

# DSM Press Release

DSM, Corporate Communications,  
P.O. Box 6500, 6401 JH Heerlen, The Netherlands  
Telephone (31) 45 5782421, Telefax (31) 45 5740680  
Internet: [www.dsm.com](http://www.dsm.com)  
E-mail : [media.relations@dsm.com](mailto:media.relations@dsm.com)



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## **Excellent second quarter with 7% volume growth**

- Operating profit from continuing operations up 11% from Q2 2005, despite EUR 90 million increase in raw-material costs.
- Net profit up 18% to EUR 157 million.
- First half: sales up 9%, net profit up 20%.
- Outlook: full-year 2006 operating profit better than in record year 2005

second quarter		in EUR million			first half		
2006	2005	+/-		2006	2005	+/-	
<b>Continuing operations:</b>							
2,126	1,978	7%	<u>Net sales</u>	4,187	3,829	9%	
342	331	3%	Operating profit plus depreciation & amortization (EBITDA)	656	630	4%	
234	210	11%	<u>Operating profit (EBIT)</u>	440	392	12%	
87	85	2%	- Nutrition	169	163	4%	
14	9	56%	- Pharma	29	17	71%	
88	77	14%	- Performance Materials	172	144	19%	
53	54	-2%	- Industrial Chemicals	93	97	-4%	
-8	-15		- Other activities	-23	-29		
<b>Discontinued / discontinuing operations</b>							
6	145		Net sales	13	278		
0	12		Operating profit plus depreciation & amortization (EBITDA)	-1	23		
0	7		Operating profit (EBIT)	-1	13		
<b>Total DSM:</b>							
2,132	2,123	0%	<u>Net sales</u>	4,200	4,107	2%	
234	217	8%	<u>Operating profit (EBIT)</u>	439	405	8%	
152	147	3%	<u>Net profit excluding exceptional items</u>	292	278	5%	
5	-14		Net result from exceptional items	26	-14		
157	133	18%	<u>Net profit</u>	318	264	20%	
<b>Per ordinary share in EUR:</b>							
0.79	0.75	5%	- net earnings excluding exceptional items	1.50	1.42	6%	
0.81	0.68	19%	- net earnings	1.64	1.34	22%	
190.3	189.9	+0%	Average number of ordinary shares outstanding (x million)	190.7	190.8	-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.
- 'continuing operations' refers to the DSM operations excluding DSM Bakery Ingredients, the SBR business, DSM Minera and Holland Sweetener Company.

*This report is based on the new clustering of activities introduced with effect from 2006. For the 2005 quarterly figures according to the new clustering of activities see the Annex to the Report for the first quarter of 2006.*

## Excellent second quarter with 7% volume growth

### General

At EUR 234 million, the *Operating profit from continuing operations* for the **second quarter** of 2006 was up EUR 24 million (11%) from Q2 2005. *Net profit* amounted to 157 million, up 18% from Q2 2005 (EUR 133 million). The net profit included a positive balance of exceptional items amounting to EUR 5 million.

The *Operating profit from continuing operations* for the **first half** of 2006 was EUR 440 million, up EUR 48 million (12%) from the first half of 2005. The first-half *Net profit* was EUR 318 million, up 20% from the first half of 2005 (EUR 264 million). The net profit included a positive balance of exceptional items amounting to EUR 26 million.

Peter Elverding, chairman of the DSM Managing Board, gave the following comment on the results: *"In the second quarter of 2006 DSM once again posted strong sales growth and a good result; developments in the Performance Materials cluster in particular are really good. I still expect the generally favourable conditions in most of our end markets to continue in the second half of the year. However, given the fact that raw-material prices are increasing strongly from an already very high level, we might experience some delay in passing on these price rises to our customers. As a result of this and some other factors, our Q3 result may turn out to be lower than the high level achieved last year (EUR 215 million). On the other hand, expectations are that the Q4 operating profit will be better again than last year. I expect that DSM's full-year operating profit will on balance be better than in the record year 2005, despite the increased efforts we are making in the field of innovation as planned."*

### Interim dividend

It has been decided to pay out an interim dividend of EUR 0.33 per ordinary share for the year 2006 (2005: EUR 0.29). This represents one third of the dividend paid out for 2005. The interim dividend is no indication of the total dividend for 2006. The interim dividend for 2006 will be paid out in cash on 11 August 2006.

