# Interim Financial Report

as of June 30, 2011

BOREALIS

## About Borealis

Borealis is is a leading provider of chemical and innovative plastics solutions that create value for society. With sales of EUR 6.3 billion in 2010, customers in over 120 countries, and around 5,100 employees worldwide, Borealis is owned 64% by the International Petroleum Investment Company (IPIC) of Abu Dhabi and 36% by OMV, the leading energy group in the European growth belt. Borealis is headquartered in Vienna, Austria, and has production locations, innovation centres and customer service centres across Europe and the Americas.

Through Borouge, a joint venture between Borealis and the Abu Dhabi National Oil Company (ADNOC), one of the world's major oil and gas companies, the company's footprint reaches out to the Middle East, Asia Pacific, the Indian sub-continent and Africa. Established in 1998, Borouge employs approximately 1,600 people, has customers in more than 50 countries and its headquarters are in Abu Dhabi in the UAE and Singapore.

Building on Borealis' unique Borstar® technology and their more than 50 years experience in polyolefins, Borealis and Borouge provide innovative, value creating plastics solutions for the infrastructure (pipe systems and power and communication cables), automotive and advanced packaging markets. In addition, Borealis offers a wide range of base chemicals from melamine and fertilizer to phenol and acetone.

Today, Borealis and Borouge have a manufacturing capacity of over 5.4 million tonnes of polyolefins (polyethylene and polypropylene) per year, having recently completed a 1.5 million tonne capacity expansion in Abu Dhabi. The Borouge 3 plant expansion will be completed at the end of 2013 with a further capacity of 2.5 million tonnes per year (t/y) being fully operational in mid-2014. The companies continue to invest to ensure that their customers throughout the value chain and across the globe can always rely on product quality, consistency and security of supply.

Borouge and Borealis are committed to the principles of Responsible Care® and proactively contribute to addressing the world's water and sanitation challenges through their Water for the World™ initiative.

For more information visit:
**www.borealisgroup.com**
**www.borouge.com**
**www.waterfortheworld.net**

# Table of Contents

# Our values

## Responsible

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

## Respect

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

## Exceed

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

## Nimblicity™

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

# Our strategy is clear

## We will …

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

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

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

Develop our **Base Chemicals** business

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

Achieve a step change in **innovation**

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

Build a **cross-cultural** organisational capability

## Outperform financially …

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

**40% – 60%** debt to equity ratio

# Our business

With more than 50 years of experience, Borealis is a leading provider of chemical and innovative plastics solutions. Through its two business groups, Polyolefins and Base Chemicals, the company aims to exceed in quality and reliable execution while offering products that enhance society and address global challenges.

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

## Polyolefins

### Infrastructure

**Pipe systems**

Borealis is an experienced market leader in the supply of advanced polyolefin pipe system solutions. Applications include water and gas distribution, waste water and sewage disposal, chemical and industrial pipelines, in-house plumbing and heating as well as pipe systems for oil and gas exploration and transport.

**Energy and communication cables**

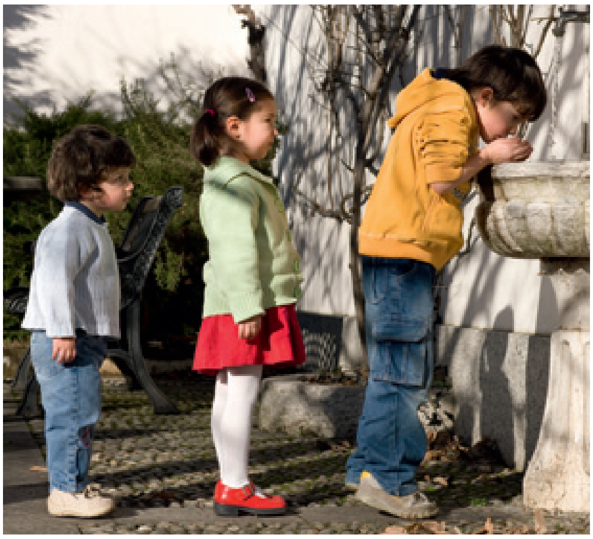
As a leading provider of polyolefin compounds for the global wire and cable industry, Borealis' solutions are widely used in low, medium and high-voltage energy transmission and distribution cables, in data and communication cables, and in building and automotive wires.

