

Borealis AG Financial Report 2016

Financial Statements
Standalone



BOREALIS

Keep Discovering

Contents

03	Our Business	13	Financial Report
04	Executive Board	14	Auditor's Report
05	2016 Milestones of the Borealis Group	17	Management Report
06	Mission and Strategy	20	Group Management Report
07	Our Values	28	Financial Statements Standalone
08	The Borealis Group: Our Business	47	Statement of the Executive Board according to § 82 (4) Z 3 Vienna Stock Exchange Act
08	Polyolefins		
09	Base Chemicals		
11	Innovative products		
12	Innovation Centres		

Our Business

Executive Board



**MARTIJN ARJEN
VAN KOTEN**

Executive Vice
President
Operations,
Projects & Technical
Support and Health,
Safety & Environment

MARK TONKENS

Chief Financial
Officer

MARK GARRETT

Chief Executive

ALFRED STERN

Executive Vice
President,
Polyolefins and
Innovation &
Technology

**MARKKU
KORVENRANTA**

Executive Vice
President,
Base Chemicals

2016 Milestones of the Borealis Group

1.

Safety first: yet another step closer to Goal Zero with a TRI rate per million hours worked of 0.9 in 2016
2.

Record net profit of EUR 1.1 billion in 2016
3.

Borouge 3 now running at full capacity of 4.5 million tonnes/year after successful start-up of cross-linked polyethylene (XLPE) plant
4.

Borealis in industry pole position with respect to the circular economy through acquisition of leading German post-consumer waste plastics recyclers mtm plastics and mtm compact
5.

Navigator Gas agreement ensures long-term security of ethane supply for Borealis production facilities in Stenungsund, Sweden, via the long-term charter of new vessel "Navigator Aurora"
6.

Feasibility study commissioned for construction of world-scale dehydrogenation plant in Kallo, Belgium
7.

EUR 55 million invested in the turnaround of the Ottmarsheim, France, production location. Investments of EUR 80 million announced for the melamine and fertilizer production location in Linz, Austria.
8.

EUR 40 million upgrade for cracker in Porvoo, Finland
9.

Agreement signed to build new power plant in Kilpilahti/ Porvoo, a joint project with Neste and Veolia
10.

K Fair 2016 showcases Borealis' value-creating polyolefin innovations developed in collaboration with local partners for the global market
11.

New Borstar®-based Full PE Laminate solution gives polyethylene-based packaging materials a second life, as the Company takes another step in the circular economy
12.

Borceed™ becomes new brand name for the Queo™ platform, whose portfolio of plastomers is simultaneously extended

Mission and Strategy

CONTINUITY COMBINED WITH THE FLEXIBILITY TO SEIZE NEW OPPORTUNITIES

Our mission

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

We will

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

Outperform financially

11%+

average return on capital
employed (ROCE) after tax

40–60%

debt
to equity ratio

Our Values



Responsible

We are leaders in Health, Safety and the Environment

We are good neighbours wherever we operate

We do business according to high ethical standards



Respect

We involve people and communicate in a straightforward way

We work together – helping and developing each other

We are 'One Company' – building on diversity



Exceed

Our customers' and owners' success is our business

We win through commitment and innovation

We deliver what we promise – and a little bit more



Nimblicity™

We are fit, fast and flexible

We create and capture opportunities

We seek the smart and simple solutions

The Borealis Group: Our Business

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

Polyolefins

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

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

The areas of polyolefins applications are wide-ranging and diverse. At Borealis, these areas are called Energy, Automotive, Consumer Products, and Pipe. New Business Development explores novel and potentially significant polyolefin products and applications. Circular Economy Solutions seeks to identify and realise new growth opportunities that enhance the resource efficiency of plastics.

Energy

Borealis is a leading provider of polyolefin compounds for the global wire and cable industry. A broad range of sophisticated extra high, high and medium voltage cable applications, semi-conductive products as well as low voltage energy transmission and distribution cable solutions are made possible by Borealis' proprietary technologies. Cutting-edge innovations based on Borlink™ developed for the wire and cable industry make power grids more robust and reliable, help eliminate wastage, and make it possible to transport energy from renewable sources more efficiently and over longer distances.

Borealis' unique polymer manufacturing technologies make the wires and cables used in the construction and automotive industries safer, and improve the efficiency of data and communication networks. Borealis is also a leading supplier of polypropylene (PP) material solutions for capacitor film products. Exhibiting exceptional

cleanliness standards, these materials help achieve outstanding electrical properties, and their consistent processing behaviour enables the production of extremely thin films.

Automotive

Borealis is a leading supplier of innovative polyolefin plastic materials for engineering applications in the automotive industry. In vehicles, Borealis' leading-edge polyolefin plastic materials are used in a wide range of exterior, interior, and under-the-bonnet applications. These include bumpers, body panels, trims, dashboards, door claddings, climate control and cooling systems, air intake manifolds and battery cases.

Proprietary Borealis technologies offer ideal replacement solutions for conventional materials like metal, rubber and engineering polymers. Working closely with key value chain partners, Borealis develops new materials for specific composite applications such as structural carriers. Borealis material solutions help facilitate lightweight construction and thus play an important role in enhancing energy efficiency. Over the lifespan of an automotive application like a bumper, for instance, eight kg of carbon emissions can be avoided by the use of one kg of PP.

Borealis grades with post-consumer recycled (PCR) plastics content meet growing industry and end-user demand for high quality materials that make better use of natural resources. Combining PCR and virgin material to produce high-end grades of consistent quality translates into less resource waste.

Consumer Products

With over 50 years' experience in the industry, Borealis is an innovative and reliable supplier of superior polyolefin plastic materials used in consumer products, advanced packaging and fibre. White goods (from washing machines to refrigerators and air conditioning units) and small appliances (from toasters to power tools) are made more robust yet lighter, more energy efficient yet visually appealing, thanks to Borealis' advanced PP solutions. Superior and proprietary Borealis technologies also make advanced applications possible in flexible packaging (including lamination film, shrink film, stand-up pouches); rigid packaging (caps and closures, bottles, thin wall and transport packaging); and non-woven and technical fibres (filtration systems, hygiene products, technical textiles).

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

Pipe

As a trusted partner to the industry for over 25 years, Borealis supplies advanced polyolefin pipe system materials that help the industry better serve a variety of projects and communities around the world. Using its proprietary Borstar® technology as a base, Borealis offers pipes used in many different industries: water and gas supply; waste water and sewage disposal; irrigation; plumbing and heating; and oil and gas, including multi-layer coating solutions for onshore and offshore oil and gas pipelines. As a one-stop shop for the oil and gas industry, Borealis provides reliable and high-quality solutions from one end of the pipeline to the other.

By offering more durable and reliable pipes, Borealis' step-change innovations continue to boost the sustainability of pipe networks by making them safer and more efficient, by helping eliminate wastage and loss whilst at the same time offering energy savings. Water and sanitation systems can be made more efficient and reliable by using proprietary Borealis materials. Compared to conventional materials, such modern polyethylene (PE) systems reduce water losses by a factor of eight. Trenchless technology reduces installation costs by up to 60%.

New Business Development

Borealis' impressive track record in Value Creation through Innovation and its close cooperation with customers enables it to develop innovative products and solutions in the areas of Healthcare, Plastomers and Foamable Materials based on its proprietary technologies. Importantly, as global suppliers, Borealis and Borouge can ensure the security of supply and provide technical support tailored to the specific and stringent requirements of the market.

In Healthcare, the ever-growing Bormed™ polyolefins portfolio offers superior technical performance for medical devices, pharmaceuticals, and diagnostic packaging. Borealis innovations help make healthcare packaging and

medical devices safer and more affordable whilst improving usability, a key criterion in today's ageing society. Disposable syringes, insulin injection devices, unbreakable transparent bottles and single-dose eye drop dispensers, among other products, have all been enhanced by advanced polyolefins made by Borealis.

In Plastomers, Borealis continues to expand its wide range of attractive solutions with its brand Queo™ to meet or even surpass the most demanding requirements in sealing, flexibility, compatibility and processability. In foamable materials, Borealis' high melt strength (HMS) PP-based products fulfil the varying and sophisticated needs of both converters and consumers in the packaging, automotive and construction industries.

Circular Economy Solutions

Borealis' acquisition of mtm, a leading German plastics recycling company in 2016 is the first major milestone in its journey to contribute more significantly to the circular economy (CE), which Borealis recognises as an industry imperative. Adherence to CE principles is a key element in Borealis' sustainability strategy, which seeks to promote profitable growth through deeper exploration and subsequent realisation of CE business opportunities, primarily in the area of mechanical recycling of plastics.

Base Chemicals

At Borealis, Base Chemicals is a solid foundation to build upon. Borealis produces a wide range of base chemicals such as melamine, phenol, acetone, ethylene and propylene for use in numerous and diverse industries, as well as fertilizers and technical nitrogen products. Fully committed to international Base Chemicals activities as the bedrock of its overall business, Borealis will continue to develop this profitable area with its unique feedstock capabilities, logistics and integration strengths.

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

Hydrocarbons & Energy

Borealis sources basic feedstocks such as naphtha, butane, propane and ethane from the oil and gas industry and converts these into ethylene and propylene through its olefin units. Steam crackers in Finland, Sweden, and Abu Dhabi, the latter operated by Borouge, produce both ethylene and propylene, while propylene is also produced

in a propane dehydrogenation plant in Kallo, Belgium. Feedstock and olefins required for Borealis and Borouge plants are either sourced from its owners or purchased from the markets. A range of co-products from the steam cracking process, including pygas and butadiene, are also sold to international markets.

Phenol, benzene and cumene as well as acetone are produced in Finland and sold mainly to the adhesive, fibre, epoxy resin and polycarbonate industries in Northern Europe.

In the Nordic and Baltic regions, Borealis is the leading producer of phenol, which is used in adhesives, construction materials, carpets, CDs, DVDs, mobile phones and household appliances. Acetone is commonly used in solvents for paints, acrylics, fibres and pharmaceuticals. Benzene and cumene are feedstocks for other chemical processes.

