



Annual Report 2007



SHAPING *the* FUTURE *with* PLASTICS

2007 at a glance

€6,350m Net sales

€533m
Net profit (After minorities)

€666m EBITDA

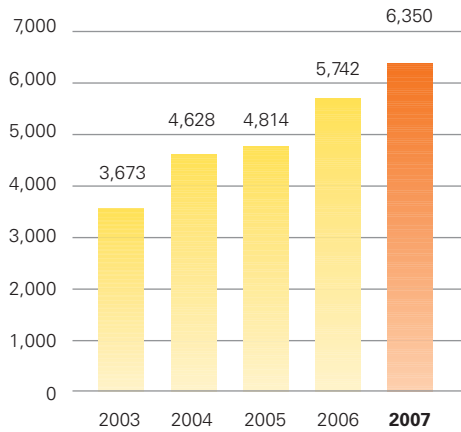
22% ROCE 27% Gearing



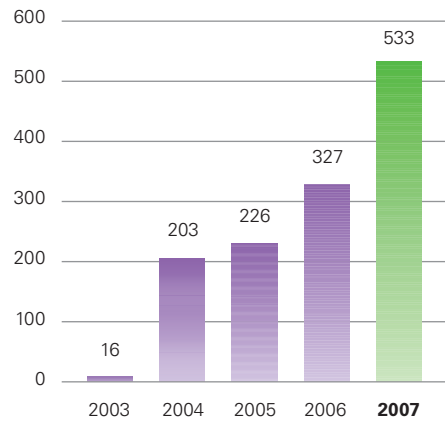
Milestones

- Continued leadership in safety
- Record net profit of EUR 533 million
- New Chief Executive Mark Garrett appointed
- Borouge 2 project progressing as planned
- Integration of Agrolinz Melamine International
- Formation of Base Chemicals business group
- Launch of Water for the World
- Three innovations recognised by Society of Plastics Engineers
- Largest-ever European capital investment in Sweden initiated
- Start-up of expanded polypropylene facility in Germany
- Divestment of Norwegian operations

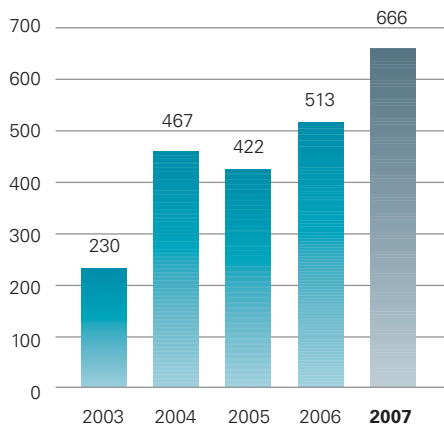
Net sales (EUR million)



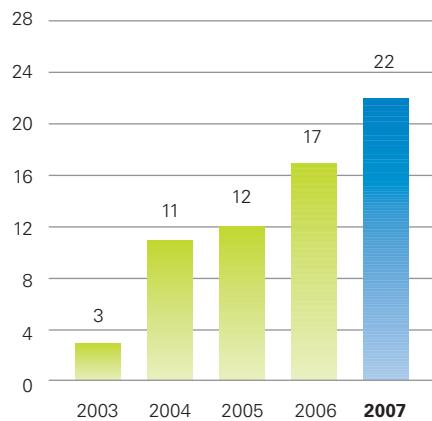
Net profit (EUR million)



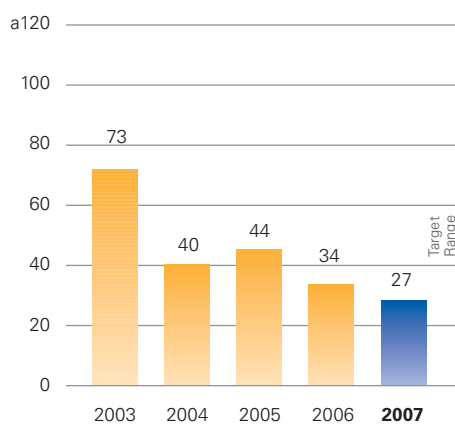
EBITDA (EUR million)



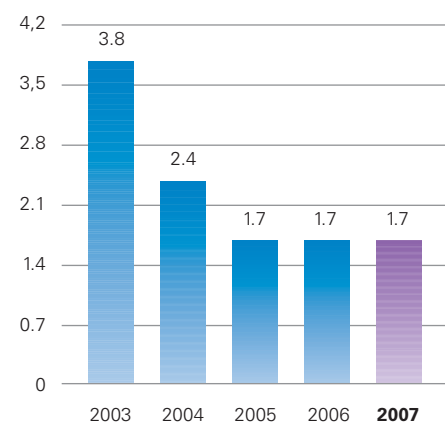
ROCE (%)



Gearing (%)



Occupational safety performance (Number/million work hours¹⁾)



¹⁾ Includes own employees and contractors

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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

Respect

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

Exceed

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

Nimblicity™

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



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

Develop our **Base Chemicals** business

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

Achieve a step change in **innovation**

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

Build a cross-cultural organisational **capability**

Outperform financially ...

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

40% – 60% debt to equity ratio



Our Executive Board

Mark Garrett
Chief Executive

Martin Kuzaj
Executive Vice
President,
Base Chemicals

Daniel Shook
Chief Financial
Officer

Lorenzo Delorenzi
Executive Vice
President,
Polyolefins

Henry Sperle
Executive Vice
President, Middle
East and Asia

Herbert Willerth
Executive Vice
President,
Operations and
Procurement

Our world

● **Borealis Locations**

Customer Service Centres

Austria, Belgium, Finland, Germany, Italy, Singapore, Sweden, Turkey, United States

Production Plants

Austria, Belgium, Brazil, Finland, Germany, Italy, Sweden, United States

Innovation Centres

Austria, Finland, Sweden

Head Office

Austria

● **Borouge Locations**

Customer Service Centres

Abu Dhabi (UAE), China, India, Singapore

Sales Offices

Abu Dhabi (UAE), Australia, China, Lebanon, New Zealand, Saudi Arabia

Production Plants

Ruwais (UAE)

Head Offices

Abu Dhabi (UAE), Singapore





Statement of the Supervisory Board

Borealis and its shareholders experienced another exciting year in 2007. The company successfully executed against the strategy it developed in 2006 together with Borouge, its joint venture with the Abu Dhabi National Oil Company. The financial results achieved are unprecedented in the history of the company, and while supported by generous market conditions, they are also testimony to the consistent pursuit of a clear strategic direction based on Value Creation through Innovation. Moreover, Borealis reaffirmed its position as an industry leader in safety performance with a record low injury frequency for the third consecutive year.

A significant responsibility for the Supervisory Board during 2007 was the appointment of a new Chief Executive to take over from John Taylor, who retired from Borealis at the

end of the year. The Supervisory Board expresses its full appreciation to John Taylor for his success in leading the company for nearly seven years. With the assumption of the Chief Executive role by Mark Garrett as of January 1, 2008 along with other new appointments to the Executive Board, the Supervisory Board is confident that a capable and experienced Management team is now in place to continue the successful implementation of Borealis' strategy.

Several key strategic goals were implemented in 2007, including the consolidation of Borealis' European polyolefin production footprint through the divestment of the Norwegian operations, and the formation of a new Base Chemicals business group through the integration of Agrolinz Melamine International (AMI), a leading provider



Gerhard Roiss
Chairman



Khadem A. Al-Qubaisi
Vice Chairman



Mohamed A. Al-Azdi
Board Member

of melamine and plant nutrients, into Borealis' existing hydrocarbons and aromatics businesses.

Other major strategic developments in Europe included the announcement of a world-scale polyethylene unit in Sweden to be ready in 2009. This is the largest capital investment project ever implemented by Borealis in Europe and will be a critical contributor to value creation in the future.

The start-up of the expanded polypropylene facilities in Germany at the end of the year is an example of the synergistic relationship between Borealis and its shareholder, OMV, and a result of the commitment to its innovative, cutting edge Borstar® PP technology. The investment will be complemented by a new Borstar PP

pilot plant to be constructed in Austria, which will also support Borealis' expansions in the Middle East through its Borouge joint venture.

The Borouge 2 project, which will triple Borouge's production capacity in Abu Dhabi to two million t/y based on Borstar PE and PP technology, gathered full momentum with the award of the EPC contracts and will be supported by a new Innovation Centre being established in Abu Dhabi.

With these achievements, Borealis is in a good position to continue to create value for its customers and shareholders as THE leading provider of innovative, value creating plastics solutions for infrastructure, automotive and advanced packaging applications in Europe, the Middle East and Asia.



David C. Davies
Board Member



Mohamed H. Al Mehairi
Board Member

Meet our CEO

You joined the company at the beginning of 2006 as the Chief Executive Designate. What have been your impressions of Borealis and what do you think sets the company apart from its competitors?

Firstly, Borealis belongs to a unique set of companies today that has a clear vision and strategy understood by the vast majority of its employees. This is confirmed regularly in our People Surveys. In addition, it has a set of values that it truly holds itself to. These things cannot be taken for granted; many companies have them on paper, but few have employees who understand and live them.

Secondly, Borealis has been able to earn an excellent reputation in the market for responsiveness, operational excellence, safety and innovation.

Thirdly, our strategy based on Value Creation through Innovation matched with our cutting-edge Borstar technology is unique. We believe we are making the best possible use of finite resources, putting them into the highest value-added applications possible. We do not see plastics as just commodities but rather as the material of the 21st century. We believe plastics can make a significant contribution to solving real world global challenges.

And finally, we have a very attractive international market presence, including our joint venture with the Abu Dhabi National Oil Company, Borouge. Our production facilities, innovation centres, and service centres across Europe, the Middle East, and Asia provide customers in more than 170 countries around the world with highly innovative, sustainable plastic materials that make an essential contribution to society.

What are your priorities to take Borealis into the future?

The years ahead will be exciting but also very challenging. We will remain true to our core idea of Value Creation through Innovation, providing solutions to our key markets in infrastructure, automotive and advanced packaging across Europe, the Middle East and Asia. This has been a winning formula for us, and we will stick to it. At the same time, we need to prepare ourselves for some challenging market conditions, which are forecasted to come our way. This means we need to stay competitive by cutting costs, simplifying our organisation and becoming more nimble so we can adapt to the coming challenges, weather the storm and emerge in a solid financial position.

We have some new leaders on board, and I look forward to working closely with them to steer our company down

the right path in the months to come. Our Chief Financial Officer Daniel Shook and Executive Vice President (EVP) for Base Chemicals Martin Kuzaj have joined us recently and will play a very important role, along with two stalwarts of the Executive Board, Henry Sperle, EVP for Middle East and Asia and Herbert Willerth, EVP of Operations, in helping chart our future path. In addition, I am also very happy we have been able to promote Lorenzo Delorenzi from within our organisation to the role of EVP for Polyolefins.

In the next three to five years, we will focus on specific tasks. First of all, we will continue to penetrate the rapidly growing markets in the Middle East and Asia with our value-adding products. In Europe, we will concentrate on cost competitiveness, innovation and commercial excellence. We will also prioritise the development of our Base Chemicals business.



What attributed to Borealis achieving a second year in a row of record results?

A wise man knows that he alone does not contribute to his own success, and paradoxically he has to accept full responsibility for his failures. The same goes for a company. In 2007, many people worked very hard at Borealis executing our strategy very well. This, without doubt, contributed to our record performance. On the other hand, we cannot deny that the stars were all aligned in our markets and as a result, the general market conditions also made a significant contribution to our success. We worked hard, did the best we could to create as much value as possible and were successful in very favourable market conditions.

What is the role of the newly created Base Chemicals business in the future of the company?

With the completion of the Agrolinz Melamine International (AMI) integration into the Borealis Group, we are now moving forward with our plans to make Base Chemicals a "second leg" to our integrated polyolefins business.

As part of the transition process, we have been working closely with AMI on a six-quarter transformation programme designed to elevate their performance in safety and operational excellence to a world-class level.

As mentioned previously, a very important milestone was last November, at which time Martin Kuzaj was appointed as EVP for Base Chemicals. Martin will oversee this business group, which includes feedstock and olefins, phenol and aromatics as well as melamine and plant nutrients. We look forward to making this new business a highly successful complimentary addition to our Group portfolio.

The Middle East and Asia play a major role in the growth of the company. How do you see the company's progress with this part of its strategy?

Borouge is already contributing very strongly to our results, and the Borouge 2 project is the centrepiece of our efforts to meet the continually increasing demand for our products in the Middle East and Asia. Borouge is leading this major expansion project in Ruwais, Abu Dhabi. Contracts valued at over USD 4.7 billion have been signed to date for the expansion, which will triple annual production capacity to two million t/y of polyolefins when it comes onstream in 2010. Polypropylene will also be produced at the site for the first time.

We recently appointed Henry Sperle, who for many years oversaw our Hydrocarbons business, as EVP for the Middle East and Asia. He will be based in Abu Dhabi to ensure that things progress as planned and meet our expectations for success.

Other promising growth developments include the Abu Dhabi Innovation Centre, which is on track for opening in 2009 and our plans for a 50,000-tonne compounding facility in Shanghai, China, to serve the rapidly expanding automotive market.

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

We fell just short of our safety targets this year with a total recordable injury frequency of 1.7 per million working hours. This is world-class but still means 24 people were hurt while at work. This is not acceptable, and therefore we will continue to emphasise safety throughout the organisation. We don't want people to get hurt, and it is crucial to the success and profitability of our company. As our motto goes: "If we can't do it safely, we don't do it at all."

In the last six years, we have risen to a leadership position in safety. This resulted in us being awarded the 2005 Dupont Safety Award in the Business Impact category. In the Responsible Care® section of this report, you can read in more detail about the measures we are taking to prevent people from getting hurt while working for us.



The plastics industry can be quite volatile. How is Borealis preparing itself to withstand possible effects of an industry downturn?

With oil prices staying very volatile but at a high level, we will continue to see some impact on our margins. In fact, the whole value chain is affected, creating a sort of inflationary bubble. To address this, we will continue to focus on less volatile market segments and take advantage of our feedstock flexibility, enabling us to continue providing the innovative solutions our customers expect based on value related pricing.

As I alluded to earlier, we will tighten our belts by watching our costs, keeping focused on our priorities and simplifying where possible to get the job done well and on time. Oil prices also give us an advantage as we provide innovative energy saving solutions, particularly to the automotive industry.

During the year, you launched Water for the World™. How do you see this adding value to your business?

We believe that our plastics can make a substantial and sustainable difference in minimising our societal and environmental impact and providing sustainable solutions to global challenges such as climate, food, water and sanitation, energy, healthcare and communication.

Over one billion people worldwide are without access to clean drinking water and more than two billion without basic sanitation. Water is clearly a crisis issue that we can do something about. Water for the World is the first global programme of its kind in the plastics industry, which addresses the three key areas that can make a difference: Local knowledge, partnerships and sustainable solutions.

Water for the World fosters local knowledge and partnerships throughout the value chain to deliver sustainable solutions for the availability of safe drinking water and sanitation around the world. It won't happen overnight, but if everyone does their part in addressing this issue, maybe we can achieve results sooner than we expect. I believe that by building on our market and innovation leadership, we can go beyond business to make a difference.

Responsible Care is a registered trademark of the European Chemical Industry Council (CEPIC) in Europe.
Water for the World is a trademark of Borealis A/S.

Our business

Borealis provides innovative, value creating solutions through two business groups: Polyolefins and Base Chemicals.

Polyolefins

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 global 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 Nimblivity™ – 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, Borealis and Borouge, our joint venture with the Abu Dhabi National Oil Company, are leading the way and Shaping the Future with Plastics.

Infrastructure

Pipe systems

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

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

Phenol and aromatics

Phenol, benzene and cumene as well as 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. Borealis is the leading phenol producer in the Nordic and Baltic regions. Acetone is commonly used in solvents for paints, acrylics, fibres and pharmaceuticals. Benzene and cumene are feedstocks for other chemical processes.



