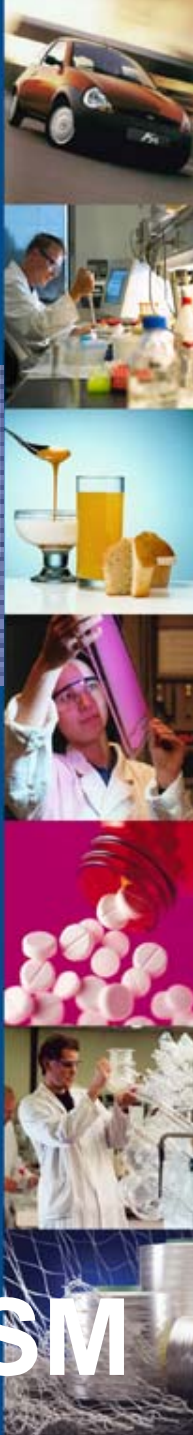


# Q2 2003 DSM



## Henk van Dalen Managing Board of Directors

Amsterdam, 25 July 2003



# Trading conditions in Q2 2003

- Fall of US dollar, - 20% from Q2'02, - 6% from Q1'03
  - Hesitant US economy
  - Low economic growth in Europe
  - SARS slowing down economic growth in Asia
  - Volatile, high raw materials prices
- 
- Weakening of major end markets:
    - pharmaceuticals production
    - automotive industry
    - electrics & electronics industry
    - building & construction



# Q2 2003 key figures

- Sales € 1,362 million (- 5% from Q2'02)
- EBITDA € 179 million (- 8% from Q2'02)
  
- Operating profit € 85 million
  - in line with Q1 2003 forecast
  - 17% lower than last year
  - short-term development unsatisfactory
  
