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# Financial Statements 2018

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Standalone



**BOREALIS**

Keep Discovering



**Cover Image:**  
Borealis' high voltage testing centre in Stenungsund, Sweden



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# About Borealis

## Executive Board

### Alfred Stern

#### Chief Executive Officer

Appointed as CEO: July 2018

In April 2018, Alfred Stern was appointed CEO effective 2 July 2018, after having held the position of Borealis Executive Vice President Polyolefins and Innovation & Technology since 2012. Alfred Stern joined Borealis as Senior Vice President Innovation & Technology in 2008. Prior to that, he spent over twelve years at E.I. DuPont de Nemours, holding leadership positions in R&D, sales and marketing, and quality and business management. Following posts in Switzerland and Germany, his final DuPont assignment was as Global Business Manager of an Engineering Polymers business unit in the US.

### Mark Tonkens

#### Chief Financial Officer

Appointed: November 2014

Mark Tonkens first joined Borealis in 2009. Before assuming the position as Borealis CFO in November 2014, he had served as Borealis Senior Vice President Group Controlling. Mark Tonkens came to Borealis after holding a number of senior management roles in the Royal Philips group, acting as CFO and Senior Vice President of major business units and country organisations around the globe, from the Netherlands and Greece in Europe, to Taiwan and Hong Kong in Asia.

### Lucrèce Foufopoulos-De Ridder

#### Executive Vice President Polyolefins & Innovation & Technology

Appointed: January 2019

Lucrèce Foufopoulos was appointed to the Borealis Executive Board as Executive Vice President Polyolefins and Innovation & Technology in January 2019. She joined Borealis after a career of more than 20 years in the chemical and petrochemical industry, most recently at Eastman, where she served as Vice President & General Manager of the Rubber Additives business unit. Prior to that, Lucrèce Foufopoulos held a variety of positions at multinationals, including Dow Chemical, Rohm and Haas, Dow Corning and Tyco. She currently serves on the board of Royal Vopak.

### Martijn Arjen van Koten

#### Executive Vice President Base Chemicals, Operations & Health, Safety and Environment & Quality (HSEQ)

Appointed: September 2013

Martijn van Koten was appointed Executive Vice President Base Chemicals, Operations & Health, Safety and Environment & Quality (HSEQ) in October 2018 after serving as EVP Operations & HSE for five years. He joined Borealis after a 19-year career at Shell, where he held numerous and international leadership posts in Manufacturing, Technical Service, R&D and Strategic Development, culminating in the position of Vice President Manufacturing East, based in Singapore.

### Philippe Roodhooft

#### Executive Vice President Middle East & Growth Projects

Appointed: November 2017

Philippe Roodhooft was appointed Executive Vice President Middle East and Growth Projects in November 2017, after having served since 2013 as Chief Operating Officer of Borouge ADP in the UAE. Prior to that, Philippe Roodhooft held Vienna-based senior management positions, including Senior Vice President Supply Chain and Product Management for Polyolefins, Senior Vice President Operations for the Borealis Group, and General Manager for the Central European production sites.

Mark Garrett former CEO left in June 2018 and Markku Korvenranta former Executive Vice President, Base Chemicals left in September 2018.



from left: Philippe Roodhooft, Mark Tonkens, Alfred Stern, Lucrèce Foufopoulos-De Ridder, Martijn Arjen van Koten



## Our Mission and Strategy

Continuity combined with the flexibility to seize new opportunities

### Our Mission

To be **the** leading provider of innovative plastics, chemical and fertilizer solutions that create value for society.

### Our Strategy

We will

- Grow our PO business with a focus on **advanced applications** and **differentiated products**, strengthen our European base and ensure cost competitiveness from feedstock to customer.
- Pursue excellence and optimise **Borouge** in the Middle East and Asia, including **leveraging into Europe**.
- Continue to maximise the value of **Base Chemicals** with a focus on **strengthening the cracker asset base** with increased feedstock flexibility and integrated economics for our polyolefin products.
- Realise **growth opportunities** in other geographies/related businesses.
- Pursue **operational excellence** and a **Goal Zero** mindset
- Achieve a step change in **innovation**.
- Exceed in serving our customers with a focus on **quality** and **reliable execution**.
- Continue to develop our cross-cultural **organisational capability** and a learning organisation
- **Drive sustainability**, explore and realise business opportunities from the **circular economy**.

### Outperform Financially

**11%+**  
average return on capital  
employed (ROCE) after tax

**40–60%**  
debt to equity ratio

# Our Values

## Responsible

... is just a theory until you put it into action.



- We strive for zero incidents in health and safety.
- We consider our local and global responsibility for the environment in our decisions.
- We do business according to high ethical standards and lead by example.

## Respect

... is just a word until you live its meaning.



- We trust and involve people and communicate openly, respectfully and in a timely manner.
- We collaborate, support and help each other to develop for the best of Borealis.
- We build on diversity for better results as “One Company”.

## Exceed

... is just a goal until it becomes your path.



- We win through Excellence and deliver beyond expectations.
- We commit to making joint decisions and follow through.
- We give feedback and make “Connect-Learn-Implement” and “Continuous Improvement” a natural way of working.

## Nimblicity™

... is just a concept until you make it your routine.



- We are fit, fast and flexible and seek smart and simple solutions.
- We encourage decisions on all levels of the organisation to increase ownership and speed to realisation.
- We welcome change and manage it to shape our future.



# What We Do At Borealis

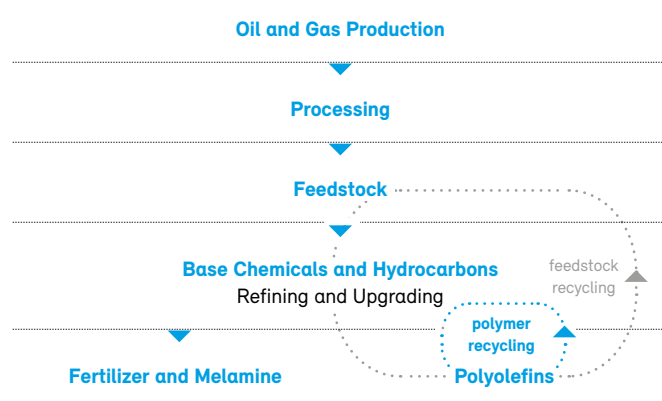
## Our Business

Borealis is a leading provider in the fields of polyolefins and base chemicals.

Borealis believes in progress. By driving ideas forward, Borealis aims to change the world for the better.

Borealis keeps discovering new applications and material solutions that address global challenges in the areas of climate, energy, food, health, water and sanitation, waste, and the mechanical recycling of polyolefins. As a reliable partner, Borealis creates ever more value for its customers and partners by developing new approaches, technologies and products.

Fig. 1: Petrochemical Production Flow



### Polyolefins

The polyolefin products manufactured by Borealis form the basis of many valuable plastics applications that are an intrinsic part of our daily lives. Advanced Borealis polyolefins have a role to play in saving energy along the value chain and promoting more efficient use of natural resources. Borealis works closely with its customers and industry partners to provide innovative and value-creating plastics solutions in a variety of industries and segments that make end products safer, lighter, more affordable and more sustainable.

Borealis provides services and products to customers around the world in collaboration with Borouge, a joint venture with the Abu Dhabi National Oil Company (ADNOC).

### Base Chemicals

At Borealis, the Base Chemicals business is a solid foundation to build upon. Borealis produces a wide range of base chemicals for use in numerous and diverse industries, including melamine, phenol, acetone, ethylene and propylene; and a wide range of fertilizers and technical nitrogen products.

The Borealis Base Chemicals business consists of three units: Hydrocarbons & Energy, Melamine, and Fertilizers.



# Our Business Model

## Industry Segments

### Polyolefins

#### Energy

Borealis is a leading provider of polyolefin compounds for the global energy industry. Step-change innovations based on the Borlink™ technology make electricity power grids more robust and reliable, eliminate wastage, and help transport energy from renewable sources more efficiently, and over longer distances. The broad range of sophisticated solutions include extra high, high, and medium voltage solutions for energy transmission, and low voltage solutions for energy distribution cable applications.

Safer wires and cables for the solar, automotive, and construction industries are made possible by unique Borealis polymer manufacturing technologies. Borealis also has a proven track record of innovation in the area of flame retardant cables for these industries. Borealis offers a comprehensive range of communications cables solutions for advanced data, copper multipair, fibre optic,

and coaxial cables, all of which enhance the efficiency of data and communication networks.

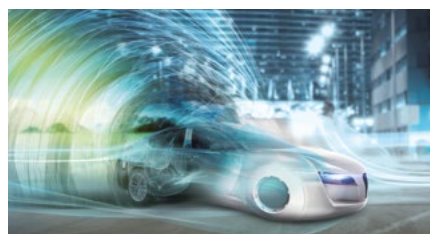
Leading Borealis PP material solutions are used to produce capacitor film products. Exhibiting exceptional cleanliness standards, these materials help achieve outstanding electrical properties. Their consistent processing behaviour enables the production of extremely thin films.

Unique polymer and manufacturing technologies using Borlink™, Visico™/Ambicat™, Borstar® and Casico™ allow Borealis to offer innovative compounds tailored to specific customer needs.

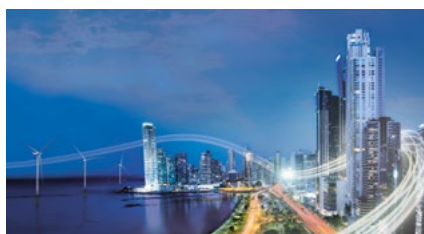
Borealis has recently expanded the scope of its endeavours in the energy sector. With the launch of the new flagship solar brand Quentys in 2017, Borealis began to revolutionise the global solar industry. Pioneering new products based on Quentys are making solar energy more effective and affordable. For example, the ICOSOLAR® CPO 3G, a co-

Fig. 4: Industries served by Borealis' polyolefins applications

## Polyolefins industries



Automotive



Energy



Pipes & Fittings

## Segments served



Consumer Products



Healthcare



Polymer Solutions



Circular Economy Solutions



extruded PP solar backsheet, boosts photovoltaic (PV) module output and reduces output decay. Borealis Polyolefin encapsulant films improve the operational reliability of PV modules throughout product lifetime. This results in better cost efficiency and thus greater viability for solar power.

#### Automotive

Borealis is a leading supplier of innovative polyolefin plastic materials for engineering applications in the automotive industry.

Proprietary Borealis technologies are lighter weight replacement solutions for conventional materials like metal, rubber and engineering polymers. Borealis' material solutions help facilitate lightweight construction and thus play an important role in reducing carbon emissions. For instance, over the lifespan of an automotive application like a bumper, eight kilogrammes (kg) of carbon emissions can be avoided by using one kg of polypropylene (PP) compounds. Borealis grades with post-consumer recycled (PCR) plastics content meet growing industry and end-user demand for high quality materials that make better use of the planet's resources. By combining PCR and virgin material to produce high-end grades of consistent quality, fewer resources are used and less waste is generated over the lifetime of the product.

Borealis offers these leading-edge, lightweight polyolefins for a wide range of exterior, interior, and under-the-bonnet applications, including: bumpers, body panels, dashboards, door claddings, central consoles, pedal housings, cooling systems, battery trays and semi-structural body parts. Working closely with key value chain partners, Borealis continually develops novel materials for specific composite applications such as structural carriers.

#### Pipes & Fittings

A trusted partner to the pipe industry for over 50 years, Borealis supplies advanced polyolefin pipe system materials to a wide range of projects and communities around the world. By offering more durable and reliable pipes, Borealis' step

change innovations continue to boost the sustainability of pipe networks by making them safer and more efficient. These improved networks also help eliminate wastage and loss whilst at the same time offering energy savings. Water and sanitation systems can be made more efficient and reliable by using proprietary Borealis materials. For example, when compared to conventional materials, modern polyethylene (PE) systems reduce water losses by a factor of eight. Trenchless technology reduces installation costs by up to 60%.

Using its proprietary Borstar technology as a base, Borealis offers pipes used in many different industries: water and gas supply, waste water, drainage and sewage disposal, and plumbing and heating.

For the oil and gas industry, Borealis provides reliable and high-quality solutions from one end of the pipeline to the other, including multi-layer coating solutions for onshore and offshore oil and gas pipelines.

#### Consumer Products

With over 50 years' experience in the industry, Borealis is an innovative and reliable supplier of superior polyolefin plastic materials used in advanced packaging, fibre, and appliances.

Value-added packaging and fibre innovations play a role in safeguarding the quality and safety of consumer and industrial products, but also fulfil demand for enhanced functionality and convenience. Plastic food packaging, for example, helps protect and preserve food from farm to fork. Spoilage is avoided thanks to efficient filling systems and leak-resistant packaging. Food stays fresher longer, and less must be thrown away. What is more, the consumer has a wider range of choices when it comes to convenient and appealing packaging formats.

Superior and proprietary Borealis technologies, such as Borstar, also make advanced applications possible in flexible packaging (including lamination film, shrink film, stand-up pouches); rigid packaging (caps and closures, bottles, thin wall and transport packaging); and non-woven and technical fibres (filtration systems, hygiene products, technical textiles).

Advanced PP solutions offered by Borealis make white goods (such as washing machines, refrigerators, air conditioning units and more); and small appliances (toasters, ventilators, power tools etc.) lighter yet more robust, more energy efficient yet visually appealing.

#### Healthcare

Borealis offers reliable solutions that add value to healthcare thanks to an impressive track record in Value Creation through Innovation, and close cooperation with customers. The growing Borealis polyolefins portfolio offers superior technical performance for medical devices, pharmaceuticals, and diagnostic packaging. Borealis' innovations help make healthcare packaging and medical devices safer and more affordable whilst improving usability, a key criterion in today's ageing society.