### Net sales

second quarter		in EUR million	first half	
2006	2005		2006	2005
612	605	Nutrition	1,225	1,178
233	222	Pharma	470	427
698	633	Performance Materials	1,378	1,197
480	435	Industrial Chemicals	907	844
103	83	Other activities	207	183
2,126	1,978	Total, continuing operations	4,187	3,829
6	145	Discontinued / discontinuing operations	13	278
2,132	2,123	<b>total</b>	4,200	4,107

Net sales from continuing operations in Q2 2006 were up 7% from Q2 2005 due to organic volume growth. The effects of both selling prices and exchange-rate developments on DSM's net sales were neutral.

Compared to the first quarter, sales volumes organically increased by 5%. The US dollar was on average 4% lower against the euro.

## Operating profit

Q2 operating profit from continuing operations amounted to EUR 234 million, up 11% from Q2 2005. Higher sales volumes at stable fixed costs more than compensated for the pressure on margins. This pressure came from strongly increasing energy and raw-material costs (EUR 90 million higher than in Q2 2005), with selling prices remaining stable on balance. The largest increase in operating profit was achieved in the Performance Materials cluster.

## Business review

### Nutrition

second quarter		<i>in EUR million</i>	first half	
2006	2005		2006	2005
634	615	Net sales including intra-group supplies	1,260	1,209
124	127	Operating profit plus depreciation and amortization	243	242
87	85	Operating profit	169	163

Sales in this cluster increased by 3% on balance due to higher sales volumes and lower selling prices. All activities in this cluster saw their results come under pressure from higher costs for energy and raw materials. Compared to Q2 2005, DSM Nutritional Products achieved solid volume growth at slightly lower prices, with Animal Nutrition & Health performing slightly better than Human Nutrition & Health. DSM Nutritional Products' operating profit increased, mainly because of lower fixed costs. In spite of the phasing-out of the phytase tolling business, DSM Food Specialties' sales remained virtually stable. Its operating profit increased thanks to good manufacturing output levels and considerable cost savings. A large part of the result improvement in this cluster was offset by the decrease in the result of DSM Special Products (benzoic acid and benzaldehyde derivatives), which was due to higher energy and raw-material costs.

### Pharma

second quarter		<i>in EUR million</i>	first half	
2006	2005		2006	2005
249	238	Net sales including intra-group supplies	496	455
34	32	Operating profit plus depreciation and amortization	70	62
14	9	Operating profit	29	17

Sales were up 5% due to higher volumes, with a slightly less favourable product mix. DSM Pharmaceutical Products' operating profit was higher than in Q2 2005, which was due to higher sales volumes at lower margins and to lower fixed costs.

DSM Anti-Infectives posted a negative operating result because selling prices were lower on average and energy costs were higher. Penicillin prices showed a slight increase, but the prices of a number of other important products decreased. It will probably be difficult for DSM Anti-Infectives to achieve a positive full-year operating result this year already, although its result will be considerably better than in 2005. The operating profit for the cluster was favourably influenced by non-recurring items.

## Performance Materials

second quarter		<i>in EUR million</i>	first half	
2006	2005		2006	2005
700	633	Net sales including intra-group supplies	1,382	1,201
113	102	Operating profit plus depreciation and amortization	221	195
88	77	Operating profit	172	144

Sales were up almost 11% due to clearly increased volumes and slightly higher selling prices. The operating profit for the cluster increased substantially due to higher volumes, in particular at DSM Engineering Plastics, DSM Resins and DSM Dyneema. At DSM Engineering Plastics and DSM Dyneema, the increase in sales volumes was accompanied by an improvement of margins. At DSM Resins, margins remained at a good level. DSM Dyneema will open yet another production line in the USA in Q3 2006. In the run-up to this expansion, fixed costs at DSM Dyneema are increasing. DSM Elastomers' operating profit was lower than in Q2 2005 because of a margin squeeze due to strongly increased raw-material prices.

