

ANNEX: 2004 FIGURES ACCORDING TO IFRS*

All information in this annex has been drawn up to the best of our knowledge. However, DSM has no track record with regard to the interpretation and full application of IFRS. Furthermore, some issues are still subject to debate with respect to the general interpretation of certain standards (for example IAS 19 and IAS 32/39). For this reason, part of the information contained in this annex may be subject to change in 2005 or 2006.

The main items in the transformation to IFRS have been extensively discussed with the external auditor Ernst & Young and furthermore with the Audit Committee of the Supervisory Board. The financial information presented in this annex is, however, unaudited.

INTRODUCTION

DSM's current practice is to prepare its consolidated financial statements in accordance with accounting principles generally accepted in the Netherlands (NL GAAP). From 2005 onwards DSM will be required to prepare its consolidated financial state-

OVERVIEW OF IMPACT OF TRANSITION TO IFRS

in € million

Net sales	
Operating profit from ordinary activities excluding exceptional items	
Net profit from ordinary activities excluding exceptional items 2004	
Net profit 2004	
Shareholders' equity:	
– 31 December 2003 / 1 January 2004	
– 31 December 2004	
– 1 January 2005 (incl. IAS 32/39)	
per ordinary share in €:	
Net profit on ordinary activities excluding exceptional items 2004	
Net profit 2004	

ments for accounting periods beginning on or after 1 January 2005 in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). DSM's first IFRS results will be its interim results for Q1 2005. DSM's first Annual Report under IFRS will be the report for the financial year 2005.

As DSM publishes comparative information for one year in its Annual Report, the date for transition to IFRS is 1 January 2004, this being the start of the earliest period for which comparative information is given. The financial information of DSM according to IFRS has been prepared on the basis of IFRS expected to be effective at 31 December 2005 (the Stable Platform). These standards may be subject to change or amendment by interpretative guidance from the IASB. If necessary, we will update our restated information.

The impact of the transition on results, equity and cash flows is explained in the following appendices:

- Reconciliation of equity between NL GAAP and IFRS at 1 January 2004
- Reconciliation of profit, equity and cash flows for 2004
- Quarterly financial information 2004
- Reconciliation of equity between NL GAAP and IFRS at 31 December 2004 and 1 January 2005
- DSM's accounting policies under IFRS

	NL GAAP	IFRS	DELTA
Net sales	7,752	7,886	+134
Operating profit from ordinary activities excluding exceptional items	489	567	+78
Net profit from ordinary activities excluding exceptional items 2004	359	430	+71
Net profit 2004	262	300	+38
Shareholders' equity:			
– 31 December 2003 / 1 January 2004	4,918	5,094	+176
– 31 December 2004	4,812	5,032	+220
– 1 January 2005 (incl. IAS 32/39)	n.a.	5,039	
per ordinary share in €:			
Net profit on ordinary activities excluding exceptional items 2004	3.52	4.26	+0.74
Net profit 2004	2.51	2.90	+0.39

* This term is used throughout this annex and includes the application of International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Interpretations of SIC and IFRIC.

TRANSITIONAL ARRANGEMENTS

The rules for the first-time adoption of IFRS are set out in IFRS 1 'First-time Adoption of International Financial Reporting Standards'. In general, a company is required to determine its IFRS accounting policies and apply these retrospectively to determine its opening balance sheet under IFRS. The standard allows a number of exceptions to this general principle to ease the transition to reporting under IFRS.

DSM made use of the following exemptions to retrospective application of IFRSs as permitted by IFRS 1:

- Business combinations prior to the transition date of 1 January 2004 have not been restated according to the requirements of IFRS 3 'Business Combinations'.
- All cumulative actuarial gains and losses regarding post-employment benefits have been recognized in equity at the transition date.
- The cumulative translation differences for all foreign operations are deemed to be zero at transition date.
- The comparative information 2004 about financial instruments is based on existing NL GAAP. IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' were not applied, but will be fully applied as from 1 January 2005; the resulting adjustment is included in equity.

The depreciation rules for property, plant and equipment under IFRS (*IAS 16, Property, Plant and Equipment*) differ from those under NL GAAP, especially with respect to the component treatment. DSM has always used relatively short depreciation periods, based on a prudent assessment of useful life; for plants e.g. typically 10 years. For subsequent investments the same initial depreciation period has been applied as used for the main asset. Based on extensive testing with regard to the implications of IFRS it was concluded that the carrying amount was not biased towards too high or too low valuation. For this reason DSM decided not to reconstruct the carrying amount in the IFRS opening balance sheet as at 1 January 2004, but will implement a broader application of the component treatment.

For the depreciation of plants, DSM will start with an expected useful life of 15 years, unless there is strong evidence that the expected useful life will be substantially different. The effect is limited because DSM already applied a useful life of 15 years for major plants that were taken into operation in 2001 and subsequent years. The depreciation period of initial and subsequent investment will be aligned. The useful lives under IFRS will be reassessed annually.