Healthcare products that have all been enhanced by advanced polyolefins made by Borealis include, among others: medical devices, medical pouches, sachets, syringes, insulin injection devices, unbreakable transparent bottles, and single-dose eye drop dispensers.

Importantly, as global suppliers, Borealis and Borouge can ensure the security of supply, and provide technical support tailored to the specific and stringent requirements of the market.

#### Polymer Solutions

Borealis continually develops novel and performance-enhancing solutions such as polymer modifiers (plastomers and elastomers), foam solutions, and reinforced polyolefins for structural parts. These material solutions may be designed for new or existing applications.

In polymer modifiers, Borealis continues to expand its wide range of attractive solutions. The multitiered Queo™ brand helps bridge the performance gap between conventional plastics such as PE and conventional elastomers like ethylene propylene diene monomer. Queo makes it possible to meet or even surpass the most demanding requirements in sealing, flexibility, compatibility and processability.

Borealis' high melt strength (HMS), PP-based foamed products fulfil the varying and sophisticated needs of both converters and consumers in the packaging, automotive and construction industries. For example, foam solutions in packaging offer excellent recyclability, especially when compared to conventional alternatives. Furthermore, HMS PP foam also offers weight reduction, heat stability (for microwavable packaging) and good thermal insulation properties.

Borealis' reinforced polyolefins are novel, performance-enhancing material solutions. The wide range of PP compounds are globally available and help contribute to enhanced sustainability, for example through improved cost and energy efficiency.

#### Circular Economy Solutions

The Borealis Circular Economy Solutions team is dedicated to discovering new opportunities for long-term business growth in the areas of mechanical recycling and design for recyclability (DfR).

#### Base Chemicals

##### Hydrocarbons & Energy

Borealis sources various feedstock such as naphtha, butane, propane and ethane from the oil and gas industry. Through its olefin units, it converts these into the building blocks of the chemical industry: ethylene, propylene and C4 hydrocarbons (petrochemical derivatives consisting of butanes, butylenes and butadienes), among others. Steam crackers in Finland, Sweden, and Abu Dhabi – the latter operated by Borouge – produce ethylene, propylene and C4 hydrocarbons, while propylene is also produced in a propane dehydrogenation plant in Kallo, Belgium. Feedstock and other olefins required for Borealis and Borouge polyolefin plants are either sourced from its owners, or purchased on the markets. A range of co-products from the steam cracking process, including butadiene, butene compounds, and pygas, are also sold on international markets.



Phenol, benzene, cumene, and acetone are produced in Finland, and sold mainly to the adhesive, fibre, epoxy resin and polycarbonate industries. In the Nordic and Baltic regions, Borealis is the leading producer of phenol, which is used in adhesives, construction materials, carpets, CDs, DVDs, mobile phones and household appliances. Acetone is commonly used in solvents for paints, acrylics, fibres and pharmaceuticals.

#### Melamine

As the second-largest producer of high-quality melamine in Europe, Borealis produces melamine at its plants in Linz, Austria, and at its facility in Piesteritz, Germany. Converted from natural gas, melamine has become an essential material for the global production of synthetic resins. Around 80% of Borealis' melamine production is destined for the wood-based panel industry, for example for decorative surface coatings of wood-based materials. In the manufacture of everyday objects used in the kitchen or around the house, melamine also plays an important role, for example as one component used to make handles for pots and pans.

#### Fertilizers

Efficient and effective use of fertilizers has become more essential than ever. The world's population is expected to rise from today's 7.6 billion to over 9.6 billion by 2050, and an increasing number of people will live in densely populated urban areas. As incomes in emerging nations rise, more meat is consumed and thus more grain to feed livestock must be produced. Biofuels also generate demand for increased yields. Because space for agricultural expansion is limited, yields must be optimised.

At the same time, in many nations there is a heightened environmental awareness of the need to promote fertilizers with low carbon footprints, maintain healthy soil environments, and reduce run-off from fields.

Borealis produces and then distributes and supplies around five million tonnes of fertilizers and technical nitrogen products each year via its Borealis L.A.T distribution network. With more than 60 warehouses across Europe and an inventory capacity of over 700,000 tonnes, Borealis L.A.T promotes a broad fertilizer portfolio: nitrogen-based straight fertilizers; complex fertilizers – a combination of nitrogen (N), phosphate (P) and potassium (K) as well as speciality fertilizers; and a range of technical nitrogen products, from ammonia and ammonium nitrates to nitric acid and urea solutions. Non-European markets are serviced mainly via the Borealis Rosier distribution network.

#### Technical nitrogen products

A broad range of technical nitrogen product solutions is derived from the raw materials urea, ammonia, ammonium nitrate and nitric acid.

#### AdBlue®

AdBlue, a high purity aqueous urea solution, is used as an NO<sub>x</sub> reduction agent for trucks, buses, tractors, construction machinery, and diesel passenger cars.

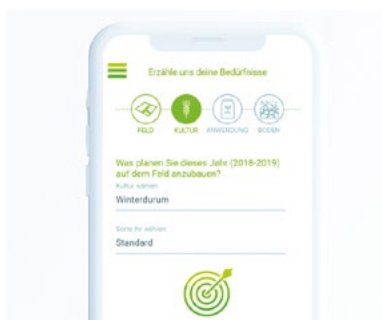
## Innovation Highlights



### Quentys™: improving the reliability and cost efficiency of solar modules

Solar power has the potential to transform the global electricity industry. To help their partners and customers exploit the potential of solar, Borealis and Borouge introduced solar encapsulant film in 2018, based on new Quentys polyolefin grades. The encapsulant film protects photovoltaic cells that generate power from sunlight. It is a significant advance on previous films and can be applied more quickly and cheaply, while reducing the chance of creating waste. In use, the film is more reliable and longer lasting, helping to increase the module's service life. The film also helps to increase power output, further reducing the cost of solar power generation. The encapsulant film is the second solar application launched under the Quentys brand, following the introduction of a new backsheet in 2017.

→ [www.borealisempowersolar.com](http://www.borealisempowersolar.com)



### NutriGuide: optimising crop nutrition

NutriGuide is the first digital tool designed and developed by Borealis' in-house, Digital Studio. The free, user-friendly platform runs on mobile, tablet and desktop devices. It allows farmers to enter information about soil composition, crop type and growth stage. It then determines the precise amount of fertilizer they need to apply, while staying compliant with local regulations. NutriGuide complements Borealis' diagnostic N-Pilot tool which identifies the current nitrogen requirements of crops quickly and conveniently, and has found widespread use among growers. Smart farming technologies such as NutriGuide help to increase crop yields, reduce fertilizer costs for farmers and avoid excess run-off from fields which can pollute water courses.

→ [nutriguide.borealis-lat.com](http://nutriguide.borealis-lat.com)



### EverMinds™: making the circular economy front of mind

Borealis recognises that it is essential for the polyolefins industry to implement new solutions that promote a circular economy. The Group has therefore launched EverMinds, a communication platform designed to heighten the visibility of plastics circularity and promote a more circular mind-set within the industry. The platform will help Borealis, its customers and value chain partners to innovate and exchange knowledge in the circular economy space. EverMinds will therefore boost the impact of Borealis' own circular economy activities and broaden familiarity with the topic. The ultimate aim is for the platform to inspire new, high-quality and innovative polyolefins solutions, based on the circular model of recycling, reuse and design for circularity.

→ [www.borealiseverminds.com](http://www.borealiseverminds.com)



## Digitalisation Programme

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**“The Digital Studio believes in early delivery and creating business value fast. Last year was fantastic, as we set up the new organisation and delivered several projects. Next year we will maintain this speed, while maturing the existing solutions by integrating them into the business.”**

Nic de Backer, Head of Borealis Digital Studio;  
Brussels, Belgium

Borealis began its Digitalisation Programme in June 2017, with the aim of creating value for both the Group and its customers.

Borealis' systems and tools generate large quantities of data which can be combined with mature and readily available digital technology to create a competitive advantage for the Group. Coupling this technology with advanced analytics, process digitalisation and mobile devices enables Borealis to generate valuable insights from these data. The benefits include better customer service, preventive maintenance and innovation, and the potential to create disruptive new services.

To support the Digitalisation Programme, the company has created the Borealis Digital Studio. The Studio, which recently celebrated its first year in its inspirational workspace at Brussels Airport, is designed to be a creative and agile enabler for developing smart solutions for customers and employees. Its role is to:

- change the way Borealis interacts with customers and employees, by radically improving the customer and employee experience;
- build new value propositions for customers and innovate the Group's business;

- help to use resources and plan processes more efficiently and effectively; and
- enable Borealis to make better decisions based on improved use of data.

In addition, Borealis is able to learn from the experiences of early adopters of digital technologies, and add them to its own experience in this area.

The Digitalisation Programme is already providing benefits. Borealis has launched NutriGuide which runs on mobile, tablet and desktop devices and enables farmers to determine the precise amount of fertilizer for their specific needs. The Group has also introduced the MyBorealis portal which allows polyolefins customers to access the latest information about their orders, complaints and deliveries. The polyolefin sales and marketing organisation uses Connect, the company's customer relationship management (CRM) tool, to look for business opportunities based on tracked actions. A predictive maintenance module was developed to monitor steam compressors.





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# Financial Report

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# Auditor's Report <sup>1)</sup>

We draw attention to the fact that the English translation of this auditor's report according to Section 274 of the Austrian Commercial Code (UGB) is presented for the convenience of the reader only and that the German wording is the only legally binding version.

## Report on the Financial Statements

### Audit Opinion

We have audited the financial statements of Borealis AG, Vienna, which comprise the balance sheet as of 31 December 2018, the income statement for the year 2018 and the notes.

In our opinion, the accompanying financial statements comply with legal requirements and give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance for the fiscal year then ended in accordance with the Austrian Commercial Code.

### Basis for Opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 (hereinafter EU Regulation) and Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with Austrian Generally Accepted Accounting Principles and professional requirements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the fiscal year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have structured key audit matters as follows:

- Description
- Audit approach and key observations
- Reference to related disclosures

## Recoverability of Investments in Affiliated Companies

### Description

Borealis AG, Vienna, owns investments in affiliated companies with book values in the amount of EUR 1,939.9 million as at 31 December 2018. The following investments in affiliated companies show a negative result for the fiscal year 2018:

- Borealis France S.A.S., Courbevoie, France
- Borealis L.A.T GmbH, Linz
- Feboran EOOD, Sofia, Bulgaria

In accordance with Section 204 (2) UGB, investments are to be written down if the impairment in value is expected to be permanent. Management is of the opinion that the impairment of the investments in Borealis L.A.T GmbH, Linz, and FEBORAN EOOD, Sofia, Bulgaria, as at 31 December 2018 is permanent and therefore write-downs in the amount of EUR 109.3 million were recognized.

Given the complexity of the impairment models, the estimation uncertainty involved in the derivation of data used, as well as the immanent discretionary decisions, the recoverability of investments in affiliated companies is considered a key audit matter.

### Audit Approach and Key Observations

When assessing the recoverability of investments, we evaluated the appropriateness of the respective valuation models. In doing so, we assessed the valuation method and evaluated the parameters (cash flows planned and discount rates) used by management. We confirmed that the assumptions used to derive the future cash flows are based on the most recent five-year planning prepared by management and approved by the Supervisory Board. Our internal specialists have evaluated if the assumptions used for the discount interest rate as well as the growth rate for the perpetuity are in line with external market and industry data. We further examined if these models comply with the generally accepted valuation principles and if the underlying assumptions are reasonable and appropriate.

The valuation model as well as the assumptions and parameters used in the valuation and the corresponding impairment are appropriate.



#### Reference to Related Disclosures

Management explained this key audit matter in the note relating to the financial result in the notes to the financial statements.

#### Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Austrian Commercial Code and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Company's financial reporting process.

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation and with the Austrian Generally Accepted Auditing Standards, which require the application of ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU Regulation and with the Austrian Generally Accepted Auditing Standards, which require the application of ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with all relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on Other Legal and Regulatory Requirements** **Comments on the Management Report for the Company**

Pursuant to the Austrian Commercial Code, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the management report was prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the management report in accordance with the Austrian Commercial Code.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report.

#### Opinion

In our opinion, the management report for the Company was prepared in accordance with the applicable legal requirements, includes accurate disclosures pursuant to Section 243a UGB and is consistent with the financial statements.

#### Statement

Based on the findings during the audit of the financial statements and due to the obtained understanding concerning the Company and its circumstances no material misstatements in the management report came to our attention.

#### Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements, the management report and the auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Additional Information in Accordance with Article 10 of the EU Regulation

We were appointed as auditor at the ordinary general meeting dated 28. February 2018. We were engaged by the Supervisory Board on 28. February 2018. We have audited the Company for an uninterrupted period since the financial year 2016.

We confirm that the audit opinion in the "Report on the Financial Statements" section is consistent with the additional report to the audit committee referred to in Article 11 of the EU Regulation.

We declare that we did not provide any prohibited non-audit services (Article 5 (1) of the EU Regulation) and that we remained independent of the audited company in conducting the audit.

#### Responsible Engagement Partner

Responsible for the proper performance of the engagement is Peter Pessenlehner, Austrian Certified Public Accountant.

Vienna, 15 February 2019

**PwC Wirtschaftsprüfung GmbH**



**Peter Pessenlehner**

Austrian Certified Public Accountant

1) This report is a translation of the original report in German which is solely valid. Publication and sharing with third parties of the financial statements together with our auditor's opinion is only allowed if the financial statements and the management report are identical with the German audited version. This audit opinion is only applicable to the German and complete financial statements with the management report. For deviating versions, the provisions of Section 281 (2) UGB apply.



