

Borealis 2005

Annual Report

Value Creation through

Innovation



BOREALIS

SHAPING the FUTURE with PLASTICS



Borealis and Borouge **global footprint***

* Summer 2006

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This is an expanded version of the statutory Danish language annual report, approved on March 13, 2006 and filed with the Danish Commerce and Companies Agency.

Our vision



Shaping
the
Future
with
Plastics

2005 at a **glance**

€4,814m

Net sales

€422m

EBITDA

€226m

Net profit (After tax, after minorities)

44%

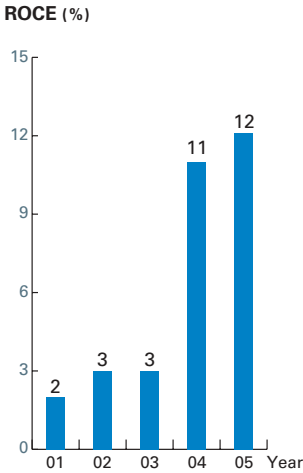
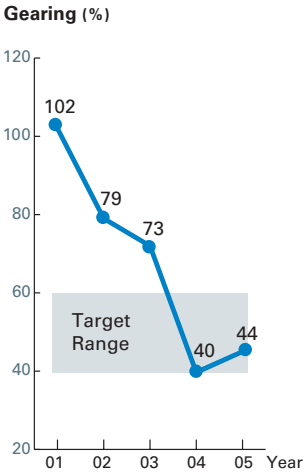
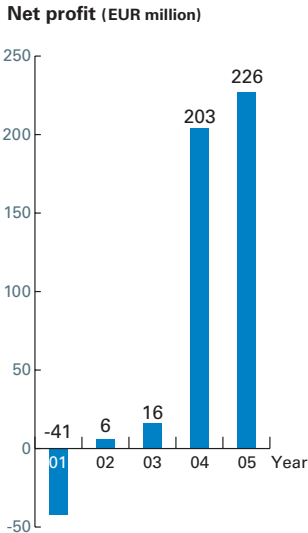
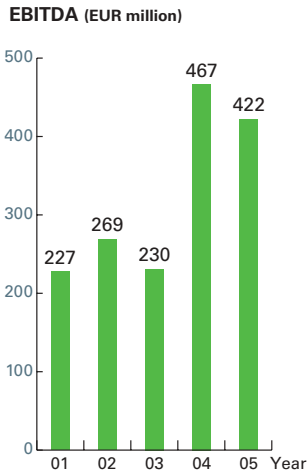
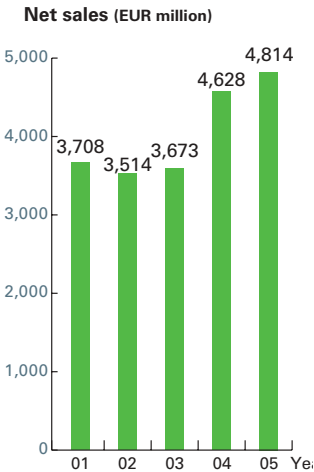
Gearing

12%

ROCE

2005 at a glance

- ▶ Acknowledged as leader in safety
- ▶ Increased sales in key market segments
- ▶ 63 new product launches
- ▶ Borstar® PE 2G proprietary technology launched
- ▶ Record turnaround of 22 production units
- ▶ New ownership structure reinforces strategic direction
- ▶ Borouge joint venture set to expand



Key figures and ratios

		2005	2004	2003	2002	2001
Safety, health & environment						
Total Recordable Injuries	number/million work hours	1.7	2.4	3.8	4.0	6.9
Sick leave	% of total hours worked	2.9	2.8	2.8	2.8	2.7
Direct carbon dioxide emissions	kilotonnes	1,628	2,335	2,442	2,330	2,204
Primary energy consumption	GWh	15,903	20,608	19,115	19,148	19,188
Volatile organic compounds emissions	tonnes	4,210	6,098	5,801	6,835	5,819
Waste generation	tonnes	15,796	18,429	21,784	23,142	23,953
Number of employees (Full time equivalent at year-end)		4,536	4,547	5,037	5,085	5,297
Income and profitability						
Net sales	EUR million	4,814	4,628	3,673	3,514	3,708
Operating profit	EUR million	236	278	39	85	54
Operating profit as percentage of net sales	%	5	6	1	2	1
Net profit attributable to the equity holders of the parent	EUR million	226	203	16	6	-41
Return on capital employed, net after tax	%	12	11	3	3	2
Cash flow and investments						
Cash flow from operating activities	EUR million	227	378	159	350	291
Investments in tangible fixed assets	EUR million	221	192	119	103	147
Financial position						
Net interest-bearing debt	EUR million	684	574	918	1,007	1,304
Equity attributable to owners of the parent	EUR million	1,541	1,420	1,258	1,276	1,284
Gearing	%	44	40	73	79	102

DEFINITIONS:

Capital employed = Total assets less non-interest-bearing debt. **Return on capital employed** = Operating profit, profit and loss from sale of operations, net result in associated companies plus interest income, after imputed tax, divided by average capital employed. **Gearing** = Interest-bearing debt, including subordinated loans, less cash and cash equivalents divided by total equity. **Energy** = Electricity, steam and fuels. **Waste** = Non-hazardous and hazardous.

Our mission



SHAPING the FUTURE with PLASTICS

SHAPING the FUTURE with PLASTICS

SHAPING the FUTURE with PLASTICS

SHAPING the FUTURE with PLASTICS

To be *the*
leading
provider of
innovative,
value creating
plastics
solutions

Our strategy

Objectives

- ▶ Strengthen our European position by creating and delivering value to our customers
- ▶ Build our presence in Middle East/Asia primarily from Borouge base
- ▶ Reinforce Polyolefin market leadership in key segments
- ▶ Build a strong platform in Hydrocarbons
- ▶ Pursue operational excellence...with a step change improvement in safety and quality
- ▶ Transform Borealis into "One customer-oriented company"... which is aligned, high performing and demonstrates strong values

Goals (on average)

- ▶ 11%+ ROCE (Return on Capital Employed) after tax
- ▶ 40–60% debt to equity ratio

Executive Board



John Taylor
Chief Executive



Clive Watson
Chief Financial
Officer



David Rolph
Executive Vice
President,
Polyolefins



Henry Sperle
Executive Vice
President,
Hydrocarbons &
Projects



Herbert Willerth
Executive Vice
President,
Operations &
Procurement

Our values

Responsible



We are leaders in Health, Safety and the Environment
We are good neighbours wherever we operate
We do business according to high ethical standards

Respect



We involve people and communicate in a straightforward way
We work together – helping and developing each other
We are 'One Company' – building on diversity

Exceed



Our customers' and owners' success is our business
We win through commitment and innovation
We deliver what we promise – and a little bit more

Nimblicity™



We are fit, fast and flexible
We create and capture opportunities
We seek the smart and simple solutions

Report of the Board of Directors

In 2005, Borealis reinforced its position as a leading provider of innovative plastics solutions, delivering a net profit attributable to equity holders of EUR 226 million (an increase of 11% over 2004) and a return on capital employed (ROCE) of 12% (compared to 11% in 2004). The gearing ratio increased 4 points to 44% as a result of higher capital expenditure and increasing prices influencing working capital. A combination of high oil prices, reduced overall European polyolefin demand and continuing volatility impacted the industry as a whole. In this environment, Borealis' continued pursuit of its strategy enabled it to deliver a strong financial performance.

Borealis' focus on safety remained at the top of the agenda, propelling the Group into a leadership position within the industry worldwide – a fact acknowledged by the DuPont Safety Award in the Business Impact category last November. Borealis' best ever safety performance (a Total Recordable Injury frequency of 1.7 per million working hours) was particularly important during the highest turnaround year in the Group's history. The 22 production unit turnarounds completed in 2005 involved more than 5,000 contractors and has strengthened the competitiveness of Borealis' European operations.

“We share Borealis' passion for innovation.”

Investment programmes in Central Europe and Scandinavia were successfully brought on stream during the year. The new 350,000 tonnes per year Borstar® PE plant in Schwechat, Austria, strengthens Borealis' position in the flexible polyethylene packaging market and provides a springboard from which the Group can capture high growth in central and eastern European markets. This plant started up in the fourth quarter, along with a capacity expansion of 90,000 tonnes to the existing Borstar® PP plant, now totalling 300,000 tonnes per year. In Norway, Noretyl (a joint venture with Hydro Polymers) has expanded the steam cracker by 100,000 to 550,000 tonnes per year and Borealis raised PP capacity from 125,000 to 175,000 tonnes per year.

Borouge, a joint venture between Borealis and the Abu Dhabi National Oil Company (ADNOC), is a key element of Borealis' strategy to expand its presence in the Middle East and Asia-Pacific. Borouge successfully completed the first ever turnaround of its Ruwais plant in Abu Dhabi, increasing the Borstar® PE capacity to over 600,000 tonnes per year.

Report of the Board of Directors

We fully endorse the Group's value creation through innovation strategy. The launch of Borstar® PE 2G proprietary technology will be reflected in future product range expansion. Borealis launched 63 new products across its portfolio in 2005. Sales in key market segments increased for the fifth consecutive year, emphasising Borealis' success in pursuing the value creation path to the benefit of its customers and shareholders.

Concluded in October, the new ownership structure of Borealis with IPIC owning 65%, and OMV 35% reinforces the future direction of the Group. IPIC's significantly increased share underlines the rewarding partnership it enjoys with both Borealis and OMV. Both owners share Borealis' passion for innovation.

During 2006, Borealis will continue to focus on strengthening its competitiveness and responsiveness to market demands for innovative plastics solutions. Plans ahead include expanded XLPE capacity in Stenungsund, Sweden, additional phenol capacity in Finland, expansion of the Finnish cracker and a possible new Borstar® PP plant in Burghausen, Germany. By year end, Borouge aims to complete the Front End Engineering Design of a project that will eventually triple the polyolefins capacity in Ruwais, Abu Dhabi, to 2 million tonnes per year and introduce Borstar® PP to the complex. Borealis' new licence agreement and joint development partnership with Novolen is one of many initiatives designed to boost the Group's innovation pipeline for the years ahead.

We expect the business environment to remain volatile throughout 2006. Although high oil prices will continue to put pressure on costs, we anticipate an improvement in European polyolefins demand. Borealis enters 2006 well positioned to face these challenges and opportunities, continuing the pursuit of its vision of 'Shaping the Future with Plastics'.

Copenhagen, February 15, 2006

Borealis Board of Directors



Gerhard Roiss

Chairman
Executive Vice President,
OMV Aktiengesellschaft



Mohamed Al Khaily

Vice Chairman
Managing Director,
International Petroleum
Investment Company



David C. Davies

Board Member
CFO, OMV Aktiengesellschaft



Mohammed Al-Azdi

Board Member
Manager, Operations Coordination
Division – Chemicals Directorate,
ADNOC representing International
Petroleum Investment Company



Khadem Al Qubaisi

Board Member
Manager, Investment
Management Division,
International Petroleum
Investment Company IPIC

CEO Q&A

“2005 was
a **successful**
year for
Borealis.”

**What has defined Borealis in 2005,
and what does the future hold?
John Taylor, our Chief Executive,
provides his answers**



CEO Q&A

What has defined Borealis in 2005?

2005 was a successful year for Borealis despite European industry sales dropping by 3% compared with 2004. Financially, we recorded an 11% rise in net profits, a gearing ratio of 44% and a return on capital employed of 12%, which is above our long-term target. We have increased our new product sales to 24% and our share of sales in target markets to 53%. Operationally, our production units are safer, more efficient and consequently more profitable. We are very pleased to have won the DuPont Safety Award in recognition of the impact safety has made on our overall business performance. But of course, the development that captured the headlines in 2005, as well as gener-

ating an unprecedented level of interest in the company, has been the change of our ownership structure.

What does the change in ownership structure mean for Borealis?

The new ownership structure positions Borealis as a committed, long-term solutions provider in the international plastics industry. Both IPIC and OMV have been part of our ownership structure since 1998, and the new structure represents a measure of continuity and full support for the continued pursuit of our strategic direction – value creation through innovation. Today, IPIC of Abu Dhabi owns 65% of Borealis and OMV of Austria 35%.

“We are very pleased to have won the DuPont Safety Award in recognition of the impact safety has made on our overall business performance.”



CEO Q&A

Where does Borouge fit in?

Borouge has been an unqualified success from the outset and remains a critical component in our strategy to build our presence in the Middle East and Asia-Pacific. Borouge shares our commitment to value creation through innovation and operational excellence. To address continued demand for innovative, value creating plastics solutions based on our Borstar technology, Borouge plans to invest in a world-scale multi-billion dollar expansion in Ruwais, Abu Dhabi to nearly triple capacity to 2 million tonnes annually – including the addition of Borstar polypropylene.

So what's driving the plans to expand Borouge's capacity?

The decision to develop our expansion plans for Abu Dhabi was largely driven by Borouge's initial success combined with the healthy outlook for market growth in the Middle East and Asia-Pacific. Asia is the fastest growing consumer market in the world, and plastics consumption in the region is expected to grow somewhere between 6 to 8% over the next few years. Partnership with ADNOC provides a strong platform to expand our position in the

region. Linked with access to low cost natural gas feedstocks, this provides Borouge with a unique competitive position. Economies of scale will make the Borouge complex more competitive, while the introduction of polypropylene production will open new markets for Borouge in the Middle East and Asia-Pacific. Polypropylene is one of the most versatile polymers available, with applications in virtually all the end-use plastics markets.

What do high oil prices mean for plastics?

We believe oil prices will remain high for the foreseeable future, impacting feedstock and energy costs and continuing to put pressure on plastics margins. We are committed to running a profitable company and being firm on prices to support ongoing investment in new innovative plastics solutions. Despite these pressures, the opportunities for plastics remain immense, as plastics' light weight characteristics and ability to be reused as energy will increasingly be used to offset the impact of high oil prices. Can anyone imagine life without plastics both today and out into the future?

“Borouge has been an unqualified success from the outset and remains a critical component in our strategy to build our presence in the Middle East and Asia-Pacific.”



CEO Q&A

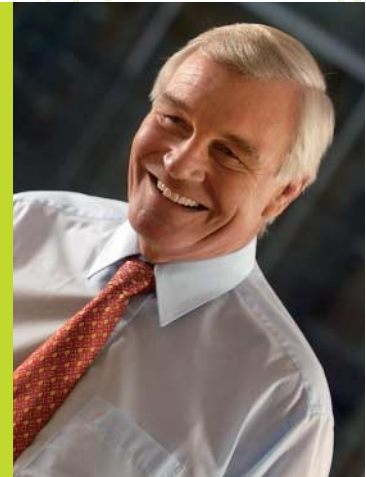
Where will Borealis focus in 2006?

