Annual Report 2009

BOREALIS

2009 at a glance

€4,714m Net sales

€38m Net profit

€260m EBITDA

2% ROCE

43% Gearing

Innovation Headquarters Linz, Austria

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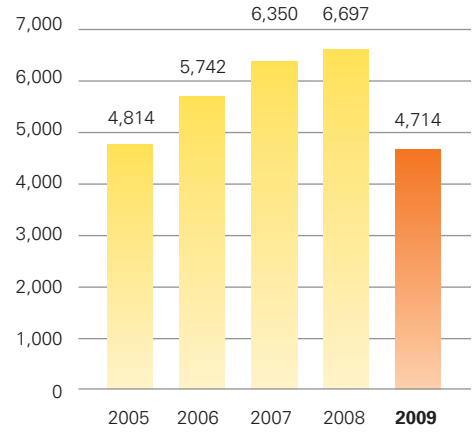
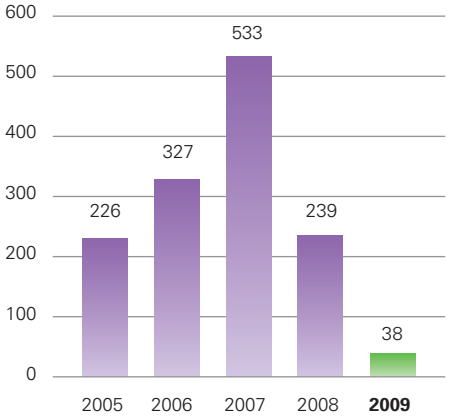
Milestones

- Continued leadership in safety, achieving second DuPont Safety Award
- Positive financial results despite volatile market
- Improved environmental performance with significantly reduced flaring
- Inauguration of international Innovation Headquarters in Austria
- Preparing for LDPE plant start-up in Sweden further enhancing Borealis' offering in wire and cable
- Pioneering of the water footprint concept in the plastics industry
- Water for the World™ – donation of pipe material to victims of Italian earthquake
- Key investment in catalyst production capabilities reinforces commitment to innovation
- Borouge gears up to capture growth markets in China and India; Borouge 2 on track for start-up in 2010, Borouge 3 expansion project in design stage and scheduled to start-up in 2013

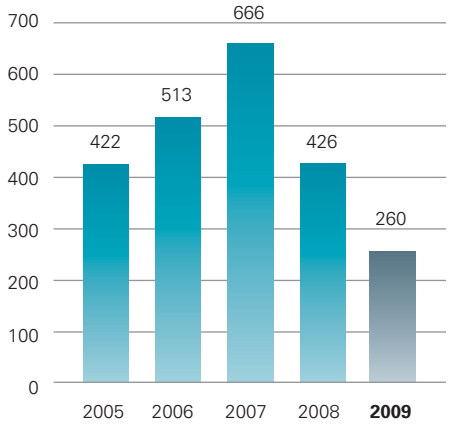
Net sales (EUR million)



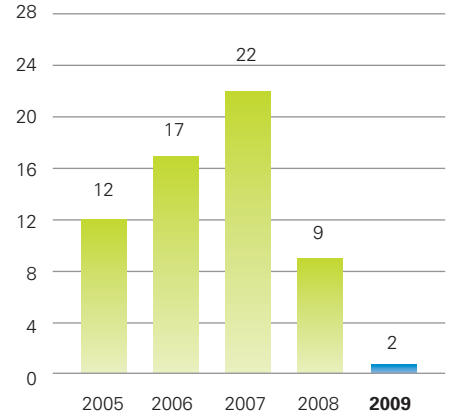
Net profit (EUR million)



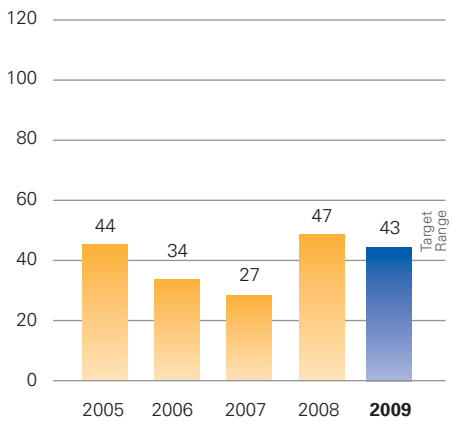
EBITDA (EUR million)



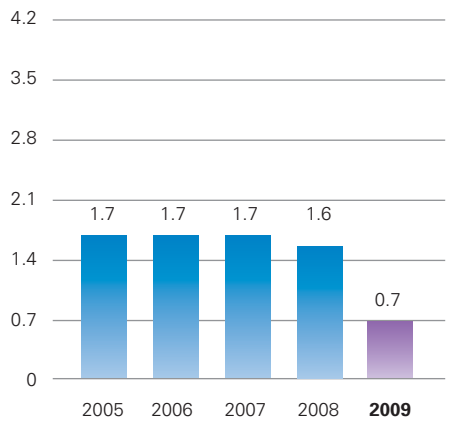
ROCE (%)



Gearing (%)



Occupational Safety Performance
(Number/million work hours [1])



[1] Includes own employees and contractors

Innovation Centre Porvoo, Finland

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

Nimblicity is a trademark of Borealis.

Our strategy is clear

We will …

Grow our business in **infrastructure**, **automotive and advanced packaging**

Expand the **Abu Dhabi complex** to supply growth in the Middle East and Asia

Strengthen our **European base**, ensuring cost competitiveness from feedstocks to customers

Develop our **Base Chemicals** business

Pursue **operational excellence**, considering safety at all times

Achieve a step change in **innovation**

Exceed in serving our customers with a focus on **quality** and **reliable execution**

Build a **cross-cultural** organisational capability

Outperform financially …

11% + average Return on Capital Employed (ROCE) after tax

40% – 60% debt to equity ratio

Our Executive Board

Mark Garrett
Chief Executive Officer

Daniel Shook
Chief Financial Officer

Gerd Löbbert
Executive Vice President, Base Chemicals

Lorenzo Delorenzi
Executive Vice President, Polyolefins

Henry Sperle
Executive Vice President, Middle East and Asia

Herbert Willerth
Deputy CEO; Executive Vice President, Operations

Our world

Borealis Locations

Customer Service Centres/Representative Offices
Abu Dhabi, Austria, Belgium, Finland, Hungary, Italy, Russia, Singapore, Turkey, United States

Production Plants
Austria, Belgium, Brazil, Finland, Germany, Italy, Sweden, United States

Innovation Centres
Austria, Finland, Sweden

Head Office
Austria

Borouge Locations

Customer Service Centres/Representative Offices
Abu Dhabi (UAE), China, India, Singapore

Sales Offices
Abu Dhabi (UAE), Australia, China, Lebanon, New Zealand, Saudi Arabia

Production Plants
Ruwais (UAE)

Head Offices
Abu Dhabi (UAE), Singapore

Statement of the Supervisory Board

Despite challenging industry conditions driven by the global economic crisis, Borealis managed to deliver a positive result in 2009. Within a shrinking polyolefins market, Borealis produced and marketed higher volumes than in 2008. With its major investment in a high-pressure polyethylene plant in Stenungsund, Sweden, preparing for start-up, the inauguration of the new Innovation Headquarters in Linz, Austria, and the start-up of Borouge 2 in Ruwais, United Arab Emirates, scheduled for 2010, Borealis continues Shaping the Future with Plastics™.

Commitment to safety performance and corporate social responsibility

Borealis proved again in 2009 its commitment to safety by further improving its leading indicators. The organisation has maintained its critical focus and drive to further improve personal and process safety across the company's locations.

Borealis' management strongly believes in corporate social responsibility, Responsible Care and their long-term impact on the company's success. In accordance with this philosophy, Borealis and Borouge have continued their Water for the World™ programme, launched in 2007, which aims at addressing the environmental, business and social dimensions of sustainable development related to water and sanitation by fostering knowledge, building partnerships and delivering sustainable solutions that will make a difference.

A solid performance, despite challenging market conditions

Borealis again achieved a solid performance in 2009 with a positive net profit and a slight decrease in its net debt position despite the investment in growth projects. The performance reflects the company's preparedness for the expected supply-side storm driven by the additional capacities coming on stream in the Middle East as well as the economic crisis, which resulted in a significant demand drop in the second half of 2008 and continued during 2009.

Under this challenging industry environment, Borealis managed to increase its polyolefins market share and realised sales volume growth compared to the previous year. The feedstock & olefins operations again significantly contributed to the overall result, although margins were impacted by the economic downturn.

Similar to the petrochemical industry, the plant nutrients and melamine businesses suffered from decreasing demand and increased pressure on margins.

Gerhard Roiss
Chairman

Mohamed Al Khaja
Vice Chairman

Mohammed A. Al-Azdi
Board Member

While the plant nutrient business still achieved a positive result, the margins and some one-off effects resulted in a negative melamine business result.

Strategic investments finalised with more in the pipeline

With the inauguration of the Innovation Headquarters in Linz, Austria, Borealis confirms its commitment to continue strengthening its innovation capability. In cooperation with its customers, the company will ensure the delivery of the innovation pipeline to secure future growth. With an additional investment of EUR 75 million in a catalyst plant announced in December 2009, Borealis intends to further broaden its innovation competencies.

The company's new world-scale low-density, high-pressure polyethylene plant in Stenungsund, Sweden, will secure the company's leading position within the infrastructure segment for years to come.

Borealis' expansion in the Middle East through its joint venture Borouge is progressing well. The Borouge 2 expansion project, which will increase Borouge's current capacity of 600,000 tonnes per year (t/y) to two million t/y of polyolefins, is progressing according to plan and is scheduled to start up during 2010.

Following the successful completion of the feasibility study, Borouge has entered the front-end engineering and design (FEED) phase of its Borouge 3 expansion, which will increase Borouge's capacity by an additional 2.5 million t/y and support Borouge's growth in the Middle East and Asia.

Committed to keep a leading position

Borealis' management and employees are committed to maintain the company's leading position in safety and innovation as well as operational and commercial excellence. With the biggest growth projects in the history of Borealis and Borouge coming on stream during 2010, the company will strengthen its competitive position in providing innovative and value-creating solutions. Borealis' management and the Supervisory Board foresee another challenging year in 2010, but are confident in the company's ability to continue to weather the challenges and ultimately emerge as an even stronger and more global player in the industry.

David C. Davies
Board Member

Mohamed H. Al Mehairi
Board Member

Meet our CEO

2009 was a very tough year for the plastics industry. How did Borealis manage to achieve such a reasonable result?

The financial crisis that hit the worldwide economy was not just tough for the plastics industry, it has been tough for everyone across the board. According to the International Monetary Fund, many parts of the world fell into the worst recession since the Great Depression. This has caused a significant downturn in consumer and industry demand. In addition, and what is particular for our industry, we can already see some additional polyolefin capacity, mainly from the Middle East, coming on stream, which puts further pressure on the markets. However, we firmly believe that a successful company does not wait until they are in trouble to make changes. That's why we prepared ourselves. We began already in 2007 with efficiency programmes in both our operations and support functions. Since then we have implemented very restrictive cost reduction measures to which the whole organisation contributed beyond expectations. At the same time, we have initiated new programmes to further increase our efficiency and improve our operational excellence. Our positive results in comparison to our competitors show that these efforts are really paying off. In addition, we have also been focusing on managing our liquidity and maintaining a comparatively low gearing ratio to make sure we retain balance sheet strength. What helps us as well is the stability that our owners IPIC and OMV provide.

The industry has, so far in this recession shed around 83,000 jobs. At the beginning of this recession we made a commitment to our employees to get as many of our people through it as possible. I think so far – and we are maybe only half way through – the company has done a good job. One difficult decision we faced though was to close the high-density PE plant in Beringen, Belgium this year. Our decision was based on a worldwide surplus of capacity coming on stream and the subsequent lower prices. I believe the people can be proud of the company and the company can be proud of the people. The company and the people embody the values – even in difficult times.

Borealis continues to be an industry leader in safety. What do you think is the key to success?

I am convinced that everyone at Borealis is fully committed to safety, and a TRI-rate of 0.7 gives statistical proof of this fact. However, this figure also tells us that a few people still get hurt while working for Borealis, and so we're not where we should be. We continuously need to

focus on raising awareness and implementing preventive operations such as observation tours, near miss reporting and safety trainings for our employees and our contractors.

I am especially proud that Borealis was again able to win a DuPont Safety Award for our safety performance. Our new colleagues in the area of melamine and plant nutrients received the DuPont Safety Award in the category of Sustainable Business Impact for their Step-Change in Safety programme. This award confirms that we are fully committed to our safety motto: "If we can't do it safely, we don't do it at all."

Where do you see the future of your base chemicals business in the global chemicals market?

With the acquisition of the melamine and plant nutrients business in Linz and Piesteritz, we can offer a diverse portfolio of products that form a second leg to our polyolefins business. However, due to the global economic crisis, the melamine and plant nutrients businesses have suffered significantly from lower margins in 2009. Our focus therefore has been and will be on cost competitiveness and efficiency improvements in all areas of base chemicals.

What progress has been made to achieve Borealis' aim in polyolefins to be THE leading provider of innovative, value creating plastics solutions?
Borealis remains committed to our Value Creation through Innovation path, and we continue to work closer than ever with our customers to support them in developing the value-adding solutions they have come to expect from us. The expansion of our Innovation Headquarters in Linz, which we inaugurated in 2009, is one of the cornerstones on this strategic path. It offers the ideal platform for product development with state-of-the-art equipment in the laboratories and an application hall with an extended range of processing technologies. In addition, we reorganised our Innovation and Technology team to be more project-driven and deliver tailored products faster to the market.

Under the current market conditions, is a programme such as your corporate social responsibility programme Water for the World™ sustainable?
Together with our joint venture Borouge, we developed Water for the World as a long-term initiative based on our conviction that a corporate social responsibility programme can only be sustainable if it is embedded in the business and day-to-day activities. In 2009, we set some significant milestones such as the donation of Borealis pipe material to the victims of the earthquake in Abruzzi, Italy. At the Stockholm Water Week, Borealis presented the plastic industry's first water footprint assessment of plastics materials. I believe that in a water-stressed world, water footprinting is a key concept to better assess and manage impacts on local environments and communities. Knowing our company's water footprint will give us a better understanding of the impact of our business and, based on local impact assessments, put us in a stronger position to prioritise relevant water management actions. All these activities show that Water for the World is not a short-term initiative; it is a long-term commitment that we made because we believe we can make a difference.

With additional capacities coming on stream in the Middle East, where do you see the major challenges for a company like Borealis in the future?
I believe that there are challenges but also some exciting opportunities lying ahead. Borealis is well prepared for the industry upswing, which we expect to start in 2011 and beyond. 2010 will be a tough year, but our strategic focus on innovation, commercial and operational excellence as well as safety will give us a competitive advantage. We will also maintain our investments in our long-term growth drivers: the new LDPE plant in Stenungsund, Sweden, which will be fully up and running in 2010, the expanded Innovation Headquarters in Linz, Austria, Borouge 2, which will triple the polyolefins capacity at our Abu Dhabi joint venture and Borouge 3, which will add an additional 2.5 million tonnes of polyolefins capacity in the Middle East. Additionally, we will continue to focus on cost competitiveness and cash generation. In short, we will continue to do what we are good at: providing the innovative solutions our customers expect. What makes me confident about our success is that IPIC and OMV, as our shareholders, are standing behind our long-term strategy.

Borealis' cutting edge solutions for the automotive sector result in cost savings, increased energy efficiency, reduced CO_2 emissions and long-lasting durability.

IMAGINE A WORLD WITHOUT PLASTICS

Our business

Borealis works closely with its customers and industry partners to provide innovative, value creating solutions through two business groups: Polyolefins and Base Chemicals. The company aims to exceed in quality and reliable execution while offering products that enhance society and address global challenges.

From simple everyday products that make life easier to step-changing technological developments, Borealis and its Borouge joint venture with the Abu Dhabi National Oil Company (ADNOC) are leading the way.

Polyolefins

Infrastructure

Pipe systems

Borealis is the leading global provider of advanced polyolefin plastics solutions for the pipe industry. Through close dialogue with customers and other stakeholders, the company has developed a broad and innovative product and service portfolio. The applications cover water and gas distribution, waste and sewage disposal, chemical and industrial projects, in-house plumbing and heating as well as oil and gas exploration and transport.

Energy and communication cables

As a leading provider of polyolefin compounds for the global wire and cable industry, Borealis' solutions are widely used in low, medium and high-voltage energy transmission and distribution cables, in data and communication cables, and in building and automotive wires.

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-body shieldings. These solutions are at the leading edge in areas such as zero gap applications 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.

Base Chemicals

Feedstocks and olefins

Borealis sources basic feedstocks, such as naphtha, butane, propane and ethane, from the oil and gas industries and converts these into ethylene and propylene through its olefin units. Steam crackers in Finland, Sweden and Abu Dhabi (Borouge) produce both ethylene and propylene, while propylene is also produced in a propane dehydrogenation plant in Belgium. In addition to purchasing from the markets, the balance of feedstock and olefins required for Borealis' plants and those of its joint ventures are sourced from its owners or joint venture partners. A range of co-products from the steam cracking process, such as pygas and butadiene, are also sold to international markets.

Phenol and aromatics

Phenol, benzene and cumene as well as acetone are produced 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. Borealis is the leading phenol producer in the Nordic and Baltic regions. Acetone is commonly used in solvents for paints, acrylics, fibres and pharmaceuticals. Benzene and cumene are feedstocks for other chemical processes.

Melamine and plant nutrients

Melamine is produced at Borealis' facilities in Piesteritz, Germany, and in Linz, Austria, while plant nutrients are produced in Linz. The company is currently the melamine market leader in Europe and a leading provider of plant nutrients in the Danube region.

Borstar® – Our leading edge technology

Borealis' leading edge Borstar® technology is a critical element in satisfying today's growing demand for advanced plastics and in developing the next generation of innovative, value creating products.

Borstar® is the company's proprietary process and catalyst technology that supports the production of a wide range of enhanced polyethylene (PE) and polypropylene (PP) products.

Now, Borstar PE 2G and Borstar PP 2G, Borealis' next generation technology, represent a leap forward in process technology, allowing flexible polymer design from bi-modal to multi-modal PE/PP and facilitating the development of an ever-widening range of new plastics that outperform alternative materials in meeting the needs of manufacturers and end users.

By tailoring the molecular structure of PE and PP to precisely match the application requirements, Borstar PE 2G and Borstar PP 2G extend the product range with more sophisticated, customer-oriented solutions, which are characterised by an outstanding combination of mechanical properties and excellent processability.

Borealis' advanced polyolefin solutions for the global wire and cable industry help provide a communication infrastructure that the world can count on.

IMAGINE A WORLD WITHOUT PLASTICS

Shaping the Future with Plastics™

In a year marked by expansion in the Middle East and Asia, belt-tightening in Europe and a continued focus on commercial and operational excellence, Borealis continued to progress its strategy to be the leading provider of innovative, value creating plastics solutions.