# Management Report as of 31 December 2018

## Operational Review

Borealis AG experienced a successful year and delivered strong results in 2018. Although the Polyolefin markets in which Borealis AG operates continued to weaken for the second year in a row from its top performance of 2016, the company strengthened its customer relationships. The market share grew by 1%-point to 14% in Europe, whereas the continental polyolefin market contracted by 1%-point.

The feedstock prices continued to rise and could not be fully compensated by sales price increases, resulting in lower industry margins compared to 2017. The average oil price increased by 31% compared to 2017 and averaged at 72 USD/bbl for the year. The overall sales volume of Borealis' products increased by 3% versus 2017, which was impacted by scheduled technical turnarounds at several production sites.

The average monthly Brent Crude oil price fluctuated from 81 to 58 USD/bbl in the period between January to December 2018. The price of Naphtha, a significant raw material for Borealis used in the production of olefins, followed the Brent oil price and increased by 24% to an average of 601 USD/t in 2018 from an average of 484 USD/t in 2017. Spot market prices for ethylene and propylene were averaging at 1,115 EUR/t and 984 EUR/t, respectively.

Overall, the polyolefin sales margin per tonne in 2018 decreased by 13% compared to the previous year.

The performance of the Hydrocarbons & Energy business improved compared to 2017, which was impacted by the scheduled turnaround activity at the production sites Porvoo, Finland, and Kallo, Belgium, during 2017. In 2018, the production volume and sales margin increased by 8% and 6%, respectively, compared to the previous year.

The operating result decreased from a profit of EUR 690.6 million in 2017 to a profit of 511.2 million in 2018.

The financial result remained stable with EUR 462.1 million (2017: EUR 470.5 million). Dividend income increased by 24% to EUR 670.2 million, but at the same time the company incurred impairment charges on financial investments of EUR 109.3 million.

Overall, Borealis AG generated a net income of EUR 865.2 million compared to a net income of EUR 1,016.1 million in 2017.

The company made significant progress in 2018 in advancing existing growth projects and initiating promising new ventures.

In May, Borealis announced the establishment of Bayport Polymers LLC, a 50/50 joint venture owned by Total S.A. and Novealis Holdings LLC, the latter a joint venture between Borealis AG and NOVA Chemicals Inc. The final investment decision for the new 625,000 tonnes/year polyethylene (PE) unit in Bayport, Texas, was taken in September. The plant will be the first in North America to use proprietary, third-generation Borstar® technology. The site's existing PE capacity will be more than doubled, to around 1.1 million tonnes/year. Also under construction is a 1 million tonnes/year steam cracker in Port Arthur, Texas. This cracker will process the abundant and competitively priced ethane available in the U.S. for use in the Bayport PE units.

In October, Borealis announced that it is proceeding with the construction of its new, world-scale propane dehydrogenation (PDH) plant in Kallo, Belgium, with an annual production capacity of 750,000 tonnes. As one of the largest and most efficient plants of its kind in the world, it will enable Borealis to better fulfil growing European demand for propylene. At the same time, Borealis will strengthen its long-term commitment to fulfilling European market demand for polypropylene (PP) with the final investment decision to expand the Kallo PP plant by 80 kilotonnes/year and by entering the Front End

Engineering and Design (FEED) phase for the expansion of the PP plant in Beringen, Belgium. Once approved, the latter project would entail the expansion and process technology upgrade of the existing facility, with start-up planned for mid-2022.

March 2018 saw the signing of a Joint Development Agreement by Borealis and United Chemical Company LLP for the development of an important joint project in the Republic of Kazakhstan. A feasibility study now in progress is evaluating the construction of an ethane cracker and two Borstar PE units with a total capacity of 1,250 kilotonnes/year. With a final investment decision expected in 2020, start-up would take place in the course of 2025. Once operational, the facility shall greatly improve Borealis' position in the Commonwealth of Independent States (CIS) markets.

Two key projects to extend and expand the Borouge petrochemicals business have also progressed. Currently underway is the pre-FEED phase for the construction of the Borouge 4 complex which would involve a world-scale, mixed feedstock cracker using existing feedstock available in Abu Dhabi, and downstream derivatives units for both polyolefin and non-polyolefin products. The complex will be integrated with ADNOC Refining's refinery and is scheduled to come on stream in 2025.

In 2018, the construction of a new PP plant in Borouge based on proprietary Borstar technology was approved. The plant will add value to the surplus propylene available from ADNOC Refining's new PDH unit.

May saw the launch of ICOSOLAR® CPO 3G, a co-extruded PP solar back sheet based on Quentys. It was developed in cooperation with ISOVOLTAIC SOLINEX GmbH, a global market and technology leader in back sheets. In June, two new Quentys polyolefin grades that form the base of two novel solar encapsulant film types were released. These grades offer a more sustainable solution for photovoltaic modules because they offer better and longer operational reliability at a lower cost.

In October, the first controlled plastomer solution for the global healthcare market, Bormed™ PL8830-PH, was introduced. Borealis is currently the only raw material supplier to be able to bridge the gap between thermoplastics and elastomers. The launch underscores the company's commitment to ensuring the reliable and secure supply of controlled raw materials to its healthcare customers.

In 2018, Borealis took significant steps to strengthen its industry leadership in the move towards a more circular economy of plastics.

In 2016, Borealis became the first virgin polyolefins producer to engage in mechanical recycling of plastics through its acquisition of mtm plastics, a leading German recycler. In 2018, Borealis invested an additional EUR 15 million in mtm plastics in order to accelerate the development of new technologies and products made of post-consumer polyolefin recyclates. In August, Borealis announced its 100% acquisition of another important plastics recycler, the Austria-based company Ecoplast (short for Ecoplast Kunststoffrecycling GmbH).

Mechanical recycling of plastics is a core element of Borealis' overall polyolefins strategy because of its potential to support long-term business growth on the one hand, and enhanced sustainability on the other. In line with this strategy, novel products and applications with enhanced sustainability are being developed in cooperation with value chain and other partners. Several of those products have already been launched in 2018. For example, a robust new glue packaging solution based entirely on 100% post-consumer recycled material was developed together with Henkel, a global leader in adhesives, along with plastics processor KKT Kaller Kunststoff Technik GmbH, and plastic components manufacturer bomo trendline Technik GmbH. Also in 2018, proprietary Daplen™ PP compound grades composed of post-consumer recycled and virgin content were used by premium car maker Volvo for applications and parts in a custom-built hybrid SUV.



In 2017, Borealis and the consultancy firm SYSTEMIQ co-founded Project STOP, a frontline initiative to prevent the leakage of plastics into the ocean in South-East Asia. Since then, Borealis has engaged strategic partners, including NOVA Chemicals, Veolia, Nestle, Borouge and the Norwegian government to support the first successful implementation of a city partnership in Muncar, Indonesia. During 2018, Borealis committed to scale-up Project STOP to include at least two to three more city partnerships over the next five years, aimed at preventing over 10,000 tonnes of plastics from entering the marine environment.

Borealis also launched EverMinds™, a dedicated umbrella brand created to increase the visibility of plastics circularity and promote a more circular mind-set within the polyolefins industry.

Borealis AG continues to benefit from its well-diversified financing portfolio and the related maturities of those refinancing sources, as well as from its improved liquidity position after a period of strong business results. Furthermore, Borealis has a well-established access to capital markets as well as private placements which serve as additional sources of financing. Overall, the company has sufficient liquidity headroom which provides flexibility and supports further growth.

Borealis AG has representations in Abu Dhabi, Moscow and Saint Petersburg.

Non-financial performance indicators are not monitored separately for Borealis AG, but rather within the context of the entire Borealis Group. The average number of employees increased by 22 employees to 251 by the end of 2018.

#### **New leadership under Alfred Stern**

Significant organisational changes took place in 2018. As of 2 July 2018, Alfred Stern, previously Borealis Executive Vice President Polyolefins and Innovation & Technology, was appointed Borealis CEO. He succeeded Mark Garrett who stepped down to pursue new career opportunities after having steered the company through a period of sustained growth and expansion over the past eleven years.

#### **Risk Management**

Borealis' enterprise risk management enables management to effectively deal with uncertainty and associated risks and opportunities in order to enable the company's leadership to base decisions on sound assessments of the associated risks and opportunities and to preserve and enhance its value for the organisation in a proactive and preventive manner.

Borealis' risk consolidation and reporting provides the Executive Board with an overview of the company's and group's risk exposure and with a tool to track the status of mitigation actions taken by the risk owners in their efforts to reduce risk exposure.

The internal control systems, as well as the risk management in relation to accounting processes, define all processes used to ensure economic viability and accuracy of accounting systems, thereby reducing the proneness to error, protecting assets against losses due to damage, negligence or fraud, and guaranteeing the conformity of company procedures with its articles of association, group directives and legal framework.

The control environment for the accounting process is characterised by a clearly defined operational and organisational structure. The finance organisation periodically executes a self-assessment of defined internal controls and takes actions as needed. Accounting guidelines are laid down in a group manual which is continuously revised and subject to obligatory implementation by Borealis AG and its subsidiary companies.

SAP supplies standardised resource planning software which is used throughout the group. This enables management to obtain an overview of the companies' development at all times. Close cooperation with the internal and external audit functions, which validate the application of uniform accounting standards by means of an international network, ensures the comprehensive and efficient statutory auditing of the group's financial statements.

In addition to the accounting process, Borealis AG is also subject to other risks for which an adequate risk management system has been implemented.

Strategic risks are risks that may negatively impact the company's strategy or its reputation. To counteract these risks, appropriate contingency plans have been put in place which are intended to ensure that strategies can be implemented as planned. Strategic risks usually relate to long-term trends such as market and industry shifts, strategic moves in relation to competitive conditions (e.g. innovations, mergers and acquisitions, etc.), or attacks on the company's reputation that have long-lasting effects.

Operative risks include risks related to health, safety and the environment, as well as price risks related to finished products which frequently occur in the company's business activities. They are managed through a wide range of control mechanisms.

Subsequently, potential financial risks and corresponding risk mitigation measures are discussed. Risk management for the group companies is driven by Borealis AG. Contracts for derivative short-term financial instruments are concluded by Borealis Financial Services N.V. Borealis AG addresses the following potential financial risks:

#### Credit Risk

The management has set up processes to continuously monitor default risk. The level of default risk relating to a specific debtor consists of the sum of all outstanding trade receivables and is reconciled with the individually agreed credit limit. Evaluations of credit limits take place on a daily basis and, in addition, the entire customer portfolio is reviewed at least once a year. Changes to the credit limits must be approved on a case-by-case basis. At balance sheet date, Borealis AG was not exposed to any significant concentrations of default risks (up to 10 percent of the outstanding trade receivables). No significant default risks associated with trade receivables sold under the factoring programme remain with Borealis AG.

#### Liquidity Risk

Liquidity reserves are managed on a day-to-day basis in order to ensure that sufficient liquidity is available at all times while at the same time keeping working capital at the lowest possible level.

#### Foreign Currency Risk

Borealis AG is exposed to foreign currency risks through transactions like sales, purchase or financing denominated in other currencies than EUR. The key foreign currency risks are associated with the fluctuations of USD, SEK and GBP against EUR (ranking reflects materiality).

Borealis AG hedges trade receivables and payables, cash positions and other forecast positions denominated in currencies other than EUR. The company can also hedge long-term business risks within pre-defined limits at any time. Positions held in foreign currencies are generally hedged through a combination of forward exchange contracts and foreign currency options.



### Interest Rate Risk

Borealis AG uses modified duration as a means of reducing interest rate risk, whereby average modified duration may only deviate from a pre-defined value within a given range. Therefore, Borealis AG has purchased interest rate derivatives denominated in EUR and USD to reach this target. Terms and conditions of interest rate derivatives purchased must conform to the underlying current or future loan requirements with regard to maturity or other conditions.

The company uses large quantities of petrochemical raw materials and energy in its various production processes. These materials can be resold, where appropriate. Borealis AG has entered into long-term agreements with various suppliers and customers, respectively, to hedge against price risks relating to raw material. In addition, derivative instruments are used to smooth effects of price fluctuations of raw materials on the income statement and, thus, on the company's equity in the long term.

### Research and Development

Since 2008, research and development for Borealis AG has been carried out by group companies and external service providers on a contractual basis, whereby existing intellectual property of the group is concentrated within the company.

In 2018, the projects focused both on further developments of existing technologies, as well as on targeted solutions for customer needs. In particular, the ongoing projects deal with improving product properties, catalyst capabilities and the third generation of the Borstar technology.

### Outlook for 2019

The management of Borealis AG expects more challenging market conditions in 2019 as there are clear signs of a slowing economy, continuous world trade tensions and increased volatility.

Risk and uncertainty remain with regard to the feedstock price environment. The anticipated weaker economy will negatively influence the demand. A market recovery is expected from 2020 onwards.



Vienna, 15 February 2019

**Executive Board:**



**Alfred Stern**  
Chief Executive



**Mark Tonkens**  
Chief Financial Officer



**Martijn Arjen van Koten**



**Philippe Roodhooft**



**Lucrèce De Ridder**



# Group Management Report

The following information is based on the consolidated financial statements of Borealis AG from 31 December 2018, prepared in accordance with IFRS and accepted by the EU.