Melamine

As the second-largest producer of high-quality melamine in Europe, Borealis produces melamine at its plants in Linz, Austria, and at its facility in Piesteritz, Germany. Melamine is converted from natural gas and has itself become an essential material for the global production of synthetic

resins. Around 80% of Borealis' melamine production is destined for the wood-based panel industry, for example for decorative surface coatings of wood-based materials. In the manufacture of everyday objects used in the kitchen or around the house, melamine also plays an important role, for example as one component used to make handles for pots and pans.

Fertilizers

Efficient and effective use of fertilizers has become more essential than ever. The world's population is expected to rise from today's 7.3 billion to over 9.6 billion by 2050, and an increasing number of people will live in densely populated urban areas. As incomes in emerging nations rise, more meat is consumed and thus more grain to feed livestock must be produced. Biofuels also generate demand for increased yields. Because space for agricultural expansion is limited, yields must be optimised. At the same time, in developed nations there is a heightened environmental awareness of the need to promote fertilizers with low carbon footprints, to maintain healthy soil environments, and reduce run-off from fields.

As one of the leading fertilizer producers in Europe, Borealis is helping make farming more efficient in order to feed more people and livestock. Borealis supplies around a million tonnes of fertilizers and technical nitrogen products each year via its Borealis L.A.T distribution network. With more than 60 warehouses across Europe and an inventory capacity of over 700,000 tonnes, Borealis L.A.T promotes a broad fertilizer portfolio: nitrogen-based straight fertilizer; complex fertilizer – a combination of nitrogen (N), phosphate (P) and potassium (K) as well as speciality fertilizers; and a range of other technical nitrogen products, from ammonia and ammonium nitrates to nitric acid and urea solutions. The roll-out of the N-Pilot®, an innovative diagnostic tool to help optimise nitrogen fertilizer application, began in Europe in 2014.



As a leading fertilizer company in Europe, Borealis is helping make farming more efficient in order to help feed more people and livestock.

Innovative products

Lighter weight, reduced CO₂ emissions

A stellar example of how customised lightweight polypropylene (PP) compounds solutions can enable significant weight savings is the new Opel/Vauxhall Astra, the 2016 European Car of the Year. Containing around 35 kg of low density PP supplied by Borealis and Borouge, this successful new model weighs up to 200 kg less than its predecessor. Replacing conventional materials with innovative, lighter weight polyolefins helps the automotive industry maintain stringent performance and aesthetic criteria while simultaneously fulfilling stricter CO₂

emissions regulations. By helping manufacturers reduce fuel consumption in their models, Borealis and Borouge are supporting efforts to improve the overall environmental footprint of automotive fleets.



Improving the recyclability of flexible plastic packaging

In the past, the complex structure of flexible plastic packaging made recycling of this material less efficient, and thus less viable. Borealis and Borouge's recently launched Full PE Laminate solution is a step-change concept in flexible plastic packaging. Based on the proprietary Borstar® bimodal polyethylene (PE) technology in combination with machine direction oriented (MDO) processing technology, this novel monomaterial solution offers a second life to PE-based packaging as valuable end products, with no compromises when it comes to product efficiency or integrity. Innovations like these are important steps on the Borealis journey

of participating in the circular economy (CE) and pursuing opportunities for business growth in the area of plastics recycling.

The N-Pilot®: precise, effective, convenient – and newly enhanced

Borealis L.A.T launched the N-Pilot® in Austria in 2014. This innovative diagnostic tool has since been introduced in other key European markets, including France, Germany, Hungary, and Romania. In 2016 the functionality of the N-Pilot was expanded from winter grains to include rapeseed, a vital

crop for many Borealis L.A.T customers. A hand-held device used in the field, the N-Pilot® helps farmers quickly

and conveniently identify the current nitrogen requirements of crops. It provides specific analyses and recommendations to ensure precise fertilizer application during the growing season, thus optimising yields and profitability while at the same time minimising environmental impact.



Innovation Centres

The beating heart of innovation at Borealis is best felt at its Innovation Headquarters (IHQ) in Linz, Austria, or at one of the three satellite Innovation Centres in Sweden, Finland and the UAE. At the IHQ Linz research facilities, newly-developed products are tested by and with international experts on so-called application machines. The main R&D focus lies on polymer design and compound research for polymer applications in the infrastructure, automotive, advanced packaging and healthcare segments.

Another research focus at IHQ Linz is the surface aesthetics of plastics. Plastic surfaces free of flow marks, so-called "tiger stripes", as well as primerless paint systems for exterior plastic applications are among the latest innovations developed for the automotive industry. The Borealis Sirius catalyst plant is also located in Linz. Schwechat is home to another Borstar® pilot plant.

The "Driving Tomorrow" initiative aims to reduce overall fuel consumption thanks to the use of lighter weight

components in vehicles. In the Innovation Centre in Sweden, focus is on polymer design, scientific services and R&D in the area of energy and infrastructure industry solutions.

With catalyst scale-up facilities and fully integrated Borstar® PE and PP pilot plant lines, the Borealis Innovation Centre in Finland is the site of advanced catalyst and process research, collaborating closely with both Finnish and international universities and research institutes. The Borouge Innovation Centre in Abu Dhabi cooperates closely with its European partners to explore enhanced infrastructure, automotive and advanced packaging application solutions. What the IHQ Linz and Borouge Innovation Centres have in common is the shared pursuit of innovative solutions that provide added value for customers and end users.

Financial Report

Auditor's Report*

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

Report on the Financial Statements

Audit Opinion

We have audited the financial statements of Borealis AG, Vienna, which comprise the balance sheet as at December 31, 2016, the income statement for the fiscal year then ended and the notes.

In our opinion, the accompanying financial statements comply with legal requirements and give a true and fair view of the financial position of the Company as at December 31, 2016, and of its financial performance for the fiscal year then ended in accordance with the Austrian Commercial Code.

Basis for Opinion

We conducted our audit in accordance with Austrian generally accepted auditing standards. Those standards require the application of the International Standards on Auditing (ISA). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with Austrian Generally Accepted Accounting Principles and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The financial statements of Borealis AG, Vienna, for the fiscal year ended December 31, 2015 were audited by another auditor who issued an unqualified auditor's report on these financial statements dated February 15, 2016.

Key Audit Matters

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

We have structured key audit matters as follows:

- Descriptions of individual key audit matters
- Audit approach and findings
- Reference to related disclosures

Valuation of investments in affiliated companies

Descriptions of individual key audit matters

Borealis AG, Vienna, owns investments in affiliated companies with book values in the amount of EUR 1,707,876 thousand as at 31 December 2016. The following investments in affiliated companies show a negative result for the fiscal year 2016:

- Borealis L.A.T. GmbH, Linz, Austria
- Rosier S.A., Moustier, Belgium

In accordance with Section 204 (2) UGB, investments are to be written down if the diminution in value is expected to be permanent. Management is of the opinion that the diminution in value of the above-mentioned investments in affiliated companies as at December 31, 2016 is not permanent and therefore no write-down is required.

Audit approach and findings

When assessing the recoverability of these investments, we also audited the respective valuation models. In doing so, we assessed the valuation method as well as evaluated the parameters (cash flows planned and discount rates) used by management. We examined if these models comply with the generally accepted valuation principles and if the underlying assumptions used are reasonable and appropriate.

Reference to related disclosures

Management explained this key audit matter in the notes to the financial assets.

Responsibilities of Management and the Audit Committee for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Austrian generally accepted auditing standards, which require the application of ISA, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material

uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

Report on Other Legal and Regulatory Requirements

Comments on the Management Report for the Company

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

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

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

Opinion

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

Statement

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

Other information

Management is responsible for the other information. The other information comprises the information included

in the annual report, but does not include the financial statements, the management report and the auditor's report.

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

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

Responsible Engagement Partner

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

Vienna, 15 February 2017

PwC Wirtschaftsprüfung GmbH



Peter Pessenlehner
Wirtschaftsprüfer

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

Management Report as of 31 December 2016

Operational Review

The Polyolefine markets, in which Borealis AG operates, developed favourably in 2016, in a similar manner as in 2015, supported by a lower feedstock price environment and moderate economic growth. The average oil price declined by 17% compared to 2015 and averaged at 45 USD/bbl. The overall sales volume of Borealis products exceeded the volume level of 2015 by 3%.

The monthly Brent oil price averages fluctuated from 32 to 55 USD/bbl in the period between January to December 2016. The price of Naphtha, a significant raw material for Borealis used in the production of olefins, followed the Brent oil price and decreased by 17% to an average of 384 USD/t in 2016 from an average of 462 USD/t in 2015. Spot market prices for ethylene and propylene were averaging at 822 EUR/t and 629 EUR/t, respectively.

The Polyolefin sales margin per tonne in 2016 improved by 22% compared to the previous year, reflecting a combination of lower feedstock costs, solid demand and robust market prices.

The performance of the Hydrocarbons & Energy business continued to improve in 2016, mainly due to the absolute sales margin increase of 25% compared to the prior year driven by the increase in the total olefin production by 12% compared to 2015, when a major turnaround at the Stenungsund production site, Sweden, was carried out.

Borealis AG generated sales revenue of EUR 6,070.1 million compared to EUR 6,453.1 million, a decrease of 6% due to lower pricing of Polyolefins and Hydrocarbons & Energy products.

Overall, Borealis AG generated a net income of EUR 699.6 million compared to a net income of EUR 490.2 million in 2015.

The operating result improved from a profit of EUR 560.7 million in 2015 to a profit of 980.5 million in 2016.

The financial result declined mainly as a result of lower dividend income of EUR 36.9 million (2015: EUR 111.5 million), to EUR -152.5 million in 2016, compared to EUR -61.8 million in 2015.

Net debt of EUR 1,430.5 million as per the end of 2015 was reduced to EUR 1,177.7 million at the end of 2016 due to the highly profitable year and resulting high cash inflow.

