MILLENNIUM CHEMICALS INC
Form 10-Q
November 13, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[ü] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from . . . . to . . . .

Commission file number 1-12091

MILLENNIUM CHEMICALS INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	22-3436215 (I.R.S. Employer Identification No.)
Two Greenville Crossing, 4001 Kennett Pike Suite 238, Greenville, Delaware (Address of principal executive offices)	19807 (Zip Code)

Registrant's telephone number, including area code: (713) 652-7200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes __ No ü

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):Large accelerated filer __ Accelerated filer __
Non-accelerated filer ü Smaller reporting company __

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes __ No ü

Number of shares of common stock outstanding as of September 30, 2008: 661. There is no established public trading market for the registrant's common stock.

The Registrant meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and, therefore, is filing this form with a reduced disclosure format.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MILLENNIUM CHEMICALS INC.

CONSOLIDATED STATEMENTS OF INCOME

	Successor	Predecessor	Successor	Predecessor
	For the three months ended September 30,		For the nine months ended September 30,	
Millions of dollars	2008	2007	2008	2007
Sales and other operating revenues:				
Trade	$ 173	$ 149	$ 529	$ 429
Related parties	15	13	58	46
	188	162	587	475
Operating costs and expenses:				
Cost of sales	172	136	495	400
Selling, general and administrative expenses	7	15	25	49
Research and development expenses	1	1	2	3
	180	152	522	452
Operating income	8	10	65	23
Interest expense:				
Related parties	(1)	- -	(2)	- -
Interest expense on push-down debt	(6)	- -	(21)	- -
Millennium debt	(6)	(5)	(18)	(43)
Interest income:				
Related parties	- -	9	- -	10
Other	- -	1	1	7
Other income (expense), net	(1)	1	1	(15)
Income (loss) from continuing operations before equity investment and income taxes	(6)	16	26	(18)
Income (loss) from equity investment in Equistar Chemicals, LP	23	6	(73)	12
Effect of push-down debt on income (loss) from equity investment in Equistar Chemicals, LP	(23)	- -	73	- -
Income (loss) from continuing operations before income taxes	(6)	22	26	(6)
Provision for (benefit from) income taxes	(3)	13	9	1
Income (loss) from continuing operations	(3)	9	17	(7)
Income from discontinued operations, net of tax	- -	- -	- -	297
Net income (loss)	$ (3)	$ 9	$ 17	$ 290

See Notes to the Consolidated Financial Statements.

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MILLENNIUM CHEMICALS INC.

CONSOLIDATED BALANCE SHEETS

Millions of dollars, except shares and par value data	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22	$ 51
Short-term investments	5	- -
Accounts receivable:		
Trade, net	109	106
Related parties	16	17
Inventories	111	104
Prepaid expenses and other current assets	2	73
Deferred tax assets	6	9
Notes receivable from related party	- -	80
Total current assets	271	440
Property, plant and equipment, net	307	324
Investment in Equistar Chemicals, LP:		
Prior to push-down debt	1,579	1,652
Effect of push-down debt	(1,579)	(1,652)
Net investment in Equistar Chemicals, LP	- -	- -
Other investments and long-term receivables	16	16
Other assets, net	176	179
Total assets	$ 770	$ 959

See Notes to the Consolidated Financial Statements.

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MILLENNIUM CHEMICALS INC.

CONSOLIDATED BALANCE SHEETS – (Continued)

Millions of dollars, except shares and par value data	September 30, 2008	December 31, 2007
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ - -	$ 158
Notes payable to related party	22	- -
Accounts payable:		
Trade	68	79
Related parties	17	23
Accrued liabilities	64	75
Deferred income taxes	4	4
Total current liabilities	175	339
Long-term debt:		
Push down	308	350
Debt of Millennium	172	170
Other liabilities	228	238
Deferred income taxes	256	221
Commitments and contingencies		
Minority interest	7	7
Stockholder's equity:		
Common stock, $0.01 par value, 1,000 shares authorized, 661 shares issued at September 30, 2008 and December 31, 2007	- -	- -
Additional paid-in capital	1,652	1,745
Retained earnings (deficit)	11	(6)
Push down debt	(1,949)	(2,015)
Treasury stock, at cost, 48 shares issued at September 30, 2008 and December 31, 2007	(90)	(90)
Total stockholder's equity	(376)	(366)
Total liabilities and stockholder's equity	$ 770	$ 959

See Notes to the Consolidated Financial Statements.