We will continue to focus on targeted market segments for a growing international portfolio of customers – primarily in the wire and cable, pipe, automotive and advanced packaging industries. The curiosity and thrill of innovation must charge the entire company, not just our bright sparks in R&D. We need to focus on embedding innovative thinking along the value chain with our customers as we aim to transform Borealis, with Borouge proudly by our side, from being a leader to *the* leader in providing innovative plastics solutions. Additionally, we must drive cost competitiveness throughout the chain from feedstocks to our customers.

What needs to be done for Borealis to become the leader?

By 'Shaping the Future with Plastics', we intend to take a leadership role in addressing global challenges such as the insufficient access to fresh water in many parts of the world today. Innovative plastics solutions can play a central role in helping meet this, and many other urgent challenges in our world. Borealis draws upon a unique blend of skills, talents and mindsets from Europe, Asia and the Arab world, and we shall continue to build on these talents in people through training, development, and knowledge sharing. We must also raise our performance bar even higher to deliver operational excellence in everything we do.

"The curiosity and thrill of innovation must charge the *entire* company, not just our bright sparks in R&D."



How will Borealis better serve customers in 2006?

We will continue to focus on listening to what our customers and our customers' customers need. Only through dialogue, sharing best practice and joint development with our customers will we progress and achieve our common goals – creating value and profitable growth for our people and our shareholders. We want to ensure delivery through innovative solutions, quality service and operational excellence. Getting this balance right is what we constantly strive to achieve.

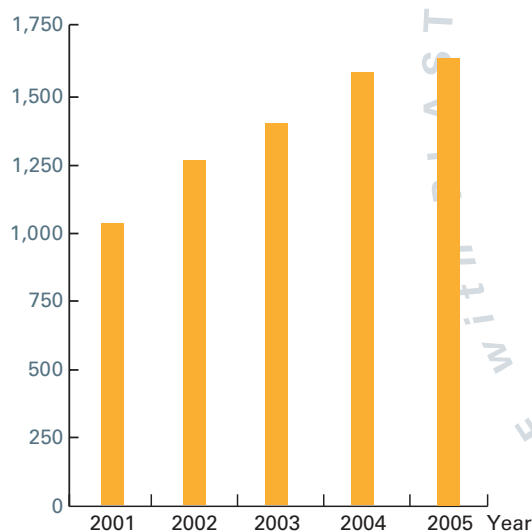
John Taylor
Chief Executive

The Borealis **business**

We provide innovative, value creating plastics solutions

In partnership with our customers, we develop new products and services not through the supply of commoditised products, but through the provision of innovative plastics solutions. Collectively, polyethylene (PE) and polypropylene (PP) are used in more than half of all plastic products today and have become the materials of choice for manufacturers of everyday applications. Customers in hundreds of sectors employ the advantages of PE and PP plastics, including increased end-product safety, reduced weight, lowering costs and speeding the introduction of new products to market.

**Innovation is behind our growth
in key market segments (kilotonnes)**



Our key growth markets

Pipe systems

Borealis is a leading, global provider of polyethylene and polypropylene solutions for the pipe industry. Our broad portfolio covers products for water and gas distribution systems, coating of steel pipelines, waste and sewage pipe systems, in-house hot and cold water systems, floor heating, chemical and industrial systems, fittings and valves.

Energy and communication cables

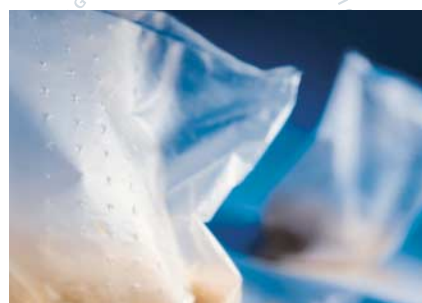
Borealis is a leading provider of polyolefin compounds for the wire and cable industry. Applications can be found in building and automotive wires, data and communication cables, and in high, medium and low voltage energy transmission and distribution cables.

Automotive

Borealis supplies a wide range of plastics solutions to the automotive industry that are used for dashboards, door side claddings, front ends, air vent systems, bumpers and under the body shieldings. Borealis' solutions are at the leading edge in areas such as zero gap materials for bumpers, off-line painted body panels and scratch-resistant materials for car interiors and exteriors.

Advanced packaging

The superior properties and flexibility of Borealis polyolefins make them the advanced packaging material of choice for applications as diverse as healthcare, courier bags, food packaging, flexible and rigid transport packaging, bottles, crates, boxes, trays, large containers and pallets.



SHAPING the FUTURE with PLASTICS

Borstar® is our leading edge technology

In satisfying today's growing demand for advanced plastics, Borealis' leading edge technology is a critical element in developing the next-generation of innovative, creative plastics.

Built on process and catalyst technology development, Borstar PE and PP capacity expansion in both Europe and the Middle East is a core ingredient of Borealis' strategy. The most significant growth plan entails a tripling of Borouge production capacity in Abu Dhabi to 2 million tonnes of Borstar polyolefins per year. Slated for completion around 2010, the project will introduce Borstar PP to the complex.

Hydrocarbons

As an integrated polyolefins company, Borealis ensures a secure, cost-efficient supply of hydrocarbon feedstocks for our crackers, and olefins for our PE and PP plants.

Feedstocks and olefins

We purchase basic feedstocks (such as naphtha, butane, propane and ethane) from the oil and gas industries and convert these into olefins in our crackers. Borealis' crackers in Finland, Sweden, Norway (joint venture with Hydro Polymers) and Abu Dhabi (joint venture with ADNOC) produce olefins (ethylene and propylene), while propylene is also created in a propane dehydrogenation plant in Belgium. The remainder of the olefins needed to supply our polyolefins plants is supplied primarily from one of our owners, OMV. We also sell a variety of co-products from the cracking process.

Phenol and acetone

Phenol and acetone are produced at our facility located in Finland and are sold mainly to the adhesive, fibre, epoxy resin and polycarbonate industries in northern Europe. Phenol is used in adhesives, construction materials, carpets, CDs, DVDs, mobile phones and household appliances. Acetone is commonly used in solvents for paints, acrylics, fibres and pharmaceuticals.



Bright futures

Economic activity is shifting profoundly towards Asia-Pacific. There is growing demand for energy, despite shrinking production and reserves. Technology is transforming the way we live and behave. At least a billion new consumers are entering the global marketplace in the next decade.

Globalisation issues such as these are forcing international businesses to take a long, hard look at the future in an attempt to differentiate the threats from the opportunities.

Along with customer needs and competitive developments, Borealis takes the future very seriously. But unlike those who see many globalisation issues as threats, we are seeing a world of opportunities for innovative plastics solutions. In fact, we expect plastics to be the material of choice for the 21st century.

Bright Futures is a digest of stories revealing familiar as well as lesser-known facets of our business. All told, it's about how Borealis is 'Shaping the Future with Plastics', **today**.

Thunder Horse

Borealis plastics fathom a sub-sea puzzle

Courage to Lead

IMD and Borealis combine to create innovative leaders

At the heart of Europe

Borealis' investment in Central Europe

Nimblicity™

How a quirky word became a precious company value

Room to manoeuvre

Borealis' caverns provide supply source flexibility

Borouge

A success story

One giant leap

Borealis' award-winning Step Change in Safety

The future calls

Borcell™ and the future of mobile communications: a quick wrap up

Thunder Horse

Borealis plastics fathom a
sub-sea puzzle



To bolster shrinking production and reserves, the major energy companies are being forced to venture into riskier environments. But where costs were once prohibitive, energy companies are now employing new technologies to extract hydrocarbons economically in some of the world's most hostile and hard-to-reach environments. The quest for hydrocarbons is undergoing a transformation as technological innovations drive the frontiers much, much deeper. And in dozens of offshore development projects pencilled in for the future – from Baffin Bay in the north to the Great Australian Bight in the south – smart innovations will allow companies to find and extract oil and gas in waters considered inaccessible just a few years ago.

Peril at sea

Thunder Horse field, one of the most ambitious offshore field developments in the history of energy exploration, is the largest discovery in the Gulf of Mexico to date. For field operator BP and its development partner ExxonMobil, a return on investment means a daily uninterrupted flow of 250,000 barrels of oil and 200 million cubic feet of gas. While the nature of its location – almost 200 km south of New Orleans – has been exposed by the 2005 hurricane season, the range of technical challenges is equally daunting. Before extracting from the reservoir, which can be more than 6,000 metres below the seabed, pipelines descend almost 2,000 metres to the ocean floor.

The Thunder Horse project was brought to Borealis' attention by a long-term partner, Bredero Shaw Norway AS – a member of the Bredero Shaw family of companies and a leading manufacturer of offshore pipeline thermal insulation systems. Aware of Borealis' innovative spirit and technological know-how, Bredero Shaw and Borealis formed a project team to meet an array of demanding challenges with a completely new plastics solution.



At 2,000 metres below sea level, the insulating material must withstand pressures of up to 1.2 tonnes per square centimetre.

“Corrosion,
extreme
temperatures,
pressure!”

Special solution for a special challenge

To safeguard an uninterrupted flow of oil and gas from the Thunder Horse field, the steel pipelines had to be insulated with something rather special, as Barry Turner, Borealis Steel Pipe Coating Application Manager explains.

“The insulating material had to meet a thorny set of parameters. Firstly, corrosion is the primary factor affecting the longevity and reliability of any sub-sea oil and gas pipeline. The insulating jacket had to be designed to defy corrosion for 20 years. Secondly, the temperature of the oil as it emerges at high pressure from the seabed is 132°C. If the oil temperature falls too much on its way along the seabed and up to the surface, the oil can start to clog the pipeline, causing complex technical problems and sizeable costs for the operator.”

Combating corrosion and heat loss are two design constraints familiar to Borealis' Innovation Centre in Stenungsund, Sweden, but there were even more demands that had to be factored into the Thunder Horse challenge.

“At almost 2,000 metres below sea level, pipelines have to be insulated against near-freezing external temperatures,” says Martin Anker, a Product Development Engineer at the Centre. “And at that kind of depth, the insulating material must withstand pressures of up to 1.2 tonnes per square centimetre. Normally, the

answer would be to apply a standard foam solution to trap air – the best insulator known. But at such a depth, standard foam insulation simply collapses under the pressure and the pipe cools down. Plainly, a standard polyolefin coating system was not feasible. Corrosion, extreme temperatures, pressure! You can imagine the sense of excitement when the Thunder Horse project first reached our Pipe Innovation Team.”

After extensive development work, Borealis created a number of new grades in a unique combination with existing Borcoat™ polypropylene materials to provide six of the seven materials forming the Thermotite® coating system – the insulation used to protect the Thunder Horse field pipelines.

Two of the Borcoat grades used are mixed with a blowing agent to create high strength foam, increasing insulation and resistance to extreme pressure. To increase the level of insulation even further, small glass spheres filled with air are added to another of the layers.

Importantly, the Thermotite 7-layer coating system can be modified to meet the specifications of similar projects in the future. Having already carried out tests that were successful at 3,000 metres below sea level, Bredero Shaw are already planning to use the system on similarly demanding projects in other parts of the world.

The insulating jacket had to be designed to defy corrosion for

20
years

“The multi-layer insulation concept based on Borcoat materials is a significant breakthrough.”

Allan Boye Hansen, Technology Manager, Bredero Shaw Norway AS

Courage to **Lead**

IMD and Borealis combine to
create innovative leaders



A small campus in Switzerland may not be the first place that springs to mind when thinking of leading international business schools. Most would be forgiven for thinking primarily of the US academic heavyweights – Stanford, Harvard, Kellogg or perhaps Wharton. But IMD, founded in 1990, was ranked by the Financial Times in 2005 as the world's leading international business school*. The ranking may have surprised some, but not Borealis.

Over 200 Borealis people have taken part in projects guided by the Lausanne-based school since a full partnership programme was initiated by the two organisations. As Vice President of Human Resources, Jaap de Vries was part of a team back in 2002 looking to improve and sustain business performance at Borealis.

"Leadership, we felt, was about making choices and being courageous. At the time, the company was under-performing, but we had a vision to turn the company around. We wanted to move away from being principally a middling commodity player in the industry towards being the innovative leader in the business."

Action philosophy

The Executive Board decided to look at a number of executive education institutes that could take an objective snapshot of the company and help increase Borealis' market competitiveness. Jaap knew Borealis had found exactly what it was looking for when IMD explained the underlying philosophy behind their partnership programmes. Rather than passively listening to a parade of interesting speakers, IMD believes management teams learn best when they are actively engaged in the learning process. They help clients to work on real and important business challenges so that there is an immediate, practical application of what is learned.

"IMD is committed to the on-going leadership development of managers, which was – and still is – extremely important to us. Many of their faculty members are recognised as world authorities in their fields, and we felt we could learn a lot from them," says Jaap, who saw the decision to partner with IMD as a strategic investment in the future.

"IMD took us out of the comfort zone."

Jaap de Vries, VP Human Resources

Bold move

"We decided to be bold and invest a lot of energy and resources into the partnership. We created an Executive Development Programme with IMD that resulted in 30 business projects. We called it Courage to Lead."

Borealis designed the project teams to cut across functions and cultures – a mixture of age and gender drawn from a cross-section of senior leaders, mavericks, young guns and opinion leaders within the company. By fostering an open learning culture, IMD broadened minds and opened up lines of communication within Borealis that had been undervalued.

"This investment in Leadership Development has really paid off," says Jaap. "IMD took us out of the comfort zone by demonstrating that if the company didn't change, it wouldn't be successful. By introducing us to innovative strategic tools, IMD gradually brought our strategic objectives into very sharp focus. 'Keep driving innovation forward,' was the message, 'and you'll win by out-thinking the competition.'"

* A composite "ranking of the rankings" from Forbes, BusinessWeek, the Wall Street Journal, Economist Intelligence Unit and the Financial Times' own rankings.

Interview >>



Martha Maznevski

Professor of Organizational Behaviour and International Management at IMD

“Borealis has been a fantastic learning partner.”

How has IMD gained such a golden reputation?

I think our reputation comes from a variety of factors, but essentially it's the result of our faculty focusing so intensively on learning in the current business environment. The fact that we've decided to remain small also gives us an advantage. It allows us to retain focus on our core competence, which is developing executives to lead strategically and effectively.

What has been so different about the Borealis partnership?

Well, the level of seriousness with which the senior management of Borealis took the partnership immediately springs to mind. The Executive Board actually came as participants, which is not a usual practice. It sent a very strong signal that the top management believed learning is important. IMD likes to work with a partner that challenges and pushes, and Borealis certainly pushed to create challenges at IMD. Borealis has been a fantastic learning partner.

How did Borealis approach the design of the projects?