Mobility business unit

The Polyolefins business group started the year by launching the Mobility business unit with the goal of leveraging the existing know-how of its automotive business to meet the growing needs of the wider mobility markets for lightweight, resource-efficient and environmentally friendly plastics. Examples of growth markets include batteries for hybrid vehicles as well as applications for trains and motorbikes. In addition to the core automotive markets, the new business unit will encompass Borealis' battery application business.

Growth in Asia

Borealis' joint venture with the Abu Dhabi National Oil Company (ADNOC), Borouge, is currently bringing a Compound Manufacturing Unit in Shanghai on line, which will produce 50,000 tonnes per year of polyolefin compounds for use in automotive, domestic appliance, power tool and white good applications. In India, Borouge is also working with Machino Polymers to introduce Borealis' proprietary Borstar® technology resins for the manufacture of high-performance polypropylene compounds to produce exterior and interior automotive components. These ventures will enable Borouge to offer Borealis' innovative line of polyolefins to meet the needs of these growing Asian markets.

Borouge expansions continue

After the successful feasibility study conducted last year, Borouge decided to begin the front-end engineering and design stage of its massive Borouge 3 expansion project in Ruwais, United Arab Emirates. Approximately 2.5 million t/y of polyolefin capacity will be added by the end of 2013, enabling Borouge to meet the growing demand for value adding polyethylene (PE) and polypropylene (PP) in the Middle East and Asia. The addition of low-density polyethylene (LDPE) will also help Borouge to expand its wire and cable infrastructure market. To support this growing production capacity and offer enhanced customer service, Borouge is expanding its sales and marketing efforts by establishing logistics hubs in Shanghai and Guangzaou, in China, as well as Singapore.

The current Borouge 2 expansion project is on track for completion in mid-2010 and will triple the current polyolefin manufacturing capacity.

Expansion and belt-tightening in Europe

As the economic crisis continued across Europe, Borealis was faced with many difficult decisions in its efforts to stay competitive. The company decided to close its high-density PE plant in Beringen, Belgium, by March 2010. This decision was based on the fact that there will be a global surplus of capacity coming on stream resulting in lower prices and making the unit uncompetitive.

At the same time, Borealis worked during the year to expand its offering of innovative, value creating polyolefins to its key markets of infrastructure, automotive and advanced packaging.

The company's Schwechat facility in Austria added additional capacity of black high-density polyethylene (HDPE) for drinking water and gas pipes, enhancing the service to its customers in Central, Eastern and Southern Europe. The added volume ensures shorter delivery times and reliable supply. This highly innovative material is based on Borealis' proprietary Borstar® technology, which allows for tailoring the pipe grade to customers' specific performance and processing needs.

In Stenungsund, Sweden, the new 350,000 t/y high-pressure, low-density PE plant was mechanically completed early in 2010. This investment enables Borealis to meet the needs of the growing wire and cable markets.

The expansion of the EUR 200 million PP plant expansion in Burghausen, Germany in 2008, based on proprietary second-generation Borstar® technology, has increased production capacity for grades based on this technology by 330,000 t/y to 570,000 t/y at this location, helping Borealis to meet the increasing demand of its customers in the advanced packaging markets.

Commercial Excellence

Since 2001, Borealis' Commercial Excellence programme has been implementing best practice strategies, tools and processes in the Polyolefins business group to support the company's Value Creation through Innovation objectives.

This year, the Executive Board decided to introduce the broad expertise gained from this programme, and captured in Borealis' Commercial Excellence Handbook, to the Base Chemicals business group. The goal is to generate increased value through differentiated market offerings based upon better understanding of our customers' needs.

In 2010, the programme will execute several new initiatives in Polyolefins to maintain and improve the company's leading position with its customers in value-added applications.

The superior properties of Borealis' polyolefins make them the material of choice for a wide variety of lightweight, durable yet flexible advanced packaging solutions.

IMAGINE A WORLD WITHOUT PLASTICS

Base Chemicals

2009 brought both challenges and success for the Base Chemicals business group as the overall economic climate impacted the business, namely in the areas of melamine and plant nutrients, while the phenol and aromatics business unit experienced solid sales. The business also ushered in new leadership to guide it forward in the years to come.

Sale of operations in Italy

In an effort to focus on its core products, Borealis sold its melamine and additives plant in Castellanza, Italy, to Borgo Olona. The plants in Linz (Austria) and Piesteritz (Germany) will continue to provide Borealis' base chemical customers with high-quality melamine and plant nutrients.

Integration, environmental excellence and a step change in safety

The integration of Agrolinz Melamine into Borealis, which began at the end of 2007, was completed this year, resulting in a unified melamine and plant nutrients business. Integration of the SAP systems will be completed in 2010 and continue to foster further efficiency and operational excellence. The city of Linz recognised the site with the IRIS Award 2009 for environmental excellence due to its reduction of CO_2 emissions. Furthermore, the company received the prestigious DuPont Safety Award for its step change in safety during the past two years.

Production and sales records

Despite the challenging economic climate, Borealis achieved record sales of phenol and aromatics this year. Skilled staff and reliable production units were behind these excellent results. Borealis has increased its market share in Europe and as a response to the prevailing difficult market conditions, the company continues to actively explore new markets and applications as well as improve its sales and operations planning process.

New leadership

In February, Base Chemicals Executive Vice President Martin Kuzaj decided to leave the company. Deputy CEO Herbert Willerth took over the responsibilities on an interim basis until January 1, 2010, when Gerd Löbbert was appointed to lead the group into the future. A German national with extensive international experience in the chemicals industry, Löbbert is well qualified to lead the Base Chemicals business group.

Growth in the Middle East and Asia

Borealis continued to make progress on its base chemicals growth projects in the Middle East and Asia.

This year, Borealis and IPIC continued to assess the feasibility of building a world-scale plant nutrients complex in Uzbekistan. The plant, targeted to come on stream in 2012, will be the largest of its kind in Central Asia producing ammonia and urea to meet the growing markets in the Middle East and Asia.

Borealis' application-driven solutions in base chemicals are found in everyday products such as laminate for kitchen counters and floors as well as coatings for household appliances.

IMAGINE A WORLD WITHOUT BASE CHEMICALS

Innovation to create value

This year's highlights in innovation and technology included the inauguration of Borealis' Innovation Headquarters, accelerated product development after the successful start-up of the new laboratory reactors in Linz and a successful Innovation Day and Student Innovation Awards ceremony. Through these activities, Borealis continued to advance Value Creation through Innovation, as always, with an eye on the future.

Innovation Headquarters inauguration

Borealis inaugurated its Innovation Headquarters in Linz, Austria. The EUR 50 million expansion includes a new polymerisation laboratory, application hall, office building, lab testing facilities and a warehouse, making it an international hub for the company's research and development activities.

An additional EUR 75 million is being invested in a semi-commercial catalyst plant in Linz to develop and scale up new catalysts for the production of innovative new polymers. The basic research for this leading edge catalyst technology is being carried out at the Porvoo Innovation Centre in Finland.

Accelerated product development

The newly installed EUR 5.5 million PP and PE polymerisation reactors at the Innovation Headquarters came on line this year, yielding better-than-expected results, helping Borealis accelerate product development and get products to market faster than ever before. A key factor behind the success is the superior gas purification system installed on the reactors, providing excellent catalyst activity and process consistency. The reactors

produce clear, clean, white, uniformly sized polymer pellets. This development extends Borealis' innovation capability significantly.

The EUR 30 million investment in a Borstar PP pilot plant in Schwechat, Austria, was also completed in 2009, enhancing Borealis' capability to provide innovative, multi-modal PP solutions to the automotive, pipe and advanced packaging industries in Europe.

Recognising excellence in innovation

In its continued efforts to recognise excellence in innovation, Borealis celebrated its Innovation Day 2009 on January 21, 2009, in Linz, Austria. At the event, innovation awards were given to Borealis employees or teams who developed innovative, practical solutions that create value for customers or society, or that enhance operational excellence.

The Student Innovation Awards were also presented at the event for the two most innovative research papers on polyolefins, olefins or melamine, one for a master's graduate and one for a doctorate graduate. The winners received an award, a certificate and a monetary donation.

Product innovations

This year saw the launch of several exciting new product innovations, advancing Borealis' goals to achieve a step change in value creation through innovation and enabling it to continue providing its customers with the tailor made solutions they have come to expect. Some examples are featured in the paragraphs that follow.

In moulding, the BorPure™ solutions for plastic bottles using Borealis' BNT technology will provide customers with improved cycle times of up to 20%, better drop impact performance, excellent organoleptic properties and 10% energy savings.

The film and fibre Daploy™ solution provides high melt strength, long chain branched PP for extruded foam applications. Benefits include low density (down to 35 kg/m³), good processing performance, food contact approvals, microwave safe, fine cellular foam structure and flexibility for use in both food packaging as well as in technical applications (i.e. automotive).

To help meet the industry need for easy installation, the new generation high-density Borsafe™ PE pipe solution provides exceptional durability, improved joint quality as well as low sag performance. This solution is designed for modern pipe laying techniques, providing a high potential for reduction in installation costs.

In the area of mobility, the XMOD™ glass fibre reinforced PP solution for automotive air intake manifolds provides both cost savings and substantial environmental benefits. This product, which is being jointly developed by Volkswagen and MAHLE Filter Systems, provides a 15% reduction in weight and significantly improved acoustic behaviour. During production, environmental benefits include a potential to save 60% in CO_2 emissions, 80% in NOx emissions as well as 83% in water usage and 40% in energy consumption.

Positioned to win

To counter the economic crisis and contain costs, Borealis implemented several initiatives this year to bolster its internal capability through the development of talent, leadership and technical training programmes while supporting a new university programme in plastics engineering. At the same time, through the implementation of identified actions flowing from the People Survey, the company confirmed its commitment to listen to and engage its employees and act upon their feedback in building a better Borealis. These initiatives are designed to position the company to win during these challenging times and when the economy recovers.

Talent management and leadership development

This year Borealis developed a state-of-the-art programme for managing talent and developing future leaders by leveraging its own resources as well as the in-house expertise and know-how of its employees. After extensive external benchmarking and internal needs analysis, the company set out four main programme areas:

- **Identifying** leadership talents across all regions and businesses
- **Assessing** talents for leadership positions
- **Developing** talents through practical experiences, training and support
- **Connecting** talent pools to succession plans

Scheduled for implementation in 2010, this programme aims to fill the internal talent pipeline and cultivate the leadership needed to take the company into an increasingly competitive market place, positioning it well to develop and deliver on its future strategic objectives.

Technical Competence Management

In 2009, Borealis initiated a Technical Competence Management programme for the technical community with pilots in the Operations, Innovation & Technology and Projects & Technical Support departments. With engineers as the focus group, a common model and process was developed for mapping, assessing and developing technical competencies. In 2010, the pilots will be evaluated and the programme will be rolled out to the broader technical community. Based on this, a project group will develop a technical career ladder, providing a structured career development path for the company's technical personnel in the future.

New plastics engineering degree

A new plastics engineering degree programme was launched this year at the Johannes Kepler University in Linz. OMV and Borealis contributed EUR 3 million to support the implementation and expansion of four new departments within the School of Technical Science. Bachelor's and master's degrees will be offered in plastics engineering as well as a master's in industrial plastics engineering. Together with the existing degree programmes in chemistry, these new programmes will prove indispensable in helping to meet the increasing demand for highly qualified polymer scientists in this expanding industry and more specifically in providing qualified candidates for the newly established Borealis Innovation Headquarters in Linz. As an early starting point, the company also links talented high school students with university lecturers in the area of chemistry and polymers. This specialised training, called "Young Polymer Scientists", was piloted in 2009 and because of its success will be continued in the years to come.

People Survey follow-up

The People Survey held in 2008 yielded an impressive response rate of 80%, with employees voicing their

opinions on topics such as leadership, management, personal development, empowerment and involvement. This year was used to implement follow-up actions on the feedback received. The Executive Board defined its four action areas as leadership, values, customer awareness and innovative climate. The improvement actions, a total of 137 at the key business group/function levels, were then tracked centrally, and the remaining actions locally, until successfully completed. The next People Survey, to be held in 2010, will again provide valuable feedback on how the company is doing in meeting the needs of its employees while giving an indication of how the numerous improvement activities have impacted the company over the previous survey period.

Creating a cross cultural organisational capability

Borealis' strategy is firmly based on its values, which were given a special focus in internal communication activities in 2009. One example of how the value of Respect is being lived is the diversity found in Borealis' workforce. Some recent examples underpin this belief in establishing a diversified workforce as one of the building blocks to future success:

Legal Counsel Parisima Khalvand is from Iran and works in Borealis' Abu Dhabi office. Having previously studied and worked in Iran, Europe and the United States, she appreciates the cultural diversity of the company. "At Borealis, cultural differences are seen as an asset," she comments. "I believe cultural diversity provides different perspectives and different solutions, which are often optimum. This is where we create value for our stakeholders."

Johan Asting, Laboratory Manager, started with Borealis in Sweden before being transferred to the United Arab Emirates. "I've been with Borealis in Stenungsund and am now with Borouge in Ruwais," he states. "Working with other cultures is not always easy, but it's a great learning opportunity and part of what makes Borealis and Borouge attractive places to work."

The Borealis head office in Vienna is a location which lends itself as a benchmark in terms of diversity. At present there are employees from 22 countries, including Brazil, Turkey, South Africa, the United States, Colombia, Australia and Norway, over and above the European countries.

Carolina Arévalo Ribon, Market Intelligence Analyst, is from Colombia and has been working at the head office for almost two years. "I really enjoy the richness that comes from working with people from different countries," she comments. "The variety of opinions and viewpoints we get from people with diverse backgrounds and cultures often helps us reach the best decisions for the company."

Working together for the Borouge expansion

Currently, approximately 120 Borealis employees are supporting growth projects in the Middle East and Asia, with 3 in Shanghai, around 10 in Singapore, 11 in Milan, and 96 in Abu Dhabi. These staff members are providing valuable support to the existing Borouge 1 operations, the imminent Borouge 2 start-up scheduled for mid-2010, as well as in the planning and preparation for the establishment of the Innovation Centre in Abu Dhabi and the future Borouge 3 project. There has also been an opportunity for close collaboration between Borealis, OMV and Borouge on procurement matters related to these growth projects. In addition, Borealis' Strategy department is providing ad-hoc support on mergers and acquisitions driven by IPIC. In the future, this cooperation, support, networking and cross learning will be strengthened and extended in order to assure that Borealis, along with Borouge, continues to provide increased value to its customers and other stakeholders.

Advancing Sustainability

Responsible Care® and Corporate Citizenship

Responsible Care®

Responsible Care® is the chemical industry's global, voluntary initiative in which companies work to continuously improve and report the Health, Safety and Environmental (HSE) performance of their operations and products.

It is Borealis' commitment to advance sustainable development throughout its value chain by improving performance, expanding economic opportunities and developing innovative solutions to societal challenges and needs.

Since 2008, Responsible Care has been one of the company's ten governing policies. Together with the ethics policy, it embeds Borealis' founding value of Responsibility into the company's management: to be a leader in Health, Safety and the Environment, to be good neighbours wherever we operate and to do business according to high ethical standards.

Borealis Responsible Care policy statement

- We aim to be a recognised leader in Responsible Care in our industry
- We see world-class HSE performance as a foundation for leadership in Responsible Care
- We are committed to follow legal requirements or exceed them when they do not meet our standards
- We are committed to advance sustainable development along the value chain and to give priority to innovative, value creating solutions according to the principles of Product Stewardship
- We have a Responsible Care management system based on continuous improvement and verification of our performance
- We openly discuss Responsible Care issues with our stakeholders with the aim to further promote HSE and to save energy along the value chain

This 2009 report gives a comprehensive review of our performance and the main developments in the following areas: operational HSE, energy efficiency and greenhouse gas emissions (GHGs), product stewardship and chemicals management, corporate social responsibility (Water for the World programme) and ethics policy.

Embedding Responsible Care into our organisation

As a Group Policy, all employees are expected to apply Responsible Care principles in their daily work life. Throughout 2009, a communication campaign was rolled out across the company to introduce Responsible Care and further familiarise employees with its objectives and principles.

An internal audit, based on the chemical industry's detailed verification guidelines, was carried out in spring 2009 to review the status of implementation and compliance with the Responsible Care policy. The audit highlighted three conclusions that will frame internal action plans and developments in 2010:

- The effectiveness of Responsible Care implementation in Borealis' operations, setting the basis for further HSE improvements.
- The need to better integrate Responsible Care into business management and strategy, in particular to answer growing sustainability needs in the value chain.
- The importance of internal communication to engage employees and senior management to promote/ encourage Responsible Care implementation.

Advancing sustainability in 2009

Maintaining world-class HSE performance in operations remains the foundation and a prerequisite for leadership in Responsible Care. Through continuous improvement in people and process safety, Borealis aims to be one of the safest companies in the industry. In 2009, the company achieved the lowest number of accidents in its history with an incident frequency rate of 0.7. This exceptional performance was backed by a DuPont Safety Award, recognising a step change achieved by Borealis Agrolinz Melamine, a testimony to the dedication of Borealis' HSE team and employees to safety. Despite these achievements,

some severe accidents, including one fatality on the Stenungsund LD5 construction site, have also marked the year and remind us all that safety requires constant attention.

Throughout the year, the implementation of the European Union regulation on the Registration, Evaluation and Authorisation of Chemicals (REACH) has continued to mobilise the Product Stewardship and Chemicals Control teams. Borealis is now actively engaged in substance information exchange forums that prepare for the registration of chemicals in 2010. Company leadership in REACH implementation was also recognised with its Only Representative System for Borouge and Rockport, which serves as a role model for industry guidelines of import management under the regulation. To proactively prepare for and openly communicate on restrictions of hazardous substances, Borealis also updated its "black list" of chemicals banned from our products or processes, and extended it with a grey list of substances pending substitution.

Energy efficiency and the reduction in GHGs are among the most important sustainability challenges that the industry is facing, from both a cost-competitiveness and an environmental responsibility standpoint. Under the post-2012 CO_2 emissions trading scheme in Europe, all Borealis operations are within the scope of industrial activities recognised as an exposed sector to "carbon leakage" due to international competition and will be eligible for free allocations of CO_2 allowances according to industry benchmark rules. The company actively participated in industry working groups, developing performance benchmarks for petrochemicals and base chemicals and preparing for future CO_2 auction rules.

A "carbon community" was set up with expert representatives from all company departments to address carbon management needs throughout the value chain. In June 2009, Borealis received the City of Linz Environmental Award for the remarkable reduction of N_2O gas emissions achieved with the deployment of new catalyst technology in the nitric acid plant. Sustaining emissions reduction efforts in a challenging economic context will be a key objective in the years to come.

Climate change effects will be felt first and foremost on our water resources. With its Water for the World™ programme, Borealis took industry leadership on the global water challenge to deliver sustainable solutions and preserve stressed resources. In 2009, Borealis completed the first comprehensive measurement of the water footprint of polyolefin production. Presented at the World Water Week, this pioneering work will serve as the basis to better target the management of water measurement for operations and as a key indicator, alongside carbon and energy, to advance the resource efficiency and ecological performance of innovative plastics solutions.

Advancing sustainability is a journey, which builds upon our values and our business ethics to responsibly address the challenges of our time, helping lay the foundations for tomorrow's business success.