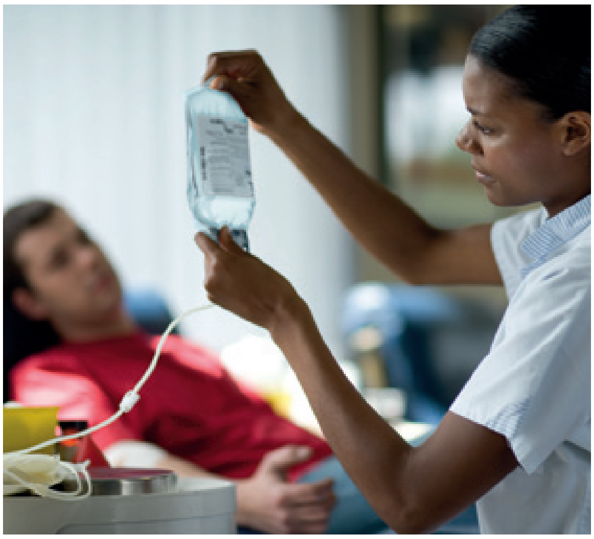
### Automotive

Top automotive manufacturers in Europe, North America, South America and Asia continue to choose Borealis' advanced polyolefin plastics, which include materials for exterior, interior and under the bonnet applications, such as bumpers, body panels, trims, dashboards, door cladding, climate control units, air intake manifolds as well as battery cases.

### Advanced packaging

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





# Base Chemicals

### Feedstocks and olefins

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

### Phenol and aromatics

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

### Fertilizer and melamine

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

# Borstar® – Our leading edge technology

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

Borstar is the company's proprietary process technology which, combined with our unique catalyst technology, supports the production of a wide range of enhanced polyethylene (PE) and polypropylene (PP) products.

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

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

# Management report – Half year report 2011

Borealis recorded a total number of recordable injuries (TRI) per million working hours of 1.9 compared to a frequency of 0.9 during the same period last year. After many years of continuous improvement and world leading performance the company is very disappointed to see an increase in the TRI rate. The severity of the incidents has been low but the increase in frequency is unacceptable and is being addressed in a learning environment. Safety will continue to remain a top priority at Borealis with the ultimate goal to be completely accident free.

The industrial activity in the first six months of 2011 was impacted by increasing and volatile feedstock prices driven by the political unrest in North Africa and the Middle East as well as a weak US dollar. The oil price peaked in April, when the price of Brent crude oil climbed above 125 USD/bbl versus 100 USD/bbl at the end of December 2010. By June 2011, feedstock prices had decreased slightly from the April high with average monthly prices of Brent crude oil and Naphtha settling approximately 20% and 10% higher compared to end of December 2010. Ethylene and propylene contract prices also increased in the first half of 2011, offsetting the higher feedstock prices and leading to an improvement of industry cracker margins.

The European Polyolefin industry recorded slightly higher sales volumes in the first six months of 2011. Sales volumes in the Polyethylene segment increased by 0.5% compared to the same period last year, while sales volumes in the Polypropylene segment grew with 1%. Market prices for Polyolefins continued to increase in the first half of 2011, reaching the pre-financial crisis level before retreating in May and June following the decrease in feedstock prices. Borealis' total polyolefin sales volume reached approximately 1.6 million tonnes, driven by higher sales volumes to Europe. As expected, Borealis' sales volumes to the Middle East and Asia decreased compared to the same period last year as the successful ramp up of the production at the joint venture, Borouge, reduced the need for supporting pre-marketing activities.

Borealis achieved a positive operating result of EUR 288 million during the first six months of 2011 compared to EUR 187 million during the same period of 2010. The operating profit in the Polyolefins business improved compared to the same period last year, driven by higher sales volumes and higher margins, which peaked at the beginning of the second quarter and then decreased due to softer market conditions. All of the Base Chemical business units (Feedstock & Olefins, Phenol & Aromatics and Melamine & Fertilizer) improved compared to last year, driven by higher margins and sales volumes. Adding to the improved performance of the Polyolefins and Base Chemical businesses, the Borouge joint venture delivered an increased contribution due to the successful ramp-up of Borouge 2.

Borealis' net debt increased by EUR 183 million during the first six months of 2011 driven by higher working capital due to the higher price environment and the payment of a EUR 100 million dividend in March 2011. Investments in tangible and intangible assets reached EUR 107 million compared to EUR 61 million during the same period of 2010. Borealis' financial position remains solid. At the end of June 2011 the gearing ratio reached 41% compared to 37% at the end of last year and 44% at the end of June 2010. Borealis' strong liquidity position is supported by undrawn committed facilities amounting to approximately EUR 1.2 billion and minimal debt maturities over the next years.

In March 2011, Borealis celebrated the groundbreaking of a new semi-commercial catalyst plant in Linz, Austria. The investment will contribute to Borealis' innovation capabilities in polyolefins and demonstrates Borealis' commitment to its Value Creation through Innovation strategy. In the first quarter of the year, Borealis also completed its investment to convert a naphtha cavern into butane use at its plant in Stenungsund, Sweden. The new cavern is by far the largest in Europe and will improve both competitiveness and feedstock flexibility at the plant.

