

The background image for the cover is a photograph of an industrial facility, likely a refinery or chemical plant. It features large, dark, curved structures, possibly pipes or storage tanks, with a bright light source in the background creating a silhouette effect. Two people are visible in the distance, standing near a doorway or opening. The overall color palette is dominated by dark blues and greys, with a bright white light source.

## ANNUAL REPORT 2001

### CONTENTS

- 3 Borealis – Creating & delivering value to our customers
- 4 Highlights of 2001
- 5 Key figures & ratios
- 6 Report of the Board of Directors
  
- 8 Winning through people in a time of change
- 10 Progress in health, safety & environmental performance
- 12 Achieving operational excellence
- 13 Building a platform in hydrocarbons
- 14 Polypropylene – Versatility in the fastest-growing polymer
- 16 Polyethylene – Freedom of design for the manufacturer
- 18 Wire & Cable – Power to the whole wired world
- 20 Pipe – Tailor-made solutions for plastic pipe systems
- 22 Automotive & home appliances – Polymers that are safer, lighter and more cost-efficient
- 24 The Middle East and Asia
- 26 Pushing the limits with Research & Technology
  
- 28 Financial Review
- 32 Accounting principles
- 34 Signatures to the accounts
- 35 Consolidated income statement
- 36 Consolidated statement of recognised gains & losses
- 37 Consolidated balance sheet
- 38 Consolidated cash flow statement
- 39 Income statement – Borealis A/S
- 40 Balance sheet – Borealis A/S
- 41 Notes to the accounts
  
- 55 The world of Borealis

This is an expanded version of the statutory Danish-language annual report, which was approved on March 8, 2002, and will be filed with the Danish Commerce and Companies Agency.

▶ **THE POLYMER CHAIN**

Borealis' main business is the supply of plastics raw materials: polyethylene (PE) and polypropylene (PP). Because of their molecular structure, these are also called polymers. The illustration shows the role Borealis plays in the polymer chain.



BLOW MOULDING      INJECTION MOULDING



ROTO MOULDING      EXTRUSION COATING



▶ **OIL AND GAS PRODUCTION**

Polyolefins begin with oil and natural gas, most of which are exploited for energy. Only 4% become plastics raw material.

▶ **REFINING**

In the refinery, the oil and gas mixture is separated into different products (fractions) by distillation, mainly transportation fuels. Naphtha (a light fraction from oil), is the major petrochemical feedstock.

▶ **CRACKING**

'Cracking' is a process in which large hydrocarbon molecules (naphtha, ethane or liquefied petroleum gases) are broken down into smaller ones. These include the gases ethylene and propylene, which are feedstocks for polymerisation into plastics raw material. Borealis has crackers in Finland, Norway, Portugal, Sweden and UAE.

▶ **POLYMERISATION**

Ethylene and propylene form long chains, called polymers, in a reaction process aided by chemical catalysts. Each polymerisation plant is designed to operate at certain conditions with special catalyst systems to make its own product mix. An example is Borstar, Borealis' own process and catalyst technology. Borealis has polymerisation plants in Austria, Belgium, Finland, Germany, Norway, Portugal, Sweden and UAE.

▶ **POLYETHYLENE AND POLYPROPYLENE PELLETS**

The polymers, polyethylene (PE) and polypropylene (PP), are delivered to customers in the plastics converting industry usually as 2-3 mm particles. These are pellets or granules, packed in bags or in bulk. In some cases materials pass through a compounding step before delivery to our customers.

▶ **BOREALIS CUSTOMERS: PLASTICS CONVERTERS**

Our customers melt Borealis PE and PP, and process them into the plastic products we use every day: packages, bags, films, ropes, fibres, pipes, wire and cables, and moulded parts for cars, appliances, furniture, toys and housewares.



FILM EXTRUSION



FIBRE SPINNING      EXTRUSION

## THE BOREALIS GROUP

Borealis' main products are polyolefins – plastic raw materials comprising polyethylene (PE) and polypropylene (PP). But we also produce a number of hydrocarbons including ethylene, propylene and phenol. We employ 5,300 people and produce over 3.5 million tonnes of PE and PP per year.

These are modern plastics which are pushing the limits in properties and performance as they replace many conventional materials. PE and PP are converted by our customers into thousands of everyday products – from food packaging and construction materials, to housewares, components for cars and aircraft, water and gas pipes, electrical cables, even babies' diapers. Borealis' own process technology, marketed under the name Borstar, is pioneering still more areas of application to create value.

### **Serving customers globally**

The Borealis head office is located near Copenhagen, Denmark. Production comes from main sites in Austria, Belgium,

Finland, Germany, Norway, Portugal and Sweden, and special compounding units in Brazil, Italy, France and the USA. A network of sales offices serves customers around the globe.

In December 2001, Borouge, a joint venture between Borealis and the Abu Dhabi National Oil Company (ADNOC), successfully started up a large new petrochemical complex in the United Arab Emirates manufacturing Borstar PE. Products from Borealis and Borouge are marketed and sold jointly in the Middle East and Asia through the Borouge marketing company located in Singapore.

Established in 1994, Borealis is today owned 50% by the Norwegian oil company, Statoil. The other half is owned by IOB Holdings, which represents a 25% share owned by OMV, the Austrian oil and natural gas group; and 25% by the International Petroleum Investment Company (IPIC) of Abu Dhabi.

## CREATING & DELIVERING VALUE TO OUR CUSTOMERS

**In 2001, we updated our strategy to ensure Borealis' profitability even in times of economic downturn, and we welcomed a new top management team.**

**Borealis' mission is to be a leading, profitable, integrated polyolefins supplier. To achieve this, we will:**

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

**Our goal is to create value for our owners by achieving a trend-line return on capital employed (ROCE) of 11% by 2004. Borealis has embarked on a number of improvement projects to support these goals and to meet the challenges of an uncertain global economy.**

*"In 2001 we set ourselves the challenging goal of becoming a leading, profitable, integrated polyolefins supplier. We are committed to doing our utmost to create and deliver value to our customers."*

John Taylor, Chief Executive



## HIGHLIGHTS OF 2001

### Increasing market share in a difficult year

A flat market and excess capacity reduced prices and margins, resulting in a net loss of EUR 41 million. Nevertheless, Borealis maintained its strong market position and increased market share in key segments.

### Updated strategy

To regain profitability, Borealis updated its strategy and set the goal of becoming a leading, profitable, integrated polyolefins supplier.

### New Chief Executive

John Taylor became the new Chief Executive of the Borealis Group in April 2001, succeeding Svein Rennemo who had served as Chief Executive since 1997.

### Step change in safety performance

We have set ourselves the goal of becoming an industry leader in safety. We made significant progress in 2001, achieving a reduction of 18% in our total incident rate, but most regrettably, two colleagues died in accidents.

### Successful Borouge start-up

Borouge, a joint venture between Borealis and ADNOC, started up a new, EUR 1.4 billion petrochemical complex in the United Arab Emirates. The site consists of a 600,000 tonnes/year ethylene cracker and two Borstar polyethylene plants with a combined production capacity of 450,000 tonnes/year.

### New, innovative products

- Borpact, a PP that combines transparency with high impact resistance.
- Visico Ambicat, cross-linking technology for tougher 1 kV cable insulation.
- New cross-linked PE products for hot water pipes with higher heat resistance and increased flexibility.

### Customer satisfaction improved

Borealis regularly gauges customers' satisfaction with our products and services, and we exceeded our improvement target in 2001.

### Success at K 2001

The world's biggest fair for the plastics and rubber industries, K 2001, was a big success for Borealis as we presented our updated strategy to journalists and visitors.

### Improved operations

Borealis' PE and PP plants recovered in 2001 from a series of production disturbances in 2000, and overall plant operability increased by 1.5%.

Our steam cracker in Sweden, which suffered from start-up problems in 2000 after a major expansion, improved operation in 2001 to reach 100% of its design rate.

### Winning through people

Our annual employee survey showed that we are continuing to make progress, and we exceeded by far our target for improvement for 2001.



## KEY FIGURES & RATIOS

		1997	1998	1999	2000	2001
<b>INCOME AND PROFITABILITY</b>						
Net sales	EUR million	2,497	2,725	2,964	3,711	3,708
Operating profit	EUR million	205	152	184	52	54
Operating profit as percentage of net sales	%	8	6	6	1	1
Profit before taxation	EUR million	216	156	179	76	-24
Net profit for the year	EUR million	180	119	141	42	-41
Return on capital employed, net after tax	%	13	9	9	3	2
<b>CASH FLOW AND INVESTMENTS</b>						
Cash flow from operating activities	EUR million	279	459	238	-44	291
Investments in tangible fixed assets	EUR million	173	193	434	225	147
<b>FINANCIAL POSITION</b>						
Total assets	EUR million	2,211	2,663	3,180	3,647	3,437
Net interest-bearing debt	EUR million	181	317	765	1,305	1,304
Capital employed	EUR million	1,573	1,788	2,246	2,783	2,653
Equity	EUR million	1,253	1,236	1,336	1,340	1,284
Solvency ratio	%	55	45	42	37	38
Gearing	%	15	26	57	97	102
<b>NUMBER OF EMPLOYEES (YEAR-END)</b>		<b>5,001</b>	<b>5,848</b>	<b>5,424</b>	<b>5,188</b>	<b>5,297</b>

Comparative figures have been restated due to the change in treatment of jointly controlled entities.

### Definitions:

Capital employed = Total assets less non-interest-bearing debt.

Return on capital employed = Operating profit, profit and loss from sale of operations, net result in associated companies, plus interest income, after 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 and cash equivalents, divided by equity.



## REPORT OF THE BOARD OF DIRECTORS

2001 was a difficult year for the polyolefins industry, resulting in a disappointing financial result for Borealis. The Group sustained a net loss of EUR 41 million, compared with a net profit of EUR 42 million in 2000.

The weak results were mainly due to the downturn in the global economy and an increase in financial charges. A slow growth in demand for polyolefins, combined with excess capacity, had the impact of lower prices and integrated margins that were 6% below those of 2000, which itself was a weak year.

Borealis' net result for 2001 equals a return on capital employed (ROCE) after tax of 2%, down from 3% in 2000. The Board proposes that no dividend be paid for the year.

### Increased sales volumes

Despite the weak financial result, Borealis made progress on a number of fronts in 2001. The Group's polyolefin sales volume grew nearly 6% from 2000 to total 3.2 million tonnes in 2001. In comparison, the

western European polyolefins market grew by 2% during the year. Plant operating performance also improved significantly in 2001 and customer satisfaction, as measured in annual surveys, showed tangible progress.

### Updated strategy, new management

In 2001 Borealis updated and sharpened its strategy to regain profitability in tough competitive markets in an environment with low economic growth. It set the goal of becoming "a leading, profitable, integrated polyolefins supplier" by creating and delivering value to customers. It contains the financial target of achieving a trend-line ROCE of 11% by 2004.

In April, John Taylor became the new Chief Executive of the Borealis Group, succeeding Svein Rennemo. Clive Watson also joined Borealis as Chief Financial Officer, and David Rolph as Executive Vice President Polyolefins.

### Borouge into production

An important part of Borealis' updated strategy is building a presence in the Middle East and Asia. In December, Borouge, the production joint venture between Borealis and the Abu Dhabi National Oil Company (ADNOC), started up a new, EUR 1.4 billion petrochemical complex in the United Arab Emirates on schedule, below original cost estimate and with an excellent safety record. Products from Borealis and Borouge will now be marketed and sold jointly in the Middle East and Asia through the Borouge marketing company in Singapore.

### Operating plant performance

Borealis' polyethylene and polypropylene plants recovered in 2001 from production disturbances in 2000, and overall plant operability increased. The steam cracker in Sweden, which suffered from start-up problems in 2000 after a major expansion, improved operations considerably in 2001, achieving design capacity.

### Research & Technology

A substantial part of Borealis' Research & Technology activities in 2001 related to Borstar PE and PP process and product development to create more value for customers. The R&T support to operations focused mainly on enhancing product consistency and cost efficiency.

### Improved health and safety, but two fatalities

Borealis recorded an 18% reduction in Total Recordable Injuries (TRI) from a frequency of 8.4 per million hours in 2000 to 6.9 per million hours. However, Borealis lost two colleagues as 2001 drew to a close.

A contractor died of severe scalding after falling into a hot water tank while waiting to unload Borealis product at a customer's premises, and a Borealis sales employee died in a traffic accident on his way to work.