In many companies, participants resist working on projects not relevant to their job. We didn't encounter that at all with Borealis. In fact, the Executive



“At IMD we like to work with a partner that challenges and pushes. Borealis has been a fantastic learning partner.”

Board deliberately chose a diagonal slice of the company to work on projects outside of their usual area of expertise. That brought in a lot of fresh new strategic perspectives. All the projects suggested by Borealis have connected the learning directly to strategy. The Executive Board sponsored strategically important projects that led teams to make strategically important decisions for the company while learning about leading a business in today's complex environment. It sounds simple, but it's actually difficult to pull off successfully.

Finally, how do you think Borealis has benefited most from the partnership?

The decision to include so many different types of participants in so many strategic projects has created a much larger, more integrated network within the company. That will be vital as the company moves forward. I think there has always been an innovative spirit in the company, but linking it tightly to the company strategy has probably been the most crucial development of all.

At the heart of **Europe**

Borealis' investment in Central Europe



The EUR 200 million investment in Borealis' complex at Schwechat, Austria, has created a world class competitive site located in a pivotal part of Europe. The new Borstar® polyethylene plant and the expansion of existing Borstar PP production creates a total annual polyolefin capacity of around 1 million tonnes, and will take worldwide annual Borstar capacity to 2 million tonnes by the end of 2006.

The new plant replaces three older plants and represents a more efficient and more productive complex based on the latest generation of our proprietary Borstar technology. Borstar PE 2G, a leap forward in polymer design, also provides a lower energy consumption of up to 7% per tonne produced as well as increased plant capacity to bring both cost and environmental benefits.

Value

Availability of competitive feedstock is crucial for Borealis, and this development was closely linked to OMV's expansion of the nearby cracker. OMV is the major supplier of olefins to our polyolefins plants in both Austria and Germany, and refinery integration offers Borealis a strong feedstock position.

"The new plant will make us even more competitive, enabling Borealis to capture customers' rapidly growing demand for new enhanced film products, particularly for flexible consumer packaging and industrial applications," says Thomas Abel, General Manager of Borealis' hub Central Europe. "The investment strengthens Borealis' ability to deliver value to customers and shareholders."



Chocolate runs in Jeanna Kanold's family. Jeanna uses ultra-thin, crystal-clear Borstar®-enhanced wrapping to present fresh chocolates at her exclusive, family-run chocolaterie in the heart of Gothenburg, Sweden.

Thinner, better films

Production at the plant will focus on unique linear low density polyethylene (LLDPE), a strong, flexible material with a predicted growth rate in Europe of 6–8% until at least 2010. LLDPE can be used for a number of applications, but the key driver behind the investment is in providing smart new solutions for advanced packaging.

By employing Borstar PE 2G, Borealis is particularly well poised to meet the growing demands of the advanced packaging market by substituting inferior products with stronger, thinner, better films. Initially, Borealis' prime markets will remain in Germany and Italy, where usage and demand remain high. However, the company is also well positioned to serve the fast-growing central and eastern European markets. As large western retailers continue to enter emerging markets in the region, the demand for advanced packaging solutions will grow.

Local dialogue

As well as extending Borealis' product range with more advanced, customer-oriented solutions, it will also create cost savings for our customers by simplifying and accelerating their production processes. Borstar PE 2G enables smooth processing on the customer side, something customers are generally more sensitive towards than price, according to surveys.

Such a large project obviously impacted the local community, with rebuilt access roads and the temporary employment of some 500 people just part of the logistical landscape. Prior to start-up and throughout the project, Borealis conducted events offering local residents, officials and media the opportunity to engage in structured, well-informed open dialogue.

A huge success, the expansion will act as a reference plant not only for future projects at Borealis, but also for Borouge, our joint venture in Abu Dhabi.

“The investment strengthens Borealis’
ability to **deliver value**
to customers and shareholders.”

Thomas Abel, General Manager Central Europe

Nimblicity™

How a quirky word became a
precious company value



Following the adoption of a new Borealis strategy in 2001, a nine-quarter transformation programme was launched to significantly improve a company performance that was treading water at best, despite a deep pool of talent within the organisation. Rejuvenating the company's culture was seen as an important part in driving the company forward.

An early task was to revitalise the values by which the company was operating. The idea was simple. If the existing Borealis values failed to match the new strategic intent of the company, they had to be changed. A Values Team was created to take the company's pulse and report back to the Executive Board with their proposals.

One of eight employees brought into the team from across the company, Mads Ingholt, still recalls the excitement of a mission that felt like a fresh beginning.

Hearts and minds

"The company's values were all around us," recalls Mads, pointing towards a wall beside his desk. "On the walls, nicely framed. But they'd left the hearts and minds of the employees."

Mads, a Leadership Development Manager, had been with the company for two years at the time. "We decided to blow the dust off the old company values and capture the essence of the new."

After canvassing and collating the feelings of over 300 employees, the team rounded on three values that resonated throughout the company – Responsible, Respect and Exceed. Casting the results back out across the company again, the rebound proved positive. The first two values had been with the company from its inception, and represented a degree of continuity. Exceed was a popular, aspirational addition.

The missing word

"But there was still something missing," explains Chief Technology & Projects Engineer, Juhani Pulli, the leader of the original Values Team. "We were missing a simple word to denote the pace at which we develop new,

valuable ideas and turn them into solutions for customers; the way we questioned the established orthodoxies; the direct, simple ways in which we were operating and communicating. That's when the dictionaries and thesauruses came out."

"We were still grappling with the problem an hour before presenting the new values to the Executive Board," recalls Juhani. "It was then suggested that to describe a truly unique company value, we invented a truly unique word. Nervous laughter was followed by a rapid-fire wordplay session until one word silenced the room. Nimblicity, a combination of nimble and simplicity. We'd found it."

"There were a few raised eyebrows among the Board, but it resonated," Mads remembers. "I think the Board also recognised the word's value as a bottom-up initiative. We canvassed the employees again, and Nimblicity sparked a degree of lively debate across the organisation that suggested a common nerve had been touched."

Nimblicity endorsed as a Borealis value

The new values – including Nimblicity – were endorsed by the Executive Board and launched in January 2003, and a year later, Nimblicity was registered as a trademark (within the European Union). Now an everyday part of the company vocabulary, Nimblicity has become a measure, spurring innovation across the Group.

Nimblicity is consistently rated the most unique and inspirational value by Borealis employees, wherever in the world they work and whatever their work entails. The quirkiness of the word also tends to arouse the curiosity of new and potential employees. After all, what kind of unique value does the company have that the 200,000 English words in common use can't provide? Business partners too have latched onto the word. In 2006, Borealis is rolling out a fast, simple user interface that will enable teams to assess the viability of new projects. Naturally enough, it's called the Nimblicity Tool.



Mads Ingholt, Leadership Development Manager

"To describe a truly **unique company** value, we invented a truly unique word."

Juhani Pulli, Chief Technology & Projects Engineer

Room to manoeuvre

Borealis' caverns provide supply
source flexibility



In December 2004, a consignment of 19,500 metric tonnes of liquid propane was pumped along two kilometres of pipeline to the Stenungsund docks in western Sweden. Awaiting her payload was Helga, a ship bound for Teesside in the north-east of England. Although a fairly routine anchorage for the Norwegian-registered gas carrier, she was to become the first ship to take fully-refrigerated liquid propane from Borealis' Stenungsund site out onto the worldwide propane market – a new and exciting development for Borealis' Feedstock team.

Strategic asset

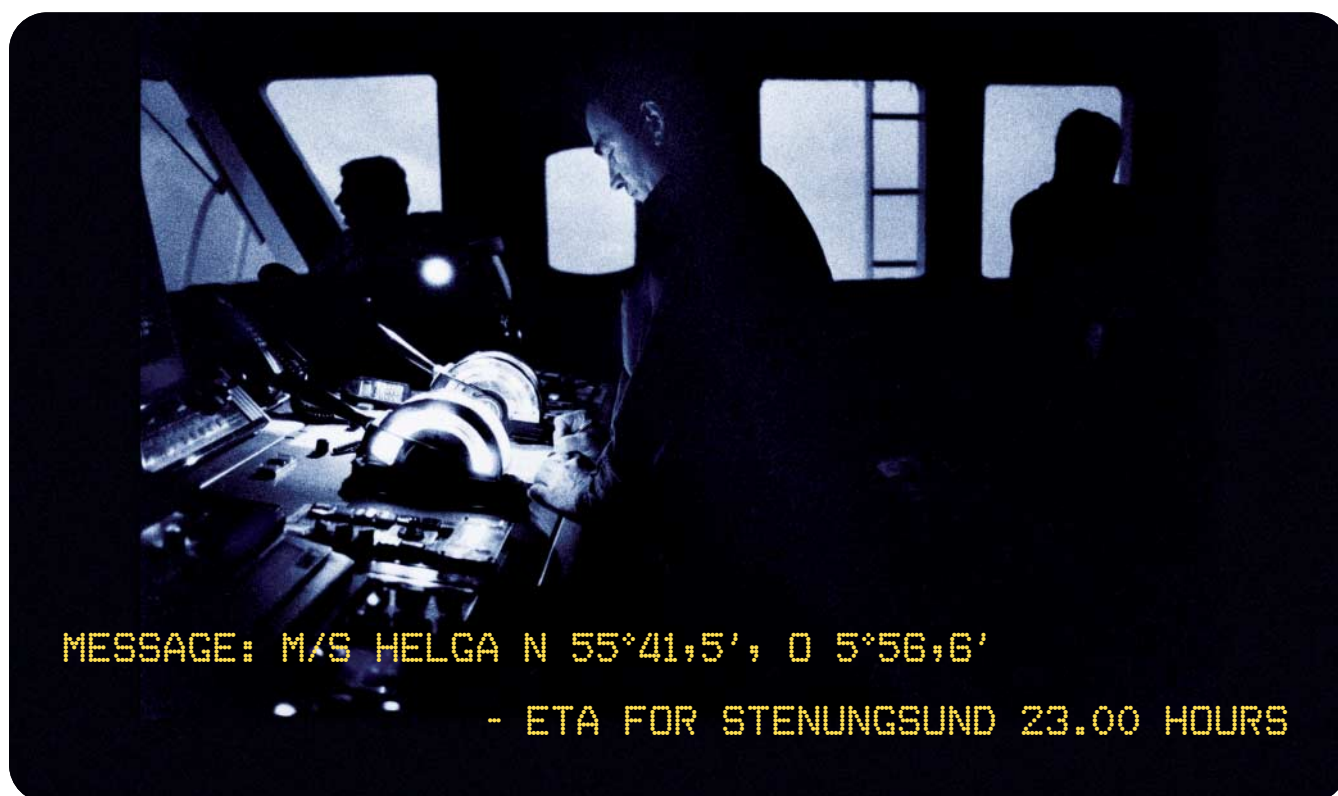
The push by Borealis to reach worldwide propane markets began in 2002 once the team took stock of the company's assets. One asset that could possibly be overlooked, but not ignored, lies below ground at Stenungsund – a complex of granite caverns that is, by some distance, Europe's largest gas storage facility. The Feedstock team began exploring innovative ways to exploit the storage space.

Originally developed to hold Sweden's strategic reserves, the 20–40 metre deep caverns were being used passively at the time – that is,

merely to store supplies to the Borealis cracker in Stenungsund. As gas prices fluctuated on the market, so the gas in storage could gain or lose value. The sheer size of the caverns – holding up to 276,000 metric tonnes of propane alone – suggested they could be leveraged more actively to optimise the company's hydrocarbons business. Spare capacity in the caverns could provide the flexibility needed to target the most favourably priced feedstock at any given time. In addition to Borealis' own use, external companies could lease storage space in the facility.

Worldwide reach

Propane was – and still is – one of the fastest growing fuel sources in the developing world. Previously, Borealis had only been able to dispatch semi-refrigerated propane on smaller, thick-walled ships. Due to the limited size of the vessels and their high running costs, the targeted markets had mainly been restricted to Europe. By cooling its propane into a fully refrigerated state and then loading it onto much larger ships, Borealis has transformed Stenungsund into a propane export facility for deep sea vessels – making it economically



Magnum/IBL

feasible for Borealis to dispatch large, fully-refrigerated thin-walled vessels as far as the Americas and Asia Pacific.

Using a state-of-the-art trading system, an experienced team of Borealis traders monitor the global propane market, carefully assessing the forward market before tweaking the company's feedstock mix.

"Stenungsund has become a worldwide export facility," explains Uffe Petersen, a Borealis

trader. "It allows us to take advantage of the summer/winter price differentials. In summer, propane is usually sold off by producers unable to stop oil and gas production. That's when the demand and prices are low, making the caverns valuable as a storage facility. In winter, when propane is in greater demand for heating around the world, the value rises and the sale of propane in different markets can mean profits from these price differentials."

Stenungsund – a complex of granite caverns that is, by some distance, **Europe's largest** gas storage facility.

How is propane used in the petroleum-to-plastic process?

At the cracker, the propane is steam-heated to approximately 850°C in a large furnace. The molecules start to crack into a variety of smaller chains to form ethylene and propylene, the key ingredients of our polyethylene and polypropylene plastics.


How is cold propane stored in caverns?

Unlike natural gas, propane is heavier than air. In its raw state, propane sinks and pools at the floor. Liquid propane will flash to a vapour at atmospheric pressure. Propane is stored at low

pressure and at a temperature of about -39°C, a combination that keeps the propane in a liquid state. Because propane is a gas, and therefore constantly vaporising, a cooling system is required to halt any resulting pressure and temperature increases. Frozen groundwater around the cavern creates the seal.

How is cold propane transported?

It is transported by ship. The ship is equipped with a cooling system to ensure the propane is kept at the same temperature as in the cavern. A loading arm is connected between the ship and shoreline.



Propane is stored under low pressure at -39°C.

Borouge

A success story



In a joint venture announced in 1998, Borealis and the Abu Dhabi National Oil Company (ADNOC) agreed to build upon their combined strengths and create Borouge, a new force in the polyolefins industry and the first implementation of Borealis' proprietary Borstar technology on a world scale.

Groundbreaking partnership

The Borouge complex in Ruwais became the first major downstream petrochemical investment in Abu Dhabi. The location, some 250 km along the coast from Abu Dhabi city, is close to both the existing ADNOC oil refinery and the Abu Dhabi Gas Industries (Gasco) facility. In October, 2002, the USD 1.2 billion Borouge state-of-the-art petrochemical complex was officially inaugurated. Nameplate capacity was 600,000 tonnes per year ethylene and 450,000 tonnes per year polyethylene (PE), yet after two years of operations, Borouge was already performing beyond expectations as the complex exceeded nameplate capacity.

