

# DSM Press Release

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## **Operating profit EUR 130 million (down 13% on Q2 2001); net profit EUR 101 million (-5%)**

- *Operating profit under pressure as expected due to deteriorating market conditions, aggravated by the tragic events of 11 September.*
- *Downturn scenario for several performance materials and petrochemicals markets materialized; decline to continue in Q4*
- *Strong contribution from Life Science Products in Q3 expected to continue through Q4*
- *Downward trend in operating profit will gain momentum in Q4, but operating profit for 2001 as a whole will be well above EUR 500 million.*

third quarter			EUR million	January-September		
2001	2000	+/-		2001	2000	+/-
1,934	2,008	-4%	Net sales	6,146	5,966	+3%
261	318	-18%	Operating profit plus depreciation & amortization (EBITDA)	829	1,003	-17%
138	182	-24%	Operating profit before amortization of goodwill (EBITA)	461	620	-26%
55	46	+20%	- Life Science Products	168	143	+17%
23	35	-34%	- Performance Materials	94	110	-15%
35	78	-55%	- Polymers & Industrial Chemicals	117	302	-61%
25	23	+9%	- Other activities	82	65	+26%
130	182	-29%	Operating profit (EBIT)	439	620	-29%
101	153	-34%	Profit on ordinary activities after taxation	313	460	-32%
0	2		Extraordinary profit after taxation	70	2	
101	154	-34%	Net profit	384	461	-17%
Per ordinary share in EUR*:						
0.99	1.54	-36%	- profit on ordinary activities after taxation	3.08	4.61	-33%
1.06	1.54	-31%	- same as above, before amortization of goodwill	3.30	4.61	-28%
0.99	1.55	-36%	- net profit	3.82	4.62	-17%
96.1	95.7		Average number of ordinary shares (x million)	96.1	96.2	

\*After deduction of dividend on cumulative preference shares.

The financial information set out in this quarterly report is unaudited.

## **Operating profit EUR 130 million (down 13% on Q2 2001); net profit EUR 101 million (-5%)**

### **General**

DSM's net profit for the third quarter of 2001 was EUR 101 million, down 5% from the second quarter of 2001. Net earnings per ordinary share amounted to EUR 0.99.

Commenting on the results, DSM Managing Board chairman Peter Elverding said: *"The rapid economic decline at the end of the second quarter gained further momentum in the third quarter, as expected. The tragic events of September 11 caused a further deterioration in short-term business conditions in many of our end-use markets. We are pleased to note that the contribution from our life science products cluster, which produces ingredients for consumer essentials in the pharma and food sectors, remains at a good level and has grown substantially compared with last year.*

*"I do not expect economic conditions to improve in the short term. Therefore, the fourth-quarter results for DSM as a whole will show an acceleration of the downward trend in the operating profit. However, I expect the operating profit for the year as a whole to be well above EUR 500 million. In view of the strong economic headwind, DSM will tighten its expenditure and investments even more, also as part of our ongoing Operational Excellence programme."*

### **Net sales**

third quarter		EUR million	January-September	
2001	2000		2001	2000
542	455	Life Science Products	1,662	1,406
448	545	Performance Materials	1,437	1,621
846	964	Polymers & Industrial Chemicals	2,731	2,818
98	44	Other activities	316	121
1,934	2,008	Total	6,146	5,966

Net sales in the third quarter of 2001 amounted to EUR 1.9 billion. This represents a 4% decrease compared with the third quarter of 2000. This is the net effect of a number of factors. Due to the rapidly deteriorating economic climate sales volumes showed an autonomous decline of 3%. Acquisitions and divestments were responsible for a sales increase of 1% on balance. Selling prices were 5% lower on average. Net sales increased 3% due to a change in DSM's consolidation rules from 2001 onwards.

### **Operating profit**

The operating profit for the third quarter (after amortization of goodwill, amounting to EUR 8 million) was EUR 130 million. This represents a 29% decrease compared with the third quarter of 2000. The decrease was due to lower margins (selling prices minus variable costs), in particular for petrochemicals and fibre intermediates, and lower sales volumes, especially in the Performance Materials cluster. The operating profit of the Life Science Products cluster was up 20%.

## Review by cluster

### Life Science Products

third quarter		<i>EUR million</i>	January-September	
2001	2000		2001	2000
555	468	Net sales including intra-Group supplies	1,720	1,460
90	74	Operating profit plus depreciation and amortization	276	231
55	46	Operating profit	168	143

Sales in this cluster increased 19% compared with Q3 2000 and the operating profit increased 20%. DSM Fine Chemicals (including Catalytica) posted substantially higher sales. Its operating profit remained virtually unchanged due to a margin squeeze for some of its products and delays in the introduction of new products by DSM Catalytica Pharmaceuticals pending approval by the FDA (Food and Drug Administration) in the USA. DSM Anti-Infectives posted a higher operating profit due to lower fixed costs, which were the result of successful reorganizations and higher margins. The operating profit for the food ingredients business (DSM Food Specialties and DSM Bakery Ingredients) increased.