Melamine and plant nutrients

Melamine and plant nutrients are produced at our facility in Linz, Austria. Melamine products include coatings, compounds for houseware, concrete liquefiers, paint resins, fiberboard binders, special resins for textile and paper finishing, and fireblockers. We are currently 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, our leading edge Borstar technology is a critical element in developing the next generation of innovative, value creating plastics.

Borstar is Borealis' leading edge proprietary process and catalyst technology that supports the production of a wide range of enhanced PE and PP products.

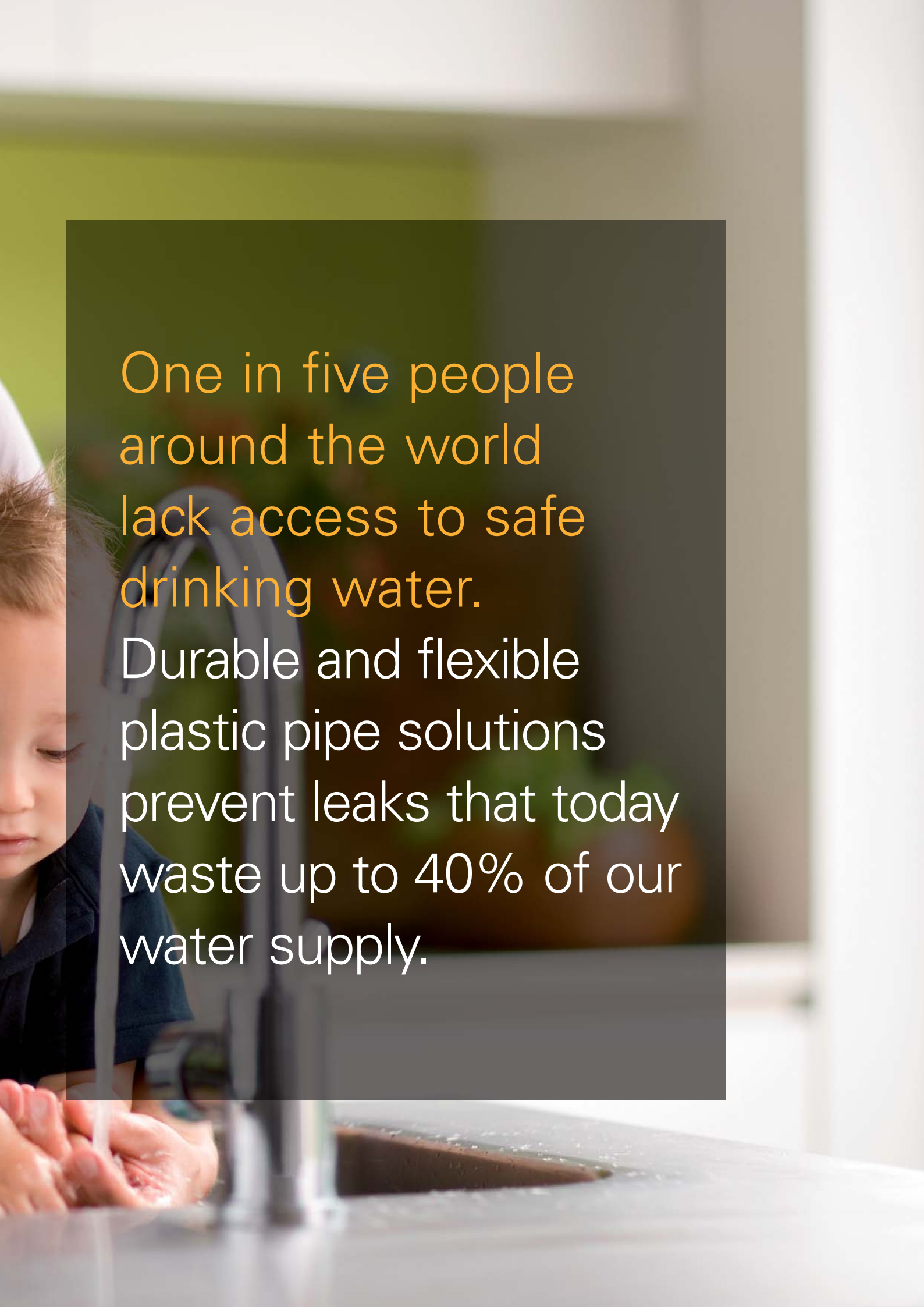
Now, both Borstar PE 2G and Borstar PP 2G, Borealis' next generation technology, represent a leap forward in polymer

design – from bi-modal PE/PP to multi-modal PE/PP – facilitating the development of an ever-widening range of new plastics that outperform alternative materials in meeting the needs of manufacturers and end users.

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

Borstar is a registered trademark of Borealis A/S.



A young child with brown hair, wearing a dark blue shirt, is washing their hands at a white sink. The faucet is a modern, curved, grey plastic design. Water is running from the faucet into the sink. The background is a blurred indoor setting with greenery and a window. A semi-transparent dark grey rectangular box is overlaid on the right side of the image, containing text.

One in five people
around the world
lack access to safe
drinking water.

Durable and flexible
plastic pipe solutions
prevent leaks that today
waste up to 40% of our
water supply.

Water for the World™

Whether it is climate protection, energy conservation, access to water or food preservation, the challenges facing our world are very relevant to the plastics industry. The plastics industry value chain can indeed make a difference, not only in the way it operates but also how it provides sustainable solutions to address these global challenges.

Water and sanitation are probably the most vital of these challenges. The statistics are staggering – more than one billion people around the world are without access to clean, safe water and two billion have no access to basic sanitation. This is further complicated by factors such as climate change, urbanisation and rapid population growth. The unfortunate reality is that the world is facing a global water crisis.

The challenge is not about finding more water; it is about better managing and preserving the resources we have. Yet, in rich or poor countries alike, inefficient water systems and unsustainable practices are widespread. The pace of transferring best practices remains slow across value chains and communities, and awareness is too often raised only when a crisis occurs.

Borealis and Borouge launched Water for the World in 2007 to address this urgent situation. The programme's goal is to foster local knowledge and partnerships throughout the value chain to provide sustainable solutions for the availability of safe water and sanitation.

Borealis and Borouge's advanced plastics are shaping sustainable water solutions from source to network, for food protection, water supply or sewage systems. To embrace their social responsibility, the two companies are now leveraging their market leadership to go beyond business.

Water for the World is making a difference in five different areas:

- **Bringing expertise to community field projects.** Borealis and Borouge are partnering with Water and Sanitation for the Urban Poor (WSUP) to bring together local and global expertise to provide sustainable water and sanitation solutions for poor urban communities. WSUP is an innovative partnership that pools together the expertise of the World Wildlife Fund (WWF), WaterAid, Care International UK, Water for People, Unilever, Thames Water, the Halcrow Group and the Cranfield University. To meet its 2008 goal of reaching half a million people, WSUP is working on 15 large-scale projects.



- **Advancing science and best practices** through education and training programmes on water and sanitation technologies. As co-founders of the world renowned Stockholm Water Prize, Borealis and Borouge are rewarding individuals, organisations or institutions for outstanding water-related activities. The prize laureate in 2007, Professor Perry L. McCarty, from Stanford University in the United States, was rewarded for his ground-breaking work in developing the scientific approach for the design and operation of water and wastewater systems. He has defined the field of environmental biotechnology, which forms the basis for small and large-scale pollution control and safe drinking water systems.
- **Engaging stakeholders** to encourage sustainable practices, investments and innovations. Borouge, as a founder of the Gulf Plastics Pipe Academy in Abu Dhabi, is initiating a new approach to develop training, standardisation and certification programmes for plastic pipe networks in one of the most water scarce regions of the world.
- **Leveraging the companies' expertise** to innovate and increase the offering of sustainable solutions to address local challenges. For instance, in the Indian State of Andhra Pradesh, the Sri Sathya Sai Central Trust has worked with Borouge to select a material solution for the building of a water supply system reaching 450 villages in a drought prone area. Leak-tight, durable and easy to maintain, the pipe system ensures access to clean, drinkable water to half a million people for many years to come.
- **Enhancing water efficiency in our operations and mobilising** employees and local communities by raising awareness and adopting sustainable practices. The Global Water Tool launched in 2007 with the World Business Council for Sustainable Development was piloted by Borealis and Borouge across all their operations. The initial mapping of their water risks now serves as a basis for the development of a water efficiency programme with the support of independent experts. As of 2007, Borealis is including water intensity as part of its key performance indicators managed under its Responsible Care programme.



Employee support will be the key to this programme's success. In a recent Water for the World initiative, Borealis employees in Belgium joined the Music for Life fundraising campaign in support of Red Cross water access programmes in Namibia. Activities in other local communities will be developed across the company.

Unlike energy, there is no alternative to water. Solutions exist, and we believe that the plastics industry can make a difference. Visit www.waterfortheworld.net for further information on activities and partnerships.



Growing in the Middle East and Asia

Building on a successful first half-decade of close collaboration, Borealis continues to work closely with Borouge, its joint venture with the Abu Dhabi National Oil Company, to tap into the growing markets of the Middle East and Asia.

Five years in Abu Dhabi

This year, Borealis and Borouge celebrated five years of production in Ruwais, Abu Dhabi. The complex started up at the end of 2001 and included the first bimodal PE unit in the Middle East. The PE produced at the facility is used to provide innovative solutions for the infrastructure, automotive and advanced packaging industries. A total of 2.3 million tonnes of PE has been produced as of the beginning of the year, marking an extraordinary achievement and setting a benchmark for operational excellence in the plastics industry throughout the Middle East. To spell out the magnitude of the volume produced, imagine taking a water pipe that is 110 millimetres in diameter and stretching it six times around the world. Achieving this milestone required 8 million man hours, which were worked without Lost Time Accident, helping Borouge receive an ISO 9001 (quality management) certification nine months after start-up and ISO 14001 (environmental management) at the end of 2006.

Looking towards the future

After a very strong first five years, Borealis and Borouge are now focused on the future and how they will meet the growing demand in the Middle East and Asia. India and China, for example, with a combined population of over 2.5 billion and booming economic growth, will play an increasingly important role in global economic matters and energy markets.

Expansion through Borouge 2

Borealis and Borouge are progressing as planned to achieve their targeted 2010 start-up of Borouge 2, the multi-billion dollar expansion of the Borouge production facilities that will triple existing production capacity to two million tonnes per year, including, for the first time, polypropylene. Contracts valued at over USD 4.7 billion have been signed to date, which are being invested in the construction of a new ethylene cracker, a new olefins conversion unit, three new Borstar polyolefin units and associated material handling facilities, laboratories and marine works as well as offsite and utility facilities.

This increased output will open up new markets for Borouge and is expected to make a strong contribution to the growth of downstream industries in Abu Dhabi and the surrounding region.

Meeting growth in China

A good portion of Borouge's future output will help meet the demand of the Asian growth markets, in particular China.

An expected 5.9% growth in demand per year for PE and 7.7% for PP are forecasted for the next five years in the Middle East and Asia. With this in mind, Borealis and Borouge are taking steps that will enable them to serve this lucrative market. The companies are not new to China. Since their first presence in Hong Kong in the early 1980s, they have expanded operations into Beijing and Shanghai.

A recent investment will expand Borouge's Shanghai office, which was established in 1996, to eight times its original size, providing enough office space to meet the needs of its



growing staff while further strengthening its operations in China and improving customer service. During the year, in another sign of its international expansion, Borouge moved its global marketing headquarters to larger offices in Singapore and opened full sales and services offices in Melbourne, Australia, and Auckland, New Zealand.

Borouge also announced its plans to develop a compounding facility in China that will manufacture high performance PP compounds for automotive and electrical appliance applications. The new facility will be constructed near Shanghai and have an annual capacity of up to 50,000 tonnes, with the potential for further expansion. This strategic location was chosen as China is the world's fastest growing automotive market and strives to become the largest car producer in the world within the next 10 years. Being here will also allow the company to take advantage of the supply of Borstar® PP from its plant in Ruwais, Abu Dhabi, through an advanced logistics operation and to serve current and future customers in China and other Asian countries as well as Middle Eastern markets.

Innovations for the Asian market

Borouge has recently introduced several innovative, sustainable solutions that will help meet the needs of local populations in these important markets.

As part of the Water for the World programme (see page 16), Borealis and Borouge are supporting a charitable organisation to help eliminate water scarcity in the drought-prone region of Andhra Pradesh, India. Borouge's high quality, durable and flexible BorSafe™ PE pipe solution spanning 765 km of rugged terrain now transports drinking water all year round to half a million

people living in 450 villages. This sustainable solution has an expected life cycle of 100 years, outperforming traditional pipe materials. The local inhabitants no longer have to wait for scant rainfall or rely on the ground water, which contains an excessive amount of fluoride.

In Thailand, a durable polyethylene film from Borouge is helping Thailand's shrimp and fish farmers develop pond covers that last longer and require less maintenance. The customer chose this solution for its durability and ability to withstand intense heat and strong winds, which are commonplace on the coastline where the majority of Thailand's shrimp and fish farms are situated. This Borstar enhanced polyethylene also provides cost benefits, enabling film converters to use half as much material to produce the same film thickness required by fish farmers to cover and line their ponds.

A bright future ahead

The future looks bright for Borouge. With Borouge 2 coming on stream in two years, continued excellence in production and Health, Safety and Environment (HSE) as well as the cutting-edge, sustainable products it continues to provide in the Middle East and Asia, the company is gearing up to maintain its record of success by tackling the challenges in the years to come.

BorSafe is a trademark of Borealis A/S.

A person with dark hair, wearing a blue and white striped button-down shirt over a white t-shirt, is sitting on a grey couch. They are looking out a window with yellow and blue floral patterned curtains. The scene is dimly lit, suggesting an indoor setting during the day.

More than 2.6 billion mobile phones are used worldwide.

Today's cutting-edge polymer technologies ensure stable, high-performance communications.



Preparing for the future in Europe



In order to prepare itself for an expected increase in market volatility in the years to come, Borealis is taking concrete steps to preserve its leadership position on the continent where it has over 40 years of history, heritage and roots. The investments the company is making to maintain, upgrade and expand its asset footprint will increase its competitiveness and improve operational excellence, allowing it to stay the course and weather any future stormy market conditions.

Committed to the wire and cable industry

The largest Borealis investment ever in Europe is in Stenungsund, Sweden, where a new EUR 370 million, 350,000 t/y low-density polyethylene (LDPE) plant is being built to serve the growing wire and cable business, as well as the Nordic packaging market. The project, scheduled for completion at the end of 2009, will also modernise and streamline the compounding operation and related material handling facilities. This development results from Borealis' commitment to the wire and cable industry and its focus on providing innovative, sustainable infrastructure solutions that ensure secure and reliable electricity supply to consumers and industries around the world.

Innovative solutions for advanced packaging

In Burghausen, Germany, the EUR 200 million investment in a 330,000 t/y polypropylene expansion based on Borstar technology started up as planned at the end of 2007. The additional capacity from the state-of-the-art facility will enable Borealis to further develop its leading position in providing value creating solutions for the fast-growing advanced packaging market. The company's proprietary Borstar technology provides for cost-efficient plant construction and differentiated product performance. At the site, OMV, a 36% owner of Borealis, has completed the construction of a new metathesis plant and the expansion of its ethylene cracker. The resulting increase in monomer capacity enables OMV to provide nearly all of the required propylene to the expanded Borealis plant, demonstrating the ongoing close collaboration on feedstock integration between the two companies.