Sharing Borealis' strategy of value creation through innovation, Borouge markets products from both companies in the Middle East and Asia-Pacific through a comprehensive regional sales network. Entering markets with relatively few local suppliers, Borouge has quickly built up its sales of value added products to 60% of its total. Robust economic growth, major infrastructure upgrades and increased consumption

has clearly made China the main driver in the region. Demand for high-end, differentiated pipe and advanced packaging solutions in the Middle East and Asia-Pacific is expected to grow annually between 6% and 8% until 2010.

Meeting soaring demand

In 2005, Borouge conducted the first turnaround of the complex, sharpening its competitive edge by enhancing the existing Borstar PE capacity from 450,000 to over 600,000 tonnes per year, and in order to cope with the greater volumes, expanding its material handling facilities. Since the start of production, Borouge has achieved a clear leading market position in both pipe and wire & cable businesses in the Middle East and Asia-Pacific.

Keen to seize upon the opportunities of an advantageous feedstock position and such healthy growth markets, Borealis and ADNOC have initiated an ambitious, multi-billion dollar plan to triple the polyolefins capacity in Ruwais to 2 million tonnes per year by 2010, introducing Borstar polypropylene (PP) to the complex for the first time. With applications in almost every end-use plastics market, PP is one of the most versatile polymers available.

Bringing a unique proprietary technology to one of the Middle East's most advanced plastics facilities, Borouge represents a groundbreaking international partnership at the forefront of next-generation plastics innovation.



Borouge represents a ground-breaking **international partnership** at the forefront of next-generation plastics innovation.

One giant leap

Borealis' award-winning
Step Change in Safety



Safety has always been important at Borealis, but reasonable improvements in the early years of the company had begun to level off by 2000. The Borealis safety record was average for the industry. The company's overall performance was also declining at the time.

Tackling the safety issue head-on, Borealis' new strategy in 2001 embraced safety leadership as a strategic business value.

"If you manage safety well, you have an organised company in good order," says Ismo Pentti, Vice President of Health, Safety and Environment at Borealis. "A good safety performance has a direct, positive effect upon the entire business performance. A focus on safety, has to start at the top. Senior management commitment to safety performance tends to drive the message home across the entire organisation."

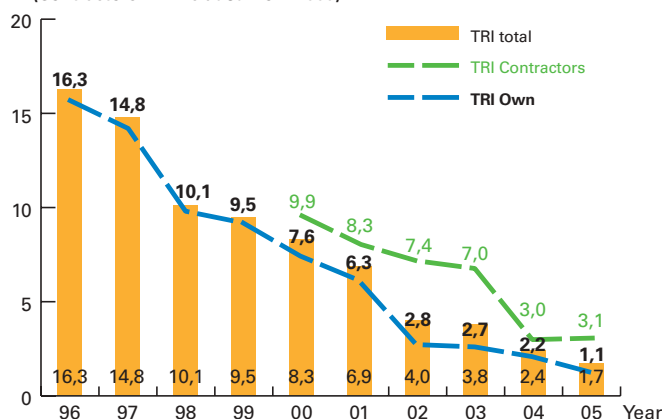
Good behaviour

A Step Change in Safety programme was launched, with a crisp, clear set of goals and intentions broadly communicated. Safety was the first item on the agenda in all management meetings and conferences. An extensive programme of observation tours and safety audits was established. Safety results were openly communicated, internally and externally.

A change in the mindset of the company was under way.

As 90% of accidents are caused by behaviour, the focus of the programme had to home in on behaviour-based safety issues. Extensive behaviour-based training for management groups was established, with managers at the major hubs taking 3-day training courses. Hand-picked opinion leaders from within the company were then coached as safety trainers. Spreading out into the organisation, the trainers opened up frank and informal dialogue on safety. On-the-job safety training became a daily exercise until sound behaviour patterns became the norm.

Total Recordable Injuries (TRI) per million working hours 1996–2005 (Contractors TRI included from 2000)



Safety is measured by an industry standard of total recordable injuries per million hours worked (or TRIs for short). Following a marked decrease in the number of injuries in 2001, the first full year of the Step Change in Safety programme resulted in a significant decrease in TRIs.

World class

The Step Change in Safety programme, and the downward trend in TRIs, has continued ever since. In 2005, the Borealis TRI frequency was at a world-class, all-time low of 1.7. During the same period, Borealis contractors and partners were increasingly introduced to the programme. The level of Borealis employee satisfaction was raised, and tellingly, so too was the company's operational and financial performance. Good habits cascaded across the company.

In November 2005, Borealis won the DuPont Safety Award for the impact safety had made on its business since 2001. Offering no room for complacency, however, the company will continue to drive home the safety message. "If we can't do it safely, we don't do it at all" is a popular refrain among employees and contractors that will continue to be heard in the future.

DuPont Safety Award »

"If we can't do it safely, we don't do it at all."

DuPont Safety Award

The prestigious DuPont Safety Award recognises significant projects in workplace safety or society at large that have been led by individuals, companies or organisations. For its Step Change in Safety programme, **Borealis was voted winner of the Business Impact category** at the 2005 DuPont Leaders Forum in Geneva.

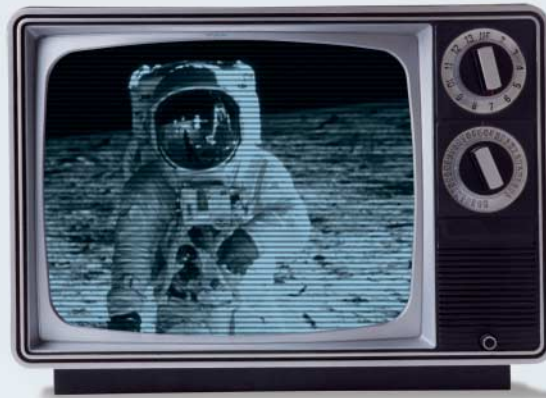
The award was presented by Neil Armstrong, the former astronaut and no stranger to the importance of safety.

Juan Aguiriano, President of DuPont Safety Resources Europe, Middle East and Africa, praised the Step Change in Safety programme. "Borealis has shown real leadership in successfully implementing a fully integrated culture of safety within their organisation, including their contractors. We are confident that their workplace safety

excellence will be a catalyst for greater commitment from other organisations."

"I am very proud to receive this award on behalf of all employees in Borealis and our contractors," said John Taylor, Borealis Chief Executive. "Personally, I have always said that I don't want anyone to get hurt while

working in Borealis. The mindset of safety, quality and housekeeping all go together and set a high performance standard. This achievement has involved everyone in Borealis. Our success in safety has been a fundamental part of the company's transformation over the past four years."



"Borealis has shown
real **leadership**."

Juan Aguiriano, President of DuPont Safety Resources Europe, Middle East and Africa

The future calls

Borcell™ and the future of mobile
communications: a quick wrap up



The demand

More users, in more areas, are demanding more mobile services at reliable, faster rates of transfer.

The market

Around 2 billion people worldwide now use mobile phones, with developing markets expected to raise that figure to 3 billion by 2010. According to a 2005 Nokia survey, quality of reception proved to be the most common factor driving the mobile phone market, followed by the design and quality of the handset.

The first country to introduce high frequency 3G coverage on a large commercial scale was Japan, where about 40% of subscribers used 3G-only networks in 2005. By the end of 2006, it's expected that the transition from 2G to 3G will be largely complete, and upgrades to the 3.5G stage are already underway. Analysts believe 60% of Europeans will own a 3G mobile phone by the end of 2010. 3G has only just begun.

The players

The network owners build more radio frequency stations and masts as usage spreads around the globe. As the market demands more services, the network owners come under greater pressure to increase network reception strength. To increase the frequency, the network owners need to employ higher frequency cables at the stations and masts.

To enable higher frequency transmission, cable makers provide the network owners with insulated higher frequency cables. But higher frequencies result in greater signal loss from the cables, meaning poor connection and corrupt data transfer for the user. Cable makers need an insulating material that will also smother signal loss from the more powerful cables.

The plastics solution provider

As well as providing plastics solutions for the design and quality of handset manufacturers, Borealis has established a leading position in the wire and cable market worldwide, specialising in supplying advanced polyolefin plastics solutions. By developing a new aggregate from two of its polyethylene compounds, Borealis has created Borcell™ HE1123/LE1120, a step change in high frequency signal strength retention for the mobile communications industry. This solution is capable of supporting increasingly higher capacities without the attendant signal loss commonly found in previous generations of insulating material.

The resulting gains from lower system losses translate into a greater choice of more reliable services and/or more competitive price structures – both of which lead to more demand: more users, in more areas, demanding more mobile services at reliable, faster rates of transfer.



Borealis A/S

Financial Statements 2005

SHAPING the FUTURE with PLASTICS

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SHAPING the FUTURE with PLASTICS

Financial review

Highlights

- Net profit attributable to equity holders of the parent was EUR 226 million, compared with EUR 203 million in 2004. The return on capital employed after tax was 12% compared with 11% in 2004. Despite lower volumes, Borealis achieved this better result thanks to improved margins and good results from the Borouge Joint Venture.
- 2005 was a year with continuously increasing olefins prices and high feedstock costs.

Market development

On average, polyolefin market prices were more than 150 EUR/t above the 2004 level. The average price of naphtha, the main feedstock, increased by 75 EUR/t compared to 2004. Borealis polyolefins sales volume decreased by 11% in total, mainly as a result of the sale by end November 2004 of its Portuguese operations with polyethylene capacity of 275,000 tonnes. The total Western European market saw a slight negative market growth compared to the previous year.

Review of results

Sales

Excluding the impact of the divestment of the Portuguese operations, overall polyolefins sales volume dropped compared to 2004 in line with market development. However, price increases more than compensated the declining volumes and net sales amounted to EUR 4,814 million, 4% higher than the 2004 net sales of EUR 4,628 million.

Cost development

Fixed costs were EUR 37 million higher than in 2004, mainly due to major maintenance turnarounds and announced restructuring. Research and development costs amounted to EUR 41 million, of which EUR 17 million have been capitalised. The number of employees (FTE) by the end of 2005 was 4,536, a slight reduction of 11 compared to last year.

Operating profit

Operating profit amounted to EUR 236 million compared with EUR 278 million in 2004. Borealis incurred an impairment loss of EUR 31 million on two of its production lines. The effect of decreased volumes was compensated by better margins.

Return on capital employed

The return on capital employed after tax amounted to 12%, compared with 11% in 2004, a result of increased profitability combined with focus on cash management.

Sensitivity analysis*

Sensitivity (EUR million)	2005	2004
Polyolefins prices +/-25 EUR/t	+/-82	+/-91
Polyolefins sales volumes +/-5%	+/-40	+/-39
Naphtha prices +/- 10 USD/t	-/+16	-/+22

* Excluding correlations with other market prices.

Financial income and expenses

Net financial expenses amounted to EUR 40 million compared with EUR 56 million in 2004. Interest paid decreased thanks to the reduction in interest rates. The net financial result of 2004 were increased by the costs of terminating hedge relationships due to loan portfolio restructuring of EUR 4 million.

Taxes

The provision for income taxes amounted to an expense of EUR 59 million (EUR 61 million in 2004). Borealis paid income taxes of EUR 26 million in 2005, compared with EUR 7 million paid in the previous year.

Net profit and distribution of dividend

The net profit for the year amounted to EUR 227 million, compared with a net profit of EUR 204 million in 2004. During 2005, Borealis paid a dividend of EUR 60 million on the 2004 result and an interim dividend of EUR 80 million. The Board of Directors proposes that a dividend of EUR 45 million be paid for 2005.

Financial position

Total assets/capital employed

At year-end, total assets and capital employed stood at EUR 3,444 million and EUR 2,296 million respectively, compared with EUR 3,140 million and EUR 2,087 million at year-end 2004. The increase in capital employed is mainly due to higher inventories and higher receivables caused by of increased prices.

The solvency ratio was 45% at year-end 2005, compared with 45% at year-end 2004. The gearing ratio increased

Financial review

slightly to 44% at year-end 2005, up from 40% in 2004, mainly due to the increase in interest-bearing debt and reduction of retained earnings as a result of the dividend payments totalling EUR 140 million.

Cash flows and liquidity reserves

Cash flow from operations was EUR 227 million (EUR 378 million). The better sales margins could not compensate the effect of the increased working capital because of increased prices.

Liquidity reserves, made up of undrawn, long-term committed credit facilities and cash balances, amounted to EUR 863 million at year-end 2005 (EUR 922 million).

Net interest-bearing debt increased and stood at EUR 684 million at year-end, up from 574 by end 2004. The change in net interest-bearing debt is represented in the following table:

Change of net interest-bearing debt (EUR million)	2005	2004
Cash flow provided by operating activities	227	378
Capital expenditure	-228	-216
Repayment of loans by associated companies	67	28
Proceeds from the sales of operations	0	147
Other (mainly relating to foreign exchange differences)	-36	7
Dividend paid	-140	-
Total decrease/increase	-110	344

Capital expenditure

Investments in tangible fixed assets amounted to EUR 221 million in 2005, compared with EUR 192 million in 2004. The most important investment was the new Borstar PE plant at the Austrian production facility that was successfully taken into operation in October 2005. HSE capital expenditure was EUR 9 million. Depreciation and amortisation amounted to EUR 186 million, compared with EUR 189 million in 2004.

Shareholders' equity

The Shareholders' equity at year-end 2005 was EUR 1,541 million (EUR 1,420 million, restated 2004).

Equity development (EUR million)	2005	2004
Net result attributable to the parent	226	203
Exchange and fair value adjustment, net	35	-41
Gross increase/decrease	261	162
Dividend paid	-140	-
Net increase/decrease	121	162
Opening equity	1,420	1,258
Ending equity	1,541	1,420

Financial Risk Management

The objective of financial risk management is to support the core businesses of Borealis. It operates within the framework of the Financial Policy, approved by the Board of Directors. Borealis aims to minimise effects related to foreign exchange, interest rate, liquidity, credit, commodity price and refinancing risks. The use of any financial instruments is based on actual or forecasted underlying commercial or financial cash flows or identified risks as defined in the policy. Note 23 gives an overview of the financial instruments used by Borealis to manage risk.

Financial risk management is centralised in the Tax & Treasury department where the foreign exchange risks related to short-term commercial cash flows are hedged. Limits for long-term foreign exchange exposures are established. Interest rate risks are managed through a duration benchmark. Foreign exchange translation differences relating to Borealis A/S' long-term investments in subsidiaries are charged directly to equity. The exposures are partly hedged by long-term borrowings in the same currencies. Hedges are generally placed in the legal entities where the underlying exposure exists. When certain conditions are met, Borealis applies IAS39 hedge accounting principles to foreign exchange and interest rate hedges.

