

# Report by the Managing Board

## DSM in motion: *driving focused growth*

In 2013, DSM completed the third year of its successful strategy DSM in motion: *driving focused growth*, which it launched in 2010 to become a global leader in health, nutrition and materials. The strategy has provided the necessary framework to drive sustainable and profitable growth in the company's core activities, following the profound transformation of its portfolio of businesses in the preceding years.

The transformation of DSM has been strengthened by its determined effort to cultivate organic growth, while tapping the synergy potential of acquisitions and partnerships. These actions have been supported by cultural and structural integration efforts that have made it a truly global company. Today, the company enjoys greater resilience in the face of macro-economic movements, and higher quality and stability in its earnings.

DSM is uniquely positioned to deliver on its mission of creating brighter lives for people today and for generations to come. At the heart of this mission is the core value of sustainability, a fundamental business driver that defines DSM's position in the market and determines its ability to shape a stable and prosperous future for the benefit of People, Planet and Profit.

### Strategic focus

With its focus on Life Sciences and Materials Sciences, and the key growth drivers of High Growth Economies, Innovation, Sustainability and Acquisitions & Partnerships, DSM's strategy

is an effective response to the world's most pressing social, environmental and economic challenges.

It is a strategy that has served the company well since 2010, supported by a stakeholder engagement process and a risk and issue assessment that enabled it to determine how it could best help meet the world's most pressing needs.

Many of the world's social, environmental and economic challenges stem from the world's rapidly expanding population, which is expected to reach 9 billion by 2050. Societies are also experiencing fundamental changes in their demographics with people becoming older and increasingly urbanized and wealthy. These trends will put unprecedented pressure on the planet's resources and on the food chain, while also creating new consumption patterns and having an impact on the environment.

These megatrends can be summarized into three distinct categories: Global Shifts, Climate and Energy, and Health and Wellness. Through its innovative and sustainable solutions, DSM is able to address these areas and benefit from the opportunities that are arising from the increased spending that will result on a global scale.

### Global Shifts

The accelerating shift of wealth in a multiple-speed global economy is the basis for a series of global shifts that are creating a more urban, more prosperous and more connected world, but one that faces huge resource and cultural challenges as a result.



The DSM Managing Board (from left to right): Rolf-Dieter Schwalb (CFO), Stefan Doboczky, Feike Sijbesma (Chairman/CEO), Stephan Tanda and Dimitri de Vreeze

**DSM in motion: driving focused growth**

Growth Driver: High Growth Economies  
Growth Driver: Innovation  
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Stakeholder engagement  
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These changes are influencing where demand comes from, how and where people live, and how they interact with each other. Urbanization and economic prosperity are promoting dietary changes and increased spending on housing, transport, lifestyle and energy. The advent of new technology is also having a major impact on societies and their behavior.

*Climate and Energy*

The reality of man-made climate change must translate into increased efforts to reduce fossil fuel dependencies and bring down harmful levels of greenhouse-gas emissions. This is accelerating the adoption of renewable energy sources and the use of chemicals and materials that are more sustainable. These actions will help protect the planet's limited resources, as the world enters an era of resource scarcity.

Efficiency is an important part of this focus, as customers look to create more sustainable value chains through higher yields, less waste, lower energy use and less pollution.

*Health and Wellness*

The impact of a growing, aging, increasingly urban population is becoming visible in remarkably different ways. On the one hand, living standards are steadily rising, and there is a drive to improve well-being and increase life spans. On the other, the daily struggle to effectively nourish populations in the most impoverished areas of the world, especially children below the age of three, continues.

There is an increasing need to address core health issues, whether through nutrition, medicines or lifestyle improvements, especially in high growth economies. In the West, healthcare cost pressures are rising because of aging populations. Nutrition security and access are also growing in importance, and there is a growing demand for safer and healthier solutions.

By providing its customers with the innovations and sustainable products they need to meet the demands arising from these trends, DSM stands to capitalize on these trends for many years to come.

**Strategic progress and aspirations**

It is DSM's ambition to leverage unique opportunities in Life Sciences and Materials Sciences by using the four growth drivers of High Growth Economies, Innovation, Sustainability and Acquisitions & Partnerships. It aims to maximize the potential of these drivers so they reinforce each other and generate further business opportunities.

The company relies on regional organizations, functional excellence groups and shared services to enhance the

performance of its business groups. It has set itself ambitious targets for accelerated growth (above GDP growth levels) and for increased profitability during the current strategy period. These were formulated based on an assessment of opportunities in each of the growth drivers.

Following the rapid expansion of its global portfolio in recent years, the company is now fully focused on operational performance, organic growth and improved profitability. It is also concentrating on regional R&D and innovations for local applications that are better tailored to the needs of customers in its fastest growing markets, and which capture more opportunities and synergies.

*Financial targets*

Despite the ongoing macro-economic challenges, DSM increased its EBITDA for 2013 to € 1.314 billion, representing a considerable increase of 18 percent over the previous year. In 2013, DSM formulated profitability targets for 2015, including an EBITDA margin of 14-15 percent.

Progress on the target for Return on Capital Employed (ROCE) of more than 15 percent was delayed as a result of the company's accelerated acquisition strategy and the deterioration of global macro-economic conditions. In 2013, ROCE from continuing operations reached 9.7 percent compared to 10.1 percent in 2012.

Sales in High Growth Economies reached 39 percent of total sales in 2013, bringing the company closer to its stated goal of having about 45 percent of total net sales from these markets. Innovation sales, which are measured as sales from products and applications introduced within the last five years, reached 19 percent of total net sales in 2013, putting the company well on track to deliver on its 2015 target of 20 percent.