Expansion and innovation

In order to continue providing cutting-edge polypropylene solutions to its customers, Borealis is making key investments in its Austrian operational base. At Schwechat, EUR 35 million is being dedicated to create a four-reactor

configuration at the Borstar® PP plant for the production of high quality materials for the expanding automotive markets, namely in Central and Eastern Europe, as well as for the pipe and advanced packaging industries. Also at the site, EUR 30 million is being invested in a four-reactor Borstar® PP pilot plant that will strengthen the company's ability to readily develop innovative, advanced multimodal PP solutions. These developments, scheduled for completion in 2009, enable Borealis to optimise its assets at the site and to decrease the time required to get products to market.

Optimising assets

In Porvoo, Finland, Borealis is further enhancing its assets to supply the rapidly growing demand for pipe and advanced packaging solutions, and to serve the developing Russian market. Approximately EUR 100 million has been invested in the cracker, and its expansion was completed in the Summer of 2007, increasing production capacity by 18% to 390,000 t/y, while maintaining the same level of energy consumption. A further EUR 45 million was invested in upgrading the phenol production technology and expanding capacity. EUR 25 million is also being invested to expand the capacity of the PP plant by 65,000 t/y to 220,000 t/y and will be completed by the end of 2008. In a continual effort to optimise its assets at the site, Borealis' collaboration with Neste Oil has resulted in the construction of a new unloading terminal for naphtha arriving by rail from Russia.

Divesting to increase competitiveness

To gain an edge on the competition, companies often find it necessary to divest themselves of certain assets. During the year, Borealis sold its Norwegian polyolefins business and its share in the Noretyl gas cracker to Ineos for EUR 290 million. The sale is the result of efforts to ensure cost competitiveness from feedstock to customers and to concentrate on providing solutions in its key markets of infrastructure, automotive and advanced packaging. The transaction now enables Borealis to focus on its operations in Austria, Belgium, Finland, Germany and Sweden.

Value Creation through Innovation will continue to drive Borealis' operations in Europe to meet the challenges ahead and to provide the innovative, value-added plastics solutions its customers have come to expect.

Exceeding in innovation and commercial excellence

A step change in world-class innovation and the achievement of commercial excellence is central to Borealis' mission of becoming the leading provider of innovative, value creating plastics solutions. Innovation and commercial excellence go hand in hand. If Borealis fails in one or the other, it risks a deterioration of margins, which could be detrimental to the company in an increasingly competitive environment.

Achieving a step change is no easy task, but the company is well on its way to making this goal a reality. While there is still much to be done, current investments in research and development, cutting-edge product applications, flawless execution and commercial excellence are bringing the company closer to where it wants to be.

Investing in a step change

The core of Borealis' research and development work takes place at three Innovation Centres located in Austria, Finland and Sweden. Approximately 10% of the company's staff professionals are devoted to its technology organisation, which acts to minimise the time to market for new products.

Borealis continues to progress its EUR 25 to 30 million expansion of the Linz Innovation Centre, which is being transformed into the focal point of its international research activities. The expansion comprises the construction of four new buildings for polymer and hydrocarbon research, administration, warehousing and applications development. The olefins laboratory will also be expanded. The Centre's high tech material testing and software systems allow the molecular structure of plastics to be adapted according to customer needs, enabling Borealis to provide tailor-made solutions to the market quicker than ever before. The ongoing cooperation between Borealis and the government of Upper Austria as well as with local institutes of higher education such as Johannes Kepler University and Wels Advanced Technical College will help make the Centre a leading hub for international plastics industry research in Austria.

In Finland, Borealis is moving forward with its EUR 9 million project to consolidate its new facilities and laboratories into

a single Innovation Centre building, improving its effectiveness in working with the production plants and business units. The construction of a new catalyst and process laboratory is scheduled for completion by the end of next year, further positioning the centre as the focal point of Borealis' international catalyst and process research programme.

In Sweden, the Innovation Centre is moving forward with its specialised research in the pipe, and wire and cable application areas.

Development is progressing to construct a new Innovation Centre in Abu Dhabi, UAE, which Borouge will open in 2009. The Centre, initially to employ 45 people, will boost the company's research capabilities to meet growing demand in the Middle East and Asia and is linked to the multi-billion dollar Borouge 2 expansion (see page 18).

Commercial Excellence

In order to invent and offer the right products for the right markets, Borealis has to exceed in identifying and meeting its customer and market needs, converting these needs into new opportunities and robust business cases. Then, it must select and focus resources on the most attractive opportunities, and finally build and execute winning marketing strategies.

Borealis' Commercial Excellence project enables it to exceed in all these areas by making sure the right strategies, tools, processes and commercial organisation are in place. Once they are in place, success depends on smooth implementation and a true behavioural change, enabling Borealis to capture the value of innovation in the marketplace and protect the margins if the markets experience a downturn.

Great progress has been made so far, contributing significantly to Borealis' financial performance. Based on its success, the Commercial Excellence project will be expanded across the entire organisation.



Cutting edge products

At K2007, the largest international plastics and rubber trade fair occurring every three years, Borealis introduced some of its latest innovations in infrastructure, automotive and advanced packaging to the world. In addition to being on the cutting edge of technology, these products address global challenges such as climate change, access to clean water and sanitation, energy conservation, food protection, communication and healthcare. At Borealis, innovation is all about creating value for customers and society at large.

BorSafe™ solutions for pipe networks and fittings

Borealis and Borouge are committed to providing better, safer and more durable pipe systems for drinking water, sanitation and gas distribution. BorSafe is a solution for PE pressure pipes and fittings produced using Borstar PE 2G proprietary technology, the latest generation of multi-modal processes that enables the molecular tailoring of PE to provide an optimal balance between processability and mechanical strength. BorSafe material offers exceptional crack resistance and is the ideal solution for tough handling and installation conditions such as the trenchless installation technique or burstlining, where a new pipe is inserted into an old one. AGRU Kunststofftechnik, a leading innovative pipe producer in Austria, selected BorSafe for a sewage pipe network, which needed to be installed on a steep gradient in the Austrian Alps at 2,369 metres altitude.

BorSafe products go beyond business to address the current water crisis by offering long-lasting, durable and reliable solutions.

The first-ever car with full PP body panels

Borealis has worked closely with smart and Tier One manufacturer Plastal to pioneer the first-ever commercialised car with full PP body panels, including the tailgate, hood and side panels. The innovation, which recently won the Society of Plastics Engineers Award, features Borealis' Daplen™ material, a thermoplastic polyolefin (TPO) compound, which was able to meet the cost-effective production targets and aesthetic, safety and environmental requirements of the

latest smart fortwo vehicle. Daplen provides a 15% reduction in overall vehicle weight, an important contributor to lowering CO₂ emissions and fuel consumption. The vehicle has been called "the CO₂ champion," emitting only 88 grams of CO₂ per kilometre. Furthermore, the material is fully recyclable in line with European legislation.

The operational, environmental, aesthetic and safety advances set forth by this innovative project are a major step forward for Borealis, its customers and for the greater automotive industry, potentially setting a new trend in how cars are developed in the future.

Advances in food packaging

The food packaging industry continuously seeks more efficient and higher quality solutions for its products. In response to this, Borealis has introduced Bormod™ to the market. This new injection moulding polypropylene (PP) grade offers sturdy performance, faster productivity and lighter weight properties for consumer food containers that package refrigerated salads, margarines, and fresh and frozen dairy products. For processors, Bormod, which incorporate Borealis' Nucleation Technology, enables a step change in productivity of around 20%, resulting in faster cycle times. The material's downgauging potential also saves material and reduces weight by 10 to 20%, lowering costs and increasing efficiency for the product manufacturer. As far as aesthetics go, Bormod helps packaging retain its original high quality appearance and preserve the foodstuffs inside. For the end user, this means lighter weight, thin-wall products that are durable and easy to stack.

A leading Italian manufacturer of primary plastic food packaging chose Bormod to produce its food containers and achieved positive results, such as higher quality and improved product performance as well as a faster and smoother production process.

BorSafe, Daplen and Bormod are trademarks of Borealis A/S.

Building a Base Chemicals business



During 2007, the integration of Agrolinz Melamine International (AMI), the completion of the phenol and cracker expansions in Finland, the next steps in the Borouge melamine project in Abu Dhabi and the appointment of a new Executive Vice President of Base Chemicals underline Borealis' commitment to further developing its Base Chemicals business.

New leadership for Base Chemicals

In November, Borealis appointed Martin Kuzaj as Executive Vice President of the newly-formed Base Chemicals business group, which includes feedstock and olefins, phenol and aromatics, as well as melamine and plant nutrients.

Kuzaj is also the Managing Director of AMI, responsible for the integration process, which is focusing mainly on safety and operational excellence issues. An important part of the integration involves a six-quarter transformation programme, which allows the companies to share best practices and work together to achieve joint cost reductions and increased profitability.

Increased capacity in Finland

In order to meet the growing demand for phenol, olefin derivatives and cracker co-products in the Baltic countries and Russia, Borealis completed two significant expansions at its production facility in Porvoo, Finland.

In June, a EUR 45 million investment expanding the phenol production capacity by 28% to 195,000 t/y and acetone capacity to 115,000 t/y was completed. The project was modelled on an earlier expansion of the benzene and cumene plants for which the project team received a Borealis Innovation Day award in 2006. These enhancements, which also improve process safety through the use of a new cleavage technology, were completed without any safety incidents.

In the same month, a EUR 39 million investment in the ethylene steam cracker was completed without any safety incidents. The capacity of the cracker was increased by 60,000 t/y to 390,000 t/y while its flexibility was further improved. The investment was part of a EUR 100 million package of turn-around, debottlenecking, furnace upgrading and other enhancements aimed at improving the competitiveness of the Finnish operations.

Divestment of Norwegian assets

In September, Borealis completed the divestment of its 50% shareholding in the Noretyl AS gas cracker at Rafnes, Norway. This restructuring of the Base Chemicals business group will allow greater focus on exploiting emerging opportunities in Europe, the Middle East and Asia.

Agrolinz Melamine International integration

Borealis' integration of the world's second largest producer of melamine and the Danube region's market leader in plant nutrients began during the year and is expected to be completed within 18 months through a six-quarter transformation programme. This development widens the range of products available from Borealis' Base Chemicals operations as well as its geographical reach. Presently, some 165,000 tonnes of melamine and melamine resins are produced annually and marketed on a global basis. Significant investments have been made in recent years to develop new technologies for the production of melamine and melamine resins. The company also markets annually about 1.6 million tonnes of various plant nutrients. It is both a manufacturer and a wholesaler of these products in Central Europe and will continue to exploit its logistical advantages to continue further penetration in the Danube basin.

Borouge melamine expansion project

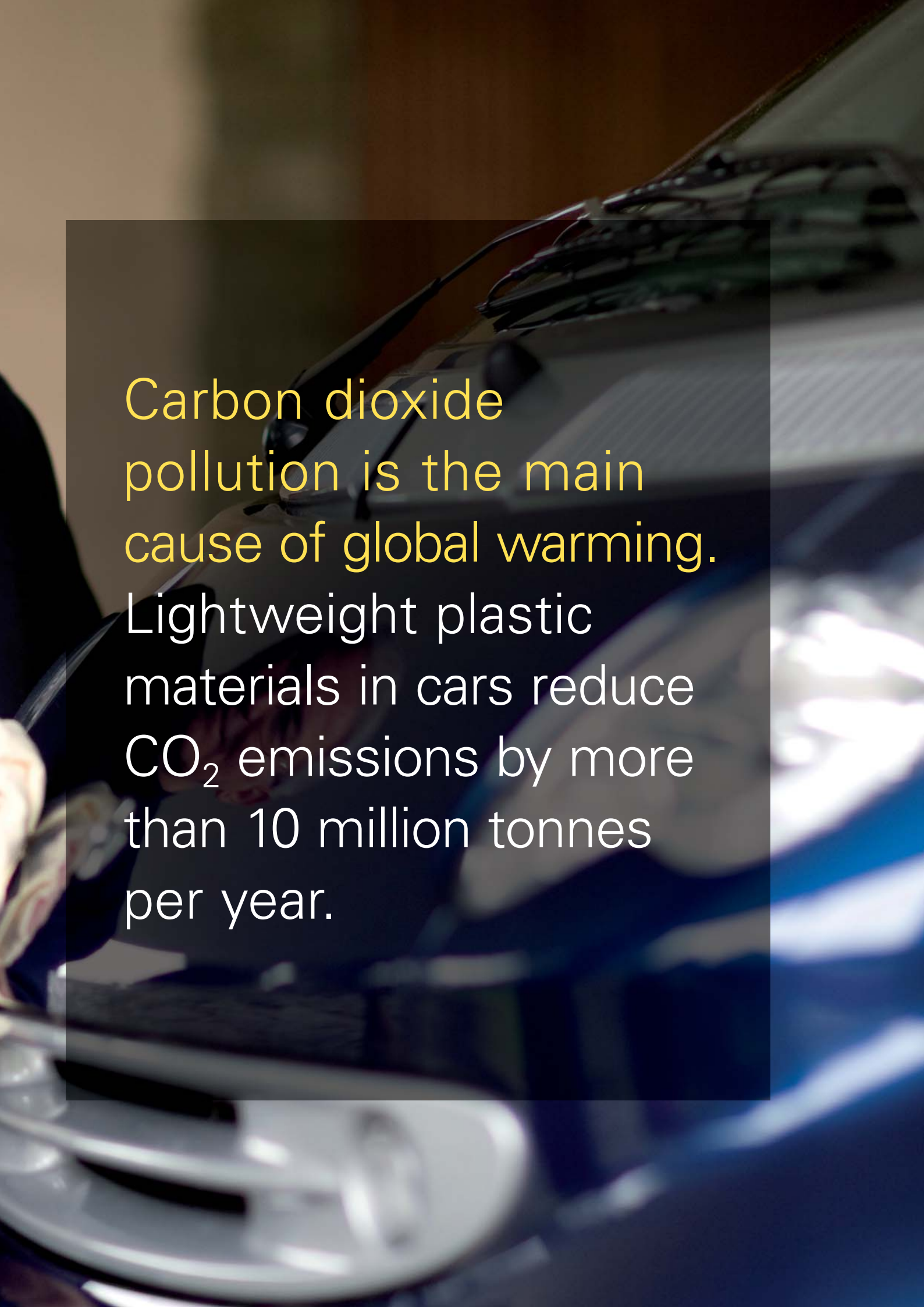
Based on robust global demand for melamine, particularly in the Middle East and Asia Pacific, Borouge, Borealis' joint venture with the Abu Dhabi National Oil Company, announced this year its decision to proceed with the development of a project aiming to construct a new 80,000 t/y melamine plant in Ruwais, Abu Dhabi, the

location of its existing world-scale polymer production facilities. This gives the company the opportunity to diversify its product portfolio in line with its overall expansion plans. The front end engineering and design phase continues, and production would come on stream after the completion of the ongoing Borouge 2 project (see page 18). The new plant will exploit synergies with existing operations.

Borealis' Base Chemicals business is greatly enhanced by this year's developments, and the company is now preparing itself for the exciting and challenging opportunities for growth and market leadership in the years ahead.







Carbon dioxide pollution is the main cause of global warming. Lightweight plastic materials in cars reduce CO₂ emissions by more than 10 million tonnes per year.

Maximising our human capital



As the market gets increasingly competitive with each new day, the war for talent continues. To prepare for this trend and to attract the best and brightest, Borealis continues to progress a number of initiatives that will help attract future leaders to the company. Whether they are researchers, engineers, salespersons, functional or production staff, these new people will be instrumental in helping the company achieve its mission of becoming the leading provider of innovative, value creating plastics solutions.

Passion for plastics

At K 2007, the world's largest plastics and rubber trade fair, in addition to presenting its products and innovations, Borealis hosted its first-ever student day. The company, along with its joint venture Borouge, invited 180 polymer science students from renowned institutions in Europe and the Middle East to Düsseldorf for this special event entitled Passion for Plastics. The full day programme offered the opportunity to tour the fair and visit the Borealis and Borouge stand to learn more about the two companies and their latest innovations. In the afternoon, students participated in a workshop on the plastics industry and the sustainability issues it is facing today. And perhaps most importantly, there was a valuable opportunity for the students to network amongst themselves and to meet members of Borealis' research and development team.