## Safety Performance

In 2018, Borealis reported a Total Recordable Injuries (TRI) frequency per million working hours of 1.3. While it is a top quartile performance within the industry, this rate is a decline versus the 1.1 in 2017 and below ambition level. Steps taken in 2018 to improve process safety and deliver an accident-free work environment for both employees and contractors yielded immediate results in the second half of 2018, during which the TRI frequency again began to improve. Safety is always the top priority at Borealis. The management team will continue to work together with all employees and contractors in order to reach the ultimate goal of zero injuries.

## Market Environment

The average monthly Brent Crude oil price increased from 66 USD/bbl in February to 81 USD/bbl in October as oil markets reacted to reduced supply and increased political uncertainty. Following this peak, the Brent Crude oil price dropped to an average of 58 USD/bbl in December on back of the fear of a global economic slowdown. The annual average Brent Crude oil price of 72 USD/bbl in 2018 was up 31% from the average 55 USD/bbl in 2017. Feedstock prices moved in line with the development of the Brent Crude oil price. Polyethylene prices averaged 2% lower compared to 2017, while polypropylene prices averaged 6% higher in 2018 than in 2017.

Borealis saw the sales volume of its European-produced polyolefins increase by 4% in 2018, while the European polyolefins market contracted by 1% compared to 2018. Consequently, the market share of 14% in 2018 was above previous year's 13%.

In 2018, polyolefin industry margins continued to decrease from the record levels reached in 2016. Therefore, the profit contribution delivered from the polyolefins business segment remained solid, but lower compared to last year. Within the Base Chemicals business, the oversupplied fertilizers market and the high gas prices throughout 2018 kept the fertilizer industry margins low. Fertilizer sales volumes decreased by 4% in 2018 compared to 2017 mainly due to the turnaround of the Borealis production site in Linz whilst the European market share remained unchanged at 7%. Lower price realisation further affected Borealis' Fertilizers business result, leading to a 2018 performance below expectations and below the prior year.

## New Leadership under Alfred Stern

Significant organisational changes took place in 2018. As of 2 July 2018, Alfred Stern, previously Borealis Executive Vice President Polyolefins and Innovation & Technology, was appointed Borealis CEO. He succeeded Mark Garrett who stepped down to pursue new career opportunities after having steered the Company through a period of sustained growth and expansion over the past eleven years.

A reorganisation of the Borealis Base Chemicals business was carried out in 2018 in order to achieve increased customer focus and greater agility in reacting to specific market trends for the Fertilizers and Melamine business. The dedicated Fertilizer and Melamine business becomes effective as of 1 January 2019. As of 1 October 2018, Rainer Höfling was appointed CEO of this dedicated Fertilizers and Melamine business. Markku Korvenranta, formerly Borealis Executive Vice President Base Chemicals, left the Company as of 30 September 2018.

## Continued focus on sustainable, international growth

Borealis made significant progress throughout 2018 in advancing existing growth projects while at the same time initiating promising new ventures.

In May, Borealis announced the establishment of Bayport Polymers LLC, a 50/50 joint venture owned by Total S.A. and Novealis Holdings LLC, the latter a joint venture between Borealis AG and NOVA Chemicals Inc. The final investment decision for the new 625,000 tonnes/year polyethylene (PE) unit in Bayport, Texas, was taken in September and will be the first in North America to use the proprietary, third-generation Borstar technology. The site's existing PE capacity will be more than doubled, to around 1.1 million tonnes/year. Also under construction is a 1 million tonnes/year steam cracker in Port Arthur, Texas. This cracker will process the abundant and competitively priced ethane available in the U.S. for use in the Bayport PE units.

In October, Borealis announced that it is proceeding with the construction of its new, world-scale propane dehydrogenation (PDH) plant in Kallo, Belgium, with an annual production capacity of 750,000 tonnes. As one of the largest and most efficient plants of its kind in the world, it will enable Borealis to better fulfil growing European demand for propylene. At the same time, Borealis will strengthen its long-term commitment to fulfilling European

market demand for polypropylene (PP) with the final investment decision to expand the Kallo PP plant by 80 kilotonnes/year and by entering the Front End Engineering and Design (FEED) phase for the expansion of the PP plant in Beringen, Belgium. Once approved, the latter project would entail the expansion and process technology upgrade of the existing facility, with start-up planned for mid-2022.

March 2018 saw the signing of a Joint Development Agreement by Borealis and United Chemical Company LLP for the development of an important joint project in the Republic of Kazakhstan. A feasibility study now in progress is evaluating the construction of an ethane cracker and two Borstar PE units with a total capacity of 1,250 kilotonnes/year. With the final investment decision expected in 2020, start-up would take place in the course of 2025. Once operational, the facility shall greatly improve the Borealis position in the Commonwealth of Independent States (CIS) markets.

Two key projects to extend and expand the Borouge petrochemicals business have also progressed. Currently underway is the pre-FEED phase for the construction of the Borouge 4 complex which would involve a world-scale, mixed feedstock cracker using existing feedstock available in Abu Dhabi, and downstream derivatives units for both polyolefin and non-polyolefin products. The complex will be integrated with ADNOC Refining's refinery and is scheduled to come on stream in 2025.

In 2018, the construction of a new PP plant in Borouge based on proprietary Borstar technology has been approved. The plant will use the surplus propylene available from ADNOC Refining's new PDH unit and thereby optimising the value chain.

### **Commitment to R&D and innovation**

Borealis' commitment to Value Creation through Innovation is unwavering. Because it applies not only to individual products and solutions, but rather to the polyolefins value chain in its entirety, it involves truly circular thinking. Value Creation through Innovation embraces the entire life cycle of a product: from genesis, to design, processing,

deployment, and ultimate recovery for recycling or reuse. More than 500 employees work in R&D at the Borealis Group. This figure includes scientists and researchers at the Innovation Headquarters in Linz, Austria, and the two Innovation Centres in Stenungsund, Sweden, and Porvoo, Finland.

In March, the newly expanded high voltage electrical testing centre at the Borealis Innovation Centre in Stenungsund was inaugurated. This investment in cutting-edge testing equipment opens up promising new opportunities for collaboration with Wire & Cable customers and partners.

May saw the launch of ICOSOLAR® CPO 3G, a co-extruded PP solar backsheets based on Quentys. It was developed in cooperation with ISOVOLTAIC SOLINEX GmbH, a global market and technology leader in backsheets. In June, two new Quentys polyolefin grades that form the base of two novel solar encapsulant film types were released. These grades offer a more sustainable solution for photovoltaic modules because they offer better and longer operational reliability at a lower cost.

In October, the first controlled plastomers solution for the global healthcare market, Bormed PL8830-PH, was introduced. Borealis is currently the only raw material supplier to be able to bridge the gap between thermoplastics and elastomers. The launch underscores the Company's commitment to ensuring the reliable and secure supply of controlled raw materials to its healthcare customers.

### **Concerted efforts in the circular economy**

In 2018, Borealis took significant steps to consolidate its industry leadership in the move towards a more circular economy of plastics.

In 2016, Borealis became the first virgin polyolefins producer to engage in mechanical recycling of plastics through its acquisition of mtm plastics, a leading German recycler. In 2018, Borealis invested an additional EUR 15 million in mtm plastics in order to accelerate the development of new technologies and products made of post-consumer polyolefin recyclates. In August, Borealis announced its 100% acquisition of another important plastics recycler, the Austria-based Ecoplast (short for Ecoplast Kunststoffrecycling GmbH).



The mechanical recycling of plastics is a core element of the overall Borealis polyolefins strategy because of its potential to support long-term business growth on the one hand, and enhanced sustainability on the other. In line with this strategy, novel products and applications with enhanced sustainability are being developed in cooperation with value-chain and other partners. Several of those products have already been launched in 2018. For example, a robust new glue packaging solution based entirely on 100% post-consumer recycled material was developed together with Henkel, a global leader in adhesives, along with plastics processor KKT Kaller Kunststoff Technik GmbH, and plastic components manufacturer bomo trendline Technik GmbH. Also in 2018, proprietary Daplen PP compound grades composed of post-consumer recycled and virgin content were used by premium car maker Volvo for applications and parts in a custom-built hybrid SUV.

In 2017, Borealis and the consultancy firm SYSTEMIQ co-founded Project STOP, a frontline initiative to prevent the leakage of plastics into the ocean in South-East Asia. Since then, Borealis has engaged strategic partners, including NOVA Chemicals, Veolia, Nestle, Borouge and the Norwegian government to support the first successful implementation of a city partnership in Muncar, Indonesia. During 2018, Borealis committed to scale-up Project STOP to include at least two to three more city partnerships over the next five years, aimed at preventing over 10,000 tonnes of plastics from entering the marine environment.

Borealis also launched its EverMinds platform, a dedicated umbrella brand created to heighten the visibility of plastics circularity and promote a more circular mind-set within the polyolefins industry.

### Operational development of the Group

With a net profit of EUR 906 million, Borealis achieved a strong financial result, however, below the record net profits of EUR 1.1 billion in 2016 and 2017. The 2018 result was driven by reasonable polyolefins margins and an improved contribution from Borouge compared to 2017.

The ongoing difficult market environment in the fertilizers market drove the disappointing performance of the Borealis Fertilizers business and led to an impairment charge of EUR 84 million related to the Borealis Fertilizers assets. The Base Chemicals segment offset somewhat and recorded a solid result contribution, yet contributed less in 2018 compared to the previous year.

Return on capital employed (ROCE) after tax of 13% in 2018 remained above the Company's through the cycle target of 11%, but was 2 percentage points below 2017. This decrease reflects the lower business result combined with an increased average capital employed, the latter driven by a high level of investment in growth projects and the turnaround in 2018. The completion of ongoing investment programmes, as well as the focus on operational and commercial excellence, will enable Borealis to continue to realise the targeted ROCE level of 11% through the cycle.

In 2018, Borealis' net debt increased by EUR 515 million. This resulted in a gearing ratio of 20% at the end of 2018, compared to 12% at the end of 2017. This gearing level is well below the target gearing range of 40%–60%. Borealis benefits from a well-diversified financing portfolio and a balanced maturity profile. After obtaining a BBB+ rating with stable outlook by S&P Global Ratings in November, Borealis has issued for the first time a rated corporate bond with a volume of EUR 300 million and a tenure of seven years. Going forward, the Company will maintain access to a wide range of funding options, including capital markets and bank funding as well as private placements.

### Review of results

#### Sales

Borealis sold 3.8 million tonnes of polyolefins in 2018, a 4% increase versus 2017. Borealis' Fertilizers sales reached 4.0 million tonnes, a decrease of 0.2 million tonnes versus 2017, and Melamine sales volumes amounted to 135 kilotonnes in 2018, down from 140 kilotonnes in 2017. Both, Fertilizers and Melamine sales volumes were negatively impacted by the turnaround of the Borealis site in Linz.

### Cost development

With the higher feedstock price environment the production costs increased in 2018 compared to 2017. Sales and distribution costs of EUR 704 million in 2018 increased from EUR 673 million in 2017; administration costs increased by 3% to EUR 226 million. Research and development costs amounted to EUR 128 million in 2018, a decrease of EUR 10 million from 2017. The number of full-time equivalent employees (FTE) as per year-end 2018 was 6,834, an increase of 215 compared to last year driven by the ongoing global growth agenda.

### Operating profit

Operating profit amounted to EUR 496 million compared to EUR 791 million in 2017. The decrease is due to lower contributions from both the Polyolefins and the Base Chemicals business segments compared to 2017 as well as the impairment charge related to the Fertilizers assets.

### Return on capital employed (ROCE)

The return on capital employed after tax decreased to 13%, compared to 15% in 2017, driven by the reduced operating profit and higher capital employed due to investment in growth projects and the turnaround.

### Financial income and expenses

Net financial expenses amounted to EUR 31 million, a decrease from EUR 66 million in 2017, mainly due to lower interest expenses to finance institutions compared to 2017 and currency exchange gain, both offsetting the increased financing volume towards year-end.

### Taxes

Income taxes amounted to EUR 164 million, a decrease of EUR 9 million from tax charges of EUR 173 million in 2017. The reduced overall tax charge in 2018 was mainly due to a lower operating profit. Borealis paid income taxes in the amount of EUR 154 million in 2018, compared with EUR 260 million in 2017.

### Net profit and distribution of dividend

The net profit for the year amounted to EUR 906 million, compared to a net profit of EUR 1,095 million in 2017. During 2018, Borealis distributed a dividend of EUR 1,000 million to its shareholders, EUR 700 million for 2017 and EUR 300 million as interim dividend for 2018.

### Financial position

#### Total assets/capital employed

At year-end, total assets and capital employed stood at EUR 9,949 and EUR 7,814 million, respectively, compared to EUR 9,395 and EUR 7,401 million at the end of 2017.

The solvency ratio was 64% at year-end 2018, compared to 66% at year-end 2017. The gearing ratio increased to 20% at year-end 2018, compared to 12% in 2017, as a result of the increased net debt and partially compensated by an increased total equity.

#### Cash flows and liquidity reserves

Cash flow from operations amounted to EUR 517 million, driven by solid operating profitability. Liquidity reserves, composed of undrawn, long-term committed credit facilities and cash balances, amounted to EUR 1,072 million at year-end 2018, compared to EUR 1,395 million at year-end 2017. Net interest-bearing debt increased to EUR 1,305 million at year-end, up from EUR 790 million at the end of 2017. The change in net interest-bearing debt is analysed in the following table.