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MILLENNIUM CHEMICALS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions of dollars	Successor 2008	Predecessor 2007
	For the nine months ended September 30,	
Cash flows from operating activities:		
Net income	$ 17	$ 290
Income from discontinued operations, net of tax	- -	(297)
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	38	23
Equity investment in Equistar Chemicals, LP –		
Amount included in net income	73	(12)
Distribution of earnings	- -	12
Push-down debt	(73)	- -
Interest on push-down debt	21	- -
Deferred income taxes	- -	23
Debt prepayment premiums and charges	- -	14
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(2)	(3)
Inventories	(7)	(1)
Accounts payable	(16)	(10)
Other, net	(25)	(115)
Net cash provided by (used in) operating activities – continuing operations	26	(76)
Net cash used in operating activities – discontinued operations	- -	(120)
Net cash provided by (used in) operating activities	26	(196)
Cash flows from investing activities:		
Collection of related party notes receivable	80	- -
Advances under related party loan agreements	- -	(515)
Expenditures for property, plant and equipment	(9)	(12)
Payments to discontinued operations	- -	(104)
Distributions from affiliates in excess of earnings	- -	18
Proceeds from sales of assets	16	- -
Other	(5)	3
Net cash provided by (used in) investing activities – continuing operations	82	(610)
Net proceeds from sale of discontinued operations before required repayment of debt	- -	1,089
Other net cash provided by investing activities – discontinued operations	- -	89
Net cash provided by investing activities	82	568

See Notes to the Consolidated Financial Statements.

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MILLENNIUM CHEMICALS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)

Millions of dollars	Successor For the nine months ended September 30, 2008	Predecessor 2007
Cash flows from financing activities:		
Repayment of long-term debt	(158)	(390)
Proceeds from related party notes payable	22	- -
Other	(1)	1
Net cash used in financing activities – continuing operations	(137)	(389)
Debt required to be repaid upon sale of discontinued operations	- -	(99)
Other net cash provided by financing activities – discontinued operations	- -	23
Net cash used in financing activities	(137)	(465)
Effect of exchange rate changes on cash	- -	1
Decrease in cash and cash equivalents	(29)	(92)
Cash and cash equivalents at beginning of period	51	121
Cash and cash equivalents at end of period	$ 22	$ 29

See Notes to the Consolidated Financial Statements.

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

1. Basis of Preparation

The accompanying consolidated financial statements are unaudited and have been prepared from the books and records of Millennium Chemicals Inc. and its subsidiaries (collectively, "Millennium") in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X for interim financial information. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. For further information, refer to the audited consolidated financial statements and notes thereto included in the Millennium Annual Report on Form 10-K for the year ended December 31, 2007. Certain previously reported amounts have been reclassified to conform to current period presentation.

On November 30, 2004, Lyondell Chemical Company (together with its consolidated subsidiaries "Lyondell") acquired Millennium in a stock-for-stock business combination. As a result of the business combination, Millennium is a wholly owned subsidiary of Lyondell.

On May 15, 2007, Millennium completed the sale of its worldwide inorganic chemicals business in a transaction valued at approximately $1.3 billion, including the acquisition of working capital and assumption of certain liabilities related directly to the business (see Note 5).

On December 20, 2007, LyondellBasell Industries AF S.C.A. (formerly known as Basell AF S.C.A.) indirectly acquired all of the shares of Lyondell common stock. As a result, Lyondell and Millennium both became indirect, wholly owned subsidiaries of LyondellBasell Industries AF S.C.A. (together with its consolidated subsidiaries, "LyondellBasell Industries" and without Lyondell, the "Basell Group").

Prior to the December 20, 2007 acquisition of Lyondell by LyondellBasell Industries, Millennium owned 29.5% of Equistar Chemicals, LP ("Equistar"), which is a joint venture with Lyondell. As part of the acquisition, Lyondell made a contribution to Equistar of $1,703 million (see Note 7), resulting in a decrease in Millennium's ownership interest to 21%.

As a result of the acquisition of Lyondell by LyondellBasell Industries on December 20, 2007, Millennium's assets and liabilities were revalued to reflect the values assigned in LyondellBasell Industries' accounting for the purchase of Lyondell, resulting in a new basis of accounting. In addition, Millennium has recognized in its financial statements $308 million of debt at September 30, 2008 for which it is not the primary obligor, but which it has guaranteed, and which was used by LyondellBasell Industries in the acquisition of Lyondell, and the effects of its share of debt similarly guaranteed by Equistar (collectively, "push-down debt") through a reduction to zero of the carrying value of its investment in Equistar.

In Staff Accounting Bulletin ("SAB"), Topic 5J, Push Down Basis of Accounting Required in Certain Limited Circumstances, the Securities and Exchange Commission requires, among other things, that, in situations where debt is used to acquire substantially all of an acquiree's common stock and the acquiree guarantees the debt or pledges its assets as collateral for the debt, the debt and related interest expense and debt issuance costs be reflected in, or "pushed down" to, the acquiree's financial statements.