Borealis' safety performance is around the industry average but it falls short of the leadership level that the company strives for. Plans have been made

Borealis' Board of Directors



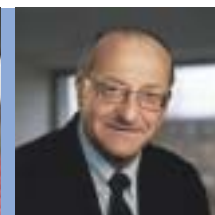
**Gerhard Roiss**  
Chairman  
Vice Chairman of the  
Executive Board,  
OMV Aktiengesellschaft



**Erling Øverland**  
Vice Chairman  
Executive Vice President,  
Statoil ASA



**Mohamed Al Khaily**  
Managing Director,  
International Petroleum  
Investment Company



**Finn Kulås**  
Senior Vice President,  
Statoil ASA

to reduce the TRI frequency to less than 4 by 2004. In 2002 and 2003, Borealis employees and contractors will participate in behaviour-based safety training under a programme entitled "Step Change in Safety," in collaboration with DuPont.

**New Chairman of the Board**

On September 20, 2001, Gerhard Roiss moved from Vice Chairman to Chairman of the Board of Directors of Borealis, in accordance with Borealis' rules of governance. He succeeded Erling Øverland, who served as Chairman since July 1, 2000, and now serves as Vice Chairman.

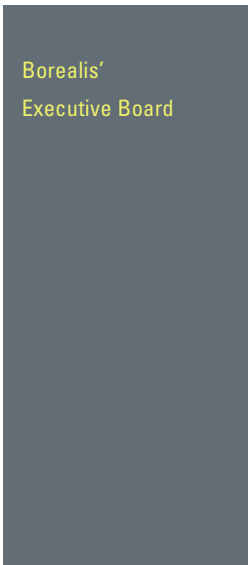
Roiss is Vice Chairman of the Executive Board of OMV responsible for Refining, Marketing and Plastics. Øverland is Statoil's Executive Vice President of Manufacturing and Marketing, and a member of Statoil's Executive Board.

**Future prospects**

While the current outlook for global economies remains uncertain, there are some early indications that polyolefin markets have bottomed-out in terms of both volume and margins. This could lead to some improvement from the extremely poor economic conditions experienced in the last quarter of 2001.

Borealis is not waiting for a cyclical upturn. It has embarked on a profit recovery plan that focuses on value creation in target markets, combined with operational excellence, to relieve the continued pressure on industry margins.

Copenhagen, February 13, 2002



**John Taylor**  
Chief Executive

**David Rolph**  
Executive Vice President  
Polyolefins

**Henry Sperle**  
Executive Vice President  
Technology and Projects

**Herbert Willerth**  
Executive Vice President  
Operations and Procurement

**Staffan Lennström**  
Executive Vice President  
Hydrocarbons

**Clive Watson**  
Chief Financial Officer

## WINNING THROUGH PEOPLE IN A TIME OF CHANGE

2001 proved to be a challenging year for Borealis. Our competitive position was under pressure, while the demands on the Borealis organisation and its people increased. We are now embarking on a transformation process which restructures our activities and aligns Borealis' internal organisation with the goal of becoming a leading, profitable and integrated polyolefins supplier.

It is the people of Borealis who will deliver this objective. To do so, we must ensure:

- Clarity around strategy, roles and responsibilities.
- Capabilities in skills, knowledge and behaviour.
- Commitment to deliver what it takes.

These are all prerequisites for enhancing Borealis' position as a high-performing, customer-focused organisation.

### **Cascading goals for clarity**

To ensure clarity and alignment around our strategy, we have established a process for cascading goals to all employees and teams in Borealis. Goal-setting starts with defining targets on a company-wide level through Borealis' Business Plan process. These are then cascaded throughout the organisation in a process of communicating, personalising, and aligning the overall mission, strategy and company goals at all levels.

Performance contracts are used to personalise the goals of the respective units. They also translate overall objectives into goals that individuals can commit themselves to, because they understand their own contributions.

### **Enhancing capabilities**

We are putting renewed emphasis on developing the capabilities of the Borealis organisation and its people to be more customer-focused and thereby, to achieve our strategic objectives. As a consequence, we will:

- Fully implement our performance management tools throughout the company in early 2002.
- Train all managers in leadership skills, such as coaching and feedback, by the end of 2002.

- Further develop our bonus programme to provide incentives for improved performance.
- Restructure the Borealis organisation to increase customer focus.

A sound strategy for the future is only as good as the people who will make it happen. They must have a clear understanding of the goals, the capabilities for achieving them, and the commitment to deliver what it takes.





A key achievement for us in 2000 was the successful expatriation of more than 100 well-qualified Borealis employees to our Borouge joint venture in Abu Dhabi. In 2002 we will see the repatriation to their homeland of many of these employees. A major criteria for success will be to ensure that their acquired skills and experience are well integrated into their home organisations.

### **Measuring commitment**

In the present market situation, it is a challenge to keep up spirit and commitment. However, our Human Capital Index, a yardstick for employee commitment derived from an annual People Survey throughout Borealis, showed an encouraging increase of 11% in 2001.

This exceeded our target and set us well above the benchmark for similar companies. Borealis is now within reach of being the best in our class.



**BOREALIS' HEALTH, SAFETY & 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.**



**PROGRESS IN HEALTH, SAFETY & ENVIRONMENTAL PERFORMANCE**

Leadership in health, safety and the environment (HSE) is necessary in building Borealis into a world-class company. In 2001, we developed a new way of working in HSE as part of an updated Group strategy. We also reorganised our entire HSE team. In 2002, we will launch the programme, "Step Change in Safety," to encourage safety-minded behaviour among all Borealis employees and contractors.

Borealis has published a separate, comprehensive Health, Safety and Environment Report for 2001. These pages give a summary.

**HEALTH**

Borealis has a systematic health programme whose aim is to promote a fit and healthy work force. It is based on mapping and monitoring employees' health to prevent work-related illnesses and diseases. The programme's main elements are:

- Work place development
- Special precautions for persons at risk
- Rehabilitation

Some Borealis employees are shown to be at special risk for back pain and heart disease, and we address these on an individual or group basis. This can include a programme of physical exercise, for instance.

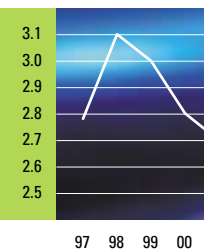
Borealis' main health concerns are job-related stress and the overall strain of balancing private life and work. In 2001, Borealis issued a Group guideline for best practices within occupational health, based on our own experience. A number of Borealis sites held stress-handling seminars during 2001.

Average sick leave in Borealis declined in 2001 to 2.7% of total working hours from 2.8% in 2000. We attribute this to improved HSE procedures and training, and to creating a culture of zero work-related illnesses.

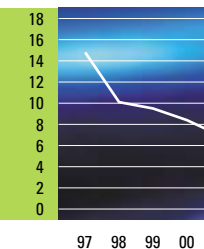
**SAFETY**

The frequency of Total Recordable Injuries (TRI) in the Borealis Group fell from 8.4 per million working hours in 2000 to 6.9 in 2001. Nevertheless, our overall development towards world-class performance is still not rapid enough.

Sick leave percentage



Total Recordable Injuries frequency\*



\* Per million working hours. Includes Lost Time Accidents, Restricted Work Cases and Medically Treated Cases. Incl. contractors from 2000.

Most regrettably, we lost two colleagues towards the end of 2001. A contractor died of severe scalding while waiting to deliver Borealis product at a customer's premises, and a Borealis employee died in a car accident on his way to work.

In 2001, we reviewed Borealis' existing strategy and revised it where necessary. It was clear that to achieve leadership, we must make major improvements in safety.

### Changing behaviour

Experience by Borealis and the petrochemical industry has shown that more than 90% of accidents are caused by people's behaviour. In 2002, we will launch a programme of professional training for all Borealis employees and contractors, entitled "Step Change in Safety," in collaboration with DuPont, a world-class company in safety performance. According to their experience, the concept of "Behaviour-Based Safety" training can lead to a 20%-30% safety improvement in the first year, with further progress of about 10% a year.

As our first target, we set the goal of reducing TRI in Borealis from the current

average of 6.9 per million working hours to less than 4 by 2004.

### Assessing risks

Borealis in 2001 sought closer co-operation with our Risk & Insurers Group and together, we launched a new way of assessing the risks at our plants. We conducted safety assessments on all of them, in accordance with the EU's Seveso II directive to identify potential or unknown hazards.

### Accidents and near-misses

A total of 61 fires and 86 liquid and gas leaks were reported in the Borealis Group in 2001, slightly more than in 2000. Borealis has implemented a computerised registration and follow-up system named Synergi, and we are increasing our use of the reports.

## ENVIRONMENT

### VOC emissions

Borealis' emissions of volatile organic compounds (VOC) to air fell 8% in 2001 to 5,800 tonnes from 6,300 tonnes in 2000,

thanks to continued investments in reducing them. Some major emission reduction projects were completed during a plant turnaround in Porvoo, Finland, and Borealis is improving its Leak Detection & Repair (LDAR) systems at all sites. VOC reduction projects launched in 1999 and 2000 at sites Austria and Belgium also came into full effect in 2001.

### Flaring

Flaring volumes were back to a normal level of 53,000 tonnes in 2001 after a sharp increase in 2000, mainly due to upsets in the newly-expanded cracker in Sweden. In Norway, the installation of new measuring equipment is expected to improve the control of flaring.

### CO<sub>2</sub>

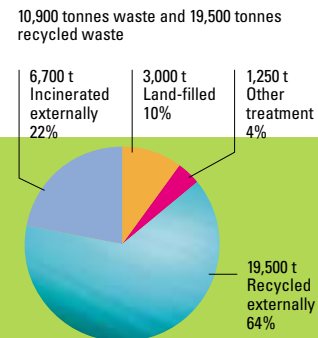
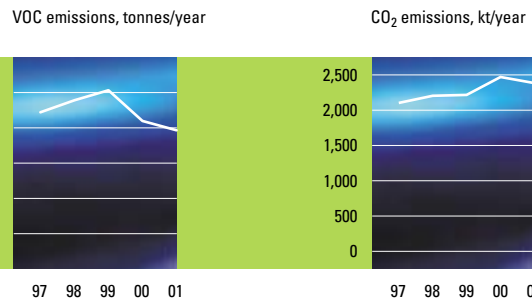
Borealis' carbon dioxide (CO<sub>2</sub>) emissions also returned to a more normal level of 2,400 kilotonnes in 2001. The amount of CO<sub>2</sub> per tonne of product continued to fall, to 0.35 kg, mainly due to ongoing plant modernisation projects.

### Waste

Based on national classification rules, hazardous waste as a part of total waste accounted for 54% of the Borealis total in 2001. Waste streams are subject to exceptional activities such as plant turnarounds and construction projects which generate a temporary increase. Borealis performed major turnarounds at sites Finland and Portugal in 2001, and completed large construction projects in Sweden and Norway.

### HSE investments

Borealis in 2001 invested a total of EUR 19.9 million in projects where HSE improvements were the sole or dominant issue, and Borealis employees received approximately 68,000 hours of HSE training. All programmes are developed on the basis of reported incidents, audits and the needs identified by the HSE management system.



## ACHIEVING OPERATIONAL EXCELLENCE

It takes operational excellence and a customer-first culture to be a leading, profitable, integrated polyolefins supplier.

Borealis' polyethylene (PE) and polypropylene (PP) plants recovered in 2001 from a series of production disturbances in 2000. Overall plant operability increased by 1.5%, and the level of prime grade production rose by 1% to over 96.5%. Borealis aims to cut operability losses and non-prime grade material in half by 2004.

Our first Borstar PP plant in Austria showed rapid development toward its design rate in the first year of operation. The Borstar PE plant in Finland has also proven itself with long periods of high output. However, a Borstar retrofit of a PE plant in Sweden is still experiencing some problems a year after start-up, and we are boosting the plant's capacity over the next two years.

### A "Step Change in Safety"

Borealis' safety record is about average for the industry, but we aspire to be a leader. In 2002, we will launch a "Step Change in Safety" programme for all Borealis employees and contractors, based on the DuPont principles of changing people's safety behaviour. Our target is to cut accidents and injuries in half by 2004, and in half again by 2006.

### Leadership in product consistency

Borealis' goal is to be the industry leader in product consistency in customer surveys from 2003 onward. In 2001, benchmark studies on customer satisfaction in PP have shown Borealis in a good position.

