

ROYAL DSM N.V. FINANCIAL STATEMENTS FOR 2004

ACCOUNTING POLICIES

CONSOLIDATION

The consolidated financial statements include Royal DSM N.V. and the group companies in which DSM has control in matters of management and financial policy. The assets, liabilities and profits or losses of these companies are wholly consolidated. Minority interests in the group's equity and income are stated separately. In addition, the financial data of joint ventures (participations in which policy decisions are made jointly by DSM and third parties on the basis of a partnership agreement) that are important to DSM in terms of sales are included in the consolidated financial statements according to the method of proportionate consolidation.

The profits or losses of companies acquired in the course of the year are incorporated into the consolidated statement of income as from the takeover date. The profits or losses of companies that were sold in the year under review are included in the accounts up to the date of sale.

A list of affiliated companies, drawn up in conformity with Book 2 of the Dutch Civil Code, articles 379 and 414, has been filed at the Trade Registry in Heerlen (The Netherlands).

TRANSLATION OF FOREIGN CURRENCIES

Commercial transactions expressed in foreign currencies are stated in the accounts of the local companies at the relevant day rates.

In these accounts, balance-sheet items in foreign currencies are translated at spot rates as at the balance-sheet date. Exchange differences are taken to the statement of income. Forward exchange contracts are converted to market value. Exposures resulting from forward exchange contracts are included in the balance sheet as deferred income or deferred liabilities. Positions resulting from currency swaps are included in the balance sheet and netted out with the balance-sheet items concerned. Differences resulting from the valuation of currency swaps and forward exchange contracts are taken to Balance of financial income and expense or to Other operating costs, as are the exchange differences relating to the underlying balance-sheet items.

Assets and liabilities of foreign participations whose value is expressed in foreign currency are translated at the spot rates prevailing at balance sheet date, while the items of the statements of income of foreign participations are translated at the average exchange rates of the period under review. Exchange differences arising from the translation of the net investment in these companies are taken to Other reserves. The same applies to exchange differences arising from foreign currency loans and other financial instruments in so far as such instruments hedge the currency-exchange risk associated with foreign Group companies.

INTANGIBLE FIXED ASSETS

Intangible fixed assets are carried at cost less depreciation calculated on a straight-line basis or at realizable value, if this is lower.

Goodwill is capitalized and amortized over its estimated useful life, with a maximum of 20 years. The goodwill paid up to and including 1999 was charged directly to shareholders' equity.

Licences and patents are stated at cost less amortization calculated on a straight-line basis and amortized in 4 years.

TANGIBLE FIXED ASSETS

Tangible fixed assets are carried at cost less depreciation calculated on a straight-line basis or at realizable value, if this is lower. Office buildings are generally depreciated in 30 years, other buildings in 20 years, plant and machinery in 10 years.

Expenditure relating to planned turnarounds and inspections of sizeable magnitude is separated from the initial investment and depreciated over the period up to the first scheduled turnaround. The expenditure relating to this turnaround and subsequent turnarounds is then capitalized and depreciated in the same way.

In cases where the property development period is in excess of 12 months, interest expense during construction is capitalized.

FINANCIAL FIXED ASSETS

Consolidated participations are valued according to DSM group policies.

Non-consolidated companies over which DSM has a significant degree of control (generally 20% or more of the voting rights attached to the shares) are valued on the basis of DSM's share in these companies' equity, which is determined in accordance with DSM group policies. Other non-consolidated companies are accounted for at acquisition price or market value, whichever is the lower.

Long-term receivables are shown at face value, where necessary after deduction of a value adjustment.

Other long-term securities are valued at cost, or at recoverable value or market value if these are lower.

INVENTORIES

Raw materials and consumables are valued at cost, i.e. historical purchase prices plus additional costs or the net realizable value, whichever is lower.

Semi-finished and finished products are valued at manufacturing cost, less an allowance for obsolescence where necessary. Internal storage costs, selling expenses and interest charges are not taken into account in determining manufacturing cost. In cases where the market selling price at balance sheet date or during the time of sale of existing inventories is lower than manufacturing cost, valuation is based on the net realizable price. Products whose manufacturing cost cannot be calculated because of shared cost components are stated at net realizable price after deduction of a margin.

Unrealized intercompany results are eliminated in the valuation of inventories.

RECEIVABLES

Receivables are stated at face value less an allowance for doubtful debts. Also included is the portion of receivables forming part of the financial fixed assets that falls due within one year.

MARKETABLE SECURITIES

The item Marketable Securities included under current assets relates to investments available for sale. These are valued at the lower of purchase price and market price.

CASH

Items hereunder are stated at face value.

PROVISIONS

Provisions are shown at face value, but in cases where the effect of the time value of money is material, they are shown at their present value.

LIABILITIES

These are stated at face value. Amounts payable within one year on long-term liabilities are included under Current liabilities. Premiums or discounts on loans are accounted for under Deferred items. The equalization account has been included under Deferred items.

OPERATING INCOME

Operating income is recorded in the Statement of income on the date on which the goods or services concerned are delivered.

Investment grants are credited to the operating profit (under Other operating income) on a *pro rata* basis, in accordance with the useful life of the assets in question.

OPERATING COSTS

Operating costs are calculated on a historical cost basis. The cost of raw materials and consumables is generally determined on the basis of the FIFO method or the weighted average cost method if this approximates the FIFO result. Intra-group supplies are invoiced at market prices.

Research expenses are not capitalized. Development expenses are capitalized only if they meet the criteria for capitalization.

BALANCE OF FINANCIAL INCOME AND EXPENSE

Premiums or discounts on loans are carried as an adjustment to interest expenses, spread over the term of the loans concerned. Interest receipts and interest payments resulting from interest swaps are regarded as corrections on the interest expenses.

CORPORATE TAX

Besides the taxes currently payable or receivable for the year under review, this item also includes the deferred tax assets and liabilities. Deferred tax assets and liabilities are calculated at the tax rates effective at the end of the year under review, or at the rates effective in the years to come in so far as these have already been determined by law.

Deferred tax credits have been recognized to the extent that they are likely to be realized. Deferred tax liabilities relating to withholding taxes are included only if and to the extent that DSM intends to distribute the profits made by subsidiaries in the form of dividend in the near future.

PROFIT OF NON-CONSOLIDATED COMPANIES

The share in the profit of non-consolidated companies is determined in proportion to the respective holdings owned by the group in the year under review, after deduction of applicable taxes.

