



SUMMARY OF ACCOUNTING POLICIES

Tessenderlo Chemie NV (hereafter referred to as the « Company ») is a company domiciled in Belgium. The consolidated financial statements for the year ended as from 1 January 2004 comprise the Company and its subsidiaries (together referred to as the « Group ») and the Group's interests in associates and jointly controlled entities.

The summary of accounting policies were authorised for issue by the Board of Directors on 10 November 2005.

(1) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (formerly named IAS) issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union.

These are the Group's first consolidated financial statements prepared in accordance with IFRS.

An explanation of how the transition to IFRS has affected the Group's equity on 1 January 2004, the date of transition, is provided in a note on the switch from BE GAAP to IFRS, which can be found in the brochure '2004 half yearly results' on the Tessenderlo Group website (www.tessenderlogroup.com).

(2) Basis of preparation

The financial statements are presented in euro, rounded to the nearest million. They are prepared on the historical cost basis except for derivative financial instruments and investments available-for-sale, which are stated at fair value.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less cost to sell.

The consolidated financial statements are presented before the effect of the profit appropriation of the Company proposed to the general assembly of shareholders.

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purpose of the transition to IFRS.

(3) Principles of consolidation

Companies controlled by the Group (i.e. in which the Group has, directly, or indirectly, an interest of more than one half of the voting rights or is able to exercise control over the operations) have been fully consolidated. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Separate disclosure is made of minority interests.

Investments in associates and jointly controlled entities (Joint Ventures) are included in the consolidated financial statements using the equity method. The investments in associates are those in which the Group has significant influence over the financial and operating policies, but which it does not control. In general, it is the case when the Group holds between 20% and 50% of the voting rights. The equity method is used as from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations in respect of the associate.

All intercompany transactions, balances and unrealized gains and losses on transactions between the Group have been eliminated.

(4) Foreign currencies

- *Foreign currency transactions*

Foreign currency transactions are accounted for at exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at balance sheet date rate. The resulting gains and losses of these transactions are recognized in the income statement of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at foreign exchange rates ruling at the dates the fair value was determined. For available for sale non-monetary assets foreign exchange gains and losses are not separated from the total fair value changes.

- *Foreign currency translation*

Assets and liabilities of foreign entities included in the consolidation are translated into euros at the foreign exchange rates ruling at the balance sheet date. The income statements of the foreign entities are translated into euros at the annual average foreign exchange rates (approximating the foreign exchange rates prevailing at the dates of the transactions). The components of shareholders' equity are translated at historical rates. Exchange differences arising from the translation of shareholders' equity into euros at year-end exchange rates are taken to "Currency translation difference" in Capital and Reserves.

(5) Intangible assets

- *Research and development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the income statement as an expense as incurred.

Expenditure resulting from development activities, whereby research findings are applied to a plan or design for production of new or substantially improved products and processes, is capitalized if the product or process is technically and commercially feasible and the company has sufficient resources to complete development. The capitalized expenditure includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognized in the income statements as an expense as incurred. Capitalized development is stated at cost less accumulated amortization (see below) and impairment losses (see point 10).

- *Emission allowances*

The cost of acquiring emission allowances is recognised as intangible asset, whether they have been purchased or received free of charge (in the latter the acquisition cost is zero). A provision is set up to cover obligations to refund allowances depending on emissions if, during a given period, the number of allowances required exceeds the total number of allowances received.

- *Other intangible assets*

Other intangible assets, acquired by the Group, are stated at cost less accumulated amortization (see below) and impairment losses (see point 10).

- *Subsequent expenditure*

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

- *Amortization*

Intangible assets are amortized on a straight-line basis over their estimated useful lives. Intangible assets with an indefinite useful life are systematically tested for impairment on an annual basis.

(6) Goodwill

- *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net identifiable assets of the acquired subsidiary, jointly controlled entity or associate at the date of acquisition.

All goodwill has been frozen on the 1st of January 2004 and is not amortized anymore, but tested at least annually for impairment and whenever there is an indicator that the unit to which the goodwill has been allocated may be impaired.

Goodwill is expressed in the currency of the subsidiary or jointly controlled entity to which it relates.

- *Negative goodwill*

Negative goodwill represents the excess of the fair value of the company's share of the net identifiable assets acquired over the cost of acquisition. Any negative goodwill is immediately credited to the income statement.