We are now working to improve all processes that influence the consistency of Borealis' products and services to customers. We are applying techniques to control and reduce variations, including on-line process control and Borealis' Advanced Process Control systems (APC).

### Streamlining for efficiency

Streamlined operations, local re-engineering and the effective use of external supplier partnerships are the primary means to achieving our fixed-cost targets. For variable costs, we will focus on raw material prices and optimisation along the entire supply chain.

### High-performance culture

Proper use of management tools and a suitable matrix of targets, feedback and incentives will help Borealis build a high-performance culture into the future. We will focus on customers' needs with reliable, integrated, high-speed transactions, and comply with all quality and safety standards.

Borealis' updated strategy places significantly more emphasis on the upstream supply of hydrocarbons and olefins, namely ethylene and propylene. This is what we mean by being an "integrated polyolefins supplier."



## BUILDING A PLATFORM IN HYDROCARBONS

Our updated strategy states that Borealis will build a solid platform in hydrocarbons by placing significantly more emphasis on our upstream supply of olefins, namely ethylene and propylene.

In 2001, Borealis established a Hydrocarbons Business Group whose initial objectives are to:

- **Increase upstream integration with owners.**
- **Decrease feedstock costs.**
- **Improve cracker safety and operability.**
- **Reduce dependence on third-party olefins supplies and costs.**
- **Maximise the value of our phenol business.**

### **Crackers ran well in 2001**

Our steam cracker in Sweden, which suffered from start-up problems in 2000 after a major expansion, improved operation considerably in 2001 to reach 100% of its design rate. At the same time, the expanded Noretlyl cracker in Norway set a new production record of 425,000 tonnes.

Deliveries of ethane from the Kårstø gas terminal increased sharply from 2000, and this helped the competitiveness of our crackers at the North Sea. Borealis' ethylene production in 2001 rose 15% from the previous year.

We expect a further increase in production capacity in 2002. The expansion of the Borealis cracker in Finland progressed well during 2001, and it is expected to start up again by mid-2002.





CASE IN POINT: **BP CHEMICALS  
PLASTEC**

Twenty years of close co-operation between Borealis and BP Chemicals PlasTec GmbH Dietenheim has led to many innovations. Together, we developed a new PP film for "stand-up" pouches for food. This is a special PP cast film grade that meets the increasing requirements of the food industry. It provides convenience, lighter weight and more attractive packaging.

The new PP film pouches replace aluminium and other materials for all kinds of liquid and solid food packaging. They are gaining acceptance from many of the large consumer goods producers due to their attractive product appearance, easy opening feature and foldability for easy disposal. They also show how cost-efficient concepts can provide optimal product protection.



## POLYPROPYLENE: VERSATILITY IN THE FASTEST-GROWING POLYMER

Polypropylene (PP) is a fast-growing polymer which, thanks to its versatility, continues to replace many conventional materials. Borealis is a leader in key PP applications like cast film, capacitor film, caps and closures, thin-wall packaging and blow moulding.

From rigid and flexible packaging, to fibre and durable goods, Borealis works with customers to create high-performance, cost-effective PP solutions. Our strategy is to:

- Continuously improve our customer focus.
- Reinforce our value-based product offering.
- Focus on PP applications where we hold a strong position.

### Outpacing the market

Polypropylene has exhibited impressive market growth for many years. But after the solid rise in PP sales volumes in early 2001, there was a slowdown in the second half. The western European market grew just under 2%.

PP is replacing more and more materials, especially in packaging where plastics outpace paper and board for the first time. The increase of smaller households also promotes more individual packaging, which tends to increase PP consumption. Borealis has been well placed in this market to benefit from the growth.


### Responding to customers

We received good marks from our customers in market surveys in 2001. They especially appreciated our responsiveness to new needs in resins and applications, as well as our product quality and technical support.

Borealis in 2001 continued to launch PP products with properties which used to be difficult to combine. An example is Borpact, with transparency and high impact-resistance in the same material. All our branded PP products have shown positive development:

- Sales of Borseal, used for sealing layers, tripled.
- Borflow melt-blown products showed healthy growth, especially in western Europe.
- We strengthened our world-wide leadership in capacitor film and made inroads to the U.S. market.
- We saw strong volume growth in the big market segments of BOPP film, caps and closures, and thin-wall packaging.

Borealis is now able to produce high volumes of Borstar PP, thanks to the successful start-up in 2000 of our Borstar plant in Austria. The market has received the Borstar PP products well.



The food industry needs packaging that provides convenience, lighter weight and more attractive product appearance. PP is replacing more and more conventional materials in food packaging, where plastics now outpace paper and board for the first time.

Photo courtesy of Schur Flexible.

## CASE IN POINT: **ARCA SYSTEMS**

Every day, more than 4 billion pallets are used around the world for any number of transportation tasks. The majority are still made of wood but an increasing number is made from polyethylene. PE pallets find their use particularly in applications that demand cleanliness and closed-loop distribution.

Our customer, Arca Systems, is a leader in transport packaging solutions and has developed several new pallet constructions. Recently, Arca launched Everest, an innovative PE pallet without any steel reinforcements which uniquely matches the performance-to-weight ratio of wood while offering a number of additional benefits in durability, sturdiness and ease of recycling.





## POLYETHYLENE: FREEDOM OF DESIGN FOR THE MANUFACTURER

Borealis is a European leader in polyethylene (PE), serving the film, extrusion coating, blow moulding and rotational moulding industries. They, in turn, produce a multitude of goods which make life more convenient, including user-friendly carrier bags and shampoo bottles, tailored food packaging, articles for cost-effective logistics, and lightweight toys and sporting goods.

Our PE business unit creates value for customers, the plastic converters, by delivering high-performance grades and serving their needs with dedicated technical teams. Borealis' PE strategy is to:

- Drive the development of our technology to the commercial benefit of our customers.
- Focus on PE applications where we are leaders.
- Provide attractive services by tailoring them to our customers' needs.

### New applications, changing patterns

The growth of the global PE market slowed in 2001 to about 3%. The driving force was the continued substitution of other materials and the growth of packaging materials from changing consumption patterns.


These trends are partly fuelled by PE producers offering enhanced products that enable thinner films and lighter-weight articles, more transparent or distinctive surface finish, and increased design freedom for the manufacturer. This helps our customers differentiate to win consumer preference and thus, a bigger market share in their business.

### Highlights in 2001

In 2001 we saw the first frozen-food packaging producer, Whietley, promote the unique matt surface of a grade of Borealis' Borstar PE as a more distinctive, mechanically-superior film.

Another highlight was when Trioplast Nyborg, a supplier of heavy-duty bags for Borealis' own needs, managed to meet our demanding property specification with a 140 micron mono-extruded film. This was a thickness reduction of 25% from five years ago by using Borstar PE, marking the first milestone in a downgauging programme agreed upon with our suppliers.

Not least, we were encouraged by the feedback from tractor manufacturers who can now design their diesel fuel tanks more attractively, achieve more flexibility and save weight by shifting from steel to rotationally-moulded PE. We market this grade under the trade name Borecene.



For the Carlsberg brewery in Sweden, the PE pallets give added value over wood in terms of durability, sturdiness, cleanliness and ease of recycling.

Borealis has helped fuel a new trend in packaging in general by offering enhanced PE products that allow more distinctive surface finishes, thinner films and increased freedom of design.



CASE IN POINT: **ABB  
ENERGIEKABEL**

Major utilities around the world face formidable challenges in transmitting the huge volumes of electricity required by consumers. Tough, cross-linked polyethylene cables (XLPE) are increasingly seen as cost-effective and reliable solutions with low environmental impact.

As the world's leading manufacturer of XLPE materials, Borealis has worked extensively with manufacturers. After developing materials for 275 kV (275,000 volt) cables, activities were directed to developing materials for systems operating at 400 kV. Cables using these materials have been installed in UAE, Germany, Denmark and Taiwan.

The operational experience obtained at 400 kV has also provided the foundation for ABB Energiekabel to use XLPE cables operating at 525 kV. These are now installed in a hydro-electric power plant at the Dachaoshan Dam in Yunnan Province, China. The cable materials engineered by Borealis played a major role in the success of this innovative project.





## WIRE & CABLE: POWER TO THE WHOLE WIRED WORLD

For more than 35 years, Borealis has been a leader in supplying polyolefin-based compounds for insulation and jacketing to the wire and cable industry. We work in partnership with our customers, setting recognised benchmarks in product performance and production technology. Our strategy is to:

- Create and deliver value in the form of sustainable and profitable growth.
- Develop innovative solutions that broaden the market.
- Maintain our leadership in Europe and strengthen our position in the Americas.
- Use the Borouge joint venture to continue expansion into the Middle East and Asia.

### Deregulation permits new technologies

Telecommunications and electrical power distribution are the main wire and cable industries Borealis serves. They are undergoing radical changes in the form of deregulation and restructuring, and this has had an impact on the entire value chain from the consumer, to network operators and installers, to our customers – the cable producers.

There is an extremely rapid trend toward internationalisation, rationalisation and specialisation in these industries, presenting some challenging opportunities. Deregulation has swept away many of the old national standards that served as barriers to the very technologies which are now a necessity for competitiveness and profitability in an open market.

### New products in 2001

Borealis brought value to W&C customers in 2001 by introducing:

- Visico Ambicat cross-linking technology for tougher 1 kV cable insulation, combining superior cable production economy with the potential for down-sizing.
- Materials for extruded DC cables, enabling the reliable transmission of low-cost energy by providing a rapid connection without environmentally-intrusive overhead lines.
- Borstar PE jacketing for fibre-optic cable, combining mechanical and processing properties to enable safe, long-distance, broadband connections.

Borealis sees a bright future for its W&C products in the ever-increasing consumption of electrical power and high-speed communication. Only a few suppliers have the resources to develop the solutions needed to thrive in today's W&C industry. Borealis will remain a leader.

Telecom and electrical power distribution are undergoing wide-spread deregulation. This has swept away many of the old barriers to technologies which are now a necessity for competitiveness in an open market.

Borealis sees a bright future for its W&C products in the growing consumption of electricity and high-speed communication.



## CASE IN POINT: **PIPELIFE**

**Borealis and its Norwegian customer, Pipelife AS, set a world record in 2001 by producing an oil transmission pipe with a wall thickness of 100 mm and external diameter of 1.4 metres. Pipelife extruded the huge pipe with high-density Borstar PE 100 in one length of 162 metres. Each metre weighed 430 kg, making a total of 70 tonnes.**

**The pipe was closed at both ends and towed to the Shetland Islands where it was installed on the sea bed at the Sullom Voe oil terminal, operated by BP Amoco. It now serves as a buffer between the production fields offshore and tankers waiting to ship the oil. Despite the rough conditions at the bottom of the North Sea, Borstar PE 100 is a highly reliable material, thanks to its strength, toughness and flexibility.**

**Borealis and Pipelife made a breakthrough by proving how “low-sag” technology enables the production of large-diameter, thick-walled pipes that satisfy the needs of converters and end-users at the same time.**



PIPELIFE NOS2

PE 50

## PIPE: TAILOR-MADE SOLUTIONS FOR PLASTIC PIPE SYSTEMS

Borealis is a world leader in polyolefin materials for pipe systems. We create value for pipe producers by using our knowledge and broad product range to develop tailor-made solutions on a single platform of service and support.

### Strengthening leadership in key segments

The development of Borealis' Borstar technology has resulted in pipe products with unique properties, along with high-performance, cross-linked PE, stiff PP and pipeline protection systems. Our strategy is to:

- Strengthen our leadership in the specified-product pipe market.
- Increase our global market share in selected segments.
- Differentiate Borealis through branding and a strong, market-oriented organisation.

The start-up of the Borouge Borstar PE plant will add significantly to production volumes to help us achieve our global targets.

### New infrastructure brings new challenges

The global pipe market is characterised by many large-scale infrastructure and maintenance projects in drinking water supply, natural gas distribution and sewage disposal. This creates a constant demand for new system solutions and technologies.

Polyolefins are replacing a growing number of conventional materials such as concrete and steel in these projects. Borealis supports this by pushing the development of PE and PP to higher levels of performance, new areas of application and improved cost-efficiency.

### Bringing innovation to the market

In 2001, Borealis introduced new cross-linked PE products for hot water pipes, called BorPEX, to become a supplier of the entire range of PEX grades, representing all existing technologies. Cross-linked PE has higher heat resistance and is more flexible than conventional PE. Other pipe highlights of the year included:

- The launch of Borstar medium-density grades, or MDPE. The Borstar product range is now complete for pressure pipe systems, offering easier processing, increased flexibility and superior mechanical properties than non-Borstar.
- The successful market introduction in China of random-PP pipes for plumbing and heating applications.

