the cluster. In order to ensure sufficient independence with regard to financial management, the Chief Financial Officer has no business groups reporting to him.

The Management Framework for the corporate level provides a description of the relations between the main building blocks mentioned above and geographical and functional management. It also describes the most important (decision) processes, responsibilities and 'rules of the game' at the Managing Board and corporate staff levels and includes the governance relations with the next-higher levels (Supervisory Board / shareholders) and the operational units.

In 2008, the framework was adapted to reflect the transition from four to five clusters (Nutrition, Pharma, Performance Materials, Polymer Intermediates and Base Chemicals and Materials) that was implemented on 1 January 2008 in order to facilitate the planned disposal of activities in the Base Chemicals and Materials cluster.

The following figure depicts DSM's overall governance framework and the most important governance elements and regulations at each level.



Note: all internal regulations apply in addition to applicable national and international laws and regulations. In cases where internal regulations are incompatible with national or international laws and regulations, the latter prevail.

For the sake of clarity, a short summary of the main aspects of the framework at Managing Board / corporate level and operational level is given here:

- The Managing Board adheres to the Regulations of the Managing Board.
- In addition, the Managing Board and corporate staff departments / services work according to the Management Framework for the corporate level. This implies amongst other things that they adhere to the DSM Values and applicable corporate policies and requirements, and set the company's strategic direction and objectives in the Corporate Strategy Dialogue (CSD). The framework further defines the roles of clusters, corporate staff departments, shared-competence and business-support functions, the China Governance function, the DSM Innovation Center and the charters of several Boards. Together they define the basic organizational structure and the division of responsibilities between the Managing Board, these corporate and central functions and the business groups and clusters.
- The operational units conduct their business within the parameters of the Management Framework for operational units. This implies amongst other things that the operational units establish the strategy and objectives of their business according to the Business Strategy Dialogue (BSD), in which process various scenarios and related risk profiles are

investigated. The framework further stipulates that the strategy implementation must take place in line with corporate policies and multi-year plans in several functional areas and in compliance with the Corporate Requirements. Whenever a special situation calls for it, the Corporate Requirements are extended to include so-called Corporate Directives (for example a travel ban for security reasons).

Compliance with the Corporate Requirements and the effectiveness of the risk management and internal control system are monitored by the entities themselves and discussed regularly between the Managing Board and the operational units. On average once every three years, the units are also audited by Corporate Operational Audit (COA). The director of the COA department reports to the chairman of the Managing Board and has the authority to consult with the chairman of the Audit Committee of the Supervisory Board. Furthermore, the director of COA acts as the compliance officer with regard to inside information and is the chairman of the DSM Alert Committee, which implements the whistle-blower policy.

Risk management system

On this page the main risks as well as the functioning of the risk management system are described. This section gives a general description of the system and its developments. A full description of the risk management system can be found on the DSM Internet site (www.dsm.com, governance section).

The DSM risk management system is based on the COSO-ERM Framework. It aims to achieve maximum integration of the risk management process in the normal business processes. It provides for risk assessment tools, controls for risks that commonly occur in the company and monitoring and reporting procedures and systems. The internal controls for the goods and money flows have been 'built into' standard business processes and tools have been developed to support their implementation and to monitor their effectiveness in operation. In this way, a high level of internal control can be achieved efficiently.

Based on developments within and external to the company, as well as findings from the various monitoring efforts as described above, the risk management system is regularly adapted and optimized. The most important developments are listed below.

The growth, diversity and acquisition policies of DSM lead to an increased influx of senior managers from outside the company. In order to ensure their familiarity with the DSM Values and the DSM governance and risk management system, a Corporate Directive was instituted which stipulates that they have to acquaint themselves with a number of key documents and discuss them with their superior.

To better accommodate a first introduction of management to the risk management system, an intranet-based e-learning module was developed. The risk management training activities were considerably expanded, amongst other things to service specific target groups such as risk management professionals in China and business controllers. The Corporate Requirements were made available in Chinese.

During the year under review a number of areas were identified where the risk profile had increased or where the existing risk management and control processes showed weaknesses. These areas include the security of payment processes, hedging of commodities, protection against product liability issues and safeguarding against the loss of intellectual property. In these areas measures were taken to enhance the risk management system.

Risks

The following list gives an overview of risks that have been identified as potentially important. A description of the nature of these risks is given on the DSM website (www.dsm.com, governance section). Furthermore, information on financial risks is provided in the financial statements on page 131. The main risks as mentioned in this section are asterisked.

Generic risks
- Global financial and economic developments*
- General market conditions and commoditization*
- Political risks
- Currency risks and interest risks
- Risks of derivatives used for hedging purposes

Strategic risks
- Divestments*, acquisitions*, and joint ventures
- Innovation (new markets, products and technologies)*
- People, organization and culture*

Specific risks
- Corporate-reputation risks
- Customer risks
- Production-process risks
- Raw material / energy price and availability risks*
- Product-liability risks
- Non-insurable risks
- ICT risks
- Intellectual Property protection risks
- Project risks
- Financial risks
- Pension risks
- Control failures

See www.dsm.com, Governance section.

For the management of all risks mentioned, strategies, controls and/or mitigating measures have been put in place as part of DSM's risk management practices. These nevertheless involve uncertainties that may lead to the actual results differing from those projected. There may also be risks that the company has not yet fully assessed and that are currently qualified as 'minor' but that could have a material impact on the company's performance at a later stage. The company's risk management and internal control system has been designed to identify and respond to these developments on time, but 100% assurance can never be achieved, of course.

Financial policy

As a basis for and contribution to effective risk management and to ensure that the company will be able to pursue its strategies even during periods of economic downturn, DSM retains a strong balance sheet and limits its financial risks.

One of the key targets of *Vision 2010* is to achieve a cash flow return on investment (CFROI) which exceeds the weighted average cost of capital (WACC) by at least 100 basis points. DSM further aims for a net debt which is between 30 and 40% of equity plus net debt in normal times (currently the objective is to stay below 30%) and an operating profit before amortization and depreciation (EBITDA) which is at least 8.5 times the balance of financial income and expense. This underlines the company's aim of maintaining its single-A long-term credit rating.

An important element of DSM's financial strategy is the allocation of cash flow. DSM primarily allocates cash flow to investments aimed at strengthening its business positions and to dividend payments to its shareholders. The cash flow is further used for strengthening the Life Sciences and Materials Sciences businesses by means of selective acquisitions. As the occasion arises, the company may choose to buy back shares, if excess cash is available in the context of a medium-term analysis of primary cash-flow-allocation requirements and a sustained single-A rating.

DSM aims to provide a stable and preferably rising dividend. In order to avoid dilution of earnings per share as a result of the exercise of management and employee options, DSM buys back shares insofar as this is desirable and feasible.

An important acquisition criterion is that the business concerned should be compatible with DSM in terms of technological and/or market competencies. Acquired companies are in principle required to contribute to DSM's cash earnings per share from the very beginning and to meet the company's profitability and growth requirements. In some cases, for instance in the case of small innovative growth acquisitions, this requirement may not be appropriate and will therefore not be applied.

DSM's policy in the various sub-disciplines of the finance function is strongly oriented towards solidity, reliability and optimum protection of cash flows. The finance function plays an important role in business steering.

The accounting and control function is responsible for transaction accounting, financial reporting and making assessments and providing advice regarding business processes geared to the company's financial targets. The main policy aim in this function is to obtain and make available reliable financial information that is adequate for business-steering purposes and to meet statutory and other governance requirements.

Corporate governance, risk management, financial policy and related functions

The treasury function's tasks include financing the group and its units, managing the cash held by the company and managing currency risks and interest-rate risks. To ensure that its policy in these fields is properly implemented and produces the best possible results, DSM has a set of stringent internal regulations, procedures, organizational measures and market-related benchmarks in place. DSM's treasury policy is mainly geared to managing the financial risks to which the group and its units are exposed and to optimizing the balance of financial income and expense.

The tax function is responsible for the management of the company's position with regard to taxes. As part of this task, it handles or reviews the main tax returns and reviews acquisitions, disposals and liquidations of business components and/or joint ventures, as well as restructuring programs and reorganizations. It also examines the tax consequences of cross-border activities between business components such as transfer pricing, cross-border activities that lead to some permanent form of foreign establishment, and changes in the shareholdings in legal entities. DSM's tax policy is aimed at realizing an optimal position in the field of taxes, and at maintaining such a position for the long term.

The investor relations function's primary task is to maintain contacts with current and potential shareholders of DSM and with analysts who advise shareholders. The objective of this function is to provide quality information to investors and analysts about developments at DSM, ensuring that relevant information is equally and simultaneously provided and accessible to all interested parties.

The insurance function has the task of achieving a proper balance between self-financing corporate (hazardous) risks or having these risks transferred to external insurers, based on the relative costs involved and DSM’s risk appetite. The underlying premise is the company's risk management philosophy, which is that group-wide risk awareness will ultimately lead to a proper insight into the risks that a company such as DSM may be confronted with, and to the control, prevention and mitigation of such risks. An insurance policy is therefore viewed as a last-resort instrument for the management of these risks. The choice as to whether or not to obtain external insurance coverage also depends on the scope of the risk exposure in relation to the financial parameters that are relevant for a listed company such as DSM. Such parameters determine the amount of risk that the company is willing to bear itself.

All DSM units have to report their results periodically and comply with Corporate Requirements in the field of finance. Compliance with the requirements for accounting and reporting is confirmed by means of a quarterly written statement signed by management. During the drafting of the annual report, the report is first discussed by the Managing Board with the Supervisory Board's Audit Committee and the external auditor, and subsequently with the full Supervisory Board. Quarterly financial reports are discussed by the Managing Board with the Audit Committee and the external auditor. The company uses a release calendar for financial results.

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Information about the DSM share

Shares and listings

Ordinary shares in Royal DSM N.V. are listed on the Euronext stock exchange in Amsterdam, the Netherlands (Stock code 00982, ISIN code NL0000009827).

Options on ordinary DSM shares are traded on the European Option Exchange in Amsterdam, the Netherlands (Euronext.liffe).

In the United States a sponsored unlisted American Depositary Receipts (ADR) program is offered by Citibank NA (Cusip 780249108), with four ADRs representing the value of one ordinary DSM share.

Besides the ordinary shares, 44.04 million cumulative preference shares A are in issue, which are not listed on the stock exchange; these have been placed with institutional investors. The cumprefs A have the same voting rights as ordinary shares, as their nominal value of € 1.50 per share is equal to the nominal value of the ordinary shares.

Transfer of the cumprefs A requires the approval of the Managing Board, unless the shareholder is obliged to transfer his shares to a previous shareholder by virtue of the law.

The information referred to in the Resolution of 5 April 2006 regarding the implementation of article 10 of Directive 2004/25/EC of the European Parliament and the Council of the European Union pertaining to a takeover bid is given in this section of the annual report (insofar as it is relevant to this section) and in the following places elsewhere in the report: Corporate governance, notes to the financial statements (18 Equity, 20 Borrowings, 28 Share-based compensation), and in the section Other information.

Share buy-back program

On 27 September 2007 DSM announced a second share buy-back program, identical to the program launched in 2006. The first phase of this second program started on 1 October 2007 and continued until 12 December 2007. During this phase the company bought 6,855,000 shares for a total consideration of € 250 million.

The second phase of the program started on 5 May 2008 and was completed on 8 July 2008. During this phase DSM bought 6,615,000 shares for a total consideration of € 250 million. As announced in 2008, DSM has reviewed the timing of the buy-back of the final € 250 million. The company has decided to cancel the remaining part of € 250 million.

On 31 December 2008 the company had 162,227,062 shares outstanding.

The average number of ordinary shares outstanding in 2008 was 164,195,834. All shares in issue are fully paid.

Dividend Re-Investment Plan for shareholders of Royal DSM N.V.

ABN AMRO Bank N.V. offers DSM's shareholders the option of participating in a Dividend Re-Investment Plan (DRIP). By participating in this plan, DSM shareholders are able to directly reinvest their net dividends in additional DSM shares.

Development of the number of ordinary DSM shares

	2008			2007
	Issued	Repurchased	Outstanding	Outstanding
Balance at 1 January	181,425,000	14,528,140	166,896,860	184,849,837
Changes:				
Reissue of shares in connection with exercise of option rights	-	(1,945,202)	1,945,202	2,730,031
Repurchase of own shares	-	6,615,000	(6,615,000)	(20,683,008)
Balance at 31 December	181,425,000	19,197,938	162,227,062	166,896,860
Average number of shares outstanding		164,195,834		
DSM share prices on Euronext Amsterdam (€ per ordinary share):				
Highest closing price		41.27		
Lowest closing price		15.76		
At 31 December		18.33		

Distribution of shares

Under the Dutch Major Holdings Disclosure Act, shareholdings of 5% or more in any Dutch company must be disclosed to the Netherlands Authority for the Financial Markets (AFM). According to the register kept by the AFM the following shareholders had disclosed that they owned between 5 and 10% of DSM's total share capital on 1 January 2009:

- Fortis Verzekeringen Nederland N.V.
- Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.
- Aviva plc

Issue of shares

The issue of shares takes place by a decision of the Managing Board. The decision is subject to the approval of the Supervisory Board. The scope of this power of the Managing Board shall be determined by a resolution of the General Meeting of Shareholders and shall relate to at most all unissued shares of the authorized capital, as applicable now or at any time in the future. In the Annual General Meeting of Shareholders of 26 March 2008 this power was extended up to and including 26 September 2009, on the understanding that with respect to the issue of ordinary shares this authorization of the Managing Board will be limited to a number of shares with a nominal value amounting to 10% of the issued capital, and to an additional 10% of the issued capital if the issue takes place within the context of a merger or acquisition.

Repurchase of own shares

The company may acquire paid-up own shares by virtue of a decision of the Managing Board, provided that the par value of the shares in its capital amounts to no more than one tenth of the issued capital. Such a decision is subject to the approval of the Supervisory Board. In the Annual General Meeting of Shareholders of 26 March 2008 the Managing Board was authorized to acquire own shares for a period of 18 months from said date.

DSM Managing Board members' holdings in DSM shares

The cumulative holdings of the five DSM Managing Board members increased in 2008 from 12,050 to 23,027 shares. These shareholdings serve as a long-term investment in the company. These share purchases were private transactions with private money. The holdings do not include vested performance shares.

Board member	**Holdings on 31 December 2008**	Holdings on 1 January 2008
Feike Sijbesma, chairman	5,500	2,500
Jan Zuidam, deputy chairman	2,423	2,350
Rolf-Dieter Schwalb, CFO	5,500	2,500
Nico Gerardu	5,056	2,500
Stephan Tanda	4,548	2,200

Geographical spread of DSM shares outstanding (excl. cumprefs A)

In %	**2008**	2007
Netherlands	23	39
North America	28	16
Belgium / Luxemburg	4	6
France	4	4
United Kingdom	21	18
Germany	8	6
Switzerland	4	4
Other countries	8	7

DSM share

The year 2008 was another turbulent year for stock markets worldwide and the development of the DSM share was no exception. The share price started the year at € 32.36.

In the first few months of the year the DSM share moved in line with the broader market. At the end of March DSM raised expectations for the year, marking the start of a period of significant share price outperformance.

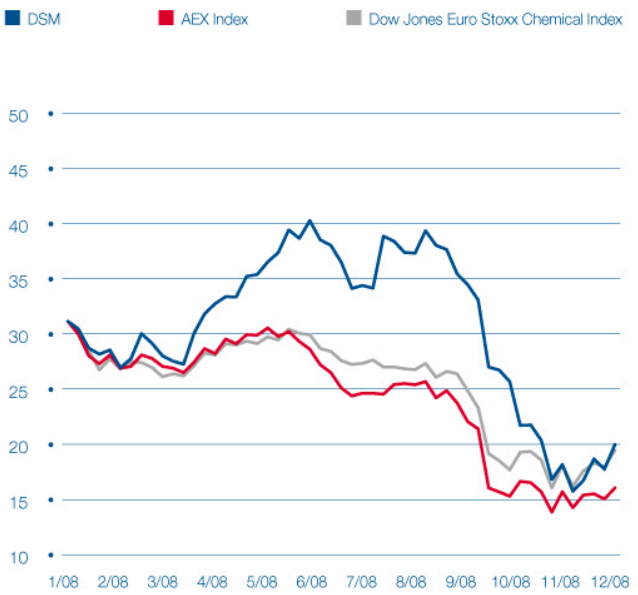
When the turmoil in the financial markets started to affect stock markets worldwide in September, DSM's share price declined in line with the broader market. The stock closed the year at € 18.33.

Information about the DSM share

On 6 February 2009, DSM celebrated twenty years as a listed company. To celebrate this anniversary Feike Sijbesma, Chairman of the DSM Managing Board, rang the opening bell on Euronext Amsterdam.

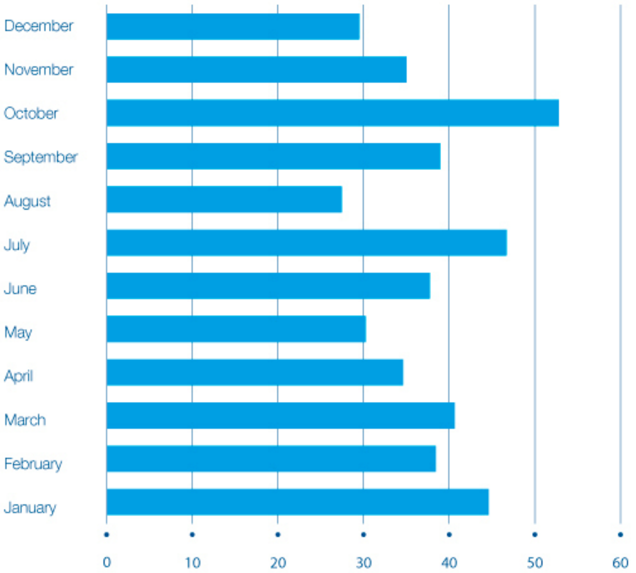
DSM share price development versus AEX and Dow Jones Euro Stoxx Chemical Index, 2008

in €



Trading volumes DSM shares 2008

x million shares



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Financial statements

Summary of significant accounting policies

Basis of preparation
DSM's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The accounting policies applied by DSM comply with IFRS and the pronouncements of the International Financial Reporting Interpretation Committee (IFRIC) effective at 31 December 2008.

Consolidation
The consolidated financial statements include Royal DSM N.V. and its subsidiaries as well as the proportion of DSM's ownership of joint ventures (together 'DSM' or 'group'). A subsidiary is an entity over which DSM has control. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The financial data of subsidiaries are fully consolidated. Minority interests in the group's equity and profit and loss are stated separately. A joint venture is an entity in which DSM holds an interest and which is jointly controlled by DSM and one or more other venturers under a contractual arrangement. Joint ventures are included in the consolidated financial statements according to the method of proportionate consolidation.

Subsidiaries and joint ventures are consolidated from the acquisition date until the date on which DSM ceases to have control or joint control, respectively. On consolidation, all intra-group balances and transactions and unrealized profits or losses from intra-group transactions are eliminated. Unrealized losses are not eliminated if these losses indicate an impairment of the asset transferred. In such cases a value adjustment for impairment of the asset is recognized.