CONSOLIDATED STATEMENTS

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER*

| ASSETS | x € million | 2004 | 2003 |
|---|-------------|-------|-------|
| <i>FIXED ASSETS</i> | | | |
| intangible fixed assets ¹ | | 369 | 405 |
| tangible fixed assets ² | | 3,809 | 4,188 |
| financial fixed assets ³ | | 491 | 371 |
| | | 4,669 | 4,964 |
| <i>CURRENT ASSETS</i> | | | |
| inventories ⁴ | | 1,347 | 1,474 |
| receivables ⁵ | | 1,669 | 1,746 |
| marketable securities | | 4 | 4 |
| cash ⁶ | | 1,247 | 1,212 |
| | | 4,267 | 4,436 |
| total | | 8,936 | 9,400 |
| | | | |
| GROUP EQUITY AND LIABILITIES | x € million | 2004 | 2003 |
| <i>GROUP EQUITY</i> ⁷ | | | |
| shareholders' equity | | 4,812 | 4,918 |
| minority interests' share | | 22 | 43 |
| | | 4,834 | 4,961 |
| provisions ⁸ | | 874 | 901 |
| long-term liabilities ⁹ | | 1,045 | 1,505 |
| current liabilities, interest-bearing ¹⁰ | | 543 | 382 |
| current liabilities, non-interest-bearing ¹⁰ | | 1,640 | 1,651 |
| | | 8,936 | 9,400 |
| total | | 8,936 | 9,400 |

* Before accounting for the final dividend on ordinary shares.

CONSOLIDATED STATEMENT OF INCOME

x € million

| | ORDINARY ACTIVITIES EXCLUDING EXCEPTIONAL ITEMS | 2004 EXCEPTIONAL ITEMS ¹⁸ | TOTAL | 2003 ORDINARY ACTIVITIES EXCLUDING EXCEPTIONAL ITEMS | EXCEPTIONAL ITEMS ¹⁸ | TOTAL |
|---|---|--|---------------|---|------------------------------------|---------------|
| net sales ¹¹ | 7,752 | - | 7,752 | 6,050 | - | 6,050 |
| other operating income ¹² | 108 | 19 | 127 | 131 | - | 131 |
| total operating income | 7,860 | 19 | 7,879 | 6,181 | - | 6,181 |
| amortization and depreciation ¹³ | -524 | -108 | -632 | -429 | -87 | -516 |
| other operating costs ¹⁴ | -6,847 | -60 | -6,907 | -5,458 | -174 | -5,632 |
| total operating costs | -7,371 | -168 | -7,539 | -5,887 | -261 | -6,148 |
| operating profit ¹⁵ | 489 | -149 | 340 | 294 | -261 | 33 |
| balance of financial income and expense ¹⁶ | -51 | - | -51 | -31 | - | -31 |
| profit before taxation | 438 | -149 | 289 | 263 | -261 | 2 |
| tax ¹⁷ | -98 | 40 | -58 | -49 | 167 | 118 |
| profit of non-consolidated companies | 8 | - | 8 | 5 | - | 5 |
| group profit after taxation | 348 | -109 | 239 | 219 | -94 | 125 |
| minority interests' share in profit | 11 | 12 | 23 | 14 | - | 14 |
| net profit | 359 | -97 | 262 | 233 | -94 | 139 |
| net profit | 359 | | 262 | 233 | | 139 |
| dividend on cumulative preference shares | -22 | | -22 | -22 | | -22 |
| net profit available to holders of ordinary shares | 337 | | 240 | 211 | | 117 |
| average number of ordinary shares outstanding (x 1,000) | 95,808 | | 95,808 | 94,715 | | 94,715 |
| net profit per ordinary share in € | 3.52 | | 2.51 | 2.23 | | 1.24 |
| net profit per ordinary share in €, after dilution | 3.51 | | 2.50 | 2.22 | | 1.23 |

In previous annual reports DSM presented a separate line "extraordinary result" in the income statement. This is no longer allowed under rule No. 270 of the Dutch Guidelines for Annual Reporting (and IAS 1). To comply with the rule according to which exceptional items of income and expense must be disclosed separately if they are material, an additional column has been introduced in the income statement.

The following items of income and expense will be disclosed separately as exceptional items if the individual amounts are, in general, higher than € 10 million:

- write-downs of inventories to net realizable value or of tangible fixed assets to recoverable amount, as well as reversals of such write-downs;
- restructurings of the activities of an entity and reversals of any provisions for the cost of restructurings;
- disposals of tangible fixed assets;
- disposals of investments
- discontinued operations
- litigation settlements
- other reversals of provisions

The column 'ordinary activities excluding exceptional items' reflects the underlying business trend.

STATEMENT OF CASH FLOWS²⁰

x € million

OPERATING ACTIVITIES

| | | |
|---|-----|------|
| net profit | 262 | 139 |
| adjustments to reconcile net profit with net cash provided by operating activities: | | |
| – amortization and depreciation | 524 | 429 |
| – other changes in book value | 112 | 87 |
| – revenue from divestments | -18 | -6 |
| – profit or loss of non-consolidated companies | -8 | -5 |
| – dividends received from non-consolidated companies | 7 | 6 |
| – change in working capital | 95 | 111 |
| – change in provisions | -80 | -173 |
| – other changes | 17 | 3 |

net cash provided by operating activities

911

591

INVESTING ACTIVITIES

| | | |
|---|------|--------|
| investments in: | | |
| – intangible fixed assets | -12 | -26 |
| – tangible fixed assets | -322 | -407 |
| takeover price of consolidated companies acquired | 0 | -1,469 |
| proceeds from sale of tangible fixed assets | 28 | 9 |
| takeover price of consolidated companies sold | - | 3 |
| financial fixed assets: | | |
| – acquisitions | - | - |
| – capital payments | -12 | -13 |
| – proceeds from sale of participations | - | 5 |
| – change in loans granted | 10 | 9 |

net cash used in investing activities

-308

-1.889

FINANCING ACTIVITIES

| | | |
|---|------|------|
| loans taken up | 47 | 323 |
| redemption of loans taken up | -188 | -107 |
| changes in debts to credit institutions | -100 | -476 |
| dividend paid | -194 | -187 |
| purchase of own shares | -119 | -112 |
| share issue to service option rights | 11 | 3 |
| changes in minority interests | -18 | -10 |
| other changes | - | -5 |

net cash used in financing activities

-561

-571

| | | |
|--|----|--------|
| effects of changes in consolidation | 42 | -1,869 |
| exchange differences relating to cash held | - | 121 |
| | -7 | -10 |

change in cash

35

-1,758

| | | |
|---------------------------|-------|-------|
| cash at beginning of year | 1,216 | 2,974 |
| cash at year-end | 1,251 | 1,216 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL

Unless stated otherwise, all amounts are in € million.

In conformity with Book 2 of the Dutch Civil Code, article 402, a condensed statement of income is included in the Royal DSM N.V. accounts.

DSM Nutritional Products was consolidated for only one quarter in 2003, and for the whole year in 2004. This has an effect on the comparative figures in a large number of places in this report.

