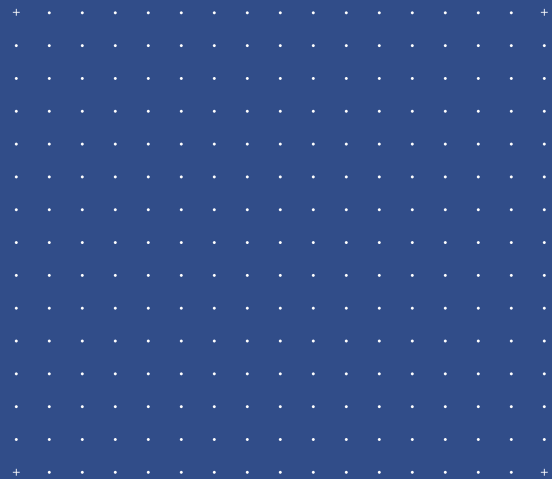


Life Sciences and Materials Sciences

# Embracing the Future



*Unlimited.* **DSM**

For reporting purposes the activities are grouped into four strategic clusters: Nutrition, Pharma, Performance Materials and Industrial Chemicals. In addition, DSM reports on a number of other activities, which have been grouped under *Other activities*.

## Performance Materials

€2,895m 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 electrics & 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 therefore more or less unlimited.

### DSM Resins

DSM Resins manufactures and sells high-quality resins which 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.

### 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.

## Industrial Chemicals

€1,937m Net Sales

### DSM Fibre Intermediates

DSM Fibre Intermediates produces caprolactam and acrylonitrile, which are raw materials for synthetic fibers and 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. It is increasingly used as a high-performance construction material.

### DSM Melamine

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

### DSM Agro

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

### DSM Energy

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

In line with the acceleration of DSM's strategy program *Vision 2010 – Building on Strengths*, the strategic clustering of activities has changed. Below is the new organizational structure, as of 1 January 2008.

### Nutrition

- DSM Nutritional Products
  - Human Nutrition and Health
  - Animal Nutrition and Health
- DSM Food Specialties

### Performance Materials

- DSM Engineering Plastics
- DSM Dyneema
- DSM Resins

### Base Chemicals and Materials

- DSM Agro
- DSM Elastomers
- DSM Melamine
- DSM Energy

### Pharma

- DSM Pharmaceutical Products
- DSM Anti-Infectives

### Polymer Intermediates

- DSM Fibre Intermediates

## 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.

### Nutrition

€2,543m

Net Sales

#### DSM Nutritional Products

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

##### - Human Nutrition and Health

Producer of functional food ingredients for the food industry and personal care ingredients for cosmetics and skin care product manufacturers.

##### - Animal Nutrition and Health

World market leader in vitamins, carotenoids and enzymes for the feed industry. Its products contribute to animal performance (for example for gut flora and 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.

#### DSM Special Products

DSM Special Products produces benzoic acid, sodium benzoate, benzaldehyde and benzyl alcohol. Its products such as Purox<sup>®</sup> S, Purox<sup>®</sup> B and VevoVital<sup>®</sup> are widely recognized for their purity and quality. The business unit supplies to a wide range of markets.

### Pharma

€981m

Net Sales

#### DSM Pharmaceutical Products

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

#### DSM Anti-Infectives

DSM Anti-Infectives holds global leadership positions in penicillin G, penicillin intermediates (6-APA and 7-ADCA), side chains, semi-synthetic penicillins, semi-synthetic cephalosporins and other active ingredients, such as potassium clavulanate and nystatin.

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 embracing the future by supporting a healthier, more sustainable and more enjoyable way of life.

The *Unlimited*.DSM brand reflects our continuous drive to improve – in sports for example, where innovative development and improvement in nutrition and materials can make the difference.

## *Unlimited*.DSM

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. See page 84 for a more in-depth look at DSM and sports.



# Key data for 2007

<b>Net sales</b> (x million)	<b>Operating profit, continuing operations (before exceptional items)</b> (x million)	<b>Net profit, continuing operations (before exceptional items)</b> (x million)
€8,757	€823	€558
<b>Net profit</b> (x million)	<b>Capital expenditure and acquisitions</b> (x million)	<b>Net earnings before exceptional items per ordinary share</b>
€429	€568	€3.07
<b>Dividend per ordinary share</b>	<b>Workforce (at year-end)</b>	<b>CFROI</b>
€1.20	23,254	8.3%

## 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, electrics and electronics, life protection and housing. DSM has annual sales of almost €8.8 billion and employs some 23,000 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](http://www.dsm.com).

### Forward-looking statements

This annual report contains forward-looking statements. These statements are based on current expectations, estimates and projections of DSM management and information currently available to the company. The statements involve certain risks and uncertainties that are difficult to predict and therefore DSM does not guarantee that its expectations will be realized. Furthermore, DSM has no obligation to update the statements contained in this annual report.

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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).

	2007	2006
<b>Key figures (x € million):</b>		
Net sales, continuing operations	8,757	8,352
Operating profit plus depreciation and amortization, continuing operations (EBITDA)	1,247	1,275
Operating profit, continuing operations (EBIT)	823	835
Net profit before exceptional items	558	551
Net result from exceptional items	(129)	(4)
Net profit	429	547
Depreciation and amortization	574	451
Cash flow (net profit plus amortization and depreciation)	1,003	998
Dividend	214	197
Capital expenditure (excluding acquisitions)	475	457
Acquisitions	93	44
Net debt	1,338	921
Shareholders' equity	5,310	5,784
Total assets	9,828	10,091
Capital employed	5,982	6,303
<b>Per ordinary share in €:</b>		
Net profit before exceptional items	3.07	2.85
Net profit	2.35	2.83
Dividend	1.20 <sup>1</sup>	1.00
Shareholders' equity	30.42	30.03
<b>Ratios (%):</b>		
EBIT / net sales	9.4	10.0
EBITDA / net sales	14.2	15.3
Operating working capital / net sales	21.4	21.6
CFROI	8.3	8.5
Gearing (net debt / equity plus net debt)	19.9	13.6
Equity / total assets	54.8	58.0
Cash flow from operating activities / net sales	9.4	7.5
EBITDA / net finance costs	16.6	15.7
<b>Workforce:</b>		
Year-average workforce	22,433	21,436
Workforce at 31 December	23,254	22,156

<sup>1</sup> Subject to approval by the Annual General Meeting of Shareholders.

# Letter from the Chairman

Dear reader,

On 1 May 2007 I was pleased to take over the role of Chairman from Peter Elverding, who contributed a great deal to DSM.

One of my resolutions was to communicate with all DSM stakeholders about our direction, developments and achievements. In my opinion, a dialogue with everyone who has an interest in DSM is very important.

In this annual report you will read about innovation, which is at the core of our business. Another element that is at the heart of our organization is responsibility. And finally, you will find in this annual report many examples of why we call ourselves *Unlimited*. DSM.

The year behind us was in many respects an important and exciting one. We announced the acceleration of our *Vision 2010 – Building on Strengths* strategy with ambitious, but attainable, new growth targets aimed at further value creation.

By accelerating our shift to a Life Sciences and Materials Sciences company we are convinced that we can contribute to unmet needs in the area of climate change, health & wellness and a more sophisticated society.

The unique combination of Life Sciences and Materials Sciences offers us an interesting platform for growth, amongst others in (white) biotechnology and biomedical materials.

At the same time we are stepping up our search for acquisitions, while maintaining our disciplined acquisition criteria. The businesses that do not fit in with our new strategic thrust are being carved out and divested or partnered with other companies. I admire the professionalism of the employees of these businesses in dealing with their new futures.

In 2007 we announced several new investments which will contribute to future growth.

Also, we announced a second share buy-back program of €750 million and we proposed to increase the annual dividend for 2007 by 20% to €1.20 per ordinary share, the largest dividend increase in 12 years.

DSM performed well in 2007. We surpassed our sales growth objective and our operating profit from continued operations almost mirrored the record achieved in 2006. Our earnings per share before exceptional items clearly increased.

All this was achieved despite considerable headwind such as the weak US dollar, continued high oil and raw-material prices and the phasing out of some favorable contracts. At the same time we stepped up our investments in innovations and expansion, as planned.

Innovation-related sales surpassed €350 million in 2007. We are well on our way to reaching our objective of €1 billion in innovation-related sales by the year 2010.

With many new innovative products launched in 2007 and many more in the pipeline for the coming years, we are showing that innovation is really embedded in our organization. It is becoming a part of our culture. The same goes for knowing what our customers want and need. A company's success depends on its ability to anticipate its customers' future needs.

Growth in the emerging markets remains very strong. We have raised our sales target for China from USD 1.0 billion to USD 1.5 billion in 2010. In 2007 we realized USD 956 million in sales in China, up 23% from almost USD 775 million in 2006. For countries such as Brazil, India and Russia we are also seeing further growth.

In the area of sustainability, we have doubled our energy savings target from 1% to 2% per year. All our other targets have been confirmed. Safety, of course, remains a priority for us. We are once again ranked among the global leaders in sustainability in our sector and have the ambition to remain a global leader.

A further reduction of our eco-footprint and increased utilization of renewable resources are other key elements in our sustainability policy. Many of our products help reduce CO<sub>2</sub> and other emissions.

At the end of 2007 we conducted our first employee-engagement survey on a global scale. An engaged workforce is critical and I have every confidence that our employees are able to make *Vision 2010* a success. We have proven before that we are able to transform ourselves.

A word of thanks to Peter Elverding, who in May 2007 stepped down as Chairman of the Managing Board after eight years. He played a pivotal and inspiring role in guiding DSM through the transformations set out in especially *Vision 2005*.





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

With the appointment of Stephan Tanda as member of the Managing Board, we have completed our management team. With two of the five current Managing Board members being non-Dutch nationals, international diversity of our top management has further increased.

The composition of our Supervisory Board also changed in 2007. Okko Müller stepped down after serving the maximum term of twelve years on the Supervisory Board. I would like to thank him for his commitment and his valuable contribution to DSM.

Our progress in 2007 would not have been possible without the efforts of all our 23,000 employees and the continued support of our customers and shareholders. I am confident that our accelerated *Vision 2010* strategy with a focus on Life Sciences and Materials Sciences will create significant value for all our stakeholders in the years to come.

Feike Sijbesma

Chairman of the Managing Board

[feike.sijbesma@dsm.com](mailto:feike.sijbesma@dsm.com)

# Investing in future profitable growth

In order to secure sustainable profitable growth in the future, investments are essential. They form an integral part of the *Vision 2010 – Building on Strengths* strategy. DSM is not only expanding production capacity in several areas, but is also committed to continued investments in innovation. In order to achieve external growth, the company has stepped up its search for acquisitions. Venturing remains an important activity to explore new technologies and business areas.

In 2007 capital expenditure on intangible assets and property, plant and equipment (excluding acquisitions) amounted to €475 million compared to €457 million in 2006. This was more than the level of amortization and depreciation before exceptional items. For 2008, DSM expects capital expenditure to rise versus 2007. As indicated in *Vision 2010*, DSM expects the average annual level of capital expenditure to be approximately €0.5 billion.

DSM acquired three companies in 2007, while six investments were made by DSM Venturing. Several decisions were taken for capacity expansions in various parts of the company. In 2008, too, DSM expects to announce several capacity expansions, all in line with the *Vision 2010* strategy.

An amount of €200 million has been earmarked for venturing activities over the period 2005-2012. Additional expenses for innovation will gradually rise to €70 million per year. In 2007 these amounted to more than €50 million compared to 2005. DSM expects to spend more than €75 million per year on small new business acquisitions until 2010.

All these investments, in combination with capital expenditure, will enable DSM to achieve its target of realizing €1 billion in innovation-related sales in 2010 and an organic sales growth of more than 5% per year for the period until 2010. This growth should be complemented by acquisitions.

In the following list all main announcements, especially major investments and acquisitions made in 2007 are summarized:

- |             |   |
|-------------|---|
| 30 January  | DSM announces the decision to build a DSM China Campus in the Zhangjian Hi-Tech Park in the Pudong New Area of Shanghai (China). The campus will comprise all Shanghai offices of DSM China and several business groups as well as the R&D labs of DSM in China.  |
| 19 February | DSM announces an equity investment in Harland Medical Systems, Inc. Harland markets technologies and solutions in medical coating applications. This is the third investment by DSM in a biomedical company in one year.  |
| 15 March    | DSM acquires Pamako Engineering AG in Zurich (Switzerland). The acquisition includes Pamako's technology for the production of UHMWPE (Ultra High Molecular Weight Polyethylene) based products. DSM will further develop and improve this technology and incorporate it in its existing business for Dyneema®. |
| 27 March    | DSM announces an investment in a new plant for producing engineering plastics compounds in India. The plant will triple DSM's capacity for the production of Akulon® PA6, Arnite® PBT and PET, and Stanyl® PA46 in India.   |
| 15 June     | DSM concludes that the greatest value for DSM Anti-Infectives will be generated through a partnering strategy possibly with – partial – disposals combined with innovation initiatives and further restructuring to improve profitability.  |
| 28 June     | DSM announces a comprehensive profit improvement program for DSM Nutritional Products that, through a mix of cost savings and increased profits from higher revenues, is expected to deliver an annual minimum of €100 million in improved profitability by 2010.   |
| 5 July      | DSM acquires privately owned Pentapharm Holding Ltd. The company, with sales of some €40 million per annum, employs about 200 people. Pentapharm holds a globally leading position in the development and production of active ingredients and system solutions for the cosmetics industry.                     |

27 August	DSM Venturing makes an investment in Food Quality Sensor International, Inc. This is the first equity investment in the field of Specialty Packaging, one of the Emerging Business Areas selected in <i>Vision 2010</i> .	26 October	The DSM NeoResins+ expansion in Meppen (Germany) has been completed successfully. The new manufacturing unit will manufacture specialty polyurethane dispersions for high-end decorative professional and DIY trim paints, metal and plastic coatings and parquet lacquers.
3 September	Construction of the DSM China Campus commences. It will be DSM's biggest and most important research facility outside Europe and the United States.	5 November	DSM Venturing participates in a financing round in Ganeden Biotech, Inc., a US probiotics company which markets dietary supplements focused on digestive health.
5 September	DSM Venturing invests in Jurilab Oy, a Finnish company specialized in the discovery of gene-disease associations and their application to healthcare.	6 November	In Jiangyin (China) DSM will expand engineering plastics compounding capacity by 50%. This expansion is an enhancement of DSM's existing capacity, which was doubled in 2006 with the opening of this new site.
11 September	DSM announces a restructuring of the manufacturing activities of DSM Nutritional Products in China and the development of the Xinghuo site in Shanghai as a strategic manufacturing base. As a consequence, the Gonglu site, also in Shanghai, will be closed.	26 November	DSM NeoResins+ successfully completes the new water-based alkyd manufacturing unit at its existing site in Hoek van Holland (Netherlands).
18 September	The Dutch government announces that it will provide funding of €45 million to the BioMedical Materials program, initiated by DSM and the University of Maastricht. The program is a public-private partnership focusing on research and development of biomedical materials. The program has a provisional budget of €90 million and will run for five years.	5 December	DSM announces a €25 million investment in a new factory for the production of waterborne acrylic resins in China.
21 September	DSM NeoResins+ announces an investment of €30 million in a new factory for waterborne emulsion resins in Waalwijk (Netherlands).	6 December	DSM Anti-Infectives signs a partnership with Mumbai (India) based Arch Pharmed Labs Ltd.
24 September	DSM Venturing announces an investment in the Danish company Upfront Chromatography A/S, the world's leading developer of customized industrial protein chromatography processes.	20 December	DSM Venturing makes an investment in Novomer, Inc. This US company is engaged in the development of a technology platform to use carbon dioxide and other renewable materials to produce performance polymers, plastics and other chemicals.
27 September	DSM announces the acceleration of <i>Vision 2010 – Building on Strengths</i> with a focus on Life Sciences and Materials Sciences. As a consequence DSM initiates a disposal program for non-core businesses and a stepped-up search for acquisitions to achieve external growth.		
5 October	DSM announces a €25 million investment in capacity expansion and modernization of the caprolactam plant in Geleen (Netherlands).		
8 October	DSM will invest to expand Dyneema UD production by 25% in Greenville, North Carolina (United States). The new line is expected to come on stream in 2008.		

Life Sciences and Materials Sciences

# Food ingredients & Polymers



DSM is one of the biggest suppliers of dairy ingredients in the world. DSM is also one of the world leaders in polymers used in many everyday applications.







Life Sciences and Materials Sciences

# Vitamins & Automotive

DSM is the world's largest supplier of nutritional ingredients such as vitamins, which are used in a wide variety of food products, including pet food. Numerous DSM materials can be found in the automotive industry.







# Taste enhancers & Electronics







DSM is a major supplier of ingredients for flavorings and flavor enhancers. The company also makes many materials used in components for mobile phones, computers and other consumer electronics.



Life Sciences and Materials Sciences

# Enzymes & Synthetic fibers

DSM is a world leader in the development of new enzymes for the food and beverage industries. It is also the inventor and producer of ultra-strong fibers that are used in the fishing, shipping and offshore industries.







# Embracing the Future

In today's society we need to take care of tomorrow. After all, our dependency on fossil fuels is putting increasing strain on the earth's resources. The continued increase in greenhouse-gas emissions is leading to growing concern about the environment.

With the continued growth of the emerging economies, it will be a challenge to balance the population growth combined with higher standards of living in these countries with lower emissions on a global scale.

A growing and aging world population increases the need for health and wellness products. At the same time, a more connected society is asking for new functionalities – products that are faster, lighter and easier to use.

Addressing all these issues makes innovation more important than ever. Innovation requires creativity, the ability to think 'out of the box' to come up with new solutions that help to improve the quality of life and make the world more sustainable. The future is for us to make, today.

## The wealth of health

The western world is being confronted with a rapid increase in diseases and disorders such as obesity, cardiovascular disorders and diabetes, which are connected with modern lifestyle patterns. Close to 80% of medicines used today serve to combat diseases that are related to nutrition and lifestyle.

Demand for innovative food and food ingredients is growing, as consumers are increasingly paying attention to their daily diets and are turning to foods with certain functionalities. In personal care, too, consumers are placing ever higher demands on the health and beauty effects of products.

At the same time, many developing countries are facing health issues related to the daily diet of their population. Staple foods in these countries are poor in micronutrients, such as vitamins and minerals. It is widely acknowledged that this 'hidden hunger' is holding back the development of these countries.

Meeting the rapidly growing demand for protein-rich diets requires feed ingredients that foster animal growth and reduce the ecological impact of animal farming, while at the same time safeguarding the health of both the farmed animal and the ultimate human consumer. The need to replace conventional growth promoters in animal feed calls for innovation in feed ingredients.

All this calls for sophisticated ingredients from manufacturers with expertise in the safety, quality and traceability of the ingredients they supply.

For the pharmaceutical industry, too, the supply of innovative and reliable ingredients is key. Growth in this industry is driven by technological advancements and demographics. Life expectancy has grown in the western world. In the emerging economies, population is rising fast, while life expectancy is also on the rise thanks to a higher standard of living.

However, our longevity and improved health and well-being come at a steep price. Spending on healthcare and pharmaceuticals is growing exponentially. There is increased pressure on the pharmaceutical industry not only to contain costs but also to continue delivering new medicines in order to maintain earnings growth. In this industry reliable, experienced partners for outsourcing are in high demand.

However, while pharmaceutical companies' expenditure on research and development (R&D) has increased in recent years, R&D productivity has declined. In order to improve their development pipelines, these companies are increasingly



looking for new opportunities, for instance in biopharmaceuticals.

Biological drugs such as proteins and monoclonal antibodies, produced with living cells, are a fast growing and very promising area with many possibilities to deal with diseases which cannot be addressed by conventional drugs. More research needs to be done to improve the yields for these new, still relatively expensive, drugs.

Based on a growing understanding of the impact of nutrition on physical and mental health as well as well-being, there is an increasing belief that the current clear distinction between pharmaceuticals and nutrition will diminish in the longer term.

### Less is more

Individualization and global networking characterize today's society. With the rapid advancement of technology and higher standards of living in emerging markets, more and more products are finding their way to an ever-faster growing group of consumers.

Products such as MP3 players, mobile phones and handheld computers are not only finding increasing usage, but are also starting to converge, incorporating more functionality.

Environmental concerns and worries about climate change call for new, advanced and 'green' materials with superior properties. In cars for instance, some metal parts such as trunks can be replaced by composite resins, helping to reduce weight resulting in lower fuel consumption.

The electronics industry is on the look-out for new engineering plastics to deal with the ongoing miniaturization trend, among



other things; the automotive sector is searching for lighter and stronger materials, to reduce energy use and CO<sub>2</sub> emissions. The building and construction sectors require advanced materials, partly to replace conventional materials such as steel.

In the paints and coatings industry, there is increasing demand – partly due to stricter regulations – for waterborne products that do not contain harmful solvents. The trend that calls for more durable and more eco-friendly solutions is also visible in packaging.

Also, people are becoming more concerned about their personal safety, which increases the need for lightweight materials to protect both people and their transport means.

In short, performance materials need to be better and stronger. Stronger, because this means that less material is needed to deliver the same performance. And less material means a smaller eco-footprint in both production and use. It also means less overall costs thanks to increased durability.

### Crossing roads

As demand for materials from alternative sources increases, biotechnology is having an increasing impact on the world of materials. This results in biodegradable and biorenewable materials, such as biopolymers, to be used in for example biomedical and packaging applications.

Apart from the increased popularity of so-called hybrid cars, biofuels are increasingly considered as an alternative to traditional fuels. Especially the so-called second generation, which is not competing with crops that can also be used for food consumption, could very well be a viable alternative to fossil fuels. This second generation allows the use of a much wider range of raw materials, with less impact on the food chain. They are also more environmentally friendly.

Also, materials are increasingly applied in medical applications. This opens a new emerging field of biomedical materials. These will play a key role in enabling medical breakthroughs in healthcare, such as the introduction of drug-eluting materials.

Although today's society appears to have many problems, at the same time new solutions are on the horizon. Dedication to innovation and research and an open mind to new technological developments can help in reducing greenhouse-gas emissions and providing a better quality of life, now and in the future.

# Report by the Managing Board

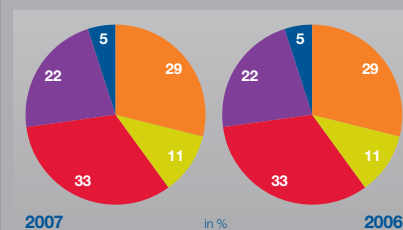
DSM performed well in 2007 with good sales growth and strong results in light of the challenges faced by the company during the year.

## Net sales and supplies

x € million	Net sales		Supplies	
	2007	2006	2007	2006
Nutrition	2,543	2,407	2,590	2,463
Pharma	981	916	1,031	967
Performance Materials	2,895	2,753	2,901	2,759
Industrial Chemicals	1,937	1,872	2,205	2,135
Other activities	401	404	455	422
Intra-group supplies	-	-	(425)	(394)
<b>Total, continuing operations</b>	<b>8,757</b>	8,352	<b>8,757</b>	8,352
Discontinued operations	-	28	-	28
<b>Total DSM</b>	<b>8,757</b>	8,380	<b>8,757</b>	8,380

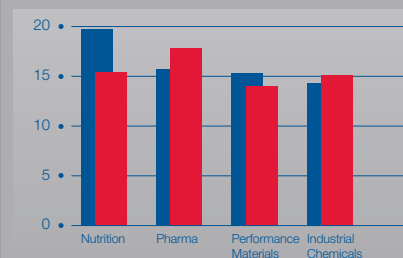
## Sales by segment from continuing operations

■ Nutrition ■ Industrial Chemicals  
■ Pharma ■ Other activities  
■ Performance Materials



## EBITDA / net sales from continuing operations

in % of net sales  
■ 2006  
■ 2007



## Operating profit plus depreciation and amortization (EBITDA)

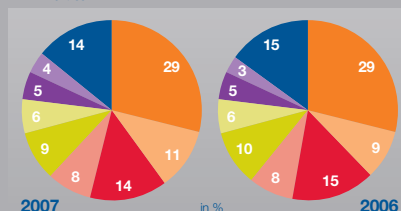
x € million	2007	2006
Nutrition	405	464
Pharma	174	146
Performance Materials	415	429
Industrial Chemicals	292	269
Other activities	(39)	(33)
<b>Total, continuing operations</b>	<b>1,247</b>	1,275
Discontinued operations	-	(1)
<b>Total DSM</b>	<b>1,247</b>	1,274

## Operating profit (EBIT)

x € million	2007	2006
Nutrition	264	314
Pharma	93	65
Performance Materials	321	329
Industrial Chemicals	225	196
Other activities	(80)	(69)
<b>Total, continuing operations</b>	<b>823</b>	835
Discontinued operations	-	(1)
<b>Total DSM</b>	<b>823</b>	834

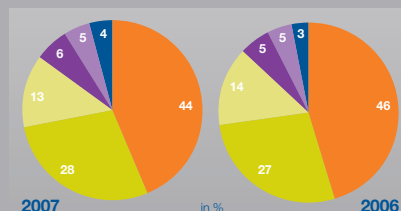
## End-use markets

■ Health and nutrition ■ Agriculture  
■ Pharmaceuticals ■ Electrics / electronics  
■ Metal / building / construction ■ Packaging  
■ Automotive / transport ■ Other  
■ Textiles



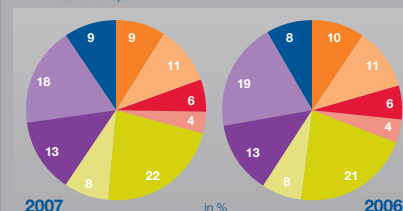
## Sales by origin from continuing operations

■ Netherlands ■ China  
■ Rest of Europe ■ Asia Pacific  
■ North America ■ Rest of the World



## Sales by destination from continuing operations

■ Netherlands ■ China  
■ Germany ■ Asia Pacific  
■ France ■ North America  
■ United Kingdom ■ Rest of the World  
■ Rest of Europe



**Highlights of 2007**

*Vision 2010 – Building on Strengths* accelerated  
 Innovation  
 Marketing and branding  
 Purchasing  
 Safety, health and the environment  
 Human resources  
 Research and development (R&D)  
 Corporate ICT  
 Corporate governance  
 Macro-economic review  
 Financial results

## Highlights of 2007

### General

DSM performed well in 2007 with good sales growth and strong results in light of the challenges faced by the company during the year. The US dollar weakened significantly and raw materials and energy prices remained high. Some favorable contracts in relation to the acquisition of Roche vitamins expired during the year and in some business segments DSM had to deal with strong competition. DSM managed, however, to increase sales volumes and selling prices and saw only a slight increase in fixed out-of-pocket costs compared to the previous year, despite higher expenditure on innovation, being an important investment in future profitable growth. In anti-infectives DSM saw a rapid temporary price increase in 2007. In the area of Nutrition we were able to successfully differentiate ourselves from the competition.

In 2007, sales from continuing operations increased by 5%. Organic sales growth amounted to 7%. This is 2% above the strategic target of 5%. Organic volume growth amounted to 3%, selling prices increased by 4%. Exchange rates on balance had a negative effect of 3%.

The volume increase was particularly strong in the Nutrition and Performance Materials clusters. The Industrial Chemicals cluster succeeded in achieving good volume growth while at the same time passing on the increased feedstock and energy costs in selling prices. The strongest price increase was realized by the Pharma cluster due to temporary shortages on the market for anti-infectives.

The operating profit from continuing operations amounted to €823 million, a decrease of 1% compared to the record of 2006.

Value creation clearly materialized once again in 2007, as the CFROI of 8.3% surpassed the company's weighted average cost of capital by 80 basis points.

### Nutrition

The Nutrition cluster realized sales growth of 6%. Organic volume growth amounted to 7% while prices were 2% higher. Exchange rates had a negative effect of 4%.

In DSM Nutritional Products both Animal Nutrition and Health and Human Nutrition and Health achieved solid volume growth. The negative price trend in the more mature part of the business was stopped and partly reversed by a differentiation strategy. Nevertheless, DSM Nutritional Products' operating profit declined as higher organic growth did not fully compensate for the expiration of the Roche contracts, higher energy and raw-material costs, higher innovation expenditure and negative exchange-rate effects.

DSM Food Specialties' sales and operating profit decreased due to the contractual phasing-out of the phytase tolling business in 2006. Higher sales volumes and margins as well as lower fixed costs caused a strong improvement (back to a small profit) at DSM Special Products.

### Pharma

The Pharma cluster saw sales rise by 7% due to the much higher selling prices at DSM Anti-Infectives. Prices contributed 11% to the sales growth, while volumes declined by 3%.

In 2007 the composition of the Managing Board of DSM changed due to the retirement of Peter Elverding and the appointment of Stephan Tanda. The Board continues to consist of five members. The following table gives an overview of the main responsibilities of the individual Managing Board members as from 1 January 2008:

Feike Sijbesma	Chairman	Overall
Jan Zuidam	Deputy Chairman	Pharma, Polymer Intermediates, Special Products
Rolf-Dieter Schwalb	CFO	Finance
Nico Gerardu	Member	Performance Materials, Base Chemicals and Materials
Stephan Tanda	Member	Nutrition

# Report by the Managing Board

The operating result of DSM Anti-Infectives improved strongly from the loss in 2006, as a result of much higher prices and the effect of restructuring measures. Volumes declined due to strong inventory effects in the volatile markets. The effect of higher selling prices had almost disappeared at the end of the fourth quarter.

The operating profit of DSM Pharmaceutical Products was close to the level of 2006, as the business group was almost able to compensate for the expiration of Roche contracts. DSM increased its innovation effort, specifically in the development of a new technology platform for active ingredients for generic drugs.

## Performance Materials

Increased volumes and higher selling prices resulted in a sales increase of 5%. Organic volume growth was 5%. Negative exchange-rate effects of 2% offset the higher price levels (2% higher on average). Operating profit decreased slightly, caused by DSM Engineering Plastics mainly due to a production outage of DSM Fibre Intermediates' caprolactam plant.

Higher fixed costs due to a higher activity level and increased innovation efforts affected the operating profit of all business groups, as did higher feedstock costs.

DSM Dyneema's operating profit was higher due to higher volumes. DSM Resins' operating profit was slightly higher as a result of higher sales volumes, margins and fixed costs. DSM Elastomers posted a slightly higher operating profit; higher sales volumes were partly offset by lower margins as a result of strongly increased raw-material prices and a weak US dollar.

## Industrial Chemicals

The Industrial Chemicals cluster showed a full-year sales increase of 3%. Organic volume growth amounted to 3% and prices were on average 5% higher. Exchange rate effects had a negative impact of 4%. The strong increases in energy and raw-material prices could on balance be fully passed on to the market.

DSM Fibre Intermediates' result increased thanks to higher margins. The operating profit of DSM Melamine increased strongly due to higher selling prices and the positive effect of its withdrawal from the AMEL joint venture in 2006. Higher margins led to a higher operating profit for DSM Agro. Lower prices for gas and a lower production level resulted in a lower operating profit at DSM Energy.

## Corporate strategy

DSM decided to bring forward the mid-term evaluation of its *Vision 2010 – Building on Strengths* strategy, originally planned for 2008. In this mid-term review, the company's strategic direction and priorities were scrutinized, and progress made was evaluated. DSM is convinced that it has chosen the right strategic direction with *Vision 2010* and that its evolution towards a Life Sciences and Materials Sciences company should be accelerated. Therefore, DSM will spur the growth of its core activities in the realms of Life Sciences and Materials Sciences and has raised its ambitions for organic growth in these fields. Ongoing commitment to innovation will drive this growth, actively exploiting the company's potential created by its unique and coherent portfolio of market positions and technologies. Further on, more details will be given.

In addition we announced a number of changes to our financial policies, such as a new dividend policy. A 20% increase in the dividend, to €1.20 per ordinary share, will be proposed at the Annual General Meeting of Shareholders of 2008. Furthermore, having completed the share buy-back program initiated in 2006, DSM has started a new program for a total consideration of €750 million, to be completed in 2008. DSM may halt the buy-back at any time, if a major acquisition needs financing.

DSM also reconfirmed its commitment to sustainability and will actively pursue this to reach the ambitious targets for 2010 set in its Triple P (People, Planet, Profit) program.

## Vision 2010 targets

	Previous target	New target
Organic sales growth	3-5%	>5%
EBITDA margins:		
Nutrition	>18%	>18%
Pharma	>18%	>19%
Performance Materials	≥16%	>17%
Polymer Intermediates		>13% (average)
Sales in China (by 2010)	USD 1 billion	USD 1.5 billion
Growth from innovation (by 2010)	€1 billion	€1 billion
CFROI	WACC (8%) + 50 basis points	WACC (7.5%) + 100 basis points
Specialty profile	50 → 60%	Towards 60%
Sustainability	Triple P program	Energy savings targets doubled; other targets confirmed
Total shareholder return	Above peer-group average	Above peer-group average





## Financials

DSM's financial position remained strong in 2007. Higher costs for energy, raw materials and innovation investments could be largely offset by price increases and by strict cost-control programs. Fixed out-of-pocket costs, amounting to €2.3 billion in 2007, increased only slightly compared to the previous year.

The rating institutions maintained their Single A credit rating for DSM. The company aims to generate a healthy cash flow. In 2007, cash flow from operating activities showed a 31% increase to €825 million.

Net debt stood at €1,338 million at year-end, an increase of €417 million. The increase was mainly due to the share buy-back program. DSM initiated a second €750 million buy-back program in 2007, after successfully completing the first program of €750 million. Gearing stood at 20% at year-end.

Capital expenditure (excluding acquisitions) amounted to €475 million, €51 million more than the level of depreciation and amortization before exceptional items. As indicated in *Vision 2010*, DSM expects the annual average level of capital expenditure to be approximately €0.5 billion.

## *Vision 2010 – Building on Strengths* accelerated

In October 2005 DSM defined its *Vision 2010 – Building on Strengths* strategy. The mid-term evaluation, originally planned for 2008, was brought forward to 2007. The company's strategic direction and priorities were scrutinized, and progress made was evaluated. DSM is convinced that it has chosen the right strategic direction with *Vision 2010* and that its evolution towards a Life Sciences and Materials Sciences company should be accelerated.

In this light a number of activities have been identified that do not fit in with the strategic thrust. These businesses will be carved out and divested to new owners for whom there is a stronger strategic fit and under whose ownership they can prosper further. These businesses, including DSM Agro, have been grouped in a new Base Chemicals and Materials cluster with effect from 1 January 2008.

DSM has concluded that the Citric Acid business will be better able to strengthen its market position and serve its customers in a partnership scenario. To facilitate the process towards an engagement with a third party, Citric Acid was carved out of DSM Nutritional Products and integrated into the Base Chemicals and Materials cluster as of 1 January 2008.

## Turane™



DSM Resins developed Turane™ resin technology for the automotive market. This new technology reduces cycle times in the manufacture of composite components for trucks. Turane™ composites equal epoxy-based materials in terms of performance. Composite truck parts save weight and thus help to reduce CO<sub>2</sub> emissions. Turane™ was used in the bodywork of the lightweight Nuna4, the winner of the Panasonic World Solar Challenge for solar-powered vehicles. The vehicle weighed barely 200 kg.

## PA4T



DSM has developed PA4T, the first new polymer in the 21st century worldwide. A small-scale market development plant will open in the first quarter of 2008. PA4T is a new high-performance polymer and the answer to market trends that call for miniaturization and convergence of electronic devices such as cell phones and computers. It will assist carmakers in continued weight reduction efforts for better fuel efficiency and lower costs. At selected customers, pre-marketing has started.

# Report by the Managing Board

After studying all options it was concluded that the best way to generate maximum value from the Anti-Infectives business would be through a partnering strategy, possibly with partial disposals. As part of this strategy, DSM Anti-Infectives will be carved out into a separate entity.