SUMMARY OF THE MOST IMPORTANT CHANGES

In recent years DSM has gradually made a number of changes in adapting its accounting policies to IFRS. For a specification see the annual reports of recent years.

The changes due to the transition to IFRS can be subdivided into two categories: structural changes and timing differences. Timing differences are items in profit and loss which have to be recognized in NL GAAP as well as in IFRS but at different moments in time. The most significant changes are:

STRUCTURAL CHANGES

- The cessation of goodwill amortization.
- The recognition in the balance sheet of post-employment liabilities (mainly pensions) from defined benefit plans, after deduction of related plan assets. For certain defined benefit plans this leads to an asset (prepaid pension costs).
- The inclusion of a fair value charge in respect of outstanding employee share options and stock appreciation rights.
- The proportionate consolidation of certain joint ventures that were not consolidated proportionately under NL GAAP, because DSM restricted this method to joint ventures that were important to the company in terms of sales to external parties.
- The reclassification of some assets and liabilities, including changes due to the application of a current/non-current distinction.
- The inclusion of financial instruments at fair value (as from 2005).
- An adjustment of the cash flow statement to meet the requirements of IAS 7: Cash Flow Statements

TIMING DIFFERENCES

- The recognition of a provision (specifically the Copernicus provision) only if a liability exists on the balance sheet date of 31 December 2003 (instead of the publication date of the Annual Report in the case of NL GAAP).
- The derecognition of goodwill and release to equity with effect from 31 December 2003, and the charging of the related costs against income in 2004.

In a few standards IFRS offers a choice between principles. The choices DSM made can be found in annex 7: Summary of significant accounting policies as from 2005.

In changing over to IFRS, DSM implemented several changes in the format of the financial statements and the terminology used.

The reclassifications in the opening balance sheet at 1 January 2004, which are shown in appendix 2, relate to the following:

- The reclassification of application software (€ 45 million) from Tangible fixed assets (Property, plant and equipment) to Intangible fixed assets (Intangible assets);
- The introduction of a separate category Other non-current assets to include deferred tax assets (€ 234 million), which were previously presented under Financial fixed assets;
- The transfer of drawing rights (€ 37 million) from Tangible fixed assets (Property, plant and equipment) to Other non-current assets (€ 30 million) and to Receivables (€ 7 million) for the portion falling due within 12 months.
- Prepaid expenses (€ 10 million) have been transferred from Receivables to Other non-current assets;
- Amounts that will be withdrawn from Provisions within 12 months (€ 331 million) are presented in Provisions under Current liabilities;
- An amount of € 66 million of the deferred items (such as Government grants) under Current liabilities has been transferred to Other non-current liabilities.

MOST IMPORTANT CHANGES IN DSM'S ACCOUNTING POLICIES AND IMPACT ON RESULT AND EQUITY

IFRS 2 SHARE-BASED PAYMENTS

In accordance with IFRS 2, an expense must be recognized representing the fair value of employee share options and stock appreciation rights granted to employees. The fair value is calculated

using the Black-Scholes options valuation model and is charged to the income statement over the relevant option vesting periods.

The share-based payment charge of € 8 million for 2004 relates to:

- employee share options granted since 7 November 2002 (the effective date of IFRS 2), and not yet vested at 1 January 2005, and
- stock appreciation rights existing at 1 January 2004.

The impact on equity at 1 January 2004 and at 31 December 2004 is negligible. Management options and stock appreciation rights in DSM typically have a vesting period of three years. Consequently, it will take until 2005 before the full impact of IFRS 2 will be visible.

IFRS 3 BUSINESS COMBINATIONS

Goodwill is no longer amortized, but tested for impairment at least annually. The impact for DSM is as follows:

- amortization of goodwill has been discontinued as of the transition date of 1 January 2004; and
- the carrying amount of the goodwill on 31 December 2003 according to NL GAAP is used as the deemed cost of the goodwill as at the date of transition to IFRS (1 January 2004).

Goodwill was tested for impairment as at 1 January 2004 and 31 December 2004.

The operating profit impact in 2004 is a reduction of the amortization charge of € 22 million, the most significant element being the removal of amortization relating to the acquisition of Catalytica in 2000. There are no related income tax effects.

Under NL GAAP an amount of € 29 million in negative goodwill was allocated to current liabilities (for deferred costs related to DSM Nutritional Products). Inclusion of negative goodwill in the balance sheet is not allowed under IFRS 3. The impact for the opening balance under IFRS is an increase in equity of € 22 million and a decrease in deferred tax assets of € 7 million. The impact on net profit 2004 under IFRS is € 22 million negative.