Borealis' cash balances are deposited in the money market or invested in liquid instruments. Counterpart credit risks are managed by mandatory credit limits and external credit rating requirements. A real-time treasury system is used to monitor exposures and risk limits.

Group world-wide insurance programmes are established for risk related to property damage and business interruption, liability exposures, cargo, and for our employees when travelling for Borealis.

Accounting principles

Statement of Compliance

The annual report of Borealis A/S for 2005 has been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of reporting class C large enterprises, (see the statutory order on the adoption of IFRS issued pursuant to the Danish Financial Statements Act.) In addition, the annual report has been prepared in compliance with the International Financial Reporting Standards issued by the IASB. The financial statements were authorised for issue by the Board of Directors on February 15, 2006.

Except for the changes presented below, the accounting policies are unchanged compared to last year.

Changes in accounting policies

As of January 1, 2005 new and revised International Financial Reporting Standards take effect. The effects on the 2005 consolidated financial statements are: the reclassification of minority interest to equity and goodwill tested for impairment instead of amortisation. Further, Borealis has elected to adopt the revised IAS 19 Employee Benefits, which allows actuarial gains and losses to be recognised directly in equity.

There are also changes to the separate financial statements of Borealis A/S in accordance with IAS 21, (The Effects of Changes in Foreign Exchange Rates:) shares in subsidiaries and associated companies will be measured at cost, instead of by applying the equity method, and unrealised foreign exchange gains and losses on long-term intra-group receivables that are considered part of the net investments in subsidiaries, will be recognised in profit and loss.

All changes are applied retrospectively, except for the change related to the amortisation of goodwill, which has only been implemented prospectively as of January 1, 2005. Comparative figures for 2004 have been restated accordingly. The provision for negative goodwill, amounting to EUR 1 million by December 31, 2004 has been reclassified to retained earnings. The retrospective adoption of the revised IAS 19 had led to an increase of the employee benefit liability of EUR 63 million, representing the previously unrecognised actuarial losses by end December 31, 2004, of which EUR 44 million is recognised through the statement of recognised income and expense during 2004 and the remaining EUR

19 million as an adjustment to the opening retained earnings at January 1, 2004. In addition Borealis recognised the liability for theoretical withdrawal premiums related to shareholdings in mutual insurance companies retrospectively, bringing the total adjustment to the opening retained earnings at January 1, 2004 to EUR -24 million. If the accounting policies had remained unchanged, the effect on the consolidated income statement for 2005 would have been EUR 3 million amortisation charge of actuarial losses and the net profit of the year and total equity of Borealis A/S would have been equal to the consolidated net result and equity attributable to the equity holders of the parent. The change to the measurement of goodwill is applied prospectively. The amortisation charge for goodwill to the income statement of 2004 was EUR 3 million.

Basis of Preparation

The financial statements are presented in Euro, rounded to the nearest million. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and investments held for trading. Recognised assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged.

Consolidation Principles

The consolidated financial statements include the accounts of Borealis A/S, the Parent Company, and all the companies in which Borealis A/S has control. Control is generally indicated when Borealis A/S, either directly or indirectly, has a majority voting interest. Companies in which the Group has significant influence, but no control are considered as associated companies. Companies which are not subsidiaries but in which the Group owns 20% or more, including jointly controlled operations, are normally considered as associated companies.

The consolidated financial statements are based on audited financial statements of the parent company and each individual subsidiary. The accounts have all been prepared in accordance with the Groups' accounting policies. Items of a similar nature have been combined. Intra-group transactions, unrealised intra-group profits, internal shareholdings, and intra-group balances have been eliminated.

The financial statements of the subsidiaries are included

Accounting principles (Cont.)

in the consolidated financial statements from the date that control commences until the date that control ceases.

Acquired subsidiaries and associated companies are included in the consolidated financial statements from the date of control and until control ceases. A revaluation of the acquired net assets is made on the date of acquisition, using the purchase accounting method to state acquired assets and liabilities at fair value. Any remaining positive difference between the fair value of the assets and liabilities and the purchase price of subsidiaries and associated companies is capitalised as goodwill and is subject to an annual impairment test. Any remaining negative goodwill is recognised in the income statement.

Foreign Currency

Assets and liabilities denominated in foreign currencies have been translated into Euro (EUR) at the exchange rates quoted on the balance sheet date. As the Group's activities are mainly based throughout Europe, EUR is used as the presentation currency. Financial statements in functional currencies, other than EUR, of foreign entities have been translated at the exchange rates quoted on the balance sheet date for assets and liabilities and the income statements of foreign entities have been translated on the basis of monthly exchange rates.

All foreign exchange related gains and losses, both realised and unrealised, are recorded as financial items in the income statement. However, the exchange adjustments arising from the following items are charged directly to equity: conversion of the net assets of foreign entities and associated companies as of January 1 using the closing rate on December 31; translation of long-term intra-group receivables that are considered part of investments in subsidiaries or associated companies; conversion of long-term loans hedging net assets of foreign subsidiaries and associated companies or intra-group receivables considered part of investments in subsidiaries and associated companies; and conversion of the net income of foreign entities calculated on monthly rates to figures converted on the exchange rates applicable on the balance sheet date.

Financial Instruments

Derivative Financial Instruments

The Group uses derivative financial instruments to reduce its exposure to foreign exchange, interest rate and commodity risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. The fair value of naphtha and electricity contracts is their quoted market price at the balance sheet date.

Cash Flow Hedges

Where derivative financial instruments are designated as a hedge of the variability in cash flows of a recognised liability, a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the firm commitment or forecasted transaction results in the recognition of an asset or liability, the cumulative gains or losses are removed from equity and included in the initial measurement of the asset or liability. When incurred, the cumulative gains or losses are removed from equity and recognised in the income statement together with the hedged transaction. The ineffective parts of any gains or losses are recognised in the income statement

Accounting principles (Cont.)

immediately. Any gain or loss arising from changes in the time value of the derivative financial instruments are excluded from the measurement of hedge effectiveness and are recognised in the income statement immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction still is expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Hedge of Monetary Assets and Liabilities

Where derivative financial instruments are used to economically hedge the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instruments is recognised in the income statement.

Hedge of Net Investment in Foreign Operation

Where a foreign currency liability hedges a net investment in a foreign operation and fulfils the requirement for hedge accounting, foreign exchange differences arising on translation of the liability are recognised directly in equity.

Income Statement

Revenue Recognition

Revenues from sales of goods are recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Net sales comprise sales invoiced during the year excluding value-added tax and after deduction of goods returned and discounts and allowances.

Research and Development

Research costs are charged to the income statement in the year they are incurred.

Development costs relating to a definable product or process that is demonstrated to be technically and commercially feasible are recognised as an intangible fixed asset to the extent that such costs are expected to be recovered from future economic benefits. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads.

Other development costs not meeting those criteria are recognised in the income statement as an expense when incurred.

Results from Associated Companies

Investments in associated companies and investments in jointly controlled operations are recorded under the equity method in the consolidated financial statements. The proportionate share of the net profit/loss after tax of these companies is included in the consolidated income statement.

Net Financial Items

Interest income and expenses are included in the income statement with the amounts relating to the financial year.

Net financial items also include borrowing costs and costs incurred on finance leases as well as realised and unrealised gains and losses from exchange and price adjustments of financial instruments, investments and items in foreign currencies.

Income Tax

The income tax charged to the income statement comprises expected tax on the taxable income for the year, adjusted for the change in provision for deferred tax assets and liabilities for the year. Income tax that relates to items recognised directly in equity is also recognised in equity.

Accounting principles (Cont.)

Balance Sheet

Intangible Fixed Assets

Intangible fixed assets are stated at cost less accumulated amortisation and impairment losses.

Goodwill arising on an acquisition represents the excess of the costs of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is not amortised, but is subject to an annual impairment test.

Licences and patents externally acquired are stated at cost less accumulated amortisation. Amortisation is according to the straight-line method based on the estimated lifetime or 20 years, whichever is shorter.

Capitalised development costs are stated at cost less accumulated amortisation. Amortisation is charged to the income statement on a straight-line basis over the expected lifetime of the asset of 3–10 years.

Costs to purchase and develop software for internal use are capitalised and amortised on a straight-line basis over 3–7 years.

Tangible Fixed Assets

Tangible fixed assets are valued at cost less accumulated depreciation and impairment losses. Cost comprises purchase price, site preparation and installation. Day-to-day servicing expenses are not included in the cost of the assets. If certain conditions are met, the costs of major inspections and overhauls are recognised in the carrying amount of the property, plant and equipment.

Production plants include land, buildings, related non-movable machinery and equipment. Assets held under finance leases are also included.

Machinery and equipment includes purchase price and any directly attributable costs.

Depreciation is made on a straight-line basis over the expected useful life of the components of the assets. The useful lives of major assets are determined individually, while the lives of other assets are fixed in respect of groups of uniform assets.

Land is not depreciated. Buildings are depreciated over 20–50 years, production facilities over 15–20 years and machinery and equipment over 3–15 years. Assets held under a financial lease are depreciated over the lease

period. Gains and losses from disposals of tangible fixed assets are recorded as adjustment to depreciation in the income statement.

Assets leased under finance leases are recognised in the balance sheet and depreciated in the same way as the Group's other property. The cost of assets leased under finance leases are stated at the lower of fair value and the present value of the future lease payments at the time of acquisition.

Impairment Losses

The carrying values of both tangible and intangible assets, other than inventories, deferred tax assets and certain financial assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated as the greater of net selling price and value in use. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Investments in Subsidiaries and Associated Companies of the Parent Company

Investments in subsidiaries and associated companies are recorded at cost.

Other Investments

Other investments are valued at fair value or at cost if fair value can not be reliably estimated.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are based on the first-in first-out principle (FIFO method), and comprises direct costs such as materials, utilities, salaries and wages, and a systematic allocation of fixed and variable production overhead costs.

Trade and Other Receivables

Receivables are stated at amortised cost, less impairment losses.

Accounting principles (Cont.)

Trade and Other Payables

Payables are recorded at cost.

Financial Institutions

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised costs.

Deferred Tax

The provision for deferred income tax is computed individually for each company on the basis of the current local tax rates in accordance with the balance sheet liability method.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance representing the amount of any tax benefits for which it is not probable that the tax assets will be utilised.

Reserves

A reserve has been established under the consolidated equity for unrealised exchange differences related to deferred foreign exchange gains and losses on intercompany loans, hedge loans and the equity of foreign subsidiaries. The hedging reserve contains fair value adjustments to financial instruments. The reserve for revaluation of non-monetary items contains the actuarial gains and losses on employee benefit plans as well as deferred taxes recognised in equity. The reserve for net revaluation under the equity method contains the changes to the value of associated companies compared to their cost price.

Employee Benefits

Defined Contribution Plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined Benefit Plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by

estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine the present value of it, and the fair value of any plan assets is deducted. A qualified actuary, using the projected unit credit method, performs the calculation.

All actuarial gains and losses are recognised directly in equity.

Government Grants

Government grants include grants for research and development as well as investment grants. Research and development grants are recognised in the income statement on a systematic basis to offset the related cost, or offset against capitalised development costs. Investment grants are recognised in the balance sheet as deferred income and recognised as income over the useful life of the asset.

Cash Flow Statement

The consolidated cash flow statement shows the Group's cash flow provided by/used in operating, investing and financing activities.

The cash flow from operating activities is calculated using the direct method. The cash flow from investing activities comprise payments made on the purchase and disposal of undertakings and activities and the purchase and disposal of tangible and intangible assets. The cash flow from financing activities comprise changes in the Group's share capital, as well as loans, repayments of principals of interest-bearing debt and payment and dividends. Cash and cash equivalents consist of cash and bank deposits.

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. The Group's risks and rates of return are affected predominantly by differences in products. Therefore the primary format for reporting segment information is business segments, with secondary information reported geographically.

Accounting principles (Cont.)

New accounting standards

The IASB and the EU have adopted the following new accounting standards that are not compulsory for Borealis in the preparation of the annual report for 2005:

IAS 39 Financial Instruments (amendments) should be applied for financial years beginning on or after January 1, 2006. Borealis does not expect to use the option for voluntary measurement of financial assets and liabilities at fair value. Therefore, the new standard will not affect the recognition and measurement of financial instruments.

IFRS 4 Insurance Contracts (amendments). Borealis has no financial guarantee contracts.

IFRS 6 Exploration for and Evaluation of Mineral Resources and the related amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards should be applied for financial years beginning on or after January 1, 2006. Borealis does not carry out activities subject to this standard.

IFRS 7 Financial Instruments: Disclosures and the amendment to IAS 1 in respect of capital disclosures should be applied for financial years beginning on or after January 1, 2007. Implementation of the standard will not have any effect on the recognition and measurement of financial instruments.

IAS 21 The Effect of Changes in Foreign Exchange Rates (amendments) should be applied for financial years beginning on or after January 1, 2006. Borealis has no loans to or from foreign entities that could be affected by the amendments. The amendment has not yet been adopted by the EU.

The IASB and the EU have adopted the following new IFRIC interpretations which are not compulsory for Borealis in the preparation of the annual report for 2005:

IFRIC 4 Determining whether an Arrangement contains a Lease should be applied for financial years beginning on or after January 1, 2006. On going through existing agreements at December 31, 2005, we ascertained that Borealis does not have agreements or other arrangements that will be classified as leases according to IFRIC 4. After the balance sheet date, no agreements or other arrangements have

been concluded that will be classified as leases according to IFRIC 4.

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds should be applied for financial years beginning on or after January 1, 2006. Borealis does not participate in such financing programmes, and therefore IFRIC 5 will not affect the financial reporting for 2006.

IFRIC 6 Liabilities arising from Participation in a Specific Market – Waste Electronical and Electronic Equipment should be applied for financial years beginning on or after December 1, 2005. Borealis does not produce electronic equipment comprised by EU's directive on WE&EE.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies should be applied for financial years beginning on or after March 1, 2006. Borealis has no foreign entities in countries with hyperinflation. IFRIC 7 is not yet adopted by the EU.

IFRIC 8 Scope of IFRS 2 should be applied for financial years beginning on or after May 1, 2006. Borealis has no share-based payments transactions. IFRIC 8 is not yet adopted by the EU.

Amounts

All amounts are in EUR million unless otherwise stated. The amounts in parentheses relate to the preceding year.

Signatures to the accounts

Management Report

The Management and Board of Directors have today discussed and adopted the annual report for 2005 of Borealis A/S.

The annual report has been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports. We consider the accounting policies used to

be appropriate. Accordingly, the annual report gives a true and fair view of the Group's and the parent company's financial position at December 31, 2005 and of the results of the Group's and the parent company's operations and cash flows.

We recommend that the annual report be approved at the Annual General Meeting.