DSM Fibre Intermediates, in 2007 part of Industrial Chemicals, will be reported in a new cluster, Polymer Intermediates. The activities provide backward integration for DSM Engineering Plastics and have a strong leadership position.

As of 1 January 2008, DSM has five reporting clusters: Nutrition, Pharma, Performance Materials, Polymer Intermediates and Base Chemicals and Materials.

A stepped-up search for acquisition opportunities will further accelerate DSM's evolution towards a Life Sciences and Materials Sciences company. DSM will maintain its disciplined acquisition policy. Although DSM in principle wants to safeguard its current single A credit rating by the major rating agencies, DSM is willing to accept temporarily a deviation from single A ratios if an exceptional, strategically very attractive, large opportunity to strengthen the portfolio requires this. Even with the share buy-back program there is significant acquisition headroom available, especially considering the disposal program.

DSM's shift will deliver faster growth, higher margins and improved earnings quality. At the same time the review confirmed DSM's key strategic drivers of market-driven growth and innovation, an increased presence in emerging economies and operational excellence.

## 1. Market-driven growth and innovation

DSM aims for sales growth based on existing leadership positions, accelerated by innovation as well as selective acquisitions. This should lead to an annual organic sales growth of more than 5% per year. Organic sales growth in 2007 amounted to 7%.

Additional innovation spend in 2007 amounted to more than €50 million compared to 2005. In 2010 this amount will reach €70 million. 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 2007 innovation-driven sales surpassed €350 million.

To create new business platforms for the medium and long term, four specific Emerging Business Areas (EBAs) were identified in

2005. 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.

In 2007, further improvement practices and a uniform innovation reporting structure were implemented and a systematic approach towards building an innovation pipeline was adopted.

In these processes the DSM Innovation Center, established in 2006 to steer and monitor all developments in the innovation field, played a leading role. Furthermore, a large number of new people were hired throughout the company and actions were taken to be able to focus more specifically on DSM's commercialization and launch skills.

To accelerate its innovation efforts, DSM continues to invest in emerging companies as well as in add-on acquisitions. In 2007 DSM acquired Pamako Engineering AG in Switzerland, owner of technology for the production of UHMWPE (Ultra High Molecular Weight Polyethylene) based products. This technology will be used by DSM Dyneema.

DSM Nutritional Products acquired the privately owned company Pentapharm Holding Ltd., a global leader in the development and production of active ingredients and system solutions for the cosmetics industry. The company is particularly well known for its capabilities in innovation, which have won it high regard amongst customers and strong brand recognition in the industry.

DSM Venturing invested in Harland Medical Systems, Inc., a US company that markets technologies and solutions in medical coating applications. It also invested in Food Quality Sensor International, Inc., a US-based company which develops and commercializes novel technologies to detect the freshness levels of perishable foods.

Furthermore, DSM Venturing invested in Jurilab Oy, a Finnish company specialized in the discovery of gene-disease associations and their application to healthcare. DSM Venturing also participated in an investment round in the Danish company Upfront Chromatography A/S, the world's leading developer of customized industrial protein chromatography processes.

DSM Venturing participated in a financing round in Ganeden Biotech, Inc., a US probiotics company which markets dietary supplements focused on digestive health. At the end of 2007, DSM Venturing announced an investment in Novomer, Inc. This US-based company is developing a technology platform

to use carbon dioxide and other renewable materials to produce performance polymers, plastics and other chemicals. In addition to the investment, DSM and Novomer intend to sign a cooperation agreement.

DSM has also made additional investments in ventures in which it already participated and has invested in venturing funds.

An evaluation of the venturing activities resulted in a commitment to further expand DSM Venturing, as it has yielded positive results thus far, both financially and strategically. DSM has therefore earmarked up to €200 million for future venturing investments until 2012 and has also decided to consider investing in more grown-up young companies as well as in companies in the emerging economies.



## 2. Increased presence in emerging economies

DSM continues to experience strong growth in the emerging economies. As a percentage of total revenues, sales in emerging economies rose from 13% in 2006 to 15% in 2007. In line with DSM's increasing internationalization, the company continues its efforts to accelerate the diversification and internationalization of its workforce.

In 2007 DSM once again invested heavily in China. The company announced the start of the construction of the DSM China Campus in the Zhangjiang Hi-Tech Park in the Pudong New Area of Shanghai.

DSM also announced the closure of the Gonglu site and the expansion of the site in Xinghuo, which will become DSM's largest multi-product manufacturing location in China. At the Xinghuo site, the production of vitamins, intermediates and Teavigo® (the pure and natural green tea extract) will be expanded. Furthermore, as a strategic site Xinghuo will also host activities of DSM Desotech, Sizings & Binders (both part of DSM Resins) and the savory ingredients plant of DSM Food Specialties.

In Jiangyin DSM will increase its engineering plastics compounding capacity by 50%. In addition a new Akulon® plant is being built there that will commence operations in the course of 2008.

Over the past few years DSM has been experiencing growth rates in China of around 20% per year. Sales in China in 2007 amounted to USD 956 million, 23% more than in 2006. This has enabled us to raise the 2010 sales target for China from USD 1.0 billion to USD 1.5 billion.

In China, DSM continues to seek government approval for two joint ventures with North China Pharmaceutical Group Corporation Ltd. One joint venture is in the area of nutritional products (especially vitamin C and B12) and the other for anti-infective products (especially beta lactam antibiotics).

In 2007, DSM invested in a new plant for engineering plastics compounds in the Ranjangaon MIDC industrial zone, near Pune (India). With regard to Brazil and Russia, business opportunities were charted in 2007 and various investment decisions will be taken in 2008.

## 3. 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 which clearly represent step changes in performance and add to the bottom line.

DSM remains wholly committed to the pursuit of operational excellence and intends to continue and further strengthen the program with new initiatives in advanced manufacturing (for example yield improvements and energy savings), commercialization (product launch program) and pricing (Excellerate program).

Mid 2007, the outcome of the strategic review of DSM's anti-infectives business was announced. DSM concluded that the greatest value would be generated through a partnering strategy, possibly involving disposals combined with innovation initiatives and further profitability-enhancing measures. In 2007 progress was made with the planned carve-out of DSM Anti-Infectives.

In the summer of 2007 DSM launched a comprehensive profit improvement program at DSM Nutritional Products that will run through 2009. A mix of cost savings and increased profits from higher revenues is expected to deliver an annual minimum of €100 million in improved profitability by 2010. This will enable the Nutrition business to achieve the targeted EBITDA margin level of at least 18%.

# Report by the Managing Board

In the second year of *Vision 2010 – Building on Strengths*, DSM once again created value. The CFROI (Cash Flow Return on Investment) amounted to 8.3%. This means that DSM achieved a CFROI that exceeded the annual weighted average cost of capital (WACC) by 80 basis points. The – revised – target aims for a difference of 100 basis points.

The EBITDA / net sales margin targets set per cluster

	Target	Actual
Nutrition	>18%	16%
Pharma	>18%	18%
Performance Materials	≥16%	14%
Industrial Chemicals (on average over the cycle)	≥14%	15%

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

## The new Base Chemicals and Materials cluster includes:

Activity	Previous cluster	2007 sales (approx.)
Melamine, Urea, Fertilizers, Energy	Industrial Chemicals	€700 million
Elastomers	Performance Materials	€500 million
Special Products	Nutrition	€100 million
Maleic anhydride including derivatives	Pharma	€ 75 million
Citric Acid	Nutrition	€125 million

For Citric Acid a partnering strategy will be pursued.

## Innovation

### Top 50 innovation projects

All business groups of DSM fine-tuned their own individual innovation practices in 2007 with a focus on formulating their innovation strategy, filling their pipelines and/or rejuvenating their portfolios. In addition, the most important development projects have been listed in a Top 50 of projects, which are expected to generate the main part of the €1 billion in innovation-related sales targeted for 2010 and which all have projections that show considerably higher margins than DSM's traditional portfolio.

<sup>1</sup> This peer group consists of Akzo Nobel, BASF, Ciba, Clariant, Danisco, EMS Chemie Holding, ICI, Lanxess, Lonza Group, Novozymes, Rhodia and Solvay. (ICI will be removed from the group as the company is no longer listed).

### More than 350 new patent applications

In 2007, DSM filed more than 350 new patent applications, leading to a total of over 14,000 patents. DSM further strengthened its Intellectual Property position in the emerging economies. In India, for example, DSM filed 20% more patent applications in 2007 compared to 2006.

To strengthen its interaction with leading industry and technology experts DSM established several scientific advisory boards in 2007, plus a DSM Chair of Innovation Management at RSM Erasmus University in Rotterdam, the Netherlands.

### Exploiting cross-cluster synergy

In 2007 DSM increased its focus on exploring cross-cluster opportunities between its Life Sciences and Materials Sciences activities based on the unique position of being able to combine a broad range of in-house capabilities in the fields of biotechnology, pharmaceuticals, chemistry and materials science.

A good example of the combination of competences was the opening of a state-of-the-art process flavors plant in China in May 2007. This was an important milestone in a program in which extrusion technology developed by DSM Engineering Plastics was applied to process yeast extracts, enabling the addition of new ingredients in an innovative way and allowing for variable process conditions, resulting in an extended product offering for process flavors.

Many other, still early-phase synergy projects were initiated. These include bio-based materials for which the materials-science competences are being combined with DSM's expertise in white biotechnology and the development of a fermentative production process for caprolactam.

DSM's combined skills in various market and technological areas also form the basis for the Biomedical, Specialty Packaging, Personalized Nutrition and White Biotechnology Emerging Business Areas which are highlighted in the section on the DSM Innovation Center.

### DSM Innovation Center

The DSM Innovation Center was set up in 2006 to support the achievement of the DSM innovation targets as set out in *Vision 2010 – Building on Strengths*. This includes the targets related to the overall additional sales objective of €1.0 billion from 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, Corporate Technology, Intellectual Property, Licensing





and Venturing, the Business Incubator, four Emerging Business Areas and Base-of-the-Pyramid activities.

In 2007 the DSM Innovation Center initiated a further enhancement of DSM's innovation capabilities and competences. In addition, the efficacy of the innovation resources was enhanced by actively sharing best practices throughout the organization and setting up action plans in cooperation with the various business groups to improve certain areas.

The Emerging Business Area programs, 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 2007. These Emerging Business Areas optimally combine expected social and technological trends with DSM's current market strongholds and technology positions.

In Specialty Packaging and Personalized Nutrition the first concepts were patent-protected and venturing investments were carried out. In the area of White Biotechnology DSM set up an internal program and engaged in discussions with premier partners complementing DSM's skills in life sciences, chemistry and materials in this field. One of the early concrete results was a decision to join the €100 million French BioHub program, in which several life-science companies work together aiming to develop new materials with specific performance characteristics from renewable feedstocks.

DSM's efforts in White Biotechnology are also aimed at the development of technology to convert specifically those plant materials that are not suitable for use in the food chain. These could be agricultural residues such as stems and leaves but also non-edible plants that can be grown on pasture land. DSM is working on converting the bulk of the plant into fuels or other chemicals rather than just the part suitable for food, as is the case with current technology. Successful commercialization will among other things require extensive programs for developing new fermentation organisms that produce biofuels and biochemicals and for selecting an appropriate set of plant-hydrolyzing enzymes.

In Biomedical the first medical coatings sales were realized at several key medical-device customers. In addition, the public/private partnership Biomedical Materials, co-initiated by DSM, will receive €45 million in funding from the Dutch government and started a 5-year €90 million program. Furthermore, Dyneema Purity® achieved considerable growth. Initial efforts in developing polymer platforms and technology for drug delivery were started.

## Halogen-free flame-retardant solutions



DSM Engineering Plastics successfully developed halogen-free flame-retardant polyesters. Two products have been introduced:

Arnite® XG meets international requirements for electrical equipment and is the answer to the strong market trend towards sustainable, halogen-free products. It is used in unattended household appliances such as washing machines, driers and dishwashers.

Armitel® XG is a zero-halogen flame-retardant product for cable insulation in consumer electronics. The product tailors to growing needs in the consumer electronics industry for using materials and technologies that are environmentally safer.

## @claryl



The individual colors in an artwork, print or photo framed behind window glass can easily look dull. This is because not enough light can penetrate through to see them properly. With @claryl picture glass the extra light that reaches the picture makes all the colors much more visible. Each detail will also be sharper and clearer than with window glass.

# Report by the Managing Board

Apart from the selected Emerging Business Areas, the DSM Innovation Center started working on identifying potential new Emerging Business Areas to ensure that innovation in the company remains aligned with future needs.

Within the Business Incubator, the Functional Coatings program resulted in the successful launch of @claryl picture glass in various European countries. To extend the technology/IP platform in this area, DSM acquired a novel nanoparticle invention from the University of Sheffield (UK). The licensing deal included a long-term research collaboration between DSM and the University of Sheffield through which both parties will benefit from potential new developments.

## Marketing and branding

Marketing and brand management are very important to DSM in the context of the heightened focus on market-driven growth and innovation as well as its aim of increasing the specialty portion of its portfolio. It is vital to know what the customer wants and needs. In 2007 the focus was on continuing the value-based-pricing activities and further improving the e-business capabilities of our businesses.

As a next key area, DSM started the implementation of its program to improve the commercialization capabilities of its organization with regard to innovations. These activities are discussed separately below.

### Value-based pricing

In 2005 DSM launched a program to support the business groups in improving their marketing and sales capabilities with a focus on value-based pricing, stronger market orientation and the concept to differentiate the steering of markets and customers. Value-based pricing is about getting a price for a product that reflects the value DSM creates for its customers and end-users.

### e-Business

DSM's continued investments in an advanced and robust e-business architecture and infrastructure enable the company to increasingly conduct business with key customers and suppliers in a smooth way.

The expected growth in e-logistics in Europe has been realized and now the majority of deliveries via road are steered via e-business. More than 100,000 messages are shared with our logistic providers on an annual basis. An increase in the use of this capability is foreseen in the United States.

DSM is connected to more than 500 business partners via ERP connections. In 2007 over 5,000 customers placed orders via the web shop, with an accumulated total of above 42,000 orders last year.

The objective for the coming years is to further professionalize the prospect-to-order process with the aid of e-business tools.

DSM continues to develop global e-marketing tools and a customer information management program. This enables us to combine our increased marketing efforts with the latest e-business possibilities.

### Commercialization, innovation and product launch

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 2007 this resulted in a number of accelerated product launches.

## Purchasing

The new global DSM purchasing organization which was set up in 2006 enabled us to further professionalize our purchasing activities and to leverage our purchasing competences, realizing a better total cost of ownership and a corresponding competitive advantage. The execution of the DSM purchasing strategy is being supported by standard processes and systems.

DSM Purchasing realized its targets for the year. During the year risk management (security of supply) and building strong business intelligence were key topics, while the focus was also on business growth and innovation. In cooperation with the DSM Innovation Center, the innovation process was further developed, resulting in a number of innovative projects.

DSM's strengthening position in emerging economies also opens opportunities for DSM Purchasing. Our Low Cost Country Program proved to be successful and won us the Dutch Sourcing Award.

### Code of conduct

DSM Purchasing has developed a code of conduct for suppliers. This code will help suppliers to comply with DSM's high standards. In this code, the minimum requirements regarding social and working conditions and safety, security and environmental aspects are prescribed. This code of



conduct is part of the comprehensive program that has been developed in order to embed sustainable performance in all our supply-base processes and procedures. At year-end 2007, more than 500 key suppliers had been approached, covering 52% of spend. The second phase is underway in order to cover 70% of spend and to implement auditing procedures.

## Safety, health and the environment

### Safety

DSM has set itself the target of reducing the total number of recordable injuries by 50% between 2005 and 2010. This target covers both DSM personnel and personnel of contractors that work on DSM premises. In 2007 the total number of recordable injuries per 100 employees was 0.82, compared to 0.95 in 2005, a reduction of 14% in two years. By continuing our attention and consistently executing our programs we expect to achieve our ambitious 2010 target of 50% reduction compared to 2005.

Nevertheless, on 11 April a fatal incident occurred. A contractor employee at DSM Nutritional Products Premix Argentina was fatally injured during cleaning activities. It became clear that no effective Lock-Out/Tag-Out (LOTO) procedure (disconnecting the electrical power) had been applied. The fatality has triggered a global initiative to check and improve our practices on Lock-Out/Tag-Out as well as other essential practices related to operations and maintenance.

### Health

In 2007, 18 cases of work-related illness were reported, compared to 16 in 2006 and 19 in 2005. In 2007 all sites checked the completeness of their risk assessment with regard to exposure to substances. As a result, actions were defined to further streamline the systems and improve the quality of information on hazards. Against the background of the new REACH legislation in the European Union it was concluded that in the coming 10 years DSM will have to participate in the registration of some 500 substances that occur in our products and intermediates. DSM has approached 1,200 suppliers to start communication about their intentions regarding the registration of the substances in the products they supply.

### Environment

DSM has set itself environmental targets for 2010 on the basis of the principle that all our 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 addition, DSM aims to achieve a 5% cut in its overall waste volume compared to 2005 and to eliminate the landfilling of hazardous waste.


## PER.C6<sup>®</sup> Manufacturing Platform



DSM Pharmaceutical Products and Crucell have jointly developed the XD™ process, involving a high-density cell culture with (human) PER.C6<sup>®</sup> cells. This innovation is based on clever design of the cell-culture processing equipment and can lead to a paradigm shift in the manufacturing of complex, costly biopharmaceuticals such as recombinant proteins including monoclonal antibodies. This achievement represents another step forward in the establishment of the PER.C6<sup>®</sup> protein manufacturing platform, jointly developed by Crucell and DSM, as the leading (human) technology in the industry and will make biopharmaceuticals cheaper and therefore available to a much wider patient population than today. In addition, the human PER.C6<sup>®</sup> cells have the potential to bestow beneficial properties on the biopharmaceuticals they are programmed to produce, and minimize side effects potentially associated with the use of non-human cell systems. In 2007, a yield of 13 grams per liter was achieved for XD™ and PER.C6<sup>®</sup>.

# Report by the Managing Board

In 2007, based on findings in pilots, the target for the reduction of energy use was doubled from 1% to 2% per year. Significant steps in 2007 towards the realization of our environmental targets were the reduction of dust emissions at the DSM Anti-Infectives site in Zhangjiakou (China) and the reduction of waste water at the DSM Fibre Intermediates site in Nanjing (China) and the DSM Food Specialties site in Seclin (France). At the end of 2007 DSM Agro realized process modifications that will enable the reduction of N<sub>2</sub>O emissions. This project will reduce DSM's worldwide greenhouse-gas emissions by 15%, which is in line with our 2010 target. Overall we made good progress in 2007 towards achieving our challenging environment related reduction targets for the period 2005-2010.

For more information please visit [www.dsm.com](http://www.dsm.com), Sustainability section. 

## Human resources

DSM workforce at year-end in:

	2007	2006
Europe	14,343	14,037
- the Netherlands	7,219	7,061
- rest of Europe	7,124	6,976
Asia	4,760	4,145
- China	3,564	3,031
- rest of Asia	1,196	1,114
North and South America	3,873	3,690
Rest of the world	278	284
<b>Total DSM</b>	<b>23,254</b>	<b>22,156</b>

### Leadership

In 2007 the HR Leadership Board was established, a platform of HR representatives of all business clusters. The creation of this Board aims to facilitate the implementation of global human resource strategies and policies, to support the alignment and acceleration of HR initiatives at business and company-wide level, and to further improve the professionalism of the human resource discipline.

In 2007 our new HR strategy, labeled 'Passion for People', was actively implemented on many fronts, helping to equip our employees to deal successfully with the challenges of a changing company operating in a fast-moving global marketplace.

### Managing resourcing

The year 2007 saw significant inroads made into the realization of the recruitment and resourcing priorities established in 2006.

Dedicated resourcing and recruitment teams were established in both the United States and China in 2007, with plans to increase this presence in Switzerland, and potentially India, in 2008.

The year 2007 also saw the preparation of the global employer branding initiative in an effort to attract, acquire and retain the talent needed to accomplish key business objectives in an increasingly competitive labor market. The outcome of this initiative will be seen in 2008.

Throughout 2007 DSM also focused on developing its presence in the academic arena as an employer of choice, with the establishment of strategic collaborations with key European business schools. The year 2008 will see the replication of these strategic collaborations with business schools throughout the United States and China to further strengthen the talent pipeline. It will also be the launch year for the new global academic program – 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.

In 2007, 100 academics were hired onto the global internship programs, an increase of 12% compared to 2006.

- Number of hires resulting from internship assignments in 2007: 11
- Number of hires resulting from internship assignments in 2006: 9

An increased focus on succession planning and talent pipelining was enabled via the deployment of several successful Talent Pull programs throughout the year. In 2007, 68 people were hired into key positions across the organization as a result of the Talent Pull program.

An increased focus on innovation, internationalization and diversity in the recruitment processes has enabled DSM to compete for global talent across all the relevant business sectors. Some examples of this focus can be seen in particular amongst executives and academic hires:

- Inflow of total professional hires (non-executives) in 2007 was 608 compared to 420 in 2006.
- Inflow of new academics in 2007 was 175 compared to 128 in 2006.



- Inflow of non-Dutch professionals hires in 2007 was 394 compared to 203 in 2006.
- Inflow of experienced professional hires in 2007 was 432 compared to 310 in 2006.
- Inflow of executives in 2007 was 30 compared to 18 in 2006.
- Inflow of non-Dutch executives in 2007 was 17 compared to 12 in 2006.

#### Redesign of management development process

DSM has significantly changed over the past 10 years. We have acquired businesses, divested activities, our portfolio has diversified, and we have become more international. In 2007 we embarked on a redesign of our current Management Development process. The outcome will be a new process called Career Management. This will facilitate employees' career development on an annual basis, offering them a clear sense of ownership of their own careers while providing management with increased transparency concerning career opportunities within DSM. This will help to support the internationalization and diversification of DSM's activities while simultaneously fostering performance management and succession planning. The Career Management process will be implemented during 2008.

#### Diversity

Against the background of developments such as the company's ongoing expansion and the multinational and changing character of the markets we serve, DSM has devoted considerable attention to strengthening diversity, in terms of both nationality and gender. A broader and more diverse workforce better reflects the company's presence in the various countries and markets around the world, and increases DSM's connectivity to its markets and customers. Diverse groups also enjoy a competitive advantage concerning their ability to make effective decisions.

The intensified efforts with regard to stimulating diversity during the year under review have led to the formulation of various new objectives. The inflow of new non-Dutch executives, 55% of the total executives inflow in 2007, should increase to 60% by the end of 2010. In 2007, 6% of DSM executives were female. Over the period 2008-2010 we want the inflow of female executives to be 25% annually. Comparable objectives have also been set with regard to the corporate headquarters. DSM's task force on diversity is headed by the chairman of the Managing Board.

#### DSM Business Support

In 2006 we announced our intention to introduce SAP-HR in the United States and the Netherlands in 2007. The HR Business Support Center in the Netherlands commenced operations on 1 May 2007, while its counterpart in the United States went live with effect from 1 January 2008. The phased

inclusion of all legal entities will be finalized in mid-2008 for the United States and with effect from 1 January 2009 for the Netherlands.

#### Employee engagement survey

Following the one-time sample Working Climate Analysis in 2004, DSM decided in 2007 to annually conduct a global employee engagement survey. An engaged, fully committed workforce is critical for the company in realizing its *Vision 2010* ambitions as it delivers a competitive advantage – because engaged and committed employees are highly motivated to give their best every day. In December 2007 the questionnaire was distributed in 18 languages to DSM employees in 44 countries. A total of 11,936 employees responded, 63% of all employees who had been invited to participate. The main aim of the survey was to measure DSM's engagement index. This index consists of four attributes: commitment, pride, advocacy and satisfaction. Of the 11,936 responses, 62% scored favorably on the DSM engagement index. The outcome of the survey will be assessed by the Managing Board. The Board is convinced that the survey has tremendous value for DSM and will therefore actively stimulate the deployment of the survey's results in the organization.

## Research and development (R&D)

Our R&D plays a key role in the realization of our innovation strategy. Most of our annual R&D expenditure is directed towards business-focused R&D programs. In addition we have a Corporate Research Program in place to build and strengthen the technological competences we need to execute our development projects.

#### R&D expenditure

Expenditure on R&D in 2007 amounted to €372 million (4.2% of net sales), a 7% rise compared to the €347 million (4.2% of net sales) in 2006. The R&D expenditure reported for 2007 includes the associated IP expenditure. This will be standard practice from now on. To enable comparison with 2006, the overview of R&D expenditure for 2006 has been updated to include IP expenditure.

R&D expenditure in the Nutrition cluster amounted to €136 million, compared to €140 million in the previous year. R&D expenditure in the Pharma cluster was at a level of €68 million (2006: €59 million). In Performance Materials, R&D expenditure amounted to €131 million (2006: €115 million) and in Industrial Chemicals to €23 million (2006: €21 million). At 31 December 2007, a total of 2,130 staff were employed in R&D activities, representing some 9% of the total workforce.

# Report by the Managing Board

## Global Virtual Lab

Given the organizational and geographic spread of our R&D activities, we seek to ensure synergy and knowledge sharing across the company with a Global Virtual Lab. We have a company-level system for the management of competences, projects and project portfolios and human resources. This enables us to efficiently steer through our innovation process. In 2007 we defined the key competence areas for the company which will be the focus of our company-level competence development efforts. We see a lot of technological synergy between Life Sciences and Materials Sciences, our two key focus areas.

## Open innovation

In 2007 we made major progress in establishing a company-wide open innovation process, in which internal and external collaboration, licensing, venturing and spinning in and out play an important part. In line with our open innovation approach, our R&D activities are carried out in ongoing interaction with the outside world.

## Innovation Awards Program

In 2007 we successfully completed the implementation of our new Innovation Awards Program, which seeks to recognize and reward exceptional achievements by our employees as well as by experts working outside DSM. The awards are an important means of stimulating innovation and are also useful in inspirational human resource management.

## DSM Innovation Award 2007

Our top internal award for outstanding team-based innovative achievements is the DSM Innovation Award. The 2007 award went to a combined DSM Pharmaceutical Products / DSM Anti-Infectives team that solved a big problem for a major pharmaceutical customer by developing a recombinant pig liver esterase (PLE) to replace animal-derived PLE. The development involved an intensive multi-disciplinary and multi-site effort and was achieved in record time.

## DSM Nutrition Award 2007

The DSM Nutrition Award is one of the awards we have in place for outside specialists. It is granted every two years, alternately for human and animal nutrition. The 2007 award was granted to Dr R. John Wallace, of the Rowett Research Institute in Aberdeen, Scotland (UK), in recognition of his pioneering research in the field of animal nutrition. Dr Wallace is one of the world's leading ruminant nutritionists and has published over 150 original scientific papers that have had a great impact on ruminant nutrition research. The award was presented to Dr Wallace at the 58th Annual Meeting of the European Association for Animal Production in Dublin (Ireland) on 28 August 2007.

## DSM Science & Technology Awards

The DSM Science & Technology Awards for outstanding PhD research by doctoral students were for the first time granted in two European regions in 2007. The awards went to Dutch researcher Maaïke Kroon of the Delft University of Technology (Netherlands) and Swiss researcher Bernd Bodenmiller of the Swiss Federal Institute of Technology in Zurich (Switzerland).

Maaïke Kroon was rewarded for her PhD research in the field of combined reactions and separations. Bernd Bodenmiller was rewarded for his PhD research in proteomics (the study of proteins in a cell).

## Corporate Research Program

We have a Corporate Research Program in place that not only enables us to develop our competences but also lays the basis for new developments achieved by the different R&D groups in our company. In 2007, various projects were carried out within the framework of the Corporate Research Program in the six key competence areas of DSM: Advanced Synthetic Methods, the Biotechnology Platform, the Nutrition Platform, Chemistry & Technology of Polymers & Resins, the Materials Science Platform and Process Technology & Process Design.

## Scientific Advisory Board

We have installed an international Scientific Advisory Board. In 2007 this advisory body, which works closely with DSM's internal Science & Technology Council, visited several of our sites and held discussions with key R&D and technology staff in order to analyze DSM's capabilities and current technology position. The board will advise DSM on science and technology matters on an ongoing basis.

The board comprises five leading experts:

- Professor Bert Meijer (Eindhoven University of Technology, Netherlands) (chairman)
- Professor Hannelore Daniel (Munich University of Technology, Germany)
- Professor Gerhart Eigenberger (University of Stuttgart, Germany)
- Professor Ed Kramer (University of California, Santa Barbara, United States)
- Professor Hermann Sahm (University of Dusseldorf and Julich Research Center, Germany)

## R&D in Nutrition and Pharma

In 2007 R&D 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 i-flex™ ⓘ for joint health, BeauActive™ MTP for an instantly smoother skin and a more youthful appearance and Ronozyme® P, a more thermostable phytase complemented by product forms for different application fields. The innovation capabilities of DSM's Nutrition cluster are increasingly being recognized by major food, beverage and dietary supplement manufacturers as well as cosmetics companies.

Innovations in specialty ingredients include InsuVital™ ⓘ, a new and safe ingredient for blood glucose management. Another Food Specialties development is Claristar™ ⓘ, an ingredient derived from yeast for the reduction of tartrate in high-quality white wines.

A new process for a vitamin B1 intermediate was developed by DSM's Nutrition cluster R&D. Launched in 1937, the synthesis of vitamin B1 is still a challenge for organic chemists. The new process invented by DSM is a major breakthrough in the manufacturing of the 6-ring part of the molecule, as it reduces the number of steps and greatly enhances atom efficiency.

A new process was also developed for sodium beta-alaninate, the first commercially applicable NaAla process that combines chemistry and process technology know-how to enable less raw-material and energy use and less waste production compared to the state-of-the-art processes. A new riboflavin 'self clone' strain – the first ultra-high-performance B2 producing strain in the world – was developed, significantly improving B2 yield on C-source and leading to increased productivity.

Anti-Infectives R&D successfully scaled up mycophenolate mofetil. Registration batches were produced and first sales realized. Pharmaceutical Products R&D developed the XD™ process ⓘ, involving a high-cell-density cell culture with human PER.C6® cells.

#### R&D in Performance Materials

A major achievement in Engineering Plastics R&D was the development of PA4T ⓘ, the first new polymer to be introduced in the 21st century worldwide. Also Stanyl® Diabolo was introduced, an innovative new generation of Stanyl® grades. A third breakthrough was the development of halogen-free flame-retardant solutions as now brought to the market under Arnite® XG and Arnitel® XG ⓘ.

DSM Dyneema's R&D developed new Dyneema® grades for life-protection applications and introduced these to the market. Through partnerships with our customers extended applications were developed. Dyneema® HB50 Unidirectional results in a lower weight of body armor. Dyneema® HB51

#### InsuVital™



InsuVital™ represents a breakthrough in the management of type 2 diabetes. This unique functional food ingredient enables manufacturers to create products which are clinically proven to help type 2 diabetes patients actively manage blood glucose (sugar) levels after a meal. InsuVital™ can be incorporated into a wide range of functional food and beverage applications, such as tablewater, fruit juices, cereal bars and dairy products.

#### i-flex™



DSM started selling a specially processed rosehip powder to help promote joint health in South Africa in 2007. In the next two years, i-flex™, a dietary supplement, will be launched in more than 30 countries worldwide. It is DSM Nutritional Products' first significant foray into the consumer market, allowing for higher margins. Also, it will provide the company with knowledge about consumer behavior, which can be transferred to other areas of the organization in order to improve marketing. Backed by thorough scientific research and proven in multiple clinical trials, i-flex™ is a 100% natural product that effectively promotes joint health by supporting mobility and flexibility and thereby promising an overall improvement in the quality of life.

# Report by the Managing Board

Unidirectional was introduced for best-in-class behind-strike-face inserts for the US market.

In another application area, Dyneema®-based lightweight composite panels are now replacing aluminum panels in aviation products such as air cargo containers. On a weight-for-weight basis, the panels are at least three times as strong as aluminium. They are also twice as light as aluminum.

Fish-farming nets were developed for aquaculture cages that help reduce the number of fish escapes and require less maintenance. Cages made with Dyneema® are only one third of the weight of conventional nets and have smaller twines and therefore better water flow.

One of the highlights in Resins R&D was the development of NeoRad®, the world's first waterborne UV-curing resin offering the wear resistance, stain resistance and mechanical properties required for the coating of flexible resilient flooring (PVC and linoleum). The development of Turane™ resin technology for the automotive market was another major step forward for DSM Resins.

In the field of elastomers, based on Keltan ACE™ technology DSM is developing a unique Keltan® product line for peroxide cure applications (12-15% of the global EPDM market). The first product will be launched in 2008. Keltan ACE™ provides the basis for significant energy reduction in the production of EPDM and also enables customers to reduce the use of the hazardous and smelly peroxides required for their curing process.

## R&D in Industrial Chemicals

Industrial Chemicals R&D is mainly directed at process improvement for existing businesses, development of new processes for existing products and increasing efficiency and sustainability. Industrial Chemicals vigorously continues to maintain its technology leadership based on proprietary IP positions. The R&D work links up well with that of other clusters and enables DSM-wide synergy in various areas.

New applications for existing products are being scouted continuously. Melamine R&D and the DSM Licensing Center together developed and launched Freshure®, a range of high-performance clear vacuum barrier coatings for food packaging. Created using our patented Symphase® technology and based on the vapor deposition of melamine on plastic film, Freshure® coatings not only increase the storage life of foods, but also offer several benefits for both packaging producers and consumers.

## Corporate ICT

DSM has several ICT standardization programs in place. One of the most important is the standardization of our ICT infrastructure and ERP systems accross all business groups, helping us to improve our management processes and controls and the integration of acquisitions while at the same time realizing cost reductions.

In order to help DSM to realize its *Vision 2010* goals, Corporate ICT implemented several actions to meet changing demands both now and in the future. During the year, Corporate ICT implemented an ICT system that enables DSM's Innovation Center to execute stage-gate management of research and innovation projects.

To extend and deepen DSM's customer base, special attention was paid to the implementation of several e-PTO (electronic prospect-to-order) and e-business initiatives, based on an award-winning infrastructure. e-PTO is focused on disclosing on-demand information about DSM products to customers and prospects in a secure, controlled and cost-efficient way. It is also used to gather information to further improve DSM's offerings.

DSM Nutritional Products offers an online tool in which their Animal Nutrition and Health customers can create formulas for animal feeds. This online tool is currently available in Latin America and expansion to other regions is planned for 2008.

To maintain and support DSM's IT systems and infrastructure, Corporate ICT's affiliates in Switzerland, the United States, Brazil, Singapore and China integrated into a global virtual organization.

To further support DSM in China, Corporate ICT also implemented a dedicated service desk to improve local services and to meet increased demand for ICT services. This service desk is delivering support for the global ICT services to users in China. Furthermore, a China ICT Security Forum was established to increase ICT security awareness within China.

## Corporate governance

The general characteristics of DSM's governance system are described in the section entitled *Corporate governance, risk management and internal control* on page 77.

The main events and developments at DSM in this field in 2007 can be summarized on the basis of this year's Annual General Meeting of Shareholders (28 March 2007). The agenda was to




a large extent similar to that of previous years. The proposal to introduce a loyalty dividend was withdrawn before the meeting, as a consequence of the decision by the Enterprise Chamber of the Amsterdam Court of Appeal that such a proposal was in conflict with Dutch legislation. In the meantime this decision has been overruled by the Dutch Supreme Court in its decision of 14 December 2007. The intention of the proposal was to introduce a tool enabling us to get to know our shareholders and facilitate long-term relationships with them. DSM will keep looking for ways to reach this goal.

The meeting was informed about the way DSM is applying the Dutch corporate governance code.

A special item on the agenda was the amendment of the Articles of Association, which concerned the introduction of a Dividend Re-Investment Plan (DRIP) and the incorporation into the Articles of Association of the option for using electronic communication media in the decision-making process. The latter concerns among other things the electronic convening of general meetings of shareholders, electronic participation in the meetings and electronic voting prior to the meeting.