Borealis welcomes your feedback on this 2009 Responsible Care and Corporate Citizenship Section.

Responsible Care is a protected trademark owned in Europe by Cefic, the European Chemical Industry Council

Health, safety and environment in operations

Health

Businesses measure employee health mainly using the sick leave rate. Borealis targets a sick leave rate of 3% or lower, which is generally below the rates for the industry in the countries where the company operates. In 2009, the sick leave rate slightly increased to 3.4%. To safeguard the good health and well-being of its employees, each department regularly takes Work Place Surveys to assess the working environment in detail and take mandatory corrective action as needed. In the context of the H1N1 influenza pandemic, Borealis updated business continuity plans and extensively communicated flu prevention measures to employees and supplied epidemiologic information and advice to travellers. A seasonal flu vaccination campaign was offered to employees in autumn.

Personal safety

Personal safety is central to Responsible Care, and Borealis lives by the credo that "if we can't do it safely, we don't do it at all." The company tracks the frequency of recordable injuries (TRI) that measures the number of injuries per million working hours. Borealis is today recognised among the industry leaders in safety with a TRI frequency per million hours worked below 2 since 2005 (contractors included). In 2009, the TRI frequency reached a record low level of 0.7, with a total number of 10 injuries. The severity of the injuries, measured through a severity rating, and the Lost Time Accident frequency(0.4) also fell. Yet, these remarkably low TRI and LTA levels are statistics and do not reflect how dramatic accidents can be. A Borealis contractor died at the Stenungsund LD5 construction site, and a severe hand accident required major surgery. In 2010, Borealis will further develop a safety initiative on severe near misses.

To raise awareness and prevent accidents, regular training and observation tours are conducted to visit colleagues and contractors at work, and open discussions are held on safety issues and practices. In 2009, more than 12,400 observation tours were performed across all operations and departments.

A new initiative called the "24-hour care corner" was initiated this year addressing HSE topics outside of the work situation. The World Health Organisation's declaration of the H1N1 pandemic led to a review and subsequently resulted in minor changes to Borealis' Major Incident Management system. Since the fourth quarter of 2009, more focus has been placed on near misses with a higher risk potential, ensuring that lessons are shared and correct preventive and corrective actions are finalised in due time.

Process safety

Borealis' petrochemical operations handle large amounts of flammable material under elevated pressure and temperature. Process safety is therefore of prime importance to ensure that the plants are properly designed, maintained and operated to avoid accidents. Trainings are also vital to maintaining a high standard of process safety. In 2009, the Process Safety team continued sharing the learnings from incidents across the company and reviewing old plants to ensure full compliance with Borealis' strict operational requirements. Borealis continued to conduct training courses with participants from all production locations. Examples include The Layer of Protection Analysis to learn how to identify risks and set standards on how accidents can be prevented and Explosion Safety on how to prevent explosions (in view of the European Union ATEX Workplace Directive). One challenge ahead is to set clear competence requirements for each function and to develop a training matrix accordingly. Sharing of best practices continued in 2009, including the electronic work permit system, volatile hydrocarbons in polymer pellets, the reliability of safety valves in reactors and sprinkler activation after gas leaks. All process safety incidents are classified according to their inherent severity.

Auditing

Regular audits on occupational health, safety risks and process safety are conducted at all locations based on Borealis' audit procedure called Borealis Blue. Blue audits were thoroughly carried out this year on Porvoo, Finland's hydrocarbon and polyolefin operations and in Burghausen,

Germany. Results are benchmarked with the company's ambition levels, and action plans are developed to close gaps. Additional regular audits are also conducted by accredited external bodies and by internal auditors to ensure group-wide compliance and maintain certification under ISO 14001 and OHSAS standards.

Environment

Reducing losses from flaring

A major material loss in the production of olefins and polyolefins comes from flaring. The flare is a necessary safety installation to burn excess gas during operational problems. Flares are also used for burning more continuous streams with various components like purge streams where there have been no efficient solutions to recover them. Flaring performance improved in 2009 and achieved a considerable reduction to about 46,000 tonnes. This outstanding result was partially due to the reduced capacity utilisation due to the economic downturn, but also resulted from flaring reduction projects completed in recent years. This was also a year in which plants were running with a high level of stability and very few flaring incidents.

Water efficiency

Within its Water for the World™ programme, Borealis completed the first industry assessment of its polyolefins operations water footprint in partnership with the Swedish Royal Institute of Technology (KTH). By measuring the actual water flow and efficiency of operations, water footprinting helps to better assess current and future impacts of operations on local water resources, thereby targeting local water management plans where required. Borealis' operational water footprint was estimated to reach 18.3 million m^3 based on 2008 data, consisting of 19 Mm^3 of water abstracted from local water bodies minus 1.1 Mm^3 released to the same bodies after treatment. Recovery of drainage water at Borealis' Kallo plant in Belgium allowed a reduction by a third of the operation's footprint in a stressed water environment. The Kallo project team won a Borealis HSE award this year for this achievement, and Borealis HSE will further develop local water assessment.

Production waste

Production waste is created from routine operations and project activities. Despite the impact that the construction of the LD5 plant in Stenungsund had on waste production, the overall waste volumes further decreased in 2009. Measured as the waste generated per tonne produced, waste production in 2009 reached a level of 1.8 kg per tonne produced compared to 1.9 kg in 2008.

Volatile organic compound emissions

Borealis conducts ongoing activities to detect hydrocarbon fugitive leaks in its piping and equipment and repairs leaks when they are detected. Continuous focus was placed on VOC emissions during 2009 and the emissions were kept on a level equal to 2008.

Nitrogen oxide emissions

Nitrogen oxides (NOx) are air pollutants emanating from emissions created by the burners in steam boilers and cracker furnaces. Borealis continues to modernise its installations by changing to low NOx emission burners. It is also important to continuously optimise the combustion conditions to achieve optimal NOx performance. NOx emissions decreased to 1,500 tonnes in 2009 from 1,740 tonnes in 2008 (including Borealis Agrolinz Melamine operations).

Borealis Agrolinz Melamine wins DuPont Safety Award 2009

In mid-2009, Borealis Agrolinz Melamine submitted the Step Change in Safety Programme for the DuPont Safety Award. The prize is awarded by DuPont, a global company widely recognised for its excellent performance in workplace safety. In 2005, Borealis received a DuPont Safety Award in the area of Business Impact.

The Step Change Programme began the integration process into Borealis and was focused on:

- Improving the safety culture through management commitment and leadership
- Introduction of a new work permit system and change management process aligned with extensive risk analysis
- Implementation of Synergi reporting of deviations, near misses and analysis of incidents
- Establishing a process safety reporting system

The success of the Step Change Programme was awarded by the DuPont Committee in the category of "Sustainable Business Impact".

Energy efficiency and greenhouse gas emissions

Improving the energy efficiency and carbon emissions of operations is a strategic objective for Borealis from both environmental and cost-saving standpoints. Under the responsibility of Borealis' Deputy CEO, the company's energy and CO_2 committee adopted the carbon management strategy with the goal of improving operational excellence and product performance through their life cycle while harnessing the innovation potential of new technologies. To involve all of the company's departments in this objective, a carbon management community was set up with experts from business, operations and support functions.

In the context of the severe economic downturn and continuous volatility in the petrochemical markets, Borealis experienced in 2009 lower olefins production volumes. Furthermore, some facilities did not operate at optimum efficiency levels due to turnarounds and maintenance. While these factors may translate into a reduced total of emissions of greenhouse gasses (GHGs), the 2009 performance and relative trends do not mark a step change in carbon intensity of group operations. Sustaining a low level of GHG emissions will remain a major challenge as market demand and production recover.

Energy efficiency

The company is striving for a group-wide 20% improvement in energy efficiency by 2020 compared to 1990. This objective is rolled out across the company's operations with a dedicated energy efficiency key performance indicator. Turnarounds and other major investments carried out over the past years have contributed to a further improvement in group-wide energy efficiency in 2009 in line with the historic annual trend of 1.4%. In 2009, Borealis' energy investments reached EUR 5.8 million.

Greenhouse gases emissions

GHGs are managed at the group level, and objectives are cascaded across all Borealis sites. In 2009, direct CO_2 emissions from operations placed under the EU ETS accounted for 1,310 kilotonnes, down from 1,360 kilotonnes in 2008, although emissions from the melamine and plant nutrient businesses were added to the reported emissions of Borealis Group.

Overall, the carbon intensity of Borealis polyolefin and melamine production (amount of CO_2 equivalent emitted per tonne produced) was further reduced. From 1990 to 2009, the carbon intensity of the production from Borealis current locations (i.e. not accounting divested locations) decreased by 43%.

N_2O reduction

In 2009, Borealis Agrolinz Melamine made a new step change reduction of N_2O emissions from its nitric acid plants, with emissions down to 530 tonnes in 2009 from 2,850 tonnes in 2003. The reduction achieved by the plant nutrient operations represents a cumulative abatement equal to more than 500,000 tonnes of CO_2.

Post 2012 EU ETS

All company operations will fall under the scope of the EU Emissions Trading Scheme (ETS) post 2012. To this end, Borealis actively participated this year in industry working groups developing EU-wide GHG performance benchmarks for petrochemicals and base chemicals.

Making a step change in N_2O emissions reduction

In May 2009, two lines in Borealis' low pressure nitric acid plant (HNO3-plant F) in Linz began operating with a new catalyst to reduce N_2O emissions. This resulted in a reduction to 0.5 kg N_2O per tonne HNO3 compared to 3.7 kg N_2O per tonne HNO3 before the investment.

As N_2O has a global warming potential 310 times higher than CO_2, this reduction is equivalent to around 200,000 tonnes of CO_2 per year.

The catalyst has met the expected 85% reduction capacity when run at full plant through-put and was confirmed and certified by an external institute (TÜV Austria). The project received an Environmental Award from the City of Linz in June 2009.

Product Stewardship

As part of Responsible Care, product stewardship governs the health, safety and environmental aspects of products throughout their life cycle across the value chain. It covers the environmental performance of the supply chain, transport and logistical aspects, the environmental profile of products and waste management. Innovative petrochemicals and plastics solutions make a key contribution to sustainable development. Borealis' product stewardship approach further advances this contribution.

Supply chain

Environmental performance indicators are defined for the entire supply chain and are further extended with the implementation of a green Supply Chain Operations Reference model (SCOR). 40% of Borealis' suppliers (raw materials and packaging) and 66% of bulk contractors have an environmental management system or ISO 14001 certification.

Logistics and transport

Borealis aims to minimise HSE risks from transport and logistical operations and to have 80% of its transport volume handled by CEFIC–SQAS accredited suppliers. Distribution incidents from transport and logistical operations are investigated like any other Borealis incident. Wherever possible, the company seeks to transport products off-road via rail or ship. In 2009, 46% of Borealis' polyolefin products and 82% of its melamine and plant nutrient products were shipped via inter-modal transport.

Waste management

Borealis implements a range of best practices to reduce waste generated by the distribution of its products to customers. Packaging reduction initiatives include the development of bulk shipment, participation in the pallet return system and in national waste management organisations, as well as the control and reduction of bag slitting. The company contributes to the reduction of CO_2 emissions by continuously minimising its transport distances through optimisation of its distribution network. Bulk shipment further increased to represent 50% of the tonnage transported to Borealis' polyolefins customers and about 36% of the tonnage transported to melamine and plant nutrients customers.

Chemicals safety and management

Product stewardship principles are applied to chemicals management and the implementation of REACH, the European Chemicals regulation. Following the completion of the pre-registration of 146 substances in 2008, Borealis is engaged in the Substances Information Exchange Fora (SIEF) set up by industry for the first wave of substance registration in 2010. In 2009, Borealis participated in 68 SIEFs and took the lead registrant role for five large-volume chemicals. REACH also requires closer cooperation and exchange of information between chemical producers and users.

Borealis continued the work initiated in 2007 with the European Plastics Converters Association (EuPC) to assist in the development of the REACH exposure scenario and actively supported the inaugural programme of the Belgium Chemical Industry Federation (Essencia) in assisting small and medium-sized enterprises in their preparations for the regulation. The adaptation of the safety data sheets according to REACH requirements

Borealis black and grey lists of chemicals

To pro-actively address the growing number of queries from customers and stakeholders on hazardous chemicals we may use, Borealis openly issued in June 2008 the first "black list" of chemicals substances banned in its production process and products.

After extensive review with business units and innovation-technology department, Borealis product stewardship has developed a more comprehensive list of banned and restricted substances to also include those substances to be phased-out from our production processes or not to be added anymore in our products once alternatives will be available.

In addition to the list of banned substances, the 13 grey listed substances are used in a very limited range of applications or in controlled and closed systems but are subject to substitution plans to prepare for future regulations or due to possible scientific concerns.

The black and grey list will be regularly updated in light of regulatory and substitution developments. It is publicly available under the chemicals management pages on the Borealis group web site.

was also continued with the goal of having all sheets reviewed by 2010. Borealis' product stewardship team further updated the company "black list" of hazardous substances and extended it to include a range of restricted substances with the aim of substituting them by less hazardous materials.

The first external REACH audit was successfully completed on Borealis' Stenungsund operations by the Swedish Chemicals Agency, Kemikalieinspektionen (KemI). The audit reviewed chemicals control processes and permits, pre-registrations of substances as well as the quality and content of safety data sheets. The audit concluded that Borealis complies with REACH obligations for good quality and did not lead to any corrective actions. Similar audits led by nationally competent authorities will take place at other Borealis legal entities.

Environmental performance of products

To address stakeholder requests for carbon footprint information on plastics (i.e. the amount of CO_2 emissions required for the manufacture of a product unit), Borealis published a booklet in 2008 on the carbon footprint of polyolefins and management practices. Building on the company's Responsible Care commitments to engage its stakeholders on major sustainability issues, this publication offers a discussion platform with its value chain partners and stakeholders to advance the company's approach on climate change and to further promote sustainable development along the value chain.

This publication and discussion platform gained further recognition in 2009 and will be applied to the carbon footprint of Borealis' melamine and fertiliser productions as well as to Borouge.

Life cycle analysis in partnerships with customers

During 2009, Borealis joined forces with two key customers and commissioned a specialised consultancy to investigate the carbon and water footprint (full life cycle impact analysis) of specific applications as well as the life cycle of comparable materials. Borealis will continue performing environmental life cycle analyses of key applications in close partnership with interested customers and stakeholders.

Certificates and product statements

A number of certificates and statements are produced for customers, including safety data sheets, medical compliance, food law compliance, compliance to legislation on toys and others.

Responsible Care 2009 key performance indicators

Indicator	Definition	2009	2008	2007	2006	2005	2004
Total Recordable Injuries	number/million work hours	0.7	1.6	1.7	1.7	1.7	2.4
Sick leave	% of total hours worked	3.4	3.1	2.9	2.9	2.9	2.8
Direct carbon dioxide emissions	kilotonnes	*	1,480	1,540	1,600	1,630	2,340
EU ETS CO_2e emissions	kilotonnes	1,310	1,360	390	450	420	n.a.
Primary energy consumption	GWh	19,300	15,100	15,500	16,200	15,900	20,600
Volatile organic compound emissions	tonnes	3,440	3,250	3,800	4,160	4,210	6,100
Waste generation	tonnes	16,100	15,010	15,560	15,140	15,800	18,430
Flaring	tonnes	46,000	51,000	57,600	59,600	49,400	65,000
NOx emissions	tonnes	1,500	1,230	1,330	1,580	1,620	3,090
Water consumption	m^3 (million)	183	16.8	18.7	15.9		
N_2O emissions	tonnes	530	1050	870	900		
Response rate on process safety incidents	% actions timely completed	97	98	95	100	91	
Response rate on HSE incidents	% of approved and closed cases	98	95	93	90		

Following the completion of the HSE management and systems integration, the performance indicators of Borealis Agrolinz Melamine operations (formerly AMI) are incorporated into Borealis' reported indicators as of 2009. Historic performance reported from 2004 to 2008 does not include Borealis Agrolinz Melamine operations, except for N_2O emissions.
** As of 2009 Direct carbon dioxide emissions are replaced by reporting of EU ETS CO_2e emissions.*

Definitions

Total Recordable Injuries (TRI)
Accidents resulting in absence from work, the need to do a different type of work or any other case in which medical treatment is required. The frequency is calculated as the number of accidents per million working hours. Borealis employees and contractors working on company premises are included in the calculation.

Direct carbon dioxide emissions
CO_2 emissions from stationary sources on company premises, including emissions from fuel consumption, combustion of other hydrocarbon streams as well as flaring. (As of 2009 this indicator is replaced by the reporting of CO_2 emissions under EU ETS).

EU ETS CO_2e emissions
All greenhouse gases emissions under the scope of the European Emission Trading Scheme expressed in CO_2 equivalents. (As of 2009 this indicator replaces the reporting of direct carbon dioxide emissions).

Primary energy consumption
Consumption of all energy vectors (i.e. fuels, electricity and steam). Electricity and steam are converted into primary energy with standard conversion factors of 40% (electricity) and 90% (steam).

Volatile Organic Compound (VOC) emissions
Emission of all organic compounds (from C1 to Cn) with a vapour pressure of 0.01kPa or more at either room temperature or at actual temperature when processed. The quantification is based on measurements and estimates.

Waste generation
Generation of all waste at company locations during normal operation as well as during special projects. Any substance or object that is to be discarded is included in the definition of waste. Exceptions are atmospheric emissions, liquid effluents and by-products with commercial value.

Flaring
All streams sent to the flare, except streams that assure a constant flame (e.g. fuel gases to pilot burners, fuel gas purges to flare lines for safety reasons, steam, nitrogen).

Nitrogen Oxide (NOx) emissions
Emissions of all nitrogen oxides from all relevant sources, including flares. The emissions are quantified as NO_2. When NOx measurements are not done, emission factors correlated to the fuel type and heating value are used.

Water consumption
Fresh water consumption of any type (e.g. cooling, steam generation, flushing, sanitary use).

Nitrous Oxide (N_2O) emissions
Emissions of N_2O (also known as laughing gas) are generated by the production of nitric acid in the fertilizer plants. N_2O is a greenhouse gas with a global warming potential (GWP) 310 times higher than CO_2.

Response rate of process safety incidents
Process safety incidents of a certain severity or risk potential are recorded and investigated through root cause analysis. Corrective actions are defined to prevent re-occurrence. The response rate of process safety incidents is measured as the ratio (%) of corrective actions completed within a defined time period.

Response rate of HSE incidents
Major or minor HSE incidents that lead to, or can lead to, an accident of any kind are recorded, and decisions on actions for follow-up are made, establishing an approved case. Incident cases are closed once actions have been implemented. The response rate of HSE incidents is measured as the ratio (%) of approved and closed incident cases.

External relations and public affairs

As part of its Responsible Care policy, Borealis is committed to listen, engage and work with stakeholders to understand and address their concerns and expectations, and to advance sustainable development within the whole industry value chain.

The company recognises the importance of providing open and transparent communication on the performance of its operations and products whether for expert audiences or for the general public. Initiatives such as the publication of the company's black and grey lists of banned chemicals or publications on the carbon footprint of our operations and products aim to bridge this gap and will be pursued in the future.