IAS 19 EMPLOYEE BENEFITS

With regard to defined benefit plans (pensions and other post-retirement benefits) IAS 19 requires for each plan the recognition of a liability that equals the net amount of:

- the present value of the defined benefit obligation;
- deferred actuarial gains and losses and deferred past service costs; and
- the fair value of any plan assets at balance sheet date.

This calculation may result in a negative amount.

It is DSM's policy to use the corridor approach for the recognition of actuarial gains and losses.

The balance sheet impact of the implementation of IAS 19 is the recognition of a pension asset of € 330 million and a pension liability of € 152 million in DSM's IFRS opening balance sheet as at 1 January 2004. On balance, the impact on equity is an increase of € 117 million in the balance sheet as at 1 January 2004 and an increase of € 199 million in the balance sheet as at 31 December 2004. The pension charge under IFRS for the year 2004 is € 17 million, compared with an amount recognized under NL GAAP of € 107 million. Consequently, the operating profit impact of the transition to IFRS in 2004 is an additional gain of € 90 million, with a related tax charge of € 12 million (this amount includes the effect of the reduction of the Dutch tax rate as from 2005). The currently calculated expense for the year 2005 is € 18 million.

The vast majority of DSM's defined benefit obligations have been transferred to separately administered pension funds. These funds are regionally organized and cover the liabilities to employees in several clusters, former employees and retirees. It would be highly arbitrary to allocate these pension costs to the different clusters. For this reason pension costs related to defined benefit plans will be reported in the segmented information on a separate line in "Other Activities".

IAS 28 INVESTMENTS IN ASSOCIATES

This Standard applies to investments in which the investor has significant influence. There is a rebuttable presumption of significant influence if the investor holds 20% or more of the voting power of the associate. Associates are accounted for in the consolidated financial statements using the equity method.

DSM has reclassified non-consolidated companies as associates or as other participating interests. Other participating interests are interests in companies over which DSM has no significant influence. These other participating interests are measured at fair value, or at cost if a fair value cannot be reliably measured.

The application of IFRS results in an increase in equity of € 7 million in the balance sheet as at 1 January 2004 and an increase of € 8 million in the balance sheet as at 31 December 2004. The positive impact on net profit 2004 under IFRS is € 1 million.

IAS 31 INTERESTS IN JOINT VENTURES

DSM has opted to consolidate joint ventures according to the proportionate consolidation method. Under NL GAAP DSM restricted this method to joint ventures that were important to DSM in terms of sales to external parties. This restriction is not allowed under IFRS. As a result, one additional joint venture will be proportionally consolidated (EdeA V.o.f.). This has a limited impact on equity (a decrease of € 3 million) and net profit, but has a larger impact on the separate items within the balance sheet and income statement. In the cash flow statement, the cash flow from operating activities increases by € 9 million, the cash flow from investing activities decreases by € 14 million and the cash flow from financing activities increases by € 5 million.

IAS 37 PROVISIONS

According to IAS 37 a provision shall be recognized only when a past event has created a legal or constructive obligation, an outflow of resources is probable, and the amount of the obligation can be estimated reliably.

Under NL GAAP DSM recognized a provision totaling € 50 million in 2003 for restructuring and reorganization costs in the manufacturing operations at the Geleen site in the Netherlands (Copernicus project), which under IFRS should have been recognized in 2004. The impact of this change is an increase in equity of € 33 million at 1 January 2004, a decrease in deferred tax assets of € 17 million, and a decrease in net profit in 2004 of € 33 million, which will be presented as an exceptional item in the first quarter 2004 IFRS income statement.

Furthermore, DSM has adjusted the existing provisions for restoration in the area of DSM Energy to the level required by IAS 37. The effect in the opening balance sheet of 1 January 2004 (31 December 2004) is an increase in provisions of € 11 million (increase of € 10 million), an increase in property, plant and equipment of

€ 14 million (increase of € 11 million), and an increase in equity of € 2 million (increase of € 1 million). The impact on net profit in 2004 is negligible.

IAS 32 AND IAS 39 FINANCIAL INSTRUMENTS

IAS 32 and IAS 39 address the accounting for and financial reporting of financial instruments. IAS 32 covers disclosure and presentation whilst IAS 39 covers recognition and measurement. The general principle of IAS 39 is that all financial assets and financial liabilities, including all derivatives and certain embedded derivatives, should be recognized on the balance sheet. Loans shall be measured at amortized cost, most other financial assets and financial liabilities (including derivatives) at fair value.

DSM has opted to apply these standards fully as from the financial year 2005. The effects of the adoption of IAS 32 and IAS 39 as from 1 January 2005 are presented in appendix 2. These relate to the following:

- The inclusion in the balance sheet of any derivative financial instruments that were held off-balance in previous years.
- Measurement of all financial derivatives at their fair value.
- Classification of derivative financial instruments as non-current or current assets and liabilities, instead of netting them with the related hedged items.