For the first time an electronic voting system was used during the General Meeting of Shareholders. All resolutions that were tabled were passed, including the appointment of Mr Stephan Tanda as member of the Managing Board.

Apart from the above-mentioned issues relating to the Annual General Meeting of Shareholders, no other major developments are to be reported with regard to DSM's corporate governance practices.

For the latest information on the various aspects of DSM's corporate governance, see [www.dsm.com](http://www.dsm.com) (Governance section). 

### Risk management

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.

The important risks identified, as well as the structure of the aforesaid risk management system and aspects of its further development and implementation, are discussed below and in a more general way in the section on risk management that begins on page 78 of this Annual Report.

### HiTone®



DSM Resins has developed HiTone® polyester resins. These resins are suitable for developing formulations of powder coatings with a high hiding power and excellent flow. This will allow a 33% reduction in layer thickness while aesthetic appearance is preserved, or alternatively will create coatings with a significantly improved appearance thus helping end users reduce the system costs of coated materials and/or develop smoother, better-looking coatings. This will facilitate the replacement of solvent-borne coatings by powder coatings, leading to lower solvent emissions to the environment.

### Claristar™



A new ingredient, Claristar™, was launched to the wine industry in 2007. It is a natural ingredient derived from yeast which prevents the formation of tartrate crystals in wine. This innovative ingredient can completely replace cold stabilization, resulting in considerable savings in energy, water, effluent and carbon emissions.



# Report by the Managing Board

Risk assessments, internal letters of representation received from management (all directors of business groups, corporate staff departments and regions), regular management reviews, reviews of the design and implementation of the company's risk management system and reviews in audit committees are integral parts of the company's risk management approach. On the basis of these, 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 is of the opinion that it is in compliance with best practice II.1.4. of the Dutch corporate governance code, taking into account the recommendation of the Corporate Governance Code Monitoring Committee on the application thereof.

As part of the mid-term evaluation of the *Vision 2010 – Building on Strengths* strategy, the Managing Board updated the Corporate Risk Assessment. On the basis of a list of potential risks as identified in risk reports from within the company as well as from outside, a first assessment was made and top risks were identified. Two risks identified at the launch of *Vision 2010* were reconfirmed: the ability to attract and retain the right people to fulfill the company's ambitions and the capability to turn the innovation efforts into profitable business. The programs that were initiated in order to contain these risks will be continued with vigor. The threat of deteriorating market conditions for the existing product portfolio, amongst others through the influence of low-cost countries, was also reconfirmed as a top risk. Ongoing efficiency programs and initiatives to increase sourcing from low cost countries are DSM's response to these risks. The acceleration of the implementation of *Vision 2010* means that acquisitions and disposals have become an even more important part of the strategy. Connected with this, the related risks have of course also grown in importance. DSM's well-tested abilities in these fields will be used to the full and, if needed, will be further reinforced to mitigate these risks as much as possible.

Finally, the speed of decision-making is seen as a risk. To manage this risk the company's steering model will be made more transparent and the entrepreneurial spirit of its workforce enhanced.

In addition to these strategic risks, the currency and commodity raw material/energy price risks remain of importance. Sensitivity analyses are made in both areas and hedging actions are defined if appropriate.

On 1 January 2007, the Corporate Risk Management department was established. It has the responsibility of maintaining the risk management system and supporting the Managing Board and the operational units in its effective implementation.

Throughout 2007, the focus continued to be on the implementation of the Corporate Requirements. The aim of achieving compliance with these requirements for all business groups by the end of the year was largely met. The main exceptions concern those units that still have to convert to the standard business processes supported by SAP software. These units were allowed to postpone the implementation of certain requirements until after the conversion. Exceptions were only allowed after Managing Board approval and on condition that sufficient mitigating controls were implemented.

During the year under review, DSM's risk management practices were compared with those of a number of peers. The design and implementation of the risk management system was also discussed with all DSM staff departments and business groups. These reviews will be the basis for a multi-year risk management plan setting out the priorities for the rest of the *Vision 2010* period. In the plan, high priority will be given to the implementation of the standard business processes in the remaining units; this will ensure sound and efficient internal control of the goods and money flows.

## Macro-economic review

### Macro-economic developments in 2007

Global macro-economic developments in 2007 were characterized by continued strong Asian growth and the US housing sector problems.

In 2007 the global economy expanded by 3.7%, down slightly from 3.9% in 2006. This global slowdown was largely caused by the US housing downturn. The effects of the housing crisis on the US economy were deeper and wider than previously anticipated. As a result US GDP growth slowed to 2.2%, down from 2.9% in 2006. Asian growth seemed unabated, with India

and China showing record GDP growth of 8.6% and 11.4%, respectively. The Japanese economy went through a period of weakness, mainly caused by slowing consumer spending and much lower private capital investment in 2007. The Asian economy as a whole expanded by 5.6%. At 2.9%, the European economy grew faster than that of the United States and in line with 2006.

Global industrial production grew by a healthy 3.9% on average. The construction sector was suffering compared to the previous years, especially in the United States. Globally the construction sector managed to grow at the average rate of the last 25 years. The automotive sectors in the United States and Western Europe did not quite reach growth levels in line with the long-term trend levels. Growth in automotive was driven by the Asian and Eastern European markets. Pharma continued to grow at trend rate, with an ever increasing percentage of sales volume being derived from generics.

Commodity prices were at very high levels in 2007, with crude oil breaking USD 95 per barrel in November and the average crude oil price hovering around USD 72 per barrel.

#### Macro-economic outlook for 2008

Risks to the global economy are mainly weighted on the downside. The main driver is the declining US housing sector and the effects it has on consumer spending and on other parts of the global economy, such as the financial sector. The major upside is slanted towards a higher Asian growth. Europe is showing mixed signals for the coming year. With the US slowdown, slowing business investments and a high euro on the one hand and very low unemployment and robust consumer spending on the other, 2008 will be a year of moderate growth for Europe. There are currently no indications that we have seen the end of the high commodity prices.

According to Consensus Economics, global GDP is forecast to be 3.3%, while GDP growth in the United States will be 2.1%, in Europe 2.2% and in Asia 5.3%.





### Capital expenditure and cash flow

Capital expenditure on intangible assets and property, plant and equipment amounted to €475 million in 2007 and was €51 million above the level of amortization and depreciation. In 2008 the level of capital expenditure, including small and new-business-development-type acquisitions, is expected to be substantially above the level of amortization and depreciation. At €825 million, net cash provided by operating activities was about 9.4% of net sales.

<b>Statement of cash flows</b>		
x € million	<b>2007</b>	2006
Cash and cash equivalents at 1 January	552	902
Operating activities:		
- Net profit plus amortization and depreciation	1,003	998
- Changes in operating working capital	(124)	(4)
- Other changes	(54)	(364)
Cash flow provided by operating activities	825	630
Investing activities:		
- Capital expenditure	(434)	(458)
- Acquisitions	(85)	(44)
- Sale of subsidiaries	-	135
- Divestments	51	30
- Other changes	74	(8)
Net cash from investing activities	(394)	(345)
Dividend	(193)	(213)
Net cash from financing activities	(426)	(407)
Effects of changes in consolidation and exchange differences	5	(15)
<b>Cash and cash equivalents at 31 December</b>	<b>369</b>	<b>552</b>

# Report by the Managing Board

## Balance sheet profile

As %	2007	2006
Intangible assets	10	10
Property, plant and equipment	35	36
Other non-current assets	17	15
Cash and cash equivalents	4	5
Other current assets	34	34
<b>Total assets</b>	<b>100</b>	<b>100</b>
Equity	55	58
Provisions	3	3
Non-current liabilities	22	16
Current liabilities	20	23
<b>Total liabilities</b>	<b>100</b>	<b>100</b>

The balance sheet total (total assets) decreased slightly in 2007 and amounted to €9.8 billion at year-end (2006: €10.1 billion). Equity decreased by €472 million compared with the position at the end of 2006; this was due mainly to the repurchase of own shares. Equity as a percentage of total assets decreased from 58% at the end of 2006 to 55% at the end of 2007. The current ratio (current assets divided by current liabilities) increased from 1.61 in 2006 to 1.78 in 2007. Net debt stood at 20% of equity plus net debt at the end of 2007.

The operating working capital was €74 million higher than in 2006. Cash and cash equivalents decreased and amounted to €369 million.

## Dividend

DSM aims to provide a stable and preferably rising dividend. DSM's adjusted dividend policy reflects the transformation of DSM's portfolio and consequently the increased profit stability.

The dividend on ordinary shares proposed for the year 2007 amounts to €1.20 per share (2006: €1.00 per share). An interim dividend of €0.33 per ordinary share having been paid in August 2007, the final dividend will amount to €0.87 per ordinary share.

The ex dividend date is 28 March 2008.

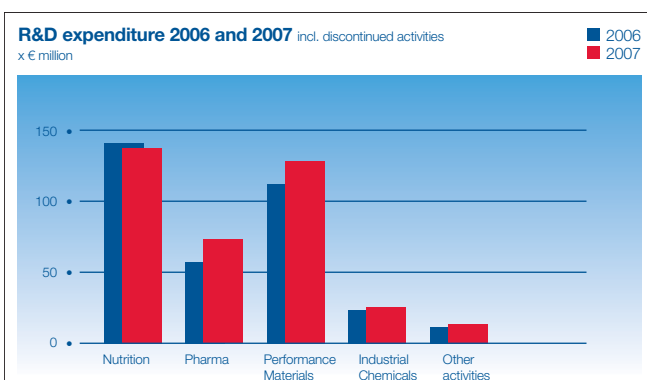
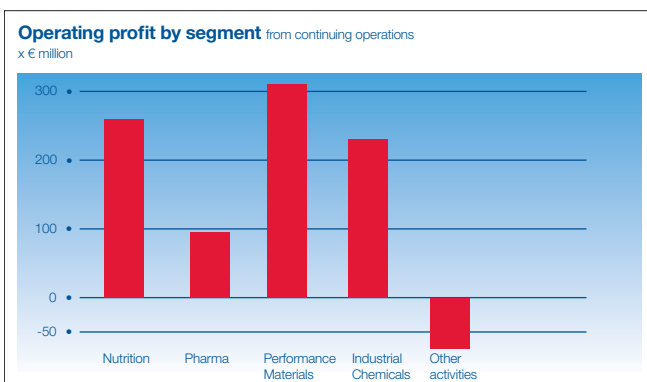
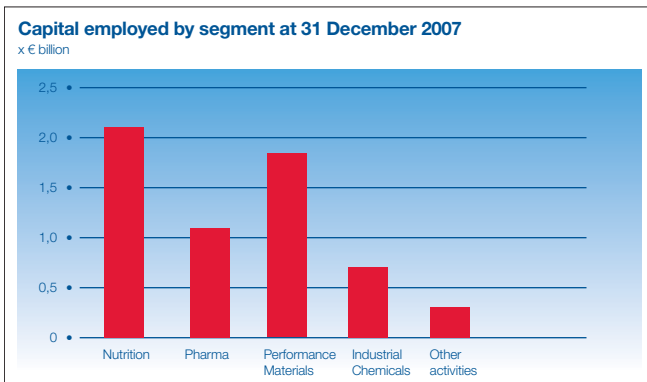
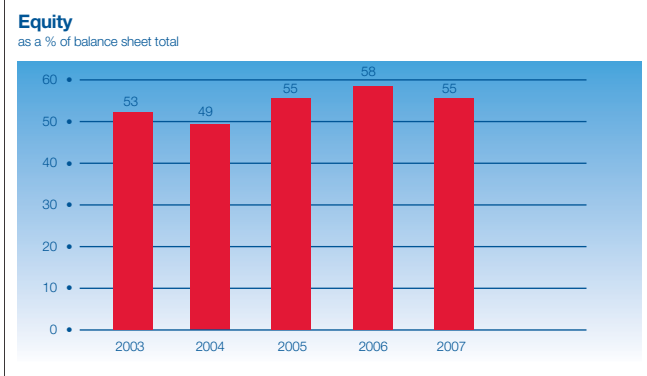
## Outlook

Looking ahead to 2008, DSM expects continuing good organic growth, particularly from emerging markets and the launch of new products. In addition, the current programs underway in the Nutrition and Anti-Infectives businesses will result in improved contributions to profit from these businesses. DSM also expects a continuation of the improved pricing levels seen in 2007 in the more mature part of the Nutrition business, especially in vitamins.

At the same time, DSM is faced with a number of headwinds, including the continuing weakness of the US dollar, high raw-material and energy prices as well as the return to lower pricing in the anti-infectives markets, and the expiration of Roche contracts in 2007. Despite these headwinds, it remains a core part of DSM's strategy to invest in innovation which will deliver the company's growth in future years, and DSM will be gearing up this effort further in 2008.

Guidance on profitability is a difficult task this year, given the current macro-economic uncertainty. However, assuming a slowdown in the US economy without substantial effects on macro-economic conditions elsewhere, a EUR/USD exchange rate around 1.45 and current raw-material and energy prices throughout 2008, DSM expects that, with the benefit of the programs that are in place, it will be possible to approach the operating profit before exceptional items achieved in 2007.

Overall, DSM remains on track to meet the objectives set out in the accelerated *Vision 2010* strategy, with the continuing transformation of DSM's business towards a Life Sciences and Materials Sciences company, focused on innovation and capable of delivering sustainable growth.



## Review of business

In 2007 DSM's activities were grouped into four clusters: Nutrition, Pharma, Performance Materials and Industrial Chemicals. In light of the acceleration of *Vision 2010 – Building on Strengths*, DSM has regrouped its activities with effect from 1 January 2008. There are now five clusters: Nutrition, Pharma, Performance Materials, Polymer Intermediates and Base Chemicals and Materials.

<b>Net sales and supplies</b>				
x € million	Net sales		Supplies	
	2007	2006	2007	2006
Nutrition	2,543	2,407	2,590	2,463
Pharma	981	916	1,031	967
Performance Materials	2,895	2,753	2,901	2,759
Industrial Chemicals	1,937	1,872	2,205	2,135
Other activities	401	404	455	422
Intra-group supplies	-	-	(425)	(394)
<b>Total, continuing operations</b>	<b>8,757</b>	<b>8,352</b>	<b>8,757</b>	<b>8,352</b>
Discontinued operations	-	28	-	28
<b>Total DSM</b>	<b>8,757</b>	<b>8,380</b>	<b>8,757</b>	<b>8,380</b>

<b>EBITDA / net sales</b>		
in %	2007	2006
Nutrition	15.9	19.3
Pharma	17.7	15.9
Performance Materials	14.3	15.6
Industrial Chemicals	15.1	14.4

**Operating profit plus depreciation and amortization (EBITDA)**

x € million	2007	2006
Nutrition	405	464
Pharma	174	146
Performance Materials	415	429
Industrial Chemicals	292	269
Other activities	(39)	(33)
<b>Total, continuing operations</b>	<b>1,247</b>	<b>1,275</b>
Discontinued operations	-	(1)
<b>Total DSM</b>	<b>1,247</b>	<b>1,274</b>

**Operating profit (EBIT)**

x € million	2007	2006
Nutrition	264	314
Pharma	93	65
Performance Materials	321	329
Industrial Chemicals	225	196
Other activities	(80)	(69)
<b>Total, continuing operations</b>	<b>823</b>	<b>835</b>
Discontinued operations	-	(1)
<b>Total DSM</b>	<b>823</b>	<b>834</b>

**Capital employed at 31 December**

x € million	2007	2006
Nutrition	2,067	2,159
Pharma	1,095	1,302
Performance Materials	1,815	1,697
Industrial Chemicals	714	745
Other activities	291	407
<b>Total, continuing operations</b>	<b>5,982</b>	<b>6,310</b>
Discontinued operations	-	(7)
<b>Total DSM</b>	<b>5,982</b>	<b>6,303</b>

**R&D expenditure**

	x € million		as % of net sales	
	2007	2006	2007	2006
Nutrition	136	140	5.3	5.8
Pharma	68	59	6.9	6.4
Performance Materials	131	115	4.5	4.2
Industrial Chemicals	23	21	1.2	1.1
Other activities	14	12	3.5	3.0
<b>Total, continuing operations</b>	<b>372</b>	<b>347</b>	<b>4.2</b>	<b>4.2</b>
Discontinued operations	-	-	-	-
<b>Total DSM</b>	<b>372</b>	<b>347</b>		

**Capital expenditure and acquisitions**

x € million	2007	2006
Nutrition	145	113
Pharma	65	146
Performance Materials	214	126
Industrial Chemicals	90	68
Other activities	54	48
<b>Total, continuing operations</b>	<b>568</b>	<b>501</b>
Discontinued operations	-	-
<b>Total DSM</b>	<b>568</b>	<b>501</b>

**Workforce (year-end)**

	2007	2006
Nutrition	7,782	7,711
Pharma	5,073	4,732
Performance Materials	5,139	4,664
Industrial Chemicals	2,134	2,183
Other activities	3,126	2,860
<b>Total, continuing operations</b>	<b>23,254</b>	<b>22,150</b>
Discontinued operations	-	6
<b>Total DSM</b>	<b>23,254</b>	<b>22,156</b>

# Nutrition

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

x € million	2007	2006
Net sales <sup>1</sup> :		
DSM Nutritional Products:		
- Animal Nutrition and Health	1,196	1,091
- Human Nutrition and Health	890	867
	2,086	1,958
DSM Food Specialties	403	411
DSM Special Products	101	94
<b>Total</b>	<b>2,590</b>	<b>2,463</b>
Operating profit	264	314
Operating profit plus amortization and depreciation	405	464
Capital expenditure and acquisitions	145	113
Capital employed at 31 December	2,067	2,159
Operating profit as % of average capital employed	12.6	14.4
EBITDA as % of net sales	15.9	19.3
Research and development	136	140
Workforce at 31 December	7,782	7,711

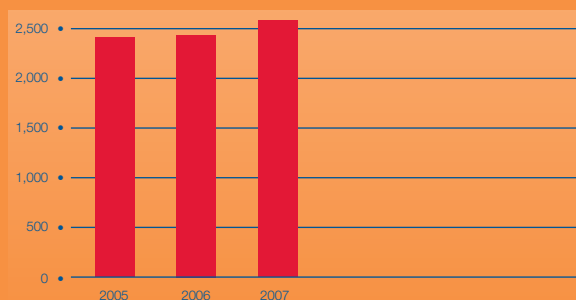
The main customers are feed, food, beverages, personal care, and flavor/fragrance companies across the world. The activities in this cluster are to a large extent based on DSM's knowledge of biotechnology (including fermentation, genomics and biocatalysis), organic chemistry and formulation technologies 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.



<sup>1</sup> before elimination of intra-group supplies to other clusters

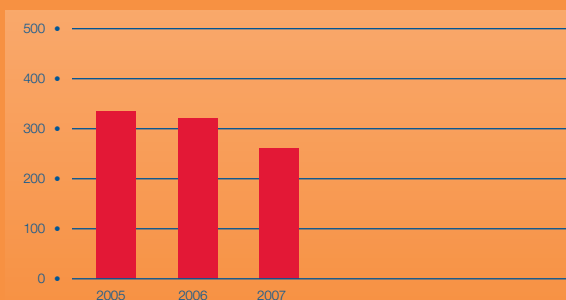
Supplies of Nutrition

x € million



Operating profit of Nutrition

x € million





## DSM Nutritional Products

*Higher costs outweigh solid volume growth*

### Highlights

- Higher value recognition from customers and solid volume growth
- Higher consumer awareness of quality and safety creates opportunities
- Profit-improvement program announced

Sales (x € million)	2,086
Workforce (at year-end)	6,384

### Business and strategy

As the world's leading supplier of vitamins, carotenoids, other biochemicals and fine chemicals and premixes, DSM Nutritional Products is uniquely positioned to capitalize on the



positive dynamics in its markets. The company addresses the animal and human nutrition and health industries as well as personal care sectors. With producers and consumers putting more emphasis on health, wellness and safety, there are many opportunities to capture.

With 10 large production sites in Europe, the United States and China, over 45 premix plants across the globe, 5 R&D centers in Europe and China and 40 sales offices in all main regions of the world, DSM Nutritional Products is never far away from its customers.

In 2007 a new profit improvement plan, 'Aspire to Win', was announced. Through a mix of cost savings and increased profits from higher revenues through innovation and differen-

tiation, this plan is expected to deliver an annual minimum of €100 million in improved profitability by 2010. For 2008, the first full year of the program, it is expected that the benefits will at least offset the negative impact of the phasing out of the contracts related to the acquisition of Roche Vitamins.

As in 2006, we faced rising costs for raw materials and energy. We also saw a further weakening of important currencies such as the US dollar and the Japanese yen, continued strong competition and a generally volatile market.

However, increasing consumer awareness of quality and reliability as well as sustainability issues led to a change in the competitive environment, allowing meaningful price increases for some of the key products.

As a result, overall performance was good, especially during the second half of the year when DSM Nutritional Products' competitive strength was highlighted in the rapidly changing environment.

Compared to 2006 DSM Nutritional Products achieved solid volume growth at higher prices. Total sales rose 7%. Operating profit decreased because higher organic growth did not fully compensate for higher energy and raw-materials costs, higher innovation expenditure, negative exchange-rate effects and the phasing-out of contracts related to the Roche Vitamins acquisition.

### Business review Human Nutrition and Health

The market for nutritional food ingredients showed an overall growth of about 2% and DSM Nutritional Products strengthened its market position in food and dietary supplements and in personal care ingredients. Despite the negative exchange-rate impact and capacity restrictions that partly limited supply, Human Nutrition and Health sales increased by 3% and Personal Care sales also grew by 3% in 2007 as a result of volume growth and especially price increases.

The shift towards a segment approach introduced with the Dual Track Strategy is starting to bear fruit. The Dual Track Strategy, introduced in 2006, recognizes the need to sustain the profitability of established products through reinforced market shares and product margins by reducing costs as much as possible and placing special emphasis on product differentiation. It also aims to boost the full growth of new business by developing a vital portfolio of innovative new products and launching them successfully into the markets.

Examples of the innovative new products are carotenoids preventing age-related eye deterioration, vitamin D3 for optimal bone health and antioxidant vitamins used in cardiovascular

## Review of business

prevention. Consumer research in the main segments such as beverages or dietary supplements allows DSM Nutritional Products to tap into very specific needs.

In infant nutrition for example, we systematically address what is top-of-mind among mothers in relation to their babies, according to our proprietary surveys. Our offering is structured along the topics of immunity, mental and physical growth and a balanced diet.

For each of the above-mentioned cases and many more, DSM Nutritional Products has a comprehensive strategy in place, which includes on-site support in dealing with local laws and regulations, and helping our customers in differentiating themselves from their competition where it matters most.

Human Nutrition and Health is expanding market share with emphasis on clear differentiation. The successful launch of Quali-C™ in 2007 has provided valuable lessons, demonstrating that products such as vitamin C are not commodities but can indeed be differentiated through quality, reliability and traceability, resulting in a premium positioning.

A new nutritional supplement for joint health, i-flex™ ⓘ, was introduced in 2007. This is a turnkey solution developed by DSM which is sold via industry partners. i-flex™ represents our first large-scale move down the value chain in the direction of the consumer.

Another product positioned close to the consumer is Teavigo®, a pure green tea extract which is strongly differentiated not only through its quality but also by being colorless and neutral in taste, thus fitting into a wide array of products. Our fully consumer-driven marketing strategy, supported by proprietary clinical and safety studies, has been very well received by the marketplace and our customers. Teavigo® features on various consumer brands across the world.

In Personal Care, market conditions remained favorable in 2007. The unbroken trend for better and more efficient anti-aging ingredients combined with increasing awareness of the need for UV-protection fueled further growth. With our highly differentiated actives offering and our strong portfolio of organic and inorganic UV-filters we benefited from both developments.

Also, several new products and concepts were launched such as BeauActive™ MTP, a breakthrough in peptide design making for an instantly smoother skin and a more youthful appearance by reducing lines and wrinkles in the long term. In 2007, DSM Nutritional Products acquired Pentapharm, a specialized skin care actives company. This has further strengthened our competence base in this area.

In Citric Acid, the overall positive sales development was driven mainly by the good economy and an upward trend in pricing towards the end of the year. On the other hand, raw-material availability in Europe was limited due to the European sugar regime, which resulted in higher costs. Several producers in Europe exited the market due to unattractive cost structures.

### Business review Animal Nutrition and Health

DSM Nutritional Products is the leading supplier of vitamins, carotenoids and many more essential ingredients to the world's animal-farming industries as well as animal-feed-premix concepts. Food safety, traceability and reduction of the environmental impact of animal husbandry are key market developments. The Animal Nutrition and Health market once again showed strong growth in 2007.

Overall the market for nutritional feed ingredients showed a growth of more than 4%. DSM Nutritional Products strengthened its market position for both active ingredients and premixes. Despite the strong negative dollar impact, sales grew by 9% as a result of price increases and volume growth.

Whenever a consumer anywhere in the world eats farmed salmon, the chance that it contains a DSM product is very high. DSM was the first company to market astaxanthin (Carophyll® Pink) as well as stabilized vitamin C for animal feed (Rovimix® STAY-C 35). These micronutrients, among others, are added to fish feed to provide fish with a balanced diet.

DSM's Animal Nutrition and Health activities play a key role in providing solutions to the agricultural industries with other species as well, such as poultry, swine and ruminants, allowing farmers to reduce the environmental impact of animal husbandry and at the same time enhance meat production methods.

The ultra-high-purity benzoic acid VevoVital®, for example, which is an organic acid modulating the intestinal gut flora towards a stable and healthy status, leads to better nutrients utilization and a higher growth rate of pigs and piglets. On top of this VevoVital® has a specific metabolism resulting in a reduction in ammonia emissions from pig houses, offering additional benefits in terms of environmental protection and animal welfare.

Ronozyme® P (granulate and liquid), which is a product from the Ronozyme® range of feed enzymes, has now been approved for salmon, broilers, layers, turkeys, ducks, sows, piglets and fattening pigs. The European Food Safety Authority (EFSA), in charge of scientific evaluation, confirmed the efficacy and safety of Ronozyme® P in 2007.



The number of customers around the world using Rovimix® Hy•D® is rising fast. Rovimix® Hy•D® brings to the poultry industry the solution for better skeleton formation, particularly strengthening bird legs and allowing genetics to be fully exploited in order to maximize meat production and to minimize process losses.

From both a global and a local perspective, Animal Nutrition and Health today holds clear leadership positions in its markets. As a consequence, we are committed to further set the standards, for instance with Optimum Vitamin Nutrition (OVN®). This proprietary specification in feed products demonstrates how DSM Nutritional Products helps secure not only the highest food ingredient quality, safety and traceability as well as environmental compatibility in the industry but also the quality and safety of end products such as meat, fish, milk or eggs.

Animal Nutrition and Health was able to increase prices in the course of 2007, in line with the market dynamics and the raw-material cost increases due to the impact of crude oil prices. At the same time, we strengthened our position in the premix business; the optimization of operations as well as the investments in the emerging markets made in recent years are showing very positive results in terms of growth and profitability. The premix business has also expanded its wide array of state-of-the-art solutions through the combination of various products from our own portfolio with quality ingredients from selected third-party suppliers to meet specific customer needs.

### Projects

In June 2007 the Aspire to Win profit improvement program was announced. Through a mix of cost savings and increased profits from higher revenues through innovation and differentiation, the program is expected to deliver an annual minimum of €100 million in improved profitability by 2010. The program started in the second half of 2007 and will run through 2009. It should enable the Nutrition business to achieve the targeted EBITDA margin level of at least 18% as set out in *Vision 2010*. The plan is based on three pillars: cost reductions, enhancement of differentiation activities and accelerated innovation.

In the autumn of 2007, we announced the restructuring of our manufacturing activities in China and the plan to develop our Xinghuo site in Shanghai as a strategic manufacturing base for the country. As a consequence, the Gonglu site, also located in Shanghai, will be closed. This closure is fully supported by the local government. A social plan and a relocation plan for the approximately 200 Gonglu employees have been prepared.

### PreventASe®



PreventASe® is an enzyme that has been proven to substantially mitigate the formation of acrylamide in certain foods. Acrylamide is an undesired side-product formed during the baking process. In 2007, the first biscuit producers introduced biscuits produced with help of PreventASe® to the market. In addition to biscuits, the product can be used in dough-based products such as bread, crackers, formed potato products and cereals. The product received positive advice from health safety agencies and a so-called 'Generally Recognized As Safe' (GRAS) notification from the Food and Drug Administration in the United States in 2007.

### Maxarite™



Maxarite™ is a revolutionary taste potentiator which boosts salty flavors whilst enabling reduction of the salt content by up to 50% in a range of bakery and dairy applications. In addition to this, Maxarite™ intensifies flavor profiles and provides strong masking capabilities. By delivering these taste benefits, Maxarite™ strongly influences the development of healthier products with excellent taste.

# Review of business

Xinghuo will rapidly expand to become DSM's largest multi-product manufacturing location in China.

In addition, a project was started in an attempt to improve and optimize the business processes, including replacement of a number of legacy systems by an integrated SAP ERP system.

In close alignment with the profit improvement program, a comprehensive total-quality-management initiative is currently being rolled out throughout the organization. This initiative is based on three pillars: revision of the customer-complaint-management system, implementation of more process-oriented methods and extended good manufacturing practice to keep pace with emerging market needs.

Striving for continuous improvement, the production sites of DSM Nutritional Products embarked on a program to reduce costs primarily in the areas of material utilization and energy.

The Nutrition Improvement Program (NIP) launched a joint venture with the Swiss manufacturer Bühler for the production and sale of nutritious rice kernels under the new brand NutriRice®. Through this, NIP will create new markets and at the same time provide benefits to the 'Base of the Pyramid', the millions of people who live on less than USD 2 a day.

NIP is also part of DSM's initiative for sustainable development which is dedicated to contributing to the elimination of global malnutrition by supporting fortification of low-cost foodstuffs, mainly in Africa, India and China. The battle against malnutrition directly impacts on the achievement of six of the eight United Nations Millennium Development Goals and on the lives of two billion people worldwide.

The control of nutritional anemia is another milestone in reaching the UN Millennium Development Goals, and it is also one of the most important objectives of our humanitarian initiative SIGHT AND LIFE. Every year, hunger and malnutrition claim more than ten million lives worldwide. Many of these deaths are caused by so-called hidden hunger, a condition that involves a lack of essential vitamins and minerals.

The new book *Nutritional Anemia* published by DSM offers valuable information on how to deal with this enormous challenge; leading scientists, academic institutions and UN agencies have contributed to it. SIGHT AND LIFE's measures to combat nutritional anemia further include food fortification and micronutrient supplementation, education programs and disease control. Both SIGHT AND LIFE and NIP are contributing significantly to DSM's corporate engagement in a partnership with the United Nations' World Food Program.

## DSM recognized as 'Good Citizen' in China.

Our ambition of applying our Safety, Health and Environment (SHE) standards globally was rewarded when Mr Wen Jiabao, Premier of the State Council of the People's Republic of China, visited DSM Citric Acid (Wuxi) Ltd. to recognize the site's outstanding achievements in the fields of environmental protection and Corporate Social Responsibility. Mr Wen Jiabao, accompanied by Mr Li Yuan Chao, Party Secretary of Jiangsu Province, and Mr Lian Baohua, Governor of Jiangsu Province, expressed his official thanks for our beneficial contribution to the local community, describing DSM as a 'Good Citizen'.

## DSM Food Specialties

*Global partner in bio-ingredients*

### Highlights

- Successful launch of innovative products
- Good underlying growth in all business segments
- Continuous improvement in operational excellence

Sales (x € million)	403
Workforce (at year-end)	1,265

### Business and strategy

DSM Food Specialties is a globally leading supplier of (bio-) ingredients for the food and beverage industries, based on its strong technology position in fermentation and enzymes, its application knowledge and its competence in marketing performance ingredients to the global food industry.

The size of the global food ingredients market is around €30 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. Key market drivers are the demand for healthy nutrition, including low-salt and low-fat foods, the need for natural ingredients, convenience, and food safety.

The 2006 bio-ingredients market was estimated at €2 billion. This market segment includes specialty products such as yeast extracts, food enzymes and cultures and is regarded as a knowledge-intensive market where enzyme technology and biotechnology are key assets.

DSM Food Specialties comprises four business units and an Ingredients Development Unit. Dairy Ingredients supplies enzymes, starter cultures and preservation systems for cheese



and yogurt, and tests for the detection of residues of antibiotics. 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. Enzymes produces a wide range of food enzymes for applications such as baking, fruit processing, brewing and manufacturing of other alcoholic beverages.

Functional Food Ingredients produces ingredients for infant nutrition, food supplements and functional foods such as arachidonic acid, probiotics and biopeptides. Metabolic health is the major priority development area. Together with DSM Nutritional Products, DSM Food Specialties has a unique portfolio of products in the area of healthy ingredients for use in functional foods.

DSM Food Specialties focuses on translating specific consumer demands into niche and IP-protected ingredients with a high added value for food manufacturers in terms of performance and contribution to taste, convenience and substantiated health benefits.

#### Business review

The bio-ingredients market showed continuous volume growth of more than 5% in 2007. Some segments were faced with price pressure due to increased competition. DSM Food Specialties' sales, excluding tolling contracts, showed a satisfactory increase. The weaker US dollar had a negative impact on the results. As a result of the contractual phasing-out of the phytase tolling business, DSM Food Specialties' sales declined by 2%. Operating profit decreased in 2007.

DSM Food Specialties strengthened its position by launching a large number of new products and by pursuing organic growth, in particular in emerging economies. The organization was further streamlined according to the need to serve customers in the most efficient way. The pipeline of radically new products is well-filled with food enzymes, savory and dairy ingredients and functional food ingredients, particularly in the area of metabolic health.

The global dairy industry continues to grow while cheese consumption is showing limited growth; for cheese manufacturers ripening speed, development of desired taste and elimination of off-flavors are critical to success.

Dairy Ingredients successfully introduced the enzyme Accelerzyme® CPG offering improved maturation speed. The product portfolio for cheese production (rennet, cultures, media and preservation systems) showed satisfactory growth. Prices in the area of preservation were under pressure.

Yogurt is the most popular carrier for a variety of health ingredients and bioactives. The satiety ingredient Fabulesse® showed spectacular growth and is now being added to fermented milk products in Germany, Italy, the Netherlands, Portugal, the UK and many other countries.

Sales volumes of antibiotic tests were slightly up. Delvotest® is the globally recognized leading standard in antibiotic testing in milk. In 2007 the Delvotest® Accelerator was successfully launched. This new, fully automated testing system offers milk control stations and dairies rapid and consistent results and guarantees complete traceability and reduces the risk of rejection.

Sales of the lactase enzyme Maxilact® for hydrolyzed milk and low-lactose milk products strongly increased, in particular in emerging economies.

The global savory-food market is driven by a growing demand in emerging economies, a need for more convenient types of products and a strong consumer demand to improve nutritional profiles such as reduced salt intake. Savoury Ingredients recorded strong volume growth, in particular in the specialty-yeast-extracts segment, which includes the newly launched products Maxarome® Select and Maxarite™. The latter taste potentiator boosts salty flavors whilst enabling the salt content of bread and cheese to be reduced by up to 50%.

A dedicated factory for processed flavors was opened in Shanghai (China). Apart from the growth market in China, the plant serves the global culinary industry with unique processed flavors with milder roasted and boiled notes on the basis of an innovative extrusion technology.

Enzymes' sales showed strong growth in particular in the area of baking, brewing and fruit processing. Brewers Clarex™ (helping brewers to prevent chill haze formation in beers) and Maxapal® (for improved emulsification properties in mayonnaise and sauces), two enzymes introduced in 2006, contributed to this growth in a significant way.

In 2007 four new enzymes were introduced on the market. CakeZyme™ Ⓞ is a new, unique technological breakthrough for the cake and pastry industry. Following this introduction, the Let's Cake Together™ concept was presented to the market. This revolutionary 'toolkit' combines three ingredients from

# Review of business

DSM CakeZyme™, Etenia™ and the taste potentiator Maxarite™ Delite ①. It allows manufacturers to respond to the key trends currently driving the cake market – indulgence, reduced fat and saturates and improved costs.