EUR million	2018	2017
<b>Change of net interest-bearing debt</b>		
Cash flow provided by operating activities	517	725
Capital expenditure	-420	-505
Other investments	0	-14
Advanced payments for investments into associated companies and joint ventures	0	-72
Capital contribution to and financing of associated companies and joint ventures	-94	-12
Dividends of associated companies	573	479
Acquisition of subsidiaries net of cash	-28	-12
Acquisitions of associated companies	-86	0
Proceeds from sale of intangible assets	33	0
Other (mainly relating to foreign exchange differences)	-10	22
Dividends paid to equity holders and non-controlling interest	-1,000	-751
<b>Total decrease/increase</b>	<b>-515</b>	<b>-140</b>

### Capital expenditure

Investments in tangible fixed assets amounted to EUR 326 million in 2018, compared to EUR 453 million in 2017. The largest portion of the total investment relates to the upgrade and revamp of four cracker furnaces in Stenungsund, Sweden, the building of an automotive compounding plant in North America and the site turn-around in Linz. Health, Safety and Environment (HSE) capital expenditure amounted to EUR 34 million,

compared to EUR 27 million in 2017. Depreciation and amortisation amounted to EUR 457 million, compared to EUR 393 million in 2017. The increase was driven mainly by the EUR 84 million impairment charge related to the Borealis Fertilizers assets.

### Shareholders' equity

The shareholders' equity at year-end 2018 was EUR 6,421 million.

EUR million	2018	2017
<b>Equity development</b>		
Net result attributable to the parent	907	1,095
Exchange and fair value adjustment (net)	154	-475
Gross increase/decrease	1,061	619
Dividends paid	-1,000	-750
Reclassification of cash flow hedges to balance sheet	-13	0
Net increase/decrease	48	-131
Opening equity	6,365	6,496
Adjustments on initial application of IFRS 9	8	0
<b>Ending equity</b>	<b>6,421</b>	<b>6,365</b>

## Risk Management

Borealis has a documented risk management process ensuring that all parts of the Group routinely identify and assess their risks, and develop and implement appropriate mitigation actions. Risk management contributes to achieving Borealis' long-term strategies and short-term goals. Borealis believes that an effective risk culture makes it harder for an outlier, be it an event or an offender, to put the Company at risk.

The Company's overall risk landscape is periodically consolidated, reported and reviewed. While the risks discussed below exemplify the Company's risks, the list is not exhaustive. Borealis distinguishes between the following risks categories.

Strategic & reputational risks are those that may severely impact Borealis' strategy or reputation. Often, strategic risks are related to unfavourable long-term developments, such as market or industry developments, technology, innovation, a change in the competitive environment, or a threat to the reputation of the Group.

Operational & tactical 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 operational risks are assessed according to documented guidelines and procedures that are administered by the respective business functions. A pro-active risk prevention management approach has been implemented in the Operations function, covering risks in the area of Production, HSE, Product Stewardship, Plant Availability and Quality. The risk management approach also safeguards the Responsible Care® approach towards risks in Operations. The standard risk management process includes a common risk matrix and risk registers, built bottom-up from plant level up to portfolio level, enabling a common risk rating system for the whole of Operations.



Health, Safety and Environment (HSE) risks are assessed according to the procedures and framework described in the Borealis Risk-based Inspection Manual. The Director HSE is responsible for managing all HSE-related risks and reports the Borealis HSE risk landscape to the Executive Board periodically.

Project-related risks are assessed in the Borealis project approval process. The applicable key risks related to an individual project are assessed. These include financial, market, technical, legal, patent infringement, strategic, operational, country-related, and political factors. The risk assessment also reflects the probability of project completion within the estimated time frame and forecasted resource requirements, and the likelihood that key project objectives will be achieved. Project-related risks are managed by the Project Manager and reported to the Project Steering Committee.

Financial & market risks may refer to risks arising from unexpected changes in market supply, demand, price of commodity, services or financing costs for instance. Risks arise from liquidity, interest rates, foreign exchange rates, credit, commodity prices, and insurance, the inability of a counterparty to meet a payment or delivery commitment but also extend to incorrect assumptions or the inappropriate application of a model for instance. The assessment of financial risk management is described in detail in note 17 of the consolidated financial statements. The Director Treasury & Funding and the General Counsel shall be responsible for reporting and coordinating the management of all financial risks.

Compliance Risks focus on legal and regulatory risks, code of conduct (ethics policy), standards as well as contracting compliance. Doing business in an ethical manner is vital to Borealis' good reputation and continued success. Tactical or generic risks are risks identified as part of standards or compliance. These risks relate mainly to processes or control weaknesses.

Information security risks relate to the confidentiality, integrity and availability of critical company information. The Director IT and the General Counsel support line managers with the assessment of information security risk, and the development and implementation of risk mitigation actions.

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 safeguards the integration of risk assessment in its strategic planning.

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

All Borealis employees are responsible for managing risk, within their authority and in their field of work, in order to ensure that risk management is properly embedded in the organisation and reflected in the daily decision-making processes.



### Greater energy efficiency

Borealis is committed to reducing its environmental footprint by lowering CO<sub>2</sub> emissions and increasing energy efficiency. Improving energy efficiency is the most effective way to reduce the Company's direct carbon footprint while simultaneously cutting energy costs.

In July, Borealis announced that it had implemented the international energy management standard ISO 50001, following a four-year certification process carried out with the assistance of DNV GL, a certification body and the world's largest source of independent energy experts. ISO 50001 implementation is an active contribution to energy efficiency and climate change mitigation. Borealis will be able to cut over 360,000 metric tons of CO<sub>2</sub> annually. This is the equivalent of the greenhouse gas emissions of 80,000 cars driven for one year. By reducing the energy consumed by its operations, Borealis not only reduces emissions but also improves cost efficiency.

In October, Borealis announced an open-innovation project with Qpinch, a start-up which has developed a technology that uses a chemical process to recover industrial waste heat. Together, the first commercial-scale heat recovery unit to employ this revolutionary technology will be built at an existing Borealis plant in Antwerp, Belgium.

### Following up on the 2017 Borealis People Survey

As an important vehicle for employee feedback, the Borealis People Survey measures levels of employee engagement, among other things, and compares these to peer companies in the petrochemicals sector and beyond. The 2017 People Survey results were translated into measurable actions across the organisation and implemented in 2018 with the full engagement of the Borealis Executive Board and senior leadership team.

### Economic development and outlook to 2019

Management expects 2019 to be another good year for Borealis. Despite less favourable market conditions expected in polyolefins compared to 2018, Borealis is well positioned for the future thanks to the initiatives taken in the past years. Improvements in operational reliability and the establishment of a commercial and operational excellence mindset are embedded in the organisation. The committed investments in 2019 and beyond will further strengthen the three Borealis segments Polyolefins, Base Chemicals, and Borouge. Driven by the newly established, dedicated management team and supported by an improvement in market conditions, the contribution from the Fertilizers business is expected to improve. With European polyolefin prices coming under pressure, a declining contribution from the Polyolefins business is envisaged. The profit contribution from Borouge to Borealis is anticipated to remain at the same level as in 2018. Borealis' management believes that the Company is in a strong position to maintain being the leading provider of chemical and innovative plastic solutions that create value for society.



		2018	2017	2016	2015	2014
<b>Health, Safety &amp; Environment</b>						
Total Recordable Injuries	number/million workhours	1.3	1.1	0.9	1.4	1.3
EU ETS CO <sub>2</sub> emissions	kilotonnes	4,299	4,210	4,600	4,270	4,250
Number of employees (full-time equivalent)		6,834	6,619	6,494	6,266	6,290
Flaring performance	tonnes	26,275	51,600	38,700	47,690	38,000
<b>Income and profitability</b>						
Net sales	EUR million	8,337	7,564	7,218	7,700	8,330
Operating profit	EUR million	496	791	938	718	280
Operating profit as percentage of net sales	%	6	10	13	9	3
Net profit	EUR million	906	1,095	1,107	988	571
Return on capital employed, net after tax	%	13	15	16	15	10
<b>Cash flow and investments</b>						
Cash flow from operating activities	EUR million	517	725	1,145	1,103	428
Investments in tangible fixed assets	EUR million	326	453	333	336	370
Cash and cash equivalents	EUR million	72	229	762	548	42
<b>Financial position</b>						
Balance Sheet total	EUR million	9,949	9,395	9,932	9,261	8,353
Net interest-bearing debt	EUR million	1,305	790	651	1,096	1,798
Equity attributable to owners of the parent	EUR million	6,421	6,365	6,496	5,697	4,511
Gearing	%	20	12	10	19	40

#### Definitions

<b>Capital employed</b>	Total assets less non-interest-bearing debt
<b>Return on capital employed</b>	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
<b>Solvency ratio</b>	Total equity less goodwill divided by total assets
<b>Gearing ratio</b>	Interest-bearing debt, including subordinated loans, less cash and cash equivalents divided by total equity
<b>HSE</b>	Health, Safety and Environment

Vienna, 15 February 2019

**Executive Board:**



**Alfred Stern**  
Chief Executive



**Mark Tonkens**  
Chief Financial Officer



**Martijn Arjen van Koten**



**Philippe Roodhooft**



**Lucrèce De Ridder**



# Financial Statements Standalone

## Balance Sheet as of 31 December 2018

	31.12.2018 EUR	31.12.2017 TEUR
<b>Assets</b>		
<b>A. Fixed assets</b>		
I. Intangible assets		
1. Rights and licenses	26,293,876.95	18,508
II. Tangible assets		
1. Office equipment	2,025,884.69	1,725
2. Construction in progress	0.00	2
	2,025,884.69	1,727
III. Financial assets		
1. Investments in affiliated companies	1,939,867,357.23	1,906,900
2. Loans to affiliated companies	54,125,000.00	67,500
thereof with residual maturity of more than one year EUR 37,500,000.00; 2017: TEUR 52,500		
3. Investments in associated companies	587,938,259.63	413,339
4. Loans to associated companies	95,035,739.28	6,908
thereof with residual maturity of more than one year EUR 94,685,318.28; 2017: TEUR 6,908		
5. Securities	2,595,619.75	2,598
	2,679,561,975.89	2,397,245
	<b>2,707,881,737.53</b>	<b>2,417,480</b>

	31.12.2018 EUR	31.12.2017 TEUR
<b>Assets</b>		
<b>B. Current assets</b>		
I. Inventories		
1. Raw materials and supplies	207,413,100.25	219,856
2. Finished goods and merchandise	667,914,732.97	640,840
	875,327,833.22	860,696
II. Receivables and other assets		
1. Trade receivables	544,174,936.37	405,695
thereof with residual maturity of more than one year EUR 0.00; 2017: TEUR 0		
2. Receivables from affiliated companies	846,373,839.92	943,093
thereof with residual maturity of more than one year EUR 27,000,000.00; 2017: TEUR 0		
3. Receivables from associated companies	80,030,131.07	67,854
thereof with residual maturity of more than one year EUR 0.00; 2017: TEUR 0		
4. Other receivables and other assets	288,931,652.38	248,278
thereof with residual maturity of more than one year EUR 0.00; 2017: TEUR 2.500		
	1,759,510,559.74	1,664,920
in total thereof with residual maturity of more than one year EUR 27,000,000.00; 2017: TEUR 2,500		
III. Cash and cash equivalents	17,925,553.63	155,486
	<b>2,652,763,946.59</b>	<b>2,681,102</b>
<b>C. Prepaid expenses</b>	<b>7,251,312.83</b>	<b>9,875</b>
<b>D. Deferred tax assets</b>	<b>10,999,361.97</b>	<b>8,223</b>
<b>Total assets</b>	<b>5,378,896,358.92</b>	<b>5,116,680</b>



	31.12.2018 EUR	31.12.2017 TEUR
<b>Shareholders' Equity and Liabilities</b>		
<b>A. Shareholders' equity</b>		
I. Nominal capital called up and paid in	300,000.00	300
nominal capital subscribed EUR 300,000.00; 2017: TEUR 300		
II. Capital reserves		
1. Appropriated	101,604,460.00	101,605
2. Unappropriated	1,539,783,410.00	1,539,783
	1,641,387,870.00	1,641,388
III. Revenue reserves		
1. Legal reserve	30,000.00	30
IV. Retained earnings	1,037,374,082.76	1,172,210
thereof profit carried forward EUR 472,209,708.85, 2017: TEUR 156,134		
thereof interim dividends EUR -300,000,000.00; 2017: TEUR 0		
	<b>2,679,091,952.76</b>	<b>2,813,928</b>
<b>B. Special item for investment grants for fixed assets</b>	<b>375,455.00</b>	<b>410</b>
<b>C. Provisions</b>		
1. Provisions for pensions	18,561,060.69	15,768
2. Provisions for taxes	70,397,756.28	48,520
thereof provisions for deferred tax liabilities EUR 0.00; 2017: TEUR 0		
3. Other provisions	176,009,351.02	174,100
	<b>264,968,167.99</b>	<b>238,388</b>