Adoption of IAS 32 and IAS 39 on balance results in a € 7 million increase in equity at 1 January 2005. This is the balance of an increase in receivables and cash and cash equivalents of € 226 million and an increase in borrowings and other current liabilities of € 219 million.

APPENDICES

- 1 reconciliation of equity between NL GAAP and IFRS as at January 1, 2004
- 2 summary of IFRS impact on balance sheet
- 3 summary of IFRS impact on income statement 2004
- 4 cash flow statement 2004 under IFRS
- 5 IFRS income statement 2004 per quarter
- 6 reconciliation of equity between NL GAAP and IFRS as at December 31, 2004 and January 1, 2005
- 7 summary of significant accounting policies as from 2005

Detailed overviews relating to the information presented in these appendices will be published on DSM's website (www.dsm.com).

Appendix 1

RECONCILIATION OF EQUITY BETWEEN NL GAAP AND IFRS AS AT JANUARY 1, 2004

in € million	SHARE CAPITAL	SHARE PREMIUM	TRANSLATION RESERVE	RESERVE FOR SHARE BASED COMPENSATION	TREASURY SHARES	PROFIT FOR CURRENT FINANCIAL YEAR	RETAINED EARNINGS**	SHAREHOLDERS' EQUITY	MINORITY INTERESTS' SHARE	GROUP EQUITY
equity under NL GAAP as at 1 January 2004	370	548	-	-	-	139	3,861	4,918	43	4,961
transition to IFRS:										
IFRS 2 Share based payments				1			-1	0		0
IFRS 3 Business combinations							22	22		22
IAS 19 Employee benefits							117	117		117
IAS 28 Investments in associates							7	7		7
IAS 31 Interests in Joint Ventures							-3	-3		-3
IAS 37 Provisions reclassifications and roundings							35	35		35
							177	-2	1	-1
total transition	0	0	0	1	-179	0	354	176	1	177
equity under IFRS at 1 January 2004*	370	548	0	1	-179	139	4,215	5,094	44	5,138

* excluding IAS 32/39

** under NL GAAP these are called 'other reserves'

SUMMARY OF IFRS IMPACT ON BALANCE SHEET

Appendix 2

in € million

REPORTED UNDER NL GAAP		RESTATED UNDER IFRS			
	31 December 2003	EXCLUDING IAS 32/39		INCLUDING IAS 32/39	
		1 January 2004	31 December 2004	1 January 2005	
ASSETS					ASSETS
fixed assets					non-current assets
intangible fixed assets	405	450	452	452	intangible assets
tangible fixed assets	4,188	4,199	3,812	3,812	property, plant and equipment
financial fixed assets	371	132	133	133	financial assets
		510	718	718	other non-current assets
total	4,964	5,291	5,115	5,115	total
current assets					current assets
inventories	1,474	1,474	1,348	1,348	inventories
receivables	1,746	1,730	1,685	1,894	receivables
marketable securities	4	4	4	4	current investments
cash	1,212	1,211	1,246	1,263	cash and cash equivalents
total	4,436	4,419	4,283	4,509	total
total assets	9,400	9,710	9,398	9,624	total assets
GROUP EQUITY AND LIABILITIES					GROUP EQUITY AND LIABILITIES
group equity					group equity
shareholders' equity	4,918	5,094	5,032	5,039	shareholders' equity
minority interests' share	43	44	22	22	minority interests' share
total	4,961	5,138	5,054	5,061	total
liabilities					non-current liabilities
provisions	901	734	762	762	provisions
long-term liabilities	1,505	1,564	1,118	1,274	borrowings
		66	64	64	other non-current liabilities
		2,364	1,944	2,100	total
current liabilities, interest-bearing	382	282	258	258	current liabilities
current liabilities, non-interest-bearing	1,651	369	527	527	provisions
		1,557	1,615	1,678	borrowings
					other current liabilities
total	4,439	2,208	2,400	2,463	total
total group equity and liabilities	9,400	9,710	9,398	9,624	total group equity and liabilities

Appendix 3

SUMMARY OF IFRS IMPACT ON INCOME STATEMENT 2004

in € million

NL GAAP	RESTATED UNDER IFRS			total 2004
	ordinary activities excluding exceptional items	exceptional items	total 2004	
net sales	7,752	19	7,886	7,886
other operating income	108	19	108	127
total operating income	7,860	19	7,994	8,013
amortization and depreciation	-524	-108	-504	-612
other operating costs	-6,847	-60	-3,777	-3,777
			-1,662	-1,662
			-1,407	-1,407
			-77	-187
total operating costs	-7,371	-168	-7,427	-7,645
operating profit	489	-149	567	368
balance of financial income and expense	-51		-57	-57
profit before taxation	438	-149	510	311
tax	-98	40	-101	-44
profit of non-consolidates companies	8		10	10
group profit after taxation	348	-109	419	277
minority interests	11	12	11	23
net profit	359	-97	430	300
net profit	359		430	300
dividend on cumulative preference shares	-22		-22	-22
net profit available to holders of ordinary shares	337		408	278
average number of ordinary shares outstanding (x 1,000)	95,808		95,808	95,808
net profit per ordinary share in €	3.52		4.26	2.90