EBITDA, as a main element of cash-flow, increased in year 2016 by 74%, from EUR 565.9 million in 2015 to EUR 982.4 million.

As an industry leader, Borealis is committed to the principles of the circular economy and embraces polyolefins recycling as a strategic part of the business. Over the last years, Borealis has been actively advancing its recycling and sustainability efforts. In line with this strategic direction, Borealis AG acquired on July 1st the German plastics recyclers mtm plastics GmbH and mtm compact GmbH. Based in Niedergebra, Germany, mtm plastics GmbH is regarded as a technology leader in the recycling of mixed post-consumer plastic waste and as one of Europe's largest producers of post-consumer polyolefin recyclates. The acquisition of mtm plastics is Borealis' first step into the circular economy and reflects Borealis' proactive and dedicated "Keep Discovering" approach to provide specific and innovative solutions to core global challenges.

The company continues to strengthen its strategic production capabilities by announcing a commencement of a feasibility study of a new, world-scale propane dehydrogenation (PDH) plant. The plant would be located at the existing Borealis production site in Kallo, Belgium. The final investment decision is expected to be taken in the third quarter of 2018, while the potential start-up of the plant is scheduled for the second half of 2021. The new PDH plant would have a targeted annual production capacity of 740 Kilotonnes per calendar year, making it one of the largest and most efficient facilities in the world. The Borealis Kallo location has been chosen due to its excellent logistical position and its experience in propylene production and handling.

Borealis continued to bring innovative customer solutions also in the current financial year. These were amongst others new Queo polyolefin elastomers bringing enhanced flexibility and outstanding low temperature impact, lightweight solutions for the mobility industry or new grade in the PP-RCT pipe portfolio, bringing improved hydrostatic pressure resistance.

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

Borealis AG has representations in Abu Dhabi, Moscow and Saint Petersburg. The representation office in Bucharest, Romania was closed on 1 November 2016.

Non-financial performance indicators are not monitored separately for Borealis AG, but rather within the context of the entire Borealis Group. The average number of employees increased by 13 employees to 211 by the end of 2016.

Risk Management

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

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

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

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

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

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

Strategic risks are risks that may negatively impact the company's strategy or its reputation. To counteract these

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

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

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

Credit Risk

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

Liquidity Risk

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

Foreign Currency Risk

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

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

Interest Rate Risk

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

Additional risks associated with the toll manufacturing

The switch to toll manufacturing has been accompanied by the transfer of market and price risks for finished products, raw materials and inventory risk.

The company uses large quantities of petrochemical raw materials and energy in its various production processes. These materials can be resold, where appropriate. Borealis AG has entered into long-term agreements with various suppliers and customers, respectively, to hedge against

price risks relating to raw material. In addition, derivative instruments are used to smooth effects of price fluctuations of raw materials on the income statement and, thus, on the company's equity in the long term.

Research and Development

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

In 2016, the projects focused both on further developments of existing technologies, as well as on targeted solutions for customer needs. In particular the ongoing projects deal with improving product properties, catalyst capabilities and substances of the 3rd generation of the Borstar technology.

Outlook for 2017

The management of Borealis AG expects relatively favourable market conditions also in 2017. The restrictions on the supply side of the polyolefin market are expected to gradually disappear in the course of the next year.

Risk and uncertainty remains with regards to the feedstock price environment. The concerns in respect of the economic growth, geopolitical development and EU stability are expected to remain intense. Despite these uncertainties Borealis' management expects a solid profitability in 2017.

Group Management Report

(The following information is based on the consolidated financial statements of Borealis AG from 31 December 2016, prepared in accordance with IFRS and accepted by the EU.)

Worldclass safety performance

The year 2016 was one of the company's best years in terms of safety performance. Borealis' safety performance measured by the number of Total Recordable Injuries (TRI) per million working hours improved to 0.9 in 2016 compared to 1.4 in 2015. A TRI frequency below two is considered as being world-class in the industry. The improved TRI score in 2016 came as a result of the continuous focus on safety and the goal of zero injuries. Borealis continues to maintain the goal of an accident-free work environment for both employees and contractors and continuously works hard towards achieving this goal.

Record polyolefin industry margin in 2016

The Brent Crude oil price fluctuated from 32 to 55 USD/bbl in 2016. The Brent Crude oil price bottomed at the beginning of the year with oil markets reacting to oversupply and growing concerns over economic growth. The OPEC announcement to restrict oil production at the end of October pushed the Brent Crude oil price up reaching a peak of 55 USD/bbl at the end of 2016. The annual average Brent Crude oil price of 45 USD/bbl in 2016 is down 17% from the average of 54 USD/bbl in 2015. Feedstock prices followed the Brent Crude oil price development by more or less the same magnitude. In comparison to the lower feedstock prices, the polyolefin prices reduced less in 2016 due to continuing solid market demand. The polyethylene price averaged 2% lower in 2016 compared to 2015 while the polypropylene price averaged 11% lower in 2016 compared to 2015.

In the Fertilizer business, margins decreased compared to last year as a result of global oversupply and weak demand. CAN sales prices bottomed in the third quarter of 2016. Increased urea prices in the last quarter of 2016 led to a recovery of the CAN sales price towards the year-end.

Continuing sustainable growth

The solid foundation for sustainable growth was further strengthened by a continuous focus of the organisation on achieving excellence in every aspect of Borealis' operations through a number of projects. Important steps were taken to further improve asset efficiency and reliability by way of investments, training and knowledge sharing across locations. Further work is required to reach the desired level of reliability in the fertilizer segment.

Borealis signed a contract with Navigator Gas LLC for the long-term time charter of the vessel Navigator Aurora. With a length of 180 m, the newly-built Navigator Aurora has a total cargo tank size of 35,000 cubic metres (cbm) and can hold ethane loads of up to 20,000 tonnes, making it the biggest ethane-capable vessel serving the global market. The new vessel will ensure long-term, reliable, cost-efficient ethane supply to Borealis' production facilities in Sweden. The vessel will sail between the Marcus Hook refinery in Pennsylvania, US, and Borealis' production facility in Stenungsund, Sweden. As a dual-fuel vessel, it can run on both diesel fuel and liquefied natural gas (LNG) meeting increasingly stringent environmental regulations.

Borealis entered into a cooperation with Taiwan-based convertor Reach Plastic Industrial Co., Ltd. This cooperation allows Borealis to explore the development of market applications based on Borealis' Daploy™ high melt strength (HMS) PP foam material. Daploy HMS PP foam is 100%-recyclable and is suitable for a wide range of applications where an improved environmental footprint is sought, as well as lightweighting, insulation and a unique surface feel. These applications can be used in a broad spectrum of industries, such as automotive, building & construction as well as packaging and food service.

In November, a Memorandum of Understanding was signed by Borealis and Asmidal. It reflects the parties' interest in evaluating opportunities to jointly develop a melamine production project in Algeria. A feasibility study for this project will be carried out and a final investment decision is expected to be taken in 2017.

Commitment to the circular economy

As an industry leader, Borealis is committed to discovering and realising the opportunities presented by the circular economy. By fully acquiring the German plastics recycler mtm plastics GmbH and mtm compact GmbH in June 2016, Borealis took its engagement in the circular economy to the next level. Based in Niedergebra, Germany, mtm plastics GmbH is regarded as a technology leader in the recycling of mixed post-consumer plastic waste and as one of Europe's largest producers of post-consumer polyolefin recyclates. Plastic recycling provides a circular business opportunity in a growing market within a broader sustainability agenda.

Feasibility study of a new, world-scale propane dehydrogenation plant

In September, Borealis announced to study the feasibility of a new, world-scale propane dehydrogenation (PDH) plant to be located at the existing Borealis production site in Kallo, Belgium. The feasibility study is being carried out over nine months with a final investment decision expected to be taken in the third quarter of 2018. The potential start-up of the plant is scheduled for the second half of 2021. The new PDH plant would have a targeted annual production capacity of 740 kilotonnes, making it one of the largest and most efficient facilities in the world. The Borealis Kallo location has been chosen due to its excellent logistical position and its experience in propylene production and handling. This investment is targeted to strengthen Borealis' long-term commitment to be the innovative polypropylene and propylene supplier that is meeting the needs of its customers today and in the future.

Investing for the future

Borealis announced a new round of investments in its melamine and fertilizer production facilities in Linz, Austria. The heart of the so-called "Linz 2020" programme is a EUR 80 million investment package to boost the overall long-term competitiveness of the Linz location. Programme goals include improving plant efficiency and achieving better environmental performance by installing and implementing state-of-the-art equipment and processes. This latest round of investment follows on the heels of the "Linz Fitness" programme, in which EUR 145 million were invested in plant modernisation between the years 2010 and 2014. During 2016 the Ottmarsheim fertilizer production location in France saw the largest ever site turnaround with a capital spend exceeding EUR 55 million including turnaround related projects.

In June 2016, Borealis announced a EUR 40 million investment to upgrade its steam cracker in Porvoo, Finland. The upgrade of the cracker, one of the most flexible, fully-integrated crackers in Europe, will further enhance its performance by boosting capacity and improving energy efficiency. The project is scheduled for completion in the third quarter of 2017. The production capacity of propylene and crude C4 will increase by 30 kilotonnes per annum and 10 kilotonnes per annum, respectively. The project will also upgrade the quality of all produced propylene to polymer grade, thereby increasing value as well as productivity in the adjacent polypropylene production plant.

The joint project between Neste, Veolia and Borealis to build a new power plant in Kilpilahti, Porvoo, Finland was

confirmed. In the arrangement, Neste transferred its existing power plant to Kilpilahti Power Plant Limited (KPP). The company will build a new combined heat and power plant in Porvoo to match the needs of Neste and Borealis. Neste and Veolia both own 40% of KPP, and Borealis owns 20%. The steam generation capacity of the new power plant is 450 MW, and its electricity generation capacity is 30 MW. The plant, to be operated by Veolia, is scheduled for commissioning in 2018. The environmental benefits from replacing the existing power plant are significant. The new power plant is being constructed in accordance with the latest environmental regulations, including the European Commission's Industrial Emissions Directive (IED), and is notably expected to reduce carbon dioxide emissions by approximately 20% compared to the current situation.