In June, Borealis announced the further expansion of its Base Chemicals business into Southeast Europe. The company's fertilizer distribution subsidiary, LINZER AGRO TRADE, is extending its network with the opening of a new subsidiary in the Bulgarian capital, Sofia. Borealis' investment in a new import hub in Giurgiu, Romania, is proceeding according to plan with the erection of a bulk warehouse with a capacity of 7,000 tonnes and corresponding packaging and palletizing facilities. This site will serve both the Bulgarian and Romanian markets. A distribution hub in Timisoara, Romania is also planned for this year.

In the second quarter of 2011, Borealis also announced the closure of two low pressure melamine plants in Linz, Austria. The decision to close the plants is part of the company's strategy to improve global level competitiveness and to focus its investment and production into high pressure plants. The closure is part of a EUR 145 million investment programme to support the long term competitiveness of the entire Linz production site.

In the Middle East and Asia, the Borouge joint venture continues to perform successfully while maintaining an excellent safety record. All major packages have been awarded for the Borouge 3 expansion project and the project is progressing as planned. The Borouge 3 project will enable the company to further expand the polyolefins capacity at the site in Abu Dhabi by 2.5 million tonnes per year to a total annual capacity of 4.5 million tonnes, creating the world's largest integrated polyolefin's site.

On July 1, 2011 Wim Roels, former Senior Vice President for Business Unit Film and Fibre in Borealis, was appointed as CEO of Borouge Pte, the Borouge marketing company headquartered in Singapore. Wim Roels suceeded William Yau who moved to Borealis and has been appointed to the Supervisory Board of Borouge Pte.

In March Borealis and Borouge, co-founders of the Stockholm Water Prize, announced that Stephen R. Carpenter, Professor of Zoology and Limnology at the University of Wisconsin-Madison, was the recipient and the laureate of the 2011 Stockholm Water Prize, the world's most prestigious award for outstanding achievements in water-related activities. Professor Carpenter received the award for his groundbreaking research, which shows how lake ecosystems are affected by the surrounding landscape and by human activities. His findings have formed the basis for concrete solutions on how to manage lakes and have influenced concrete strategies for dealing with eutrophication, providing a practical framework for the management of freshwater resources. As initiators of the Water for the World™ programme, Borealis and Borouge are actively committed to promoting and supporting best practice in the management of water resources and in improving access to water and sanitation around the globe.

Borealis' Executive Board and senior management are expecting a more challenging market environment for the second half of 2011 due to continued high volatility in feedstock prices and softening market conditions, resulting from political uncertainty, sovereign debt issues, failure to regulate financial markets and rising social unrest. The results for the first half year of 2011 show that Borealis is prepared for a more challenging market environment, and the Executive Board is confident that in the second half of 2011 Borealis will also be able to deliver a solid performance by continuing to focus on innovation, commercial and operational excellence, while never compromising on safety.

## Review of results

### Sales

European polyolefins industry continued its recovery in 2011. Borealis sold over 1.6 million tonnes of polyolefins for the first six months of 2011, which represents a marginal improvement compared to the same period of the previous year. Fertilizer sales grew significantly compared to prior year to 0.8 million tonnes (9% increase compared to first six months of 2010), whereas the melamine sales volumes decreased from 85 kt to 73 kt reflecting the ongoing production optimisation. Pricing improved across all segments compared to the previous financial year.

### Cost development

As a result of higher feedstock costs, variable production costs increased by approximately 25% versus 2010. Sales and distribution costs increased mainly as a result of higher volumes which caused additional freight and packaging costs. Research and development costs for the first six months of 2011 amounted to EUR 42 million, compared to EUR 32 million for the same period of the last year. The number of full-time equivalent employees (FTEs) as per end of June 2011 was 5,070, a decrease of five FTEs compared to December 2010.

### Operating profit

Operating profit for the period ended June 30, 2011, amounted to EUR 288 million, compared to EUR 187 million for the same period of 2010.

### Financial income and expenses

Net financial expenses for the first six months of 2011 increased to EUR 36 million, compared to EUR 26 million for the same period in 2010, mainly driven by higher interest costs due to longer-term facilities and lower capitalised interest expenses due to the commissioning of the new high pressure, polyethylene plant in Sweden in the course of 2010.

### Taxes

The provision for income taxes for the first six months of 2011 amounted to EUR 62 million, compared to EUR 39 million in 2010. Borealis paid income taxes of EUR 51 million in the first six months of 2011, compared with EUR 16 million in the same period of 2010.

### Net profit and distribution of dividend

The net profit for the first six months ended June 30, 2011 amounted to EUR 341 million, compared to a net profit of EUR 146 million in the first six months of 2010. During 2011, Borealis distributed a dividend of EUR 100 million to its shareholders from the results of the financial year 2010.

## Financial position

### Total assets/capital employed

At the end of June 2011, the total assets and capital employed stood at EUR 5,899 million and EUR 4,369 million respectively, compared to EUR 5,630 million and EUR 4,090 million at year-end 2010. The increase of the total capital employed results largely from an increase in working capital arising from the higher price environment.

