

DSM Press Release

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9 February 2006

Strong improvement in 2005 and continued good perspective for 2006

- Operating profit* for 2005 EUR 808 million, 44% higher than in 2004.
- Net profit excluding exceptional items EUR 563 million (+33%).
- Q4 operating profit EUR 183 million, up 41% from 2004.
- Exceptional items in Q4 net out at EUR 26 million negative.
- Proposal: dividend increase to EUR 1.00 (+14%) per ordinary share.
- Outlook: Q1 2006 operating profit from continuing operations** at or above Q1 2005 level (EUR 182 million).

Fourth quarter		EUR million			Full year		
2005	2004	+/-		2005	2004	+/-	
			Total DSM:				
2,093	2,009	+4%	Net sales	8,195	7,832	+5%	
183	130	+41%	Operating profit* (EBIT)	808	562	+44%	
138	96	+44%	Net profit excluding exceptional items	563	423	+33%	
-26	-99		Net result from exceptional items	-36	-130		
112	-3		Net profit	527	293	+80%	
			Continuing operations (excl. DBI only):				
2,093	1,898	+10%	Net sales	8,012	7,434	+8%	
316	254	24%	Operating profit* plus depreciation & amortization (EBITDA)	1,295	1,036	25%	
183	125	+46%	Operating profit (EBIT)	799	546	+46%	
39	21	86%	- Life Science Products	126	79	59%	
51	44	16%	- DSM Nutritional Products	252	202	25%	
73	33	112%	- Performance Materials	305	165	85%	
30	28	7%	- Industrial Chemicals	165	120	38%	
-10	-1		- Other activities	-49	-20		
			DSM Bakery Ingredients (DBI):				
-	111		Net sales	183	398		
-	8		Operating profit plus depreciation & amortization (EBITDA)	16	31		
-	5		Operating profit (EBIT)	9	16		
			Per ordinary share in EUR***:				
0.70	0.47	+49%	- net earnings excluding exceptional items	2.87	2.09	+37%	
0.57	-0.04		- net earnings per ordinary share	2.68	1.41	+90%	
191.0	191.7	-0%	Average number of ordinary shares outstanding (x million)	190.8	191.6	-0%	

* In this report, 'operating profit' (plus depreciation and amortization) is understood to be operating profit (plus depreciation and amortization) excluding exceptional items. 'Net profit' is the net profit attributable to equity holders of Royal DSM N.V.

** The 2005 operating profit from continuing operations referred to here is exclusive of DSM Bakery Ingredients, DSM Minera and SBR to enable a meaningful comparison with 2006. The Report for the first quarter of 2006 will include a breakdown of results according to the new clustering of activities.

*** The earnings-per-share figure is based on the number of shares outstanding after the stock split and on the net profit after deduction of cumprof dividend (EUR 16 million in 2005; EUR 22 million in 2004).

Strong improvement in 2005 and continued good perspective for 2006

General

For the **full year 2005** DSM posted a total *Operating profit** of EUR 808 million, up 44% from 2004. The increase was due mainly to higher margins and lower fixed costs. *Net profit excluding exceptional items* amounted to EUR 563 million, up 33% from 2004 (EUR 423 million). *Net profit* amounted to EUR 527 million, an increase of 80% compared with 2004 (EUR 293 million**). The net profit includes exceptional items to a net amount of EUR 36 million negative, which is the balance of impairments, restructuring provisions, reversals of provisions, book profits and tax items.

In the **fourth quarter of 2005** DSM recorded an *Operating profit* of EUR 183 million, up 46% from Q4 2004. *Net profit excluding exceptional items* in Q4 2005 amounted to EUR 138 million, which is 44% higher than in Q4 2004. The net profit for the fourth quarter of 2005 includes a net result from exceptional items amounting to EUR 26 million negative, which is the balance of closure costs, reversals of provisions and tax items.