There has been steady progress in the three Emerging Business Areas (EBAs), DSM Biomedical, DSM Bio-based Products & Services, and the new area of DSM Advanced Surfaces. All three areas provide significant growth potential for DSM. The 2020 target for these areas is € 1 billion in sales with a high EBITDA margin.

## Targets and aspirations as updated in September 2013

### Financial targets

#### Profitability targets 2015

- EBITDA margin	14%-15%
- ROCE	11%-12%

#### Sales targets 2015

- Organic sales growth	5%-7% annually
- China sales	towards USD 3 bn
- High growth economies sales	about 45% of total sales
- Innovation sales	20% of total sales
- ECO+ sales	towards 50% of total sales

#### Cluster targets 2015

- Nutrition	EBITDA margin 20%-23% Sales growth GDP +2%
- Performance Materials	EBITDA margin 13%-15% Sales growth at double GDP

#### Aspiration regarding Emerging Business Areas for 2020

- EBA sales	> € 1 bn
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### Sustainability aspirations 2011-2015

#### Dow Jones Sustainability Index

Top ranking (SAM Gold Class)<sup>1</sup>

#### ECO+ (innovation)

At least 80% of pipeline is ECO+<sup>2</sup>

#### ECO+ (running business)

From approximately 34% towards 50%

#### Energy efficiency

20% improvement in 2020, compared to 2008

#### Greenhouse-gas emissions

25% reduction (absolute) by 2020, compared to 2008

#### Employee Engagement Survey

Towards High Performance Norm<sup>3</sup>

#### Diversity<sup>4</sup>

Increase percentage of women in executive positions

Increase percentage of BRIC+ nationals in executive positions

#### People+<sup>4</sup>

DSM People LCA	People+ framework defined
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after deconsolidation of DSM Pharmaceutical Products (DPP)), which is a considerable increase compared to the approximately 34 percent in 2010.

ECO+ solutions accounted for approximately 95 percent of the innovation pipeline (97 percent after deconsolidation of DPP), well on track for the 2015 aspiration of at least 80 percent. In 2013 about 90 percent of ECO+ innovation launches were supported by comparative LCAs.

Data from the business groups DSM Engineering Plastics and DSM Resins & Functional Materials show that ECO+ sales have grown by around 10 percent each year since 2010, while non-ECO+ sales have slightly declined. Moreover, ECO+ sales have higher margins compared to non-ECO+ sales in both Materials Sciences and Life Sciences businesses.

In 2013, DSM once again featured among the chemical industry leaders in the Dow Jones Sustainability World Index (SAM Silver Class status). DSM improved its ranking and returned to SAM Gold Class status for 2014.

From an operational standpoint, good progress has been made in terms of energy efficiency, which DSM is aiming to improve by 20 percent by 2020 compared to 2008 levels. Between 2008 and 2013, energy efficiency improved by 13 percent.

The company is also committed to a 25 percent reduction in greenhouse-gas emissions by 2020 compared to 2008. Total emissions in 2013 came to 4.3 million tons of CO<sub>2</sub> equivalents, a 1 percent increase compared to 2008. However, on a like-for-like basis the total greenhouse-gas emissions of DSM decreased by 19% when comparing 2013 with 2008.

The sixth worldwide Employee Engagement Survey took place in the year to measure engagement levels for the DSM Employee Engagement Index. This Index determines how employees score on a combination of the following attributes: commitment, pride, advocacy and satisfaction. In 2013, the Employee Engagement Index was measured at 71 percent (2012: 72), which is above the global standard of 69 percent. The score keeps DSM within a 9 percentage point range of the external benchmark of high performing companies (scoring 80 percent favorable), which DSM aims to be part of.

DSM's People+ strategy is to deliver products with a measurable positive impact on people. In 2013, considerable progress was made towards this aim. Through the People+ program DSM engaged with suppliers and customers in a number of joint projects.

<sup>1</sup> This means a total score within 1% of the SAM sector leader.

<sup>2</sup> See page 221 for a definition of ECO+.

<sup>3</sup> The High Performance Norm (80% favorable) is the composite of the top 25% employee responses of the selected external benchmark organizations.

<sup>4</sup> See also the chapter People in 2013 on page 43

### Sustainability aspirations

DSM is on track with its sustainability aspirations, which are central to its strategy. In 2013, DSM's ECO+ solutions as a percentage of running business reached 45 percent (46 percent

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*Organization and culture*

In support of its global integration efforts, DSM continued to implement its ONE DSM Culture Agenda in 2013. This agenda is based around the themes of External Orientation, Accountability for Performance (and learning), Collaboration with Speed, and Inclusion & Diversity, and aims to develop the culture and organization the company requires to fulfill its strategic ambitions. The ONE DSM Culture Agenda introduction week took place in the first quarter and was followed by four 'theme weeks' in the second half of the year. These events were attended by thousands of employees. In December, a week-long event entitled Glass Half Full Week allowed employees to review the year, focusing on the many positives and on lessons learned.

The cultural and organizational identity was further supported through the new corporate brand that DSM introduced in 2011. This brand has become a symbol of the company's transition in recent years and demonstrates to stakeholders how the company has evolved. During 2013, the global roll-out of the brand was successfully completed.

Within DSM, the business groups are the primary building blocks of the organization with their focus on customers and markets. Infrastructure and capabilities are provided by the regional organizations which also support local innovation in select countries and represent DSM to external stakeholders.

These efforts are supported and optimized by shared services, which provide efficient, high quality services in designated areas, and functional excellence groups that offer functional expertise and implementation capabilities. Corporate staff departments are responsible for supporting the Managing Board in running the company.

In 2013, the regional organizations were given a stronger mandate to support R&D and innovation with local applications, bringing DSM closer to its key markets and customers. There is clear board level accountability for regional performance.