Borouge

Borouge started up its new cross-linked polyethylene (XLPE) plant in the second quarter of 2016. With this final start-up, the Borouge 3 plant expansion project has been brought to a successful close, with the production capacity of Borouge having more than doubled to 4.5 million tonnes. Borouge is now the world's largest integrated polyolefins complex. Together, Borealis and Borouge now have an annual polyolefin production capacity of 8 million tonnes.

Borouge has embarked on a programme optimising Borouge 1, 2 and 3 and building another polypropylene (PP) plant, PP5. Pending approval of the project in 2017, PP5 could be up and running by around 2020. Borouge will also focus on finding ways to create more value by stretching the oil barrel. For Borouge this means the cracking of naphtha and perhaps of other mixed feeds, and converting these to downstream products. Cracking would be done in a facility called "Borouge 4" which would be a challenging and by far the most ambitious petrochemicals project that Borealis or ADNOC, have ever undertaken.

Record financial performance

Borealis reached a record net profit of EUR 1,107 million in 2016, improving on the previous record of EUR 988 million achieved in 2015. The improved result was particularly driven by better polyolefins margins, which reached a record level in 2016. The base chemicals segment had a solid performance but contributed less in 2016 compared to the previous year driven by the weak conditions of the Fertilizer market. Borouge's contribution improved compared to last year due to the sales volume ramp-up as a result of the successful close of the Borouge 3 plant expansion project.

Borealis saw its polyolefins sales volume increase by 1% year-on-year, at the same pace as the European polyolefins market, maintaining its 2015 market share of 14% in 2016. Fertilizer sales volumes were at a comparable level in 2016 as in 2015.

In 2016, the polyolefin industry margin reached a record level. Despite lower feedstock costs, polyolefin prices did not retreat to the same extent due to a tight market as a result of solid demand. As a result, the olefin and polyolefin clean industry margin reached record levels. The profit contribution delivered from the polyolefins business segment further improved compared to last year.

In the fertilizer business, the margins were lower in 2016 compared to 2015, particularly in the second half of the year. The global oversupply and weak demand resulted in a significant drop in the CAN sales price. The fertilizer result was further negatively impacted by operational issues and the impairment of the urea production plant in Grandpuits resulting in a 2016 performance not meeting expectations.

Return on capital employed (ROCE) after tax increased to 16% in 2016 from 15% in 2015. The increase in ROCE is a reflection of the improved business result, particularly from the European assets. The completion of ongoing investment programmes as well as the focus on operational and commercial excellence will ensure Borealis to realise the targeted ROCE level of 11% through the cycle.

In 2016, Borealis reduced its net debt by EUR 445 million, which resulted in a gearing ratio of 10% at the end of 2016, compared to 19% at the end of 2015. Borealis benefits from a well-diversified financing portfolio and a balanced maturity profile. The company will look to maintain access to a wide range of funding options, including capital markets and bank funding as well as private placements going forward.

Finnish tax case

In January 2017, Borealis received the two decisions of the Finnish Board of Adjustment in regard to Borealis Technology Oy. The Board of Adjustment has confirmed the Finnish tax authority's view that the license arrangements, entered into between Borealis Technology Oy and Borealis AG in 2008 and 2010 should be considered as a sale of businesses. They changed the amount of taxable income of TOY downward from EUR 700 million to EUR 541 million in the year 2008 and from EUR 340 million to an amount of EUR 260 million in the year 2010. This leads to a requested additional total payment of EUR 297 million, comprising taxes, late payment interest and penalties. Borealis believes that this decision fails to properly apply Finnish and International tax law and does not adequately consider the relevant facts of the case. Borealis will therefore

appeal this decision to the Helsinki Administrative Court and has obtained a suspension of payment until the final decision.

In December 2015, Borealis received a re-assessment decision from the Finnish tax authority for its Finnish subsidiary Borealis Polymers Oy in regard to the year 2009. The authority is requesting Borealis to pay an additional EUR 153 million, an amount comprising taxes, late payment interest and penalties. Borealis believes that this decision fails to properly apply Finnish and International tax law and does not adequately consider the relevant facts of the case. Borealis appealed the re-assessment decision to the Finnish tax authority's Board of Adjustment in February 2016. The decision of the Board of Adjustment is expected for the first half of calendar year 2017. A suspension of payment has been obtained pending the decision.

Commitment to R&D

Borealis' commitment to innovation is firm. With three state-of-the-art Innovation Centres located in Linz, Porvoo and Stenungsund, supported by several smaller research groups in other locations, Borealis has over 500 employees in the R&D organisation supporting innovations for all business groups. Innovation projects are conducted in close collaboration with key customers as well as with the Borouge Innovation Centre in Abu Dhabi and many other partners in Borealis' Open Innovation eco-system.

In June 2016, Borealis launched three new polyolefin elastomer (POE) grades resulting in the extension of its Queo™ polyolefin plastomers (POP) portfolio. The Compact technology, which is now known as Borceed™, was rebranded. Borceed technology enables flexible materials exhibiting both plastic and elastomeric properties and is the platform supporting Borealis' Queo products. The Queo portfolio expansion further enhances Borealis' product offering of high-value specialty polyethylene (PE) products for the high-end segments of the automotive, consumer packaging, housewares, and wire and cable industries.

In October 2016, a step-change concept in flexible plastic packaging, the Full PE Laminate solution, was showcased at the K Fair 2016 in Düsseldorf. Based on the proprietary Borstar® bimodal polyethylene (PE) technology in combination with machine direction oriented (MDO) processing technology, this novel monomaterial solution offers a second life to PE-based packaging as valuable end products, without compromising on product efficiency or integrity. This Full PE Laminate solution was developed and tested in cooperation with a consortium of leading partners along the value chain.

Borealis launched a new grade in its portfolio of polypropylene random crystalline temperature (PP-RCT) pipes in October 2016. The improved performance and properties of this grade fulfil market demand for sophisticated applications in industrial heating and cooling, including building risers as well as heating, ventilation and air-conditioning (HVAC) systems. The overall improved performance and hydrostatic pressure resistance of PP-RCT pipes, especially at elevated temperatures, results in a range of advantages for the entire value chain such as longer durability making operations safe and reliable in the long-term. Moreover, the increased pressure resistance brings significant benefits for both pipe producers and building designers.

Improving energy effectiveness

Borealis is committed to reducing its environmental footprint by lowering CO₂ emissions and increasing energy efficiency. Improving energy efficiency is the most effective way of reducing the company's direct carbon footprint, as well as cutting the company's energy costs. In 2014, Borealis established its ambitious Energy Roadmap which highlights the key focus areas for Borealis until 2020/2021. The programme has identified, amongst others, the optimisation of equipment and process operations, technology changes and site optimisation as the elements for success.

To sustain its energy step change efforts, Borealis is implementing an energy management system certified to ISO 50001. Based on a gap analysis conducted in 2015, Borealis made the necessary changes to the Group-wide management system. These changes were closed off with an audit marking the start of the implementation at location level, coupled with efforts to further strengthen Borealis' energy efficiency culture. In November 2016, Borealis' site in Grand-Quevilly, France, was the first location to be ISO 50001 certified.

At the Borealis location in Beringen, Belgium, Bionerga, a specialist in recovering energy from waste, is constructing a municipal waste incineration plant. Once the plant is running, Bionerga will supply Borealis with electricity and recovered heat, reducing both Borealis' natural-gas-fired steam production and the amount of electricity Borealis draws from the local grid. The project will contribute to the Flemish region's renewable energy ambitions and paves the way to providing heat to other organisations in the neighbouring industrial area.

Wellbeing concept

Wellbeing is a topic that needs to be managed pro-actively across all generations in an environment where retirement ages are rising in many European countries and working longer is a reality. As individuals, we all want to be healthy, recognised, and able to develop our own competences and to have a balance in work and private life. As an employer, Borealis wants to support its employees to be healthy, engaged and productive and to drive the company towards excellence in everything it does.

In Borealis, the Wellbeing concept is aimed to contribute to being the Employer of Choice for employees of all generations. Borealis has identified four Wellbeing areas – Health, Job Engagement, Competence and Work & Private Life Balance – and ongoing activities take place in all of its locations to ensure motivated and healthy employees.

Outlook

Management expects 2017 to be a solid year for Borealis. Despite less favourable market conditions expected in polyolefins compared to 2016, Borealis is well positioned for the future thanks to the actions taken in the past few years. Improvements in operational reliability and the establishment of a commercial and operational excellence mindset are embedded in the organisation. The committed investments in 2017 and beyond will further strengthen Borealis' three profit centres, Polyolefins, Base Chemicals and Borouge.

Increased results in the fertilizer business, driven by an improvement in market conditions and enhanced operational performance, is expected. Uncertainty remains around the additional polyolefin capacity that is going to come on stream in North America in the second half of 2017. As this additional capacity is not expected to be absorbed by the local market, it will impact Borealis' European polyolefins business. 2017 will also be challenging due to the intensive turnaround schedule, involving 5 locations.

Review of results

Sales

The European polyolefins industry saw an increase in total sales volumes of 1% in 2016, compared to a 5% increase in 2015. Borealis sold 3.7 million tonnes of polyolefins in 2016 (+1% vs. 2015). Fertilizer sales reached 4.6 million tonnes, unchanged from 2015. Melamine sales volumes increased by 1% from 138 kilotonnes in 2015 to 140 kilotonnes in 2016.

Cost development

With the lower price environment the production costs decreased in 2016 compared to 2015, despite higher sales volumes. Sales and distribution costs of EUR 653 million in 2016 increased from EUR 642 million in 2015, administration costs increased by 1% to EUR 230 million. Research and development costs amounted to EUR 114 million in 2016, unchanged from 2015. The number of full-time equivalent employees (FTE) as per year-end 2016 was 6,494, an increase of 228 compared to last year, mainly due to the acquisition of mtm plastics GmbH and mtm compact GmbH.