Borealis plays an active, responsible role in the pipe industry's development and technology.

Our proprietary Borstar process, along with high-performance, cross-linked PE and stiff PP, have resulted in pipe products with unprecedented properties and applications.



## CASE IN POINT: **VOLKSWAGEN**

**Volkswagen and Borealis have enjoyed a successful partnership, and we were deeply involved in the development of the new VW Polo. Borealis materials are specified for the bumpers, dashboard, mid-console, side trims and under-body finisher.**

**The dashboard, moulded by Faurecia, is impact-resistant but hides an invisible airbag that deploys through a laser-perforated surface. The under-body finisher made by Rütgers lowers the car's air resistance and replaces the corrosion protection layer of PVC (polyvinyl chloride).**

**The Polo is built from a Volkswagen Group model platform that includes the Skoda Fabia and Seat Ibiza, which will also have Borealis compounds on board. A strong argument for Borealis' share of supply is that the Polo is built on three continents. Borealis can also supply European-specified materials in South America from our joint venture, Borealis-OPP in Brazil.**



## AUTOMOTIVE & HOME APPLIANCES: POLYMERS THAT ARE SAFER, LIGHTER AND MORE COST-EFFICIENT

Borealis is a major supplier of polyolefins and compounds to the automotive and appliance industries. Our strategy is to be an innovative partner for original equipment manufacturers (OEMs) and system suppliers by providing advanced polymer solutions.

PP and PP-based compounds increase safety in the end-product, reduce weight, cut costs, consolidate parts and speed the introduction of new products to market. They continue to replace conventional metal parts and other plastics.

### Earning new automotive customers

Western European car production increased by nearly 2% in 2001, driven by exports and local markets in the UK, France and Spain. Borealis supplied long-fibre, reinforced thermoplastics (LFT) for an average of 8.5 kg per car. Highlights of the year included:

- Strong market penetration of Borealis compounds in LFT for front ends of cars like the Peugeot 307, Fiat Stilo and Skoda Fabia. Our LFT materials fit the customer's processing technology, save weight and cost less than steel solutions.
- Series approval for the spare wheel carrier of the BMW Compact series and door module carrier of the new BMW 7 series in glass fibre-reinforced materials.
- Further enhancement of our "zero-gap" product family, which allows the design of optimised wall thickness. This earned Borealis new contracts for Fiat Seicento and Fiat Punto bumpers.


### Replacing metal in home appliances

The appliance market in western Europe was flat in 2001 compared with the previous year, but Borealis strengthened its position in some key areas:

- Bosch Siemens Hausgeräte GmbH introduced the first dishwasher with an interior made of a Borealis mineral-based PP that replaces the traditional steel basement. This offers increased design freedom, better integration of parts and lower cost.
- The trend towards higher spin speeds of washing machines resulted in approvals of glass fibre-reinforced materials for the tubs in some Candy and Mayc models, offering reduced weight and easier assembly.
- The recently-launched "Specialist" vacuum cleaner from Philips showed that our work to substitute ABS (acrylonitrilbutadienestyrene) has been successful.



The automotive and appliance industries serve highly competitive, consumer-oriented markets dominated by global producers.



Polyolefins and their compounds add value by increasing safety in the end product, reducing weight, cutting costs and consolidating parts.





## THE MIDDLE EAST AND ASIA

Borealis' updated strategy for the Middle East and Asia calls for building our presence in the region, using our Borouge joint venture as a base. The EUR 1.4 billion petrochemical complex started up in Ruwais, United Arab Emirates, as 2001 drew to a close.

As Borealis' first major investment outside Europe, Borouge is owned 60% by the Abu Dhabi National Oil Company (ADNOC) and 40% by Borealis. The new site has a 600,000 tonnes/year ethylene cracker and two 225,000 tonnes/year polyethylene (PE) plants employing Borealis' patented Borstar technology.

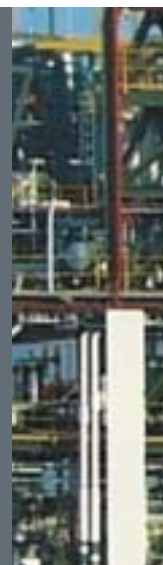
### **On schedule, below budget**

The Borouge plant moved successfully in 2001 from project stage to operation. It was completed on schedule, below the originally estimated cost and with an excellent safety record.

The Borouge complex will specialise in producing high, medium, and linear low-density PE with the superior properties that the Borstar process brings. The products will be sold mainly to the packaging, pipe and electric cable industries in the Middle East and Asia-Pacific.



The Borouge complex, a joint venture between Borealis and ADNOC, specialises in Borstar PE products mainly for the packaging, pipe and electric cable industries in the Middle East and Asia-Pacific.



### **Preparing the markets**

Borouge operations are managed through two joint venture companies with ADNOC: a production company based in Abu Dhabi, and a sales and marketing company located in Singapore.

Borouge Pte Ltd. has been preparing markets for the new production volumes from Abu Dhabi. They have focused efforts on establishing sales channels and introducing Borstar grades to Middle Eastern and Asian customers. The response has been highly positive to the clear benefits that Borstar material brings to several end-users.

From 2002, Borealis and Borouge have merged sales and marketing organisations in these regions. All Borealis products from Europe are now sold through Borouge, in line with Borealis' updated strategy.



## PUSHING THE LIMITS WITH RESEARCH & TECHNOLOGY

Only innovative research can help our customers meet the increasingly tough demands placed on them by today's market. Borealis' Polyolefins Research & Technology (R&T) strategy is to provide the technology platforms for developing superior products and solutions that create maximum value in selected areas of application. Our aim is to:

- Satisfy customers by supplying consistent, high-performance products.
- Shorten product time to market.
- Develop our Borstar and licensed-in technologies according to our market ambitions.
- Fully utilise the synergies of PE and PP technologies.
- Ensure sustainable growth for the Borealis Group.

### Winning through people

The Borealis R&T team comprises some 350 skilled and committed people of many nationalities. They work primarily at three research locations in an open atmosphere where we set the targets high.

Teamwork also includes partnerships, industry alliances and industrial-academic collaborations. Borealis sends many promising candidates to universities to improve their knowledge further.

### Pushing the limits

In 2001, we marked a number of R&T milestones in which Borealis:

- Introduced a new generation of injection moulding and extrusion coating products.
- Made breakthroughs in catalyst manufacturing techniques.
- Signed an agreement with Univation Technologies to cross-license single site catalyst patent rights.
- Introduced new Borstar PE grades for injection moulding.
- Commercialised a whole range of homopolymers, especially Bormod, from Borstar PP.
- Improved homogeneity of Borstar PE products.
- Filed 46 new patents and 10 oppositions to competitors.

Borealis R&T will remain an innovative leader by constantly pushing the limits of polymer technology.

Only people can create value, earn customer satisfaction and achieve cost efficiency. Some 350 people of many nationalities work in Borealis' Research & Technology to provide our customers with innovative, consistent, high-performance products.



**Innovators of the Year:**  
Jürgen Emig, Franz Ruemer  
and Karl Ebner, for developing  
a new PP material with  
outstanding properties.





## **BORSTAR: AN EXAMPLE OF R&T SUCCESS**

The prime example of Borealis' success in polyolefins research is the Borstar process technology for PE and PP. Borstar yields an entirely new range of polyolefin materials that combine superior end-product properties with competitive production costs, leading to less burden on the environment.

### **Borstar enhances PE and PP**

Borstar PE bimodal products include a variety of applications in film, blow moulding, pipe, wire and cable, and extrusion coating. Unimodal grades are also available for applications like injection moulding and fibre, where a combination of stiffness, tensile strength and low shear sensitivity is critical.

Borstar PP grades are tailor-made for a wide range of applications in film, fibre, thermoforming, injection and blow moulding, pipe and automotive applications. Both multimodal and unimodal grades give top performance in all of them.



# FINANCIAL REVIEW

## Highlights

- Polyolefin prices decreased throughout the year and were 6% lower than in 2000. The integrated margin was also 6% below the level in 2000.
- Net loss was EUR 41 million, compared with a net profit of EUR 42 million in 2000. Return on capital employed (ROCE) after tax was 2%, compared with 3% in 2000. The main drivers behind the weakened result were lower margins and increased finance charges.

## Market development

Polyolefin market prices decreased during 2001, averaging 6% lower than in 2000. The average price of naphtha, the main feedstock, also fell, resulting in a net feedstock cost reduction for a standard naphtha cracker. The integrated margin also fell by 6%. While the Western European polyolefin market grew by almost 2% in 2001, Borealis managed to grow 6% and thereby increase its market share.

## REVIEW OF RESULTS

### Sales

Net sales amounted to EUR 3,708 million, in line with the 2000 net sales of EUR 3,711 million. Polyolefin sales volumes were 3.2 million tonnes, up approximately 7%, while prices were on average 6% lower than the 2000 level.

### Cost development

Fixed costs were slightly higher than 2000 due to expanded activities. Research and development costs amounted to EUR 38 million, of which EUR 15 million has been capitalised.

### Operating profit

Operating profit amounted to EUR 54 million, compared with EUR 52 million in 2000. Volumes had a positive impact on the 2001 result, while the decreased margins had a reverse effect.

## Return on capital employed

ROCE after tax amounted to 2%, down from 3% in 2000. The average for 1994-2001 is 9%, below 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, as at the end of 2001.

SENSITIVITY	(EUR MILLION)
Polyolefins prices +/-25 EUR/t	+/-81
Polyolefins sales volumes +/-5%	+/-33
Naphtha prices +/- 10 USD/t	-/+23

## Financial income and expenses

Net financial expenses amounted to EUR 81 million, compared with EUR 45 million in 2000, due to an increase in interest-bearing debt and the change in foreign exchange differences. This showed a loss of EUR 3 million, compared with a gain of EUR 19 million in 2000.

## Taxes

The provision for income taxes amounted to an expense of EUR 18 million (EUR 34 million in 2000), despite the net loss. The reason was that losses were not capitalised to the full extent, but offset by valuation allowances. Borealis paid income taxes of EUR 48 million in 2001, compared with EUR 37 million the previous year.



### Net profit and distribution of dividend

The net loss for the year amounted to EUR 41 million, compared to a net profit of EUR 42 million in 2000. The Board of Directors proposes that no dividend be paid for 2001.

### FINANCIAL POSITION

#### Total assets/capital employed

Total assets and capital employed stood at EUR 3,437 million and EUR 2,653 million, respectively, at year-end, compared with EUR 3,647 million and EUR 2,783 million at year-end 2000. The decreases of 6% and 5%, respectively, are due to decreases in current assets (inventories and accounts receivables), mainly an effect of lower price levels and an increase in asset securitisation.

The solvency ratio was 38% at year-end 2001, compared with 37% at year-end 2000. The gearing ratio increased to 102% at year-end 2001, up from 97% in 2000, due to lower equity from the negative result.

### Cash flows and liquidity reserves

Cash flow from operations was EUR 291 million (EUR -44 million in 2000). The increase came from decreased inventories and receivables due to lower prices at year-end, only partly offset by lower accounts payables. Asset securitisation also had a positive impact.

Liquidity reserves, made up of undrawn, long-term committed credit facilities and cash balances, amounted to EUR 411 million at year-end 2001 (EUR 525 million).

Net interest-bearing debt remained at the 2000 level, and stood at EUR 1,304 million at year-end. The change in net interest-bearing debt is analysed in the following table:

CHANGE OF NET INTEREST-BEARING DEBT (EUR MILLION)		
	2001	2000
Cash flow provided by operating activities	291	(44)
Capital expenditure	(144)	(330)
Financing of associated companies	(129)	(140)
Other	(13)	20
Dividend paid	(4)	(46)
<b>TOTAL DECREASE/INCREASE</b>	<b>1</b>	<b>(540)</b>

### Capital expenditure

Investments in tangible fixed assets amounted to EUR 147 million in 2001, compared with EUR 225 million in 2000. The two major projects in 2000, the Borstar PP plant in Schwechat, Austria, and the Borstar PE retrofit in Stenungsund, Sweden, were completed by year-end 2000. No major projects were started in 2001, which brought investments down. HSE capital expenditure was EUR 20 million.

Depreciation and amortisation amounted to EUR 173 million, compared with EUR 195 million in 2000.

