



Published: 07:15 27.10.2008 GMT+1 /HUGIN /Source: DSM N.V. /AEX: DSM /ISIN: NL0000009827

## DSM reports strong Q3 against deteriorating market conditions

- Continued strong organic sales growth (12%), driven by pricing power.
- Sustained strong profitability in Nutrition.
- Accelerating economic downturn increasingly visible in Materials Sciences.
- EBIT from continuing operations up 27% to EUR 267 million; EPS up 41%.
- 2008 operating profit expected to be around EUR 1,000 million.

Commenting on the results, [Feike Sijbesma](#), chairman of the DSM Managing Board, said: "DSM has reported a strong third quarter result and the company remains on track to achieve a record operating profit in 2008. Nutrition profitability remains strong. DSM Agro benefited from favorable market conditions. DSM's Materials Sciences businesses also performed relatively well during Q3 but are facing more impact from the deteriorating economic conditions in the last few weeks, from which of course nobody is immune.

"Looking out towards the remainder of the year, it is apparent that the crisis in the financial markets has started to impact the real economy, leading to significantly lower customer demand in some areas. Some end markets will be more resilient than others, which is one of the main reasons for DSM's strategic shift to Life Sciences and Materials Sciences. DSM is conservatively financed and appropriate steps are being implemented to prepare for more difficult market conditions. We, however, remain fully committed to our innovation and growth ambitions."

			<i>in EUR million</i>		
<b>third quarter</b>			<b>January - September</b>		
2008	2007	+/-	2008	2007	+/-
<b><u>Continuing operations:</u></b>					
<b>2,363</b>	<b>2,163</b>	<b>+9%</b>	<b>7,124</b>	<b>6,464</b>	<b>+10%</b>
<b><u>Net sales</u></b>					
393	315	+25%	1,111	943	+18%
<b>Operating profit before depreciation and amortization (EBITDA)</b>					
<b>267</b>	<b>210</b>	<b>+27%</b>	<b>779</b>	<b>634</b>	<b>+23%</b>
<b><u>Operating profit (EBIT)</u></b>					
104	68	+53%	292	204	+43%
<b>- Nutrition</b>					
22	35	-37%	59	73	-19%
<b>- Pharma</b>					
62	73	-15%	212	221	-4%
<b>- Performance Materials</b>					
19	21	-10%	85	73	+16%
<b>- Polymer Intermediates</b>					
102	36	+183%	215	116	+85%
<b>- Base Chemicals and Materials</b>					
-42	-23		-84	-53	
<b>- Other activities</b>					
<b><u>Discontinued operations (DSM Special Products):</u></b>					
29	24		82	67	
<b>Net sales</b>					
2	6		5	4	
<b>Operating profit before depreciation and amortization</b>					

		(EBITDA)				
2	4	Operating profit (EBIT)		4	-1	
<b>Total DSM:</b>						
<b>2,392</b>	<b>2,187</b>	<b>+9%</b>	<u>Net sales</u>	<b>7,206</b>	<b>6,531</b>	<b>+10%</b>
<b>269</b>	<b>214</b>	<b>+26%</b>	<u>Operating profit (EBIT)</u>	<b>783</b>	<b>633</b>	<b>+24%</b>
<b>182</b>	<b>142</b>	<b>+28%</b>	<u>Net profit before exceptional items</u>	<b>537</b>	<b>428</b>	<b>+25%</b>
-	-		Net result from exceptional items	-	-111	
<b>182</b>	<b>142</b>	<b>+28%</b>	<u>Net profit</u>	<b>537</b>	<b>317</b>	<b>+69%</b>
<u>Net earnings per ordinary share in EUR:</u>						
1.10	0.78	<b>+41%</b>	- before exceptional items, continuing operations	3.20	2.33	<b>+37%</b>
1.10	0.78	<b>+41%</b>	- including exceptional items, continuing operations	3.20	1.72	<b>+86%</b>
1.11	0.80	<b>+39%</b>	- including exceptional items, total DSM	3.21	1.71	<b>+88%</b>

*In this report:*

- *'operating profit' (before depreciation and amortization) is understood to be operating profit (before depreciation and amortization) before exceptional items.*
- *'net profit' is the net profit attributable to equity holders of Royal DSM N.V.*
- *'continuing operations' refers to the DSM operations excluding DSM Special Products.*

## Overview

DSM's operating profit from continuing operations in Q3 (EUR 267 million) was only slightly below the result in the second quarter, which was DSM's best ever quarter, and 27% better than the comparable quarter in last year. The main drivers behind this strength were the performance of the Nutrition cluster and continued high fertilizer prices. However, DSM's Performance Materials and Polymer Intermediates clusters and some businesses in Base Chemicals & Materials increasingly experienced economic weakness, particularly towards the end of the quarter, due to their exposure to more affected end markets, such as automotive, building and construction, coatings and electrics and electronics.