Operating profit

Operating profit amounted to EUR 938 million compared to EUR 718 million in 2015. The improved result is mainly attributable to a higher contribution from the Polyolefins business segment compared to 2015.

Return on capital employed

The return on capital employed after tax increased to 16%, compared to 15% in 2015, mainly as a result of the improved business performance.

Financial income and expenses

Net financial expenses amounted to EUR 77 million, an increase from EUR 69 million in 2015, mainly as a result of increased foreign exchange adjustments compared to 2015.

Taxes

Income taxes amounted to EUR 241 million, an increase of EUR 110 million from tax charges of EUR 130 million in 2015. The overall tax charge in 2016 increased mainly due to an improved profitability. In addition, the year 2015 tax charge was positively influenced by capitalisation of previously

unrecognized tax losses due to improved profitability forecasts. Borealis paid income taxes in the amount of EUR 82 million in 2016, compared with EUR 22 million in 2015.

Net profit and distribution of dividend

The net profit for the year amounted to EUR 1,107 million, compared to a net profit of EUR 988 million in 2015. During 2016, Borealis distributed a dividend of EUR 425 million to its shareholders.

Financial position

Total assets/capital employed

At the year-end, total assets and capital employed stood at EUR 9,932 and EUR 7,927 million, respectively, compared to EUR 9,261 and EUR 7,359 million at year-end 2015.

The solvency ratio was 64% at year-end 2016, compared to 60% at year-end 2015. The gearing ratio decreased to 10% at year-end 2016, compared to 19% in 2015, as there was a significant decrease in net debt and a significant increase in equity.

Cash flows and liquidity reserves

Cash flow from operations was EUR 1,145 million, driven by a solid operating profit. Liquidity reserves, composed of undrawn, long-term committed credit facilities and cash balances, amounted to EUR 1,928 million at year-end 2016, compared to EUR 1,714 million at year-end 2015.

Net interest-bearing debt decreased to EUR 651 million at year-end, down from EUR 1,096 million at the end of 2015. The change in net interest-bearing debt is analysed in the following table.

EUR million	2016	2015
Change of net interest-bearing debt		
Cash flow provided by operating activities	1,145	1,103
Capital expenditure	-384	-391
Capital contribution to associated companies/joint ventures	-6	0
Dividends/repayment of capital contribution by associated companies/joint ventures	144	123
Acquisition of new companies and purchase price adjustments	-18	1
Other (mainly relating to foreign exchange differences)	-11	-34
Dividend paid	-425	-100
Total decrease/increase	445	702

Capital expenditure

Investments in tangible fixed assets amounted to EUR 333 million in 2016, compared to EUR 336 million in 2015. The largest portion of the total investment relates to the light feed modification of the cracker in Stenungsund, the site turnaround in Ottmarsheim, the upgrade and revamp of four cracker furnaces in Stenungsund and the construction of a LPG cavern in Porvoo. HSE capital expenditure amounted

to EUR 20 million, compared to EUR 23 million in 2015. Depreciation and amortisation amounted to EUR 400 million, compared to EUR 348 million in 2015.

Shareholders' equity

The shareholders' equity at year-end 2016 was EUR 6,496 million.

EUR million	2016	2015
Equity development		
Net result attributable to the parent	1,109	988
Exchange and fair value adjustment (net)	115	298
Gross increase/decrease	1,224	1,286
Dividend paid	-425	-100
Contribution by shareholders	0	0
Net increase/decrease	799	1,186
Opening equity	5,697	4,511
Ending equity	6,496	5,697

Risk

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

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

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

Financial risks can be associated with liquidity, interest rate, foreign exchange rate, credit, commodity price, and insurance. The assessment of financial risk management is described in detail in note 16 of the consolidated financial statement. The Director Treasury and the General Counsel

shall be responsible for reporting and for coordinating the management of all financial risks.

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

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

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

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

The Supervisory Board is responsible for reviewing the effectiveness of Borealis' risk management practices and processes, the risk tolerance levels, the risk exposure of

the Group, and the effectiveness of mitigation actions. The Supervisory Board delegates some of these responsibilities to the Audit Committee, which is a sub-committee of the Supervisory Board.

All Borealis employees shall be responsible for managing risk, within their authority, in their field of work to ensure that risk management is properly embedded in the organisation and is reflected in the day-to-day decision-making process.

		2016	2015	2014	2013
Health, Safety & Environment					
Total Recordable Injuries	number/million workhours	0.9	1.4	1.3	1.5
EU ETS CO ₂ emissions	kilotonnes	4,600	4,270	4,250	2,480
Number of employees (Full-time equivalent)		6,494	6,266	6,290	6,227
Income and profitability					
Net sales	EUR million	7,218	7,700	8,330	8,106
Operating profit	EUR million	938	718	280	195
Operating profit as percentage of net sales	%	13	9	3	2
Net profit	EUR million	1,107	988	571	423
Return on capital employed, net after tax	%	16	15	10	9
Cash flow and investments					
Cash flow from operating activities	EUR million	1,145	1,103	428	482
Investments in tangible fixed assets	EUR million	333	336	370	264
Financial position					
Net interest-bearing debt	EUR million	651	1,096	1,798	1,770
Equity attributable to owners of the parent	EUR million	6,496	5,697	4,511	3,882
Gearing ratio	%	10	19	40	45

Definitions

Capital employed	=	Total assets less non-interest-bearing debt
Return on capital employed	=	Operating profit, profit and loss from sale of operations, net result in associated companies plus interest income, after imputed tax, divided by average capital employed
Solvency ratio	=	Total equity less goodwill divided by total assets
Gearing ratio	=	Interest-bearing debt, including subordinated loans, less cash and cash equivalents divided by total equity
HSE	=	Health, Safety and Environment

Vienna, 15 February 2017

Executive Board:



Mark Garrett
Chief Executive



Mark Tonkens
Chief Financial Officer



Markku Korvenranta



Martijn Arjen van Koten



Alfred Stern

Balance Sheet as of 31 December 2016

Assets

	31.12.2016, EUR	31.12.2015, TEUR
A. Fixed assets		
I. Intangible assets		
1. Rights and licenses	13,881,102.58	16,060
II. Tangible assets		
1. Office equipment	1,165,325.62	1,342
2. Construction in progress	49,907.22	12
	1,215,232.84	1,354
III. Financial assets		
1. Investments in affiliated companies	1,707,875,649.35	1,689,225
2. Loans to affiliated companies	75,000,000.00	78,200
thereof with residual maturity of more than one year EUR 75,000,000.00; 2015: TEUR 3,200		
3. Investments in associated companies	418,972,485.93	548,627
4. Securities	2,637,501.75	1,059
	2,204,485,637.03	2,317,111
	2,219,581,972.45	2,334,525
B. Current assets		
I. Inventories		
1. Raw materials and supplies	212,962,081.20	184,716
2. Finished goods and merchandise	568,636,121.48	462,384
	781,598,202.68	647,100
II. Receivables and other assets		
1. Trade receivables	365,981,512.53	378,685
thereof with residual maturity of more than one year EUR 0.00; 2015: TEUR 0		
2. Receivables from affiliated companies	1,137,641,052.67	963,259
thereof with residual maturity of more than one year EUR 3,250,000.00; 2015: TEUR 4,875		
3. Receivables from associated companies	76,922,020.98	78,817
thereof with residual maturity of more than one year EUR 0.00; 2015: TEUR 0		
4. Other receivables and other assets	171,525,283.29	156,859
thereof with residual maturity of more than one year EUR 0.00; 2015: TEUR 0		
	1,752,069,869.47	1,577,620
in total thereof with residual maturity of more than one year EUR 3,250,000.00; 2015: TEUR 4,875		
III. Cash and cash equivalents	543,600,567.14	466,971
	3,077,268,639.29	2,691,691
C. Prepaid Expenses	15,424,731.29	18,773
D. Deferred Tax Assets	8,044,981.00	0
Total Assets	5,320,320,324.03	5,044,989

Shareholders' Equity and Liabilities

	31.12.2016, EUR	31.12.2015, TEUR
A. Shareholders' Equity		
I. Share capital	300,000.00	300
II. Capital reserves		
1. Appropriated	101,604,460.00	101,604
2. Unappropriated	1,539,783,410.00	1,539,784
	1,641,387,870.00	1,641,388
III. Revenue reserves		
1. Legal reserve	30,000.00	30
IV. Retained earnings	906,134,246.69	631,532
thereof profit carried forward EUR 206,532,421.51. 2015: profit carried forward TEUR 141,356		
	2,547,852,116.69	2,273,250
B. Special item for investment grants to fixed assets	474,295.00	539
C. Provisions		
1. Provisions for pensions	13,028,155.18	8,143
2. Provisions for taxes	120,327,374.69	27,474
thereof provisions for deferred tax liabilities EUR 0.00; 2015: TEUR 0		
3. Other Provisions	175,907,013.44	142,977
	309,262,543.31	178,594
D. Liabilities		
1. Bonds	325,000,000.00	325,000
thereof with residual maturity up to one year EUR 200,000,000.00; 2015: TEUR 0		
thereof with residual maturity of more than one year EUR 125,000,000.00; 2015: TEUR 325,000		
2. Bank loans and overdrafts	1,045,975,692.39	1,292,884
thereof with residual maturity up to one year EUR 157,003,059.99; 2015: TEUR 251,688		
thereof with residual maturity of more than one year EUR 888,972,632.40; 2015: TEUR 1,041,195		
3. Trade accounts payable	359,020,328.32	371,066
thereof with residual maturity up to one year EUR 359,020,328.32; 2015: TEUR 371,066		
thereof with residual maturity of more than one year EUR 0.00; 2015: TEUR 0		
4. Accounts payable to affiliated companies	635,195,761.17	525,804
thereof with residual maturity up to one year EUR 625,783,996.45; 2015: TEUR 512,627		
thereof with residual maturity of more than one year EUR 9,411,764.72; 2015: TEUR 13,176		
5. Accounts payable to associated companies	82,646,797.07	73,035
thereof with residual maturity up to one year EUR 82,646,797.07; 2015: TEUR 73,035		
thereof with residual maturity of more than one year EUR 0.00; 2015: TEUR 0		