- Preparations for restructuring measures being finalized



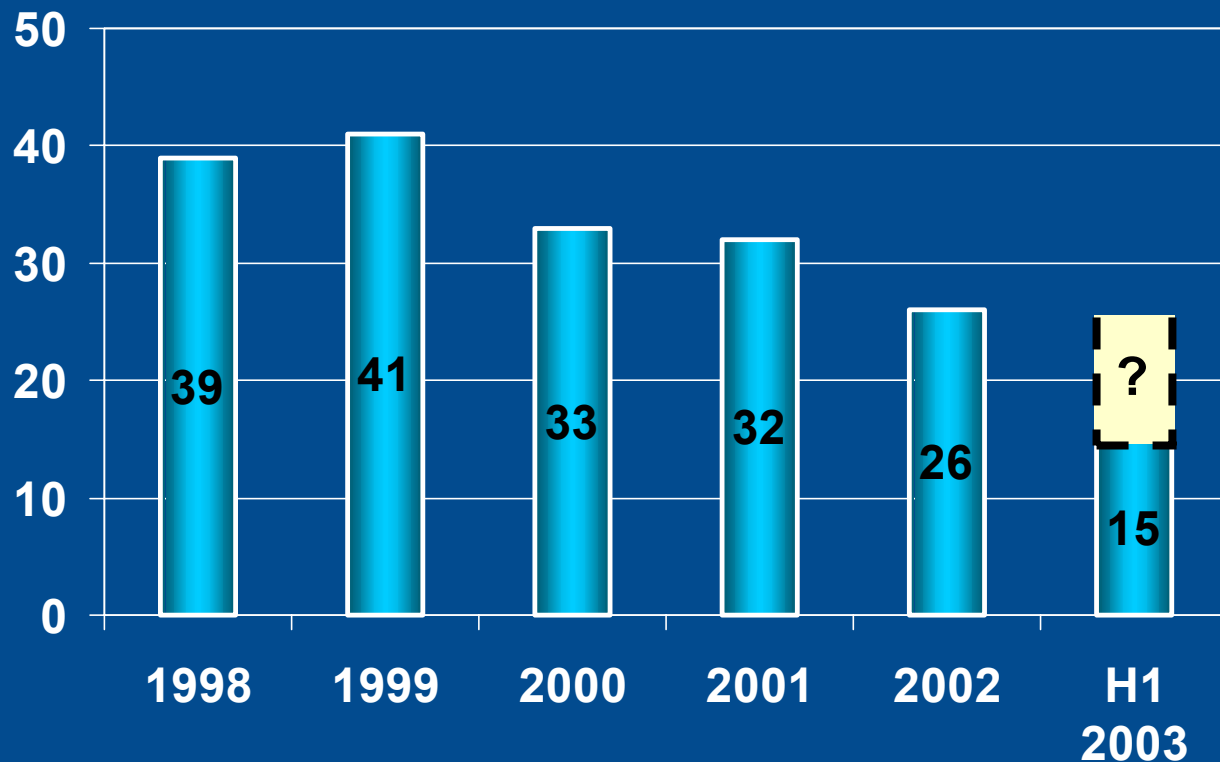
# Life Science Products

(€ million)	Q2'03	Q2'02	%
Net sales	506	572	- 12 %
EBITDA	85	95	- 11%
EBIT	46	59	- 22%

- ◆ Strong impact of lower dollar
- ◆ DSM Pharmaceutical Products remains under pressure
- ◆ DSM Anti-Infectives posts good Q2 result



# FDA approvals



Number of NMEs (New Molecular Entities)  
allowed onto the market by the FDA



# Strengthening DSM Pharma Products

- **Reorganization of DSM Pharmaceutical Chemicals**
  - Concentration on most competitive sites
- **Consolidation of DPP's position in 1st phase projects**
  - Start of ResCom®, partnership with Chiralix
- **Expansion of DSM Biologics Montreal**



# Performance Materials (PM)

(€ million)	Q2'03	Q2'02	%
Net sales	437	477	- 8%
EBITDA	48	53	- 9%
EBIT	27	33	- 15%



# Performance Materials

(€ million)	Q2'03	Q2'02	%
Net sales	437	477	- 8%
EBITDA	48	53	- 9%
EBIT	27	33	- 15%

- ◆ DSM Elastomers' results under pressure
- ◆ DSM Engineering Plastics shows strong performance in Q2
- ◆ Increasing pressure on volumes in Q2



# Industrial Chemicals

(€ million)	Q2'03	Q2'02	%
Net sales	373	352	+ 6%
EBITDA	39	34	+ 15%
EBIT	20	15	+ 33%

- ◆ DSM Fibre Intermediates' profits under pressure
- ◆ DSM Melamine profits up to standard
- ◆ DSM Agro: improved results in Q2



# Net profit Q2 2003 vs Q1'03, Q2'02

(€ million)	Q2'03	Q1'03	Q2'02
EBIT (ongoing activities)	85	91	102
EBIT (discontinued activities)			55
financial income/expense	- 4	- 1	- 11
taxes	- 16	- 20	- 27
non consolidated	2	2	1
<b>net profit on ordinary activities</b>	<b>67</b>	<b>72</b>	<b>120</b>
extraordinary income / minority interests' share	1	1	839
<b>net profit</b>	<b>68</b>	<b>73</b>	<b>959</b>



# Very strong balance-sheet ratios

(€ million)

ultimo Q2'03

Capital employed	4,688
Net cash surplus	714
Balance-sheet total	9,174
• Group equity / balance sheet total	0.54
• EBITDA / interest expense	45



# Outlook for 2003

- During Q2 clear deterioration of market demand and considerably weaker US dollar
- Volumes and margins under increased pressure in Q3 due to summer lull, leading to strongly lower Q3 operating profit compared with Q2
- Clear recovery expected in Q4 compared with Q3
- No indication of operating profit for 2003; it seems unlikely at present that 2002 level will be achieved



