Annual Report 2006

BOREALIS

SHAPING *the* FUTURE *with* PLASTICS

2006 at a glance

€ 5,742 m Net sales

€ 327 m
Net profit (After minorities)

€ 513 m EBITDA

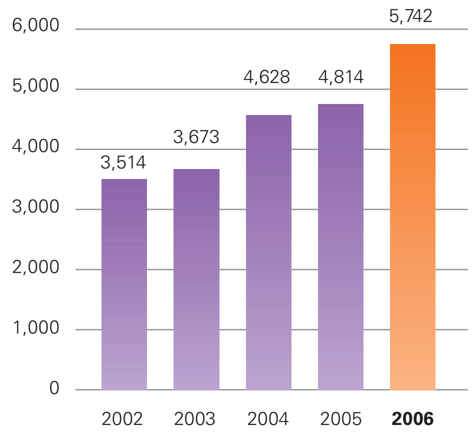
17 %
ROCE

34 %
Gearing

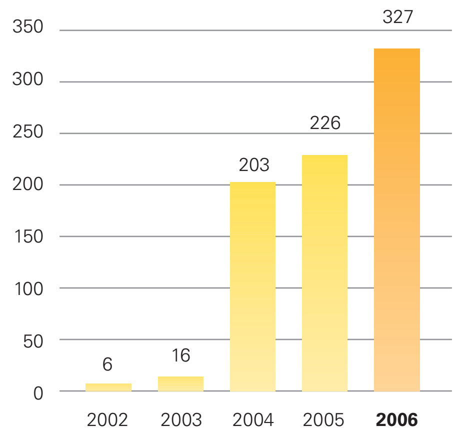
Milestones

- Continued leadership in safety
- Record net profit of EUR 327 million
- Joint long-term strategy with Borouge
- 30 new product innovations
- EUR 330 million asset investments to strengthen position in Europe announced
- Multi-billion dollar expansion project for Borouge joint venture underway
- Head office move to Vienna, Austria

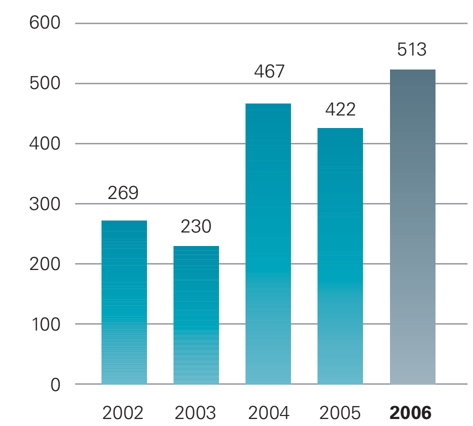
Net sales (EUR million)



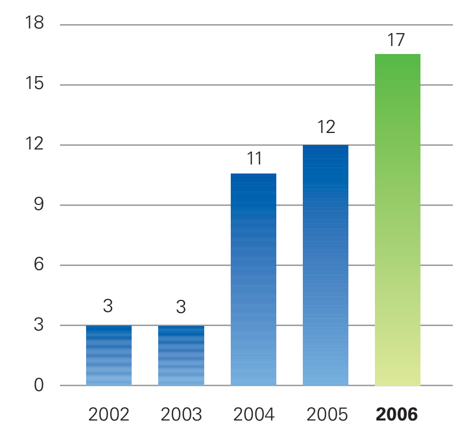
Net profit (EUR million)



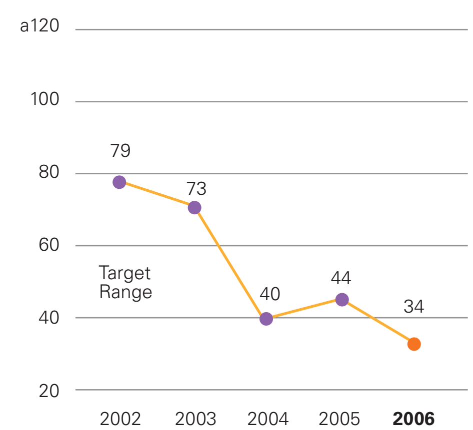
EBITDA (EUR million)



ROCE (%)



Gearing (%)



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Our world

Borealis Locations

Innovation Centres
Austria, Finland, Norway, Sweden

Customer Service Centres
Austria, Belgium, Brazil, Finland, Germany, Italy, Norway, Spain, Sweden, Turkey, USA

Production Plants
Austria, Belgium, Brazil, Finland, Germany, Italy, Norway, Sweden, USA

Head Office
Austria

Borouge Locations

Production Plants
Abu Dhabi, Ruwais (UAE)

Customer Service Centres
Abu Dhabi (UAE), China, Singapore

Head Offices
Abu Dhabi (UAE), Singapore

Sales Offices
Australia, India, Lebanon, New Zealand, Saudi Arabia

Our vision

Shaping the Future with Plastics™

Our mission

To be THE leading provider of innovative, value creating plastics solutions

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

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

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

Nimblicity™

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




Nimblicity is a trademark of Borealis A/S.
Shaping the Future with Plastics is a trademark of Borealis A/S.

Our strategy is clear

We will ...

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

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

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

Explore potential to enhance our **Base Chemicals** business

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

Achieve a step change in **innovation**

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

Build a cross-cultural organisational **capability**

Outperform financially ...

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

40%-60% debt to equity ratio

Our Executive Board

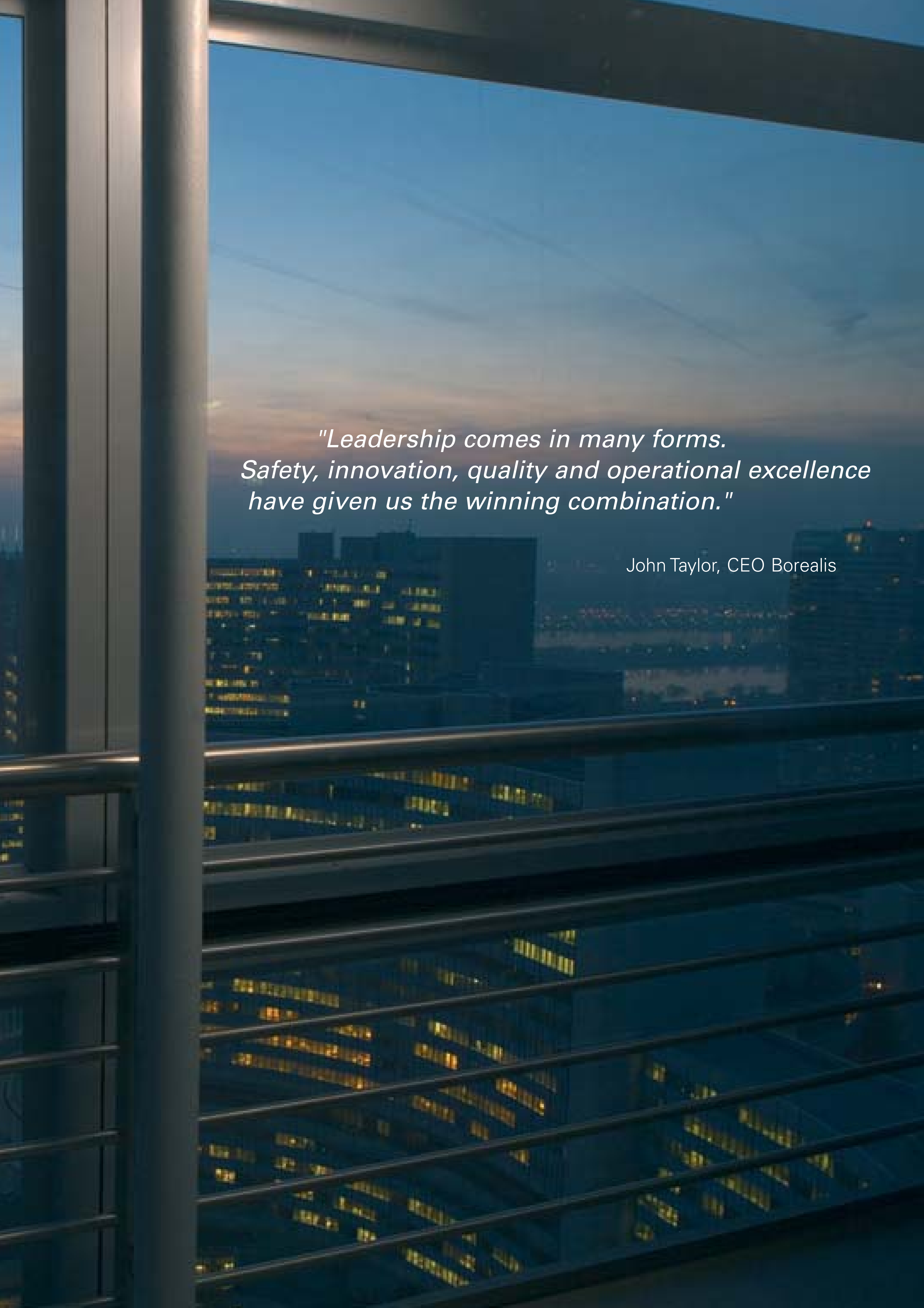
Herbert Willerth
Executive Vice President, Operations & Procurement

David Rolph
Executive Vice President, Polyolefins

Henry Sperle
Executive Vice President, Hydrocarbons & Projects

John Taylor
Chief Executive

Markku Korvenranta
Chief Financial Officer (Acting)



*"Leadership comes in many forms.
Safety, innovation, quality and operational excellence
have given us the winning combination."*

John Taylor, CEO Borealis

Statement of the Supervisory Board

The financial year 2006 was an unprecedented success as Borealis recorded the best results in the history of the company, while matching its best-ever safety performance achieved in 2005. Additionally, this was the first full financial year under the new ownership structure (concluded in October 2005) in which IPIC and OMV increased their holdings in Borealis to 65% and 35%, respectively.

In a year that was both exciting and dynamic, increasing energy costs continued to present a challenge for the industry. This was partially offset by higher operating rates and polyolefin prices in Europe as demand growth returned. Overall, industry margins developed favourably and contributed to the record financial results. However, the positive results are primarily attributable to significant progress made over the past few years in improving competitiveness. This includes a major effort to reconfigure Borealis' European production base, which resulted in this year's closure of a 100,000 tonne per year (t/y) HDPE unit in Norway as well as a 330,000 t/y expansion of the polypropylene facilities in Burghausen, Germany, based on our proprietary Borstar® technology. As part of reinforcing its European footprint, Borealis moved its Head Office from Copenhagen, Denmark, to Vienna, Austria, positioning it strategically at the centre of Europe and closer to its owners.

The Supervisory Board, together with the Management of Borealis and Borouge, a joint venture with the

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

Mohamed Nasser Al Khaily
Vice Chairman
Managing Director
and member of the Board
International Petroleum
Investment Co. (IPIC)

Khadem A. Al-Qubaisi
Board Member
Manager, Investment
Management Division
International Petroleum
Investment Co. (IPIC)

Abu Dhabi National Oil Company (ADNOC), carried out a strategic review outlining the future direction of the companies. Borealis and Borouge now share a common mission to become THE leading provider of innovative, value creating plastics solutions with a key focus on infrastructure, automotive and advanced packaging in Europe, the Middle East and Asia.

A central task for the Board during 2006 and in the years to come is to oversee implementation of the growth targets laid out in the strategy. A critical step is the expansion of the Middle East production base through Borouge, which will triple the polyolefin capacity in Ruwais, Abu Dhabi, to 2 million t/y and reinforce Borealis and Borouge's combined leadership position in Europe, the Middle East and Asia.

Innovation is at the heart of the company and serves as the primary driver for sustainable, long-term success. In 2006, the Board supported several initiatives to strengthen Borealis' capacity for innovation, including the establishment of Linz, Austria, as an international centre of research and development, and the agreement to build a new Borstar PP pilot plant in Schwechat, Austria.

In conclusion, the Board looks forward to further growth and prosperity in the years ahead as Borealis continues to deliver Value Creation through Innovation.

David C. Davies
Board Member
CFO, OMV
Aktiengesellschaft

Mohamed A. Al-Azdi
Board Member
Manager, Business
Support and Development
Petrochemicals Directorate,
ADNOC

Meet our CEO

What contributed to Borealis' record results in 2006?
The primary reason for our record results was the continued successful implementation of our Value Creation through Innovation strategy, supported by new capacity coming fully on stream. While overall sales volume grew by 7%, the share of key segments increased by four percentage points from 2005, representing 57% of total sales. In Europe, the balance of polyolefin supply and demand during the year was reasonable, enabling cost increases to be passed through. We were also able to effectively manage market volatility through our feedstock flexibility. Borouge, our highly successful partnership with ADNOC, provided an important contribution to our results. Overall, our plants performed well, and our safety performance was on a par with 2005, reconfirming our position as an industry leader. Financially, we posted a record net profit of EUR 327 million, up 45% from 2005, with a gearing of 34% and an after tax ROCE of 17%.

We have relentlessly pursued the implementation of our Value Creation through Innovation strategy, which sets us apart from our competitors and has led to record profits this year.

What are Borealis' plans for growth in Asia and the Middle East?
The rapidly expanding markets for our products in Asia and the Middle East will be supplied by Borouge, which is planning to triple the existing Borstar capacity in Ruwais, Abu Dhabi, through a multi–billion dollar investment scheduled to start up in 2010. Borouge took the first step in December with the award of a USD 1.3 billion contract to Linde Engineering and Consolidated Contractors International Company to construct one of the world's largest crackers with a capacity of 1.5 million tonnes.

Considering the high oil prices, what does the future look like for Borealis?
We expect oil prices to remain high in the foreseeable future, which will continue to put pressure on our margins. Our Value Creation through Innovation strategy aims to address high energy prices and market volatility by focusing on market segments that are less volatile as well as reinforcing our light feedstock flexibility. Additionally, though, lightweight plastic materials create value by replacing old-generation materials such as concrete, ceramics and metals. High energy costs will underpin our growth opportunities, positioning plastics as the material for the 21st century. I am excited about the growth prospects for both Borealis and the greater plastics industry in general.

What makes Borealis a customer-oriented company?
Our strategy is focused on the key markets of infrastructure, automotive and advanced packaging. Moreover, we don't share the view that all plastics are commodities. We believe strongly in the need for everyone in our company to work every day on improving our ability to provide innovative, value creating solutions to our customers. A key element of this is listening to our customer's feedback, and any new ideas are always welcome.

How will Borealis continue to build on its excellent safety record?

A step change in safety has been at the core of our successful journey to profitability, because we believe this is not only a moral imperative but a business imperative. In the last five years, we have reached the leader level in safety, culminating in being awarded the 2005 Dupont Safety Award in the Business Impact category. We plan to build upon this strong record and continue to be a leader when it comes to safety. At all times, we must consider our actions and think, "if we can't do it safely, we don't do it at all."

What does the signing of the Responsible Care Global Charter mean for Borealis?

