



A N N U A L R E P O R T 1 9 9 8



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This is an expanded version of the statutory Danish-language annual report, which was approved on March 12, 1999, and will be filed with the Danish Commerce and Companies Agency.

The New World of Borealis

Borealis is Europe's leading producer of polyolefin plastics – polyethylene (PE) and polypropylene (PP).

The Group entered a new world in 1998 with a change in ownership

and the acquisition of PCD Polymere.

Borealis is the fourth-largest polyolefins producer worldwide. Total production exceeds 3 million tonnes per year, employing some 6,000 people. The head office is in Denmark. The Group is now owned 50% by the Norwegian oil company Statoil, 25% by the Austrian oil and gas company OMV, and 25% by the International Petroleum Investment Company of Abu Dhabi.

The Group's output covers an integrated mix of petrochemicals (ethylene, propylene, and phenol & aromatics) and polyolefins. These are produced at main sites in Austria, Belgium, Finland, Germany, Norway, Portugal and Sweden, and at smaller locations in Italy and France. Borealis and Nova Chemicals Ltd. of Canada operate a joint venture in the United States to compound PE materials for the wire and cable business in North and South America.

In 2001, Borealis and the Abu Dhabi National Oil Company (ADNOC) are to begin joint production of Borealis' proprietary Borstar PE from a new petrochemical complex under construction in Ruwais under the company name Borouge. A joint venture company in Singapore has begun pre-marketing activities.

The Borealis Group is organised around six Business Units. The Performance Products Division encompasses Wire & Cable, Pipe and Engineering Applications. The Polyolefins and Chemicals Division comprises Polyethylene, Polypropylene, and an Olefins, Phenol & Aromatics unit.

Skill Centres are an integral part of each Business Unit in order to serve customers better. Research & Development, as a part of Borealis'

Business Development Division, is concentrated at production sites in Austria, Finland and Norway, and at special technical support centres. These provide not only new, unique products and technical services, they also help Borealis achieve manufacturing excellence.

Borealis is committed to close, creative partnerships with key customers, suppliers and local communities, and to constant improvement in the areas of health, safety and the environment. We continue to support Médecins Sans Frontières in their international humanitarian relief work.

All Borealis employees contribute to focusing on our customers, to controlling costs and optimising financial performance in order to remain competitive in the cyclical polyolefins industry. We sum this up in a simple statement: "It's an attitude."



PE and PP from Borealis can be found in thousands of everyday products from food packaging and construction materials to housewares, cars, airplanes, pipes and cables. A network of sales offices in more than 20 countries serves customers around the globe.

A unique feature of Borealis is Borstar, our own process technology that yields PE and PP products which are substantially stronger and more easily processed than conventional materials.

Key Figures and Ratios

E U R

		1998	1997	1996	1995	1994
Income and profitability						
Turnover	EUR million	2,739	2,516	2,134	2,404	2,137
Operating profit	EUR million	166	239	106	389	146
Operating profit as percentage of turnover	%	6	10	5	16	7
Profit before taxation	EUR million	145	220	117	353	84
Net profit for the year	EUR million	116	183	101	279	55
Return on capital employed, after tax	%	9	14	9	19	6

Cash flow and investments

Cash flow from operating activities	EUR million	386	324	133	501	84
Investments in tangible fixed assets	EUR million	187	197	181	101	56

DEFINITIONS

Capital employed

Total assets less non-interest-bearing debt, exclusive of payable dividend

Return on capital employed

Operating profit, profit and loss from sale of operations plus interest income, after tax, divided by average capital employed

Solvency ratio

Equity plus negative goodwill plus subordinated loans divided by total assets

Gearing

Interest-bearing debt less cash at bank and in hand divided by equity

Financial position

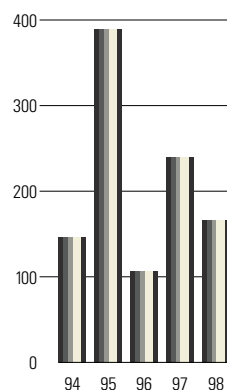
		31.12.98	31.12.97	31.12.96	31.12.95	31.12.94
Total assets	EUR million	2,636	2,175	1,994	2,281	2,292
Net interest-bearing debt	EUR million	314	180	252	329	755
Capital employed	EUR million	1,765	1,543	1,473	1,694	1,767
Equity	EUR million	1,117	1,124	1,041	964	833
Solvency ratio	%	44	52	52	46	40
Gearing	%	28	16	24	34	91

Number of employees

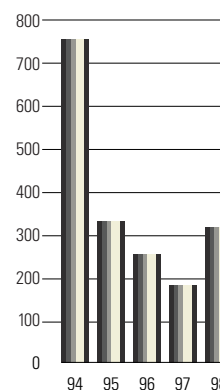
		5,848	5,001	5,045	6,702	6,536
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1 EUR = 7.4536 DKK

**Operating Profit
EUR Million**



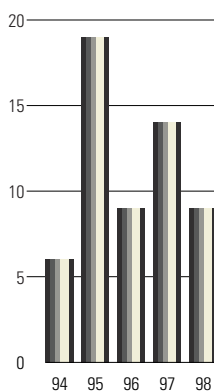
**Net Interest-bearing
Debt EUR Million**



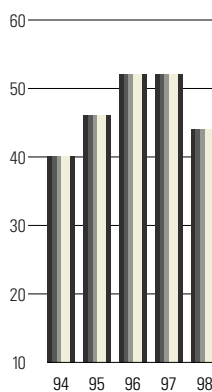
D K K

		1998	1997	1996	1995	1994
Income and profitability						
Turnover	DKK million	20,418	18,755	15,906	17,921	15,931
Operating profit	DKK million	1,234	1,785	790	2,900	1,089
Operating profit as percentage of turnover	%	6	10	5	16	7
Profit before taxation	DKK million	1,082	1,641	870	2,628	625
Net profit for the year	DKK million	862	1,364	754	2,083	411
Return on capital employed, after tax	%	9	14	9	19	6
Cash flow and investments						
Cash flow from operating activities	DKK million	2,878	2,416	992	3,734	629
Investments in tangible fixed assets	DKK million	1,395	1,468	1,348	754	415
Financial position						
		31.12.98	31.12.97	31.12.96	31.12.95	31.12.94
Total assets	DKK million	19,650	16,212	14,861	16,999	17,081
Net interest-bearing debt	DKK million	2,337	1,345	1,879	2,453	5,631
Capital employed	DKK million	13,157	11,500	10,976	12,625	13,172
Equity	DKK million	8,326	8,381	7,757	7,184	6,211
Solvency ratio	%	44	52	52	46	40
Gearing	%	28	16	24	34	91
Number of employees						
		5,848	5,001	5,045	6,702	6,536

Return On Capital Employed, after tax %



Solvency Ratio %



1998 in Review

January

One of the low pressure PE plants at Stenungsund, Sweden, marks 10 years with no lost time accidents.

March

Borealis announces plans to upgrade one of its low pressure PE plants at Stenungsund with proprietary, state-of-the-art Borstar technology. The new plant is to go on stream by autumn 2000.

April

The Abu Dhabi National Oil Company (ADNOC) and Borealis sign the final agreement to build and operate a petrochemical complex in Abu Dhabi, and to establish a marketing company in Singapore. The joint venture is named Borouge.

May

Borealis and Norsk Hydro close the waste recovery operations of Retroplast AS in Norway due to weak market response. Borealis remains

active in plastic waste recovery and recycling.

August

With EU approval, Borealis closes the deal to acquire PCD as of Jan. 1, 1998. The acquisition is related to Neste's agreement to sell its 50%



shareholding in Borealis equally to the International Petroleum Investment Company (IPIC) of Abu Dhabi, and to OMV of Austria.

Borealis confirms plans to build a Borstar process training centre in Porvoo, Finland.

Expansion of the Porvoo cracker capacity to 290,000 tonnes/year is completed.

Site Austria receives the environmental certification ISO 14001.

September

Full integration of PCD into Borealis takes effect, making Borealis the fourth-largest polyolefins producer worldwide. Annual production capacity increases to over 3 million tonnes, and the number of employees to approximately 6,000.

Borealis co-sponsors the Plastic Pipes X Conference, with record attendance of nearly 500 delegates from 35 countries.

Borealis' European works council, called the Corporate Co-operation Council, holds its fifth annual conference.

October

Borealis attracts key customers and business contacts to the world's largest plastics trade fair, K'98 in Düsseldorf.



G R O W T H

IT'S AN ATTITUDE



November

Borealis increases its financial flexibility by signing an agreement with an international 23-bank syndicate for a USD 650 million, seven-year amortising credit facility.

The Chemical Industry Innovation Award of Finland is given to the Borealis Borstar PP team. The technology was developed at Borealis' Research Centre in Porvoo.

Borealis and Norsk Hydro announce plans to boost the capacity of the ethylene cracker at Rafnes,

Norway, by 10% to 450,000 tonnes/year.

December

Borealis donates EUR 67,000 (DKK 500,000) to the relief organisation Médecins Sans Frontières as part of Borealis' ongoing support.

Construction begins at Schwechat, Austria, on Borealis' first Borstar plant for PP.

Site Belgium receives the environmental certification ISO 14001.

Letter from the CEO

1998 was a year of progress and major change for Borealis. We became bigger and more international. A new ownership structure was secured. We reinforced our position as the undisputed leader in polyethylene and polypropylene plastics in Europe, and grew into the fourth-largest worldwide. We ran our operations more safely and effectively, and we took decisive steps in implementing our strategy of growth with our own Borstar technology as the backbone. We are walking the road towards becoming "The best team in polyolefins working through partnerships for a better world" - as our purpose statement says.

Our performance in health, safety and the environment continued to improve. We did become a safer workplace for our employees, but we also had a serious setback in a fatal accident of a contractor falling from a malfunctioning sky lift at one of our sites. A contractor driver also died in an accident while delivering Borealis material at a customer location. All possible actions have been taken to learn from these accidents. We will continue our efforts to reach our goal of zero accidents.



Through the acquisition of PCD Polymere of Austria, we entered 1999 with by far the largest and broadest customer offering in the European polyolefins industry. We maintained our leading market position in supplying the wire and cable business with, for example, high quality jacketing material for insulating high voltage. Our strength in supplying superior PE material for water, gas and sewage pipes gained acceptance over other, conventional materials. Now we are even better able to provide the automotive and housewares industries with PE and PP products to suit demanding customer needs.

The process of integrating our new colleagues from PCD into the Borealis team was greatly helped by a new organisational structure. We believe in the strength of a good team: "None of us is as strong as all of us." Virtually all top and core business jobs in the company were appraised and filled by the strongest available

candidates. Our ability to treat people openly and fairly in processes of major change is key to building competitive strength.

We took decisive steps in our strategy of growth, also beyond Europe. Agreements with the Abu Dhabi National Oil Company (ADNOC) were signed, establishing our joint venture company, Borouge, to build and operate a world-scale ethylene/polyethylene site with Borstar PE technology. The first major construction contracts were also signed.

Our relations with Abu Dhabi were further strengthened by the International Petroleum Investment Company (IPIC), together with OMV of Austria, acquiring Neste's 50% shareholding in Borealis. I would like to thank Finland's Neste, a founding shareholder since 1994, for their decisive contribution to Borealis' success.

We made further progress in developing our Borstar technology in 1998. This included investments to increase our production capacity for Borstar PE, and we broke the ground for the first Borstar PP plant at our site in Austria.



Executive Board

Left to right

Henry Sperle

Executive Vice President,
Business Development Division

Franz Wurm

Chief Financial Officer

Staffan Lennström

Executive Vice President,
Performance Products Division

Svein Rennemo

Chief Executive Officer

Harald Ynnesdal

Executive Vice President,
Manufacturing Division

Walter Kadl

Executive Vice President,
Polyolefins & Chemicals Division

As the polyolefins industry moves into a period of weaker markets and prices, the drive for improved cost effectiveness takes on increasing importance. Borealis is in the middle of major restructuring and cutting back on fixed and variable costs. We are reducing the number of employees significantly, while at the same time enabling individuals to take on broader responsibilities.

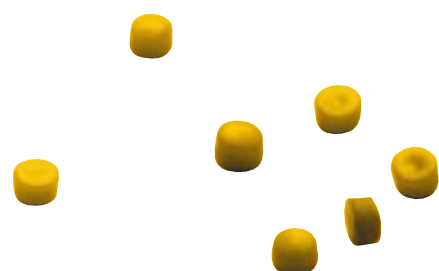
I travelled extensively in the world of Borealis in 1998. Everywhere I went, I was struck by the power of our diversity and the commitment of our team members. Nurturing and strengthening this commitment will remain a key success factor.

Yes, we did make progress in 1998. We plan and need further, significant improvements in the years to come. It is a question of taking full advantage of our asset base and

responding effectively to customer and market needs. It is about further building our position as a product and technology leader. And it is about developing our platform for further growth.