	31.12.2018 EUR	31.12.2017 TEUR
<b>Shareholders' Equity and Liabilities</b>		
<b>D. Liabilities</b>		
1. Bonds	425,000,000.00	125,000
thereof with residual maturity up to one year EUR 125,000,000.00; 2017: TEUR 0		
thereof with residual maturity of more than one year EUR 300,000,000.00; 2017: TEUR 125,000		
2. Bank loans and overdrafts	899,854,627.26	865,729
thereof with residual maturity up to one year EUR 483,897,616.26; 2017: TEUR 167,344		
thereof with residual maturity of more than one year EUR 415,957,011.00; 2017: TEUR 698,386		
3. Trade accounts payable	430,127,677.83	435,631
thereof with residual maturity up to one year EUR 430,127,677.83; 2017: TEUR 435,631		
thereof with residual maturity of more than one year EUR 0.00 ; 2017: TEUR 0		
4. Accounts payable to affiliated companies	592,944,899.35	567,310
thereof with residual maturity up to one year EUR 592,944,899.35; 2017: TEUR 561,663		
thereof with residual maturity of more than one year EUR 0.00; 2017: TEUR 5,647		
5. Accounts payable to associated companies	68,135,994.51	52,110
thereof with residual maturity up to one year EUR 68,135,994.51; 2017: TEUR 52,109		
thereof with residual maturity of more than one year EUR 0.00; 2017: TEUR 0		
6. Other liabilities	18,397,584.22	18,175
thereof taxes: EUR 9,742,529.08; 2017: TEUR 1,580		
thereof social security: EUR 0.00; 2017: TEUR 0		
thereof with residual maturity up to one year EUR 18,397,584.22; 2017: TEUR 18,175		
thereof with residual maturity of more than one year EUR 0.00; 2017: TEUR 0		
	<b>2,434,460,783.17</b>	<b>2,063,955</b>
in total thereof with residual maturity up to one year EUR 1,718,503,772.17; 2017: TEUR 1,235		
in total thereof with residual maturity of more than one year EUR 715,957,011.00; 2017: TEUR 829,033		
<b>Total equity and liabilities</b>	<b>5,378,896,358.92</b>	<b>5,116,680</b>



## Income Statement for the Year 2018

	2018 EUR	2017 TEUR
1. Sales	6,880,612,762.23	6,325,785
2. Increase or decrease in finished goods	27,074,289.90	86,373
3. Other operating income		
a) Other income	74,544,574.30	58,605
	74,544,574.30	58,605
4. Cost of materials and purchased services		
a) Cost of materials	-4,608,223,367.08	-4,058,147
b) Cost of purchased services	-1,184,534,480.25	-1,132,393
	-5,792,757,847.33	-5,190,540
5. Personnel expenses		
a) Salaries	-46,315,797.14	-48,886
b) Social contributions	-17,800,394.84	-13,934
thereof pension fund contributions EUR 5,111,977.38; 2017: TEUR 4,131		
aa) thereof expenses for severance payments and corporate staff and self-employment fund contributions EUR 2,015,436.36; 2017: TEUR 591		
bb) thereof expenses for statutory social security and payroll related taxes and contributions EUR 7,980,244.96; 2017: TEUR 6,776		
	-64,116,191.98	-62,820
6. Amortisation and depreciation of intangible and tangible assets	-2,266,662.18	-2,267
7. Other operating expenses		
a) Taxes, other than those reported in line item 16	-1,371,815.33	-1,204
b) Other expenses	-610,543,724.93	-523,283
	-611,915,540.26	-524,487
<b>8. Subtotal of line 1 to 7</b>	<b>511,175,384.68</b>	<b>690,649</b>



	2018 EUR	2017 TEUR
9. Income from investments	670,188,630.60	542,026
thereof affiliated companies EUR 97,115,667.39; 2017: TEUR 63,823		
10. Interest income from long-term loans	2,461,469.94	977
thereof affiliated companies EUR 846,494.15; 2017: TEUR 967		
11. Other interest and similar income	20,053,736.86	18,190
thereof affiliated companies EUR 18,148,544.63; 2017: TEUR 15,742		
12. Expenses arising from financial assets	-109,317,229.00	-39
Impairment losses on financial assets EUR 109,315,000.00; 2017: TEUR 39		
13. Interest and similar expenses	-121,299,128.80	-90,642
thereof affiliated companies EUR 7,506,001.97; 2017: TEUR 4,449		
<b>14. Subtotal of line 9 to 13</b>	<b>462,087,479.60</b>	<b>470,512</b>
<b>15. Income before Tax (subtotal of line 8 and 14)</b>	<b>973,262,864.28</b>	<b>1,161,161</b>
16. Taxes on income	-108,098,490.37	-145,085
thereof income from deferred tax assets EUR 13,509,482.22; 2017: TEUR 178		
<b>17. Income after Tax</b>	<b>865,164,373.91</b>	<b>1,016,076</b>
<b>18. Net income for the year</b>	<b>865,164,373.91</b>	<b>1,016,076</b>
19. Profit carried forward from previous years	472,209,708.85	156,134
20. Interim dividends	-300,000,000.00	0
<b>21. Retained earnings</b>	<b>1,037,374,082.76</b>	<b>1,172,210</b>



## Notes

### I. Accounting and Valuation Policies

The financial statements have been prepared in accordance with the Austrian Commercial Code (“UGB”), Austrian Generally Accepted Accounting Principles, and the general standard of presenting a true and fair view of the financial position and financial performance of the entity. The presentation of the financial statements also corresponds with the criteria set out in the Austrian Commercial Code.

Presentation, valuation and disclosure of financial statement items are in line with the Austrian Commercial Code and its special regulations for corporations. The financial statements have been prepared on a going concern basis and assets and liabilities have been reported using the unit account method of valuation. The financial statements have been compiled according to the principle of completeness. The principle of prudence was taken into account insofar as only gains realised at balance sheet date were accounted for. All recognisable risks and impending losses incurred until balance sheet date were included. Estimates are based on prudent judgement. On existence of statistically determined experiences for similar facts those experiences were taken into account for estimates.

Prevailing accounting and valuation principles have been maintained.

Tangible and intangible assets are reported at cost less accumulated depreciation/amortisation and impairment losses. Impairments of tangible and intangible assets in excess of scheduled depreciation/amortisation are recognised as write-downs in case impairment is deemed to be sustainable.

Financial assets are carried at cost. In case of sustained and material impairment, a lower fair value is recognised. Fair value is calculated applying the discounted cash flow model using the weighted average cost of capital of the company at the time of calculation.

Loans to affiliated companies are reported at cost. In case of sustained and material impairment, lower values are recognised.

Raw materials and supplies as well as merchandise are capitalised at acquisition cost in line with the weighted average price method. Finished goods are stated at the lower of production cost, originating from the company’s cost accounting, or net sales value. Acquisition/production costs are stipulated following the first-in, first-out (FIFO) method.

Production costs comprise:

- prime costs
- special production costs
- variable factory overheads

Receivables and other assets are reported at nominal value. All recognisable individual risks were accounted for by valuation allowances.

According to Position Paper No. 27 dated March 2018 of the Austrian Financial Reporting and Auditing Committee (AFRAC), “Accruals for pensions and severance payments, provisions for anniversary bonuses and comparable obligations falling due in the long-term under the provision of the Austrian Commercial Code” are calculated actuarially using the projected-unit-credit method and mortality tables published by “Aktuarvereinigung AVÖ 2018-P”. Additionally, the earliest date possible for retirement according to Austrian social insurance legislation is adopted for the calculation. The discount rate used is 1.75% (2017: 1.50%). The discount rate is determined by reference to market rates at balance sheet date at which high quality corporates are able to borrow capital for the average residual term of the liability. No staff fluctuation deduction is considered. The interest expense relating to provisions for pensions along with effects on changes in discount rates is recorded under the corresponding personnel expense.

Provisions for anniversary bonuses are calculated in accordance with IFRS (IAS 19) using a discount rate of 1.75% (2017: 1.50%).

At year end, all risks recognisable in the light of sound commercial judgement and contingent liabilities are provided for including provisions for impending losses from negative fair values of derivative instruments. Provisions with a residual term of more than one year are discounted using customary market rates.

Liabilities are reported at the settlement amount.

The income statement has been prepared using the total expenditure format.

Obligatory disclosures on financial statement items were omitted in case there were no corresponding facts.

The financial statements are prepared in EUR (i.e. reporting currency). Generally, receivables denominated in other currencies are valued at the lower of acquisition rate or the exchange rate prevailing at balance sheet date, whereas liabilities denominated in foreign currencies are valued at the higher rate of origin or the exchange rate prevailing at balance sheet date.

Derivative financial instruments are reported at the lower of acquisition cost or the fair value at balance sheet date. Provisions for impending losses from unclosed transactions are measured following the imparity principle at the unit account method. Starting on 1 January 2011 due to the implementation of the new AFRAC position paper (Austrian Financial Reporting and Auditing Committee), derivative financial instruments designated for hedging purposes have been presented and measured as a unit with the underlying transaction.

A prerequisite for hedge accounting is primarily the effectiveness of the hedge relationship which is represented by matching risks and chances out of hedged items or transactions and hedging instruments, matching currencies and interest maturities, matching credit ratings and durations. Hedging cash flows requires the hedge to be highly effective in offsetting changes in cash flows attributable to the hedged risk (risks of transactions being matched by counter-risks of derivatives) during the period for which the hedge is designated.

Hedge accounting requires the entity to assess retrospectively whether the hedge relationship was highly or completely effective during the particular period. Hedge ineffectiveness of designated derivative instruments is recognised in profit or loss via provisions for impending losses.

Hedge accounting requires designated derivatives to form a valuation unit with the hedged transactions or items. Foreign exchange receivables and payables with their exchange risk being hedged by foreign exchange transactions are measured at the forward exchange rate. In case of effective hedge relationships, measurement of provisions for impending losses of designated derivatives is based on opposite income-related cash flows of the hedged transaction.

Deferred tax assets are recognised for differences between the carrying amounts of assets, provisions, liabilities and other deferred items and its tax bases to the extent that it is probable that the differences will be recovered in future periods. Additionally, deferred tax assets are recognised for an unused tax loss carryforward if it is considered probable that there will be sufficient future taxable profits against which the loss can be utilised.

The following companies signed toll manufacturing contracts with Borealis:

- Borealis Polyolefine GmbH, Austria
- Borealis Polymere GmbH, Germany
- Borealis Polymers N.V., Belgium
- Borealis Kallo N.V., Belgium
- Borealis Antwerpen N.V., Belgium
- Borealis Italia S.p.a., Italy
- Borealis AB, Sweden
- Borealis Polymers OY, Finland
- Borealis Plastomers B.V., the Netherlands.

Borealis AG supplies all raw materials, consumables and other means of production to the toll manufacturers for finished goods fabrication. These finished goods as well as productive factors thereby remain the property of Borealis AG, with end products being marketed by Borealis AG itself and toll manufacturers being remunerated at market rates for their services.



## II. Notes to the Balance Sheet

### Assets

#### 1. Fixed Assets

Development of fixed assets:

EUR	Acquisition Cost				Balance as of 31 December 2018
	Balance as of 1 January 2018	Additions	Disposals	Reclassifications	
<b>Intangible assets</b>					
Rights and licenses	65,408,150.62	9,352,644.67	0.00	0.00	74,760,795.29
	<b>65,408,150.62</b>	<b>9,352,644.67</b>	<b>0.00</b>	<b>0.00</b>	<b>74,760,795.29</b>
<b>Tangible assets</b>					
Office equipment	5,698,284.00	1,012,591.44	-1,766,131.62	2,340.00	4,947,083.82
Construction in progress	2,340.00	0.00	0.00	-2,340.00	2,340.00
	<b>5,700,624.00</b>	<b>1,012,591.44</b>	<b>-1,766,131.62</b>	<b>0.00</b>	<b>4,949,423.82</b>
<b>Financial assets</b>					
Investments in affiliated companies	3,795,542,089.35	142,282,247.88	0.00	0.00	3,937,824,337.23
Loans to affiliated companies	67,500,000.00	1,625,000.00	-15,000,000.00	0.00	54,125,000.00
Investments in associated companies	413,338,576.05	174,599,683.58	0.00	0.00	587,938,259.63
Loans to affiliated companies	6,908,288.10	88,127,451.18	0.00	0.00	95,035,739.28
Securities	2,694,048.75	0.00	0.00	0.00	2,694,048.75
	<b>4,285,983,002.25</b>	<b>406,634,382.64</b>	<b>-15,000,000.00</b>	<b>0.00</b>	<b>4,677,617,384.89</b>
<b>Total fixed assets</b>	<b>4,357,091,776.87</b>	<b>416,999,618.75</b>	<b>-16,766,131.62</b>	<b>0.00</b>	<b>4,757,325,264.00</b>

Accumulated Amortisation/Depreciation				Carrying Values	
Balance as of 1 January 2018	Additions	Disposals	Balance as of 31 December 2018	as of 31 December 2017	as of 31 December 2018
-46,900,109.97	-1,566,808.37	0.00	-48,466,918.34	18,508,040.65	26,293,876.95
<b>-46,900,109.97</b>	<b>-1,566,808.37</b>	<b>0.00</b>	<b>-48,466,918.34</b>	<b>18,508,040.65</b>	<b>26,293,876.95</b>
-3,973,267.19	-699,853.81	1,751,921.87	-2,921,199.13	1,725,016.81	2,025,884.69
0.00	0.00	0.00	0.00	2,340.00	0.00
<b>-3,973,267.19</b>	<b>-699,853.81</b>	<b>1,751,921.87</b>	<b>-2,921,199.13</b>	<b>1,727,356.81</b>	<b>2,025,884.69</b>
-1,888,641,980.00	-109,315,000.00	0.00	-1,997,956,980.00	1,906,900,109.35	1,939,867,357.23
0.00	0.00	0.00	0.00	67,500,000.00	54,125,000.00
0.00	0.00	0.00	0.00	413,338,576.05	587,938,259.63
0.00	0.00	0.00	0.00	6,908,288.10	95,035,739.28
-96,200.00	-2,229.00	0.00	-98,429.00	2,597,848.75	2,595,619.75
<b>-1,888,738,180.00</b>	<b>-109,317,229.00</b>	<b>0.00</b>	<b>-1,998,055,409.00</b>	<b>2,397,244,822.25</b>	<b>2,679,561,975.89</b>
<b>-1,939,611,557.16</b>	<b>-111,583,891.18</b>	<b>1,751,921.87</b>	<b>-2,049,443,526.47</b>	<b>2,417,480,219.71</b>	<b>2,707,881,737.53</b>



### Intangible Assets

Intangible assets purchased from affiliated companies amount to acquisition costs of EUR 25,531,739.58 (2017: TEUR 25,532).