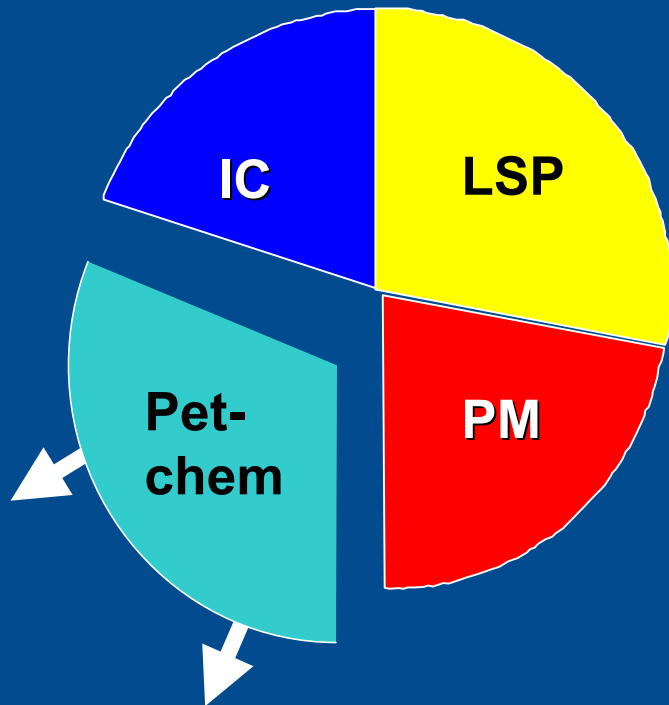
# Vision 2005 – the next steps

- Integration & reorganization of VC&FC
- Profitability & productivity improvement
- Profitable organic growth
- Reinforcement of Performance Materials
- Geographic focus: growth in China