COPENHAGEN, FEBRUARY 15, 2006

MANAGEMENT:



JOHN TAYLOR
CHIEF EXECUTIVE



CLIVE WATSON
CHIEF FINANCIAL OFFICER

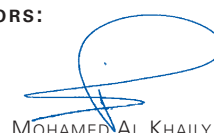


RUTH STEINHOLTZ
GENERAL COUNSEL

BOARD OF DIRECTORS:



GERHARD ROISS
CHAIRMAN



MOHAMED AL KHALILY
VICE CHAIRMAN



DAVID DAVIES
BOARD MEMBER



MOHAMED AL AZDI
BOARD MEMBER



KHADEM AL QUBAISI
BOARD MEMBER

Auditors' Report

To the Shareholders of Borealis A/S

We audited the annual report of Borealis A/S for the financial year January 1 – December 31, 2005, prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports.

The annual report is the responsibility of the Company's Management and Board of Directors. Our responsibility is to express an opinion on the annual report based on our audit.

Basis of opinion

We conducted our audit in accordance with Danish Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and

disclosures in the annual report. An audit also includes assessing the accounting policies used and significant estimates made by the Management and Board of Directors, as well as evaluating the overall annual report presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not result in any qualification.

Opinion

In our opinion, the annual report gives a true and fair view of the Group's and the parent company's financial position at December 31, 2005 and of the results of the Group's and the parent company's operations and cash flows for the financial year January 1 – December 31, 2005 in accordance with the International Financial Reporting Standards as adopted by the EU and additional Danish requirements.

COPENHAGEN, FEBRUARY 15, 2006

KPMG C. JESPERSEN

STATSAUTORISERET REVISIONSINTERESSENTSKAB



TORBEN KRISTENSEN
STATE AUTHORIZED PUBLIC ACCOUNTANT



SØREN P. KREJLER
STATE AUTHORIZED PUBLIC ACCOUNTANT

Consolidated Income Statement

EUR million	2005	2004	NOTE
Net sales	4,814	4,628	1
Production costs	-3,992	-3,768	2, 3, 9
Sales and distribution costs	-386	-396	3, 9
Administration costs	-200	-186	3, 9
Operating profit	236	278	
Profit/loss from sale of operations	0	-7	4
Net results in associated companies after tax	90	50	10
Financial expenses, net	-40	-56	12
Profit before taxation	286	265	
Taxes	-59	-61	13
Net profit for the year	227	204	
Attributable to:			
Minority Interest	1	1	
Equity holders of the parent	226	203	

Consolidated Statement of Recognised Income and Expense

EUR million	2005	2004	NOTE
For the year ended 31 December			
Net gain/loss on translation of financial statements of foreign subsidiaries	52	-20	
Net gain/loss on long-term loans to subsidiaries and associated companies	3	4	
Net gain/loss on loans and financial contract to hedge investments in foreign subsidiaries	-36	7	
Fair value adjustment of derivative financial instruments	4	18	
Actuarial gains and losses	-12	-44	17
Tax recognised directly in equity	26	-6	
Net income/expense recognised directly in equity	37	-41	16
Net profit/loss for the year	227	204	16
Total recognised Income and Expense	264	163	
Attributable to:			
Minority interest	2	1	
Equity holders of the parent	262	162	

Consolidated Balance Sheet

Assets

EUR million	31.12.2005	31.12.2004	NOTE
Non-current assets			
Intangible fixed assets	144	130	2, 5
Tangible fixed assets			7
Production plants	1,434	1,342	
Machinery and equipment	21	23	
Construction in progress	102	159	
	1,557	1,524	
Financial fixed assets	466	402	10
Deferred tax assets	78	74	13
Total non-current assets	2,245	2,130	
Current assets			
Inventories	630	436	14
Receivables			
Trade receivables	226	195	15
Receivables from associated companies	185	214	15
Taxes	7	5	
Other	88	73	
	506	487	
Cash and cash equivalents	63	87	
Total current assets	1,199	1,010	
Total assets	3,444	3,140	

Consolidated Balance Sheet (Cont.)

Liabilities

EUR million	31.12.2005	31.12.2004	NOTE
Shareholders' equity			16
Issued capital	536	536	
Reserves	11	-72	
Retained Earnings	994	956	
	1,541	1,420	
Minority interests	8	6	
Total equity	1,549	1,426	
Liabilities			
Subordinated loans	103	103	20, 25
Non-current liabilities			
Financial institutions	232	178	20
Deferred tax	205	207	13
Employee benefits	155	138	17
Provisions	56	54	18
Other liabilities	0	1	
	648	578	
Current liabilities			
Financial institutions	412	380	20
Trade payables	489	423	
Taxes	26	12	13
Provisions	9	6	18
Other liabilities	208	212	
	1,144	1,033	
Total liabilities	1,895	1,714	
Total equity, minority interests and liabilities	3,444	3,140	
Assets pledged			21
Contingent liabilities			22
Financial instruments			23

Consolidated Cash Flow Statement

EUR million	2005	2004	NOTE
Cash flows from operating activities			
Payments from customers	4,807	4,488	
Payments to employees and suppliers	-4,514	-4,047	
Interest income received	26	22	12
Interest and financial expenses paid	-66	-78	12
Income taxes paid	-26	-7	13
	227	378	
Cash flows from investing activities			
Investments in tangible fixed assets	-221	-192	7
Proceeds from sale of assets, net of cash	0	147	4
Other investments	-7	-24	5, 10
	-228	-69	
Cash flows from financing activities			
Long-term loans obtained	90	642	
Short-term loans obtained	212	0	
Loans to associated companies	67	28	
Long-term loans repaid	-253	-928	
Short-term loans repaid	0	-56	
Dividends paid	-140	-	
	-24	-314	
Net cash flow for the year	-25	-5	
Cash and cash equivalents as of January 1	87	92	
Effect of exchange rate fluctuations on cash held	1	0	
Cash and cash equivalents as of December 31	63	87	

Income Statement – Borealis A/S

EUR million	2005	2004	NOTE
Net sales	3,574	3,424	1
Other operating income	71	51	
Cost of sales	-3,494	-3,343	
Sales and distribution costs	-35	-50	3, 9
Administration costs	-110	-91	3, 9
Operating profit	6	-9	
Profit/loss from sale of operations	0	-6	4
Financial expenses, net	-50	-1	12
Profit before taxation	-44	-16	
Taxes	21	7	13
Net profit/loss for the year	-23	-9	

Balance Sheet – Borealis A/S

Assets

EUR million	31.12.2005	31.12.2004	NOTE
Non-current assets			
Intangible fixed assets	12	12	6
Tangible fixed assets			
Machinery and equipment	4	3	8
Financial fixed assets			11
Tax Assets	9	0	13
Shares in subsidiaries	1,304	1,298	26
Shares in associated companies	105	105	
Receivables from subsidiaries	495	186	
Other investments	13	13	
	1,926	1,602	
Total non-current assets	1,942	1,617	
Current assets			
Receivables			
Trade receivables	61	53	15
Receivables from subsidiaries	409	197	
Receivables from associated companies	181	209	15
Other	13	24	
	664	483	
Cash and cash equivalents	16	16	
Total current assets	680	499	
Total assets	2,622	2,116	

Balance Sheet – Borealis A/S (Cont.)

Liabilities

EUR million	31.12.2005	31.12.2004	NOTE
Shareholders' equity			16
Issued capital	536	536	
Reserves	-12	-4	
Retained earnings	702	865	
	1,226	1,397	
Liabilities			
Subordinated loans	103	103	20, 25
Non-current liabilities			
Financial institutions	224	170	20
Deferred tax	0	14	13
Employee benefits	5	3	17
Provisions	20	20	18
Debt to subsidiaries	0	0	
	249	207	
Current liabilities			
Debt to subsidiaries	637	26	
Trade payables	1	3	
Taxes	0	0	13
Financial institutions	279	243	20
Other	127	137	
	1,044	409	
Total liabilities	1,396	719	
Total shareholders' equity and liabilities	2,622	2,116	
Contingent liabilities			22
Financial instruments			23

Notes to the accounts

1. Segment reporting (EUR million)

	Polyolefins		Hydrocarbons		Non-Allocated		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
Net sales by business:								
Total sales	3,574	3,382	4,151	3,967	46	35	7,771	7,384
Group internal sales	0	0	-2,957	-2,756	0	0	-2,957	-2,756
	3,574	3,382	1,194	1,211	46	35	4,814	4,628

Prices for group inter segment sales are based on quarterly market prices for ethylene and propylene contracts

Result:

Operating profit	112	161	146	134	-22	-17	236	278
Profit/loss from sale of operations					0	-7	0	-7
Net result in associated companies					90	50	90	50
Net financial items					-40	-56	-40	-56
Income tax					-59	-61	-59	-61
Minority interest					-1	-1	-1	-1
Net profit for the year attributable to equity holders of the parent							226	203

Other information:

Segment assets	2,192	2,043	974	893	278	204	3,444	3,140
Segment liabilities					1,895	1,708	1,895	1,708
Capital expenditure	187	133	34	54	0	5	221	192
Depreciation and amortisation	141	127	43	61	2	1	186	189

Over 90% of the above relate to segment EU countries.

Net sales by geographic segment:

EU countries	2,681	2,606	1,075	1,082	46	35	3,802	3,723
Non-EU countries in Europe	421	339	95	70	0	0	516	409
USA	93	74	23	39	0	0	116	113
Middle East and Asia	226	224	0	5	0	0	226	229
Other regions	153	139	1	15	0	0	154	154
	3,574	3,382	1,194	1,211	46	35	4,814	4,628

Notes to the accounts

2. Research & Development

A total of 311 people were engaged in research and development at the end of the year, compared with 307 in 2004. The total cost of these activities amounted to EUR 41 million (EUR 41 million) of which EUR 17 million (EUR 15 million) was capitalised.

3. Personnel (EUR million)

	Group		Parent Company	
	2005	2004	2005	2004
Costs:				
Salaries and wages	266	278	18	19
Pension costs	31	36	4	3
Other social security costs	58	54	1	0
Other personnel expenses	28	20	4	1
Total	383	388	27	23
Average number of employees by country				
Austria	698	685		
Belgium	916	891		
Denmark	79	75	79	75
Finland	843	854		
Norway	490	480		
Portugal	0	458		
Sweden	988	1,011		
Other	529	485		
Total	4,543	4,939	79	75
Management remuneration included in personnel costs				
Salaries and wages management	3	2	3	2
Pension costs management	1	2	1	2
Salaries and wages other key management	3	3	3	3
Pension costs other key management	1	1	1	1
Total	8	8	8	8

Employees of Borealis Polimeros Lda (Portugal) are included in the average for 11 months in 2004.
No remuneration was paid to the Board of Directors.

Notes to the accounts

4. Acquisition and disposal of subsidiaries (EUR million)

At November 30, 2004 Borealis sold its shares in Borealis Polimeros Lda (Portugal)

	2004
Consideration received	151
- Current assets disposed of	-100
- Non-current assets disposed of	-143
+ Current liabilities disposed of	83
+ Non-current liabilities disposed of	2
Net assets disposed of	-158
Loss on sale of operations	-7
Consideration received	151
- Cash included in the current assets disposed of	-4
Proceeds from sale of assets, net of cash	147

There were no acquisitions or disposals of subsidiaries during 2005.

Notes to the accounts

5. Intangible fixed assets, group (EUR million)

	Goodwill		Licences		Development costs		Capitalised software	
	2005	2004	2005	2004	2005	2004	2005	2004
Cost								
As of January 1	45	45	63	65	74	59	17	11
Exchange adjustments	0	0	0	0	0	0	0	0
Additions	0	0	6	0	17	15	3	6
Disposals	0	0	0	-3	0	0	0	0
Transfers	0	0	2	1	-3	0	1	0
	45	45	71	63	88	74	21	17
Accumulated amortisation								
As of January 1	-16	-13	-42	-39	-6	-3	-5	-2
Exchange adjustments	0	0	0	0	0	0	0	0
Disposals	0	0	0	3	0	0	0	0
Amortisation	0	-3	-4	-6	-4	-3	-4	-3
	-16	-16	-46	-42	-10	-6	-9	-5
Book value as of December 31	29	29	25	21	78	68	12	12

6. Intangible fixed assets, parent company (EUR million)

	Software		Licences	
	2005	2004	2005	2004
Cost				
As of January 1	17	11	14	14
Additions	3	6	0	0
	20	17	14	14
Accumulated amortisation				
As of January 1	-5	-2	-14	-13
Amortisation	-3	-3	0	-1
	-8	-5	-14	-14
Book value as of December 31	12	12	0	0

Notes to the accounts

7. Tangible fixed assets, group (EUR million)

	Production plants		Machinery and equipment		Construction in progress	
	2005	2004	2005	2004	2005	2004
Cost						
As of January 1	3,389	3,818	97	117	159	83
Additions regarding investment in subsidiaries						
Exchange adjustments	-39	4	4	0	0	0
Additions	1	8	1	2	219	182
Disposals	-23	-531	-1	-26	0	-11
Transfers	275	90	1	4	-276	-95
	3,603	3,389	102	97	102	159
Accumulated depreciation						
As of January 1	-2,047	-2,284	-74	-90	0	0
Exchange adjustments	22	-2	-1	0	0	0
Disposals	23	406	1	23	0	0
Depreciation	-167	-167	-7	-7	0	0
	-2,169	-2,047	-81	-74	0	0
Book value as of December 31	1,434	1,342	21	23	102	159

The figures for production plants include capitalised finance leases with a net value of EUR 2 million (EUR 2 million) comprising a cost of EUR 3 million (EUR 2 million) and depreciation of EUR 1 million (EUR 0 million). The lease obligation is included in debt to financial institutions (see note 20).

Future capital expenditure approved by Management totals EUR 348 million (EUR 111 million) out of which EUR 76 million (EUR 31 million) is contractually committed.

Notes to the accounts

8. Machinery and equipment, parent company (EUR million)

	2005	2004
Cost		
As of January 1	9	10
Additions	2	1
Disposals	0	-2
	11	9
Accumulated depreciation		
As of January 1	-6	-6
Disposals	0	1
Depreciation	-1	-1
	-7	-6
Book value as of December 31	4	3

9. Depreciation and amortisation (EUR million)

	2005	Group 2004	Parent Company	
			2005	2004
Depreciation and amortisation are allocated as follows in the income statement.				
Production costs	161	162		
Sales and distribution costs	9	11		
Administration costs	16	16	4	5
Total	186	189	4	5

The 2005 depreciation charge includes an impairment of EUR 31 million on two of its production lines for which the carrying values of the assets exceeded the present value of expected future cash flows for the next 15 years, discounted at a cost of capital of 8%.