Peter Elverding, chairman of the DSM Managing Board, made the following comment to the results: *"In the past year DSM successfully completed the Vision 2005 strategy. We embarked on our new strategy "Vision 2010 – Building on Strengths" with great enthusiasm. Virtually all our businesses showed a substantially better financial performance in 2005 than in 2004 and previous years. The strategic and operational improvements we have achieved in the past few years are now coming to full expression.*

"For 2006 I expect the trading environment to remain positive for our businesses. Therefore, we expect that the operating profit from continuing operations for the first quarter of 2006 will be at or above the level of the first quarter of 2005."

Dividend

The dividend on ordinary shares proposed for the year 2005 amounts to EUR 1.00 per ordinary share. An interim dividend of EUR 0.29 per share having been paid in August 2005, the final dividend would amount to EUR 0.71 per ordinary share. The dividend will be paid out in cash.

Net sales

Fourth quarter		EUR million	year	
2005	2004		2005	2004
413	386	Life Science Products	1,479	1,484
488	469	DSM Nutritional Products	1,914	1,899
642	515	Performance Materials	2,447	2,007
444	429	Industrial Chemicals	1,687	1,570
106	99	Other activities	485	474
-	111	Discontinued operations (DBI)	183	398
2,093	2,009	Total	8,195	7,832

* In this report, 'operating profit' (plus depreciation and amortization) is understood to be operating profit (plus depreciation and amortization) excluding exceptional items. 'Net profit' is the net profit attributable to equity holders of Royal DSM N.V.

** As a consequence of DSM's first-time adoption of IFRS, the net profit for 2004 has been slightly adjusted (€ 7 million negative) compared to the Annex to the 2004 Annual Report because of a correction made to the pensions and higher tax expenses.

At EUR 8.2 billion, net sales for the **full year 2005** were almost 5% higher than in 2004, which was fully due to higher selling prices, as sales volumes were on average flat and the effects of currency fluctuations on sales as well as the net effects of acquisitions and divestments were both close to zero.

At EUR 2.1 billion, net sales in the **fourth quarter of 2005** were up 4% from the Q4 2004 level. Organic growth (more than 4% volume growth and an increase in prices of more than 1%) amounted to 6%. The influence of DSM NeoResins was 3% and divestments had an effect of -7% on net sales. Higher exchange rates against the euro, in particular for the US dollar, had a positive effect of 2%.

Business review

Life Science Products cluster*

fourth quarter		<i>EUR million</i>	year	
2005	2004		2005	2004
426	406	Net sales including intra-Group supplies	1,531	1,582
82	56	Operating profit plus depreciation and amortization	266	226
39	21	Operating profit	126	79

* excluding DSM Bakery Ingredients

Sales in 2005 were 3% lower than in 2004, mainly because selling prices at DSM Anti-Infectives were on average lower and DSM Fine Chemicals and DSM Anti-Infectives recorded lower sales volumes. However, all business groups posted higher operating profits, especially DSM Anti-Infectives (because of lower fixed costs due to restructuring operations) and DSM Food Specialties (because of higher sales volumes).

Fourth-quarter sales increased by 5%, due mainly to higher selling prices at DSM Anti-Infectives compared with Q4 2004. This business group's operating profit also improved very strongly.

DSM Nutritional Products

fourth quarter		<i>EUR million</i>	year	
2005	2004		2005	2004
503	470	Net sales including intra-Group supplies	1,946	1,910
82	80	Operating profit plus depreciation and amortization	376	330
51	44	Operating profit	252	202

Net sales grew by 2%. This was due to the positive contribution from autonomous volume growth, which was partly offset by the effects of continuing price pressure for some mature products in the portfolio. However, the operating profit increased more

strongly thanks to an improving product mix and the lowering of cost levels thanks to the activities undertaken in the framework of the VITAL program.