Trade association activities

Borealis takes a leading role in a number of industry organisations: European Association of Plastics Manufacturers (PlasticsEurope); the European Chemical Industry Council (CEFIC); the Association of Petrochemicals Producers in Europe (APPE) and the European Fertilisers Manufacturer Association (EFMA); and co-chairs the water project of the World Business Council for Sustainable Development (WBCSD).

Stakeholder engagement

Throughout the year, the company also actively engages in international fora such as the fifth World Water Forum and the Stockholm World Water Week, in particular to raise the importance of better integrating climate change, energy and water policies.

The need to prepare for a water and energy constrained world is broadly recognised, but policy integration is too often missing. In the year to come, Borealis is committed to advancing this debate and to delivering solutions to today's and tomorrow's global challenges.

Ethics Policy

Ethics is an important element of Borealis' core values, and since the Ethics Excellence Programme was successfully launched in 2005, significant effort has gone into ensuring that all employees know what is expected of them in their daily work.

Borealis currently has 52 employees designated and trained as Ethics Ambassadors who facilitate workshops conducted together with line managers and help employees find answers to any ethics questions they may have. The Ethics Ambassadors are from different locations and functions, and their ethics responsibilities are in addition to their normal work. The QuestionLine telephone service is fully operational and staffed internally by specially trained members of the Legal and Internal Audit departments.

In 2009, more than 500 Borealis employees, including external sales agents, completed an anti-corruption programme by using a combination of e-learning courses, the Borealis anti-corruption booklet and various presentations. Additionally, the feedback related to company values and ethics resulting from the People Survey was evaluated and site-specific ethics sessions facilitated at all major production locations. Regular ethics workshops for newcomers were held throughout the company, an ethics e-learning course was made available to all employees, and a special ethics review was facilitated for the majority of Borealis employees working outside company production sites. Highlights from the Ethics Policy were also presented to some major suppliers.

The annual ethics certification was carried out and the appropriate gift registers maintained. The Ethics Excellence Programme calls for two to three-year training cycles, therefore in 2010, all employees and sales agents will again take part in various ethics awareness initiatives.

Borealis' approach to ethics and compliance is seen by the wider corporate community and opinion leaders as an example of what can be accomplished without a large budget or a dedicated organisation, establishing the company as a benchmark for the efficient and effective implementation of ethical corporate behaviour.

Water for the World™

Delivering solutions, protecting resources

Initiated by Borealis and Borouge in October 2007, Water for the World™ is a joint corporate citizenship initiative addressing the global water crisis. Working through partnerships, the programme develops projects to foster knowledge and share best practices, deliver solutions and preserve water resources.

Water for the World™ is built upon the companies' leadership in advanced polyolefin pipe solutions. By leveraging innovative business solutions and sharing know-how to build local capabilities, more can be achieved over time than with traditional corporate philanthropy. In tough economic times, the need for cost-effective, innovative and sustainable solutions is more important than ever to secure access to fresh water, improve sanitation services and protect endangered water resources. The chemicals and plastics industry is part of the solution and can contribute to making a difference. In 2009, the programme was further developed in the areas of sustainable water management and agricultural practices, emergency relief projects and stakeholder engagement.

Spearheading water footprint assessment

Water, energy and climate change are intrinsically linked and will have to be managed as such. In many regions of the world, rich and poor alike, water efficiency is as important as energy efficiency. In 2009, Borealis became the first petrochemical and plastics producer to assess the water footprint of its polyolefins operations and products. In partnership with researchers from the Swedish Royal Institute of Technology (KTH), the project measured water usage and dependency of operations as well as of energy and feedstock. It also produced the first footprint of PE and PP products. Findings show that advanced polyolefins are water efficient materials. However, the impacts of production on local water availability require further assessment to better manage water planning and investments according to local needs and impacts. Results and methodologies are being shared with industry and value chain partners. Together with carbon and energy, water footprinting will be part of the ecological performance of the polyolefin applications that Borealis will continue to advance.

Protecting the Danube River Basin

In May 2009, Borealis joined the Business Friends of the Danube partnership, an initiative led by the International Commission for the Protection of the Danube River Basin (ICPDR) to protect the resources and ecosystems of Europe's second longest river. The Danube is a crucial transport route, and source of water, power and employment for the 83 million people living in the 19 countries along the river basin. It is also the cradle of Borealis operations in Burghausen, Linz and Schwechat.

As a member of the Business Friends of the Danube, Borealis will develop knowledge transfer activities to promote better use of water resources, improved waste water treatment and precision farming practices in the river basin regions. The Borealis Agrolinz Melamine plant nutrient business is supporting precision farming techniques with farmer associations and authorities. Through the use of so called N-testers, farmers can optimise fertilisation according to the exact needs of the plants, thereby preventing excessive use of nutrients while increasing crop yields and avoiding river pollution resulting from excess fertiliser runoff. The end result will lead to the modernisation of agriculture in Central and Southeastern Europe.

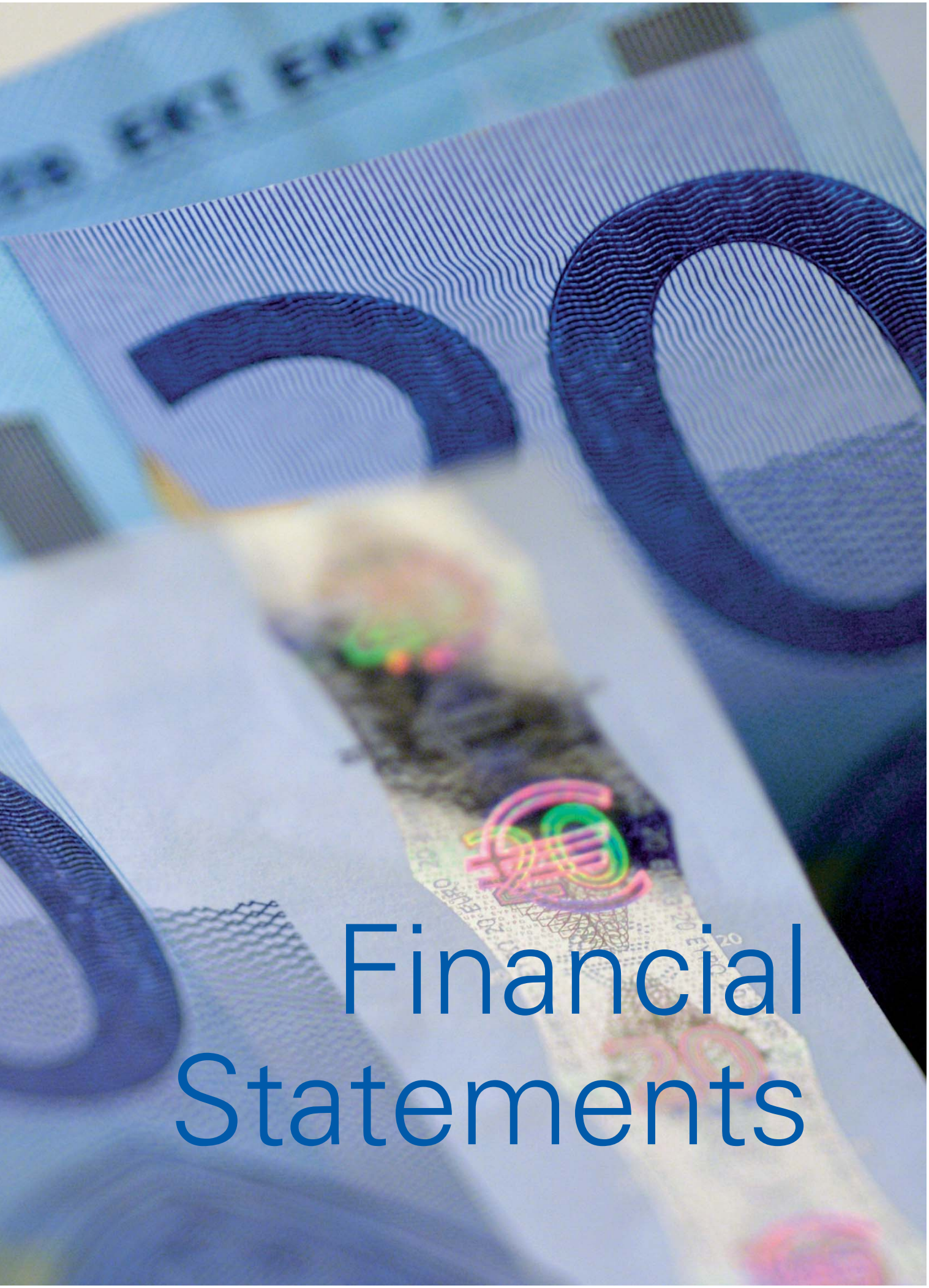
Aqua per l'Aquila

The earthquake in the Abruzzi region of Italy on April 6, 2009, destroyed 15,000 buildings and left thousands homeless. It also devastated critical infrastructure such as water supply and sanitation networks. Mirroring Borouge's relief project in the aftermath of China's Szechuan earthquake in 2008, Borealis and System Group Centraltubi have supported the construction of water utilities for temporary housing facilities in the region´s capital L'Aquila. With the patronage of the Austrian Trade Office of Padua and under the supervision of the Italian National Civil Protection department, the Aqua per L'Aquila project was rapidly deployed before winter to install a 1.3-km polyethylene pipe network supplying water to 1,800 people in one of the resettlement areas. Allowing for rapid installation, Borealis´ BorSafe™ material ensures a durable and flexible pipe network that can withstand seismic waves. The project has been extended to support the installation of the sewage network with Borealis´ BorEco™ solutions.

Raising awareness of the global water challenge

In 2009, Water for the World was the platform for a range of community and stakeholder engagement activities. Borealis brought Dieter Teleman's "Troubled Water" photo exhibition to local communities in Austria, Belgium, Finland and the United States. Together with the Finnish Water Institute and the Water & Waste Water Works Association, Borealis also launched the educational "Vesikoulu Water School" site, developed with teachers and school authorities. It teaches how water gets to the tap, what happens once it goes down the drain and how everyone can protect water ecosystems.

Raising awareness on water issues is the foundation for advancing the sustainability of our water use. Borealis will continue fostering knowledge and partnerships along its value chain and with its employees and communities to help in addressing this global challenge.



Financial Statements

Management report

During 2009, Borealis continued to demonstrate its commitment to safety. From the beginning of 2009, the melamine and plant nutrients operations were included in the safety statistics and have, together with the olefins and polyolefins plants, contributed once again to an improved result. The number of Total Recordable Injuries (TRI) per million working hours reached an all-time record level of 0.7 in 2009 (compared to 1.6 in 2008). For the second time since Borealis was incorporated in 1994, the company was awarded the annual DuPont Safety Award acknowledging the successful change management programme within the melamine and plant nutrients businesses. Safety will remain a top priority at Borealis, and we will continue to strive to be completely accident-free.

Industrial activity slowly recovered from the low levels in terms of volume and price experienced in the last quarter of 2008 and the first quarter of 2009. Feedstock prices increased throughout the year, while margins and volumes remained under pressure, driven by the economic crisis. Despite the difficult environment, Borealis achieved a positive operating result of EUR 24 million (EUR 163 million in 2008). In terms of net result, Borealis closed the year with a EUR 38 million profit, compared to EUR 239 million the prior year, reflecting the reduced operating result as well as a lower contribution from associated companies. Return on capital employed after tax was 2%, compared to 9% in 2008.

Although European polyolefin demand decreased year-on-year by over 5%, Borealis was able to increase its overall sales volume, supported by market share gains in both polyethylene (PE) and polypropylene (PP) as well as volumes sold outside Europe in support of its joint venture, Borouge. Total polyolefin sales volumes increased to roughly 3.3 million tonnes in 2009 (an increase of 100,000 tonnes vs. 2008). Borealis polyolefin prices decreased on average by more than 25% year-on-year, while ethylene and propylene contract prices fell by a similar amount.

Despite the difficult market conditions, the feedstock and olefins business positively contributed to the overall group result by leveraging its cracker feedstock flexibility. Brent crude oil steadily increased during the year from the low 2008 closing level of USD 43 per barrel to USD 75 per barrel by the end of 2009. During the same period, naphtha prices more than doubled, reaching USD 682 per tonne by December 2009. Cracker margins remained low for most of the year, recovering only during the last few months.

During 2009, both the melamine and plant nutrients businesses faced a significant drop in demand and consequently strong pressure on prices and margins. Borealis could partially mitigate these effects by closely managing its production capacity and tightly controlling costs. The phenol and aromatics business positively supported the company's overall result as volumes grew slightly despite lower sales at a number of key customers.

Importantly, Borealis' financial position remains very solid, with a gearing ratio of 43% at the end of 2009, undrawn committed bank lines in excess of EUR 1 billion and minimal debt maturities over the next couple of years. Significant focus within the organisation on cash flow enabled Borealis' debt level to decrease by EUR 55 million during the year, finishing at EUR 1,032 million. This decrease was achieved in a year when the company invested nearly EUR 200 million out of a total capital expenditure of EUR 345 million in projects that will support the company's future growth.

Restructuring programmes initiated in earlier years have helped Borealis keep fixed costs under control, increase overall efficiency and improve its European cost base. In October 2009, Borealis announced its decision to close the HDPE production unit in Beringen, Belgium by March 31, 2010. Although a difficult decision, the closure was necessary to ensure the company's long-term competitive position. Through an open and collaborative dialogue with the Corporate Cooperation Council (CCC), the company maintains good labour relations. The company's biennial People Survey was completed by 80% of employees in late 2008 placing the company at the level of other "high performing" companies and highlighting areas for improvement. Action plans were developed and advanced in 2009, and the company will again seek feedback in 2010 in order to assess progress and drive toward further improvements.

Borealis and Borouge continued their efforts within the Water for the World™ initiative, a programme that fosters local knowledge and partnerships throughout the water value chain to provide sustainable solutions for the availability of safe water and sanitation. Together with the Water Institute of Finland and the Finnish Water & Waste Water Works Association, Borealis launched an educational website for school children – the "Water School" – aimed at increasing children's knowledge of this critical resource. Furthermore, Borealis, together with the Italian pipe producer System Group, has leveraged its capabilities to actively support the resettlement work for those left homeless after the April 2009 earthquake in the region of Abruzzi, Italy. The material donated by Borealis was used by System Group to produce pipe systems for the reconstruction of 13 housing blocks, resulting in the resettlement of approximately 1,200 people.

Borouge's performance in 2009 was impacted by the economic crisis as well as some cost increases related to the Borouge 2 start-up in 2010. The Borouge 2 expansion project is on schedule to be completed during 2010 and will more than triple the current capacity of 600,000 tonnes of polyolefins per year. Borouge has entered the front-end engineering and design (FEED) phase of its Borouge 3 expansion project, which will add another 2.5 million t/y of capacity and strengthen the company's position in the Middle East and Asia.

2009 was a major year for growth project investments within the company. The new high-pressure polyethylene plant in Stenungsund, Sweden, Borealis' largest investment ever in Europe, will further strengthen the company's position within the wire and cable market segment. With the opening of its international Innovation Headquarters in Linz, Austria, in November, and the further announcement of an additional investment of roughly EUR 75 million for the construction of a semi-commercial catalyst plant, the company further demonstrated its commitment to maintaining its innovation leadership position.

At the end of the year, Borealis announced a change in the Executive Board structure. Gerd Löbbert joined Borealis as the new Executive Vice President of the Base Chemicals business effective January 1, 2010.

Borealis' Executive Board and senior management expect another challenging year for the industry, highlighted for Borealis by the start-up of the high-pressure plant in Stenungsund, Sweden and the Borouge 2 expansion in Ruwais, Abu Dhabi. Management is confident in the company's ability to manage through the current environment and emerge in an even stronger position for the future.

Review of results

Sales

While the Western European polyolefins industry saw a demand drop of more than 5%, Borealis sold over 3.3 million tonnes of polyolefins in 2009, a 3% increase over 2008. Melamine sales volumes also increased to 155,000 tonnes resulting in a higher market share. However, prices in all product groups decreased significantly resulting in a 30% reduction in net sales compared to last year.

Cost development

Fixed costs were EUR 66 million below the 2008 level as a result of savings programmes initiated as a consequence of the economic crisis. Research and development costs amounted to EUR 79 million. Due to lower feedstock costs, variable costs decreased by approximately 30% versus 2008. The number of full-time equivalent employees (FTE) by the end of 2009 was 5,215, a decrease of 170 compared to last year.

Operating profit

Operating profit reached EUR 24 million compared to EUR 163 million in 2008.

Return on capital employed

The return on capital employed after tax amounted to 2%, compared to 9% in 2008, as a result of lower operating profits.

Financial income and expenses

Net financial expenses decreased to EUR 35 million, compared to EUR 46 million in 2008, mainly driven by lower interest rates as well as capitalised interest expenses related to growth project investments.

Taxes

Due to the inclusion of a net deferred tax benefit of EUR 52 million, the provision for income taxes amounted to a positive figure of EUR 4 million (EUR 24 million expense in 2008). Borealis paid income taxes of EUR 12 million in 2009, compared to EUR 86 million paid in the previous year.

Net profit and distribution of dividend

The net profit for the year amounted to EUR 38 million, compared to a net profit of EUR 239 million in 2008. During 2009, Borealis did not distribute a dividend on the 2008 result. The Management proposes no dividend be paid from the results of 2009.

Financial position

Total assets/capital employed

At year-end, total assets and capital employed stood at EUR 4,816 million and EUR 3,465 million respectively, compared to EUR 4,828 million and EUR 3,483 million at year-end 2008. The decrease in capital employed is mainly due to favourable working capital changes, which more than offset the increase in fixed asset value.

The solvency ratio was 50% at year-end 2009, up by 2% from year-end 2008. The gearing ratio improved to 43% at year-end 2009, down from 47% in 2008, as a result of lower net debt driven by favourable working capital effects and an increase in equity.

Cash flows and liquidity reserves

Cash flow from operations was EUR 395 million, although driven by lower sales margins and volumes, the strong working capital management and lower tax and interest payments improved the result significantly compared to the prior year. Liquidity reserves, made up of undrawn, long-term committed credit facilities and cash balances, amounted to EUR 1,063 million at year-end 2009, compared to EUR 601 million at year-end 2008.

Net interest-bearing debt decreased to EUR 1,032 million at year-end, compared to EUR 1,087 million at the end of 2008. The change in net interest-bearing debt is analysed in the following table.

Change of net interest-bearing debt (EUR million)	2009	2008
Cash flow provided by operating activities	395	144
Capital expenditure	-345	-480
Repayment of loans by associated companies	0	0
Proceeds from the sales of operations	1	-4
Acquisition of new companies	0	0
Other (mainly relating to foreign exchange differences)	4	-3
Dividend paid	0	-110
Total decrease/increase	**55**	**-453**

Capital expenditure

Investments in tangible fixed assets amounted to EUR 308 million in 2009, compared to EUR 445 million in 2008. The biggest portion of the total investment spent was related to the new high-pressure polyethylene unit built in Stenungsund, Sweden, the turnaround of the cracker also located in Sweden, the Innovation Centre building in Linz, Austria as well as a Borstar® Pilot Plant in Schwechat, Austria. HSE capital expenditure amounted to EUR 17 million. Depreciation and amortisation amounted to EUR 236 million, compared to EUR 263 million in 2008.