In December, at the first Gulf Petrochemicals and Chemicals Association (GPCA) conference in Dubai, we signed the Responsible Care® Global Charter with Borouge, committing us to continued leadership in addressing global challenges by providing innovative, value creating and sustainable plastics solutions to our customers. Borouge is the first company in the Gulf region to adopt the charter, which provides a framework for building upon our HSE objectives, improving product stewardship and embracing sustainable development. The Charter also encourages companies to open dialogue with people to understand and address their concerns and expectations.

How will the AMI consolidation contribute to Borealis' success?

At the end of December, we announced our intentions to bring Agrolinz Melamine International (AMI) into the Borealis Group during 2007. Currently, our core business is in the integrated chain from hydrocarbon feedstocks to olefins to polyolefins and finally to innovative customer solutions. Today, we have the ambition to build a second business leg to our company, which we call Base Chemicals. AMI represents a key step in this process, and we look forward to working together in developing AMI's melamine and nutrients business. One such step could be the establishment with ADNOC of a 80,000 tonne per year melamine project in Abu Dhabi.

With you retiring from the company at the end of 2007, what are your reflections on the time you have been at Borealis, and what do you feel the future holds for the new CEO, Mark Garrett?

Since joining Borealis in the spring of 2001, I have been part of an exciting transformation of our company as we, together with Borouge, have relentlessly pursued the implementation of our Value Creation through Innovation strategy. This, I believe, has set us apart from our competitors. We are firmly convinced that plastics will create value for society in the years ahead and are not just another group of commodities. Success over the last six years has come in many forms, including a step change in safety, the development of customer and supplier partnerships, the launch of many new products, and in 2006, a best-ever financial result. But we can not and will not be complacent. Every day brings another set of challenges for us as a company to improve our performance.

I am very pleased to welcome Mark to Borealis and look forward to sharing the leadership role with him during the transition period from April until December. This will give us time to compare notes and do some valuable knowledge sharing together. The years ahead will, as always, be exciting as well as challenging, but I feel that Mark, with the Board's support, will lead the company to continued success in "Shaping the Future with Plastics."

Responsible Care is a registered trademark of the European Chemical Industry Council (Cefic) in Europe.

Our business

Providing innovative, value creating plastics solutions for more than 40 years

At Borealis, we work closely with our customers and industry partners to provide innovative, value creating plastics solutions for the infrastructure (pipe, and wire and cable), automotive and advanced packaging markets. We aim to exceed in serving our customers with a clear focus on quality and reliable execution. Our polypropylene (PP) and polyethylene (PE) products continue to enhance society and address challenges such as providing clean drinking water and sanitation to millions of people around the globe and safe, light, energy-saving components for cars and aeroplanes. We live by our values of Responsible, Respect, Exceed and Nimblicity™ – a value we created as an expression of what makes us different.

From simple everyday products that make life easier to step-changing technological developments, we are leading the way and Shaping the Future with Plastics.

Feedstocks and olefins

As an integrated polyolefins company, Borealis ensures a secure, cost-efficient supply of hydrocarbon feedstocks for our crackers, and olefins for our PE and PP plants.

Borealis purchases basic feedstocks (such as naphtha, butane, propane and ethane) from the oil and gas industries and converts these into ethylene and propylene through its olefin units. Our steam crackers in Finland, Sweden, Norway (joint venture with Hydro Polymers) and Abu Dhabi (joint venture with ADNOC) produce both ethylene and propylene, while propylene is also produced in a propane dehydrogenation plant in Belgium. The balance of our olefin needs is sourced primarily from one of our owners, OMV. We also sell a variety of co-products from the cracking process.

Our key growth markets

Infrastructure

Pipe systems

Together with Borouge, Borealis is the leading global provider of advanced polyolefin plastics solutions for the pipe industry. Through more than 30 years of close dialogue with customers and other stakeholders, we have developed a broad and innovative product and service portfolio. The applications cover water and gas distribution, waste and sewage disposal, chemical and industrial projects, in-house plumbing and heating as well as oil and gas exploration and transport.

Energy and communication cables

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

Automotive

Borealis supplies a wide range of plastics solutions to the automotive industry that are used for dashboards, door side claddings, front ends, air vent systems, bumpers and under-body shieldings. These solutions are at the leading edge in areas such as zero gap applications for bumpers, off-line painted body panels and scratch resistant materials for car interiors and exteriors.

Advanced packaging

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

Base Chemicals

Phenol and acetone are produced at our facility located in Finland and are sold mainly to the adhesive, fibre, epoxy resin and polycarbonate industries in northern Europe. Phenol is used in adhesives, construction materials, carpets, CDs, DVDs, mobile phones and household appliances. Acetone is commonly used in solvents for paints, acrylics, fibres and pharmaceuticals.

Agrolinz Melamine International (AMI) is expected to be consolidated into Borealis in 2007. This new partnership will allow Borealis to diversify its product offering to include the melamine and plant nutrient business markets. Melamine products include coatings, compounds for houseware, concrete liquefiers, paint resins, fiberboard binders, special resins for textile and paper finishing, and fireblockers. AMI is the melamine market leader in Europe and a leading provider of plant nutrients in the Danube region.

Borstar® – Our leading edge technology

In satisfying today's growing demand for advanced plastics, Borealis' leading edge Borstar technology is a critical element in developing the next generation of innovative, creative plastics. Built on process and catalyst technology development, Borstar PE and PP capacity expansion in both Europe and the Middle East is a core ingredient of the Borealis and Borouge strategy. The most significant growth plan entails a tripling of Borouge production capacity in Abu Dhabi to 2 million tonnes of Borstar polyolefins per year. Slated for completion around 2010, the project will introduce Borstar PP to the complex.

Borstar is Borealis' proprietary technology supporting differentiated PE and PP products.

Borstar is a registered trademark of Borealis A/S.

Winners of Borealis' Innovation Awards

Value Creation through Innovation pays off

Borealis continues to be a leading provider of innovative, value creating plastics solutions by committing its efforts to addressing the global challenges that lay ahead not only for the industry but for society as a whole. Borealis achieves this by continuing its Value Creation through Innovation strategy, which has led to record profits in 2006.

This success was the result of a keen focus on and success in innovation, operational excellence and providing value creating solutions throughout the value chain in the infrastructure, automotive and advanced packaging markets. Through growth, expansion and sustainability, Borealis, along with Borouge, its joint venture with ADNOC, is strengthening its position in Europe, expanding in the Middle East and Asia, and continuing to provide leadership in addressing global challenges.

Features

"Our drive and vision to innovate enables us to provide solutions that create value for our customers, ourselves and society."

Hans Christian Ambjerg, Vice President, Wire and Cable Business Unit

Building a competitive asset base

Borealis continued to strengthen its asset base in Europe during 2006, progressing a number of important investments in support of the company's goal of delivering value to its customers through cost competitiveness and operational excellence.

Summer was an eventful period with the head office moving from Copenhagen to Vienna and the inauguration, with part owner OMV, of a major new facility in Schwechat, Austria. Then, in November and December, respectively, Borealis confirmed its EUR 200 million investment to expand its PP plant in Burghausen, Germany, and its EUR 25 million investment at its Porvoo, Finland, PP facility.

Schwechat, Austria

In September, the 350,000 t/y Borstar PE plant and the expanded Borstar PP plant (from 210,000 to 300,000 t/y) were inaugurated in Schwechat, Austria. The expansion of the neighbouring OMV cracker to 900,000 t/y continues Borealis and OMV's integrated feedstock-olefins-polyolefins strategy. This joint EUR 400 million investment makes the Schwechat plant a leading location in the European plastics industry and demonstrates Borealis' dedication to Value Creation through Innovation by increased usage of its Borstar proprietary technology to produce more than one million tonnes per year.

Burghausen, Germany

In Burghausen, production capacity will increase by 330,000 t/y with a new PP plant based on Borstar technology. This expansion, to be completed by the end of 2007, will increase production volume by 80% to 745,000 t/y and complements the existing 240,000 t/y PP and 175,000 t/y HDPE plants. Products produced at this plant will be used by customers to produce soft cast and blow film applications for food and medical packaging, thin wall household and transport packaging, transparent bottles for detergents and cosmetics as well as in fibres for hygienic applications.

The Burghausen expansion is closely linked to OMV's neighbouring construction of a new metathesis plant and steam cracking furnace, and contributes to the successful, ongoing partnership Borealis shares with OMV in strengthening its European footprint.

"These investments enable us to optimise our assets at each production location," comments Herbert Willerth, Executive Vice President of Operations and Procurement. "Our continued integrated feedstock strategy will help us stay competitive and meet the growing demand while satisfying our customers' needs."


Schwechat


Burghausen

Porvoo, Finland

Several important investments at the Porvoo facility announced this year will help meet rapidly growing customer demand for innovative plastics solutions in the pipe and advanced packaging markets, and serve the developing Russian market.

In Spring of 2007, a EUR 85 million cracker expansion project will be completed and entail mainly the replacement of two compressors. A complete revamp of two furnaces will increase production capacity by 18% to 390,000 t/y. Despite the increased capacity, the cracker's future energy consumption will remain the same due to the new compressors' modern technology and upgrades made during the shutdown period.

A EUR 45 million phenol expansion will increase capacity to 195,000 t/y and improve cleavage technology. The project, to be completed in spring of 2007, is based on the previous expansion of the benzene and cumene plants for which the project team received an award at Borealis' Innovation Day 2006.

An additional current investment of EUR 25 million will expand the capacity of the Porvoo PP plant by 65,000 t/y to 220,000 t/y and will be completed by the end of 2008.

Borealis continues to work closely with Neste Oil at its Porvoo site to optimise feedstock flows and invested in a project to construct an unloading terminal on the Neste Oil site for naphtha arriving by rail from Russia. The project was completed in January 2007.

"Cooperation guarantees our future," states Henry Sperle, Executive Vice President of Hydrocarbons and Projects. "The supply logistics for feedstock to the Porvoo cracker is more robust, thanks to the recently completed naphtha rail unloading terminal."

All these important investments and the ongoing cooperation taking place between Borealis and its partners will strengthen its European asset base and position it well to meet the growing demand.

"We are increasing our capacity in Europe to be able to provide an exciting range of polypropylene solutions specifically for the infrastructure, automotive and advanced packaging markets," says David Rolph, Executive Vice President of Polyolefins. "These additions to our asset capability will provide advantages for the entire value chain."


Porvoo

"Our steadfast commitment to serving customers, wherever in the world they are, is at the core of our expansion strategy."

Harri Bucht, CEO, Abu Dhabi Polymers Company (Borouge)

Meeting the growing demand in the Middle East and Asia

If you arrive at the Abu Dhabi airport, get into a car and drive 180 kilometres to the west, you will reach Ruwais. Once there, you will not go far before you see large, shiny aluminum silos protruding up the flat desert landscape stretching out as far as the eye can see. You will also see large white tanks with blue logos and blue writing that reads "Borouge."

Borouge is Borealis' joint venture with ADNOC. Its state-of-the-art production facility in Ruwais produces Borstar PE products for the infrastructure (pipe, wire and cable) and advanced packaging markets. Borouge is the exclusive provider of the entire Borealis product line throughout the Middle East and Asia.

Officially opened in October 2002, this production facility is home to the first Borstar facility in the Middle East and Asia and hosts a 600,000 t/y cracker as well as two Borstar bimodal PE lines that produce up to 600,000 t/y.

The big news on the horizon, however, is called Borouge 2, a project scheduled for startup in 2010 that will triple Borouge's production capacity to 2 million t/y of Borstar polyolefins and will include PP production for the first time in Ruwais. The multi-billion dollar project is enormous in scope with up to 20,000 workers required at peak construction time to build a 1.5 million t/y ethane cracker (the largest cracker in the world), and several Borstar polyolefin units (including a 540,000 t/y PE unit and two 400,000 t/y PP units). Another highlight of the project will be the construction of the world's largest

olefin conversion unit (OCU), producing 752,000 t/y, which will convert ethylene from the cracker into propylene to feed the two Borstar PP units.

The first step in this major expansion process was taken in December 2006 when Borouge awarded the approximately USD 1.3 billion Borouge 2 cracker contract to a consortium between Linde Engineering and Consolidated Contractors International Company. Engineering and procurement work began in December and is expected to take 41 months to complete.

Harri Bucht, Chief Executive Officer, Abu Dhabi Polymers Company (Borouge), confirms that this investment will help meet future demand in the Middle East and Asia while also providing growth at the local level.

"Borouge 2 is a major step for us," comments Bucht. "While it will increase our capacity to serve growing markets in the Middle East and Asia, we also expect it to be a driver for the growth of local downstream industries. It's not just a new phase for the company but for the Abu Dhabi economy as a whole."

With the Borouge 2 expansion, Borealis and Borouge are moving forward confidently and competitively to meet the growing demand for polyolefins in the Middle East and Asia.

"Borouge 2 is a huge opportunity for our organisation," comments Henry Sperle, Executive Vice President of Hydrocarbons and Projects, "and a major next step in the future development of the successful petrochemical partnership between Borealis and ADNOC."

Value Creation through Innovation

It is clear that Borealis and its joint venture partner Borouge take innovation very seriously. More than 10% of its staff is dedicated to technology development at four Innovation Centres located in Europe and the Middle East. Research efforts are focused on high-performance, cost-effective, differentiated polymers, with the goal of minimising time to market for new products while providing customers with products that are tailored to their needs.

2006 was a big year for the Innovation Centres and one highlighted by both expansion and consolidation. Until last summer, the four Innovation Centres were located in Linz, Austria; Bamble, Norway; Stenungsund, Sweden and Porvoo, Finland. At that time, efforts were initiated to consolidate the Stenungsund and Bamble Innovation Centres. Borealis and Borouge also announced the expansion of the Linz Innovation Centre into an international centre for PP and PE research and development and the creation of a world-class Innovation Centre in the United Arab Emirates (UAE).

Abu Dhabi Innovation Centre

In September, Borealis and Borouge announced the creation of a new Innovation Centre to be located in the UAE, signifying a substantial investment in Borouge's research capabilities to meet growing demand in the Middle East and Asia.

The Centre, which will focus on developing practical solutions for plastic material applications, is scheduled to be fully operational in 2009 and will be located in Abu Dhabi City, employing up to 45 technical specialists in the start-up phase. The Centre will be closely linked to the planned multi-billion dollar expansion of Borouge to triple its production capacity (see story on page 26). Additionally, it will develop a partnership with the Abu Dhabi Petroleum Institute to support a favourable environment for innovation in the Middle East.

"This is a key milestone in our common strategy to deliver innovative, value added plastics solutions to our customers internationally," says Borealis CEO John Taylor. "The partnership with the Petroleum Institute in Abu Dhabi will further demonstrate our commitment to research and technology and our support of the scientific community in the Middle East and Asia."

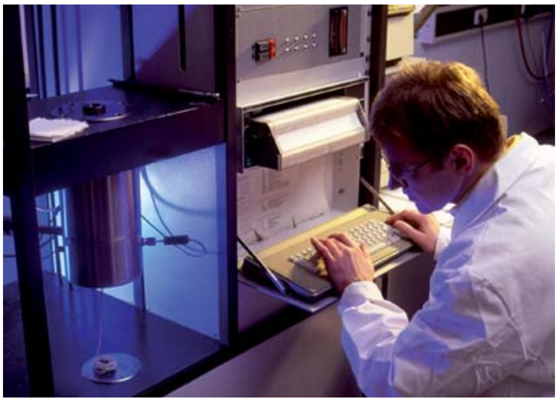
For Borouge, this Centre will play an important role as part of its expansion plans to meet growing demand and promote innovation in the Middle East and Asia markets.