## Industrial Chemicals

second quarter		<i>in EUR million</i>	first half	
2006	2005		2006	2005
543	484	Net sales including intra-group supplies	1,033	942
70	76	Operating profit plus depreciation and amortization	127	140
53	54	Operating profit	93	97

Sales in this cluster were up 12% from Q2 2005, due mainly to clearly increased sales volumes and higher selling prices combined with strongly increased raw-material prices. The strong increases in energy and raw-material prices could however not yet be fully passed on to the market. The operating profits recorded by DSM Fibre Intermediates and DSM Agro were at Q2 2005 level. The results of DSM Melamine remained under pressure despite increased sales volumes. The further increase in energy prices led to a higher result for DSM Energy.

DSM and its partner in the melamine production joint venture in the USA reached agreement concerning the termination of this joint venture with effect from 1 August. This will lead to a positive result for DSM Melamine in the second half of 2006.

## Other activities

second quarter		in EUR million	first half	
2006	2005		2006	2005
107	88	Net sales including intra-group supplies	214	191
1	-6	Operating profit plus depreciation and amortization	-5	-9
-8	-15	Operating profit	-23	-29

The costs associated with share-based payments, in particular payments in the form of stock appreciation rights (SARs), were considerably lower due to the decrease in the DSM share price. On the other hand, the captive insurance company posted a lower result due to higher damage amounts.

## Net profit

*Net profit* increased compared to the second quarter of 2005, from EUR 133 million to EUR 157 million (18%).

*Net finance costs* in Q2 2006 amounted to EUR 23 million. This represents an increase of EUR 4 million compared to the first quarter, which was due mainly to changes in the value of "other securities" and higher interest charges.

The *effective tax rate* in Q2 2006 was 27%, which is comparable to Q2 2005.

*Net profit excluding exceptional items* was EUR 152 million, up EUR 5 million (3%) from the second quarter of 2005.

*Exceptional items* comprised, on the one hand, the sale of the Display Coatings business at a book profit of EUR 13 million after taxation and on the other hand the cost of terminating the melamine production joint venture in the USA, amounting to EUR 8 million after taxation.

*Net earnings per share* increased by 19%.

## Cash flow, capital expenditure and financing

The cash flow (net profit plus depreciation) in the second quarter amounted to EUR 265 million, which is the same as in Q2 2005. At EUR 87 million, capital expenditure (excluding acquisitions) was below the level of depreciation (EUR 108 million) and below the Q2 2005 level (EUR 111 million).

Compared to year-end 2005, the operating working capital increased by EUR 316 million in the first half of 2006 (of which EUR 123 million in the second quarter). This was in line with the increase in sales and the usual seasonal pattern.

Net debt increased by EUR 89 million in Q2 2006 and stood at EUR 845 million at the end of the quarter. The increase was due mainly to the payment of the final dividend for 2005.

### **Workforce**

The workforce increased by 168 in Q2 2006. This was the balance of an increase of 270 due to consolidation effects and a decrease of 102 due to restructuring operations and attrition.

### **EPDM anti-trust investigation**

The previously announced investigation, commenced by the US Department of Justice in December 2002, into alleged violations of the US anti-trust laws involving the EPDM sector has been concluded without charges of any kind against DSM or its affiliates. The investigation by the European Commission has not yet been concluded.

### **Outlook**

DSM is maintaining its forecast that the generally favourable conditions in most of DSM's end markets will continue in the second half of the year and that the company will be able to achieve healthy volume growth. However, in a number of end markets an increased resistance to further price rises is noticeable, while the prices of energy and raw materials keep rising, partly as a result of political tensions that have recently increased again. In addition, the phytase tolling activities will be discontinued, a few customers for food ingredients (DSM Food Specialties) are expected to deplete their stocks, and a few plant turnarounds have been planned.