Rewarding student innovators

Another highlight of the event was the official launch of the International Student Innovation Prize, which will be awarded annually for the two most innovative polymer science research papers completed by master's and doctorate students. Winners are selected by a jury of independent academics and Borealis representatives, and receive a financial award for their achievements. The prize is an initiative of Borealis' Innovation and Technology group and is open to students from all universities. Both the Student Day and the Student Innovation Prize

are embedded in Borealis' Campus Connect programme, which aims at building strong links with key academic institutions and giving students the opportunity to meet with Borealis employees and to get a better understanding of the career and opportunities they can expect.

A step change in innovation through recruiting top talent

The students who participated in the Passion for Plastics programme at K 2007 or who received the International Student Innovation Award could end up as ideal candidates for positions at one of Borealis' Innovation Centres in Austria, Finland or Sweden. The next step for them would be the International Technical Graduate Programme.

In order to staff the company's ambitious and expanding innovation programme, this recruitment initiative is moving full steam towards its goal of hiring top scientists to join its research and development organisation by June of 2008. Candidates are invited to the Linz Innovation Centre for a day of extensive exercises such as business case studies, simulations, group work and presentations. This process will give Borealis and the candidates an opportunity to get to know each other, enabling Borealis to better select the new staff that will fill positions at the growing Linz Innovation Centre, the focal point of Borealis' international research and development activities.

Attracting our future sales leadership

After the innovation and production phases, Borealis has the crucial job of selling its cutting edge products on the market. Without a good sales staff, success would not be obtainable. That is why the company has introduced the International Commercial Graduate Programme, which is designed to find talented graduates prepared for a career path in sales management in the polyolefins business group. Training in all commercial aspects of the company takes place at several European locations for a period of 12 to 14 months, after which selected candidates are



assigned to a commercial role. Through this programme, candidates are exposed to diversity and inclusion, an international working environment as well as exceptional learning and development opportunities.

Careers at borealisgroup.com

As part of its efforts to attract the best talent, Borealis recently enhanced its careers section to make it easier for candidates to get information on available opportunities and to apply online. A new e-recruitment solution was introduced for this purpose, providing a single point of entry for all applications and making the recruitment process faster and more efficient for recruiters, hiring managers and candidates.

In addition to applying online, candidates are provided with a comprehensive overview of compensation and benefits, learning and development opportunities, information on recruitment campaigns as well as testimonials from current employees on what it is like working at Borealis. Additionally, in an effort to target experienced professionals required for specialised technical positions, a new section has been developed and is now available.

So, whether a candidate wants to learn more about Borealis, check the dates for the next job fair or simply apply for a vacancy online, the process is now streamlined and simple – visit www.borealisgroup.com.

A person in a red uniform is holding a medical drip chamber. In the background, a patient is lying in a hospital bed. The scene is set in a clinical environment.

At least 1.3 billion people worldwide lack access to the most basic healthcare.

A million tonnes of plastics per year are the preferred material for light, reliable and safe medical applications.





Responsible Care[®]

The industrial world is experiencing tremendous change and is exposed to ever increasing and more complex challenges. With climate change climbing to the top of the international agenda of urgent issues, there is a worldwide understanding of the necessity to reduce our energy consumption and CO₂ emissions as well as our water consumption. Businesses today must manufacture products in a safe manner with the lowest possible impact on the environment. But this is not enough. The products must also be safe for all users in the whole value chain, play a beneficial role in society and contribute positively to sustainable development.

Borealis welcomes such developments because our core values and our mission drive us towards the same goal of being a good neighbour wherever we operate. This is why we have chosen to dedicate a special section to Responsible Care (RC) in our Annual Report. RC is the foundation for business success. Only those companies that take their responsibilities seriously along the value chain by advancing sustainable development will have long-term success.

At Borealis, we prioritise Health, Safety and Environment (HSE), and place emphasis on product safety and the development of products that benefit society.

In December of 2006, Borealis and Borouge signed the Responsible Care Global Charter (RCGC), which was developed by the International Council of Chemical Associations (ICCA). This confirms their commitment to the most recent RC mandate and to its implementation. The fundamentals of the charter are increasingly found in business activities and within our supply chain.

This year, we developed a new RC policy that sets high ambitions for our RC performance. Since we regard a world-class HSE performance as a prerequisite for leadership in RC, our new policy builds on our previous HSE policy while expanding it to include all the fundamentals of the RCGC.

During the year, Borealis advanced its preparations for the implementation of the new European Union regulation on the Registration, Evaluation and Authorisation of Chemicals (REACH). A dedicated team of Borealis HSE experts, including some in the Product Stewardship function, will monitor how well we adhere to our policy, mission and targets. As always, the goal is for continuous improvement.

The process to integrate AMI's HSE organisation into Borealis started in 2007. Organisationally, this was completed during the year, and integration of the HSE management system was started. Full integration will be completed during 2008.

Also during the year, Borealis and Borouge officially launched Water for the World, which fosters local knowledge and partnerships throughout the value chain to provide sustainable solutions for the availability of safe water and sanitation. Borealis believes that its products can play a key role in addressing not only the water crisis but other global challenges as well (see page 16).

To set targets and assure that we continue to achieve our goals, the Executive Board will act as an RC committee and follow up on our progress at regular intervals.

Health, safety and environment in operations

Health

Businesses measure employee health mainly using the sick leave rate. Over the years, the Borealis sick leave rate has been at or below 3%, which is generally below the rates for the industry in the countries where we operate. Health is, however, more than just measuring sick leave, and Borealis uses several other tools to safeguard the good health and well being of its employees.

Each department regularly takes Work Place Surveys in which the working environment is assessed in detail. The creation of action plans to correct deficiencies is mandatory.

During the year, we created a five-year action plan for the general improvement of our employees' health. The actions are selected locally in cooperation with employee representatives according to local needs. Initiatives were taken to promote physical fitness, healthy eating, a good work/life balance as well as the reduction of smoking and alcohol usage.

Personal safety

The most commonly used criteria for measuring personal safety is the injury frequency rate. At Borealis, we focus mainly on the frequency of recordable injuries (TRI), which is a broadly accepted criteria in the industry that measures the number of injuries per million working hours.

We have achieved a TRI frequency below 2 since 2005 (contractors are included). This has made our company an industry leader in safety and culminated in us being awarded the 2005 Dupont Safety Award in the Business Impact category. We do not want anybody working for Borealis to get hurt. We believe that all accidents can be prevented and use the following motto to guide all our actions: "*If we can't do it safely, we don't do it at all.*"

Behaviour represents the greatest risk for creating accidents, therefore we have introduced several measures to help improve behaviour and have clearly documented how this has resulted in a reduced number of accidents. We run regular training programmes for managers and operators, perform observation tours to visit colleagues and contractors at work and have friendly and open discussions on safety issues. When an accident does occur or a risk has been identified, we measure how well we take corrective actions.

One successful safety initiative that we have been using over the years is called Take 2: *think first, then act*. The main message is: take two minutes to engage your mind before using your hands. This year, we put renewed focus on this important message and re-launched a campaign throughout the company.

Our emphasis on personal safety extends beyond what happens within our operations. This year, we signed the European Road Safety Charter as well as the World Safety Declaration. A dedicated procedure for preventing car accidents has been implemented. This applies especially to people who are driving on Borealis assignment but also provides valuable advice to people driving for private reasons. We track closely our distribution incidents in connection with the delivery of our products to customers and present the "Haulier of the Year" award to hauliers that achieve the best safety performance.

Process safety

Borealis operates a number of complex petrochemical plants using a multitude of different technologies. The plants contain large amounts of flammable material under elevated pressure and temperature. It is of prime importance that the plants are properly designed,



maintained and operated to avoid accidents. This means that we place great importance on process safety.

Several of our plants have been in operation for many years and have undergone modifications. All new installations and modifications of our plants follow strict procedures according to Management of Change. In 2006, we started a cross-company exercise, with the assistance of external independent experts, to conduct a retrospective hazards review of our old plants to ensure that everything is operating according to our strict requirements. We will have the project finalised by 2009.

Training and competence are vital to maintaining a high standard of process safety. In 2007, a number of training courses were arranged with participants from all production

locations. Examples include the Hazard Study Leader training on how to conduct hazard studies for projects; Layer of Protection Analysis to learn how to identify risks and set standards on how accidents can be prevented; Explosion Safety on how to prevent explosions (in view of the European Union ATEX Workplace Directive). One challenge ahead is to set clear competence requirements for each function and to develop a training matrix accordingly.

It is also very important to identify and share best practices. In 2007, examples of issues where such sharing took place include: Electronic work permit system, volatile hydrocarbons in polymer pellets, reliability of safety valves in reactors, sprinkler activation after gas leak. All process safety incidents are classified according to their inherent severity.

Environment

Reducing losses from flaring

A major material loss in the production of olefins and polyolefins comes from flaring. The flare is a necessary safety installation to burn excess gas during operational problems. Flares are also used for burning more continuous streams where there have been no efficient solutions to recover them. During 2007, the losses from flaring on average at Borealis production plants were close to 1%. Projects have now been started to further reduce flaring by recovering streams in order to use the hydrocarbons either as feedstock or fuel. Already in 2008, this will result in an estimated 0.8% reduction in the losses from flaring, and further reductions are foreseen in 2009.

Water efficiency

As part of the Water for the World programme, Borealis and Borouge have piloted the implementation of a new water risk mapping system developed by the World Business Council on Sustainable Development (WBCSD), called the Global Water Tool. Borealis' operational facilities achieve on average high water efficiency rates with 2.1 m³ of water per tonne produced. Three production sites (Zwindrecht, Kallu, Beringen) are located in water stressed areas. The water footprint of Borealis' operational sites will be reviewed with independent experts at the beginning of 2008 and will be the basis for establishing a Group water management plan.

Auditing

Regular audits on Occupational Health and Safety Risks are conducted at all operational locations. We have developed our own audit procedure called Borealis Blue based on internationally recognised auditing practices,

but adapted specifically to the company's needs. Audit results are rated and compared with Borealis Ambition Levels for the audited issues. After each audit, action plans are developed to close detected gaps.

In 2007, we completed the first round of operational auditing with the operations at AMI in Linz and Piesteritz as well as our operations in Zwindrecht and Monza.

In order to maintain Borealis certification according to ISO and OHSAS standards, additional regular audits are conducted by accredited external bodies and by dedicated internal auditors to ensure Group-wide compliance.

Production waste

Production waste is created from routine operations and project activities. During the year, we had several big projects and turnarounds that created waste. This resulted in a slight increase in the total amount of waste produced compared to the year before.

Volatile Organic Compound emissions

We conduct ongoing activities to detect hydrocarbon leaks in our piping and equipment and do repair work when leaks are detected. This has resulted in a reduction of the overall emissions from the previous year.

Nitrogen oxide emissions

Nitrogen oxide (NO_x) emissions are created by burners for steam boilers and crackers furnaces. During the year, we installed a modern burner with low NO_x emissions at one of our plants and plan to continue this process in the years to come.

Energy efficiency

Energy key performance indicator

Energy efficiency is becoming increasingly important for Borealis not only from an environmental perspective but from a cost-saving standpoint.

In order to track our progress in energy efficiency at each plant and across the company, we have developed a dedicated key performance indicator.

In 2007, Borealis invested approximately EUR 37 million in energy initiatives. The main activities were at the Porvoo and Stenungsund facilities. In Porvoo, energy investments supported the cracker heat integration, revamping of the two cracker furnaces, and the off-gas thermal oxidiser for phenol and aromatics. In Stenungsund, the investment enabled excess steam to produce internal electricity for the cracker. These energy investments have enabled Borealis to substantially improve its energy efficiency.



Product stewardship and life cycle management

Borealis' new Responsible Care Policy governs the health, safety and environmental aspects of products throughout their life cycle within the value chain. It covers the environmental performance of the supply chain, transport and logistical aspects, the environmental profile of products and waste management.

Supply chain

Environmental performance indicators are defined for the entire supply chain and are further extended with the implementation of a green Supply Chain Operations Reference model (SCOR). 40% of Borealis' suppliers (raw materials and packaging) and 52% of transport contractors have an environmental management system or ISO 14001 certification.

Logistics and transport

Borealis aims at minimising HSE risks from transport and logistical operations. Incidents from transport and logistical operations are reported as part of the Borealis Group's total recordable injury (TRI) rate. Wherever possible, Borealis seeks to transport products off-road via rail or ship. 35% of Borealis' products were shipped via inter-modal transport.

Waste management

Borealis has established a range of best practices to reduce waste generated by the distribution of its products to customers. Packaging reduction and elimination initiatives include the development of bulk shipment, the participation in the pallet return system and in waste management national organisations, as well as the control and reduction of bag slitting. Bulk shipment represents 47.5% of the tonnage transported to customers by Borealis.

Chemicals management

Product stewardship principles are applied to chemicals management and the implementation of the European Chemicals regulation, in particular REACH, which entered into force in the middle of 2007. Borealis has initiated

the pre-registration of substances, and chemicals management performance indicators will be reported once the regulation enters into its registration phase.

REACH requires closer cooperation and exchange of information between chemical producers and users. In 2007, Borealis continued to work with the European Plastics Converters Association (EuPC) to assist in the development of the REACH exposure scenario. The company also joined the inaugural programme launched by the Belgium Chemical Industry Federation (FEDICHEM) to support small and medium enterprises in their preparation for the regulation.

Borealis is also gradually adapting the format of the Safety Data Sheets according to REACH requirements to have all the sheets reviewed by 2010.

Environmental performance of products

During 2007 Borealis received more frequent requests from our customers regarding our so called carbon footprint, which means the amount of CO₂ emissions required for the manufacture of a product unit. Within PlasticsEurope, Borealis contributed to establishing a common position on the carbon footprint (available at www.plasticseurope.org) and to updating the standard eco-profile for key polyolefin products in order to give customers more comprehensive information on the real environmental impacts of products.

Certificates and product statements

A number of certificates and statements are produced for our customers, including safety datasheets, medical compliance, food law compliance, compliance to legislation on toys, and others. A project was initiated in 2007 to streamline the production process of these documents in response to the increasing number of requests received from customers.

Issue	Definition	2007	2006	2005	2004	2003
Total Recordable Injuries	number/million work hours ¹⁾	1.7	1.7	1.7	2.4	3.8
Sick leave	% of total hours worked	2.9	2.9	2.9	2.8	2.8
Direct carbon dioxide emissions	kilotonnes	1,539	1,605	1,628	2,335	2,442
Primary energy consumption	GWh	15,500	16,200	15,903	20,608	19,115
Volatile organic compound emissions	tonnes	3,800	4,158	4,210	6,098	5,801
Waste generation	tonnes	15,555	15,143	15,796	18,429	21,784
Flaring	tonnes	57,600	59,600	49,400	65,000	65,600
NOx emissions	tonnes	1,330	1,580	1,620	3,090	2,640
Water consumption	Cubic meters ²⁾ (million)	12,950				
Response rate on process safety incidents	% actions timeley completed	95	100	91		
Response rate on HSE incidents	% actions timeley completed	93	90			

¹⁾ Includes own employees and contractors

²⁾ Monitoring started in 2007

Total Recordable Injuries (TRI)

Accidents resulting in absence from work, the need to do a different type of work or any other case in which medical treatment is required. The frequency is calculated as the number of accidents per million working hours. Borealis employees and contractors working on company premises are included in the calculation.

Lost Time Accidents (LTA)

Accidents resulting in absence from work on a scheduled work day. The frequency is calculated as the number of accidents per million work hours. Borealis employees and contractors working on company premises are included in the calculation.