Svein Rennemo

Chief Executive Officer
Borealis A/S



Report of the Board of Directors

Board of Directors

Left to right

Gerhard Roiss

(Vice Chairman)

Mohamed Al Khaily

Erling Øverland

Terje Vareberg

(Chairman)

As of Aug. 4, 1998, the Finnish company Neste sold its 50% shareholding in Borealis to IOB Holdings A/S, which is owned equally by the Austrian oil and gas company OMV and the International Petroleum Investment Company (IPIC) of Abu Dhabi. Thus, the Borealis Group is now owned 25% by OMV, 25% by IPIC and 50% by the Norwegian oil company Statoil. Two new members were appointed to the Board of Directors in accordance with this change.

The new Board wishes to thank Neste for its contribution to Borealis' growth and development since before the company was founded in March 1994.

A year of growth

The Borealis Group emerged from its fifth year of operations considerably larger and more international due to the acquisition of PCD Polymere of Austria and the new joint venture with the Abu Dhabi National Oil Company (ADNOC).

Financial performance in 1998 was weaker than in 1997. This reflects the weakened global market for polyolefins, and restructuring charges related mainly to the acceleration of Borealis' Site Development Pro-

gramme. Borealis continues to focus on reducing costs, improving customer satisfaction, taking advantage of the new synergies from former PCD and making its proprietary Borstar technology a commercial success.

The acquisition of PCD added 1,000 new colleagues of various nationalities and boosted the Group's

Borealis saw continued improvement in health, safety and environmental performance in 1998. However, a contractor died of injuries in a lift accident, and this was the first workplace fatality for Borealis. It underlines the need to intensify efforts to meet the ambitious targets set for 2000.



annual polyolefins production capacity by some 900,000 tonnes to over 3.3 million tonnes. Thus, Borealis has grown into the largest producer by far in Europe, and the fourth-largest worldwide. The integration of former PCD has been successful.

At the same time, Borealis and ADNOC proceeded with their joint venture, Borouge, to build and operate a world scale petrochemical complex in Abu Dhabi. A Borouge sales and marketing company has been established in Singapore.

A major structural reorganisation of the Borealis Group took effect on Sept. 1. It gives clearer roles and responsibilities in core business areas, plus a sharper focus on Borealis' customers and markets.

Financial performance

The 1998 figures include former PCD from Jan. 1, 1998.

The Borealis Group delivered a weakened financial result in 1998 compared to 1997. Excluding restructuring charges, the year ended with an operating profit of EUR 220 million (DKK 1,639 million), which is a 18%



P A R T N E R S H I P

IT'S AN ATTITUDE



decrease from the EUR 268 million (DKK 1,995 million) earned in 1997. This is due mainly to decreased levels of margins and sales, although there were considerably higher volumes resulting from the acquisition of PCD. Including restructuring charges, the operating profit for 1998 was EUR 166 million (DKK 1,234 million), down 31% from EUR 239 million (DKK 1,785 million) in 1997.

Net profit amounted to EUR 116 million (DKK 862 million) compared with EUR 183 million (DKK

1,364 million) in 1997. Return on capital employed (ROCE) decreased to 9% after tax, down from 14% in 1997. The Board proposes that EUR 79 million (DKK 591 million) be distributed as dividends.

The 1998 accounts include EUR 54 million (DKK 405 million) in additional restructuring costs linked mainly to the acceleration of the Site Development Programme. The number of employees is on the decline, also mainly due to this programme, but at the same time Borealis is building up competence for its future growth.

Total capital expenditure was EUR 247 million (DKK 1,841 mil-

lion), which is an increase of 18% compared to 1997.

Cash flow from operations increased to EUR 386 million (DKK 2,878 million) in 1998 from EUR 324 million (DKK 2,416 million) in 1997. With a solvency ratio of 44% and an average, after-tax ROCE of 12% since start-up, the company is on par with the financial targets set when Borealis was established in 1994.

Markets and customers

Average polyolefin prices declined 14% in 1998 from levels in 1997. Especially during the last quarter of 1998, pressure on the market increased, leading to price reductions and lower sales volumes.

However, Borealis' price premiums compared to general-purpose polyolefins improved, driven by an increased portion of high value-added products.

The acquisition of PCD strengthened Borealis' competence, especially in polypropylene (PP), and positioned it better for polyolefins markets in central and eastern Europe. There was little overlap of customers.

Health, safety and environmental performance

The Group made continued progress in the area of health, safety and the environment (HSE) but this improvement was marred by the contractor fatality in November at the Borealis site in Porvoo, Finland.

This accident points to the need for further improvements in safety. Lost time accidents for Borealis' own employees continued to decline in 1998, and now stand near the average for the European chemical industry. Total recordable injuries fell by more than 30% compared to 1997, to 10.2 cases per million working hours. Total



plant emissions were also lower than in 1997 but Borealis needs to improve its performance further.

The Group's sick leave percentage was the only parameter that increased during the year, to 3.0% from 2.8% in 1997.

In 1998, Borealis invested EUR 16 million (DKK 120 million) in projects where HSE considerations were the sole or dominant issues.

Operation and production

Total output in 1998 was 3,107 tonnes polyolefins and 1,850 tonnes olefins. Operational regularity and

quality performance improved compared to 1997.

Proprietary technology

Borealis' proprietary technology, Borstar, is a prerequisite for the company's growth ambitions and performance product profile.

Customers' acceptance of Borstar PE products in all applications has been very positive. The Borstar PP project is progressing according to schedule, including the development of a first-phase product portfolio. Borealis has established a number of contacts with potential licensees for this technology.

In the meantime, Borealis continues its strategic management of intellectual rights. The Group filed some 40 new patent applications in 1998.



Philips Délice coffeemaker

Philips and Borealis began working together early in developing the Philips Délice coffeemaker.

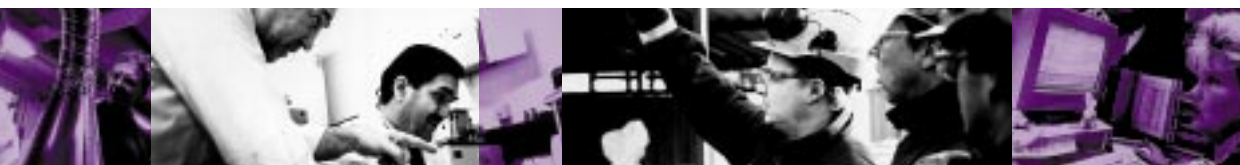
The challenge for the modern kitchen appliances industry is to ensure a continuous improvement in costs, features and design. Clearly, partnership pays.

Future prospects

Growth in total demand and average prices for polyolefins weakened as Borealis entered 1999. These pressures are expected to continue in the months ahead. The economic downturn in Asia, Russia and Latin America, combined with the unsatis-

and Austria will be realised according to schedule.

Borealis continues to work to ensure that the company will operate safely and conduct business before, during and after the rollover to Jan. 1, 2000. The Group's Year 2000 Programme covers all Borealis sites and offices, and includes all activities per-



factory market situation for commodity plastics, appears likely to accelerate the trend towards further industry consolidation.

Facing these challenges, Borealis has strengthened its focus on improving cost and operational performance through its Site Development Programme, through further cost reductions mainly in corporate overhead, and by taking full advantage of the new organisation and synergies linked to the PCD acquisition.

At the same time, the Group's PE and PP capacity will be upgraded through Borstar technology. Key Borstar projects in Abu Dhabi, Sweden

taining to own assets, feedstocks, raw materials, utilities, services and customers.

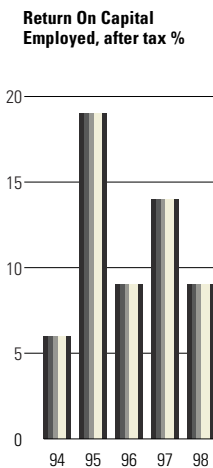
The Borealis Group began phasing in the euro from Jan. 1, 1999. The key figures for 1998 are already expressed in the new European currency unit.

This report was approved by the Board of Directors in Copenhagen on Feb. 23, 1999.

Financial Review

HIGHLIGHTS

- Borealis acquired PCD Polymere from OMV with effect January 1.
- Net income was EUR 116 million (DKK 862 million), compared to EUR 183 million (DKK 1,364 million) in 1997.
Return on capital employed after tax was 9%, down from 14% the previous year. The main drivers behind the lower result were lower average sales prices and volumes, partly offset by lower feedstock costs.
- The liquidity reserves increased to EUR 1,105 million (DKK 8,238 million) following successful funding activities.



Market Developments

Polyolefins market prices decreased during the year. Compared to 1997, average polyolefins prices were 14% lower.

The average price of naphtha, the main feedstock, also fell, resulting in a significant net feedstock cost reduction for a standard naphtha cracker. The integrated margin fell by 6%.

Review of Results

Sales

Sales and production volumes were significantly increased through the acquisition of the PCD Polymere business. Polyolefin sales volumes totalled 2.9 million tonnes compared to 2.2 million tonnes in 1997.

Sales increased by EUR 223 million (DKK 1,663 million).

Cost development

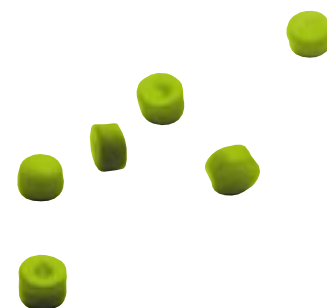
Fixed costs, excluding PCD and restructuring costs, were on par with 1997. Reductions resulting from the accelerated Site Development Programme are expected in 1999.

Research and development costs amounted to approximately EUR 36 million (DKK 270 million), compared to EUR 25 million (DKK 190 million) in 1997.

Restructuring costs

A provision for restructuring was increased with EUR 52 million (DKK 385 million) in 1998 and includes costs for early retirement and voluntary severance programmes in connection with the ongoing Site Development Programme.

These measures are based on formal management decisions, establishment of agreements with employees' representatives, as well as public announcement of the plan. The personnel reductions of the Site Development Programme will be completed by the end of 2000. At year-end 1998, the total provision for restructuring amounted to EUR 69 million (DKK 516 million) compared to EUR 28 million (DKK 210 million) in 1997.



Return on capital employed

The return on capital employed after tax amounted to 9%, down from 14% in 1997, with an average for the years 1994-1998 of 12%, above the long-term target of 11%.

Sensitivity analysis

The table below illustrates the approximate effect of changes in market conditions on Borealis' pre-tax profits at the end of 1998:

Sensitivity	EUR million	DKK million
Polyolefins prices		
+/- 5 pf/kg	+/- 75	+/- 560
Polyolefins sales volumes +/- 5%	+/- 51	+/- 380
Naphtha prices		
+/- 10 USD/tonne	-/+ 20	-/+ 150

Financial income and expenses

Net financial expenses amounted to EUR 21 million (DKK 153 million) compared to EUR 13 million (DKK 100 million) in 1997.

Foreign exchange differences showed a gain of EUR 5 million (DKK 37 million) compared to EUR 3 million (DKK 24 million) in 1997.

Taxes

The provision for income taxes amounted to EUR 30 million (DKK 220 million) compared to EUR 37 million (DKK 277 million) in 1997, corresponding to an effective tax rate of 20% (17% in 1997). Borealis paid corporate taxes of EUR 54 million (DKK 401 million) compared to EUR 44 million (DKK 326 million) in 1997.

Net profit and distribution of dividend

Net profit for the year amounted to EUR 116 million (DKK 862 million), compared to EUR 183 million (DKK 1,364 million) in 1997. The Board of Directors proposes to distrib-

ute 69% of the net profit, corresponding to EUR 79 million (DKK 591 million) compared to EUR 91 million (DKK 682 million) in 1997 as dividends.

Financial Position

Total assets/capital employed

Total assets and capital employed stood at EUR 2,636 million (DKK 19,650 million) and EUR 1,765 million (DKK 13,157 million), respectively, at year-end, compared to EUR 2,175 million (DKK 16,212 million) and EUR 1,543 million (DKK 11,500 million) at year-end 1997.

Net interest-bearing debt was increased with EUR 133 million (DKK 992 million) during 1998, and stood at EUR 314 million (DKK 2,337 million) at the end of the year.

The solvency ratio was 44% at year-end 1998 compared to 52% at year-end 1997. The gearing ratio increased to 28% at year-end 1998.

Cash flows and liquidity reserves

Cash flow from operations amounted to EUR 386 million (DKK 2,878 million) compared to EUR 324 million (DKK 2,416 million) in 1997. Investments were EUR 247 million (DKK 1,841 million) in 1998. Thus, investments were fully financed out of cash flow from operations.

