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DSM reports record year despite global economic downturn in Q4

- Full year operating profit up 10% to EUR 903 million; Q4 down 35% to EUR 123 million
- Continuing strong performance from Life Sciences businesses and DSM Dyneema in Q4
- Most Materials Sciences businesses severely impacted by downturn since beginning of Q4
- Focus on cash over profitability generates strong cash flow in Q4; cost saving program of EUR 100 million under way
- Solid long-term financial position; dividend maintained at EUR 1.20 per share
- No quantitative outlook provided for 2009 in view of the uncertain economic conditions

Commenting on the results, [Feike Sijbesma](#), chairman of the DSM Managing Board, said: "2008 was a year of stark contrasts, with strong performances across DSM's businesses in the first nine months of the year being partly offset by the effects of the global economic downturn since the beginning of the fourth quarter. Whilst DSM's Life Sciences businesses continued to perform well through the fourth quarter, most Materials Sciences businesses have been severely impacted by the sharp drop in demand. We have implemented actions to prioritize the generation of cash and have swiftly taken the necessary steps to reduce costs in the affected businesses. Further such measures will be implemented as required, although we are also conscious of the need to preserve our capabilities for the future, once market conditions improve again. DSM will continue its customer focus as well as its strategic commitment to innovation and sustainability.

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

<i>in EUR million</i>			full year		
fourth quarter					
2008	2007	+/-	2008	2007	+/-
2,091	2,226	-6%	9,297	8,757	+6%
<u>Net sales</u>					

241	300	-20%	Operating profit before depreciation and amortization (EBITDA)	1,357	1,247	+9%
123	190	-35%	Operating profit (EBIT)	903	823	+10%
155	72	+115%	- Nutrition	447	276	+62%
30	19	+58%	- Pharma	89	92	-3%
-37	70		- Performance Materials	175	291	-40%
-66	32		- Polymer Intermediates	19	105	-82%
44	22	+100%	- Base Chemicals and Materials	260	137	+90%
-3	-25		- Other activities	-87	-78	
			-			
			-			
2,091	2,226	-6%	Net sales	9,297	8,757	+6%
			-			
123	190	-35%	Operating profit (EBIT)	903	823	+10%
			-			
73	130	-44%	Net profit before exceptional items	608	558	+9%
			-			
-31	-18		Net result from exceptional items	-31	-129	
			-			
42	112	-62%	Net profit	577	429	+34%
			-			
			<u>Net earnings per ordinary share in EUR:</u>			
0.43	0.75	-43%	- before exceptional items	3.64	3.07	+19%
0.24	0.64	-63%	- including exceptional items	3.45	2.35	+47%

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.

Overview

In Q4 the crisis in the financial markets spread to the real economy, in particular the automotive, electrical and electronics, and building and construction industries. The businesses in DSM which supply directly or indirectly to these end-markets were seriously affected by the turmoil. DSM Engineering Plastics, DSM Resins, DSM Fibre Intermediates, DSM Elastomers and DSM Melamine all experienced a sharp drop in demand, with lower margins and inventory write-offs. Sales volumes in these business groups dropped on average some 30% compared to Q3, which was the combined effect of reduced end-market demand and downstream destocking. The very rapid fall in oil-related prices led to price and margin reduction and inventory write-offs. Other parts of DSM, the Nutrition and Pharma clusters and DSM Dyneema, have been barely affected by the economic turmoil and have even been able to take advantage of the much stronger US dollar, which was one of the few positive elements in Q4's external conditions.

DSM reacted swiftly when the first signs of the economic downturn became visible. The first action was to prioritize cash over short-term profitability via inventory reduction through plant shutdowns, reduced purchasing spend, focused credit control and the postponement of some projects. In doing so, DSM has been able to maintain its strong balance sheet and limit its dependency on the financial system. This prioritization of cash has been very successful, as evidenced by the fact that cash flow from operating activities in Q4 alone amounted to EUR 392 million. In combination with difficult, but successful, actions to refinance short term debt, DSM's cash position at the end of the year amounted to EUR 601 million.

In addition to the actions to generate cash, DSM has taken a number of more structural measures to strengthen its competitive position. On 15 December DSM announced actions for structural savings of up to EUR 100 million per year, to be fully achieved by 2010.