The solvency ratio was 52% at June 30, 2011, up by 1% compared to year-end 2010. The gearing ratio increased to 41%, compared to 37% as per end of December 2010. Net debt increased in the first half of 2011 by EUR 183 million to EUR 1,241 at the end of June 2011. Equity increased by EUR 145 million in the first six months of 2011, mainly as a result of the profit generated in the first six months, partially offset by foreign exchange translation effects.

### Cash flow and liquidity reserves

Cash flow from operations for the first six months of 2011 was EUR 16 million, reflecting the working capital investment in the first half of 2011. Liquidity reserves, composed of undrawn committed credit facilities and cash balances, amounted to EUR 1,262 million at the end of June 2011, compared to EUR 1,445 million at year-end 2010. A number of short term bank lines were not renewed which led to the reduction.

Net interest-bearing debt increased to EUR 1,241 million at the end of June 2011, up from EUR 1,058 million at the end of 2010.

### Capital expenditure

Investments in tangible assets amounted to EUR 88 million in the first six months of 2011, compared to EUR 42 million in the same period of 2010. The largest portion of this investment was related to the new catalyst plant being built in Linz and the site turnaround project in Schwechat.

Vienna, August 22, 2011

**Management**

**Mark Garrett**
Chief Executive

**Daniel Shook**
Chief Financial Officer

**Markku Korvenranta**

**Herbert Willerth**

**Gerd Löbbert**

# Interim consolidated income statement

| EUR million | 2011 | 2010 | Note |
|---|---|---|---|
| For the six months ended June 30 | Unaudited | Unaudited | |
| **Net sales** | **3,756** | **3,026** | 1 |
| Production costs | -3,059 | -2,441 | |
| Gross Profit | 697 | 585 | |
| Sales and distribution costs | -270 | -262 | |
| Administration costs | -97 | -103 | |
| R&D costs | -42 | -33 | |
| **Operating profit** | **288** | **187** | |
| Net results in associated companies after tax | 151 | 24 | |
| Financial income | 4 | 5 | |
| Financial expenses | -40 | -31 | |
| **Profit before taxation** | **403** | **185** | |
| Taxes | -62 | -39 | |
| **Net profit for the period** | **341** | **146** | |
| Attributable to: | | | |
| Non-controlling interest | 1 | 1 | |
| Equity holders of the parent | 340 | 145 | |

# Interim consolidated statement of comprehensive income

| EUR million | 2011 | 2010 |
|---|---|---|
| For the six months ended June 30 | Unaudited | Unaudited |
| **Net profit for the period** | **341** | **146** |
| Net gain/loss on translation of financial statements of foreign subsidiaries | -95 | 157 |
| Reclassifications during the period to the income statement | 0 | 0 |
| Tax effect recognised in other comprehensive income | 0 | 0 |
| Net gain/loss on long-term loans to subsidiaries and associated companies | -5 | 26 |
| Reclassifications during the period to the income statement | 1 | 6 |
| Tax effect recognised in other comprehensive income | 1 | -9 |
| Net gain/loss on loans and financial contracts to hedge investments in foreign subsidiaries | 9 | -22 |
| Reclassifications during the period to the income statement | 0 | 0 |
| Tax effect recognised in other comprehensive income | -2 | 6 |
| Fair value adjustment of cash flow hedges | -6 | -35 |
| Reclassifications during the period to the income statement | 1 | 14 |
| Tax effect recognised in other comprehensive income | 1 | 5 |
| **Net income/expense recognised in other comprehensive income** | **-95** | **148** |
| **Total comprehensive income** | **246** | **294** |
| Attributable to: | | |
| Non-controlling interest | 1 | 2 |
| Equity holders of the parent | 245 | 292 |

# Interim consolidated balance sheet

| EUR million | 30.06.2011 | 31.12.2010 | Note |
|---|---|---|---|
| | Unaudited | Audited | |
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 221 | 214 | 2 |
| | | | |
| Tangible assets | | | 2 |
| Production plants | 2,202 | 2,315 | |
| Machinery and equipment | 38 | 38 | |
| Construction in progress | 170 | 111 | |
| | 2,410 | 2,464 | |
| | | | |
| Investments in associated and jointly controlled companies | 1,086 | 1,003 | 3 |
| Other investments | 15 | 15 | |
| Other long-term receivables | 14 | 16 | |
| Deferred tax assets | 130 | 149 | |
| | | | |
| **Total non-current assets** | **3,876** | **3,861** | |
| | | | |
| **Current assets** | | | |
| Inventories | 961 | 856 | 4 |
| | | | |
| Receivables | | | |
| Trade receivables | 434 | 318 | |
| Receivables from associated companies | 259 | 230 | 9 |
| Income taxes | 24 | 9 | |
| Other receivables and other assets | 261 | 222 | |
| | 978 | 779 | |
| | | | |
| Cash and cash equivalents | 84 | 134 | |
| | | | |
| **Total current assets** | **2,023** | **1,769** | |
| | | | |
| **Total assets** | **5,899** | **5,630** | |