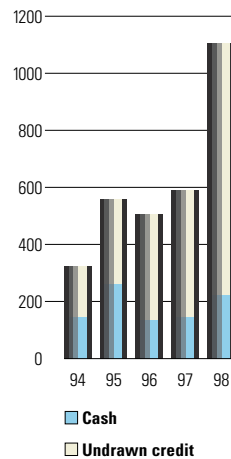
The liquidity reserves, made up of undrawn long-term committed credit facilities and cash balances,

amounted to EUR 1,105 million (DKK 8,238 million) compared to EUR 590 million (DKK 4,396 million) at year-end 1997.

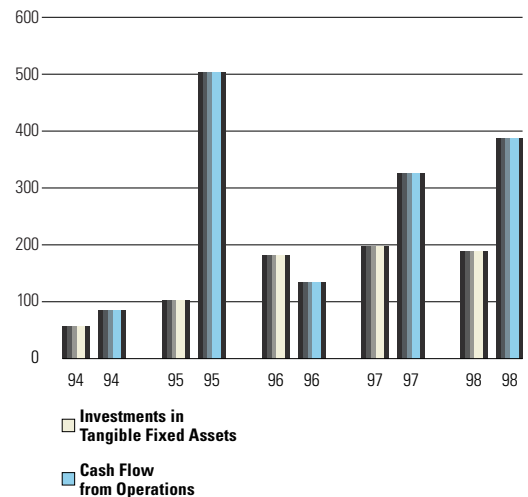
Capital expenditure

Investments in tangible fixed assets amounted to EUR 187 million (DKK 1,395 million) in 1998 compared to EUR 197 million (DKK 1,468 million) in 1997. The most significant investments were the Stenungsund cracker expansion, the Stenungsund

**Liquidity Reserves
EUR Million**



**Cash flow and Investments
EUR Million**

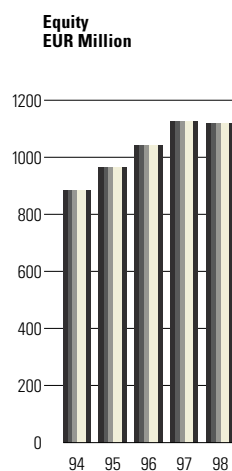


Borstar expansion, the Schwechat Borstar PP plant and the investments in the Borouge joint venture.

Depreciation and amortisation amounted to EUR 151 million (DKK 1,123 million) compared to EUR 137 million (DKK 1,021 million) in 1997.

Shareholders' equity

The equity at year-end 1998 was EUR 1,117 million (DKK 8,326 million), after the dividend allocation of EUR 79 million (DKK 591 million).



Equity development

	EUR million	DKK million
Net result	116	862
Exchange adjustment, net	-44	-326
Gross increase	72	536
Dividend	79	-591
Net decrease	-7	-55
Equity, end 1997	1,124	8,381
Equity, end 1998	1,117	8,326

Financial Risk Management

The objective of financial risk management is to support core businesses of the Borealis Group. The activity is operated within the framework of the Financial Policy approved by the Board of Directors, and detailed guidelines. Borealis aims to minimise effects related to foreign exchange, interest rates, credit and funding risks.

The handling of all foreign exchange and interest risks, as well as insurable risks, is fully centralised in Group Finance. The operating entities hedge their exposures via the internal bank.

Risks related to known commercial cash flows, as well as part of forecast exposures, are eliminated.

Limits for open short-term foreign exchange and interest rate risk positions are established. Long term interest positions are bench-marked. Exposure limits are set by counterpart. A real-time position, valuation and risk-limit monitoring treasury system is being used. Generally, the use of any financial instrument shall be based on defined commercial needs.

Handling of Borealis' cash balances is based on liquid instruments, and only rated counterparts are used.

Conversion differences relating to Borealis A/S' long-term investments in subsidiaries are taken directly into equity, and no active hedging is carried out for this purpose.

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

Research & Development

The key role for Borealis' research and product development is to support ongoing business, identify new business opportunities and develop proprietary technology which can be sold or licensed to third parties.

The trend towards higher development costs and shorter product life cycles requires significant investment, and only a few companies can afford being R&D leaders. Partnerships and alliances are becoming the rule in order to reduce costs and the vulnerability of being "left behind." Intellectual rights are increasingly important, and patents are used as strategic tools.

The strategic objectives for Borealis R&D are to:

- Improve customer offerings by helping Business Units to improve the product and cost performance of present grades and plants
- Expand the window of polyolefin product performance into areas currently dominated by more expensive and/or less environmentally friendly materials
- Develop leading-edge, proprietary technology in catalysts, processes and products which can be profitably licensed to third parties
- Concentrate on key technology areas to improve the effectiveness of R&D and to create an organisation in which people want to work

Borealis has a strong proprietary technology in Borstar, a process developed commercially for PE and now for PP. This technology provides a new range of polyolefin products which combine superior properties with competitive production costs and less burden on the environment.

among the top for filled products in this sector.

To meet the increasing requirements for noise reduction in cars, Borealis has developed a new mineral-filled type, based on the same soft PP technology for wheel arches. This product has been employed successfully in the VW Passat.



New products, new customers

Borealis has developed non-woven products based on soft PP technology for breathable film/non-woven composites. This tailor-made product is well suited to existing conversion technologies on the market, and to the new cast, cast-coating and coating technologies. The prime markets are the clothing, construction and personal hygiene industries. Extremely high coating and stretching velocities are possible, and the achieved values are

Borealis' efforts to increase the melt strength, and especially foamability, of PP have continued successfully. Optimising our pilot plant made it possible to increase both the production stability and consistency of high-melt strength PP. The grade Daploy HMS 130D is being introduced in the market for foaming applications.

Two more homopolymer grades, Daploy HMS 110F and 120D have been developed for use in the processing technologies for coating and blown film. Daploy HMS 110F plays an important role as a processing aid in the breathable composites mentioned above.



I N N O V A T I O N

IT'S AN ATTITUDE



Mercedes A-Class bumper

Mercedes Benz has chosen Borealis polypropylene compound for the bumpers on its A-Class models.

The compound's optimal mechanical properties offer a good potential for saving weight.

This, in turn, contributes to better fuel economy.

One interesting product development for Borealis is the establishment of an entire range of elastomeric ethylene methyl acrylate copolymers, or EMA, such as the very soft but tough OE5626. It is used by the Ikea furniture chain for its soft "a.i.r." concept – strong, inflated furniture modules that are combined to fill a living room.

From R&T to R&D

When the new Borealis emerged in 1998 with a new ownership structure and the acquisition of PCD, research and development was restructured with it. This acquisition strengthened our R&D operations by adding key competencies and expertise.

The first change was in name: Borealis' former Research and Technology (R&T) unit became Research and Development (R&D).

The former Skill Centres, responsible for application know-how and product development, were transferred to their corresponding Business Units to establish a stronger link between them and the market. This will help Borealis increase customer focus as our company grows.

Our R&D activities are now concentrated at three Borealis loca-



tions: Porvoo, Finland; Rønningen, Norway; and Linz, Austria.

After four years in practice, Borealis' project management system, "Product Development and Introduction" (PD&I), has proven its strength and the R&D portfolio is even more focused than before. R&D will continue to host the PD&I system, covering all research and product development within Borealis.

Without people, hardware has no value. Skilled and committed people of many nationalities comprise Borealis' cross-functional development teams. This has helped create an open, inspiring atmosphere in which we set our targets high and challenge our scientists. The project teams can see the fruits of their labour when the new technology is commercialised.

Intellectual rights

The polyolefins industry is restructuring with mergers and acquisitions, and this can be felt in the field of intellectual rights. New companies

are being formed, and technology assets transferred and recreated.

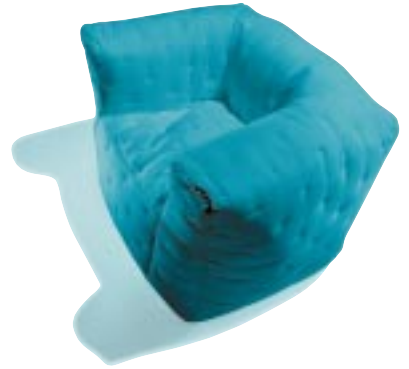
Borealis R&D has responded by committing more resources to protecting the results of our research and product development, and to supporting our business and licensing activities. We are broadening our rights to operate freely by increasing patent activity and agreements with external parties.

Borealis promotes innovation and rewards people who make contributions to product and technological development. This has also been recognised by third parties: The Borstar PP team was cited by the Chemical Industry Federation of Finland for the development of proprietary technology for polypropylene production.

In 1998, Borealis filed some 40 new patent applications and internally, received about 80 invention disclosures. The application of Borealis' research and development is limited only by the imagination.

IKEA soft a.i.r. The IKEA home furnishing

chain has selected the Borealis co-polymer Borflex for an innovative range of textile-covered
inflatable furniture called IKEA a.i.r. Our Borflex is a soft, high-tech plastic
that embraces a new manufacturing technique.

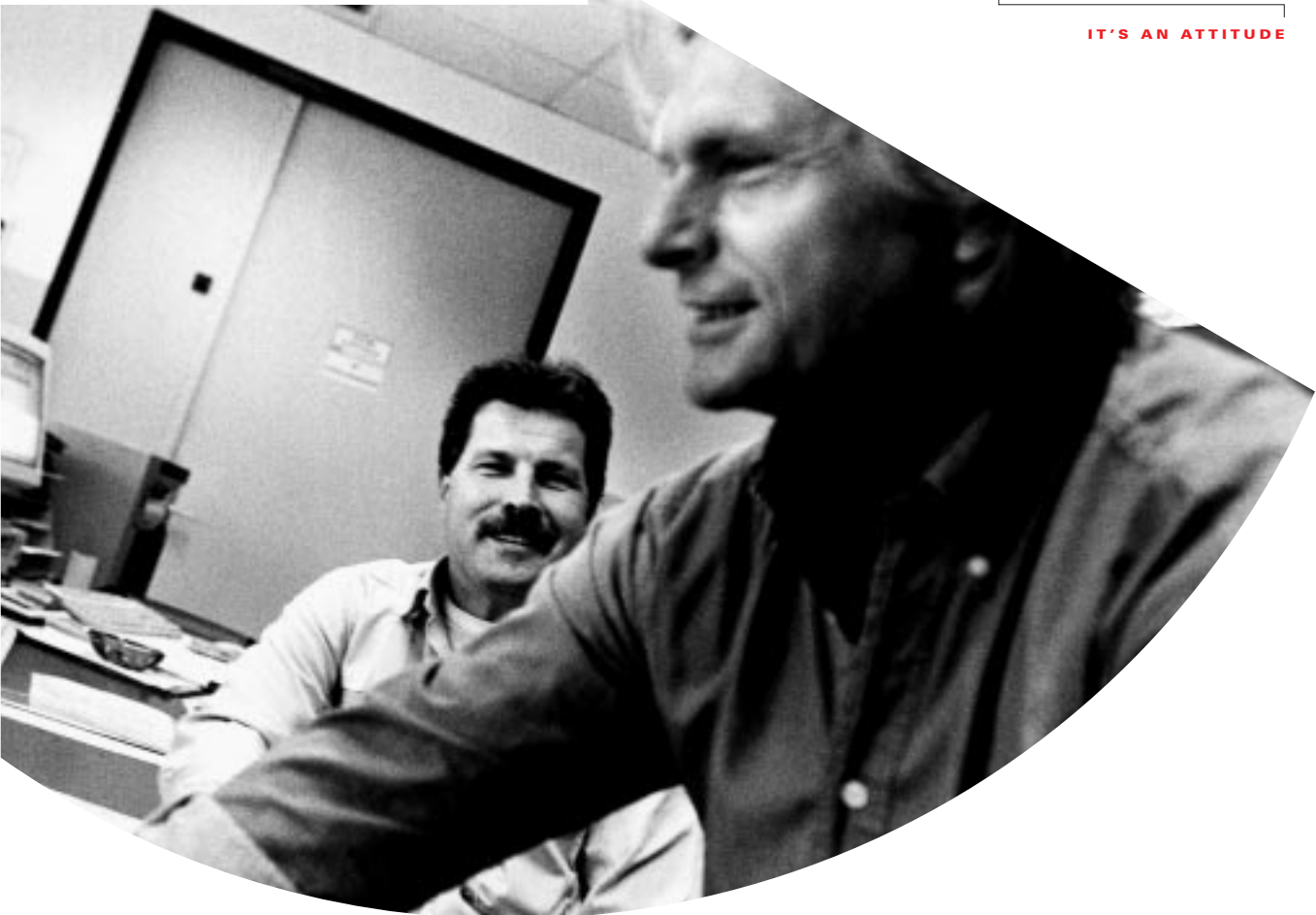


RESEARCH & DEVELOPMENT



A D D E D V A L U E

IT'S AN ATTITUDE



Borstar Technology for PE and PP

Borealis has advanced its position in polyolefins process and catalyst development with Borstar, a new technology for PE and PP. Borstar provides superior plastic products for a broad range of applications at competitive cost and with less burden on the environment.