NL GAAP	RESTATED UNDER IFRS			total 2004
	ordinary activities excluding exceptional items	exceptional items	total 2004	
net sales	7,752	19	7,886	7,886
other operating income	108	19	108	127
total operating income	7,860	19	7,994	8,013
amortization and depreciation	-524	-108	-504	-612
other operating costs	-6,847	-60	-3,777	-3,777
			-1,662	-1,662
			-1,407	-1,407
			-77	-187
total operating costs	-7,371	-168	-7,427	-7,645
operating profit	489	-149	567	368
balance of financial income and expense	-51		-57	-57
profit before taxation	438	-149	510	311
tax	-98	40	-101	-44
profit of non-consolidates companies	8		10	10
group profit after taxation	348	-109	419	277
minority interests	11	12	11	23
net profit	359	-97	430	300
net profit	359		430	300
dividend on cumulative preference shares	-22		-22	-22
net profit available to holders of ordinary shares	337		408	278
average number of ordinary shares outstanding (x 1,000)	95,808		95,808	95,808
net profit per ordinary share in €	3.52		4.26	2.90

CASH FLOW STATEMENT 2004 UNDER IFRS

Appendix 4

in € million

NL GAAP		IFRS	
OPERATING ACTIVITIES		OPERATING ACTIVITIES	
net profit	262	300	net profit
adjustments to reconcile net profit with net cash provided by operating activities:			adjustments to reconcile net profit with net cash provided by operating activities:
– amortization and depreciation	524	612	– amortization and depreciation
– other changes in book value	112	4	– other changes in book value
– revenue from divestments	-18	-18	– revenue from divestments
– profit or loss of non-consolidated companies	-8	-9	– profit or loss of associated companies
– dividends paid by non-consolidated companies	7	7	– dividends paid by associated companies
– change in working capital	95	205	– change in working capital
– change in provisions	-80	26	– change in provisions
– other changes	17	-	– other changes
net cash provided by operating activities	911	1,127	subtotal
		-66	interest paid / received
		-77	income tax paid / received
		-63	other changes
		921	net cash provided by operating activities
INVESTING ACTIVITIES		INVESTING ACTIVITIES	
investments in:			investments in:
– intangible fixed assets	-12	-12	– intangible assets
– tangible fixed assets	-322	-337	– property, plant and equipment
takeover price of consolidated companies acquired	-	-	takeover price of consolidated companies acquired
proceeds from sale of tangible fixed assets	28	28	proceeds from sale of property, plant and equipment
takeover price of consolidated companies sold	-	-	takeover price of consolidated companies sold
financial fixed assets:			financial assets:
– acquisitions	-	-	– acquisitions
– capital payments	-12	-12	– capital payments
– proceeds from sale of participations	-	-	– proceeds from sale of participations
– change in loans granted	10	10	– change in loans granted
net cash used in investing activities	-308	-323	net cash used in investing activities
FINANCING ACTIVITIES		FINANCING ACTIVITIES	
loans taken up	47	64	loans taken up
redemption of loans taken up	-188	-197	redemption of loans taken up
changes in debts to credit institutions	-100	-103	changes in debts to credit institutions
dividend paid	-194	-194	dividend paid
purchase of own shares	-119	-119	purchase of own shares
share issue to service option rights	11	11	share issue to service option rights
changes in minority interest	-18	-18	changes in minority interest
net cash used in financing activities	-561	-556	net cash used in financing activities
	42	42	
exchange difference relating to cash held	-7	-7	exchange difference relating to cash held
change in cash	35	35	change in cash
cash at beginning of year	1,216	1,215	cash at beginning of year
cash at year-end	1,251	1,250	cash at year end

IFRS INCOME STATEMENT 2004 PER QUARTER

Appendix 5

in € million

	1st QUARTER	2nd QUARTER	3rd QUARTER	4th QUARTER	YEAR
net sales	1,916	1,971	1,977	2,022	7,886
operating profit from ordinary activities excluding exceptional items plus depreciation and amortization	250	279	280	262	1,071
operating profit from ordinary activities excluding exceptional items	131	152	153	131	567
net finance costs	-16	-12	-16	-13	-57
profit from ordinary activities excluding exceptional items before taxation	115	140	137	118	510
tax on profit from ordinary activities excluding exceptional items	-25	-28	-24	-24	-101
profit of associates	2	2	3	3	10
profit from ordinary activities excluding exceptional items after taxation	92	114	116	97	419
minority interests in profit	5	1	3	2	11
net profit from ordinary activities excluding exceptional items	97	115	119	99	430
net result from exceptional items	-33	-	2	-99	-130
net profit	64	115	121	0	300
net profit	64	115	121	0	300
dividend on cumulative preference shares	-6	-5	-6	-5	-22
net profit available to holders of ordinary shares	58	110	115	-5	278