# Interim consolidated balance sheet

| EUR million | 30.06.2011 | 31.12.2010 | Note |
|---|---|---|---|
| | Unaudited | Audited | |
| **Total Equity and Liabilities** | | | |
| **Shareholders' equity** | | | |
| Share capital and contributions by shareholders | 1,799 | 1,799 | |
| Reserves | -113 | -17 | |
| Retained earnings | 1,345 | 1,105 | |
| | 3,031 | 2,887 | |
| Non-controlling interest | 12 | 11 | |
| **Total equity** | **3,043** | **2,898** | |
| **Liabilities** | | | |
| Non-current liabilities | | | |
| Loans and borrowings | 968 | 1,072 | 7 |
| Deferred tax | 279 | 288 | |
| Employee benefits | 229 | 229 | |
| Provisions | 74 | 83 | 5 |
| Government grants | 47 | 35 | 6 |
| | 1,597 | 1,707 | |
| Current liabilities | | | |
| Loans and borrowings | 358 | 120 | 7 |
| Trade payables | 641 | 635 | |
| Income taxes | 23 | 13 | |
| Provisions | 3 | 5 | 5 |
| Other liabilities | 234 | 252 | |
| | 1,259 | 1,025 | |
| **Total liabilities** | **2,856** | **2,732** | |
| **Total equity and liabilities** | **5,899** | **5,630** | |
| Contingent liabilities | | | 8 |

# Interim consolidated statement of changes in equity

| EUR million | Share capital* and contributions by shareholders | Reserve for actuarial gains/losses recognised in equity | Hedging reserve | Reserve for unrealised exchange gains | Retained earnings | Total attributable to the equity holders of the parent | Attributable to non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| For the six months ended June 30 | | | | | | | | |
| **Balance as of December 31, 2010** | **1,799** | **-73** | **20** | **36** | **1,105** | **2,887** | **11** | **2,898** |
| Profit of the period | 0 | 0 | 0 | 0 | 340 | 340 | 1 | **341** |
| Other comprehensive income | 0 | 0 | -4 | -91 | 0 | -95 | 0 | **-95** |
| Total comprehensive income | 0 | 0 | -4 | -91 | 340 | 245 | 1 | **246** |
| Dividend payment by subsidiaries | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Dividend payment | 0 | 0 | 0 | 0 | -100 | -100 | 0 | **-100** |
| Capital in/decrease | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Balance as of June 30, 2011 (unaudited)** | **1,799** | **-73** | **16** | **-55** | **1,345** | **3,031** | **12** | **3,043** |
| **Balance as of December 31, 2009** | **1,899** | **-45** | **-25** | **-115** | **673** | **2,387** | **9** | **2,396** |
| Profit of the period | 0 | 0 | 0 | 0 | 145 | 145 | 1 | **146** |
| Other comprehensive income | 0 | 0 | -16 | 163 | 0 | 147 | 1 | **148** |
| Total comprehensive income | 0 | 0 | -16 | 163 | 145 | 292 | 2 | **294** |
| Dividend payment by subsidiaries | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Dividend payment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Capital in/decrease | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Balance as of June 30, 2010 (unaudited)** | **1,899** | **-45** | **-41** | **48** | **818** | **2,679** | **11** | **2,690** |

A dividend of EUR 100 million was paid in 2011 out of the result of the year 2010.

* Share capital of Borealis AG (parent company) amounts to EUR 300,000 (30.6.2010: EUR 300,000) and is divided into 300,000 (30.6.2010: 300,000) shares, of which none have special voting rights.

# Interim consolidated cash flow

| EUR million | 2011 | 2010 | Note |
|---|---|---|---|
| For the six months ended June 30 | Unaudited | Unaudited | |
| **Cash flows from operating activities** | | | |
| Payments from customers | 3,565 | 2,727 | |
| Payments to employees and suppliers | -3,461 | -2,736 | |
| Interest received | 4 | 5 | |
| Interest paid | -34 | -30 | |
| Other financial expenses paid | -7 | -7 | |
| Income taxes paid | -51 | -16 | |
| | **16** | **-57** | |
| **Cash flows from investing activities** | | | |
| Investments in tangible assets | -88 | -42 | 2 |
| Investments in intangible assets and other investments | -19 | -19 | |
| | **-107** | **-61** | |
| **Cash flows from financing activities** | | | |
| Long-term loans obtained | 0 | 354 | |
| Short-term loans obtained | 149 | 151 | |
| Long-term loans repaid | -5 | -11 | |
| Short-term loans repaid | -2 | -386 | |
| Dividends paid | -100 | 0 | |
| | **42** | **108** | |
| **Net cash flow for the period** | **-49** | **-10** | |
| Cash and cash equivalents as of January 1 | 134 | 37 | |
| Effect of exchange rate fluctuations on cash held | -1 | 2 | |
| **Cash and cash equivalents as of June 30** | **84** | **29** | |

# Notes to the interim consolidated financial statements

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

**Basis of preparation**
The interim consolidated financial statements for the six months ended June 30, 2011 have been prepared in compliance with International Financial Reporting Standards as adopted by the EU, IAS 34 for interim financial statements. They do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as of December 31, 2010.
The interim consolidated financial statements for the six months ended June 30, 2011 are unaudited and have not been subject to an external audit review.