Although this presentation may not reflect the likely future demands on Millennium resources for servicing the debt of LyondellBasell Industries, it provides an indication of that financial position after considering the maximum possible demand on Millennium resources relating to the debt incurred by LyondellBasell Industries in its acquisition of Lyondell. To facilitate an understanding of the impact on these consolidated financial statements, the effects of push-down debt are segregated.

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

1. Basis of Preparation – (Continued)

Millennium's carrying value of push-down debt could be adjusted based on changes in its consolidated net tangible assets, which impact the amount of Millennium's guarantees, or by repayment of substantially all of the associated debt by affiliates or by Millennium on an affiliate's behalf. Any adjustment to the carrying value of push-down debt would result in a corresponding adjustment to paid in capital.

Millennium's investment in Equistar will continue to be carried at zero net value and no net equity earnings or losses will be recognized until such time as Equistar incurs positive partners' capital, which may occur as a result of the repayment of push-down debt by Equistar or its affiliates.

The consolidated statements of income for the three and nine months ended September 30, 2008 reflect post-acquisition depreciation and amortization expense based on the new value of the related assets and interest expense that resulted from the debt used to finance the acquisition; therefore, the financial information for the periods prior to and subsequent to the acquisition on December 20, 2007 is not generally comparable. To indicate the application of a different basis of accounting for the period subsequent to the acquisition, periods prior to the acquisition are designated "predecessor" periods, and those subsequent to the acquisition are designated "successor" periods.

Subsequent to the acquisition of Lyondell, LyondellBasell Industries manages the cash and liquidity of Millennium and its other subsidiaries as a single group and a global cash pool. Substantially all of the group's cash is managed centrally, with operating subsidiaries participating through an intercompany uncommitted revolving credit facility. The majority of the operating subsidiaries of LyondellBasell Industries, including Millennium and Equistar, have provided guarantees or collateral for the debt of various LyondellBasell Industries subsidiaries totaling approximately $23 billion at September 30, 2008 that was used primarily to acquire Lyondell. Accordingly, Millennium's liquidity and capital resources are integrated with LyondellBasell Industries.

The current global financial crisis and recessionary concerns have created substantial uncertainty for the global economy and the markets in which LyondellBasell Industries, including Millennium, operates. LyondellBasell Industries' markets are experiencing a softening of demand combined with continued unprecedented volatility in raw material costs. During the fourth quarter of 2008, polymer demand in major markets and spot prices for some of LyondellBasell Industries' products have declined significantly. In addition, demand for gasoline in North America has declined substantially compared to the third quarter of 2007, which in turn has reduced LyondellBasell Industries' margins in its fuels business. These conditions have also had a negative impact on trade credit available to LyondellBasell Industries and its suppliers and customers.

These conditions, which are expected to continue during the fourth quarter of 2008 and which may continue into 2009, could place further demands on LyondellBasell Industries' liquidity particularly in the first quarter when it historically has had significant operating cash flow requirements for annual compensation costs, property taxes, annual insurance premiums and annual rebate payments to customers. In addition, LyondellBasell has two key debt compliance ratios based on EBITDA that LyondellBasell Industries must continue to comply with in the fourth quarter of 2008 and in each quarter of 2009 and thereafter.

LyondellBasell Industries is taking steps to reduce costs, working capital and discretionary capital spending, including the temporary idling of one of its U.S. Gulf Coast ethylene facilities, representing 11 percent of its U.S. olefins capacity, and reduction of operating rates of certain integrated cracker operations as well as adjusting operating rates at its polymers facilities globally to optimize working capital requirements. Furthermore, LyondellBasell Industries has expanded its synergy program to a broader, more substantial cost reduction program in anticipation of a potentially deeper economic downturn. As part of this program, LyondellBasell Industries is evaluating all of its strategic options with respect to asset utilization, including possible sales or other monetization of some assets, and a restructuring of the organization, including anticipated head count reductions of approximately 15 percent, to reduce costs. LyondellBasell Industries expects full implementation of these programs within the next 12 to 18 months, but the benefits of these programs may not be realized until later periods. LyondellBasell Industries expects to record a charge related to severance and related costs associated with the reorganization in the fourth quarter of 2008 and charges related to other costs associated with the potential impacts to LyondellBasell Industries' assets as incurred.