"This will ensure that Borouge continues to lead the plastics industry in providing innovative solutions that make a real difference to everyday life," says Harri Bucht, CEO of Borouge. "The Centre will add value to our customers and will also support our increasing capacity to serve growing markets in the Middle East and Asia."

Linz Innovation Centre

In November, Borealis began its expansion project to transform the Linz Innovation Centre into a focal point of its international research activities. In the next five years, EUR 25 to 30 million will be invested to upgrade and expand the current facilities and will include the hiring of 80 new employees who will join the current 120-member team devoted to the Centre's work.

The first wave of expansion entails a EUR 8 million investment in the construction of a new polyolefin research laboratory and separate olefin research lab. The new polyolefin lab, which will cost EUR 5.5 million, is slated for completion in summer of 2008 and will be the only polymerisation lab of its kind in Austria at which new PP grades will be developed and brought to commercial scale. The EUR 1.5 million olefin research lab will open by mid-2007 and employ highly specialised researchers to work on technologies for the production of olefins and base chemicals.



"By using state-of-the-art test reactors, we can reduce the time needed to develop innovative PP grades and facilitate the transformation of our findings to industrial scale," says Wim Roels, Vice President of Innovation and Technology. "It allows us to adapt the molecular structure of our plastics according to diverse needs. As such, we can offer even quicker, more flexible and intelligent solutions tailored to our customers' needs."

The Linz Innovation Centre expansion is part of a wider agreement between Borealis and the government of Upper Austria, outlining measures and commitments that will position Upper Austria as a leading hub for international plastics industry research.

Borealis is currently partnering with the Universities of Linz and Leoben, and the Polymer Competence Centre Leoben to develop new material testing methods and software systems. Borealis also plans to collaborate on future research projects with other universities such as the Wels Advanced Technical College, and institutes and universities located in Austria.

Porvoo Innovation Centre

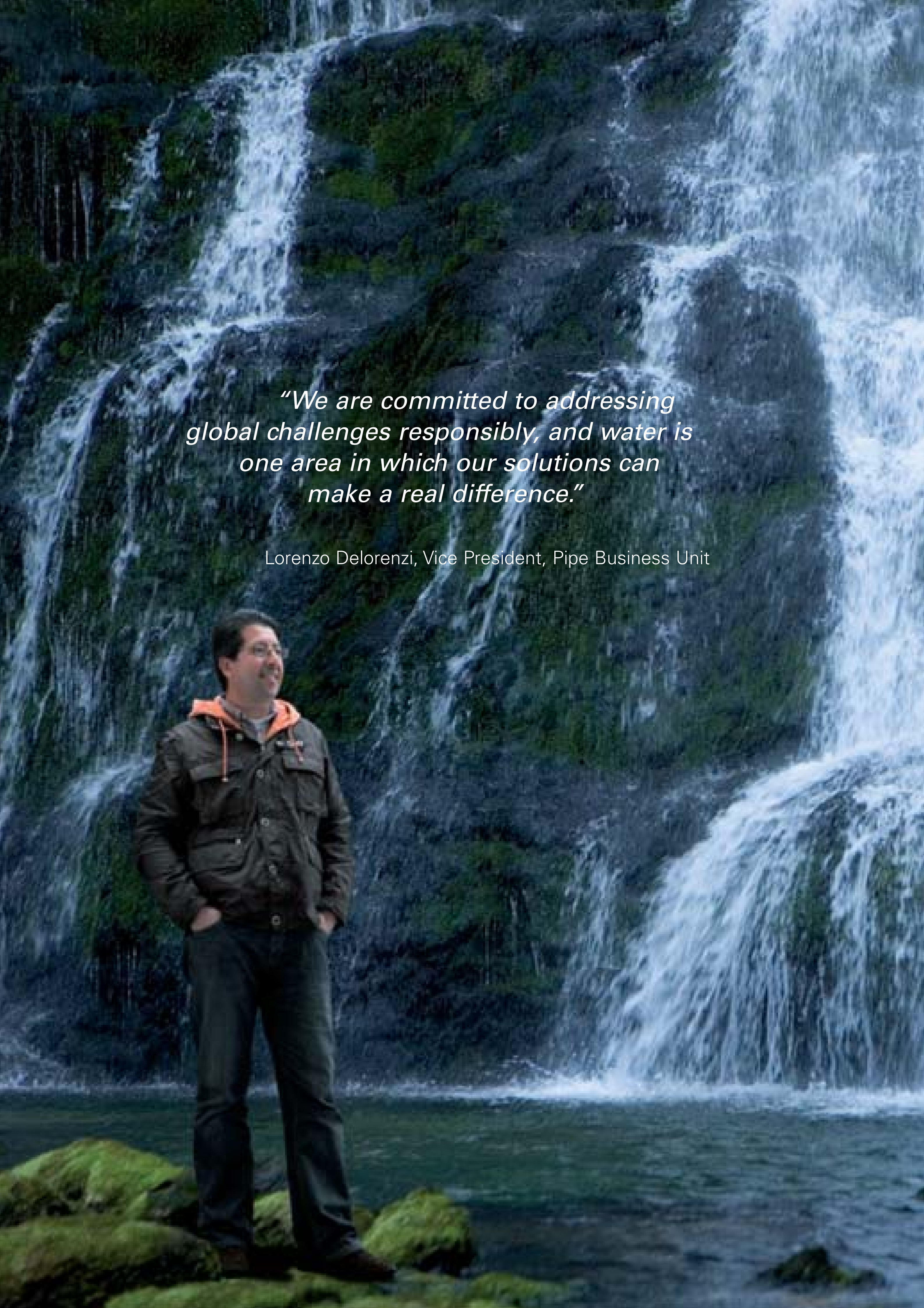
In November, Borealis initiated a EUR 9 million project to centralise its innovation centre activities, while at the same time bringing them closer to the production plants and business units. An important part of the project includes the construction of a new catalyst and process laboratory. The project, which is scheduled for completion by the end of 2008, is designed to improve the centre's effectiveness as the cornerstone of Borealis' international catalyst and process research activities.

Scandinavia Innovation Centre

The strategy behind the creation of a consolidated Scandinavian Innovation Centre is to strengthen Borealis' position in Scandinavia and raise the level of cooperation, integration and communication within the Innovation Centre network as well as with the plant facilities and the Head Office. The new Innovation Centre has approximately 180 employees conducting specialised polymer research in the pipe, wire and cable, moulding and polyethylene film application areas.

Whether it is in Linz, Abu Dhabi, Porvoo or Scandinavia, the common thread linking the Innovation Centres together is the priority and even passion Borealis has for taking the lead on innovation.

"Innovation is at the heart of our company today and will remain so for the future," says Borealis CEO John Taylor. "By building on our extensive expertise and know-how in polymer science and the development of value creating plastics solutions, these significant investments in infrastructure and skill development will further enhance our innovation capability to the benefit of our customers and customers' customers."



“We are committed to addressing global challenges responsibly, and water is one area in which our solutions can make a real difference.”

Lorenzo Delorenzi, Vice President, Pipe Business Unit

Addressing global challenges

Whether it is in your daily newspaper, on the radio or on your television set, you are bound to learn about the many challenges facing the world today. These global challenges include the preservation of vital water resources, the need to keep food fresher longer; the search for, use and conservation of energy; the countless global health challenges and the need for quick, reliable information exchange through increasingly sophisticated global communication networks.

The challenges are clear. Solutions exist.

Plastics already make a key contribution to sustainable development, and Borealis is committed to lead the way in delivering advanced solutions that will address global challenges and enable sustainable development.

Our commitment to Responsible Care®

On December 17, 2006, Borealis signed the Responsible Care® Global Charter, committing the company to advancing sustainable development and to continuously improving the HSE performance of its operations and products along the value chain. Borouge, Borealis' joint venture with ADNOC, also signed, making it the first company in the Gulf region to do so.

"The Charter principles and commitments are intrinsic to our Value Creation through Innovation strategy and our continuous drive for operational excellence," says John Taylor, Borealis CEO, at the first Gulf Petrochemicals and Chemicals Association Forum.

Enabling sustainable development is central to the Borealis and Borouge shared vision of Shaping the Future with Plastics. It is about bringing solutions to today's and tomorrow's most crucial global challenges.

Precious water

It has been said that unlike energy, there is no alternative source to water, which is probably the most urgent of these challenges. Last year, the United Nations declared this the decade of 'Water for Life' and published *Beyond scarcity: Power, poverty and the global water crisis,* its in-depth study of the emergency being faced right now by over two billion people, many of them in the Middle East. In the report, the UN estimates that almost 2 million children die each year for lack of clean water and adequate sanitation.

To take a deeper look at possible futures for business and society in a water-stressed world, Borealis partnered in a two-year project under the auspices of the World Business Council for Sustainable Development (WBCSD). At the World Water Week in Stockholm last August, the WBCSD launched its report entitled *Business in the World of Water–WBCSD Water Scenarios to 2025.* These scenarios were developed from a series of workshops held in China, Panama and Switzerland. A wide variety of water experts and environmental bodies were involved in the compilation of the report. Dr. David Walton, Borealis' representative in this project, explains: "The report highlights the serious scarcity of water in many parts of the world and how this problem will increase due to population growth, industrial development and climate change. Clearly we currently undervalue water and the underground systems that distribute the water, and it is essential that governments, business and society as a whole take action to apply the right sustainable solutions."

The WBCSD will present the scenarios at major water conferences and meetings in the coming months and

further develop the tools to help businesses assess their own "water footprint" and create plans to address future water challenges.

As the market leader in plastics solutions for water pipe infrastructure, Borealis and Borouge are now taking up this challenge on several fronts.

Building a value chain approach

In Italy, Borealis organised a series of workshops (Monza, Palermo and Genoa) between November 2004 and February 2006, gathering the major players in the Italian pipe and water supply chain to discuss the state of the Italian infrastructure. Of particular concern was the dire situation of water leakage in Italy's decaying water pipe infrastructure. It is estimated that the average loss of drinking water is some 40% through leaks and cracks in the water distribution pipeline. Costs to fix this problem are estimated to be as high as EUR 50 billion. This is indeed a high cost, but a truly necessary one to maintain a high standard of life while ensuring a sustainable use of scarce resources. As stated by Antonio Longo, former President of the Consumers Forum, "Is cost important? Of course it is, but so is our quality of life, which we realise cannot be sustained or enhanced without a quality underground pipeline system."

The workshops resulted in the development of project proposals, and a working group, coordinated by Borealis, that will develop a plan of action for specific projects in the coming months. Cino Serrao, Borealis' Southern Europe Market Development Public Affairs Manager, hopes to see what he and his team call a "Second Renaissance" for the Italian infrastructure using plastic pipes.

Gulf Plastics Pipe Academy

In the Middle East, Borouge is taking the initiative to establish the Gulf Plastics Pipe Academy, which is scheduled to start up in 2007. The academy's main purpose is to promote the use of specified, certified, high-quality plastic pipe systems for sustainable development of infrastructure in the greater Middle East region.

The academy will provide education, training, certification and standardisation programmes to its members, who will include the many stakeholders in the plastic pipe value chain. Members will benefit from networking and knowledge-sharing along the value chain from polymer producers to utility providers, and will receive valuable consultation on the ecological and environmental advantages of using plastics for pipe projects.

"Our customers welcome this unique initiative as they see the need for an organisation that can raise the awareness, knowledge and skills needed to introduce better plastic pipe systems," says Vice President Björn Klofelt, who is leading the Plastics Pipe Academy initiative in the Middle East and Asia.

The academy is another way Borouge hopes to make a difference in providing sustainable plastic pipe solutions to its customers in the Middle East region.

Sustainability challenges around the world are immense and are set to increase with time. They also offer the opportunity for the plastics industry to deliver its best and even more. Borealis, together with Borouge, is committed to proactively address these challenges through its value creating solutions, expertise, knowledge-sharing and innovations.

A world-class solution

One of the biggest events in 2006, at least in the world of sport, was the World Cup football tournament held in 12 stadiums throughout Germany in June and July. Teams from 32 countries competed in 64 matches, scoring 147 goals in front of more than 3 million spectators and many millions, perhaps billions more watching on television.

Spectators watched with great anticipation as Italian player Fabio Grosso shot the deciding penalty kick into the right corner of the goal to make Italy world champions.This was the spectacular scene on the field. Behind the scenes, many thousands of people and numerous companies had worked thousands of hours to prepare for this monumental event. Borealis was one of them.

Indeed, Borealis was at Berlin's Olympic Stadium when Italy took the title. It was also at seven other World Cup stadiums--not on the field, but below the field. These stadiums were the beneficiaries of a lawn heating system based on Borealis' BorPEX™* material.

Borealis customer Rehau, one of the most diversified plastics processors in the world, chose this material to produce cross-linked polyethylene (PE-X) based pipes for installation under the pitches to prevent them from freezing during the winter. The goal is to prevent match postponements, eliminate the higher injury risk related to playing on hard, icy ground and to accelerate the post-winter recovery of pitches. As a result of the installations, the German 2005/2006 football season, which takes place over the winter months, was able to continue uninterrupted, finishing early enough so that preparations could begin for the World Cup tournament.

"Our sports ground system delivers ideal playing conditions and has proven highly successful in practice, having demonstrated its reliability in more than 200,000 m^2 of installations around the world to date," says Thorsten Wiggenhagen, Rehau team leader for sub-surface heating/cooling business. "We chose BorPEX for our system because of the highly durable yet flexible characteristics it gives to PE-X piping, ensuring long-term operation at both high and low temperatures, and ease of installation."

Norbert Jansen, Marketing Manager for Borealis' pipe business, believes that listening and understanding the customer's needs was a key to making this project a success.

* BorPEX™ is a trademark of Borealis A/S

"The specific tailoring of our products to meet each technology means that efficient pipe production and superior pipe quality can be achieved," he states. "As demonstrated by our pipe solutions for Rehau, this helps our customers meet the demanding requirements of numerous international standards and regulations."

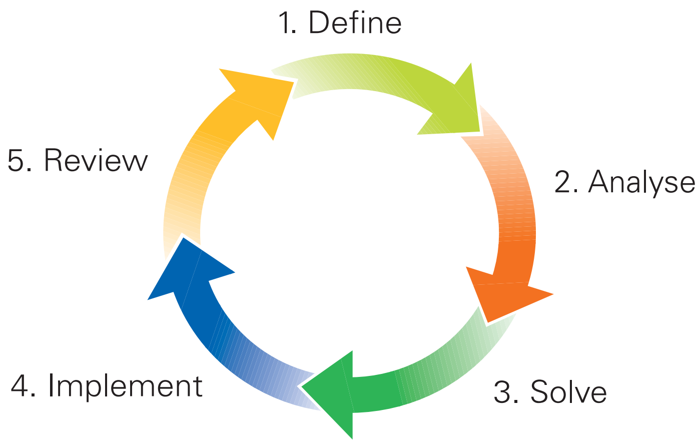
In world-class football, the stakes for success are always high. Match postponements and player injuries are to be avoided at all costs. Borealis, with its customer Rehau, have played an important role in minimising risk both on the pitch and off, so that the players can perform to their maximum potential.