The third-quarter profit might therefore turn out to be lower than the excellent operating profit achieved in the third quarter of 2005 (EUR 215 million). On the other hand, expectations are that the Q4 operating result will be better again than last year. All in all, DSM expects its operating profit from continuing operations for the full year 2006 to be better than that of the record year 2005, despite the clearly increased efforts in the field of innovation, a weaker US dollar and higher raw-material costs.

Heerlen, 27 July 2006

The Managing Board of Directors

## **Important dates**

Interim dividend 2006 made payable:  
Publication of third-quarter report:  
Publication of 2006 Annual Report:  
Annual General Meeting:

Friday, 11 August 2006  
Thursday, 26 October 2006  
Wednesday, 14 February 2007  
Wednesday, 28 March 2007

## **For more information**

DSM, Corporate Communications,  
tel.: +31 (45) 5782421, fax +31 (45) 5740680  
e-mail: [media.relations@dsm.com](mailto:media.relations@dsm.com)

## **Investors**

DSM, Investor Relations  
tel.: +31 (45) 5782864, fax +31 (45) 5782595  
e-mail: [investor.relations@dsm.com](mailto:investor.relations@dsm.com)

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

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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.

## Condensed consolidated statement of income

second quarter 2006			<i>in EUR million</i>	second quarter 2005		
excl. exceptional items	exceptional items	total		excl. exceptional items	exceptional items	total
2,132	-	2,132	net sales	2,123	-	2,123
342	17	359	operating profit plus depreciation and amortization (EBITDA)	343	-9	334
234	17	251	operating profit (EBIT)	217	-15	202
0	-	0	operating profit from discontinued operations	-7	-	-7
234	17	251	operating profit from continuing operations	210	-15	195
-23	-	-23	net finance costs	-18	-7	-25
1	-8	-7	profit from associates	0	-	0
212	9	221	profit before taxation	192	-22	170
-58	-4	-62	tax	-49	8	-41
154	5	159	net profit from continuing operations	143	-14	129
0	-	0	net profit from discontinued / discontinuing operations	3	-	3
154	5	159	profit for the period	146	-14	132
-2	-	-2	minority interests	1	-	1
152	5	157	net profit	147	-14	133
152	5	157	net profit	147	-14	133
-2	-	-2	dividend on cumulative preference shares	-4	-	-4
150	5	155	net profit used for calculating earnings per share	143	-14	129
108	-	108	depreciation and amortization	126	6	132
258	5	263	cash flow	269	-8	261
		87	capital expenditure			111
		8	acquisitions			14
			per ordinary share in EUR*:			
0.79		0.81	- net earnings	0.75		0.68
1.36		1.38	- cash flow	1.42		1.37
		190.3	average number of ordinary shares (x million)			189.9
		190.4	number of ordinary shares, end of period (x million)			189.8
		21,941	workforce at end of period			**21,820
		7,195	of which in the Netherlands			**7,258

\* After deduction of dividend on cumulative preference shares.

\*\* Year-end 2005.

This quarterly report has not been audited.

## Condensed consolidated statement of income for the first half

first half 2006			<i>in EUR million</i>	first half 2005		
excluding exception- al items	excep- tional items	total		excluding exception- al items	excep- tional items	total
4,200	-	4,200	net sales	4,107	-	4,107
655	37	692	operating profit plus depreciation and amortization (EBITDA)	653	-9	644
439	35	474	operating profit (EBIT)	405	-15	390
1	-	1	operating profit from discontinued operations	-13	-	-13
440	35	475	operating profit from continuing operations	392	-15	377
-42	-	-42	net finance costs	-30	-7	-37
1	-8	-7	profit of associates	1	-	1
399	27	426	profit before taxation	363	-22	341
-104	-1	-105	tax	-93	8	-85
295	26	321	net profit from continuing operations	270	-14	256
0	-	0	net profit from discontinued / discontinuing operations	5	-	5
295	26	321	profit for the period	275	-14	261
-3	-	-3	minority interests	3	-	3
292	26	318	net profit	278	-14	264
292	26	318	net profit	278	-14	264
-5	-	-5	dividend on cumulative preference shares	-8	-	-8
287	26	313	net profit used for calculating earnings per share	270	-14	256
216	2	218	depreciation and amortization	248	6	254
503	28	531	cash flow	518	-8	510
		160	capital expenditure			167
		8	acquisitions			534
			per ordinary share in EUR*:			
1.50		1.64	- net earnings	1.42		1.34
2.64		2.78	- cash flow	2.71		2.67
		190.7	average number of ordinary shares (x million)			190.8
		190.4	number of ordinary shares, end of period (x million)			189.8
		21,941	workforce at end of period			**21,820
		7,195	of which in the Netherlands			**7,258