RECONCILIATION OF EQUITY BETWEEN NL GAAP AND IFRS AS AT DECEMBER 31, 2004 AND JANUARY 1, 2005

Appendix 6

in € million	SHARE CAPITAL	SHARE PREMIUM	TRANSLATION RESERVE	RESERVE FOR SHARE-BASED COMPENSATION	TREASURY SHARES	PROFIT FOR CURRENT YEAR	RETAINED EARNINGS***	SHAREHOLDERS' EQUITY	MINORITY INTERESTS' SHARE	GROUP EQUITY
equity under NL GAAP as at 31 December 2004	370	548	-	-	-	262	3,632	4,812	22	4,834
transition to IFRS:										
IFRS 2 Share-based payments				4		-6	-0	-2		-2
IFRS 3 Business combinations			-3			-	22	19		19
IAS 19 Employee benefits			4			77	118	199		199
IAS 28 Investments in Associates						1	6	7		7
IAS 31 Interests in Joint Ventures						-1	-3	-4		-4
IAS 37 Provisions reclassifications			-59		-288	-33	34	1		1
							347	-		-
total transition	-	-	-58	4	-288	38	524	220	-	220
equity under IFRS as at 31 December 2004*	370	548	-58	4	-288	300	4,156	5,032	22	5,054
IAS 32/39 Financial Instruments							7	7		7
equity under IFRS as at 1 January 2005**	370	548	-58	4	-288	300	4,163	5,039	22	5,061

* excluding IAS 32/39

** including IAS 32/39

*** called 'other reserves' under NL GAAP

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AS FROM 2005

Appendix 7

BASIS OF PREPARATION

DSM's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations (IFRIC), as adopted for use in the European Union. The consolidated financial statements have been prepared under the historical cost convention, barring the exceptions mentioned below.

CONSOLIDATION

The consolidated financial statements comprise the financial statements of the parent entity, Royal DSM N.V., and its subsidiaries and joint ventures (together 'DSM' or 'Group').

A subsidiary is an entity over which DSM has control. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The financial data of subsidiaries are fully consolidated. Minority interests in the Group's equity and income are stated separately.

A joint venture is an entity in which DSM holds an interest and which is jointly controlled by DSM and one or more other venturers under a contractual arrangement. The financial data of joint ventures are included in the consolidated financial statements according to the method of proportionate consolidation.

Subsidiaries and joint ventures are consolidated from the acquisition date and de-consolidated from the date on which DSM ceases to have control or joint control, respectively.

On consolidation all intra-group balances and transactions and unrealized gains and losses from intra-group transactions are eliminated.

Unrealized losses are not eliminated if these losses indicate an impairment of the asset transferred. In such cases a value adjustment for impairment of the asset is made.

An associate is an entity over which DSM has significant influence but no control, usually supported by a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for by the equity method of accounting, which involves recognition in income of DSM's share of the associate's profit or loss for the year. DSM's interest in an associate is carried in the balance sheet at its share in the net assets of the associate together with goodwill paid on acquisition, less any impairment loss.

When DSM's share in the loss of an associate exceeds the carrying amount of the associate, including any other receivables, the carrying amount is reduced to nil. No further losses are recognized, unless DSM incurs obligations of the associate which it has guaranteed or is otherwise committed to.

Unrealized profits and losses from transactions with associates are eliminated according to DSM's share in these entities.

FOREIGN CURRENCY TRANSLATION

The presentation currency of the Group is the euro.

Each entity of the Group records its transactions and balance sheet items in its functional currency, which may be different from the local currency.

Commercial transactions denominated in another currency than the functional currency are recorded at the spot exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in a currency other than the functional currency of the entity are translated at the closing rates at the balance sheet date.

Exchange differences resulting from the settlement of these transactions and from the translation of monetary items are recognized in income.

On consolidation, the balance sheets of subsidiaries and joint ventures whose functional currency is not the euro are translated into euro at the closing rate at the balance sheet date. The income statements of these entities are translated into euro at the average rates for the relevant period.

Goodwill paid on acquisition is recorded in the functional currency of the acquired entity.

Exchange differences arising from the translation of the net investment in entities with another functional currency than the euro are recorded in equity (Translation reserve). The same applies to exchange differences arising from borrowings and other financial instruments in this functional currency in so far as they hedge the currency exchange risk related to the net investment.

On disposal of an entity with a functional currency other than the euro the cumulative exchange differences relating to the translation of the net investment is recognized in income.