### Shareholders' equity

The equity at year-end 2001 was EUR 1,284 million (EUR 1,340 million).

EQUITY DEVELOPMENT (EUR MILLION)		
	2001	2000
Net result	(41)	42
Exchange adjustment, net	(11)	8
Gross increase/(decrease)	(52)	50
Dividend paid	(4)	(46)
Net increase/(decrease)	(56)	4
Opening equity	1,340	1,336
<b>ENDING EQUITY</b>	<b>1,284</b>	<b>1,340</b>

### **Financial risk management**

The objective of financial risk management is to support core businesses of Borealis. It operates within the framework of the Financial Policy, approved by the Board of Directors. Borealis aims to minimise effects related to foreign exchange, interest rate, credit and refinancing risks. The use of any financial instruments is based on commercial needs or identified risks as defined in the policy.

Financial risk management is handled in the Financial Shared Service Centre where the exposures of the operating entities are hedged.

The foreign exchange risks related to short-term commercial cash flows are also hedged. Limits for long-term foreign exchange exposures are established. Interest rate risks are managed through duration benchmark. Foreign exchange translation differences relating to Borealis A/S' long-term investments in subsidiaries are charged directly to the equity. The exposures are partly hedged by long-term borrowings in the same currencies.

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

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.



**ACCOUNTS FOR 2001**



# 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 except for the accounting principle concerning jointly controlled operations.

## Change in accounting principle

The Group has adjusted its accounting principle on interests in jointly controlled operations, effective January 1, 2001 to give a more fair view of the group's asset and liabilities and because as part of a revision of different standards the International Accounting Standard Board (IASB) has proposed that the benchmark treatment of jointly controlled entities, as formerly used by Borealis, should be removed from the standard, and that the allowed alternative treatment, now used by Borealis, should be the only allowed treatment of jointly controlled entities. The change has no impact on the net profit for the year, or on equity as at December 31, 2001.

Comparative figures have been restated to conform to the change in accounting principle.

## Basis of preparation

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

## Consolidation principles

The 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; inter-company transactions, unrealised inter-company profits, internal shareholdings, and inter-company balances have been eliminated.

Companies which are not subsidiaries but in which the Group owns 20% or more including jointly controlled operations, are considered as associated companies.

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. Any positive difference between fair value and the purchase price of subsidiaries and associated companies is capitalised on goodwill and amortised over its expected lifetime. Any negative goodwill is recorded under provisions and charged to the income statement over 5 years.

## Foreign currency

Assets and liabilities denominated in foreign currencies have been translated into Euro (EUR) at the exchange rates quoted on the balance sheet date. The Group's foreign operations are not considered an integral part of the parent company's operations. Financial statements of foreign entities 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 and associated companies as of January 1 using the closing rate on December 31; translation of long-term inter-company receivables that are considered part of investments in subsidiaries or associated companies, conversion of long-term loans hedging net assets of foreign subsidiaries and associated companies or inter-company receivables considered part of investments in subsidiaries and associated companies, and conversion of the net income of foreign subsidiaries calculated on monthly rates to figures converted on the exchange rates applicable on the balance sheet date.

## FINANCIAL INSTRUMENTS

### Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised liability, a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the firm commitment or forecasted transaction results in the recognition of an asset or liability, the cumulative gain or loss is removed from equity and included in the initial measurement of the asset or liability. Otherwise the cumulative gain or loss is removed from equity and recognised in the income statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement immediately. Any gain or loss arising from changes in the time

value of the derivative financial instrument is excluded from the measurement of hedge effectiveness and is recognised in the income statement immediately.

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

### Hedge of monetary assets and liabilities

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

### Hedge of net investment in foreign operation

Where a foreign currency liability hedges a net investment in a foreign operation, foreign exchange differences arising on translation of the liability are recognised directly in equity.

## INCOME STATEMENT

### Revenue recognition

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 costs are charged as an expense in the income statement in the year they are incurred. Development costs which relate to a definable product or process that is demonstrated to be technically and commercially feasible are recognised as an intangible fixed asset to the extent that such costs are expected to be recovered from future economic benefits. Development costs not meeting those criteria are expensed.

Amortisation is made on a straight-line basis over the expected lifetime of the asset (3–10 years).

### Results of associated companies

Investments in associated companies including jointly controlled operations are recorded under the equity method. A proportionate share of the profit/loss of these companies is included in the income statement.

### Financial items

Financial items 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 assets and liabilities.

## BALANCE SHEET

### Intangible fixed assets

Externally acquired intangible assets such as licences and patents are capitalised and amortised over the lifetime or 20 years, whichever is shorter.

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

### Tangible fixed assets

Production plants include land and buildings, and related non-moveable machinery and equipment. Assets held under finance leases are also included. Assets held under financial lease are depreciated over the lease period.

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

Depreciation is 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 15–20 years; and machinery and equipment over 3–15 years. Gains and losses from disposals of tangible fixed assets are recorded as adjustment to depreciation in the income statement.

### Impairment losses

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

### Investments in subsidiaries and associated companies in parent company

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

### Other investments

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

### Inventories

Inventories are recorded at the lower of cost or net realisable value. Cost is stated in accordance with 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.

### Receivables

Receivables are stated at nominal value, less write down 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 other 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, or offset against capitalised development costs. 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 consist of cash and bank deposits.

### Comparative figures

Certain 2000 figures have been restated to conform to the 2001 presentation.

### Amounts

All amounts are in EUR million unless otherwise stated as the main part of the transactions are made in Euro. 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 2001, which are recommended for adoption by the shareholders at the Annual General Meeting of Borealis A/S.

Copenhagen, February 13, 2002

#### Management:



John Taylor  
Chief Executive



Clive Watson  
Chief Financial Officer



Hans Byfeldt  
Director

#### Board of Directors:



Gerhard Roiss  
Chairman



Erling Overland  
Vice Chairman



Mohamed Al Khaily



Finn Kulås

### AUDITORS' REPORT

We have audited the consolidated financial statements and the financial statements of Borealis A/S for the year 2001 presented by the Board of Directors and the Management.

#### Basis of opinion

We planned and conducted our audit in accordance with generally accepted Danish auditing principles and international standards on auditing (ISA) to obtain reasonable assurance that the financial statements are free of material misstatement. Based on an evaluation of materiality and risk, during the audit, we tested the basis and documentation for the amounts and disclosures in the financial statements. An audit includes an assessment of the accounting

policies applied and the accounting estimates made. In addition, we evaluated the overall adequacy of the presentation in the financial statements.

Our audit did not result in any qualifications.

#### Opinion

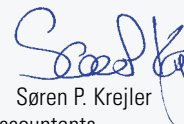
In our opinion, the consolidated financial statements and the financial statements of Borealis A/S have been presented in accordance with the accounting provisions of Danish legislation and International Accounting Standards (IAS) and give a true and fair view of the Group's and the Parent Company's assets and liabilities, financial position and profit for the year.

Copenhagen, February 13, 2002

#### KPMG C. Jespersen



Torben Kristensen



Søren P. Krejler

State Authorised Public Accountants

## CONSOLIDATED INCOME STATEMENT

EUR MILLION	Note	2001	2000*
<b>NET SALES</b>	1	<u>3,708</u>	<u>3,711</u>
Production costs . . . . .	2, 3, 9	-3,141	-3,143
Sales and distribution costs . . . . .	3, 9	-319	-320
Administration costs . . . . .	3, 9	<u>-194</u>	<u>-196</u>
<b>OPERATING PROFIT</b>		<u>54</u>	<u>52</u>
Profit/loss from sale of operations . . . . .	4	-2	20
Net results in associated companies . . . . .	10	5	49
Financial expenses, net . . . . .	12	<u>-81</u>	<u>-45</u>
<b>PROFIT BEFORE TAXATION</b>		<u>-24</u>	<u>76</u>
Taxes . . . . .	13	-18	-34
Minority interests . . . . .		<u>1</u>	<u>-</u>
<b>NET PROFIT/LOSS FOR THE YEAR</b>		<u>-41</u>	<u>42</u>

\*Restated

## CONSOLIDATED STATEMENT OF RECOGNISED GAINS & LOSSES

EUR MILLION	Note	2001	2000
<b>FOR THE YEAR ENDED 31 DECEMBER</b>			
Net gain/loss on hedge of net investments in foreign subsidiaries . . . . .		37	24
Net gain/loss on long-term loans to subsidiaries . . . . .		-40	-44
Net gain/loss on loans and financial contract to hedge investments in foreign subsidiaries . . . . .		-8	28
<b>NET GAIN/LOSS RECOGNISED DIRECTLY IN EQUITY</b>	16	-11	8
<b>NET PROFIT/LOSS FOR THE YEAR</b>	16	-41	42
<b>TOTAL RECOGNISED GAINS AND LOSSES</b>		-52	50

## CONSOLIDATED BALANCE SHEET

### ASSETS

EUR MILLION	Note	31.12.2001	31.12.2000*
<b>FIXED ASSETS</b>			
Intangible fixed assets .....	2, 5	114	85
Deferred tax assets .....	13	53	34
Tangible fixed assets .....	7		
Production plants .....		1,640	1,700
Machinery and equipment .....		44	30
Construction in progress .....		75	76
		<u>1,759</u>	<u>1,806</u>
Financial fixed assets .....	10	546	458
<b>TOTAL FIXED ASSETS</b>		<b>2,472</b>	<b>2,383</b>
<b>CURRENT ASSETS</b>			
Inventories .....	14	429	457
Receivables			
Trade receivables .....	15	184	527
Trade receivables from associated companies .....		22	1
Taxes .....		26	8
Other .....	15	256	163
		<u>488</u>	<u>699</u>
Cash and cash equivalents .....		48	108
<b>TOTAL CURRENT ASSETS</b>		<b>965</b>	<b>1,264</b>
<b>TOTAL ASSETS</b>		<b>3,437</b>	<b>3,647</b>

\*Restated

### LIABILITIES

EUR MILLION	Note	31.12.2001	31.12.2000*
<b>LIABILITIES</b>			
Shareholders' equity	16		
Issued capital .....		536	536
Reserves .....		748	804
		<u>1,284</u>	<u>1,340</u>
Minority interests .....		9	12
Provisions			
Deferred tax .....	13	141	131
Pension .....	17	62	62
Other .....	18	73	70
		<u>276</u>	<u>263</u>
<b>LIABILITIES</b>			
Long-term liabilities			
Financial institutions .....	20	1,089	833
Other .....		13	27
		<u>1,102</u>	<u>860</u>
Short-term liabilities			
Financial institutions .....	20	263	580
Trade payables .....		308	412
Trade payable to shareholders .....		15	16
Taxes .....	13	2	7
Other .....		178	157
		<u>766</u>	<u>1,172</u>
<b>TOTAL LIABILITIES</b>		<b>1,868</b>	<b>2,032</b>
<b>TOTAL EQUITY, MINORITY INTERESTS, PROVISIONS AND LIABILITIES</b>			
		<b>3,437</b>	<b>3,647</b>
Assets pledged	21		
Contingent liabilities	22		
Financial instruments	23		

\*Restated

## CONSOLIDATED CASH FLOW STATEMENT

EUR MILLION	Note	2001	2000*
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments from customers . . . . .		4,099	3,765
Payments to employees and suppliers . . . . .		-3,673	-3,728
Interest income received . . . . .	12	22	22
Interest and financial expenses paid . . . . .	12	-103	-67
Income taxes paid . . . . .	13	-54	-36
		<u>291</u>	<u>-44</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investments in tangible fixed assets . . . . .	7	-147	-225
Acquisition of subsidiary, net of cash acquired . . . . .		-	-50
Proceeds from sales of assets . . . . .	4	-2	20
Other investments . . . . .	5, 10	5	-75
		<u>-144</u>	<u>-330</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Long-term loans obtained . . . . .		1,667	688
Short-term loans obtained . . . . .		104	463
Loans to associated companies . . . . .		-129	-140
Long-term loans repaid . . . . .		-1,556	-123
Short-term loans repaid . . . . .		-289	-476
Dividends paid . . . . .		-4	-46
		<u>-207</u>	<u>366</u>
<b>NET CASH FLOW FOR THE YEAR</b>		<b>-60</b>	<b>-8</b>
Cash and cash equivalents as of January 1		108	116
<b>CASH AND CASH EQUIVALENTS AS OF DECEMBER 31</b>		<b>48</b>	<b>108</b>