CURRENCY EXCHANGE RATES

The currency exchange rates that were used in drawing up the consolidated statements are listed below for the most important currencies.

| | EXCHANGE RATE AT BALANCE SHEET | | AVERAGE EXCHANGE RATE | |
|------------------|-----------------------------------|------|--------------------------|------|
| | 2004 | 2003 | 2004 | 2003 |
| 1 euro = | | | | |
| US dollar | 1.36 | 1.25 | 1.24 | 1.13 |
| Swiss franc | 1.54 | 1.56 | 1.54 | 1.52 |
| pound sterling | 0.71 | 0.70 | 0.68 | 0.69 |
| 100 Japanese yen | 1.41 | 1.34 | 1.34 | 1.31 |

(1) INTANGIBLE FIXED ASSETS

| | TOTAL | GOODWILL | LICENCES AND PATENTS |
|------------------------------------|------------|------------|-------------------------|
| BALANCE AT 31 DECEMBER 2003 | | | |
| cost | 487 | 431 | 56 |
| amortization | 82 | 64 | 18 |
| book value | 405 | 367 | 38 |
| CHANGES IN BOOK VALUE: | | | |
| – capital expenditure | 12 | - | 12 |
| – amortization | -33 | -23 | -10 |
| – exchange differences | -29 | -26 | -3 |
| – reclassifications | 14 | -4 | 18 |
| | -36 | -53 | 17 |
| BALANCE AT 31 DECEMBER 2004 | | | |
| cost | 481 | 393 | 88 |
| amortization | 112 | 79 | 33 |
| book value | 369 | 314 | 55 |

The book value of goodwill as at 31 December 2004 includes an amount of € 300 million relating to the acquisition of Catalytica.

(2) TANGIBLE FIXED ASSETS

| | TOTAL | LAND AND BUILDINGS | PLANT AND MACHINERY | OTHER FIXED ASSETS | IN COURSE OF REALIZATION OR PREPAID | NOT USED FOR OPERATIONAL PURPOSES |
|------------------------------------|--------------|--------------------|---------------------|--------------------|-------------------------------------|-----------------------------------|
| BALANCE AT 31 DECEMBER 2003 | | | | | | |
| cost | 8,821 | 1,625 | 6,123 | 437 | 622 | 14 |
| depreciation | 4,633 | 592 | 3,713 | 319 | 6 | 3 |
| book value | 4,188 | 1,033 | 2,410 | 118 | 616 | 11 |
| CHANGES IN BOOK VALUE:: | | | | | | |
| - capital expenditure | 322 | 19 | 86 | 19 | 198 | - |
| - put into operation | - | 35 | 381 | 27 | -443 | - |
| - depreciation | -477 | -55 | -382 | -40 | - | - |
| - impairments | -147 | -17 | -89 | - | -41 | - |
| - disposals | -10 | -3 | -5 | -1 | - | -1 |
| - exchange differences | -56 | -13 | -35 | -1 | -7 | - |
| - reclassifications | -14 | -7 | -1 | -2 | -3 | -1 |
| - other | 3 | 5 | -8 | 2 | 1 | 3 |
| | -379 | -36 | -53 | 4 | -295 | 1 |
| BALANCE AT 31 DECEMBER 2004 | | | | | | |
| cost | 8,833 | 1,631 | 6,395 | 456 | 336 | 15 |
| depreciation | 5,024 | 634 | 4,038 | 334 | 15 | 3 |
| book value | 3,809 | 997 | 2,357 | 122 | 321 | 12 |

Tangible fixed assets includes assets acquired under finance lease agreements with a book value of € 49 million (31 December 2003: € 33 million). The related commitments are included under Other liabilities.

A geographic breakdown of capital expenditure on tangible fixed assets and their book value is given below:

| | capital expenditure | | book value at 31 December | |
|--------------------|---------------------|------------|---------------------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| the Netherlands | 135 | 173 | 1,401 | 1,555 |
| other EU countries | 58 | 69 | 1,089 | 1,095 |
| rest of Europe | 16 | 17 | 458 | 598 |
| | 209 | 259 | 2,948 | 3,248 |
| North America | 73 | 117 | 477 | 508 |
| rest of the world | 40 | 31 | 384 | 432 |
| total | 322 | 407 | 3,809 | 4,188 |

(3) FINANCIAL FIXED ASSETS

| | TOTAL | NON-CONSOLIDATED COMPANIES | | OTHER SECURITIES | DEFERRED TAX ASSETS | OTHER RECEIVABLES |
|------------------------------------|-------|----------------------------|-------|------------------|---------------------|-------------------|
| | | SHARE IN EQUITY | LOANS | | | |
| BALANCE AT 31 DECEMBER 2003 | 371 | 93 | 14 | 16 | 234 | 14 |
| CHANGES : | | | | | | |
| share in profit | 8 | 8 | - | - | - | - |
| dividends | -7 | -7 | - | - | - | - |
| capital payments | 12 | 11 | - | 1 | - | - |
| advances | 1 | - | - | - | - | 1 |
| redemptions | -11 | - | -6 | - | - | -5 |
| other value changes | -2 | -2 | - | - | - | - |
| exchange differences | -2 | -3 | - | - | - | 1 |
| transfer to short-term receivables | -1 | - | - | - | - | -1 |
| other | 122 | -4 | - | -1 | 126 | 1 |
| BALANCE AT 31 DECEMBER 2004 | 491 | 96 | 8 | 16 | 360 | 11 |

The changes under the heading 'other' include the tax effect on exceptional items, tax losses in the current financial year and reclassifications. In determining deferred tax losses, the future tax rates in the Netherlands and Austria have been taken into account.

(4) INVENTORIES

| | 2004 | 2003 |
|-------------------------------------|-------|-------|
| raw materials and consumables | 530 | 532 |
| finished and semi-finished products | 817 | 942 |
| total | 1,347 | 1,474 |

(6) CASH

| | 2004 | 2003 |
|------------------|-------|-------|
| deposits | 1,039 | 982 |
| cash, bank, giro | 208 | 230 |
| total | 1,247 | 1,212 |

(5) RECEIVABLES

| | 2004 | 2003 |
|---|-------|-------|
| trade accounts receivable | 1,225 | 1,264 |
| receivable from non-consolidated companies | 25 | 37 |
| corporation tax receivable | 157 | 143 |
| other taxes and social security contributions | 89 | 72 |
| other receivables | 71 | 138 |
| deferred items | 102 | 92 |
| total | 1,669 | 1,746 |

Of the total of cash, bank, giro an amount of € 20 million was restricted.

All receivables are due within one year.