Direct carbon dioxide emissions

CO₂ emissions from stationary sources on our premises, including emissions from fuel consumption, combustion of other hydrocarbon streams as well as flaring.

Primary energy consumption

Consumption of energy from electricity, fuels and steam. When electricity and steam are derived from a fuel, the conversion factors are: electricity 40% and steam 90%.

Volatile Organic Compound (VOC) emissions

Emission of all organic compounds (from C₁ to C_n) with a vapour pressure of 0.01kPa or more at either room temperature or at actual temperature when processed. The quantification is based on measurements and estimates.

Waste generation

Generation of all waste from our locations during normal operation as well as during special projects. Any substance or object that is

to be discarded is included in the definition of waste. Exceptions are atmospheric emissions, liquid effluents and by-products with commercial value.

Flaring

All streams sent to the flare, except streams that assure a constant flame (e.g. fuel gases to pilot burners, fuel gas purges to flare lines for safety reasons, steam, nitrogen).

Nitrogen Oxide (NOx) emissions

Emissions of all nitrogen oxides from all relevant sources, including flares. The emissions are quantified as NO₂. When NOx measurements are not done, emission factors correlated to the fuel type and heating value are used.

Water consumption

Fresh water consumption of any type (e.g. cooling, steam generation, flushing, sanitary use).

Response rate on process safety incidents

Process safety incidents of a certain severity or risk potential are recorded and investigated through root cause analysis. Corrective actions are defined to prevent re-occurrence. The response rate on process safety incidents is measured as the ratio (%) of corrective actions completed within a defined time period.

Response rate on HSE incidents

Incidents (minor or major) that lead to, or can lead to, an accident of any kind in the area of HSE are recorded, and decisions on actions for follow-up are made. The response rate on HSE incidents is measured as the ratio (%) of incidents in which decisions on actions to be taken are defined in a timely manner.

Relations with stakeholders

As part of its Responsible Care policy, Borealis is committed to listen, engage and work with stakeholders to understand and address their concerns and expectations, and to advance sustainable development within the whole industry value chain.

Trade association activities

Borealis takes a leading role in a number of industry organisations: European Association of Plastics Manufacturers (PlasticsEurope), Chairmanship; the European Chemical Industry Council (CEFIC), Executive Board membership; the Association of Petrochemicals Producers in Europe (APPE), membership; and of the World Business Council for Sustainable Development (WBCSD), Co-Chairmanship of the water project.

Engagement

In 2007, Borealis publicly released the first survey and analysis of sustainability issues that polyolefins converters are facing in Europe. Based on a three-year monitoring and tracking period, the Sustainability Issues Monitor aims at contributing to the understanding of these industry issues. Borealis organises regular meetings and dialogues with stakeholders to discuss industry issues.

In 2007, Borealis hosted two key stakeholder dialogues. The first took place in conjunction with the Stockholm World Water Week and the second was organised with students at K2007. In an effort to maintain good relations with our neighbouring communities, Borealis production sites regularly inform and discuss operational, safety and environmental developments with local communities and authorities. This year, community relations activities included the organisation of open house days, neighbour committee meetings and the distribution of neighbourhood newsletters.



Ethics at Borealis

The goal of the Borealis Ethics Programme is to ensure that all employees understand what is expected of them in executing their day to day work commitments in accordance with the company's values and Ethics Policy.

In late 2005, we launched our Ethics Excellence Programme, a new approach to ethics, with the goal of embedding ethics deeper into the organisation. Today, all Borealis employees have been exposed to the Ethics Policy, and some 87% have participated in the ethics workshops and online training.

Based on the success of the Ethics Excellence Programme, our efforts to embed ethics into the organisation will continue to be a priority. Our company-wide volunteer Ethics Ambassadors, together with management, will facilitate ongoing ethics workshops and help employees to get answers to any questions they may have. A QuestionLine telephone service is also available to address employees' questions and inquiries.







Financial Statements

Management report

2007 was a milestone year in the history of Borealis as it underwent significant structural change, enabling it to enhance its competitive position for the future, while delivering the best ever financial performance – exceeding the previous record from 2006.

Operating profit increased 28% to EUR 451 million compared to EUR 353 million in 2006, and net profit attributable to equity holders of the parent increased 63% to EUR 533 million. The latter was boosted by a EUR 112 million one-off gain from the sale of the Norwegian polyolefin operations and share in the Noretyl cracker. Return on capital employed after tax was 22%, compared to 17% in 2006.

The European polyolefin industry experienced favourable market conditions in 2007 despite some erosion towards the end of the year. A shortage of material to meet market demand pushed polyolefin prices up by 76 EUR/t (7%) compared to 2006.

Cracker margins, on the other hand, were negatively influenced by continuously rising energy and feedstock costs. The average price of Brent crude oil rose 11% year-on-year to 73 USD/bbl in 2007, having peaked at a new historical record of 100 USD/bbl in December. Naphtha, the primary feedstock for the petrochemical industry, followed crude and averaged at 676 USD/t in 2007, an increase of 20%. The further softening of the US dollar versus the euro dampened the effect somewhat, and Borealis was able to leverage its cracker feedstock flexibility to create additional value through optimal use of alternative raw materials.

Plant operating rates were high, and Borealis broke new production records at several of its units. These achievements were underpinned by a continuation of the good safety record with a Total Recordable Injury (TRI) frequency of 1.7 per million working hours. This result is comparable to the prior two years and positions the company among the leaders in the industry. While the result is encouraging, safety remains a top priority, and Management continues to work on accident prevention with a strong focus on process safety, in line with the company values.

In October, Borealis and Borouge, a joint venture with the Abu Dhabi National Oil Company (ADNOC), jointly launched the Water for the World programme. The goal of the programme is to foster local knowledge and partnerships throughout the value chain to deliver sustainable solutions for the availability of safe water and sanitation around the world. This initiative is one way the two companies are fulfilling their commitment to the Responsible Care® Global Charter that was jointly signed at the end of 2006.

During the year, the partnership between Borealis and ADNOC deepened as construction began on the Borouge 2 project in Ruwais, Abu Dhabi. The project, when completed in 2010, will triple annual production output from the site to two million tonnes of polyolefins based on proprietary Borstar® PE and PP technology. Through Borouge's growing presence in the Middle East and Asia, Borealis is well positioned to capture the growth opportunities throughout the region and further strengthen its leadership positions in infrastructure, automotive and advanced packaging solutions.

In Europe, Borealis made significant progress towards focusing and simplifying its polyolefin asset footprint. A major milestone was achieved when the sale of the Norwegian operations to Ineos was completed. This step improves the alignment of production capacity with target market segments and allows Borealis to concentrate on improving the

competitiveness of the remaining production sites in Austria, Belgium, Finland, Germany, Italy and Sweden. In Sweden, a major upgrade of the production facility was announced with the construction of a new 350,000 t/y high-pressure polyethylene unit to replace 230,000 t/y of existing polyethylene capacity, enabling Borealis to meet growing demand for advanced materials in the global wire and cable market. In Germany, a 330,000 t/y expansion of the polypropylene facilities based on Borstar technology was completed and started up in December, which reinforces Borealis' leading position in advanced packaging applications.

The expansion projects are underpinned by the continued successful implementation of the company's Value Creation through Innovation strategy. Sales growth in key market segments outpaced overall demand growth during the year. Further momentum was created through the Step Change in Innovation programme, including the investment in leading edge software to improve experimentation capabilities and accelerate product development. Moreover, with the announcement of the phase-out of the Innovation Centre in Norway coinciding with the expansion of the International Innovation Centre in Linz, Austria, Borealis remained on track to consolidate and strengthen its innovation activities in Europe.

The restructuring initiatives carried out or planned in 2007 meant significant change and uncertainty for many employees. However, Management was able to listen and respond to employee concerns through Borealis' Corporate Co-operation Council (CCC). Over the years, the forum has proven to be instrumental in fostering open and constructive dialogue between Management and employees, and Management is committed to continue this dialogue in the future.

Another historical milestone was achieved in August with the integration of Agrolinz Melamine International (AMI), a leading provider of melamine and plant nutrients, supporting Borealis' strategy to develop a Base Chemicals business to complement its existing integrated olefin/polyolefin business. Having gone through a period of restructuring in a challenging market environment, AMI is now well positioned to deliver value.

Borealis' existing aromatics business is an important element of the new Base Chemicals business group, and was significantly strengthened during 2007 through the expansion of the phenol production capacity in Finland. This follows the benzene and cumene expansions completed in 2005 and marks the finalisation of a development programme launched in 2004.

With the appointment of Martin Kuzaj as Executive Vice President for Base Chemicals and member of the Executive Board in November, the new business group is geared up to establish itself as an integral part of Borealis' business portfolio.

Other new appointments to the Executive Board included Daniel Shook, who joined Borealis in June as Chief Financial Officer and Executive Vice President of Business Support, as well as the appointment of Lorenzo Delorenzi, previously Vice President for the Business Unit Pipe, as new Executive Vice President for the Polyolefins business group. Former Chief Executive, John Taylor, who retired at the end of the year and to whom the company owes many of its successes over the past seven years, was officially replaced by Mark Garrett who joined Borealis in April as Chief Executive Designate.

With the launch of a new Executive Board structure in January 2008, Management is preparing to meet the challenges and opportunities of the future, continuing to execute Borealis' successful strategy based on Value Creation through Innovation, and remains committed to the company's values.

Review of results

Sales

In 2007, Borealis sold over 3.4 million tonnes of polyolefins, 4% less than in the previous year due to the divestment of the Norwegian operations in August. Despite lower volumes, the effect of price increases and the contribution of the AMI group as of August, net sales increased to EUR 6,350 million, a 10% increase over 2006.

Cost development

Fixed costs were EUR 84 million higher than in 2006, mainly an effect of the contribution of the AMI group and restructuring costs aimed at further improving cost competitiveness for the future. Research and development costs amounted to EUR 49 million. The number of full-time equivalent employees (FTE) by the end of 2007 was 5,467, an increase of 828 compared to last year. Approximately 270 FTEs transferred to Ineos through the sale of the Norwegian operations, while approximately 1,000 FTEs from AMI joined the Borealis Group.

Operating profit

Operating profit amounted to EUR 451 million compared to EUR 353 million in 2006.

Return on capital employed

The return on capital employed after tax amounted to 22%, compared to 17% in 2006, as a result of higher operating profits and a one-off gain from the sale of the Norwegian operations. Excluding the profit from the divestment, return on capital employed after tax was 18%.

Financial income and expenses

Net financial expenses amounted to EUR 41 million in line with 2006.

Taxes

The provision for income taxes amounted to an expense of EUR 121 million (EUR 105 million in 2006). Borealis paid income taxes of EUR 92 million in 2007, compared with EUR 59 million paid in the previous year.

Net profit and distribution of dividend

The net profit for the year amounted to EUR 533 million, compared with a net profit of EUR 328 million in 2006. During 2007, Borealis paid a dividend of EUR 45 million on the 2006 result. The Supervisory Board proposes that a dividend of EUR 110 million be paid for 2007.

Financial position

Total assets/capital employed

At year end, total assets and capital employed stood at EUR 4,631 million and EUR 2,996 million, respectively, compared with EUR 3,671 million and EUR 2,484 million at year end 2006. The increase in capital employed is mainly due to the contribution of the AMI group.

The solvency ratio was 50% at year end 2007, unchanged from year end 2006. The gearing ratio decreased further to 27% at year end 2007, down from 34% in 2006, as a result of higher retained earnings.

Cash flows and liquidity reserves

Cash flow from operations was EUR 647 million, driven by higher sales margins and decreased working capital. Liquidity reserves, made up of undrawn, long-term committed credit facilities and cash balances, amounted to EUR 1,079 million at year end 2007 compared to EUR 811 million at year end 2006.

Net interest-bearing debt increased slightly and stood at EUR 633 million at year end, up from EUR 626 million at the end of 2006. The change in net interest-bearing debt is analysed in the following table.

Change of net interest-bearing debt (EUR million)	2007	2006
Cash flow provided by operating activities	647	277
Capital expenditure	-500	-259
Repayment of loans by associated companies	0	71
Proceeds from the sales of operations	188	3
Acquisition of new companies	-313	0
Other (mainly relating to foreign exchange differences)	16	11
Dividend paid	-45	-45
Total decrease/increase	-7	58

Capital expenditure

Investments in tangible fixed assets amounted to EUR 457 million in 2007, compared to EUR 234 million in 2006. The most significant investments were the expansion of the polypropylene facilities in Burghausen, Germany, and the new high-pressure polyethylene unit in Stenungsund, Sweden. HSE capital expenditure was EUR 18 million. Depreciation and amortisation amounted to EUR 215 million, compared to EUR 160 million in 2006.

Shareholders' equity

The shareholders' equity at year end 2007 was EUR 2,307 million.

Equity development (EUR million)	2007	2006
Net result attributable to the parent	533	327
Exchange and fair value adjustment (net)	-59	-4
Gross increase/decrease	474	323
Dividend paid	-45	-45
Contribution by shareholders	59	0
Net increase/decrease	488	278
Opening equity	1,819	1,541
Ending equity	2,307	1,819

Risk

Borealis identifies the following as major categories of risk.

Strategic risks are risks that may impact a company's strategy or reputation. They are addressed by developing contingency plans to counter the threat of not delivering the strategy. Strategic risks usually refer to long-term, unwanted developments (e.g. market or industry developments or strategic competitive moves – innovation, mergers and acquisitions, etc.) or reputation blows with a long-lasting effect.

Operating risks like health, safety and environmental risks and finished products price risk occur in the daily business operations. They are managed through a wide variety of controls.

Financial risks are a special type of operating risk. They refer to foreign exchange, interest rates, liquidity and commodity price risks. The major financial risks and the measures for mitigation with respect to financial instruments are described in the notes 16 through 26 of the consolidated financial statements.

Economical		2007	2006	2005	2004	2003
Safety, Health & Environment						
Total Recordable Injuries	number/million work hours	1.7	1.7	1.7	2.4	3.8
Sick leave	% of total hours worked	2.9	2.9	2.9	2.8	2.8
Direct carbon dioxide emissions	kilotonne	1,539	1,605	1,628	2,335	2,442
Primary energy consumption	GWh	15,500	16,200	15,903	20,608	19,115
Volatile organic compounds emissions	tonne	3,800	4,158	4,210	6,098	5,801
Waste generation	tonne	15,555	15,143	15,796	18,429	21,784
Number of employees (Full-time equivalent at year end)		5,467	4,639	4,536	4,547	5,037
Income and profitability						
Net sales	EUR million	6,350	5,742	4,814	4,628	3,673
Operating profit	EUR million	451	353	236	278	39
Operating profit as percentage of net sales	%	7	6	5	6	1
Net profit attributable to the equity holders of the parent	EUR million	533	327	226	203	16
Return on capital employed, net after tax	%	22	17	12	11	3
Cash flow and investments						
Cash flow from operating activities	EUR million	647	277	227	378	159
Investments in tangible fixed assets	EUR million	457	234	221	192	119
Financial position						
Net interest-bearing debt	EUR million	633	626	684	574	918
Equity attributable to owners of the parent	EUR million	2,307	1,819	1,541	1,420	1,258
Gearing	%	27	34	44	40	73

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 26, 2008

Management



Mark Garrett
Chief Executive Officer



Daniel Shook
Chief Financial Officer



Martin Kuzaj



Henry Sperle



Herbert Willerth

Report of the Auditors

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Borealis AG, Vienna, Austria, for the financial year from January 1 to December 31, 2007. Those financial statements comprise the balance sheet as of December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) 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 the consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing and International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated 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 consolidated 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 evaluation the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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, 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on other legal requirements

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

In our opinion, the Group Management Report is consistent with the consolidated financial statements.