Segmentation
Segment information is presented in respect of the group's operating segments about which separate financial information is available that is regularly evaluated by the chief operating decision maker. The Managing Board decides how to allocate resources and assesses the performance of the clusters. Cluster performance is reported and reviewed down to the level of operating profit. DSM has determined that the Nutrition, Pharma, Performance Materials, Polymer Intermediates and Base Chemicals and Materials clusters represent reportable segments in addition to Other activities. The clusters are organized based on the type of products produced and the nature of the markets served. The same accounting policies that are applied for these consolidated financial statements are also applied by the operating segments. Prices for transactions between segments are determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can reasonably and consistently be allocated. Selected information on a country and regional basis is provided in addition to the information about operating segments.

Foreign currency translation
The presentation currency of the group is the euro.

Each entity of the group records transactions and balance sheet items in its functional currency. Transactions denominated in currency other than the functional currency are recorded at the spot exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in a currency other than the functional currency of the entity are translated at the closing rates. Exchange differences resulting from the settlement of these transactions and from the translation of monetary items are recognized in the income statement.

Non-monetary assets denominated in a currency other than the functional currency continue to be translated against the rate at initial recognition and will not result in exchange differences.

On consolidation, the balance sheets of subsidiaries and joint ventures whose functional currency is not the euro are translated into euro at the closing rate. The income statements of these entities are translated into euro at the average rates for the relevant period. Goodwill paid on acquisition is recorded in the functional currency of the acquired entity. Exchange differences arising from the translation of the net investment in entities with a functional currency other than the euro are recorded in equity (Translation reserve). The same applies to exchange differences arising from borrowings and other financial instruments in so far as they hedge the currency risk related to the net investment. On disposal of an entity with a functional currency other than the euro the cumulative exchange differences relating to the translation of the net investment is recognized in the income statement.

Distinction between current and non-current
An asset (liability) is classified as current when it is expected to be realized (settled) within 12 months after the balance sheet date.

Intangible assets
Goodwill represents the excess of the cost of an acquisition over DSM's share in the net fair value of the identifiable assets and liabilities of an acquired subsidiary, joint venture or associate. Goodwill paid on acquisition of subsidiaries and joint ventures is

included in intangible assets. Goodwill paid on acquisition of associates is included in the carrying amount of these associates. Goodwill is not amortized but tested for impairment annually and when there are indications that the carrying amount may exceed the recoverable amount. A gain or loss on the disposal of an entity includes the carrying amount of goodwill relating to the entity sold.

Intangible assets acquired in a business combination are recognized at fair value on the date of acquisition and subsequently amortized over their expected useful lives, which vary from 5 to 15 years.

Acquired licenses, patents and application software are carried at historic cost less straight-line amortization and less any impairment losses. The expected useful lives vary from 4 to 10 years. Costs of software maintenance are expensed when incurred. Capital expenditure that is directly related to the development of application software is recognized as an intangible asset and amortized over its estimated useful life (5-8 years).

Research costs are expensed when incurred. Where the recognition criteria are met, development expenditure is capitalized and amortized over its useful life from the moment the product is launched commercially. The carrying amount of assets arising from development expenditures is reviewed for impairment at each balance sheet date or earlier upon indication of impairment. Development assets in use are tested for impairment when there are indications that the carrying amount may exceed the recoverable amount. Any impairment losses are recorded in the income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation calculated on a straight-line basis and less any impairment losses. Interest during construction is capitalized. Expenditures relating to major scheduled turnarounds are capitalized and depreciated over the period up to the next turnaround.

Property, plant and equipment are systematically depreciated over their estimated useful lives. Reviews are made annually of the estimated remaining lives of assets, taking account of commercial and technological obsolescence as well as normal wear and tear. The initially assumed expected useful lives are in principle as follows: for buildings 10-50 years, for plant and machinery 5-15 years, for other equipment 4-10 years. Land is not depreciated.

In oil and gas exploration, development and production costs are accounted for using the successful efforts method. Costs of successful and incomplete oil and gas drilling operations are capitalized as Property, plant and equipment. The estimated discounted costs for future drilling platform decommissioning and site restoration are capitalized and depreciated. Items of property, plant and equipment related to oil and gas exploration are depreciated on the basis of the unit of production method.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use or the sale of the asset. Any gain or loss arising on derecognition of the asset is recorded in the income statement.

Leases

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. All other leases are operating leases.

Lease payments for finance leases are apportioned to finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in Net finance costs. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Associates

An associate is an entity over which DSM has significant influence but no control, usually evidenced by a shareholding that entitles DSM to between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method, which involves recognition in the income statement of DSM's share of the associate's profit or loss for the year. DSM's interest in an associate is carried in the balance sheet at its share in the net assets of the associate together with goodwill paid on acquisition, less any impairment loss.

When DSM's share in the loss of an associate exceeds the carrying amount of the associate, including any other receivables, the carrying amount is reduced to zero. No further losses are recognized, unless DSM has responsibility for obligations relating to the associate.

Other financial assets
Other participations comprise equity interests in entities in which DSM has no significant influence; they are accounted for as available-for-sale securities. These other participations are measured against fair value with changes in fair value being recognized in equity (Fair value reserve). On disposal the cumulative fair value adjustments of the related other participations are released from equity and included in the income statement. If a reliable fair value cannot be established, the other participations are recognized at cost. The proceeds from these other participations and the gain or loss upon their disposal are recognized in the income statement.

Loans and long-term receivables are measured at amortized cost, if necessary after deduction of a value adjustment for bad debts. The proceeds from these assets and the gain or loss upon their disposal are recognized in the income statement.

Impairment of assets
When there are indications that the carrying amount of a non-current asset (an intangible asset or an item of property, plant and equipment) may exceed the estimated recoverable amount (the higher of its value in use and fair value less costs to sell), the possible existence of an impairment loss is investigated. If an asset does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market interest rate and the risks specific to the asset.

When the recoverable amount of a non-current asset is less than its carrying amount, the carrying amount is impaired to its recoverable amount and an impairment charge is recognized in the income statement. An impairment loss is reversed when there has been a change in estimate that is relevant for the determination of the asset's recoverable amount since the last impairment loss was recognized.

All financial assets are reviewed for impairment. If there is objective evidence of impairment as a result of one or more events after initial recognition, an impairment loss is recognized in the income statement. Impairment losses for goodwill and other participations will never be reversed.

Inventories
Inventories are stated at the lower of cost and net realizable value. The first-in, first-out (FIFO) method of valuation is used. The cost of intermediates and finished goods includes directly attributable costs and related production overhead expenses.

Net realizable value is determined as the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Products whose manufacturing cost cannot be calculated because of joint cost components are stated at net realizable price after deduction of a margin.

Current receivables
Current receivables are stated at amortized cost, which generally corresponds to face value, less an adjustment for bad debts.

Current investments
Deposits held at call with banks with a remaining maturity between 3 and 12 months are classified as current investments. They are measured at amortized cost. Proceeds from these deposits are recognized in the income statement.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand and deposits held at call with banks with a remaining maturity of less than three months. Bank overdrafts are included in current liabilities. Cash and cash equivalents are measured at nominal value.

Non-current assets and disposal groups held for sale
Non-current assets and disposal groups (assets and liabilities relating to an activity that is to be sold) are classified as 'held for sale' if their carrying amount is to be recovered principally through a sales transaction rather than through continuing use. The reclassification takes place when the assets are available for immediate sale and the sale is highly probable. These conditions are usually met as from the date on which a first draft of an agreement to sell is ready for discussion. Non-current assets held for sale and disposal groups are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets held for sale are not depreciated and amortized.

Discontinued operations
Discontinued operations comprise those activities that have been disposed of during the period or which have been classified as held for sale at the end of the period, and represent a separate major line of business or geographical area that can be clearly distinguished for operational and financial reporting purposes. DSM has identified its cash generating units as the components of the company that will be reported as discontinued operations in the event of their disposal.

Royal DSM N.V. Shareholders' equity
DSM's ordinary shares and cumulative preference shares are classified as Royal DSM N.V. Shareholders' equity. The price

paid for repurchased DSM shares (treasury shares) is deducted from Royal DSM N.V. Shareholders' equity until the shares are cancelled or reissued. Dividend to be distributed to holders of cumulative preference shares is recognized as a liability when the Supervisory Board approves the proposal for profit distribution. Dividend to be distributed to holders of ordinary shares is recognized as a liability when the Annual General Meeting of Shareholders approves the dividend proposal.

Provisions

Provisions are recognized when all of the following conditions are met: 1) there is a present legal or constructive obligation as a result of past events; 2) it is probable that a transfer of economic benefits will settle the obligation; and 3) a reliable estimate can be made of the amount of the obligation.

The probable amount required to settle long-term obligations is discounted if the effect of discounting is material. Where discounting is used, the increase in the provision due to the passage of time is recognized as borrowing costs. However, the interest costs relating to pension obligations are included in pension costs.

Any provision for costs that will arise from future drilling platform decommissioning and site restoration is made when the investment project concerned is taken into operation. These are included in Property, plant and equipment, along with the historic cost of the related asset, and depreciated over the useful life of the asset.

Borrowings

Borrowings are initially recognized at cost, being the fair value of the proceeds received, net of transaction costs. Subsequently, borrowings are stated at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium. Interest expenses are accrued and recorded in the income statement for each period.

Where the interest rate risk relating to a long-term borrowing is hedged, and the hedge is regarded as effective, the carrying amount of the long-term loan is adjusted for changes in fair value of the interest component of the loan.

Other current liabilities

Other current liabilities are stated at amortized cost, which generally corresponds to the nominal value.

Revenue recognition

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership are transferred to the buyer. Net sales represent the invoice value less estimated rebates and cash discounts, and excluding indirect taxes.

Royalty income is recognized in Other operating income on an accrual basis in accordance with the substance of the relevant agreements. Interest income is recognized on a time-proportion basis using the effective interest method. Dividend income is recognized when the right to receive payment is established.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all related conditions will be complied with. Cost grants are recognized as income over the periods necessary to match the grant on a systematic basis to the cost that it is intended to compensate. If the grant is an investment grant, its fair value is initially recognized as deferred income in Other non-current liabilities and then released to the income statement over the expected useful life of the relevant asset by equal annual amounts.

Share-based compensation

The costs of option plans are measured by reference to the fair value of the options on the date on which the options are granted. The fair value is determined using the Black-Scholes model, taking into account market conditions linked to the price of the DSM share. The costs of these options are recognized in the income statement (Employee benefits costs) during the vesting period, together with a corresponding increase in equity (Reserve for share-based compensation) in the case of share-settled options or Other non-current liabilities in the case of cash-settled options (Share Appreciation Rights). No expense is recognized for options that do not ultimately vest, except for options where vesting is conditional upon a market condition, which are treated as vesting, irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are met.

Performance shares are granted free of charge and vest after three years on the achievement of previously determined targets. The cost of performance shares is measured by reference to the fair value of the DSM shares on the date on which the performance shares were granted and is recognized in the income statement (Employee benefits costs) during the vesting period, together with a corresponding increase in equity (Reserve for share-based compensation).

Emission rights

DSM is subject to legislation encouraging reductions in greenhouse-gas emissions and has been awarded emission rights (principally CO_2 emission rights) in a number of jurisdictions. Emission rights are reserved for meeting delivery obligations and are recognized at cost (usually zero). Revenue is recognized when surplus emission rights are sold to third parties. When actual emissions exceed the emission rights available to DSM a provision is recognized for the expected additional costs.

Exceptional items

Exceptional items relate to material non-recurring items of income and expense arising from circumstances such as:

- write-downs of inventories to net realizable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
- restructurings of the activities of an entity;
- releases of provisions;
- disposals of property, plant and equipment;
- disposals of associates or other financial assets;
- discontinued operations;
- onerous contracts;
- litigation settlements.

To provide a better understanding of the underlying results of the period, exceptional items are reported separately if the aggregate amount of the specific event or project exceeds € 10 million.

Income tax expense

Income tax expense is recognized in the income statement except to the extent that it relates to an item recognized directly within shareholders' equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect to previous years. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the carrying amount of assets and liabilities and their tax base. Deferred tax assets and liabilities are measured at the tax rates and under the tax laws that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred tax assets are realized or the deferred tax liabilities are settled. Deferred tax assets, including assets arising from losses carried forward, are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilized. Deferred tax assets and liabilities are stated at face value.

Deferred taxes are not provided for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Financial derivatives

The group uses financial derivatives such as foreign currency forward contracts and interest rate swaps to hedge risks associated with foreign currency and interest rate fluctuations. Financial derivatives are initially recognized in the balance sheet at fair value including transaction costs and subsequently measured at their fair value on each balance sheet date. Changes in fair value are recognized in the income statement unless cash flow hedge accounting or net investment hedge accounting is applied.

Changes in the fair value of financial derivatives designated and qualifying as cash flow hedges are recognized in equity (Hedging reserve) to the extent that the hedge is effective. Upon recognition of the related asset or liability the cumulative gain or loss is transferred from the Hedging reserve and included in the carrying amount of the hedged item if it is a non-financial asset or liability. If the hedged item is a financial asset or liability the cumulative gain or loss is transferred to profit or loss. Changes in the fair value of financial derivatives designated and qualifying as net investment hedges are recognized in equity (Translation reserve) to the extent that the hedge is effective and the change in fair value is caused by changes in currency exchange rates. Accumulated gains and losses are released from the Translation reserve and are included in the income statement when the net investment is disposed of. Changes in the fair value of financial derivatives designated and qualifying as fair value hedges are immediately recognized in the income statement, together with any changes in the fair value of the hedged assets or liabilities attributable to the hedged risk.

Pensions and other post-employment benefits

For defined benefit plans, pension costs are determined using the projected-unit-credit method. Actuarial gains and losses are recognized in full under equity in the period in which they occur. Prepaid pension costs relating to defined benefit plans are capitalized only if they lead to refunds to the employer or to reductions in future contributions to the plan by the employer. Prepaid pension costs that do not meet this recoverability criterion are charged to equity in the period in which they occur and are recognized as effects of the asset ceiling. Payments to defined contribution plans are charged as an expense as they fall due.

Effect of new accounting standards

The IASB and IFRIC have issued new standards, amendments to existing standards and interpretations, some of which are not yet effective or have not yet been endorsed by the European Union. DSM has introduced standards and interpretations that became effective in 2008. The adoption of these standards and interpretations did not have any effect on the group's financial performance or position.

IFRS 8, 'Operating Segments', issued in November 2006, introduces the requirement to report financial and descriptive information about operating segments on the same basis as is used internally for evaluating operating segment performance. DSM is an early adopter of this standard and has applied it in these financial statements. DSM was already using the same performance measures and reporting structures for external financial reporting as were used for regular review of segment performance by the chief operating decision maker and therefore this new standard does not have a significant effect on the consolidated financial statements. In view of the changed grouping of clusters (the DSM term for business segments) as of 1 January 2008, the five clusters (Nutrition, Pharma, Performance Materials, Polymer Intermediates and Base Chemicals and Materials) are presented as business segments in addition to Other activities. The comparative information for the previous year has been represented accordingly.

The adoption of other standards and interpretations with an effective date after the date of these financial statements is not expected to have a material impact on the financial statements. Certain additional disclosures and accounting changes will be required and will be introduced as of the effective date of the standards and interpretations. The following new standards and amendments to existing standards are not yet being applied by DSM.

The revised IFRS 3, 'Business Combinations', will become effective as of 2010. It introduces a number of changes that will be relevant to the group's operations:

- The requirement that contingent consideration must be measured at fair value with subsequent changes in this value being recognized in the income statement.
- The requirement to expense transaction costs for business combinations when incurred.
- Additional guidance for step-acquisitions and for the measurement of non-controlling interests.

The amendment to IAS 23, 'Borrowing Costs', which removes the option of immediately recognizing as an expense borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, will become effective as of 2009. It will not have any effect on the consolidated financial statements because the option is not applied by DSM.

The amendment to IAS 1, 'Presentation of Financial Statements', which introduces the requirement to report total comprehensive income in either a single statement of total comprehensive income or in a separate statement of comprehensive income will become effective as of 2009. It is already standard practice at DSM to provide a separate statement of comprehensive income (currently called 'consolidated statement of recognized income and expense') and the company will align this with the new requirements.

The amendment to IAS 27, 'Consolidated and Separate Financial Statements', providing further clarification on accounting for non-controlling interests in subsidiaries in the consolidated financial statements will become effective as of 2010. The changes are not expected to have a significant impact on the consolidated financial statements.

The amendment to IFRS 2, 'Share-based Payment: Vesting Conditions and Cancellations', clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions that are to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendment will become applicable for the 2009 financial statements and the possible impact is under investigation.

The amendments to IAS 32 and IAS 1 with respect to puttable financial instruments and obligations arising on liquidation, the amendments to IFRS 1 and IAS 27 in relation to the cost of an investment in a subsidiary, jointly controlled entity or associate and the amendments to IAS 39 with respect to eligible hedged items are not expected to have any effect on the consolidated financial statements. The October 2008 amendment to IAS 39 and IFRS 7 that permits the reclassification of certain non-derivative financial assets will not be applied by DSM.

New IFRIC interpretations are not expected to have a material effect on the consolidated financial statements.

IFRIC 14, 'IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', provides further clarification on the recognition of defined benefit assets for economic benefits available in the form of refunds from a defined benefit plan or reductions of future contributions to the plan, particularly when a minimum funding requirement exists.

The interpretation is applicable to certain defined benefit plans of the group but the application does not have a material effect on the consolidated financial statements.

The same holds for IFRIC 12, 'Service Concession Arrangements', IFRIC 13, 'Customer Loyalty Programs', IFRIC 15, 'Agreements for the Construction of Real Estate' and IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation'.