(7) GROUP EQUITY

| | shareholders' equity | minority interests | group equity |
|---|----------------------|--------------------|--------------|
| BALANCE AT 31 DECEMBER 2003 | 4,918 | 43 | 4,961 |
| CHANGES: | | | |
| transactions with shareholders: | | | |
| dividend on ordinary shares | -168 | - | -168 |
| dividend on cumprefs | -22 | - | -22 |
| share buybacks | -5 | - | -5 |
| cumprefs C buyback | -114 | - | -114 |
| exercise of options | 11 | - | 11 |
| total transactions with shareholders | -298 | - | -298 |
| profit: | | | |
| net profit for 2004 | 262 | -23 | 239 |
| exchange differences | -65 | -4 | -69 |
| tax on exchange differences | -5 | - | -5 |
| total profit | 192 | -27 | 165 |
| other changes | 0 | 6 | 6 |
| BALANCE AT 31 DECEMBER 2004 | 4,812 | 22 | 4,834 |

It is proposed to distribute an amount of € 112 million as final dividend on ordinary shares.

SHARE CAPITAL

On 31 December 2004 the authorized share capital amounted to € 1,125 million, distributed over 153,480,000 ordinary shares, 22,020,000 cumulative preference shares A and 187,500,000 cumulative preference shares B with a par value of € 3.00 each, and 1,200,000,000 cumulative preference shares C with a par value of € 0.03 each.

The changes in the number of shares in 2004 are shown in the table below.

| | SHARES IN ISSUE | | | REPURCHASED SHARES | |
|--|--------------------|-------------------|-------------------|--------------------|-------------------|
| | ordinary | cumprefs A | cumprefs C | ordinary | cumprefs C |
| SITUATION AS AT 31 DECEMBER 2003 | 100,960,705 | 22,020,000 | 37,500,000 | 5,192,407 | - |
| share issue in connection with exercise of options | - | - | - | -314,351 | - |
| share issue in connection with conversion of Gist-brocades convertible bonds and registered shares | 15,799 | - | - | - | - |
| share buybacks | - | - | - | 120,000 | 37,500,000 |
| SITUATION AS AT 31 DECEMBER 2004 | 100,976,504 | 22,020,000 | 37,500,000 | 4,998,056 | 37,500,000 |
| number of repurchased shares as at 31 December 2004 | 4,998,056 | - | 37,500,000 | | |
| number of shares outstanding as at 31 Dec. 2004 | 95,978,448 | 22,020,000 | - | | |

The average number of ordinary shares outstanding in 2004 was 95,808,404.

SHARE PREMIUM

Of the total Share premium of € 548 million, an amount of € 139 million can be regarded as wholly free of tax.

REPURCHASED SHARES

On 31 December 2003 Royal DSM N.V. possessed 5,192,407 repurchased ordinary shares (nominal value € 16 million, 4.2% of the share capital). In 2004, DSM used 314,351 ordinary shares for servicing option rights. The company repurchased 120,000 ordinary shares.

On 31 December 2004 DSM possessed 4,998,056 repurchased ordinary shares (nominal value € 15 million, 4.1% of the share capital). The average acquisition price of the repurchased shares was € 34.83. The total amount involved in the repurchase of ordinary shares, € 174 million (2003: € 179 million), was deducted from the item Other reserves in the balance sheet. The repurchased shares will be used for servicing management and personnel share option rights.

On 28 November 2004 Royal DSM N.V. repurchased all outstanding cumulative preference shares C.

SHARE OPTION RIGHTS

The information about share option rights given on page 54 of the Report by the Managing Board is deemed to be an integral part of the financial statements.

(8) PROVISIONS

Provisions decreased by € 27 million. This is the net effect of the changes listed in the table below.

The provisions that can be regarded as long term amounted to a total of € 616 million.

The changes under the heading 'other' include amounts relating to transfers to and from other balance-sheet items.

The Provision for pensions and other personnel costs concerns the pension commitments and early retirement schemes which the company has kept under its own control. In many countries, DSM offers its employees pension schemes. These schemes are geared to national legislation, local terms-of-employment practice and the economic situation of the country concerned. This implies that the nature of the schemes varies from one country to another. Most of these pension commitments have been placed with independent pension funds and life insurance companies and have been paid up. The financial position of these pension funds and life insurance policies is not reflected in the balance sheet. In some countries, DSM companies offer their retired employees additional allowances (mainly for medical expenses) besides pensions.

The Provision for deferred taxes relates to future tax liabilities resulting from temporary positive differences between equity calculated on an economic basis and equity determined for tax purposes.

The addition to the Provision for reorganization costs and severance payments mainly relates to the Life Science Products cluster (€ 44 million) and DSM Nutritional Products (€ 30 million). The withdrawal from this provision concerns expenditure related to restructuring operations at DSM Anti-Infectives, DSM Pharmaceutical Products, DSM Nutritional Products, DSM Elastomers and DSM Industrial Services. Within the reorganization provision an amount of € 25 million has been reclassified to the appropriate legal entity and purpose. This amount has been included under releases as well as under additions.

The Provision for environmental costs relates to soil cleanup obligations, among other things.

Several items have been combined under Other provisions, for example obligations ensuing from drilling platform decommissioning and site restoration, expenses relating to claims and a provision for an onerous contract.

| | balance at 31 Dec. 2003 | additions charged against the profit | withdrawals for intended purposes | exchange differences | releases | other | balance at 31 Dec. 2004 |
|--|-------------------------------|--|---|-------------------------|------------|-----------|-------------------------------|
| pensions and other personnel costs | 264 | 15 | -20 | -1 | - | -3 | 255 |
| deferred taxes | 61 | 29 | - | -2 | - | 57 | 145 |
| reorganization costs and severance payments | 370 | 105 | -131 | -5 | -54 | 21 | 306 |
| environmental costs | 107 | 5 | -19 | -1 | -3 | 1 | 90 |
| other provisions | 99 | 23 | -29 | - | -1 | -14 | 78 |
| total | 901 | 177 | -199 | -9 | -58 | 62 | 874 |

(9) LONG-TERM LIABILITIES

| | 2004 | 2003 |
|-------------------|--------------|--------------|
| debenture loans | 570 | 992 |
| private loans | 448 | 479 |
| other liabilities | 27 | 34 |
| total | 1,045 | 1,505 |

DEBENTURE LOANS

| | 2004 | 2003 |
|--------------------------|------------|------------|
| 6.25% NLG loan 1996-2006 | 136 | 136 |
| 4.75% EUR loan 1998-2005 | - | 383 |
| 6.75% USD loan 1999-2009 | 184 | 200 |
| 6.38% EUR loan 2000-2007 | 250 | 273 |
| total | 570 | 992 |

The effects of interest-rate risk management are described on page 83. The EUR loan contracted in 2000 was immediately swapped into US dollars at the time to hedge the dollar net investment risk.