(7) Property, plant and equipment

- *Owned assets*

Items of property, plant and equipment are stated at purchase price or production cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of indirect costs. Borrowing costs directly attributable to the acquisition, construction or production of an asset, requiring a long preparation, are included in the cost of the asset.

The cost of property, plant and equipment includes also the estimated cost of dismantling and removing the asset and restoring the site to the extent that such cost is recognised as a provision.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

- *Subsequent expenditure*

Subsequent expenditure incurred in replacing or renewing components of some items of property, plant and equipment is accounted for as the acquisition of a separate asset and the replaced asset is written off. Capitalization of subsequent expenditure is only done when it increases the future economic benefits embodied in the item of property, plant and equipment. Repair and maintenance, which do not increase the future economic benefits of the asset to which they relate, are expensed as incurred.

- *Depreciation*

Depreciation is calculated as from the date the asset is available for use, on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives of the respective asset categories are as follows:

Improvements to land	10 to 20 years
Buildings	20 to 40 years
Building improvements	10 to 20 years
Plant installations	6 to 20 years
Machinery and equipment	5 to 15 years
Furniture and office equipment	4 to 10 years
Extrusion and tooling equipment	3 to 7 years
Laboratory and research – infrastructure	3 to 5 years
Vehicles	4 to 10 years
Computer equipment	3 to 5 years

Land is not depreciated as it is deemed to have an infinite life.

- *Government grants*

Government grants relating to the purchase of property, plant and equipment are deducted from the carrying amount of the related asset when there is reasonable assurance that they will be received and the company will comply with the conditions attached to it. They are recognized in the income statement as other operating income on a straight-line basis over the estimated useful life of the associated asset.

(8) Leased assets

Leases of property, plant and equipment where the company assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lower of the fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see point 7) and impairment losses (see point 10).

Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the outstanding finance balance. The corresponding obligations, net of finance charges, are included in other long-term payables. The interest element is charged to the income statement as a finance charge over the lease period. Property, plant and equipment acquired under finance leasing contract is depreciated over the useful life of the asset (see point 7).

Leases of assets under which the lessor substantially retains all the risks and rewards of ownership are classified as operating leases. The payments made under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

(9) Investments

Each category of investment is accounted for at trade date.

- Investments in equity securities

Investments in equity securities are undertakings in which the Group does not have significant influence or control. This is generally evidenced by ownership of less than 20% of the voting rights. Such investments are designated as available for sale financial assets and are recorded at their fair value unless the fair value cannot be reliably determined in which case they are carried at cost less impairment losses. The fair value is the quoted bid price at balance sheet date. Changes in fair value are directly recognized in equity, except for impairment losses. When these investments are derecognised the difference between the net disposal proceeds and the carrying amount is recognized in the income statement.

- Other investments

The other investments mainly include cash guarantees.

(10) Impairment

At each balance sheet date, the Group reviews the carrying amounts of the Group's assets, other than inventories (see point 11) and deferred tax assets (see point 18), to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement through the non-recurring items.

Goodwill, intangible assets with indefinite useful life and intangible assets not yet available for use were tested for impairment at 1 January 2004, the date of transition to IFRS, even if no indication of impairment existed.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then, to reduce the carrying amount of other assets in the unit on a pro rata basis.

- Calculation of recoverable amount

The recoverable amount is the higher of the fair value less costs to sell and its value in use. The value in use is the net present value of the estimated future cash flows from the use of an asset. The recoverable amount is calculated at the level of 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, to the business etc.

- Reversal of impairment

If there has been a change in the estimates used to determine the recoverable amount on assets other than goodwill, the carrying amount is partially or totally re-established through the non-recurring items in the income statement, to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

An impairment loss in respect of goodwill cannot be reversed.

(11) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost is determined by the weighted average cost method.

The cost of finished goods and work in progress comprises raw materials, other production materials, direct labour, other direct cost and an allocation of fixed and variable overhead based on normal operating capacity. Cost of inventories includes the purchase, conversion and other costs incurred to bring the inventories to their present location and condition. Net realisable value represents the estimated selling price, less all estimated costs of making the product ready for sale.

(12) Trade receivables

Trade receivables are stated at their nominal value less appropriate allowances for non-recoverable amounts.