Vienna, February 26, 2008

KPMG

Wirtschaftsprüfungs- und Steuerberatungs GmbH



Mag. Bernhard Mechtler



Mag. Helmut Kerschbaumer

Wirtschaftsprüfer
(Austrian Chartered Accountants)

Report of the Supervisory Board

The Supervisory Board got a comprehensive overview of the activities of the Management of Borealis AG and complied with its control duties.

The Management of Borealis AG submitted the Financial Statements as of December 31, 2007 and the Consolidated Financial Statements as of December 31, 2007 including the Management Report to the Supervisory Board and explained them thoroughly.

The Financial Statements of Borealis AG 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 AG 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 the Audit Committee and the entire Supervisory Board in due time. After a thorough examination and debate at the Audit Committee and at 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 then approved.

Vienna, February 26, 2008



Gerhard Roiss
Chairman of the Supervisory Board



Accounts

Consolidated income statement

EUR million	2007	2006	Note
Net sales	6,350	5,742	1
Production costs	-5,183	-4,765	2,3,7
Sales and distribution costs	-477	-413	3, 7
Administration costs	-239	-211	3, 7
Operating profit	451	353	
Profit/loss from sale of operations	112	0	4
Net results in associated companies after tax	132	120	18
Financial expenses, net	-41	-40	8
Profit before taxation	654	433	
Taxes	-121	-105	9
Net profit for the year	533	328	
Attributable to:			
Minority interest	0	1	
Equity holders of the parent	533	327	

Consolidated statement of recognised income and expense

EUR million	2007	2006	Note
For the year ended December 31			
Net loss on translation of financial statements of foreign subsidiaries	-52	-40	
Net gain/loss on long-term loans to subsidiaries and associated companies	-33	42	
Net gain/loss on loans and financial contracts to hedge investments in foreign subsidiaries	15	-17	
Fair value adjustment of cash flow hedges	15	7	
Actuarial gains and losses	1	3	11
Tax recognised directly in equity	-4	0	
Net expense recognised directly in equity	-58	-5	
Net profit for the year	533	328	
Total recognised income and expense	475	323	
Attributable to:			
Minority interest	1	0	
Equity holders of the parent	474	323	

Consolidated balance sheet

Assets

EUR million	31.12.2007	31.12.2006	Note
Non-current assets			
Intangible fixed assets	160	160	2, 5
Tangible fixed assets			6
Production plants	1,956	1,412	
Machinery and equipment	38	22	
Construction in progress	173	227	
	2,167	1,661	
Investments in associated and jointly controlled companies	417	333	18
Other investments	18	16	18
Other long-term receivables	75	113	18
Deferred tax assets	69	36	9
Total non-current assets	2,906	2,319	
Current assets			
Inventories	793	721	10
Receivables			
Trade receivables	384	269	19
Receivables from associated companies	208	218	19
Taxes	5	2	
Assets held for sale	19	0	
Other receivables	267	111	
	883	600	
Cash and cash equivalents	49	31	
Total current assets	1,725	1,352	
Total assets	4,631	3,671	

Liabilities

EUR million	31.12.2007	31.12.2006	Note
Shareholders' equity			
Share capital and contributions by shareholders	1,899	1,840	
Reserves	-100	-41	
Retained Earnings	508	20	
	2,307	1,819	
Minority interests	9	8	
Total equity	2,316	1,827	
Liabilities			
Subordinated loans	103	103	21, 28
Non-current liabilities			
Loans and borrowings	353	148	21
Deferred tax	253	215	9
Employee benefits	182	156	11
Provisions	141	71	12
	929	590	
Current liabilities			
Loans and borrowings	226	406	21
Trade payables	651	523	
Taxes	19	15	9
Provisions	18	6	12
Liabilities held for sale	4	0	
Other liabilities	365	201	
	1,283	1,151	
Total liabilities	2,315	1,844	
Total equity, minority interests and liabilities	4,631	3,671	
Assets pledged			14
Contingent liabilities			15
Financial instruments			23

Consolidated statement of changes in equity

Shareholders' equity

EUR million	Share capital* and contributions by share holders	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 of December 31, 2005	1,840	-43	1	5	-262	1,541	8	1,549
Profit of the period	0	0	0	0	327	327	1	328
Income and expense directly in equity	0	1	5	-10	0	-4	-1	-5
Dividend payment by subsidiaries	0	0	0	0	0	0	0	0
Dividend payment	0	0	0	0	-45	-45	0	-45
Capital in/decrease	0	0	0	0	0	0	0	0
Balance as of December 31, 2006	1,840	-42	6	-5	20	1,819	8	1,827
Profit of the period	0	0	0	0	533	533	0	533
Income and expense directly in equity	0	1	14	-74	0	-59	1	-58
Dividend payment by subsidiaries	0	0	0	0	0	0	0	0
Dividend payment	0	0	0	0	-45	-45	0	-45
Capital in/decrease	59	0	0	0	0	59	0	59
Balance as of December 31, 2007	1,899	-41	20	-79	508	2,307	9	2,316

The Supervisory Board proposes that a dividend of EUR 110 million be paid for 2007.

The share capital and contributions by shareholders amounts to EUR 1,899 million. None of the shares has special rights, Borealis AG is owned 61% by IPIC Denmark Holdings ApS, Holbergsgade 14, 1057 Copenhagen, Denmark, 3% by International Petroleum Investment Company, Sheikh Zayed 1 street, Abu Dhabi, United Arab Emirates, 33% by OMV Refining & Marketing GmbH, Lassallestrasse 3, 1020 Vienna, Austria and 3% by OMV AG, Otto-Wagner-Platz 5, 1090 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 AG.

* Share capital of Borealis AG (parent company) amounts to EUR 300,000.00. (EUR 142,857.14)

Consolidated cash flow

EUR million	2007	2006	Note
Cash flows from operating activities			
Payments from customers	6,242	5,655	
Payments to employees and suppliers	-5,462	-5,279	
Interest income received	43	39	8
Interest and financial expenses paid	-84	-79	8
Income taxes paid	-92	-59	9
	647	277	
Cash flows from investing activities			
Investments in tangible fixed assets	-457	-234	6
Proceeds from sale of assets, net of cash	188	3	4
Other investments	-43	-25	5, 18
	-312	-256	
Cash flows from financing activities			
Long-term loans obtained	288	53	
Short-term loans obtained	93	262	
Loans to associated companies	3	71	
Long-term loans repaid	-240	-183	
Short-term loans repaid	-417	-211	
Dividends paid	-45	-45	
	-318	-53	
Net cash flow for the year	17	-32	
Cash and cash equivalents as of January 1	31	63	
Effect of exchange rate fluctuations on cash held	1	0	
Cash and cash equivalents as of December 31	49	31	

Notes to the consolidated financial statements

Reporting entity

Borealis AG (the "Company") is a company domiciled in Austria. The address of the Company's registered office is Wagramerstrasse 17-19, 1220 Vienna, Austria. Borealis is a leading provider of innovative 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 26, 2008.

In 2007 IPIC and OMV contributed their interests in the Agrolinz Melamine International group (AMI) to Borealis AG without changing the control over Borealis. This restructuring 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 AG in AMI are set off against the equity of Borealis AG. Any difference is recognised directly in the equity of Borealis AG. Intragroup balances, transactions, income and expenses are eliminated in full.

Changes in accounting policies

In light of the upcoming changes in the International Financial Reporting Standards related to the capitalisation of borrowing costs as part of investments in property, plant and equipment, Borealis has adopted the allowed alternative of IAS23 and is as of January 1, 2007 capitalising the borrowing costs related to major investment projects. As it was impractical to recalculate the carrying amounts of borrowing cost for previous investment projects, the change has been implemented prospectively. If the change in accounting principles would not have been introduced, the interest cost included in the net financial results would have been EUR 4 million higher and the carrying amount of investments of tangible fixed assets would have been EUR 4 million lower.

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 AG, the parent company, and all the companies over which Borealis AG has control. Control is generally indicated when Borealis AG, 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 Groups' 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 entities 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.

Income statement

Revenue recognition

Revenue from the sale of goods is 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, 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 at 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.

Emission rights are reported as intangible fixed assets. They are measured at cost. A liability to return emission rights for actual emissions made, is recognised as well.

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.

Non-current assets held for sale and discontinued operations.

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit

assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

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 in absence of an active market.

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.

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.

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 at 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 inter-company 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 the present value of it, 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.

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 at 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 at 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 at 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 are excluded from the measurement of hedge effectiveness and are recognised in the income statement immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction still is expected to occur, the cumulative gain or loss at that point remains in equity

and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Hedge of monetary assets and liabilities

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 are 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.

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.

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 affected 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 2007 and have not been applied in preparing these consolidated financial statements:

IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 1). Under the management approach, the Group will present segment information in respect of polyolefins and base chemicals.

Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements conditional on the pending endorsement by the European Union. Borealis has adopted the allowed alternative treatment of IAS 23 (currently effective) and capitalises borrowing costs related to major investment projects as of January 1, 2007. Therefore the revised IAS 23 will constitute no change in accounting policy for the Group.

IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its

own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.

IFRIC 12 *Service Concession Arrangements* provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group's 2008 financial statements, is not expected to have any effect on the consolidated financial statements.

IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Group's 2008 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

In 2007 the accounting standards IFRS 7 *Financial Instruments* became applicable and extended our disclosures about the significance of financial instruments on our financial position and performance, and led to an increase of our qualitative and quantitative disclosures on the nature and extent of risks. Amended IAS 1, which became mandatory for the Group's 2007 financial statements, expanded our disclosures with respect to the Group's financial instruments and share capital.

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		Base Chemicals		Non-Allocated		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
Net sales by business:								
Total sales	4,533	4,312	5,227	4,812	40	36	9,800	9,160
Group internal sales	0	0	-3,450	-3,418	0	0	-3,450	-3,418
	4,533	4,312	1,777	1,394	40	36	6,350	5,742

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

Result:

Operating profit	365	243	123	171	-37	-61	451	353
Profit/loss from sale of operations					112	0	112	0
Net result in associated companies					132	120	132	120
Net financial items					-41	-40	-41	-40
Income tax					-121	-105	-121	-105
Minority interest					0	-1	0	-1
Net profit for the year attributable to equity holders of the parent							533	327

Other information:

Segment assets	2,741	2,526	1,703	1,122	187	23	4,631	3,671
Segment liabilities					2,315	1,844	2,315	1,844
Investments in tangible fixed assets	285	175	163	61	9	-2	457	234
Depreciation and amortisation	139	116	70	43	6	1	215	160

Over 90% of the above relate to segment EU countries.

Net sales by geographic segment:

EU countries	3,352	3,185	1,642	1,290	40	36	5,034	4,511
Non-EU countries in Europe	588	554	75	65	0	0	663	619
USA	77	114	33	39	0	0	110	153
Middle East and Asia	266	261	19	0	0	0	285	261
Other regions	250	198	8	0	0	0	258	198
	4,533	4,312	1,777	1,394	40	36	6,350	5,742

2. Research and Development

A total of 388 people were engaged in research and development at the end of the year, compared with 328 in 2006. The total cost of these activities amounted to EUR 49 million (EUR 45 million). EUR 16 million (EUR 16 million) was capitalised as development cost.

3. Personnel (EUR million)

	2007	2006
Costs		
Salaries and wages	316	279
Pension costs	34	27
Other social security costs	81	65
Other personnel expenses	22	38
Total	453	409
Average number of employees by country		
Austria	1,122	713
Belgium	975	961
Finland	884	862
Norway	362	467
Germany	280	193
Sweden	1,003	985
Other	434	421
Total	5,060	4,602
Remuneration included in personnel costs of former and current management		
Salaries and wages management	6	3
Pension costs management	3	0
Salaries and wages other key management	2	3
Pension costs other key management	0	1
Total	11	7

No loans were granted to actual or former members of management. The remuneration paid to members of the Supervisory Board amounted to EUR 0.4 million.

4. Acquisition and disposal of subsidiaries (EUR million)

On August 8, 2007, Borealis acquired 100% of the shares in the Agrolinz Melamine International group through a contribution by its shareholders

The net assets acquired were as follows:

Cash and cash equivalents	14
Receivables	136
Inventories	65
Total current assets	215
Deferred tax assets	37
Other investments	1
Production plants	293
Machinery and equipment	12
Construction in progress	9
Intangible assets	2
Total non-current assets	354
- Current loans and borrowings	-97
- Payables	-128
- Total current liabilities	-225
- Non-current loans and borrowings	-230
- Deferred tax liabilities	-6
- Other non-current liabilities	-49
- Total non-current liabilities	-285
Net assets acquired	59

On September 1, 2007, Borealis sold 100% of the shares in Borealis AS (Norway)

Consideration received	236
- Current assets disposed of	-104
- Non-current assets disposed of	-110
+ Current liabilities disposed of	64
+ Non-current liabilities disposed of	6
- Net assets disposed of	-144
- Transaction costs	-4
Realisation of deferred translation effects	25
Realisation of other net losses recognised directly in equity	-1
Profit on the sale of operations	112
Consideration received	236
- cash included in the current assets disposed of	-48
Proceeds from sale of operations, net of cash	188

During 2006, Borealis sold 17% of its shares in Specialty Polymers Antwerp NV and 15% of its shares in Borealis Financial Services Limited for EUR 3 million.

5. Intangible fixed assets (EUR million)

	Goodwill		Development costs		Capitalised software		Others	
	2007	2006	2007	2006	2007	2006	2007	2006
Cost								
As of January 1	45	45	102	88	30	21	74	71
Exchange adjustments	0	0	0	0	0	0	-1	0
Additions	0	0	16	16	10	7	18	15
Disposals	0	0	0	0	-1	0	-13	-12
Transfers	0	0	-7	-2	0	2	7	0
	45	45	111	102	39	30	85	74
Accumulated amortisation								
As of January 1	-16	-16	-17	-10	-14	-9	-44	-46
Exchange adjustments	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	5	7
Amortisation	0	0	-10	-7	-6	-5	-18	-5
	-16	-16	-27	-17	-20	-14	-57	-44
Book value as of December 31	29	29	84	85	19	16	28	30

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	
	2007	2006	2007	2006	2007	2006
Cost						
As of January 1	3,696	3,603	98	102	227	102
Change in group of consolidated companies	279	0	12	0	10	0
Exchange adjustments	-57	36	1	1	-2	0
Additions	0	0	0	1	471	239
Disposals (including change in consolidation group)	-230	-50	-12	-13	-7	0
Transfers	509	107	16	7	-526	-114
	4,197	3,696	115	98	173	227
Accumulated depreciation						
As of January 1	-2,284	-2,169	-76	-81	0	0
Exchange adjustments	35	-23	0	-2	0	0
Disposals (including change in consolidation group)	182	47	10	11	0	0
Depreciation	-174	-139	-11	-4	0	0
	-2,241	-2,284	-77	-76	0	0
Book value as of December 31	1,956	1,412	38	22	173	227

The figures for production plants include capitalised finance leases with a net value of EUR 5 million (EUR 2 million) comprising acquisition costs of EUR 8 million (EUR 3 million) and depreciation of EUR 3 million (EUR 1 million). The lease obligation is included in loans and borrowings (see note 21). In 2007, borrowing costs amounting to EUR 4 million have been capitalised.

Future capital expenditure approved by Management totals EUR 510 million (EUR 319 million) out of which EUR 139 million (EUR 72 million) is contractually committed.

The major part of the additions relates to the investment in a new Borstar PP plant in Burghausen, Germany, that successfully started up in December 2007 and to the ongoing investment in a new high-pressure polyethylene plant in Stenungsund, Sweden. The change in group of consolidated companies refers to the Agrolinz Melamine International group. The tangible assets of Borealis AS, Norway are reported among the disposals.

7. Depreciation and amortisation (EUR million)

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

	2007	2006
Production costs	177	130
Sales and distribution costs	11	10
Administration costs	27	20
Total	215	160

The 2007 depreciation charge includes an impairment of EUR 12 million on 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%.