Fourth-quarter sales increased by 7% compared with Q4 2004 due to higher sales volumes in Animal Nutrition and Health in particular and the positive effect of a stronger US dollar. The increase in fourth-quarter operating profit was attributable to the same causes as the increase in full-year operating profit.

Performance Materials cluster

fourth quarter		<i>EUR million</i>	year	
2005	2004		2005	2004
642	515	Net sales including intra-Group supplies	2,459	2,013
101	54	Operating profit plus depreciation and amortization	410	249
73	33	Operating profit	305	165

Of the total net sales growth of EUR 446 million (22%) compared to 2004, EUR 238 million (12%) was attributable to the acquisition of DSM NeoResins in February 2005. Strong volume growth at DSM Dyneema and DSM Engineering Plastics compensated for the volume decrease resulting from the closure of two plants at DSM Elastomers. The operating profit of the cluster increased due to an improvement in prices, enabled by good demand for DSM's products, and an improvement in margins despite the generally high and volatile raw material prices. The overall product mix improved due to robust growth in specialty products at DSM Dyneema, DSM Engineering Plastics and DSM Composite Resins. In addition, our measures to streamline business processes and the successful restructuring at DSM Elastomers made a clear contribution to the strong performance of this cluster.

Even in the fourth quarter (traditionally a weaker quarter) all business groups posted satisfactory sales and operating profits that showed a strong increase compared with the fourth quarter of 2004. DSM Engineering Plastics and DSM Dyneema in particular showed considerable volume growth.

Industrial Chemicals cluster

fourth quarter		<i>EUR million</i>	year	
2005	2004		2005	2004
503	478	Net sales including intra-Group supplies	1,899	1,747
47	52	Operating profit plus depreciation and amortization	246	207
30	28	Operating profit	165	120

The cluster yielded strong results in 2005, profiting in full from favorable market conditions for fiber intermediates and fertilizers. The overall supply/demand balance in these markets enabled good margins, despite high and volatile raw material prices. DSM Melamine had to cope with some oversupply on the global markets. As a result, it could not fully pass on the high prices of natural gas and ammonia (specifically in

the USA) to the market. The business group had a difficult year, as a result of which its operating profit was only slightly positive.

Despite the increase in sales in the fourth quarter, Q4 operating profit was only slightly higher than in Q4 2004. DSM Agro and DSM Energy saw their operating profits increase strongly due to higher selling prices, but DSM Fibre Intermediates' operating profit showed a strong decrease compared with Q4 2004 due to temporarily reduced production in Nanjing (China) and slightly lower margins. DSM Melamine's results remained under pressure and were slightly in the red.

Other activities

fourth quarter		EUR million	year	
2005	2004		2005	2004
109	99	Net sales including intra-Group supplies	498	485
3	12	Operating profit plus depreciation and amortization	-4	24
-10	0	Operating profit	-49	-20

Operating profit was lower than in 2004 due to higher costs. This relates in particular to costs recognized under IFRS 2 in connection with share-based payments and higher project costs. The higher result of the captive insurance company provided partial compensation for this.

Net profit

Net profit increased from EUR 293 million in 2004 to EUR 527 million in 2005. Net earnings (after deduction of cumpref dividend) per ordinary share (after the stock split) increased from EUR 1.41 in 2004 to EUR 2.68 in 2005.

Net finance costs in 2005 amounted to EUR 70 million, compared with EUR 56 million in 2004. The increase was due to the acquisition of DSM NeoResins.

The *effective tax rate* was 24% (2004: 20%). The increase compared with 2004 was the result of a relatively lower share of profit components taxed at a low rate. The effective tax rate in the fourth quarter was relatively low because of a few non-recurring items. As a result, the effective tax rate for the full year, too, was lower than anticipated.

The *Profit of associates* decreased from EUR 9 million in 2004 to EUR -2 million in 2005, which was almost entirely due to the negative result posted by Methanor.

Net profit excluding exceptional items increased by EUR 140 million (33%) and stood at EUR 563 million.