(13) Cash and cash equivalents

Cash includes cash in hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash, have a remaining maturity dates of three months or less and are subject to an insignificant risk of change in value.

(14) Share capital

- Repurchase of share capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

- Dividends

Dividends are recognized as a liability in the period in which they are declared.

(15) Bank borrowings and others

Bank borrowings and others are recognized initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of borrowings on an effective interest basis.

(16) Provisions

Provisions are recognized in the balance sheet when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

- Restructuring

A provision for restructuring is recognized when the company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced to those affected by it. Future operating costs are not provided for.

- Environmental obligations

Environmental provisions are based on legal and constructive obligations from past events, in accordance with applicable legal requirements.

- Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

- Others

Includes provisions for litigations and warranties.

(17) Employee benefits

- Post employment benefits

Post employment benefits include pensions and medicare benefits. The Group operates a number of defined benefit and defined contribution plans throughout the world, the assets of which are generally held in separate pension funds. Separate trusts and insurers generally hold the pension plans.

- Defined contribution plans:

Contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

- Defined benefit plans:

For defined benefit plans, the pension accounting costs are assessed separately for each plan using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement in order to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plans. The amounts charged to the income statement consist of current service cost, interest cost, the expected return on any plan assets, actuarial gains and losses and past service costs.

The pension obligation recognized in the balance sheet is determined as the present value of the defined benefit obligation (using interest rates of high quality corporate bonds which have terms to maturity approximating the terms of the related liability) adjusted for unrecognized actuarial gains and losses, less unrecognized past service costs and less the fair value of the plan assets.

The recognition of actuarial gains and losses is determined separately for each defined benefit plan. All actuarial gains and losses exceeding a corridor of 10% of the higher of the present value of the defined benefit obligations and the fair value of plan assets are recognized in the income statement over the expected average remaining working lives of employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized.

- Termination benefits (pre-retirement plans, other termination obligations)

These benefits arise as a result of the company's decision to terminate the employment of an employee or group of employees before the normal retirement date or of an employee's decision to accept voluntary redundancy in exchange for those benefits. When they are reasonably predictable in accordance with the conditions and practices of the countries the company operates in, future obligations are recognized.

These benefits are accrued for at the moment of notification, using an accounting methodology similar to that for the defined benefits pension plans. In general there is each year an actuarial calculation made for these obligations. All actuarial losses or gains are immediately recognized in the income statement.

- Equity compensation benefits

A stock option plan allows senior management to acquire shares of the Company. The option exercise price equals the lowest of the average market price of the underlying shares in the 30 trading days preceding the offer date or the market price on the last day preceding the offer date. These share-based payments are recognized in the financial statements based on the fair value of the awards measured at grant date, spread over the vesting period. When the options are exercised, equity is increased by the amounts of the proceeds received.

(18) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, for temporary differences arising between the carrying values of assets and liabilities for financial reporting purposes and the basis used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and credits can be utilized. A deferred tax asset is reduced to the extent that it is no longer probable that related tax benefit will be realized.

(19) Trade and other payables

Trade and other payables are stated at their nominal value.

(20) Income

- Revenue

For the sale of goods, revenue is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue is recognized when there are no significant uncertainties regarding recovery of the consideration due, the associated costs or the possible return of goods and also when the entity has no continuing management involvement with the goods.

- Financial income

Financial income comprises interest receivable on funds invested, dividend income, foreign exchange gains and gains on derivative financial instruments.

Interest income is recognized in the income statement as it accrues, taking into account the effective yield on the asset. Dividend income is recognized in the income statement on the date the entity's right to receive payments is established.

(21) Expenses

- Financial expenses

Financial expenses comprise interest payable on borrowings, foreign exchange losses and losses on derivative financial instruments.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of financial expenses. The interest expense component of finance lease payments is recognized in the income statement using the effective interest rate method.

(22) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financial and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognized initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss.

(23) Non-current assets held for sale and discontinued operations

Immediately before classification as held for sale, the remeasurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in the profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

A discontinued operation is a component of the Group's business that represents a separate major line of business or a geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned may also qualify.

(24) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment information is produced according to two different criteria: a primary segment reporting format is based on the Group's sector of activity, a secondary segment reporting format is based on the main geographical regions.