The interim consolidated financial statements are presented in Euro, rounded to the nearest million.
The accounting policies applied in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2010, except for the new standards and interpretations as of January 1, 2011, as endorsed by the EU.

- IAS 24 *Related Party Disclosures* (revised), effective January 1, 2011
- IAS 32 *Classification of Rights Issues* (amended), effective February 1, 2010
- IFRIC 13 *Customer Loyalty Programmes* (amended), effective January 1, 2011
- IFRIC 14 *Prepayments of a Minimum Funding Requirement* (amended), effective January 1, 2011
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (new interpretation), effective July 1, 2010
- Improvements to IFRSs 2010 (May 2010)

*Effective means effective for annual periods beginning on or after that date.*

The adoption of the new and amended standards and interpretations stated above did not have a material impact on the financial position or performance of the Group.

## 1. Segment reporting

| | Polyolefins | | Base Chemicals | | Non-Allocated | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| **EUR million** | **2011** | **2010** | **2011** | **2010** | **2011** | **2010** | **2011** | **2010** |
| For the six months ended June 30, if not indicated otherwise | | | | | | | | |
| **Net sales by business:** | | | | | | | | |
| Total sales | 2,507 | 2,078 | 3,104 | 2,427 | 45 | 95 | 5,656 | 4,600 |
| Group internal sales | 0 | 0 | -1,900 | -1,574 | 0 | 0 | -1,900 | -1,574 |
| | **2,507** | **2,078** | **1,204** | **853** | **45** | **95** | **3,756** | **3,026** |

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

| | Polyolefins 2011 | Polyolefins 2010 | Base Chemicals 2011 | Base Chemicals 2010 | Non-Allocated 2011 | Non-Allocated 2010 | Consolidated 2011 | Consolidated 2010 |
|---|---|---|---|---|---|---|---|---|
| **Result:** | | | | | | | | |
| Operating profit | 173 | 142 | 235 | 127 | -120 | -82 | 288 | 187 |
| Net result in associated companies | | | | | 151 | 24 | 151 | 24 |
| Net financial items | | | | | -36 | -26 | -36 | -26 |
| Income tax | | | | | -62 | -39 | -62 | -39 |
| Non-controlling interest | | | | | -1 | -1 | -1 | -1 |
| **Net profit for the year attributable to equity holders of the parent** | | | | | | | **340** | **145** |
| **Other information:** | | | | | | | | |
| Investments in tangible fixed assets | 62 | 22 | 25 | 19 | 1 | 1 | 88 | 42 |
| Depreciation and amortisation | 63 | 55 | 45 | 41 | 21 | 21 | 130 | 117 |
| | **30.06.** | **31.12.** | **30.06.** | **31.12.** | **30.06.** | **31.12.** | **30.06.** | **31.12.** |
| Segment assets | 3,298 | 3,182 | 1,377 | 1,241 | 1,224 | 1,207 | 5,899 | 5,630 |
| *thereof Austria* | *1,989* | *1,828* | *701* | *726* | *587* | *739* | *3,277* | *3,293* |
| Segment liabilities | | | | | 2,856 | 2,732 | 2,856 | 2,732 |

### 2. Intangible and tangible assets

Additions to intangible assets in the first six months of 2011 amounted to EUR 50 million (first six months 2010: EUR 38 million). Additions arising from internal development amounted to EUR 13 million (30.6.2010: EUR 12 million). Intangible assets received by the way of government grant as allowances for emissions (EU Emissions Trading System) amounted to EUR 30 million (30.6.2010: EUR 21 million). Their carrying value is in line with the fair value. The impairment of intangible assets in the first half year 2011 for which the carrying value exceeds the present value of future cash amounted to EUR 4 million (first six months 2010: EUR 0 million).

Additions to tangible assets in the first half year 2011 amounted to EUR 88 million (first six months 2010: EUR 42 million). Moreover borrowing costs amounting to EUR 1 million (first six months 2010: EUR 6 million) have been capitalised, using a 4% (30.6.2010: 3%) interest rate. The major part of the additions in the first half year 2011 relates to the new catalyst plant in Linz and the site turnaround project in Schwechat. In the first six months of 2011 impairment on production lines amounted to EUR 0 million (first six months 2010: EUR 1 million).