PreventASe® ① is an enzyme that has been proven to substantially mitigate the formation of acrylamide in certain foods. Claristar™ ① is an ingredient extracted from yeast mannoprotein which prevents tartrate crystallization in wine.

Two new enzymes and a yeast mannoprotein were introduced in the fruit processing and wine industry. Rapidase® Optiflux improves fruit-juice flux rate during cross-flow filtration and reduces membrane plugging. Rapidase® Maxifruit allows the production of supple and fruity wines and boasts a more stable and intense cherry red color after alcoholic fermentation.

Functional Food Ingredients saw its sales increase thanks to a strong sales increase for Fabuless®, a product that contains a special emulsion of natural, fractionated palm oil and oat oil and uses the body's natural appetite-control mechanism to reduce calorie intake. Apart from applications in yogurt, the product found important inroads in 2007 in dietary supplements in France, the UK and the United States and in meal-replacement shakes.

Growth of arachidonic acid continued but at a lower pace than in previous years due to saturation as a significant number of infant-food manufacturers in the world have been launching new product lines for infant formula enriched with arachidonic acid. The penetration level in the United States is still much higher than in Europe.

Sales of the patented peptide PeptoPro® increased in particular in the United States. The Dutch Olympic Committee as well as the Olympic Committees of other countries will recommend the use of PeptoPro® to their athletes in preparation for the 2008 Olympics in Beijing (see also page 87).

## Projects

DSM Food Specialties' leading enzyme and fermentation technology is part of the company's backbone and enables it to develop enzymes that help customers to achieve their manufacturing goals or to develop new products that target the main consumer trends.

DSM was leading in unraveling the genetic code of the *Aspergillus niger* genome and is globally leading in *Aspergillus niger* patents. In 2007 the complete genome was published in *Nature Biotechnology*.

The enzyme technology is also applied to modify raw materials in order to develop ingredients with unique characteristics, sometimes in collaboration with partners. One of these strategic partnerships between the Dutch starch company AVEBE and DSM, resulted in the launch of Etenia™, a natural ingredient derived from potato starch designed for a variety of applications. The combination of DSM's enzyme expertise and AVEBE's starch knowledge will lead to more opportunities for the development of innovative creaminess-enhancing products.

DSM Food Specialties launched a unique protein hydrolysate consisting of bioactive peptides that represents a breakthrough in diabetes management. Thanks to this hydrolysate, Insuvital™ ①, manufacturers can create products that have been clinically proven to help type 2 diabetes patients actively control glucose levels after mealtimes.

Another new hydrolysate consisting of bioactive peptides was introduced to target the growing global market for blood-pressure management. This product, Tensguard™, works by supporting the natural processes of the body in maintaining healthy blood pressure.

DSM Food Specialties continues its sustainability efforts. Our breakthrough new beer-processing enzyme Brewers Clarex™ enables the beer industry to shorten the brewing process considerably, resulting in significant savings in energy. The enzyme also makes the use of chemicals for the prevention of haze formation redundant.

## DSM Special Products

### Strengthened global leadership

#### Highlights

- Market growth outpaced once again
- Acceleration of sales growth in innovation areas
- Strongly improved financial performance

Sales (x € million)	101
Workforce (at year-end)	133

#### Business and strategy

DSM Special Products produces benzoic acid, sodium benzoate, benzaldehyde and benzyl alcohol. Its products such as Purox® S, Purox® B and VevoVital® are widely recognized for their purity and quality. The business unit supplies a wide range of markets, including the markets for carbonated soft drinks, food, animal feed, plasticizers, resins, cosmetics, personal care products, flavors and fragrances, as well as a diverse range of industrial applications. The production facilities are located in Rotterdam (Netherlands).



DSM Special Products is the global market leader in most of the products it supplies. DSM Special Products will build upon these leadership positions by creating market growth through innovation. It will continue to set the benchmark in the industry through the quality of its products.

#### Business Review

The year 2007 was a good one for DSM Special Products, in which it strengthened its global leadership in its core products. The development of demand was encouraging, especially due to the successful application innovation projects initiated by DSM Special Products in the last five years. Growth in VevoVital<sup>®</sup>, our feed additive that helps pig farmers to significantly reduce ammonia emissions, continued strongly on the back of the new registration obtained for the consumption of VevoVital<sup>®</sup> by piglets, and outpaced expectations once again. Furthermore, new applications for Purox<sup>®</sup> B in plasticizers for markets such as flooring have been introduced, laying the groundwork for growth in the coming years. Overall, DSM Special Products was clearly able to grow faster than the market in its core products, strengthening its market share and global leadership.

Increased demand led to an industry wide improvement in utilization rates, allowing margin recovery. Furthermore, DSM Special Products was able to make significant cost savings, especially in the consumption of raw materials. DSM Special Products saw a strong improvement driven by higher sales volumes and margins and lower fixed costs. Sales rose 7%.

#### Projects

DSM Special Products will continue its efforts in application innovation, and will further grow the business in VevoVital<sup>®</sup> in collaboration with DSM Nutritional Products.

Especially promising for the coming years is the development of plasticizer products by customers of DSM Special Products, based on our Purox<sup>®</sup> B. Several competitive products based on phthalic acid will be withdrawn from the market in the next 24 months, opening up market space in which Purox<sup>®</sup> B based products are superbly positioned to compete.

Due to the improved utilization rates combined with continued belief in growth opportunities, DSM Special Products has started the engineering for a debottlenecking of its facilities which will support a further 30% growth in Purox<sup>®</sup> B, VevoVital<sup>®</sup> and Purox<sup>®</sup> S by 2010.

#### CakeZyme™



CakeZyme™ is a groundbreaking enzyme-based ingredient. It is a unique technological breakthrough for the cake and pastry industry, boosting the emulsifying properties of egg yolk, meaning fewer eggs are needed to produce cake which leads to overall cost savings. In addition to savings, cake manufacturers benefit from an improved nutritional profile and enhanced product quality.

DSM Food Specialties introduced CakeZyme™ in 2007. Dave Moreton, Development Director at Memory Lane Cakes Ltd. (Finsbury Food Group): *'We started to use CakeZyme™ in some of our products in 2007. After further successful trials in 2008 we have continued to roll out the addition of the ingredient to other products in our range. We are convinced of the benefits of CakeZyme™ for our products which include extended shelf-life and softer crumb over time in our preservative-free products. Throughout the development process we have worked closely with various specialists from DSM Food Specialties.'*

## Review of business

# Pharma

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

x € million	2007	2006
Net sales <sup>1</sup> :		
DSM Pharmaceutical Products	553	605
DSM Anti-Infectives	478	362
<b>Total</b>	<b>1,031</b>	<b>967</b>
Operating profit	93	65
Operating profit plus amortization and depreciation	174	146
Capital expenditure and acquisitions	65	146
Capital employed at 31 December	1,095	1,302
Operating profit as % of average capital employed	7.8	4.9
EBITDA as % of net sales	17.7	15.9
Research and development	68	59
Workforce at 31 December	5,073	4,732

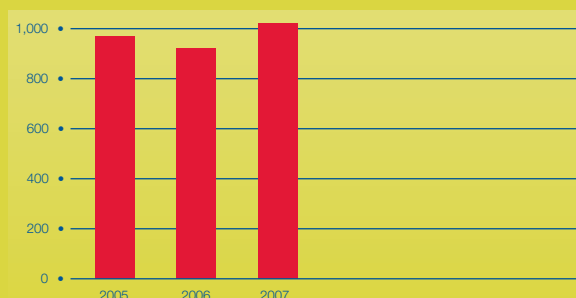
DSM is one of the world's leading independent suppliers to the pharmaceutical industry, with some 40% of today's top-selling medicines in the world containing ingredients developed and produced by DSM.



<sup>1</sup> before elimination of intra-group supplies to other clusters

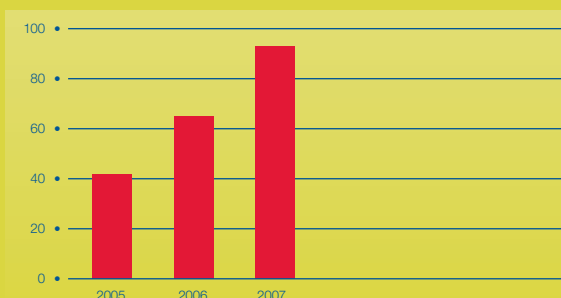
**Supplies of Pharma**

x € million



**Operating profit of Pharma**

x € million



## DSM Pharmaceutical Products

*High-quality global services to the life science industry*

### Highlights

- Solid growth and performance in Pharma Chemicals
- Clinical trial line for sterile manufacturing started
- Breakthrough XD™ process announced for biopharmaceutical production

Sales (x € million)	553
Workforce (at year-end)	2,290

### Business and strategy

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. Customers include 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' contract manufacturing services include the production of advanced intermediates, active pharmaceutical ingredients (APIs), amino acids and derivatives, mammalian cell production of monoclonal antibodies and proteins, finished-dose form manufacturing of solids, scheduled drugs, aseptic liquid and lyophilized products. DSM focuses the right resources on providing the highest level of service and quality while applying innovative solutions to satisfy customers' unique manufacturing needs. DSM Pharmaceutical Products consists of four business units.

*DSM Pharma Chemicals* is a provider of custom chemical manufacturing services for complex registered intermediates and APIs. Using a large technology toolbox, it provides manufacturing services from four European-based facilities located in Austria, the Netherlands, Italy and Germany.

*DSM Biologics* is a provider of biopharmaceutical manufacturing technology and services. DSM Biologics and Crucell NV 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. DSM Biologics operates a manufacturing facility in Groningen, the Netherlands, approved by the US Food and Drug Administration (FDA) for mammalian-cell-based contract manufacturing and PER.C6® process support. DSM Biologics also offers microbial-cell-based contract manufacturing services through its operations in Capua, Italy.

*DSM Pharmaceuticals, Inc.* is a provider of high-quality finished-dose-form manufacturing services to the pharmaceutical and biopharmaceutical industries. Operating from Greenville, North Carolina (United States), the company manufactures sterile injectables (aseptic liquid and lyophilized), and solid-dose forms (tablets and capsules) for companies around the world.

*DSM Exclusive Synthesis / Intermediates* is a global provider of custom manufacturing services for the agrochemical industry and a provider of organic intermediates to the fine-chemicals industry. Customers are served from the production site in Linz, Austria.

DSM Pharmaceutical Products provides solutions to the development and manufacturing needs of the pharmaceutical and agrochemical industries. The business group derives sustainable success from the application of a wide range of technical and regulatory capabilities to deliver services in a compliant, timely and cost-effective manner.

### Business review

The business group's performance was very much in line with expectations. Sales declined by 9%, mainly due to divestment of the South Haven site in 2006. Operating profit of DSM Pharmaceutical Products was close to the level of 2006, as the business group was almost able to compensate for the expiration of Roche contracts. DSM Pharma Chemicals showed a good performance and profited from continued new business uptake and the growth of existing development projects and commercial products. DSM Pharmaceuticals, Inc. showed a lower activity level, primarily due to sterile injectables.


# Review of business

Eleven new products were launched from the Greenville, North Carolina (United States) facility in 2007, including two sterile biologics for which the pre-approval inspections were waived by the FDA (the US Food and Drug Administration).

Expansion in the sterile manufacturing area continued on schedule as the clinical trial materials manufacturing facility in Greenville was completed and qualified and is in operation for several new customers. The cytotoxic manufacturing suite is on schedule for commercial operation in 2008.

The DSM Exclusive Synthesis / Intermediates business showed a better performance due to restructuring of the portfolio. As part of the accelerated *Vision 2010* strategy, it has been decided to divest the intermediates business.

DSM Biologics' activities were centered on providing manufacturing services for new and existing customers from the facility in Groningen (Netherlands) and expanding the PER.C6® Development Center in Boston, United States with joint-venture partner Crucell NV.

The number of new manufacturing projects increased compared with 2006. DSM Biologics also announced the innovative XD™ process . This cell-based manufacturing process tailored to the PER.C6® technology platform is capable of producing much higher yields in manufacturing, and can create a breakthrough in biopharmaceutical manufacturing.

## Projects

An operational excellence project implemented in solid-dose manufacturing resulted in a significant increase in contribution margin in line with the business group's strategy of growing its activities and improving its profitability.

## DSM Anti-Infectives

*Recovery led by higher selling prices*

### Highlights

- Financial performance improved significantly
- In full pursuit of partnering strategy
- Strong growth in enzymatic green technologies

Sales (x € million)	478
Workforce (at year-end)	2,783

## Business and strategy

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 the developing economies of China, India, other countries in Asia and Africa. Consumption in the Western world with its highly regulated markets is more or less stable. DSM Anti-Infectives is the only penicillin producer outside of China.

In this context DSM Anti-Infectives – as the leading supplier of bulk active ingredients and important intermediates – has defined a strategy 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 (cost effective and leaving less of an environmental footprint) and a strengthened product portfolio in generic active ingredients. DSM Anti-Infectives will achieve this by actively seeking partnerships, and where necessary rationalizing parts of the portfolio.

## Business review

DSM Anti-Infectives holds global leadership positions in penicillin G, penicillin intermediates (6-APA and 7-ADCA), semi-synthetic penicillins, semi-synthetic cephalosporins and side chains to produce these active pharmaceutical ingredients (APIs), and in other active ingredients such as potassium clavulanate and nystatin.

Contrary to previous years, the global overcapacity (mainly based on newly installed facilities for the production of penicillin and derived products in China) did not result in oversupply. The main cause of this was the temporary output reduction forced by Chinese authorities on a few major players in the industry in order to comply with environmental regulations. In 2007 this led to a temporary shortage in the total value chain for penicillin-based APIs, leading to significant price increases in raw material intermediates and all related products. Sales increased by 32%.

The overall growth of market demand for penicillin equivalents was 4-6% in 2007. In spite of the weak US dollar versus the euro and the higher raw-material and energy prices, DSM Anti-Infectives was able to strongly improve its bottom line. This was due not just to market circumstances, but also to effective cost control based on the restructuring programs started in 2005.

This result improvement did not apply to the side-chains part of DSM Anti-Infectives' portfolio, where capacity and demand were not fully in balance, although the company was able to



increase prices while maintaining market share. The weaker US dollar however prevented this from being reflected in the results.

#### Projects

In 2007 the decision was taken to divest the clavulanic acid business and the manufacturing site in Sweden. At the same time the efforts to broaden the portfolio to include active pharmaceutical ingredients that will become generic in the coming years were increased.

In this program DSM Anti-Infectives is strongly profiting from its market access to key generic pharma houses, building on its strong technological knowledge and geographic spread advantages. Besides the focus on this program, DSM Anti-Infectives' R&D efforts continue to concentrate on reducing the variable costs of its core products, and on green routes to reduce the group's environmental footprint even further.

#### New strategy announced

Every year the CPhI (the leading global convention on pharmaceutical ingredients and intermediates) is one of the most important events for DSM Anti-Infectives to meet customers and partners. This three day event is visited by about 20,000 professionals, which gives ample opportunity to develop new business leads and to strengthen ties with existing relations. In 2007 DSM Anti-Infectives announced a new strategy. In line with this we introduced our new slogan 'DAI, your partner in generic APIs'.

Testimonials from our many satisfied customers and the large number of visitors to our CPhI stand showed that DSM Anti-Infectives is a highly appreciated partner in the generic API industry. In fact increasingly so, as we have embarked on an ambitious new journey with the objective of launching a number of new generic molecules every year; and the many positive reactions from potential customers have actually exceeded our expectations.

#### Purimox®



DSM Anti-Infectives has developed DSMPureActives™, a new range of high-quality semi-synthetic penicillins and semi-synthetic cephalosporins each produced with innovative enzymatic technology.

Mr S.G. Belapure, President, Manufacturing Formulations at Cadila says: 'By using DSMPureActives™ product Purimox®, productivity has gone up by almost 15% thereby reducing breakdown time and flowability has also improved. Using Purimox® has considerably improved the formulation yield.'

Mr Rajesh Madan, Executive Director, Medicamen Biotech Ltd. vouches for the quality of Purimox® and acknowledges the fact that using Purimox® provides a qualitative competitive edge in the market for formulations.

Mrs Lata Jain, Executive Director, Purchase at Akums Drugs and Pharmaceuticals shares similar views on Purimox®. 'We have been using Purimox® for more than two years now, and yield and productivity have gone up significantly. Purimox® is the product of the future.'

# Performance Materials

The Performance Materials cluster comprises the business groups DSM Engineering Plastics (including the Dyneema business unit), DSM Resins and DSM Elastomers. On 1 January 2008 DSM Dyneema became a business group.

x € million	2007	2006
Net sales <sup>1</sup> :		
DSM Engineering Plastics (including DSM Dyneema)	1,068	1,005
DSM Resins	1,324	1,258
DSM Elastomers	509	496
<b>Total</b>	<b>2,901</b>	<b>2,759</b>
Operating profit	321	329
Operating profit plus amortization and depreciation	415	429
Capital expenditure and acquisitions	214	126
Capital employed at 31 December	1,815	1,697
Operating profit as % of average capital employed	18.3	19.3
EBITDA as % of net sales	14.3	15.6
Research and development	131	115
Workforce at 31 December	5,139	4,664

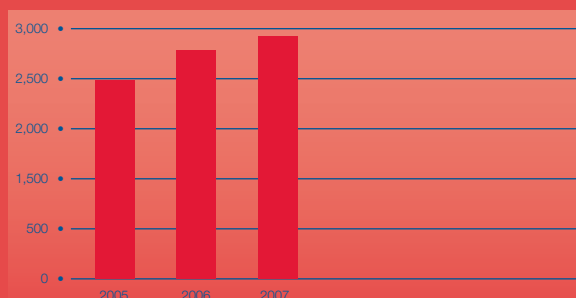
All of these units specialize in the manufacture of technologically sophisticated, high-quality products that are tailored to meet customers' performance criteria. The products are used in a wide variety of end-use markets: the automotive industry, the aviation industry, the electrics & electronics industry,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



<sup>1</sup> before elimination of intra-group supplies to other clusters

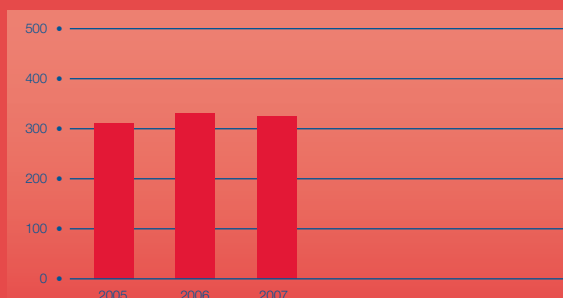
Supplies of Performance Materials

x € million



Operating profit of Performance Materials

x € million



## DSM Engineering Plastics

*Satisfying year despite temporary setbacks*

### Highlights

- Sustained volume growth but impacted by caprolactam force majeure and slow automotive sales in the United States.
- Investment program to build for further growth in China/India running at full speed
- Announcement of PA4T, a new high-performance polymer

Sales (x € million, including DSM Dyneema)	1,068
Workforce (at year-end, excluding DSM Dyneema)	1,462

### Business and strategy

DSM Engineering Plastics is a global player in polyamides (polyamide 6, polyamide 66 and polyamide 46), polyesters (PBT, PET and TPE-E), polycarbonate (PC and PC blends) and extrudable adhesive resins. These materials are used mainly in



technical components for the electrics and electronics, automotive, engineering and packaging industries.

With a global market share of about 5%, DSM is one of the world leaders. DSM is the global market leader in high-heat polyamide. DSM Engineering Plastics has production sites in Emmen and Geleen (Netherlands), Genk (Belgium), Evansville (United States), Jiangyin (China) and Pune (India).

DSM Engineering Plastics wants to further strengthen its leadership position with a strong focus on performance materials and specialties. All activities are centered on creating value for the business group's customers and for DSM. Thanks to its outstanding knowledge of products and applications, combined with excellent service levels, the business group is

increasingly able to position itself as a valuable, solutions-oriented business partner.

### Business review

The markets for engineering plastics once again showed growth in 2007 but this growth was lower than anticipated because lower consumer confidence resulted in reduced consumer spending. The automotive market (especially in the United States) and the electronics markets felt the impact of this.

Despite these developments, DSM Engineering Plastics saw sales volumes develop positively in all main markets (electronics, electrical, automotive, packaging, consumer and industrial markets). Raw-material prices remained at high levels, which, together with the unfavorable exchange rates, kept margins under pressure.

Price increases were not yet sufficient to restore margins to the required levels. A production outage for our main raw material caprolactam caused supply problems for our polyamide 6 products in Europe and limited our growth. Sales rose by 2%; operating profit was lower.

### Projects

The construction of new plants continued. In Jiangyin (China) a new Akulon® polyamide 6 polymer plant is being built and in Geleen (Netherlands) the second Stanyl® polymer plant is under construction. Both factories are due to start up in 2008.

Investment decisions were taken to develop a new compounding site in Pune (India) to replace the existing site with extended capacity to cope with strong demand development. This site is due to start in 2008. Also a decision was taken for the first extension of the new compounding site in Jiangyin (China) that had been inaugurated in 2006. The capacity is to be increased by 50% at the end of 2008.

In 2007, DSM announced the development of PA4T <sup>®</sup>, a new high-performance polymer. Stanyl® Diablo was also introduced, an innovative new Stanyl® technology. Components made of Stanyl® Diablo have a very long useful life in extreme environments where other materials disintegrate. Stanyl® Diablo is particularly interesting for the automotive industry, where it helps increase fuel efficiency and reduces CO<sub>2</sub> emissions by saving weight through metal replacement.

# Review of business

## DSM Dyneema

*Another year of solid growth*

### Highlights

- Continued strong growth globally
- Further expansion of manufacturing capacity in the United States
- Pamako Engineering AG acquisition adds new technology

Sales (x € million)	to be disclosed as of 1 January 2008
Workforce (at year-end)	606

### Business and strategy

Dyneema® (a high-modulus polyethylene fiber) is the strongest fiber in the world on a weight-for-weight basis. It was invented and developed by DSM and is an important component in ropes, cables and nets in the fishing, shipping and offshore industries. Dyneema® is also used in safety gloves for the metalworking industry and in fine yarns for applications in sporting goods and the medical sector. In addition, it is applied in bullet-resistant armor and clothing for law-enforcement personnel and the military. Dyneema® is produced in Heerlen (Netherlands) and in Greenville, North Carolina (United States). DSM Dyneema is also a partner in a high-modulus-polyethylene (HMPE) manufacturing joint venture in Japan.

DSM Dyneema is expanding around the world in selected, high-margin markets offering high profitability. The company will continue to focus on the further development of ultra-strong polyethylene fiber and UD (unidirectional sheet) technology.

### Business review

The year 2007 was another good year. All markets for 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 22%. DSM Dyneema's operating profit was up from 2006, due to higher volumes.

Between 1998 and 2007 sales volumes for Dyneema® more than quadrupled and the business clearly outgrew all direct competitors. Demand for light but strong, convenient-to-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.

Production capacity for Dyneema® in the United States for the life protection market was expanded by another 25% in 2007. By adding extra capacity to its highly integrated Greenville site, DSM remains able to meet increasing demand for its products and underlines its high commitment to the long-term development of the US market. Also, a decision was made to invest in a new technical service center at DSM's Stanley, North Carolina (United States) facility. Investing in further growth of Dyneema® fiber and UD materials helps DSM maintain its global market leadership position.

New technology for the production of UHMWPE (Ultra High Molecular Weight Polyethylene) based products was acquired in March through the acquisition of Pamako Engineering AG in Zurich (Switzerland). This new technology is complementary to the existing business for Dyneema® fiber and Dyneema® UD.

### Projects

In 2007 several new products were introduced. The new Dyneema® HB50 represents the latest top-of-the-line solution for monolithic (fiber-only) inserts to be used in hard ballistic armor. The new Dyneema® HB51, designed for and manufactured in the American market, is the best-in-class material for protective backing behind the body armor's strike face in a hybrid construction. Both new materials offer the ideal combination of enhanced ballistic performance and lightweight comfort.

Also, new spun yarn gloves with Dyneema® were introduced in the United States. This introduction opens up a significant new market for protective gloves. Gloves with Dyneema® protect hands against a wide range of mechanical and cut hazards. They feel softer than cotton, enable better air circulation and have high abrasion and chemical resistance, which is undiminished by repeated washings.

In the medical segment, independent studies carried out in 2007 show that Dyneema Purity®, a high-performance specialty polyethylene fiber developed by DSM Dyneema specifically for medical applications promotes better tissue formation than traditional polyester in orthopedic suture applications. This is excellent news for orthopedic surgeons, as one of their most important concerns when using artificial, non-degradable sutures is rapid healing of the tissue surrounding the sutures.

In the 2007 prestigious America's Cup race, all boats including that of the winning Alinghi team were rigged with state-of-the-art running rigging made with Dyneema®. This provided a number of benefits, including lower stretch and significant weight savings.



The DSM site in Greenville, North Carolina (United States) that is used by both DSM Pharmaceuticals, Inc. and DSM Dyneema was selected as Industry of the Year for 2007 by the community in Pitt County, where it is located. The award recognizes a manufacturer or distributor that has done a great job in the community.

## DSM Resins

*Innovation drive leads to successful product introductions*

### Highlights

- Strong organic sales growth in 2007
- DSM NeoResins+ expansion in Meppen (Germany) completed, new expansions in Waalwijk (Netherlands) and Shunde (China) announced
- Innovative strength recognized by two prestigious awards

Sales (x € million)	1,324
Workforce (at year-end)	2,524

### Business and strategy

DSM Resins manufactures and sells high-quality resins which 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.

DSM Resins consists of four business units: DSM Powder Coating Resins, DSM NeoResins+, DSM Desotech and DSM Composite Resins.

### Business review

In 2007 DSM Resins made further progress in all of its four business units and introduced a broad range of new, innovative products. These will help the business group to achieve its ambition of double-digit sales growth towards 2010.

DSM Resins' sales growth in 2007 was mostly volume-driven. Most facilities operated at full or nearly full capacity during the year, increasing the need for capacity expansion. DSM Resins is investing heavily in market-driven innovation by developing new technologies and products for existing and new applications.

Successful price management in combination with new products from innovation efforts, increasing presence in emerging economies and a strong commitment to operational excellence will form the basis for the improvement of DSM Resins' overall profitability in the coming years.

## Dyneema®



Following a successful eight-month sea trial, COSCO Dalian, a subsidiary of China Ocean Shipping Company has selected mooring lines with Dyneema® fiber for its newest Very Large Crude Carrier (VLCC). COSCO Dalian found that, in comparison with steel-wire mooring lines, ropes made with Dyneema® enabled a 50% reduction in mooring time and significantly improved crew safety. DSM Dyneema worked closely with COSCO Dalian during the sea trial to document performance of the new ropes.

Zhao Jinwen, General Manager of Technical Department COSCO Dalian, said: *'At COSCO we are always looking for new ways to improve the safety and efficiency of our operations, and this is why we trialed the lines made with Dyneema®. We were very impressed with the results. The mooring ropes are lighter and easier for seamen to handle, which helps avoid injury at sea and ashore, and speeds up the mooring process. We dramatically reduced mooring time, which will help lower port fees and allow faster turnarounds for our vessels. We are looking forward to the launch of the Cospearl Lake and the many benefits Dyneema® technology will bring to its operation.'*

# Review of business

Trends in the market call for eco-friendly systems, driven by more stringent legislation in combination with the customers' need for improved durability, lower weight, ease of use and lower system costs.

DSM Resins' innovation drive 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. Also, waterborne resins for paints and coatings contribute to a more sustainable world with lower emissions and superior quality.

The innovation focus will be in particular on inter-material replacement of metal and concrete by composite resins and emission-free water-based and powder-coating resin technologies.

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.

With the award of two prestigious innovation prizes, the innovative strength of DSM Resins was recognized in 2007. DSM Composite Resins received the Design and Technology Awards for best innovative material for Turane™ at the European trade fair Materialica. DSM Composite Resins also received the JEC Innovation Award for best innovation in composite resin materials (Turane™) during the International China Composites Expo. Turane™ ① was used in the bodywork of the lightweight Nuna4, the winner of the Panasonic World Solar Challenge for solar-powered vehicles.

Shortages in raw materials, as witnessed in 2006 for isophthalic acid, did not occur in 2007. DSM Resins met its target of achieving strong organic sales growth in 2007 with a slightly higher operating profit, as a balance of higher sales volumes, margins and fixed costs.

## Projects

In 2007, DSM NeoResins+ introduced Neocryl®, a water-based resin for exterior paints in window frames. Apart from reduced emissions, the product has no odor and dries much faster. DSM NeoResins+ also introduced NeoRad® ①.

DSM Desotech's subsidiary Somos launched a NanoTool, used for wind-tunnel test parts for optimization in aerodynamics for Formula 1 racing.

DSM Powder Coatings introduced HiTone® ①, a hybrid polyester resin with enhanced pigment affinity, enabling the formulation of white and light powder coatings for thin-film applications.

The first ever full-composite bridge with products of DSM Composite Resins was installed in Dronten, the Netherlands. The bridge is stronger than concrete but at the same time twelve times lighter. It takes 15 minutes to install, compared to 1 to 2 days for a conventional concrete bridge.

In 2007, DSM NeoResins+ made further progress with the closure, announced in 2006, of the production site in Landskrona, Sweden. The closure was necessary because of a reduced demand for alkyd solvent-borne coating systems due to new regulations in the European Union.

DSM NeoResins+ completed the construction of a new factory for waterborne resins in Meppen, Germany. Also, it announced an investment of €30 million in the building of a new factory for waterborne emulsion resins in Waalwijk (Netherlands), due to open in 2008.

At the same time, DSM Resins is making further progress in China with the opening of a new plant in Xinghuo for Neoxil® sizings and binders.

## DSM Elastomers

*Higher sales volumes more than compensate for higher costs*

### Highlights

- Strong development of global business
- Innovative Keltan ACE™ production technology announced
- Global branding campaign launched

Sales (x € million)	509
Workforce (at year-end)	547

## Business and strategy

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. The group is one of the global market leaders in EPDM rubber with a market share of 20%. DSM Elastomers has production plants in Geleen (Netherlands) and Triunfo (Brazil). DSM Elastomers works to maintain its position as the global development leader in the EPDM market by constantly renewing its product range and maintaining the low-cost position of its plants in Geleen and Triunfo.

DSM Thermoplastic Elastomers is the #2 global producer of TPVs (EPDM-based – fully vulcanized – thermoplastic elastomers). These TPVs are used in a wide variety of applications including automotive, consumer, electrical, food, building, medical and industrial applications. DSM Thermoplastic Elastomers operates plants in Genk (Belgium)

and Leominster, Massachusetts (United States) and has its global headquarters in Leominster. DSM Thermoplastic Elastomers' strategy is to maximize the growth of TPV, replacing thermoset rubber and PVC, through the development of new advanced technology solutions.

#### Business review

Global demand at DSM Elastomers for EPDM was strong throughout 2007. Demand in the emerging economies continued to show healthy growth, mainly driven by growing demand in the automotive industry. The demand in North America continued to suffer from the restructuring of the automotive industry and its suppliers. Moreover, the downturn in the housing market is affecting the building and construction industry.

In 2007 DSM Elastomers developed well in all regions, particularly in Asia and South America. Raw-material prices continued to increase, especially towards the end of the year. The company was not able to fully safeguard its margins by passing on these cost increases to the market. The continuous weakening of the US dollar caused pressure on both prices and margins.

At DSM Thermoplastic Elastomers, sales growth exceeded expectations in 2007, causing shortages in TPV supplies. Capacity was expanded during 2007 enabling the company to support continuous growth of TPV demand until a new plant comes on stream by the end of 2008. Price increases were implemented in 2007 to compensate for increases in raw-material costs. In 2007 a new generation of low-hardness Sarlink® grades was developed.

Sales of the business group increased by 3% in 2007; operating profit was slightly higher.

#### Projects

Substantial progress was made in the development of the Advanced Catalysis Elastomers (ACE™) technology. Commercial-scale production of the first innovative range of products will commence at the end of 2008.

In response to ongoing industry trends in key markets (automotive and building & construction), DSM Elastomers will launch several new products in 2008 based on proprietary technologies to further grow and strengthen its global market position.

At the end of 2007 a newly built reactive extrusion line commenced production. This line will focus on producing specialty elastomeric materials.

## Powder Coating Resins



DSM Powder Coating Resins is a global market leader in polyester resins used for the production of solvent free powder coatings. These coatings have proven to be technically strong, economically attractive and environmentally friendly. *'We strongly believe in the future of the powder coatings industry, as the advantages they offer are obvious: ecological soundness, cost effectiveness, energy savings and an excellent product performance.'* Rob Molenaar, Director of the business unit Powder Coatings of Akzo Nobel, says. *'Powder coatings have come a long way since they were first introduced in the 1960s, and due to the innovation drive in the industry, we expect powder coatings to continue their further growth in the future.'*

# Industrial Chemicals

The Industrial Chemicals cluster consists of DSM Fibre Intermediates, DSM Melamine, DSM Agro and DSM Energy.

x € million	2007	2006
<b>Net sales<sup>1</sup>:</b>		
DSM Fibre Intermediates (including DSM Acrylonitrile)	1,475	1,429
DSM Melamine	222	215
DSM Agro	427	403
DSM Energy	81	88
<b>Total</b>	<b>2,205</b>	<b>2,135</b>
<b>Operating profit</b>		
Operating profit	225	196
Operating profit plus amortization and depreciation	292	269
Capital expenditure and acquisitions	90	68
Capital employed at 31 December	714	745
Operating profit as % of average capital employed	30.8	26.6
EBITDA as % of net sales	15.1	14.4
Research and development	23	21
<b>Workforce at 31 December</b>		
	2,134	2,183

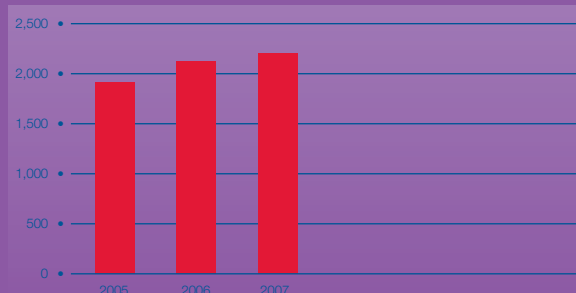
<sup>1</sup> before elimination of intra-group supplies to other clusters

DSM Fibre Intermediates, DSM Melamine and DSM Agro produce chemicals in large-scale, capital-intensive production facilities. Essential features of these businesses, which operate plants in the Netherlands, Asia and the United States and are thus global in scope, are strong customer relations (often geared to the long term), keen cost awareness and careful planning of any capacity expansions.



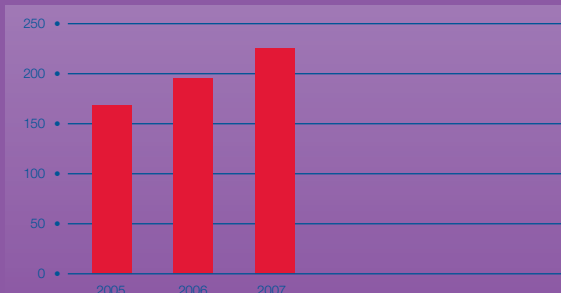
Supplies of Industrial Chemicals

x € million



Operating profit of Industrial Chemicals

x € million





Our caprolactam and melamine businesses are among the global leaders in terms of sales and technology. Our acrylonitrile business is a major player in Europe. DSM Agro, our fertilizer company, is active in Northwestern Europe. DSM Energy has small but profitable stakes in various oil and gas fields in the Dutch part of the Continental Shelf.