Consolidated statements

Consolidated income statement for the year ended 31 December 2008

x € million	Notes	Continuing operations: Before exceptional items	Continuing operations: Exceptional items (note 9)	Continuing operations: Total	Discontinued operations	Total
Net sales		9,297	-	9,297	-	9,297
Other operating income	4	142	-	142	-	142
		9,439	**-**	**9,439**	**-**	**9,439**
Own work capitalized		75	-	75	-	75
Change in inventories of intermediates and finished goods		173	-	173	-	173
Raw materials and consumables used		(4,984)	-	(4,984)	-	(4,984)
Work subcontracted and other external costs		(1,762)	-	(1,762)	-	(1,762)
Employee benefits costs	5	(1,465)	(1)	(1,466)	-	(1,466)
Depreciation, amortization and impairments	6	(454)	3	(451)	-	(451)
Other operating costs	7	(119)	(47)	(166)	-	(166)
Operating profit		**903**	**(45)**	**858**	**-**	**858**
Interest costs	8	(94)	-	(94)	-	(94)
Other financial income and expense	8	(8)	-	(8)	-	(8)
Share of the profit of associates		(3)	-	(3)	-	(3)
Profit before income tax expense		**798**	**(45)**	**753**	**-**	**753**
Income tax expense	10	(196)	14	(182)	-	(182)
Profit for the year		**602**	**(31)**	**571**	**-**	**571**
Of which:						
- Profit attributable to minority interests		(6)	-	(6)	-	(6)
- Net profit attributable to equity holders of Royal DSM N.V.		608	(31)	577	-	577
Net profit attributable to equity holders of Royal DSM N.V.		608	(31)	577	-	577
Dividend on cumulative preference shares		(10)	-	(10)	-	(10)
Net profit available for holders of ordinary shares		**598**	**(31)**	**567**	**-**	**567**
Average number of ordinary shares outstanding (x 1000)						164,196
Effect of dilution due to share options (x 1000)						874
Adjusted weighted average number of ordinary shares (x 1000)						**165,070**
Per ordinary share in euro:						
- Basic earnings		3.64	(0.19)	3.45	-	3.45
- Diluted earnings		3.62	(0.19)	3.43	-	3.43
- Dividend paid in the period						1.27
- Dividend for the year						1.20

Consolidated income statement for the year ended 31 December 2007

x € million	Notes	Continuing operations: Before exceptional items	Continuing operations: Exceptional items (note 9)	Continuing operations: Total	Discontinued operations	Total
Net sales		8,757	-	8,757	-	8,757
Other operating income	4	164	-	164	-	164
		8,921	**-**	**8,921**	**-**	**8,921**
Own work capitalized		52	-	52	-	52
Change in inventories of intermediates and finished goods		73	-	73	-	73
Raw materials and consumables used		(4,793)	-	(4,793)	-	(4,793)
Work subcontracted and other external costs		(1,522)	-	(1,522)	-	(1,522)
Employee benefits costs	5	(1,389)	-	(1,389)	-	(1,389)
Depreciation, amortization and impairments	6	(424)	(150)	(574)	-	(574)
Other operating costs	7	(95)	(26)	(121)	-	(121)
Operating profit		**823**	**(176)**	**647**	**-**	**647**
Interest costs	8	(85)	-	(85)	-	(85)
Other financial income and expense	8	10	-	10	-	10
Share of the profit of associates		(2)	-	(2)	-	(2)
Profit before income tax expense		**746**	**(176)**	**570**	**-**	**570**
Income tax expense	10	(183)	47	(136)	-	(136)
Profit for the year		**563**	**(129)**	**434**	**-**	**434**
Of which:						
- Profit attributable to minority interests		5	-	5	-	5
- Net profit attributable to equity holders of Royal DSM N.V.		558	(129)	429	-	429
Net profit attributable to equity holders of Royal DSM N.V.		558	(129)	429	-	429
Dividend on cumulative preference shares		(10)	-	(10)	-	(10)
Net profit available for holders of ordinary shares		**548**	**(129)**	**419**	**-**	**419**
Average number of ordinary shares outstanding (x 1000)						178,541
Effect of dilution due to share options (x 1000)						1,475
Adjusted weighted average number of ordinary shares (x 1000)						**180,016**
Per ordinary share in euro:						
- Basic earnings		3.07	(0.72)	2.35	-	2.35
- Diluted earnings		3.05	(0.72)	2.33	-	2.33
- Dividend paid in the period						1.00
- Dividend for the year						1.20

Consolidated cash flow statement (note 27)

x € million		**2008**		2007
Operating activities				
Profit for the year		571		434
Profit attributable to minority interests		6		(5)
Net profit attributable to equity holders of Royal DSM N.V.		**577**		**429**
Adjustments for:				
- Depreciation, amortization and impairment losses		451		574
- Gain from disposals		(8)		(10)
- Change in provisions		(2)		(55)
- Interest:				
- Charged to the income statement	102		75	
- Received	10		36	
- Paid	(92)		(75)	
		20		36
- Income taxes:				
- Charged to the income statement	182		136	
- Received/(paid)	(85)		5	
		97		141
- Defined benefit plans:				
- Charged to the income statement	9		17	
- Paid	(93)		(156)	
		(84)		(139)
- Other		25		8
Operating cash flow before changes in working capital		**1,076**		**984**
Changes in operating working capital:				
- Inventories	(188)		(71)	
- Trade receivables	(69)		(102)	
- Trade payables	77		49	
		(180)		(124)
Changes in other working capital		14		(35)
Cash provided by operating activities		**910**		**825**

Consolidated cash flow statement (note 27) continued

x € million	2008	2007
Cash provided by operating activities	**910**	**825**
Investing activities		
Capital expenditure for:		
- Intangible assets	(50)	(48)
- Property, plant and equipment	(541)	(386)
Proceeds from disposal of property, plant and equipment	18	45
Acquisition of subsidiaries and associates	(120)	(85)
Cash from net investment hedge	(11)	26
Proceeds from disposal of subsidiaries and businesses	8	-
Other financial assets:		
- Capital payments and acquisitions	(97)	(44)
- Change in loans granted	(2)	92
- Proceeds from disposals	1	6
Cash used in investing activities	**(794)**	**(394)**
Financing activities		
Loans taken up	219	753
Repayment of loans	(49)	(466)
Change in debt to credit institutions / commercial paper	341	(6)
Dividend paid	(220)	(193)
Repurchase of own shares	(250)	(758)
Proceeds from reissued shares	47	53
Change in minority interests	(3)	(1)
Capital duty	-	(1)
Cash from / used in financing activities	**85**	**(619)**
Change in cash and cash equivalents	**201**	**(188)**
Cash and cash equivalents at 1 January	**369**	**552**
Exchange differences relating to cash held	31	(6)
Changes in the scope of the consolidation	-	11
Cash and cash equivalents at 31 December	**601**	**369**

Consolidated financial statements

Consolidated balance sheet as at 31 December

x € million	Notes	2008	2007
Assets			
Non-current assets			
Intangible assets	11	1,200	1,037
Property, plant and equipment	12	3,641	3,440
Deferred tax assets	10	392	346
Prepaid pension costs	25	137	1,169
Associates	13	19	20
Other financial assets	14	176	126
		5,565	**6,138**
Current assets			
Inventories	15	1,765	1,547
Trade receivables	16	1,525	1,452
Other receivables	16	107	235
Financial derivatives	24	86	83
Current investments		4	4
Cash and cash equivalents	17	601	369
		4,088	**3,690**
Total		**9,653**	**9,828**
Equity and liabilities			
Equity	18		
Royal DSM N.V. Shareholders' equity		4,633	5,310
Minority interests		62	73
		4,695	**5,383**
Non-current liabilities			
Deferred tax liabilities	10	122	344
Employee benefits liabilities	25	314	273
Provisions	19	190	170
Borrowings	20	1,559	1,560
Other non-current liabilities	21	65	35
		2,250	**2,382**
Current liabilities			
Employee benefits liabilities	25	33	9
Provisions	19	82	91
Borrowings	20	734	192
Financial derivatives	24	179	42
Trade payables	22	1,188	1,124
Other current liabilities	22	492	605
		2,708	**2,063**
Total		**9,653**	**9,828**

Consolidated statement of recognized income and expense

x € million	Other reserves	Retained earnings		Total	Minority interests	Total
		Actuarial gains and losses	Other			
2007						
Exchange differences on translation of foreign operations	(133)	-	-	(133)	(4)	(137)
Change in actuarial gains and losses	-	208	-	208	-	208
Change in asset ceiling	-	(62)	-	(62)	-	(62)
Change in fair value reserve	(9)	-	-	(9)	-	(9)
Change in hedging reserve	21	-	-	21	-	21
Income tax expense	(14)	(38)	-	(52)	-	(52)
Total income and expense directly recognized in equity	**(135)**	**108**	**-**	**(27)**	**(4)**	**(31)**
Profit for the year	-	-	429	429	5	434
Recognized income and expense for the period	**(135)**	**108**	**429**	**402**	**1**	**403**
2008						
Exchange differences on translation of foreign operations	45	-	-	45	6	51
Change in actuarial gains and losses	-	(1,270)	-	(1,270)	-	(1,270)
Change in asset ceiling	-	85	-	85	-	85
Change in fair value reserve	(30)	-	-	(30)	-	(30)
Change in hedging reserve	(26)	-	-	(26)	-	(26)
Income tax expense	42	305	-	347	-	347
Total income and expense directly recognized in equity	**31**	**(880)**	**1**	**(848)**	**6**	**(842)**
Profit for the year	-	-	577	577	(6)	571
Recognized income and expense for the period	**31**	**(880)**	**578**	**(271)**	**0**	**(271)**

Consolidated statement of changes in equity (note 18)

x € million	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings: Actuarial gains and losses	Retained earnings: Other	Total	Minority interests	Total Equity
Balance at 1 January 2007	**370**	**544**	**(641)**	**2**	**317**	**5,192**	**5,784**	**71**	**5,855**
Dividend paid	-	-	-	-	-	(193)	(193)	(2)	(195)
Options granted	-	-	-	11	-	-	11	-	11
Options / performance shares exercised / cancelled	-	-	-	(4)	-	13	9	-	9
Repurchase of shares	-	-	(758)	-	-	-	(758)	-	(758)
Cancellation of own shares	(31)	(55)	750	-	-	(664)	-	-	-
Proceeds from reissued shares	-	-	74	-	-	(21)	53	-	53
Change in DSM's share in subsidiaries	-	-	-	-	-	-	-	3	3
Recognized income and expense for the period	-	-	-	(135)	108	429	402	1	403
Reclassifications	-	-	-	3	(3)	2	2	-	2
Balance at 31 December 2007	**339**	**489**	**(575)**	**(123)**	**422**	**4,758**	**5,310**	**73**	**5,383**
Dividend paid	-	-	-	-	-	(220)	(220)	(4)	(224)
Options granted	-	-	-	15	-	-	15	-	15
Options / performance shares exercised / cancelled	-	-	-	(8)	-	10	2	-	2
Repurchase of shares	-	-	(250)	-	-	-	(250)	-	(250)
Proceeds from reissued shares	-	-	52	-	-	(5)	47	-	47
Change in DSM's share in subsidiaries	-	-	-	-	-	-	-	(7)	(7)
Recognized income and expense for the period	-	-	-	32	(880)	577	(271)	0	(271)
Reclassifications	-	-	-	(1)	-	1	-	-	-
Balance at 31 December 2008	**339**	**489**	**(773)**	**(85)**	**(458)**	**5,121**	**4,633**	**62**	**4,695**

Notes to the consolidated financial statements of Royal DSM N.V.

1 General information

Unless stated otherwise, all amounts are in € million.

In conformity with article 402, Book 2 of the Dutch Civil Code, a condensed income statement is included in the separate financial statements of Royal DSM N.V.

A list of DSM participations has been filed with the Chamber of Commerce for Limburg in Maastricht (Netherlands) and is available from the company upon request. The list can also be downloaded from the company's website www.dsm.com.

As was already announced in last year's report the strategic clustering of activities has been changed in accordance with the decisions in relation to the acceleration of DSM's strategy program *Vision 2010*. To better align with the evolution towards a Life Sciences and Materials Sciences company it was decided to move from four clusters to five (Nutrition, Pharma, Performance Materials, Polymer Intermediates and Base Chemicals and Materials) as of 1 January 2008. The information in these financial statements is presented in accordance with the new structure and comparative information has been represented accordingly.

The preparation of financial statements requires estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements. The policies that management considers to be most important to the presentation of financial condition and results of operations are discussed in the relevant notes. The same holds for the issues that require management judgments or estimates about matters that are inherently uncertain. Management cautions that future events often vary from forecasts and that estimates routinely require adjustment. Areas of judgment that have the most significant effect on the amounts recognized in the financial statements relate to the categorization of certain items as 'exceptional', the identification of cash generating units and the classification of activities as 'held for sale' and 'discontinued operations'.

Estimates that need to be made by management relate to the useful lives of non-current assets (notes 11 and 12), the establishment of provisions for retirement and other post-employment benefits (note 25), income taxes (note 10) and the determination of fair values for share-based compensation (note 28). Estimates are based on historical experience and other assumptions that are considered reasonable under the circumstances.

Exchange rates

The currency exchange rates that were used in drawing up the consolidated statements are listed below for the most important currencies.

1 euro =	Exchange rate at balance sheet date		Average exchange rate	
	2008	2007	**2008**	2007
US dollar	1.41	1.47	1.47	1.37
Swiss franc	1.50	1.66	1.59	1.64
Pound sterling	0.97	0.73	0.80	0.68
100 Japanese yen	1.27	1.66	1.52	1.61

2 Change in the scope of the consolidation

Acquisitions

2008

In May, DSM acquired 100% of the shares of The Polymer Technology Group, Inc. (PTG), a market leader in the field of biomedical polymers, for a total consideration of € 107 million. The goodwill of € 61 million primarily results from the know-how of the employees, the ability to retain these employees and DSM-specific synergies, notably the ability to cross-sell PTG's technology through the DSM network. PTG has annual sales of approximately USD 43 million and employs about 100 people in Berkeley, California (United States). The impact of the acquisition of PTG on DSM's consolidated balance sheet, at the date of acquisition, is shown in the following table:

	Carrying amount	Adjustments to fair value	Opening balance sheet DSM
Assets			
Intangible assets	-	41	41
Property, plant and equipment	2	0	2
Other non-current assets	0	-	0
Inventories	3	(0)	3
Receivables	4	-	4
Cash and cash equivalents	1	-	1
Total assets	**10**	**41**	**51**
Liabilities			
Current liabilities	5	(0)	5
Total liabilities	**5**	**(0)**	**5**
Net assets, at fair value	**5**	**41**	**46**
Acquisition price (in cash)			61
Acquisition price (payable)			46
Acquisition costs			0
Consideration			**107**
Goodwill			**61**

The impact of all acquisitions (CMT, Soluol, Valley Research, Shanxi FengHe Melamine, The Polymer Technology Group, Polymeric Processes, Diolen Industrial Fibers) made in 2008 on DSM's consolidated balance sheet, at the date of acquisition, is summarized in the following table:

	PTG	Other acquisitions	Opening balance sheet DSM
Assets			
Intangible assets	41	3	44
Property, plant and equipment	2	24	26
Other non-current assets	0	1	1
Inventories	3	3	6
Receivables	4	3	7
Cash and cash equivalents	1	0	1
Total assets	**51**	**34**	**85**
Liabilities			
Other non-current liabilities	-	0	0
Current liabilities	5	2	7
Total liabilities	**5**	**2**	**7**
Net assets, at fair value	**46**	**32**	**78**
Acquisition price (in cash)	61	44	105
Acquisition price (payable)	46	1	47
Acquisition costs	0	1	1
Consideration	**107**	**46**	**153**
Goodwill	**61**	**14**	**75**

The acquisitions in 2008 contributed € 26 million to net sales. If all acquisitions had occurred on 1 January 2008, additional net sales would have been € 46 million. The acquisitions in 2008 contributed € 3 million to the profit for the year; this would have been € 5 million if they had all occurred on 1 January 2008.

2007

In July, DSM acquired 100% of the cosmetic active ingredients specialist Pentapharm Holding Ltd. Pentapharm has annual net sales of some € 40 million and employs about 200 people at locations in Switzerland, Japan and Brazil. The goodwill of € 31 million primarily results from the know-how of the employees and from the fact that the acquisition provides DSM Nutritional Products with a stronger position in the market for active ingredients for the cosmetics industry.

The impact of all acquisitions made in 2007 on DSM's consolidated balance sheet, at the date of acquisitions, is summarized in the next table.

	Pentapharm	Other acquisitions	Opening balance sheet DSM
Assets			
Intangible assets	12	5	17
Property, plant and equipment	18	19	37
Prepaid pension costs	2	-	2
Inventories	16	2	18
Receivables	10	8	18
Cash and cash equivalents	9	3	12
Total assets	**67**	**37**	**104**
Liabilities			
Minority interest	-	2	2
Deferred tax liabilities	10	-	10
Other non-current liabilities	5	-	5
Current liabilities	12	18	30
Total liabilities	**27**	**20**	**47**
Net assets, at fair value	**40**	**17**	**57**
Acquisition price (in cash)	62	22	84
Acquisition price (payable)	8	0	8
Acquisition costs	1	0	1
Consideration	**71**	**22**	**93**
Goodwill	**31**	**5**	**36**

The acquisitions in 2007 contributed €23 million to net sales. If all acquisitions had occurred on 1 January 2007, additional net sales would have been €41 million. The acquisitions in 2007 only made a marginal contribution to the profit for the year; this would have been the case even if they had all occurred on 1 January 2007.

Disposals

2008

In 2008 DSM disposed of various small participations.

2007

In 2007 DSM disposed of various small participations.

3 Segment information

Business segments [1]

2008	Continuing operations								Discon-tinued operations	Total
	Nutrition	Pharma	Perform-ance Materials	Polymer Interme-diates	Base Chemicals and Materials	Other [2] activities	Elimina-tions	Total		
Financial performance										
Net sales	2,710	863	2,297	1,201	1,733	493	-	9,297	-	9,297
Supplies to other clusters	50	27	29	390	244	32	(772)	-	-	-
Supplies	**2,760**	**890**	**2,326**	**1,591**	**1,977**	**525**	**(772)**	**9,297**	**-**	**9,297**
Operating profit before exceptional items	447	89	175	19	260	(87)	-	903	-	903
Exceptional items	(3)	(24)	(15)	(1)	-	(2)	-	(45)	-	(45)
Operating profit	**444**	**65**	**160**	**18**	**260**	**(89)**	**-**	**858**	**-**	**858**
Depreciation and amortization	138	61	91	24	82	58	-	454	-	454
Additions to provisions	10	27	19	-	26	8	-	90	-	90
Share of the profit of associates	0	0	0	(4)	-	1	-	(3)	-	(3)
R&D expenditure	135	74	127	22	22	14	-	394	-	394
R&D expenditure / net sales (in %)	5.0	8.6	5.5	1.8	1.3	2.8	-	4.2	-	4.2
Wages, salaries and social security costs	475	185	277	55	140	299	-	1,431	-	1,431
Financial position										
Total assets	3,835	1,445	2,706	710	1,333	8,730	(9,106)	9,653	-	9,653
Total liabilities	1,501	1,393	1,274	426	676	4,415	(4,727)	4,958	-	4,958
Capital employed at year-end	2,054	1,001	1,689	431	945	438	-	6,558	-	6,558
Capital expenditure and acquisitions	135	49	231	54	82	188	-	739	-	739
Share in equity of associates	2	1	0	10	-	5	-	18	-	18
EBITDA / net sales (in %)	21.6	17.4	11.6	3.6	19.7					
Workforce [3]										
Average	6,789	4,677	4,819	1,414	2,338	3,120	-	23,157	-	23,157
Year-end	7,043	4,401	4,978	1,427	2,357	3,385	-	23,591	-	23,591

1 For a description of the types of products and services of each segment please refer to the Review of business in the Report by the Managing Board.
2 Other activities also includes costs for defined benefit plans, corporate overhead and share-based compensation. A reasonable basis for the allocation of the costs for defined benefit plans to the individual clusters is not available, because these costs relate to both current and former employees.
3 The workforce of joint ventures has been included on a proportionate basis.

Transfers between segments were fairly limited and were generally executed at market-based prices.