In Nutrition, DSM's focus on differentiation and innovation in combination with structural changes in the vitamins industry has resulted in significantly higher prices and profitability. Volume growth in Nutrition was restrained in Q3, reflecting DSM's policy to prioritize value over volume, together with a certain amount of general de-stocking in the industry during the quarter.

Performance Materials, Polymer Intermediates and some parts of Base Chemicals and Materials are being faced with a softening demand. This is a reflection of the weakening of the worldwide economy, which is currently being amplified by a de-stocking in the downstream industry. In Performance Materials the excellent performance in DSM Dyneema is partly compensating for weakness in other parts of the cluster.

## Net sales

in EUR million

**third quarter**

**2008 2007** differ-ence vol-umes prices exch. rates other

Nutrition	666	579	15%	-3%	22%	-6%	2%
Pharma	203	242	-16%	-10%	-3%	-3%	-
Performance Materials	580	591	-2%	-2%	2%	-2%	-
Polymer Intermediates	335	295	14%	3%	16%	-5%	-
Base Chemicals and Materials	457	349	31%	-7%	39%	-2%	1%
Other activities	122	107					
<b>Total, continuing operations</b>	<b>2,363</b>	<b>2,163</b>	<b>9%</b>	<b>-3%</b>	<b>15%</b>	<b>-4%</b>	<b>1%</b>
Discontinued operations	29	24					
<b>Total</b>	<b>2,392</b>	<b>2,187</b>					

Net sales from DSM's continuing operations increased by 9% in the third quarter. Organic sales growth continued to be very strong at 12%, where price management prevailed over volume. Exchange rates had on balance a negative effect of 4%, mainly caused by a 12% lower US dollar.

**Operating profit**

The operating profit from continuing operations amounted to EUR 267 million, an increase of 27% on the comparative period last year. This performance was achieved despite higher feedstock and energy costs of approximately EUR 170 million and much lower currency exchange rates versus the Euro, which had an effect on the operating profit of some EUR 15 million (after hedging). All of this was more than compensated for by the substantial organic growth in Nutrition and DSM Agro.

**Business review by cluster**

**Nutrition**

<b>third quarter</b>		<i>in EUR million</i>	<b>January - September</b>	
2008	2007		2008	2007
666	579	Net sales	2,007	1,702
144	100	Operating profit before depreciation and amortization	396	298
104	68	Operating profit	292	204

Nutrition is clearly benefiting from its successful differentiation and innovation strategy in vitamins, which is being amplified by the changing dynamics in the industry. During the quarter there was reduction of previously increased safety stocks by some customers. Organic sales growth was 19%, benefiting from the strategy to focus on value over volume.

Prices for vitamins A, E and C could be increased further in Q3. DSM Nutritional Products' operating profit increased strongly as a result of these price increases despite the negative impact of the US dollar, higher feedstock and energy costs and the phasing-out of some Roche contracts.

The operating profit of DSM Food Specialties was somewhat below last year's because of lower currencies, higher energy prices and a slightly weaker demand.

### Pharma

third quarter		in EUR million	January - September	
2008	2007		2008	2007
203	242	Net sales	647	669
		Operating profit before depreciation and		
37	59	amortization	105	135
22	35	Operating profit	59	73

Net sales and operating profit were below Q3 2007.

DSM Pharmaceutical Products is entering a weaker phase in its business following the expiration of some large contracts (including the phasing-out of some Roche contracts) before it has been able to start up new custom manufacturing contracts. In DSM Anti-Infectives, prices are clearly below the peak seen in last year's rally, but remain at an acceptable level.

### Performance Materials

third quarter		in EUR million	January - September	
2008	2007		2008	2007
580	591	Net sales	1,805	1,792
		Operating profit before depreciation and		
84	92	amortization	275	280
62	73	Operating profit	212	221

Some parts of DSM Performance Materials experienced economic headwinds, particularly those exposed to volatile end markets. This resulted in flat organic sales.

Due to the weakening market conditions and adverse currency exchange rate developments, operating profit was lower at DSM Engineering Plastics and DSM Resins. This was partly compensated for by the continuing strong growth at DSM Dyneema. Despite the more difficult market conditions, the composition of the cluster's product portfolio and the strength of its businesses are creating relative resilience in Performance Materials.

### Polymer Intermediates

third quarter		in EUR million	January - September	
2008	2007		2008	2007
335	295	Net sales	1,003	909
		Operating profit before depreciation and		

27	27	amortization		105	91
19	21	Operating profit		85	73

The higher sales volumes during the quarter at Polymer Intermediates were driven by the expanded production capacity for acrylonitrile as well as solid demand. Prices for both caprolactam and acrylonitrile were clearly higher than last year, leading to a very solid 19% organic growth.