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

Net sales

<i>in EUR million</i>	full year						
	2008	2007	differ-ence	vol-umes	prices	exch. rates	other
Nutrition	2,710	2,302	18%	2%	19%	-4%	1%
Pharma	863	903	-4%	0%	0%	-3%	-1%
Performance Materials	2,297	2,390	-4%	-4%	1%	-2%	1%
Polymer Intermediates	1,201	1,232	-3%	-6%	6%	-3%	0%
Base Chemicals and Materials	1,733	1,529	13%	-10%	24%	-1%	0%
Other activities	493	401					
Total	9,297	8,757	6%	-3%	11%	-3%	1%

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

Organic sales dropped by 10% (volumes -18%, prices +8%) in the **fourth quarter**, reflecting the impact of the economic downturn. Currency exchange rates had a positive effect of 4% on net sales. The Performance Materials and Polymer Intermediates clusters were particularly affected by the fall in demand, with lower volumes and prices. A similar drop in volumes was visible in Base Chemicals and Materials; prices, however, were keeping up thanks to continued strength in DSM Agro. Nutrition sales continued to develop favorably in Q4.

Operating profit

For the **full year**, DSM was able to post a record operating profit, in spite of the economic turmoil in Q4. The main contributor was Nutrition, where DSM's focus on innovation and differentiation in combination with structural changes in the vitamin industry has resulted in significantly higher profitability. In addition, DSM Dyneema was able to sustain its solid growth and DSM Agro showed substantial pricing strength resulting in higher profits.

Operating profit in the **fourth quarter** was, however, impacted by the sharp drop in global economic activity, which affected most business groups in Materials Sciences and Base Chemicals and Materials. The combined results of these businesses decreased by approximately

EUR 240 million between Q3 and Q4, mainly originating from DSM Engineering Plastics, DSM Resins, DSM Fibre Intermediates, DSM Elastomers and DSM Melamine. Approximately EUR 100 million of this total was the result of lower sales volumes and a further EUR 100 million was caused by the combined effect of lower margins and inventory write-offs following the sharp drop in raw material prices.

Compared to Q4 2007, the results of Performance Materials and Polymer Intermediates were also affected by lower sales volumes, lower margins and inventory write-offs. In Base Chemicals and Materials, the higher result from DSM Agro more than compensated for the downturn in performance of most of the other businesses in this cluster.

Business review by cluster

Nutrition

fourth quarter		in EUR million	year	
2008	2007		2008	2007
703	600	Net sales	2,710	2,302
		Operating profit before depreciation and		
189	105	amortization	585	403
155	72	Operating profit	447	276

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

Starting at the end of Q3 and continuing during **the fourth quarter** the food and feed industry has been impacted by destocking especially in Animal Nutrition. Market volumes were lower and exports from China decreased during the period. Organic sales growth in Nutrition was 12% and currency exchange rates had a positive effect of 5%.

Profitability increased due to favorable conditions and product mix improvement towards higher added value products in both straight vitamins (via so-called forms) and premixes, in combination with very positive currency effects and efficiency, and cost improvements resulting from the Aspire to Win program. Q4 results in Nutrition were also positively influenced by some non-recurring items.

DSM Food Specialties' operating profit in Q4 was below last year's, mainly as a result of higher costs.

Pharma

fourth quarter		in EUR million	year	
2008	2007		2008	2007
216	234	Net sales	863	903
		Operating profit before depreciation and		

45	33	amortization	150	168
30	19	Operating profit	89	92

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

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

Fourth quarter sales in the cluster declined mainly due to the disposal of DSM Deretil, a business unit of DSM Anti-Infectives; organic sales were flat. The operating profit of DSM Pharmaceutical Products increased as a result of higher production output and lower fixed costs.

At DSM Anti-Infectives lower selling prices were partly compensated for by an increase in sales volumes. The operating profit benefited from lower costs.

Performance Materials

fourth quarter		in EUR million	year	
2008	2007		2008	2007
492	598	Net sales	2,297	2,390
		Operating profit before depreciation and		
-9	91	amortization	266	371
-37	70	Operating profit	175	291

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

During the **fourth quarter** DSM Engineering Plastics and DSM Resins were strongly influenced by the economic turmoil resulting in a 20% decline in sales volumes for the total cluster. Prices were slightly lower, which was compensated for by favorable currency exchange rates.

Due to the worsening market conditions with falling margins and inventory write-offs resulting from the sharp drop in raw material prices, both DSM Engineering Plastics and DSM Resins reported operating losses in the quarter. Production output was reduced to manage inventory levels. The continuing growth at DSM Dyneema partly compensated for these results.

Polymer Intermediates

fourth quarter		in EUR million	year	
2008	2007		2008	2007

198	323	Net sales	1,201	1,232
		Operating profit before depreciation and		
-62	42	amortization	43	133
-66	32	Operating profit	19	105

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

Fourth quarter sales volumes declined by 41% with the external market declining sharply during the quarter and demand coming to a standstill. Following the drop in oil prices, selling prices declined by 6% causing additional losses due to lower margins and inventory write-offs. In order to align stock levels with market conditions production output was significantly reduced.