Business segments [1]

2007	Continuing operations								Discon-tinued operations	Total
	Nutrition	Pharma	Perform-ance Materials	Polymer Interme-diates	Base Chemicals and Materials	Other [2] activities	Elimina-tions	Total		
Financial performance										
Net sales	2,302	903	2,390	1,232	1,529	401	-	8,757	-	8,757
Supplies to other clusters	41	29	33	293	180	54	(630)	-	-	-
Supplies	**2,343**	**932**	**2,423**	**1,525**	**1,709**	**455**	**(630)**	**8,757**	**-**	**8,757**
Operating profit before exceptional items	276	92	291	105	137	(78)	-	823	-	823
Exceptional items	(22)	(154)	-	-	-	-	-	(176)	-	(176)
Operating profit	**254**	**(62)**	**291**	**105**	**137**	**(78)**	**-**	**647**	**-**	**647**
Depreciation and amortization	127	76	80	28	72	41	-	424	-	424
Additions to provisions	32	13	1	0	13	23	-	82	-	82
Share of the profit of associates	-	-	-	(1)	-	(1)	-	(2)	-	(2)
R&D expenditure	135	67	113	13	30	14	-	372	-	372
R&D expenditure / net sales (in %)	5.9	7.4	4.7	1.1	2.0	3.5	-	4.2	-	4.2
Wages, salaries and social security costs	437	194	255	52	131	278	-	1,347	-	1,347
Financial position										
Total assets	3,338	1,597	2,538	851	1,429	9,749	(9,674)	9,828	-	9,828
Total liabilities	1,364	1,452	1,095	526	1,155	4,012	(5,159)	4,445	-	4,445
Capital employed at year-end	1,909	1,034	1,568	408	765	298	-	5,982	-	5,982
Capital expenditure and acquisitions	142	60	196	51	65	54	-	568	-	568
Share in equity of associates	1	1	0	12	-	6	-	20	-	20
EBITDA / net sales (in %)	17.5	18.6	15.5	10.8	13.7					
Workforce [3]										
Average	6,726	4,828	4,292	1,431	2,257	2,899	-	22,433	-	22,433
Year-end	6,998	4,888	4,592	1,421	2,282	3,073	-	23,254	-	23,254

1 For a description of the types of products and services of each segment please refer to the Review of business in the Report by the Managing Board.
2 Other activities also includes costs for defined benefit plans, corporate overhead and share-based compensation. A reasonable basis for the allocation of the costs for defined benefit plans to the individual clusters is not available, because these costs relate to both current and former employees.
3 The workforce of joint ventures has been included on a proportionate basis.

Transfers between segments were fairly limited and were generally executed at market-based prices.

Geographical information

2008	Continuing operations									
	The Netherlands	Germany	Switzerland	Rest of Europe	North America	China	Rest of Asia-Pacific	Rest of the world	Eliminations	Total
Net sales by origin										
In € million	4,240	216	1,313	1,021	1,184	583	365	375	-	9,297
In %	46	2	14	11	13	6	4	4	-	100
Net sales by destination										
In € million	947	989	264	2,624	1,647	783	1,172	871	-	9,297
In %	10	11	3	28	18	8	13	9	-	100
Total assets	9,397	246	2,595	2,946	1,643	711	461	509	(8,855)	9,653
Intangible assets and Property, plant and equipment										
Capital expenditure	291	20	49	67	64	69	19	8	-	587
Carrying amount	2,032	164	584	573	972	396	70	50	-	4,841
Workforce at year-end[1]	7,452	827	2,265	3,949	2,907	3,557	1,308	1,326	-	23,591
2007										
Net sales by origin										
In € million	3,829	207	1,135	1,135	1,143	536	433	339	-	8,757
In %	44	2	13	13	13	6	5	4	-	100
Net sales by destination										
In € million	793	929	213	2,584	1,566	698	1,162	812	-	8,757
In %	9	11	2	30	18	8	13	9	-	100
Total assets	9,415	382	2,187	2,968	1,447	587	393	545	(8,096)	9,828
Intangible assets and Property, plant and equipment										
Capital expenditure	241	17	26	54	84	36	6	11	-	475
Carrying amount	1,917	185	425	751	796	308	57	38	-	4,477
Workforce at year-end[1]	7,219	793	2,177	4,154	2,768	3,564	1,268	1,311	-	23,254

1 The workforce of joint ventures has been included on a proportionate basis.

DSM has no single external customer that represents 10 percent or more of revenues and therefore information about major customers is not provided.

4 Other operating income

	2008	2007
Continuing operations before exceptional items		
Release of provisions	41	17
Gain on assets, activities, emission rigths, royalties and licences sold	23	28
Price settlements	3	8
Government grants	24	21
Compensation for closure of Gonglu Site (China)	12	-
Proceeds from the sale of scrap, waste materials, etc.	7	3
Insurance benefits	5	3
Sundry	27	84
Total	**142**	**164**

5 Employee benefits costs

	2008	2007
Continuing operations before exceptional items		
Wages and salaries	1,199	1,128
Social security costs	219	210
Pension costs (see also note 25)	34	42
Share-based compensation (see also note 28)	13	9
Total	**1,465**	**1,389**

6 Depreciation, amortization and impairments

	2008	2007
Continuing operations before exceptional items		
Amortization of intangible assets	49	37
Depreciation of property, plant and equipment	389	373
Impairment losses	16	14
Total	**454**	**424**

7 Other operating costs

	2008	2007
Continuing operations before exceptional items		
Additions to provisions	19	40
Loss from the disposal / closure of assets and activities	12	24
Bad debts	7	2
Derecognition of assets under construction	19	-
Claims	7	-
Exchange differences	19	16
Sundry	36	13
Total	**119**	**95**

8 Net finance costs

	2008	2007
Continuing operations before exceptional items		
Interest costs		
Interest expense	93	84
Capitalized interest during construction	(7)	(4)
Interest charge on discounted provisions and accruals	8	5
Total	**94**	**85**
Other financial income and expense		
Interest income	(7)	(7)
Exchange differences	(6)	(2)
Result from other securities	13	(3)
Sundry	8	2
Total	**8**	**(10)**
Net finance costs	**102**	**75**

In 2008 the interest rate applied in the capitalization of interest during construction was 5% (2007: also 5%).

9 Exceptional items

	2008	2007
Exceptional expense:		
- Loss from the disposal of activities	(11)	-
- Additions to provisions	(37)	(26)
- Impairment of intangible assets and Property, plant and equipment	(12)	(150)
- Reversal of impairments	15	-
Total exceptional expense	**(45)**	**(176)**
Operating profit from exceptional items	**(45)**	**(176)**
Net finance costs	-	-
Share of the profit of associates	-	-
Total, before income tax expense	**(45)**	**(176)**
Income tax expense	14	47
Total, after income tax expense	**(31)**	**(129)**
Minority interests	-	-
Net result from exceptional items	**(31)**	**(129)**

2008

The exceptional items in 2008 are listed below:

- The book loss from the management buy-out of Deretil, part of DSM Anti-Infectives, amounts to € 11 million before taxation.
- The following restructuring charges have been recognized: € 25 million before taxation in connection with the actions to strengthen DSM's competitive position announced on 15 December 2008 and € 12 million in connection with the closure of the Clavulanic Acid site of DSM Anti-Infectives in Sweden.
- The impairment of € 12 million relates to the closure of the Clavulanic Acid site of DSM Anti-Infectives in Sweden and principally consists of the write-down of Property, plant and equipment to the remaining value in use.
- The reversal of impairments relates to DSM Anti-Infectives and is due to improved business conditions.

2007

The exceptional items in 2007 are listed below:

- The impairment of Intangible assets and Property, plant and equipment relates to the cash generating unit DSM Anti-Infectives. In June 2007 DSM announced that it had studied the strategic options for this cash generating unit and decided that a partnering strategy combined with innovation initiatives and further restructuring was the best way forward. In the context of this study the cash generating unit was tested for impairment in view of persistent operating losses. It was concluded that the recoverable amount of DSM Anti-Infectives was below the carrying amount and therefore an impairment loss of € 150 million was recognized in the Pharma cluster. The recoverable amount was determined on the basis of the value in use of the cash generating unit. The discount rate that was used amounted to 10% before tax, which is equal to the rate used for impairment testing in previous years. The impairment charge was allocated to Property, plant and equipment (98%) and Intangible assets (2%). Restructuring charges (€ 4 million) have been recognized in connection with the planned transfer of part of the production of side chains to China at DSM Anti-Infectives.
- Restructuring charges (€ 22 million) have been recognized in the Nutrition cluster in relation to the redesign of the business model of the cluster, which encompasses cancellation of existing contracts and the introduction of new ways of working at both DSM Nutritional Products and DSM Food Specialties.

10 Income tax

The income tax expense on the total result was € 182 million (2007: € 136 million) and can be broken down as follows:

	2008	2007
Current tax expense:		
- Current year	(93)	(65)
- Prior-year adjustments	9	(17)
	(84)	**(82)**
Deferred tax expense:		
- Originating from temporary differences and their reversal	(22)	(83)
- Prior-year adjustments	(2)	(7)
- Change in tax rate	3	(10)
- Benefit of tax losses and tax credits recognized	(77)	46
	(98)	**(54)**
Total	**(182)**	**(136)**
Of which related to:		
- The result from discontinuing operations	**-**	**-**
- The result from exceptional items	**14**	**47**
- The result from continuing operations	**(196)**	**(183)**

The effective income tax rate on the result from continuing operations before exceptional items was 24.6% in 2008 (2007: 24.5%). The relationship between the income tax rate in the Netherlands and the effective tax rate on the result from continuing operations is as follows:

As a %	2008	2007
Domestic income tax rate	25.5	25.5
Tax effects of:		
- Deviating rates	1.3	2.4
- Tax-exempt income and non-deductible expense	(1.1)	0.3
- Other effects	(1.1)	(3.7)
Effective tax rate	**24.6**	**24.5**

The balance of deferred tax assets and deferred tax liabilities increased by € 268 million owing to the changes presented in the table below:

	2008	2007
Balance at 1 January		
Deferred tax assets	346	496
Deferred tax liabilities	(344)	(383)
Total	**2**	**113**
Changes:		
- Income tax expense in income statement	(98)	(54)
- Income tax expense in equity	346	(52)
- Acquisitions and disposals	1	(9)
- Exchange differences	19	(16)
- Reclassifications	-	20
Balance at 31 December	**270**	**2**
Of which:		
- Deferred tax assets	392	346
- Deferred tax liabilities	(122)	(344)

The group companies that DSM has in various countries conduct a large variety of transactions among themselves. In various countries DSM has taken standpoints regarding its tax position which may at any time be challenged, or have already been challenged, by the tax authorities because the authorities in question interpret the law differently. In determining the probability of realization of deferred tax assets and liabilities these uncertainties are taken into account.

The deferred tax assets and liabilities relate to the following balance sheet items:

	2008		2007	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	84	(45)	71	(49)
Property, plant and equipment	65	(237)	71	(261)
Financial assets	23	(39)	23	(313)
Inventories	53	(22)	34	(31)
Receivables	5	(23)	4	(8)
Equity	-	(3)	-	(4)
Other non-current liabilities	5	(1)	8	(2)
Non-current provisions	94	(32)	73	(13)
Non-current borrowings	1	-	1	(22)
Other current liabilities	59	(8)	55	(3)
	389	**(410)**	**340**	**(706)**
Tax losses carried forward	291	-	368	-
Set-off	(288)	288	(362)	362
Total	**392**	**(122)**	**346**	**(344)**

No deferred tax assets were recognized for losses carried forward amounting to € 51 million (2007: € 48 million).

The valuation of deferred tax assets depends on the probability of the reversal of valuation differences and the utilization of tax loss carryforwards. Deferred tax assets are recognized for future tax benefits arising from temporary differences and for tax loss carryforwards to the extent that the tax benefits are likely to be realized. Dutch tax losses may be carried forward for 9 years and start to expire in 2013. Foreign tax loss carryforwards primarily exist in the United States and Austria. US tax losses start to expire in 2023. Austrian tax losses can be carried forward for an indefinite period of time. DSM has to assess the likelihood that deferred tax assets will be recovered from future taxable income. Deferred tax assets are reduced if, and to the extent that, it is not probable that all or some portion of the deferred tax assets will be realized. In the event that actual results differ from estimates in future periods, and depending on tax strategies that DSM may be able to implement, changes to the measurement of deferred taxes could be required, which could impact on the company’s financial position and net profit.

11 Intangible assets

	Total	Goodwill	Licenses and patents	Under construction	Other
Balance at 1 January 2007					
Cost	1,156	725	127	-	304
Amortization	148	-	49	-	99
Carrying amount	**1,008**	**725**	**78**	**-**	**205**
Changes in carrying amount:					
- Capital expenditure	48	-	5	-	43
- Acquisitions	53	36	16	-	1
- Disposals	(3)	-	-	-	(3)
- Amortization	(37)	-	(8)	-	(29)
- Impairments	(12)	-	(9)	-	(3)
- Exchange differences	(41)	(37)	(2)	-	(2)
- Reclassifications	21	-	2	-	19
	29	**(1)**	**4**	**-**	**26**
Balance at 31 December 2007					
Cost	1,224	725	139	-	360
Amortization	187	1	57	-	129
Carrying amount	**1,037**	**724**	**82**	**-**	**231**
Changes in carrying amount:					
- Capital expenditure	50	-	5	14	31
- Put into operation	-	-	-	(7)	7
- Acquisitions	119	75	-	-	44
- Disposals	(6)	-	-	-	(6)
- Amortization	(49)	-	(11)	-	(38)
- Impairments	(3)	-	-	-	(3)
- Exchange differences	35	23	4	-	8
- Reclassifications	17	-	10	10	(3)
	163	**98**	**8**	**17**	**40**
Balance at 31 December 2008					
Cost	1,443	822	157	17	447
Amortization	243	-	67	-	176
Carrying amount	**1,200**	**822**	**90**	**17**	**271**

Over the past few years DSM has acquired several entities in business combinations that have been accounted for by the purchase method, resulting in recognition of goodwill and other intangible assets. The amounts assigned to the acquired assets and liabilities are based on assumptions and estimates about their fair values. In making these estimates, management consults independent, qualified appraisers if appropriate. A change in assumptions and estimates could change the values allocated to certain assets and their estimated useful lives, which could affect the amount or timing of charges to the income statement, such as amortization of intangible assets.

The breakdown of the carrying amount of goodwill at year-end 2008 is as follows:

Acquisition	**2008**	2007	Cash generating unit	Functional currency	Year of acquisition
NeoResins	358	358	DSM Resins	EUR	2005
Catalytica	308	295	DSM Pharmaceuticals, Inc.	USD	2001
The Polymer Technology Group	68	-	DSM PTG	USD	2008
Pentapharm	34	31	DSM Nutritional Products	CHF	2007
Lipid Technologies Provider	12	14	DSM Food Specialties	SEK	2006
Syntech Far East	10	9	DSM Resins	HKD	2005
Valley Research	7	-	DSM Food Specialties	USD	2008
DSM Japan Engineering Plastics	6	6	DSM Engineering Plastics	EUR	2003
Crina	6	6	DSM Nutritional Products	CHF	2006
CMT	4	-	DSM Food Specialties	EUR	2008
Pamako Engineering	4	3	DSM Dyneema	CHF	2007
Soluol	3	-	DSM Resins	USD	2008
Fontanals Composite Resins	1	1	DSM Resins	EUR	2007
Other acquisitions	1	1			
Total	**822**	**724**			

The annual impairment tests of goodwill are performed in the fourth quarter. The recoverable amount of the cash generating units concerned is based on a value-in-use calculation. The cash flow projections for the first five years are derived from DSM's business plan (Annual Strategic Review) as adopted by the Managing Board. Cash flow projections beyond the 5-year planning period are extrapolated taking into account the growth rates that have been determined to apply for the specific cash generating unit in the Annual Strategic Review. The terminal value for the period after ten years is determined with the assumption of no growth. The key assumptions in the cash flow projections relate to the market growth for the cash generating units and the related revenue projections. The pre-tax discount rate is between 7 and 10% depending on the risk profile of the cash generating unit.

The other intangible assets are listed in the table below:

				2008	2007
	Cost	Amortization	Carrying amount	Of which acquisition-related	Acquisition-related
Application software	144	(85)	59	11	13
Marketing-related	20	(9)	11	7	6
Customer-related	23	(8)	15	13	-
Technology-based	210	(63)	147	115	102
Other	50	(11)	39	-	-
Total	**447**	**(176)**	**271**	**146**	**121**
Total 2007	360	(129)	231		121

12 Property, plant and equipment

	Total	Land and buildings	Plant and machinery	Other equip-ment	Under construc-tion	Not used for operating activities
Balance at 1 January 2007						
Cost	8,578	1,603	6,286	242	428	19
Depreciation and impairment losses	4,923	645	4,043	204	24	7
Carrying amount	**3,655**	**958**	**2,243**	**38**	**404**	**12**
Changes in carrying amount:						
- Capital expenditure	427	4	34	3	386	-
- Put into operation	-	49	208	13	(270)	-
- Acquisitions	37	17	19	-	1	-
- Disposals	(38)	(15)	(23)	-	-	-
- Depreciation	(373)	(56)	(307)	(10)	-	-
- Impairment losses	(152)	(1)	(150)	-	(1)	-
- Change in estimate of decommissioning costs	5	-	5	-	-	-
- Exchange differences	(99)	(28)	(52)	-	(19)	-
- Reclassifications	(21)	14	(12)	(1)	(22)	-
- Other changes	(1)	(1)	2	-	(1)	(1)
	(215)	**(17)**	**(276)**	**5**	**74**	**(1)**
Balance at 31 December 2007						
Cost	8,688	1,634	6,309	246	481	18
Depreciation and impairment losses	5,248	693	4,342	203	3	7
Carrying amount	**3,440**	**941**	**1,967**	**43**	**478**	**11**
Changes in carrying amount:						
- Capital expenditure	537	3	53	2	479	-
- Put into operation	-	84	334	13	(431)	-
- Acquisitions	26	10	16	-	-	-
- Disposals	(23)	(8)	(13)	-	(2)	-
- Depreciation	(389)	(64)	(313)	(12)	-	-
- Impairment losses	(24)	(11)	(7)	-	(6)	-
- Reversal of impairments	15	-	15	-	-	-
- Change in estimate of decommissioning costs	10	-	10	-	-	-
- Exchange differences	70	22	45	-	3	-
- Reclassifications	(18)	1	(1)	-	(18)	-
- Other changes	(3)	-	(2)	-	(1)	-
	201	**37**	**137**	**3**	**24**	**-**
Balance at 31 December 2008						
Cost	9,068	1,727	6,568	245	507	21
Depreciation and impairment losses	5,427	749	4,464	199	5	10
Carrying amount	**3,641**	**978**	**2,104**	**46**	**502**	**11**

Property, plant and equipment includes assets acquired under finance lease agreements with a carrying amount of € 6 million (31 December 2007: € 17 million). The related commitments are included under Borrowings and amount to € 6 million (31 December 2007: € 8 million). The total of the minimum lease payments at the balance sheet date amounts to € 6 million (31 December 2007: € 10 million) and their present values to € 5 million (31 December 2007: € 9 million).

Overview of minimum lease payments in time:

2009	1
2010-2013	4
After 2013	1
Total	**6**

In 2008, on balance € 9 million in impairment losses was recognized. In 2008 the asset impairment losses mainly related to the closure of the Clavulanic Acid site of DSM Anti-Infectives in Sweden (€ 12 million) and to various assets which are no longer used at DSM Nutritional Products (€ 6 million), at DSM Dyneema (€ 2 million), at DSM Business Support (€ 2 million) and at DSM Resins (€ 1 million); at DSM Anti-Infectives the impairments made in 2007 were partly (€ 15 million) reversed due to improved business conditions.