However, it became clear during the quarter that the caprolactam business is starting to face more difficult market conditions. The caprolactam business in the United States, but also in other regions including China, saw demand weaken in combination with customer de-stocking in anticipation of lower prices following the drop in oil prices.

Operating profits and margins came under pressure towards the end of the quarter due to slow demand, higher feedstock costs and the drop in caprolactam prices.

### Base Chemicals and Materials

third quarter		<i>in EUR million</i>	January - September	
2008	2007		2008	2007
457	349	Net sales	1,298	1,073
		Operating profit before depreciation and		
122	51	amortization	271	165
102	36	Operating profit	215	116

Organic sales growth for Base Chemicals and Materials was 32% because of higher prices and despite lower sales volumes, mostly due to the lower product availability at DSM Agro as a result of the ammonia outage.

DSM Agro in particular contributed to the higher operating profit. DSM Agro's fertilizer market in Europe continued to be very tight in Q3, which was reflected in substantially higher prices. The other business groups performed at an equal or better level than in last year.

### Other activities

third quarter		<i>in EUR million</i>	January - September	
2008	2007		2008	2007
122	107	Net sales	364	319
		Operating profit before depreciation and		
-21	-14	amortization	-41	-26
-42	-23	Operating profit	-84	-53

The net sales growth is mainly attributable to the acquisition of Polymer Technology Group. The strong decrease in operating result can be fully attributed to the costs of the ammonia outage, which are covered by the captive insurance company.

**Net profit**

*Net profit before exceptional items* increased from EUR 142 million in Q3 2007 to EUR 182 million (+28%).

*Earnings per share* (continuing operations, before exceptional items) increased to EUR 1.10 per ordinary share (+41%) due to the higher net profit and the share buy-back.

*Net finance costs* amounted to EUR 26 million, which is EUR 5 million higher than last year. This is mainly caused by the higher net debt.

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

**Cash flow, capital expenditure and financing**

Cash flow from operating activities amounted to EUR 518 million in the year to date. Cash flow was negatively affected by a strong increase in operating working capital.

Capital expenditure in Q3 amounted to EUR 128 million. The year-to-date capital expenditure amounted to EUR 376 million which is clearly higher than last year (EUR 291 million).

Compared to year-end 2007 net debt increased by EUR 549 million to EUR 1,887 million due to the share buy-back programme and the increase in working capital. This represents a gearing level of 26%.

**Workforce**

The workforce increased overall by 798 from year-end 2007 to 24,052 at the end of Q3 2008. This was due to acquisitions (+320) and capacity expansions (+478).

**Progress update on DSM Strategy *Vision 2010***

DSM's acceleration of the strategic program *Vision 2010 - Building on Strengths*, announced in September 2007, focuses on delivering faster growth, higher margins and improved earnings quality from the company's portfolio. The strategy will see the transformation of DSM into a Life Sciences and Materials Sciences company capable of sustainable growth.

The key drivers - market-driven growth and innovation, increased presence in emerging economies and operational excellence - remain at the heart of DSM's strategy.

In Q3 DSM announced the acquisition of the business and substantially all of the assets of Valley Research, Inc. (USA) to reinforce its leading global position in food enzymes. The acquisition has been completed. Also, two venturing investments were announced during the quarter.

A number of investments aimed at future profitable growth were announced during the quarter, such as an expansion worth EUR 10 million by DSM NeoResins+ of the waterborne polyurethane capacity in Spain, a 50% expansion of the product capacity for *claryl* picture glass and the first dedicated line for manufacturing Dyneema Purity® fiber in Greenville (United States).

DSM also announced that under phase 1 of the investment program for DSM Dyneema, expected to involve up to USD 450 million over the next 2-3 years, projects have been approved to build additional capacity for UD (UniDirectional) and fiber at DSM Dyneema's Greenville facility.

With the opening of the second Stanyl® plant in Geleen (Netherlands) in September, worldwide production capacity for this high-performance plastic has doubled.

In Q3 2008 sales in China amounted to USD 288 million, which represents an increase of 32% relative to the comparable period of last year (first nine months 2008: USD 918 million being an increase of 34%).

In China, DSM Engineering Plastics inaugurated its new Akulon® PA6 polymerization plant. DSM also announced during the quarter the closure of its citric acid manufacturing plant in Wuxi (China) by Q1 2009.

As a result of the accelerated shift towards Life Sciences and Materials Sciences, DSM announced that a number of businesses which do not fit in with the accelerated strategy will be carved out and divested. The divestment process for Agro and Melamine, Elastomers and Urea Licensing has commenced in the form of a controlled auction process and the divestments are expected to be completed within the timeframe of *Vision 2010*, as planned.