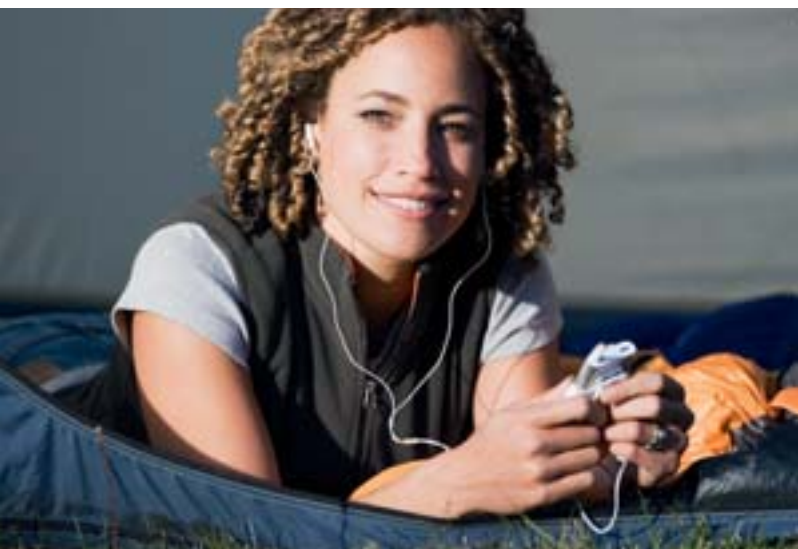
### DSM Fibre Intermediates

*Solid performance in caprolactam and acrylonitrile*

#### Highlights

- Good demand for caprolactam and acrylonitrile
- Higher acrylonitrile prices in line with raw-material costs
- Acrylonitrile debottlenecking project successfully executed

Sales (x € million)	1,475
Workforce (at year-end)	1,421



#### Business and strategy

DSM Fibre Intermediates produces caprolactam and acrylonitrile, which are raw materials for synthetic fibers and plastics.

Caprolactam is the raw material for polyamide 6. This is a versatile material, which in the form of fibers is used in sports and leisure clothes, tires and carpets. It is increasingly used as high-performance construction material in, for example, the electronics and automotive industries and in packaging materials.

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. DSM Fibre Intermediates, with plants in the Netherlands, the United States and China, is the largest merchant caprolactam producer in the world with a market share of 20%. In addition, the business group produces about 1.2 million tons per annum (tpa) of fertilizer (ammonium sulphate) as a co-product.

Acrylonitrile is a raw material used in textile fibers, ABS plastics, latex rubber and water-purification products. 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. With a market share of 25%, DSM is a major player in the merchant acrylonitrile market in Europe.

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 we aim to strengthen our manufacturing base in Geleen (Netherlands).

#### Business review

Global demand for caprolactam was good. DSM Fibre Intermediates' caprolactam sales growth in 2007 was limited compared to 2006 due to planned and unplanned caprolactam production outages. Prices were on average at the same level as in 2006 as demand was good even in the face of high raw-material prices. The prices of energy-related raw-materials such as ammonia remained volatile and high compared to historical levels, but declined slightly compared to 2006. The business overall showed good results.

Demand for acrylonitrile was comparable to 2006. The steady rise in raw-material prices, especially for propylene, could be recouped with higher selling prices. Following the course set out in 2006, the business group was able to close the year 2007 with a solid performance. Sales increased by 3%; operating profit increased as well, thanks to higher margins.

#### Projects

By expanding our caprolactam plant in Nanjing (China) to 140,000 tpa on the basis of DSM's HPO<sup>Plus</sup>® technology, we have become the leading supplier in the rapidly growing Chinese market, and an additional expansion beyond 200,000 tpa to support this market growth is being planned. We expanded our acrylonitrile plant in Geleen (Netherlands) by 25,000 tpa to 260,000 tpa.

# Review of business

Measures to reduce COD (chemical oxygen demand) discharges in Nanjing were taken. Investments to bring DNCC in China up to the highest standards are scheduled for 2008. In the United States substantial energy reductions have been realized over the last couple of years. The feasibility of further projects focusing on energy reductions and better use of raw materials is being evaluated. In Europe a series of investments within the framework of a lifetime extension project will improve the reliability and the integrity of the plant. Recently, in acrylonitrile a catalyst exchange and a debottlenecking resulted in a reduction in the usage of raw-materials and energy.

## DSM Melamine

*Strong improvement in operating profit*

### Highlights

- Improved global supply-demand balance
- Higher prices of competing exports from China
- Margins recovering but not satisfactory yet

Sales (x € million)	222
Workforce (at year-end)	281

### Business and strategy

The main application of melamine is in wood-based panels and laminates used for furniture and flooring. Melamine 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 stimulates the use of melamine. Stricter legislation on emission of formaldehyde is expected to have a positive impact as well.

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.

With a market share of close to 20%, DSM Melamine is the global market leader. It has sophisticated technical service and logistical infrastructure in place for serving customers on a global basis.

DSM Melamine has plants in Geleen (Netherlands) and in Bontang (Indonesia). The latter plant is a joint venture with P.T. Pupuk Kalimantan Timur and P.T. Barito Pacific Lumber Company.

### Business review

Sales increased by 3% in 2007; operating profit increased strongly. Margins improved significantly in 2007, mainly due to the increase in selling prices in the second half of the year. Supply-demand conditions, which had been unfavorable since 2004, changed for the better in 2007. The prices of material exported from China increased strongly over the year. The reasons are a change in Chinese VAT legislation, the higher cost of transport and an unforeseen reduction in production capacities.

In the United States we succeeded in maintaining our market position based on imported material. Production at the DSM Kaltim Melamine joint venture plant in Indonesia was restricted by low on-stream factors of connected plants on site. In Geleen (Netherlands) we realized a production level that was higher than in the previous year.

### Projects

DSM Melamine's objective is to consolidate its leading position and improve profitability. In China we intend to establish a position in the high end of the market based on locally sourced products. For this purpose DSM Melamine is developing a 49/51 joint venture with Shanxi Fengxi Fertilizers.

DSM will continue its efforts together with customers to grow the market via innovation. Examples are cost reduction 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 Agro

*Higher grain prices drive demand*

### Highlights

- Reversal of demand decline of nitrogen fertilizers in Northwest Europe supported by growth of bio-energy crops
- Plants upgraded to reduce greenhouse-gas emissions by 80%
- Strong improvement of financial performance

Sales (x € million)	427
Workforce (at year-end)	427

### Business and strategy

DSM Agro is specialized in supplying products and services for responsible fertilization. The company produces and markets nitrogenous mineral fertilizers and industrial products, mainly

for the Northwest European market. DSM Agro operates production sites at Geleen and 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 other DSM business groups.

### Business review

DSM Agro benefited from the change in market sentiment in the course of the year. A strong worldwide market positively influenced the Northwest European market. Driven by a growing global food and feed demand as a result of positive economic developments in the large new economies in Asia, world grain prices rose considerably, leading to increasing demand for fertilizers.

The growing trend towards bio-fuels further strengthened this development. This in turn had a positive effect on international fertilizer prices. As a result, DSM Agro improved its operating profit in comparison with previous years. Sales rose by 6%.

### Projects

Towards the end of 2007 the nitric acid plants in both Geleen and IJmuiden were upgraded in order to significantly reduce greenhouse-gas emissions.

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.

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. This includes supplying plant nutrients which satisfy society's requirements with regard to safe food production and animal feed.

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 services to ensure that these are used in a responsible manner.

## DSM Energy

### *Operating profit at continued high level*

### Highlights

- Better-than-expected performance
- New field (G14-C) taken into production

Sales (x € million)	81
Workforce (at year-end)	5

### Business and strategy

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 participated in two gas field developments. All fields are located in fifteen production licenses. DSM Energy's strategic mission is to maximize cash flow by minimizing cost and maximizing production in the existing licenses.

### Business review

The oil market saw very large price increases at the end of the year. Over the entire year the price was higher than in 2006. Due to a very mild winter, the market prices for natural gas were below 2006. Nevertheless the business group's operating profit was at a high level, although lower than in 2006.

In 2007 an exploration well was drilled in offshore block Q1 as a follow-up to the Q1-B gas discovery. Unfortunately the well was dry. A well in block F17-S1 was still being drilled at year-end. Studies for a possible well on Horizon West have nearly been completed and drilling is planned for 2008. One development project, G14-C, was carried out successfully with first gas mid November 2007. Two further development projects, the A12a and M7-A fields, are in progress with first gas expected early 2008 and year-end 2008, respectively.

The business group's total production of 1.9 million barrels of oil equivalent in 2007 was slightly less than in 2006. The remaining reserves at the end of the year were about 8.1 million barrels of oil equivalent, of which 7.4 million in the producing fields.

### Projects

In 2007 three master theses on coal development were finalized with DSM Energy's assistance. Together with RWTH Aachen (Germany) and Delft University of Technology (Netherlands) investigations into the CO<sub>2</sub>-capturing capabilities of coal were started.

DSM Energy became one of the founding members of the DAP foundation (Delft Aardwarmte Project). Wells will be drilled to produce warm water for the energy benefit of the entire Delft University campus.





# Report by the Supervisory Board

The composition of the Supervisory Board and the Managing Board changed during the year under review. According to the rotation scheme Mr Okko Müller's term came to an end. He stepped down from the Supervisory Board on 28 March 2007 since he had served the maximum term of twelve years. The Supervisory Board is grateful to Mr Müller for his commitment to the company during his membership and his constructive and valuable contribution to the Board's work.

Mr Peter Elverding stepped down as chairman of the Managing Board as of 1 May 2007. He was succeeded by Mr Feike Sijbesma as of the same date. The Supervisory Board would like to express its sincere appreciation for all that Mr Peter Elverding did for the company during the years he worked for DSM in various positions, especially when he served on the Managing Board, first as a member and subsequently as chairman.

To fill the vacancy arisen from Mr Feike Sijbesma's appointment as chairman of the Managing Board replacing Mr Peter Elverding, the Annual General Meeting of Shareholders held on 28 March 2007 appointed Mr Stephan Tanda as a member of the Managing Board with effect from 1 May 2007 for a period of four years.

The Supervisory Board approved the distribution of Managing Board responsibilities as from 1 May 2007 and the redistribution as from 1 January 2008.

The Supervisory Board held five 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, all of which were prepared by the Nomination & Remuneration Committee.

In addition to remuneration subjects, this part of the Supervisory Board meetings was used for pre-discussion of for instance corporate-governance issues. The Supervisory Board also devoted a separate meeting to its profile, composition and functioning. At the same meeting the Managing Board's composition and performance and the performance of its individual members were also discussed. 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. The Supervisory Board meetings in 2007 were attended by virtually all of the Board's members.

The composition of the Audit Committee changed in 2007. Mr Cor Herkströter and Mr Okko Müller stepped down and were succeeded by Mr Tom de Swaan and Mr Claudio Sonder. The Audit Committee, thus consisting of Messrs Henk Bodt (chairman), Tom de Swaan and Claudio Sonder, met three times in 2007. The external auditor was in attendance at these meetings, and at all meetings the internal – operational – auditor was present as well.

The main topics of discussion during the Audit Committee meeting held in February 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 dividend proposal for the year 2006 was discussed. The committee acknowledged the receipt of the independence letter of the external auditor.

At the June Audit Committee meeting the 2007 audit plan for the external auditor was discussed and approved. The committee furthermore 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. The system and status of the Letters of Representation issued by the managers directly reporting to the Managing Board were evaluated. The positive outcome of the review of the DSM Annual Report by the AFM, the Netherlands Authority for the Financial Markets, was reported.

The main topics discussed during the meeting held in December were the potential provisions and impairments for 2007, findings from the interim audit performed by the external auditor, the basis upon which the Internal Control statement was to be based, the activities of the Corporate Operational Audit department, the 2007 status of the Whistleblower systems and the Corporate Risk Assessment for 2007.

The composition of the Nomination & Remuneration Committee did not change in 2007. The committee, consisting of Messrs Cor Herkströter (chairman), Cees van Woudenberg and Ewald Kist, met five times in 2007. The committee made a recommendation concerning the remuneration of members of the Managing Board. This recommendation was adopted by the Supervisory Board. Information on the group's remuneration policy is to be found on page 70 of this annual report.

# Report by the Supervisory Board

The committee discussed the effectiveness and outcome of the remuneration policy. An assessment was made as to whether the remuneration policy was consistent with *Vision 2010*. Proposals were formulated to the full Supervisory Board on the short-term incentive targets for 2007, the realization of the 2006 targets and the increase in the base salary of the Managing Board with effect from 1 July 2007. The committee also prepared a proposal to the Supervisory Board on various other remuneration aspects such as a change in the 2008 bonus-related financial targets and a revision of the Dutch labor-market peer group for 2008. Other issues covered in the proposal were a change in the base salary for the chairman with effect from 1 January 2008, as announced in the annual report for 2006 and an increase in the maximum percentage overachievement of the financial bonus targets.

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 the succession planning for the Managing Board and the top executives within the company. The remuneration of the members of the Managing Board was also discussed.

The financial results recorded by the various company units and developments at these units were discussed at every meeting. 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. The Board discussed the Annual Strategic Review. Furthermore, the Supervisory Board held in-depth discussions with the Managing Board on a strategic mid-term review of the *Vision 2010* program. The Board approved the acceleration of the *Vision 2010* program, that is, the acceleration of the shift to a specialty Life Sciences and Materials Sciences company, delivering faster growth, higher margins and improved earnings quality. More specifically the Board approved the related portfolio adjustments and the initiation of a disposal or partnering program for non-core businesses. The Annual Strategic Review as well as the review of the *Vision 2010* program included an overview and an assessment by the Managing Board of the main risks to the company. The Supervisory Board also discussed the organizational alignment in relation to the acceleration of the *Vision 2010* program. Furthermore the Supervisory Board discussed the outcome of the Corporate Risk Assessment for 2007.

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 Performance Materials and Nutrition clusters. The Supervisory Board approved the acquisition of cosmetic-active-ingredient specialist Pentapharm. The Supervisory Board discussed and approved a profit improvement program for DSM Nutritional Products and a partnering strategy (possibly with – partial – disposals) for the Anti-Infectives business combined with innovation initiatives and further restructuring measures to improve profitability.

The Supervisory Board discussed and approved the Capital Expenditure and Financing and Guarantee Plan for 2007.

The Supervisory Board agreed with proposals that were subsequently presented to the Annual General Meeting of Shareholders (March 2007) for amending the Articles of Association. The proposals related to the introduction of a loyalty dividend concept, offering a Dividend Re-Investment plan (DRIP) to the shareholders and the incorporation into the Articles of Association of the possibility of using electronic communication media in the decision-making process.

The Supervisory Board was informed in detail about the – negative – decision of the Enterprise Chamber of the Amsterdam Court of Appeal on whether the shareholders were allowed to vote on the loyalty dividend proposal during the Annual General Meeting of Shareholders on 28 March 2007. In September 2007 the Solicitor General (*Advocaat-generaal*) at the Dutch Supreme Court lodged a request for cassation against the decision of the Enterprise Chamber. The Supreme Court overruled the Enterprise Chamber's decision in its decision of 14 December 2007.

The Supervisory Board approved an update of the Commercial Paper program involving cancellation of the existing USD 0.4 billion Commercial Paper program, an update of the existing €0.9 billion Commercial Paper program and an increase in the nominal amount of the Commercial Paper program to €1.5 billion. The Supervisory Board also approved an increase in the planned bond issue from €400 million to €750 million.

Furthermore, the Board approved a second share buy-back program worth €750 million, to be executed in 2007 and 2008. The Supervisory Board approved the interim dividend to be paid for 2007. The Board approved the new formulation of the dividend policy: 'DSM aims to provide a stable and preferably rising dividend'. The Board also approved the announcement of the recommendation to the Annual General Meeting of Shareholders on 26 March 2008 of a dividend increase of 20% per ordinary share and the proposal made to the Annual



General Meeting of Shareholders regarding the final dividend to be paid out for 2007.

As in previous years, the Supervisory Board invited managers from a number of business groups and corporate staff departments to its meetings, to present relevant developments in their units in person.

Discussions were held with the external auditor, Ernst & Young Accountants, about the financial report for 2007. The Report by the Managing Board and the financial statements for 2007 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 12 February 2008. The financial statements were audited by Ernst & Young Accountants, who issued an unqualified opinion (see page 147 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 147 of this report.

DSM succeeded in recording good results for 2007. In 2007 the company embarked on an acceleration of the shift to a Life Sciences and Materials Sciences company and set ambitious new growth targets. The Supervisory Board wishes to express its sincere appreciation for all the efforts made by the employees and the Managing Board.

Heerlen, 12 February 2008

**The Supervisory Board**

Cor Herkströter, chairman  
Henk Bodt, deputy chairman  
Pierre Hochuli  
Ewald Kist  
Claudio Sonder  
Tom de Swaan  
Cees van Woudenberg

## NeoRad®



NeoRad® UV-curing resins, both waterborne and 100% solids, combine eco-friendliness with low energy usage and low coating weights. UV curing coatings represent the world's fastest growing innovative resin technology. NeoRad® offers the excellent wear resistance, stain resistance and mechanical properties required for industrial wood coatings, plastic coatings and the graphic arts industry. End applications include flexible resilient flooring (PVC and linoleum), parquet flooring, luxury packaging and furniture coatings.

# Corporate organization

## Supervisory Board

### Cor Herkströter (1937, m), chairman.

*First appointed:* 2000. End of current term: 2008.

*Position:* retired; last position held: President of Koninklijke Nederlandsche Petroleum Maatschappij NV and chairman of the Committee of Managing Directors of Royal Dutch/Shell Group.

*Nationality:* Dutch.

*Supervisory directorships and other positions held:* chairman of the Social Advisory Council of the Tinbergen Institute, chairman of the Advisory Committee of Royal NIVRA, member of the Advisory Council of Robert Bosch, member of the Capital Market Committee (Netherlands Authority for the Financial Markets), Emeritus Professor of International Management at the University of Amsterdam.

### Henk Bodt (1938, m), deputy chairman.

*First appointed:* 1996. End of current term: 2008.

*Position:* retired; last position held: Executive Vice President of Royal Philips Electronics NV.

*Nationality:* Dutch.

*Supervisory directorships and other positions held:* member of the Supervisory Board of Neopost SA.

### 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 NV.

*Nationality:* Swiss.

*Supervisory directorships and other positions held:* None.

### Ewald Kist (1944, m)

*First appointed:* 2004. End of current term: 2008.

*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 NV, Royal Philips Electronics NV, Stage Entertainment and Moody's Investor Services, member of the Board of Governors of the Peace Palace in The Hague (Netherlands) and of the Netherlands America Foundation.

### 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:* member of the Supervisory Boards of Companhia Suzano de Papel e Celulose S.A., Lojas Renner S.A., RBS-Media Group, Cyrela Brazil Realty S.A., Hospital Albert Einstein and member of the Board of the Latin-America Association, Hamburg (Germany).

### 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 CV, Royal Grolsch NV, Mercurius Group Wormerveer BV, Coöperatieve Bloemenvelling FloraHolland UA and Royal Boskalis Westminster NV, member of the management committee of the Confederation of Netherlands Industry and Employers (VNO-NCW); chairman of the Dutch employers' association AWWN.

### 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, member of the Board of Directors of Zurich Financial Services, member of the Supervisory Boards of Corporate Express NV, Royal Ahold NV and Van Lanschot Bankiers NV, Board member of Royal Concertgebouw Orchestra and member of the Supervisory Board of Netherlands Cancer Institute-Antoni van Leeuwenhoek Hospital.



## 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), board member of BIO (Biotechnology Industry Organization, United States), 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 Boards of RSM Erasmus University and of EPC.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 NV, 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, member of the Supervisory Board of the Bonnefanten Museum in Maastricht (Netherlands), member of the Advisory Board of SenterNovem.

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 NV and chairman of the Supervisory Board of Holland Colours NV.

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) and board member of SGCI (Swiss Chemical and Pharmaceutical Industry Association).

e-mail: stephan.tanda@dsm.com

## Other corporate officers

(as of 1 January 2008)

### Directors of business groups

DSM Nutritional Products	Leendert Staal	(1953)
DSM Nutritional Products Human Nutrition and Health	Mauricio Adade	(1963)
DSM Nutritional Products 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	Jos Goessens	(1951)
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)

### 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	Roelof Mulder	(1946)
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	Hans van Suijdam	(1950)

# Remuneration policy regarding the Managing Board and the Supervisory Board

This chapter comprises two parts. The first part outlines the remuneration policy as approved by the Annual General Meeting of Shareholders (6 April 2005). The second part contains details of the remuneration in 2007 and the changes expected in 2008.

## 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 Dutch multinational companies that are similar to DSM in terms of size and complexity. For this 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 takes into account the relevant provisions of statutory requirements, corporate governance guidelines and other best practices applicable to DSM.

### 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 this purpose, a specific labor-market peer group has been defined which consists of Dutch companies that are headquartered in the Netherlands and are more or less comparable to DSM in terms of size, international scope and complexity of industrial operations.

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

Aegon	Numico <sup>1</sup>
Akzo Nobel	Nutreco
Getronics <sup>1</sup>	Océ
Heineken	TNT
KPN	Wolters Kluwer

<sup>1</sup> Since they are no longer listed on the stock exchange, Getronics and Numico will be eliminated from the peer group and replaced by other companies.

Professional independent remuneration experts (Towers Perrin, Amsterdam) have modified 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 amounts to 42% of base salary, which can increase to 63% in the case of an exceptionally good financial performance.

The part of the bonus that is not related to financial targets amounts to 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.

### Bonus part linked to financial targets

Besides the CFROI, the part of the bonus that is linked to financial targets includes elements related to operational performance, being operating profit (EBIT) and net cash, reflecting short-term financial results. The weighting given to the individual financial elements in the bonus is as follows: CFROI 21%, operating profit 12% and net cash 9% of annual base salary for on-target performance.

Targets	On-target pay-out (% of base salary)	Maximum pay-out (% of base salary)
<b>Financial targets:</b>		
- CFROI	21.0	31.5
- Operating profit	12.0	18.0
- Net cash	9.0	13.5
<b>Non-financial targets</b>		
	18.0	18.0
<b>Total</b>	<b>60.0</b>	<b>81.0</b>

### CFROI

The definition of CFROI has been established in such a way that the realization of the CFROI target can be derived from the financial information in the annual report. The definition is as follows<sup>1</sup>.

**Recurring EBITDA - Related annual tax - Economic depreciation (1%)**

**Gross asset base (incl. working capital)**

CFROI focuses on value realization and creation compared with the weighted average cost of capital (WACC) established for DSM.

### Operational performance

There are two financial-target-related bonus elements that allow for a focus on short-term operational targets: operating profit and net cash. These can be derived from the financial statements and are defined as follows:

- Operating profit: EBIT before exceptional items
- Net cash: cash provided by operating activities

<sup>1</sup> Recurring EBITDA is defined as EBIT excluding exceptional items plus depreciation and amortization as reported in the income statement. Related annual tax is defined as effective tax expense from continuing operations before exceptional items as reported in the income statement. Economic depreciation is defined as a 1% charge on the historical cost of intangible assets and property, plant and equipment as reported in the balance sheet. The 1% charge represents the fund to be formed to replace the average asset mix after its economic lifetime ends. Gross asset base is defined as the historical cost value of intangible assets and property, plant and equipment plus average annualized working capital. Working capital is defined as inventories plus receivables minus other current liabilities as reported in the balance sheet.

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.

In determining the realization of the operating-profit target, a (partial) adjustment mechanism for sensitivity to the euro/dollar ratio will apply. The company does not disclose the actual targets, as they qualify as commercially sensitive information.

### Stock incentives

The Managing Board members are eligible to 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.

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 2007 consists of the following companies:

Akzo Nobel	ICI <sup>2</sup>
BASF	Lanxess
Ciba	Lonza Group
Clariant	Novozymes
Danisco	Rhodia
EMS Chemie Holding	Solvay

<sup>2</sup> ICI will be eliminated from the peer group because the company is no longer listed.

# Remuneration policy regarding the Managing Board and the Supervisory Board

The peer group used for benchmarking total-shareholder-return 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 performance-related stock options that become exercisable and percentage of shares awarded
≥ 20	100
> 10 and < 20	75
> (10) and < 10 (target)	50
> (20) and < (10)	25
≤ (20)	0

## 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 BV and DSM Executive Services BV 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 have been 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 as Board Member. 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 Nomination & 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 in 2007 and changes expected in 2008

### Remuneration of Managing Board in 2007

The remuneration package for the Managing Board is subject to annual review. The market competitiveness of the remuneration package of the Managing Board for 2007 was reviewed, based on the Dutch labor-market peer group. The data reflect the July 2007 remuneration levels.

On-target bonuses and stock-incentive grants are expressed as a percentage of base salary. The remuneration data 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 Dutch labor-market peer group 2007

Managing Board Chairman	DSM (1 July 2007)	Peer-group median
Base salary	€676,000	€745,000
On-target bonus	60%	100%
Total cash on target	€1,081,600	€1,490,000
Annualized stock incentive value	30%	120%
Total direct compensation	€1,284,400	€2,384,000
Other Board members	DSM (1 July 2007)	Peer-group median
Base salary	€494,000	€500,000
On-target bonus	60%	70%
Total cash on target	€790,400	€850,000
Annualized stock incentive value	41%	110%
Total direct compensation	€992,940	€1,400,000

### Base salary in 2007

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. DSM's policy is to offer the Managing Board a base salary comparable with the median of the Dutch labor-market peer group. As stated in the annual report 2006, it is the intention to close the gap with the median of the benchmark by 2008, see page 75.

External and internal circumstances justified a general increase in the base salary of the Managing Board of 2.5% as of 1 July 2007 to cope with inflation and labor-market developments.

### Bonus for 2007

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 financial performance can increase the bonus level to 81% of the annual base salary.

The 2007 annual report presents the bonuses that have been earned on the basis of results achieved in 2007. These bonuses will be paid out in 2008.

The Supervisory Board has established the extent to which the targets for 2007 were achieved. The realization of the 2007 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 partially even exceeded. The other, non-financial targets were also fully realized. The average realization percentage (annualized) was 65%.

See page 74 for tabular overviews on the actual bonus pay-out per individual Board member in 2007.

### Stock options and performance shares in 2007

#### Stock incentives granted in 2007

In 2007 performance-related stock options and performance shares were granted to the Managing Board on 30 March 2007 at an exercise price of €33.60. The following table shows the number of stock incentives granted to the individual Board members:

# Remuneration policy regarding the Managing Board and the Supervisory Board

## Number of stock incentives granted

	Stock options	Performance shares
Peter Elverding	37,500	10,000
Jan Zuidam	30,000	8,000
Feike Sijbesma	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 2007

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 €11,872 (reviewed annually) at a rate of 2%.
- Employee's contribution of 2.5% of base salary up to €52,608 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 financial returns.

Members of the Managing Board born before 1 January 1950 (Jan 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

The company does not provide any loans to members of the Managing Board. There are therefore no loans outstanding.

## Purchasing shares

As announced in the press release on the third quarter results of 2007, members of the Managing Board have decided to purchase more shares in the company to emphasize their confidence in the strategy. Shares purchased are private transactions with private money.

## Total remuneration

The total remuneration (including pension costs relating to current and former Board members) of the Managing Board amounted to €3.8 million in 2007 (2006: €4.3 million). The decrease of €0.5 million was mainly due to a discount on

pension cost and the changed composition of the Managing Board.

## Overview of remuneration awarded to the Managing Board in 2007

The tables below show the remuneration awarded to the Managing Board in 2007.

### Fixed annual salary

in €	1 July 2007	1 July 2006
Peter Elverding (until 1 May 2007)	na	660,000
Jan Zuidam	494,000	482,000
Feike Sijbesma (chairman since 1 May 2007)	676,000	482,000
Nico Gerardu	494,000	482,000
Rolf-Dieter Schwalb	494,000	na
Stephan Tanda (as from 1 May 2007)	494,000	na

### Bonus

in €	2007 <sup>2</sup>	2006 <sup>1</sup>
Peter Elverding (until 1 May 2007)	143,200 <sup>3</sup>	319,235
Jan Zuidam	317,200	233,240
Feike Sijbesma	395,633	233,240
Nico Gerardu	317,200	175,665
Rolf-Dieter Schwalb	317,200	59,286 <sup>3</sup>
Stephan Tanda (as from 1 May 2007)	212,767 <sup>3</sup>	na

1 Bonus paid in 2007 based on results achieved in 2006.

2 Based on results achieved in 2007 and therefore payable in 2008.

3 Pro-rated bonus

## Pensions

in €	Pension costs (employer)		Accrued pension as of age 65	
	2007 <sup>1</sup>	2006	31 Dec. 2007	31 Dec. 2006
Peter Elverding (until 1 May 2007)	-	111,379	-	323,573
Jan Zuidam	-	81,968	256,509	240,446
Feike Sijbesma	-	91,248	167,562	153,897
Nico Gerardu	-	49,493	261,615	148,575
Rolf-Dieter Schwalb	-	17,990	11,755	2,352
Stephan Tanda (as from 1 May 2007)	-	na	28,208 <sup>2</sup>	na

1 Discount on employer contribution.

2 Including additional accrual (one-off) for compensation of loss of pension from previous employer.

## Remuneration package of Supervisory Board in 2007

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.

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 2007 the members of the Supervisory Board together held 6,084 shares in Royal DSM NV.

The company does not provide any loans to its Supervisory Board members.

Rules have been adopted governing ownership of and reporting on transactions in securities (other than securities issued by DSM) by Supervisory Board members.

The following table gives an overview of the remuneration paid to the Supervisory Board in 2007.

## Supervisory Board remuneration in 2007

in €	Annual fixed fee	Committee fee	Total
Cor Herkströter, chairman	50,000	8,750	58,750
Henk Bodt, deputy chairman	35,000	7,500	42,500
Okko Müller (until 28 March 2007)	8,750	1,250	10,000
Cees van Woudenberg	35,000	5,000	40,000
Ewald Kist	35,000	5,000	40,000
Pierre Hochuli	35,000	-	35,000
Claudio Sonder	35,000	3,750	38,750
Tom de Swaan	35,000	5,000	40,000
<b>Total</b>	<b>268,750</b>	<b>36,250</b>	<b>305,000</b>

## Changes expected in 2008

To close the gap with the median of the benchmark (Dutch labor-market peer group), an extra 10% increase in the base salary of the Managing Board chairman has taken place on 1 January 2008.

The Supervisory Board will review in the second quarter of 2008 whether circumstances justify adjustment of the base-salary levels of the Managing Board with effect from 1 July 2008 to compensate for inflation and to reflect market developments. This review will among other things be based on the labor-market peer group.

Since Numico and Getronics are no longer listed, they will be eliminated from the Dutch labor-market peer group and need to be replaced.

Recent changes in the AEX/AMX index will limit DSM's options to compose a specific Dutch labor-market peer group based on the AEX/AMX only. Moreover, Eumedion (a platform of institutional investors) has issued guidelines to the effect that a labor-market peer group should consist of at least 12 companies. It is to be expected that corporate-governance-regulating bodies will adopt this guideline.

As a consequence, the Supervisory Board has requested independent remuneration experts to propose an alternative labor-market peer group. The proposed peer group will consist of Dutch listed companies that are more or less comparable to DSM in terms of size and complexity and some industry-specific European specialty-chemicals companies. The following peer group is being proposed, subject to approval of the Annual General Meeting of Shareholders:

# Remuneration policy regarding the Managing Board and the Supervisory Board

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

In December 2007 the Supervisory Board reviewed the financial targets of the short-term incentive scheme for the Managing Board. A proposal will be submitted to the 2008 Annual General Meeting of Shareholders to modify the short-term incentive scheme for the Managing Board. The proposal consists of the following elements.

- Replacement of CFROI as financial target by net-sales growth (organic) to reduce overlaps and correlation between financial targets. Moreover net-sales growth as a target fits in with the organic sales growth target of > 5% on average per year as part of the accelerated *Vision 2010* strategy.
- An increase in the percentage bonus for overachievement of financial targets from 150% to 200% of the base bonus to close the gap with the median of the market for total cash compensation.
- Abolition of the adjustment mechanism for the euro/dollar ratio.

Financial targets within the bonus scheme account for a bonus amounting to 42% of base salary (84% for outstanding financial performance) and relate to:


• operating profit (EBIT)	21%	(42%)
• net cash	12%	(24%)
• net-sales growth (organic)	9%	(18%)

The bonus part related to non-financial targets amounts to 18% of the base salary and cannot increase beyond that. No change is being proposed with respect to non-financial targets.

In 2008 a proposal will be prepared to further align the remuneration of the Managing Board and other executives with the long-term strategy of the company by making the Long-Term Incentive (LTI) a more important element of the total remuneration package than the Short-Term Incentive (STI).



# Corporate governance, risk management and internal control

In the 2004 annual report, an extensive account was given of the way in which DSM conducts its governance, risk management and control. In this section, the main elements are reported, the overall governance framework is described, and the risk management and control system is explained (see [www.dsm.com](http://www.dsm.com), Governance section). 


## Organization

Royal DSM N.V. is a public limited company 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 as based on these factors. 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.

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 dialog 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 market prices.


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

## Dutch corporate governance code

DSM supports the 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. This exception 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 page 69). 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 members of the Managing Board will remain appointed for an indefinite period.

All documents related to the implementation at DSM of the Dutch corporate governance code can be found at the corporate website ([www.dsm.com](http://www.dsm.com)). 

## Governance framework

DSM's business-steering model remained unchanged in 2007, 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 one 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.

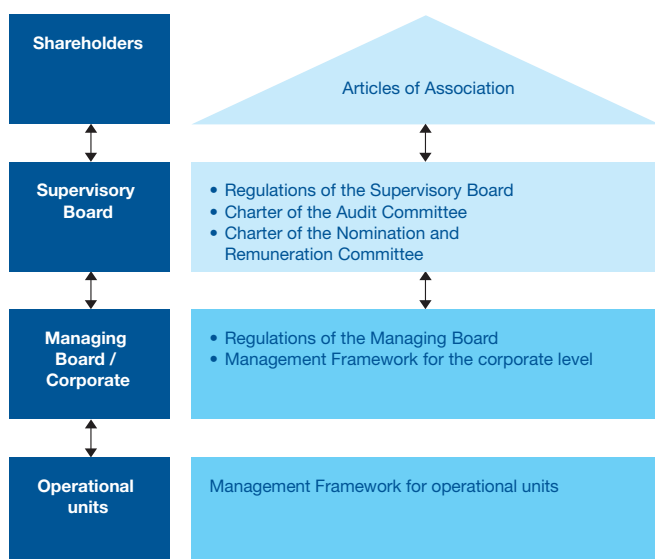
In 2007, a management framework for the corporate level was created, providing a description of the relations between the

# Corporate governance, risk management and internal control

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. The framework reinforces governance by pulling together information that was previously available in a fragmented form.

One of the outcomes of the *Vision 2010* mid-term review was the decision to accelerate growth in life sciences and materials sciences and divest other activities. This move is reflected in the change – as of 1 January 2008 – from four clusters (Nutrition, Pharma, Performance Materials and Industrial Chemicals) to five (Nutrition, Pharma, Performance Materials, Polymer Intermediates and Base Chemicals and Materials). The activities in the latter cluster will be carved out in order to facilitate their disposal.

As stated before, there were no major changes to DSM's overall governance framework in 2007. The figure below depicts this 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 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. In addition, they maintain the Management Framework for the operational units.

- The operational units conduct their business within the parameters of this Management Framework. 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 Management 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. 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 Whistleblower Policy.

## Risk-management system

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 also provides for controls for those risks that commonly occur in the company. For a large part, these controls have been 'built into' the standard business processes and tools have been developed to support their implementation and to monitor their effectiveness in operation. One of these tools is the system of

letters of representation by top managers to report to the Managing Board the degree of compliance and effectiveness of risk management and internal controls. In this way, a high level of internal control can be achieved efficiently.

In 2007 the system was further enhanced and adapted to the *Vision 2010* developments. Improvements include the introduction of better tools to check the occurrence of segregation-of-duty issues.