\*Restated



## INCOME STATEMENT – BOREALIS A/S

EUR MILLION	Note	2001	2000*
<b>NET SALES</b>	1	2,988	–
<b>OTHER OPERATING INCOME</b>		67	69
Cost of sales . . . . .		2,763	–
Sales and distribution costs . . . . .	3, 9	-172	–
Administration costs . . . . .	3, 9	-86	-77
Amortisation of negative goodwill . . . . .	18	7	7
<b>OPERATING PROFIT</b>		41	-1
Profit/(loss) from sale of operations . . . . .	4	-9	347
Net results in subsidiaries . . . . .	11	-53	-331
Net results in associated companies . . . . .	11	0	0
Financial expenses, net . . . . .	12	-23	30
<b>PROFIT BEFORE TAXATION</b>		-44	45
Taxes . . . . .	13	3	-3
<b>NET PROFIT/LOSS FOR THE YEAR</b>		-41	42

\*Restated

## BALANCE SHEET – BOREALIS A/S

### ASSETS

EUR MILLION	Note	31.12.2001	31.12.2000*
<b>FIXED ASSETS</b>			
Intangible fixed assets	6	16	7
Tangible fixed assets			
Machinery and equipment	8	4	3
Financial fixed assets	11		
Shares in subsidiaries	26	1,433	1,185
Shares in associated companies		1	1
Receivables from subsidiaries		950	1,077
Receivables from associated companies	26	27	–
Other investments		2	4
		<u>2,413</u>	<u>2,267</u>
<b>TOTAL FIXED ASSETS</b>		<b>2,433</b>	<b>2,277</b>
<b>CURRENT ASSETS</b>			
Receivables			
Trade receivables	15	101	–
Receivables from subsidiaries		92	85
Receivables from associates		18	–
Other	15	142	18
		<u>353</u>	<u>103</u>
Cash and cash equivalents		8	0
<b>TOTAL CURRENT ASSETS</b>		<b>361</b>	<b>103</b>
<b>TOTAL ASSETS</b>		<b>2,794</b>	<b>2,380</b>

\*Restated

### LIABILITIES

EUR MILLION	Note	31.12.2001	31.12.2000*
<b>LIABILITIES</b>			
Shareholders' equity	16		
Issued capital		536	536
Reserve for net revaluation under the equity method		50	103
Retained earnings		<u>698</u>	<u>701</u>
		<b>1,284</b>	<b>1,340</b>
Provisions			
Negative goodwill	18	7	15
Other		<u>9</u>	<u>12</u>
		<b>16</b>	<b>27</b>
<b>LIABILITIES</b>			
Long-term liabilities			
Financial institutions	20	1,037	764
Short-term liabilities			
Debt to subsidiaries		352	81
Accounts payable		4	3
Financial institutions	20	9	141
Other		<u>92</u>	<u>24</u>
		<b>457</b>	<b>249</b>
<b>TOTAL LIABILITIES</b>		<b>1,494</b>	<b>1,013</b>
<b>TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>			
		<b>2,794</b>	<b>2,380</b>
Contingent liabilities	22		
Financial instruments	23		

\*Restated

# NOTES TO THE ACCOUNTS

All amounts are in EUR million unless otherwise stated.

## 1 SEGMENT REPORTING

	POLYOLEFINS		OLEFINS		NON-ALLOCATED (INCL. PHENOL)		CONSOLIDATED	
	2001	2000*	2001	2000*	2001	2000*	2001	2000*
<b>NET SALES</b>								
<b>BY BUSINESS:</b>								
Total sales	2,888	2,711	2,239	2,326	180	237	5,307	5,274
- Group internal sales			-1,599	-1,563			-1,599	-1,563
	<b>2,888</b>	<b>2,711</b>	<b>640</b>	<b>763</b>	<b>180</b>	<b>237</b>	<b>3,708</b>	<b>3,711</b>
<b>BY GEOGRAPHIC REGION:</b>								
Europe	2,400	2,390	629	750	151	224	3,180	3,364
Other regions	488	321	11	13	29	13	528	347
	<b>2,888</b>	<b>2,711</b>	<b>640</b>	<b>763</b>	<b>180</b>	<b>237</b>	<b>3,708</b>	<b>3,711</b>
<b>RESULT</b>								
<b>OPERATING PROFIT:</b>	<b>-11</b>	<b>11</b>	<b>94</b>	<b>53</b>	<b>-29</b>	<b>-12</b>	<b>54</b>	<b>52</b>
Profit/(loss) from sale of operations					-2	20	-2	20
Net result in associated companies					5	49	5	49
Net financial items					-81	-45	-81	-45
Income tax					-18	-34	-18	-34
Minority interest					1		1	
<b>NET PROFIT FOR THE YEAR</b>							<b>-41</b>	<b>42</b>
<b>OTHER INFORMATION</b>								
Segment assets	2,378	2,393	646	688	413	566	3,437	3,647
Segment liabilities					1,868	2,032	1,868	2,032
Capital expenditure	101	155	31	48	15	22	147	225
Depreciation	111	131	50	50	12	14	173	195

As of January 1, 2001 all sales of polyolefins and phenol (EUR 2,988 million) are made through Borealis A/S which is acting as a distributor for the group.

\*Restated

## 2 RESEARCH AND DEVELOPMENT

A total of 345 people were engaged in research and development at the end of the year, compared to 335 in 2000. The total cost of these activities amounted to EUR 38 million (EUR 39 million) of which EUR 15 million (EUR 14 million) was capitalised.

## 3 PERSONNEL

	GROUP		PARENT COMPANY	
	2001	2000	2001	2000
<b>COSTS</b>				
Salaries and wages	254	256	19	27
Pension costs	29	25	7	4
Other social security costs	51	48	1	1
Other personnel expenses	13	14		
<b>TOTAL</b>	<b>347</b>	<b>343</b>	<b>27</b>	<b>32</b>
<b>Average number of employees by country:</b>				
Austria	697	720		
Belgium	673	792		
Denmark	138	137	138	137
Finland	966	984		
Norway	554	566		
Portugal	552	565		
Sweden	1,078	1,057		
Other	586	485		
<b>TOTAL</b>	<b>5,244</b>	<b>5,306</b>	<b>138</b>	<b>137</b>
Personnel costs include management remuneration of ...	2	1	2	1

No remuneration was paid to the Board of Directors.

#### 4 PROFIT AND LOSS FROM SALE OF OPERATION

Profit from sale of operation in 2000, EUR 20 million, includes the profit from the sale of the Antwerp plant.

Profit from sale of operation in the parent company in 2000, EUR 347 million, includes the profit from the sale of Borealis Holding AB to a company within the Group which has been eliminated in the group accounts.

#### 5 INTANGIBLE FIXED ASSETS, GROUP

	GOODWILL		LICENSES		DEVELOPMENT COSTS		CAPITALISED SOFTWARE	
	2001	2000	2001	2000*	2001	2000	2001	2000
<b>COST</b>								
As of January 1	36	38	58	52	14			
Exchange adjustments		-1	11	-1				
Additions	9		6	5	15	14	4	
Disposals		-1	-17					
Transfers			12	2				
	45	36	70	58	29	14	4	
<b>ACCUMULATED AMORTISATION</b>								
As of January 1	3	3	20	14				
Exchange adjustments								
Disposals		-1	3					
Amortisation	3	1	5	6	0	0	0	
	6	3	28	20	0	0	0	
<b>BOOK VALUE AS OF DECEMBER 31</b>								
	39	33	42	38	29	14	4	

\*Restated

#### 6 INTANGIBLE FIXED ASSETS, PARENT COMPANY

	GOODWILL		SOFTWARE		LICENSES	
	2001	2000	2001	2000	2001	2000
<b>COST</b>						
As of January 1					14	14
Additions	9		3			
	9		3		14	14
<b>ACCUMULATED AMORTISATION</b>						
As of January 1					7	6
Amortisation	1		0		2	1
	1		0		9	7
<b>BOOK VALUE AS OF DECEMBER 31</b>						
	8		3		5	7



## 7 TANGIBLE FIXED ASSETS, GROUP

	PRODUCTION PLANTS		MACHINERY AND EQUIPMENT		CONSTRUCTION IN PROGRESS	
	2001	2000*	2001	2000*	2001	2000*
<b>COST</b>						
As of January 1	3,561	3,084	115	119	76	594
Change in accounting principles		-38		-1		-128
Exchange adjustments	-68	-25			2	-12
Additions	65	130	8	13	107	180
Disposals	-14	-129	-7	-17	-10	-16
Transfers	70	539	18	1	-100	-542
	<u>3,614</u>	<u>3,561</u>	<u>134</u>	<u>115</u>	<u>75</u>	<u>76</u>
<b>ACCUMULATED DEPRECIATION</b>						
As of January 1	1,861	1,835	85	86		
Change in accounting principles		-31				
Exchange adjustments	-26	-16	-1			
Disposals	-15	-105	-5	-11		
Depreciation	154	178	11	10		
	<u>1,974</u>	<u>1,861</u>	<u>90</u>	<u>85</u>		
<b>BOOK VALUE AS OF DECEMBER 31</b>	<b>1,640</b>	<b>1,700</b>	<b>44</b>	<b>30</b>	<b>75</b>	<b>76</b>

\*Restated

The figures for production plants include capitalised finance leases with a net value of EUR 10 million (EUR 11 million) comprising a cost of EUR 23 million (EUR 23 million) and depreciation of EUR 13 million (EUR 12 million). The lease obligation is included in debt to financial institutions.

Approved future capital expenditure is estimated at EUR 57 million (EUR 114 million) including EUR 20 million (EUR 39 million) for which contracts have been placed.

The depreciation period has been changed for several production plants, so plants which were previously depreciated over 15 years are now depreciated over 20 years. The change has been made as estimated lifetime of the plants equals 20 years. The effect of change in estimated lifetime is a reduction of depreciation in 2001 of EUR 30 million.

## 8 MACHINERY AND EQUIPMENT, PARENT COMPANY

	2001	2000
<b>COST</b>		
As of January 1	6	6
Additions	2	2
Disposals		-2
	<u>8</u>	<u>6</u>
<b>ACCUMULATED DEPRECIATION</b>		
As of January 1	3	3
Disposals		-2
Depreciation	1	2
	<u>4</u>	<u>3</u>
<b>BOOK VALUE AS OF DECEMBER 31</b>	<b>4</b>	<b>3</b>

## 9 DEPRECIATION AND AMORTISATION

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

	GROUP		PARENT COMPANY	
	2001	2000*	2001	2000*
Production costs	150	171		
Sales and distribution costs	10	12		
Administration costs	13	12	4	3
	<u>173</u>	<u>195</u>	<u>4</u>	<u>3</u>
<b>TOTAL</b>	<b>173</b>	<b>195</b>	<b>4</b>	<b>3</b>

\*Restated

## 10 FINANCIAL FIXED ASSETS, GROUP

	SHARES IN ASSOCIATED COMPANIES		OTHER INVESTMENTS		OTHER LONG-TERM RECEIVABLES		TOTAL	
	2001	2000*	2001	2000	2001	2000*	2001	2000*
	<b>COST</b>							
As of January 1 . . . . .	204		24	43	203		431	43
Change in accounting principles . . . . .		153				203		356
Exchange adjustments . . . . .	-8		4	2			-4	2
Investments . . . . .		58		11	126		126	69
Disposals . . . . .	-36	-7	-3	-32			-39	-39
	160	204	25	24	329	203	514	431
<b>ADJUSTMENTS</b>								
As of January 1 . . . . .	27						27	
Change in accounting principles . . . . .		-22						-22
Disposals . . . . .								-
Net result of associated companies . . . . .	5	49					5	49
	32	27					32	27
<b>BOOK VALUE AS OF DECEMBER 31</b>								
	192	231	25	24	329	203	546	458

The Group has the following investments in associated companies:

	COUNTRY	OWNERSHIP
Abu Dhabi Polymers Company Limited (Borouge)	Abu Dhabi	40%
Borouge Pte Ltd	Singapore	50%
Noretyl AS	Norway	50%
NSP Olefins N.V.	Belgium	50%
Speciality Polymers Antwerp N.V.	Belgium	50%
Borealis Financial Services Ltd	Jersey	40%