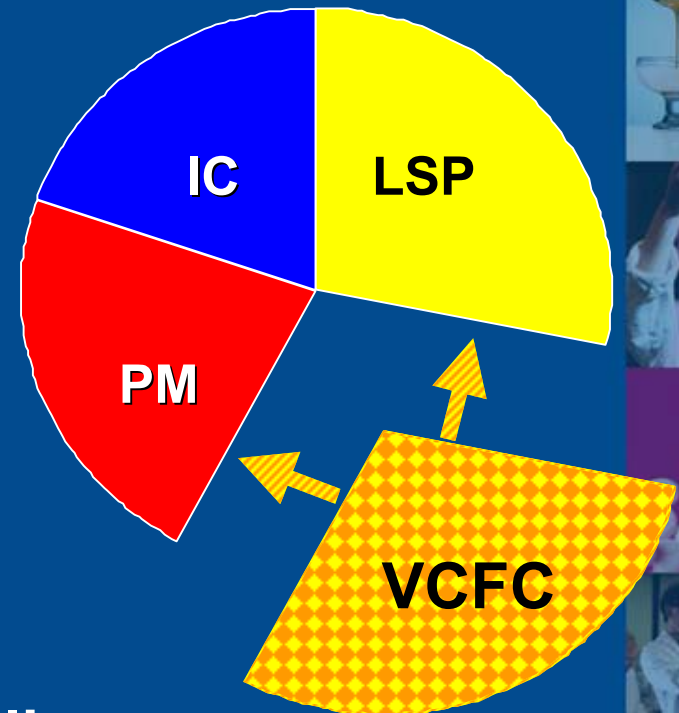


# Portfolio mix target to be reached in 2003

DSM 2002



DSM 2003

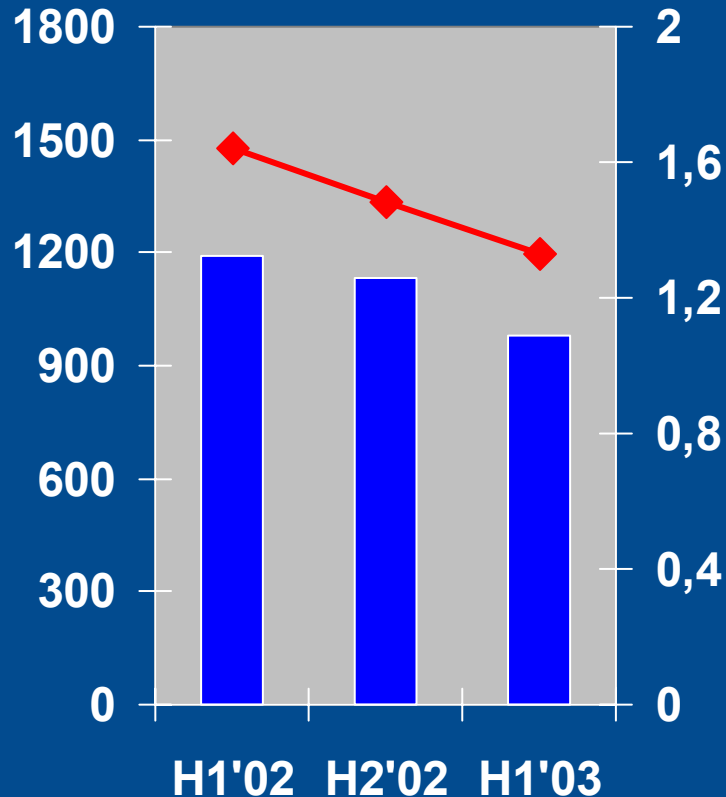


Sales ~ € 8 billion  
Specialties from ~ 50% to > 80%



# Acquisition of Roche Vitamins (1)

€ million



□ Sales —◆— US\$/CHF

- Further decline in V&FC result in H1'03
- Weaker dollar main cause
- Price erosion in local currencies
- Volumes reasonably stable
- Positive sales development for new products

# Acquisition of Roche Vitamins (2)

➤ **Purchase price lowered by another € 200 million**

€ 1,650 million cash + 2.24 million DSM shares

+

➤ **Additional conditions agreed:**

- Roche contribution towards unbundling costs
- Compensation by Roche during transformation period
- DPP preferred supplier to Roche pharma  
extra sales of at least € 100 million over next 4 years



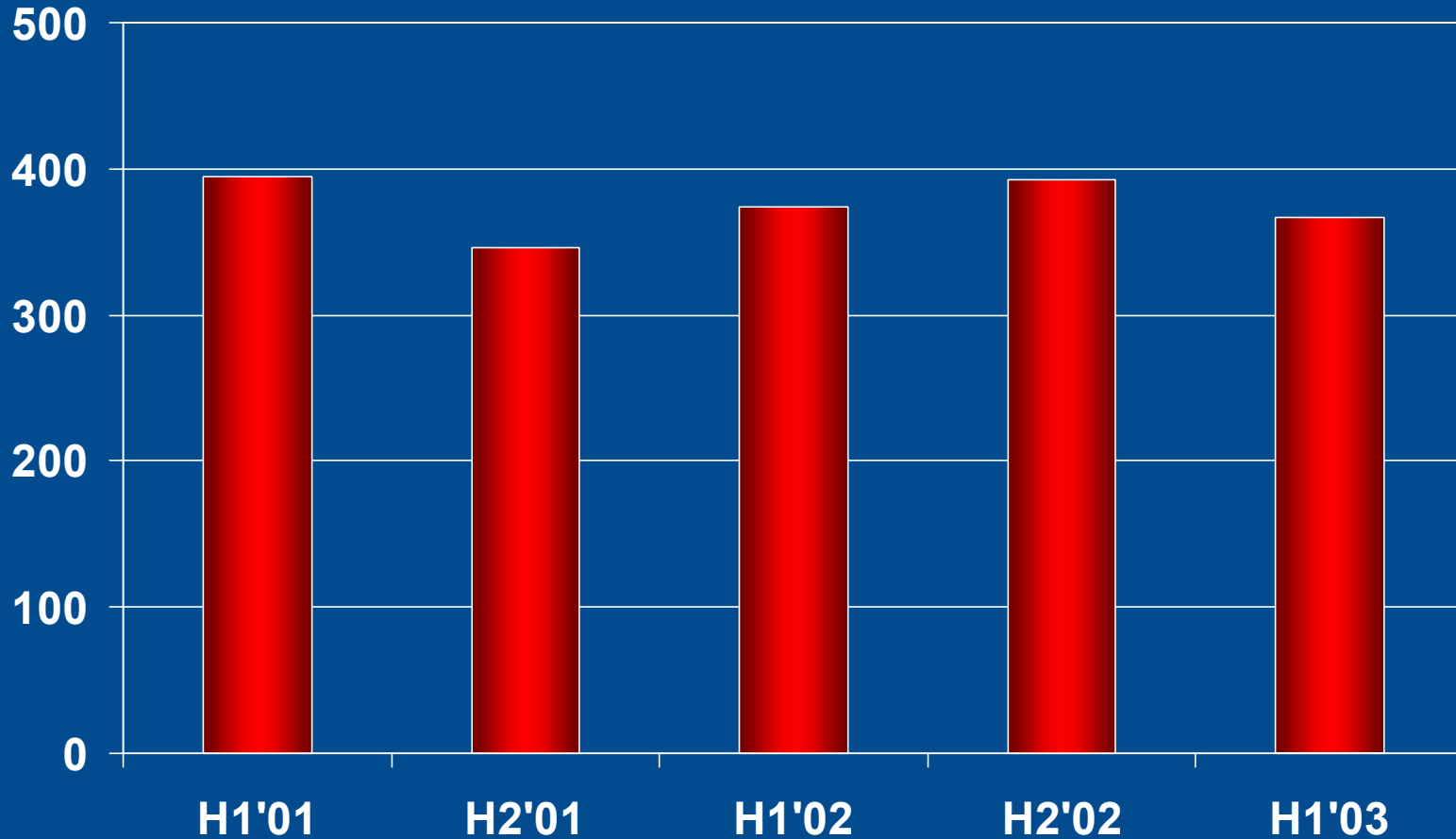
# Acquisition of Roche Vitamins (3)