Base Chemicals and Materials

fourth quarter		in EUR million	year	
2008	2007		2008	2007
353	389	Net sales	1,733	1,529
		Operating profit before depreciation and		
66	40	amortization	342	209
44	22	Operating profit	260	137

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

Fourth quarter sales volumes fell by 33%, but prices were 21% higher. Operating profit doubled compared to the final quarter of previous year. DSM Agro in particular contributed to the higher operating profit since selling prices were maintained at a relatively high level. DSM Energy also performed more strongly than last year.

The increase in operating profit was partly offset by DSM Melamine and DSM Elastomers which both posted a loss. Demand decreased during the quarter and production cut backs had to be implemented.

Other activities

fourth quarter		in EUR million	year	
2008	2007		2008	2007
129	82	Net sales	493	401
		Operating profit before depreciation and		
12	-11	amortization	-29	-37

-3	-25	Operating profit	-87	-78
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Full year operating result was lower due to higher innovation expenditures and a loss at the captive insurance company due to damages paid during the year.

Fourth quarter operating result improved compared to the prior year since Q4 2007 was impacted by one-off charges. In addition, certain accruals for performance related payments were able to be released. In contrast to earlier quarters the captive insurance company posted a clearly positive operating result in Q4.

Net profit

Fourth quarter net profit before exceptional items decreased from EUR 130 million in Q4 2007 to EUR 73 million (-44%). **Full year net profit before exceptional items** increased from EUR 558 million to EUR 608 million (+9%).

Earnings per share (before exceptional items) increased to EUR 3.64 per ordinary share (+19%) for the full year due to the higher net profit and the share buy-back.

Net finance costs amounted to EUR 39 million in the fourth quarter, EUR 18 million higher than last year. Full-year net finance costs increased from EUR 75 million to EUR 102 million. The full year increase was mainly caused by the higher net debt and the increase in Q4 was also due to some fair-value adjustments in Other financial assets.

The effective tax rate for the fourth quarter as well as for the full year was 25%, the same as last year.

Exceptional items

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

Part of the impairment charge recognized in 2007 at DSM Anti-Infectives was reversed for an amount of EUR 15 million before tax (EUR 11 million after tax), reflecting the improved cash flow outlook for DSM Anti-Infectives.

As a consequence of the announced cost-saving actions, a provision for restructuring was recognized amounting to EUR 25 million (EUR 18 million after tax).

Cash flow, capital expenditure and financing

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

Capital expenditure in Q4 amounted to EUR 211 million. Full-year capital expenditure of EUR 587 million was clearly higher than last year (EUR 475 million) and above the level of depreciation and amortization. The amount spent on acquisitions in 2008 was EUR 152 million, mainly related to the acquisition of The Polymer Technology Group.

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

Dividend

DSM's dividend policy is to provide a stable and preferably rising dividend. For 2008 an unchanged dividend of EUR 1.20 will be proposed to the Annual General Meeting of Shareholders. An interim dividend of EUR 0.40 per ordinary share having been paid in August 2008, the final dividend would then amount to EUR 0.80 per ordinary share.

Share buy-back

DSM has decided to cancel the remaining part of EUR 250 million of the current share buy-back program of EUR 750 million which was announced in 2007.

Workforce

The workforce increased overall by 337 from year-end 2007 to 23,591 at the end of 2008. This was due to business growth and innovation (+424) and disposals/acquisitions (-87).

Compared to Q3 2008 the workforce decreased by 461 during Q4 mainly as a result of the disposal of DSM Deretil (-389) and several reorganization programs.

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 fueled by important societal trends.

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

Full year sales in China rose by about 20% to USD 1,151 million. In Q4 2008 sales in China amounted to USD 265 million, which represents an increase of 2% relative to the comparable period of last year.

Two venturing investments were made in Q4: in The Compliers Group International B.V. which specializes in the development of smart pharmaceutical packaging solutions and also in Accelerated Technologies II, a business incubator in the field of medical devices.

DSM Food Specialties expanded its production capacity in Delft (Netherlands) by 35%. This development allows DSM Food Specialties to meet the increasing demands of its customers. DSM Nutritional Products opened its third premix plant in China to capitalize on opportunities that arise from the rapidly growing animal nutrition and health industry in a key growth market for DSM.