PRIVATE LOANS

| | 2004 | 2003 |
|--------------------------|------------|------------|
| 9.22% NLG loan 1990-2005 | - | 11 |
| 12.9% ZAR loan 2002-2006 | 16 | 15 |
| 5.76% CNY loan 2002-2009 | 87 | 100 |
| 4.34% NLG loan 1998-2008 | 11 | 14 |
| 5.51% USD loan 2003-2013 | 110 | 120 |
| 5.61% USD loan 2003-2015 | 137 | 136 |
| other loans | 87 | 83 |
| total | 448 | 479 |

The USD loan for 2003-2015 taken up in 2003 was immediately swapped into Swiss francs to hedge the net investment risk.

In agreements governing loans with a residual amount at year-end 2004 of € 1,227 million, of which € 400 million of a short-term nature (31 December 2003: € 1,418 million, of which € 148 million short term), clauses have been included which restrict the provision of securities. For private loans, no mortgage collateral was furnished (31 December 2003: zero).

At 31 December 2004, long-term liabilities to a total of € 337 million had a remaining term of more than 5 years. This amount relates entirely to private loans.

The schedule of repayment of long-term liabilities is as follows:

| | |
|---------------|--------------|
| 2006 | 190 |
| 2007 | 275 |
| 2008 en 2009 | 243 |
| 2010 t/m 2014 | 146 |
| after 2014 | 191 |
| total | 1,045 |

The repayments scheduled for 2005, totalling € 444 million, are included under Current liabilities.

A breakdown of long-term liabilities by currency, taking into account currency swaps, is given below:

| | 2004 | 2003 |
|--------------|--------------|--------------|
| EUR | 197 | 608 |
| USD | 543 | 591 |
| CHF | 137 | 136 |
| CNY | 87 | 122 |
| CAD | 52 | 31 |
| ZAR | 16 | 15 |
| other | 13 | 2 |
| total | 1,045 | 1,505 |

On balance, Long-term liabilities decreased by € 460 million owing to the following changes:

| | |
|------------------------------------|--------------|
| BALANCE AT 31 DECEMBER 2003 | 1,505 |
| CHANGES: | |
| - loans taken up | 47 |
| - transfer to current liabilities | -433 |
| - extra redemptions | -22 |
| - exchange differences | -55 |
| - other changes | 3 |
| BALANCE AT 31 DECEMBER 2004 | 1,045 |

The average effective interest rate on total long-term interest-bearing liabilities (including the part transferred to current liabilities at 31 December 2004 and including the interest rate and exchange rate instruments associated with the loans) amounted to 4.2% in 2004 (2003: 4.9%).

(10) CURRENT LIABILITIES

| | 2004 | 2003 |
|---|--------------|--------------|
| current liabilities, interest-bearing: | | |
| debenture loans and private loans | 428 | 162 |
| credit institutions | 99 | 208 |
| other liabilities | 16 | 12 |
| total | 543 | 382 |
| current liabilities, non-interest-bearing: | | |
| received in advance on orders | 3 | 19 |
| suppliers and trade credits | 816 | 651 |
| notes and cheques due | 6 | 5 |
| owing to non-consolidated companies | 38 | 39 |
| taxes and social security contributions | 91 | 131 |
| pensions | 8 | 8 |
| other liabilities | 208 | 285 |
| deferred expenditure relating to DSM Nutritional Products | - | 49 |
| deferred items | 470 | 464 |
| total | 1,640 | 1,651 |

COMMITMENTS

| | 2004 | 2003 |
|---|------------|------------|
| rents and operational lease | 23 | 44 |
| guarantee obligations on behalf of non-consolidated companies and third parties | 86 | 94 |
| outstanding orders for projects under construction | 5 | 3 |
| other | 6 | - |
| total | 120 | 141 |

Most of the outstanding orders for projects under construction will be completed in 2005.

The commitments as regards rents and operational lease are spread as follows:

| | |
|---------------|-----------|
| 2005 | 8 |
| 2006 | 5 |
| 2007 | 4 |
| 2008 and 2009 | 3 |
| after 2009 | 3 |
| total | 23 |

RIGHTS AND COMMITMENTS NOT APPEARING ON THE BALANCE SHEET**RIGHTS**

In connection with the acquisition of DSM Nutritional Products, it was agreed that DSM would receive compensation for expenditure to be incurred in relation to the demerger of this unit, to an amount of € 20 million.

(11) NET SALES

Net sales comprises the income from the supply of goods and services to third parties less discounts and sales taxes.

In the year under review net sales increased by € 1,702 million (28%) compared with 2003. A breakdown of supplies and net sales is given below.

| | SUPPLIES 2004 | NET SALES 2004 | % | SUPPLIES 2003 | NET SALES 2003 | % |
|--------------------------|------------------|-------------------|------------|------------------|-------------------|------------|
| Life Science Products | 1,985 | 1,882 | 24 | 2,022 | 1,963 | 32 |
| DSM Nutritional Products | 1,910 | 1,899 | 24 | 496 | 496 | 8 |
| Performance Materials | 2,013 | 2,008 | 26 | 1,777 | 1,774 | 30 |
| Industrial Chemicals | 1,747 | 1,608 | 21 | 1,534 | 1,416 | 23 |
| Other activities | 355 | 355 | 5 | 401 | 401 | 7 |
| intra-group supplies | -258 | | | -180 | | |
| total net sales | 7,752 | 7,752 | 100 | 6,050 | 6,050 | 100 |

The following is a geographical breakdown of net sales:

| BY ORIGIN: | 2004 | % | 2003 | % |
|------------------------|--------------|------------|--------------|------------|
| Europe | 5.614 | 73 | 4.372 | 72 |
| North America | 1,258 | 16 | 1,032 | 17 |
| other continents | 880 | 11 | 646 | 11 |
| total | 7,752 | 100 | 6,050 | 100 |
| BY DESTINATION: | | | | |
| Europe | 4,078 | 53 | 3,272 | 54 |
| North America | 1,619 | 21 | 1,334 | 22 |
| other continents | 2,055 | 26 | 1,444 | 24 |
| total | 7,752 | 100 | 6,050 | 100 |

(12) OTHER OPERATING INCOME

| | 2004 | 2003 |
|--|------------|------------|
| change in inventories of semi-finished and finished products | -127 | -45 |
| own work capitalized | 39 | 33 |
| sundry | 196 | 143 |
| total other operating income, ordinary activities | 108 | 131 |
| exceptional items | 19 | - |
| total | 127 | 131 |

Own work capitalized relates to internally generated fixed assets included under operating costs.

Other operating income includes subsidies, reversals of provisions, book profits on the sale of assets and payments made by insurance companies.

The exceptional items comprise other operating income relating to the book profit on assets sold.

(13) AMORTIZATION AND DEPRECIATION

| | 2004 | 2003 |
|---|------------|------------|
| amortization of intangible fixed assets | 33 | 31 |
| depreciation of tangible fixed assets | 477 | 398 |
| impairments | 14 | - |
| total amortization and depreciation, ordinary activities | 524 | 429 |
| changes in value to be classified as exceptional items | 108 | 87 |
| total | 632 | 516 |

Of the total amount of amortization and depreciation, € 23 million (2003: € 25 million) related to goodwill.