Future capital expenditure approved (tangible and intangible) by Management totals EUR 466 million (31.12.2010: EUR 299 million), out of which EUR 101 million (31.12.2010: EUR 32 million) is contractually committed.

### 3. Changes in subsidiaries and investments in associated companies and joint ventures

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

| 30.06.2011 | Country | Ownership in % |
|---|---|---|
| Abu Dhabi Polymers Company Limited (Borouge) | United Arab Emirates | 40 |
| Borouge Pte Ltd | Singapore | 50 |
| Speciality Polymers Antwerp N.V. | Belgium | 33 |
| Borealis Financial Services Ltd | Jersey | 25 |
| Petroport Holding AB (Joint Venture) | Sweden | 50 |
| Chemiepark Linz Betriebsfeuerwehr GmbH* | Austria | 47.5 |

**Excluded from the consolidation at equity due to immateriality*

In the first 6 months, the following changes in subsidiaries and joint ventures took place:

The new subsidiaires Borealis Poliolefinas da America du Sul Lda in Brazil, Linzer Agro Trade Bulgaria Ltd. in Bulgaria and Borealis Feuerwehr GmbH in Austria were established.
PetroPort Holding AB was founded as a joint venture where Borealis AB has a 50% share and both shareholders of PetroPort AB sold their shares to PetroPort Holding AB.

The new subsidiaries have no material impact on the financial position or performance of the Group.

#### 4. Inventories

Inventories of ethylene and propylene are included under finished products.

| EUR million | 30.06.2011 | 31.12.2010 |
|---|---|---|
| Raw materials and consumables | 282 | 206 |
| Finished products | 679 | 650 |
| **Total** | **961** | **856** |

The inventory value of finished products has been written down to its net realisable value. The inventory, subject to write down to net realisable value, amounted to EUR 274 million (31.12.2010: EUR 175 million), on which a write down in the amount of EUR 27 million (31.12.2010: EUR 15 million) has been recognised.

#### 5. Provisions

The Group's provisions mainly consist of provisions for decommissioning and restructuring, and other provisions including environmental and legal exposures. The provisions are generally based on the past events and commitments arising thereon. The timing of the cash outflows cannot be determined with certainty.

**Decommissioning**
The provision for decommissioning amounted to EUR 24 million (31.12.2010: EUR 24 million) and covers the expected clean-up and dismantling costs, mainly for plants in Germany and Austria.

**Restructuring**
The provision for restructuring amounted to EUR 16 million (31.12.2010: EUR 19 million) and covers estimated costs for the restructuring programmes, mainly in Belgium and Norway. The decrease in the provision reflects its utilisation over the first six months in 2011, where part of the commitments related to restructuring programmes was paid.

#### 6. Government grants

Government grants received from EU Emissions Trading System amounted to EUR 15 million as of June 30, 2011 (31.12.2010: EUR 0 million). These grants are included at fair value at the beginning of the year and are released within that year.

## 7. Loans and borrowings

The composition of interest-bearing loans and borrowings (short and long-term debt) at June 30, 2011 in EUR million was as follows:

| Maturities | | 30.06.2011 | | | | | |
|---|---|---|---|---|---|---|---|
| Due | | **Total** | Term loans | Utilised uncommited facilities | Export credits | Finance leases | Unutilised committed facilities |
| After | 5 years | **569** | 569 | | | | 75 |
| Within | 5 years | **25** | 24 | | | 1 | |
| | 4 years | **170** | 170 | | | | |
| | 3 years | **117** | 117 | | | | 953 |
| | 2 years | **87** | 87 | | | | 77 |
| Total long-term debt | | **968** | 967 | | | 1 | 1,105 |
| Total short-term debt | 1 year | **358** | 179 | 92 | 87 [1)] | 0 | 73 [1)] |
| **Total debt** | | **1,326** | **1,146** | **92** | **87** | **1** | **1,178** |

1) Borealis maintains EUR 160 million in export credit facilities (EUR 87 milion drawn and EUR 73 million undrawn at June 30, 2011).
These facilities are economically evergreen in nature, but include a one year notice for cancellation.

| Maturities | | 31.12.2010 | | | | | |
|---|---|---|---|---|---|---|---|
| Due | | **Total** | Term loans | Utilised uncommited facilities | Export credits | Finance leases | Unutilised committed facilities |
| After | 5 years | **603** | 603 | | | | |
| Within | 5 years | **164** | 163 | | | 1 | |
| | 4 years | **24** | 24 | | | | |
| | 3 years | **182** | 182 | | | | 953 |
| | 2 years | **99** | 99 | | | | 77 |
| Total long-term debt | | **1,072** | 1,071 | | | 1 | 1,030 |
| Total short-term debt | 1 year | **120** | 91 | | 29 [2)] | | 281 [2)] |
| **Total debt** | | **1,192** | **1,162** | **0** | **29** | **1** | **1,311** |

2) Borealis maintains EUR 160 million in export credit facilities (EUR 29 million drawn and EUR 131 undrawn at December 31, 2010).
The remaining undrawn export credit facilities of EUR 131 million are included in the unutilised committed facilities.
The export credit facilities are economically evergreen in nature, but include a one year notice for cancellation.