Practices and training programs were developed to support the operational units in embedding risk management in their daily operations while preventing this from becoming a bureaucratic 'tick the box' affair. The practices focus on behavior and principles and connect with business process optimization actions. They were successfully piloted in a number of business groups and corporate training programs.

Much attention was given to the accessibility of the system, which is provided via the Corporate Risk Management intranet site. Part of the system is an improved Business Portal that can be used by business groups as a management-information system (including risk management).

A full description of the latest version of the DSM risk-management system can be found on the DSM Internet site. 

For 2008, the focus will be on 'closing the risk control loop', that is, on monitoring the effectiveness of the risk responses and controls as well as on actions and system improvements to increase this effectiveness. These actions and system improvements will go hand in hand with business-process-optimization actions.

## 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, see definition on page 71) 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 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 solid single-A rating.

DSM's dividend policy is outlined on page 38 of this report. In order to avoid dilution of earnings per share as a result of the exercise of management and employee options, DSM buys back shares so far 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 meets statutory and other governance requirements.

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 and import, export and excise duties. As part of this task, it handles 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 import, export and excise duties, 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 hazardous risks or having these risks transferred to external insurers, based on the relative costs involved. 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 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 and economics. 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.

## Risks

The top risks that are considered to have the largest potential influence on the company's success in achieving its strategic and operational objectives are mentioned in the following list, where they are indicated with an asterisk. The list also gives an overview of other risks that have been identified as potentially important. A description of the nature of all risks is given on the DSM website. Furthermore, information on financial risks is provided in the financial statements on page 123 .

### Generic risks

- Macro-economic trends
- General market developments
- Low-cost competition\*
- Political risks
- Currency risks\* and interest risks
- Risks of derivatives used for hedging purposes

### Strategic risks

- Acquisitions, disposals and joint ventures\*
- Innovation (new markets, products and technologies)\*
- Ability to attract and retain people\*
- Organizational and cultural risks\*

### 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](http://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 our 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.



# Information about the DSM share

## Shares and listings

Ordinary shares in Royal DSM N.V. are listed in NL 00983 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: the Corporate governance section starting on page 77, notes 17 (page 117), 19 (page 120) and 27 (page 134 to the financial statements and the Other information section starting on page 147).

## Share buy-back program

On 27 September 2006 DSM announced a share buy-back program with a total value of €750 million as a main building block to realize the desired balance sheet structure in the framework of the *Vision 2010* strategy. In 2006 the company had purchased a total of 6,700,000 shares under the first phase of this program for a total consideration of €242.1 million. On 27 April 2007, the company initiated the second phase of the program. During this second phase the company bought 13,828,008 shares for a consideration of €507.9 million. The second phase, and hence the first program, was completed on 10 September 2007.

As resolved by the Annual General Meeting of Shareholders on 29 March 2006 and 28 March 2007, the shares bought back under the above program were cancelled. This means that DSM cancelled 20,528,008 shares in 2007.

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 remainder of the program will be executed in 2008, subject to the approval of the Annual Meeting of Shareholders in March 2008. The company will only cancel shares bought under the second program if the 10% shareholding threshold for own shares is exceeded, to keep flexibility for major acquisitions. In addition, of course, we may halt the buy-back at any time, if a major acquisition needs financing.

The total number of ordinary DSM shares outstanding decreased by 17,952,977 in 2007 as a result of the share buy-back programs. On 31 December the company had 166,896,860 shares outstanding.

The average number of ordinary shares outstanding in 2007 was 178,540,706. All shares in issue are fully paid.

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

ABN AMRO Bank NV 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.

# Information about the DSM share

## Development of the number of ordinary DSM shares

	Issued	Repurchased	Outstanding
Balance at 31 December 2006	201,953,008	17,103,171	184,849,837
Changes:			
Reissue of shares in connection with exercise of option rights	-	(2,730,031)	2,730,031
Repurchase of own shares	-	20,683,008	(20,683,008)
Cancellation of own shares	(20,528,008)	(20,528,008)	-
Balance at 31 December 2007	181,425,000	14,528,140	166,896,860
Average number of shares outstanding		178,540,706	
DSM share prices on Euronext Amsterdam (€ per ordinary share):			
Highest closing price		39.87	
Lowest closing price		31.63	
At 31 December		32.33	

### 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 2008:

- Fortis Utrecht N.V.
- Barclays Global Investors
- ING Groep 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 28 March 2007 this power was extended up to and including 28 September 2008, on the understanding that

- in the case of 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, and
- in the case of the issue of preference shares this authorization

of the Managing Board will relate to all non-issued preference shares of the authorized capital at the level at which it now stands or may stand at any future time.

### 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 28 March 2007 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

In October 2007, after the announcement of the acceleration of *Vision 2010*, all DSM Managing Board members privately invested in DSM shares. The cumulative holdings of the five board members increased in 2007 from 1,836 to 12,036 shares.

Board member	Holdings on 31 December 2006	Holdings on 31 December 2007
Feike Sijbesma	-	2,500
Jan Zuidam	1,836	2,336
Rolf-Dieter Schwalb	-	2,500
Nico Gerardu	-	2,500
Stephan Tanda	-	2,200

These shareholdings serve as a long-term investment in the company.

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

In %	2007	2006
Netherlands	39	32
North America	16	13
Belgium / Luxembourg	6	14
France	4	3
United Kingdom	18	30
Germany	6	1
Switzerland	4	4
Other countries	7	3

**DSM share**

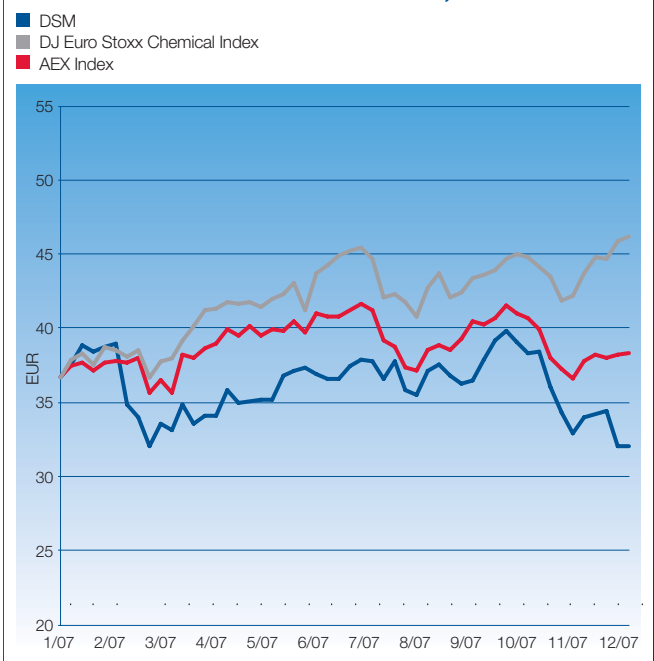
The year 2007 was a turbulent one for stock markets worldwide. The development of the DSM share was no exception. After considerable outperformance in most of the recent years, the DSM share departed from this pattern in 2007.

In February 2007 the company gave a full-year guidance that, according to analysts, disappointed the market. The share price fell 10.6% on the day of the announcement but showed recovery in the weeks thereafter.

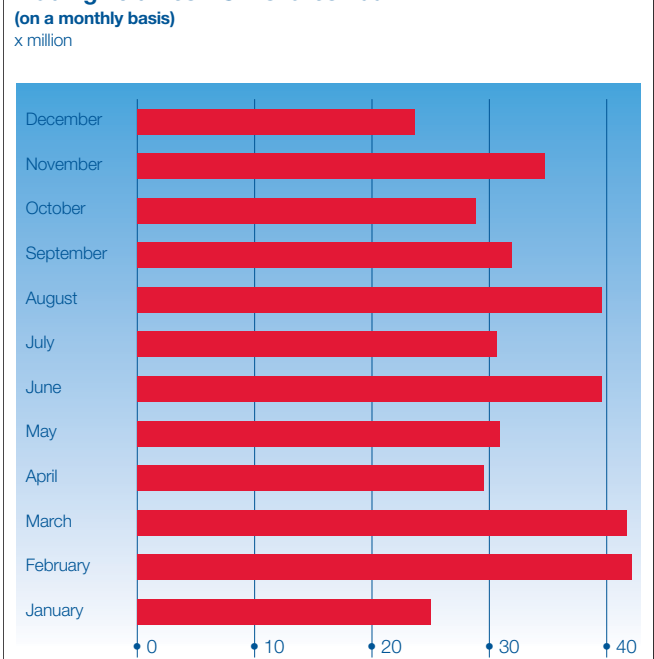
After the company raised its outlook twice, the recovery gained further momentum. After the announcement of the acceleration of the *Vision 2010 – Building on Strengths* strategy in September, the share price reached a record for the year of €39.95 on 10 October 2007.

In the last few months of the year the DSM share – in line with the broader market – came under pressure. DSM closed 2007 at €32.33.

**DSM share price development versus AEX and Dow Jones Euro Stoxx Chemical Index, 2007**



**Trading volumes DSM shares 2007**



Life Sciences and Materials Sciences

# Innovation is our Sport™



DSM innovations are found in many different sports disciplines. The Swiss Fencing Team, members of DSM's *Unlimited* Sports Team, wear protective garments containing Dyneema® that allow for maximum mobility and comfort while providing safety for the athlete.





### The Beijing Olympics 2008

The 2008 Olympic Games will be held in Beijing from 8 until 24 August 2008. During the event approximately 10,500 athletes are expected to participate in 28 different sports. A total of 302 gold medals will be awarded. Around 70,000 volunteers will offer their help.

The Paralympic Games will be held from 6 until 17 September 2008. A total of 4,000 athletes will compete in 20 sports and more than 450 gold medals are to be won. Approximately 30,000 volunteers will be present.

# Innovation is our Sport™

In 2007 DSM launched the Innovation is our Sport™ campaign. It serves as the umbrella of DSM's activities in the field of sports, linking sports, technology and innovation. An important element is our partnership with the Dutch Olympic Committee (NOC\*NSF). Together with the athletes we take great pride in performing beyond expectations.

Innovation is one of the main spearheads of DSM's strategic course. Innovation is equally important in the world of sports, where innovative developments and improvements based on nutrition and materials can support sportsmen and sportswomen in their daily practice and in competition, and can mean the difference between victory and defeat. There are many commonalities between sports and the marketplace in which DSM is operating.

DSM and the Dutch Olympic Committee have been Partners in Sport since 2001. DSM is developing new products in nutrition and materials together with the athletes and coaches of the Dutch Olympic team. During the Athens 2004 Olympics, PeptoPro®, heat-regulating garments and a revolutionary rowing helmet were introduced; in Turin DSM came up with innovations in bobsleighs. Here we present a number of highlights of our innovations that will be used during the Olympic Games of 2008.

## New sports innovations

In August 2007, DSM started the pre-olympic year with two innovations in sports nutrition: PeptoPro® powder and a special grade of Lafti® for sportspeople. The Lafti® grade has been developed in cooperation with the Dutch athletes. Further closing in on the Beijing Olympics, DSM launched a comfort cooling system at the end of 2007.





### Boosting natural resistance

The Lafti® drink contains probiotics: living bacteria that have a beneficial effect on the intestinal tract. The Lafti® range combines several lactic acid bacterial strains whose probiotic properties have been scientifically proven. This innovation should help the Olympic athletes to boost their natural resistance and maintain a well-balanced intestinal flora. Top athletes are often prone to develop intestinal complaints and a weakened immune system, particularly in weather conditions such as in China during the summer.

### Improving recovery

PeptoPro® powder is the latest form of PeptoPro®, a casein hydrolysate – a protein cut into fragments – that ensures a quick recovery after intense training. Following the successful launch of PeptoPro® drink during the Athens Olympics in 2004, DSM has worked hard to further improve the product. This has resulted in the present powder form that has a strongly improved stability and a better taste.



Athletes can use the PeptoPro® powder to prepare the sports drink at the place and time at which they need it. Many of them had expressed this wish. The Dutch Olympic Committee and the Olympic Committees of several other countries have recommended the use of PeptoPro® to their athletes preparing for the Olympics 2008 in Beijing.

### Cooling products

The heat and high humidity that are characteristic of Chinese summers have a large impact on the human body. Effectively cooling the body under such conditions can greatly enhance an athlete's ability to deliver a top-level performance and to recover quickly from this performance. As part of its Olympic Innovation Program, DSM has developed an all-round cooling concept.

During the previous Summer Games in Athens in 2004 the Dutch Olympic rowers already used special cooling products. In the run-up to Beijing 2008, DSM and the Dutch Olympic Committee in close consultation with athletes and their coaches have looked at possibilities for improvement and have developed and tested various new prototypes. This has resulted in the 'mobile' and fully modular comfort cooling system that was presented in December 2007 in the Olympic Stadium in Amsterdam.

### The Unlimited Sports Team

The *Unlimited Sports Team* brings DSM and sports closer together. The company is sponsoring ambitious sportsmen and women that compete in Olympic sports disciplines.

The *Unlimited Sports Team* currently consists of Sharon Walraven (wheelchair tennis, Netherlands), Rens Blom (pole vault, Netherlands), the Netherlands volleyball team, two Netherlands sailing teams (470 class) and the Swiss fencing team (men and women).

Sharon Walraven started to play wheelchair tennis in 1994 and has won many tournaments around the world. She won silver at the Paralympics in Sydney 2000 and at the end of 2007 held the third place in the world ranking.

Rens Blom was the first Dutch athlete ever to win a gold medal at a World Athletics Championship and holds a personal and Dutch national pole vaulting record of 5.81 meters.

The Dutch national men's volleyball team won the Olympic gold medal at the Atlanta 1996 games. Both the Dutch men's and women's volleyball teams achieved good results in the last decennia.

The Dutch men's and women's 470 class sailing teams are both medal contenders for the 2008 Olympics. The brothers Sven and Kalle Coster are multiple Dutch champions. Lobke Berkhout and Marcelien de Koning won their third consecutive world title in 2007.

The Swiss fencing team will be a major medal contender at the 2008 Beijing Olympics. The team is led by Marcel Fischer, who won the Olympic gold medal in Athens in 2004.

For more information visit the DSM and sports section on our website [www.dsm.com](http://www.dsm.com), or e-mail to: [info.olympics@dsm.com](mailto:info.olympics@dsm.com).





# Financial statements 2007

# Financial statements 2007

## Consolidated 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 2007.

#### 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 made.

#### Segmentation

Segment information is presented in respect of the group's business and geographical segments. The primary format, business segments, reflects the group's management structure. 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 be allocated.

#### 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.

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 the expected useful lives, which vary from 5 to 15 years.

Acquired licenses, patents and application software are carried at historical cost less straight-line depreciation 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.

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## Consolidated financial statements

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 of more than 3 months and less than 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 3 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 withdrawn 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.

#### Emission rights

DSM is subject to legislation encouraging reductions in greenhouse gas emissions and has been awarded emission rights (principally CO<sub>2</sub> 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.

# Financial statements 2007

## Consolidated financial statements

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 referred to 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 that are not yet effective or not yet endorsed by the European Union. DSM has introduced the new and amended IFRS and IFRIC interpretations that became effective in 2007. Adoption of these revised standards and interpretations did not have any effect on the group's financial performance or position. The introduction of IFRS 7, 'Financial Instruments: Disclosures', and the application of the amendments to IAS 1, 'Presentation of Financial Statements', resulted in a number of additional disclosures. The adoption of 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 will be required and will be introduced as of the effective date of the new standards and interpretations. The following standards and interpretations are not yet being applied by DSM.

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

IFRS 8, 'Operating Segments', issued in November 2006, which 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 and deciding how to allocate resources. DSM uses the same performance measures and reporting structures for internal performance management as are used for external financial reporting and therefore this new standard is not expected to have any effect on the consolidated financial statements.

IFRIC 11, 'Group and Treasury Share Transactions', IFRIC 12, 'Service Concession Arrangements', and IFRIC 13, 'Customer Loyalty Programs', will have no 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 it is not expected to have a material effect on the consolidated financial statements.

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#### Consolidated income statement for the year ended 31 December 2007

x € million	Notes	Continuing operations			Discontinued operations	Total
		Before exceptional items	Exceptional items (note 9)	Total		
Net sales		8,757	-	8,757	-	8,757
Other operating income	4	164	-	164	-	164
		<b>8,921</b>	<b>-</b>	<b>8,921</b>	<b>-</b>	<b>8,921</b>
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 and amortization	6	(424)	(150)	(574)	-	(574)
Other operating costs	7	(95)	(26)	(121)	-	(121)
<b>Operating profit</b>		<b>823</b>	<b>(176)</b>	<b>647</b>	<b>-</b>	<b>647</b>
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		<b>746</b>	<b>(176)</b>	<b>570</b>	<b>-</b>	<b>570</b>
Income tax expense	10	(183)	47	(136)	-	(136)
<b>Profit for the year</b>		<b>563</b>	<b>(129)</b>	<b>434</b>	<b>-</b>	<b>434</b>
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		<b>548</b>	<b>(129)</b>	<b>419</b>	<b>-</b>	<b>419</b>
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)						<b>180,016</b>
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 income statement for the year ended 31 December 2006

x € million	Notes	Continuing operations			Discontinued operations	Total
		Before exceptional items	Exceptional items (note 9)	Total		
Net sales		8,352	-	8,352	28	8,380
Other operating income	4	210	73	283	2	285
		<b>8,562</b>	<b>73</b>	<b>8,635</b>	<b>30</b>	<b>8,665</b>
Own work capitalized		39	-	39	-	39
Change in inventories of intermediates and finished goods		63	-	63	(5)	58
Raw materials and consumables used		(4,536)	-	(4,536)	(18)	(4,554)
Work subcontracted and other external costs		(1,481)	-	(1,481)	(4)	(1,485)
Employee benefits costs	5	(1,338)	9	(1,329)	(3)	(1,332)
Depreciation and amortization	6	(440)	(11)	(451)	-	(451)
Other operating costs	7	(34)	(97)	(131)	(1)	(132)
<b>Operating profit</b>		<b>835</b>	<b>(26)</b>	<b>809</b>	<b>(1)</b>	<b>808</b>
Interest costs	8	(84)	-	(84)	-	(84)
Other financial income and expense	8	3	-	3	-	3
Share of the profit of associates		1	4	5	-	5
<b>Profit before income tax expense</b>		<b>755</b>	<b>(22)</b>	<b>733</b>	<b>(1)</b>	<b>732</b>
Income tax expense	10	(199)	18	(181)	1	(180)
<b>Profit for the year</b>		<b>556</b>	<b>(4)</b>	<b>552</b>	<b>0</b>	<b>552</b>
Of which:						
- Profit attributable to minority interests		5	-	5	-	5
- Net profit attributable to equity holders of Royal DSM N.V.		551	(4)	547	0	547
Net profit attributable to equity holders of Royal DSM N.V.		551	(4)	547	0	547
Dividend on cumulative preference shares		(10)	-	(10)	-	(10)
<b>Net profit available for holders of ordinary shares</b>		<b>541</b>	<b>(4)</b>	<b>537</b>	<b>0</b>	<b>537</b>
Average number of ordinary shares outstanding (x 1000)						189,550
Effect of dilution due to share options (x 1000)						1,200
<b>Adjusted weighted average number of ordinary shares (x 1000)</b>						<b>190,750</b>
Per ordinary share in euro:						
- Basic earnings		2.85	(0.02)	2.83	-	2.83
- Diluted earnings		2.84	(0.02)	2.82	-	2.82
- Dividend paid in the period						1.04
- Dividend for the year						1.00

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### Consolidated balance sheet as at 31 December

x € million	Notes	2007	2006
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	11	1,037	1,008
Property, plant and equipment	12	3,440	3,655
Deferred tax assets	10	346	496
Prepaid pension costs	24	1,169	918
Associates	13	20	26
Other financial assets	14	126	100
		<b>6,138</b>	<b>6,203</b>
<b>Current assets</b>			
Inventories	15	1,547	1,515
Trade receivables	16	1,452	1,377
Other receivables	16	235	362
Financial derivatives	23	83	79
Current investments		4	3
Cash and cash equivalents		369	552
		<b>3,690</b>	<b>3,888</b>
Assets held for sale		-	-
		<b>3,690</b>	<b>3,888</b>
<b>Total</b>		<b>9,828</b>	<b>10,091</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Royal DSM N.V. Shareholders' equity	17	5,310	5,784
Minority interests		73	71
		<b>5,383</b>	<b>5,855</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	10	344	383
Employee-benefits liabilities	24	273	304
Provisions	18	170	188
Borrowings	19	1,560	907
Other non-current liabilities	20	35	44
		<b>2,382</b>	<b>1,826</b>
<b>Current liabilities</b>			
Employee-benefits liabilities	24	9	21
Provisions	18	91	127
Borrowings	19	192	607
Financial derivatives	23	42	41
Trade payables	21	1,124	1,091
Other current liabilities	21	605	523
		<b>2,063</b>	<b>2,410</b>
Liabilities held for sale		-	-
		<b>2,063</b>	<b>2,410</b>
<b>Total</b>		<b>9,828</b>	<b>10,091</b>

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**Consolidated statement of recognized income and expense**

x € million	Other reserves	Retained earnings		Total	Minority interests	Total
		Actuarial gains and losses	Other			
<b>2006</b>						
Exchange differences on translation of foreign operations	(126)	-	-	(126)	(5)	(131)
Balance of actuarial gains and losses and asset ceiling	-	382	-	382	-	382
Change in hedging reserve	45	-	-	45	-	45
Income tax expense	(10)	(99)	-	(109)	-	(109)
Total income and expense directly recognized in equity	<b>(91)</b>	<b>283</b>	<b>-</b>	<b>192</b>	<b>(5)</b>	<b>187</b>
Profit for the year	-	-	547	547	5	552
Recognized income and expense for the period	<b>(91)</b>	<b>283</b>	<b>547</b>	<b>739</b>	<b>0</b>	<b>739</b>
<b>2007</b>						
Exchange differences on translation of foreign operations	(133)	-	-	(133)	(4)	(137)
Balance of actuarial gains and losses and asset ceiling	-	146	-	146	-	146
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	<b>(135)</b>	<b>108</b>	<b>-</b>	<b>(27)</b>	<b>(4)</b>	<b>(31)</b>
Profit for the year	-	-	429	429	5	434
Recognized income and expense for the period	<b>(135)</b>	<b>108</b>	<b>429</b>	<b>402</b>	<b>1</b>	<b>403</b>

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### Consolidated statement of changes in equity (notes 17 and 27)

x € million	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings		Total	Minority interests	Total Equity
					Actuarial gains and losses	Other			
<b>Balance at 1 January 2006</b>	<b>370</b>	<b>545</b>	<b>(376)</b>	<b>85</b>	<b>34</b>	<b>4,843</b>	<b>5,501</b>	<b>67</b>	<b>5,568</b>
Dividend paid	-	-	-	-	-	(213)	(213)	(1)	(214)
Changes in option rights	-	-	-	10	-	11	21	-	21
Repurchase of shares	-	-	(318)	-	-	-	(318)	-	(318)
Proceeds from reissued shares	-	-	53	-	-	2	55	-	55
Change in DSM's share in subsidiaries	-	-	-	-	-	-	-	5	5
Capital duty	-	(1)	-	-	-	-	(1)	-	(1)
Recognized income and expense for the period	-	-	-	(91)	283	547	739	-	739
Reclassifications	-	-	-	(2)	-	2	-	-	-
<b>Balance at 31 December 2006</b>	<b>370</b>	<b>544</b>	<b>(641)</b>	<b>2</b>	<b>317</b>	<b>5,192</b>	<b>5,784</b>	<b>71</b>	<b>5,855</b>
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
<b>Balance at 31 December 2007</b>	<b>339</b>	<b>489</b>	<b>(575)</b>	<b>(123)</b>	<b>422</b>	<b>4,758</b>	<b>5,310</b>	<b>73</b>	<b>5,383</b>



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## Consolidated cash flow statement (note 26)

x € million	2007	2006
<i>Operating activities</i>		
Profit for the year	434	552
Profit attributable to minority interests	(5)	(5)
Net profit attributable to equity holders of Royal DSM N.V.	<b>429</b>	<b>547</b>
Adjustments for:		
- Depreciation, amortization and impairment losses	574	451
- Gain from disposals	(10)	(75)
- Change in provisions	(55)	(83)
- Interest:		
- Charged to the income statement	75	81
- Received	36	32
- Paid	(75)	(101)
	36	12
- Income taxes:		
- Charged to the income statement	136	180
- Received/(paid)	5	(109)
	141	71
- Defined benefit plans:		
- Charged to the income statement	17	19
- Paid	(156)	(144)
	(139)	(125)
- Other changes	8	28
<b>Operating cash flow before changes in working capital</b>	<b>984</b>	<b>826</b>
Changes in operating working capital:		
- Inventories	(71)	(49)
- Trade receivables	(102)	(77)
- Trade payables	49	122
	(124)	(4)
Changes in other working capital	(35)	(192)
<b>Cash provided by operating activities</b>	<b>825</b>	<b>630</b>
<i>Investing activities</i>		
Capital expenditure for:		
- Intangible assets	(48)	(40)
- Property, plant and equipment	(386)	(418)
Proceeds from disposal of property, plant and equipment	45	6
Acquisition of subsidiaries and associates	(85)	(44)
Cash from net investment hedge	26	-
Proceeds from disposal of subsidiaries and businesses	-	135
Other financial assets:		
- Capital payments and acquisitions	(44)	(15)
- Change in loans granted	92	7
- Proceeds from disposals	6	24
<b>Cash used in investing activities</b>	<b>(394)</b>	<b>(345)</b>
<i>Financing activities</i>		
Loans taken up	753	30
Repayment of loans	(466)	(205)
Change in debt to credit institutions	(6)	28
Dividend paid	(193)	(213)
Repurchase of own shares	(758)	(318)
Proceeds from reissued shares	53	55
Change in minority interests	(1)	4
Capital duty	(1)	(1)
<b>Cash used in financing activities</b>	<b>(619)</b>	<b>(620)</b>
<b>Change in cash and cash equivalents</b>	<b>(188)</b>	<b>(335)</b>
<b>Cash and cash equivalents at 1 January</b>	<b>552</b>	<b>902</b>
Exchange differences relating to cash held	(6)	(12)
Changes in the scope of the consolidation	11	(3)
<b>Cash and cash equivalents at 31 December</b>	<b>369</b>	<b>552</b>

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### 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 Zuid-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](http://www.dsm.com).

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 24), income taxes (note 10) and the determination of fair values for share-based compensation (note 27). 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	
	2007	2006	2007	2006
US dollar	1.47	1.32	1.37	1.26
Swiss franc	1.66	1.61	1.64	1.57
Pound sterling	0.73	0.67	0.68	0.68
100 Japanese yen	1.66	1.57	1.61	1.46

## 2 Change in the scope of the consolidation

### Acquisitions

#### 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 the acquisition of Pentapharm on DSM's consolidated balance sheet, at the date of acquisition, is shown in the next table:

	Carrying amount	Adjustments to fair value	Opening balance DSM
<b>Assets</b>			
Intangible assets	-	12	12
Property, plant and equipment	13	5	18
Prepaid pension costs	2	-	2
Other financial assets	0	-	0
Inventories	4	12	16
Receivables	10	-	10
Cash and cash equivalents	9	-	9
<b>Total assets</b>	<b>38</b>	<b>29</b>	<b>67</b>
<b>Liabilities</b>			
Deferred tax liabilities	3	7	10
Other non-current liabilities	5	-	5
Current liabilities	12	-	12
<b>Total liabilities</b>	<b>20</b>	<b>7</b>	<b>27</b>
<b>Net assets</b>	<b>18</b>	<b>22</b>	<b>40</b>
Acquisition price (in cash)			62
Acquisition price (payable)			8
Acquisition costs			1
<b>Goodwill</b>			<b>31</b>

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

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

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 profit for the year; this would have been the case even if they had all occurred on 1 January 2007.

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On 16 January 2008 DSM announced the acquisition of the US-based company Soluol, a developer, producer and marketer of high performance urethane 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 Rhode Island. The acquired company will be grouped under the DSM NeoResins+ business unit, part of the DSM Resins business group. Further disclosures will only be provided in next years annual report in view of the fact that reliable information is not yet available.

### 2006

In 2006 DSM acquired CRINA SA, the remaining 73% of the share capital of Lipid Technologies Provider AB and the remaining 50% of the share capital of Fersinsa GB SA de CV. These acquisitions had the following impact on the balance sheet:

<i>Assets</i>	
Intangible assets	7
Property, plant and equipment	14
Other financial assets	(3)
Inventories	6
Receivables	5
Cash and cash equivalents	5
<b>Total assets</b>	<b>34</b>
<i>Liabilities</i>	
Provisions	1
Deferred tax liabilities	2
Other liabilities	9
<b>Total liabilities</b>	<b>12</b>
<b>Net assets, at fair value</b>	<b>22</b>
Acquisition price (in cash)	41
Acquisition costs	1
<b>Goodwill</b>	<b>20</b>

### Disposals

#### 2007

In 2007 DSM disposed of various smaller participations.

#### 2006

### Discontinued operations

DSM Minera was sold on 19 January 2006 for a total cash consideration of €74 million. The business had already been classified as held for sale as at 31 December 2005. Furthermore, DSM disposed of various small participations.



### 3 Segment information

#### Business segments <sup>1</sup>

2007	Continuing operations						Total	Discon- tinued operations	Total
	Nutrition	Pharma	Performance Materials	Industrial Chemicals	Other activities <sup>2</sup>	Elimina- tions			
<i>Financial performance</i>									
Net sales	2,543	981	2,895	1,937	401	-	8,757	-	8,757
Supplies to other clusters	47	50	6	268	54	(425)	-	-	-
<b>Supplies</b>	<b>2,590</b>	<b>1,031</b>	<b>2,901</b>	<b>2,205</b>	<b>455</b>	<b>(425)</b>	<b>8,757</b>	<b>-</b>	<b>8,757</b>
Operating profit before exceptional items	264	93	321	225	(80)	-	823	-	823
Exceptional items	(22)	(154)	-	-	-	-	(176)	-	(176)
<b>Operating profit</b>	<b>242</b>	<b>(61)</b>	<b>321</b>	<b>225</b>	<b>(80)</b>	<b>-</b>	<b>647</b>	<b>-</b>	<b>647</b>
Depreciation and amortization	141	81	94	67	41	-	424	-	424
Additions to provisions	32	13	10	4	23	-	82	-	82
Share of the profit of associates	-	-	-	(1)	(1)	-	(2)	-	(2)
R&D costs	136	68	131	23	14	-	372	-	372
R&D costs / net sales (in %)	5.3	6.9	4.5	1.2	3.5	-	4.2	-	4.2
Wages, salaries and social security costs	469	206	291	99	282	-	1,347	-	1,347
<i>Financial position</i>									
Total assets	3,527	1,669	2,958	1,478	9,749	(9,553)	9,828	-	9,828
Total liabilities	1,661	1,463	1,484	913	4,013	(5,089)	4,445	-	4,445
Capital employed at year-end	2,067	1,095	1,815	714	291	-	5,982	-	5,982
Capital expenditure and acquisitions	145	65	214	90	54	-	568	-	568
Share in equity of associates	1	1	0	12	6	-	20	-	20
<b>EBITDA / net sales (in %)</b>	<b>15.9</b>	<b>17.7</b>	<b>14.3</b>	<b>15.1</b>					
<i>Workforce<sup>3</sup></i>									
Average	7,508	5,013	4,826	2,141	2,945	-	22,433	-	22,433
Year-end	7,782	5,073	5,139	2,134	3,126	-	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 on pages 42 to 64.

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.

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### Business segments <sup>1</sup>

2006	Continuing operations						Total	Discon- tinued operations	Total
	Nutrition	Pharma	Performance Materials	Industrial Chemicals	Other activities <sup>2</sup>	Elimina- tions			
<i>Financial performance</i>									
Net sales	2,407	916	2,753	1,872	404	-	8,352	28	8,380
Supplies to other clusters	56	51	6	263	18	(394)	-	-	-
<b>Supplies</b>	<b>2,463</b>	<b>967</b>	<b>2,759</b>	<b>2,135</b>	<b>422</b>	<b>(394)</b>	<b>8,352</b>	<b>28</b>	<b>8,380</b>
<i>Operating profit before exceptional items</i>									
Operating profit before exceptional items	314	65	329	196	(69)	-	835	(1)	834
Exceptional items	(44)	(14)	11	(6)	27	-	(26)	-	(26)
<b>Operating profit</b>	<b>270</b>	<b>51</b>	<b>340</b>	<b>190</b>	<b>(42)</b>	<b>-</b>	<b>809</b>	<b>(1)</b>	<b>808</b>
<i>Other financial items</i>									
Depreciation and amortization	150	81	100	73	36	-	440	-	440
Additions to provisions	48	15	9	3	32	-	107	-	107
Share of the profit of associates	1	0	0	0	0	-	1	-	1
R&D costs	140	59	115	21	12	-	347	-	347
R&D costs / net sales (in %)	5.8	6.4	4.2	1.1	3.0	-	4.2	-	4.2
Wages, salaries and social security costs	455	204	270	97	260	-	1,286	2	1,288
<i>Financial position</i>									
Total assets	3,466	1,734	2,998	1,390	9,690	(9,187)	10,091	-	10,091
Total liabilities	1,688	1,524	1,395	855	3,851	(5,077)	4,236	-	4,236
Capital employed at year-end	2,159	1,302	1,697	745	407	-	6,310	(7)	6,303
Capital expenditure and acquisitions	113	146	126	68	48	-	501	-	501
Share in equity of associates	1	2	0	13	10	-	26	-	26
<i>Other financial ratios</i>									
EBITDA / net sales (in %)	19.3	15.9	15.6	14.4					
<i>Workforce<sup>3</sup></i>									
Average	7,466	4,558	4,410	2,187	2,788	-	21,409	27	21,436
Year-end	7,711	4,732	4,664	2,183	2,860	-	22,150	6	22,156

1 For a description of the types of products and services of each segment please refer to the review of business on pages 42 to 64.

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 segments

2007	Continuing operations							Total
	The Netherlands	Rest of Europe	North America	China	Rest of Asia-Pacific	Rest of the world	Eliminations	
Net sales by origin								
In € million	3,829	2,477	1,143	536	433	339	-	8,757
In %	44	28	13	6	5	4	-	100
Net sales by destination								
In € million	793	3,726	1,566	698	1,162	812	-	8,757
In %	9	43	18	8	13	9	-	100
Total assets	9,415	4,793	1,447	587	393	545	(7,352)	9,828
Property, plant and equipment								
Capital expenditure	212	85	78	36	5	11	-	427
Carrying amount	1,328	1,265	488	272	49	38	-	3,440
Workforce <sup>1</sup> at year-end	7,219	7,124	2,768	3,564	1,268	1,311	-	23,254
2006								
Net sales by origin								
In € million	3,802	2,276	1,193	451	376	254	-	8,352
In %	46	27	14	5	5	3	-	100
Net sales by destination								
In € million	808	3,537	1,617	618	1,090	682	-	8,352
In %	10	42	19	8	13	8	-	100
Total assets	9,402	3,682	1,523	576	413	508	(6,013)	10,091
Property, plant and equipment								
Capital expenditure	128	135	101	38	13	3	-	418
Carrying amount	1,365	1,368	520	304	61	37	-	3,655
Workforce <sup>1</sup> at year-end	7,057	6,976	2,659	3,031	1,188	1,239	-	22,150

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

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### 4 Other operating income

	2007	2006
Continuing operations before exceptional items		
Release of provisions	17	66
Emission rights sold	1	6
Gain on assets, activities, royalties and licences sold	27	30
Price settlements	8	4
Government grants	21	21
Proceeds from the sale of scrap, waste materials, etc.	3	2
Insurance benefits	3	5
Sundry	84	76
<b>Total</b>	<b>164</b>	<b>210</b>

### 5 Employee-benefits costs

	2007	2006
Continuing operations before exceptional items		
Wages and salaries	1,137	1,104
Social security costs	210	182
Pension costs (see also note 24)	42	52
<b>Total</b>	<b>1,389</b>	<b>1,338</b>

### 6 Depreciation and amortization

	2007	2006
Continuing operations before exceptional items		
Amortization of intangible assets	37	38
Depreciation of property, plant and equipment	373	400
Impairment losses	14	2
<b>Total</b>	<b>424</b>	<b>440</b>

### 7 Other operating costs

	2007	2006
Continuing operations before exceptional items		
Additions to provisions	40	8
Loss from the disposal/closure of assets and activities	24	1
Exchange differences	16	9
Sundry	15	16
<b>Total</b>	<b>95</b>	<b>34</b>

### 8 Net finance costs

	2007	2006
Continuing operations before exceptional items		
<i>Interest costs</i>		
Interest expense	(84)	(82)
Capitalized interest during construction	4	2
Interest charge on discounted provisions	(5)	(4)
<b>Total</b>	<b>(85)</b>	<b>(84)</b>
<i>Other financial income and expense</i>		
Interest income	7	13
Exchange differences	2	(7)
Income from other securities	3	1
Sundry	(2)	(4)
<b>Total</b>	<b>10</b>	<b>3</b>
<b>Net finance costs</b>	<b>(75)</b>	<b>(81)</b>

In 2007 the interest rate applied in the capitalization of interest during construction was 5% (2006: also 5%).