- In-principle approval by EC on 23 July
- Progress made with regard to procedures elsewhere
- Closing now expected in Q3
- Positive contribution to EPS from day 1 ensured
- **Very considerable integration synergy**  
Improvement potential now identified amounts to at least € 100 mln extra operating profit/yr



# Profitability improvement (1)

€ million



EBITDA ongoing activities



# Profitability improvement (2)

- Improvement of profitability of current activities
- Innovation of product portfolio



# Profitability of current activities

- Closing / mothballing production facilities of DSM Pharma Products & DSM Elastomers
- Improvement of business processes at:
  - DSM Fine Chemicals
  - DSM Food Specialties
  - DSM Pharmaceutical Products
  - DSM Elastomers
- DSM-wide focus on cost control and implementation of Operational Excellence standards

at least  
€ 75 mln  
in EBIT  
by 2005

# Innovation, Engineering Plastics

## ➤ Stanyl® in BMW 7 series

Stanyl®, the special high-heat nylon with excellent processability developed by DSM, has been selected as the material for under-bonnet current distributors for the new BMW 7 series



# Innovation, DSM Food Specialties

2001: DSM Food Specialties introduces PUFAs (in particular ARA) as a baby formula ingredient

2003: all major baby formula manufacturers in the USA add ARA to their products and mention this as a quality feature



**For babies 0-12 months, when DHA and ARA, special nutrients found in breast milk, are recommended.**

# Innovation, DSM Fine Chemicals

## ➤ VevoVital®

New DFC product based on benzoic acid

VevoVital® in pig feed lowers ammonia content of pig manure by 35%

Approved in Q2 2003. To be marketed in collaboration with Roche Vitamins



# Conclusions

- DSM has strong positions in structurally sound markets
- Stable profits under poor conditions since 2001
- DSM is intrinsically strong, also in financial terms
  
- DSM can strengthen this position further under its own steam:
  - Reorganizations, e.g. at DPP and Elastomers
  - Operational Excellence
  - Innovation of product portfolio
  
- V&FC will immediately contribute to EPS and has strong improvement potential
- Economic recovery will accelerate profit growth even further.



# Q2 2003 DSM



This document 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 document.

