FOREWORD

DSM made good progress in virtually all areas in 2004. The financials were considerably better than in 2003, and the balance sheet remained very healthy. We virtually achieved the main strategic objectives of our transformation programme, entitled *Vision 2005: Focus and Value*. At the close of 2004 we reached a major milestone in our transformation into a specialty company when we announced our intention to acquire NeoResins from Avecia. NeoResins is a highly profitable international company specializing in water-borne resins. The new member of our group will be contributing straight-away to our earnings per share and will make DSM's coating resins business one of the top five players on the world market. The acquisition was concluded in early February 2005.

DSM also performed well on the stock markets: having been the best-performing stock in the AEX index at Euronext Amsterdam in terms of Total Shareholder Return in 2001 and 2002, DSM was the third-best performing AEX stock in 2004 with a Total Shareholder Return of 27%. DSM shares ranked second in the Dow Jones EURO STOXX Chemicals index.

Clearly unfavourable factors in 2004 were the continued decline in value of the US dollar against the euro and the strongly increased cost of energy and raw materials. Nonetheless, we still managed to achieve good progress in 2004 for many of our activities thanks to cost reductions, restructuring measures (inevitably leading to job losses) and in particular strong organic volume growth (over 8%).

With the economy in better shape but remaining vulnerable nonetheless, virtually all DSM businesses performed better than in 2003. DSM Nutritional Products, the division we acquired from Roche in September 2003, performed well, exceeding expectations. The Vital project, a comprehensive programme aimed at integrating and transforming DSM Nutritional Products, is going very smoothly. A detailed report on the progress of the Vital project is provided elsewhere in this annual report. Our performance materials and industrial chemicals businesses also performed clearly better than in 2003.

A disappointing development in 2004 was the slump in the antibiotics market. DSM Anti-Infectives closed the year with a high loss due to severe pressure on product prices and margins. In this business group we have taken necessary measures on a large number of fronts to cut costs and optimize production. In a few other units within the Life Science Products cluster we also implemented restructuring programmes or made preparations for such programmes.

We further improved our safety, health and environmental performance in 2004 in a number of respects. We are very much aware of the importance and value of sustainable business practices. In 2004, DSM was named the world's most sustainable chemical company in the Dow Jones Sustainability Index. We were also admitted to the FTSE4Good indexes.

DSM has always been a firm believer in solid corporate governance; many of the best practices listed in the code of conduct recently formulated by the Tabaksblat committee on corporate governance in the Netherlands were already well established at DSM. In 2004, we analyzed the practical implications of the code and implemented a number of supplementary measures. More details are to be found on page 7 of this report.

In the light of our further internationalization and the major changes in our portfolio, we decided in 2004 to change our legal structure from that of a company with a special Large Company Regime status to that of an ordinary public limited company, in which, among other things, the shareholders have a direct say in the appointment of members of the Managing and Supervisory Boards of Directors.

Mr Ewald Kist, a former chairman of the board of the ING Group, joined our Supervisory Board in July 2004. Mr Ad Geers, who had been a member of the Supervisory Board since 1999, resigned from the Board in the wake of the changes made in DSM's legal structure. He had been appointed on the nomination of the Central Works Council. I would like to express my sincere thanks to him, also on behalf of my colleagues, for his efforts and for the contribution he has made to our company.

The Supervisory Board will propose to the Annual General Meeting of Shareholders that Mr Chris Goppelsroeder be appointed to DSM's Managing Board to succeed Mr Jan Dopper. Mr Dopper has been a member of the Managing Board since 1999, and his career with DSM spans more than 20 years. We are very grateful to him for his great dedication and commitment.

Within a relatively short space of time we have made good progress in transforming ourselves into a multi-specialty group. As envisaged, about 80% of our portfolio now consists of specialties and we have proved ourselves capable of achieving a more stable performance even in economically difficult times. The main need in the period ahead of us is to consolidate and expand the strong positions we have achieved in the past few years. Our priorities for 2005 are to improve our profitability and complete our *Vision 2005* strategy programme. We will at any rate give high priority to organic growth, to be achieved through innovation and through the reinforcement of our leading market positions, including in China.

On behalf of my colleagues on the Managing Board, I would like to express my deep gratitude to our staff, who displayed tremendous spirit in 2004. *Vision 2005* now enters its final year. The transformation of DSM has clearly materialized. A great many things have changed in the past four years as we have been through a metamorphosis from which we have emerged well. We intend to conduct an evaluation in 2005 of the strategy we have pursued in the past few years, and chart a strategic course for the future. While there remains plenty for us to do, we are fully confident about our company's potential for the future.

Peter Elverding
Chairman of the Managing Board