\* After deduction of dividend on cumulative preference shares.

\*\* Year-end 2005.

This quarterly report has not been audited.

## Consolidated balance sheet

<i>in EUR million</i>	<b>30 June 2006</b>	<b>31 December 2005</b>
intangible assets	987	1,003
tangible assets	3,639	3,750
deferred tax assets	506	517
associates	32	43
pre-paid pension costs	437	405
other financial assets	190	189
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<b>total non-current assets</b>	<b>5,791</b>	<b>5,907</b>
inventories	1,568	1,535
receivables	1,757	1,597
financial derivatives	81	36
current investments	5	5
cash and cash equivalents	878	902
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<b>total current assets</b>	<b>4,289</b>	<b>4,075</b>
assets held for sale	-	43
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<b>total assets</b>	<b>10,080</b>	<b>10,025</b>
<i>in EUR million</i>	<b>30 June 2006</b>	<b>31 December 2005</b>
shareholders' equity	5,521	5,474
minority interests	70	67
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<b>equity</b>	<b>5,591</b>	<b>5,541</b>
deferred tax liabilities	250	198
pension liabilities	346	363
provisions	167	145
borrowings	1,337	1,381
other non-current liabilities	52	53
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<b>total non-current liabilities</b>	<b>2,152</b>	<b>2,140</b>
pension liabilities	29	25
provisions	153	218
borrowings	412	329
financial derivatives	60	65
other current liabilities	1,683	1,699
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<b>total current liabilities</b>	<b>2,337</b>	<b>2,336</b>
liabilities held for sale	-	8
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<b>total liabilities</b>	<b>10,080</b>	<b>10,025</b>
capital employed	6,268	6,221
equity / total assets	0.55	0.55
net debt	845	832
net debt / equity plus net debt	0.13	0.13

This quarterly report has not been audited.

## Condensed statement of cash flows

<i>in EUR million</i>	2006	first half 2005
<b><i>Cash and cash equivalents at beginning of period</i></b>	902	1,261
<i>Operating activities:</i>		
- net profit plus depreciation and amortization	536	518
- change in working capital	-316	-349
- other changes	-61	-23
	-----	-----
cash flow from operating activities	159	146
<i>Investing activities:</i>		
- capital expenditure	-162	-152
- acquisitions	-8	-517
- sale of subsidiaries	74	6
- divestments	24	-
- other changes	6	-7
	-----	-----
net cash from investing activities	-66	-670
dividend	-146	-123
net cash from financing activities	41	70
effects of changes in consolidation and exchange differences	-12	-18
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<b><i>Cash and cash equivalents at end of period</i></b>	878	666

## Condensed statement of changes in shareholders' equity

<i>in EUR million</i>	2006	first half 2005
<b><i>Shareholders' equity at beginning of period</i></b>	5,474	4,835
<i>Changes:</i>		
- net profit	318	264
- dividend	-216	-187
- exchange differences	-68	123
- repurchased shares	-76	-148
- repurchased shares used in servicing option rights	32	64
- reclassification of class A cumprefs	-	233
- change in hedging reserve	46	-2
- change in reserve for share-based payments	11	2
- other	0	-2
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<b><i>Shareholders' equity at end of period</i></b>	5,521	5,182

This quarterly report has not been audited.