Exceptional items

The net result from exceptional items for the full year was EUR 36 million negative. Exceptional items in the first nine months were the book profit on the sale of DSM Bakery Ingredients and the sale of land, a provision for the restructuring of the Linz site in Austria, an impairment of Methanor and a tax item.

In the fourth quarter, the net result from exceptional items was EUR 26 million negative due to mothballing of the Montreal site (Canada, EUR -33 million net) and the closure of the South Haven site (USA, EUR -24 million net), the reversal of an environmental provision (EUR 25 million net), a further impairment of Methanor (EUR -6 million net), the book loss on the sale of SBR (EUR -2 million net) and a few tax items (EUR 14 million net).

Cash flow, capital expenditure and financing

The cash flow excluding exceptional items (net profit plus amortization and depreciation) for the full year 2005 amounted to EUR 1,066 million, up 15% from 2004. The increase was due mainly to the higher operating profit. Capital expenditure on intangible assets and property, plant and equipment for the full year 2005 amounted to EUR 401 million (2004: EUR 348 million) and capital expenditure on acquisitions amounted to EUR 573 million (2004: zero). The increase in net debt (to EUR 832 million) in 2005 relative to year-end 2004 was on balance due to the acquisition of DSM NeoResins in February 2005.

The cash flow excluding exceptional items in the fourth quarter amounted to EUR 271 million. Q4 capital expenditure (excluding acquisitions) amounted to EUR 114 million, EUR 15 million less than in the fourth quarter of 2004.

Workforce

The workforce decreased by 2,384, from 24,204 at year-end 2004 to 21,820 at year-end 2005. This was the net effect of the sale of DSM Bakery Ingredients and the SBR business, restructuring operations, attrition and the acquisition of DSM NeoResins and Syntech. The autonomous decrease amounted to 1,473.

Compared to the end of Q3 2005, the workforce decreased by 558 in the fourth quarter as a result of the sale of the SBR business and DSM Engineering Plastics Canada Inc. (total effect -262) and restructuring operations and attrition (total effect -470), in particular at DSM Nutritional Products and in the Life Science Products cluster. The acquisition of Syntech (China) added 174 employees to the workforce.

Assets / liabilities held for sale

The amounts included in the balance sheet under Assets / liabilities held for sale relate to the iodine business of DSM Minera in Chile, which was sold in January 2006.

Sustainability

In terms of safety, health and the environment important progress was achieved in 2005. At year-end DSM had met ten of the fourteen environmental targets set for 2006. The frequency indexes for all recordable accidents and for all lost-workday cases decreased further. In 2005, DSM maintained its number one position in the chemicals sector of the Dow Jones Sustainability World Index. An extensive description of DSM's sustainability activities and ambitions will be presented in the 2005 Triple P report, which will be published on 9 March 2005.

Outlook

The general economic outlook for the year 2006 is positive. Consumer confidence is expected to improve in Japan and Europe and remain positive in other regions. In addition, industrial production is also predicted to remain strong in many sectors and regions, including continued strong growth in emerging economies. For the chemical

industry, a well-balanced supply and demand situation is anticipated in most markets. However, growth in the automotive sector – especially in the USA – will probably lag behind.

Against this generally positive outlook, key risks may emerge from major currency fluctuations, more specifically the value of the US dollar against the euro, geopolitical tensions and high and volatile raw material prices.

For 2006, DSM expects continued performance strength in its Nutrition and Performance Materials businesses. For the Pharma businesses a further improvement in performance is envisaged. Industrial Chemicals is expected to see a continuation of the relatively stable business environment. Barring unforeseen circumstances, DSM expects an operating profit from continuing operations* for the first quarter of 2006 at or above the level of the first quarter of 2005 (EUR 182 million). For the year 2006 as a whole the trading environment is expected to remain positive for DSM.