Notes to the accounts

10. Financial fixed assets, group (EUR million)

	Shares in associated companies		Other investments		Other long-term receivables		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Cost								
As of January 1	178	178	22	25	342	372	542	575
Investments	0	0	2	1	0	0	2	1
Disposals	0	0	-2	-4	-64	-30	-66	-34
	178	178	22	22	278	342	478	542
Adjustments								
As of January 1	-39	-79	0	0	-101	-86	-140	-165
Exchange adjustments	19	-10	0	0	22	-15	41	-25
Dividends received	-3	0	0	0	0	0	-3	0
Net result of associated companies, after tax	90	50	0	0	0	0	90	50
	67	-39	0	0	-79	-101	-12	-140
Book value as of December 31	245	139	22	22	199	241	466	402

The Group has the following investments in associated companies and jointly controlled companies:

2005	country	Ownership in %
Abu Dhabi Polymers Company Limited (Borouge)	Abu Dhabi	40
Borouge Pte Ltd	Singapore	50
Noretyl AS	Norway	50
Speciality Polymers Antwerp N.V.	Belgium	50
Borealis Financial Services Ltd	Jersey	40

	Assets	Liabilities	Net sales	Profit after tax
2004	705	566	513	50
2005	768	523	662	90

Notes to the accounts

11. Financial fixed assets, parent company (EUR million)

	Shares in subsidiaries		Receivables from subsidiaries		Shares in associated companies		Other	
	2005	2004	2005	2004	2005	2004	2005	2004
Cost								
As of January 1	1,298	1,451	215	1,098	105	1	13	13
Investments/additions	6	0	457	395	0	104	0	0
Disposals	0	-153	-115	-1,278	0	0	0	0
	1,304	1,298	557	215	105	105	13	13
Adjustments								
As of January 1	0	0	-29	-33	0	0	0	0
Exchange and fair value adjustments	0	0	-33	4	0	0	0	0
	0	0	-62	-29	0	0	0	0
Book value as of December 31	1,304	1,298	495	186	105	105	13	13

12. Financial income/expenses, net (EUR million)

	Group		Parent Company	
	2005	2004	2005	2004
Interest income from:				
Subsidiaries	0	0	28	34
Cash and cash equivalents	26	22	23	17
	26	22	51	51
Interest expenses to:				
Financial institutions	-59	-69	-52	-60
Subsidiaries	-	-	-21	-17
Finance lease	0	-1	0	0
Exchange adjustments, net	2	0	-56	18
Dividend received from subsidiaries	-	-	36	13
Other financial expenses and income	-9	-8	-8	-6
	-66	-78	-101	-52
Total	-40	-56	-50	-1

Notes to the accounts

13. Taxation (EUR million)

	In %	2005	Group 2004	In %	2005	Parent company 2004
Taxes						
Income tax payable		36	20		0	0
Change in deferred tax		22	32		-21	-9
Adj. to prior year's tax charge		1	9		0	2
Tax expense		59	61		-21	-7

Calculation from tax expense at statutory rates to accounting tax expense at the effective group tax rate.

Tax expense at statutory rates	29%	83	82	28%	-13	-5
Tax effect of result in associated companies	-9%	-24	-14	0%	0	0
Tax effect of permanent differences	-1%	-3	-1	0%	0	0
Adjustment of valuation allowance	7%	19	-15	-3%	2	1
Benefits of tax losses	0%	0	0	0%	0	0
Prior-years adjustments	-5%	-15	9	0%	0	2
Change due to changes in tax rates	0%	-1	-11	2%	-1	0
Other	0%	0	11	21%	-9	-5
Tax expense	21%	59	61	48%	-21	-7
Deferred tax, assets						
Fixed tangible assets		-2	-8		6	0
Fixed intangible assets		-11	-7		-3	0
Other assets		0	1		0	0
Tax over book values		-13	-14		3	0
Other current assets		3	1		3	0
Pension and other provisions		8	-12		4	0
Claw back account		-29	0		-29	0
Other temporary differences		-18	-11		-22	0
Tax losses to be carried forward		109	99		28	0
Capitalised tax assets		78	74		9	0

Notes to the accounts

13. Taxation (Cont.) (EUR million)

	In %	2005	Group 2004	In %	2005	Parent company 2004
Deferred tax, liabilities						
Fixed tangible assets		180	157		0	3
Fixed intangible assets		23	20		0	0
Accelerated depreciation on fixed assets		203	177		0	3
Other current assets		-1	0		0	0
Other assets		2	0		0	0
Pension and other provisions		8	23		0	0
Claw back account		0	46		0	46
Other		9	69		0	46
Tax assets offset		-7	-39		0	-35
Deferred tax liability		205	207		0	14
Taxes, payable						
Payable taxes as of January 1		12	2		0	0
Income tax payable for the year		36	20		0	0
Adj. to prior year's payable tax charge		1	1		0	0
Taxes paid/received		-26	-7		0	0
Movement in tax receivable		3	-4		0	0
Payable taxes as of December 31		26	12		0	0

The group has recognised total deferred tax assets of EUR 85 million of which EUR 78 million are capitalised as deferred tax assets and EUR 7 million offset against deferred tax liabilities. The capitalised deferred tax assets are expected to be utilised against future profits in the relevant jurisdictions.

Borealis A/S and its Danish subsidiaries are jointly taxed. The joint taxed companies are jointly liable for taxes from 2004 and earlier years. Dividend payment to Borealis A/S by one of its subsidiaries has no tax effect for Borealis A/S.

Notes to the accounts

14. Inventories, Group (EUR million)

Inventories of ethylene and propylene are included under finished products.

	2005	2004
Raw materials and consumables	168	118
Finished products	462	318
Total	630	436

The cost of write down of inventories to their net realisable value was insignificant. The cost of inventories recognised as an expense and included in cost of goods sold amounted to EUR 3,835 million (EUR 3,883 million).

15. Securitisation

Borealis A/S has a securitisation programme under which the company sells certain trade receivables to external parties. The company does not retain any financial interest in the trade receivables, except for foreign currency risk, and accordingly derecognises the receivables sold. At 31 December, 2005 receivables worth EUR 415 million (EUR 478 million) were sold. The company continues to administer the relationship with the debtors and will compensate the purchaser for credit notes issued subsequent to the sale. To cover these obligations, a receivable of EUR 135 million (EUR 166 million) is outstanding at balance sheet date.

The interest element of the financing costs related to the Securitisation Programme is hedged with derivatives for a notional amount of EUR 93 million (EUR 150 million).

Notes to the accounts

16. Shareholders' equity (EUR million)

Borealis A/S

	Share capital	Reserve for revaluation of non-monetary assets and liabilities	Hedging reserve	Reserve for unrealised exchange gains	Retained earnings	Reserve for net revaluation under the equity method	Total attributable to parent
Balance as at December 31, 2003	536	0	-24	108	662	0	1,282
Change in accounting policies		7		-108	212		111
Restated balance	536	7	-24	0	874	0	1,393
Profit of the period					-9		-9
Income and expense directly in equity		-10	23				13
Dividend payment Borealis A/S							
Capital in/decrease Borealis A/S							
Balance as at December 31, 2004	536	-3	-1		865		1,397
Profit of the period					-23		-23
Income and expense directly in equity		2	-10				-8
Dividend payment Borealis A/S					-140		-140
Capital in/decrease Borealis A/S							
Balance as at December 31, 2005	536	-1	-11		702		1,226

Notes to the accounts

16. Shareholders' equity (Cont.) (EUR million)

Consolidated

	Share Capital	Reserve for revaluation of non-monetary assets and liabilities	Hedging reserve	Reserve for unrealised exchange gains	Retained earnings	Reserve for net revaluation under the equity method	Total attributable to parent	Attr. to minority interest holders	Total equity
Balance as at December 31, 2003	536	0	-24	108	662	0	1,282	5	1,287
Change in accounting policies		-9	3	-120	102		-24		-24
Restated balance	536	-9	-21	-12	764	0	1,258	5	1,263
Profit of the period					153	50	203	1	204
Income and expense directly in equity		-50	18	2		-11	-41		-41
Transfer									
Dividend payment by subsidiaries					39	-39			
Dividend payment Borealis A/S									
Capital in/decrease Borealis A/S									
Balance as at December 31, 2004	536	-59	-3	-10	956	0	1,420	6	1,426
Profit of the period					136	90	226	1	227
Income and expense directly in equity		14	4	-2		19	35	2	37
Transfer					39	-39			
Dividend payment by subsidiaries					3	-3		-1	-1
Dividend payment Borealis A/S					-140		-140		-140
Capital in/decrease Borealis A/S									
Balance as at December 31, 2005	536	-45	1	-12	994	67	1,541	8	1,549

The Board of Directors proposes that a dividend of EUR 45 million be paid for 2005.

The share capital of DKK 4,000 million is divided into shares of DKK 1,000 each and multiples thereof. No part of the share capital has special rights. Borealis A/S is owned on a 50:50 basis by IOB Holdings A/S, C/O Kromann Reumert, Sundkrogsgade 5, 2100 Copenhagen Ø, Denmark, and Petrochemie Sub-Holding GmbH, Lassallestrasse 3, 1020 Vienna, Austria.

Distribution of dividend to its shareholders does not have any tax effect for Borealis A/S.

Notes to the accounts

17. Employee benefit plans (EUR mMillion)

Most Group companies have benefit plans. The forms and benefits vary with conditions and practices in the countries concerned. The plans include both defined contribution plans and plans that provide defined benefits based on employees' years of service and estimated salary at retirement. A summary of the status of defined benefit plans is shown below.

	2005	2004
Funded benefit plans		
Actuarial present value of benefits due to past and present employees	152	139
- Plan assets held in trusts at fair value	-98	-90
Plan assets below the present value of benefits recorded as a provision	54	49
Unfunded benefit plans		
Actuarial present value of benefits due to past and present employees recorded as a provision	101	89
Net liability recognised in the balance sheet	155	138
Change in benefit obligation		
Benefit obligation at beginning of year	228	170
Current service costs	11	10
Current interest costs	10	9
Actuarial losses/gains	12	44
- Benefits paid from plan	-8	-5
Benefit obligation at end of year	253	228
Change in plan assets		
Fair value of plan asset at beginning of year	90	84
Expected return on plan assets	5	4
Employer contributions	9	7
Actuarial gains/losses	0	0
Exchange rate changes	2	0
- Benefits paid from plan	-8	-5
Fair value of plan asset at end of year	98	90
Asset category		
Equity securities	20%	
Debt securities	30%	
Real estate	5%	
Other	45%	
	100%	

Notes to the accounts

17. Employee benefit plans (Cont.) (EUR million)

	2005	2004
Movement in the net liability recognised in the balance sheet		
Net liability at January, 1	138	86
- Contributions received	-9	-7
Actuarial loss/gain recognised in equity (including exchange rate differences)	10	44
Expense recognised in the income statement	16	15
Net liability at December, 31	155	138
Expense recognised in the income statement for defined benefit plans		
Service costs	11	10
Interest costs	10	9
- Expected return on assets	-5	-4
Total	16	15
Actual return on plan assets	4	4

The aggregated benefit cost charged to the income statement for 2005 amounted to EUR 31 million compared with EUR 36 million in 2004. Benefit costs relate to:

Defined benefit plans	16	15
Defined contribution plans	15	21
Total	31	36

Discount rates, projected rates of remuneration growth and expected rates of return on plan assets vary for the different defined benefit plans as they are determined in the light of local conditions. The principal assumptions used were in the following range:

Discount rate	4% to 5%	4% to 5%
Projected rate of remuneration growth	2% to 4%	3% to 4%
Expected rate of return on plan assets	4% to 6%	4% to 6%

Notes to the accounts

18. Other provisions (EUR million)

	Restructuring	Other	Total
As of January 1	20	40	60
Provisions made during the year	11	8	19
Provisions used during the year	-9	-5	-14
Balance as of December 31, 2005	22	43	65
Current	9	0	9
Non-Current	13	43	56
	22	43	65

Restructuring

The provision for restructuring covers estimated costs for the on-going restructuring programmes in mainly Norway, Belgium and Sweden.

19. Government grants (EUR million)

Borealis was allowed government grants for the investment in new production plants, CO² emission allowances and research and development of EUR 7 million (EUR 13 million).

Notes to the accounts

20. Financial indebtedness (EUR million)

The composition of financial indebtedness (short and long-term debt) at the end of 2005 in EUR million was as follows:

Maturities		2005					Unutilised committed revolving facilities
Due		Term loans	Short term bank loans	Utilised uncommitted facilities	Export credits	Finance leases	
After	5 years	202				1	
Within	5 years	64					750
	4 years	1					
	3 years	54					
	2 years	12					
	2-5 years					1	
		333				2	750
Within	1 year	69	0	212	131	0	50
Finance charges							
Net obligations		402	0	212	131	2	800
Total long-term debt		335					
Total short-term debt		412					
Total debt		747					

The Subordinated Loan of EUR 103 million has an 8-year term and matures in 2011.

Notes to the accounts

20. Financial indebtedness (Cont.) (EUR million)

Maturities		2004					Unutilised committed revolving facilities
Due		Term loans	Short term bank loans	Utilised uncommitted facilities	Export credits	Finance leases	
After	5 years	160				1	
Within	5 years	1					
	4 years	53					700
	3 years	12					
	2 years	53					135
	2-5 years					1	
		279				2	835
Within	1 year	249	0	0	131	0	0
Finance charges							
Net obligations		528	0	0	131	2	835
Total long-term debt							
		281					
Total short-term debt							
		380					
Total debt		661					

The Group's financing is mainly comprised of committed credit lines, term loans and export credits. Of total interest bearing debt, approximately 3% has a fixed interest rate and 97% is based on a floating interest rate before applying interest rate swaps, approximately 86% has a fixed interest rate and 14% is based on a floating interest rate after applying interest rate swaps. The floating interest rates are set by adding a spread to the reference rates (mainly EURIBOR and LIBOR). At the end of 2005 the Group has committed credit lines with syndicates of banks of EUR 830 million of which EUR 30 million (EUR 165 million) has been utilised. The tranches drawn against the committed credit lines are reported as short-term debt.

Some loan agreements have financial covenants.

Notes to the accounts

20. Financial indebtedness (Cont.) (EUR million)

Currency mix	2005	Percent	2004	Percent
Interest bearing				
USD	161	30%	221	34%
EUR	558	65%	411	62%
SEK	28	5%	29	4%
Interest bearing total	747	100%	661	100%
Parent company interest bearing debt	2005		2004	
Inter-company short-term loans	10		5	
Term loans and revolving facilities	606		516	
Total	616		521	

Of the parent company's term loans, EUR 405 million matures within 5 years and EUR 201 million after 5 years.