DSM has made use of the exemption in IFRS 1, according to which the cumulative translation differences at the date of transition to IFRS (1 January 2004) may be deemed to be zero.

INTANGIBLE ASSETS

Goodwill represents the excess of the cost of an acquisition over DSM's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of an acquired subsidiary, joint venture or associate.

Goodwill paid on acquisition of subsidiaries and joint ventures is included in intangible assets. Goodwill paid on acquisitions of associates is included in the carrying amount of these associates. Goodwill is tested for impairment annually and when there are indications that the carrying value may not be recoverable. Any impairment is recognized in income.

It was DSM's policy up to and including 1999 to eliminate goodwill paid immediately against equity. Under IFRS such goodwill will continue to be eliminated against equity. From 2000 up to and including 2003, goodwill was amortized over its estimated useful life.

DSM has made use of the exemption of IFRS 1 that permits entities to elect not to apply IFRS 3, Business Combinations, retrospectively. The carrying amount of the goodwill on 31 December 2003 according to NL GAAP is used as the deemed cost of the goodwill as at the date of transition to IFRS (1 January 2004).

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Acquired licenses, patents and application software are carried at cost less depreciation on a straight-line basis and less any impairment losses. The expected useful lives vary from 4 to 10 years. Costs of software maintenance and new releases are expensed when incurred. Capital expenditure that is directly related to the development of application software is recognized as intangible assets and amortized over its estimated useful life (5-8 years).

Research costs are expensed when incurred.

Where the recognition criteria are met, development expenditure is capitalized and amortized over its useful life from the moment the product is launched commercially.

The carrying amount of an intangible asset from development is reviewed for impairment at each balance sheet date or earlier upon indication of impairment. Any impairment losses are recorded in income.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less depreciation calculated on a straight-line basis and less any impairment losses. In cases where the construction period is in excess of 12 months, interest during construction is capitalized.

Expenditures relating to major scheduled turnarounds are capitalized and depreciated over the period up to the next turnaround.

The components of property, plant and equipment are systematically depreciated over their estimated useful lives. Reviews are made annually of the estimated remaining lives of the most important individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear. The initially assumed expected useful lives are: for buildings 10-50 years; for plant and machinery: 5-15 years; for other equipment 4-10 years. Land is not depreciated.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from continued use or the sale of the asset. Any gain or loss arising on derecognition of the asset is included in income.

IMPAIRMENT LOSSES

When there are indications that the carrying amount of an item of intangible assets, property, plant and equipment, or financial assets may exceed the estimated recoverable amount (the higher of its value in use and fair value less costs to sell), the necessity of an impairment loss is investigated. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

When the recoverable amount of an asset is less than its carrying amount, the carrying amount is written down to its recoverable amount.

An impairment loss is reversed when there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Impairment losses for goodwill will never be reversed.

FINANCIAL ASSETS

Loans and long-term receivables are measured at amortized cost, if necessary with deduction of a value adjustment for bad debts.

The proceeds are recognized in income (Net finance costs).

Other securities include participating interests in entities in which DSM has no significant influence and investments that are available for sale.

Other securities are measured at fair value or maintained at cost if the fair value cannot be measured reliably.

Changes in the fair value of other securities measured at fair value are recorded in equity (Fair value reserve). On disposal the cumulative fair value adjustments of the related securities are released from equity and included in income.

Proceeds from other securities held at cost are recognized in income (Net finance costs).

INVENTORIES

Inventories are stated at the lower of cost and net realizable value. The first-in, first-out (FIFO) method of valuation is used, or, alternatively, weighted average cost where it approximates FIFO.

The cost of finished goods and intermediates includes directly attributable costs and related production overhead expenses.

Net realizable value is determined as the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Products whose manufacturing cost cannot be calculated because of joint cost components are stated at net realizable price after deduction of a margin.

CURRENT RECEIVABLES

Current receivables are stated at face value less an allowance for bad debts.

CURRENT INVESTMENTS

Deposits held at call with banks with a remaining maturity of more than 3 months and less than 12 months are classified as current investments. They are measured at amortized cost. Proceeds from these deposits are recognized in income (Net finance costs).

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and in hand and deposits held at call with banks with a remaining maturity of less than 3 months. Bank overdrafts are included in current liabilities. Cash and cash equivalents are stated at face value.

SHAREHOLDERS' EQUITY

DSM's ordinary shares and cumulative preference shares are classified as equity.

The consideration paid for repurchased DSM shares (treasury shares) is deducted from Shareholders' equity until the shares are withdrawn or reissued.

Dividend to be distributed to holders of ordinary shares is recognized as a liability in the period in which the Supervisory Board of Directors approved the proposal for profit distribution.

BORROWINGS

Borrowings are initially recognized at cost, being the fair value of the proceeds received, net of transaction costs. Subsequently, borrowings are stated at amortized cost using the effective interest method.