Heerlen, 8 February 2006

The Managing Board

Annual Report

The Royal DSM N.V. full Annual Report can as of this moment be found on the website http://www.dsm.com/en_US/html/invest/ar_2005.htm.

Tables

The tables presented in this press release have been condensed from the figures and tables in the Annual Report.

* The 2005 operating profit from continuing operations referred to here is exclusive of DSM Bakery Ingredients, DSM Minera and SBR to enable a meaningful comparison with 2006. The Report for the first quarter of 2006 will also include a breakdown of results according to the new clustering of activities

Important dates

Annual General Meeting:	Wednesday, 29 March 2006
Publication of first-quarter results:	Friday, 28 April 2006
Publication of second-quarter results:	Thursday, 27 July 2006
Publication of third-quarter results:	Thursday, 26 October 2006
Annual Report 2006:	Thursday 8 February 2007*
Annual General Meeting:	Wednesday, 28 March 2007*

** These dates are provisional*

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Forward-looking statements

This press release 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 press release

Consolidated statement of income for the fourth quarter

fourth quarter 2005			<i>EUR million</i>	fourth quarter 2004		
excluding excep- tional items	excep- tional items	total		excluding excep- tional items	excep- tional items	total
2,093	-	2,093	net sales	2,009	-	2,009
316	13	329	operating profit plus depreciation and amortization (EBITDA)	262	-46	216
183	-32	151	operating profit (EBIT)	130	-154	-24
-	-	-	minus operating profit from discontinued operations	-5	-	-5
183	-32	151	operating profit from continuing operations	125	-154	-29
-21	-1	-22	net finance costs	-12	-	-12
-1	-7	-8	profit of associates	2	-	2
161	-40	121	result before taxation	115	-154	-39
-24	14	-10	taxation	-26	43	17
137	-26	111	net profit from continuing operations	89	-111	-22
-	-	-	net profit from discontinued operations	5	-	5
137	-26	111	profit for the quarter	94	-111	-17
1	-	1	minority interests	2	12	14
138	-26	112	net profit	96	-99	-3
138	-26	112	net profit	96	-99	-3
-4	-	-4	dividend on cumulative preference shares	-5	-	-5
134	-26	108	net profit used for calculating earnings per share	91	-99	-8
271	19	290	cash flow	228	9	237
133	45	178	depreciation and amortization	132	108	240
		114	capital expenditure		-	129
		28	acquisitions			-
			per ordinary share in EUR*:			
0.70		0.57	- net earnings	0.47		-0.04
1.40		1.50	- cash flow	1.16		1.21
		191.0	average number of ordinary shares outstanding (x million)			191.7
		190.9	number of ordinary shares outstanding, end of period (x million)			192.0
		21,820	workforce at end of period			24,204
		7,258	of which in the Netherlands			7,553

* After deduction of dividend on cumulative preference shares.

Consolidated statement of income for the year

year 2005			<i>EUR million</i>	year 2004		
excluding excep- tional items	excep- tional items	total		excluding excep- tional items	excep- tional items	total
8,195	-	8,195	net sales	7,832	-	7,832
1,311	28	1,339	operating profit plus depreciation and amortization (EBITDA)	1,067	-91	976
808	-36	772	operating profit (EBIT)	562	-199	363
-9	-	-9	minus operating profit from discontinued operations	-16	-	-16
799	-36	763	operating profit from continuing operations	546	-199	347
-70	-8	-78	net finance costs	-56	-	-56
-2	-15	-17	profit of associates	9	-	9
727	-59	668	result before taxation	499	-199	300
-173	23	-150	taxation	-95	57	-38
554	-36	518	net profit from continuing operations	404	-142	262
2	-	2	net profit from discontinued operations	8	-	8
556	-36	520	profit for the year	412	-142	270
7	-	7	minority interests	11	12	23
563	-36	527	net profit	423	-130	293
563	-36	527	net profit	423	-130	293
-16	-	-16	dividend on cumulative preference shares	-22	-	-22
547	-36	511	net profit used for calculating earnings per share	401	-130	271
1,066	28	1,094	cash flow	928	-22	906
503	64	567	depreciation and amortization	505	108	613
		401	capital expenditure			348
		573	acquisitions			-
			per ordinary share in EUR*:			
2.87		2.68	- net earnings	2.09		1.41
5.50		5.65	- cash flow	4.73		4.61
		190.8	average number of ordinary shares outstanding (x million)			191.6
		190.9	number of ordinary shares outstanding, end of period (x million)			192.0
		21,820	workforce at end of period			24,204
		7,258	of which in the Netherlands			7,553