LyondellBasell Industries believes that, with lower raw material costs, the post-hurricane restoration of substantially all of its U.S. Gulf Coast operations, the anticipated early December 2008 restart of the second coker unit at the Houston Refinery, reduced capital expenditures and the implementation of its cost reduction initiatives, conditions will be such that LyondellBasell Industries can comply with its debt covenants and that operating cash flows, together with availability under various liquidity facilities, will be adequate to meet anticipated future cash requirements, including scheduled debt service obligations, necessary capital expenditures and ongoing operations, for the foreseeable future. However, should demand for its products be significantly below LyondellBasell Industries' expectations, unplanned plant outages occur or product margins compress below expectations, whether because raw material prices return to the high levels experienced in the first part of 2008 or otherwise, LyondellBasell Industries' cash flow could be lower than expected or negative. While liquidity at the present time is adequate, a sustained lower-than-expected or negative cash flow could result in existing sources of liquidity not being adequate to fund operations and meet debt service requirements. Failure to comply with quarterly debt covenants will result in a default under LyondellBasell Industries' loan agreements. See "Effects of Breach" in Note 12.

The consolidated financial statements of LyondellBasell Industries and Millennium have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. Accounting and Reporting Changes

On April 25, 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets in order to improve the consistency between the useful life of a recognized intangible asset under Statement No. 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141 (Revised 2007),

Business Combinations, and other U.S. generally accepted accounting principles. This FSP is effective for Millennium beginning in 2009. Early adoption is prohibited. Millennium does not expect the application of FSP 142-3 to have a material effect on its consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 161, Disclosures about Derivatives Instruments and Hedging Activities, which amends and expands the disclosure requirements of SFAS 133, Accounting for Derivative Instruments and Hedging Activities, by requiring qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 will be effective for Millennium beginning in 2009. Millennium is currently evaluating the effect of SFAS No. 161 on its disclosures.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment to ARB No. 51, which establishes new accounting and disclosure requirements for noncontrolling, or minority, interests, including their classification as a separate component of equity and the adjustment of net income to include amounts attributable to minority interests. SFAS No. 160 also establishes new accounting standards requiring recognition of a gain or loss upon deconsolidation of a subsidiary. SFAS No. 160 will be effective for Millennium beginning in 2009, with earlier application prohibited.

Also in December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, which requires an acquiring entity to recognize all assets acquired and liabilities assumed in a transaction at the acquisition date at fair value with limited exceptions. SFAS No. 141 (revised 2007) will change the accounting treatment for certain specific items, including: expensing of most acquisition and restructuring costs; recording acquired contingent liabilities, in-process research and development and noncontrolling, or minority, interests at fair value; and recognizing changes in income tax valuations and uncertainties after the acquisition date as income tax expense. SFAS No. 141 (revised 2007) also includes new disclosure requirements. For Millennium, SFAS No. 141 (revised 2007) will apply to business combinations with acquisition dates beginning in 2009. Earlier adoption is prohibited.

Although certain past transactions, including the acquisition of Lyondell by LyondellBasell Industries, would have been accounted for differently under SFAS No. 160 and SFAS No. 141 (revised 2007), application of these statements in 2009 will not affect historical amounts.

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115, which permits election of fair value to measure many financial instruments and certain other items, was applicable to Millennium effective January 1, 2008. Millennium has elected not to apply the fair value option to any assets or liabilities.

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. Accounting and Reporting Changes – (Continued)

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. The new standard defines fair value, establishes a framework for its measurement and expands disclosures about such measurements. In February 2008, the FASB issued FASB Staff Position FAS 157-2, delaying the effective date of SFAS No. 157 for certain nonfinancial assets and liabilities until January 1, 2009. Millennium is currently evaluating the effect to its consolidated financial statements of prospectively applying the provisions of SFAS No. 157 to those assets and liabilities.

Implementation of the provisions of SFAS No. 157 to financial assets and liabilities beginning January 1, 2008 did not have a material effect on Millennium's consolidated financial statements.

In October 2008, the FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active. FSP FAS 157-3, which is effective October 10, 2008, including prior periods for which financial statements have not yet been issued, provides guidance on the application of SFAS No. 157 in determining the fair value of a financial asset in the current financial environment when the market for that financial asset is not active. Millennium's application of FSP FAS 157-3 did not have a material effect on its consolidated financial statements at September 30, 2008.

Millennium adopted the provisions of FASB Interpretation ("FIN") No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. As a result of the implementation of FIN No. 48, Millennium recognized a $47 million increase in the liability related to uncertain income tax positions, a $4 million increase in deferred tax assets and a $43 million increase of the January 1, 2007 balance of retained deficit.

3. Hurricane Effects

During late August and mid-September 2008, two hurricanes, Gustav and Ike, disrupted U.S. Gulf Coast refining and chemical industry operations.