Amortized cost is calculated by taking into account any discount or premium.

Interest expenses are accrued for and recorded in income for each period.

Where the risk relating to a long-term borrowing is hedged, and the hedge is regarded as effective, the carrying amount of the long-term loan is adjusted for changes in fair value.

Amounts payable within 12 months on long-term borrowings are included in Current liabilities

PROVISIONS

Provisions are recognized when all of the following conditions are met: 1) there is a present legal or constructive obligation as a result of past events; and 2) it is probable that a transfer of economic benefits will settle the obligation; and 3) a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected cash flows at a pre-tax rate. Where discounting is used, the increase in the provision due to the passage of time is recognized as borrowing cost.

However, the interest costs relating to pension obligations are included in pension costs.

Any provision for site restoration is made when the investment project concerned is taken into operation. The capitalized cost of the provision are included in Property, plant and equipment, along

with the historic cost of the relating asset, and depreciated over the useful life of the asset.

Amounts that will be withdrawn from provisions within 12 months are transferred to Current liabilities.

INCOME TAXES

Besides the taxes currently payable or receivable for the year under review, the charge for taxation includes the deferred tax assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates and under the tax laws that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred tax assets are realized or the deferred tax liabilities are settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized. If necessary a value adjustment is deducted.

Deferred tax assets and liabilities are stated at face value.

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.

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The Group operates a number of defined benefit and contribution plans throughout the world, the assets of which are generally held in separately administered funds. The pension plans are generally funded by payments from employees and by the relevant entities. The Group also provides certain additional post-employment health-care benefits to retired employees in the United States. These benefits are unfunded.

For defined benefit plans, pension costs are determined using the projected unit credit method.

Actuarial gains and losses are recognized in income, spread over the average remaining service lives of employees, using the corridor approach.

Prepaid pension costs relating to defined benefit plans are capitalized only if they lead to refunds to the employer or to reductions in future contributions to the plan by the employer.

Payments to defined contribution schemes are charged as an expense as they fall due.

SHARE-BASED COMPENSATION

The costs of option plans are measured by reference to the fair value of the options at the date at which the options are granted. The fair value is determined using the Black-Scholes option model, taking into account market conditions linked to the price of the DSM share.

The costs of these options are recognized in income (Labour costs), together with a corresponding increase in equity (Reserve for share-based compensation) during the vesting period in the case of share-settled options. In the case of cash-settled options (share appreciation rights) the contra-account is Provisions.

No expense is recognized for options that do not ultimately vest, except for options where vesting is conditional upon a market condition, which are treated as vesting, irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

DSM has taken advantage of the transitional provisions of IFRS 2 in respect of equity-settled options and has applied IFRS 2 only to equity-settled options granted after 7 November 2002 that had not vested on or before 1 January 2005.

LEASES

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

REVENUE

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership are transferred to the buyer.

Revenue from the rendering of services is recognized by reference to the stage of completion.

Net sales represents the invoice value less estimated rebates and cash discounts, and excluding value-added taxes

Royalty income is recognized (Other operating revenue) on an accruals basis in accordance with the substance of the relevant agreements.

Interest income is recognized on a time-proportion basis using the effective interest method.

Dividend income is recognized when the right to receive payment is established.

GOVERNMENT GRANTS

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is initially recognized as deferred income (Other non-current liabilities) and then released to income over the expected useful life of the relevant asset by equal annual amounts.

RESEARCH AND DEVELOPMENT

Research expenditure is charged to income in the period in which it is incurred.

Internal development expenditure is charged to income in the period in which it is incurred unless it meets the recognition criteria of IAS 38 'Intangible Assets'.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments ('derivatives') such as foreign currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Financial derivatives are initially recognized in the balance sheet at cost and subsequently measured at their fair value on each balance sheet date. The method of recognizing the resulting gains or losses is dependent on the nature of the item being hedged.

When derivative contracts are entered into, the Group designates them as either hedges of the fair value of recognized assets or liabilities (fair value hedges), hedges of firm commitments or forecast transactions (cash flow hedges) or as hedges of net investments in entities with a functional currency other than the euro.

Changes in the fair value of derivatives designated and qualifying as fair value hedges are immediately recognized in income, together with any changes in the fair value of the hedged assets or liabilities attributable to the hedged risk. The gain or loss relating to the ineffective portion is immediately recognized in income.

Changes in the fair value of derivatives designated and qualifying as cash flow hedges are recognized in equity (Hedging reserve). Upon recognition of the related asset or liability the cumulative gain or loss is transferred from the Hedging reserve and included in the carrying amount.

Changes in the fair value of derivatives designated and qualifying as net investment hedges are recognized in equity (Translation reserve). However, the gain or loss relating to the ineffective portion is immediately recognized in income. Gains and losses accumulated in the Translation reserve are included in income when the net investment is disposed of.