Amortisation is calculated on a straight-line basis over expected useful lives of three to nineteen years.

In the financial year 2018, no impairment losses on intangible assets have been recognised (2017: TEUR 0).

### Tangible Assets

Depreciation is calculated on a straight-line basis over expected useful lives of three to ten years.

### Financial Assets

Investments in affiliated and associated companies are broken down into the following table:

	Investment in %	proportional equity IFRS TEUR	proportional net profit IFRS TEUR
<b>Investments in affiliated companies</b>			
Borealis Argentina S.R.L., Buenos Aires, Argentina	98	2	0
Borealis Asia Ltd, Hongkong, Hongkong	100	339	96
Borealis Brasil SA., Itatiba, Brazil	80	28,273	-500
Borealis Chemicals ZA Proprietary Limited, Germison South, South Africa	100	46	2
Borealis Chile SpA, Santiago, Chile	100	5	-43
Borealis Chimie S.A.R.L., Casablanca, Morocco	100	127	47
Borealis Colombia S.A.S., Bogotá, Colombia	100	90	9
Borealis Compounds Inc., Rockport, USA	100	97,892	3,026
Borealis Denmark ApS, Copenhagen, Denmark	100	30	n/a
Borealis Digital Studio BVBA, Zaventem, Belgium	90	18	n/a
Borealis Financial Services N.V., Mechelen, Belgium	99.99	182,307	653
Borealis France S.A.S., Courbevoie, France	100	326,159	6,198
Borealis Funding Company Ltd, Ramsey, Isle of Man	100	3	0
Borealis Insurance A/S, Copenhagen, Denmark	100	75,548	1,382
Borealis Italia S.p.A., Monza, Italy	100	16,213	1,049
Borealis Plasticos SA. de C.V., Mexico City, Mexico	99.99	15	3
Borealis Plastik ve Kimyasal Maddeler Ticaret Limited Sirketi, Istanbul, Turkey	100	193	79
Borealis Plastomers B.V., Geleen, the Netherlands	100	-6,519	-1,175
Borealis Poliolefinas da América do Sul Ltda., Campinas, Brazil	99.99	687	294
Borealis Polska Sp.z.o.o., Warsaw, Poland	100	419	211

	Investment in %	proportional equity IFRS TEUR	proportional net profit IFRS TEUR
<b>Investments in affiliated companies</b>			
Borealis Polymere GmbH, Burghausen, Germany	100	72,612	2,377
Borealis Polymers N.V., Beringen, Belgium	99.99	225,640	3,109
Borealis Polymers OY, Porvoo, Finland	100	428,966	40,569
Borealis Rus LLC, Moscow, Russia	100	596	403
Borealis s.r.o., Prague, Czech Republic	100	190	58
Borealis Sverige AB, Stenungsund, Sweden	100	292,605	-2
Borealis Technology OY, Porvoo, Finland	100	138,100	17,430
Borealis UK Ltd, Manchester, United Kingdom	100	343	134
Borealis USA Inc, Delaware, USA	100	14,964	n/a
FEBORAN EOOD, Sofia, Bulgaria	100	20,405	-1,799
mtm compact GmbH, Niedergebra, Germany	100	416	-493
mtm plastics GmbH, Niedergebra, Germany	100	6,059	695
Borealis Química Espana S.A., Barcelona, Spain	100	578	126
Rosier S.A., Moustier, Belgium	77.47	30,811	-3,987
Silleno Limited Liability Partnership, Astana, Kazakhstan	50.1	450	n/a

	Investment in %	proportional preliminary equity local GAAP TEUR	proportional preliminary net profit local GAAP TEUR
<b>Investments in affiliated companies</b>			
Borealis Agrolinz Melamine GmbH, Linz, Austria	100	141,896	34,910
Borealis L.A.T GmbH, Linz, Austria	100	55,794	-75,254
Borealis Polyolefine GmbH, Schwechat, Austria	99.99	149,220	18,069
Ecoplast Kunststoffrecycling GmbH, Wildon, Austria	100	2,938	726



	Investment in %	proportional equity IFRS TEUR	proportional net profit IFRS TEUR
<b>Investments in associated companies</b>			
Abu Dhabi Polymers Company Ltd, Abu Dhabi, UAE	40	3,294,481	590,028
Borouge Pte, Singapore, Singapore	50	67,130	20,103
Kilpilahden Voimalaitos Oy, Espoo, Finland	20	2,065	390

Loans to affiliated companies totalling EUR 54,125,000.00 (2017: TEUR 67,500) will mature within one year amounting to EUR 16,625,000.00 (2017: TEUR 15,000) and in more than five years amounting to EUR 0.00 (2017: TEUR 0).

Securities serve to fulfil coverage requirements for pension provisions. In the financial year, an impairment

loss of EUR 2,229.00 (2017: TEUR 39) was recognised for securities.

Loans to associated companies totalling EUR 95,035,739.28 (2017: TEUR 6,908) will mature within one year, amounting to EUR 350,421.00 (2017: TEUR 0), and in more than five years, amounting to EUR 91,877,074.47 (2017: TEUR 5,392).

## 2. Inventories

	2018 EUR	2017 TEUR
Raw materials and supplies	207,413,100.25	219,856
Finished goods and merchandise	667,914,732.97	640,840
<b>Total</b>	<b>875,327,833.22</b>	<b>860,696</b>

## 3. Receivables and Other Assets

Trade receivables comprise purchased CO<sub>2</sub> emission allowances amounting to EUR 49,333,176.33 (2017: TEUR 3,994) and are stated at acquisition cost.

Receivables from affiliated companies totalling EUR 846,373,839.92 (2017: TEUR 943,093) are broken down into trade receivables of EUR 40,185,733.01 (2017: TEUR 36,515) and other receivables of EUR 806,188,106.91 (2017: TEUR 906,579).

Receivables from associated companies of EUR 80,030,131.07 (2017: TEUR 67,854) are exclusively trade receivables.

There is no material income that will result in an inflow of cash after the balance sheet date.

## 4. Deferred Tax Assets

Changes in deferred tax assets, broken down into types of temporary differences and unused tax losses carried forward, are reported as follows:



TEUR	Fixed Assets	Current Assets	Unused tax losses carried forward	Provisions	Total
Deferred tax assets as of 01.01.2018	0	5,269	0	2,955	8,224
Recognised through profit and loss in 2018	0	2,201	0	574	2,775
<b>Deferred tax assets as of 31.12.2018</b>	<b>0</b>	<b>7,470</b>	<b>0</b>	<b>3,529</b>	<b>10,999</b>

Deferred tax assets are measured at a tax rate of 25%. Deferred tax assets solely comprise deductible temporary differences. Deferred taxes include long-term temporary differences in the amount of TEUR 14,116 (2017: TEUR 11,820).

## Shareholders' Equity and Liabilities

### 1. Shareholders' Equity

#### Nominal Capital Called and Paid In

The share capital of Borealis AG amounts to EUR 300,000.00 and consists of 300,000 bearer shares at balance sheet date.

#### Capital Reserves

The reported unappropriated capital reserves result from indirect shareholder grants by OMV Aktiengesellschaft amounting to EUR 10,000.00 and by OMV Refining & Marketing GmbH amounting to EUR 643,990,000.00.

In addition, on the basis of an agreement of a contribution in kind between Borealis AG, Vienna, and IPIC Denmark Holdings ApS dated 5 December 2005 relating to a 40 per cent interest in Borealis A/S and a 50 per cent interest in IOB, a sum of EUR 1,195,920,552.86 was allocated to unappropriated capital reserves.

Furthermore, due to an agreement of a contribution in kind between Borealis AG, Vienna, International Petroleum Investment Company, Abu Dhabi, and OMV Aktiengesellschaft, Vienna, regarding AMI Agrolinz Melamine International GmbH, Linz, an amount of EUR 101,604,460.00 was allocated to appropriated capital reserve.

In 2010, 2012 and 2013, unappropriated capital reserves amounting to EUR 100,000,000.00, EUR 180,000,000.00 and EUR 20,000,000.00, respectively, were released through profit and loss.

#### Retained Earnings

According to Section 235 UGB, unappropriated retained earnings amounting to EUR 10,999,361.97 (2017: TEUR 8,223) are not available for distribution. The entire amount is attributable to the recognition of deferred tax assets according to Section 235 (2) UGB.

Borealis AG intends to pay a dividend of EUR 700,000,000.00 less interim dividends of EUR 300,000,000.00 according to Section 54a of the Austrian Stock Corporation Act (AktG) (Dividends 2017: TEUR 700,000), and to carry forward the remaining profit to new account.

### 2. Special Item for Investment Grants for Fixed Assets

At balance sheet date, the special item for investment grants to fixed assets comprises subsidies granted to the company in connection with investments in office equipment amounting to EUR 375,455.00 (2017: TEUR 410). The investment grant is released over a ten-year-term and amounted to EUR 34,420.00 (2017: TEUR 64) for the financial year 2018.



### 3. Other Provisions

	2018 EUR	2017 TEUR
Provisions for customer rebates and bonuses	37,311,705.56	38,716
Provisions for long-term incentive plan	18,971,011.36	20,587
Provisions for impending losses from uncompleted transactions	24,015,501.12	39,541
Provisions for outstanding invoices	47,633,492.35	25,796
Provisions for employee bonuses	6,625,236.06	8,049
Provisions for not consumed vacation	3,708,034.08	3,379
Provisions for accrued interest	10,185,173.87	9,926
Provisions for anniversary bonuses	1,246,902.39	1,127
Provisions for social fund	15,828,622.81	13,024
Other provisions	10,483,671.42	13,956
<b>Total</b>	<b>176,009,351.02</b>	<b>174,101</b>

### 4. Liabilities

The maturities of liabilities are broken down in the following table:

EUR	2018	
	Carrying value as of 31.12.2018	Maturity >five years
Bonds	425,000,000.00	300,000,000.00
Bank loans and overdrafts	899,854,627.26	17,956,261.32
Trade accounts payable	430,127,677.83	0.00
Accounts payable to affiliated companies	592,944,899.35	0.00
Accounts payable to associated companies	68,135,994.51	0.00
Other liabilities	18,397,584.22	0.00
<b>Total</b>	<b>2,434,460,783.17</b>	<b>300,000,000.00</b>

EUR	2017	
	Carrying value as of 31.12.2017	Maturity >five years
Bonds	125,000,000.00	0.00
Bank loans and overdrafts	865,729,335.79	95,806,907.92
Trade accounts payable	435,630,606.53	0.00
Accounts payable to affiliated companies	567,310,240.71	0.00
Accounts payable to associated companies	52,109,434.82	0.00
Other liabilities	18,174,884.97	0.00
<b>Total</b>	<b>2,063,954,502.82</b>	<b>95,806,907.92</b>

Accounts payable to affiliated companies totalling EUR 592,944,899.35 (2017: TEUR 567,310) consist of financial payables of EUR 316,509,873.66 (2017: TEUR 262,131) and trade payables of EUR 276,435,025.69 (2017: TEUR 305,179).

Accounts payable to associated companies amounting to EUR 68,135,994.51 (2017: TEUR 52,109) are exclusively trade payables.

In July 2012, a 7-year bond was issued with a nominal value of TEUR 125,000 and a fixed interest rate of 4.000%.

In December 2018, Borealis issued an inaugural rated corporate 7-year bond with a nominal value of TEUR 300,000 and a fixed interest rate of 1.750%.

The bonds are listed at the secondary market of the Vienna Stock Exchange.

Other liabilities do not contain any material expenses that will produce an outflow of cash after balance sheet date.

#### 5. Obligations from the Use of Fixed Assets Not Stated in the Balance Sheets

TEUR	2018	
	expense for the next year	expense for the next five years
Obligations from lease agreements	21,062	64,989
Obligations from rental agreements	918	0
<b>Total</b>	<b>21,980</b>	<b>64,989</b>



## 6. Notes to Financial Instruments

According to the financial policy of the Borealis Group, inter alia, derivative instruments are designated to hedge relationships in order to reduce the risks of operating, finance and investment activities, i.e. risks of foreign exchange rates, interest rates and commodity prices. Therefore, Borealis AG uses forward exchange transactions, interest rate swaps, foreign exchange derivative contracts and commodity futures (feedstock, electricity and natural gas).

Financial risk management is centralised in the Treasury and Funding Department where foreign exchange risks out of short-term cash flows are hedged and limits for long-term

foreign exchange exposures are set. The majority of borrowings are based on variable interest rates which are transformed into fixed interest rates using interest rate swaps. Part of the forecasted feedstock purchases and finished goods sales is hedged by feedstock swaps. Commodity price risks are managed by feedstock traders and monitored by Trade Support and Risk Management. Forecasted energy purchases are hedged by using electricity and natural gas swaps.