The Group's financing is mainly comprised of committed credit lines (largely syndicated), term loans, bonds, private placements, subordinated loans and export credits. The loans and borrowings are all measured at amortised cost.

Of the subordinated loan, which matures in October 2011, EUR 72 million (31.12.2010: EUR 72 million) remains outstanding at June 30, 2011. The subordinated loan is included in the short-term debt.

At June 30, 2011, the Group has committed long term credit facilities of EUR 1,105 million (31.12.2010: EUR 1,030 million) of which EUR 0 million (31.12.2010: EUR 0 million) has been utilised. The unutilised committed long term credit facility of EUR 75 million, entered in June 2011, relates to a long term financing arrangement in conjunction with the catalyst plant investment in Linz. Furthermore the Group has committed short term credit facilities of EUR 160 million (31.12.2010: EUR 281 million) of which EUR 87 (31.12.2010: EUR 29 million) has been utilised. Some loan agreements have financial covenants, which are based on maintaining certain gearing and solvency ratios.

### 8. Contingent liabilities

The contingent liabilities have not changed considerably as compared to December 31, 2010.

### 9. Transactions with related parties

| EUR million | 30.06.2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Goods and Services | | | | Financing | | | |
| | Purchases from | Sales to | Receivables from | Payables to | Loans | Borrow-ings | Interest received | Interest paid |
| Associates and Joint Ventures | 47 | 230 | 259 | 4 | 0 | 0 | 0 | 0 |
| Parent company | 0 | 0 | 0 | 0 | 0 | 36 | 0 | 1 |
| Companies with significant influence | 781 | 28 | 1 | 88 | 0 | 36 | 0 | 0 |
| Key management personnel | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other related parties | 10 | 1 | -1 | 0 | 0 | 0 | 0 | 0 |
| | **838** | **260** | **259** | **92** | **0** | **72** | **0** | **1** |

| EUR million | 30.06.2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Goods and Services | | | | Financing | | | |
| | Purchases from | Sales to | Receivables from | Payables to | Loans | Borrow-ings | Interest received | Interest paid |
| Associates and Joint Ventures | 30 | 250 | 194 | 1 | 77 | 0 | 0 | 0 |
| Parent company | 1 | 0 | 0 | 0 | 0 | 36 | 0 | 1 |
| Companies with significant influence | 689 | 27 | 1 | 125 | 0 | 36 | 0 | 0 |
| Key management personnel | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other related parties | 1 | 0 | 5 | 1 | 0 | 0 | 0 | 0 |
| | **722** | **277** | **200** | **127** | **77** | **72** | **0** | **1** |

The sales to associates mainly relate to sales of finished goods and services. Purchases from companies with significant influence mainly relate to purchase of feedstock and utilities from OMV group companies at market rates.

The receivables from associates include securitisation related transactions. As of June 30, 2011, receivables worth EUR 475 million (30.6.2010: EUR 371 million) were sold. The company continues to administer the relationship with debtors and will compensate the purchaser for credit notes issued subsequent to the sale. To cover that compensation, a receivable of EUR 175 million (30.6.2010: EUR 96 million) is outstanding as of June 30, 2011 and is reported under receivables from associated companies.

The transactions with other related parties relate to the subsidiaries and associated companies of the parent company of Borealis.

## 10. Subsequent events

Borealis has had no significant subsequent events after June 30, 2011.

## 11. Management

Management: Mark Garrett, Daniel Shook, Herbert Willerth, Gerd Löbbert, Markku Korvenranta.

Vienna, August 22, 2011

**Management**

**Mark Garrett**
Chief Executive

**Daniel Shook**
Chief Financial Officer

**Markku Korvenranta**

**Herbert Willerth**

**Gerd Löbbert**

# Statement by the Management in accordance with § 87 (1) Z 3 of Austrian Stock Exchange Act

We confirm to the best of our knowledge that the consolidated interim financial statements, prepared in accordance with the rules for interim financial statements set forth in the International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group and that the group management report on the first half year provides a true and fair view of important events that have occured during the first six months of the financial year and the impact on the interim financial statements as well as the principal risks and uncertainties for the remaining six months of the financial year.

The presented interim financial report has not been subject to an audit or review.

Vienna, August 22, 2011

**Management**

**Mark Garrett**
Chief Executive

**Daniel Shook**
Chief Financial Officer

**Markku Korvenranta**

**Herbert Willerth**

**Gerd Löbbert**

# Contact us

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

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