The impairment losses on Property, plant and equipment in 2007 amounted to € 152 million and mainly related to DSM Anti-Infectives (€ 146 million).

13 Associates

	2008	2007
Balance at 1 January	**20**	**26**
Changes:		
- Share of profit	1	(1)
- Dividend received	(1)	(1)
- Acquisitions	1	-
- Impairments	(4)	-
- Transfers	-	(2)
- Exchange differences	2	(1)
- Other changes	0	(1)
Balance at 31 December	**19**	**20**
Of which loans granted	1	-

14 Other financial assets

	Total	Other participations	Other receivables	Other deferred items
Balance at 1 January 2007	**100**	**40**	**40**	**20**
Changes:				
- Charged to the income statement	(7)	-	-	(7)
- Capital payments	3	3	-	-
- Acquisitions	42	42	-	-
- Disposals	(4)	(4)	-	-
- Loans granted	1	-	1	-
- Repayments	(2)	-	(2)	-
- Exchange differences	(2)	(1)	(1)	-
- Transfers	(1)	-	(10)	9
- Changes in fair value	(7)	(7)	-	-
- Other changes	3	-	3	-
Balance at 31 December 2007	**126**	**73**	**31**	**22**
Changes:				
- Charged to the income statement	(4)	-	-	(4)
- Capital payments	96	96	-	-
- Impairments	(20)	(20)	(0)	-
- Disposals	(1)	(1)	-	-
- Loans granted	23	-	23	-
- Repayments	(1)	-	(1)	-
- Transfers	(13)	0	(11)	(2)
- Changes in fair value	(30)	(30)	-	-
Balance at 31 December 2008	**176**	**118**	**42**	**16**

Other participations relate to equity instruments in companies with activities that support DSM's business, which can be quoted or unquoted. In Other participations an amount of €32 million is included that relates to equity instruments whose fair value cannot be measured reliably (2007: €35 million). These instruments are therefore measured at cost.

15 Inventories

	2008	2007
Raw materials and consumables	510	461
Intermediates and finished goods	1,299	1,128
	1,809	**1,589**
Adjustments to lower net realizable value	(44)	(42)
Total	**1,765**	**1,547**

The carrying amount of inventories adjusted to net realizable value was € 155 million (2007: € 165 million); the value adjustment of inventories recognized in the income statement was € 83 million expense (2007: € 17 million expense).

16 Receivables

	2008	2007
Trade receivables		
Trade accounts receivable	1,545	1,458
Receivables from associates	4	11
	1,549	**1,469**
Adjustment for bad debts	(24)	(17)
Total	**1,525**	**1,452**
Other receivables		
Income taxes receivable	17	9
Other taxes and social security contributions	16	128
Government grants	1	7
Loans	19	10
Other receivables	35	35
Deferred items	19	46
Total	**107**	**235**

Deferred items comprise € 2 million (31 December 2007: € 34 million) in prepaid expenses that will impact profit or loss in future periods but have already been paid.

With respect to trade accounts receivable that are neither impaired nor past due, there are no indications that the debtors will not meet their payment obligations. An aging overview of trade receivables related to commercial transactions amounting to € 1,318 million is provided below. The remaining balance reported as trade receivables amounting to € 207 million is excluded from this analysis because it principally concerns reclaimable VAT and is not related to the payment behavior of customers.

in %	2008	2007
Neither past due nor impaired	81	85
1-29 days overdue	14	11
30-89 days overdue	3	1
90 days or more overdue	2	3

17 Cash and cash equivalents

	2008	2007
Deposits	192	70
Cash at bank and in hand	377	242
Payments in transit	1	18
Bills of exchange	31	39
Total	**601**	**369**

18 Equity

	2008	2007
Balance at 1 January	**5,383**	**5,855**
Net profit	571	434
Exchange differences, net of income tax	77	(144)
Net actuarial gains/(losses) on defined benefit obligations	(944)	154
Net asset ceiling related to defined benefit obligations	64	(46)
Dividend	(224)	(195)
Repurchase of ordinary shares	(250)	(758)
Proceeds from reissue of ordinary shares	47	53
Other changes	(29)	30
Balance at 31 December	**4,695**	**5,383**

After the balance sheet date the following dividends were declared by the Managing Board:

	2008	2007
Per cumulative preference share A: € 0.23 (2007: € 0.23)	10	10
Per ordinary share: € 1.20 (2007: € 1.20)	194	204
Total	**204**	**214**

The proposed dividend on ordinary shares is subject to approval by the Annual General Meeting of Shareholders and has not been deducted from Equity.

Share capital

On 31 December 2008 the authorized capital amounted to € 1,125 million, distributed over 306,960,000 ordinary shares, 44,040,000 cumulative preference shares A and 375,000,000 cumulative preference shares B with a nominal value of € 1.50 each, and 1,200,000,000 cumulative preference shares C with a nominal value of € 0.03 each. Every nominal amount of € 0.03 carries one vote. The changes in the number of shares in 2008 are shown in the table below.

	Issued shares			**Treasury shares**	
	Ordinary	**Cumprefs A**	**Cumprefs C**	**Ordinary**	**Cumprefs C**
Balance at 1 January 2008	181,425,000	44,040,000	37,500,000	14,528,140	37,500,000
Reissue of shares in connection with exercise of option rights	-	-	-	(1,945,202)	-
Repurchase of own shares	-	-	-	6,615,000	-
Balance at 31 December 2008	**181,425,000**	**44,040,000**	**37,500,000**	19,197,938	**37,500,000**
Number of treasury shares at 31 December 2008	19,197,938	-	37,500,000		
Number of shares outstanding at 31 December 2008	**162,227,062**	**44,040,000**	**-**		

The average number of ordinary shares outstanding in 2008 was 164,195,834 (2007: 178,540,706). All shares issued are fully paid.

Share premium

Of the total share premium of € 489 million, an amount of € 125 million can be regarded as entirely free of tax.

Treasury shares

On 31 December 2007 DSM possessed 14,528,140 ordinary shares (nominal value € 22 million, 6.4% of the share capital). In 2008, DSM used 1,945,202 ordinary shares for servicing option rights and performance shares.

On 31 December 2008 DSM possessed 19,197,938 ordinary shares (nominal value € 29 million, 8.5% of the share capital). The average purchase price of the ordinary treasury shares was € 34.34. In 2008, 6.6 million ordinary treasury shares were repurchased as part of the first and the second phase of the second share buy-back program of *Vision 2010*. The number of treasury shares at 31 December 2008 included 13.5 million shares related to the share buy-back program of *Vision 2010*. The remaining 5.7 million ordinary treasury shares will be used for servicing management and personnel share-option rights.

Other reserves in Shareholder's equity

	Total	Translation reserve	Hedging reserve	Reserve for share-based compensation	Fair value reserve
Balance at 1 January 2007	**2**	**(53)**	**34**	**21**	**0**
Changes:					
Fair-value changes of derivatives	49	-	49	-	-
Release to income statement	(28)	-	(28)	-	-
Fair-value changes of other financial assets	(8)	-	-	-	(8)
Exchange differences	(134)	(133)	-	-	(1)
Options and performance shares granted	11	-	-	11	-
Options and performance shares exercised/cancelled	(4)	-	-	(4)	-
Reclassifications	3	-	-	3	-
Income tax	(14)	(7)	(7)	-	-
Total changes	(125)	(140)	14	10	(9)
Balance at 31 December 2007	**(123)**	**(193)**	**48**	**31**	**(9)**
Changes:					
Fair-value changes of derivatives	8	-	8	-	-
Release to income statement	(33)	-	(33)	-	-
Fair-value changes of other financial assets	(30)	-	-	-	(30)
Exchange differences	45	45	-	-	-
Options and performance shares granted	15	-	-	15	-
Options and performance shares exercised/cancelled	(8)	-	-	(8)	-
Reclassifications	(1)	-	(1)	-	-
Income tax	42	26	8	-	8
Total changes	38	71	(18)	7	(22)
Balance at 31 December 2008	**(85)**	**(122)**	**30**	**38**	**(31)**

19 Provisions

	2008		2007	
	Total	Of which current	Total	Of which current
Restructuring costs and termination benefits	83	44	75	50
Environmental costs	42	19	38	13
Other long-term employee benefits	35	2	36	1
Other provisions	112	17	112	27
Total	**272**	**82**	**261**	**91**

In cases where the effect of the time value of money is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate used is based on swap rates for various terms, increased by 75 to 100 basis points depending on those terms. The balance of provisions measured at present value increased by € 4 million in 2008 in view of the passage of time and changes in the discount rate.

The provisions for restructuring costs and termination benefits mainly relate to the costs of redundancy schemes connected to the dismissal and transfer of employees and costs of termination of contracts. These provisions have an average life of 1 to 3 years.

The provisions for environmental costs relate to soil clean-up obligations, among other things. These provisions have an average life of more than 10 years.

Several items have been combined under Other provisions, for example obligations ensuing from future drilling-platform decommissioning and site restoration and expenses relating to claims. These provisions have an average life of 5 to 10 years.

The total of non-current and current provisions increased by € 11 million. This is the balance of the following changes:

	Balance at 1 January 2008	Additions	Releases	Uses	Exchange differences	Other changes	Balance at 31 December 2008
Restructuring costs and termination benefits	75	59	(18)	(34)	1	-	83
Environmental costs	38	14	(7)	(7)	1	3	42
Other long-term employee benefits	36	1	(2)	0	-	-	35
Other provisions	112	16	(14)	(10)	-	8	112
Total	**261**	**90**	**(41)**	**(51)**	**2**	**11**	**272**

The other changes included in Other provisions relate to revision of the costs for future drilling-platform decommissioning and site restoration.

The additions to the Provisions for restructuring costs and termination benefits mainly relate to expenditures for restructuring the Citric Acid activities, expenditures for the closure of the DSM Agro production site in IJmuiden (Netherlands) and to the structural cost-saving actions to strengthen profitability and future competiveness at DSM Pharmaceutical Products, DSM Anti Infectives, DSM Engineering Plastics, DSM Resins and DSM Industrial Services. The withdrawal from this provision concerns expenditure related to restructuring activitities at DSM Nutritional Products, DSM Food Specialties, DSM Pharmaceutical Products, DSM Resins and DSM Industrial Services (Copernicus project).

The addition to the environmental provision mainly relates to expenditures for soil cleaning at DSM Pharmaceutical Products.

The additions to the Other provisions mainly relate to a provision for future drilling-platform decommissioning and site restoration. The withdrawal from this provision relates to expenditures regarding claims at DSM Nutritional Products and DSM Elastomers.

20 Borrowings

	2008		2007	
	Total	Of which current	Total	Of which current
Debenture loans	1,398	177	1,210	0
Private loans	391	58	385	41
Finance lease liabilities	6	1	8	2
Credit institutions / commercial paper	498	498	149	149
Total	**2,293**	**734**	**1,752**	**192**

In agreements governing loans with a residual amount at year-end 2008 of € 1,614 million, of which € 177 million were of a short-term nature (31 December 2007: € 1,417 million, none of which were of a short-term nature), clauses have been included which restrict the provision of security. The documentation of the € 300 million bond issued in November 2005 which was increased by € 200 million in September 2008 and the documentation of the € 750 million bond issued in October 2007 include a change-of-control clause. This clause allows the bond investors to request repayment at par if 50% or more of the DSM shares are controlled by a third party and if the company is downgraded below investment grade (< BBB-).

At 31 December 2008, borrowings to a total of € 1,398 million had a remaining term of more than 5 years.

The schedule of repayment of borrowings (excluding debt to credit institutions and commercial paper) is as follows:

	2008	2007
2008	-	43
2009	236	225
2010	7	7
2011	3	8
2012 and 2013	151	107
2014 through 2018	1,398	1,213
Total	**1,795**	**1,603**

A breakdown of the borrowings by currency (excluding debt to credit institutions and commercial paper) is given in the following table:

	2008	2007
EUR	1,324	1,150
USD	391	384
CNY	69	60
Other	11	9
Total	**1,795**	**1,603**

On balance, total borrowings increased by € 541 million owing to the following changes:

	2008	2007
Balance at 1 January	**1,752**	**1,514**
Loans taken up	219	753
Repayments	(49)	(466)
Changes in fair value	1	0
Acquisitions	0	6
Changes in debt to credit institutions / commercial paper	349	(10)
Exchange differences	22	(47)
Other changes	(1)	2
Balance at 31 December	**2,293**	**1,752**

The average effective interest rate on the portfolio of borrowings outstanding in 2008, including financial instruments related to these borrowings, amounted to 3.9% (2007: 4.5%).

A breakdown of debenture loans is given below:

			2008	2007
USD loan	6.75%	1999-2009	177	169
EUR loan	4.00%	2005-2015	480	300
EUR loan	5.25%	2007-2017	741	741
Total			**1,398**	**1,210**

All debenture loans have a fixed interest rate.

The fixed interest rate of the 6.75% USD loan 1999-2009 has been swapped to floating rates by means of interest rate swaps (fair value hedges). This loan was assigned as a net investment hedge to hedge the currency risk of net investments in USD-denominated subsidiaries.

The original amount of € 300 million of the 4% EUR loan 2005-2015 was swapped into CHF to hedge the currency risk of net investments in CHF-denominated subsidiaries. This original amount of the loan was pre-hedged (cash flow hedge) in 2005 by means of a forward starting swap, which led to a lower effective fixed interest rate of 3.66%. The increase of the loan by € 180 million (after discount of € 20 million) was neither pre-hedged nor swapped; the effective fixed interest rate for this part of the loan is 5.21%.

The 5.25% EUR loan 2007-2017 was swapped into CHF in 2007 for an amount of € 650 million and in 2008 for an amount of € 100 million to hedge the currency risk of net investments in CHF-denominated subsidiaries. This loan was partly pre-hedged (cash flow hedge) in 2006 and 2007 by means of forward starting swaps, which led to a lower effective fixed interest rate of 4.89% for the full loan.

A breakdown of private loans is given below:

			2008	2007
NLG loan	4.34%	1998-2008	-	4
NLG loan	floating (6 months)	2000-2014	65	65
CNY loan	floating (12 months)	2002-2009	38	60
CNY loan	floating (12 months)	2008-2011	31	-
USD loan	5.51%	2003-2013	107	103
USD loan	5.61%	2003-2015	106	102
Other loans			44	51
Total			**391**	**385**

The fixed interest rate of the 5.51% USD loan 2003-2013 was swapped into a floating rate by means of an interest rate swap (fair value hedge). During 2005 this interest rate swap was unwound. The gain from this will be amortized until maturity, leading to an effective fixed USD interest rate of 4.29% for the loan. This 5.51% USD loan was assigned as a net investment hedge to hedge the currency risk of net investment in USD-denominated subsidiaries.

The currency component of the 5.61% USD loan 2003-2015 was swapped into euros (cash flow hedge). The resulting EUR obligation was swapped into CHF to hedge the currency risk of net investments in CHF-denominated subsidiaries (net investment hedge).

DSM's policy regarding financial-risk management is described in note 24.

21 Other non-current liabilities

	2008	2007
Investment grants	15	23
Other non-current liabilities	50	12
Total	**65**	**35**

22 Current liabilities

	2008	2007
Trade payables		
Received in advance	18	9
Trade accounts payable	1,165	1,103
Notes and cheques due	1	6
Owing to associates	4	6
Total	**1,188**	**1,124**
Other current liabilities		
Income taxes payable	70	65
Other taxes and social security contributions	76	68
Pensions	4	2
Other liabilities	207	216
Deferred items	135	254
Total	**492**	**605**

23 Contingent liabilities and other financial obligations

	2008	2007
Operating leases and rents	70	34
Guarantee obligations on behalf of associates and third parties	65	58
Outstanding orders for projects under construction	16	15
Other	25	9
Total	**176**	**116**

Most of the outstanding orders for projects under construction will be completed in 2009. Property, plant and equipment under operating leases primarily concern catalysts, buildings and various equipment items.

The commitments for operating leases and rents are spread as follows:

2009	6
2010	13
2011	11
2012 and 2013	12
After 2013	28
Total	**70**

Litigation

The investigations into possible restrictive and/or concerted practices involving a number of EPDM producers, including DSM, which had been launched at the end of 2002 by the European Commission, the United States Department of Justice and the Canadian Competition Bureau, were closed mid 2006 without charges of any kind being brought against DSM or its affiliates. Several civil actions in the United States and Canada are still ongoing.

Claims have been received on account of the delivery by DSM Food Specialties of an allegedly defective intermediate product. No health risks are involved. Discussions are being held with most claimants aimed at an amicable solution whilst in one case litigation has been initiated. Possible liability is covered by insurance.

DSM has a process in place to monitor legal claims periodically and systematically.

24 Financial derivatives

Policies on financial risks

General

The main financial risks faced by DSM relate to liquidity risk and market risk (comprising interest rate risk, currency risk and price risk). DSM's financial policy is aimed at minimizing the effects of fluctuations in currency-exchange and interest rates on its results in the short term and following market rates in the long term. DSM uses financial derivatives to manage financial risks relating to business operations and does not enter into speculative derivative positions.

Liquidity risk

DSM has two confirmed credit facilities of € 400 million and € 500 million amounting to a total of € 900 million (2007: two confirmed credit facilities amounting to a total of € 900 million) and a commercial-paper program amounting to € 1,500 million (2007: € 1,500 million). The company will use the commercial-paper program to a total of not more than € 900 million (2007: € 900 million). The agreements for the committed credit facilities neither have financial covenants nor material adverse changes clauses.

Floating-rate and fixed-rate borrowings analyzed by maturity are summarized below. Borrowings excluding credit institutions are shown after taking into account related interest rate derivatives in designated hedging relationships.

2008	Fixed-rate borrowings	Floating-rate borrowings	Subtotal	Interest payments	Cash at[1] redemption	Total cash out
Within 1 year	13	223	236	86	-	322
Within 1 to 2 years	6	1	7	78	-	85
Within 2 to 3 years	2	1	3	78	-	81
Within 3 to 4 years	4	39	43	77	-	120
Within 4 to 5 years	108	-	108	74	-	182
After 5 years	1,329	69	1,398	199	29	1,626
Total	**1,462**	**333**	**1,795**	**592**	**29**	**2,416**
2007						
Within 1 year	6	37	43	87	-	130
Within 1 to 2 years	14	211	225	76	-	301
Within 2 to 3 years	6	1	7	67	-	74
Within 3 to 4 years	2	7	9	66	-	75
Within 4 to 5 years	1	2	3	66	-	69
After 5 years	1,247	69	1,316	248	9	1,573
Total	**1,276**	**327**	**1,603**	**610**	**9**	**2,222**

1 Difference between nominal redemption and amortized costs

Interest rate risk

DSM's interest rate risk policy is aimed at minimizing the interest rate risks associated with the financing of the company and thus at the same time optimizing the net interest costs. This policy translates into a certain desired profile of fixed-interest and floating-interest positions, including cash and cash equivalents, with the floating-interest position in principle not exceeding 60% of net debt.

On 31 December 2008, the notional amount of one interest rate swap in relation to long-term borrowings was € 177 million (2007: € 170 million). For this swap fair value hedge accounting was applied until 1 October 2008; from that moment on the hedge became ineffective. In 2008 an immaterial amount was recognized in the income statement in connection with this ineffectiveness (in Other financial income and expense).