## 9 Exceptional items

	2007	2006
Exceptional income:		
- Gain from the disposal of activities	-	67
- Release of provisions	-	6
<b>Total exceptional income</b>	<b>-</b>	<b>73</b>
Exceptional expense:		
- Loss from the disposal of activities	-	-
- Additions to provisions	(26)	(84)
- Impairment of intangible assets and property, plant and equipment	(150)	(11)
- Employee-benefits costs	-	9
- Other costs	-	(13)
<b>Total exceptional expense</b>	<b>(176)</b>	<b>(99)</b>
<b>Operating profit from exceptional items</b>	<b>(176)</b>	<b>(26)</b>
Net finance costs	-	-
Share of the profit of associates	-	4
<b>Total, before income tax expense</b>	<b>(176)</b>	<b>(22)</b>
Income tax expense	47	18
<b>Total, after income tax expense</b>	<b>(129)</b>	<b>(4)</b>
Minority interests	-	-
<b>Net result from exceptional items</b>	<b>(129)</b>	<b>(4)</b>

### 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 segment. 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.

### 2006

The exceptional items in 2006 are listed below:

- The gain from the disposal of activities relates to gains from the disposal of DSM Minera (Chile), the disposal of the display coatings business and the disposal of the South Haven site (United States).
- Due to the disposal of the South Haven site a restructuring provision could be released.
- The addition to provisions is mainly related to costs (€13 million) for the termination of the aspartame business, costs (€9 million) for the closing of the production facilities in Landskrona (Sweden), costs (€44 million) for a provision for an onerous contract (DSM Nutritional Products) and costs (€14 million) for the restructuring of the Geleen (Netherlands) and Linz (Austria) sites of DSM Pharmaceutical Products.
- The impairment of intangible assets and property, plant and equipment relates to the termination of the aspartame business (€2 million), the closing of the production facilities in Landskrona (€2 million) and the restructuring of the Geleen and Linz sites of DSM Pharmaceutical Products (€7 million).
- The employee benefits costs comprise the gain from a deferred pension settlement related to the disposal of DSM Bakery Ingredients in 2005.
- The other costs mainly concern the settlement for terminating the melamine production joint venture (AMEL) in the United States (€6 million).



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- The share of the profit of associates is the balance of the gain from the disposal of Methanor and the impairment of DSM's share in AMEL.
- The income tax expense concerns the income tax over the exceptional items in the financial year. The favorable tax rate results from the fact that significant parts of the exceptional items are tax exempt.

### 10 Income tax

The income tax expense on the total result was €136 million (2006: €180 million) and can be broken down as follows:

	2007	2006
Current tax expense:		
- Current year	(65)	(76)
- Prior-year adjustments	(17)	(12)
	<b>(82)</b>	<b>(88)</b>
Deferred tax expense:		
- Originating from a reversal of temporary differences	(83)	(99)
- Prior-year adjustments	(7)	(25)
- Change in tax rate	(10)	1
- Benefit of tax losses and tax credits recognized	46	31
	<b>(54)</b>	<b>(92)</b>
<b>Total</b>	<b>(136)</b>	<b>(180)</b>
Of which related to:		
- The result from discontinuing operations	-	1
- The result from exceptional items	47	18
- The result from continuing operations	<b>(183)</b>	<b>(199)</b>

The effective income tax rate on the result from continuing operations was 24.5% in 2007 (2006: 26.4%). 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 %	2007	2006
Domestic income tax rate	25.5	29.6
Tax effects of:		
- Deviating rates	2.4	(4.7)
- Tax-exempt income and non-deductible expense	0.3	0.5
- Other effects	(3.7)	1.0
Effective tax rate	<b>24.5</b>	<b>26.4</b>

The balance of deferred tax assets and deferred tax liabilities decreased by €111 million owing to the changes presented in the table below:

	2007	2006
Balance at 1 January		
Deferred tax assets	496	533
Deferred tax liabilities	(383)	(219)
<b>Total</b>	<b>113</b>	<b>314</b>
Changes:		
- Income tax expense in income statement	(54)	(92)
- Income tax expense in equity	(52)	(110)
- Acquisitions and disposals	(9)	(6)
- Exchange differences	(16)	(25)
- Reclassifications	20	32
Balance at 31 December	<b>2</b>	<b>113</b>
Of which:		
- Deferred tax assets	346	496
- Deferred tax liabilities	(344)	(383)

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:

	2007		2006	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	71	(49)	27	(42)
Property, plant and equipment	71	(261)	60	(285)
Financial assets	23	(313)	10	(213)
Inventories	34	(31)	41	(29)
Receivables	4	(8)	39	(10)
Equity	-	(4)	-	(5)
Other non-current liabilities	8	(2)	11	(2)
Non-current provisions	73	(13)	83	(11)
Non-current borrowings	1	(22)	2	(14)
Other current liabilities	55	(3)	36	(4)
	<b>340</b>	<b>(706)</b>	<b>309</b>	<b>(615)</b>
Tax losses carried forward	368	-	419	-
Set-off	(362)	362	(232)	232
<b>Total</b>	<b>346</b>	<b>(344)</b>	<b>496</b>	<b>(383)</b>

No deferred tax assets were recognized for losses carried forward amounting to €48 million (2006: €70 million).

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.

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### 11 Intangible assets

	Total	Goodwill	Licences and patents	Other
<b>Balance at 1 January 2006</b>				
Cost	1,110	742	93	275
Amortization	107	-	38	69
<b>Carrying amount</b>	<b>1,003</b>	<b>742</b>	<b>55</b>	<b>206</b>
Changes in carrying amount:				
- Capital expenditure	39	-	25	14
- Acquisitions	28	21	6	1
- Amortization and impairments	(40)	-	(10)	(30)
- Exchange differences	(42)	(38)	(2)	(2)
- Reclassifications	23	-	7	16
- Other changes	(3)	-	(3)	-
	<b>5</b>	<b>(17)</b>	<b>23</b>	<b>(1)</b>
<b>Balance at 31 December 2006</b>				
Cost	1,156	725	127	304
Amortization	148	-	49	99
<b>Carrying amount</b>	<b>1,008</b>	<b>725</b>	<b>78</b>	<b>205</b>
Changes in carrying amount:				
- Capital expenditure	48	-	5	43
- Acquisitions	53	36	16	1
- Disposals	(3)	-	-	(3)
- Amortization and impairments	(49)	-	(17)	(32)
- Exchange differences	(41)	(37)	(2)	(2)
- Reclassifications	21	-	2	19
	<b>29</b>	<b>(1)</b>	<b>4</b>	<b>26</b>
<b>Balance at 31 December 2007</b>				
Cost	1,224	725	139	360
Amortization	187	1	57	129
<b>Carrying amount</b>	<b>1,037</b>	<b>724</b>	<b>82</b>	<b>231</b>

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 estimated useful lives, which could affect the amount or timing of charges to the income statement, such as amortization of intangible assets.

The carrying amount of goodwill as at 31 December 2007 mainly includes an amount of €6 million relating to the acquisition of DSM Japan Engineering Plastics in 1997, an amount of €295 million (31 December 2006: €329 million) relating to the acquisition of Catalytica in 2001, an amount of €358 million (31 December 2006: €358 million) relating to the acquisition of NeoResins in 2005, an amount of €9 million relating to the acquisition of Syntech in 2005, an amount of €14 million (31 December 2006: €14 million) relating to the acquisition of Lipid Technologies Provider in 2006, an amount of €6 million (31 December 2006: €6 million) relating to the acquisition of CRINA in 2006, and an amount of €31 million relating to the acquisition of Pentapharm in 2007. For impairment testing reasons, goodwill has been allocated to the following cash-generating units: the goodwill related to CRINA and Pentapharm to the DSM Nutritional Products business group, the goodwill related to Catalytica to the DSM Pharmaceutical Products business group, the goodwill related to NeoResins and Syntech to the DSM Resins business group, the goodwill related to Lipid Technologies Provider to the DSM Food Specialties business group and the goodwill related to DSM Japan Engineering Plastics to the DSM Engineering Plastics business group.

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. The terminal value for the period after ten years is determined with the assumption of no growth. 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:

	2007				2006
	Cost	Amortization	Carrying amount	Of which acquisition related	Acquisition related
Application software	134	(64)	70	13	7
Marketing-related	16	(4)	12	6	8
Customer-related	3	(3)	0	-	-
Technology-based	186	(50)	136	102	114
Other	21	(8)	13	-	-
<b>Total</b>	<b>360</b>	<b>(129)</b>	<b>231</b>	<b>121</b>	<b>129</b>
Total 2006	304	(99)	205	129	

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### 12 Property, plant and equipment

	Total	Land and buildings	Plant and machinery	Other equipment	Under construction	Not used for operating activities
<b>Balance at 1 January 2006</b>						
Cost	8,804	1,664	6,483	284	343	30
Depreciation and impairment losses	5,054	649	4,098	252	37	18
<b>Carrying amount</b>	<b>3,750</b>	<b>1,015</b>	<b>2,385</b>	<b>32</b>	<b>306</b>	<b>12</b>
Changes in carrying amount:						
- Capital expenditure	418	16	80	4	318	-
- Put into operation	-	24	158	13	(195)	-
- Acquisitions	14	3	11	-	-	-
- Disposals	(6)	(2)	(4)	-	-	-
- Depreciation	(400)	(54)	(336)	(10)	-	-
- Impairment losses	(12)	(1)	(9)	-	(2)	-
- Change in estimate of decommissioning costs	17	-	17	-	-	-
- Exchange differences	(104)	(27)	(60)	(1)	(16)	-
- Reclassifications	(23)	(17)	1	-	(7)	-
- Other changes	1	1	-	-	-	-
	<b>(95)</b>	<b>(57)</b>	<b>(142)</b>	<b>6</b>	<b>98</b>	<b>-</b>
<b>Balance at 31 December 2006</b>						
Cost	8,578	1,603	6,286	242	428	19
Depreciation and impairment losses	4,923	645	4,043	204	24	7
<b>Carrying amount</b>	<b>3,655</b>	<b>958</b>	<b>2,243</b>	<b>38</b>	<b>404</b>	<b>12</b>
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)
	<b>(215)</b>	<b>(17)</b>	<b>(276)</b>	<b>5</b>	<b>74</b>	<b>(1)</b>
<b>Balance at 31 December 2007</b>						
Cost	8,688	1,634	6,309	246	481	18
Depreciation and impairment losses	5,248	693	4,342	203	3	7
<b>Carrying amount</b>	<b>3,440</b>	<b>941</b>	<b>1,967</b>	<b>43</b>	<b>478</b>	<b>11</b>

Property, plant and equipment includes assets acquired under finance lease agreements with a carrying amount of €17 million (31 December 2006: €27 million). The related commitments are included under Borrowings and amount to €8 million (31 December 2006: €11 million). The total of the minimum lease payments at the balance sheet date amounts to €10 million (31 December 2006: €11 million) and their present values to €9 million (31 December 2006: €10 million).



Overview of minimum lease payments in time:

2008	2
2009-2012	7
After 2012	1
<b>Total</b>	<b>10</b>

In 2007, €152 million in impairment losses was recognized (2006: €12 million). In 2007 the asset impairment losses mainly related to DSM Anti-Infectives (€146 million).

The impairment losses on Property, plant and equipment in 2006 amounted to €12 million and mainly related to the termination of the aspartame business (€2 million), the closing of the production facilities in Landskrona in Sweden (€1 million) and the restructuring of the Geleen (Netherlands) and Linz (Austria) sites of DSM Pharmaceutical Products (€9 million).

### 13 Associates

	2007	2006
Balance at 1 January	26	43
Changes:		
- Share of profit	(1)	1
- Dividend received	(1)	(1)
- Disposals	-	(6)
- Impairments	-	(8)
- Transfers	(2)	(2)
- Exchange differences	(1)	(2)
- Other changes	(1)	1
Balance at 31 December	20	26
Of which loans granted	-	-

### 14 Other financial assets

	Total	Other participations	Other receivables	Other deferred items
Balance at 1 January 2006	189	49	123	17
Changes:				
- Charged to the income statement	(6)	-	-	(6)
- Capital payments	4	4	-	-
- Acquisitions	9	9	-	-
- Disposals	(14)	(14)	-	-
- Impairments	(5)	(5)	-	-
- Loans granted	35	-	35	-
- Repayments	(20)	-	(20)	-
- Transfer to current loans	(92)	-	(92)	-
- Exchange differences	(2)	-	(2)	-
- Other transfers	5	(3)	(1)	9
- Other changes	(3)	-	(3)	-
Balance at 31 December 2006	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
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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 €35 million is included that relates to equity instruments whose fair value cannot be measured reliably (2006: €40 million). These interests are therefore measured at cost.

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### 15 Inventories

	2007	2006
Raw materials and consumables	461	448
Intermediates and finished goods	1,128	1,124
	<b>1,589</b>	<b>1,572</b>
Adjustments to lower net realizable value	(42)	(57)
<b>Total</b>	<b>1,547</b>	<b>1,515</b>

The carrying amount of inventories adjusted to net realizable value was €165 million (2006: €127 million); the value adjustment of inventories recognized in the income statement was €17 million income (2006: €30 million expense).

### 16 Receivables

	2007	2006
<i>Trade receivables</i>		
Trade accounts receivable	1,458	1,386
Receivables from associates	11	13
	<b>1,469</b>	<b>1,399</b>
Adjustments for bad debts	(17)	(22)
<b>Total</b>	<b>1,452</b>	<b>1,377</b>
<i>Other receivables</i>		
Income taxes receivable	9	64
Other taxes and social security contributions	128	108
Government grants	7	2
Loans	10	92
Other receivables	35	53
Deferred items	46	43
<b>Total</b>	<b>235</b>	<b>362</b>

Deferred items comprise €34 million (31 December 2006: €29 million) of prepaid expenses that will impact on 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. Of the total trade receivables 85% are neither past due nor impaired, 11% are between 1 and 29 days overdue, 1% are between 30 and 89 days overdue and 3% are more than 90 days overdue.

## 17 Equity

	2007	2006
Balance at 1 January	5,855	5,568
Net profit	434	552
Exchange differences, net of income tax expense	(144)	(133)
Net actuarial gains/(losses) on defined benefit obligations	154	290
Net asset ceiling related to defined benefit obligations	(46)	(7)
Dividend paid	(195)	(214)
Repurchase of ordinary shares	(758)	(318)
Proceeds from reissue of ordinary shares	53	55
Other changes	30	62
Balance at 31 December	5,383	5,855

After the balance sheet date the following dividends were declared by the Managing Board:

	2007	2006
Per cumulative preference share A: €0.23 (2006: €0.23)	10	10
Per ordinary share: €1.20 (2006: €1.00)	204	187
<b>Total</b>	<b>214</b>	<b>197</b>

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 2007 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 three eurocents (€0.03) carries one vote. The changes in the number of shares in 2007 are shown in the table below.

	Issued shares			Treasury shares	
	Ordinary	Cumprefs A	Cumprefs C	Ordinary	Cumprefs C
Balance at 1 January 2007	201,953,008	44,040,000	37,500,000	17,103,171	37,500,000
Reissue of shares in connection with exercise of option rights	-	-	-	(2,730,031)	-
Repurchase of own shares	-	-	-	20,683,008	-
Cancellation of own shares	(20,528,008)	-	-	(20,528,008)	-
Balance at 31 December 2007	181,425,000	44,040,000	37,500,000	14,528,140	37,500,000
Number of treasury shares at 31 December 2007	14,528,140	-	37,500,000		
<b>Number of shares outstanding at 31 December 2007</b>	<b>166,896,860</b>	<b>44,040,000</b>	<b>-</b>		

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The average number of ordinary shares outstanding in 2007 was 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 2006 DSM possessed 17,103,171 ordinary shares (nominal value €26 million, 6.9% of the share capital). In 2007, DSM used 2,730,031 ordinary shares for servicing option rights.

On 31 December 2007 DSM possessed 14,528,140 ordinary shares (nominal value €22 million, 6.4% of the share capital). The average purchase price of the ordinary treasury shares was €31.80. In 2007, 20.7 million ordinary treasury shares were repurchased as part of the first and second phase of the share buy-back program of *Vision 2010*. A total of 20.5 million of the shares bought back related to the *Vision 2010* program were cancelled in 2007. The number of treasury shares at 31 December 2007 included 6.9 million shares related to the share buy-back program of *Vision 2010*. The remaining ordinary treasury shares will be used for servicing management and personnel share-option rights.

### Other reserves in Shareholder's equity

	Total	Translation reserve	Hedgingreserve	Reserve for share-based compensation	Fair value reserve
<b>Balance at 1 January 2006</b>	<b>85</b>	<b>77</b>	<b>(3)</b>	<b>11</b>	<b>0</b>
Fair-value changes of cash flow hedges	37	-	37	-	-
Exchange differences, net of income tax	(128)	(128)	-	-	-
Changes in option rights	10	-	-	10	-
Reclassifications	(2)	(2)	-	-	-
<b>Balance at 31 December 2006</b>	<b>2</b>	<b>(53)</b>	<b>34</b>	<b>21</b>	<b>0</b>
Fair-value changes of cash flow hedges	14	-	14	-	-
Fair-value changes of other financial assets	(9)	-	-	-	(9)
Exchange differences, net of income tax	(140)	(140)	-	-	-
Options and performance shares granted	11	-	-	11	-
Options and performance shares exercised/cancelled	(4)	-	-	(4)	-
Reclassifications	3	-	-	3	-
<b>Balance at 31 December 2007</b>	<b>(123)</b>	<b>(193)</b>	<b>48</b>	<b>31</b>	<b>(9)</b>

## 18 Provisions

	2007		2006	
	Total	Of which current	Total	Of which current
Restructuring costs and termination benefits	75	50	105	74
Environmental costs	38	13	45	16
Other long-term employee benefits	36	1	27	2
Other provisions	112	27	138	35
<b>Total</b>	<b>261</b>	<b>91</b>	<b>315</b>	<b>127</b>

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 €5 million in 2007 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, costs of termination of contracts and consulting fees. 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, expenses relating to claims and onerous contracts. These provisions have an average life of 5 to 10 years.

The total of non-current and current provisions decreased by €54 million. This is the balance of the following changes:

	Balance at 1 January 2007	Additions	Releases	Uses	Exchange differences	Other changes	Balance at 31 December 2007
Restructuring costs and termination benefits	105	31	(13)	(48)	(1)	1	75
Environmental costs	45	4	-	(10)	(1)	-	38
Other long-term employee benefits	27	11	(0)	(2)	(0)	-	36
Other provisions	138	36	(4)	(60)	(3)	5	112
<b>Total</b>	<b>315</b>	<b>82</b>	<b>(17)</b>	<b>(120)</b>	<b>(5)</b>	<b>6</b>	<b>261</b>

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 the Nutrition cluster (€16 million) and to Other activities (€10 million). The withdrawal from this provision concerns expenditure related to restructuring operations at DSM Nutritional Products, DSM Food Specialties, DSM Pharmaceutical Products, DSM Anti-Infectives, DSM Resins and DSM Industrial Services (Copernicus project).



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The additions to the Other provisions mainly relate to a provision for claims relating to the Nutrition, Pharma and Performance Materials clusters. The withdrawal from this provision relates to expenditures regarding an onerous contract at DSM Nutritional Products and regarding the restructuring of the Geleen (Netherlands) and Linz (Austria) sites and profit improvement activities at DSM Nutritional Products.

### 19 Borrowings

	2007		2006	
	Total	Of which current	Total	Of which current
Debenture loans	1,210	0	886	403
Private loans	385	41	460	43
Finance lease liabilities	8	2	9	2
Credit institutions	149	149	159	159
<b>Total</b>	<b>1,752</b>	<b>192</b>	<b>1,514</b>	<b>607</b>

In agreements governing loans with a residual amount at year-end 2007 of €1,417 million, none of which were of a short-term nature (31 December 2006: €1,118 million, of which €403 million short term), clauses have been included which restrict the provision of security. The documentation of the €300 million bond issued in November 2005 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 2007, borrowings to a total of €1,316 million had a remaining term of more than 5 years.

The schedule of repayment of borrowings (excluding debt to credit institutions) is as follows:

2008	43
2009	225
2010	7
2011 and 2012	12
2013 through 2017	1,316
After 2017	-
<b>Total</b>	<b>1,603</b>

A breakdown of the borrowings by currency (excluding debt to credit institutions) is given in the following table:

	2007	2006
EUR	1,150	823
USD	384	424
CNY	60	98
Other	9	10
<b>Total</b>	<b>1,603</b>	<b>1,355</b>

On balance, total borrowings increased by €238 million owing to the following changes:

	2007	2006
Balance at 1 January	1,514	1,710
Loans taken up	753	60
Repayments	(466)	(205)
Changes in fair value	0	(15)
Acquisitions	6	-
Changes in debt to credit institutions	(10)	20
Exchange differences	(47)	(58)
Other changes	2	2
Balance at 31 December	1,752	1,514

The changes in fair value of borrowings are offset by the changes in fair value of related financial derivatives.

The average effective interest rate on the portfolio of borrowings outstanding in 2007, including financial instruments related to these borrowings, amounted to 4.5% (2006: 4.3%).

A breakdown of debenture loans is given below:

	2007	2006
EUR loan 6.38% 2000-2007	-	403
USD loan 6.75% 1999-2009	169	183
EUR loan 4.00% 2005-2015	300	300
EUR loan 5.25% 2007-2017	741	-
<b>Total</b>	<b>1,210</b>	<b>886</b>

All debenture loans have a fixed interest rate.

The 6.38% EUR loan 2000-2007 matured in December 2007 and was fully repaid.

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 4% EUR loan 2005-2015 was swapped into CHF to hedge the currency risk of net investments in CHF-denominated subsidiaries. This 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 5.25% EUR loan 2007-2017 was partly swapped into CHF in 2007 for an amount of €650 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:

	2007	2006
NLG loan 4.34% 1998-2008	4	7
NLG loan floating (6 months) 2000-2014	65	69
CNY loan floating (indefinite) 2002-2009	60	98
USD loan 5.51% 2003-2013	103	115
USD loan 5.61% 2003-2015	102	114
Other loans	51	57
<b>Total</b>	<b>385</b>	<b>460</b>

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 23.

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### 20 Other non-current liabilities

	2007	2006
Investment grants	23	30
Other deferred items	12	14
<b>Total</b>	<b>35</b>	<b>44</b>

### 21 Current liabilities

	2007	2006
<i>Trade payables</i>		
Received in advance	9	7
Trade accounts payable	1,103	1,074
Notes and cheques due	6	4
Owing to associates	6	6
<b>Total</b>	<b>1,124</b>	<b>1,091</b>
<i>Other current liabilities</i>		
Income taxes payable	65	45
Other taxes and social-security contributions	68	62
Pensions	2	2
Other liabilities	216	179
Deferred items	254	235
<b>Total</b>	<b>605</b>	<b>523</b>

### 22 Contingent liabilities

	2007	2006
Operating leases and rents	34	36
Guarantee obligations on behalf of associates and third parties	58	53
Outstanding orders for projects under constructions	15	13
Other	9	12
<b>Total</b>	<b>116</b>	<b>114</b>

Most of the outstanding orders for projects under construction will be completed in 2008. Property, plant and equipment under operating leases primarily concern catalysts, buildings and various equipment.

The commitments for operating leases and rents are spread as follows:

2008	10
2009	6
2010	4
2011 and 2012	6
After 2012	8
<b>Total</b>	<b>34</b>

#### 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.

DSM has a process in place to monitor legal claims periodically and systematically.

## 23 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 €500 million and €400 million amounting to a total of €900 million (2006: also two confirmed credit facilities amounting to a total of €900 million) and a commercial-paper program amounting to €1,500 million (2006: €900 million). The USD 400 million USD commercial-paper program has been cancelled (2006: USD 400 million). The company will use the commercial-paper program to a total of not more than €900 million (2006: €900 million).

#### 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.

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.

	2007			2006		
	Fixed-rate borrowings	Floating-rate borrowings	Total	Fixed-rate borrowings	Floating-rate borrowings	Total
Within 1 year	6	37	43	6	442	448
Within 1 to 2 years	14	211	225	6	40	46
Within 2 to 3 years	6	1	7	14	227	241
Within 3 to 4 years	2	7	9	5	1	6
Within 4 to 5 years	1	2	3	1	7	8
After 5 years	1,247	69	1,316	531	75	606
<b>Total</b>	<b>1,276</b>	<b>327</b>	<b>1,603</b>	<b>563</b>	<b>792</b>	<b>1,355</b>

On 31 December 2007, the notional amount of interest-rate swaps in relation to long-term borrowings was €170 million (2006: €590 million). For these swaps fair value hedge accounting was applied. There was no material ineffectiveness in relation to these hedges. For fair value hedges, including fair value hedges ended before 31 December 2007, an immaterial amount was recognized in the profit or loss for the year which offsets a similar amount recognized in relation to the hedged risk. Both are reported in other financial income and expense.

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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 2007, with all other variables held constant. As in 2006, 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 2007, 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 2007 to changes in interest rates is set out in the following table. For 2006 the total sensitivity of fair values ranged between +€49 million (+1% interest change) and (€54) million (-1% interest change).

	Carrying amount	Fair value	Sensitivity of fair value to change in interest of:	
			+1%	(1%)
Current investments	4	4	-	-
Cash and cash equivalents	369	369	-	-
Short-term borrowings	(192)	(192)	-	-
Long-term borrowings	(1,560)	(1,509)	89	(97)
Interest-rate swaps (fixed to floating)	(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 2007 no pre-hedges for highly probable refinancing were outstanding (the notional amount of the related interest-rate swaps at year-end 2006 was €400 million).

### 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 the USD, the JPY, the GBP and the CHF. 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. In general the instruments have 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 2007, the notional amount of the currency forward contracts was €1,556 million (2006: €1,156 million).

In 2007 DSM hedged USD 718 million (2006: USD 432 million) of its projected net cash flow in USD in 2008 (partly against CHF) by means of average-rate currency forward contracts and average-rate currency options at an average exchange rate of USD 1.40 per euro for the four quarters of 2008. In 2007 DSM also hedged JPY 5,375 million (not applicable in 2006) of its projected net cash flow in JPY in 2008 (most against CHF) by means of average-rate currency forward contracts at an average exchange rate of JPY 152.31 per euro for the four quarters of 2008. These hedges have fixed the exchange rate for part of the USD and JPY receipts in 2008. Cash flow hedge accounting is applied for these hedges. As a result of these hedges, in 2007 €27 million (2006: €6 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 1,760 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 2007, 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. For 2006 the sensitivities that could impact profit and loss ranged between (€65) million (+10% exchange rate change) and +€57 million (-10% exchange rate change) whereas the sensitivities related to cash flow hedges that would impact equity ranged between (€7) million (+10% exchange rate change) and +€4 million (-10% exchange rate change).

	Carrying amount	Fair value	Sensitivity of fair value to change in all exchange rates of:	
			+10%	(10%)
			Current investments	4
Cash and cash equivalents	369	369	13	(11)
Short-term borrowings	(192)	(192)	(7)	6
Long-term borrowings	(1,560)	(1,509)	(48)	39
Cross-currency swaps	(28)	(28)	12	(10)
Currency forward contracts	23	23	(67)	55
Cross-currency swaps related to net investments in foreign entities	25	25	(119)	97
Average-rate forwards used for economic hedging	20	20	(27)	22
Average-rate currency options used for economic hedging	2	2	-	6

The following sensitivity analysis of net borrowings and derivative financial instruments to currency movements against the euro assumes a 10% change in the USD against all foreign currencies and the euro from the level on 31 December 2007, 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. For 2006 USD sensitivities were similar.

	Carrying amount	Fair value	Sensitivity of fair value to change in USD	
			+10%	(10%)
			Current investments	4
Cash and cash equivalents	369	369	2	(2)
Short-term borrowings	(192)	(192)	(1)	1
Long-term borrowings	(1,560)	(1,509)	(43)	35
Cross-currency swaps	(28)	(28)	12	(10)
Currency forward contracts	23	23	(107)	87
Cross-currency swaps related to net investments in foreign entities	25	25	-	-
Average-rate forwards used for economic hedging	20	20	(42)	34
Average-rate currency options used for economic-hedging	2	2	-	10

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.

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### Price risk

Financial instruments that are subject to changes in stock exchange prices or indexes are subject to a price risk. At year-end 2007 DSM was not exposed to any material 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. 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 with a positive market value. 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 2007		31 December 2006	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Other participations	73	73	40	40
Other non-current receivables	31	31	40	40
Current receivables	1,687	1,687	1,739	1,739
Financial derivatives	83	83	79	79
Current investments	4	4	3	3
Cash and cash equivalents	369	369	552	552
<b>Liabilities</b>				
Non-current borrowings	1,560	1,509	907	876
Other non-current liabilities	35	35	44	44
Current borrowings	192	192	607	607
Financial derivatives	42	42	41	41
Other current liabilities	1,729	1,729	1,614	1,614

The following methods and assumptions were used to determine the fair value of financial instruments: cash, current investments, 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.

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Other information

DSM figures: five-year summary

Explanation of some financial concepts and ratios

The following table shows the carrying amounts of the financial derivatives recognized, broken down by type and purpose:

	Current assets	Current liabilities	Total
Interest-rate swaps	19	(6)	13
Currency swaps	28	(25)	3
<b>Total financial derivatives related to borrowings</b>	<b>47</b>	<b>(31)</b>	<b>16</b>
Currency forward contracts	32	(10)	22
Currency options	-	-	-
<b>Balance at 31 December 2006</b>	<b>79</b>	<b>(41)</b>	<b>38</b>
Interest-rate swaps	0	(1)	(1)
Currency swaps	27	(30)	(3)
<b>Total financial derivatives related to borrowings</b>	<b>27</b>	<b>(31)</b>	<b>(4)</b>
Currency forward contracts	54	(11)	43
Currency options	2	-	2
<b>Balance at 31 December 2007</b>	<b>83</b>	<b>(42)</b>	<b>41</b>

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### 24 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:

	2007	2006
Defined benefit plans	11	13
Healthcare plans	3	4
Other pension-related expenses	3	2
Defined contribution plans	25	24
<b>Total</b>	<b>42</b>	<b>43</b>
Of which pension costs related to:		
- Continuing operations	42	52
- Exceptional items	-	(9)
- Discontinued operations	-	-

For 2008 costs related to pensions and post-employment healthcare and other costs, excluding gains and losses on curtailments and settlements, will be lower than the costs for 2007 (€14 million).

Changes in Prepaid pension costs and Employee-benefits liabilities recognized in the balance sheet are disclosed in the following overview:

	2007	2006
Prepaid pension costs	918	478
Employee benefits liabilities	(325)	(406)
<b>Balance at 1 January</b>	<b>593</b>	<b>72</b>
Changes:		
- Balance of actuarial gains/ (losses)	146	382
- Employee benefits costs	(17)	(19)
- Acquisitions and disposals	2	0
- Contributions by employer	156	144
- Exchange differences	7	8
- Other changes	0	6
<b>Total changes</b>	<b>294</b>	<b>521</b>
<b>Balance at 31 December</b>	<b>887</b>	<b>593</b>
Of which:		
- Prepaid pension costs	1,169	918
- Employee benefits liabilities	(282)	(325)

The Employee benefits liabilities of €282 million (2006: €325 million) consist of €229 million (2006: €267 million) related to defined benefit plans, €33 million (2006: €33 million) related to healthcare and other costs and €20 million (2006: €25 million) to other pension-related expenses.

#### 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 defined 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

	2007	2006
<b>Balance at 1 January</b>	<b>4,906</b>	<b>5,064</b>
Changes:		
- Service costs	92	107
- Interest costs	224	209
- Contributions by employees	20	19
- Actuarial (gains)/losses	(541)	(365)
- Curtailments	-	-
- Settlements	-	(20)
- Past service costs	8	121
- Acquisitions/disposals	28	2
- Exchange differences on foreign plans	(35)	(20)
- Benefits paid	(224)	(212)
- Other changes	-	1
<b>Balance at 31 December</b>	<b>4,478</b>	<b>4,906</b>

#### Fair value of plan assets

	2007	2006
<b>Balance at 1 January</b>	<b>5,466</b>	<b>5,231</b>
Changes:		
- Expected return on plan assets	321	308
- Actuarial gains/(losses)	(331)	25
Actual return on plan assets	<b>(10)</b>	<b>333</b>
- Settlements	-	(11)
- Acquisitions/disposals	34	2
- Contributions by employer	146	119
- Contributions by employees	20	19
- Exchange differences on foreign plans	(32)	(16)
- Benefits paid	(224)	(212)
- Other changes	-	1
<b>Balance at 31 December</b>	<b>5,400</b>	<b>5,466</b>

The amounts recognized in the balance sheet are as follows:

	2007	2006
Present value of funded obligations	(4,276)	(4,685)
Fair value of plan assets	5,400	5,466
	<b>1,124</b>	<b>781</b>
Present value of unfunded obligations	(202)	(221)
Funded status	<b>922</b>	<b>560</b>
Unrecognized past service costs	99	107
Effect of asset ceiling	(81)	(16)
Net assets	<b>940</b>	<b>651</b>
Of which:		
- Liabilities (provision for post-employment benefits)	(229)	(267)
- Assets (prepaid pension costs)	1,169	918



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The changes in the net assets recognized in the balance sheet are as follows:

	2007	2006
Balance at 1 January	651	160
Net expense recognized in the income statement	(11)	(13)
Actuarial gains/(losses) recognized directly in equity during the year	210	390
Asset ceiling recognized directly in equity during the year	(62)	(9)
Contributions by employer	146	119
Acquisitions/disposals	2	-
Exchange differences on foreign plans	4	4
Other changes	-	-
Balance at 31 December	940	651

In 2008 DSM is expected to contribute €117 million to its defined-benefit plans.