Shareholders' Equity and Liabilities

	31.12.2016, EUR	31.12.2015, TEUR
6. Other liabilities	14,892,790.08	4,817
thereof taxes: EUR 743,503.08; 2015: TEUR 627		
thereof social security: EUR 0.00; 2015: TEUR 0		
thereof with residual maturity up to one year EUR 14,892,790.08; 2015: TEUR 4,817		
thereof with residual maturity of more than one year EUR 0.00; 2015: TEUR 0		
	2,462,731,369.03	2,592,606
in total thereof with residual maturity up to one year EUR 1,439,346,971.91; 2015: TEUR 1,213,234		
in total thereof with residual maturity of more than one year EUR 1,023,384,397.12; 2015: TEUR 1,379,372		
Total equity and liabilities	5,320,320,324.03	5,044,989

Income Statement for the Year 2016

	2016, EUR	2015, TEUR
1. Sales	6,070,679,764.44	6,453,093
2. Increase or decrease in finished goods	106,252,054.08	-51,974
3. Other operating income		
a) Income from the reversal of provisions	378,117.36	0
b) Other income	76,710,741.60	25,785
	77,088,858.96	25,785
4. Cost of materials and purchased services		
a) Cost of materials	-3,715,814,539.30	-4,282,132
b) Cost of purchased services	-942,175,270.95	-1,036,210
	-4,657,989,810.25	-5,318,342
5. Personnel expense		
a) Salaries	-50,765,890.51	-52,796
b) Social contributions	-17,542,064.59	-10,170
thereof pension fund contributions EUR 6,592,741.51; 2015: TEUR 487		
thereof expense for severance payments and corporate staff and self-employment fund contributions EUR 905,197.03; 2015: TEUR 319		
thereof expense for statutory social security and payroll related taxes and contributions EUR 6,236,621.81; 2015: TEUR 5,034		
	-68,307,955.10	-62,966
6. Amortization and depreciation of intangible and tangible assets	-1,935,018.87	-5,191
7. Other operating expenses		
a) Taxes, other than those reported in line item 16	-1,194,331.76	-1,178
b) Other expenses	-544,119,971.39	-478,550
	-545,314,303.15	-479,728
8. Subtotal from line 1 to 7 (Operating result)	980,473,590.11	560,677
9. Income from investments	36,934,392.54	111,508
thereof affiliated companies EUR 22,686,841.34; 2015: TEUR 111,508		
10. Interest income from long term loans	1,250,349.13	1,456
thereof affiliated companies EUR 1,250,349.13; 2015: TEUR 1,456		
11. Other interest and similar income	26,811,137.69	60,845
thereof affiliated companies EUR 17,236,501.23; 2015: TEUR 19,255		
12. Expense arising from financial assets	-53,707.00	-3
Impairment losses on financial assets EUR 53,707.00; 2015: TEUR 3		
13. Interest and similar expenses	-217,436,516.86	-235,566
thereof affiliated companies EUR 52,511,349.91; 2015: TEUR 6,413		
14. Subtotal from line 9 to 13 (Financial result)	-152,494,344.50	-61,760
15. Result before Tax (subtotal from line 8 and 14)	827,979,245.61	498,917
16. Taxes on income	-128,377,420.43	-8,741
thereof income from deferred tax assets EUR 8,044,981.00; 2015: TEUR 0		
17. Result after Tax	699,601,825.18	490,176
18. Net income for the year	699,601,825.18	490,176
19. Profit carried forward from previous year	206,532,421.51	141,356
20. Retained earnings	906,134,246.69	631,532

Notes

I. Accounting and valuation policies

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

Presentation, valuation and disclosure of financial statement items are in line with the Austrian Commercial Code and its special regulations for corporations. The financial statements have been prepared on a going concern basis and assets and liabilities have been reported using the unit account method of valuation.

Changes in the classification of balance sheet and income statement items are subject to the new regulations of the Austrian Law of Changes in Accounting (Rechnungslegungs-Änderungsgesetz – RÄG 2014), with prior year figures having been adjusted accordingly, where provided for by this law. This applies in particular to the reclassification of other income to sales (along with the reclassification of related expenses) and the amended presentation of the statement of fixed assets.

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

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

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

Production costs comprise:

- prime costs
- special production costs
- variable factory overheads

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

Provisions for pensions are calculated according to IFRS (IAS 19) based on actuarial principles using the projected unit credit method. The calculation assumes an annual interest rate of 1.5% (2015: 2.25%) and follows the regulations of "Aktuarvereinigung AVÖ 2008-P". Additionally, the earliest date possible for retirement according to Austrian social insurance legislation has been adopted for the calculation. No staff fluctuation deduction was made.

Provisions for anniversary bonuses are calculated in accordance with IFRS (IAS 19) using an interest rate of 1.5% (2015: 2.25%).

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

Liabilities are reported at the amount repayable.

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

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

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

Derivative financial instruments are reported at the lower of acquisition cost or the fair value at balance sheet date. Provisions for impending losses from unclosed transactions are measured following the imparity principle at the unit account method. Starting with 2011 due to the implementation of the AFRAC-position paper (Austrian Financial Reporting and Auditing Committee), derivative financial instruments designated for hedging purposes have been presented and measured as a unit with the underlying transaction. Fair value hedges (i.e. hedges of the exposure to changes in fair value of a recognised asset or liability or unrecognised firm commitment) as well as cash flow hedges (i.e. hedges of the exposure to changes in cash flows) are in use.

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

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

Hedge accounting requires designated derivatives to form a valuation unit with the hedged transactions or items. Foreign exchange receivables and payables with their exchange risk being hedged by foreign exchange transactions are measured at the forward exchange rate. In case of

effective hedge relationships, measurement of provisions for impending losses of designated derivatives is based on opposite income-related cash flows of the hedged transaction.

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

The following companies signed toll manufacturing contracts with Borealis, effective on 1 January 2010:

- Borealis Polyolefine GmbH, Austria
- Borealis Polymere GmbH, Germany
- Borealis Polymers N.V., Belgium
- Borealis Kallo N.V., Belgium
- Borealis Antwerpen N.V., Belgium
- Borealis Italia S.p.A., Italy
- Borealis AB, Sweden
- Borealis Polymers OY, Finland

A new toll manufacturing contract was signed with Borealis Plastomers B.V., the Netherlands, effective since 1 January 2014.

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

II. Notes to the balance sheet

Assets

A. Fixed assets

Development of fixed assets:

EUR	Acquisition Cost				Balance as of 31 December 2016
	Balance as of 1 January 2016	Additions	Disposals	Reclassifications	
Intangible assets					
Rights and licenses	59,879,596.07	395,683.11	-1,060,875.00	0.00	59,214,404.18
	59,879,596.07	395,683.11	-1,060,875.00	0.00	59,214,404.18
Tangible assets					
Office equipment	4,231,217.19	233,044.97	-38,347.64	11,892.95	4,437,807.47
Construction in progress	11,892.95	49,907.22	0.00	-11,892.95	49,907.22
	4,243,110.14	282,952.19	-38,347.64	0.00	4,487,714.69
Financial assets					
Investments in affiliated companies	3,577,866,927.63	18,650,701.72	0.00	0.00	3,596,517,629.35
Loans to affiliated companies	78,200,000.00	0.00	-3,200,000.00	0.00	75,000,000.00
Investments in associated companies	548,627,483.68	100,000.00	-129,754,997.75	0.00	418,972,485.93
Securities	1,062,193.75	1,631,855.00	0.00	0.00	2,694,048.75
	4,205,756,605.06	20,382,556.72	-132,954,997.75	0.00	4,093,184,164.03
Total fixed assets	4,269,879,311.27	21,061,192.02	-134,054,220.39	0.00	4,156,886,282.90

EUR	Accumulated Amortization/Depreciation				Carrying	
	Balance as of 1 January 2016	Additions	Disposals	Balance as of 31 December 2016	as of 31 December 2015	as of 31 December 2016
Intangible assets						
Rights and Licenses	-43,819,910.90	-1,513,390.70	0.00	-45,333,301.60	16,059,685.17	13,881,102.58
	-43,819,910.90	-1,513,390.70	0.00	-45,333,301.60	16,059,685.17	13,881,102.58
Tangible assets						
Office equipment and furniture	-2,889,201.32	-421,628.17	38,347.64	-3,272,481.85	1,342,015.87	1,165,325.62
Construction in progress	0.00	0.00	0.00	0.00	11,892.95	49,907.22
	-2,889,201.32	-421,628.17	38,347.64	-3,272,481.85	1,353,908.82	1,215,232.84
Financial assets						
Investments in affiliated companies	-1,888,641,980.00	0.00	0.00	-1,888,641,980.00	1,689,224,947.63	1,707,875,649.35
Loans to affiliated companies	0.00	0.00	0.00	0.00	78,200,000.00	75,000,000.00
Investments in associated companies	0.00	0.00	0.00	0.00	548,627,483.68	418,972,485.93
Securities	-2,840.00	-53,707.00	0.00	-56,547.00	1,059,353.75	2,637,501.75
	-1,888,644,820.00	-53,707.00	0.00	-1,888,698,527.00	2,317,111,785.06	2,204,485,637.03
Total fixed assets	-1,935,353,932.22	-1,988,725.87	38,347.64	-1,937,304,310.45	2,334,525,379.05	2,219,581,972.45

Intangible assets

Intangible assets purchased from affiliated companies amount to acquisition costs of EUR 25,531,739.58 (2015: TEUR 25,532).

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

In the financial year 2016, no impairment losses on intangible assets have been recognised (2015: TEUR 3,024).