The following sensitivity analysis of borrowings and related financial derivatives to interest rate movements assumes an immediate 1% change in interest rates for all currencies and maturities from their level on 31 December 2008, with all other variables held constant. As in 2007, a 1% reduction in interest rates would not result in a material change in profit and loss or equity on the basis of the composition of financial instruments on 31 December 2008 as floating-rate borrowings are balanced by floating-rate assets (mainly cash). The same applies in the case of a 1% increase in interest rates. The sensitivity of the fair value of financial instruments on 31 December 2008 to changes in interest rates is set out in the following table.

				2008				2007
	Carrying amount	Fair value	Sensitivity of fair value to change in interest of:		Carrying amount	Fair value	Sensitivity of fair value to change in interest of:	
			+1%	(1%)			+1%	(1%)
Current investments	4	4	-	-	4	4	-	-
Cash and cash equivalents	601	601	-	-	369	369	-	-
Short-term borrowings	(734)	(737)	1	(1)	(192)	(192)	-	-
Long-term borrowings	(1,559)	(1,621)	97	(105)	(1,560)	(1,509)	89	(97)
Interest rate swaps (fixed to floating)	1	1	-	-	(1)	(1)	(2)	2
Pre-hedges	-	-	-	-	-	-	-	-

Interest rate swaps are from time to time used to hedge the fixed interest rate of a new external loan as from the future issue date (pre-hedges). In this way DSM achieves up-front certainty about the interest costs for a major part of its long-term euro debt. The 5.25% EUR loan 2007-2017 was pre-hedged for an amount of € 625 million in 2006 and 2007 by means of forward-starting swaps for a locked interest rate of 4.1% (excluding credit spread). Including the unhedged € 125 million and credit spread, the effective interest rate of this loan amounts to 4.89%. On 31 December 2008 no pre-hedges were outstanding (same as in 2007).

Currency risk

It is DSM's policy to hedge 100% of the currency risks resulting from sales and purchases at the moment of recognition of the trade receivables and trade payables. In addition, operating companies may – under strict conditions – opt for hedging currency risks from firm commitments and forecast transactions. The currencies giving rise to these risks are primarily USD, CHF and JPY. The risks arising from currency exposures are regularly reviewed by the business groups and hedged when appropriate. DSM uses average-rate currency forward contracts, currency forward contracts, spot contracts, and average-rate currency options to hedge the exposure to fluctuations in foreign exchange rates. At year-end, these instruments had remaining maturities of less than one year.

To hedge intercompany loans, receivables and payables denominated in currencies other than the functional currency of the subsidiaries, DSM uses currency swaps or forward contracts. Hedge accounting is not applied for these instruments. On 31 December 2008, the notional amount of the currency forward contracts was € 1,977 million (2007: € 1,556 million).

In 2008 DSM hedged USD 869 million (2007: USD 718 million) of its projected net cash flow in USD in 2009 (partly against CHF) by means of average-rate currency forward contracts at an average exchange rate of USD 1.42 per euro for the four quarters of 2009. In 2008 DSM also hedged JPY 5,475 million (2007: JPY 5,375 million) of its projected net cash flow in JPY in 2009 (mostly against CHF) by means of average-rate currency forward contracts at an average exchange rate of JPY 155.20 per euro for the four quarters of 2009. These hedges have fixed the exchange rate for part of the USD and JPY receipts in 2009. Cash flow hedge accounting is applied for these hedges. As a result of these hedges, in 2008 € 29 million (2007: € 27 million) was recognized in the operating income of the segments involved in accordance with the realization of the expected cash flows. There was no material ineffectiveness in relation to these hedges.

The currency risk associated with the translation of DSM's net investment in entities denominated in currencies other than the euro is partially hedged. CHF-denominated net assets have partially been hedged by currency swaps (CHF 1,901 million). USD-denominated net assets have partially been hedged through USD loans (USD 400 million). There was no material ineffectiveness in relation to these hedges.

The following sensitivity analysis of net borrowings and derivative financial instruments to currency movements against the euro assumes a 10% change in all foreign currency rates against the euro from their level on 31 December 2008, with all other variables held constant. A +10% change indicates a strengthening of foreign currencies against the euro. A -10% change represents a weakening of foreign currencies against the euro.

	2008				2007			
	Carrying amount	Fair value	Sensitivity of fair value to change in all exchange rates of:		Carrying amount	Fair Value	Sensitivity of fair value to change in all exchange rates of:	
			+10%	(10%)			+10%	(10%)
Current investments	4	4	-	-	4	4	-	-
Cash and cash equivalents	601	601	17	(14)	369	369	13	(11)
Short-term borrowings	(734)	(737)	(37)	30	(192)	(192)	(7)	6
Long-term borrowings	(1,559)	(1,621)	(31)	25	(1,560)	(1,509)	(48)	39
Cross currency swaps	(19)	(19)	14	(12)	(28)	(28)	12	(10)
Currency forward contracts	20	20	(7)	6	23	23	(67)	55
Cross currency swaps related to net investments in foreign entities[1]	(87)	(87)	(145)	119	25	25	(119)	97
Average-rate forwards used for economic hedging[2]	(7)	(7)	(40)	32	20	20	(27)	22
Average-rate currency options used for economic hedging[2]	-	-	-	-	2	2	-	6

1 Fair value change reported in Translation Reserve.
2 Fair value change reported in Hedging Reserve.

The following sensitivity analysis of net borrowings and derivative financial instruments to currency movements against the euro assumes a 10% change in the USD exchange rate against all foreign currencies and the euro from the level on 31 December 2008, with all other variables held constant. A +10% change indicates a strengthening of the USD and a -10% change represents a weakening of the USD.

	2008				2007			
	Carrying amount	Fair value	Sensitivity of fair value to change in USD		Carrying amount	Fair Value	Sensitivity of fair value to change in USD	
			+10%	(10%)			+10%	(10%)
Current investments	4	4	-	-	4	4	-	
Cash and cash equivalents	601	601	1	-	369	369	2	(2)
Short-term borrowings	(734)	(737)	(20)	17	(192)	(192)	(1)	1
Long-term borrowings	(1,559)	(1,621)	(27)	22	(1,560)	(1,509)	(43)	35
Cross currency swaps	(19)	(19)	14	(12)	(28)	(28)	12	(10)
Currency forward contracts	20	20	(76)	62	23	23	(107)	87
Cross currency swaps related to net investments in foreign entities[1]	(87)	(87)	-	-	25	25	-	-
Average-rate forwards used for economic hedging[2]	(7)	(7)	(68)	56	20	20	(42)	34
Average-rate currency options used for economic hedging[2]	-	-	-	-	2	2	-	10

1 Fair value change reported in Translation Reserve.
2 Fair value change reported in Hedging Reserve.

Fair value changes on these positions will generally be recognized in profit or loss with the exception of the instruments for which cash flow hedge accounting or net-investment hedge accounting is applied. Cash flow hedge accounting is applied for the average-rate forwards and average-rate currency options used for economic hedging; the fair value changes of these derivatives are recognized in the hedging reserve in equity until recognition of the related cash flows. Net-investment hedge accounting is applied for the cross currency swaps used to protect net investments in foreign entities; the fair value changes of these derivatives are recognized in the translation reserve in equity until the net investment is disposed of, to the extent that the changes in fair value are caused by changes in currency exchange rates.

Price risk

Financial instruments that are subject to changes in stock exchange prices or indexes are subject to a price risk. At year-end 2008 DSM had a limited exposure to price risk in relation to investments in available-for-sale securities.

Credit risk

DSM manages the credit risk to which it is exposed by applying credit limits per financial institution and by dealing exclusively with financial institutions having a high credit rating. At the balance sheet date there were no significant concentrations of credit risk.

With regard to treasury activities it is ensured that financial transactions are only concluded with counterparties that have at least a Moody's credit rating of P1 for short-term instruments and A3 for long-term instruments. At business group level, outstanding receivables are continuously monitored by the management of the operating companies. In view of the current economic circumstances a weekly review by group management of the aging of outstanding trade receivables has been introduced. In addition, weekly reporting of the outstanding balances with important customers has also been started. Appropriate allowances are made for credit risks that have been identified (as listed in note 16). It is therefore unlikely that significant losses will arise in relation to receivables that have not been provided for.

The maximum exposure to credit risk is represented by the carrying amounts of financial assets that are recognized in the balance sheet, including derivative financial instruments. No significant agreements or financial instruments were available at the reporting date that would reduce the maximum exposure to credit risk.

Fair value of financial instruments

In the following table the carrying amounts and the estimated fair values of financial instruments are disclosed:

	31 December 2008		31 December 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Other participations	118	118	73	73
Other non-current receivables	42	42	31	31
Current receivables	1,632	1,632	1,687	1,687
Financial derivatives	86	86	83	83
Current investments	4	4	4	4
Cash and cash equivalents	601	601	369	369
Liabilities				
Non-current borrowings	1,559	1,621	1,560	1,509
Other non-current liabilities	65	65	35	35
Current borrowings	734	737	192	192
Financial derivatives	179	179	42	42
Other current liabilities	1,680	1,680	1,729	1,729

The following methods and assumptions were used to determine the fair value of financial instruments: cash, current investments, current and non-current receivables, current borrowings and other current and non-current liabilities are stated at carrying amount, which approximates fair value in view of the short maturity of these instruments. The fair values of financial derivatives and long-term instruments are based on calculations, quoted market prices or quotes obtained from intermediaries.

The following table shows the carrying amounts of the financial derivatives recognized, broken down by type and purpose:

	Assets	Liabilities	Total
Interest rate swaps	0	(1)	(1)
Currency swaps	27	(30)	(3)
Total financial derivatives related to borrowings	**27**	**(31)**	**(4)**
Currency forward contracts	54	(11)	43
Currency options	2	-	2
Balance at 31 December 2007	**83**	**(42)**	**41**
Interest rate swaps	1	-	1
Currency swaps	-	(106)	(106)
Total financial derivatives related to borrowings	**1**	**(106)**	**(105)**
Currency forward contracts	85	(73)	12
Currency options	-	-	-
Balance at 31 December 2008	**86**	**(179)**	**(93)**

25 Post-employment benefits

The group operates a number of defined benefit plans and defined contribution plans throughout the world, the assets of which are generally held in separately administered funds. The pension plans are generally funded by payments from employees and by the relevant group companies. The group also provides certain additional healthcare benefits to retired employees in the United States.

The charges for pension costs recognized in the income statement (note 5) relate to the following:

	2008	2007
Pension plans	0	11
Healthcare plans	3	3
Other post-employment benefits	5	3
Defined contribution plans	26	25
Total	**34**	**42**

For 2009 costs related to pensions and healthcare, excluding gains and losses on curtailments and settlements, will be approximately € 70 million higher than the costs for 2008 (€ 3 million).

Changes in Prepaid pension costs and Employee benefits liabilities recognized in the balance sheet are disclosed in the following overview:

	2008	2007
Prepaid pension costs	1,169	918
Employee benefits liabilities	(282)	(325)
Balance at 1 January	**887**	**593**
Changes:		
- Balance of actuarial gains/ (losses)	(1,270)	208
- Balance of asset ceiling	85	(62)
- Employee benefits costs	(9)	(17)
- Acquisitions and disposals	-	2
- Contributions by employer	93	156
- Exchange differences	(1)	7
- Other changes	5	0
Total changes	**(1,097)**	**294**
Balance at 31 December	**(210)**	**887**
Of which:		
- Prepaid pension costs	**137**	**1,169**
- Employee benefits liabilities	**(347)**	**(282)**

In the Netherlands a prepaid pension asset of € 135 million remained at 31 December 2008.

The Employee benefits liabilities of € 347 million (2007: € 282 million) consist of € 291 million (2007: € 229 million) related to pension plans, € 36 million (2007: € 33 million) related to healthcare and other costs and € 20 million (2007: € 20 million) related to post-employment benefits.

Pensions

The DSM group companies have various pension plans, which are geared to the local regulations and practices in the countries in which they operate. As these plans are designed to comply with the statutory framework, tax legislation, local customs and economic situation of the countries concerned, it follows that the nature of the plans varies from country to country. The plans are based on local legal and contractual obligations.

Defined benefit plans are applicable to certain employees in the Netherlands, Germany, the United Kingdom, Switzerland, the United States and Austria. The rights that can be derived from these plans are based primarily on length of service and the majority of the plans are based on final salary. The majority of the obligations are funded and have been transferred to independent pension funds and life-insurance companies.

The German and the Austrian plan are wholly unfunded. Together they represent 4% of the total defined benefit obligation.

Post-employment benefits relate to obligations that will be settled in the future and require assumptions to project benefit obligations and fair values of plan assets. Post-employment benefit accounting is intended to reflect the recognition of post-employment benefits over the employee's approximate service period, based on the terms of the plans and the investment and funding. The accounting requires management to make assumptions regarding variables such as discount rate, future salary increases, return on assets, and future healthcare costs. Management consults with external actuaries regarding these assumptions at least annually for significant plans. Changes in these key assumptions can have a significant impact on the projected defined benefit obligations, funding requirements and periodic costs incurred.

The changes in the present value of the defined benefit obligations and in the fair value of plan assets of the major plans are listed below:

Present value of defined benefit obligations

	2008	2007
Balance at 1 January	**4,478**	**4,906**
Changes:		
- Service costs	80	92
- Interest costs	236	224
- Contributions by employees	21	20
- Actuarial (gains)/losses	(132)	(541)
- Curtailments	-	-
- Settlements	-	-
- Past service costs	2	8
- Acquisitions/disposals	-	28
- Exchange differences on foreign plans	7	(35)
- Benefits paid	(239)	(224)
- Other changes	1	-
Balance at 31 December	**4,454**	**4,478**

Fair value of plan assets

	2008	2007
Balance at 1 January	**5,400**	**5,466**
Changes:		
- Expected return on plan assets	330	321
- Actuarial gains/(losses)	(1,402)	(331)
Actual return on plan assets	**(1,072)**	**(10)**
- Settlements	-	-
- Acquisitions/disposals	-	34
- Contributions by employer	92	146
- Contributions by employees	21	20
- Exchange differences on foreign plans	11	(32)
- Benefits paid	(239)	(224)
- Other changes	-	-
Balance at 31 December	**4,213**	**5,400**

The amounts recognized in the balance sheet are as follows:

	2008	2007
Present value of funded obligations	(4,252)	(4,276)
Fair value of plan assets	4,213	5,400
	(39)	**1,124**
Present value of unfunded obligations	(202)	(202)
Funded status	**(241)**	**922**
Unrecognized past service costs	87	99
Effect of asset ceiling	-	(81)
Net liabilities / net assets	**(154)**	**940**
Of which:		
- Liabilities (Employee benefits liabilities)	(291)	(229)
- Assets (Prepaid pension costs)	137	1,169

The changes in the net assets recognized in the balance sheet are as follows:

	2008	2007
Balance at 1 January	**940**	**651**
Net expense recognized in the income statement	0	(11)
Actuarial gains/(losses) recognized directly in equity during the year	(1,270)	210
Asset ceiling recognized directly in equity during the year	85	(62)
Contributions by employer	92	146
Acquisitions/disposals	-	2
Exchange differences on foreign plans	0	4
Other changes	(1)	-
Balance at 31 December	**(154)**	**940**

In 2009 DSM is expected to contribute € 111 million (actual 2008: € 92 million) to its defined benefit plans.

The major categories of pension-plan assets as a percentage of total plan assets are as follows:

	2008	2007
Bonds	63%	51%
Equities	29%	44%
Property	4%	5%
Other	4%	0%

The pension-plan assets do not include ordinary DSM shares nor property occupied by DSM.

The total expense recognized in the income statement is as follows:

	2008	2007
Current service costs	80	92
Interest on obligation	236	224
Expected return on plan assets	(330)	(321)
Past service costs	14	16
(Gains)/losses on curtailments and settlements	-	-
Costs related to defined benefit plans	**(0)**	**11**

The main actuarial assumptions for the year (weighted averages) are:

	2008		2007	
	The Netherlands	Foreign	The Netherlands	Foreign
Discount rate	5.75%	4.70%	5.50%	5.00%
Price inflation	1.75%	2.19%	1.75%	2.19%
Salary increase	1.75%	3.10%	1.75%	3.14%
Pension increase	1.75%	1.48%	1.75%	1.69%
Expected return on plan assets	6.45%	4.8%-8.75%	6.25%	4.5%-8.5%

The assumptions for the expected return on plan assets are based on a review of historical returns of the asset classes in which the assets of the pension plans are invested and the expected long-term allocation of the assets over these classes.

Year-end amounts for the current and previous periods are as follows:

	2008	2007	2006	2005
Defined benefit obligations	(4,454)	(4,478)	(4,906)	(5,064)
Plan assets	4,213	5,400	5,466	5,231
Funded status of asset/(liability)	**(241)**	**922**	**560**	**167**
Experience adjustments on plan assets, gain/(loss)	(1,402)	(331)	25	430
Experience adjustments on plan liabilities, gain/(loss)	26	21	(94)	(149)
Assumed gain/(loss) on liabilities	106	519	459	(1)

Post-employment healthcare and other costs

In some countries, particularly in the United States, group companies provide retired employees and their surviving dependants with post-employment benefits other than pensions, mainly allowances for healthcare expenses and life-insurance premiums. Some of these are unfunded; in these cases, approved expense claims are reimbursed out of the financial resources of the group companies concerned.

The amounts included in the balance sheet are as follows:

	2008	2007
Present value of funded obligations	(37)	(35)
Fair value of plan assets (including reimbursement rights)	8	8
	(29)	**(27)**
Present value of unfunded obligations	(6)	(5)
Unrecognized past service costs	(1)	(1)
Net liability (provision for post-employment benefits)	**(36)**	**(33)**

The amounts recognized in the income statement are as follows:

	2008	2007
Current service costs	2	2
Interest costs	2	2
Expected return on plan assets and reimbursement rights	(1)	(1)
Past service costs	(0)	(0)
(Gains)/losses on curtailments or settlements	-	-
Costs related to healthcare plans	**3**	**3**

The changes in the net liability for post-employment healthcare and other costs recognized in the balance sheet (provision for post-employment benefits) can be shown as follows:

	2008	2007
Balance at 1 January	**(33)**	**(33)**
Expense recognized in the income statement	(3)	(3)
Actuarial gains/(losses) recognized directly in equity	0	(2)
Benefits paid/employer contributions	2	1
Acquisitions/disposals	-	-
Exchange differences	(2)	4
Balance at 31 December	**(36)**	**(33)**

In 2009 DSM is expected to contribute € 1 million to its post-employment healthcare and other plans.

The main actuarial assumptions for post-employment healthcare costs (weighted averages) for the year are:

	2008	2007
Discount rate	6.25%	6.0%
Price inflation	3.5%	3.0%
Salary increase	4.5%	4.0%
Healthcare-cost trend (initial rate)	9.0%	8.0%
Healthcare-cost trend (ultimate rate)	4.75%	4.75%

A one-percentage-point change in assumed healthcare cost trend rates would have the following impact:

	One-percentage-point increase	One-percentage-point decrease
Effect on the aggregate of the service costs and interest costs (increase)	(0)	0
Effect on defined obligation (increase)	(5)	4

Amounts for the current and previous periods are as follows:

	2008	2007	2006	2005
Defined benefit obligations	(43)	(40)	(40)	(69)
Plan assets (including reimbursement rights)	8	8	8	13
Funded status of asset/(liability)	**(35)**	**(32)**	**(32)**	**(56)**
Experience adjustments of plan liabilities (loss)	1	1	0	(4)

26 Net debt

Net debt is an important parameter for DSM's financial policy. In order to maintain a single A credit rating DSM aims for a net debt which is between 30 and 40% of net debt plus equity. Furthermore, operating profit before amortization and depreciation should at least amount to 8.5 times the balance of financial income and expense. The financial policy is discussed in depth in the section on Financial policy on page 85.