* After deduction of dividend on cumulative preference shares.

Consolidated balance sheet

<i>EUR million</i>	31 December 2005	*31 December 2004
intangible assets	1,006	453
tangible assets	3,750	3,811
deferred tax assets	517	432
associates and financial assets	43	78
pre-paid pension costs	405	355
other financial assets	189	82
	-----	-----
total non-current assets	5,907	5,211
inventories	1,535	1,348
receivables	1,597	1,556
financial derivatives	36	244
current investments	5	6
cash and cash equivalents	902	1.261
	-----	-----
total current assets	4,075	4,415
assets held for sale	43	-
	-----	-----
total assets	10,025	9,626

<i>EUR million</i>	31 December 2005	*31 December 2004
shareholders' equity	5,474	4,835
minority interests	67	22
	-----	-----
equity	5,541	4,857
deferred tax liabilities	198	147
pension liabilities	363	345
provisions	145	266
borrowings	1,381	1,497
other non-current liabilities	53	60
	-----	-----
total non-current liabilities	2,140	2,315
pension liabilities	25	40
provisions	218	218
borrowings	329	527
financial derivatives	65	59
Other current liabilities	1,699	1,610
	-----	-----
total current liabilities	2,336	2,454
liabilities held for sale	8	-
	-----	-----
total liabilities	10,025	9,626
capital employed	6,221	5,558
equity / total assets	0.55	**0.53
net debt	832	**339
net debt / equity plus net debt	0.13	**0.06

* The balance sheet as at year-end 2004 is the pro-forma balance sheet including financial instruments (IAS 32 and IAS 39).

** Net debt at year-end 2004 has been calculated without taking into account the temporary reclassification of cumulative preference shares. If the reclassification had been taken into account, the effect would have been a temporary non-cash increase in net debt of EUR 233 million.

Statement of cash flows

<i>EUR million</i>	year	
	2005	2004
<i>Cash and cash equivalents at beginning of period</i>	1,261	1,209
<i>Operational activities:</i>		
- net profit plus depreciation and amortization	1,094	906
- change in working capital	-201	209
- other changes	-200	-217
	-----	-----
Cash flow from operational activities	693	898
<i>Investing activities:</i>		
- capital expenditure	-393	-349
- acquisitions	-564	-
- sale of participations	192	-
- divestments	30	28
- other changes	-110	-2
	-----	-----
Net cash used in investing activities	-845	-323
Dividend	-183	-194
Net cash used in financing activities	-37	-339
Changes IAS 32/39	-	17
Effects of changes in consolidation and exchange differences	13	-7
	-----	-----
<i>Cash and cash equivalents at end of period</i>	902	1,261

Statement of changes in Equity

<i>EUR million</i>	year	
	2005	2004
<i>Equity at beginning of period</i>	4,857	5,164
<i>Changes:</i>		
- profit for the year	520	270
- dividend	-186	-195
- exchange differences	135	-66
- repurchased shares	-170	-119
- repurchased shares used in servicing option rights	102	11
- adoption of IAS 32 and IAS 39	-	15
- reclassification of class A cumprefs	233	-233
- change in share of subsidiaries	48	-
- other	2	10
	-----	-----
<i>Equity at end of period</i>	5,541	4,857