(14) OTHER OPERATING COSTS

| | 2004 | 2003 |
|---|--------------|--------------|
| raw materials and consumables | 3,695 | 2,895 |
| work subcontracted and other external expenses | 1,585 | 1,330 |
| wages and salaries | 1,163 | 958 |
| pension charges | 114 | 73 |
| other social charges | 210 | 184 |
| sundry | 80 | 18 |
| total other operating costs, ordinary activities | 6,847 | 5,458 |
| exceptional items | 60 | 174 |
| total | 6,907 | 5,632 |

R&D expenditure amounted to € 286 million (2003: € 268 million).

The service fees paid to Ernst & Young in 2004 amounted to € 5.8 million for audit services (2003: € 4.6 million), € 1.6 million for tax services (2003: € 1.9 million) and € 0.5 million for sundry services (2003: € 0.3 million).

The exceptional items include an amount of € 15 million in sundry expenses relating to an onerous contract. The remainder mainly relates to wages and salaries and costs of work subcontracted and other external costs related to reorganization costs and severance payments at DSM Anti-Infectives.

Wages and salaries relate to the following average workforce totals:

| | 2004 | 2003 |
|--------------------------|---------------|---------------|
| Life Science Products | 8,476 | 8,998 |
| DSM Nutritional Products | 6,868 | 1,835 |
| Performance Materials | 3,687 | 3,746 |
| Industrial Chemicals | 2,581 | 2,784 |
| Other activities | 2,867 | 3,153 |
| total | 24,479 | 20,516 |

The workforces of proportionately consolidated joint ventures have been included in the above table on a proportionate basis. The 2003 figures for DSM Nutritional Products relate to the fourth quarter.

(15) BREAKDOWN OF OPERATING PROFIT FROM ORDINARY ACTIVITIES EXCLUDING EXCEPTIONAL ITEMS

| | 2004 | 2003 |
|--|------------|------------|
| Life Science Products | 83 | 164 |
| DSM Nutritional Products | 203 | 30 |
| Performance Materials | 147 | 90 |
| Industrial Chemicals | 108 | 60 |
| Other activities | -29 | -25 |
| operating profit before amortization of goodwill | 512 | 319 |
| amortization of goodwill | -23 | -25 |
| operating profit from ordinary activities excluding exceptional items | 489 | 294 |

The breakdowns included in the Report by the Managing Board on page 17 are deemed to form part of the Financial statements.

(16) BALANCE OF FINANCIAL INCOME AND EXPENSE

| | 2004 | 2003 |
|------------------|------------|------------|
| interest income | 21 | 43 |
| interest expense | -76 | -91 |
| other | 4 | 17 |
| total | -51 | -31 |

An amount of € 6 million was deducted from interest expense (2003: € 10 million) in connection with the capitalization of interest expense during construction. The decrease in capitalized interest during construction was due to a decrease in the number of long-term investment projects. In 2004 the interest rate applied in the capitalization of interest during construction was 5%.

(17) TAXES

The tax charge on the profit from ordinary activities excluding exceptional items was € 98 million (2003: € 49 million). In 2004 the exceptional items included a tax gain of € 40 million, compared with a gain of € 167 million in 2003.

The profit from ordinary activities excluding exceptional items before taxation can be broken down as follows:

| | 2004 | 2003 |
|-----------------|------------|------------|
| the Netherlands | 274 | 331 |
| other countries | 164 | -68 |
| total | 438 | 263 |

The total tax can be broken down as follows:

| | 2004 | 2003 |
|---|------------|------------|
| the Netherlands | -50 | -55 |
| other countries | -48 | 6 |
| total tax, profit from ordinary activities excluding exceptional items | -98 | -49 |
| tax on exceptional items | 40 | 167 |
| total tax | -58 | 118 |

The relationship between the nominal tax rate on the profit from ordinary activities excluding exceptional items in the Netherlands and the effective tax rate is as follows:

| as a % | 2004 | 2003 |
|---|-------|-------|
| nominal tax rate in the Netherlands | 34,5 | 34.5 |
| tax effects of: | | |
| deviating rates | -13.8 | -14.0 |
| tax-exempt income and non-deductible expense | 2.1 | -2.0 |
| other effects, including previous years adjustments | -0.4 | 0.1 |
| effective tax rate | 22.4 | 18.6 |

At 31 December 2004, there was an amount of € 51 million (2003: € 13 million) in tax losses for which no deferred tax assets had been posted in the accounts.

The deferred tax assets and liabilities relate to the following tax effects of temporary differences:

| | 2004 | 2003 |
|--|------|------|
| taxes to be refunded and tax losses carried forward | 300 | 80 |
| provisions | 49 | 124 |
| other assets | 48 | 15 |
| other liabilities | 23 | 107 |
| deferred tax assets | 420 | 326 |
| intangible and tangible fixed assets | 205 | 153 |
| other assets | - | - |
| other liabilities | - | - |
| deferred tax liabilities | 205 | 153 |
| deferred tax assets minus deferred tax liabilities | 215 | 173 |
| of which included in the balance sheet under: | | |
| – financial fixed assets | 360 | 234 |
| – provisions | 145 | 61 |

The increase in deferred tax assets mainly relates to the Vital restructuring programme and impairments in exceptional items.

(18) EXCEPTIONAL ITEMS

The composition of the net exceptional items is summarized in the overview below.

| | 2004 | 2003 |
|---|------|------|
| EXCEPTIONAL INCOME: | | |
| book profits from the sale of activities | 19 | - |
| exceptional income | 19 | - |
| EXCEPTIONAL EXPENSE: | | |
| additions to provisions for reorganization costs and severance payments | -44 | -159 |
| impairment of intangible and tangible fixed assets | -108 | -87 |
| impairment of other assets | -1 | -11 |
| additions to other provisions | -15 | -4 |
| exceptional expense | -168 | -261 |
| total, exceptional items before taxation | -149 | -261 |
| taxes on exceptional items | 40 | 167 |
| total, exceptional items after taxation | -109 | -94 |
| minority interests | 12 | - |
| net result from exceptional items | -97 | -94 |

The exceptional income in 2004 related to book profits on the sale of land (Performance Materials). The addition to provisions for reorganization and severance costs is the balance of restructuring and reorganization costs at DSM Anti-Infectives (€ 44 million) and in the production organization at the Geleen site in the Netherlands (€ 25 million, Other activities) and the reversal of provisions (€ 25 million). The impairment of assets relates entirely to the restructuring measures and reorganizations in the Life Science Products cluster. The addition to the other provisions relates to an onerous purchasing contract in the field of anti-infectives.