8. Financial income/expenses, net (EUR million)

	2007	2006
Interest income from:		
Cash and cash equivalents	7	10
Derivatives	36	29
	43	39
Interest expenses to:		
Financial institutions	-56	-43
Derivatives	-30	-31
Exchange adjustments, net	2	-2
Other financial expenses and income	0	-3
	-84	-79
Total	-41	-40

9. Taxation (EUR million)

	2007	2006
Taxes		
Income tax payable	88	41
Change in deferred tax	32	62
Adjustment to prior year's tax charge	1	2
Tax expense	121	105

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

Tax expense at statutory rates	27%	177	28%	122
Tax effect of result in associated companies	-5%	-33	-8%	-33
Tax effect of result from sale of operations	-4%	-28	0%	0
Tax effect of permanent differences	-1%	-5	0%	0
Adjustment of valuation allowance	1%	5	6%	26
Benefits of tax losses	0%	0	0%	0
Prior year's adjustments	0%	1	-2%	-9
Change due to changes in tax rates	0%	1	0%	0
Other	1%	3	0%	-1
Tax expense	19%	121	24%	105
Deferred tax, assets				
Fixed tangible assets		5		-4
Fixed intangible assets		-2		-8
Tax values over book values		3		-12
Other current assets		24		0
Pension and other provisions		12		13
Other temporary differences		36		13
Tax losses to be carried forward		80		72
Revaluation of capitalised net tax assets		-50		-37
Capitalised tax assets		69		36

	2007	2006
Deferred tax, liabilities		
Fixed tangible assets	195	170
Fixed intangible assets	33	29
Accelerated depreciation on tangible fixed assets	228	199
Other current assets	16	-4
Pension and other provisions	9	9
Claw back account	0	27
Other	25	32
Tax assets offset	0	-16
Deferred tax liability	253	215
Taxes, payable		
Payable taxes as of January 1	15	26
Income tax payable for the year	88	41
Adjustment to prior year's payable tax charge	1	2
Taxes paid (-) / received (+)	-92	-59
Movement in tax receivable	7	5
Payable taxes as of December 31	19	15

The Group has tax assets of EUR 50 million in addition to those that have been capitalised as tax assets, due to insufficient profit forecasts:

	2007	2006
Deductible temporary differences	15	7
Tax loss carry forwards	35	32
- Taxable temporary differences	0	0
Total unrecognised net tax assets	50	39

The capitalised deferred tax assets are expected to be utilised against future profits in the relevant jurisdictions. Dividend payment to Borealis AG, resp. Borealis A/S being still the subholding company for the Borealis subsidiaries, by one of its subsidiaries has no tax effect for Borealis AG resp. Borealis A/S.

10. Inventories (EUR million)

Inventories of ethylene and propylene are included under finished products.

	2007	2006
Raw materials and consumables	182	180
Finished products	611	541
Total	793	721

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 5,250 million (EUR 4,723 million).

11. 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.

	2007	2006
Funded benefit plans		
Actuarial present value of benefits due to past and present employees	116	159
- Plan assets held in trusts at fair value	-69	-107
Plan assets below the present value of benefits recorded as a provision	47	52
Unfunded benefit plans		
Actuarial present value of benefits due to past and present employees recorded as a provision	135	104
Net liability recognised in the balance sheet	182	156

	2007	2006
Change in benefit obligation		
Benefit obligation at beginning of year	263	253
Current service costs	13	11
Current interest costs	11	10
Actuarial losses/gains	-7	1
Net transfers in/(out)	-14	0
Exchange rate changes	0	-2
- Benefits paid from plan	-15	-10
Benefit obligation at end of year	251	263
Change in plan assets		
Fair value of plan asset at beginning of year	107	98
Expected return on plan assets	5	5
Employer contributions	10	8
Actuarial gains/losses	-8	5
Net transfers in/(out)	-33	0
Exchange rate changes	0	-2
- Benefits paid from plan	-12	-7
Fair value of plan asset at end of year	69	107
Asset category		
Equity securities	11%	19%
Debt securities	29%	33%
Real estate	3%	4%
Other	57%	44%
	100%	100%

Movement in the net liability recognised in the balance sheet	2007	2006
Net liability as of January 1	156	155
- Contributions paid by the company	-13	-11
Net transfers in/(out)	19	0
Actuarial loss/gain recognised in equity (including exchange rate differences)	1	-4
Expense recognised in the income statement	19	16
Net liability at December 31	182	156

Expense recognised in the income statement for defined benefit plans	2007	2006
Service costs	13	11
Interest costs	11	10
- Expected return on assets	-5	-5
Total	19	16
Actual return on plan assets	-5	10

The aggregated benefit cost charged to the income statement for 2007 amounted to EUR 34 million compared with EUR 27 million in 2006. Benefit costs relate to:

	2007	2006
Defined benefit plans	19	16
Defined contribution plans	15	11
Total	34	27

Discount rates, projected future salary and pension 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:

	2007	2006
Discount rate	5% to 5%	4% to 5%
Projected future salary growth	2% to 4%	2% to 4%
Expected rate of return on plan assets	5% to 6%	4% to 5%
Expected pension increase	2% to 2%	2% to 3%

12. Other provisions (EUR million)

	Restructuring	Other	Total
As of January 1	36	40	76
Provisions made during the year	23	44	67
Provisions used during the year	-9	-18	-27
Result of acquisition-disposals/transfers	-5	48	43
Balance as of December 31, 2007	45	114	159
Current	8	10	18
Non-current	37	104	141
	45	114	159

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 2 million will be refunded by third parties.

13. Government grants

Borealis was allowed government grants for the investment in new production plants, CO₂ emission allowances and research and development of EUR 9 million (EUR 11 million), which was recognised in the income statement.

14. Assets pledged

	2007	2006
Chattel mortgages	14	15
Others	18	19
Total	32	34

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

15. Contingent liabilities (EUR million)

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

Operating leases	2007	2006
1 year	11	11
2-5 years	30	27
Thereafter	8	22
Total	49	60
Operational lease payments during current year	12	14

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 affect the Group's financial position.

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.

16. 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 24 provides an overview of the financial instruments used by Borealis to manage risk.

Financial risk management is centralised in the Tax & 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.

17. Financial income and expense (EUR million)

Recognised in profit or loss	2007	2006
Change in fair value of commodity derivative contracts for feedstock	-7	12
Change in fair value of interest rate derivative contracts	-1	2
Change in fair value of foreign exchange derivative contracts	-1	2
Realised result on interest rate derivative contracts	0	0
Realised result on foreign exchange derivative contracts	4	-3
Financial assets and liabilities at fair value through profit or loss	-5	13
Ineffective portion of change in fair value of cash flow hedge instruments		
Commodity derivative contracts for electricity	0	0
Interest derivative contracts	0	0
Foreign exchange derivative contracts	0	0
Amounts recognised in profit or loss		
Commodity derivative contracts for electricity	-3	10
Interest derivative contracts	3	-3
Foreign exchange derivative contracts	4	0
Hedging instruments	4	7
Interest income	0	0
Amounts removed from equity and recognised in profit or loss	0	0
Available for sale financial assets	0	0
Interest income on held to maturity investments	0	0
Held to maturity investments	0	0
Interest income on cash and deposits	1	10
Foreign exchange effects on cash and deposits	-10	3
Foreign exchange effects on receivables	5	-26
Amounts removed from equity and recognised in profit or loss relating to receivables that are part of a net investment in a foreign operation	0	-29
Impairment losses on receivables	0	6
Loans and receivables	-4	-36
Interest expense on financial liabilities	-56	-43
Fee expense on financial liabilities	0	-3
Foreign exchange effects on financial liabilities	7	21
Amounts removed from equity and recognised in profit or loss relating to liabilities designated as hedge of net investment in foreign operation	0	29
Financial liabilities	-49	4

Recognised directly in equity	2007	2006
Commodity derivative contracts for electricity designated as cash flow hedge	16	-5
Interest derivative contracts outstanding	-2	5
Foreign exchange derivative contracts	0	4
Foreign exchange effects on receivables part of net investment in foreign operations	-6	-11
Foreign exchange effects on financial liabilities and derivatives designated as hedge of investment in foreign operations	15	25
Amounts removed from equity		
Net investment in foreign operations	0	-34
Commodity derivative contracts for electricity	3	-10
Interest derivative contracts	0	1
Foreign exchange derivative contracts	-4	-2
Effective portion of changes in fair value of hedging instruments	22	-27

18. Financial fixed assets (EUR million)

	Shares in associated companies		Other investments		Other long-term receivables		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Cost								
As of January 1	175	178	19	22	206	278	400	478
Investments	0	0	6	4	10	0	16	4
Disposals	-61	-3	-4	-7	-42	-72	-107	-82
	114	175	21	19	174	206	309	400
Adjustments								
As of January 1	158	67	-3	0	-93	-79	62	-12
Disposals	46	0	0	0	0	0	46	0
Exchange adjustments	-33	-29	0	-3	-6	-14	-39	-46
Dividends received	0	0	0	0	0	0	0	0
Net result of associated companies, after tax	132	120	0	0	0	0	132	120
	303	158	-3	-3	-99	-93	201	62
Book value as of December 31	417	333	18	16	75	113	510	462

The disposals in shares in associated companies and in other long-term receivables mainly relate to the sale of Borealis AS, which had these investments in Noretyl AS.

Other investments include interests in environmental funds in Belgium and Germany amounting to EUR 1 million, as well as investments in mutual insurance companies amounting to EUR 8 million. The other long-term receivables mainly consist of receivables from associated companies.

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

2007	Country	Ownership in %
Abu Dhabi Polymers Company Limited	United Arab Emirates	40
Borouge Pte Ltd	Singapore	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
2007	875	458	724	132
2006	720	387	695	120

19. Securitisation

Borealis has a Securitisation Programme under which the company sells certain trade receivables to external parties. The company does not retain any major interest in the trade receivables, except for foreign currency risk and interest rate risk, and accordingly derecognises the receivables sold. As of December 31, 2007, receivables worth EUR 456 million (EUR 478 million) were sold. The company continues to administer the relationship with the debtors and will compensate the purchaser for credit notes issued subsequent to the sale. To cover these obligations, a receivable of EUR 151 million (EUR 171 million) is outstanding on the balance sheet date and reported under receivables from associated companies.

The interest element of the financing costs related to the Securitisation Programme is hedged with derivatives for a notional amount of EUR 292 million (EUR 180 million).

20. Share capital (EUR million)

	Share capital*		Contributions by shareholders	
	2007	2006	2007	2006
Balance at January 1	0	0	1,840	1,840
Capital increase (decrease)	0	0	0	0
Contribution in kind	0	0	59	0
Balance at December 31	0	0	1,899	1,840

* The share capital of Borealis AG (parent company) amounts to EUR 300,000.00 (EUR 142,857.14)

The Group's objectives when managing capital are to safeguard the entity's ability to continue as a going concern and to provide an adequate return to shareholders. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as interest-bearing debt, including subordinated loans, less cash and cash equivalents divided by total equity.

21. Loans and borrowings (EUR million)

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

Maturities		2007					
		Total	Term loans	Utilised uncommitted facilities	Export credits	Finance leases	Unutilised committed revolving facilities
Due							
After	5 years	178	177			1	
Within	5 years	57	57				1,030
	4 years	170	170				
	3 years	32	31				
	2 years	16	16				
	2-5 years	3				3	
Total long-term debt		456	452			4	1,030
Total short-term debt		226	50	93	82	1	0
Total debt		682	502	93	82	5	1,030

Maturities		2006					
Due		Total	Term loans	Utilised uncommitted facilities	Export credits	Finance leases	Unutilised committed revolving facilities
After	5 years	91	90			1	30
Within	5 years	156	156				750
	4 years	0	0				
	3 years	1	1				
	2 years	2	2				
	2-5 years	1				1	
Total long-term debt		251	249			2	780
Total short-term debt		406	12	263	131	0	0
Total debt		657	261	263	131	2	780

The Group's financing is mainly comprised of committed credit lines, term loans, subordinated loans and export credits. The loans and borrowings are all measured at amortised cost. The Subordinated Loan of EUR 103 million has an 8-year term and matures in 2011. At the end of 2007 the Group has committed credit lines with syndicates of banks of EUR 1,030 million (EUR 780 million) of which EUR 0 million (EUR 0 million) has been utilised. Some loan agreements have financial covenants, which are based on the gearing and solvency ratio.

Currency mix	2007	Percent	2006	Percent
Interest bearing (EUR million)				
USD	81	12%	90	14%
EUR	600	88%	567	86%
SEK	1	0%	0	0%
Interest bearing total	682	100%	657	100%

22. Credit risk (EUR million)

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. As of the 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.

Exposure to credit risk

The maximum exposure to credit risk for trade receivables on the reporting date by geographic region was:

	2007	2006
EU Countries	263	186
Non-EU in Europe	34	50
USA	13	11
Middle East and Asia	27	8
Other regions	47	14
	384	269

The maximum exposure to credit risk for trade receivables on the reporting date by type of customer was:

	2007	2006
Polyolefins	121	95
Base Chemicals	203	124
Other	60	50
	384	269

All customers are classified in risk categories based on criteria such as their financial strength, ownership, size, payment behaviour and country of domicile.

Following categories exist

Risk category 1: preferred customers, customers with excellent credit standing and financial strength

Risk category 2: medium size customers with good reputation

Risk category 3: financially sound customers, but with history of slow payments

Risk category 4: all new customers and customers with repetitive slow payments or with weak financial situation

Others: customers with cash in advance or secured payment terms

The ageing of trade receivables at the reporting date was:

	2007 Gross	2007 Impairment	2006 Gross	2006 Impairment
Not past due				
Risk category 1	9	0	4	0
Risk category 2	32	0	16	0
Risk category 3	62	0	30	0
Risk category 4	47	0	23	0
Other	14	0	7	0
Past due 0-30 days				
Risk category 1	9	0	8	0
Risk category 2	33	0	29	0
Risk category 3	63	0	55	0
Risk category 4	48	0	42	0
Other	14	0	13	0
Past due 31-120 days				
Risk category 1	2	0	2	0
Risk category 2	8	0	8	0
Risk category 3	15	0	14	0
Risk category 4	12	0	11	0
Other	4	0	3	0
Past due over 120 days				
Risk category 1	1	0	0	0
Risk category 2	2	0	1	0
Risk category 3	5	-1	1	-1
Risk category 4	8	-5	1	-5
Other	1	0	0	0
	390	-6	269	-6

The movement in the allowance for impairment in respect of trade receivables	2007	2006
Balance at January 1	6	8
Impairment loss recognised	0	-2
Balance at December 31	6	6

Neither during 2007 nor during 2006 did the Group renegotiate any terms of trade receivables.

The total guarantees received (including bank guarantees and parental guarantees) in respect of above receivables amounts to EUR 73 million (EUR 43 million).

Other credit risk

Borealis cash balances are put on deposit with relationship banks or invested in liquid securities only with counterparties that have a credit rating above a predefined threshold. Counterparty credit risks for long-term financial treasury transactions are managed by mandatory credit limits and external credit rating requirements. A real-time treasury system is used to monitor exposures and risk limits. Management does not expect any counterparty to fail to meet any of its current obligations.

	2007	2006
Available for sale financial assets	18	12
Held to maturity investments	2	2
Financial assets at fair value through profit and loss	105	9
Loans and receivables	66	113
Cash and cash equivalents	49	31
Interest rate swaps used for hedging		
Assets	7	9
Foreign exchange contracts used for hedging		
Assets	1	4
	248	180

The loans and receivables cover loans given to associated companies and are neither past due, nor impaired.