At balance sheet date, financial instruments are broken down as follows and reported in the respective balance sheet items:

Derivatives	2018					
	Nominal Value		Fair Value TEUR		Carrying Value TEUR	Balance Sheet Item
		unit	positive	negative		
<b>Forward Exchange Transactions</b>						
	192,216	TUSD	117	-4,464	-	
	1,474,000	TSEK	1,961	-	-	
thereof valuation unit with hedged transaction	192,216	TUSD	117	-4,464	-	
	1,474,000	TSEK	1,961	-	-	
<b>Interest Rate Swaps</b>	46,154	TEUR	-	-611	-	
thereof valuation unit with hedged transaction	46,154	TEUR	-	-611	-	
<b>Foreign Exchange Derivative Contracts</b>	30,000	TGBP	-	-3,645	-3,645	Other Provisions
thereof valuation unit with hedged transaction	-	-	-	-	-	-
<b>Commodity Futures</b>	43	kt	54,706	-61,021	-20,370	Other Provisions
	6,131	GWh	108,934	-17,430	-	
thereof valuation unit with hedged transaction	254	kt	11,929	-40,651	-	
	6,131	GWh	108,934	-17,430	-	

Derivatives	2017					Balance Sheet Item
	Nominal Value		Fair Value TEUR		Carrying Value TEUR	
	unit		positive	negative		
<b>Forward Exchange Transactions</b>	105,570	TSEK	2,091	–	–	
	56,770	TSEK	–	-145	–	
	1,453,000	TUSD	–	-2,834	–	
thereof valuation unit	105,570	TSEK	2,091	–	–	
with hedged transaction	56,770	TSEK	–	-145	–	
	1,453,000	TUSD	–	-2,834	–	
<b>Interest Rate Swaps</b>	57,692	TEUR	–	-992	–	
thereof valuation unit						
with hedged transaction	57,692	TEUR	–	-992	–	
<b>Foreign Exchange Derivative Contracts</b>	30,000	TGBP	–	-3,246	-3,246	Other Provisions
thereof valuation unit						
with hedged transaction	–	–	–	–	–	–
<b>Commodity Futures</b>	894	kt	41,105	-46,176	-36,295	Other Provisions
	7,226	GWh	46,230	-12,999	–	
thereof valuation unit	318	kt	12,306	-9,881	–	
with hedged transaction	7,226	GWh	46,230	-12,999	–	

The fair value of forward exchange contracts corresponds to the quoted market price at balance sheet date, i.e. the present value of the quoted forward price. The fair value of interest rate swaps corresponds to the calculated amount the Group would receive or pay in case of closing of the position at balance sheet date, with current interest rates taken into account. The fair value of commodity futures corresponds to the market price quoted at balance sheet date.

Impending losses from negative fair values of derivative instruments not presented as valuation units have been provided for in provisions amounting to TEUR 24,015 (2017: TEUR 39,541) at balance sheet date.

Forward exchange transactions mature at an average of six months, where all contracts existing at balance sheet date mature by the end of the year 2019 at the latest. At balance sheet date, Borealis AG had outstanding interest rate derivatives with maturities until 2022 as well as a foreign exchange derivative contract maturing in 2021.

At balance sheet date, Borealis AG has commodity futures transactions for hedging the price of raw materials maturing at an average of six months and for hedging the price of energy and gas maturing at an average of nineteen months. Commodity futures mature up to the year 2021.

Provisions for impending losses are accrued respectively, in case those transactions show a negative fair value at balance sheet date and are not designated as hedging instruments. Forward exchange transactions and commodity futures, respectively, which show a positive fair value at balance sheet date and are not designated as hedging instruments are not capitalised. Interest rate swaps for interest bearing loans are not capitalised as they are regarded to form a valuation unit with the underlying loan.

Expenses and income from derivative instruments not designated to hedge relationships are generally disclosed in the profit and loss items as other operating expenses and other operating income, respectively. Equally, results from derivative instruments related to financing or financial



investments are generally disclosed in the financial result. In case derivatives are designated as hedging instruments, results thereof are disclosed in the same profit and loss item as the results of the hedged transaction.

Hedge effectiveness of all existing hedges is assessed prospectively using the critical term match method. The retrospective assessment uses the cumulative dollar-off-set-method. For a hedge to be classified highly effective, the actual results of the hedge (retrospective hedge effectiveness assessment) have to be within a range of 80% to 125%. At balance sheet date, all derivatives designated as hedging instruments were classified highly effective.

### 7. Contingent Liabilities

Borealis AG assumed guarantees amounting to EUR 33,493,611.26 (2017: TEUR 33,194) for external loans and liabilities for affiliated companies.

## III. Notes to the Income Statement

### A. Sales and Cost of Materials

Sales and cost of materials relate to the sale of products from the Borealis Group predominantly to external customers.

TEUR	Sales by Market and Business Areas 2018			
	Polyolefins	Base Chemicals	Other	Total
EU countries	3,866,523	1,021,976	222,272	5,110,771
Non-EU countries	643,765	259,637	414	903,816
<b>Total Europe</b>	<b>4,510,288</b>	<b>1,281,613</b>	<b>222,686</b>	<b>6,014,587</b>
North America	125,687	42,160	0	167,848
South America	123,112	0	0	123,112
Middle East (excl. UAE)	41,759	0	0	41,759
United Arab Emirates	10,704	5,687	127,482	143,873
Asia	224,572	20,457	-4	245,025
Australia, New Zealand	6,201	0	0	6,201
Africa	138,208	0	0	138,208
<b>Total</b>	<b>5,180,531</b>	<b>1,349,917</b>	<b>350,164</b>	<b>6,880,613</b>

TEUR	Sales by Market and Business Areas 2017			
	Polyolefins	Base Chemicals	Other	Total
EU countries	3,595,238	1,216,910	94,209	4,906,357
Non-EU countries	678,428	43,120	0	721,549
<b>Total Europe</b>	<b>4,273,667</b>	<b>1,202,947</b>	<b>151,292</b>	<b>5,627,905</b>
North America	96,776	15,649	1,406	113,831
South America	80,185	0	0	80,185
Middle East (excl. UAE)	46,367	41	0	46,407
United Arab Emirates	10,599	0	83,168	93,767
Asia	236,574	0	0	236,574
Australia, New Zealand	5,975	0	0	5,975
Africa	96,081	25,059	0	121,140
<b>Total</b>	<b>4,846,223</b>	<b>1,243,696</b>	<b>235,866</b>	<b>6,325,784</b>

### B. Personnel Expenses

In 2018, the average number of employees was 251 (2017: 229).

Severance payments, pension fund as well as corporate staff and self-employment fund contributions are broken down as follows:

	2018 EUR	2017 TEUR
Management Board	1,777,324.95	720
Managerial Employees	934,235.71	875
Other Employees	1,499,207.55	950
<b>Total</b>	<b>4,210,768.21</b>	<b>2,545</b>

Severance payments amounted to TEUR 1,331 (2017: TEUR 0) and are broken down as follows:

	2018 EUR	2017 TEUR
Management Board	1,034,000.00	0
Managerial Employees	0.00	0
Other Employees	296,829.36	0
<b>Total</b>	<b>1,330,829.36</b>	<b>0</b>



### C. Other Operating Expenses

	2018 EUR	2017 TEUR
Freight	263,266,024.85	249,244
Storage	30,796,155.70	40,749
Insurance	12,911,015.04	8,786
Consulting services	34,437,420.31	24,384
Commission	13,192,955.78	13,433
Rents	4,483,215.77	4,575
Travel expense	3,655,944.95	3,456
Trainings, seminars	3,325,911.28	2,599
Royalties	117,175,947.41	58,427
Sundry	125,927,318.51	117,630
<b>Total</b>	<b>611,915,540.26</b>	<b>523,283</b>

The positive result realised from commodity derivatives (from feedstock) amounting to TEUR 13,691 (2017: negative result of TEUR 18,109) is included in the profit and loss item "Cost of materials".

### D. Audit Expenses

	2018 EUR	2017 TEUR
Audits of statutory national and consolidated financial statements	296,600	263
Other assurance services	265,740	156
Other services	3,000	54
<b>Total</b>	<b>565,340</b>	<b>473</b>



## E. Financial Result

The financial result is broken down as follows:

	2018 EUR	2017 TEUR
<b>Income from investments</b>		
Abu Dhabi Polymers Company Ltd, UAE	565,001,612.47	478,203
Borealis Agrolinz Melamine GmbH, Austria	36,000,000.00	24,000
Borealis Brasil S.A., Brazil	0.00	4,003
Borealis UK Ltd, United Kingdom	0.00	570
Borealis Italia S.p.A., Italy	11,000,000.00	15,000
Borealis Plastik ve Kimyasal Maddeler Ticaret Limited Sirketi, Turkey	0.00	450
Borealis Polymere GmbH, Germany	0.00	2,800
Borealis Polyolefine GmbH, Austria	49,999,866.00	17,000
Borealis s.r.o., Czeck Republic	115,801.39	0
Borouge Pte, Singapore	8,071,350.74	0
	670,188,630.60	542,026
<b>Interest income from loans to affiliated companies</b>		
Borealis Brasil S.A., Brazil	52,441.84	0
Borealis Polyolefine GmbH, Austria	794,052.31	977
Kilpilahden Voimalaitos Oy, Finland	513,033.75	0
Novealis Holdings LLC, USA	1,101,942.04	0
	2,461,469.94	977



	2018 EUR	2017 TEUR
<b>Other interest and similar income</b>		
Interest income from intercompany financing	16,533,568.84	15,949
Other	3,520,168.02	2,242
	20,053,736.86	18,190
<b>Expense arising from financial assets</b>		
Impairment losses recognised on securities held as fixed assets	2,229.00	39
Impairment of Borealis L.A.T GmbH	98,972,000.00	0
Impairment of Feboran EOOD	10,343,000.00	0
	109,317,229.00	39
<b>Interest and similar expense</b>		
Interest expense from intercompany financing	7,506,001.97	4,449
Interest expense from interest rate swaps and FX-hedges	16,043,280.75	1,613
Result from foreign exchange translations	53,168,068.77	36,330
Interest charged from banks	34,588,525.32	40,217
Interest expense in the context of forfeiting	3,658,452.99	2,612
Other	6,334,799.00	5,420
	121,299,128.80	90,642
<b>Financial result</b>	<b>462,087,479.60</b>	<b>470,512</b>

#### F. Taxes on Income

Since 2008, the company has been the parent in a tax group in line with Section 9 of the Austrian Corporate Income Tax Act. (KStG). Group member is Borealis Polyolefine GmbH, Schwechat, Austria.

Becoming effective on 1 January 2012, the existing tax group comprising Borealis AG (tax group parent) and Borealis Polyolefine GmbH, Schwechat (tax group member) added Borealis Agrolinz Melamine GmbH, Linz, and Borealis L.A.T GmbH, Linz, as additional tax group members.

According to the group tax contract, the group is charged with the related corporation tax expense attributable to any positive result. In case of negative results of the tax group members, no tax compensation is credited. Negative results have to be documented by the group parent and offset against positive future results.

Provisions for deferred taxes of EUR 70,397,756.28 (2017: TEUR 54,112) have been recognised in connection with notional accumulated losses brought forward from Borealis Polyolefine GmbH amounting to TEUR 164,889 (2017: TEUR 186,240), from Borealis L.A.T. GmbH amounting to TEUR 137,791 (2017: TEUR 62,957) and from Borealis Agrolinz Melamine GmbH amounting to TEUR 7,347 (2017: TEUR 0) since the existing losses carried forward had already been used in 2018.

#### G. Significant Events After the Balance Sheet Date

On 30 January 2019, Borealis AG concluded an amendment of the member loan agreement with the related party Bayport Polymers LLC. Out of this amendment Borealis AG took over a commitment from Novealis Holdings LLC to grant a loan to Bayport Polymers LLC with a total value of TUSD 700,000. Until the signature date of this Financial Statement, Bayport has already drawn TUSD 117,191.

#### IV. Other Information

The total remuneration received by Management Board members amounted to TEUR 12,913:

- active Board members: TEUR 10,486 (2017: TEUR 8,962)
  - former Board members: TEUR 2,427 (2017: TEUR 0)
- along with additional payments into pension funds amounting to TEUR 568 (2017: TEUR 583).

Active members of the Supervisory Board received a remuneration totalling TEUR 856 (2017: TEUR 856).

Members of the Company Boards have not been granted any advances, loans or guarantees.

Borealis AG is a large joint stock corporation pursuant to Section 221 of the Austrian Commercial Code.

Borealis AG prepares consolidated financial statements in compliance with International Financial Reporting Standards (IFRS) including the Interpretations of the International Reporting Committee (IFRIC) as adopted by the EU and as applicable to the financial year. The consolidated financial statements are filed under No. 269858a at the Commercial Register in Vienna.

Borealis AG is included in the consolidated financial statements of the Mubadala Investment Company PJSC, Abu Dhabi, UAE.



### Executive Board

Alfred Stern (Member and appointed as Chairman as per 2 July 2018), Mark Garrett (Chairman until 2 July 2018), Mark Tonkens, Markku Korvenranta (Member until 30 September 2018), Martijn Arjen van Koten, Philippe Roodhooft, Lucrece De Ridder (Member since 1 January 2019)

### Supervisory Board

Suhail Mohamed Faraj Al Mazrouei (Chairman), Rainer Seele (Deputy Chairman), Musabbeh Al Kaabi, Khalifa Al Suwaidi, Manfred Leitner

Vienna, 15 February 2019

#### Executive Board:

**Alfred Stern**  
Chief Executive

**Mark Tonkens**  
Chief Financial Officer

**Martijn Arjen van Koten**

**Philippe Roodhooft**

**Lucrece De Ridder**

## Statement of the Executive Board according to § 124 (1) Z 3 Vienna Stock Exchange Act

We confirm to the best of our knowledge that the standalone financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company of the Group as required by the applicable accounting standards

and that the management report gives a true and fair view of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.

Vienna, 15 February 2019

**Executive Board:**



**Alfred Stern**

Chairman of the Executive Board



**Mark Tonkens**

Member of the Executive Board



**Martijn Arjen van Koten**

Member of the Executive Board



**Philippe Roodhooft**

Member of the Executive Board



**Lucrèce De Ridder**

Member of the Executive Board



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