Shareholders' equity

The shareholders' equity at year-end 2009 was EUR 2,387 million.

Equity development (EUR million)	2009	2008
Net result attributable to the parent	37	238
Exchange and fair value adjustment (net)	27	-112
Gross increase/decrease	64	126
Dividend paid	0	-110
Contribution by shareholders	0	0
Net increase/decrease	64	16
Opening equity	2,323	2,307
Ending equity	**2,387**	**2,323**

Risk

Borealis has a documented risk management process that ensures that all parts of the Group routinely identify and assess their risks, develop and implement appropriate mitigation actions to control key risks, and that the risk landscape is periodically consolidated, reported and reviewed. Borealis distinguishes between strategic and operational risks.

Strategic risks are risks that may severely impact Borealis' strategy or reputation. In most cases, strategic risks are related to unfavourable long-term developments, such as market or industry developments, a change in the competitive environment or a threat to the reputation of the Group.

Operational risks usually refer to unfavourable and unexpected short-term or mid-term developments, and include all risks that may have a direct impact on the Group's daily business operations. All operating risks are assessed according to documented guidelines and procedures that are administered by the respective business functions. The list of operational risks below is not exhaustive:

Financial risks can be associated with liquidity, interest rate, foreign exchange rate, credit, commodity price, and insurance. The assessment of financial risk is described in detail in Borealis' Treasury and Funding Procedure. The Director of Treasury shall be responsible for reporting and coordinating the management of all financial risks.

All Health Safety and Environment (HSE) risks shall be assessed according to the procedures and framework described in the Borealis' Risk-Based Inspection Manual. The Vice President of HSE shall be responsible for managing all HSE-related risks and shall report Borealis' HSE risk landscape periodically to the Executive Board.

As part of Borealis' project approval process, all key risks related to an individual project, including financial, market, technical, legal, patent infringement, strategic, operational, country risk, and political factors, shall be assessed. The risk assessment shall also reflect the probability that the project will be completed within the estimated time frame and with the estimated resource requirements as well as the probability that the key project objectives will be achieved. Project-related risks shall be managed by the Project Manager and reported to the Project Steering Committee.

Information security risk relates to confidentiality, integrity and availability. The Director of IT&S and Vice President Legal Counsel shall support line managers on the assessment of information security risk and the development and implementation of risk mitigation actions.

The Supervisory Board is responsible for reviewing the effectiveness of Borealis' risk management practices and processes, the risk tolerance levels, the risk exposure of the Group, and the effectiveness of mitigation actions. The Supervisory Board delegates these responsibilities to the Audit Committee, which is a sub-committee of the Supervisory Board.

The Executive Board periodically reviews the Group's key risks, defines the Group's risk tolerance levels, monitors the implementation of mitigation actions and reports the key Risks and mitigation steps to the Supervisory Board. The Executive Board owns the Group's Risk Landscape and safeguards the integration of the risk assessment into the strategic planning.

Economical		2009	2008	2007	2006
Safety, Health and Environment					
Total Recordable Injuries	number/million work hours	0.7	1.6	1.7	1.7
Sick leave	% of total hours worked	3.4	3.1	2.9	2.9
EU ETS CO2e emissions	kilotonnes	1,310	1,360	390	450
Primary energy consumption	GWh	19,300	15,100	15,500	16,200
Volatile organic compounds emissions	tonne	3,440	3,250	3,800	4,158
Waste generation	tonne	16,100	15,010	15,555	15,143
Number of employees (Full-time equivalent at year end)		5,215	5,395	5,467	4,639
Income and profitability					
Net sales	EUR million	4,714	6,697	6,350	5,742
Operating profit	EUR million	24	163	451	353
Operating profit as percentage of net sales	%	1	2	7	6
Net profit attributable to the equity holders of the parent	EUR million	37	238	533	327
Return on capital employed, net after tax	%	2	9	22	17
Cash flow and investments					
Cash flow from operating activities	EUR million	395	144	647	277
Investments in tangible fixed assets	EUR million	308	445	457	234
Financial position					
Net interest-bearing debt	EUR million	1,032	1,086	633	626
Equity attributable to owners of the parent	EUR million	2,387	2,323	2,307	1,819
Gearing	%	43	47	27	34

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
Solvency ratio	Total equity and goodwill divided by total assets
Gearing	Interest-bearing debt, including subordinated loans, less cash and cash equivalents divided by total equity
Energy	Electrical, steam and fuels
Waste	Non-hazardous and hazardous

Vienna, February 17, 2010

Management

Mark Garrett
Chief Executive Officer

Daniel Shook
Chief Financial Officer

Lorenzo Delorenzi

Gerd Löbbert

Henry Sperle

Herbert Willerth

Report of the Auditors

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Borealis AG, Vienna, Austria, for the year from January 1 to December 31, 2009. These consolidated financial statements comprise the consolidated balance sheet as of December 31, 2009, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the year ended December 31, 2009, as well as a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements and for the accounting system

The company´s management is responsible for the Group accounting system and for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility and description of type and scope of the statutory audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria, and Austrian standards on Auditing, as well as in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of December 31, 2009, and of its financial performance and its cash flows for the year from January 1 to December 31, 2009, in accordance with the IFRSs as adopted by the EU.

Report on the Group Management Report

Pursuant to statutory provisions, the Group Management Report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's financial position. The Report of the Auditors also has to contain a statement as to whether the Management Report for the Group is consistent with the consolidated financial statements.

In our opinion, the Management Report for the Group is consistent with the consolidated financial statements.

Vienna, February 17, 2010
KPMG
Wirtschaftsprüfungs- und Steuerberatungs GmbH

Mag. Bernhard Mechtler
Wirtschaftsprüfer

Mag. Helmut Kerschbaumer
Wirtschaftsprüfer

(Austrian Chartered Accountants)

This report is a translation of the original report in German, which is solely valid

Report of the Supervisory Board

In the year under review, the Supervisory Board received a comprehensive overview of the activities of the Management of Borealis AG and performed its duties and exercised its powers under the law and the articles of association in seven plenary sessions.

The Supervisory Board was informed regularly, in a timely fashion and comprehensively, both in writing and verbally, on relevant issues of business development as well as on the state and strategy of the company and the important group companies, including risk conditions and risk management.

The Management of Borealis AG submitted the Financial Statements as of December 31, 2009, including the Management Report and the Consolidated Financial Statements as of December 31, 2009, including the Consolidated Management Report to the Supervisory Board and explained it thoroughly.

The Financial Statements of Borealis AG were drawn up in accordance with the applicable provisions of the Enterprise Act (Unternehmensgesetzbuch) and KPMG Wirtschaftsprüfungs- und Steuerberatungs GmbH, Wien, issued the unqualified audit opinion (uneingeschränkter Bestätigungsvermerk) on the Financial Statements.

Further, the Consolidated Financial Statements of Borealis AG were drawn up in accordance with the International Financial Reporting Standards (IFRS) and KPMG Wirtschaftsprüfungs- und Steuerberatungs GmbH, Vienna, issued the unqualified audit opinion (uneingeschränkter Bestätigungsvermerk) on the Consolidated Financial Statements.

The (Consolidated) Financial Statement documents and the audit reports were submitted to the Audit Committee and the Supervisory Board in due time. After a thorough examination and debate by the Audit Committee and by the Supervisory Board, the Supervisory Board reached the final agreement that no material objections shall be raised, and the drawn up Financial Statements, the Management Report, the proposal for the distribution of the profits, the proposal for the appointment of the auditor for the Financial Year 2010, the Consolidated Financial Statements and the Consolidated Management Report were approved.

Vienna, February 23, 2010

Dr. Gerhard Roiss
Chairman of the Supervisory Board

Accounts

Consolidated income statement

EUR million	2009	2008	Note
Net sales	**4,714**	**6,697**	1
Production costs	-3,978	-5,716	3,7
Sales and distribution costs	-457	-539	3, 7
Administration costs	-176	-190	3, 7
R&D costs	-79	-89	2, 3, 7
Operating profit	**24**	**163**	
Profit from sale of operations	1	2	4
Net results in associated companies after tax	44	144	18
Financial expenses, net	-35	-46	8
Profit before taxation	**34**	**263**	
Taxes	4	-24	9
Net profit for the year	**38**	**239**	
Attributable to:			
Minority interest	1	1	
Equity holders of the parent	37	238	

Consolidated statement of comprehensive income

EUR million	2009	2008	Note
For the year ended December 31			
Net gain/loss on translation of financial statements of foreign subsidiaries	15	-44	
Net gain/loss on long-term loans to subsidiaries and associated companies	10	-27	
Net gain/loss on loans and financial contracts to hedge investments in foreign subsidiaries	2	0	17
Fair value adjustment of cash flow hedges	23	-78	17
Actuarial gains and losses	-11	6	11
Tax recognised in other comprehensive income	-10	29	9
Net income/expense recognised in other comprehensive income	**29**	**-114**	
Net profit for the year	**38**	**239**	
Total comprehensive income	**67**	**125**	
Attributable to:			
Minority interest	2	-2	
Equity holders of the parent	65	127	

Consolidated balance sheet

Assets

EUR million	31.12.2009	31.12.2008	Note
Non-current assets			
Intangible fixed assets	188	194	2, 5
Tangible fixed assets			6
Production plants	1,921	1,896	
Machinery and equipment	46	36	
Construction in progress	489	378	
	2,456	2,310	
Investments in associated and jointly controlled companies	617	585	18
Other investments	14	14	18
Other long-term receivables	83	85	18
Deferred tax assets	185	106	9
Total non-current assets	**3,543**	**3,294**	
Current assets			
Inventories	631	700	10
Receivables			
Trade receivables	299	221	19, 22
Receivables from associated companies	160	311	19
Taxes	4	40	9
Assets held for sale	0	16	
Other receivables	142	180	
	605	768	
Cash and cash equivalents	37	66	
Total current assets	**1,273**	**1,534**	
Total assets	**4,816**	**4,828**	

Liabilities

EUR million	31.12.2009	31.12.2008	Note
Shareholders' equity			
Share capital and contributions by shareholders	1,899	1,899	20
Reserves	-185	-212	
Retained Earnings	673	636	
	2,387	2,323	
Minority interests	9	7	
Total equity	**2,396**	**2,330**	
Liabilities			
Subordinated loans	103	103	21, 28
Non-current liabilities			
Loans and borrowings	523	380	21
Deferred tax	265	222	9
Employee benefits	180	165	11
Provisions	106	103	12
	1,074	870	
Current liabilities			
Loans and borrowings	442	669	21
Trade payables	542	519	
Taxes	13	17	9
Provisions	24	26	12
Liabilities held for sale	0	15	
Other liabilities	222	279	
	1,243	1,525	
Total liabilities	**2,420**	**2,498**	
Total equity, minority interests and liabilities	**4,816**	**4,828**	
Assets pledged			14
Contingent liabilities			15
Financial instruments			24

Consolidated statement of changes in equity

Shareholders' equity

EUR million	Share capital* and contributions by shareholders	Reserve for revaluation of non-monetary assets and liabilities	Hedging reserve	Reserve for unrealised exchange gains	Retained earnings	Total attributable to parent	Attributable to minority interest holders	Total equity
Balance as of December 31, 2007	**1,899**	**-41**	**20**	**-79**	**508**	**2,307**	**9**	**2,316**
Profit of the period	0	0	0	0	238	**238**	1	**239**
Total comprehensive income	0	5	-59	-58	0	**-112**	-2	**-114**
Dividend payment by subsidiaries	0	0	0	0	0	**0**	-1	**-1**
Dividend payment	0	0	0	0	-110	**-110**	0	**-110**
Capital in/decrease	0	0	0	0	0	**0**	0	**0**
Balance as of December 31, 2008	**1,899**	**-36**	**-39**	**-137**	**636**	**2,323**	**7**	**2,330**
Profit of the period	0	0	0	0	37	**37**	1	**38**
Total comprehensive income	0	-9	14	22	0	**27**	2	**29**
Dividend payment by subsidiaries	0	0	0	0	0	**0**	-1	**-1**
Dividend payment	0	0	0	0	0	**0**	0	**0**
Capital in/decrease	0	0	0	0	0	**0**	0	**0**
Balance as of December 31, 2009	**1,899**	**-45**	**-25**	**-115**	**673**	**2,387**	**9**	**2,396**

The Management proposes that no dividend be paid for 2009.

The share capital and contributions by shareholders amounted to EUR 1,899 million. None of the shares have special rights. Borealis AG is owned 61% by IPIC Denmark Holdings ApS, Holbergsgade 14, 1057 Copenhagen, Denmark, 3% by International Petroleum Investment Company, Sheikh Zayed 1 street, Abu Dhabi, United Arab Emirates, 33% by OMV Refining & Marketing GmbH, Trabrennstrasse 6-8, 1020 Vienna, Austria and 3% by OMV AG, Trabrennstrasse 6-8, 1020 Vienna, Austria. The ultimate controlling party is International Petroleum Investment Company (IPIC), United Arab Emirates.
Distribution of dividends to its shareholders does not have any tax effect for Borealis AG.

* Share capital of Borealis AG (parent company) amounts to EUR 300,000.00 (EUR 300,000.00) and is divided into 300,000 (300,000) shares, of which none have special voting rights.

Consolidated cash flow

EUR million	2009	2008	Note
Cash flows from operating activities			
Payments from customers	4,849	6,686	
Payments to employees and suppliers	-4,389	-6,410	
Interest income received	12	43	8
Interest and financial expenses paid	-65	-89	8
Income taxes paid	-12	-86	9
	395	**144**	
Cash flows from investing activities			
Investments in tangible fixed assets	-308	-445	6
Proceeds from sale of assets, net of cash	1	-4	4
Other investments	-37	-35	5, 18
	-344	**-484**	
Cash flows from financing activities			
Long-term loans obtained	148	72	
Short-term loans obtained	313	496	
Loans to associated companies	0	0	
Long-term loans repaid	-2	-40	
Short-term loans repaid	-540	-57	
Dividends paid	0	-110	
	-81	**361**	
Net cash flow for the year	**-30**	**21**	
Cash and cash equivalents as of January 1	66	49	
Effect of exchange rate fluctuations on cash held	1	-4	
Cash and cash equivalents as of December 31	**37**	**66**	

Notes to the consolidated financial statements

Reporting entity

Borealis AG (the "Company") is a company domiciled in Austria. The address of the Company's registered office is Wagramer Strasse 17-19, 1220 Vienna, Austria. Borealis is a leading provider of chemical and plastics solutions.

Statement of compliance

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards issued by the IASB as adopted by the EU and additional Austrian disclosure requirements. The financial statements were authorised for issue by the Management on February 17, 2010.

Basis of preparation

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

Consolidation principles

The consolidated financial statements include the accounts of Borealis AG, the parent company, and all the companies over which it has control. Control is generally indicated when Borealis AG, either directly or indirectly, has a majority voting interest. Companies in which the Group has significant influence (interest of 20% or more) but no control are considered associated companies. Jointly controlled operations, are considered associated companies.

The consolidated financial statements are based on audited financial statements of the parent company and of each individual subsidiary. The accounts have all been prepared in accordance with the Group's 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.

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 at 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 presentation currency. Financial statements of foreign entities in functional currencies, other than EUR, have been translated at the exchange rates quoted on the balance sheet date for assets and liabilities. 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 recognised in other comprehensive income: 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 using the exchange rates applicable at the balance sheet date.

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, as well as the proceeds from non-core business activities.

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 these 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 or 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, costs incurred on finance leases, 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 payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, adjusted for the change in provision for deferred tax assets and liabilities for the year and for any tax payable in respect of previous years. Income tax that relates to items recognised in other comprehensive income is recognised in other comprehensive income as well.

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 calculated according to the straight-line method based on an estimated useful life of 3-20 years.

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 useful life 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.

Emission rights are reported as intangible fixed assets. They are measured at cost, if purchased in the market, or at fair value, if received through government grants. A liability to return emission rights for actual emissions made is recognised as well.

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

Assets leased under finance leases are recognised in the balance sheet and depreciated over the shorter of the lease period or useful life. The cost of assets leased under finance leases are stated at the lower of fair value and the present value of the future minimum 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. The value in use is based on a 3 to 5 year business plan extended to 15 years with a stable growth rate. 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. Cash-generating units are based on production facilities.

Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are re-measured in accordance with the Group's accounting policies. Thereafter, generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value, less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are

recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

Associates and joint ventures
Associates and joint ventures are accounted for using the equity method. The consolidated financial statements include the Group's share of the comprehensive income of equity accounted investees.

Cash and cash equivalents
Cash and cash equivalents comprise cash in bank and liquid short-term deposits.

Other investments
Other investments are valued at fair value or at cost if fair value cannot be reliably estimated in the absence of an active market.

Inventories
Inventories are stated at the lower of cost and net realisable value, taking into account future price developments. 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.

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.

Provisions
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions reflect the present value of future cash outflows.

Deferred tax
The provision for deferred income tax is computed individually for each company in accordance with the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences and unused tax loss carry forwards can be utilised, based on the business plan and similar forward-looking information available to Management (using a 15-year period). Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Reserves
A reserve has been established under the consolidated equity for unrealised exchange differences related to deferred foreign exchange gains and losses on inter-company loans, hedge loans and the equity of foreign subsidiaries. The hedging reserve contains fair value adjustments to financial instruments held for hedging purposes. The reserve for revaluation of non-monetary items contains the actuarial gains and losses on employee benefit plans.

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 and other post employment benefit 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, performed the calculation.

All actuarial gains and losses are recognised in other comprehensive income.

Financial instruments

Derivative financial instruments

In accordance with its treasury policy the Group uses derivative financial instruments only to reduce its exposure to foreign exchange, interest rate and commodity risks arising from operational, financing and investment activities. 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 or receivable, a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income. When realised, the cumulative gains or losses are removed from hedging reserve and recognised in the income statement together with the hedged transaction. When the firm commitment or forecasted transaction results in the recognition of a non-financial asset or liability, the cumulative gains or losses are removed from hedging reserve and included in the initial measurement of the asset or liability. The ineffective parts of any unrealised gains or losses are recognised in the income statement immediately. Any gain or loss arising from changes in the time value of the derivative financial instruments is excluded from the measurement of hedge effectiveness and is recognised in the income statement immediately.

When a hedging instrument or hedge relationship is terminated, but the hedged transaction is still 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 in equity is recognised in the income statement immediately.

Hedge of monetary assets and liabilities

When derivative financial instruments are used to 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.

Fair value hedges

Where derivative instruments are designated as a hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains or losses from re-measuring the associated derivative are also recognised in profit or loss.

Hedge of net investment in foreign operation

Where a foreign currency liability hedges a net investment in a foreign operation and fulfils the requirements for hedge accounting, foreign exchange differences arising on translation of the liability are recognised in other comprehensive income.

Trade and other receivables

Receivables are stated at amortised cost, less impairment losses. For short-term receivables it is assumed that the effect of the discounting is not material. Therefore we deem book value to be equal to fair value.