In the area of sustainability, DSM Powder Coating Resins launched a new technology platform for corrosion protective coatings. The technology offers the possibility to significantly reduce and sometimes completely eliminate chemical pre-treatment steps. DSM Composite Resins won the environment prize at the AVK Innovation Awards for Palapreg Premium®, a new resins system for use in automotive exterior applications.

DSM Nutritional Products and the United Nations World Food Programme (WFP) won the ICIS Innovation Award for Best Business Innovation for the MixMe(TM) micronutrient powder.

During the quarter, DSM announced and introduced many new innovations. The highlights can be found in an appendix to this press release.

#### **Actions addressing the economic downturn**

The credit crunch and recent financial crisis are beginning to affect the real economy and markets around the world are facing an economic slowdown. Some areas particularly exposed to weakening consumer spending, such as building and construction, automotive and electrics & electronics, face significantly more difficult business conditions, especially in the US and large parts of Europe. A continuation of the current business conditions is expected to impact DSM due to the presence of certain parts of its business in these more exposed end markets.

Due to its accelerated focus on Life Sciences and Materials Sciences, DSM expects that more than half of its portfolio will be less sensitive to an economic downturn (Nutrition, Pharma, DSM Dyneema and parts of Base Chemicals and Materials). The other businesses in Materials Sciences have a strong focus on the higher added value part of the business and should show relative resilience, although this will be difficult to fully maintain in the current economic context, because of the unprecedented intensity with which some end-markets are reacting at the moment. Other developments such as a stronger dollar and lower oil prices resulting in reduced energy costs will have a positive effect on DSM's results. DSM is confident that its operational excellence in all business processes will be the basis for a strong competitive position in the current market conditions.

The financial crisis has both substantially restricted the availability and increased the pricing of credit. In view of the situation in the global credit markets, DSM postponed the third stage of its EUR 750 million share buy-back program in April 2008 and has continued to employ a conservative financing policy with a healthy long term funding plan in place. The majority of the company's long term debt matures after 2012 and in September DSM successfully increased its outstanding EUR 300 million 4.00% bond due 2015 by a further EUR 200 million. DSM has adequate short term financing opportunities and an increase in interest rates will only have a limited effect on DSM's results. DSM's pension plans are solidly funded and although the current pension funding position has declined, it is not expected that additional cash contributions will be required (although a non-cash negative EBIT effect in 2009 is expected).

To mitigate the effects of a continuation of the slowdown, a number of actions have been implemented to improve cash flow. Inventories are being reduced by temporary plant shut downs. Tight credit risk management and credit control has been put in place for accounts receivable to prevent increasing payment terms and insolvency losses.

In addition, with clear evidence that the credit crunch is now spreading to the real economy, steps are also being taken to preserve profitability, such as tighter cost control. DSM's innovation programs, however, will be unaffected by these measures to capture growth opportunities even in difficult times.

### **Outlook**

The impact of the crisis in the financial markets has led to significantly more difficult market conditions in some of DSM's businesses since the end of Q3. The performance of Nutrition remains strong, as expected. Parts of Materials Sciences and of Base Chemicals and Materials have seen weakening end markets, amplified by customer de-stocking since the end of Q3.

The combined effect of the low availability of credit, a strong decrease in demand in certain end-markets, a strong drop in oil prices, increasing currency volatility and anticipatory behavior in downstream industries, which results in clear de-stocking, is unprecedented. In this context the predictability of short term developments is difficult. However, based on currently available information and barring unforeseen circumstances, DSM's operating profit from continuing operations before exceptional items for the full year is now expected to be around EUR 1,000 million.

Heerlen, 27 October 2008

The Managing Board of Directors

### **Important dates**

Annual Report 2008: Wednesday, 18 February 2009

Annual General Meeting: Wednesday, 25 March 2009

Report for the first quarter: Tuesday 28 April 2009

Report for the second quarter: Tuesday 28 July 2009

Report for the third quarter: Tuesday 27 October 2009

### **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 EUR 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)

### **For more information**

DSM, Corporate Communications

tel.: +31 (45) 5782421

e-mail: [media.relations@dsm.com](mailto:media.relations@dsm.com)

### **Investors**

DSM, Investor Relations

tel.: +31 (45) 5782864

e-mail: [investor.relations@dsm.com](mailto:investor.relations@dsm.com)

internet: [www.dsm.com](http://www.dsm.com)

[Press release-pdf](#)

*Forward-looking statements*

*This press release contains forward-looking statements. These statements are based on current expectations, estimates and projections of DSM 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 press release.*

*The English language version of the press release is leading.*