Borstar PE

The Borstar bimodal PE concept allows the manufacture of resins that are tough but with good processability. These products compete on the most advanced PE markets where the borders are constantly being stretched. One striking feature of Borstar PE is the possibility to operate over the entire density range. Borealis has developed not only a linear low density film, LE6592, but also a high density film, HE6995, both of which have been well received by the market. The medium density film product ME6597 is yet another example. Customers have shown interest in its unique properties, and sales figures are encouraging.

We have also seen rapid development of our bimodal resins for blow moulding and pipe. Our PE100 pipe grade, HE3490, allows the construction of even thinner-walled PE pipes for advanced drinking water projects.

Borstar PP

Three years after the commercial launch of Borstar PE, Borealis is now commercialising Borstar PP.

Borstar PP utilises the same technology as Borstar PE. The basic process is a combination of a loop reactor, operated at supercritical or

in the Z-N families are being further developed for specific Borstar PP product requirements. We are also developing single site catalyst technology for Borstar PP.

Because of the reactor set-up, the Borstar PP process also has a broad product window. While the Borstar PE concept is bimodal, in PP



high-temperature conditions, in series with a gas-phase reactor. Homopolymers and random copolymers are produced in the basic module. For production of heterophasic copolymers, an additional gas-phase reactor is included.

This reactor set-up produces all three types of PP. In the complete Borstar PP process, an additional gas-phase reactor is included to give the possibility of making heterophasic copolymers with tailored rubber.

As in PE, Borstar PP technology includes catalyst technology, and the first high yield Ziegler-Natta catalyst is already in commercial use. Catalysts

we call the products "multimodal," since the products may contain more than two different polymer fractions.

Developmental grades include a range from very soft to very stiff PP. Product properties which are adverse are combined. Thus, high stiffness is combined with high impact. Good impact is combined with good optical properties. High stiffness and impact are combined with good processability, low creep and good melt strength.

With their excellent processability and superior mechanical properties, Borstar products from Borealis give added value to our customers. Continued research and development will bring even more superior products to the market.



P E R F O R M A N C E

IT'S AN ATTITUDE



Monarflex tarpaulin

Our partner, the international relief organisation Médecins Sans Frontières, houses refugees in temporary buildings covered in strong, lightweight polymer tarpaulins made with Borealis' own Borstar technology.

Preparing for Year 2000

Computers, operating systems, embedded microchips, software, and other electronic items in which dates have been stored as six digits rather than eight, have pervaded virtually every segment of our lives: In homes, workplaces, laboratories, social infrastructure, in the supply of utilities and services, and more. If they are not ready for year 2000, they might cease to function correctly.

The problem was identified early by Borealis when the installation of new commercial software, with some special adaptations for Borealis, was initiated in 1995 and implemented in 1996-97. This software is essentially year 2000-ready, but due to the potentially negative effects on business if it were to fail, compliance testing will nevertheless be performed.

In mid-1997 a corporate-wide Year 2000 Programme was started. Its goals are to ensure that Borealis continues to operate and do business before, during and after the century change.

The programme covers all Borealis sites in Austria, Belgium,

Finland, France, Germany, Italy, Norway, Portugal and Sweden; its sales offices in Europe and the Far East; and its Coordination Center and head office.

The scope of the programme includes all activities pertaining to own assets, feedstocks, raw materials, utilities, services and customers.

end of February 1999. Solutions for both will be implemented before September 1999, and solutions required for the remaining categories will be devised in early 1999 and applied later in the year.

Borealis is seriously committed to this programme because it realises the effects of failure on society,



Progress in 1998

Borealis has made an inventory of owned assets which could be affected by the so-called "millennium bug." This inventory extends to about 13,000 records of different models or types. Each could contain several microprocessors, or there could be many instances of each model.

The different tasks of the Year 2000 Programme have been prioritised. In the areas of highest impact, solutions for non-ready items were developed and approved during 1998, and those of medium impact at the

employees, customers and suppliers. The process we are following enables us to guarantee that technical breakdowns caused by Borealis' operational facilities not being prepared for the rollover to year 2000 will not in any way result in Borealis declaring a force majeure that can have an adverse effect on Borealis fulfilling its commitments.



R E L I A B I L I T Y

IT'S AN ATTITUDE



Environmentally friendly pipes

A new generation of polypropylene grades showing improved stiffness, greater impact strength and better processability is continuously replacing more conventional materials for sewage applications. This helps our customers to market environmentally friendly pipes.

Business Unit Reviews

Wire & Cable

Overcapacity in the world cable industry, plus the effects of the economic downturn in Asia and South America, caused further pressure on the overall profitability of this industry sector. However, Borealis succeeded in limiting the impact on its Wire & Cable business.

Volumes in 1998 were generally lower than in 1997. Sales in Europe and the Middle East held at previous-year levels, despite increased competition in this region.

Borealis succeeded in increasing its market share in China, where demand remained healthy. Performance also improved in the North and South American markets.

Borealis in 1998 again demonstrated its leading position in technology. Power and telecom jacketing products based on our proprietary Borstar technology were well received in the market due to their superior properties. Further development of our Casico technology, providing halogen-free flame retardant products, led to increased market penetration in this high-performance segment.



In addition to this, the commercialisation of Borealis' high-speed peroxide cross-linking technology now allows cable producers to significantly improve their cost performance in the medium- and high-voltage area.

The commercial success of this new generation of products, combined with a continued commitment to improve the quality of products and services to our customers, further consolidates Borealis' position as a leading supplier of polyolefins to the worldwide wire and cable industry.

Pipe

The pipe market developed differently around the world in 1998. The European market showed continued growth for polyolefins, but the Asia-Pacific region suffered from economic turmoil. Demand in this area fell back to 1996 levels.

As a result of the integration of PCD, Borealis extended its leading position as a high performance poly-

olefin supplier to the pipe industry. We expanded our range of products and achieved synergy in complementary market positions.

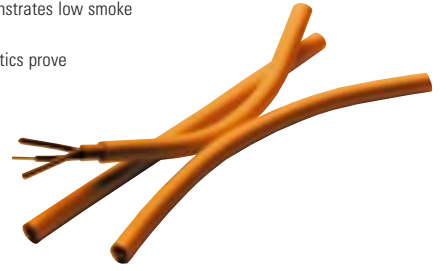
Among applications, we saw higher growth in hot water pipes, steel pipe protection and water pipelines. An important potential for PP is the existing sewage pipe market which today is still dominated by PVC.

Margins dropped steadily in 1998 due to a strong reduction in commodity margins. We expect further sales increases in 1999, especially outside Europe, but with a slightly lower margin than in 1998.

In the meantime, positive market growth in Europe continues. This development is aided by the replacement of conventional materials such as steel, concrete and copper with plastics. Our new generation of PE100 material from Borstar technology and the new PP stiff grades are our fastest growing products.

Casico Borealis' patented technology

for flame retardant, halogen-free compounds, Casico, demonstrates low smoke and low toxic emission while burning. This is vital, as statistics prove the main cause of death from fires is smoke inhalation.



C U S T O M E R F O C U S

IT'S AN ATTITUDE



Engineering Applications

Borealis' business in Engineering Applications, serving the automotive and appliances markets, enjoyed 7% sales growth during 1998. Prices were under growing pressure, although increased sale of specialities compensated this in part.

European car sales exceeded 14 million units last year, compared with 12.8 million in 1997. Borealis supplied the first full-series production of the VW Golf A4 and Mercedes Benz A & C classes, and extended our cooperation with SEAT.

Borealis entered into product development partnerships with major automotive and appliance manufacturers in 1998. Many are based on the latest reactor or compound developments with cost-effective, all-polypropylene solutions as the target.

As in previous years, sales exceeded growth in some market sectors, mainly due to the success of PP and PP-based compounds in replacing other materials. New products, applications and the use of CAED simulations have given rise to new possibilities for automotive applications.

The market for white goods and small appliances was stagnant, resulting in sector acquisitions and investment in

profitable markets. Increased OEM (Original Equipment Manufacture) activity resulted in larger production volumes per model of major brands.

An increasing share of Borealis' business during 1998 went to overseas markets, with PP rapidly becoming the material of choice for kitchen appliances.



Investments in the compound plants resulted in improved quality and cost position. We established a new compounding network to ensure a cross-plant implementation of systems and procedures in order to be certified according to QS 9000 and ISO 14001.

Polyethylene

The most significant event during 1998 was the integration of PCD's PE business and the reorganisation of PE activities into a structured line organisation that focuses on customer service. This new Polyethylene Busi-

ness Unit has strong market positions in the Nordic region, central Europe and on the Iberian peninsula.

Our proprietary Borstar PE technology cut inroads to a number of applications through its unique combination of mechanical strength and easy processability. Just one example is the high puncture-resistance of fro-

zen fish bags. They provide optimal security for the distributor, while the bags' manufacturer can operate lines at speeds close to that of traditional low density PE.

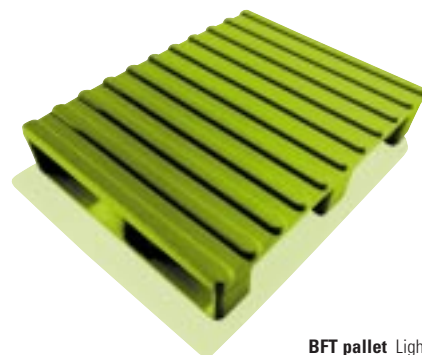
Thinner bags with superior mechanical properties result in resource efficiency that benefits the environment. Borealis foresees rapid growth for Borstar products. As a consequence, Borealis is investing in additional production capacity in Sweden and Abu Dhabi.

Another area where Borealis leads development is in raw materials for rotational moulding. The penetration of Borealis' unique, single-site



Q U A L I T Y

IT'S AN ATTITUDE



BFT pallet Light weight,

stiffness and strength are features of the returnable transport pallets produced with Blown Foam Technology. Borealis developed the materials and technology, and Krupp Kautex developed the processing machinery.

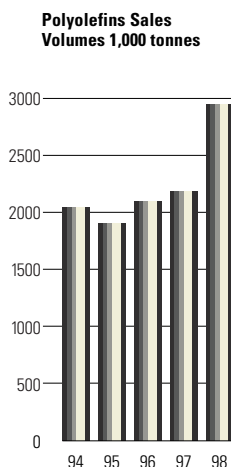
catalyst product range – Borecene – has continued at an accelerating pace. Faster cycle times, lower moulding temperature and better mechanical properties are enabling our customers to find new products that replace conventional materials and production methods.

Polypropylene

Polypropylene (PP) has demonstrated high volume growth in recent years and still has considerable potential. Borealis and former PCD have placed major emphasis on PP, and the successful integration of PCD into Borealis has strengthened our total competence. Synergies will be achieved in marketing and sales, as well as in technology and production.

The new PP organisation will continue to advance business activities through an application- and customer-oriented approach. The development of polymers in close collaboration with customers has resulted in opportunities for market growth and the possibility to truly realise the value of our PP business.

Development is expanding in two main directions: Increased stiffness enables us to move PP into markets covered by engineering plastics, and super-soft PP products lead us into the rubber market segment.



Borealis in 1998 developed products that emphasise the versatility of PP and we extended its use into

Olefins, Phenol & Aromatics

Ethylene and propylene, collectively known as olefins, are the primary products when cracking feedstocks such as naphtha. Olefins are polymerised to produce polyethylene and polypropylene, known as polyolefins.



new fields. This is best exemplified by PP products showing high-melt strength, butene-modified PP for cast film, polymers with low-heat seal temperatures, and copolymers for moulding applications that require a high degree of stiffness.

Borealis reached a milestone in December when we began construction of the first PP plant to employ our proprietary Borstar technology, in Schwechat, Austria. The plant is scheduled to go on stream in mid-2000.

Olefins demand remained strong throughout 1998, both internally and externally. Olefins prices eroded during the year but the trend was offset by lower feedstock costs from declining oil prices. Margins remained satisfactory throughout the year. Production volumes and capacity utilisation remained high, both internally and externally, for most of the year.

Borealis' ethylene production totalled 1,180,000 tonnes, the highest level since the company was founded in 1994, with new production records reached at the crackers in Stenung-



T E A M W O R K

IT'S AN ATTITUDE



sund and Porvoo. Propylene production also reached a record high of 770,000 tonnes.

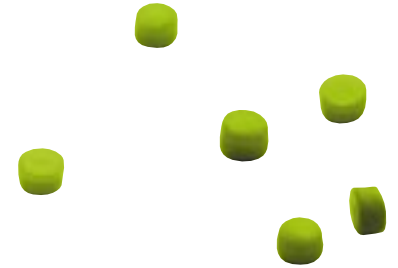
Phenol, derived from aromatic feedstock from the olefin cracking process, is used in the production of adhesives, resins, fibres and pharmaceuticals. Acetone, a by-product of phenol production, is used as a solvent in methyl methacrylate and in plastics. The phenol and acetone markets were strong in the first half of 1998 with high margins, but prices fell considerably towards the end of the year. Borealis' newly revamped phenol plant performed well in its first year of operation, and phenol production reached its highest level so far, at 130,000 tonnes.