As a result of Hurricane Ike, Millennium and Equistar incurred various costs, including Millennium's equity interest in Equistar that, to the extent they exceed the deductible amount under the relevant policies, will be subject to insurance reimbursements. Such costs, including costs incurred in conjunction with suspending operations at substantially all of Millennium's and Equistar's Gulf Coast plants, damage to facilities, and costs to restore operations totaled $5 million at September 30, 2008. Additional amounts, including damage to facilities, are currently estimated to range from $5 million to $10 million. This estimate includes the cost of restoring operations of a plant that has not yet restarted.

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. Acquisition of Lyondell by LyondellBasell Industries

On December 20, 2007, LyondellBasell Industries indirectly acquired the outstanding common shares of Lyondell and, as a result, Lyondell and Millennium became indirect, wholly owned subsidiaries of LyondellBasell Industries.

From December 20, 2007, Millennium's consolidated financial statements reflect a revaluation of Millennium's assets and liabilities, to reflect the allocation of $1,312 million of the purchase price to Millennium assigned in LyondellBasell Industries' accounting for the purchase of Lyondell. In addition, at September 30, 2008, Millennium recognized in its financial statements $308 million of push-down debt for which it is not the primary obligor, but which it has guaranteed, and which was used by LyondellBasell Industries in the acquisition of Lyondell, and the effects of its share of debt similarly guaranteed by Equistar through a reduction to zero of the carrying value of its investment in Equistar. Millennium's pro rata share of Equistar's push-down debt exceeded its investment in Equistar at December 20, 2007; therefore, Millennium reduced to zero its investment in Equistar and also, Millennium recorded push-down debt to the extent allowed.

The purchase price allocations used in the preparation of the September 30, 2008 and December 31, 2007 financial statements are preliminary due to the continuing analyses relating to the determination of the fair values of the assets and liabilities acquired. Any change to the fair value of assets and liabilities acquired, based on information as of the acquisition date, would result in a corresponding adjustment to goodwill. Management does not expect the finalization of these matters to have a material effect on the allocation.

Additional paid in capital was $1,652 million and $1,745 million as of September 30, 2008 and December 31, 2007, respectively. The $93 million decrease was due to $20 million of purchase price allocation adjustments affecting Millennium related to the acquisition by LyondellBasell Industries, and $73 million related to a settlement under the tax sharing agreement between Lyondell Chemical Company and Millennium.

5. Discontinued Operations

On May 15, 2007, Millennium completed the sale of the worldwide inorganic chemical business in a transaction valued at approximately $1.3 billion, including the acquisition of working capital and assumption of certain liabilities directly related to the business. The operations of the inorganic chemicals business have been classified as discontinued operations in the consolidated statements of income and cash flows.

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. Discontinued Operations – (Continued)

The following represent the elements of cash flow for the nine-month predecessor period ended September 30, 2007 related to the sale of the inorganic chemicals business:

Millions of dollars		
Gross sales proceeds	$	1,143
Cash and cash equivalents sold		(37)
Costs related to the sale		(17)
Net proceeds from sale of discontinued operations before required repayment of debt		1,089
Debt required to be repaid		(99)
Net proceeds from sale of discontinued operations	$	990

Amounts included in income from discontinued operations are summarized as follows:

Millions of dollars	Predecessor For the nine months ended September 30, 2007	
Sales and other operating revenues	$	514
Gain on sale of discontinued operations	$	337
Income from discontinued operations		18
Provision for income taxes		58
Income from discontinued operations, net of tax	$	297

The provision for income taxes in the nine months ended September 30, 2007 primarily reflects the effect of a higher tax basis in the stock of a subsidiary included in the sale, which resulted in a lower taxable gain. Income taxes payable related to the sale were $48 million.

The settlement in the third quarter of 2008 of the inorganic chemicals business working capital at the closing date resulted in a $10 million write off of accounts receivable with a corresponding decrease in additional paid in capital.

On November 13, 2008, the Company received a Notice of Claims from the purchaser of the inorganic chemicals business alleging several breaches of representations and warranties contained in the sales and purchase agreement. The Company is evaluating the claim which is subject to mandatory arbitration.