Trade and other payables

Payables are recorded at cost.

Loans and borrowings

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

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 comprises payments made on the purchase and disposal of undertakings and activities and the purchase and disposal of tangible and intangible fixed assets. The cash flow from financing activities comprises changes in the

Group's share capital, as well as loans, repayments of principals of interest-bearing debt and payment of 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 in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the chief operating decision maker and for which separate financial information is available (reportable segment). Moreover, a geographical segment is based on risks and rewards of a particular economic environment (geographic region). The Management concluded to show next to the reportable segment also the geographical segment.

New accounting standards

In 2009 the following accounting standards and interpretation became effective and have been adopted by the Company:

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements, effective January 1, 2009
- IFRS 2 Share-based Payment: Vesting Conditions and Cancellations, effective January 1, 2009
- IFRS 7 Financial Instruments: Disclosures, effective January 1, 2009
- IFRS 8 Operating Segments, effective January 1, 2009
- IAS 1 Presentation of Financial Statements (Revised), effective January 1, 2009
- IAS 23 Borrowing Costs (Revised), effective January 1, 2009
- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (Revised) – Puttable Financial Instruments and Obligations Arising on Liquidation, effective January 1, 2009
- IFRIC 13 Customer Loyalty Programmes, effective July 1, 2008
- IFRIC 15 Agreements for the Construction of Real Estate, effective January 1, 2009
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation, effective October 1, 2008
- Improvements to IFRSs (May 2008), effective January 1, 2009

effective means effective for annual periods beginning on or after that date

The adoption of Amendments to IFRS 1 First-Time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (2008), that addressed issues related to the accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements, did not result in any impact on the consolidated financial statements.

The adoption of IFRS 2 Share-based Payment Vesting Conditions and Cancellations did not result in any impact on the consolidated financial statements.

The amended standard of IFRS 7 Financial Instruments Disclosures requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The fair value measurement disclosures are presented in Note 27.

IFRS 8 Operating Segments replaced IAS 14 Segment reporting. The Group concluded that the reportable segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14.

The revised standard IAS 1 Presentation of Financial Statements separates owner and non-owner changes in equity. The standard introduced the statement of comprehensive income – it presents all items of recognised income and expense either in one single statement or in two linked statements. The Group has elected to present two statements.

Revised IAS 23 Borrowing Costs removed the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Borealis adopted this capitalisation in accordance with IAS 23 as of January 1, 2007, and started to capitalise borrowing costs related to major investment projects at that time. Therefore, the revised IAS 23 did not result in any changes in accounting policy for the Group.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements Puttable Financial Instruments and Obligations Arising on Liquidation relate to the financial

reporting of particular types of financial instruments that have characteristics similar to ordinary shares but are classified as liabilities under the existing IAS 32. The adoption of this standard did not result in any impact on the consolidated financial statements.

IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. The adoption of this interpretation did not result in any impact on the consolidated financial statements.

IFRIC 15 Agreements for the Construction of Real Estate provides guidance on the revenue recognition relating to the construction of real estate. The adoption of this interpretation did not result in any impact on the consolidated financial statements.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation provides interpretative guidance regarding the eligible holder of hedging instruments assigned to hedge a net investment in a foreign operation. The interpretation is to be applied prospectively. The adoption of this interpretation did not result in any impact on the consolidated financial statements.

Standards issued but not yet effective are listed below.

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions, effective January 1, 2010 *
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements, effective July 1, 2009
- IAS 32 Classification of Rights Issues (amended), effective February 1, 2010
- IAS 39 Financial Instruments Recognition and Measurement: Eligible Hedged Items (Amended 2008), effective July 1, 2009
- IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement, effective June 30, 2009
- IFRIC 17 Distribution of Non-cash Assets to Owners, effective July 1, 2009
- IFRIC 18 Transfers of Assets from Customers, effective July 1, 2009
- Improvements to IFRSs (April 2009) *

effective means effective for annual periods beginning on or after that date
** not yet endorsed by the EU*

The adoption of the amendment for IFRS 2 Share-based Payment Group Cash-settled Share-based Payment Transactions will not have any impact on the consolidated financial statements.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) changed the accounting for business combinations and minority interests in the consolidated financial statements. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. The change in the accounting policy is applied prospectively, and the adoption of this standard will not result in any impact on the consolidated financial statements of 2009.

The amendment to IAS 32 Classification of Rights Issues (amended) will become effective for annual periods beginning on or after February 1, 2010. Borealis is currently evaluating the impact of the amended standards.

The amendment to IAS 39 Financial Instruments Recognition and Measurement of Eligible Hedged Items (Amended 2008) will become effective for annual periods beginning on or after July 1, 2009, and revise the guidance for transactions eligible for hedge accounting. Borealis has not yet completed its evaluation of the impact on the consolidated financial statements.

The amendment to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of this interpretation and amendment in the standard is expected to have no material impact on the consolidated financial statements.

IFRIC 17 Distribution of Non-Cash Assets to Owners provides interpretative guidance on the accounting treatment of non-cash distributions to owners. The interpretation is effective for annual periods beginning on or after July 1, 2009, and is not expected to have a significant impact on the consolidated financial statements.

IFRIC 18 Transfers of Assets from Customers will be effective for annual periods beginning on or after July 1, 2009. Borealis has not yet completed its evaluation of the impact on the consolidated financial statements.

In April 2009, the IASB issued an omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. Borealis has not yet completed its evaluation of the impact on the consolidated financial statements.

Amounts

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

1. Segment reporting (EUR million)

	Polyolefins		Base Chemicals		Non-Allocated		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008
Net sales by business:								
Total sales	3,354	4,385	3,745	5,728	62	75	7,161	10,189
Group internal sales	0	0	-2,447	-3,491	0	0	-2,447	-3,491
	3,354	**4,385**	**1,298**	**2,237**	**62**	**75**	**4,714**	**6,697**

Prices for Group inter segment sales are based on monthly market prices for ethylene and propylene contracts.

Result:								
Operating profit*	36	17	71	343	-83	-197	24	163
Profit/loss from sale of operations					1	2	1	2
Net result in associated companies					44	144	44	144
Net financial items					-35	-46	-35	-46
Income tax					4	-24	4	-24
Minority interest					-1	-1	-1	-1
Net profit for the year attributable to equity holders of the parent							**37**	**238**

Other information:								
Segment assets	2,800	2,691	1,443	1,566	574	571	4,816	4,828
Segment liabilities					2,420	2,498	2,420	2,498
Investment in tangible fixed assets	221	401	55	44	32	0	308	445
Depreciation and amortisation	122	150	86	108	29	5	236	263

Over 90% of the above relate to segment EU countries

Net sales by geographic segment:								
EU countries	2,248	3,227	1,166	2,073	28	56	3,442	5,356
Non-EU countries in Europe	438	543	39	75	0	0	478	618
USA	55	62	28	39	0	0	83	101
Middle East and Asia	315	274	44	26	34	19	393	319
Other regions	298	279	21	24	0	0	319	303
	3,354	**4,385**	**1,298**	**2,237**	**62**	**75**	**4,714**	**6,697**

* Segment operating profits for 2008 have been adjusted to reflect the new Governance principles regarding allocation of overhead costs which were implemented in 2009

2. Research and development

A total of 449 people were engaged in research and development activities at the end of the year, compared with 443 in 2008. The total cost of these activities amounted to EUR 79 million (EUR 89 million). EUR 29 million (EUR 18 million) of development costs were capitalised as intangible assets.

3. Personnel (EUR million)

	2009	2008
Costs		
Salaries and wages	308	323
Pension costs	29	29
Other social security costs	88	82
Other personnel expenses	14	16
Total	**439**	**450**
Average number of employees by country		
Austria	1,687	1,617
Belgium	904	942
Finland	880	890
Norway	15	38
Germany	331	328
Sweden	959	1,055
Other	439	515
Total	**5,215**	**5,385**
Remuneration included in personnel costs of former and current management		
Salaries and wages management	4	4
Pension costs management	0	0
Salaries and wages other key manangement	2	2
Pension costs other key manangement	0	0
Total	**6**	**6**

No loans were granted to actual or former members of Management. The remuneration paid to members of the Supervisory Board amounted to EUR 1 million (EUR 1 million).

4. Acquisition and disposal of subsidiaries (EUR million)

On February 2, 2009, Borealis sold 100% of the shares in Agrolinz Melamine International Italia S.r.l.

Consideration received (paid)	**1**
- Cash included in the current assets disposed of	-15
- Other current assets disposed of	-10
- Non-current assets disposed of	0
+ Current liabilities disposed of	24
+ Non-current liabilities disposed of	0
- Net assets disposed of	**-1**
Profit on the sale of operations	**0**

On February 29, 2008, Borealis sold 100% of the shares in Norner Innovation AS (Norway).

Consideration received (paid)	**-1**
- Cash included in the current assets disposed of	-3
- Other current assets disposed of	-3
- Non-current assets disposed of	-2
+ Current liabilities disposed of	3
+ Non-current liabilities disposed of	7
- Net assets disposed of	**2**
Final settlement on sale of Norner Innovation AS (Norway)	1
Profit on the sale of operations	**2**

5. Intangible fixed assets (EUR million)

	Goodwill		Development costs		Capitalised software		Others	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Cost								
As of January 1	45	45	126	111	47	39	115	85
Exchange adjustments	0	0	0	0	0	0	1	-1
Additions	0	0	29	18	6	8	36	31
Disposals	0	0	-7	-3	0	0	-39	0
Transfers	0	0	0	0	0	0	0	0
	45	45	148	126	53	47	113	115
Accumulated amortisation								
As of January 1	-16	-16	-34	-27	-27	-20	-62	-57
Exchange adjustments	0	0	0	0	0	0	0	0
Disposals	0	0	3	3	0	0	0	0
Amortisation	0	0	-21	-10	-8	-7	-6	-5
	-16	-16	-52	-34	-35	-27	-68	-62
Book value as of December 31	**29**	**29**	**96**	**92**	**18**	**20**	**45**	**53**

Goodwill refers to the assets in Brazil (EUR 7 million) and Belgium (EUR 22 million) and is included in the yearly impairment test performed on the tangible and intangible fixed assets of the Group (see note 7). Additions arising from internal development amounted to EUR 24 million (EUR 15 million). Intangible assets acquired by way of government grant amounted to EUR 17 million (EUR 26 million), their carrying value is in line with the fair value.

6. Tangible fixed assets (EUR million)

	Production plants		Machinery and equipment		Construction in progress	
	2009	2008	2009	2008	2009	2008
Cost						
As of January 1	4,193	4,197	117	115	378	173
Exchange adjustments	37	-132	3	-8	5	-25
Additions	6	20	2	6	300	419
Disposals (including change in consolidation group)	-55	-76	-8	-1	0	0
Transfers	175	184	19	5	-194	-189
	4,356	4,193	133	117	489	378
Accumulated depreciation						
As of January 1	-2,297	-2,241	-81	-77	0	0
Exchange adjustments	-1	95	-2	4	0	0
Disposals (including change in consolidation group)	52	81	8	1	0	0
Depreciation	-189	-232	-12	-9	0	0
	-2,435	-2,297	-87	-81	0	0
Book value as of December 31	**1,921**	**1,896**	**46**	**36**	**489**	**378**

The figures for production plants include capitalised finance leases with a net value of EUR 1 million (EUR 2 million) comprising acquisition costs of EUR 3 million (EUR 6 million) and accumulated depreciation of EUR 2 million (EUR 4 million). The lease obligation is included in loans and borrowings (see note 21).
In 2009, borrowing costs amounting to EUR 12 million (EUR 10 million) have been capitalised, using a 3% (5%) interest rate.

Future capital expenditure approved (tangible and intangible) by Management totals EUR 55 million (EUR 315 million), out of which EUR 23 million (EUR 93 million) is contractually committed.

The major part of the additions relates to the ongoing investment in a new high-pressure polyethylene plant in Stenungsund, Sweden and several major projects at the Schwechat plant in Austria.

7. Depreciation and amortisation (EUR million)

Depreciation and amortisation are allocated as follows in the income statement.

	2009	2008
Production costs	171	212
Sales and distribution costs	15	17
Administration costs	30	26
Research & Development costs	20	8
Total	**236**	**263**

The 2009 depreciation charge includes no impairment on production lines (EUR 24 million), using a weighted average cost of capital of 8%. It however includes an impairment of EUR 5 million (EUR 2 million) of intangible fixed assets for which the carrying value exceeds the present value of future cash flows. The impairment of intangible assets is related to the non-allocated segment and is included in administration costs.

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

	2009	2008
Interest income from:		
Cash and cash equivalents	10	15
Derivatives	5	28
	15	43
Interest expenses to:		
Financial institutions	-31	-80
Derivatives	-25	-24
Exchange adjustments, net	1	5
Other financial expenses and income	5	10
	-50	-89
Total	**-35**	**-46**

9. Taxation (EUR million)

	2009	2008
Taxes		
Income tax payable	44	51
Change in deferred tax	-52	-25
Adjustment to prior year's tax charge	4	-2
Tax expense/benefit	**-4**	**24**

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

Tax expense at statutory rates	**28%**	**9**	**28%**	**76**
Tax effect of result in associated companies	-33%	-11	-15%	-40
Tax effect of result from sale of operations	0%	0	0%	0
Tax effect of permanent differences	-24%	-8	-2%	-6
Adjustment of valuation allowance	17%	6	0%	-1
Benefits of tax losses	0%	0	0%	0
Prior year's adjustments	12%	4	2%	4
Change due to changes in tax rates	0%	0	-3%	-8
Other	-12%	-4	0%	-1
Tax expense	**-12%**	**-4**	**10%**	**24**

Deferred tax, assets		
Financial assets	15	19
Fixed tangible assets	19	20
Fixed intangible assets	9	6
Other assets	0	0
Tax values over book values	**43**	**45**
Other current assets	18	32
Pension and other provisions	34	27
Other temporary differences	**52**	**59**
Tax losses to be carried forward	**163**	**63**
-Tax liabilities offset	**-73**	**-61**
Capitalised tax assets	**185**	**106**

	2009	2008
Deferred tax, liabilities		
Fixed tangible assets	237	201
Fixed intangible assets	34	37
Accelerated depreciation on tangible fixed assets	**271**	**238**
Other current assets	26	19
Financial assets	0	4
Other assets	21	20
Pension and other provisions	20	2
Other	**67**	**45**
-Tax assets offset	**-73**	**-61**
Deferred tax liability	**265**	**222**
Taxes, payable		
Payable taxes as of January 1	17	19
Income tax payable for the year	44	51
Adjustment to prior year's payable tax charge	4	-2
Taxes paid (-)/received (+)	-16	-86
Movement in tax receivable	-36	35
Payable taxes as of December 31	**13**	**17**

In addition to the tax assets capitalised, the Group has unrecognised tax assets of EUR 17 million due to current forecasts indicating insufficient future profits. These tax loss carry forwards have no expiry date.

	2009	2008
Deductible temporary differences	0	0
Tax loss carry forwards	17	11
- Taxable temporary differences	0	0
Total unrecognised net tax assets	**17**	**11**

The recognised deferred tax assets are expected to be utilised against future profits based on internal projections in the relevant jurisdictions. The benefit arising from previously unrecognised tax losses, tax credits or temporary differences of prior periods amounts to EUR 0 million (EUR 7 million). Dividend payment to Borealis AG, respectively Borealis A/S being a sub-holding company for some of the Borealis subsidiaries, by one of its subsidiaries, has no tax effect for Borealis AG respectively Borealis A/S. The Danish Borealis entities are part of a tax group with entities outside the Borealis group. The temporary differences related to investments in associated companies amount to EUR 503 million, for which no deferred tax liability has been recognised in accordance with IAS 12.39 Income Taxes.

The deferred taxes charged in other comprehensive income amounted to:

	2009	2008
Fair value adjustment of cash flow hedges	-9	19
Actuarial gains and losses	3	-2
Net gain/loss on loans and f inancial contacts to hedged investments and long-term loans to subsidiaries	-4	11
Total deferred tax charged in other comprehensive income	**-10**	**29**

10. Inventories (EUR million)

Inventories of ethylene and propylene are included under finished products.

	2009	2008
Raw materials and consumables	168	165
Finished products	463	535
Total	**631**	**700**

The inventory value of finished products has been written down to its net realisable value. The inventory subject to write down to net realisable value amounted to EUR 80 million (EUR 239 million), on which a write down in the amount of EUR 26 million (EUR 106 million) has been recognised. The accounting estimate relating to calculation of the provision for slow movers was changed based on improved marketability of products classified as slow moving stock and had a positive effect in 2009 of EUR 5 million on the overall provision.

11. Employee benefit plans (EUR million)

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.

	2009	2008
Funded benefit plans		
Actuarial present value of benefits due to past and present employees	125	114
- Plan assets held in trusts at fair value	-82	-84
Plan assets below the present value of benefits recorded as a provision	43	30
Unfunded benefit plans		
Actuarial present value of benefits due to past and present employees recorded as a provision	140	135
Unrecognised past service cost	3	0
Net liability recognised in the balance sheet	**180**	**165**

	2009	2008
Change in benefit obligation		
Benefit obligation at beginning of year	249	251
Current service costs	10	10
Current interest costs	13	12
Actuarial losses/gains	5	-2
Net transfers in/(out)	0	0
Past service costs	6	0
Curtailments	-2	0
Exchange rate changes	4	-6
- Benefits paid from plan and settlements	-20	-16
Benefit obligation at end of year	**265**	**249**
Change in plan assets		
Fair value of plan asset at beginning of year	84	69
Expected return on plan assets	4	3
Employer contributions	17	19
Actuarial gains/losses	**-6**	**4**
Net transfers in/(out)	0	0
Exchange rate changes	2	0
- Benefits paid from plan and settlements	-19	-11
Fair value of plan asset at end of year	**82**	**84**
Asset category		
Equity securities	15%	15%
Debt securities	66%	65%
Real estate	1%	3%
Other	18%	17%
	100%	**100%**

Movement in the net liability recognised in the balance sheet	2009	2008
Net liability as of January 1	165	182
- Contributions paid by the company and settlements	-17	-20
Net transfers in/(out)	0	0
Actuarial loss/gain recognised inother comprehensive income (including exchange rate differences)	14	-12
Expense recognised in the income statement	18	15
Net liability on December 31	**180**	**165**

Expense recognised in the income statement for defined benefit plans	2009	2008
Service costs	10	10
Interest costs	13	12
Amortisation of the past service costs	2	0
Settlement (gain)/loss	-1	-4
Curtailment (gain)/loss	-2	0
- Expected return on assets	-4	-3
Total	**18**	**15**
Actual return on plan assets	-2	8

The aggregated benefit cost charged to the income statement for 2009 amounted to EUR 29 million, compared to EUR 25 million in 2008. Benefit costs relate to:

	2009	2008
Defined benefit plans	18	15
Defined contribution plans	11	10
Total	**29**	**25**

Discount rates, projected future salary, pension increases and expected rates of return on plan assets vary for the different defined benefit plans, as they are determined in light of local conditions. Assumptions regarding future mortality are based on published statistics and mortality tables. The principal assumptions used were in the following ranges:

	2009	2008
Discount rate	4% to 6%	4% to 6%
Projected future salary growth	2% to 4%	2% to 4%
Expected rate of return on plan assets	4% to 6%	5% to 6%
Expected pension increase	2% to 4%	2% to 2%

5-year overview of the employee benefits key figures	2009	2008	2007	2006	2005
Fair value of scheme assets	82	84	76	105	98
Present value of defined benefit obligation	-265	-249	-262	-262	-253
(Deficit) surplus in the scheme	-183	-165	-186	-157	-155
Experience adjustments arising on plan liabilities	-5	2	8	-1	-12
Experience adjustments arising on plan assets	-6	4	-9	5	0

12. Other provisions (EUR million)

	Restructuring	Other	Total
As of January 1	31	98	129
Provisions made during the year	17	14	31
Provisions used during the year	-5	-11	-16
Provisions reversed during the year	-5	-10	-15
Exchange adjustments	-2	3	1
Result of acquisition-disposals/movements	0	0	0
Balance as of December 31, 2009	**36**	**94**	**130**
Current	17	7	24
Non-Current	19	87	106
	36	**94**	**130**

Restructuring
The provision for restructuring covers estimated costs for the ongoing restructuring programmes mainly in Belgium.