Opel Vectra dashboard

Borealis' TPO compound forms the Opel Vectra's dashboard. This super-soft material has replaced PVC in the car cabin, allowing better air quality, less odour and less fogging on the windscreen.

Health, Safety and Environment



Borealis' Health, Safety and Environment Policy

As a responsible citizen producing materials that promote a better standard of living:

We aim to be a leader in our industry in health, safety and environmental performance.

We give health, safety and the environment top priority in process and product development, plant operations and product delivery.

We believe that our workplaces can be free from accidents and injuries, that emissions can be significantly reduced and that resources must be used efficiently.

We aim to continuously improve our health, safety and environmental performance through our employees in partnership with suppliers, contractors and customers.

We are committed to meeting or exceeding legal requirements when setting our standards.

This new HSE policy was approved by the Executive HSE committee in May 1998.

HSE targets

Borealis' HSE targets were revised in 1998 as part of a new five-year strategy. New targets were set for 2003 and parameters for improvement were increased from seven to 12. For year 2000 the changes are minor, except for the inclusion of Site Austria.

Health

The Borealis employee health programme is designed to ensure the prevention of illness and injury. Workplaces are monitored for employee exposure to chemical and physical agents. Some further improvements have been identified. Our own workplace survey system is a tool for continual improvement in use at our head office and sites.

The sick leave percentage changed only marginally during the year, thus the expected improvement was not achieved.

The targets for year 2000 and 2003 are 2.5% in line with the present situation and planned actions.

Safety

The decline in lost time accident (LTA) frequency continued, but not fast enough. The frequency for contractors was still 3.5 times higher than for Borealis employees, despite our ambition that they perform as well in all HSE areas.

Our present performance is close to the average for major European chemical industries, but far from those with the best records, which have frequencies below 1.

The frequency of total recordable injuries (TRI) decreased by 30%, from 14.8 in 1997 to 10.2 in 1998. Thus, our ambitions have risen and the new targets are noticeably lower. The best performing companies have frequency levels of 2-3.

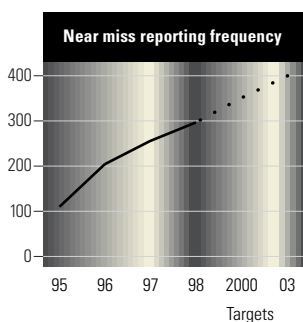
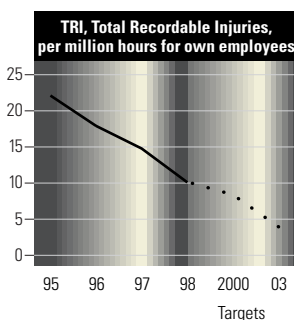
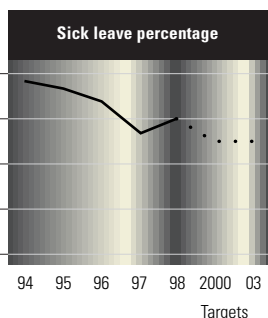
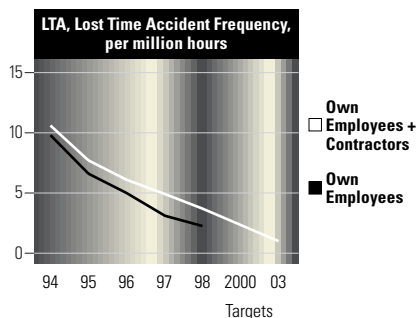
A total of 78 fires and 116 liquid or gas releases were reported in 1998. This represents an unchanged number of fires and a noticeable increase in releases. None of the fires resulted in an insurance claim, as the damage was below our deductible limit.

Near-miss reporting is a key element for learning and reducing risks. A campaign that started in 1996 has improved the frequency of near-miss reporting. In 1998 the average reporting frequency was 300, compared with 254 for 1997.

Major incidents in 1998

The following incidents were the most serious to occur within the Group in 1998:

- At the Porvoo plant, a sky lift collapsed and a contractor was thrown out of the basket. He later died.
- The Sines power plant had a boiler explosion followed by a fire in the off-gas ducting.
- At the Stenungsund plant, an explosion occurred in a TEAL (tetra ethyl aluminium) container during transfer of off-specification material.
- In the Sines PE plant, an ethylene leak at 70 bars occurred in a vent valve due to failure in the socket weld of a 3/4" valve.
- In the Porvoo cracker, a flange was opened on a pressurised propane line, causing 500 litres of liquefied propane to leak to the atmosphere.
- An explosion occurred in the sewer system in the HDPE plant in Sines.
- Bearing failure in an off-site transfer propane pump in Stenungsund caused a fire which was quickly brought under control.
- There were two near misses involving contractors and nitrogen.
- The underground piping at the Rønningen plant developed leaks

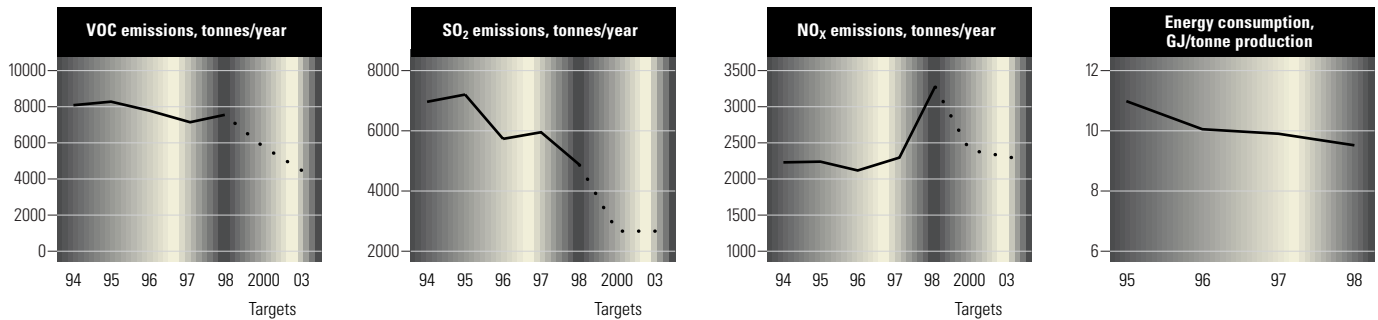


and about 2,500 litres of oil was spilled into the ground.

- At Rønningen, a plugged pipeline was removed for cleaning without proper blinding-off of the process.

Except for the fatality, no one was injured in the other incidents listed above. However, a fatal accident also occurred involving a contractor unloading our material at a customer's site. According to industry practice, this is not recorded in our statistics but is, of course, serious and has been handled as with other accidents.

All incidents were thoroughly investigated and appropriate action was taken to prevent similar incidents in the future. Care was taken to share the lessons learned among other sites. The TEAL accident led to a formal review of the practice at all other sites which handle this chemical, and improvements were made.



VOC emissions

Emissions from old sites decreased by about 1,300 tonnes compared with 1997. Several sites improved significantly.

The increase shown in the table above is solely due to the addition of former PCD figures.

SO₂ emissions

Sines reduced emissions by 700 tonnes, as fuel oil with lower sulphur content was used during the second half of the year.

NO_x emissions

Emissions rose noticeably at the Belgium site due to a catalyst at the end of its period of use. Emissions from Site Austria were minor as all steam is bought from local companies.

In Stenungsund, all cracker furnaces have the best type of low-NO_x burners. The furnaces in the other two crackers are being converted to these modern burners.

Flaring

Flaring volumes decreased significantly at Porvoo, but the total figure is higher because all sites now report, and Austria has been added.

CO₂

We also monitor our CO₂ emissions although we have no target.

Waste

At the beginning of 1997 we established a new reporting system for waste. With the exception of hazardous waste, figures from previous years are not comparable. Based on national classification rules, hazardous waste is a part of total waste, and comprised 74% of the 1998 total.

Energy consumption

Energy accounts for a significant part of our production cost. Energy savings are a vital element of many investment projects and all cost-reduction schemes.

The diagram above shows the total consumption, whether own production or purchased. Purchased electricity is calculated as

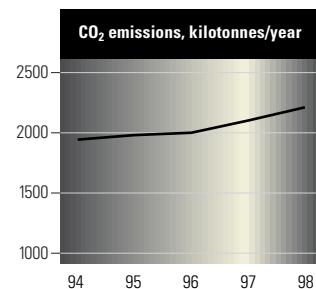
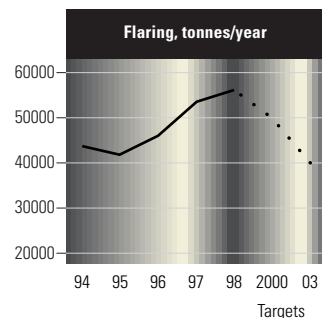
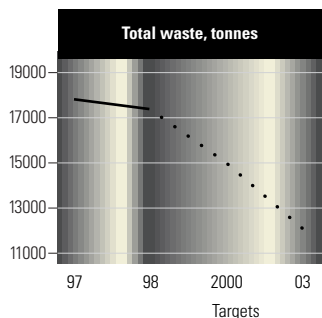
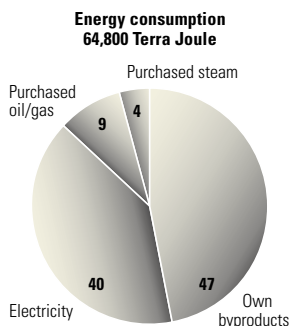
1GWh=9,600 GJ, a normal figure for primary energy needed to produce electricity in power plants.

HSE investments

Borealis in 1998 invested a total of EUR 16 million (DKK 120 million) in projects where HSE improvements were the sole or dominant issue. Most Borealis investments include HSE aspects, typically accounting for 10%-30% of the total investment figure.

Self-assessment and auditing

No corporate audits were scheduled for 1998. Instead, resources were used to introduce a self-assessment system, the DNV Prosper tool. Introduction and training was started, and a pilot audit was performed at the site in Burghausen, Germany. Prosper will be used for self-assessment in all HSE areas as a joint effort by site management and the corporate HSE staff in 1999.



Legal compliance and environmental liabilities

Operating in full compliance with local legislation and regulations is fundamental for Borealis.

There was no legal claim on our HSE performance in 1998.

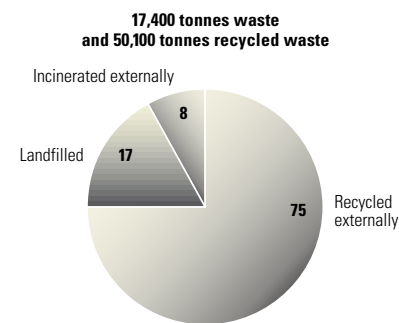
Neighbour complaints

During 1998, we received a total of 13 complaints from our neighbours. This was a clear reduction from the previous year. Main reasons were noise and smell disturbances.

Soil studies

In Schwechat, a neighbouring plant contaminated part of our parking lot, and has begun remedial measures.

In Belgium, work on mineral oil and other contamination in the Antwerp Right Bank ground continued. A restoration plan was presented to the authorities and was approved, but with a request for a shorter implementation period. Borealis' position is that we are not responsible for pos-



sible redemption costs, thus we have made no provision for this.

In Rønningen, leaks from underground sewers were detected in the summer. All sewers were surveyed and repairs are under way. Sewers with oily water were prioritised, and all leaks have been repaired.

In Sines, a groundwater study was completed and a flow model developed. Water analyses show hydrocarbon contamination in some areas. A further study of these areas is in developmental stages.

In Porvoo, there are several known cases of soil contamination. Sampling and small scale clean-up in some areas was done to avoid extended contamination. Contaminated ground water in selected areas is being continuously pumped for treatment. A thorough soil investigation will start in 1999.

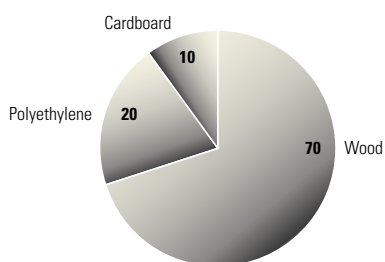
Test pits have been dug and samples taken at an older landfill that was closed in 1979. Measured values were not alarming, but the landfill will be top-sealed, and leach waters may require treatment. Sealing it will cost an estimated EUR 130,000-200,000 (DKK 1-1.5 million).

In Stenungsund, soil and groundwater studies revealed local spots of oil contamination. No immediate action was deemed necessary, but an ongoing sampling programme will continue.

Environmental provisions

Borealis has made provisions of EUR 1.45 million (DKK 10.8 million) for possible environmental corrective action. No provisions have been made for the ongoing replacement of asbestos, halons, etc.