“Partnerships throughout the value chain lead to innovative solutions to everyday problems."

Emanuela Papapietro, Borealis Sales Manager


mister.lady

Improving the way we improve



The Borealis Way
A guide to the 5-step problem solving process

Borealis' success over the years and record profits in 2006 are due in large part to its focus on operational excellence and continuous improvement through solving problems and identifying opportunities.

Most important, of course, is the safety of employees and contractors and their daily working environment. The main themes here are prevention and transparency-- preventing a small problem or near miss from becoming a major problem through open reporting and clear actions. Borealis is a safety leader, which was recognised in 2005 as it won the prestigious DuPont Safety Award in the Business Impact category.

So, what is Borealis' recipe for success in operational excellence not only in safety but also in how it goes about achieving continuous improvement throughout the company?

There are many contributing factors, but one that is proving to be very successful is called The Borealis Way. This is a structured five-step process in which a problem is defined, root causes are analysed and solved, solutions are implemented and results are reviewed to assure that the problem is solved and learning is shared among all stakeholders. Instead of fire-fighting, employees work in teams to solve the problem, following each step of this process.

The Borealis Way is designed for daily, cross-functional use and can therefore be used by all company employees and departments whether they work in plant operations, support departments or at the Head Office.

In October, this process was put to the test at Borealis' plant in Stenungsund, Sweden, where contamination

was identified from customer claims. The problem was analysed using a cause and effect diagram, which divided the potential causes into four categories: man, method, materials and machines. From there, the difficult process was undertaken to establish the root causes.

"We have learned that it is important to be very thorough in analysing the problem and ruthless in selecting root causes," says project facilitator Björn Reime.

After the Borealis Way was applied to the issue, the root causes were discovered to be difficulty in cleaning certain elements of the plant, inadequate description of the cleaning procedures for employees and communication problems between the work shifts.

"This is a complex problem with many interrelated elements," comments project team leader Anders Hansen, "but using this team-based approach helped us solve this problem once and for all and ensures good quality products for our customers."

Solutions were then identified and implemented in November and December and included technical adjustments to minimise the risk of product contamination, as well as practical initiatives for the shift teams to ensure that they have good tools and procedures to conduct the appropriate cleaning activities. Once the solutions were fully implemented, the project team continued to monitor the situation to make sure that the results are sustainable and customer claims minimised.

The Borealis Way is currently being used in more than 40 projects, and the aim is for it to become the standard structured process for making improvements and solving problems in order to increase customer satisfaction, promote quality and safety, reduce waste and cost, and create value.

"The success of this programme has exceeded our expectations," says Herbert Willerth, Executive Vice President of Operations and Procurement. "This process will not only create improvement internally, but will be a way to constantly monitor and improve how we satisfy our customers' needs."

Focusing on people to build a better Borealis

Achieving record profits this year is the result of many hours of hard work put in by Borealis' dedicated employees. Without these people, this success would not have been possible. In order to maintain this track record, Borealis spends a lot of time targeting and attracting the right people and then assuring that they stay motivated and prepared for their future careers at the company.

Attracting the right people

One of Borealis' tools to achieve this is a programme called Campus Connect, which targets promising graduates at different universities in Europe, including Austria, Belgium and Finland, to fill Borealis' highly specialised personnel needs. The programme is also designed to raise the profile of Borealis at universities and establish strong, mutually beneficial relationships between Borealis and key universities. Borealis employees meet with faculty representatives and students in order to share information and identify the right candidates. Since the programme's inception in early 2006, many activities have taken place, which have generated very positive responses both from students and from within the company.

"We have witnessed high engagement in Campus Connect activities internally," comments Borealis Recruitment Specialist Marie-Helene Raidl. "The teams are very enthusiastic about meeting students and sending out the right messages. Looking back at this first year, the programme has run very successfully, and we are confident that it will help us in our continuing efforts to attract top talent to Borealis."

Campus Connect will continue to be a key element of Borealis' plan to attract emerging talent to the company.

The first four years

Once the right people have been recruited, the focus shifts to retaining these employees, keeping them motivated, trained and effective on the job. To address this, last December, Borealis launched OnBoard!, the initial part of the First Four Years programme, which was designed as the first step on the development path for newly hired employees. OnBoard! participants must have a graduate degree and less than five years of professional experience. The programme consists of a three-day workshop, which provides the mindset and understanding of the business that new recruits will need in order to succeed at Borealis. Participants have an opportunity to engage in a dialogue with Borealis' leaders on the company mission, strategy and values; participate in cross-organisational and cross-cultural networking and begin to manage their careers within Borealis. As part of the networking process, each participant is assigned a learning partner from a different area of the company to support their development and effectiveness at Borealis.

The programme sends a clear message to the participants that the company is dedicated to their development and future success. For Borealis, it is a successful way to cultivate its future team.

Lena Aschauer, who is a Communications Specialist and editor of Borealis' Share magazine, started with the company in June of 2006 and participated in OnBoard! last December.

"OnBoard! was all about getting to know people and building a network within Borealis," Aschauer comments. "The energy and commitment as well as the team spirit of all participants was inspiring. Borealis offers great opportunities for new and ambitious employees. OnBoard! is an opportunity to initiate career development and shows how you can contribute to the company's success."

Listening to employees

Borealis prides itself on its open and transparent corporate culture, and this includes listening to its employees. One way Borealis does this is through the People Survey. The survey was last conducted in September and asked its employees to give their feedback on a host of subjects related to their everyday work life. Employees gave their opinions on engagement, leadership, values, immediate management, personal development, empowerment and involvement, cooperation and working relationships, customer focus and competitive position as well as innovation.

The survey, which is conducted every one to two years, garnered record participation in 2006 with 80% of employees participating. Results of the survey were very positive, with improvements in all of the nine categories (listed above) compared to 2004, as well as top scores versus Borealis' peers in the oil and chemical industry.

What kind of picture does this paint of Borealis and its people? In concrete terms, this means that a strong majority (82%) of employees are highly engaged. They are committed to the success of the company, believe in its values, are proud to work for the company and are motivated to go the extra mile. This is an important result, because engagement is considered a key factor of high performance companies. In addition to being engaged, employees believe in the company's goals, objectives and strategy, as well as its competitive position and customer orientation. The majority also feel that there is a culture of innovation, that there has been improvement since 2004 in living the company values (see page 5) and that results of this People Survey will lead to action.

Borealis has found the survey extremely useful in getting real, honest input from its employees by listening to their concerns and needs, identifying strengths and weaknesses and taking concrete actions for improvement through a process that involves the whole company. The survey and resulting actions, in turn, increase the confidence and respect of employees, who feel that their voices are being heard and their issues are being addressed to build a better Borealis.

"The People Survey is an excellent way to get feedback from our employees," says Jaap de Vries, Vice President of Human Resources. "But, the key is to then take action and continuously improve the way we work and interact."

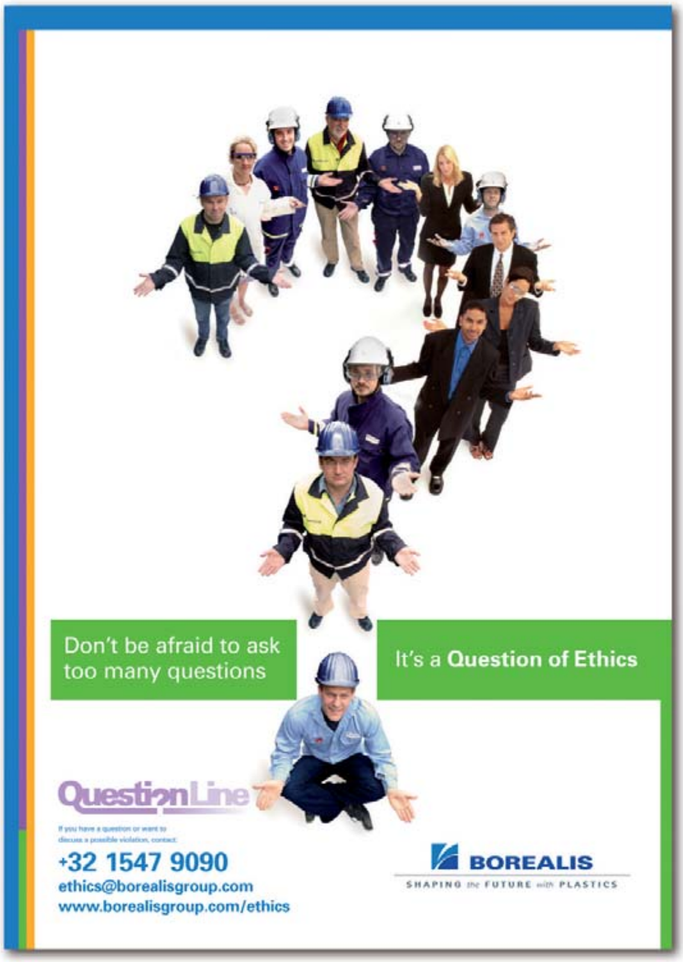
It’s a question of ethics

In today’s business world, a company’s reputation is crucial to its ultimate success. Borealis believes in this and has an ongoing priority to ensure that employees better understand what is expected of them in executing their day to day work commitments in accordance with the company’s values and ethics.

A continuous three-year roll out plan under the banner of the Ethics Excellence Programme is in place with the goal of imbedding ethics deeper into the organisation. By the end of 2007, it is expected that all Borealis employees will have been exposed to the Ethics Policy, and that nearly all will have participated in training, either in person or online. Training will continue for all employees after the first three-year period.

Since the progamme's debut, more than 2,900, or 63% of Borealis employees have taken part in face to face or online ethics training. An Ethics Officer develops and supports the programme, while coordinating the work of the fifty company-wide Ethics Ambassadors. These Ambassadors, together with management, facilitate workshops that inform employees about the Policy and help them to get answers to any questions they may have. A *QuestionLine* telephone number is also available to address employee questions and inquiries.

"At Borealis, ethics is not simply something we feel we are obligated to address by publishing policies," says Ruth Steinholtz, Borealis General Counsel and Vice President of Legal. "Our ethics training programme helps employees understand the issues and prepares them to deal with any difficult situations that may arise in their daily work."

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Financial Statements 2006

Management report

In 2006, Borealis reinforced its position as a leading provider of innovative, value creating plastics solutions, delivering its best financial performance in the history of the company. The net profit attributable to equity holders of the parent increased 45% to EUR 327 million, compared to EUR 226 million in 2005. The return on capital employed after tax was 17%, compared to 12% in 2005.

The financial results were achieved amidst a period of volatile and rising energy and feedstock prices. The average price of Brent crude oil rose 22% year-on-year to 66 USD/bbl in 2006, having peaked at a historical record high of 78 USD/bbl in August. Naphtha, the primary feedstock for the petrochemical industry, followed crude and averaged at 565 USD/t in 2006, an increase of 19% from the previous year. The average EUR/USD exchange rate remained virtually unchanged as compared to 2005.

Price volatility characterised the European power markets in 2006. This was influenced by energy prices as well as abnormal weather conditions and the fluctuating prices of CO_2 emission rights. Average spot prices on the EEX (Germany) and the Nordpool (Nordic countries) increased by 10% and 65%, respectively, compared to the previous year. The industry also felt the direct and indirect impact of rising energy prices on other cost components, including utilities, raw materials and freight costs.

In Europe, Borealis' main geographic market, polyolefin prices were up by 125 EUR/t. This is an average year-on-year increase of 12%, which was enabled by a reasonable demand growth of 4%, resulting in high cracker and polyolefin plant operating rates. The price increases were sufficient to compensate the totality of cost increases, and overall industry margins developed favourably.

Borealis continued its good safety record in 2006 by matching its previous best-ever safety performance achieved in 2005 (Total Recordable Injury frequency of 1.7 per million working hours), positioning the company among the leading performers in the industry. However, a serious process safety incident occurred when the water treatment plant in the Stenungsund cracker incurred an explosion. Fortunately, severe human injury was avoided, but the incident re-affirmed Borealis' focus on improving process safety.

The commitment to further develop its leadership position in health, safety and environmental management, as well as advance product stewardship and sustainable development was confirmed on December 17, 2006, when Borealis and Borouge, a joint venture of the Abu Dhabi National Oil Company (ADNOC), signed the Responsible Care® Global Charter. In the area of producer responsibility, Borealis began preparing for implementation of the REACH regulation, which was adopted by the European Union to come into force in mid-2007.

During the year, Borealis and Borouge jointly reviewed their strategic directions and confirmed their shared mission to become THE leading provider of innovative, value creating plastics solutions with a key focus on infrastructure, automotive and advanced packaging in Europe, the Middle East and Asia. Innovation remains a cornerstone to fulfilling the mission, with Borealis and Borouge announcing several steps to strengthen the innovation partnership, including positioning Linz, Austria, as an international centre of research and development, in addition to establishing a new Innovation Centre in Abu Dhabi and the decision to build a Borstar PP pilot plant in Schwechat, Austria. Moreover, Borealis launched a "Step Change in Innovation" programme to further enhance its ability to deliver Value Creation through Innovation.

Among the technology innovations implemented in 2006, particular progress was made in the olefins field, including a new alloy quadrant of furnace tubes installed at the cracker in Sweden as well as yield improvements at the propane dehydrogenation unit in Belgium. Both innovations helped enhance production and reduce costs, and contributed positively to the result of the Olefins business unit in 2006. The business unit also benefited from its flexible feedstock strategy to take full advantage of the volatile feedstock market, which made cracking of light feedstock, LPG and ethane, beneficial compared to naphtha. Naphtha cracking was reduced to an all time low, accounting for some 40% of total feedstock consumption. Another key milestone was achieved in November, when agreement was reached between the seven companies of the Ethylene Pipeline South (EPS) consortium to build a pipeline connecting the petrochemical industry in Bavaria, Germany, with the ARG ethylene pipeline system. The pipeline is scheduled to begin operation in 2008 and provides additional flexibility to serve Borealis' ethylene sourcing needs.

Innovations fuelled growth in Borealis' polyolefin sales volume, which increased by 7% compared to 2005. Sales were particularly strong in the Film and Fibre business unit. This increase was enabled by the start-up of a new 350,000 t/y Borstar PE plant in Schwechat, Austria, at the end of 2005, providing a significant proportion of the new and enhanced products for the packaging industry. In the area of infrastructure, (served through the Wire and Cable and Pipe business units), Borealis benefited as demand continued to develop positively throughout 2006. In the automotive sector, Borealis delivered significant product innovations, including a body interior solution for BMW, which won the Society of Plastics Engineers' award.