(19) FINANCIAL INSTRUMENTS

GENERAL

In managing its financial assets and liabilities DSM uses derivative instruments to manage all currency-exchange and interest-rate risks relating to normal business operation. DSM's risk policy is aimed at minimizing the effects of exchange-rate and interest-rate fluctuations on its results in the short term and following the market exchange rates and interest rates in the long term.

CASH

At DSM cash management is carried out centrally insofar as this is possible. To this end, in the major countries use is made of cash pools operating mainly via zero-balancing agreements. DSM has three confirmed credit facilities, two amounting to a total of € 700 million (2003: € 700 million) and one amounting to \$200 million (2003: \$200 million), and two Commercial Paper programmes, one amounting to € 900 million (2003: € 900 million) and the other amounting to \$400 million (2003: \$400 million). The company will use the two Commercial Paper Programmes to a total of not more than € 900 million.

FOREIGN CURRENCY RISKS

DSM's policy with regard to foreign currency risks exclusively focuses on the cash flows from ordinary activities. This implies that currency instruments are used only on the basis of underlying positions. This means that all foreign currency transaction risks are fully hedged at the exchange rate applying at the time of the transaction. The economic currency risks (based on future transactions)

are in some instances partially hedged, following a decision to that effect by the Managing Board. DSM uses forward exchange contracts, spot contracts and, to a limited extent, currency options to limit foreign exchange risks.

The translation exposure, i.e. the exchange-rate risk associated with the translation of DSM's net investment in participating interests, has to a large extent been hedged by long-term foreign-currency-denominated loans and other financial instruments. The reason for this is the relatively high level of foreign-currency-denominated net investments.

INTEREST-RATE RISKS

DSM's interest-rate risk policy is aimed at minimizing the interest-rate risks associated with the financing of the company and thus at the same time optimizing the balance of financial income and expense. Interest-rate instruments will be applied only on the basis of underlying positions. This policy translates into a certain desired profile of fixed-interest and variable-interest positions, with the variable-interest position in principle not being allowed to exceed 60% of net debt. DSM manages interest-rate risks by means of interest-rate swaps and, to a limited extent, interest-rate options.

CREDIT RISK

DSM limits the credit risk to which it is exposed by virtue of its dealings with financial counterparties by using credit limits per party and per country and by concluding contracts exclusively with parties having a high credit rating.

| | 31 DECEMBER 2004 | | 31 DECEMBER 2003 | |
|--|------------------|--------------|------------------|--------------|
| | BOOK VALUE | MARKET VALUE | BOOK VALUE | MARKET VALUE |
| loans: | | | | |
| long-term loans (including loans < 1 year) | 1,489 | 1,678 | 1,678 | 1,870 |
| interest-rate instruments and currency instruments relating to long-term loans | - | -174 | - | -168 |
| short-term loans | 99 | 99 | 208 | 208 |
| total loans | 1,588 | 1,603 | 1,886 | 1,910 |
| forward exchange contracts:* | | | | |
| on the basis of underlying positions | 25 | 25 | 13 | 13 |
| on the basis of projected cash flows | 3 | 4 | - | - |

* included in the balance sheet under Deferred items

The contract value of the currency instruments, based on underlying positions, at the balance sheet date was € 1,419 million (2003: € 905 million). The contract value based on projected cash flows was \$72 million (2003: zero). On 31 December 2004, the contract value of the interest-rate instruments relating to long-term loans was € 1,880 million (2003: € 1,764 million). No contracts covering interest-rate instruments relating to short-term loans were outstanding in 2004 (same as in 2003).

(20) NOTES TO THE STATEMENT OF CASH FLOWS

The statement of cash flows provides an explanation of the changes in cash (with 'cash' being the sum of cash and marketable securities). It is drawn up on the basis of a comparison of the balance sheets as at 1 January and 31 December. Changes that do not involve cash flows, such as changes in exchange rates, value changes and transfers to other Balance-sheet items, are eliminated.

Changes in working capital due to the acquisition or sale of consolidated companies are included under Investing activities.

Most of the changes in the Statement of cash flows can be traced back to the detailed statements of changes for the balance-sheet items concerned. For those balance-sheet items for which no detailed statement of changes is included, the table below shows the link between the change according to the Balance sheet and the change according to the Statement of cash flows:

| | OPERATING CAPITAL | PROVISIONS | INTEREST-BEARING DEBT |
|-------------------------------|-------------------|------------|-----------------------|
| balance at year-end 2003 | 1,569 | 901 | 1,887 |
| balance at year-end 2004 | 1,376 | 874 | 1,588 |
| balance-sheet change | -193 | -27 | -299 |
| adjustments: | | | |
| exchange differences | 57 | 9 | 61 |
| transfers | 41 | -62 | -3 |
| adjusted balance-sheet change | -95 | -80 | -241 |
| change in cash flow | 95 | -80 | -241 |

The cash-flow change relating to the working capital can be broken down as follows:

| | 2004 | 2003 |
|--|-----------|------------|
| inventories | 69 | -7 |
| receivables | -24 | 45 |
| non-interest-bearing current liabilities | 50 | 73 |
| total | 95 | 111 |

SEPARATE FINANCIAL STATEMENTS

ROYAL DSM N.V. BALANCE SHEET*

| ASSETS | x € million | 31 DECEMBER 2004 | 31 DECEMBER 2003 |
|--|--------------------|-------------------------|-------------------------|
| fixed assets | | | |
| tangible fixed assets ¹ | | 20 | 22 |
| financial fixed assets ² | | 7,321 | 6,924 |
| | | 7,341 | 6,946 |
| current assets | | | |
| receivables ³ | | 226 | 1,032 |
| cash | | 3 | 231 |
| | | 229 | 1,263 |
| total | | 7,570 | 8,209 |
| SHAREHOLDERS' EQUITY AND LIABILITIES | x € million | 31 DECEMBER 2004 | 31 DECEMBER 2003 |
| SHAREHOLDERS' EQUITY⁴ | | | |
| share capital | | 370 | 370 |
| share premium account | | 548 | 548 |
| other reserves | | 3,632 | 3,861 |
| profit for financial year | | 262 | 139 |
| | | 4,812 | 4,918 |
| provisions ⁵ | | 25 | 55 |
| long-term liabilities ⁶ | | 827 | 1,270 |
| current liabilities, interest-bearing ⁷ | | 400 | 198 |
| current liabilities, non-interest-bearing ⁷ | | 1,506 | 1,768 |
| total | | 7,570 | 8,209 |

* Before accounting for the final dividend on ordinary shares.

ROYAL DSM N.V. STATEMENT OF INCOME

| x € million | 2004 | 2003 |
|--|------------|------------|
| profit of consolidated and non-consolidated companies (after taxation) | 289 | 160 |
| other profits | -27 | -21 |
| net profit | 262 | 139 |
| net profit | 262 | 139 |
| dividend on cumulative preference shares | -22 | -22 |
| net profit available to holders of ordinary shares | 240 | 117 |

NOTES TO THE ROYAL DSM N.V. BALANCE SHEET

GENERAL

Unless stated otherwise, all amounts are in € million.