Packaging materials for polyolefin deliveries



Main VOC components, t/year	1998	1997
Ethylene	3,670	3,120
Propylene	1,410	1,620
Benzene	285	400
Butadiene	160	130
Others	1,760	1,870
Total	7,550	7,140

HSE aggregated data

Consumption of resources	1998	1997
Hydrocarbons, kt	5,422	4,475
Energy		
Fuels, TJ	5,919	5,846
Electricity, GWh	2,716	2,115
Steam, TJ	2,306	2,504
Water ¹⁾ , Mm ³	64.2	54.2

Packaging materials for polyolefins

Polyethylene, t	10,380	8,400
Board, t	5,120	4,950
Wood, m ³	59,850	50,850

Production and emissions	1998	1997
Petrochemicals, kt	2,000	1,136
Polyolefins, kt	3,048	2,195
Airborne emissions		
VOC, t	7,550	7,138
SO ₂ , t	5,200	5,870
NO _x , t	3,400	2,260
CO ₂ , kt	2,280	2,090
Flaring, t	56,000	44,600
Waste water ²⁾ , t COD	680	645
Waste, t	17,400	17,800

Abbreviations: T=10¹²; G=10⁹; M=10⁶; k=10³; t=tonnes;

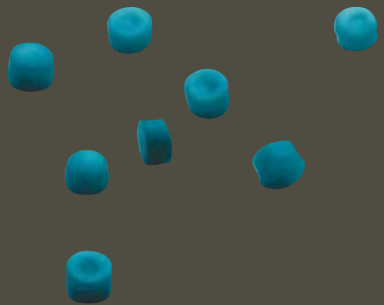
COD=Chemical Oxygen Demand

Production is the net combined figures for the Group's five petrochemical sites. No adjustment has been made for deliveries between sites. Emissions are the total figures for the group.

1) 44.4 million m³ is for Rønningen, which uses river water for once-through cooling.

2) This is only a rough estimate as sites measure different parameters depending on local permit requirements.

A C C O U N T S F O R 1 9 9 8



Accounting Principles

The financial statements have been prepared in accordance with the Danish Company Accounts Act, Danish accounting recommendations, and International Accounting Standards (IAS). The financial statements have been prepared according to the same principles as the previous year.

Consolidation Principles

The Group's consolidated financial statements include the accounts of the Parent Company and the companies in which Borealis, either directly or indirectly, has a majority voting interest.

The consolidated financial statements are based on audited financial statements for each subsidiary. Items of a similar nature have been combined; intercompany transactions, unrealised intercompany profits, internal shareholdings, and intercompany balances have been eliminated.

Companies which are not subsidiaries but in which the Group owns 20% or more of the share capital are considered as associated companies.

Investments in jointly controlled operations, joint ventures, are included in the respective income statement and balance sheet items under the rules of proportionate consolidation.

Acquired subsidiaries and associated companies are included in the consolidated financial statements from the date of acquisition. A revaluation of the acquired net assets is made on this date, using the purchase accounting method and the assets are restated in accordance with Borealis' accounting principles. Any positive difference between book value and the purchase price of subsidiaries and associated companies, in the shape of goodwill, is capitalised and amortised over its expected lifetime. Any negative goodwill is recorded under provisions and charged to the income statement over 5 years. In the case of minor acquisitions, goodwill or negative goodwill is amortised fully in the year of acquisition.

Foreign Currency

Assets and liabilities denominated in foreign currencies have been translated into Danish kroner (DKK) at the exchange rates quoted on the balance sheet date. Financial statements of foreign subsidiaries have been translated at the exchange rates quoted on the balance sheet

date for assets and liabilities. The income statements of subsidiaries have been converted on the basis of monthly exchange rates.

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

Financial Instruments

Off-balance sheet financial instruments such as forward exchange contracts and currency swaps used to hedge potential exchange rate exposures are valued at market with resulting gain and losses taken to income when the gains and losses on the underlying hedged transactions are recognised. The interest element is recorded in the income statement over the contract period. Gains and losses arising from the valuation at market of financial instruments that are not designated as hedges are taken to income in the period in which they arise. Interest differentials under swap arrangements and forward rate agreements used to manage interest exposure are recognised by adjustment to interest expense.

Income Statement

Definition of income

Income from sales of goods and services is recognised in the income statement where delivery has been affected by the balance sheet date. Net sales represent income that have been realised, excluding value added tax and after the deduction of goods returned, discounts and allowances.

Research and development

Research and development costs are treated as expenses under production costs in the income statement in the year they are incurred.

Maintenance

Accruals for major maintenance programmes are set up on a straight-line basis and charged to production costs in the income statement.

Accruals are classified as provisions in the balance sheet.

Results of subsidiaries and associated companies

Investments in subsidiaries and associated companies are recorded under the equity method. A proportionate share of the profit/loss of these companies is included in the income statement.

Financial items

These include interest income and expenses, exchange differences, and calculated interest on finance leases.

Taxation

The income tax provision comprises payable income tax and changes in deferred tax related to the current year's profit, and adjustments to previous years' tax liability.

Balance Sheet

Intangible fixed assets

Externally acquired intangible assets such as licenses and patents are capitalised and amortised over the lifetime or 20 years, whichever is shorter. In the case of minor acquisitions, amortisation is made fully in the year of acquisition.

Tangible fixed assets

Production plants include land and buildings, and associated non-moveable machinery and equipment. Assets held under finance leases are also included. Assets held under financial lease are depreciated as comparable assets that are owned by Borealis.

Tangible fixed assets are valued at cost minus accumulated depreciation. Cost comprises purchase price, site preparation and installation.

Financing costs during construction are capitalised on significant capital projects.

Depreciation has been made on a straight-line basis over the expected economic lifetime of assets. Land is not depreciated. Buildings are depreciated over 20-50 years; production facilities over 15-25 years; and machinery and equipment over 3-15 years. Minor tangible fixed assets are amortised fully in the year of acquisition. Gains and losses from disposals of tangible fixed assets are recorded as adjustment to depreciation in the income statement.

Investments in subsidiaries and associated companies in parent company

Investments in subsidiaries and associated companies are recorded under the equity method. This means that the equity and net result of the parent company and the Group are identical.

Other financial fixed assets

Other investments are valued at purchase price less any write-down for permanent reduction in value.

Inventories

Inventories are recorded at either cost or net realisable value, whichever is the lowest. Cost is determined on the FIFO method, and comprises direct costs such as materials, utilities, salaries and wages, and a systematic allocation of fixed and variable production overhead costs. Provisions are made for obsolete and slow-moving items.

Receivables

Receivables are stated at nominal value, less provisions for anticipated losses on an individual basis.

Deferred tax

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

The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance representing the amount of any tax benefits for which it is not probable that the tax assets will be utilised.

Reserve for unrealised exchange differences

A reserve has been made under the parent company's equity for unrealised exchange differences related to long-term receivables from subsidiaries.

Pension liabilities

Employees' pension rights are mainly secured through pension schemes provided by insurance companies. The provision for pensions, calculated as the projected benefit obligation, is determined using actuarial methods and is recorded at net present value.

Government grants

Government grants include grants for research

and development as well as investment grants, etc. Research and development grants are credited to income to offset the related cost. Investment grants are shown as deferred income and recognised as income over the useful life of the asset.

Cash flow statement

The consolidated cash flow statement shows the Group's cash flow provided by/used in operating, investing and financing activities. The cash flow from operating activities is calculated using the direct method.

Cash and cash equivalents consists of cash in hand and bank deposits.

Comparative figures

Certain 1997 figures have been restated to conform with the 1998 presentation.

Amounts

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

Signatures to the Accounts

Management's Report

The Board of Directors and the Management have today discussed and approved the financial statements of the Group and

the Parent Company for 1998, which are recommended for adoption by the shareholders at the Annual General Meeting of Borealis A/S.

Copenhagen, February 23, 1999

Management:



Svein Rennemo
Chief Executive Officer



Walter Kadl

Board of Directors:



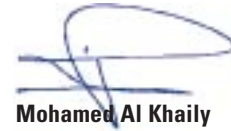
Terje Vareberg
Chairman



Gerhard Roiss
Vice Chairman



Erling Øverland



Mohamed Al Khaily

Auditors' Report

We have audited the financial statements of the Borealis Group and the Parent Company for the year 1998 presented by the Board of Directors and the Management.

Basis of opinion

We have planned and conducted our audit in accordance with generally accepted auditing standards to obtain reasonable assurance that the financial statements are free of material misstatements. Based on an evaluation of materiality and risk, we have, during the audit, tested the basis and documentation for the amounts and disclosures in the financial statements.

Our audit includes an assessment of the accounting policies applied and estimates made. In addition, we have evaluated the overall adequacy of the presentation in the financial statements.

Our audit has not resulted in any qualifications.

Opinion

In our opinion, the financial statements have been prepared in accordance with the accounting provisions of Danish legislation and give a true and fair view of the Group's and the Parent Company's assets and liabilities, financial position and profit for the year.

Copenhagen, February 23, 1999

KPMG C. Jespersen



Arne Nielsen



Torben Kristensen

State Authorized Public Accountants

Consolidated Income Statement

DKK million	1998	1997	Note
Net sales	20,418	18,755	2
Production costs	-15,468	-13,713	3, 4, 10
Sales and distribution costs	-2,082	-1,952	4, 10
Administration costs	-1,229	-1,095	4, 10
Restructuring costs	-405	-210	
Operating profit	1,234	1,785	5
Profit and loss from sale of operations	2	-20	
Share of net results in associated companies	-1	-24	11
Financial expenses, net	-153	-100	13
Profit before taxation	1,082	1,641	
Taxes	-220	-277	14
Net profit for the year	862	1,364	

Consolidated Balance Sheet

Assets			
DKK million	31.12.1998	31.12.1997	Note
Fixed assets			
Intangible fixed assets	765	410	6
Deferred tax	400	394	14
Tangible fixed assets			8
Production plants	8,789	7,519	
Machinery and equipment	275	188	
Construction in progress	1,569	694	
	10,633	8,401	
Financial fixed assets	165	124	11
Total fixed assets	11,963	9,329	
Current assets			
Inventories	2,352	2,229	15
Receivables			
Trade receivables	2,760	3,031	
Trade receivables from shareholders	0	47	
Taxes	0	21	
Other	896	464	
	3,656	3,563	
Cash and cash equivalents	1,679	1,091	
Total current assets	7,687	6,883	
Total assets	19,650	16,212	

Liabilities			
DKK million	31.12.1998	31.12.1997	Note
Shareholders' equity			16
Share capital	4,000	4,000	
Premium on issue	0	1,699	
Reserves	4,326	2,682	
	<u>8,326</u>	<u>8,381</u>	
Minority interests	1	1	
Provisions			
Deferred tax	916	1,146	14
Pensions	446	290	17
Other	1,147	481	18
	<u>2,509</u>	<u>1,917</u>	
Liabilities			
Long-term liabilities			
Financial institutions	2,601	1,800	20
Other	426	64	20
	<u>3,027</u>	<u>1,864</u>	
Short-term liabilities			
Financial institutions	1,422	479	20
Trade payables	1,651	1,444	
Trade payable to shareholders	0	134	
Taxes	139	176	14
Other	1,984	1,134	20
Dividend	591	682	
	<u>5,787</u>	<u>4,049</u>	
Total liabilities	8,814	5,913	
Total shareholders' equity, provisions and liabilities			
	19,650	16,212	
Assets pledged			21
Contingent liabilities			22
Financial instruments			23

Consolidated Cash Flow Statement

DKK million	1998	1997	Note
Cash flows from operating activities			
Payments from customers	21,865	18,672	
Payments to employees and suppliers	-18,433	-15,806	
Interest income received	117	90	13
Interest and financial expenses paid	-270	-214	13
Income taxes paid	-401	-326	14
	2,878	2,416	
Cash flows from investing activities			
Investments in tangible fixed assets	-1,395	-1,468	8
Acquisitions of subsidiaries, net of cash acquired	-381	0	26
Other investments	-65	-96	
	-1,841	-1,564	
Cash flows from financing activities			
Long-term loans obtained	1,282	0	
Short-term loans obtained	676	0	
Long-term loans repaid	-586	-397	
Short-term loans repaid	-1,139	-75	
Dividends paid	-682	-314	
	-449	-786	
Net cash flow for the year	588	66	
Cash and cash equivalents as of January 1	1,091	1,025	
Cash and cash equivalents as of December 31	1,679	1,091	

It should be noted that not all figures in the consolidated cash flow statement can be directly extracted from the Group's income statement, balance sheet and notes.