	2008	2007
Borrowings:		
- Non-current borrowings	1,559	1,560
- Current borrowings	734	192
Total borrowings	**2,293**	**1,752**
Current investments	(4)	(4)
Cash and cash equivalents	(601)	(369)
Financial derivatives, assets (see also note 24)	(86)	(83)
Financial derivatives, liabilities (see also note 24)	179	42
Net debt	**1,781**	**1,338**

Cash at year-end 2008 was not being used as collateral and was therefore not restricted (2007: also zero).

27 Notes to the cash flow statement

The cash flow statement provides an explanation of the changes in cash and cash equivalents. It is prepared on the basis of a comparison of the balance sheets as at 1 January and 31 December. Changes that do not involve cash flows, such as changes in exchange rates, amortization, depreciation, impairment losses and transfers to other balance sheet items, are eliminated.

Changes in working capital due to the acquisition or disposal of consolidated companies are included under Investing activities.

Most of the changes in the cash flow statement can be traced back to the detailed statements of changes for the balance sheet items concerned. For those balance sheet items for which no detailed statement of changes is included, the table below shows the link between the change according to the balance sheet and the change according to the cash flow statement:

	2008		2007	
	Operating working capital	In % of net sales (from continuing operations)	Operating working capital	In % of net sales (from continuing operations)
Balance at 1 January	1,875		1,801	
Balance at 31 December	2,102	22.6	1,875	21.4
Balance sheet change	**227**		74	
Adjustments:				
- Exchange differences	(59)		69	
- Changes in consolidation	7		(19)	
- Transfers	5		-	
Total	**180**		**124**	
Change in cash flow	(180)		(124)	

28 Share-based compensation

Under the DSM Stock Incentive Plan, performance and non-performance stock options or Stock Appreciation Rights (SARs) are granted to senior management. Such a grant takes place on the first day on which the DSM stock is quoted ex-dividend following the Annual General Meeting of Shareholders. The opening price of the DSM stock on that day is the exercise price of the stock options and SARs.

Stock Options and SARs have a term of eight years and are subject to a vesting period of three years. After this three-year period one third of the stock options and SARs (non-performance-related) will vest and two thirds of the stock options and SARs that are performance-related will become exercisable in whole, in part, or not at all, depending on the total shareholder return (TSR) achieved by DSM in comparison with a peer group. Non-vested stock options and SARs will be forfeited. If employment is terminated prior to the vesting date, specific rules regarding vesting and forfeitures apply. The exercise of stock incentives is regulated.

Besides stock options tied to performance, performance shares have been granted to the members of the Managing Board. Performance shares vest after three years upon the realization of a predefined performance measure (same performance schedule as operated for stock options).

All stock options and performance shares are settled by physical delivery of DSM shares, while SARs are settled in cash.

Overview of stock options and Stock Appreciation Rights for management

Year of issue	Outstanding on 31 Dec. 2007	In 2008 Granted	Exercised	Forfeited/ expired	Outstanding on 31 Dec. 2008	Fair value on grant date (€)	Exercise price (€)	Expiry date
2000	15,000	-	(15,000)	-	-	3.52	18.240	31 Mar. 2008
2001	229,625	-	(187,175)	-	42,450	3.88	19.990	30 Mar. 2009
2002	510,300	-	(111,250)	-	399,050	5.22	23.505	4 Apr. 2010
2003	632,000	-	(250,800)	-	381,200	3.09	18.195	4 Apr. 2011
2003 [1]	92,200	-	(11,000)	-	81,200	3.64	19.770	3 Nov. 2011
2004	1,278,321	-	(478,320)	-	800,001	2.97	17.895	2 Apr. 2012
2005[2,3,4]	2,441,028	-	(360,900)	(1,130,786)	949,342	6.15	29.050	8 Apr. 2013
2006[2]	2,817,725	-	(44,000)	(158,500)	2,615,225	8.95	38.300	31 Mar. 2014
2007[2]	3,176,800	-	(2,500)	(132,850)	3,041,450	7.69	33.600	30 Mar. 2015
2008[2]	-	3,377,350	(2,500)	(67,850)	3,307,000	5.73	29.790	28 Mar. 2016
2008 Total	**11,192,999**	**3,377,350**	**(1,463,445)**	**(1,489,986)**	**11,616,918**			
Of which vested	3,330,396				3,287,143			
	at 31 Dec. 2006				at 31 Dec. 2007			
2007 Total	**10,833,702**	**3,271,300**	**(2,479,053)**	**(432,950)**	**11,192,999**			
Of which vested	2,831,473				3,330,396			

1 On 3 November 2003 a select group of DSM Nutritional Products employees received stock options and SARs on a one-off basis.
2 Stock options will partly vest, and may therefore immediately be exercised, upon termination of employment in connection with retirement or early retirement.
3 The remaining term to exercise stock options or SARs after their vesting as a result of retirement or early retirement is limited to three years (the remaining term to exercise in the case of regular vesting is five years).
4 Based on TSR performance, the stock incentives tied to performance granted in 2005 did only partially vest; the remaining part has been forfeited.

Certain employees in the Netherlands are entitled to employee stock options that are granted on the first day on which the DSM stock is quoted ex-dividend following the Annual General Meeting of Shareholders. The opening price of the DSM stock on that day is the exercise price of the stock options. Employee stock options can immediately be exercised and have a term of 5 years.

Overview of stock options for employees

Year of issue	Outstanding on 31 Dec. 2007	In 2008 Granted	Exercised	Forfeited/expired	Outstanding on 31 Dec. 2008	Fair value on grant date (€)	Exercise price (€)	Exercise period
2003	50,214	-	(47,428)	(2,786)	-	2.33	18.19	until Apr. 2008
2005	184,412	-	(46,950)	(400)	137,062	4.29	29.05	until Apr. 2010
2006	584,533	-	(41,704)	(3,030)	539,799	6.03	38.30	until Mar. 2011
2007	599,488	-	(133,713)	(2,090)	463,685	4.27	33.60	until Mar. 2012
2008	-	657,428	(210,462)	(998)	445,968	3.27	29.79	until Mar. 2013
Total	**1,418,647**	**657,428**	**(480,257)**	**(9,304)**	**1,586,514**			
Changes in 2007		648,828	(198,203)	(33,948)				

Based on the 2007 result, 657,428 employee option rights were granted in 2008.

Measurement of fair value

The costs of option plans are measured by reference to the fair value of the options at the date at which the options are granted. The fair value is determined using the Black-Scholes model, taking into account market conditions linked to the price of the DSM share. Stock-price volatility is determined on the basis of historical volatilities of the DSM share price measured each month over a period equal to the expected option life. The costs of these options are recognized in the income statement (Employee benefits costs).

The following assumptions were used in the Black-Scholes model to determine the fair value at grant date:

	2008	2007
Risk-free interest rate (6 years risk free)	3.75%	4.00%
Expected option life of management option rights	6 years	6 years
Nominal option life of management option rights	8 years	8 years
Expected option life of employee option rights	2.5 years	2.5 years
Nominal option life of employee option rights	5 years	5 years
Stock-price volatility of management option rights	26%	26%
Stock-price volatility of employee option rights	20%	20%

In the costs for wages and salaries an amount of € 13 million is included for share-based compensation (2007: € 9 million). In the following table the share-based compensation is specified:

	2008	2007
Stock options	14	10
Stock appreciation rights	(2)	(1)
Performance shares	1	-
Total expense	13	9

29 Interests in joint ventures

DSM's share in its most important joint ventures is disclosed below:

Company	Location	Country	DSM interest 2008	DSM interest 2007
DEX-Plastomers VoF	Heerlen	NL	50%	50%
Noordgastransport B.V.	Zoetermeer	NL	40%	40%
EdeA VoF	Sittard-Geleen	NL	50%	50%

The financial data of joint ventures are included in the consolidated financial statements according to the method of proportionate consolidation. DSM's interests in the assets and liabilities, income and expense of these joint ventures are:

	2008	2007
Non-current assets	159	151
Current assets	68	75
Non-current liabilities	(100)	(100)
Current liabilities	(44)	(38)
Net assets	**83**	**88**
Net sales	134	121
Expenses	(95)	(82)
Net profit	**39**	**39**

30 Interests in associates

DSM's share in its most important associates is disclosed below:

Company	Location	Country	DSM interest 2008	DSM interest 2007
Nylon Polymer Company, LLC	Augusta	US	25%	25%
Xinhui Meida - DSM Nylon Chips Co. Ltd.	Guangzhou	CN	25%	25%

Investments in associates are accounted for by the equity method. The following table provides summarized financial information on associates on a 100% basis.

	2008	2007
Non-current assets	61	60
Current assets	45	66
Non-current liabilities	(15)	(5)
Current liabilities	(35)	(54)
Net assets	**56**	**67**
Net sales	256	217
Net result	(16)	(1)

31 Related parties

Related-parties disclosure relates entirely to the key management of DSM, being represented by the Managing Board and Supervisory Board of DSM.

The total remuneration (including pension expenditures and other commitments) of the members of the Managing Board amounted to € 4.6 million (2007: € 3.8 million). This includes fixed annual salary including other items to the amount of € 2.8 million (2007: € 2.8 million),bonuses to the amount of € 1.6 million (2007: € 1.0 million), and pension expenditure amounting to € 0.2 million (2007: zero) including a discount of € 0.2 million. For further information about the remuneration of the members of the Managing Board see note 10 to the financial statements of Royal DSM N.V.

Members of the Supervisory Board received a fixed remuneration (included in Other operating costs) totaling € 0.3 million (2007: € 0.3 million).

Further information about the remuneration of Managing Board members and Supervisory Board members and their share option rights is given on page 70 of the Report by the Supervisory Board.

32 Service fees paid to external auditors

The service fees recognized in the financial statements 2008 for the Ernst & Young network amounted to € 4.7 million for the audit of the financial statements (2007: € 4.6 million), € 1.1 million for other assurance services (2007: € 0.3 million), € 2.2 million for tax services (2007: € 2.1 million) and € 3.6 million for sundry services (2007: € 0.8 million). In 2008 the other assurance services and sundry services included additional services related to the carve-out process of DSM businesses now included in the Base Chemicals and Materials cluster. Included in the service fees recognized in the financial statements 2008 are the following amounts for Ernst & Young Accountants LLP: € 1.6 million for the audit of the financial statements (2007: € 1.6 million), € 0.7 million for other assurance services (2007: € 0.2 million), and nil for tax services and sundry services (2007: nil).

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Financial statements

Financial statements of Royal DSM N.V.

Balance sheet at 31 December

x € million	Notes	2008	2007
Assets			
Non-current assets			
Intangible assets	2	409	409
Property, plant and equipment	3	36	26
Financial assets	4	9,816	9,738
Deferred tax assets		45	-
		10,306	**10,173**
Current assets			
Receivables	5	155	473
Financial derivatives		1	27
Cash and cash equivalents		0	3
		156	**503**
Total		**10,462**	**10,676**
Shareholders' equity and liabilities			
Royal DSM N.V. Shareholders' equity	6	4,633	5,310
Non-current liabilities			
Deferred tax liabilities		-	217
Provisions	7	2	2
Borrowings	8	1,437	1,417
		1,439	**1,636**
Current liabilities			
Provisions	7	2	4
Borrowings	8	536	3
Financial derivatives		106	32
Other current liabilities	9	3,746	3,691
		4,390	**3,730**
Total		**10,462**	**10,676**

Income statement

x € million	2008	2007
Share in results of subsidiaries, joint ventures and associates (after income-tax expense)	765	529
Other income and expense	(188)	(100)
Net profit attributable to equity holders of Royal DSM N.V.	**577**	**429**

Notes to the Royal DSM N.V. financial statements

1 General

Unless stated otherwise, all amounts are in € million.

The company financial statements have been prepared in accordance with accounting principles generally accepted in the Netherlands.

The accounting policies used are the same as those used in the consolidated financial statements in accordance with the provisions of article 362-8 of Book 2 of the Dutch Civil Code. Investments in subsidiaries are accounted for in accordance with the equity method. In conformity with article 402, Book 2 of the Dutch Civil Code, a condensed income statement is included in the separate financial statements of Royal DSM N.V.

A list of DSM participations has been filed with the Chamber of Commerce for Limburg in Maastricht (Netherlands) and is available from the company upon request. The list can also be downloaded from the company's website www.dsm.com.

2 Intangible assets

The carrying amount of intangible assets mainly comprises goodwill for the acquisition of NeoResins in 2005 (€ 358 million), Crina in 2006 (€ 6 million) and Pentapharm in 2007 (€ 34 million).

3 Property, plant and equipment

This item mainly relates to land and buildings and corporate IT projects. Capital expenditure in 2008 was € 20 million, while the depreciation charge in 2008 was € 3 million. The historic cost of property, plant and equipment as at 31 December 2008 was € 75 million; accumulated depreciation amounted to € 39 million.

4 Financial assets

	Total	Subsidiaries		Other participations
		Share in equity	Loans	
Balance at 1 January 2007	**8,647**	**8,242**	**404**	**1**
Changes:				
- Share in profit	529	529	-	-
- Dividend received	(103)	(103)	-	-
- Capital payments	485	455	-	30
- Goodwill	(31)	(31)	-	-
- Net actuarial gains/(losses)	154	154	-	-
- Net asset ceiling	(46)	(46)	-	-
- Intra-group transactions	234	234	-	-
- Value adjustments	(10)	(10)	-	-
- Exchange differences	(164)	(164)	-	-
- Other changes	43	39	4	-
Balance at 31 December 2007	**9,738**	**9,299**	**408**	**31**
Changes:				
- Share in profit	765	765	-	-
- Dividend received	(85)	(85)	-	-
- Capital payments	176	95	-	81
- Net actuarial gains/(losses)	(944)	(944)	-	-
- Net asset ceiling	64	64	-	-
- Intra-group transactions	(2)	(2)	-	-
- Change of fair value reserve	(30)	-	-	(30)
- Change of hedging reserve	(20)	(20)	-	-
- Exchange differences	165	165	-	-
- Other changes	(11)	17	(15)	(13)
Balance at 31 December 2008	**9,816**	**9,354**	**393**	**69**

5 Receivables

	2008	2007
Receivable from subsidiaries	93	418
Other receivables	62	55
Total	**155**	**473**

6 Royal DSM N.V. Shareholders' equity

	2008	2007
Balance at 1 January	**5,310**	**5,784**
Net profit	577	429
Exchange differences, net of income tax	71	(140)
Net actuarial gains/(losses) on defined benefit obligations	(944)	154
Net asset ceiling related to defined benefit plans	64	(46)
Dividend	(220)	(193)
Repurchase of ordinary shares	(250)	(758)
Proceeds from reissue of ordinary shares	47	53
Other changes	(22)	27
Balance at 31 December	**4,633**	**5,310**

For details see the consolidated statement of changes in equity (note 18).

Legal reserve
Since the profits retained in Royal DSM N.V.'s subsidiaries, joint ventures and associates can be distributed, and received in the Netherlands, without restriction, no legal reserve for retained profits is required. In Royal DSM N.V. Shareholders’ equity an amount of € (122) million (2007: € (193) million) is included for Translation reserve, € 30 million (2007: € 48 million) for Hedging reserve and € (31) million (2007: € (9) million) for Fair value reserve.

7 Provisions

	2008		2007	
	Total	Of which current	Total	Of which current
Environmental costs	3	1	3	1
Other provisions	1	1	3	3
Total	**4**	**2**	**6**	**4**

The total of non-current and current provisions decreased by € 2 million. This is the net effect of the following changes:

	Balance at 1 January 2008	Additions	Releases	Uses	Balance at 31 December 2008
Environmental costs	3	1	0	(1)	3
Other provisions	3	0	(2)	0	1
Total 2008	**6**	**1**	**(2)**	**(1)**	**4**
Changes 2007		1	-	(2)	

8 Borrowings

	2008		2007	
	Total	Of which current	Total	Of which current
Debenture loans	1,398	177	1,210	-
Private loans	216	-	207	-
Credit institutions / commercial paper	359	359	3	3
Total	**1,973**	**536**	**1,420**	**3**

Of the total amount of borrowings outstanding at 31 December 2008, € 1,329 million had a remaining term of more than five years.

The repayment schedule for borrowings is as follows:

	2008	2007
2009	177	170
2010	-	-
2011	-	-
2012 and 2013	108	104
2014 through 2018	1,329	1,143
Total	**1,614**	**1,417**

In agreements governing loans with a residual amount at year-end 2008 of € 1,614 million, of which € 177 million were of a current nature (31 December 2007: € 1,417 million, none of which were of a current nature), clauses have been included which restrict the provision of security.

9 Other current liabilities

	2008	2007
Owing to subsidiaries	3,649	3,612
Other liabilities	94	73
Deferred items	3	6
Total	**3,746**	**3,691**

Contingent liabilities
Guarantee obligations on behalf of affiliated companies and third parties amounted to € 200 million (31 December 2007: € 247 million). Royal DSM N.V. has declared in writing that it accepts several liability for debts arising from acts-in-law of a number of consolidated companies. These debts are included in the consolidated balance sheet.

10 Remuneration of the members of the Managing Board

Total remuneration
The remuneration of the members of the Managing Board is determined by the Supervisory Board within the framework of the remuneration policy for 2008 and subsequent years as approved by the Annual General Meeting of Shareholders on 26 March 2008. More details about the remuneration policy are included in the Report of the Supervisory Board starting on page 70.

The total remuneration (including pension expenditure and other commitments) of the members of the Managing Board amounted to € 4.6 million (2007: € 3.8 million). The remuneration of the individual members of the Managing Board was as follows:

Feike Sijbesma: salary including other items € 796,000 (2007: € 643,000), bonus € 396,000 (2007: € 233,000), pension expenditure € 57,000 (2007: zero); Jan Zuidam: salary including other items € 529,000 (2007: € 515,000), bonus € 317,000 (2007: € 233,000), pension expenditure € 35,000 (2007: zero); Nico Gerardu: salary including other items € 506,000 (2007: € 492,000), bonus € 317,000 (2007: € 176,000), pension expenditure € 38,000 (2007: zero); Rolf-Dieter Schwalb: salary including other items € 506,000 (2007: € 493,000), bonus € 317,000 (2007: € 59,000), pension expenditure € 38,000 (2007: zero); Stephan Tanda: salary including other items € 508,000 (2007: € 332,000), bonus € 213,000 (2007: zero), pension expenditure € 38,000 (2007: zero).

Outstanding and exercised stock incentives
The following table shows the stock incentives of the individual members of the Managing Board and the rights exercised.

