

# Message from the Chairman

## Peter Elverding



Managing Board of Directors (from left to right): Henk van Dalen, Feike Sijbesma, Jan Zuidam (deputy chairman), Peter Elverding (chairman) and Chris Goppelsroeder.

DSM is financially sound, technology-rich and has embarked on a new strategic course with new opportunities and challenges.

### A very good year

2005 was an important milestone in our company's history. We achieved strong progress on virtually all fronts, and thus laid a solid foundation for further value-creating growth. New opportunities will be captured with great vigor in the context of our ambitious strategy for the next five years: *Vision 2010 – Building on Strengths*.

The financial results for 2005 were significantly better than those for 2004. Net sales growth amounted to almost 5%, and our operating profit of € 808 million was the highest DSM has ever achieved. In 2005 we created substantial value, as the Cash Flow Return on Investment (CFROI) of 9.1% clearly exceeded the weighted average cost of capital (WACC).

The company benefited from balanced market conditions, an economy that was in better shape (although there were marked differences per region), on average stable currency rates and a variety of self-generated activities, ranging from operational excellence programs to the successful market introduction of new products and applications. I find it particularly gratifying to note that almost all our business groups and units were able to improve their sales and operating profit.

### Vision 2005 completed – new strategy already in full swing

We have successfully completed our strategy *Vision 2005: Focus and Value*. Major events in the context of the portfolio transformation during 2005 included the acquisition of resins specialist NeoResins from Avecia and the divestment of our bakery ingredients activities. The successful completion of *Vision 2005* has provided us with a solid platform from which we can take the next step, embodied in our new strategy *Vision 2010 – Building on Strengths*. This new strategy focuses on accelerated growth and expansion of the specialty content of our portfolio, accelerated innovation, expansion in emerging economies, and continued operational excellence. The first steps have already been taken. An extensive evaluation of *Vision 2005* and the rationale and objectives of *Vision 2010* are provided on pages 20-23.

2005: a very good year <span style="float: right;">↗</span>	
<b>+44%</b> Operating profit up € 246 million to € 808 million	<b>+14%</b> Dividend rise to € 1.00 per share
<b>9.1%</b> CFROI, clearly exceeding WACC	<b>#1</b> DSM maintains #1 position in chemicals sector of Dow Jones Sustainability World Index
<b>49%</b> Total Shareholder Return	<b>-16%</b> Frequency index of all recordable incidents improves to 0.74 (2004: 0.88)

In terms of Safety, Health and Environment (SHE) important progress was achieved in 2005. At year-end 2005 we had met ten of our fourteen environmental targets for 2006. The frequency index for all recordable accidents decreased further. In 2005, we maintained our number one position in the chemicals sector of the Dow Jones Sustainability World Index. Moreover, sustainability targets have been included in our new strategy. An extensive description of our activities and ambitions in this respect is presented in our Triple P report for 2005.

### Where we go from here

All in all, I would qualify 2005 as a very good year for DSM, despite some adverse developments such as the high and volatile cost of raw materials. 2005 was a year of historically strong results, a good performance with regard to sustainability, and significant progress in our efforts to further exploit value-creating growth opportunities based on the accomplishments of 2005 and the preceding years. Our employees deserve tremendous appreciation for their commitment and perseverance in making DSM the better and stronger specialty chemicals company it is today. It has never been easy, but all the hard work has clearly paid off. I would also like to thank our customers and shareholders for their enduring support during the execution of our transformation strategy.

We regret that Henk van Dalen, who has been a Managing Board member for six years, has decided to take up a career opportunity outside DSM with effect from 1 April 2006. The company is grateful to Henk van Dalen for his 29 years of commitment and leadership. He played a key role in the *Vision 2005* transformation process and in the establishment of the company's new strategic direction. We also regret that our Managing Board member Chris Goppelsroeder has decided for personal reasons to relinquish his position with effect from 1 April 2006. Chris Goppelsroeder has, among other things, been instrumental in the establishment of DSM's new *Vision 2010* strategy program. Prior to his appointment as member of the Managing Board, he was vital to the integration and transformation of DSM Nutritional Products. Both colleagues deserve great appreciation for their work.

DSM is financially sound, technology-rich and has embarked on a new strategic course with new opportunities and challenges. The successful completion of *Vision 2005* has paved the way for the next logical step, *Vision 2010 – Building on Strengths*. In fact, we have already started. And more will follow as we further leverage the capabilities and performance of our company in order to successfully execute this strategy.



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