21. Assets pledged (EUR million)

	2005	2004
Chattel mortgages	14	15
Others	18	19
Total	32	34

The liabilities covered by the above assets amounted to EUR 32 million at the end of the year compared with EUR 34 million one year earlier.

Notes to the accounts

22. Contingent liabilities (EUR million)	2005	2004
Guarantee Commitments		
The Parent Company guaranteed credit facilities of Group companies amounting to	131	137
Operational Leasing:		
The group has operating leases of certain operational assets		
Total rental during the non-terminable periods amounted to		
1 year	5	6
2–5 years	13	13
Thereafter	4	4
Total	22	23
The Parent Company's operating leases amounted to	5	6

The Group leases cars and office buildings under operating leases. The leases typically run for an initial period of 3 to 5 years, with an option to renew the lease after that date.

The Borealis group has no intention to terminate contracts for which contractual termination payments would materially affect the Group's financial position.

While the Borealis Group has certain lawsuits pending, it is the management's opinion that these proceedings will not materially affect the Group's financial position

Notes to the accounts

23. Financial instruments

Exposure to credit, interest rate, currency and commodity price risk arises in the normal course of Borealis' business. Derivative financial instruments are used to reduce exposure to fluctuations in interest rates, foreign exchange rates and commodity prices. While these are subject to the risk of market rate/price changes subsequent to acquisition, such changes are generally offset by opposite effects on the items being hedged.

Credit Risk

Trade Receivables Credit Risk: Management has established a credit control procedure. Credit risk is monitored on an ongoing basis. Credit risk on a specific counterparty is the sum of all outstanding trade receivables, and is compared to the individual credit limit allocated to that counterparty. Credit limit evaluations are performed on a daily basis with annual reviews on the total customer base. Approval and escalation limits are used to authorise the available credit limits to customers. At balance sheet date, Borealis has no large concentrations of credit risks representing more than 5% of total outstanding trade receivables. No credit risk is retained in the trade receivables sold under the securitisation programme.

Other Credit Risk: Borealis cash balances are put on deposit with relationship banks or invested in liquid securities only with counterparties that have a credit rating above a predefined threshold. Long term transactions involving derivative financial instruments are done with counterparties with whom Borealis has signed netting agreements, and who meet the credit rating thresholds. Management does not expect any counterparty to fail to meet any of its current obligations.

Interest Rate Risk

Borealis adopts a policy of managing its interest rate risk through a modified duration benchmark. Average modified duration is allowed to deviate from the benchmark within a predefined interval. Interest rate derivatives denominated in EUR, USD and SEK have been entered into to achieve this objective. All interest rate derivatives are on terms following the maturity and re-pricing terms of the underlying loans or future loan requirements.

At December 31, 2005 Borealis had outstanding interest rate derivatives for a notional amount of EUR 755 million (EUR 850 million) including forward starting swaps with interest rates ranging from 2.06% to 5.86% and maturities up to 2010.

Borealis classifies the majority of the applied interest rate derivatives as cash flow hedges and states them at fair value. The total net fair value of the interest rate derivatives at December 31, 2005 was EUR 0.8 million (EUR -14 million) comprising liabilities of EUR 5.0 million and assets of EUR 5.8 million. These amounts were recognised in non-trade payables and receivables.

Effective Interest Rates and Repricing Analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they are repriced.

Notes to the accounts

23. Financial instruments (Cont.) (EUR million)

2005

	Note	Effective interest rate	Total	6 months or less	6–12 months	1–2 years	2–5 years	More than 5 years
Cash and cash equivalents		5.2%	63	33			30	
EUR floating rate loans	20	2.7%	-330	-330				
Effect of interest rate swaps		0.7%	0	213		-86	-127	
EUR fixed rate loans	20	4.9%	-14	-6		-6	-2	
EUR financial leases	20	6.3%	-2				-1	-1
SEK floating rate loans	20	2.4%	-1				-1	
SEK floating rate loans	20	2.0%	-27		-27			
Effect of interest rate swaps		3.3%	0	27	-27			
USD floating rate loans	20	4.4%	-161					-161
Effect of interest rate swaps		-0.1%	0	156			-156	
Utilised uncommitted facilities	20	2.6%	-212	-212				
Net interest-bearing debt			-684	-119	-54	-92	-257	-162

2004

	Note	Effective interest rate	Total	6 months or less	6–12 months	1–2 years	2–5 years	More than 5 years
Cash and cash equivalents		3.1%	87	57			30	
EUR floating rate loans	20	2.5%	-330	-330				
Effect of interest rate swaps		1.8%	0	198		-75	-123	
EUR fixed rate loans	20	4.5%	-79	-7	-58	-7	-7	
EUR financial leases	20	6.3%	-2				-1	-1
SEK floating rate loans	20	4.0%	-1		-1			
SEK floating rate loans	20	2.9%	-28	-28				
Effect of interest rate swaps		2.4%	0	28		-28		
USD floating rate loans	20	3.1%	-221	-221				
Effect of interest rate swaps		1.2%	0	224	-112		-56	-56
Net interest-bearing debt			-574	-79	-171	-110	-157	-57

Notes to the accounts

23. Financial instruments (Cont.)

Foreign Currency Risk

Borealis incurs foreign currency risk on sales, purchases and borrowings that are denominated in other currencies than EUR. The currencies giving rise to risk are primarily USD, SEK, NOK and GBP in order of significance.

Borealis hedges its trade receivables, trade payables and cash positions and forecasted positions denominated in the foreign currencies in which Borealis holds significant positions. At any time Borealis may also hedge its long-term commercial exposures up to a predefined level and duration. Borealis normally hedges the currency positions using a mix of forward exchange contracts and foreign exchange options. The total notional value of outstanding foreign exchange forwards at December 31, 2005 was EUR 402 million (EUR 390 million) of which EUR 259 million (EUR 151 million) relates to foreign currency risk management and EUR 144 million (EUR 239 million) is the notional amount of currency swaps used in liquidity management. The total notional value of outstanding foreign exchange options at December 31, 2005 was EUR 11 million (EUR 0 million) measured at the strike rate.

Firm commitments and forecasted transactions: Borealis classifies its foreign exchange forward and option contracts, which are hedging a forecasted currency position, as cash flow hedges and states them at fair value. The net fair value of foreign exchange forward contracts used as hedges of firm commitments and forecasted transactions at December 31, 2005 was EUR -3.7 million (EUR 2,6 million). EUR -3.7 million has been recorded directly to hedging reserves and has been recognised in non-trade payables. The net fair value of foreign exchange option contracts used as hedges of firm commitments and forecasted transactions at December 31, 2005 was EUR 0 million (EUR 0 million).

Recognised assets and liabilities: Changes in the fair value of forward exchange contracts that hedge monetary assets and liabilities in foreign currencies and the forward legs of currency swaps used in liquidity management, and for which no hedge accounting is applied, are recognised in the income statement. Both changes in the fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of "net financing costs". The fair value of forward exchange contracts used as hedges of monetary assets and liabilities in foreign currencies and the forward legs of currency swaps used in liquidity management for which no hedge accounting is applied at December 31, 2005, was EUR 0.8 million (EUR 2.9 million). The amount was recognised in non-trade receivables.

The following table shows when the gain and losses reported directly in equity are expected to enter into the determination of net profit and loss.

The expected timing of recognition in the income statement of the gains and losses on cash flow hedging instruments recorded directly into equity is as follows:

	Gains 2005	Losses 2005
Less than one year	2.0	12.3

Notes to the accounts

23. Financial instruments (Cont.)

Hedges of net investments in foreign subsidiaries

Borealis designates certain external loans and cross currency interest rate swaps as hedges of the Group's investments in its foreign subsidiaries. The designated USD hedge loans amount to EUR 161 million (EUR 213 million) at December 31, 2005. EUR/USD cross currency interest rate swaps of notional EUR 125 million (EUR 86 million) were assigned as net investment hedges at December 31, 2005. A foreign exchange loss of EUR 55 million was recognised in equity during 2005 on the translation of these USD liabilities to EUR (including currency element of fair value of cross currency interest rate swaps). During 2005 a net amount of USD 68 million (USD 27 million), SEK 1040 million (SEK 300 million) and NOK 75 million (NOK 523 million) of shareholder loans to associated companies and long term inter company loans were repaid or reclassified, loans that were either net investment hedges or previously deemed as part of the permanent capital structure of the subsidiaries and for which currency revaluation effects has been charged to equity, resulting in a net loss recognised to the income statement of EUR 16 million (EUR 4 million).

Commodity Price

Borealis incurs commodity price risk on the purchase of feedstock and electricity.

Feedstock: At balance sheet date, Borealis had commodity derivative contracts with maturities up to 4 months forward to manage the price risk on feedstock. The notional volume of contracts held at December 31, 2005 was 348,000 tonnes (314,600 tonnes) with an average maturity of 1 month. No hedge accounting is applied for these contracts. Changes in the fair value of the derivative contracts are recognised in the income statement. The fair value of the derivative contracts for feedstock at December 31, 2005 was EUR -6 million (EUR -2 million). EUR 11 million has been recognised in non-trade payables and EUR 5 million in non-trade receivables.

Electricity: Borealis hedges its forecasted electricity purchases with maturity up to 2008 using electricity swaps. The notional volume of the contracts held at December 31, 2005 was 374 GW (157 GW) with an average maturity of 12 months. Cash flow hedge accounting has been applied for these contracts. The net fair value of the electricity swap contracts used as hedges for firm commitments and forecasted transactions at December 31, 2005 was EUR 13 million (EUR -4 million), comprising assets of EUR 13 million and liabilities of EUR 0 million. These amounts were recognised in non-trade receivables and directly to hedging reserves.

Sensitivity Analysis

In managing interest rate and currency risks Borealis aims to reduce the impact of short term fluctuations on Borealis earnings. Over the long term, permanent changes in foreign exchange and interest rates will have an impact on consolidated earnings.

At December 31, 2005 it is estimated that a general increase of one percentage point in interest rates would decrease Borealis profit before tax for the following year by approximately EUR 3 million (EUR 2 million). Interest rate derivatives have been included in this calculation.

Borealis invoices most of its sales in EUR and buys most of its raw materials in USD. It is estimated that a general strengthening of one percentage point of the USD against EUR would decrease Borealis profit before tax for the following year by approximately EUR 10 million (EUR 7 million) if currency risk is seen in isolation. However, the prevailing polyolefin market pricing mechanisms reduces the foreign exchange risk in practice. For an isolated sensitivity analysis regarding feedstock, please see financial review.

Notes to the accounts

23. Financial instruments (Cont.) (EUR million)

Fair Values

The following table indicates the fair values of the following financial instruments and their carrying amounts shown on the balance sheet:

	Carrying Amount 2005	Fair Value 2005	Carrying Amount 2004	Fair Value 2004	Note
Interest Rate Derivatives	1	1	-14	-14	23
Cross Currency Interest Rate Swaps	-6	-6	10	10	23
Forward Exchange Contracts	-3	-3	5	5	23
Commodity Derivatives	7	7	-6	-6	23
EUR Fixed Rate Loans	-14	-14	-79	-82	20
	-15	-15	-84	-87	
Unrecognised losses	0		-3		

Fair value has been determined either by reference to the market value at the balance sheet date or by discounting the relevant cash flows using current interest rates for similar instruments. For other financial assets and liabilities the fair value equals the carrying amount.

24. Fees to external auditors (EURmillion)

	Group		Parent Company	
	2005	2004	2005	2004
Audit fees	1.0	0.6	0.2	0.2
Audit tax fees	0.6	0.4	0.3	0.3
Other services	0.3	0.3	0.2	0.0
Total	1.9	1.3	0.7	0.5

25. Transactions with related parties (EUR million)

EUR 901 million of total feedstock (EUR 859 million in 2004) is purchased from Borealis shareholders at market prices, for which an accounts payable balance of EUR 77 million (EUR 90 million) was outstanding at year end. Borealis A/S has received a loan from Statoil Danmark A/S and IOB Holding A/S for respectively EUR 30 million and EUR 70 million. The loan is subordinated to and contingent upon the payment in full of all other liabilities. Repayment of the principal will be made in full in 2011. Interest is based on EURIBOR rate plus a margin. Payment of interest is contingent upon meeting certain financial ratio tests.

There were no other material transactions with related parties in 2005.

Notes to the accounts

26. Subsidiaries included in the consolidated accounts

Company name	Country	Currency	Issued share capital	Percentage of shares owned
Borealis A/S				
• Borealis Insurance A/S	Denmark	DKK	52,879,016	100
• Borealis GmbH (Austria) ApS	Denmark	EUR	3,500,000	100
• Borealis N.V. (Belgium) ApS	Denmark	DKK	2,000,000	100
•• Borealis Coordination Center N.V.	Belgium	EUR	99,189,000	100
•• Borealis Polymers N.V.	Belgium	EUR	359,445,611	100
••• Borealis Kallo N.V.	Belgium	EUR	40,575,176	100
••• Borealis Antwerpen Compounding N.V.	Belgium	EUR	277,054	100
• Borealis Sverige AB	Sweden	SEK	400,000	100
•• Borealis Holding AB	Sweden	SEK	1,300,050	100
••• Borealis AB	Sweden	SEK	65,000,000	100
•••• Etenförsörjning i Stenungsund AB	Sweden	SEK	5,000,000	80
• Borealis Portugal SGPS S.A.	Portugal	EUR	50,000	100
• Borealis AS	Norway	NOK	3,050,000,000	100
• Borealis GmbH	Austria	EUR	32,609,605	100
•• PCD Polymere s.r.o.*	Czech Rep.	CZK	100,000	100
• Borealis Italia S.p.A.	Italy	EUR	13,725,600	100
• Borealis France S.A.S	France	EUR	207,000	100
• Borealis Polymere Holding AG	Germany	EUR	1,123,000	100
•• Borealis Polymere GmbH	Germany	EUR	18,406,508	100
•• Borealis Deutschland GmbH	Germany	EUR	154,000	100
• Borealis Compounds Inc.	US	USD	24,055,010	100
•• Borealis Compounds LLC	US	USD	0	100
• Borealis Polymers Oy	Finland	EUR	90,821,480	100
• Borealis Technology Oy	Finland	EUR	43,728,860	100
•• Borealis Polyethylene Oy	Finland	EUR	170,000,000	100
• Borealis s.r.o.*	Czech Rep.	CZK	500,000	100
• Borealis Asia Ltd	Hong Kong	HKD	500,000	100
• Poliolefinas Borealis Espana S.A.	Spain	EUR	60,000	100
• Borealis Polska Sp z.o.o.*	Poland	PLN	40,000	100
• Borealis Brasil S.A.	Brazil	BRL	94,744,000	80
• Borealis UK Ltd	UK	GBP	15,000	100

* Excluded from the consolidation due to immateriality



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