The major categories of pension-plan assets as a percentage of total plan assets are as follows:

	2007	2006
Bonds	51%	48%
Equities	44%	43%
Property	5%	6%
Other	0%	3%

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:

	2007	2006
Current service costs	92	107
Interest on obligation	224	209
Expected return on plan assets	(321)	(308)
Past service costs	16	14
(Gains)/losses on curtailments and settlements	-	(9)
Costs related to defined benefit plans	11	13

The main actuarial assumptions for the year (weighted averages) are:

	2007		2006	
	The Netherlands	Foreign	The Netherlands	Foreign
Discount rate	5.50%	5.00%	4.70%	4.37%
Price inflation	1.75%	2.19%	1.75%	2.03%
Salary increase	1.75%	3.14%	1.75%	3.05%
Pension increase	1.75%	1.69%	1.75%	2.00%
Expected return on plan assets	6.25%	4.5%-8.5%	5.3-6.0%	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:

	2007	2006	2005	2004
Defined benefit obligations	(4,478)	(4,906)	(5,064)	(4,775)
Plan assets	5,400	5,466	5,231	4,616
Funded status of asset/(liability)	<b>922</b>	<b>560</b>	<b>167</b>	<b>(159)</b>
Experience adjustments on plan assets, gain/(loss)	(331)	25	430	175
Experience adjustments on plan liabilities, gain/(loss)	21	(94)	(149)	(407)
Assumed gain/(loss) on liabilities	519	459	(1)	(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:

	2007	2006
Present value of funded obligation	(35)	(34)
Fair value of plan assets (including reimbursement rights)	8	8
	(27)	(26)
Present value of unfunded obligations	(5)	(6)
Unrecognized past service costs	(1)	(1)
Liability (provision for post-employment benefits)	<b>(33)</b>	<b>(33)</b>

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The amounts recognized in the income statement are as follows:

	2007	2006
Current service costs	2	2
Interest costs	2	3
Expected return on plan assets and reimbursement rights	(1)	(1)
Past service costs	(0)	(0)
(Gains)/losses on curtailments or settlements	-	-
<b>Costs related to healthcare plans</b>	<b>3</b>	<b>4</b>

The changes in the liability for post-employment healthcare and other costs recognized in the balance sheet (provision for post-employment benefits) can be shown as follows:

	2007	2006
<b>Balance at 1 January</b>	<b>(33)</b>	<b>(57)</b>
Expense recognized in the income statement	(3)	(4)
Actuarial gains/(losses) recognized directly in equity	(2)	(1)
Benefits paid/employer contributions	1	24
Acquisitions/disposals	-	-
Exchange differences	4	5
<b>Balance at 31 December</b>	<b>(33)</b>	<b>(33)</b>

The main actuarial assumptions for post-employment healthcare costs (weighted averages) for the year are:

	2007	2006
Discount rate	6.0%	6.0%
Price inflation	3.0%	3.0%
Salary increase	4.0%	4.0%
Healthcare-cost trend (initial rate)	8.0%	7.3%
Healthcare-cost trend (ultimate rate)	4.75%	4.7%

The impact of a one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

	One-percentage- point increase	One-percentage- point decrease
Effect on the aggregate of the service costs and interest costs, (increase)	(1)	0
Effect on defined obligation, (increase)	(5)	4

Amounts for the current and previous periods are as follows:

	2007	2006	2005	2004
Defined benefit obligations	(40)	(40)	(69)	(55)
Plan assets (including reimbursement rights)	8	8	13	11
Funded status of asset/(liability)	<b>(32)</b>	<b>(32)</b>	<b>(56)</b>	<b>(44)</b>
Experience adjustments of plan liabilities, (loss)	1	0	(4)	(7)

## 25 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 79.

	2007	2006
Borrowings:		
- Non-current borrowings	1,560	907
- Current borrowings	192	607
Total borrowings	<b>1,752</b>	<b>1,514</b>
Current investments	(4)	(3)
Cash and cash equivalents	(369)	(552)
Financial derivatives, assets (see also note 23)	(83)	(79)
Financial derivatives, liabilities (see also note 23)	42	41
Net debt	<b>1,338</b>	<b>921</b>

Cash at year-end 2007 was not being used as collateral and was therefore not restricted (2006: also zero).

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### 26 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, 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:

	Operating working capital	In % of net sales (from continuing operations)
Balance at 1 January 2007	1,801	21.6
Balance at 31 December 2007	1,875	21.4
Balance sheet change	<b>74</b>	
Adjustments:		
- Exchange differences	69	
- Changes in consolidation	(19)	
- Transfers	-	
<b>Total</b>	<b>124</b>	
Change in cash flow	(124)	

### 27 Share-based compensation

Under the DSM Stock Incentive Plan, performance-related and non-performance-related 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 3-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. Stock options and SARs will partly vest and may therefore be exercised immediately upon termination of employment in connection with retirement or early retirement. 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).



### Overview of stock options and Stock Appreciation Rights for management

Year of issue	Out-standing on 31 Dec. 2006	In 2007				Out-standing on 31 Dec. 2007	Fair value on grant date (€)	Exercise price (€)	Expiry date
		Granted	Exercised	Forfeited	Expired				
1999	4,000	-	(4,000)	-	-	-	1.62	13.005	14 Jan. 2007
2000	81,000	-	(66,000)	-	-	15,000	3.52	18.240	31 Mar. 2008
2001	395,350	-	(165,725)	-	-	229,625	3.88	19.990	30 Mar. 2009
2002	688,800	-	(178,500)	-	-	510,300	5.22	23.505	4 Apr. 2010
2003	1,056,323	-	(424,323)	-	-	632,000	3.09	18.195	4 Apr. 2011
2003 <sup>1</sup>	188,150	-	(95,950)	-	-	92,200	3.64	19.770	3 Nov. 2011
2004 <sup>2,3</sup>	2,753,826	-	(1,456,055)	(16,950)	(2,500)	1,278,321	2.97	17.895	2 Apr. 2012
2005 <sup>2</sup>	2,681,278	-	(80,000)	(160,250)	-	2,441,028	6.15	29.050	8 Apr. 2013
2006 <sup>2</sup>	2,984,975	-	(2,500)	(164,750)	-	2,817,725	8.95	38.300	31 Mar. 2014
2007 <sup>2</sup>	-	3,271,300	(6,000)	(88,500)	-	3,176,800	7.69	33.600	30 Mar. 2015
<b>2007</b>									
<b>Total</b>	<b>10,833,702</b>	<b>3,271,300</b>	<b>(2,479,053)</b>	<b>(430,450)</b>	<b>(2,500)</b>	<b>11,192,999</b>			
Of which vested	2,831,473					3,330,396			
	at 31 Dec. 2005					at 31 Dec. 2006			
<b>2006</b>									
<b>Total</b>	<b>10,936,871</b>	<b>3,122,725</b>	<b>(2,526,944)</b>	<b>(698,950)</b>	<b>-</b>	<b>10,833,702</b>			
Of which vested	2,342,541					2,831,473			

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 and 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).

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.

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### Overview of stock options for employees

Year of issue	Outstanding on 31 Dec. 2006	In 2007				Outstanding on 31 Dec. 2007	Fair value on grant date (€)	Exercise price (€)	Exercise period
		Granted	Exercised	Forfeited	Expired				
2002	128,116	-	(117,272)	-	(10,844)	-	3.67	23.11	until Apr. 2007
2003	63,522	-	(13,188)	(120)	-	50,214	2.33	18.19	until Apr. 2008
2005	205,248	-	(19,320)	(1,516)	-	184,412	4.29	29.05	until Apr. 2010
2006	605,084	-	(4,560)	(15,991)	-	584,533	6.03	38.30	until Mar. 2011
2007	-	648,828	(43,863)	(5,477)	-	599,488	4.27	33.60	until Mar. 2012
<b>Total</b>	<b>1,001,970</b>	<b>648,828</b>	<b>(198,203)</b>	<b>(23,104)</b>	<b>(10,844)</b>	<b>1,418,647</b>			

Changes in 2006	Granted	Exercised	Forfeited	Expired
	639,471	(167,120)	(41,877)	(5,962)

Based on the 2006 result, 648,828 employee option rights were granted in 2007.

#### 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:

	2007	2006
Risk-free interest rate (6 years risk free)	4.20%	3.93%
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%	26%

In the costs for wages and salaries an amount of €9 million is included for share-based compensation (2006: €21 million).

## 28 Interests in joint ventures

DSM's share in its most important joint ventures is disclosed below:

Company	Location	Country	DSM Interest
DEX-Plastomers VoF	Heerlen	NL	50%
Noordgastransport BV	Zoetermeer	NL	40%
EdeA VoF	Geleen	NL	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:

	2007	2006
Non-current assets	151	165
Current assets	75	86
Non-current liabilities	(100)	(108)
Current liabilities	(38)	(49)
<b>Net assets</b>	<b>88</b>	<b>94</b>
Net sales	121	158
Expenses	(82)	(125)
<b>Net profit</b>	<b>39</b>	<b>33</b>

## 29 Interests in associates

DSM's share in its most important associates is disclosed below:

Company	Location	Country	DSM Interest
Nylon Polymer Company, LLC	Augusta	US	25%
Xinhui Meida - DSM Nylon Chips Co. Ltd.	Guangzhou	CN	25%

Investments in associates are accounted for by the equity method. The following table provides summarized financial information on associates on a 100% basis.

	2007	2006
Non-current assets	60	75
Current assets	66	60
Non-current liabilities	(5)	(7)
Current liabilities	(54)	(48)
<b>Net assets</b>	<b>67</b>	<b>80</b>
Net sales	217	255
Net result	(1)	(1)

## 30 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 €3.8 million (2006: €4.4 million). This includes fixed annual salary to the amount of €2.7 million (2006: €2.3 million), bonuses to the amount of €1.0 million (2006: €1.6 million), no pension expenditure due to pension discount by the Pension Fund (2006: €0.4 million), and other items to the amount of €0.1 million (2006: €0.1 million). For further information about the remuneration of the members of the Managing Board see note 10 on page 142.

Members of the Supervisory Board received a fixed remuneration (included in Other operating costs) totaling €0.3 million (2006: €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 Managing Board.

## 31 Service fees paid to external auditors

The service fees paid to Ernst & Young Accountants included in Work subcontracted and other external costs in 2007 amounted to €4.9 million for audit services (2006: €5.2 million), €2.1 million for tax services (2006: €2.0 million) and €0.8 million for sundry services (2006: €0.7 million).

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## Financial statements of Royal DSM N.V.

### Balance sheet at 31 December

x € million	Notes	2007	2006
<b>Assets</b>			
<i>Non-current assets</i>			
Intangible assets	2	409	368
Property, plant and equipment	3	26	31
Financial assets	4	9,738	8,647
		<b>10,173</b>	<b>9,046</b>
<i>Current assets</i>			
Receivables	5	473	513
Financial derivatives		27	46
Cash and cash equivalents		3	1
		<b>503</b>	<b>560</b>
<b>Total</b>		<b>10,676</b>	<b>9,606</b>
<b>Shareholders' equity and liabilities</b>			
<i>Royal DSM N.V. Shareholders' equity</i>	6	5,310	5,784
<i>Non-current liabilities</i>			
Deferred tax liabilities		217	203
Provisions	7	2	2
Borrowings	8	1,417	715
		<b>1,636</b>	<b>920</b>
<i>Current liabilities</i>			
Provisions	7	4	5
Borrowings	8	3	403
Financial derivatives		32	31
Other current liabilities	9	3,691	2,463
		<b>3,730</b>	<b>2,902</b>
<b>Total</b>		<b>10,676</b>	<b>9,606</b>

### Income statement

x € million	2007	2006
Share in results of subsidiaries, joint ventures and associates (after income-tax expense)	529	652
Other income and expense	(100)	(105)
<b>Net profit attributable to equity holders of Royal DSM N.V.</b>	<b>429</b>	<b>547</b>

## Notes to the Royal DSM N.V. balance sheet

### 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 Zuid-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](http://www.dsm.com).

### 2 Intangible assets

The intangible assets mainly comprise goodwill. The intangible assets consist of the goodwill paid for the acquisition of NeoResins in 2005 (€358 million), CRINA in 2006 (€6 million) and Pentapharm in 2007 (€31 million).

### 3 Property, plant and equipment

This item mainly relates to land and buildings and corporate IT projects. Capital expenditure in 2007 was €10 million, while the depreciation charge in 2007 was €3 million. The historic cost of property, plant and equipment as at 31 December 2007 was €62 million; accumulated depreciation amounted to €36 million.



# Financial statements 2007

## Financial statements of Royal DSM N.V.

### 4 Financial assets

	Total	Subsidiaries		Other participations	Other loans
		Share in equity	Loans		
Balance at 1 January 2006	<b>8,016</b>	<b>7,500</b>	<b>405</b>	<b>3</b>	<b>108</b>
Changes:					
- Share in profit	652	652	-	-	-
- Dividend received	(1,514)	(1,514)	-	-	-
- Capital payments	312	308	-	4	-
- Goodwill	(6)	(6)	-	-	-
- Net actuarial gains/(losses)	290	290	-	-	-
- Net asset ceiling	(7)	(7)	-	-	-
- Repayments	(17)	-	-	-	(17)
- Transfer to current loans	(91)	-	-	-	(91)
- Intra-group transactions	1,170	1,171	-	(1)	-
- Value adjustments	(32)	(27)	-	(5)	-
- Exchange differences	(140)	(140)	-	-	-
- Other changes	14	15	(1)	-	-
Balance at 31 December 2006	<b>8,647</b>	<b>8,242</b>	<b>404</b>	<b>1</b>	<b>0</b>
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	<b>9,738</b>	<b>9,299</b>	<b>408</b>	<b>31</b>	<b>0</b>

### 5 Receivables

	2007	2006
Receivable from subsidiaries	418	326
Loans	-	92
Other receivables	55	95
<b>Total</b>	<b>473</b>	<b>513</b>

## 6 Royal DSM N.V. Shareholders' equity

	2007	2006
Balance at 1 January	5,784	5,501
Net profit	429	547
Exchange differences, net of income tax expense	(140)	(128)
Net actuarial gains/(losses) on defined benefit obligations	154	290
Net asset ceiling related to defined benefit plans	(46)	(7)
Dividend paid	(193)	(213)
Repurchase of ordinary shares	(758)	(318)
Proceeds from reissue of ordinary shares	53	55
Other changes	27	57
Balance at 31 December	5,310	5,784

For details see the consolidated statement of changes in equity on page 117.

### 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 €193 million is included for Translation reserve, €48 million for Hedging reserve and €(9) million for Fair value reserve.

## 7 Provisions

	2007		2006	
	Total	Of which current	Total	Of which current
Environmental costs	3	1	4	1
Other provisions	3	3	3	4
<b>Total</b>	<b>6</b>	<b>4</b>	<b>7</b>	<b>5</b>

The total of non-current and current provisions decreased by €1 million. This is the net effect of the following changes:

	Balance at 1 January 2007	Additions	Releases	Uses	Balance at 31 December 2007
Environmental costs	4	1	-	(2)	3
Other provisions	3	-	-	-	3
<b>Total</b>	<b>7</b>	<b>1</b>	<b>-</b>	<b>(2)</b>	<b>6</b>

# Financial statements 2007

## Financial statements of Royal DSM N.V.

### 8 Borrowings

	2007		2006	
	Total	Of which current	Total	Of which current
Debenture loans	1,210	-	886	403
Private loans	207	-	232	-
Credit institutions	3	3	-	-
<b>Total</b>	<b>1,420</b>	<b>3</b>	<b>1,118</b>	<b>403</b>

Of the total amount of borrowings outstanding at 31 December 2007, €1,246 million had a remaining term of more than five years.

The repayment schedule for borrowings is as follows:

2008	-
2009	170
2010	-
2011 and 2012	1
2013 through 2017	1,246
After 2017	-
<b>Total</b>	<b>1,417</b>

In agreements governing loans with a residual amount at year-end 2007 of €1,417 million, none of which were of a current nature (31 December 2006: €1,118 million, of which €403 million current), clauses have been included which restrict the provision of security.

### 9 Other current liabilities

	2007	2006
Owing to subsidiaries	3,612	2,387
Other liabilities	73	74
Deferred items	6	2
<b>Total</b>	<b>3,691</b>	<b>2,463</b>

#### Contingent liabilities

Guarantee obligations on behalf of affiliated companies and third parties amounted to €247 million (31 December 2006: €268 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 2007 and subsequent years as approved by the Annual General Meeting of Shareholders on 28 March 2007. More details about the remuneration policy are included in the remuneration report (page 70).

The total remuneration (including pension expenditure and other commitments) of the members of the Managing Board amounted to €3.8 million (2006: €4.4 million). The remuneration of the individual members of the Managing Board was as follows:

Feike Sijbesma (CEO as of 1 May 2007): salary €609,000 (2006: €476,000), bonus €233,000 (2006: €291,000), pension expenditure zero (2006: €91,000), other items €34,000 (2006: €6,000); Peter Elverding (until 1 May 2007): salary €220,000 (2006: €652,000), bonus €319,000 (2006: €379,000), pension expenditure zero (2006: €111,000), other items €60,000 (2006: €4,000); Jan Zuidam: salary €488,000 (2006: €476,000), bonus €233,000 (2006: €291,000), pension expenditure zero (2006: €82,000), other items €27,000 (2006: €4,000); Nico Gerardu: salary €488,000 (2006: €358,000), bonus €176,000 (2006: zero), pension expenditure zero (2006: €52,000), other items €4,000 (2006: €3,000); Rolf-Dieter Schwalb: salary €488,000 (2006: €120,000), bonus €59,000 (2006: zero), pension expenditure zero (2006: €18,000), other items €5,000 (2006: €2,000); Stephan Tanda (as of 1 May 2007): salary €327,000, bonus zero, pension expenditure zero, other items €5,000.

#### 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. 2006	In 2007			Outstanding on 31 Dec. 2007	Exercise price (€)	Expiry date
			Granted	Exercised	Forfeited/ expired			
<b>Feike Sijbesma</b>								
Stock options	2001	60,000	-	-	-	60,000	19.990	30 March '09
	2002	60,000	-	-	-	60,000	23.505	4 April '10
	2003	60,000	-	-	-	60,000	18.195	4 April '11
	2004	60,000	-	-	-	60,000	17.895	2 April '12
	2005	30,000	-	-	-	30,000	29.050	8 April '13
	2006	30,000	-	-	-	30,000	38.300	31 March '14
	2007	-	30,000	-	-	30,000	33.600	30 March '15
	Total	<b>300,000</b>	<b>30,000</b>	-	-	<b>330,000</b>		
Of which vested		180,000				240,000		
Performance shares	2005	8,000	-	-	-	8,000	29.050	
	2006	8,000	-	-	-	8,000	38.300	
	2007	-	8,000	-	-	8,000	33.600	
	Total	<b>16,000</b>	<b>8,000</b>	-	-	<b>24,000</b>		
Of which vested		-				-		
<b>Jan Zuidam</b>								
Stock options	2001	60,000	-	-	-	60,000	19.990	30 March '09
	2002	60,000	-	-	-	60,000	23.505	4 April '10
	2003	60,000	-	-	-	60,000	18.195	4 April '11
	2004	60,000	-	-	-	60,000	17.895	2 April '12
	2005	30,000	-	-	-	30,000	29.050	8 April '13
	2006	30,000	-	-	-	30,000	38.300	31 March '14
	2007	-	30,000	-	-	30,000	33.600	30 March '15
	Total	<b>300,000</b>	<b>30,000</b>	-	-	<b>330,000</b>		
Of which vested		180,000				240,000		
Performance shares	2005	8,000	-	-	-	8,000	29.050	
	2006	8,000	-	-	-	8,000	38.300	
	2007	-	8,000	-	-	8,000	33.600	
	Total	<b>16,000</b>	<b>8,000</b>	-	-	<b>24,000</b>		
Of which vested		-				-		

# Financial statements 2007

## Financial statements of Royal DSM N.V.

	Year of issue	Outstanding on 31 Dec. 2006	In 2007			Outstanding on 31 Dec. 2007	Exercise price (€)	Expiry date
			Granted	Exercised	Forfeited/ expired			
<b>Nico Gerardu</b>								
Stock options	2002	36,000	-	-	-	36,000	23.505	4 April '10
	2003	36,000	-	-	-	36,000	18.195	4 April '11
	2004	36,000	-	-	-	36,000	17.895	2 April '12
	2005	36,000	-	-	-	36,000	29.050	8 April '13
	2006	30,000	-	-	-	30,000	38.300	31 March '14
	2007	-	30,000	-	-	30,000	33.600	30 March '15
	Total	<b>174,000</b>	<b>30,000</b>	-	-	<b>204,000</b>		
Of which vested		72,000				108,000		
Performance shares	2006	8,000	-	-	-	8,000	38.300	
	2007	-	8,000	-	-	8,000	33.600	
	Total	<b>8,000</b>	<b>8,000</b>	-	-	<b>16,000</b>		
Of which vested		-						
<b>Rolf-Dieter Schwalb</b>								
Stock options	2007	-	30,000	-	-	30,000	33.600	30 March '15
Of which vested		-						
Performance shares	2007	-	8,000	-	-	8,000	33.600	
Of which vested		-						
<b>Stephan Tanda</b>								
Stock options	2007	-	30,000	-	-	30,000	33.600	30 March '15
Of which vested		-						
Performance shares	2007	-	8,000	-	-	8,000	33.600	
Of which vested		-						



	Year of issue	Out- standing on 31 Dec. 2006	In 2007			Out- standing on 1 May 2007	Exercise price (€)	Average share price at exercise (€)	Expiry date
			Granted	Exercised	Forfeited/ expired				
<b>Peter Elverding<sup>1</sup></b>									
Stock options	2000	45,000	-	(45,000)	-	-	18.240	32.515	31 March '08
	2001	75,000	-	-	-	75,000	19.990		30 March '09
	2002	75,000	-	-	-	75,000	23.505		4 April '10
	2003	75,000	-	-	-	75,000	18.195		4 April '11
	2004	75,000	-	-	-	75,000	17.895		2 April '12
	2005	37,500	-	-	(18,750)	18,750	29.050		8 April '13
	2006	37,500	-	-	(18,750)	18,750	38.300		31 March '14
	2007	-	37,500	-	(18,750)	18,750	33.600		30 March '15
	Total	<b>420,000</b>	<b>37,500</b>	<b>(45,000)</b>	<b>(56,250)</b>	<b>356,250</b>			
Of which vested		270,000				356,250			
Performance shares									
	2005	10,000	-	-	(5,000)	5,000	29.050		
	2006	10,000	-	-	(5,000)	5,000	38.300		
	2007	-	10,000	-	(5,000)	5,000	33.600		
	Total	<b>20,000</b>	<b>10,000</b>	<b>-</b>	<b>(15,000)</b>	<b>15,000</b>			
Of which vested		-				15,000			

<sup>1</sup> Upon retirement or early retirement, 50% of any unvested stock options and unvested performance shares vest (and become exercisable); the remaining 50% are forfeited.

### Overview of performance shares

	Year of issue	Outstanding on 31 Dec. 2006	In 2007			Outstanding on 31 Dec. 2007	Share price at date of grant (€)
			Granted	Vested	Forfeited		
	2005 <sup>1</sup>	26,000	-	(5,000)	(5,000)	16,000	29.050
	2006 <sup>1</sup>	34,000	-	(5,000)	(5,000)	24,000	38.300
	2007 <sup>1</sup>	-	50,000	(5,000)	(5,000)	40,000	33.600
Total 2007		<b>60,000</b>	<b>50,000</b>	<b>(15,000)</b>	<b>(15,000)</b>	<b>80,000</b>	
Of which vested		-				-	
		At 31 Dec. 2005				At 31 Dec. 2006	
Total 2006		<b>42,000</b>	<b>34,000</b>	<b>-</b>	<b>(16,000)</b>	<b>60,000</b>	
Of which vested		-				-	

<sup>1</sup> Upon retirement or early retirement, 50% of any unvested performance shares vest; the remaining 50% are forfeited.

# Financial statements 2007

## Financial statements of Royal DSM N.V.

### Shares

At year-end 2007 the members of the Managing Board together held 12,036 shares (year-end 2006: 1,836 shares) 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 (2006: €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
Cor Herkströter, chairman	50,000	8,750	3,241	61,991
Henk Bodt, deputy chairman	35,000	7,500	3,241	45,741
Pierre Hochuli	35,000	-	1,250	36,250
Ewald Kist	35,000	5,000	3,241	43,241
Okko Müller	8,750	1,250	313	10,313
Claudio Sonder	35,000	3,750	1,250	40,000
Tom de Swaan	35,000	5,000	3,241	43,241
Cees van Woudenberg	35,000	5,000	1,748	41,748
<b>Total</b>	<b>268,750</b>	<b>36,250</b>	<b>17,525</b>	<b>322,525</b>

At year-end 2007 the members of the Supervisory Board together held 6,084 shares (2006: 9,584 shares) in Royal DSM N.V. These shareholdings serve as a long-term investment in the company.

The company does not provide any loans to its Supervisory Board members. Rules have been adopted governing ownership of and reporting on transactions in securities (other than securities issued by DSM) by Supervisory Board members.

Heerlen, 11 February 2008

Heerlen, 12 February 2008

### MANAGING BOARD,

Feike Sijbesma  
Jan Zuidam  
Nico Gerardu  
Rolf-Dieter Schwalb  
Stephan Tanda

### SUPERVISORY BOARD,

Cor Herkströter  
Henk Bodt  
Pierre Hochuli  
Ewald Kist  
Claudio Sonder  
Tom de Swaan  
Cees van Woudenberg

# Financial statements 2007

## 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, 2007, the income statement, statement of recognized income and expense and 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, 2007, 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, 2007, 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, 2007, 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 e 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, 12 February 2008  
for Ernst & Young Accountants

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 of Directors, every year the Managing Board determines the portion of the net profit to be appropriated to the reserves. For the year 2007 the net profit is €429 million and the amount to be appropriated to the reserves has been established at €215 million. From the subsequent balance of the net profit (€214 million), dividend is first distributed on the cumulative preference shares B. At the end of 2007 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

# Financial statements 2007

## Other information

per cumulative preference share A. For 2007 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 2007, the final dividend will then amount to €0.15 per cumulative preference share A.

The profits remaining after distribution of these dividends (€204 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 2007 would amount to €1.20 per share. An interim dividend of €0.33 per ordinary share having been paid in August 2007, the final dividend would then amount to €0.87 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	2007	2006
Net profit	429	547
Profit appropriation:		
- To be added to the reserves	215	350
- Dividend on cumprefs A	10	10
- Interim dividend on ordinary shares	59	63
- Final dividend payable on ordinary shares	145	124

### 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 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. These preference shares can be placed with the DSM Preference Shares Foundation.

The DSM Preference Shares Foundation and DSM have concluded agreements on the placement of preference shares B and an option on such shares. Under these agreements, the Foundation is obliged to take preference shares B in DSM's capital or has the right to acquire such shares to a maximum corresponding to 100% of the capital issued in any form other than preference shares B, less one.

The Foundation acquired no preference shares B in 2007.

On 31 December 2007 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 independence**

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 is to be held at the DSM head office in Heerlen (Netherlands) on Wednesday, 26 March 2008 at 14.00 hours.

**Important dates**

Ex-dividend quotation	Friday, 28 March 2008
Publication of first-quarter results	Tuesday, 29 April 2008
Publication of second-quarter results	Tuesday, 29 July 2008
Publication of third-quarter results	Monday, 27 October 2008
Annual report 2008	Monday, 16 February 2009
Annual General Meeting of Shareholders	Wednesday, 1 April 2009



# Financial statements 2007

## DSM figures: five-year summary

### Balance sheet

x € million	2007 <sup>1</sup>	2006 <sup>1</sup>	2005 <sup>1</sup>	2004 <sup>1</sup>	2004	2003
<b>Assets</b>						
Intangible assets	1,037	1,008	1,003	453	369	405
Property, plant and equipment	3,440	3,655	3,750	3,811	3,809	4,188
Deferred tax assets	346	496	533	492	-	-
Prepaid pension costs	1,169	918	478	166	-	-
Associates	20	26	43	78	491	371
Other financial assets	126	100	189	82	-	-
<b>Non-current assets</b>	<b>6,138</b>	<b>6,203</b>	<b>5,996</b>	<b>5,082</b>	<b>4,669</b>	<b>4,964</b>
Inventories	1,547	1,515	1,535	1,348	1,347	1,474
Receivables	1,687	1,739	1,597	1,556	1,669	1,746
Financial derivatives	83	79	36	244	-	-
Current investments	4	3	5	6	4	4
Cash and cash equivalents	369	552	902	1,261	1,247	1,212
	<b>3,690</b>	<b>3,888</b>	<b>4,075</b>	<b>4,415</b>	<b>4,267</b>	<b>4,436</b>
Assets held for sale	-	-	43	-	-	-
<b>Current assets</b>	<b>3,690</b>	<b>3,888</b>	<b>4,118</b>	<b>4,415</b>	<b>4,267</b>	<b>4,436</b>
<b>Total assets</b>	<b>9,828</b>	<b>10,091</b>	<b>10,114</b>	<b>9,497</b>	<b>8,936</b>	<b>9,400</b>
<b>Equity and liabilities</b>						
Royal DSM N.V. Shareholders' equity	5,310	5,784	5,501	4,668	4,812	4,918
Minority interests	73	71	67	22	22	43
<b>Equity</b>	<b>5,383</b>	<b>5,855</b>	<b>5,568</b>	<b>4,690</b>	<b>4,834</b>	<b>4,961</b>
Deferred tax liabilities	344	383	219	134	-	-
Employee-benefits liabilities	273	304	383	378	-	-
Provisions	170	188	166	284	874	901
Borrowings	1,560	907	1,381	1,497	1,045	1,505
Other non-current liabilities	35	44	53	60	-	-
<b>Non-current liabilities</b>	<b>2,382</b>	<b>1,826</b>	<b>2,202</b>	<b>2,353</b>	<b>1,919</b>	<b>2,406</b>
Employee-benefits liabilities	9	21	23	39	-	-
Provisions	91	127	220	219	-	-
Borrowings	192	607	329	527	543	382
Financial derivatives	42	41	65	59	-	-
Other current liabilities	1,729	1,614	1,699	1,610	1,640	1,651
	<b>2,063</b>	<b>2,410</b>	<b>2,336</b>	<b>2,454</b>	<b>2,183</b>	<b>2,033</b>
Liabilities held for sale	-	-	8	-	-	-
<b>Current liabilities</b>	<b>2,063</b>	<b>2,410</b>	<b>2,344</b>	<b>2,454</b>	<b>2,183</b>	<b>2,033</b>
<b>Total equity and liabilities</b>	<b>9,828</b>	<b>10,091</b>	<b>10,114</b>	<b>9,497</b>	<b>8,936</b>	<b>9,400</b>
Capital employed	5,982	6,303	6,221	5,558	5,554	6,162
Capital expenditure:						
- Intangible assets and property, plant and equipment	475	457	401	348	334	433
- Acquisitions	93	44	573	0	0	1,561
Disposals	52	165	222	28	28	17
Depreciation and amortization	424	451	567	613	632	516
Net debt <sup>2</sup>	1,338	921	832	339	337	671
Ratios <sup>2</sup>						
- Net sales / average capital employed	1.43	1.34	1.34	1.34	1.32	1.21
- Current assets / current liabilities	1.78	1.61	1.76	1.80	1.95	2.18
- Equity / total assets	0.55	0.58	0.55	0.49	0.54	0.53
- Gearing (net debt / equity plus net debt)	0.20	0.14	0.13	0.07	0.07	0.12

1 After the change to IFRS as primary basis of accounting. The figures for previous periods were prepared in accordance with NL GAAP.

2 To enhance comparability the net debt and ratios for 2004 do not include the impact of the temporary reclassification of cumulative preference shares A.

**Income statement**

x € million	2007 <sup>1</sup>	2006 <sup>1</sup>	2005 <sup>1</sup>	2004 <sup>1</sup>	2004	2003
Net sales	8,757	8,380	8,195	7,832	7,752	6,050
Operating profit plus depreciation and amortization (EBITDA)	1,247	1,274	1,311	1,067	1,013	723
Operating profit (EBIT)	823	834	808	562	489	294
Net finance costs	(75)	(81)	(70)	(56)	(51)	(31)
Income tax expense	(183)	(198)	(180)	(103)	(98)	(49)
Share of the profit of associates	(2)	1	(2)	9	8	5
<b>Net profit before exceptional items</b>	<b>563</b>	<b>556</b>	<b>556</b>	<b>412</b>	<b>348</b>	<b>219</b>
Net profit from exceptional items	(129)	(4)	(36)	(142)	(97)	(94)
<b>Profit for the year</b>	<b>434</b>	<b>552</b>	<b>520</b>	<b>270</b>	<b>251</b>	<b>125</b>
Profit attributable to minority interests	(5)	(5)	7	23	11	14
Net profit attributable to equity holders of Royal DSM N.V.	<b>429</b>	<b>547</b>	<b>527</b>	<b>293</b>	<b>262</b>	<b>139</b>
Net profit attributable to holders of cumulative preference shares	(10)	(10)	(16)	(22)	(22)	(22)
Net profit used for calculating earnings per share	<b>419</b>	<b>537</b>	<b>511</b>	<b>271</b>	<b>240</b>	<b>117</b>
Workforce at 31 December (x 1000)	23	22	22	24	24	26
Employee-benefits costs (x € million)	1,389	1,332	1,385	1,411	1,487	1,215
Percentage ratios:						
- EBIT / net sales	9.4	10.0	9.9	7.2	6.3	4.9
- CFROI	8.3	8.5	9.1	8.1	7.6	5.8
- Net profit / average Royal DSM N.V. shareholders' equity available to holders of ordinary shares	7.9	9.9	10.1	5.8	5.3	2.5
EBITDA / net finance costs	16.6	15.7	18.7	19.1	19.9	23.3
Dividend (x € million)	214	197	207	190	190	188

<sup>1</sup> After the change to IFRS as primary basis of accounting, including discontinued operations. The figures for previous periods were prepared in accordance with NL GAAP.

# Financial statements 2007

## DSM figures: five-year summary

### Information about ordinary DSM shares <sup>1</sup>

Per ordinary share in €	2007 <sup>2</sup>	2006 <sup>2</sup>	2005 <sup>2</sup>	2004 <sup>2</sup>	2004	2003
Net profit before exceptional items	3.07	2.85	2.82	2.09	1.76	1.11
Net profit	2.35	2.83	2.68	1.41	1.25	0.62
Cash flow	5.56	5.21	5.65	4.52	3.99	2.88
Royal DSM N.V. Shareholders' equity	30.42	30.03	27.59	25.19	23.86	23.86
Dividend:	1.20 <sup>3</sup>	1.00	1.00	0.875	0.875	0.875
- Interim dividend	0.33	0.33	0.29	0.290	0.290	0.290
- Final dividend	0.87	0.67	0.71	0.585	0.585	0.585
Pay-out including dividend on cumulative preference shares as % of net profit before exceptional items	35%	38%	33%	45%	53%	81%
Dividend yield (based on average price of an ordinary DSM share)	3.3%	2.9%	3.4%	4.3%	4.3%	4.5%
Share prices on Euronext Amsterdam:						
- Highest price	39.87	39.70	35.22	23.85	23.85	22.50
- Lowest price	31.63	28.58	23.07	17.88	17.88	15.65
- At 31 December	32.33	37.43	34.50	23.81	23.81	19.52
(x 1000)						
Number of ordinary shares outstanding:						
- At 31 December	166,897	184,850	190,923	191,957	191,957	191,537
- Average	178,541	189,550	190,783	191,617	191,617	189,430
Daily trading volumes on Euronext Amsterdam:						
- Average	1,590	1,301	1,063	1,014	1,014	1,126
- Lowest	94	267	238	26	26	130
- Highest	11,347	5,268	6,563	6,494	6,494	6,540

1 On 5 September 2005 DSM effected a share split on a two-for-one basis (two 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 splitting of the ordinary DSM shares had taken place prior to all periods presented.

2 After the change to IFRS as primary basis of accounting. The figures for previous periods were prepared in accordance with NL GAAP

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

# Financial statements 2007

## 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, associates and securities.

#### Cash flow

Cash flow is net profit plus depreciation and amortization.

#### CFROI (Cash Flow Return On Investment)

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.

#### Total Shareholder Return (TSR)

Total shareholder return is capital gain plus dividend paid.

Royal DSM N.V.

P.O. Box 6500  
6401 JH Heerlen  
The Netherlands  
T + 31 (45) 578 8111

[www.dsm.com](http://www.dsm.com)