Other
Other provisions mainly cover environmental and legal exposures. The timing of the cash outflows cannot be determined with certainty.

13. Government grants

Borealis received government grants for the investment in new production plants, CO_2 emission allowances and research and development of EUR 25 million (EUR 25 million), which were recognised in the income statement.

14. Assets pledged

	2009	2008
Chattel mortgages	13	12
Others	16	16
Total	**29**	**28**

Assets pledged relates to tangible assets. The liabilities covered by the above assets amounted to EUR 38 million (EUR 28 million) at the end of the year.

15. Contingent liabilities (EUR million)

Operating Leases
The Group has operating leases relating to certain operational assets. Total rental during the non-terminable periods amounted to:

Operating leases	2009	2008
1 year	15	12
2-5 years	33	31
Thereafter	5	6
Total	**53**	**49**
Operational lease payments during current year	19	14

The Group leases machinery, 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.

16. Financial risk management

The objective of financial risk management is to support the core businesses of Borealis. It operates within the framework of the treasury procedure. 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 provides an overview of the financial instruments used by Borealis to manage risk.

Financial risk management is centralised in the Treasury and Funding department where the foreign exchange risks related to short-term commercial cash flows are hedged and limits for long-term foreign exchange exposures are established. Interest rate risks are managed through a duration benchmark. Foreign exchange translation differences relating to long-term investments in subsidiaries are recognised in other comprehensive income. The exposures are partly hedged by long-term borrowing in the same currencies. Hedges are generally placed in the legal entities where the underlying exposure exists. When certain conditions are met, Borealis applies IAS 39 hedge accounting principles to foreign exchange, interest rate and commodity 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.

Commodity price risk is managed by the feedstock traders and monitored by Trade Support and Risk Management. The commodity price risk exposure is calculated by trading software. On a daily basis, Trade Support and Risk Management make a snapshot of all data in the trading system and retrieve the daily position out of the system. The position is analysed and compared with the trading limits. Traders are allowed to use financial derivatives, for example financial swaps, in order to stay within the limits.

A credit limit is determined for every Feedstock and Olefins customer based on an assessment of the financials of the company and past trading experiences. The credit exposure is calculated daily.

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

Hedging policies of the Group
Where possible, Borealis applies hedge accounting in order to recognise the offsetting effects on profit or loss of changes in the fair value of the hedging instrument and the hedged items. Borealis has the following hedging relationships:

Fair value hedging: In order to protect the fair value of its feedstock inventory that is not held for immediate consumption, Borealis enters into derivative contracts (forward sale) and measures the hedged inventory at its fair value instead of at its historic cost. In this way and to the extent that the hedges are effective, the changes in fair value of the inventory offset the changes in fair value of the hedging instruments in the income statement.

Cash flow hedging: Based on regular cash flow forecasts, Borealis hedges its foreign exchanges exposure coming from forecasted sales and purchases and from committed investment projects. Details about the hedging instruments used, notional amounts and maturities can be found in notes 24 and 25.

Borealis manages its interest rate risk through a modified duration benchmark. The majority of the borrowings are based on a floating interest rate, but get transformed into fixed interest rate loans after the application of interest rate swaps. Details about the hedging instruments used, notional amounts and maturities can be found in notes 24 and 26.

Borealis hedges its forecasted electricity purchases using electricity swaps. Details about the hedging instruments used, notional amounts and maturities can be found in note 24.

Borealis hedges some of its forecasted feedstock purchases and finished product sales through feedstock swaps (naphtha-propane- spread). Cash flow hedge accounting is applied to those derivatives, except for the derivatives that are used to limit the price risk on the inventory held for immediate consumption. Details about the hedging instruments used, notional amounts and maturities can be found in note 24.

Net investment hedging: Borealis has hedged its investment in an associated company, which has USD as its functional currency, through a combination of entering into USD loans and cross currency interest rate swaps. The EUR/USD impact on the valuation of both the loan and cross currency interest rate swaps is recognised in other comprehensive income. Details can be found in note 25.

17. Financial income and expense (EUR million)

Recognised in profit or loss	2009	2008
Change in fair value of commodity derivative contracts	-23	17
Change in fair value of interest rate derivative contracts	1	-3
Change in fair value of foreign exchange derivative contracts	3	-1
Realised result on commodity derivative contracts	12	0
Realised result on interest rate derivative contracts	-3	0
Realised result on foreign exchange derivative contracts	-3	4
Financial assets and liabilities at fair value through profit or loss	**-13**	**17**
Change in fair value of fair value hedge instruments Ineffective portion of change in fair value of cash flow hedge instruments	-10	0
Commodity derivative contracts	0	0
Interest derivative contracts	1	0
Foreign exchange derivative contracts	0	0
Amounts recognised in profit or loss for realised cash flow hedges		
Commodity derivative contracts	-24	-9
Interest derivative contracts	-13	4
Foreign exchange derivative contracts	-10	-1
Hedging instruments	**-56**	**-6**
Interest income	0	0
Amounts removed from equity and recognised in profit or loss	0	0
Available for sale financial assets	**0**	**0**
Interest income on held to maturity investments	0	0
Held to maturity investments	**0**	**0**
Interest income on cash and deposits	10	17
Foreign exchange effects on cash and deposits	0	0
Foreign exchange effects on receivables	0	-5
Amounts removed from equity and recognised in profit or loss relating to receivables that are part of a net investment in a foreign operation	0	0
Impairment losses on receivables	3	2
Loans and receivables	**13**	**14**
Interest expense on financial liabilities	-30	-73
Fee expense on financial liabilities	-8	-1
Foreign exchange effects on financial liabilities	3	-2
Amounts removed from equity and recognised in profit or loss relating to liabilities designated as hedge of net investment in foreign operation	0	0
Financial liabilities	**-35**	**-76**

The amounts recognised in profit or loss for the commodity and foreign exchange derivative contracts are booked as a correction to the net sales income or operating costs that are being hedged. The amounts recognised in profit or loss for interest rate derivatives and the foreign exchange effects on non-derivative financial assets and liabilities are reported as part of the net financial expenses. Impairment losses on receivables are reported in operating costs.

Recognised in other comprehensive income	2009	2008
Commodity derivative contracts designated as cash flow hedge	-9	-50
Interest derivative contracts outstanding	-19	-22
Foreign exchange derivative contracts	4	-14
Foreign exchange effects on receivables part of net investment in foreign operations	-1	2
Foreign exchange effects on financial liabilities and derivatives designated as hedge of investment in foreign operations	3	-4
Amounts removed from equity		
Net investment in foreign operations	0	0
Commodity derivative contracts	24	9
Interest derivative contracts	13	0
Foreign exchange derivative contracts	10	1
Effective portion of changes in fair value of hedging instruments	**25**	**-78**
Gains (losses) recognised in other comprehensive income	NA	NA
Amounts removed from equity and recognised in profit or loss	NA	NA
Available for sale financial assets	**0**	**0**

18. Financial fixed assets (EUR million)

	Shares in associated companies		Other investments		Other long-term receivables		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Cost								
As of January 1	114	114	14	21	183	174	311	309
Investments	0	0	0	5	0	9	0	14
Disposals	0	0	0	-12	0	0	0	-12
	114	114	14	14	183	183	311	311
Adjustments								
As of January 1	471	303	0	-3	-98	-99	373	201
Disposals	0	0	0	3	0	0	0	3
Exchange adjustments	-12	24	0	0	-2	1	-14	25
Dividends received	0	0	0	0	0	0	0	0
Net result of associated companies, after tax	44	144	0	0	0	0	44	144
	503	471	0	0	-100	-98	403	373
Book value as of December 31	**617**	**585**	**14**	**14**	**83**	**85**	**714**	**684**

Other investments include interests in environmental funds in Belgium and Germany, as well as investments in infrastructure. The other long-term receivables mainly consist of receivables from associated companies.

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

2009	Country	Ownership in %
Abu Dhabi Polymers Company Limited	United Arab Emirates	40
Borouge Pte Ltd	Singapore	50
Speciality Polymers Antwerp N.V.	Belgium	33
Borealis Financial Services Ltd	Jersey	25

Summary of financial information for equity accounted investees, adjusted for the percentage of ownership by the Group.

	Assets	Liabilities	Net sales	Profit after tax
2009	1,916	1,299	625	44
2008	1,422	837	868	144

19. Securitisation

Borealis has a securitisation programme under which the company sells certain trade receivables to external parties. The Group does not retain any major interest in the trade receivables, except for foreign currency risk and interest rate risk, and thus accordingly derecognises the receivables sold. As of 31 December, 2009 receivables worth EUR 367 million (EUR 449 million) were sold. The company continues to administer the relationship with debtors and will compensate the purchaser for credit notes issued subsequent to the sale. To cover these obligations, a receivable of EUR 102 million (EUR 243 million) is outstanding at the balance sheet date and reported under receivables from associated companies.

The interest element of the financing costs related to the Securitisation Programme is hedged with derivatives for a notional amount of EUR 210 million (EUR 280 million).

20. Share capital (EUR million)

	Share capital*		Contributions by shareholders	
	2009	2008	2009	2008
Balance as of January 1	0	0	1,899	1,899
Capital increase (decrease)	0	0	0	0
Contribution in kind	0	0	0	0
Balance as of December 31	**0**	**0**	**1,899**	**1,899**

* The share capital of Borealis AG (parent company) amounts to EUR 300,000.00 (EUR 300,000.00)

The Group's objectives when managing capital are to safeguard the entity's ability to continue as a going concern and to provide an adequate return to shareholders. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net interest-bearing debt, including subordinated loans divided by total equity.

21. Loans and borrowings (EUR million)

The composition of interest-bearing loans and borrowings (short and long-term debt) at the year end in EUR million was as follows:

Maturities		2009					
Due		**Total**	Term loans	Utilised uncommitted facilities	Export credits	Finance leases	Unutilised committed revolving facilities
After	5 years	**293**	292			1	
Within	5 years	**34**	34				0
	4 years	**123**	123				787
	3 years	**56**	56				39
	2 years	**120**	120				200
Total long-term debt		**626**	625			1	1,026
Total short-term debt	1 year	**442**	278[1)]	34	130	0	1
Total debt		**1,068**	**903**	**34**	**130**	**1**	**1,027**

[1)] including EUR 204 million short-term drawdowns of long-term committed facilities

Maturities		2008					
Due		**Total**	Term loans	Utilised uncommitted facilities	Export credits	Finance leases	Unutilised committed revolving facilities
After	5 years	**90**	89			1	
Within	5 years	**91**	91				509
	4 years	**110**	110				25
	3 years	**133**	133				
	2 years	**59**	59				
Total long-term debt		**483**	482			1	534
Total short-term debt	1 year	**669**	502[1)]	35	130	2	1
Total debt		**1,152**	**984**	**35**	**130**	**3**	**535**

[1)] including EUR 496 million short-term drawdowns of long-term committed facilities

The Group's financing is mainly comprised of committed credit lines, term loans, subordinated loans and export credits. The loans and borrowings are all measured at amortised cost. The subordinated loan of EUR 103 million has an 8-year term and matures in 2011. At the end of 2009, the Group has committed credit lines with syndicates of banks of EUR 1,231 million (EUR 1,031 million) of which EUR 204 million (EUR 496 million) has been utilised and is classified as short-term draw-downs of the long-term committed facilities which mature in 2012 and 2013. Some loan agreements have financial covenants, which are based on the gearing and solvency ratio.

Currency mix	2009	Percent	2008	Percent
Interest bearing (EUR million)				
USD	197	18%	170	15%
EUR	827	78%	966	84%
GBP	34	3%	0	0%
HUF	9	1%	15	1%
SEK	1	0%	1	0%
Interest bearing total	**1,068**	**100%**	**1,152**	**100%**

22. Credit risk (EUR million)

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 for the total customer portfolio and all customers are at least reviewed once per year. Approval and escalation limits are used to authorise the available credit limits to customers. At the balance sheet date Borealis has no large concentrations of credit risks representing more than 10% of the total outstanding trade receivables. No credit risk is retained in trade receivables sold under the Securitisation Programme.

Exposure to credit risk

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	2009	2008
EU Countries	180	156
Non-EU in Europe	34	6
USA	12	8
Middle East and Asia	26	31
Other regions	47	20
	299	**221**

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	2009	2008
Polyolefins	102	50
Base Chemicals	161	123
Other	36	48
	299	**221**

All customers are classified in risk categories based on criteria such as financial strength, ownership, size, payment behaviour and country of domicile.

The following categories exist

Risk category 1: preferred customers, customers with excellent credit standing and financial strength
Risk category 2: medium-size customers with good reputations
Risk category 3: financially sound customers, but with history of slow payments
Risk category 4: all new customers and customers with repetitively slow payments or with weak financial situations
Others: customers with cash in advance or secured payment terms

The ageing of trade receivables at the reporting date was:

	2009 Gross	2009 Impairment	2008 Gross	2008 Impairment
Not past due				
Risk category 1	60	0	66	0
Risk category 2	11	0	14	0
Risk category 3	48	0	33	0
Risk category 4	124	0	51	0
Other	28	0	7	0
Past due 0-30 days				
Risk category 1	1	0	9	0
Risk category 2	0	0	1	0
Risk category 3	3	0	9	0
Risk category 4	12	0	11	0
Other	0	0	1	0
Past due 31-120 days				
Risk category 1	1	0	2	0
Risk category 2	0	0	0	0
Risk category 3	1	0	3	0
Risk category 4	4	0	4	0
Other	1	0	0	0
Past due over 120 days				
Risk category 1	1	0	9	0
Risk category 2	0	0	0	0
Risk category 3	1	-1	1	-1
Risk category 4	9	-6	6	-5
Other	1	0	0	0
	306	**-7**	**227**	**-6**

The movement in the allowance for impairment in respect of trade receivables	2009	2008
Balance as of 1 January	6	6
Impairment loss recognised	1	0
Balance as of 31 December	**7**	**6**

In 2009, the Group did renegotiate the terms of trade receivables for an amount of EUR 1 million.

The total guarantees received (including bank guarantees and parental guarantees) in respect of above receivables amount to EUR 94 million (EUR 115 million).

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. Counterparty credit risks for long term financial treasury transactions are managed by mandatory credit limits and external credit rating requirements. A real time treasury system is used to monitor exposures and risk limits. Management does not expect any counterparty to fail to meet any of its current obligations.

	2009	2008
Available for sale financial assets	14	14
Held to maturity investments	2	2
Financial assets at fair value through profit and loss	10	41
Loans and receivables	66	67
Cash and cash equivalents	37	66
Interest rate swaps used for hedging		
Assets	0	0
Foreign exchange contracts used for hedging		
Assets	0	5
	129	**195**

The loans and receivables cover loans given to associated companies and are neither past due, nor impaired.

23. Liquidity risk (EUR million)

Liquidity is managed on a daily basis to ensure the Group's liquidity requirement is covered at all times with the lowest possible level of working capital. The following are the contractual maturities in EUR million of non-derivative financial liabilities, including forecasted interest payments, and derivative financial assets and liabilities. All carrying amounts exclude outstanding interest accruals at the year end. Cash outflows are reported with a negative sign, cash inflows with a positive sign. Carrying amounts of liabilities are reported with a positive sign and carrying amounts of assets are reported with a negative sign.

	2009						
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
EUR floating rate loans	465	-489	-123	-163	-35	-111	-57
EUR fixed rate loans	327	-403	-13	-33	-28	-185	-144
EUR financial leases	1	-1	0	0	0	0	-1
USD floating rate loans	167	-179	-85	-1	-1	-34	-58
USD fixed rate loans	30	-110	-1	-1	-3	-9	-96
GBP fixed rate loans	34	-72	-2	-2	-3	-9	-56
HUF fixed rate loans	9	-10	-10	0	0	0	0
SEK fixed rate loans	1	-1	-1	0	0	0	0
Trade and other payables	542	-542	-542	0	0	0	0
Utilised uncommitted facilities	34	-34	-34	0	0	0	0
	1,610	**-1,841**	**-811**	**-200**	**-70**	**-348**	**-412**
Derivative financial (assets) and liabilities							
Interest rate swaps							
outflow	24	-49	-10	-9	-15	-15	0
inflow	0	21	2	3	5	11	0
Cross currency interest rate swaps							
outflow	1	-58	-2	-2	-3	-10	-41
inflow	0	56	2	2	3	9	40
Foreign exchange contracts							
outflow	1	-466	-352	-114	0	0	0
inflow	-4	469	357	112	0	0	0
Foreign exchange options							
outflow	0	0	0	0	0	0	0
inflow	0	0	0	0	0	0	0
Feedstock contracts							
outflow	17	-17	-16	-1	0	0	0
inflow	-7	8	7	1	0	0	0
Electricity contracts							
outflow	14	-14	-6	-6	-2	0	0
inflow	-2	1	0	0	1	0	0
	44	**-49**	**-18**	**-14**	**-11**	**-5**	**-1**

	2008						
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
EUR floating rate loans	728	-781	-419	-11	-37	-254	-60
EUR fixed rate loans	215	-242	-11	-11	-39	-148	-33
EUR financial leases	4	-4	-3	-1	0	0	0
USD floating rate loans	170	-190	-87	-1	-1	-34	-67
Trade and other payables	519	-519	-519	0	0	0	0
Utilised uncommitted facilities	35	-35	-35	0	0	0	0
	1,671	**-1,771**	**-1,074**	**-23**	**-77**	**-436**	**-161**
Derivative financial (assets) and liabilities							
Interest rate swaps							
outflow	19	-66	-13	-10	-18	-25	0
inflow	0	42	10	7	7	18	0
Cross currency interest rate swaps							
outflow	0	0	0	0	0	0	0
inflow	0	0	0	0	0	0	0
Foreign exchange contracts							
outflow	20	-422	-286	-124	-12	0	0
inflow	-5	406	274	120	12	0	0
Foreign exchange options							
outflow	0	-1	-1	0	0	0	0
inflow	0	1	1	0	0	0	0
Feedstock contracts							
outflow	0	-26	-24	-2	0	0	0
inflow	-15	41	39	2	0	0	0
Electricity contracts							
outflow	26	-26	-5	-5	-14	-2	0
inflow	0	0	0	0	0	0	0
	45	**-51**	**-5**	**-12**	**-25**	**-9**	**0**

24. Cash flow hedges (EUR million)

The following table indicates the period in which the cash flows associated with derivatives that are cash flow hedges are expected to occur and impact P&L. All carrying amounts exclude outstanding interest accruals at the year end.