DSM Dyneema is set to begin the construction of a large-scale manufacturing facility in Greenville, North Carolina (United States) for its new proprietary tape technology. This facility, planned to be on stream at the beginning of 2010, is a key component of the investment program of USD 450 million announced in April 2008 for the business group. DSM Dyneema also is expanding capacity for UD (UniDirectional) and fiber.

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

DSM also announced its participation in a multimillion dollar funding program with the US Department of Energy aimed at enabling second generation biofuels from non-food feedstocks. A consortium led by DSM was awarded USD 7.4 million.

In Q4 DSM announced the disposal of DSM Deretil, a business unit of DSM Anti-Infectives, to its management. This disposal fits with the strategic review of DSM Anti-Infectives as announced in

June 2007. This also applies to the announced closure of the clavulanic acid site of DSM Anti-Infectives in Strängnäs (Sweden).
In addition DSM also sold its Solutech business to Lydall, Inc. (United States).

The previously announced sale of DSM Special Products BV to Arsenal Capital Partners (United States) will not be completed. DSM regrets that the transaction cannot proceed and will continue the disposal process for DSM Special Products, as part of its *Vision 2010* strategy.

As a result of the accelerated shift towards Life Sciences and Materials Sciences, DSM announced in September 2007 that a number of businesses which do not fit in with the accelerated strategy would be carved out and disposed of. The disposal process for Agro and Melamine, Elastomers and Urea Licensing is underway in the form of a controlled auction process. DSM has slowed down the process in view of the current financial and economic environment but still aims to complete the disposals within the timeframe of *Vision 2010*.

During the quarter, DSM announced and introduced many new innovations. More information can be found in the innovation section at www.dsm.com.

Actions addressing the economic downturn

DSM announced a number of structural cost-saving actions to address the effects of the economic downturn in December 2008. DSM has now prepared plans for most of these actions and confirms that they are expected to result in total savings of up to EUR 100 million per year, to be fully achieved by 2010.

These actions cover three areas: a reduction in workforce, a stronger focus on purchasing and other efficiency improvement measures.

The actions are expected to result in a reduction of DSM's workforce by about 5% or 1000 positions, mainly at DSM Engineering Plastics, DSM Resins, DSM Fibre Intermediates, DSM Pharmaceutical Products, some businesses within Base Chemicals and Materials and in corporate overheads. Around 25% of the planned job reductions will be in the Netherlands; about 75% is spread around the world including the United States and China.

In its capital expenditure portfolio DSM will prioritize projects focused on future growth and postpone or delay others.

DSM will closely monitor the economic downturn and its effect on the company's businesses to assess when further actions should be taken.

At the same time, DSM remains fully focused on customers in order to meet their needs and priorities, as well as on its priorities of innovation and sustainability. The company is alert for new growth opportunities that the current market and economic conditions provide.

DSM will pay close attention to limiting salary increases across the company. The Managing Board has decided to request the Supervisory Board not to increase their salaries in 2009. For DSM's almost 400 executives worldwide it has been decided not to implement general salary increases in 2009.

Outlook

The general economic outlook is poor, financial markets are unstable, consumer confidence is low and feedstock prices, energy prices and exchange rates continue to be highly volatile. Although half of DSM's businesses (the Nutrition and Pharma clusters and DSM Dyneema) have been relatively unaffected, most of its Materials Sciences and Base Chemicals and Materials activities, particularly those exposed to vulnerable consumer end-markets, have been significantly impacted. During the fourth quarter market conditions in the automotive, electrical and electronics, and building and construction industries deteriorated with unprecedented speed. Conditions in

these markets have not improved early 2009 compared to the low level of December and are on average worse than in Q4.

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

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

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

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

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

Heerlen, 18 February 2009

The Managing Board of Directors

Important dates

Annual General Meeting of shareholders	Wednesday, 25 March 2009
Ex dividend quotation:	Friday, 27 March 2009
Report for the first quarter:	Tuesday, 28 April 2009
Report for the second quarter:	Tuesday, 4 August 2009
Ex interim dividend quotation:	Wednesday, 5 August 2009
Report for the third quarter:	Tuesday, 3 November 2009
Annual Report 2009:	Wednesday, 24 February 2010
Annual General Meeting of shareholders:	Wednesday, 31 March 2010

DSM - the Life Sciences and Materials Sciences Company

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

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Forward-looking statements

This press release may contain forward-looking statements with respect to DSM's future (financial) performance and position. Such statements are based on current expectations, estimates and projections of DSM and information currently available to the company. DSM cautions readers that such statements involve certain risks and uncertainties that are difficult to predict and therefore it should be understood that many factors can cause actual performance and position to differ materially from these statements. DSM has no obligation to update the statements contained in this press release, unless required by law. The English language version of the press release is leading.

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