Overview of performance shares and stock options

	Year of issue	Outstanding on 31 Dec. 2007	In 2008 Granted	Exercised	Forfeited/ expired	Outstanding on 31 Dec. 2008	Average share price at exercise (€)	Exercise price (€)	Expiry date
Feike Sijbesma									
Stock options	2001	60,000	-	(60,000)	-	-	35.490	19.990	30 Mar. 2009
	2002	60,000	-	-	-	60,000		23.505	4 Apr. 2010
	2003	60,000	-	-	-	60,000		18.195	4 Apr. 2011
	2004	60,000	-	-	-	60,000		17.895	2 Apr. 2012
	2005	30,000	-	-	(22,500)	7,500		29.050	8 Apr. 2013
	2006	30,000	-	-	-	30,000		38.300	31 Mar. 2014
	2007	30,000	-	-	-	30,000		33.600	30 Mar. 2015
	2008	-	37,500	-	-	37,500		29.790	28 Mar. 2016
	Total	**330,000**	**37,500**	**(60,000)**	**(22,500)**	**285,000**			
Of which vested		240,000				187,500			
Performance shares	2005	8,000	-	-	(6,000)	2,000		29.050	
	2006	8,000	-	-	-	8,000		38.300	
	2007	8,000	-	-	-	8,000		33.600	
	2008	-	10,000	-	-	10,000		29.790	
		24,000	**10,000**	**-**	**(6,000)**	**28,000**			
Of which vested[1]		-				2,000			
Jan Zuidam									
Stock options	2001	60,000	-	(60,000)	-	-	36.922	19.990	30 Mar. 2009
	2002	60,000	-	-	-	60,000		23.505	4 Apr. 2010
	2003	60,000	-	-	-	60,000		18.195	4 Apr. 2011
	2004	60,000	-	-	-	60,000		17.895	2 Apr. 2012
	2005	30,000	-	-	(22,500)	7,500		29.050	8 Apr. 2013
	2006	30,000	-	-	-	30,000		38.300	31 Mar. 2014
	2007	30,000	-	-	-	30,000		33.600	30 Mar. 2015
	2008	-	30,000	-	-	30,000		29.790	28 Mar. 2016
	Total	**330,000**	**30,000**	**(60,000)**	**(22,500)**	**227,500**			
Of which vested		240,000				187,500			
Performance shares	2005	8,000	-	-	(6,000)	2,000		29.050	
	2006	8,000	-	-	-	8,000		38.300	
	2007	8,000	-	-	-	8,000		33.600	
	2008	-	8,000	-	-	8,000		29.790	
	Total	**24,000**	**8,000**	**-**	**(6,000)**	**26,000**			
Of which vested[1]		-				2,000			

1 In line with the Dutch corporate governance code, participants will retain any vested performance shares for a period of five consecutive years or to such moment employment is terminated.

	Year of issue	Outstanding on 31 Dec. 2007	In 2008			Outstanding on 31 Dec. 2008	Exercise price (€)	Expiry date
			Granted	Exercised	Forfeited/ expired			
Nico Gerardu								
Stock options	2002	36,000	-	-	-	36,000	23.505	4 Apr. 2010
	2003	36,000	-	-	-	36,000	18.195	4 Apr. 2011
	2004	36,000	-	-	-	36,000	17.895	2 Apr. 2012
	2005	36,000	-	-	(18,000)	18,000	29.050	8 Apr. 2013
	2006	30,000	-	-	-	30,000	38.300	31 Mar. 2014
	2007	30,000	-	-	-	30,000	33.600	30 Mar. 2015
	2008	-	30,000	-	-	30,000	29.790	28 Mar. 2016
	Total	**204,000**	**30,000**	**-**	**(18,000)**	**216,000**		
Of which vested		108,000				126,000		
Performance shares	2006	8,000	-	-	-	8,000	38.300	
	2007	8,000	-	-	-	8,000	33.600	
	2008	-	8,000	-	-	8,000	29.790	
	Total	**16,000**	**8,000**	**-**	**-**	**24,000**		
Of which vested		-				-		
Rolf-Dieter Schwalb								
Stock options	2007	30,000	-	-	-	30,000	33.600	30 Mar. 2015
	2008	-	30,000	-	-	30,000	29.790	28 Mar. 2016
	Total	**30,000**	**30,000**	**-**	**-**	**60,000**		
Of which vested		-				-		
Performance shares	2007	8,000	-	-	-	8,000	33.600	
	2008	-	8,000	-	-	8,000	29.790	
	Total	**8,000**	**8,000**	**-**	**-**	**16,000**		
Of which vested		-				-		
Stephan Tanda								
Stock options	2007	30,000	-	-	-	30,000	33.600	30 Mar. 2015
	2008	-	30,000	-	-	30,000	29.790	28 Mar. 2016
	Total	**30,000**	**30,000**	**-**	**-**	**60,000**		
Of which vested		-				-		
Performance shares	2007	8,000	-	-		8,000	33.600	
	2008	-	8,000	-	-	8,000	29.790	
	Total	**8,000**	**8,000**	**-**	**-**	**16,000**		
Of which vested		-				-		

Shares
In addition to the performance shares granted under the DSM Stock Incentive Plan, the members of the Managing Board have themselves invested in DSM shares. At year-end 2008 the members of the Managing Board together held 23,027 shares (year-end 2007: 12,050) in Royal DSM N.V.

Loans
The company does not provide any loans to members of the Managing Board.

11 Remuneration of the members of the Supervisory Board

The total remuneration (annual fixed fee and annual committee membership fee) of the members of the Supervisory Board amounted to €0.3 million (2007: €0.3 million).

The remuneration of the individual members of the Supervisory Board was as follows:

in €	Annual fixed fee	Committee fee	Other costs	Total	
				2008	2007
Cor Herkströter, chairman	50,000	7,500	3,499	60,999	61,991
Henk Bodt, deputy chairman till 26 March 2008	8,750	1,875	312	10,937	45,741
Ewald Kist, deputy chairman as from 26 March 2008	35,000	5,000	3,499	43,499	43,241
Louise Gunning-Schepers as from 26 March 2008	26,250	-	2,624	28,874	-
Pierre Hochuli	35,000	3,750	1,250	40,000	36,250
Okko Müller	-	-	-	-	10,313
Claudio Sonder	35,000	5,000	1,250	41,250	40,000
Tom de Swaan	35,000	6,875	3,499	45,374	43,241
Cees van Woudenberg	35,000	5,000	3,499	43,499	41,748
Total	**260,000**	**35,000**	**19,432**	**314,432**	
Total 2007	268,750	36,250	17,525	-	322,525

At year-end 2008 the members of the Supervisory Board held no shares (2007: 6,084 shares) in Royal DSM N.V.

Heerlen, 16 February 2009

MANAGING BOARD,
Feike Sijbesma
Jan Zuidam
Nico Gerardu
Rolf-Dieter Schwalb
Stephan Tanda

Heerlen, 17 February 2009

SUPERVISORY BOARD,
Cor Herkströter
Ewald Kist
Louise Gunning-Schepers
Pierre Hochuli
Claudio Sonder
Tom de Swaan
Cees van Woudenberg

Other information

Royal DSM N.V.

Attn. Managing Board of Directors

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements of Royal DSM N.V., Heerlen. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2008, the income statement, the statement of recognized income and expense, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at December 31, 2008, the company income statement for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Report by the Managing Board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Royal DSM N.V. as at December 31, 2008, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Royal DSM N.V. as at December 31, 2008, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Maastricht, 17 February 2009
Ernst & Young Accountants LLP

was signed by P.J.A.M. Jongstra

Profit appropriation

According to Article 32 of the Royal DSM N.V. Articles of Association and with the approval of the Supervisory Board, every year the Managing Board determines the portion of the net profit to be appropriated to the reserves. For the year 2008 the net profit is € 577 million and the amount to be appropriated to the reserves has been established at € 373 million. From the subsequent balance of the net profit (€ 204 million), dividend is first distributed on the cumulative preference shares B. At the end of 2008 no cumprefs B were in issue. Subsequently, a 4.348% dividend is distributed on the cumulative preference shares A, based on a share price of € 5.29 per cumulative preference share A. For 2008 this distribution amounts to € 0.23 per share, which is € 10 million in total. An interim dividend of € 0.08 per cumulative preference share A having been paid in August 2008, the final dividend will then amount to € 0.15 per cumulative preference share A.

The profits remaining after distribution of these dividends (€ 194 million) will be put at the disposal of the Annual General Meeting of Shareholders in accordance with the provisions of Article 32, section 6 of the Articles of Association.

In view of the above, the proposed dividend on ordinary shares outstanding for the year 2008 would amount to € 1.20 per share. An interim dividend of € 0.40 per ordinary share having been paid in August 2008, the final dividend would then amount to € 0.80 per ordinary share.

If the Annual General Meeting of Shareholders makes a decision in accordance with the proposal, the net profit will be appropriated as follows:

in € million	**2008**	2007
Net profit	577	429
Profit appropriation:		
- To be added to the reserves	373	215
- Dividend on cumprefs A	10	10
- Interim dividend on ordinary shares	65	59
- Final dividend payable on ordinary shares	129	145

Special statutory rights

DSM Preference Shares Foundation

The DSM Preference Shares Foundation was established in 1989.

By virtue of DSM's Articles of Association, 375,000,000 cumulative preference shares B can be issued. If, without the approval of the Managing Board and Supervisory Board, either a bid is made for the ordinary shares or a significant participation in ordinary shares is built up, or such an event is likely to occur, then these preference shares B may be issued, which shares shall have the same voting rights as the ordinary shares.

Under an agreement entered into between the DSM Preference Shares Foundation and DSM, the Foundation has the right to acquire such preference shares (call option) to a maximum corresponding to 100% of the capital issued in any form other than preference shares B, less one.

The purpose of such agreement is, amongst other things, for the Foundation to allow DSM the opportunity to determine its position, for example with regard to a possible bidder for DSM shares, to examine his plans in detail and, to the extent applicable, to look for (better) alternatives. Preference shares B will not be outstanding longer than necessary. As soon as there are no longer any reasons for the preference shares B to remain outstanding, the Managing Board will convene a General Meeting of Shareholders and recommend the cancellation of the preference shares B that are outstanding.

The Foundation acquired no preference shares B in 2008.

On 31 December 2008 the Foundation Committee was composed as follows:

Floris Maljers, chairman
Maarten van Veen, vice-chairman
Mick den Boogert

The Foundation Committee

Other information

Declaration of indepence

The DSM Managing Board and the Foundation Committee hereby declare that, according to their joint assessment, the DSM Preference Shares Foundation meets the independence requirements as referred to in article 5:71, first paragraph, under c of the Dutch Act on Financial Supervision (*Wet op het financieel toezicht*).

The Managing Board of Royal DSM N.V.

The Foundation Committee

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders is to be held at the DSM head office in Heerlen (Netherlands) on Wednesday, 25 March 2009 at 14.00 hours.

Important dates

Ex-dividend quotation	Friday, 27 March 2009
Publication of first-quarter results	Tuesday, 28 April 2009
Publication of second-quarter results	Tuesday, 4 August 2009
Publication of third-quarter results	Tuesday, 3 November 2009
Annual report 2009	Wednesday, 24 February 2010
Annual General Meeting of Shareholders	Wednesday, 31 March 2010

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DSM figures: five-year summary

Balance sheet

x € million	2008	2007	2006	2005	2004
Assets					
Intangible assets	1,200	1,037	1,008	1,003	453
Property, plant and equipment	3,641	3,440	3,655	3,750	3,811
Deferred tax assets	392	346	496	533	492
Prepaid pension costs	137	1,169	918	478	166
Associates	19	20	26	43	78
Other financial assets	176	126	100	189	82
Non-current assets	**5,565**	**6,138**	**6,203**	**5,996**	**5,082**
Inventories	1,765	1,547	1,515	1,535	1,348
Receivables	1,632	1,687	1,739	1,597	1,556
Financial derivatives	86	83	79	36	244
Current investments	4	4	3	5	6
Cash and cash equivalents	601	369	552	902	1,261
	4,088	**3,690**	**3,888**	**4,075**	**4,415**
Assets held for sale	-	-	-	43	-
Current assets	**4,088**	**3,690**	**3,888**	**4,118**	**4,415**
Total assets	**9,653**	**9,828**	**10,091**	**10,114**	**9,497**
Equity and liabilities					
Royal DSM N.V. Shareholders' equity	4,633	5,310	5,784	5,501	4,668
Minority interests	62	73	71	67	22
Equity	**4,695**	**5,383**	**5,855**	**5,568**	**4,690**
Deferred tax liabilities	122	344	383	219	134
Employee benefits liabilities	314	273	304	383	378
Provisions	190	170	188	166	284
Borrowings	1,559	1,560	907	1,381	1,497
Other non-current liabilities	65	35	44	53	60
Non-current liabilities	**2,250**	**2,382**	**1,826**	**2,202**	**2,353**
Employee benefits liabilities	33	9	21	23	39
Provisions	82	91	127	220	219
Borrowings	734	192	607	329	527
Financial derivatives	179	42	41	65	59
Other current liabilities	1,680	1,729	1,614	1,699	1,610
	2,708	**2,063**	**2,410**	**2,336**	**2,454**
Liabilities held for sale	-	-	-	8	-
Current liabilities	**2,708**	**2,063**	**2,410**	**2,344**	**2,454**
Total equity and liabilities	**9,653**	**9,828**	**10,091**	**10,114**	**9,497**

Income statement

x € million	2008	2007	2006	2005	2004
Net sales	9,297	8,757	8,380	8,195	7,832
Operating profit plus depreciation and amortization (EBITDA)	1,357	1,247	1,274	1,311	1,067
Operating profit (EBIT)	903	823	834	808	562
Net finance costs	(102)	(75)	(81)	(70)	(56)
Income tax expense	(196)	(183)	(198)	(180)	(103)
Share of the profit of associates	(3)	(2)	1	(2)	9
Net profit before exceptional items	**602**	**563**	**556**	**556**	**412**
Net profit from exceptional items	(31)	(129)	(4)	(36)	(142)
Profit for the year	**571**	**434**	**552**	**520**	**270**
Profit attributable to minority interests	6	(5)	(5)	7	23
Net profit attributable to equity holders of Royal DSM N.V.	**577**	**429**	**547**	**527**	**293**
Net profit attributable to holders of cumulative preference shares	(10)	(10)	(10)	(16)	(22)
Net profit used for calculating earnings per share	**567**	**419**	**537**	**511**	**271**
Capital employed	6,558	5,982	6,303	6,221	5,558
Capital expenditure:					
- Intangible assets and Property, plant and equipment	587	475	457	401	348
- Acquisitions	152	93	44	573	0
Disposals	27	52	165	222	28
Depreciation and amortization	454	424	451	567	613
Net debt[1]	1,781	1,338	921	832	339
Dividend	204	214	197	207	190
Workforce at 31 December (x 1000)	24	23	22	22	24
Employee benefits costs (x € million)	1,465	1,389	1,332	1,385	1,411
Ratios[1]					
- Net sales / average capital employed	1.48	1.43	1.34	1.34	1.34
- Current assets / current liabilities	1.51	1.78	1.61	1.76	1.80
- Equity / total assets	0.49	0.55	0.58	0.55	0.49
- Gearing (net debt / equity plus net debt)	0.28	0.20	0.14	0.13	0.07
- EBIT / net sales in %	9.7	9.4	10.0	9.9	7.2
- CFROI in %	8.7	8.3	8.5	9.1	8.1
- Net profit / average Royal DSM N.V. Shareholders' equity available to holders of ordinary shares in %	11.9	7.9	9.9	10.1	5.8
- EBITDA / net finance costs	13.3	16.6	15.7	18.7	19.1

1 To enhance comparability the net debt and ratios for 2004 do not include the impact of the temporary reclassification of cumulative preference shares A.

DSM figures: five-year summary

Information about ordinary DSM shares [1]

Per ordinary share in €	**2008**	2007	2006	2005	2004
Net profit before exceptional items	3.64	3.07	2.85	2.82	2.09
Net profit	3.45	2.35	2.83	2.68	1.41
Cash flow	6.20	5.56	5.21	5.65	4.52
Royal DSM N.V. Shareholders' equity	27.12	30.42	30.03	27.59	25.19
Dividend:	1.20[2]	1.20	1.00	1.00	0.875
- Interim dividend	0.40	0.33	0.33	0.29	0.290
- Final dividend	0.80	0.87	0.67	0.71	0.585
Pay-out including dividend on cumulative preference shares as % of net profit before exceptional items	36	35	38	33	45
Dividend yield (dividend as % of average price of an ordinary DSM share)	3.9	3.3	2.9	3.4	4.3
Share prices on Euronext Amsterdam:					
- Highest price	41.27	39.87	39.70	35.22	23.85
- Lowest price	15.76	31.63	28.58	23.07	17.88
- At 31 December	18.33	32.33	37.43	34.50	23.81
(x 1000)					
Number of ordinary shares outstanding:					
- At 31 December	162,227	166,897	184,850	190,923	191,957
- Average	164,196	178,541	189,550	190,783	191,617
Daily trading volumes on Euronext Amsterdam:					
- Average	1,783	1,590	1,301	1,063	1,014
- Lowest	152	94	267	238	26
- Highest	5,894	11,347	5,268	6,563	6,494

1 On 5 September 2005 DSM effected a share split on a two-for-one basis (two new shares for one old share) in order to increase the liquidity of the DSM share. The data regarding the number of shares and earnings per share in the overview have been presented as if the spliting of the ordinary DSM shares had taken place prior to all periods presented.
2 Subject to approval by the Annual General Meeting of Shareholders.

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Explanation of some financial concepts and ratios

General

In calculating financial profitability ratios use is made of the average of the opening and closing values of balance sheet items in the year under review.

The financial indicators per ordinary share are calculated on the basis of the average number of ordinary shares outstanding (average daily number). In calculating Royal DSM N.V. Shareholders' equity per ordinary share, however, the number of shares outstanding at year-end is used.

In calculating the figures per ordinary share and the 'net profit as a percentage of average Royal DSM N.V. Shareholders' equity available to holders of ordinary shares', the amounts available to the holders of cumulative preference shares are deducted from the profits and from Royal DSM N.V. Shareholders' equity.

Definitions

Capital employed
The total of the carrying amount of intangible assets and property, plant and equipment, inventories, trade receivables and other receivables, less trade payables and other current liabilities.

Capital expenditure
This includes all investments in intangible assets and property, plant and equipment as well as the acquisition of subsidiaries and associates.

Cash flow
Cash flow is net profit plus depreciation and amortization.

Cash flow return on investment (CFROI)
Cash flow return on investment is the sustainable cash flow (recurring EBITDA minus related annual tax and minus 1% depreciation on weighted average historic asset base) divided by weighted average asset base plus average working capital.

Disposals
This includes the disposal of intangible assets and property, plant and equipment as well as the disposal of participating interests and other securities.

Earnings before interest, tax, depreciation and amortization (EBITDA)
EBITDA is the sum total of operating profit plus depreciation and amortization.

Earnings per ordinary share
Net profit attributable to equity holders of Royal DSM N.V. minus dividend on cumulative preference shares, divided by the average number of ordinary shares outstanding.

Operating working capital
The total of inventories and trade receivables, less trade payables.

Return on capital employed (ROCE)
Operating profit as a percentage of average capital employed.

Total shareholder return (TSR)
Total shareholder return is capital gain plus dividend paid.

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