Income Statement – Borealis A/S

DKK million	1998	1997	Note
Net result of subsidiaries	752	1,364	12
Sales of services	362	285	2
Administration costs	-447	-350	10
Amortisation of negative goodwill	56	0	
Operating profit	723	1,299	
Financial income, net	132	68	13
Profit before taxation	855	1,367	
Taxes	7	-3	14
Net profit for the year	862	1,364	

Balance Sheet – Borealis A/S

Assets			
DKK million	31.12.1998	31.12.1997	Note
Fixed assets			
Intangible fixed assets	78	85	7
Tangible fixed assets			
Machinery and equipment	20	16	9
Financial fixed assets			12
Shares in subsidiaries	7,559	5,388	
Receivables from subsidiaries	3,210	3,370	
Other investments	23	50	
	<u>10,792</u>	<u>8,808</u>	
Total fixed assets	10,890	8,909	
Current assets			
Receivables			
Receivables from subsidiaries	802	1,131	
Taxes	3	21	14
Other	62	15	
	<u>867</u>	<u>1,167</u>	
Cash and cash equivalents	12	41	
Total current assets	879	1,208	
Total assets	11,769	10,117	

Liabilities			
DKK million	31.12.1998	31.12.1997	Note
Shareholders' equity			16
Share capital	4,000	4,000	
Premium on issue	0	1,699	
Reserve for net revaluation under the equity method	2,697	2,496	
Reserve for unrealised exchange gains	0	77	
Retained earnings	1,629	109	
	8,326	8,381	
Provisions			
Deferred tax	0	0	14
Negative goodwill	223	0	18
Liabilities			
Long-term liabilities			
Financial institutions	1,234	0	20
Short-term liabilities			
Debt to subsidiaries	1,314	1,002	
Accounts payable	29	29	
Taxes	0	0	14
Other	52	23	
Dividend	591	682	
	1,986	1,736	
Total liabilities	3,443	1,736	
Total shareholders' equity, provisions and liabilities	11,769	10,117	
Contingent liabilities			22

Notes to the Accounts

All amounts are in DKK million unless otherwise stated

1 Effect of acquisition of subsidiary

On Jan. 1, 1998, Borealis acquired 100% of the shares in PCD Polymere AG. The PCD Group operates within the polyolefins business. The acquisition of PCD Polymere AG was accounted for under the purchase method of accounting.

The excess of the fair values of the identifiable assets acquired and the acquisition price was recorded as negative goodwill on acquisition. The negative goodwill has been recorded under provisions and will be charged to the income statement over 5 years.

2 Net sales

	Cracker		Polyolefins		Other		Total	
	1998	1997	1998	1997	1998	1997	1998	1997
By business:								
Total sales	12,124	11,556	16,587	14,485	806	473	29,517	26,514
- Group internal sales	-9,099	-7,759	0	0	0	0	-9,099	-7,759
Sales to third parties	3,025	3,797	16,587	14,485	806	473	20,418	18,755
By geographic region:								
Europe	2,919	3,537	15,331	12,704	806	473	19,056	16,714
Other areas	106	260	1,256	1,781	0	0	1,362	2,041
Total	3,025	3,797	16,587	14,485	806	473	20,418	18,755

Sales in Denmark totalled DKK 618 million (DKK 709 million).

The Parent Company's sales of DKK 362 million (DKK 285 million) comprised management and other fees charged to subsidiaries.

3 Research and development

A total of 354 people were engaged in research and development at the end of the year, compared to 261 in 1997. The total costs of these activities amounted to DKK 270 million (DKK 190 million).

4 Personnel

	Group		Parent Company	
	1998	1997	1998	1997
Costs:				
Salaries and wages	1,997	1,588	105	87
Pensions and pension contributions	292	195	8	8
Other social security contributions	411	289	4	1
Other personnel expenses	55	46	0	8
Total	2,755	2,118	117	104
Average number of employees by location:				
Belgium	952	953	0	0
Finland	1,080	1,118	0	0
Norway	622	634	0	0
Portugal	744	760	0	0
Sweden	1,182	1,232	0	0
Austria	748	-	0	-
Other	600	358	129	97
Total	5,928	5,055	129	97

Personnel costs include management remuneration of 6 8 6 8

No remuneration was paid to the Board of Directors.

5 Operating profit

	1998	1997
Crackers	1,585	1,656
Polyolefins	633	917
Unallocated costs and unrealised internal gains	-984	-788
Total	1,234	1,785

6 Intangible fixed assets, Group

	Goodwill		Licenses		Total	
	1998	1997	1998	1997	1998	1997
Cost						
As of January 1	274	0	164	142	438	142
Additions regarding investment in subsidiaries	0	0	37	0	37	0
Additions	327	274	62	21	389	295
Transfers	0	0	0	1	0	1
	<u>601</u>	<u>274</u>	<u>263</u>	<u>164</u>	<u>864</u>	<u>438</u>
Accumulated amortisation						
As of January 1	4	0	24	4	28	4
Additions regarding investment in subsidiaries	0	0	26	0	26	0
Amortisation	4	4	41	20	45	24
	<u>8</u>	<u>4</u>	<u>91</u>	<u>24</u>	<u>99</u>	<u>28</u>
Book value as of December 31	593	270	172	140	765	410

7 Intangible fixed assets, Parent Company

	Licenses	
	1998	1997
Cost		
As of January 1	102	101
Investments	4	1
	<u>106</u>	<u>102</u>
Accumulated amortisation		
As of January 1	17	2
Amortisation	11	15
	<u>28</u>	<u>17</u>
Book value as of December 31	78	85

The figures for production plants include capitalised finance leases with a net value of DKK 68 million (DKK 84 million), comprising a cost of DKK 134 million (DKK 147 million) and depreciation of DKK 66 million (DKK 63 million). The lease obligation is included in debt to financial institutions.

Approved future capital expenditure is estimated at DKK 6,016 million (DKK 1,738 million) including DKK 2,034 million (DKK 241 million) for which contracts have been placed.

8 Tangible fixed assets, Group

	Production plants		Machinery & equipment		Construction in progress	
	1998	1997	1998	1997	1998	1997
Cost						
As of January 1	16,396	14,982	633	602	694	664
Additions regarding investment in subsidiaries	4,950	467	267	8	51	3
Exchange adjustments	-575	-89	-31	2	-19	-7
Additions	232	55	88	75	1,383	1,099
Disposals	-62	-76	-33	-62	-24	0
Transfers	494	1,057	22	8	-516	-1,065
	21,435	16,396	946	633	1,569	694
Accumulated depreciation						
As of January 1	8,877	7,825	445	392	0	0
Additions regarding investment in subsidiaries	3,089	230	212	8	0	0
Exchange adjustments	-292	-24	-20	4	0	0
Disposals	-18	-72	-54	-38	0	0
Depreciation	990	918	88	79	0	0
	12,646	8,877	671	445	0	0
Book value as of December 31	8,789	7,519	275	188	1,569	694

9 Machinery and equipment, Parent Company

	1998	1997
Cost		
As of January 1	33	28
Additions	15	10
Disposals	-9	-5
Investments	0	0
	39	33
Accumulated depreciation		
As of January 1	17	13
Disposals	-9	-5
Depreciation	11	9
	19	17
Book value as of December 31	20	16

10 Depreciation and amortisation

Depreciation and amortisation are allocated as follows in the income statement

	Group		Parent Company	
	1998	1997	1998	1997
Production costs	981	913	-	-
Sales and distribution costs	51	27	-	-
Administration costs	91	81	22	24
Total	1,123	1,021	22	24

11 Financial fixed assets, Group

	Shares in associated companies		Other investments		Total	
	1998	1997	1998	1997	1998	1997
	Cost					
As of January 1	27	22	135	132	162	154
Exchange adjustments	1	-1	0	-1	1	-2
Addition regarding investment in subsidiaries			47		47	
Investments		6	24	28	24	34
Disposals	-28	0	-41	-24	-69	-24
	0	27	165	135	165	162
Adjustments						
As of January 1	-38	-14			-38	-14
Disposals	39	0			39	0
Net result of associated companies	-1	-24			-1	-24
	0	-38			0	-38
Book value as of December 31	0	-11	165	135	165	124

12 Financial fixed assets, Parent Company

	Shares in subsidiaries		Receivables from subsidiaries		Other	
	1998	1997	1998	1997	1998	1997
Cost						
As of January 1	2,892	4,108	3,259	2,069	50	27
Investments/additions	1,970	15	1,656	1,613	1	30
Disposals	0	-1,231	-1,567	-423	-28	-7
	4,862	2,892	3,348	3,259	23	50
Adjustments						
As of January 1	2,496	1,939	111	98		
Exchange adjustments	-94	-110	-249	13		
Net result of subsidiaries	752	1,364				
Dividend from subsidiaries	-457	-697				
	2,697	2,496	-138	111		
Book value as of December 31	7,559	5,388	3,210	3,370	23	50

13 Financial income/expenses, net

	Group		Parent Company	
	1998	1997	1998	1997
Interest income from subsidiaries	-	-	182	114
cash and cash equivalents	117	90	0	13
	117	90	182	127
Interest expenses to financial institutions	-232	-188	-17	-8
subsidiaries	-	-	-70	-52
finance lease	-10	-10	0	0
Exchange adjustments, net	37	24	44	1
Other financial expenses	-65	-16	-7	0
	-270	-190	-50	-59
Total	-153	-100	132	68

The Group has tax assets of DKK 1,010 million (DKK 1,062 million) in addition to those that have been capitalised as deferred tax assets and have been offset in deferred tax liabilities. These unrecorded assets mainly relate to tax losses carried forward.

14 Taxation

	Group		Parent Company	
	1998	1997	1998	1997
Taxes				
Income tax payable	344	299	7	0
Change in deferred tax assets	46	-107	0	0
Change in deferred tax	-213	64	18	3
Adjustments to previous year's tax charge	43	21	-32	0
Tax expense	220	277	-7	3
Tax provision as a percentage of profit before taxation	20,3%	16,9%		
Reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rates				
Tax provision at statutory rates	306	475	16	3
Adjustment of valuation allowance	-101	-106	0	0
Withholding taxes paid	14	7	7	0
Benefits of tax losses	-1	-120	0	0
Prior-year adjustments	2	21	-30	0
Tax expense	220	277	-7	3
Deferred tax, asset				
Tax over book values	278	309	0	0
Other temporary differences	108	62	0	0
Tax losses to be carried forward	14	23	0	0
Capitalised tax assets	400	394	0	0
Deferred tax, liability				
Accelerated depreciation on tangible fixed assets	748	793	0	0
Tax equalisation reserves in Swedish subsidiaries	117	124	0	0
Other	236	444	9	12
	1,101	1,361	0	12
Tax assets offset	-185	-215	-9	-12
Deferred tax liability	916	1,146	0	0
Taxes, payable				
As of January 1	177	157	0	62
Exchange adjustments	-16	4	0	0
Income tax payable for the year	387	320	7	32
Taxes paid	-401	-326	-7	-53
Taxes converted to deferred	-18	0	-3	-62
Taxes transferred to receivable	10	21	3	21
Taxes payable	139	176	0	0

15 Inventories, Group

	1998	1997
Raw materials and consumables	447	630
Work in progress	14	1
Finished products	1,891	1,598
Total	2,352	2,229

Inventories of ethylene and propylene are included under Finished goods.

16 Shareholders' equity

	Share capital	Premium on issue	Reserve for net revaluation under the equity method	Reserve for unrealised exchange gains	Retained earnings	Total
As of January 1, 1997	4,000	1,699	1,939	65	54	7,757
Net profit for the year			1,364			1,364
Exchange adjustments related to investment in subsidiaries, net after tax			-110	12	40	-58
Dividend			-697		15	-682
Balance as of December 31, 1997	4,000	1,699	2,496	77	109	8,381
Transfer of premium on issue to retained earnings		-1,699			1,699	0
Net profit for the year			752		110	862
Exchange adjustments related to investment in subsidiaries, net after tax			-94	-77	-155	-326
Dividend			-457		-134	-591
Balance as of December 31, 1998	4,000	0	2,697	0	1,629	8,326

The share capital is divided into shares of DKK 1,000 each and multiples thereof. No part of the share capital has special rights.

17 Pension plans

Most group companies have pension plans, the forms and benefits of which vary with conditions and practices in the countries concerned. The plans include both defined contribution plans and defined benefit plans which provide defined benefits based on employees' year of service and average final remuneration. A summary of the status of defined benefit plans is shown below.

	1998	1997
Funded pension plans		
Actuarial present value of benefits due to past and present employees	429	298
Plan assets held in trusts at fair value	303	200
Plan assets below the present value of benefits	126	98
Unfunded pension plans		
Actuarial present value of benefits due to past and present employees recorded as a provision	320	192

The aggregated pension cost charged to the income statement for 1998 amounted to DKK 292 compared to DKK 195 in 1997. Pension costs relate to:

	1998	1997
Defined benefit plans	211	146
Defined contribution plans	81	49

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

	1998		1997			
Discount rate	4.25%	to	6%	4.25%	to	7%
Projected rate of remuneration growth	2.5%	to	3%	2.5%	to	4%
Expected rate of return on plan assets	4.5%	to	7.5%	4.5%	to	8%

18 Other provisions

	Restruc- turing	Negative goodwill	Main- tenance	Other	Total
As of January 1	210	-	123	148	481
Provisions made during the year	385	279	120	112	896
Provisions used during the year	-79	-56	-8	-87	-230
Balance as of December 31, 1998	516	223	235	173	1,147

Restructuring

The provision for restructuring covers estimated costs for the site restructuring program. The restructuring is expected to take place during 1999 and 2000.