During the year, Borealis progressed with several key capital projects, including the expansion of production capacity in Sweden (to keep up with demand in the power cable sector), and a 330,000 t/y expansion of its polypropylene facilities in Burghausen, Germany, (scheduled to come on stream in late 2007) based on its proprietary Borstar technology, which will enable Borealis to develop its leading position in the advanced packaging market. In Abu Dhabi, the Front End Engineering Design (FEED) phase was completed for the Borouge 2 project, which will eventually triple Borouge's polyolefins capacity in Ruwais, Abu Dhabi, to 2 million t/y and introduce Borstar PP to the complex. A significant milestone was achieved when the contract to build the new ethylene cracker was awarded to Linde Engineering in November. The cracker will have a capacity of approximately 1.5 million t/y and is considered to be the largest gas cracker in the world.

The Borouge 2 expansion project is testimony to the strong performance of Borouge, which has consistently improved since its start up in 2001. 2006 was another successful year for the joint venture, benefiting from sound demand and high polyolefin prices in its main markets in the Middle East and Asia combined with its value added product offering.

REVIEW OF RESULTS

Sales
In 2006, Borealis sold over 3.5 million tonnes of polyolefins, 7% more than in the previous year. Combined with the effect of price increases, net sales increased to a record EUR 5,742 million, almost 20% higher than the 2005 net sales of EUR 4,814 million.

Cost development
Fixed costs were EUR 49 million higher than in 2005, mainly due to restructuring costs related to closing a 100,000 t/y HDPE unit in Norway and additional insurance costs. Research and development costs amounted to EUR 45 million, of which EUR 16 million have been capitalised. The number of employees (FTE) by the end of 2006 was 4,639, an increase of 103 compared to last year. In July 2006, Borealis moved its headquarters from Copenhagen, Denmark, to Vienna, Austria.

Operating profit
Operating profit amounted to EUR 353 million, compared to EUR 236 million in 2005.

Return on capital employed

The return on capital employed after tax amounted to 17%, compared to 12% in 2005, as a result of higher profits.

Financial income and expenses

Net financial expenses amounted to EUR 40 million, in line with 2005. Despite a reduction in net debt, the interest paid remained at the 2005 level due to increased interest rates.

Taxes

The provision for income taxes amounted to an expense of EUR 105 million (EUR 59 million in 2005). Borealis paid income taxes of EUR 59 million in 2006, compared to EUR 26 million paid in the previous year.

Net profit and distribution of dividend

The net profit for the year amounted to EUR 328 million, compared to a net profit of EUR 227 million in 2005. During 2006, Borealis paid a dividend of EUR 45 million on the 2005 result. The Supervisory Board proposes that a dividend of EUR 45 million be paid for 2006.

FINANCIAL POSITION

Total assets/capital employed

At year end, total assets and capital employed amounted to EUR 3,671 million and EUR 2,484 million, respectively, compared to EUR 3,444 million and EUR 2,296 million at year end 2005. The increase in capital employed is mainly due to higher inventories and higher receivables as a result of increased prices.

The solvency ratio was 50% at year end 2006, compared to 44% at year end 2005. The gearing ratio decreased significantly to 34% at year end 2006, down from 44% in 2005, thanks to the high cash flow from operations and the year’s strong result.

Cash flows and liquidity reserves

Cash flow from operations was EUR 277 million. Higher sales margins were partly offset by increased working capital as a result of higher prices. Liquidity reserves, made up of undrawn, long-term committed credit facilities and cash balances, amounted to EUR 811 million at year end 2006 compared to EUR 863 million at year end 2005.

Net interest-bearing debt was reduced and stood at EUR 626 million at year end, down from EUR 684 million at the end of 2005. The change in net interest-bearing debt is analysed in the following table.

Change of net interest-bearing debt (EUR million)	2006	2005
Cash flow provided by operating activities	277	227
Capital expenditure	-259	-228
Repayment of loans by associated companies	71	67
Proceeds from the sales of operations	3	0
Other (mainly relating to foreign exchange differences)	11	-36
Dividend paid	-45	-140
Total decrease/increase	**58**	**-110**

Capital expenditure

Investments in tangible fixed assets amounted to EUR 234 million in 2006, compared to EUR 221 million in 2005. The most significant ongoing investment is the 330,000 t/y expansion of the polypropylene facilities in Burghausen, Germany, which is scheduled to start operation at the end of 2007. HSE capital expenditure was EUR 13 million. Depreciation and amortisation amounted to EUR 160 million, compared to EUR 186 million in 2005.

Shareholders' equity

The shareholders' equity at year end 2006 was EUR 1,819 million.

Equity development (EUR million)	2006	2005
Net result attributable to the parent	327	226
Exchange and fair value adjustment (net)	-4	35
Gross increase/decrease	323	261
Dividend paid	-45	-140
Net increase/decrease	278	121
Opening equity	1,541	1,420
Ending equity	**1,819**	**1,541**

Financial risk management

The objective of financial risk management is to support the core businesses of Borealis. It operates within the framework of the financial policy, which is approved by the Supervisory Board. Borealis aims to minimise effects related to foreign exchange, interest rate, liquidity, credit, commodity price and refinancing risks. The use of any financial instruments is based on actual or forecasted underlying commercial or financial cash flows or identified risks as defined in the policy. Note 19 provides an overview of the financial instruments used by Borealis to manage risk.

Financial risk management is centralised in the Tax and Treasury department, where the foreign exchange risks related to short-term commercial cash flows are hedged and limits for long-term foreign exchange exposures are established. Interest rate risks are managed through a duration benchmark. Foreign exchange translation differences relating to long-term investments in subsidiaries are charged directly to equity. The exposures are partly hedged by long-term borrowing in the same currencies. Hedges are generally placed in the legal entities where the underlying exposure exists. When certain conditions are met, Borealis applies IAS39 hedge accounting principles to foreign exchange and interest rate hedges.

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

Group worldwide insurance programmes are established for risk related to property damage and business interruption, liability exposures, cargo and for our employees when travelling for Borealis.

Key figures and ratios		2006	2005	2004	2003	2002
Safety, Health & Environment						
Total Recordable Injuries	number/million workhours	1.7	1.7	2.4	3.8	4.0
Sick leave	% of total hours worked	2.9	2.9	2.8	2.8	2.8
Direct carbon dioxide emissions	kilotonne	1,605	1,628	2,335	2,442	2,330
Primary energy consumption	GWh	16,200	15,903	20,608	19,115	19,148
Volatile organic compound emissions	tonne	4,158	4,210	6,098	5,801	6,835
Waste generation	tonne	15,143	15,796	18,429	21,784	23,142
Number of employees (Full-time equivalent at year end)		4,639	4,536	4,547	5,037	5,085
Income and profitability						
Net sales	EUR million	5,742	4,814	4,628	3,673	3,514
Operating profit	EUR million	353	236	278	39	85
Operating profit as percentage of net sales	%	6	5	6	1	2
Net profit attributable to the equity holders of the parent	EUR million	327	226	203	16	6
Return on capital employed, net after tax	%	17	12	11	3	3
Cash flow and investments						
Cash flow from operating activities	EUR million	277	227	378	159	350
Investments in tangible fixed assets	EUR million	234	221	192	119	103
Financial position						
Net interest-bearing debt	EUR million	626	684	574	918	1.007
Equity attributable to owners of the parent	EUR million	1,819	1,541	1,420	1,258	1,276
Gearing	%	34	44	40	73	79

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
Gearing	Interest-bearing debt, including subordinated loans, less cash and cash equivalents, divided by total equity
Energy	Electrical, steam and fuels
Waste	Non-hazardous and hazardous

Vienna, February 27, 2007

Management

John Taylor
Chief Executive

Markku Korvenranta
Chief Financial Officer (Acting)

Report of the auditors

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Borealis GmbH, Vienna, Austria, for the financial year from January 1 to December 31, 2006. These consolidated financial statements comprise the balance sheet as of December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. Based on the results of our audit in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of December 31, 2006, and of its financial performance and its cash flows for the financial year from January 1, to December 31, 2006 in accordance with International Financial Reporting Standards as adopted by the EU.

Report on other legal and regulatory requirements

Laws and regulations applicable in Austria require us to perform audit procedures whether the consolidated management report is consistent with the consolidated financial statements and whether the other disclosures made in the consolidated management report do not give rise to misconception of the position of the Group.

In our opinion, the consolidated management report for the Group is consistent with the consolidated financial statements.

Vienna, February 27, 2007
KPMG
Wirtschaftsprüfungs- und Steuerberatungs GmbH

Mag. Bernhard Mechtler

Mag. Helmut Kerschbaumer

Wirtschaftsprüfer
(Austrian Chartered Accountants)

Report of the Supervisory Board

The Supervisory Board received a comprehensive overview of the activities of the management of Borealis GmbH and complied with its control duties.

The Management of Borealis GmbH submitted the Financial Statements as of December 31, 2006, and the Consolidated Financial Statements as of December 31, 2006, including the Management report to the Supervisory Board and explained them thoroughly.

The Financial Statements of Borealis GmbH were drawn up in accordance with the applicable provisions of the Entrepreneur Act (Unternehmergesetzbuch) and KPMG Wirtschaftsprüfungs- und Steuerberatungs GmbH, Vienna, issued the unqualified audit opinion (uneingeschränkter Bestätigungsvermerk) on the Financial Statements.

Further, the Consolidated Financial Statements of Borealis GmbH were drawn up in accordance with the Financial Reporting Standards (IFRS), and KPMG Wirtschaftsprüfungs- und Steuerberatungs GmbH, Vienna, issued the unqualified audit opinion (uneingeschränkter Bestätigungsvermerk) on the Consolidated Financial Statements.

The (consolidated) financial statement documents and the audit reports were submitted to Audit Committee and the entire Supervisory Board in due time. After a thorough examination and debate by the Audit Committee and by the Supervisory Board, the Supervisory Board reached the final agreement that no material objections shall be raised, the drawn up Financial Statements, the proposal for the distribution of the profits, the Consolidated Financial Statements and the Management report were approved.

Vienna, February 27, 2007

Gerhard Roiss
Chairman of the Supervisory Board

Accounts

Consolidated income statement

EUR million	2006	2005	Note
Net sales	**5,742**	**4,814**	1
Production costs	-4,765	-3,992	2,3,7
Sales and distribution costs	-413	-386	3, 7
Administration costs	-211	-200	3, 7
Operating profit	**353**	**236**	
Profit/loss from sale of operations	0	0	4
Net results in associated companies after tax	120	90	8
Financial expenses, net	-40	-40	9
Profit before taxation	**433**	**286**	
Taxes	-105	-59	10
Net profit for the year	**328**	**227**	
Attributable to:			
Minority interest	1	1	
Equity holders of the parent	327	226	

Consolidated statement of recognised income and expense

EUR million	2006	2005	Note
For the year ended December 31			
Net gain/loss on translation of financial statements of foreign subsidiaries	-40	52	
Net gain/loss on long-term loans to subsidiaries and associated companies	42	3	
Net gain/loss on loans and financial contracts to hedge investments in foreign subsidiaries	-17	-36	
Fair value adjustment of cash flow hedges	7	4	
Actuarial gains and losses	3	-12	13
Tax recognised directly in equity	0	26	
Net income/expense recognised directly in equity	**-5**	**37**	
Net profit/loss for the year	**328**	**227**	
Total recognised income and expense	**323**	**264**	
Attributable to:			
Minority interest	0	2	
Equity holders of the parent	323	262	

Consolidated balance sheet

Assets

EUR million	31.12.2006	31.12.2005	Note
Non-current assets			
Intangible fixed assets	160	144	2, 5
Tangible fixed assets			6
Production plants	1,412	1,434	
Machinery and equipment	22	21	
Construction in progress	227	102	
	1,661	1,557	
Investments in associated and jointly controlled companies	333	245	8
Other Investments	16	22	8
Other long-term receivables	113	199	8
Deferred tax assets	36	78	10
Total non-current assets	**2,319**	**2,245**	
Current assets			
Inventories	721	630	11
Receivables			
Trade receivables	269	226	12
Receivables from associated companies	218	185	12
Taxes	2	7	
Other receivables	111	88	
	600	506	
Cash and cash equivalents	31	63	
Total current assets	**1,352**	**1,199**	
Total assets	**3,671**	**3,444**	

Liabilities

EUR million	31.12.2006	31.12.2005	Note
Shareholders' equity			
Share capital and additional paid-in capital	1,840	1,840	
Reserves	-41	-37	
Retained Earnings	20	-262	
	1,819	1,541	
Minority interests	8	8	
Total equity	**1,827**	**1,549**	
Liabilities			
Subordinated loans	103	103	16,21
Non-current liabilities			
Loans and borrowings	148	232	16
Deferred tax	215	205	10
Employee benefits	156	155	13
Provisions	71	56	14
	590	648	
Current liabilities			
Loans and borrowings	406	412	16
Trade payables	523	489	
Taxes	15	26	10
Provisions	6	9	14
Other liabilities	201	208	
	1,151	1,144	
Total liabilities	**1,844**	**1,895**	
Total equity, minority interests and liabilities	**3,671**	**3,444**	
Assets pledged			17
Contingent liabilities			18
Financial instruments			19

Consolidated statement of changes in equity

Shareholders' equity

EUR million	Share Capital	Additional paid-in capital	Reserve for revaluation of non-monetary assets and liabilities	Hedging reserve	Reserve for unrealised exchange gains	Retained earnings	Total attributable to parent	Attributable to minority interest holders	Total equity
Balance as at December 31, 2004	**536**	**0**	**-63**	**-2**	**-7**	**956**	**1,420**	**6**	**1,426**
Profit of the period	0	0	0	0	0	226	**226**	1	**227**
Income and expense directly in equity	0	0	20	3	12	0	**35**	2	**37**
Dividend payment by subsidiaries	0	0	0	0	0	0	**0**	-1	**-1**
Dividend payment	0	0	0	0	0	-140	**-140**	0	**-140**
Capital in/decrease	0	0	0	0	0	0	**0**	0	**0**
Balance as of December 31, 2005	**536**	**0**	**-43**	**1**	**5**	**1,042**	**1,541**	**8**	**1,549**
Restatement to reflect new parent	-536	1,840	0	0	0	-1,304	**0**	0	**0**
Balance as of December 31, 2005	**0**	**1,840**	**-43**	**1**	**5**	**-262**	**1,541**	**8**	**1,549**
Profit of the period	0	0	0	0	0	327	**327**	1	**328**
Income and expense directly in equity	0	0	1	5	-10	0	**-4**	-1	**-5**
Dividend payment by subsidiaries	0	0	0	0	0	0	**0**	0	**0**
Dividend payment	0	0	0	0	0	-45	**-45**	0	**-45**
Capital in/decrease	0	0	0	0	0	0	**0**	0	**0**
Balance as of December 31, 2006	**0***	**1,840**	**-42**	**6**	**-5**	**20**	**1,819**	**8**	**1,827**

The Supervisory Board proposes that a dividend of EUR 45 million be paid for 2006.