\*Restated

## 11 FINANCIAL FIXED ASSETS, PARENT COMPANY

	SHARES IN SUBSIDIARIES		RECEIVABLES FROM SUBSIDIARIES		SHARES IN ASSOCIATED COMPANIES		RECEIVABLES FROM ASSOCIATED COMPANIES		OTHER	
	2001	2000	2001	2000	2001	2000	2001	2000*	2001	2000
	<b>COST</b>									
As of January 1 . . . . .	1,082	809	1,102	508	1				4	3
Change in accounting principle . . . . .		-1				1				
Investments/additions . . . . .	334	292	182	679			27			1
Disposals . . . . .	-	-18	-269	-85					-2	
	1,416	1,082	1,015	1,102	1	1	27		2	4
<b>ADJUSTMENTS</b>										
As of January 1 . . . . .	103	451	-25	20						
Exchange adjustments . . . . .	34	23	-40	-45						
Net result of subsidiaries . . . . .	-53	16			0	0				
Internal gains . . . . .	-	-347								
Dividend from subsidiaries . . . . .	-67	-40								
	17	103	-65	-25	0	0				
<b>BOOK VALUE AS OF DECEMBER 31</b>										
	1,433	1,185	950	1,077	1	1	27		2	4

\*Restated

## 12 FINANCIAL INCOME/EXPENSES, NET

	GROUP		PARENT COMPANY	
	2001	2000*	2001	2000
<b>INTEREST INCOME FROM</b>				
subsidiaries . . . . .			56	53
cash and cash equivalents . . . . .	22	22	8	1
	22	22	64	54
<b>INTEREST EXPENSES TO</b>				
financial institutions . . . . .	-86	-70	-64	-32
subsidiaries . . . . .			-20	-16
finance lease . . . . .	-1	-1		
Exchange adjustments, net . . . . .	-3	19	1	25
Other financial expenses . . . . .	-13	-15	-4	-1
	-103	-67	-87	-24
<b>TOTAL</b>	<b>-81</b>	<b>-45</b>	<b>-23</b>	<b>30</b>

\*Restated

## 13 TAXATION

	GROUP		PARENT COMPANY	
	2001	2000*	2001	2000
<b>TAXES</b>				
Income tax payable . . . . .	13	25	-3	
Change in deferred tax . . . . .	2	11		3
Adj. to prior year's tax charge . . . . .	3	-2		
<b>TAX EXPENSE</b>	<b>18</b>	<b>34</b>	<b>-3</b>	<b>3</b>
<b>TAX PROVISION AS % OF</b>				
<b>PROFIT BEFORE TAXATION</b>	<b>-75%</b>	<b>45%</b>		

The note continues in the next column.

	GROUP		PARENT COMPANY	
	2001	2000*	2001	2000
<b>RECONCILIATION BETWEEN TAX EXPENSE AND THE PRODUCT OF ACCOUNTING PROFIT MULTIPLIED BY THE APPLICABLE TAX RATES</b>				
Tax provision at statutory rates . . . . .	-8	11	-7	3
Adjustment of valuation allowance . . . . .	25	17	4	
Movement in deferred tax assets . . . . .		9		
Benefits of tax losses . . . . .	-2	-1		
Prior-years adjustments . . . . .	3	-2		
<b>TAX EXPENSE</b>	<b>18</b>	<b>34</b>	<b>-3</b>	<b>3</b>
<b>DEFERRED TAX, ASSET</b>				
Tax over book values . . . . .	20	16		
Other temporary differences . . . . .	5	3		
Tax losses to be carried forward . . . . .	28	15		
<b>CAPITALISED TAX ASSETS</b>	<b>53</b>	<b>34</b>		
<b>DEFERRED TAX, LIABILITY</b>				
Accelerated depreciation on tangible fixed assets . . . . .	157	122		
Tax equilisation reserves in Swedish subsidiaries . . . . .	11	11		
Other . . . . .	10	27		
	178	160		
Tax assets offset . . . . .	-37	-29		
<b>DEFERRED TAX LIABILITY</b>	<b>141</b>	<b>131</b>		
<b>TAXES, PAYABLE</b>				
As of January 1 . . . . .	7	13		
Income tax payable for the year . . . . .	17	23	-3	
Taxes paid . . . . .	-48	-37	3	
Taxes transferred to tax receivable . . . . .	26	8		
<b>PAYABLE TAXES</b>	<b>2</b>	<b>7</b>		

The Group has tax assets of EUR 153 million (EUR 100 million) in addition to those that have been capitalised as deferred tax assets or offset in deferred tax liabilities. These assets mainly relate to tax losses carried forward, which have not been capitalised as they have been offset by valuation allowances.

\*Restated

## 14 INVENTORIES, GROUP

Inventories of ethylene and propylene are included under finished goods.

	2001	2000*
Raw materials and consumables	121	134
Work in progress		2
Finished goods	308	321
<b>TOTAL</b>	<b>429</b>	<b>457</b>

\*Restated

## 15 SECURITISATION

During 2001, Borealis A/S entered in to a securitisation programme of EUR 375 million under which the company sells certain trade receivables to external parties. The company does not retain any financial interest in the trade receivables, except for foreign currency risk, and accordingly, derecognises the receivables sold. At December 31, 2001 receivables worth EUR 318 million were sold. The company continues to administrate the relationship with the debtors and will compensate the purchaser for credit notes issued subsequent to the sale. To cover these obligations, a receivable of EUR 101 million is outstanding at the balance sheet date.

## 16 SHAREHOLDERS' EQUITY

	ISSUED CAPITAL	RESERVE FOR NET REVALUATION UNDER THE EQUITY METHOD	RESERVE FOR UNREALISED EXCHANGE GAINS	RETAINED EARNINGS	TOTAL
<b>BALANCE AS OF</b>					
<b>JANUARY 1, 2000</b>	<b>537</b>	<b>451</b>	<b>27</b>	<b>321</b>	<b>1,336</b>
Net profit for the year		-331		373	42
Exchange adjustments related to investment in subsidiaries and long-term loans to hedge investments in subsidiaries, net after tax		23	-27	13	9
Exchange adjustments	-1				-1
Dividend paid		-40		-6	-46
<b>BALANCE AS OF</b>					
<b>DECEMBER 31, 2000</b>	<b>536</b>	<b>103</b>	<b>-</b>	<b>701</b>	<b>1,340</b>
Net profit for the year		-20		-21	-41
Exchange adjustments related to investment in subsidiaries and long-term loans to hedge investments in subsidiaries, net after tax		34		-48	-14
Exchange adjustments				3	3
Dividend paid		-67		63	-4
<b>BALANCE AS OF</b>					
<b>DECEMBER 31, 2001</b>	<b>536</b>	<b>50</b>	<b>-</b>	<b>698</b>	<b>1,284</b>

The share capital of DKK 4,000 million is divided into shares of DKK 1,000 each and multiples thereof. No part of the share capital has special rights. Borealis A/S is owned on a 50:50 basis by IOB Holdings A/S, C/O Kromann Reumert, Rådhuspladsen 14, DK-1550 København K, Denmark, and Statoil A/S, Borgmester Christiansens Gade 50, DK-2450 København SV, Denmark.



## 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 plans that provide defined benefits based on employees' years of service and estimated salary at retirement. A summary of the status of defined benefit plans is shown below.

	2001	2000
<b>FUNDED PENSION PLANS</b>		
Actuarial present value of benefits due to past and present employees . . . . .	74	66
Plan assets held in trusts at fair value . . . . .	-58	-52
Plan assets below the present value of benefits . . . . .	16	14
<b>UNFUNDED PENSION PLANS</b>		
Actuarial present value of benefits due to past and present employees recorded as a provision . . . . .	46	48
	62	62

The aggregated pension cost charged to the income statement for 2001 amounted to EUR 29 million, compared with EUR 25 million in 2000. Pension costs relate to:

	2001	2000
Defined benefit plans . . . . .	19	14
Defined contribution plans . . . . .	10	11

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 range:

	2001	2000
Discount rate . . . . .	5% to 7%	5% to 7%
Projected rate of remuneration growth . . . . .	2% to 5%	2% to 5%
Expected rate of return on plan assets . . . . .	4% to 8%	6% to 8%

## 18 OTHER PROVISIONS

	RESTRUCTURING	NEGATIVE GOODWILL	OTHER	TOTAL
As of January 1 . . . . .	17	17	36	70
Provisions made during the year	19		12	31
Provisions used during the year	-8	-8	-12	-28
<b>BALANCE AS OF DECEMBER 31, 2001</b>	<b>28</b>	<b>9</b>	<b>36</b>	<b>73</b>

### RESTRUCTURING

The provision for restructuring covers estimated costs for the site restructuring program.

### NEGATIVE GOODWILL

The negative goodwill amounts to EUR 9 million, of which EUR 7 million (parent company) relates to the acquisition of PCD Polymere AG, and is credited to the income statement over 5 years.

## 19 GOVERNMENT GRANTS

Borealis received government grants for research and development of EUR 3 million (EUR 3 million).

## 20 FINANCIAL INDEBTEDNESS

The composition of financial indebtedness (short and long-term debt) at the end of 2001 in EUR million was as follows:

MATURITIES		2001					2000					
		TERM LOANS	SHORT TERM BANK LOANS	UTILISED UNCOMM. FACILITIES	EXPORT CREDITS	FINANCE LEASES	UNUTILISED COMMITTED REVOLVING FACILITIES	TERM LOANS	UTILISED UNCOMM. FACILITIES	EXPORT CREDITS	FINANCE LEASES	UNUTILISED COMMITTED REVOLVING FACILITIES
After	5 years	65				8				9		
Within	5 years	134					230				35	
	4 years	346					133				271	
	3 years	457										
	2 years	76										
	2-5 years					8				12		
		1,078				16	363			21	306	
Within	1 year	26	3	100	131	3		207	242	131	106	
Finance charges						-5				-6		
<b>NET OBLIGATIONS</b>		<b>1,104</b>	<b>3</b>	<b>100</b>	<b>131</b>	<b>14</b>	<b>363</b>	<b>1,025</b>	<b>242</b>	<b>131</b>	<b>15</b>	<b>412</b>
Total long-term		1,089						833				
Total short-term		263						580				
<b>TOTAL DEBT</b>		<b>1,352</b>						<b>1,413</b>				

The Group's financing is mainly comprised of committed credit lines, term loans and export credits. Of total interest-bearing debt, approximately 36% has a fixed interest rate and 64% is based on a floating interest rate. The floating interest rates were set by adding a spread to the reference rates (mainly EURIBOR and LIBOR). At the end of 2001 the Group has committed credit lines with syndicates of banks of USD 650 million and EUR 200 million of which USD 530 million has been utilised.

#### CURRENCY MIX

INTEREST BEARING		2001	PERCENT	2000	PERCENT
	USD	589	44%	219	15%
	EUR	574	42%	816	58%
	SEK	122	9%	285	20%
	NOK	62	5%	29	2%
	BRL	3	0%	0	0%
	DKK	2	0%	64	5%
<b>INTEREST BEARING TOTAL</b>		<b>1,352</b>	<b>100%</b>	<b>1,413</b>	<b>100%</b>

#### PARENT COMPANY INTEREST BEARING DEBT

	2001	2000
Inter-company short-term loans	118	67
Term loans and export credits	1,046	905
<b>TOTAL</b>	<b>1,164</b>	<b>972</b>

Of the parent company's term loans, EUR 983 million mature within 5 years and EUR 63 million after 5 years.

#### 21 ASSETS PLEDGED

	2001	2000
Chattel mortgages	14	15
Others	18	20
<b>TOTAL</b>	<b>32</b>	<b>35</b>

The liabilities covered by the above assets amounted to EUR 32 million at the end of the year, compared to EUR 35 million one year earlier.

#### 22 CONTINGENT LIABILITIES

##### GUARANTEE COMMITMENTS

The Parent Company guaranteed credit facilities of Group companies amounting to EUR 188 million (EUR 199 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 103 months (115 months), and the total rentals during the non-terminable periods amounted to EUR 15 million at year-end 2001 (EUR 13 million). The Parent Company's share of operational leasing commitments amounted to EUR 3 million (EUR 2 million).

## 23 FINANCIAL INSTRUMENTS

### 1. EFFECTIVE INTEREST RATES AND REPRICING ANALYSIS

In respect of interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice. For the fixed rate loans and the floating rate loans which are swapped to a fixed rate, the effective interest rates equal the fixed rates. For the floating rate loans, the effective interest rate is the internal rate of return, that calculates the future cash flows until next repricing date and the principal amount at that date to the carrying amount of the loan at year-end. The carrying amount comprises the principal outstanding amount and the accrued interest at year-end.