### Performance Materials

third quarter		<i>EUR million</i>	January-September	
2001	2000		2001	2000
475	554	Net sales including intra-Group supplies	1,499	1,648
46	60	Operating profit plus depreciation and amortization	164	184
23	35	Operating profit	94	110

This cluster's Q3 sales and operating profit were lower than in Q3 2000, even after adjustment for the divestment of DSM Engineering Plastic Products, which took effect on 1 January 2001. All business groups, in particular DSM Engineering Plastics, saw their sales volumes decrease due to the adverse economic conditions worldwide, especially in the E&E and automotive sectors, but selling prices showed a slight increase on average. DSM Coating Resins' profits were unchanged, although sales volumes for optical-fibre coatings came under heavy pressure in the second half of September. DSM High Performance Fibers turned in a strong performance. It can barely keep up with demand. DSM Composite Resins saw its profits improve. DSM Elastomers' sales volumes were under continued pressure. As a result, its operating profit was lower than in Q3 2000 but at the same level as Q2 2001.

## Polymers & Industrial Chemicals

third quarter		<i>EUR million</i>	January-September	
2001	2000		2001	2000
922	1,054	Net sales including intra-Group supplies	2,978	3,065
86	144	Operating profit plus depreciation and amortization	264	479
35	78	Operating profit	117	302

Lower selling prices – except for melamine – resulted in a decrease in sales compared with the third quarter of 2000. Petrochemicals posted a substantially lower operating profit than in Q2 2001 and Q3 2000. Margins on polyethylene in particular remained under pressure as selling prices decreased faster than raw material prices. Industrial chemicals performed better than in Q2 2001, but worse than in Q3 2000. DSM Fibre Intermediates was still slightly in the red, while DSM Melamine and DSM Agro saw their profits improve further compared with the second quarter.

The operating profit for the cluster as a whole was down 55% on Q3 2000 and remained at the level of Q2 2001.

## Other activities

third quarter		<i>EUR million</i>	January-September	
2001	2000		2001	2000
106	44	Net sales including intra-Group supplies	329	122
39	40	Operating profit plus depreciation and amortization	125	109
25	23	Operating profit	82	65

Sales increased, mainly as a result of the transfer of the ABS tolling business from the Polymers & Industrial Chemicals cluster to Other activities and the fact that, in line with DSM's new consolidation policy, the Noordgastransport joint venture is no longer accounted for under non-consolidated companies but under DSM Energy. The operating profit for the cluster increased due to the higher contribution from DSM Energy.

## Net profit

The *balance of financial income and expense* amounted to an interest expense of EUR 24 million, which is EUR 12 million higher than in Q3 2000. The increase was due mainly to the financing of the acquisition of DSM Catalytica Pharmaceuticals.

The *effective tax rate* for the first nine months of 2001 was 18%. The higher profit for the first half corresponded to an effective tax rate of 22%. The decrease in tax rate was due to the fact that when profits are lower, the proportion of tax-exempt income and income taxed at a relatively low rate increases. On balance, the effective tax rate for the third quarter was only 8%.

The *Profit on ordinary activities after taxation* was down 5% (EUR 5 million) from Q2 2001 and stood at EUR 101 million (the same as the *Net profit*).

## **Cash flow, capital expenditure and financing**

In Q3 2001 the cash flow (net profit plus depreciation and amortization) amounted to EUR 232 million, EUR 58 million less than in Q3 2000. At EUR 129 million, capital expenditure was below the Q3 2000 level (EUR 140 million). Over the period January-September 2001 capital expenditure amounted to EUR 399 million (first nine months of 2000: EUR 440 million). Capital expenditure for 2001 as a whole is expected to amount to approximately EUR 550 million.

## **Balance sheet**

The financial data of DSM Catalytica Pharmaceuticals, whose acquisition was completed at the end of 2000, have been consolidated from the financial year 2001 onwards. In the balance sheet as at year-end 2000, the takeover sum was accounted for under Financial fixed assets in its entirety. The consolidation of this company led to major changes in the balance sheet.

Provisions decreased compared with the second quarter. This was due mainly to the conversion, based on a ruling by the Dutch tax authorities, of short-term tax credits into long-term tax credits, which were then offset against long-term tax liabilities accounted for under Provisions.

## **Outlook**

The economic slowdown that became increasingly apparent in the first half of 2001 quickly gained momentum after the September 11 events.

We expect our activities in the Life Science Products cluster, which mainly target the consumer essentials markets, to continue their profit growth trend in Q4.