Negative goodwill

The negative goodwill relates to the acquisition at PCD Polymere AG and is charged to the income statement over 5 years (1998: 56 million).

Maintenance

Provision covers estimated costs for major maintenance programmes which are set up on a straight line basis and charged to production costs in the income statement.

19 Government Grants

Borealis received government grants for research and development of DKK 15 million (DKK 17 million in 1997).

20 Financial indebtedness

Due	1998				1997			
	Term loans	Export Credits	Finance Leases	Revolving facilities	Term loans	Export Credits	Finance Leases	Revolving facilities
After 5 years	1,469		92	4,513	580		119	
Within 5 years	148	235			166			
4 years	272				238			1,723
3 years	345			1,667	291			
2 years	396				429			943
2-5 years			46				54	
	2,630	235	138	6,180	1,704		173	2,666
Within 1 year	1,125	975	11	400	476		14	204
Finance charges			-72				-88	
Net obligations	3,755	1,210	77	6,580	2,180		99	2,870
Undrawn facilities				6,580	435			2,870
Of which parent				5,900	435			2,172

Currency mix and weighted average interest rates during the year for term loans, export credits and finance leases

	1998	Percent	Interest rate	1997	Percent	Interest rate
Non-interest bearing						
USD	46	1				
BEF	235	5		234	9	
DEM	420	9				
PTE	327	7				
Non-interest bearing total	1,028	20		234	9	
Interest bearing						
ATS	1,009	20	3.1%			
BEF	1,373	28	7.1%	1,722	68	7.2%
FIM	119	2	4.1%	140	6	3.7%
XEU	410	8	4.1%			
Other	24	-	3.5%			
Euro total	2,935	58	5.3%	1,862	74	6.9%
SEK	1,079	22	5.4%	417	17	7.2%
Interest bearing total	4,014	80	5.4%	2,279	91	7.0%
Total	5,042	100		2,513	100	

Significant components of corporate debt above DKK 100 million

Type	Curr.	Amount DKK	Fixed/ floating	Interest revision	Final maturity	Average interest rate 1998
Export credits	ATS	975	Floating	Mar-1999	1999	2.9%
Export credits	SEK	235	Floating	Apr-1999	2003	4.6%
Term loans	XEU	410	Floating	Mar-1999	2005	4.1%
Term loans	SEK	392	Floating	Jul-1999	2004	4.3%
Term loans	BEF	277	Fixed	Dec-2001	2006	4.0%
Term loans	SEK	196	Floating	Jun-1999	2006	3.9%
Term loans	SEK	137	Floating	Jan-1999	2001	5.1%
Term loans	FIM	119	Floating	Jul-1999	1999	4.1%
Non-interest bearing term loans	DEM	420			2002	
Non-interest bearing term loans	PTE	327			1999	
Non-interest bearing term loans	BEF	235			1999	
Total		3,723				

Schedule of interest resets for interest bearing loans

	Balance mill. DKK	Percentage of the loans with interest reset in:			
		1999	2000	2001	2002 or later
ATS	17	5%	33%	46%	16%
BEF	1,373	65%	7%	20%	7%
SEK	82	6%	0%	0%	94%
Fixed rate loans, total	1,472	61%	7%	19%	12%
Floating rate loans	2,542	100%			
Interest bearing loans, total	4,014	85%	3%	7%	5%

The floating interest rates are repriced at least annually. All of the BEF loans have fixed interest rates, normally for a 5-year-period, and a significant portion will be repriced during 1999.

Parent company interest bearing debt

	1998	1997
Inter-company short-term loans	1,231	952
Term loans and export credits	1,234	0
Total	2,465	952

Of the parent company's term loans and export credits, DKK 235 million are maturing within 5 years and DKK 999 million after 5 years.

21 Assets pledged

	1998	1997
Chattel mortgages	105	117
Others	138	152
Total	243	269

The liabilities covered by the above assets amounted to DKK 243 million at the end of the year, compared to DKK 214 million one year earlier.

22 Contingent liabilities

Guarantee commitments

The Parent Company guaranteed credit facilities of Group companies amounting to DKK 2,713 million (DKK 2,222 million).

Lawsuits pending

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

Leasing commitments

The Group has agreements covering operational leasing of certain assets. These agreements are non-terminable for periods of up to 72 months (58 months), and the total rentals during the non-terminable periods amounted to DKK 76 million at year-end 1998 (DKK 67 million). The Parent Company's share of operational leasing commitments amounted to DKK 23 million (DKK 16 million).

23 Financial instruments

In the normal course of business the group is a party to derivative financial instruments with off-balance sheet risk used to manage exposures to fluctuations in foreign currency exchange rates and interest rates. As a secondary and limited activity, and in conjunction with risk management, the group also trade certain derivatives. To the extent that financial instruments are used to manage exposures, estimated fair values of these instruments will offset and be recognised concurrently with gains and losses associated with the underlying transaction. Derivatives held for trading purposes are stated at marked to market and all gains and losses recognised in the income statement.

The term of the currency and interest rate derivatives is usually less than one year.

	Currency derivatives		Interest rate derivatives	
	1998	1997	1998	1997
Risk management				
Notional amounts	13,378	7,006		
Fair value	-28	-7		
Credit risk	92	3		
Trading				
Notional amounts	153	181	6,265	2,358
Fair value	0	0	5	0
Credit risk	0	1	95	1

24 Fees to external auditors, Parent Company

	1998	1997
Audit fees	1	1
Other services	1	1
Total	2	2

25 Transactions with related parties

Borealis makes significant purchases of feedstocks from its shareholders at market prices.

There were no other material transactions with related parties in 1998.

26 Effect of acquisitions of subsidiaries

Cash flow on acquisitions of subsidiaries

The assets and liabilities acquired, and the cash flows arising from the acquisition of PCD and additional payment regarding CNP, can be analysed as follows:

Fixed assets	2,285
Inventories	609
Trade receivable	826
Cash	177
Non-current loan and borrowings	-646
Short-term borrowings	-1,257
Trade payable	-519
Other, net	-638
Net identifiable assets and liabilities	837
Negative Goodwill on acquisition	279
Total purchase consideration	558
Less: cash	177
Cash flow on acquisitions, net of cash acquired	381

27 Interest in Joint Ventures

The Group has an interest in the following joint ventures:

- 50% in Nova-Borealis Compounds LLC
- 50% in NSP Olefins N.V.
- 40% in Abu Dhabi Polymers Co. Ltd. (Borouge)
- 50% in Borouge Pte Ltd.
- 49% in Noretyl ANS

The Group's interest in the joint venture's balance sheet items and net profit for the year is included in the Group's consolidated balance sheet and income statement with the following amounts:

	1998	1997
Non-current assets	205	123
Current assets	400	245
Total assets	605	368
Non-current liabilities	503	278
Current liabilities	102	90
Total liabilities	605	368
Profit before tax	175	193
Income tax	-1	-1
Profit after tax	174	192

28 Companies included in the consolidated accounts

			Issued share capital	Percentage of shares owned	Book value in Borealis (DKK million)
	Country				
Borealis AG	Austria	ATS	420,000,000	100	621
▪ Polydan International GmbH	Austria	ATS	500,000	100	-2
▪ Borealis Polymere Holding GmbH	Germany	DEM	650,000	100	150
▪▪ Borealis Polymere GmbH	Germany	DEM	36,000,000	100	327
▪ Borealis Compounds Italia S.r.l.	Italy	ITL	6,600,000,000	100	106
▪▪ Borealis Compounds Italia S.p.A.	Italy	ITL	6,500,000,000	100	24
▪ Borealis Middle East Ltd.*	Cyprus	CPD	10,000	100	0
▪ PCD Polymere CSFR spool s.r.o.*	Czech Rep.	CZK	100,000	100	1
▪ PCD Scandinavia*	Denmark	DKK	299,000	100	0
▪ PCD Polymere Benelux B.V.*	Holland	NLG	50,000	100	0
▪ Borealis Kft.*	Hungary	HUF	1,000,000	100	0
▪ PCD Polymere Polska Sp. z o.o.*	Poland	PLN	34,000	100	1
Borealis s.r.o.	Czech Rep.	CZK	500,000	100	0
Borealis Danmark A/S.	Denmark	DKK	500,000	100	13
Borealis N.V. (Belgium) ApS	Denmark	DKK	1,000,000	100	1,456
▪ Borealis Coordination Center N.V.	Belgium	BEF	4,001,250,000	100	792
▪ Borealis Polymers N.V.	Belgium	BEF	14,500,000,000	100	1,952
▪▪ Borealis Antwerpen N.V.	Belgium	BEF	600,000,000	100	149
▪▪ Borealis Kallo N.V.	Belgium	BEF	2,500,000	100	204
▪▪▪ NSP Olefins N.V.**	Belgium	BEF	660,000,000	50	-313
Borealis Insurance A/S	Denmark	DKK	25,000,000	100	25
Borealis Eesti Oü	Estonia	EEK	128,000	100	0
Borealis Polymers Oy	Finland	FIM	800,000,000	100	2,427
Borealis Compound S.A.S.	France	FRF	2,000,000	100	29
Borealis Holding GmbH	Germany	DEM	3,000,000	100	15
▪ Borealis Compounds GmbH	Germany	DEM	10,000,000	100	91
▪ Borealis Deutschland GmbH	Germany	DEM	300,000	100	4
Borealis Hellas E.P.E.*	Greece	GRD	3,000,000	100	0
Borealis Hong Kong Ltd.	Hong Kong	HKD	500,000	100	2
Borealis Italia S.r.l.	Italy	ITL	300,000,000	100	4
Borealis AS	Norway	NOK	650,000,000	100	610
▪ Noretyl ANS**	Norway	NOK	0	49	0
▪ Borealis Borouge Holding AS	Norway	NOK	550,000	100	407
▪▪ Abu Dhabi Polymers Company Ltd. (Borouge)**	Abu Dhabi	USD	79,155,000	40	202
▪ Borealis Borouge AS	Norway	NOK	50,000	100	0
▪ IS Norpolefin ANS	Norway	NOK	0	100	1
Borealis Polska Sp. z o.o.	Poland	PLN	40,000	100	0
Borealis Portugal SGPS S.A.	Portugal	PTE	3,907,000,000	100	245
Borealis Polímeros Ltda.	Portugal	PTE	15,172,500,000	100	1,854
▪ Companhia Nacional de Petroquímica S. A.	Portugal	PTE	11,500,000,000	100	1,578
▪ Borealis Producao de Electricidade & Calor ace	Portugal	PTE	5,000,000	67	0
Borealis Singapore Pte Ltd.	Singapore	SGD	100,000	100	14
Borouge Pte Ltd.**	Singapore	SGD	2,000,000	50	3
Poliolefinas Borealis España S.A.	Spain	ESP	10,000,000	100	4
Borealis Holding AB	Sweden	SEK	1,300,000	100	27
▪ Borealis AB	Sweden	SEK	65,000,000	100	1,233
▪▪ Etenförsörjning i Stenungsund AB	Sweden	SEK	5,000,000	80	4
▪ Borealis Compounds AB	Sweden	SEK	100,000	100	15
Borealis SA.*	Switzerland	CHF	100,000	100	0
Borealis UK Ltd.	U.K.	GBP	15,000	100	0
▪ PCD UK Ltd.*	U.K.	GBP	150,000	100	1
Borealis Compounds Inc.	USA	USD	6,050,000	100	-87
▪ Nova-Borealis Compounds LLC**	USA	USD	2,000	50	45

* Excluded from the consolidation due to immateriality.

** Consolidated on a pro-rata basis.

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Svein Rennemo
Chief Executive Officer

Franz Wurm
Chief Financial Officer

Walter Kadl
Executive Vice President,
Polyolefins & Chemicals Division

Staffan Lennström
Executive Vice President,
Performance Products Division

Henry Sperle
Executive Vice President,
Business Development Division

Harald Ynnesdal
Executive Vice President,
Manufacturing Division

Vice Presidents:

Maarit Aarni
Olefins, Phenol & Aromatics BU

Kent Abbås
Polypropylene BU

Thomas Abel
Operations Planning

Kjell Anbjørnsen
Strategic Planning

Walter Baumann
Engineering Applications BU

Stig Blomberg
HSE&Q

Bjarte Bogsnes
Human Resources

Johan Brenner
Logistics & Procurement

Harri Bucht
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Corporate Control

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