	NOTE	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	TOTAL	PERCENTAGE OF THE LOANS WITH INTEREST RESET IN:					
				2002	2003	2004	2005	2006	AFTER 2006
Floating rate loans .....	20	3.6%	775	100%					
Fixed rate loans .....	20	5.5%	477	21%	2%	10%	18%	11%	38%
			1,252						
Utilised uncommitted facilities .....	20		100	100%					
			1,352						

## 2. FAIR VALUES

The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

### 2.1 BORROWINGS

	CARRYING AMOUNT	FAIR VALUE
Short-term borrowings . . . . .	235	235
Long-term borrowings . . . . .	1,131	1,134
Total . . . . .	1,366	1,369
<b>UNRECOGNISED LOSS/GAIN</b>		<b>-3</b>

The carrying amount of the borrowings is composed of the principal outstanding liability and the accrual for interest expenses at year-end. Short-term borrowings comprise bank loans and export credits of which the carrying amount approximate the fair value. Long-term borrowings comprise fixed rate and floating rate bank loans. The fair value of fixed rate borrowings has been calculated based on current comparable market rates using discounted cash flow analysis. The carrying amount of the floating rate borrowings approximates fair value. As of this year Borealis adopted the IAS rule which states that for each class of financial liabilities fair values should be disclosed. As of next year, comparable information regarding fair values will be disclosed.

### 2.2 DERIVATIVE 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, interest rates and commodity prices. 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.

#### 2.2.1 INTEREST RATE DERIVATIVES

	2001	2000
Risk management		
Notional amounts . . . . .	407	77
Fair value . . . . .	-11	-1
Credit risk . . . . .	0	0

#### 2.2.2 CURRENCY DERIVATIVES

	2001	2000
Risk management		
Notional amounts . . . . .	1,154	1,331
Fair value . . . . .	-1	12
Credit risk . . . . .	0	16

#### 2.2.3 COMMODITY DERIVATIVES

	2001	2000
Risk management		
Notional amounts . . . . .	0	21
Fair value . . . . .	0	0
Credit risk . . . . .	0	0

## 24 FEES TO EXTERNAL AUDITORS, PARENT COMPANY

	2001	2000
Audit fees . . . . .	0.1	0.1
Other services . . . . .	0.2	0.1
<b>TOTAL</b>	<b>0.3</b>	<b>0.2</b>

## 25 TRANSACTIONS WITH RELATED PARTIES

31% of total feedstock (32% in 2000) is purchased from Borealis shareholders at market prices.

There were no other material transactions with related parties in 2001.

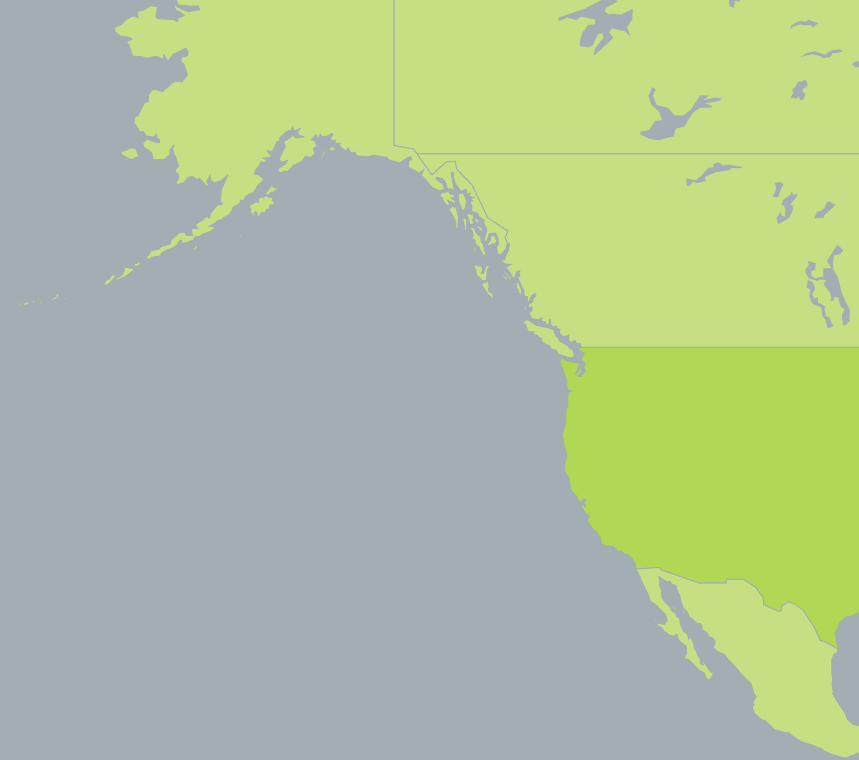
## 26 COMPANIES INCLUDED IN THE CONSOLIDATED ACCOUNTS

COMPANY NAME	COUNTRY	CURRENCY	ISSUED SHARE CAPITAL	PERCENTAGE OF SHARES OWNED	BOOK VALUE IN BOREALIS (EUR MILLION)
<b>BOREALIS A/S</b>					
■ Borealis Insurance A/S	Denmark	DKK	25,000,000	100	15
■ Borealis N.V. (Belgium) ApS	Denmark	DKK	2,000,000	100	417
■ Borealis Coordination Center N.V.	Belgium	EUR	99,189,000	100	134
■ Borealis Polymers N.V.	Belgium	EUR	359,446,000	100	301
■ Borealis Kallo N.V.	Belgium	EUR	12,395,000	100	9
■ Borealis Antwerpen Compounding N.V.	Belgium	EUR	277,000	100	0
■ Borealis Sverige AB	Sweden	SEK	400,000	100	-291
■ Borealis Holding AB	Sweden	SEK	1,300,000	100	-4
■ Borealis AB	Sweden	SEK	65,000,000	100	226
■ Etenförsörjning i Stenungsund AB	Sweden	SEK	5,000,000	80	1
■ Borealis Portugal SGPS S.A.	Portugal	EUR	50,000	100	35
■ Borealis Polimeros Lda	Portugal	EUR	268,353,000	100	216
■ Companhia Nacional de Petroquímica S.A.	Portugal	EUR	57,362,000	100	0
■ Borealis Producao de Electricidade e Calor ACE	Portugal	EUR	25,000	66.7	0
■ Borealis AS	Norway	NOK	3,050,000,000	100	543
■ IS Norpolefin ANS	Norway	NOK	0	100	0
■ Borealis Borouge AS	Norway	NOK	50,000	100	15
■ Borealis Borouge Holding AS	Norway	NOK	1,700,000,000	100	172
■ Borealis GmbH	Austria	EUR	30,523,000	100	50
■ Polydan GmbH	Austria	EUR	36,000	100	0
■ PCD Polymere s.r.o.*	Czech Rep.	CZK	100,000	100	0
■ Borealis Italia S.p.A.	Italy	EUR	13,726,000	100	12
■ Borealis Compounds S.A.S.	France	EUR	3,139,000	100	2
■ Borealis France S.A.	France	EUR	207,000	100	1
■ Borealis Polymere Holding AG	Germany	EUR	337,000	100	40
■ Borealis Polymere GmbH	Germany	EUR	18,407,000	100	71
■ Borealis Deutschland GmbH	Germany	EUR	154,000	100	-2
■ Borealis Compounds Inc.	USA	USD	10	100	15
■ Borealis Compunds LLC	USA	USD	0	100	26
■ Borealis Polymers Oy	Finland	EUR	90,821,480	100	296



COMPANY NAME	COUNTRY	CURRENCY	ISSUED SHARE CAPITAL	PERCENTAGE OF SHARES OWNED	BOOK VALUE IN BOREALIS (EUR MILLION)
<b>BOREALIS A/S</b>					
■ Borealis Technology Oy .....	Finland	EUR	43,728,860	100	76
■ Borealis Singapore Pte Ltd .....	Singapore	SGD	100,000	100	9
■ Borealis s.r.o.* .....	Czech Rep.	CZK	500,000	100	0
■ Borealis Hong Kong Ltd .....	Hong Kong	HKD	500,000	100	3
■ Poliolefinas Borealis Espana S.A. ....	Spain	EUR	60,000	100	4
■ Borealis Eesti OÜ .....	Estonia	EEK	128,000	100	0
■ Borealis Polska Sp z.o.o.* .....	Poland	PLN	40,000	100	0
■ Borealis OPP S.A. ....	Brazil	BRL	109,743,000	80	34
■ Borealis Kft.* .....	Hungary	HUF	1,000,000	100	0
■ Borealis UK Ltd .....	UK	GBP	15,000	100	3

\* Excluded from the consolidation due to immateriality



## TRADEMARKS OF BOREALIS A/S, DENMARK

AMBICAT™

Beta (β)-PP™

BORSTAR®

BORAIR™

BORCLEAN™

BORCLEAR™

BOREGENE™

BORFLOW™

BORMOD™

BORPACT™

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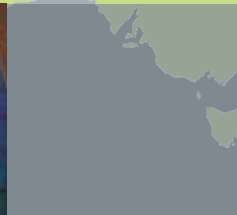
SUPERTR™

VISICO™

XMOD™



- HEAD OFFICE
- PRODUCTION
- SALES OFFICE
- BOROUGE SALES OFFICE
- JOINT VENTURE



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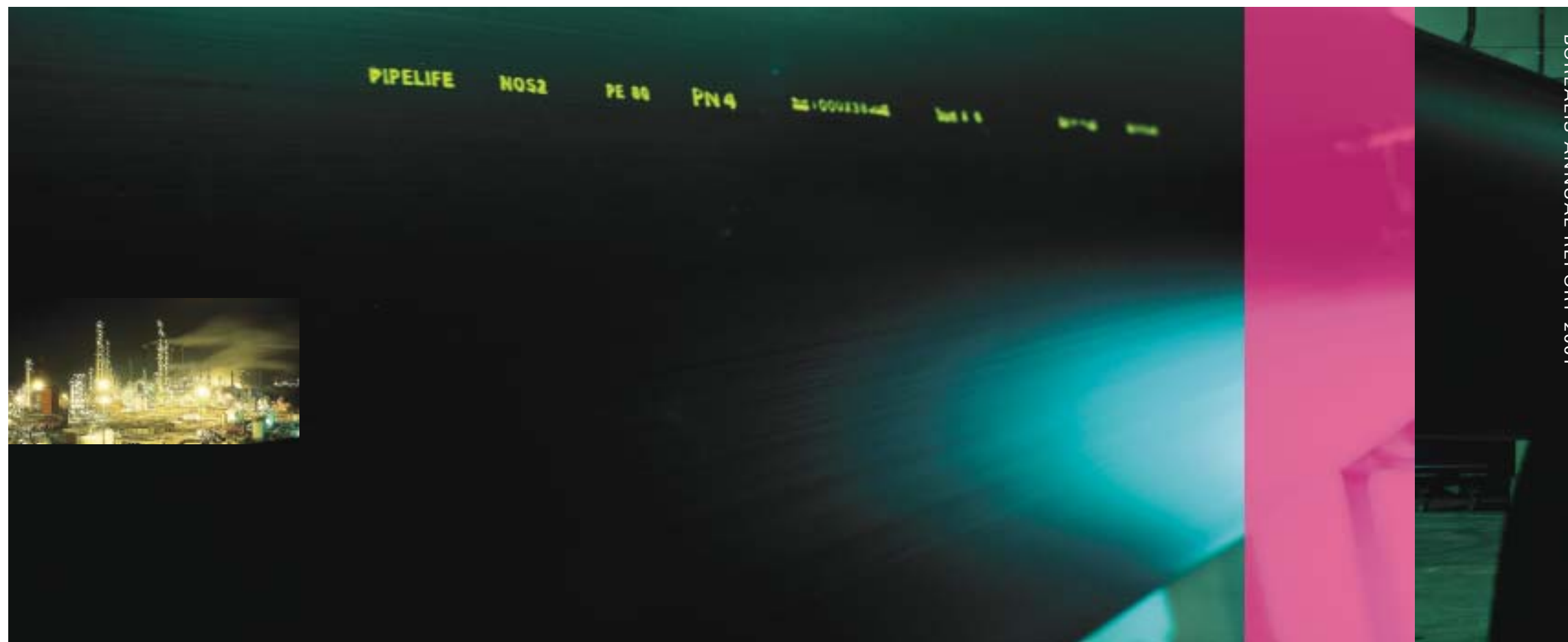
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