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. Related Party Transactions

Notes Payable to Lyondell Chemical Company—Effective December 2007, a subsidiary of Millennium and a subsidiary of Lyondell entered into two loan agreements. Under one of the loan agreements, Millennium's subsidiary may borrow from and, under the other loan agreement, Millennium's subsidiary may make advances to, the Lyondell subsidiary for amounts up to and not exceeding $2,000 million. The loans, which bear interest at London Interbank Offered Rate ("LIBOR") plus 4%, mature in 2012. Accrued interest may, at the option of the parties, be added to the outstanding principal amount of the note. At December 31, 2007, these loans were not utilized. On September 1, 2008, Millennium and Lyondell terminated these loan agreements and transferred the amounts outstanding under the loans to a new intercompany account agreement. Under the new agreement, Millennium may deposit excess cash balances with Lyondell and have access to uncommitted revolving lines of credit in excess of deposits. Deposits bear interest at the London Interbank Offered Rate ("LIBOR") 1 month rate for the U.S. dollar ("LIBOR 1 month rate for USD") minus fifteen basis points and borrowings under the lines of credit bear interest at the LIBOR 1 month rate for USD plus 350 basis points. The initial term of the agreement extends one year and will automatically renew unless a notice of termination is provided by either party. At September 30, 2008, the balance outstanding under this agreement was $22 million and is reflected in the Consolidated Balance Sheets as notes payable to related party.

Notes Receivable from Equistar—In 2007, Millennium and Equistar entered into loan agreements permitting Equistar to borrow up to $600 million from Millennium. In connection with the acquisition of Lyondell by LyondellBasell Industries (see Note 4), the maturity of the notes was extended to February 16, 2008 from December 21, 2007, or earlier upon demand. The notes bore interest, which was due quarterly, at the London Interbank Offered Rate LIBOR plus 1.75%. The balance of the notes outstanding at December 31, 2007 of $80 million was collected in January 2008.

Tax Sharing Agreement with Lyondell Chemical Company—As of September 30, 2008, a settlement of $73 million was made under the tax sharing agreement with Lyondell Chemical Company.

7. Investment in Equistar Chemicals, LP

Prior to December 20, 2007, Equistar was owned 70.5% by Lyondell and 29.5% by Millennium. As part of the December 20, 2007 acquisition of Lyondell by LyondellBasell Industries, Lyondell made a contribution to Equistar of $1,703 million, which was used to repay certain Equistar debt, resulting in an increase of Lyondell's direct ownership interest to 79% and a corresponding decrease in Millennium's ownership interest to 21%. As a result of Lyondell's November 30, 2004 acquisition of Millennium, Millennium and Equistar are wholly owned subsidiaries of Lyondell. Millennium accounts for its investment in Equistar using the equity method. As a partnership, Equistar is not subject to federal income taxes.

As a result of the acquisition of Lyondell by LyondellBasell Industries on December 20, 2007, Equistar's assets and liabilities were revalued to reflect the values assigned in LyondellBasell Industries' accounting for the purchase of Lyondell, resulting in a new basis of accounting. In addition, Equistar has recognized in its financial statements \$17,625 million of debt at September 30, 2008 for which it is not the primary obligor but which it has guaranteed, and which was used by LyondellBasell Industries in the acquisition of Lyondell, and \$203 million of related unamortized debt issuance costs at September 30, 2008.

Millennium's pro rata share of Equistar's push-down debt exceeded the carrying value of its investment in Equistar at December 20, 2007; therefore, Millennium reduced to zero the carrying value of its investment.

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. Investment in Equistar Chemicals, LP – (Continued)

Summarized financial information for Equistar follows:

Millions of dollars	September 30, 2008	December 31, 2007
BALANCE SHEETS		
Total current assets	$ 1,896	$ 2,012
Notes receivable – related party	416	785
Property, plant and equipment, net	5,057	5,304
Goodwill	639	750
Debt issuance costs on push-down debt	203	334
Investments and other assets, net	885	887
Total assets	$ 9,096	$ 10,072
Current maturities of long-term debt:		
Push-down debt	$ 143	$ 146
Debt of Equistar	- -	27
Related party borrowings:		
Notes payable	101	80
Push-down debt	751	717
Other current liabilities	962	1,461
Long-term debt:		
Push down debt	16,731	16,829
Debt of Equistar	130	129
Other liabilities and deferred revenues	269	295
Partners' deficit	(9,991)	(9,612)
Total liabilities and partners' deficit	$ 9,096	$ 10,072

	Successor	Predecessor	Successor	Predecessor
	For the three months ended September 30,		For the nine months ended September 30,	
Millions of dollars	2008	2007	2008	2007
STATEMENTS OF INCOME				
Sales and other operating revenues	$ 3,975	$ 3,464	$ 11,932	$ 9,867
Cost of sales	3,806	3,314	12,075	9,414
Selling, general and administrative expenses	53	71	182	202

Research and development expenses	7	10	23	28
Operating income (loss)	109	69	(348)	223
Interest expense, net	(381)	(47)	(1,134)	(150)
Other income (expense), net	1	- -	(1)	(32)
Net income (loss)	$ (271)	$ 22	$ (1,483)	$ 41

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. Accounts Receivable

Millennium had trade accounts receivable balances of $109 million and $106 million as of September 30, 2008 and December 31, 2007, respectively. These balances were net of an allowance for doubtful accounts of $1 million at September 30, 2008 and at December 31, 2007.