23. Liquidity risk (EUR million)

Liquidity is managed on a daily basis to ensure the Group's liquidity requirement is covered at all times with the lowest possible level of working capital. The following are the contractual maturities (EUR million) of non-derivative financial liabilities, including forecasted interest payments, and derivative financial assets and liabilities. All carrying amounts are excluding the outstanding interest accruals at year end. Cash outflows are reported with a negative sign, cash inflows with a positive sign. Carrying amounts of liabilities are reported with a positive sign, and carrying amounts of assets are reported with a negative sign.

	2007						
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
EUR floating rate loans	272	-311	-97	-31	-9	-173	-1
EUR fixed rate loans	230	-269	-5	-20	-22	-122	-100
EUR financial leases	5	-7	-1	-1	-1	-3	-1
USD floating rate loans	81	-118	-2	-2	-5	-14	-95
Trade and other payables	651	-651	-651				
Utilised uncommitted facilities	93	-93	-93				
	1,332	-1,449	-849	-54	-37	-312	-197
Derivative financial (assets) and liabilities							
Interest rate swaps							
outflow	1	-51	-14	-9	-16	-12	0
inflow	-7	53	15	13	14	11	0
Cross currency interest rate swaps							
outflow		-85	-85				
inflow	-1	87	87				
Foreign exchange contracts							
outflow		-439	-391	-37	-11		
inflow	1	438	390	37	11		
Foreign exchange options							
outflow		-14	-1	-13			
inflow	-1	13	1	12			
	-7	2	2	3	-2	-1	0

2006							
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
EUR floating rate loans	293	-325	-141	-4	-7	-173	0
EUR fixed rate loans	8	-8	-6	0	-1	-1	0
EUR financial leases	2	-2	0	0	0	-1	-1
USD floating rate loans	89	-131	-2	-2	-5	-14	-108
Trade and other payables	523	-523	-523				
Utilised uncommitted facilities	265	-265	-265	0	0	0	0
	1,180	-1,254	-937	-6	-13	-189	-109
Derivative financial (assets) and liabilities							
Interest rate swaps							
outflow	0	-63	-16	-8	-21	-18	0
inflow	-9	71	16	13	23	19	0
Cross currency interest rate swaps							
outflow		-93	-93				
inflow	0	93	93				
Foreign exchange contracts							
outflow	0	-382	-282	-92	-8		
inflow	-4	386	285	93	8		
	-13	12	3	6	2	1	0

24. Cash flow hedges (EUR million)

The following table indicates the period in which the cash flows (EUR million) associated with derivatives that are cash flow hedges are expected to occur and impact P&L. All carrying amounts are excluding the outstanding interest accruals at year end.

2007							
	Carrying amount	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Interest rate swaps							
Assets	6	42	11	10	10	11	0
Liabilities	-1	-41	-11	-7	-11	-12	0
Foreign exchange contracts (forwards and options)							
Assets	1	140	95	45	0		
Liabilities	0	-141	-95	-46	0		

2006							
	Carrying amount	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Interest rate swaps							
Assets	8	40	9	9	15	7	0
Liabilities	-1	-37	-10	-5	-14	-8	0
Foreign exchange contracts (forwards and options)							
Assets	4	216	115	93	8		
Liabilities	0	-212	-112	-92	-8		

Of the foreign exchange cash flow hedges outstanding at the end of 2006, EUR 4.1 million was removed from equity during 2007. A profit of EUR 3.8 million was realised on the foreign exchange cash flow hedges in net sales during 2007. At the end of the reporting period, a market value of EUR 0.6 million is recognised in equity on the foreign exchange cash flow hedges.

Of the interest rate swaps outstanding at the end of 2006, a profit of EUR 2.8 million was realised in finance net during 2007. Two interest rate swaps matured over 2007, for which a loss of EUR 0.4 million was removed from equity during 2007. At the end of the reporting period, a positive market value of EUR 5 million is recognised in equity on the interest rate cash flow hedges.

Due to partial ineffectiveness of the foreign exchange cash flow hedges, EUR 0.2 million (EUR 0 million) of the total fair value was recognised in financial income and expenses at year end. On the interest rate swaps which are used as cash flows hedges, a net gain of EUR 0.3 million (EUR 0.1 million) was recognised in financial income and expenses at year end due to partial ineffectiveness.

Feedstock: As of the 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 at December 31, 2007 was 2,291,200 tonnes (793,600 tonnes) with an average maturity of 4 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, 2007 was EUR -2 million (EUR 6 million). EUR 107 million has been recognised in non-trade payables and EUR 106 million in non-trade receivables.

Electricity: Borealis hedges its forecasted electricity purchases with maturity up to 2010 using electricity swaps. The notional volume of the contracts held as of December 31, 2007 was 249 GW (247 GW) with an average maturity of 17 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, 2007 was EUR 15 million (EUR -3 million), comprising assets of EUR 15 million and no liabilities. These amounts were recognised in non-trade receivables and directly to hedging reserves.

25. Foreign currency risk (EUR million)

Borealis incurs foreign currency risk on sales, purchases and borrowings that are denominated in other currencies 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 and foreign exchange options. The total notional value of outstanding foreign exchange forwards as of December 31, 2007 was EUR 439 million (EUR 385 million) of which EUR 143 million (EUR 215 million) relates to foreign currency risk management and EUR 296 million (EUR 170 million) is the notional amount of currency swaps used in liquidity management. The total notional value of outstanding foreign exchange options as of December 31, 2007 was EUR 14 million (EUR 0 million) measured at the strike rate.

Firm commitments and forecasted transactions

Borealis classifies its foreign exchange forward contracts and options, 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, 2007 was EUR 0.8 million (EUR 4.3 million). EUR 0.4 million has been recorded directly to hedging reserves at year end 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, 2007, was EUR -0.8 million (EUR 0.4 million). The amount was recognised in non-trade 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 81 million (EUR 89 million) as of December 31, 2007. EUR/USD cross currency interest rate swaps of notional EUR 84 million (EUR 92 million) were assigned as net investment hedges as of December 31, 2007. A foreign exchange gain of EUR 15 million (loss EUR 9 million) was recognised in equity during 2007 on the translation of these USD liabilities to EUR (including currency element of fair value of cross currency interest rate swaps). During 2007 a net amount of USD 0 million (USD 95 million) and SEK 560 million (SEK 800 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 has been charged to equity, resulting in a net gain recognised to the income statement of EUR 0.1 million (EUR 1 million loss).

Sensitivity analysis

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 the 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 reduce the foreign exchange risk in practice.

26. Interest rate risk (EUR million)

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.

Of total interest bearing debt, approximately 35% has a fixed interest rate and 65% is based on a floating interest rate before applying interest rate swap. Approximately 80% has a fixed interest rate and 20% 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).

As of December 31, 2007, Borealis had outstanding interest rate derivatives for a notional amount of EUR 602 million (EUR 617 million) with interest rates ranging from 2.6100% to 5.1575% and maturities up to 2012.

Borealis does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit and loss.

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 as of December 31, 2007 was EUR 5.5 million (EUR 8.6 million), comprising liabilities of EUR 1.4 million and assets of EUR 6.9 million. These amounts were recognised in other payables and receivables.

Effective interest rate

In respect of interest-bearing financial liabilities, the following table indicates their effective interest rates on the balance sheet date.

	2007		2006	
	Effective interest rate	Carrying amount	Effective interest rate	Carrying amount
EUR floating rate loans	5.0%	-272	3.9%	-293
Effect of interest rate swaps	-1.5%		-0.1%	
EUR fixed rate loans	3.6%	-230	4.6%	-8
EUR financial leases	5.2%	-5	6.3%	-2
USD floating rate loans	4.9%	-81	5.3%	-89
Effect of interest rate swaps	-0.7%		-1.1%	
Utilised uncommitted facilities	4.5%	-94	3.8%	-265
		-682		-657

Sensitivity analysis

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

As of December 31, 2007, 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 1 million (EUR 3 million). Interest rate derivatives have been included in this calculation. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

27. Fair values (EUR million)

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivative financial assets for which hedge accounting is not applied				
Commodity derivative contracts for feedstock	105	105	9	9
Interest derivative contracts	1	1	1	1
Foreign exchange derivative contracts	0	0	0	0
Financial assets at fair value through profit or loss	106	106	10	10
Financial assets for which hedge accounting is applied				
Commodity derivative contracts for electricity	15	15	4	4
Interest derivative contracts	6	6	8	8
Cross currency interest rate swaps	1	1	0	0
Foreign exchange derivative contracts	1	1	4	4
Hedging instruments	23	23	16	16
Other investments	18	18	12	12
Available for sale financial assets	18	18	12	12
Bonds	2	2	2	2
Held to maturity investments	2	2	2	2
Deposits	7	7	2	2
Trade receivables	384	384	269	269
Long-term receivables on associated companies	66	66	113	113
Loans and receivables	457	457	384	384

	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
- Derivative financial liabilities for which hedge accounting is not applied				
- Commodity derivative contracts for feedstock	-107	-107	-3	-3
- Interest derivative contracts	0	0	0	0
- Foreign exchange derivative contracts	-1	-1	0	0
- Financial liabilities at fair value through profit or loss	-108	-108	-3	-3
- Financial liabilities for which hedge accounting is applied				
- Commodity derivative contracts for electricity	0	0	-7	-7
- Interest derivative contracts	-1	-1	-1	-1
- Cross currency interest rate swaps	0	0	0	0
- Foreign exchange derivative contracts	0	0	0	0
- Hedging instruments	-1	-1	-8	-8
- Floating rate loans and borrowings	-452	-452	-649	-649
- Fixed rate loans and borrowings	-230	-221	-8	-8
- Trade payables	-651	-651	-523	-523
- Interest accruals	-2	-2	-1	-1
- Financial liabilities	-1,335	-1,326	-1,181	-1,181
Fair value over carrying amount		9		0

Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above. In general, 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.

Derivatives: The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using market interest rate at the reporting date. The fair value of interest rate swaps is estimated by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the reporting date. The fair value of commodity derivative contracts is the difference between current forward price and contractual forward price.

Non-derivative financial liabilities: In 2007, 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 of these liabilities equals fair value. Fair value for fixed rate loans and borrowings is calculated based on the present value of future principal and interest cash flows discounted at the market rate of interest on the reporting date. The fair value of trade and other payables is estimated to equal the carrying amount.

Investments: In absence of a quoted market price for investments in other companies, the fair value is estimated to equal historic cost.

Trade and other receivables: The fair value of trade and other receivables is estimated to equal the carrying amount.

28. Transactions with related parties

EUR 935 million of total feedstock (EUR 890 million) is purchased from Borealis shareholders at market price, for which an accounts payable balance of EUR 90 million (EUR 105 million) was outstanding at year end. Borealis has received a loan from its shareholders 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 2007.

29. 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 AG						
Borealis A/S	Denmark, Copenhagen	DKK	4,000,000,000	100	1,962	926
IOB Holdings A/S	Denmark, Copenhagen	DKK	2,000,000,000	100	598	0
Borealis Insurance A/S	Denmark, Copenhagen	EUR	7,092,000	100	38	4
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	472	0
Borealis Financial Services N.V.	Belgium, Mechelen	EUR	99,189,000	100	115	6
Borealis Polymers N.V.	Belgium, Beringen	EUR	359,445,611	100	507	43
Borealis Kallo N.V.	Belgium, Kallo	EUR	40,575,176	100	64	2
Borealis Antwerpen Compounding N.V.	Belgium, Zwijndrecht	EUR	277,054	100	2	0
Borealis Sverige AB	Sweden, Stenungsund	SEK	400,000	100	53	0
Borealis Holding AB	Sweden, Stenungsund	SEK	1,300,050	100	2	0
Norner Innovation AS	Norway, Bamble	NOK	100,000	100	-2	0
Borealis group services AS	Norway, Bamble	NOK	100,000	100	-4	-1
Borealis AB	Sweden, Stenungsund	SEK	65,000,000	100	607	90
Etenförsörjning i Stenungsund AB	Sweden, Stenungsund	SEK	5,000,000	80	-2	0
Borealis Portugal SGPS S.A.	Portugal, Sines	EUR	50,000	100	17	0
Borealis Polyolefine GmbH	Austria, Schwechat	EUR	46,784,000	100	360	32
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	11	1
Borealis France S.A.S	France, Suressnes	EUR	207,000	100	1	0
Borealis Polymere Holding AG	Germany, Munich	EUR	2,001,000	100	109	7
Borealis Polymere GmbH	Germany, Burghausen	EUR	18,406,508	100	41	-8
Borealis Deutschland GmbH	Germany, Dusseldorf	EUR	154,000	100	-1	0
Borealis Compounds Inc.	US, Rockport	USD	50,000	100	12	0
Borealis Compounds LLC	US, Rockport	USD	2,000	100	41	9

Company name	Country, City	Currency	Issued share capital	Percentage of shares owned	Net asset value (EURmillion)	Net profit of the year (EUR million)
Borealis Polymers Oy	Finland, Porvoo	EUR	90,821,480	100	450	78
Borealis Technology Oy	Finland, Porvoo	EUR	43,728,860	100	175	24
Borealis Polyethylene Oy	Finland, Porvoo	EUR	210,000,000	100	189	0
Borealis s.r.o.*	Czech Rep., Prague	CZK	500,000	100	0	0
Borealis Plasticos SA*	Mexico, Mexico	MXN	50,000	100	0	0
Borealis Asia Ltd	Hong Kong, 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, Warsaw	PLN	40,000	100	0	0
Borealis Brasil S.A.	Brazil, Itatiba	BRL	94,743,513	80	43	3
Borealis UK Ltd	UK, Manchester	GBP	15,000	100	2	0
Borealis Funding Company Ltd	Isle of Man, Douglas	EUR	10	100	0	0
Ami Agrolinz Melamine International GmbH	Austria, Linz	EUR	70,000,000	100	89	-5
Ami Agrolinz Melamine International Deutschland GmbH	Germany, Wittenberg	EUR	500,000	100	25	-7
Ami Finserv Ltd.	Isle of Man, Douglas	EUR	3,000	100	0	0
Ami Agrolinz Melamine International Italia S.r.l.	Italy, Castellanza	EUR	10,500,000	100	0	-28
Agrolinz Melamine International North America Inc.*	US, Chicago	USD	100,000	100	0	0
Agrolinz Melamine International Asia Pacific Pte.Ltd.*	Singapore, Singapore	SGD	100,000	100	0	0
Linzer Agro Trade GmbH	Austria, Linz	EUR	35,000	100	9	4
Linzer Agro Trade Hungary kft	Hungary, Budapest	HUF	500,000,000	100	3	-7
Agrolinz Ceske Budejovice s.r.o.*	Czech Rep., Budweis	CZK	2,000,000	100	0	0
Agrolinz Slovakia s.r.o.*	Slovakia, Chotin	EUR	446,000	100	1	0
Linzer Agro Trade S.r.l.*	Romania, Bucharest	RON	1,637,000	100	0	0
Linzer Agro Trade D.o.o.*	Serbia, Belgrado	RSD	433,000	100	1	0
Linzer Agro Trade D.o.o. ZA trgovinu*	Croatia, Klisa	HRK	21,000	100	0	0

* Excluded from the consolidation due to immateriality

30. Subsequent events

By year end 2007 John Taylor retired from the Borealis Group and was succeeded on January 1, 2008 by Mark Garrett. On January 29, 2008, Borealis agreed to sell its interest in Norner Innovation AS to Energi og Miljøkapital AS.

31. Management and Supervisory Board

Management: Mark Garrett, Daniel Shook, Henry Sperle, Herbert Willerth, Martin Kuzaj.

Supervisory Board: Gerhard Roiss, Khadem A. Al-Qubaisi, David C. Davies, Mohamed A. Al-Azdi, Mohamed H. Al Mehairi.

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.

Borealis AG

Wagramerstrasse 17-19 | 1220 Vienna | Austria

Tel. +43 1 22 400-0 | Fax +43 1 22 400 333 | www.borealisgroup.com



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