DSM's accounting policies are explained on pages 68-69.

(1) TANGIBLE FIXED ASSETS

This item mainly relates to land and buildings and corporate IT projects. Capital expenditure in 2004 was € 1 million, while the depreciation charge in 2004 was € 3 million. The purchase cost of tangible fixed assets as at 31 December 2004 was € 53 million; accumulated depreciation amounted to € 33 million.

(2) FINANCIAL FIXED ASSETS

| | TOTAL | CONSOLIDATED COMPANIES | | NON-CONSOLIDATED COMPANIES' SHARE IN EQUITY | DEFERRED TAX ASSETS |
|-----------------------------|-------|------------------------|-------|---|---------------------|
| | | SHARE IN EQUITY | LOANS | | |
| BALANCE AT 31 DECEMBER 2003 | 6,924 | 6,752 | 69 | 4 | 99 |
| CHANGES: | | | | | |
| share in profit | 262 | 262 | - | - | - |
| dividends | -505 | -505 | - | - | - |
| capital payments | 899 | 899 | - | - | - |
| loans granted | 318 | - | 318 | - | - |
| intra-group transactions | -498 | -498 | - | - | - |
| exchange differences | -102 | -102 | - | - | - |
| other | 23 | 1 | 33 | -2 | -9 |
| BALANCE AT 31 DECEMBER 2004 | 7,321 | 6,809 | 420 | 2 | 90 |

(3) RECEIVABLES

| | 2004 | 2003 |
|---|------|-------|
| receivables from consolidated companies | 143 | 927 |
| other receivables | 83 | 105 |
| total | 226 | 1,032 |

(4) SHAREHOLDERS' EQUITY

| | share capital | share premium | profit for current financial year | other reserves | shareholders' equity |
|---|---------------|---------------|-----------------------------------|----------------|----------------------|
| BALANCE AT 31 DECEMBER 2003 | 370 | 548 | 139 | 3,861 | 4,918 |
| CHANGES: | | | | | |
| transactions with shareholders: | | | | | |
| dividend on ordinary shares (final, 2003) | - | - | -166 | 54 | -112 |
| dividend on ordinary shares (interim, 2004) | - | - | - | -56 | -56 |
| dividend on cumprefs (2004) | - | - | -22 | - | -22 |
| share buybacks | - | - | - | -5 | -5 |
| cumprefs C buyback | - | - | - | -114 | -114 |
| exercise of options | - | - | - | 11 | 11 |
| total transactions with shareholders | - | - | -188 | -110 | -298 |
| profit: | | | | | |
| net profit for 2004 | - | - | 262 | - | 262 |
| exchange differences | - | - | - | -65 | -65 |
| tax on exchange differences | - | - | - | -5 | -5 |
| total profit | - | - | 262 | -70 | 192 |
| dividend for 2003 charged against reserves | 0 | 0 | 49 | -49 | 0 |
| BALANCE AT 31 DECEMBER 2004 | 370 | 548 | 262 | 3,632 | 4,812 |

LEGAL RESERVE FOR RETAINED PROFITS

Since the profits retained in Royal DSM N.V.'s consolidated and non-consolidated companies can be distributed, and received in the Netherlands, without restriction, no legal reserve for retained profits is required.

(5) PROVISIONS

This item can be broken down as follows:

| | 2004 | 2003 |
|----------------------|------|------|
| reorganization costs | - | 10 |
| environmental costs | 12 | 23 |
| other provisions | 13 | 22 |
| total | 25 | 55 |

(6) LONG-TERM LIABILITIES

This item relates entirely to debenture loans and private loans. Of the total amount of long-term liabilities outstanding at 31 December 2004, € 249 million had a remaining term of more than five years.

The repayment schedule for long-term liabilities is as follows:

| | |
|-------------------|-----|
| 2006 | 143 |
| 2007 | 251 |
| 2008 and 2009 | 184 |
| 2010 through 2014 | 112 |
| 2015 | 137 |
| total | 827 |

The repayments scheduled for 2005, to an amount of € 400 million, are included under Current liabilities.

In agreements governing loans with a residual amount at year-end 2004 of € 1,227 million, of which € 400 million of a short-term nature (31 December 2003: € 1,418 million, of which € 148 million short term), clauses have been included which restrict the provision of securities.

(7) CURRENT LIABILITIES

| | 2004 | 2003 |
|---|--------------|--------------|
| current liabilities, interest-bearing: | | |
| debenture loans and private loans | 400 | 148 |
| credit institutions | - | 50 |
| total | 400 | 198 |
| current liabilities, non-interest-bearing: | | |
| owing to consolidated companies | 1,447 | 1,677 |
| other liabilities | 56 | 88 |
| deferred items | 3 | 3 |
| total | 1,506 | 1,768 |

RIGHTS AND COMMITMENTS NOT APPEARING ON THE BALANCE SHEET

In connection with the acquisition of DSM Nutritional Products, it was agreed that DSM would receive compensation for costs to be incurred in relation to the demerger of this unit, to an amount of € 20 million.

Guarantee obligations on behalf of affiliated companies and third parties amounted to € 300 million (31 December 2003: € 299 million). Other commitments not appearing on the balance sheet amounted to zero (the same as in 2003). Royal DSM N.V. has declared in writing that it accepts several liability for debts arising from acts-in-law of a number of consolidated companies. These debts are included in the consolidated balance sheet.

EMPLOYEES

In 2004 Royal DSM N.V. employed on average 5 people (2003: 5).

REMUNERATION OF MEMBERS OF THE MANAGING BOARD AND THE SUPERVISORY BOARD OF ROYAL DSM N.V.

In the financial year under review, the remuneration (including pension costs and other commitments) of persons who were on the Managing Board of Royal DSM N.V. in 2004 amounted to € 3.4 million (2003: € 3.5 million). In 2004 the average number of Managing Board members employed by Royal DSM N.V. was 5 (2003: 5). The remuneration of former members of the Managing Board amounted to zero (the same as in 2003).

Members of the Supervisory Board received a fixed remuneration totalling € 0.2 million (2003: € 0.2 million).

The information about the remuneration of Managing Board members and Supervisory Board members and their share option rights given on page 44 of the Report by the Managing Board is deemed to form part of the Financial statements.

Heerlen, 14 February 2005

MANAGING BOARD

P.A.F.W. Elverding
J. Zuidam
J.G. Dopper
C.H. van Dalen
F. Sijbesma

Heerlen, 16 February 2005

SUPERVISORY BOARD

C.A.J. Herkströter
H. Bodt
E. Kist
O.H.O. Müller
E.J. Sosa
C. van Woudenberg