	2009						
	Carrying amount	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Interest rate swaps							
Assets	0	77	4	5	8	20	40
Liabilities	-24	-105	-11	-10	-18	-25	-41
Foreign exchange contracts (forwards and options)							
Assets	0	281	169	112	0	0	0
Liabilities	-1	-282	-168	-114	0	0	0
Electricity and feedstock contracts							
Assets	4	2	1	0	1	0	0
Liabilities	-14	-14	-6	-6	-2	0	0

	2008						
	Carrying amount	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Interest rate swaps							
Assets	0	38	7	6	7	18	0
Liabilities	-17	-59	-10	-8	-16	-25	0
Foreign exchange contracts (forwards and options)							
Assets	5	277	147	118	12	0	0
Liabilities	-18	-290	-157	-121	-12	0	0
Electricity contracts							
Assets	0	0	0	0	0	0	0
Liabilities	-26	-26	-5	-5	-14	-2	0

Of the foreign exchange cash flow hedges, EUR 10 million in losses were removed from hedging reserve during 2009 and were realised to net sales income. At the end of the reporting period, a negative market value of EUR 1 million is recognised in other comprehensive income on the foreign exchange cash flow hedges.

Of the interest rate swaps, a loss of EUR 15 million was realised in financial expenses net during 2009. Six interest rate swaps matured over 2009, for which a loss of EUR 13 million was removed from hedging reserve during 2009. At the end of the reporting period, a negative market value of EUR 23 million is recognised in other comprehensive income on the interest rate cash flow hedges.

Due to partial ineffectiveness of the foreign exchange cash flow hedges, a loss of EUR 0 million (EUR 0 million) of the total fair value was recognised in financial income and expenses at year end. On the interest rate swaps, which are used as cash flow hedges, a net loss of EUR 0 million (loss of EUR 0 million) was recognised in financial income and expenses at the year end due to partial ineffectiveness.

Feedstock: At the balance sheet date, Borealis had commodity derivative contracts with maturities up to 12 months forward to manage the price risk of feedstock. The notional volume of contracts held as of December 31, 2009, was 384,330 tonnes (805,000 tonnes) with an average maturity of 3 months. Part of the contracts, 45,000 tonnes (0 tonnes), were entered into a fair value hedge for feedstock inventories. At the balance sheet date, the total market value of these derivatives was EUR -3 million and the fair value adjustment to the hedged inventory EUR 3 million. Another part of the contracts, 72,000 tonnes (0 tonnes), have been designated as cash flow hedges for future sales and purchases. The total fair value of these contracts at the balance sheet date was EUR 1 million. No hedge accounting is applied for the remaining contracts and changes in the fair value of the derivative contracts are recognised in the income statement as a correction to operating cost. The net fair value of all derivative contracts for feedstock as of December 31, 2009, was EUR -10 million (EUR 15 million). EUR 17 million (EUR 26 million) has been recognised in non-trade payables and EUR 7 million (EUR 41 million) in non-trade receivables.

Electricity: Borealis hedges its forecasted electricity purchases with maturity up to 2012 using electricity swaps. The notional volume of the contracts held as of December 31, 2009, was 219 MW (221 MW) with an average maturity of 11 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 as of December 31, 2009 was EUR -11 million (EUR -25 million), comprising liabilities of EUR 14 million and assets of EUR 3 million. These amounts were recognised in non-trade payables, receivables and in other comprehensive income.

25. Foreign currency risk (EUR million)

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

Borealis hedges its trade receivables, trade payables, cash positions and forecasted positions denominated in the foreign currencies in which it 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 forward exchange contracts and foreign exchange options. The total notional value of outstanding foreign exchange forwards as of December 31, 2009 was EUR 468 million (EUR 398 million), of which EUR 369 million (EUR 285 million) relates to foreign currency risk management and EUR 99 million (EUR 113 million) is the notional amount of currency swaps used in liquidity management. The total notional value of outstanding foreign exchange options as of December 31, 2009, was EUR 0 million (EUR 5 million) measured at the strike rate.

Firm commitments and forecasted transactions
Borealis classifies its foreign exchange forward contracts and options, 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 as of December 31, 2009, was EUR -1 million (EUR -13 million). EUR -1 million has been recorded in other comprehensive income at year-end, from which EUR 0 million has been recognised in other receivables and EUR -1 million in other payables.

Hedges of net investments in foreign operations
Borealis designates certain external loans and cross currency interest rate swaps as hedges of the Group's investments in its foreign operations. The designated USD hedge loans amounted to EUR 197 million (EUR 170 million) as of December 31, 2009. EUR/USD cross currency interest rate swaps of notional EUR 34 million (EUR 0 million) were classified as net investment hedges as of December 31, 2009. A foreign exchange gain of EUR 4 million (loss EUR 4 million) was recognised in other comprehensive income during 2009 on the translation of these USD liabilities to EUR (including the currency element of the fair value of cross currency interest rate swaps). During 2009, a net amount of USD 0 million (USD 0 million) and SEK 0 million (SEK 0 million) of shareholder loans to associated companies and long-term intercompany loans were repaid or reclassified. These were loans that where either net investment hedges or previously deemed as part of the permanent capital structure of the subsidiaries for which currency revaluation effects had been recognised in other comprehensive income, resulting in a net gain recognised to the income statement of EUR 0 million (EUR 0 million gain). SEK 0 million (SEK 2,781 million) was converted from a shareholder loan into share capital, for which currency revaluation effects remain recognised in other comprehensive income.

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, 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 as of December 31, 2009, was EUR 3 million (EUR -2 million). EUR 4 million (EUR 0 million) was recognised in non-trade receivables and EUR -1 million (EUR -2 million) in non-trade payables.

Sensitivity analysis
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 12 million (EUR 12 million) if currency risk is seen in isolation. However, the prevailing polyolefin market pricing mechanisms reduce the foreign exchange risk in practice.

26. Interest rate risk (EUR million)

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 range. Interest rate derivatives denominated in EUR and USD 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.

Of total interest-bearing debt, approximately 41% (17%) has a fixed interest rate, and 59% (83%) is based on a floating interest rate before applying interest rate swaps. Approximately 72% (67%) has a fixed interest, rate and 28%

(33%) 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).

As of December 31, 2009 Borealis had outstanding interest rate derivatives for a notional amount of EUR 522 million (EUR 669 million) with interest rates ranging from 2.73% to 4.87% and maturities up to 2013.

Borealis does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit and loss.

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 as of December 31, 2009 was EUR -24 million (EUR -19 million), comprising liabilities of EUR -24 million and assets of EUR 0 million. These amounts were recognised in other payables and receivables.

Effective interest rate

In respect of interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date.

	2009		2008	
	Effective interest rate	Carrying amount	Effective interest rate	Carrying amount
EUR floating rate loans	1.4%	-465	3.6%	-729
Effect of interest rate swaps	2.3%		-0.2%	
EUR fixed rate loans	4.9%	-327	3.4%	-215
EUR financial leases	4.3%	-1	5.8%	-3
USD floating rate loans	0.4%	-167	1.3%	-170
Effect of interest rate swaps	4.0%		3.0%	
USD fixed rate loans	9.6%	-30	0.0%	0
GBP fixed rate loans	9.4%	-34	0.0%	0
HUF fixed rate loans	7.0%	-9	0.0%	0
SEK fixed rate loans	1.4%	-1	0.0%	0
Utilised uncommitted facilities	1.0%	-34	1.7%	-35
		-1,068		**-1,152**

Sensitivity analysis

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

As of December 31, 2009 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 2 million (EUR 1 million). Interest rate derivatives have been included in this calculation. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

27. Fair values (EUR million)

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivative financial assets for which hedge accounting is not applied				
Commodity derivative contracts	6	6	41	41
Interest derivative contract	0	0	0	0
Foreign exchange derivative contracts	4	4	0	0
Financial assets at fair value through profit or loss	**10**	**10**	**41**	**41**
Financial assets for which hedge accounting is applied				
Commodity derivative contracts	4	4	0	0
Interest derivative contracts	0	0	0	0
Cross currency interest rate swaps	0	0	0	0
Foreign exchange derivative contracts	0	0	5	5
Long term receivables on associated companies	0	0	0	0
Hedging instruments	**4**	**4**	**5**	**5**
Other investments	14	14	14	14
Available for sale financial assets	**14**	**14**	**14**	**14**
Bonds	2	2	2	2
Held to maturity investments	**2**	**2**	**2**	**2**
Deposits	0	0	0	0
Trade receivables	299	299	221	221
Long-term receivables on associated companies	66	66	67	67
Loans and receivables	**365**	**365**	**288**	**288**
Derivative financial liabilities for which hedge accounting is not applied				
Commodity derivative contracts	-14	-14	-26	-26
Interest derivative contracts	-1	-1	-2	-2
Foreign exchange derivative contracts	-1	-1	-2	-2
Financial liabilities at fair value through profit or loss	**-16**	**-16**	**-30**	**-30**

	2009		2008	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities for which hedge accounting is applied				
Commodity derivative contracts	-17	-17	-26	-26
Interest derivative contracts	-23	-23	-17	-17
Cross currency interest rate swaps	-1	-1	0	0
Foreign exchange derivative contracts	-1	-1	-18	-18
Long term liabilities to associated companies	0	0	0	0
Hedging instruments	**-42**	**-42**	**-61**	**-61**
Floating rate loans and borrowings	-633	-633	-937	-937
Fixed rate loans and borrowings	-435	-462	-215	-219
Trade payables	-542	-542	-519	-519
Interest accruals	-4	-4	-2	-2
Financial liabilities	**-1,614**	**-1,641**	**-1,673**	**-1,677**
Fair value over carrying amount		**-27**		**-4**

Basis for determining fair values

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
Level 2: Valuation techniques based on observable inputs, either directly or indirectly. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques, where all significant inputs are directly or indirectly observable from market data.
Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments. In general, fair value has been determined in accordance with Level 2, so either based on observable market data at the balance sheet date or by discounting the relevant cash flows using current interest rates for similar instruments.

Derivatives: The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using market interest rates at the reporting date. The fair value of interest rate swaps is estimated by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the reporting date. The fair value of commodity derivative contracts is the difference between current forward price and contractual forward price.

Non-derivative financial liabilities: We estimate that the carrying amount of the long and short-term loans and borrowings that are based on variable interest rates equals fair value as it corresponds to the current market rate of interest.
Fair value for fixed rate loans and borrowings is calculated based on the present value of future principal and interest cash flows discounted at the market rate of interest at the reporting date. All fair values are excluding the outstanding interest accruals at year end. The fair value of trade and other payables, is estimated to equal the carrying amount.

Investments: In absence of a quoted market price for investments in other companies, the fair value is estimated to equal historic cost.

Trade and other receivables: The fair value of trade and other receivables is estimated to equal the carrying amount.

28. Transactions with related parties (EUR million)

	2009							
	Goods and Services				Financing			
	Puchases from	Sales to	Receivables from	Payables to	Loans	Borrowings	Interest received	Interest Paid
Associates	3	363	160	0	66	0	0	0
Other related parties	1,188	49	1	121	0	72	0	2
	1,191	**412**	**161**	**121**	**66**	**72**	**0**	**2**

	2008							
	Goods and Services				Financing			
	Puchases from	Sales to	Receivables from	Payables to	Loans	Borrowings	Interest received	Interest Paid
Associates	12	300	311	0	67	0	0	0
Other related parties	1,783	109	5	144	0	72	0	4
	1,795	**409**	**316**	**144**	**67**	**72**	**0**	**4**

The sales to associates include mainly sales of finished goods and services. Purchases from other related parties mainly relate to purchase of feedstock and utilities from OMV group companies at market rates. The receivables from associates include amongst other securitisation related transactions as per note 19.

Borealis has received a subordinated loan. The majority of this loan has been provided by the current shareholders and is subordinated to and contingent upon the payment in full of all other liabilities. Repayment of the principal is scheduled for 2011. Interest is based on the EURIBOR rate plus a margin. Payment of interest is contingent upon meeting certain financial ratio tests. The loan given to associates is interest free and is expected to be repaid in 2010.

International Petroleum Investment Company, OMV AG and Borealis AG executed an agreement in principle regarding the cooperation with Nova group in September 2009 (Agreement in Principle). Borealis is entitled to acquire a participation of approximately 24.9% of Nova subject to a customary share purchase agreement satisfactory to both Borealis and IPIC.

29. Subsequent events

Borealis has had no significant events after the balance sheet date.

30. Subsidiaries included in the consolidated accounts

Company name	Country, City	Currency	Issued share capital	Percentage of shares owned	Net asset value (EUR million)	Net profit of the year (EUR million)
Borealis AG						
• Borealis A/S	Denmark, Copenhagen	DKK	500,000	100	1,158	370
•• Borealis Sverige AB	Sweden, Stenungsund	SEK	1,063,000	100	313	0
••• Borealis Holding AB	Sweden, Stenungsund	SEK	1,300,050	100	1	0
•••• Borealis AB	Sweden, Stenungsund	SEK	65,000,000	100	652	79
••••• Etenförsörjning i Stenungsund AB	Sweden, Stenungsund	SEK	5,000,000	80	0	0
•••• Borealis group services AS	Norway, Bamble	NOK	1,000,000	100	9	0
•• Borealis Polymers Oy	Finland, Porvoo	EUR	108,321,644	100	694	50
•• Borealis Technology Oy	Finland, Porvoo	EUR	43,728,860	100	210	21

Company name	Country, City	Currency	Issued share capital	Percentage of shares owned	Net asset value (EUR million)	Net profit of the year (EUR million)
••• Borealis Polyethylene Oy	Finland, Porvoo	EUR	210,000,000	100	199	-1
• IOB Holdings A/S	Denmark, Copenhagen	DKK	500,000	100	331	0
• Borealis Financial Services N.V.	Belgium, Mechelen	EUR	99,189,000	100	127	6
• Borealis Polymers N.V.	Belgium, Beringen	EUR	359,445,611	100	478	-22
•• Borealis Kallo N.V.	Belgium, Kallo	EUR	40,575,176	100	66	2
•• Borealis Antwerpen Compounding N.V.	Belgium, Zwijndrecht	EUR	277,054	100	4	0
• Borealis Brasil S.A.	Brazil, Itatiba	BRL	94,743,513	80	45	5
• Borealis UK Ltd	UK, Manchester	GBP	15,000	100	0	0
• Borealis Funding Company Ltd	Isle of Man, Ramsey	EUR	10	100	0	0
• Borealis Insurance A/S	Denmark, Copenhagen	EUR	7,092,000	100	38	5
• Borealis GmbH (Austria) ApS	Denmark, Copenhagen	EUR	3,500,000	100	29	-12
• Borealis N.V. (Belgium) ApS	Denmark, Copenhagen	DKK	2,000,000	100	473	2
• Borealis France S.A.S	France, Suressnes	EUR	207,408	100	1	0
• Poliolefinas Borealis Espana S.A.	Spain, Barcelona	EUR	60,000	100	1	0
• Borealis s.r.o.*	Czech Rep., Prague	CZK	500,000	100	0	0
• Borealis Polska Sp Z.o.o.*	Poland, Warschau	PLN	50,000	100	0	0
• Borealis Portugal SGPS S.A.	Portugal, Sines	EUR	50,000	100	17	0
• Borealis Polymere GmbH	Germany, Burghausen	EUR	18,406,508	100	118	5
•• Borealis Deutschland GmbH	Germany, Dusseldorf	EUR	154,000	100	0	1
• Borealis Polyolefine GmbH	Austria, Schwechat	EUR	46,783,928	100	121	-69
• Borealis Plasticos S.A. de C.V.*	Mexico, Mexico	MXN	50,000	100	0	0
• Borealis Asia Ltd	Hong Kong	HKD	500,000	100	0	0
• Borealis Italia S.p.A.	Italy, Monza	EUR	13,725,600	100	13	1
• Borealis Compounds Inc.	USA, Rockport	USD	50,000	100	50	1
• Borealis Agrolinz Melamine GmbH	Austria,Linz	EUR	70,000	100	103	-9
•• Borealis Agrolinz Melamine Deutschland GmbH	Germany, Wittenberg	EUR	500,000	100	9	-18
•• Agrolinz Melamine International North America Inc.*	USA, Chicago	USD	100,000	100	0	0
•• Agrolinz Melamine International Asia Pacif ic Pte.Ltd.*	Singapore	SGD	100,000	100	0	0
•• A.M.I. Finserv Ltd.	Isle of Man, Douglas	GBP	2,000	100	0	0
•• LINZER AGRO TRADE GmbH	Austria, Linz	EUR	35,000	100	12	3
••• LINZER AGRO TRADE Hungary Kf t.	Hungary, Budapest	HUF	500,000,000	100	3	-2
••• LINZER AGRO TRADE Czech Republic spol. s.r.o.*	Czech Rep., Budweis	CZK	2,000,000	100	0	0
••• LINZER AGRO TRADE Slovakia s.r.o.*	Slovakia, Chotin	EUR	446,000	100	1	0
••• LINZER AGRO TRADE d.o.o.*	Serbia, Belgrado	EUR	800,000	100	1	0
••• LINZER AGRO TRADE ROMANIA S.R.L*	Romania, Bucharest	RON	5,306,650	100	0	0
••• LINZER AGRO TRADE d.o.o. za trgovinu*	Croatia, Klisa	HRK	21,200	100	0	0

* Excluded from the consolidation due to immateriality

31. Auditor's fees (EUR)

The following fee information relates to the auditor of Borealis AG, Vienna, the parent company of the group, only.

	2009	2008
Audit of consolidated financial statments	162,164	214,739
Other audit related services	234,875	43,372
Other services	63,020	35,369

32. Management and Supervisory Board

Management: Mark Garrett, Daniel Shook, Henry Sperle, Lorenzo Delorenzi, Herbert Willerth, Martin Kuzaj (until March 14, 2009), Gerd Löbbert (since January 1, 2010).

Supervisory Board: Gerhard Roiss, Mohamed Al Khaja (since October 9, 2009), Khadem A. Al-Qubaisi (until October 9, 2009), David C. Davies, Mohamed A. Al-Azdi, Mohamed H. Al Mehairi.

Vienna, February 17, 2010

Management

Mark Garrett
Chief Executive

Daniel Shook
Chief Financial Officer

Henry Sperle

Lorenzo Delorenzi

Herbert Willerth

Gerd Löbbert

Notes

Notes

Contact us

Open dialogue with our stakeholders is the only way we can continue to provide cutting-edge solutions to everyday problems. If you would like to learn more about Borealis, contact us at info@borealisgroup.com, visit www.borealisgroup.com or call +43 1 22 400 302.

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