Tangible assets

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

Financial assets

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

TEUR	Investment in %	proportional Equity IFRS	proportional Net Profit IFRS
Investments in affiliated companies			
Borealis Asia Ltd, Hong Kong, Hong Kong	100.00	177	76
Borealis Brasil SA., Itatiba, Brazil	80.00	37,079	2,070
Borealis Chile SpA, Santiago, Chile	100.00	15	-4
Borealis Chimie S.A.R.L., Casablanca, Morocco	100.00	39	18
Borealis Colombia S.A.S., Bogotá, Colombia	100.00	88	61
Borealis Compounds Inc., Rockport, USA	100.00	96,190	7,783
Borealis Financial Services N.V., Mechelen, Belgium	99.99	179,487	2,355
Borealis France S.A.S., Courbevoie, France	100.00	185,526	6,404
Borealis Funding Company Ltd, Ramsey, Isle of Man	100.00	3	0
Borealis Insurance A/S, Copenhagen, Denmark	100.00	63,718	5,370
Borealis Italia S.p.A., Monza, Italy	100.00	28,653	19,257
Borealis Plasticos SA. de C.V., Mexico City, Mexico	99.99	12	-1
Borealis Plastik ve Kimyasal Maddeler Ticaret Limited Sirketi, Istanbul, Turkey	100.00	322	287
Borealis Plastomers B.V., Geleen, the Netherlands	100.00	-8,226	1,401
Borealis Poliolefinas da América do Sul Ltda., Campinas, Brazil	99.99	148	87
Borealis Polska Sp.z.o.o., Warsaw, Poland	100.00	209	6
Borealis Polymere GmbH, Burghausen, Germany	100.00	70,557	2,993
Borealis Polymers N.V., Mechelen, Belgium	99.99	223,705	42,578
Borealis Polymers OY, Porvoo, Finland	100.00	365,603	1,895
Borealis Rus LLC, Moscow, Russia	100.00	n/a	n/a
Borealis s.r.o., Prague, Czech Republic	100.00	183	57
Borealis Sverige AB, Stenungsund, Sweden	100.00	313,700	0
Borealis Technology OY, Porvoo, Finland	100.00	119,608	1,818
Borealis UK Ltd, Manchester, United Kingdom	100.00	659	115
Finphenol OY, Porvoo, Finland	100.00	2	0
mtm compact GmbH, Niedergebra, Germany	100.00	861	231
mtm plastics GmbH, Niedergebra, Germany	100.00	4,361	3,647
Borealis Química Espana S.A., Barcelona, Spain	100.00	328	112
Rosier S.A., Moustier, Belgium	77.47	35,088	-7,405

TEUR	Investment in %	proportional preliminary Equity local GAAP	proportional preliminary Net Profit local GAAP
Borealis Agrolinz Melamine GmbH, Linz, Austria	100.00	131,136	24,949
Borealis L.A.T GmbH, Linz, Austria	100.00	42,482	-25,002
Borealis Polyolefine GmbH, Schwechat, Austria	99.99	188,581	16,612

TEUR	Investment in %	proportional Equity IFRS	proportional Net Profit IFRS
Investments in associated companies			
Abu Dhabi Polymers Company Ltd, Abu Dhabi, UAE	40.00	3,708,151	468,772
Borouge Pte Ltd, Singapore, Singapore	50.00	48,051	15,551
FEBORAN OOD, Sofia, Bulgaria	40.00	7,965	295
Kilpilahden Voimalaitos OY, Espoo, Finland	20.00	n/a	n/a

Loans to affiliated companies totalling EUR 75,000,000.00 (2015: TEUR 78,200) will mature within one year amounting to EUR 0.00 (2015: TEUR 3,200) and within more than five years amounting to EUR 75,000,000.00 (2015: TEUR 75,000).

Securities serve to fulfil coverage requirements for pension provisions. An impairment loss of EUR 53,707.00 (2015: TEUR 3) was recognised for securities.

B. Inventories

	2016, EUR	2015, TEUR
Raw materials and supplies	212,962,081.20	184,716
Finished goods and merchandise	568,636,121.48	462,384
Total	781,598,202.68	647,100

C. Receivables and other assets

Trade receivables comprise CO₂ emission allowances amounting to EUR 4,468,975.20 (2015: TEUR 25,715) and are stated at acquisition cost.

Receivables from affiliated companies totalling EUR 1,137,641,052.67 (2015: TEUR 963,259) are broken down into trade receivables of EUR 175,940,102.45 (2015: TEUR 25,114) and other receivables of EUR 961,700,950.22 (2015: TEUR 938,144).

Receivables from associated companies totalling EUR 76,922,022.98 (2015: TEUR 78,817) consist of trade receivables.

Other receivables and assets do not contain any income that will produce an inflow of cash after balance sheet date.

D. Deferred Tax Assets

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

TEUR	Non-current Assets	Current Assets	Unused tax losses carried forward	Provisions	Total
Deferred tax assets as of 31.12.2015	0	0	0	0	0
Recognised through profit and loss on 01.01.2016	634	4,366	127,713	3,304	136,018
Deferred tax assets as of 01.01.2016	634	4,366	127,713	3,304	136,018
Recognised through profit and loss in 2016	-317	-118	-127,713	176	-127,973
Deferred tax assets as of 31.12.2016	317	4,248	0	3,479	8,045

Deferred tax assets are measured at a tax rate of 25%.

Shareholders' equity and liabilities

A. Shareholders' equity

Share capital

At the Extraordinary General Meeting of Borealis GmbH, Vienna, dated 22 May 2007, a resolution was approved for an increase in share capital by EUR 137,142.86 from EUR 142,857.14 to EUR 280,000.00. This capital increase was disclosed by reclassification of part of the unappropriated capital reserves of the company.

At the Extraordinary General Meeting of Borealis GmbH, Vienna, dated 20 June 2007, it was agreed to change the company structure from a limited liability company to a joint stock company.

At the first Extraordinary General Meeting of Borealis AG, Vienna, on 6 August 2007, it was agreed to raise the share capital of the company from EUR 280,000.00 to EUR 300,000.00, issuing 20,000 new bearer shares by contributing the economic ownership of stocks in AMI Agrolinz Melamine International GmbH, Linz.

Share capital consists of 300,000 bearer shares at balance sheet date.

Capital reserves

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

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

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

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

Borealis AG intends to pay a dividend of EUR 750,000,000.00 (2015: TEUR 425,000) and to carry forward the remaining profit to the new account.

B. Special item for investment grants to fixed assets

The special item for investment grants to fixed assets comprises subsidies granted to the company in connection with investments in office equipment amounting to EUR 474,295.00 (2015: TEUR 539). The investment grant is recognised on a straight-line basis over a ten-year-term and amounted to EUR 64,420.00 (2015: TEUR 60) for the financial year 2016.

C. Other Provisions

	2016, EUR	2015, TEUR
Provisions for customer rebates and bonuses	36,575,039.73	43,882
Provisions for long-term incentive plan	19,092,164.25	11,926
Provisions for impending losses from uncompleted transactions	14,624,965.34	10,901
Provisions for outstanding invoices	40,733,442.91	28,359
Provisions for employee bonuses	7,617,774.12	5,961
Provisions for not consumed vacation	2,473,915.00	2,333
Provisions for accrued interest	17,564,560.93	18,616
Provisions for anniversary bonuses	1,010,957.00	939
Provisions for social fund	9,169,734.34	5,000
Provisions for other provisions	27,044,459.82	15,060
Total	175,907,013.44	142,977

D. Liabilities

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

2016 EUR	Carrying value as of 31.12.2016	Maturity >five years
Bonds	325,000,000.00	0.00
Bank loans and overdrafts	1,045,975,692.39	181,129,893.07
Trade accounts payable	359,020,328.32	0.00
Accounts payable to affiliated companies	635,195,761.17	0.00
Accounts payable to associated companies	82,646,797.07	0.00
Other liabilities	14,892,790.08	0.00
Total	2,462,731,369.03	181,129,893.07

2015 EUR	Carrying value as of 31.12.2015	Maturity >five years
Bonds	325,000,000.00	0.00
Bank loans and overdrafts	1,292,883,566.00	335,959,436.40
Trade accounts payable	371,065,651.93	0.00
Accounts payable to affiliated companies	525,803,826.68	0.00
Accounts payable to associated companies	73,035,463.91	0.00
Other liabilities	4,817,345.71	0.00
Total	2,592,605,854.23	335,959,436.40

Accounts payable to affiliated companies totalling EUR 635,195,761.17 (2015: TEUR 525,804) consist of financial payables of EUR 351,479,832.55 (2015: TEUR 286,638) and trade payables of EUR 283,715,928.62 (2015: TEUR 239,165).

Accounts payable to associated companies amounting to EUR 82,646,797.07 (2015: TEUR 73,035) consist of trade payables.

In April 2010, a 7-year bond was issued with a nominal value of TEUR 200,000 and a fixed interest rate of 5.375%.