9. Inventories

Inventories consisted of the following components:

Millions of dollars	September 30, 2008	December 31, 2007
Finished goods	$ 72	$ 65
Work-in-process	23	21
Raw materials	4	3
Materials and supplies	12	15
Total inventories	$ 111	$ 104

10. Property, Plant and Equipment, Net

The components of property, plant and equipment, at cost, and the related accumulated depreciation were as follows:

Millions of dollars	September 30, 2008	December 31, 2007
Land	$ 11	$ 11
Manufacturing facilities and equipment	297	291
Construction in progress	28	23
Total property, plant and equipment	336	325
Less accumulated depreciation	(29)	(1)
Property, plant and equipment, net	$ 307	$ 324

Depreciation and amortization expense is summarized as follows:

	Successor	Predecessor	Successor	Predecessor

Millions of dollars	For the three months ended September 30, 2008	2007	For the nine months ended September 30, 2008	2007
Property, plant and equipment	$ 9	$ 5	$ 28	$ 19
Other	3	1	10	4
Total depreciation and amortization	$ 12	$ 6	$ 38	$ 23

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

11. Accounts Payable

Accounts payable at September 30, 2008 and December 31, 2007 included liabilities in the amounts of $1 million and $3 million, respectively, for checks issued in excess of associated bank balances but not yet presented for collection.

12. Long-Term Debt

As a result of the December 20, 2007 acquisition of Lyondell by LyondellBasell Industries, Millennium recorded $350 million of push-down debt for which it is not the primary obligor, but which it has guaranteed, and which was used by LyondellBasell Industries in the acquisition of Lyondell (see Notes 1 and 4). The balance outstanding at September 30, 2008 related to push-down debt was $308 million.

Long-term debt under which Millennium is the primary obligor consisted of the following:

Millions of dollars		September 30, 2008		December 31, 2007
Senior Debentures due 2026, 7.625% ($69 million of discount)	$	172	$	170
Convertible Senior Debentures due 2023, 4%		- -		158
Total		172		328
Less current maturities		- -		(158)
Total long-term debt, net	$	172	$	170

Millennium is a guarantor of certain debt borrowed by Lyondell under the LyondellBasell Industries Senior Secured Credit Facility, including $1,447 million and $7,427 million, respectively, under the term loan A and B facilities and certain LyondellBasell Industries debt, including an $8,000 million Interim Loan, the Basell Group's 8.375% High Yield Notes due 2015, comprising borrowings of $615 million and €500 million ($717 million), and amounts borrowed by the Basell Group under the Senior Secured Credit Facility, consisting of $482 million borrowed under term loan A and €1,290 million ($1,849 million) under term loan B as well as amounts borrowed by Lyondell or the Basell Group under the $1,000 million revolving credit facility under which $860 million was outstanding at September 30, 2008. Millennium is also a guarantor for amounts borrowed under the Senior Secured Inventory-Based Credit Facility by Lyondell and a U.S.-based subsidiary of the Basell Group. At September 30, 2008, borrowings of $1,293 million were outstanding under the Senior Secured Inventory-Based Credit Facility; $1,163 million on the part of Lyondell and $130 million on the part of the Basell Group. Millennium may not incur additional indebtedness in excess of 15% of Millennium's Consolidated Net Tangible Assets ("CNTA"), as defined in the indenture governing Millennium's 7.625% Senior Debentures due 2026.

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

12. Long-Term Debt – (Continued)

Debt Agreement Amendments—Under the terms of the financing for the Lyondell acquisition, the joint lead arrangers ("JLAs") retained the right to flex certain provisions of the financing, including pricing and the reallocation and retranching of the Term Loans. Effective April 30, 2008, the JLAs exercised the price flex provisions and, in conjunction with the exercise, the Senior Secured Credit Facility was amended to (i) convert each of the U.S. Tranche B Dollar Term Loan and the German Tranche B Euro Term Loan into three separate tranches, some of which tranches are subject to a prepayment penalty, (ii) increase interest rates and fee rates by 0.5%, (iii) establish a LIBOR floor of 3.25% on the U.S. Tranche B Dollar Term Loan, (iv) modify certain debt covenants, including increasing a general debt basket from $750 million to $1,000 million, eliminating an interest rate hedging requirement, increasing the asset backed facility basket by $500 million, and adding a covenant prohibiting reduction of aggregate commitments under the Revolving Credit Facility with Access Industries before its initial maturity, (v) amend the calculation of Consolidated EBITDA, as defined, for the purpose of determining compliance with the debt requirements, to reflect adjustments for 2007 cost of sales in accordance with FIFO inventory accounting, and (vi) make other changes, including technical and typographical corrections.

