

Significant Accounting Policies

General Principles

The consolidated financial statements of Beiersdorf AG have been prepared in accordance with the standards issued by the International Accounting Standards Board (IASB), London, effective at the balance sheet date, and reflect the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). They comply with the European Union Group Accounts Directive (Directive 83/349/EEC) as interpreted by the *Deutscher Standardisierungsrat* (German Accounting Standards Board – GASB). The criteria set out in § 292a of the *Handelsgesetzbuch* (German Commercial Code, “HGB”) for the Company’s exemption from the requirement to prepare consolidated financial statements in accordance with German law have been satisfied.

The consolidated financial statements contain the following departures from the accounting policies and valuation methods as applicable under German law:

- ▶ Pension provisions are measured using the projected unit credit method and reflect future compensation trends in accordance with IAS 19 (Employee Benefits)
- ▶ Deferred tax assets and liabilities are accounted for and measured using the balance sheet liability method as defined by IAS 12 (Income Taxes), and deferred taxes are capitalized where loss carryforwards are considered to be realizable
- ▶ Securities and financial instruments are accounted for and measured at fair value in accordance with IAS 39 (Financial Instruments: Recognition and Measurement)
- ▶ The acquisition price under the share buyback is deducted from shareholders’ equity on the face of the balance sheet

New standards issued by the IASB are applied from their effective date. No use was made of the opportunities for early adoption. Their application and any changes in accounting policies are detailed in the notes to the financial statements under the respective item.

Individual line items have been summarized in the income statement and the balance sheet to aid clarity of presentation. These items are disclosed and explained separately in the notes.

Preparation of the consolidated financial statements requires management to make estimates and assumptions to a limited extent that affect the amount and presentation of recognized assets and liabilities, income and expenses, and contingent liabilities. Actual amounts may differ from those estimates.

Currency Translation

The financial statements of foreign affiliates are translated using the functional currency method. As these companies operate as financially, economically, and organizationally independent entities, their assets and liabilities are translated at the middle rates prevailing at the balance sheet date, while income and expenses are translated at average rates for the year. Exchange differences from the translation of asset and liability items compared with currency translation in the previous year and translation differences between the balance sheet and the income statement are taken directly to equity.

In the single-entity financial statements of these foreign companies, receivables and liabilities in foreign currencies that are not hedged are measured at the rate prevailing at the balance sheet date. The following tables show the development of the exchange rates of the currencies material to the consolidated financial statements:

€1 =	ISO Code	Average rates	
		2003	2004
Swiss franc	CHF	1.5230	1.5442
Pound sterling	GBP	0.6932	0.6798
Japanese yen	JPY	131.7390	133.8430
Mexican peso	MXN	12.3600	14.1150
US dollar	USD	1.1419	1.2463

Download Chart (MS Excel) 

€1 =	ISO Code	Closing rates	
		2003	2004
Swiss franc	CHF	1.5590	1.5437
Pound sterling	GBP	0.7070	0.7071
Japanese yen	JPY	134.8500	139.8300
Mexican peso	MXN	14.1500	15.2400
US dollar	USD	1.2610	1.3640

Download Chart (MS Excel) 

Consolidation Principles

The financial statements of the companies included in the consolidated financial statements are prepared uniformly as of the reporting date of December 31, in accordance with the accounting policies applied by the Beiersdorf Group. The financial statements included in consolidation are audited by independent auditors.

Capital consolidation uses the purchase method of accounting. The cost of acquisition of the purchased interests is eliminated against the proportionate equity attributable to the parent company at the date of acquisition. Any excess is partly or wholly allocated to the assets of the affiliate and amortized over the useful life of the respective assets. The remaining excess of cost of acquisition over net assets acquired is recognized as goodwill and amortized over its useful life. Amortization of goodwill is reported under other operating expenses.

Any write-downs of intragroup receivables and of interests in consolidated companies in the individual single-entity financial statements are reversed.

Intercompany profits and losses, income and expenses, as well as receivables and liabilities, are eliminated. Deferred taxes on consolidation adjustments are recognized as necessary.

The same consolidation principles apply to proportionately consolidated joint ventures. Any necessary consolidation adjustments arising from relations with proportionately consolidated companies are recognized in proportion to the interests held.

Consolidated Group

In addition to Beiersdorf AG, the consolidated financial statements include 16 German and 124 foreign companies in which Beiersdorf AG holds a majority of the voting rights, either directly or indirectly, and which fall under Beiersdorf AG's uniform management. The number of companies consolidated increased by seven year-on-year. They relate to the first-time consolidation of newly formed or existing companies. Two companies in which Beiersdorf holds an interest of 50 % and which it manages as joint ventures together with the other venturers are proportionately consolidated in accordance with IAS 31 (Financial Reporting of Interests in Joint Ventures).

The two joint ventures account for €70 million of the income and €60 million of the expenses reported in the income statement, and thus €10 million of the operating result. €8 million of fixed assets and €24 million of current assets are attributable to the proportionately consolidated companies, as well as €15 million of liabilities and provisions.

Eleven German and 14 foreign companies are not included in consolidation as, both individually and taken together, they are not material for the presentation of a true and fair view of the net assets, financial position, and results of operations of the Group.

The investment in BSN medical GmbH & Co. KG, a joint venture with Smith & Nephew plc., is no longer consolidated proportionately. Instead, it is included at equity in the consolidated financial statements.