The share capital and additional paid in capital amounts to EUR 1,840 million. None of the shares has special rights. Borealis GmbH is owned 65% by IPIC Denmark Holdings ApS, Holbergsgade 14, 1057 Copenhagen, Denmark, and 35% by Petrochemie Holding GmbH, Lassallestrasse 3, 1020 Vienna, Austria. The ultimate controlling party is International Petroleum Investment Company (IPIC), United Arab Emirates. Distribution of dividend to its shareholders does not have any tax effect for Borealis GmbH.

* Share capital of Borealis GmbH (parent company) amounts to EUR 142,857.14.

Consolidated cash flow

EUR million	2006	2005	Note
Cash flows from operating activities			
Payments from customers	5,655	4,807	
Payments to employees and suppliers	-5,279	-4,514	
Interest income received	39	26	9
Interest and financial expenses paid	-79	-66	9
Income taxes paid	-59	-26	10
	277	**227**	
Cash flows from investing activities			
Investments in tangible fixed assets	-234	-221	6
Proceeds from sale of assets, net of cash	3	0	4
Other investments	-25	-7	5, 8
	-256	**-228**	
Cash flows from financing activities			
Long-term loans obtained	53	90	
Short-term loans obtained	262	212	
Loans to associated companies	71	67	
Long-term loans repaid	-183	-253	
Short-term loans repaid	-211	0	
Dividends paid	-45	-140	
	-53	**-24**	
Net cash flow for the year	**-32**	**-25**	
Cash and cash equivalents as of January 1	63	87	
Effect of exchange rate fluctuations on cash held	0	1	
Cash and cash equivalents as of December 31	**31**	**63**	

Notes to the consolidated financial statements

Reporting entity

Borealis GmbH (the "Company") is a company domiciled in Austria. The address of the Company's registered office is Wagramer Strasse 17-19, 1220 Vienna, Austria. Borealis is a leading provider of innovative, value creating plastics solutions.

Statement of compliance

The Annual Report has been prepared in compliance with the International Financial Reporting Standards issued by the IASB as adopted by the EU and additional Austrian disclosure requirements. The financial statements were authorised for issue by the Management on February 27, 2007.

In 2006, IPIC and OMV concentrated their interests in the Borealis Group in this holding company without any change in control over Borealis. This restructuring of the legal constructions was a transaction under common control and therefore not under the scope of IFRS 3.

In absence of specific guidance under IFRS, management applied IAS 8 § 10-11. These consolidated financial statements are prepared similar to the former uniting of interests method. The interests of Borealis GmbH in Borealis are set off against the equity of Borealis GmbH. Any difference is recognised directly in the equity of Borealis GmbH. Intragroup balances, transactions, income and expenses are eliminated in full.

Changes in accounting policies

As of January 1, 2005, new and revised International Financial Reporting Standards took effect. The effects on the 2005 consolidated financial statements have been: the reclassification of minority interest to equity and goodwill tested for impairment instead of amortisation. Further, Borealis has elected to adopt the revised IAS 19 Employee Benefits, which allows actuarial gains and losses to be recognised directly in equity.

Basis of preparation

The consolidated financial statements are presented in Euro, rounded to the nearest million. They are prepared on the historical cost basis except for the following assets and liabilities which are stated at their fair value: derivative financial instruments and investments held for trading. Recognised assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged.

Consolidation principles

The consolidated financial statements include the accounts of Borealis GmbH, the parent company, and all the companies over which Borealis GmbH has control. Control is generally indicated when Borealis GmbH, either directly or indirectly, has a majority voting interest. Companies in which the Group has significant influence (interest of 20 % or more), but no control are considered as associated companies. Jointly controlled operations are considered as associated companies.

The consolidated financial statements are based on audited financial statements of the parent company and of each individual subsidiary. The accounts have all been prepared in accordance with the Group´s accounting policies. Items of a similar nature have been combined. Intra-group transactions, unrealised intra-group profits, internal shareholdings, and intra-group balances have been eliminated.

Acquired subsidiaries and associated companies are included in the consolidated financial statements from the date of control and until control ceases. A revaluation of the acquired net assets is made on the date of acquisition, using the purchase accounting method to state acquired assets and liabilities at fair value. Any remaining positive difference between the fair value of the assets and liabilities and the purchase price of subsidiaries and associated companies is capitalised as goodwill and is subject to an annual impairment test. Any remaining negative goodwill is recognised in the income statement.

Foreign currency

Assets and liabilities denominated in foreign currencies have been translated into Euro (EUR) at the exchange rates quoted on the balance sheet date. As the Group's activities are mainly based throughout Europe, EUR is used as presentation currency. Financial statements of foreign entitties in functional currencies other than EUR have been translated at the exchange rates quoted on the balance sheet date for assets and liabilities. The income statements of foreign entities have been translated on the basis of monthly exchange rates.

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

FINANCIAL INSTRUMENTS

Derivative financial instruments

The Group uses derivative financial instruments to reduce its exposure to foreign exchange, interest rate and commodity risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap on the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price on the balance sheet date, being the present value of the quoted forward price. The fair value of naphtha and electricity contracts is their quoted market price on the balance sheet date.

Cash flow hedges

Where derivative financial instruments are designated as a hedge of the variability in cash flows of a recognised liability or receivable, a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When incurred, the cumulative gains or losses are removed from equity and recognised in the income statement together with the hedged transaction. When the firm commitment or forecasted transaction results in the recognition of a non-financial asset or liability, the cumulative gains or losses are removed from equity and included in the initial measurement of the asset or liability. The ineffective parts of any gains or losses are recognised in the income statement immediately. Any gain or loss arising from changes in the time value of the derivative financial instruments is excluded from the measurement of hedge effectiveness and recognised in the income statement immediately.

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

Hedge of monetary assets and liabilities

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

Hedge of net investment in foreign operation

Where a foreign currency liability hedges a net investment in a foreign operation and fulfils the requirement for hedge accounting, foreign exchange differences arising on translation of the liability are recognised directly in equity.

INCOME STATEMENT

Revenue recognition

Revenues from sales of goods are recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Net sales comprise sales invoiced during the year, excluding value-added tax and after deduction of goods returned, and discounts and allowances.

Research and development

Research costs are charged to the income statement in the year they are incurred.

Development costs relating to a definable product or process that is demonstrated to be technically and commercially feasible are recognised as an intangible fixed asset to the extent that such costs are expected to be recovered from future economic benefits. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads.

Other development costs not meeting those criteria are recognised in the income statement as an expense when incurred.

Results from associated companies

Investments in associated companies and investments in jointly controlled operations are recorded under the equity method in the consolidated financial statements. The proportionate share of the net profit/loss after tax of these companies is included in the consolidated income statement.

Net financial items

Interest income and expenses are included in income statement with the amounts relating to the financial year.

Net financial items also include borrowing costs and costs incurred on finance leases as well as realised and unrealised gains and losses from exchange and price adjustments of financial instruments, investments and items in foreign currencies.

Income tax

The income tax charged to the income statement comprises expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the balance sheet date, adjusted for the change in provision for deferred tax assets and liabilities for the year and adjusted for any tax payable in respect of previous years. Income tax that relates to items recognised directly in equity is recognised in equity as well.

BALANCE SHEET

Intangible fixed assets

Intangible fixed assets are stated at cost less accumulated amortisation and impairment losses.

Goodwill arising on an acquisition represents the excess of the costs of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is not amortised, but is subject to an annual impairment test.

Licences and patents externally acquired are stated at cost less accumulated amortisation. Amortisation is according to the straight-line method based on the estimated lifetime or 20 years, whichever is shorter.

Capitalised development costs are stated at cost less accumulated amortisation. Amortisation is charged to the income statement on a straight-line basis over the expected lifetime of the asset of 3-10 years.

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

Tangible fixed assets

Tangible fixed assets are valued at cost less accumulated depreciation and impairment losses. Cost comprises purchase price, site preparation and installation. Day-to-day servicing expenses are not included in the cost of the assets. If certain conditions are met, the costs of major inspections and overhauls are recognised in the carrying amount of the property, plant and equipment.

Production plants include land, buildings, related non-movable machinery and equipment. Assets held under finance leases are also included.

Machinery and equipment includes purchase price and any directly attributable costs.

Depreciation is made on a straight-line basis over the expected useful life of the components of the assets. The useful lives of major assets are determined individually, while the lives of other assets are fixed in respect of groups of uniform assets.

Land is not depreciated. Buildings are depreciated over 20-50 years, production facilities over 15-20 years and machinery and equipment over 3-15 years. Assets held under financial lease are depreciated over the lease period. Gains and losses from disposals of tangible fixed assets are recorded as adjustment to depreciation in the income statement.

Assets leased under finance leases are recognised in the balance sheet and depreciated in the same way as the Group's other property. The cost of assets leased under finance leases are stated at the lower of fair value and the present value of the future lease payments at the time of acquisition.

Impairment losses

The carrying values of both tangible and intangible assets, other than inventories, deferred tax assets and certain financial assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated as the greater of net selling price and value in use. The value in use is based on a 3 to 5 year business plan extended to 15 years with a stable growth rate. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Cash-generating units are groups of similar production facilities.

Associates and joint ventures

Associates and joint ventures are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees.

Other investments

Other investments are valued at fair value or at cost if fair value can not be reliably estimated.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are based on the first-in first-out principle (FIFO method), and comprises direct costs such as materials, utilities, salaries and wages, and a systematic allocation of fixed and variable production overhead costs.

Trade and other receivables

Receivables are stated at amortised cost, less impairment losses. For short-term receivables, we assume that the effect of the discounting is not material. Therefore we assume that book value equals the market value.

Trade and other payables

Payables are recorded at cost.

Loans and borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised costs.

Deferred tax

The provision for deferred income tax is computed individually for each company in accordance with the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted on the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Reserves

A reserve has been established under the consolidated equity for unrealised exchange differences related to deferred foreign exchange gains and losses on intercompany loans, hedge loans and the equity of foreign subsidiaries. The hedging reserve contains fair value adjustments to financial instruments. The reserve for revaluation of non-monetary items contains the actuarial gains and losses on employee benefit plans. The reserve for net revaluation under the equity method contains the changes to the value of associated companies compared to their cost price.

EMPLOYEE BENEFITS

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. A qualified actuary, using the projected unit credit method, performed the calculation.

All actuarial gains and losses are recognised directly in equity.

Government grants

Government grants include grants for research and development as well as investment grants. Research and development grants are recognised in the income statement on a systematic basis to offset the related cost, or offset against capitalised development costs. Investment grants are recognised in the balance sheet as deferred income and recognised as income over the useful life of the asset.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions reflect the present value of future cash outflows.

Cash flow statement

The consolidated cash flow statement shows the Group's cash flow provided by/used in operating, investing and financing activities.

The cash flow from operating activities is calculated using the direct method. The cash flow from investing activities comprise payments made on the purchase and disposal of undertakings and activities and the purchase and disposal of tangible and intangible assets. The cash flow from financing activities comprise changes in the Group's share capital, as well as loans, repayments of principals of interest-bearing debt and payment and dividends. Cash and cash equivalents consist of cash and bank deposits.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's risks and rates of return are effected predominantly by differences in products. Therefore the primary format for reporting segment information is business segments, with secondary information reported geographically.

New accounting standards

The IASB and the EU have adopted the following new accounting standards that are not compulsory for Borealis in the preparation of the Annual Report for 2006 and have not been applied in preparing these consolidated financial statements:

IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial statements (effective as from January 1, 2007): Capital disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to the Group's financial instruments and share capital.

The following accounting standards became applicable in 2006 without having a major impact on the consolidated financial statements of the Borealis Group:

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in hyperinflationary economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax.

IFRIC 8 Scope of IFRS 2 Shared-based Payment addresses the accounting for share-based payment transactions in which some or all goods or services received cannot be specifically identified.

IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether an embedded derivative could be separated from the underlying host contract should be made only when there are changes to the underlying impact.

IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost.

Amounts

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

1. SEGMENT REPORTING (EUR million)

	Polyolefins		Hydrocarbons		Non-Allocated		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
Net sales by business:								
Total sales	4,312	3,574	4,812	4,151	36	46	9,160	7,771
Group internal sales	0	0	-3,418	-2,957	0	0	-3,418	-2,957
	4,312	**3,574**	**1,394**	**1,194**	**36**	**46**	**5,742**	**4,814**

Prices for group inter segment sales are based on quarterly market prices for ethylene and propylene contracts.

	Polyolefins 2006	Polyolefins 2005	Hydrocarbons 2006	Hydrocarbons 2005	Non-Allocated 2006	Non-Allocated 2005	Consolidated 2006	Consolidated 2005
Result:								
Operating profit	243	112	171	146	-61	-22	353	236
Net result in associated companies					120	90	120	90
Net financial items					-40	-40	-40	-40
Income tax					-105	-59	-105	-59
Minority interest					-1	-1	-1	-1
Net profit for the year attributable to equity holders of the parent							**327**	**226**

	Polyolefins 2006	Polyolefins 2005	Hydrocarbons 2006	Hydrocarbons 2005	Non-Allocated 2006	Non-Allocated 2005	Consolidated 2006	Consolidated 2005
Other information:								
Segment assets	2,526	2,192	1,122	974	23	278	3,671	3,444
Segment liabilities					1,844	1,895	1,844	1,895
Capital expenditure	175	187	61	34	-2	0	234	221
Depreciation and amortisation	116	141	43	43	1	2	160	186

Over 90% of the above relate to segment EU countries

	Polyolefins 2006	Polyolefins 2005	Hydrocarbons 2006	Hydrocarbons 2005	Non-Allocated 2006	Non-Allocated 2005	Consolidated 2006	Consolidated 2005
Net sales by geographic segment:								
EU countries	3,185	2,681	1,290	1,075	36	46	4,511	3,802
Non-EU countries in Europe	554	421	65	95	0	0	619	516
USA	114	93	39	23	0	0	153	116
Middle East and Asia	261	226	0	0	0	0	261	226
Other regions	198	153	0	1	0	0	198	154
	4,312	**3,574**	**1,394**	**1,194**	**36**	**46**	**5,742**	**4,814**

2. RESEARCH AND DEVELOPMENT

A total of 328 people were engaged in research and development at the end of the year, compared to 311 in 2005. The total cost of these activities amounted to EUR 45 million (EUR 41 million) of which EUR 16 million (EUR 17 million) was capitalised.

3. PERSONNEL (EUR million)

	2006	2005
Costs		
Salaries and wages	279	266
Pension costs	27	31
Other social security costs	65	58
Other personnel expenses	38	28
Total	**409**	**383**
Average number of employees by country		
Austria	713	698
Belgium	961	916
Finland	862	843
Norway	467	490
Sweden	985	988
Other	614	608
Total	**4,602**	**4,543**
Remuneration included in personnel costs of former and current management		
Salaries and wages management	3	3
Pension costs management	0	1
Salaries and wages other key manangement	3	3
Pension costs other key manangement	1	1
Total	**7**	**8**

No loans were granted to actual or former members of managment. The remuneration paid to members of the Supervisory Board amounted to EUR 0,4 million.

4. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

During 2006, Borealis sold 17% shares in Specialty Polymers Antwerp NV and 15% shares in Borealis Financial Services Limited for EUR 3 million. There were no other acquisitions or disposals of subsidiaries in 2006 or in 2005.

5. INTANGIBLE FIXED ASSETS (EUR million)

	Goodwill		Development costs		Capitalised software		Others	
	2006	2005	2006	2005	2006	2005	2006	2005
Cost								
As of January 1	45	45	88	74	21	17	71	63
Additions	0	0	16	17	7	3	15	6
Disposals	0	0	0	0	0	0	-12	0
Transfers	0	0	-2	-3	2	1	0	2
	45	45	102	88	30	21	74	71
Accumulated amortisation								
As of January 1	-16	-16	-10	-6	-9	-5	-46	-42
Disposals	0	0	0	0	0	0	7	0
Amortisation	0	0	-7	-4	-5	-4	-5	-4
	-16	-16	-17	-10	-14	-9	-44	-46
Book value as of December 31	**29**	**29**	**85**	**78**	**16**	**12**	**30**	**25**

Emission rights are included as other intangible fixed asset. They are measured at cost, EUR 8 million and have a fair value on the balance sheet date of EUR 3 million. A liability for the obligation to return emission rights for actual emissions made has been recognised for EUR 7 million, having a fair value on balance sheet date of EUR 3 million.

Goodwill refers to the assets in Brazil, EUR 7 million and Belgium, EUR 22 million.

6. TANGIBLE FIXED ASSETS (EUR million)

	Production Plants		Machinery and equipment		Construction in progress	
	2006	2005	2006	2005	2006	2005
Cost						
As of January 1	3,603	3,389	102	97	102	159
Exchange adjustments	36	-39	1	4	0	0
Additions	0	1	1	1	239	219
Disposals	-50	-23	-13	-1	0	0
Transfers	107	275	7	1	-114	-276
	3,696	3,603	98	102	227	102
Accumulated depreciation						
As of January 1	-2,169	-2,047	-81	-74	0	0
Exchange adjustments	-23	22	-2	-1	0	0
Disposals	47	23	11	1	0	0
Depreciation	-139	-167	-4	-7	0	0
	-2,284	-2,169	-76	-81	0	0
Book value as of December 31	**1,412**	**1,434**	**22**	**21**	**227**	**102**

The figures for production plants include capitalised finance leases with a net value of EUR 2 million (EUR 2 million) comprising a cost of EUR 3 million (EUR 3 million) and depreciation of EUR 1 million (EUR 1 million). The lease obligation is included in loans and borrowings (see note 16). In general, borrowing costs are recognised as an expense when incurred.

Future capital expenditure approved by Management totals EUR 319 million (EUR 348 million) out of which EUR 72 million (EUR 76 million) is contractually committed.

The major part of the additions relates to the ongoing investment in a new Borstar PP plant in Burghausen, Germany.

7. DEPRECIATION AND AMORTISATION (EUR million)

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

	Group 2006	Group 2005
Production costs	130	161
Sales and distribution costs	10	9
Administration costs	20	16
Total	160	186

The 2005 depreciation charge included an impairment of EUR 31 million on two of its production lines for which the carrying values of the assets exceeded the present value of expected future cash flows for the next 15 years, discounted at a Weighted Average Cost of Capital of 8%. There were no further impairments in 2006.

8. FINANCIAL FIXED ASSETS (EUR million)

	Shares in associated companies		Other investments		Other long-term receivables		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Cost								
As of January 1	178	178	22	22	278	342	478	542
Investments	0	0	4	2	0	0	4	2
Disposals	-3	0	-7	-2	-72	-64	-82	-66
	175	178	19	22	206	278	400	478
Adjustments								
As of January 1	67	-39	0	0	-79	-101	-12	-140
Exchange adjustments	-29	19	-3	0	-14	22	-46	41
Dividends received	0	-3	0	0	0	0	0	-3
Net result of associated companies, after tax	120	90	0	0	0	0	120	90
	158	67	-3	0	-93	-79	62	-12
Book value as of December 31	**333**	**245**	**16**	**22**	**113**	**199**	**462**	**466**

Other investments include interests in environmental funds in Belgium and Germany amounting to EUR 1 million.

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

2006	Country	Ownership in %
Abu Dhabi Polymers Company Limited (Borouge)	United Arab Emirates	40
Borouge Pte Ltd	Singapore	50
Noretyl AS	Norway	50
Speciality Polymers Antwerp N.V.	Belgium	33
Borealis Financial Services Ltd	Jersey	25

Summary of financial information for equity accounted investees, adjusted for the percentage of ownership by the Group.

	Assets	Liabilities	Net sales	Profit after tax
2006	720	387	695	120
2005	768	523	662	90

9. FINANCIAL INCOME / EXPENSES, NET (EUR million)

	Group	
	2006	2005
Interest income from:		
Subsidiaries	0	0
Cash and cash equivalents	39	26
	39	26
Interest expenses to:		
Financial institutions	-74	-59
Subsidiaries	0	0
Finance lease	0	0
Exchange adjustments, net	-2	2
Dividend received from subsidiaries	0	0
Other financial expenses and income	-3	-9
	-79	-66
Total	**-40**	**-40**

10. TAXATION (EUR million)

	2006	2005
Taxes		
Income tax payable	41	36
Change in deferred tax	62	22
Adjustment to prior year's tax charge	2	1
Tax expense	**105**	**59**

Calculation from tax expense at statutory rates to accounting tax expense at the effective group tax rate.

	2006 %	2006	2005 %	2005
Tax expense at statutory rates	**28%**	**122**	**29%**	**83**
Tax effect of result in associated companies	-8%	-33	-9%	-24
Tax effect of permanent differences	0%	0	-1%	-3
Adjustment of valuation allowance	6%	26	7%	19
Prior-years adjustments	-2%	-9	-5%	-15
Change due to changes in tax rates	0%	0	0%	-1
Other	0%	-1	0%	0
Tax expense	**24%**	**105**	**21%**	**59**

	2006	2005
Deferred tax, assets		
Fixed tangible assets	-4	-2
Fixed intangible assets	-8	-11
Tax over book values	**-12**	**-13**
Other current assets	0	3
Pension and other provisions	13	8
Claw back account	0	-29
Other temporary differences	**13**	**-18**
Tax losses to be carried forward	**72**	**109**
Revaluation of capitalised net tax assets	**-37**	**0**
Capitalised tax assets	**36**	**78**
Deferred tax, liabilities		
Fixed tangible assets	170	180
Fixed intangible assets	29	23
Accelerated depreciation on tangible fixed assets	**199**	**203**

	2006	2005
Other current assets	-4	-1
Other assets	0	2
Pension and other provisions	9	8
Claw back account	27	0
	32	**9**
Tax assets offset	**-16**	**-7**
Deferred tax liability	**215**	**205**
Taxes, payable		
Payable taxes as of January 1	26	12
Income tax payable for the year	41	36
Adjustment to prior year's payable tax charge	2	1
Taxes paid (-) / received (+)	-59	-26
Movement in tax receivable	5	3
Payable taxes as of December 31	**15**	**26**

The Group has tax assets of EUR 39 million in addition to those that have been capitalised as they exceed the profit forecast for the next 3 years.

	2006	2005
Deductible temporary differences	7	3
Tax loss carry forwards	32	29
- Taxable temporary differences	0	-4
Total unrecognised net tax assets	39	28

The Group has recognised total deferred tax assets of EUR 52 million of which EUR 36 million are capitalised as deferred tax assets and EUR 16 million offset against deferred tax liabilities. The capitalised deferred tax assets are expected to be utilised against future profits in the relevant jurisdictions. Dividend payment to Borealis GmbH, resp. Borealis A/S being still the subholding company for the Borealis subsidiaries, by one of its subsidiaries has no tax effect for Borealis GmbH resp. Borealis A/S.

11. INVENTORIES (EUR million)

Inventories of ethylene and propylene are included under finished products.

	2006	2005
Raw materials and consumables	180	168
Finished products	541	462
Total	**721**	**630**

The cost of write down of inventories to their net realisable value was insignificant. The cost of inventories recognised as an expense and included in the production cost amounted to EUR 4,723 million (EUR 3,835 million).

12. TRADE RECEIVABLES AND SECURITISATION

Borealis A/S has a securitisation programme under which the company sells certain trade receivables to external parties. The company does not retain any financial interest in the trade receivables, except for foreign currency risk, and accordingly derecognises the receivables sold. On December 31, 2006, receivables worth EUR 478 million (EUR 415 million) were sold. The company continues to administer the relationship with the debtors and will compensate the purchaser for credit notes and other adjustments issued subsequent to the sale. To cover these obligations, a receivable of EUR 171 million (EUR 135 million) is outstanding on the balance sheet date.

The interest element of the financing costs related to the Securitisation Programme is hedged with derivatives for a notional amount of EUR 180 million (EUR 93 million).

On December 31, 2006 trade receivables are shown net of an allowance for doubtful debtors of EUR 6 million (EUR 8 million). The impairment loss recognised in the current year was EUR 6 million (EUR 1 million).

13. EMPLOYEE BENEFIT PLANS (EUR million)

Most Group companies have benefit plans. The forms and benefits vary with conditions and practices in the countries concerned. The plans include both defined contribution plans and plans that provide defined benefits based on employees' years of service and estimated salary at retirement. A summary of the status of defined benefit plans is shown below.

	2006	2005
Funded benefit plans		
Actuarial present value of benefits due to past and present employees	159	152
- Plan assets held in trusts at fair value	-107	-98
Plan assets below the present value of benefits recorded as a provision	52	54
Unfunded benefit plans		
Actuarial present value of benefits due to past and present employees recorded as a provision	104	101
Net liability recognised in the balance sheet	**156**	**155**
Change in benefit obligation		
Benefit obligation at beginning of year	253	228
Current service costs	11	11
Current interest costs	10	10
Actuarial losses/gains	1	12
Exchange rate changes	-2	0
- Benefits paid from plan	-10	-8
Benefit obligation at end of year	**263**	**253**
Change in plan assets		
Fair value of plan asset at beginning of year	98	90
Expected return on plan assets	5	5
Employer contributions	8	9
Actuarial gains/losses	5	0
Exchange rate changes	-2	2
- Benefits paid from plan	-7	-8
Fair value of plan asset at end of year	**107**	**98**
Asset category		
Equity securities	19%	20%
Debt securities	33%	30%
Real estate	4%	5%
Other	44%	45%
	100%	**100%**

Movement in the net liability recognised in the balance sheet	2006	2005
Net liability as of January 1	155	138
- Contributions paid by the company	-11	-9
Actuarial loss/gain recognised in equity (including exchange rate differences)	-4	10
Expense recognised in the income statement	16	16
Net liability as of December 31	**156**	**155**

Expense recognised in the income statement for defined benefit plans	2006	2005
Service costs	11	11
Interest costs	10	10
- Expected return on assets	-5	-5
Total	**16**	**16**
Actual return on plan assets	10	4

The aggregated benefit cost charged to the income statement for 2006 amounted to EUR 27 million compared to EUR 31 million in 2005. Benefit costs relate to:

	2006	2005
Defined benefit plans	16	16
Defined contribution plans	11	15
Total	**27**	**31**

Discount rates, projected future salary increases and expected rates of return on plan assets vary for the different defined benefit plans, as they are determined in light of local conditions. Assumptions regarding future mortality are based on published statistics and mortality tables. The principal assumptions used were in the following range:

	2006	2005
Discount rate	4% to 5%	4% to 5%
Projected future salary growth	2% to 4%	2% to 4%
Expected rate of return on plan assets	4% to 5%	4% to 6%
Expected pension increase	2% to 3%	2% to 3%

14. OTHER PROVISIONS (EUR million)

	Restructuring	Other	Total
As of January 1	22	38	60
Provisions made during the year	20	17	37
Provisions used during the year	-6	-15	-21
Balance as of December 31, 2006	**36**	**40**	**76**
Current	5	1	6
Non-current	31	39	70
	36	**40**	**76**

Restructuring

The provision for restructuring covers estimated costs for the on-going restructuring programmes in mainly Norway, Belgium and Sweden.

Other

Other provisions mainly cover environmental and legal exposures and withdrawal premiums for mutual insurance companies. Provisions of EUR 3 million will be refunded by third parties.

15. GOVERNMENT GRANTS

Borealis was allowed government grants for the investment in new production plants, CO_2 emission allowances and research and development of EUR 11 million (EUR 7 million), which was recognised in the income statement.

16. LOANS AND BORROWINGS (EUR million)

The composition of loans and borrowings (short and long-term debt) at the year end in EUR million was as follows:

Maturities		2006					2005				
Due		Term loans	Utilised uncom-mitted facilities	Export credits	Finance leases	Unutilised committed revolving facilities	Term loans	Utilised uncom-mitted facilities	Export credits	Finance leases	Unutilised committed revolving facilities
After	5 years	90	0	0	1	30	202	0	0	1	0
Within	5 years	156	0	0	0	750	64	0	0	0	750
	4 years	1	0	0	0	0	1	0	0	0	0
	3 years	1	0	0	0	0	54	0	0	0	0
	2 years	2	0	0	0	0	12	0	0	0	0
	2-5 years	0	0	0	1	0	0	0	0	1	0
		250	0	0	2	780	333			2	750
Within	1 year	12	262	131	0	0	69	212	131	0	50
Net obligations		**262**	**262**	**131**	**2**	**780**	**402**	**212**	**131**	**2**	**800**
Total long-term debt		251					335				
Total short-term debt		406					412				
Total debt		**657**					**747**				

The Subordinated Loan of EUR 103 million has an 8-year term and matures in 2011.

The Group's financing is mainly comprised of committed credit lines, term loans and export credits. Of total interest bearing debt, approximately 2% has a fixed interest rate and 98% is based on a floating interest rate before applying interest rate swaps, approximately 68% has a fixed interest rate and 32% is based on a floating interest rate after applying interest rate swaps. The floating interest rates are set by adding a spread to the reference rates (mainly EURIBOR and LIBOR). At the end of 2006, the Group has committed credit lines with syndicates of banks of EUR 780 million (EUR 830 million) of which EUR 0 million (EUR 30 million) has been utilised. The tranches drawn against the committed credit lines are reported as short-term debt.

Some loan agreements have financial covenants, which are based on the gearing and solvency ratio.

Currency mix	2006	Percent	2005	Percent
Interest bearing				
USD	90	14%	161	21%
EUR	567	86%	558	75%
SEK	0	0%	28	4%
Interest bearing total	**657**	**100%**	**747**	**100%**

17. ASSETS PLEDGED (EUR million)

	2006	2005
Chattel mortgages	15	14
Others	19	18
Total	**34**	**32**

Assets pledged relates to tangible assets. The liabilities covered by the above assets amounted to EUR 34 million at the end of the year compared to EUR 32 million one year earlier.

18. CONTINGENT LIABILITIES (EUR million)

The Group has operating leases of certain operational assets. Total rental during the non-terminable periods amounted to:

Operating leases	2006	2005
1 year	11	5
2-5 years	27	13
Thereafter	22	4
Total	**60**	**22**
Operational lease payments during current year	14	11

The Group leases cars and office buildings under operating leases. The leases typically run for an initial period of 3 to 5 years, with an option to renew the lease after that date.