Our activities in the Performance Materials cluster are being directly affected by deteriorating short-term business conditions, especially in the electrics & electronics markets and more in particular the telecom sector. The profit decline in this cluster is expected to continue at an accelerated pace in the fourth quarter.

The activities of the Polymers & Industrial Chemicals cluster are also expected to show a profit decline from Q3 to Q4.

All things considered, we expect the downward trend in the operating profit to gain momentum in Q4. However, the operating profit for the whole of 2001 will be well above EUR 500 million.

Heerlen, 25 October 2001  
The Managing Board of Directors

### **Important dates**

Annual Report for 2001	14 February 2002
Annual General Meeting	27 March 2002
Publication of Q1 report	26 April 2002
Publication of Q2 report	25 July 2002
Publication of Q3 report	25 October 2002

### **For more information:**

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## Consolidated statement of income

third quarter		<i>EUR million</i>	January-September	
2001	2000		2001	2000
1,934	2,008	net sales	6,146	5,966
261	318	operating profit plus depreciation and amortization (EBITDA)	829	1.003
138	182	operating profit before amortization of goodwill (EBITA)	461	620
-8	-	amortization of goodwill	-22	-
130	182	operating profit (EBIT)	439	620
-24	-12	balance of financial income and expense	-78	-46
106	170	profit on ordinary activities before taxation	361	574
-8	-33	taxes on profit on ordinary activities	-64	-142
3	16	profit of non-consolidated companies	16	28
101	153	profit on ordinary activities after taxation	313	460
0	2	extraordinary profit after taxation	70	2
101	155	group profit after taxation	383	462
0	-1	minority interests' share in profit	1	-1
101	154	net profit	384	461
101	154	net profit	384	461
-6	-6	dividend on cumulative preference shares	-17	-17
95	148	net profit available to holders of ordinary shares	367	444
232	290	cash flow	774	844
131	136	depreciation and amortization	390	383
129	140	capital expenditure	399	440
		per ordinary share in EUR*:		
0.99	1.54	- profit on ordinary activities after taxation	3.08	4.61
1.06	1.54	- same as above, before amortization of goodwill	3.30	4.61
0.99	1.55	- net profit	3.82	4.62
2.35	2.97	- cash flow	7.88	8.60
96.1	95.7	average number of ordinary shares outstanding (x million)	96.1	96.2
96.1	96.0	number of ordinary shares, end of period (x million)	96.1	96.0
		workforce	21,718	**21,758
		of which in the Netherlands	10,424	**10,662

\* After deduction of dividend on cumulative preference shares.

\*\* Year-end 2000. The year-end 2000 overall workforce figure adjusted for the change in consolidation principles, the acquisition of Catalytica Pharmaceuticals and the deconsolidation of DEPP was 22,737.

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## Consolidated balance sheet

<i>EUR million</i>	31 September 2001	year-end 2000
<b>fixed assets</b>		
intangible fixed assets	600	75
tangible fixed assets	3,532	3,130
financial fixed assets	367	1,326
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	4,499	4,531
<b>current assets</b>		
inventories	1,307	1,224
receivables	1,992	1,888
cash	149	204
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	3,448	3,316
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Total	7,947	7,847

<i>EUR million</i>	31 September 2001	year-end 2000
<b>group equity</b>		
shareholders' equity	3,205	3,040
minority interests' share	58	30
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	3,263	3,070
equalization account	31	27
provisions	797	857
long-term liabilities	1,531	1,482
current liabilities		
- interest-bearing	767	870
- non-interest-bearing	1,558	1,541
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	2,325	2,411
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Total	7,947	7,847

capital employed	5,873	4,776
net debt	2,149	2,148
group equity / total assets	0.41	0.39
net debt / group equity	0.66	0.70

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## Statement of cash flows

<i>EUR million</i>	January-September	
	2001	2000
<b>Cash at beginning of period</b>	204	159
<i>Operating activities:</i>		
- cash flow	774	844
- change in working capital	-147	-185
- other changes	-204	-60
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Net cash provided by operating activities	423	599
<i>Investment activities:</i>		
- capital expenditure and capital payments	-420	-468
- divestments	220	33
- other changes	43	-12
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Net cash used in investing activities	-157	-447
Dividend paid	-197	-88
Net cash used in financial activities	-124	-79
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<b>Cash at end of period</b>	149	144

## Statement of changes in Shareholders' equity

<i>EUR million</i>	January-September	
	2001	2000
<b>Shareholders' equity at beginning of period</b>	3,040	2,620
<i>Changes:</i>		
- net profit	384	461
- dividend on ordinary shares	-175	-69
- dividend on cumprefs	-22	-19
- exchange differences	-26	57
- share buy-back	-	-119
- other	4	1
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<b>Shareholders' equity at end of period</b>	3,205	2,932

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