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

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

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

E. Obligations from the use of fixed assets not stated in the balance sheet

2016 TEUR	expense for the next year	expense for the next five years
Obligations from lease agreements	428	1,093
Obligations from rental agreements	15,310	71,946
Total	15,738	73,039

F. Notes to Financial instruments

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

Financial risk management is centralised in the Treasury and Funding Department where foreign exchange risks out

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

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

Derivatives 2016	Nominal Value		Fair Value		Carrying Value	Balance Sheet Item
			positive	negative		
		unit	TEUR	TEUR	TEUR	
Forward Exchange Transactions	614	TSEK	800			
	760,000	TSEK		-1,306	-	
	205,250	TUSD		-10,974		
thereof valuation unit with hedged transaction	614	TSEK	800			
	760,000	TSEK		-1,306	-	
	205,250	TUSD		-10,974		
Interest Rate Swaps	75,000	TEUR	-	-1,583	-	
thereof valuation unit with hedged transaction	75,000	TEUR	-	-1,583	-	
Foreign Exchange Derivative Contracts	30,000	TGBP	-	-1,885	-1,885	Other Provisions
thereof valuation unit with hedged transaction	-	-	-	-	-	
Commodity Futures	1,150	kt	31,185	-31,351	-12,740	Other Provisions
	7,498	GWh	38,204	-16,865		
thereof valuation unit with hedged transaction	660	kt	20,357	-18,611		
	7,498	GWh	38,204	-16,865	-	

Derivatives 2015	Nominal Value		Fair Value		Carrying Value	Balance Sheet Item
			positive	negative		
		unit	TEUR	TEUR	TEUR	
Forward Exchange Transactions	64,700	TUSD	555			
	1,411,500	TSEK	3,103		-	
	112,100	TUSD		-2,732		
thereof valuation unit with hedged transaction	64,700	TUSD	555	-		
	1,411,500	TSEK	3,103		-	
	112,100	TUSD		-2,732		
Interest Rate Swaps	105,000	TEUR	-	-1,496	-	
thereof valuation unit with hedged transaction	105,000	TEUR	-	-1,496	-	
Foreign Exchange Derivative Contracts	48,714	TUSD	-	-4,043	-4,043	Other Provisions
thereof valuation unit with hedged transaction	-	-	-	-	-	
Commodity Futures	1,226	kt	46,408	-40,391	-6,857	Other Provisions
	6,550	GWh	5,108	-51,478		
thereof valuation unit with hedged transaction	810	kt	34,324	-33,534		
	6,550	GWh	5,108	-51,478	-	

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

Impending losses from negative fair values of derivative instruments not presented as valuation units have been provided for in provisions amounting to TEUR 14,625 (2015: TEUR 10,900) at balance sheet date.

Forward exchange transactions mature at an average of six months, where all contracts existing at balance sheet date mature by the end the year 2017 at the latest. At balance sheet date, Borealis AG had outstanding interest rate derivatives with maturities until 2022 as well as a foreign exchange derivative contract maturing in 2021. At balance sheet date, Borealis AG has commodity futures transactions for hedging the price of raw materials maturing at an average of five months and for hedging the price of energy and gas maturing at an average of 19 months. Commodity futures mature up to the year 2019.

Provisions for impending losses are accrued for forward exchange transactions and commodity futures, respectively, in case those transactions show a negative fair value at balance sheet date and are not designated as hedging

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

Expenses and income from derivative instruments not designated to hedge relationships are generally disclosed in the profit and loss items as other operating expenses and other operating income, respectively. Equally, results from derivative instruments related to financing or financial investments are generally disclosed in the financial result. In case derivatives are designated as hedging instruments, results thereof are disclosed in the same profit and loss item as the results of the hedged transaction.

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

G. Contingent Liabilities

Borealis AG assumed guarantees amounting to EUR 13,176,470.60 (2015: TEUR 16,941) to external loans for affiliated companies.

III. Notes to the income statement

1. Sales and cost of materials

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

2016 TEUR	Sales by market and business areas			
	Polyolefins	Base Chemicals	Other	Total
EU countries	3,384,749	872,253	437,343	4,694,345
Non-EU countries	551,454	10,118	0	561,572
Total Europe	3,936,203	882,371	437,343	5,255,917
North America	45,464	13,226	40,849	99,539
South America	65,812	2,764	610	69,186
Middle East (excl. UAE)	67,601	0	0	67,601
United Arab Emirates	33,464	0	87,441	120,905
Asia	312,906	22,434	679	336,019
Australia, New Zealand	5,431	0	0	5,431
Africa	100,877	15,205	0	116,082
Total	4,567,758	936,000	566,922	6,070,680

2015 TEUR	Sales by market and business areas			
	Polyolefins	Base Chemicals	Other	Total
EU countries	3,581,663	1,268,255	210,976	5,060,894
Non-EU countries	711,595	16,126	85	727,806
Total Europe	4,293,258	1,284,382	211,061	5,788,701
North America	74,022	33,828	665	108,514
South America	64,892	0	0	64,892
Middle East (excl. UAE)	71,306	0	0	71,306
United Arab Emirates	23,682	0	60,973	84,655
Asia	201,749	30,670	1,068	233,487
Australia, New Zealand	4,321	0	0	4,321
Africa	90,656	6,561	0	97,217
Total	4,823,886	1,355,440	273,767	6,453,093

2. Personnel expenses

In the year 2016 the average number of employees was 211 (2015: 198).

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

	2016, EUR	2015, TEUR
Management Board	663,847,41	617
Managerial employees	762,905.20	716
Other employees	756,437.04	908
Total	2,183,189.65	2,241

Severance payments amounted to TEUR 122 (2015: TEUR 133) and are broken down as follows:

	2016, EUR	2015, TEUR
Management Board	0.00	0
Managerial Employees	0.00	0
Other Employees	122,143.89	133
Total	122,143.89	133

3. Other operating expense

	2016, EUR	2015, TEUR
Freight	265,940,695.31	267,462
Storage	20,770,206.27	16,704
Insurance	8,694,589.26	8,681
Consulting services	18,941,299.60	9,930
Commission	55,866,617.37	17,040
Rents	4,065,044.29	3,297
Travel expense	3,033,159.33	2,986
Trainings, seminars	2,643,152.84	2,627
Royalties	34,844,570.24	34,382
Sundry	129,320,636.88	115,442
Total	544,119,971.39	478,550

The positive result realised from commodity derivatives (raw materials) amounting to TEUR 6,446 (2015: negative result TEUR 9,735) is included in the profit and loss item "Cost of materials".

4. Audit expense

	2016, EUR	2015, TEUR
Audits of statutory national and consolidated financial statements	259,300.00	256
Other assurance services	61,800.00	61
Other services	17,206.25	4
Total	338,306.25	321

5. Financial result

The financial result is broken down as follows:

	2016, EUR	2015, TEUR
Income from investments		
Abu Dhabi Polymers Company Ltd, UAE	14,247,551.20	0
Borealis Agrolinz Melamine GmbH, Austria	20,000,000.00	40,000
Borealis Brasil S.A., Brazil	1,377,726.79	0
Borealis UK Ltd, United Kingdom	851,900.39	0
Borealis L.A.T GmbH, Austria	0.00	40,000
Borealis Polska Sp.z.o.o., Poland	0.00	181
Borealis s.r.o., Czech Republic	57,214.16	100
Borealis Sverige AB, Sweden	0.00	31,227
Borealis Quimica Espana S.A., Spain	400,000.00	0
	36,934,392.54	111,508
Interest income from loans to affiliated companies		
Borealis Polyolefine GmbH, Austria	1,100,141.30	1,253
Borealis Brasil S.A., Brazil	150,207.83	203
	1,250,349.13	1,456
Other interest and similar income		
Interest and other income from interest rate swaps and foreign exchange hedges	7,416,508.46	33,535
Interest income from intercompany financing	17,236,501.23	19,255
Other income from affiliated companies	0.00	6,145
Other	2,158,128.00	1,909
	26,811,137.69	60,845
Expense arising from financial assets		
Impairment losses recognised on fixed financial assets	53,707.00	3
	53,707.00	3

	2016, EUR	2015, TEUR
Interest and similar expense		
Interest expense from intercompany financing	52,511,349.91	6,413
Interest expense from interest rate swaps and foreign exchange hedges	7,284,776.31	5,953
Result from foreign exchange translations	89,277,262.72	152,083
Interest charged from banks	55,163,109.92	57,710
Interest expense in the context of forfeiting	5,891,512.95	5,335
Other	7,308,505.05	8,072
	217,436,516.86	235,566
Financial result	-152,494,344.50	-61,760

6. Taxes on income

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

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

According to the group tax contract, the group is charged with the related corporation tax expense attributable to any positive result. In case of negative results of the tax group members no tax compensation is credited. Negative results have to be documented by the group parent and offset against positive future results without immediate tax charges to be paid.

Provisions for deferred taxes of EUR 42,276,851.69 have been recognised in connection with notional accumulated losses brought forward from Borealis Polyolefine GmbH amounting to TEUR 170,138 (2015: TEUR 188,950) and from Borealis L.A.T. GmbH amounting to TEUR 21,999 (2015: TEUR 0) since the existing losses carried forward had been used.

Tax group member Borealis Agrolinz Melamine GmbH generated taxable profits in 2016 and has, therefore, been charged with tax compensations payable to the tax group parent amounting to TEUR 10,270 (2015: Borealis Agrolinz Melamine GmbH and Borealis L.A.T. GmbH TEUR 20,944).

7. Significant events after the balance sheet date

There are no significant events to report after the balance sheet date.

IV. Other information

Salaries of Management Board members amounted to TEUR 7,323 (2015: TEUR 6,215) along with additional payments into pension funds amounting to TEUR 552 (2015: TEUR 530). Active members of the Supervisory Board received a remuneration totalling TEUR 856 (2015: TEUR 856). Members of the Company Boards have not been granted any advances, loans or guarantees.

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

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

Borealis AG is included in the consolidated financial statements of the International Petroleum Investment Company (IPIC), Abu Dhabi.

Executive Board

Mark Garrett, Mark Tonkens, Markku Korvenranta, Martijn Arjen van Koten, Alfred Stern

Supervisory Board

Suhail Mohamed Faraj Al Mazrouei (Chairman), Rainer Seele (Deputy Chairman),
Mohamed A. Al-Azdi (until 25 February 2016), Mohamed H. Al Mehairi (until 25 February 2016),
Murtadha Al Hashmi (since 25 February 2016), Rashed Saud al Shamsi (since 25 February 2016),
Manfred Leitner

Vienna, 15 February 2017

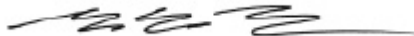
Executive Board:



Mark Garrett
Chief Executive



Mark Tonkens
Chief Financial Officer



Markku Korvenranta



Martijn Arjen van Koten



Alfred Stern

Statement of the Executive Board according to § 82 (4) Z 3 Vienna Stock Exchange Act

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

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

Vienna, 15 February 2017

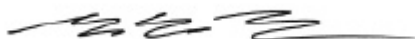
Executive Board:




Mark Garrett
Chief Executive



Mark Tonkens
Chief Financial Officer



Markku Korvenranta



Martijn Arjen van Koten



Alfred Stern

Borealis AG

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