The Borealis Group has no intention to terminate contracts for which contractual termination payments would materially effect the Group’s financial position.

The Group has given guarantees, commitments for EUR 31 million.

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

19. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate, currency and commodity price risk arises in the normal course of Borealis' business. Derivative financial instruments are used to reduce exposure to fluctuations in interest rates, foreign exchange rates and commodity prices. While these are subject to the risk of market rate/price changes subsequent to acquisition, such changes are generally offset by opposite effects on the items being hedged.

Credit risk

Trade receivables credit risk: Management has established a credit control procedure. Credit risk is monitored on an ongoing basis. Credit risk on a specific counterparty is the sum of all outstanding trade receivables and is compared to the individual credit limit allocated to that counterparty. Credit limit evaluations are performed on a daily basis for the total customer portfolio, and all customers are at least reviewed once per year. Approval and escalation limits are used to authorise the available credit limits to customers. On balance sheet date, Borealis has no large concentrations of credit risks representing more than 5% of the total outstanding trade receivables. No credit risk is retained in the trade receivables sold under the securitisation programme.

Other credit risk: Borealis cash balances are deposited with relationship banks or invested in liquid securities only with counterparties that have a credit rating above a predefined threshold. Long-term transactions involving derivative financial instruments are done with counterparties with whom Borealis has signed netting agreements, and who meet the credit rating thresholds. Management does not expect any counterparty to fail to meet any of its current obligations.

Interest rate risk

Borealis adopts a policy of managing its interest rate risk through a modified duration benchmark. Average modified duration is allowed to deviate from the benchmark within a predefined interval. Interest rate derivatives denominated in EUR and USD have been entered into to achieve this objective. All interest rate derivatives are on terms following the maturity and re-pricing terms of the underlying loans or future loan requirements.

On December 31, 2006, Borealis had outstanding interest rate derivatives for a notional amount of EUR 617 million (EUR 755 million) with interest rates ranging from 2.35% to 5.86% and maturities up to 2010.

Borealis classifies the majority of the applied interest rate derivatives as cash flow hedges and states them at fair value. The total net fair value of the interest rate derivatives on December 31, 2006, was EUR 8.6 million (EUR 0.8 million), comprising liabilities of EUR 0.7 million and assets of EUR 9.3 million. These amounts were recognised in other payables and receivables.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates on the balance sheet date and the periods in which they are repriced.

	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
2006							
Cash and cash equivalents	4.3%	31	9	0	0	22	0
EUR floating rate loans	3.9%	-293	-293	0	0	0	0
Effect of interest rate swaps	-0.1%	0	252	0	-52	-200	0
EUR fixed rate loans	4.6%	-8	-6	0	-1	-1	0
EUR financial leases	6.3%	-2	0	0	0	-1	-1
USD floating rate loans	5.3%	-89	-89	0	0	0	0
Effect of interest rate swaps	-1.1%	0	85	0	-19	-66	0
Utilised uncommitted facilities	3.8%	-265	-265	0	0	0	0
		-626	-307	0	-72	-246	-1

	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
2005							
Cash and cash equivalents	5.2%	63	33	0	0	30	0
EUR floating rate loans	2.7%	-330	-330	0	0	0	0
Effect of interest rate swaps	0.7%	0	213	0	-86	-127	0
EUR fixed rate loans	4.9%	-14	-6	0	-6	-2	0
EUR financial leases	6.3%	-2	0	0	0	-1	-1
SEK floating rate loans	2.4%	-1	0	0	0	-1	0
SEK floating rate loans	2.0%	-27	-27	0	0	0	0
Effect of interest rate swaps	3.3%	0	27	-27	0	0	0
USD floating rate loans	4.4%	-161	-161	0	0	0	0
Effect of interest rate swaps	-0.1%	0	156	0	0	-156	0
Utilised uncommitted facilities	2.6%	-212	-212	0	0	0	0
		-684	-307	-27	-92	-257	-1

Foreign Currency Risk

Borealis incurs foreign currency risk on sales, purchases and borrowings that are denominated in currencies other than EUR. The currencies giving rise to risk are primarily USD, SEK, NOK and GBP, in order of significance.

Borealis hedges its trade receivables, trade payables and cash positions and forecasted positions denominated in the foreign currencies in which Borealis holds significant positions. At any time, Borealis may also hedge its long-term commercial exposures up to a predefined level and duration. Borealis normally hedges the currency positions using forward exchange contracts. The total notional value of outstanding foreign exchange forwards as of December 31, 2006, was EUR 385 million (EUR 402 million) of which EUR 215 million (EUR 259 million) relates to foreign currency risk management and EUR 170 million (EUR 144 million) is the notional amount of currency swaps used in liquidity management.

Firm commitments and forecasted transactions: Borealis classifies its foreign exchange forward contracts, which are hedging a forecasted currency position, as cash flow hedges and states them at fair value. The net fair value of foreign exchange forward contracts used as hedges of firm commitments and forecasted transactions as of December 31, 2006, was EUR 4.3 million (EUR -3.7 million). EUR 4.3 million has been recorded directly to hedging reserves and has been recognised in other receivables.

Recognised assets and liabilities: Changes in the fair value of forward exchange contracts that hedge monetary assets and liabilities in foreign currencies and the forward legs of currency swaps used in liquidity management, and for which no hedge accounting is applied, are recognised in the income statement. Both changes in the fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of "net financing costs." The fair value of forward exchange contracts used as hedges of monetary assets and liabilities in foreign currencies and the forward legs of currency swaps used in liquidity management for which no hedge accounting is applied as of December 31, 2006, was EUR 0.4 million (EUR 0.8 million). The amount was recognised in other receivables.

Hedges of net investments in foreign subsidiaries

Borealis designates certain external loans and cross currency interest rate swaps as hedges of the Group's investments in its foreign subsidiaries. The designated USD hedge loans amount to EUR 89 million (EUR 161 million) as of December 31, 2006. EUR/USD cross currency interest rate swaps of notional EUR 92 million (EUR 125 million) were assigned as net investment hedges as of December 31, 2006. A foreign exchange loss of EUR 9 million (EUR 55 million) was recognised in equity during 2006 on the translation of these USD liabilities to EUR (including currency element of fair value of cross currency interest rate swaps). During 2006, a net amount of USD 95 million (USD 68 million), SEK 800 million (SEK 1040 million) and NOK 0 million (NOK 75 million) of shareholder loans to associated companies and long-term inter company loans were repaid or reclassified, loans that were either net investment hedges or previously deemed as part of the permanent capital structure of the subsidiaries and for which currency revaluation effects have been charged to equity, resulting in a net loss recognised on the income statement of EUR 1 million (EUR 16 million).

The expected timing of recognition in the income statement of the gains and losses on cash flow hedging instruments recorded directly into equity is as follows:

	Gains 2006	Losses 2006
Less than one year	9.0	1.4

Commodity price

Borealis incurs commodity price risk on the purchase of feedstock and electricity.

Feedstock: On balance sheet date, Borealis had commodity derivative contracts with maturities up to 12 months forward to manage the price risk on feedstock. The notional volume of contracts held as of December 31, 2006, was 793,600 tonnes (348,000 tonnes) with an average maturity of 3 months. No hedge accounting is applied for these contracts. Changes in the fair value of the derivative contracts are recognised in the income statement. The fair value of the derivative contracts for feedstock as of December 31, 2006, was EUR 6 million (EUR -6 million). EUR 3 million has been recognised in other payables and EUR 9 million in other receivables.

Electricity: Borealis hedges its forecasted electricity purchases with maturity up to 2009 using electricity swaps. The notional volume of the contracts held as of December 31, 2006, was 247 GW (374 GW) with an average maturity of 16 months. Cash flow hedge accounting has been applied for these contracts. The net fair value of the electricity swap contracts used as hedges for firm commitments and forecasted transactions as of December 31, 2006, was EUR -3 million (EUR 13 million), comprising assets of EUR 4 million and liabilities of EUR 7 million. These amounts were recognised as other payables and other receivables directly in equity to hedging reserves.

Sensitivity analysis

In managing interest rate and currency risks, Borealis aims to reduce the impact of short-term fluctuations on Borealis earnings. Over the long-term, permanent changes in foreign exchange and interest rates will have an impact on consolidated earnings.

As of December 31, 2006, it is estimated that a general increase of one percentage point in interest rates would decrease Borealis' profit before tax for the following year by approximately EUR 3 million (EUR 3 million). Interest rate derivatives have been included in this calculation.

Borealis invoices most of its sales in EUR and buys most of its raw materials in USD. It is estimated that a general strengthening of one percentage point of the USD against EUR would decrease Borealis' profit before tax for the following year by approximately EUR 10 million (EUR 10 million) if currency risk is seen in isolation. However, the prevailing polyolefin market pricing mechanisms reduces the foreign exchange risk in practice.

Fair values

The following table indicates the fair values of the following financial instruments and their carrying amounts shown on the balance sheet:

	Carrying amount	Fair value	Carrying amount	Fair value
	2006		2005	
Interest rate derivatives	9	9	1	1
Cross currency interest rate swaps	0	0	-6	-6
Forward exchange contracts	5	5	-3	-3
Commodity derivatives	5	5	7	7
EUR fixed rate loans	-8	-8	-14	-14
	11	**11**	**-15**	**-15**
Unrecognised losses		**0**		**0**

Fair value has been determined either by reference to the market value on the balance sheet date or by discounting the relevant cash flows, using current interest rates for similar instruments. For other financial assets and liabilities, the fair value equals the carrying amount.

In 2006, most of the long and short-term loans and borrowings are based on variable interest rates, which correspond to the current market rate of interest. Therefore we assume that the carrying amount equals fair value.

20. TRANSACTIONS WITH RELATED PARTIES

EUR 890 million of total feedstock (EUR 901 million) is purchased from Borealis shareholders at market price, for which an accounts payable balance of EUR 105 million (EUR 77 million) was outstanding at year end. Borealis has received a loan from OMV AG for EUR 72 million. The loan is subordinated to and contingent upon the payment in full of all other liabilities. Repayment of the principal will be made in full in 2011. Interest is based on the EURIBOR rate plus a margin. Payment of interest is contingent upon meeting certain financial ratio tests.

There were no other material transactions with related parties in 2006.

21. SUBSIDIARIES INCLUDED IN THE CONSOLIDATED ACCOUNTS

Company name	Country, City	Currency	Issued share capital	Percentage of shares owned	Net asset value (EURmillion)	Net profit of the year (EUR million)
Borealis GmbH						
Borealis A/S	Denmark, Copenhagen	DKK	4,000,000,000	100	1,303	115
IOB Holdings A/S	Denmark, Copenhagen	DKK	2,000,000,000	100	599	0
Borealis Insurance A/S	Denmark, Copenhagen	EUR	7,091,717	100	35	3
Borealis GmbH (Austria) ApS	Denmark, Copenhagen	EUR	3,500,000	100	0	0
Borealis N.V. (Belgium) ApS	Denmark, Copenhagen	DKK	2,000,000	100	530	59
Borealis Financial Services N.V.	Belgium, Mechelen	EUR	99,189,000	100	109	8
Borealis Polymers N.V.	Belgium, Beringen	EUR	359,445,611	100	462	38
Borealis Kallo N.V.	Belgium, Kallo	EUR	40,575,176	100	61	8
Borealis Antwerpen Compounding N.V.	Belgium, Zwijndrecht	EUR	277,054	100	3	0
Borealis Sverige AB	Sweden, Stenungsund	SEK	400,000	100	55	0
Borealis Holding AB	Sweden, Stenungsund	SEK	1,300,050	100	2	0
Borealis AB	Sweden, Stenungsund	SEK	65,000,000	100	502	99
Etenförsörjning i Stenungsund AB	Sweden, Stenungsund	SEK	5,000,000	80	-2	-2
Borealis Portugal SGPS S.A.	Portugal, Sines	EUR	50,000	100	16	0
Borealis AS	Norway, Bamble	NOK	3,050,000,000	100	363	16
Borealis Poliolefine GmbH	Austria, Schwechat	EUR	46,784,000	100	116	60
PCD Polymere s.r.o.*	Czech Rep., Prague	CZK	100,000	100	0	0
Borealis Italia S.p.A.	Italy, Monza	EUR	13,725,600	100	10	-1
Borealis France S.A.S	France, Suressnes	EUR	207,000	100	0	0
Borealis Polymere Holding AG	Germany, Munich	EUR	2,001,000	100	102	5
Borealis Polymere GmbH	Germany, Burghausen	EUR	18,406,508	100	48	-8
Borealis Deutschland GmbH	Germany, Dusseldorf	EUR	154,000	100	-2	0

Company name	Country, City	Currency	Issued share capital	Percentage of shares owned	Net asset value (EURmillion)	Net profit of the year (EUR million)
Borealis Compounds Inc.	USA, Rockport	USD	50,010	100	2	0
Borealis Compounds LLC	USA, Rockport	USD	2,000	100	35	7
Borealis Polymers Oy	Finland, Porvoo	EUR	90,821,480	100	390	49
Borealis Technology Oy	Finland, Porvoo	EUR	43,728,860	100	151	8
Borealis Polyethylene Oy	Finland, Porvoo	EUR	210,000,000	100	210	-15
Borealis s.r.o.*	Czech Rep., Prague	CZK	500,000	100	0	0
Borealis Asia Ltd	China, Hong Kong	HKD	500,000	100	0	0
Poliolefinas Borealis Espana S.A.	Spain, Barcelona	EUR	60,000	100	1	0
Borealis Polska Sp z.o.o.*	Poland, Warschau	PLN	40,000	100	0	0
Borealis Brasil S.A.	Brazil, Itatiba	BRL	94,743,513	80	40	5
Borealis UK Ltd	UK, Manchester	GBP	15,000	100	2	1

* Excluded from the consolidation due to immateriality

22. SUBSEQUENT EVENTS

By year end 2006, OMV and IPIC announced their plans to incorporate their respective 50% shares of Agrolinz Melamine International GmbH into Borealis during 2007. As of January 1, 2007, John Taylor, Chief Executive of Borealis, has been appointed to the AMI Supervisory Board. The AMI group, one of the leading international producers of melamine and plant nutrients, has a workforce of around 1,000 employees and sales of EUR 470 million. John Taylor announced his retirement from the Borealis Group at the end of 2007.

23. MANAGEMENT AND SUPERVISORY BOARD

Management: John Taylor (Chief Executive), Markku Korvenranta (Chief Financial Officer, Acting)
Supervisory Board: Gerhard Roiss (Chairman), Mohamed Nasser Al Khaily (Vice Chairman), David C. Davies, Mohamed A. Al-Azdi, Khadem A. Al-Qubaisi.

Notes

Response Card

Open dialogue with our customers is the only way we can continue to provide cutting-edge solutions to everyday problems. If you would like to learn more about Borealis and how it is Shaping the Future with Plastics, please return this Response Card to us, and we will put you on our mailing list.

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