In conjunction with the exercise by the JLAs of their flex rights, additional amendments were made to each of the Interim Loan, Senior Secured Inventory-Based Credit Facility, Revolving Credit Facility with Access Industries and Accounts Receivable Securitization Facility. The amendments to the Interim Loan and Senior Secured Inventory-Based Credit Facility and the Revolving Credit Facility with Access Industries were effective on April 30, 2008. The amendments to the Accounts Receivable Securitization Facility were effective on May 6, 2008. Each of the Interim Loan, the Senior Secured Inventory-Based Credit Facility, the Accounts Receivable Securitization Facility and Revolving Credit Facility with Access Industries were amended to (i) conform to certain of the amendments to the Senior Secured Credit Facility and (ii) make other changes, including technical and typographical corrections. In addition, the Senior Secured Inventory-Based Credit Facility was amended to allow Lyondell the future option to increase the aggregate amount of commitments under the facility by a further $500 million.

Under the terms of the Senior Secured Inventory-Based Credit Facility, as amended, Lyondell could elect to increase commitments under the facility by up to an aggregate $1,100 million. Effective April 30, 2008, Lyondell exercised the option to increase the facility by $600 million and, as a result, aggregate commitments under the facility increased from $1,000 million to $1,600 million. Concurrent with the exercise of the increase in commitments, Lyondell Chemical Company became a lien grantor and added the following as collateral: (i) a first priority pledge of all equity interests owned by Lyondell Chemical Company in, and all indebtedness owed to it by, LyondellBasell Receivables I, LLC (the seller under the Accounts Receivable Securitization Facility) and (ii) a first priority security interest in all accounts receivable, inventory and related assets owned by Lyondell Chemical Company, subject to customary exceptions.

Interim Loan—The Interim Loan, together with proceeds of other borrowings, was used to finance the acquisition of Lyondell. If not repaid or exchanged, prior to the 12 months tenure, the Interim Loan converts to an extended senior secured loan in December 2008 and is due June 2015. Prior to giving effect to the amendments discussed below, the Interim Loan bore interest at LIBOR plus an initial margin of 4.625%, which margin increased by 0.5% in June 2008 and September 2008 and increases by 0.5% for each three-month period thereafter, subject to a maximum interest rate of 12% per annum (or 12.5% in the event of certain rating declines) (the "Applicable Margin"). Through a series of actions, the validity of which LyondellBasell Industries disputed, the JLAs (as defined below) had attempted to increase the applicable rate under the Interim Loan to 12% per annum. Since June 16, 2008, LyondellBasell Industries had been paying 12% interest, which was approximately 4% higher than the applicable rate under the Interim Loan as at June 30, 2008, in order to avoid any allegation of default by the lenders. LyondellBasell Industries had protested the higher rate of interest and had reserved its right to recover any such amounts based upon a determination that the JLAs' attempt to impose a rate increase is not supported by the terms of the applicable loan documentation.

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

12. Long-Term Debt – (Continued)

On October 17, 2008, the agreement governing the Interim Loan was amended and restated. Under the amended and restated agreement, the $8 billion principal amount of initial loans outstanding were retranched into:

(a) $3.5 billion of fixed rate second lien loans, which bear interest at a rate equal to 12% per annum (12.5% in the case of certain ratings downgrades),

(b) $2.0 billion of floating rate second lien loans and

(c) $2.5 billion of floating rate third lien loans.

All of the floating rate loans bear interest at a rate equal to LIBOR (in the case of U.S. dollar loans) or EURIBOR (in the case of euro loans) plus the Applicable Margin.

The economic impact of the interest rates applicable to the retranched loans is effective as of June 16, 2008.

The amendments also include provisions allowing lenders

(i) within 180 days after October 17, 2008, to convert retranched fixed rate second lien loans into fixed rate second lien notes or a combination of fixed rate second lien notes and up to $1 billion in aggregate principal amount of fixed rate third lien notes and/or fixed rate unsecured notes (and pursuant to a notice given on October 17, 2008, all of the fixed rate second lien loans will automatically convert into fixed rate second lien notes if no election is made by the lenders to convert a portion of the fixed rate second lien loans to fixed rate third lien or unsecured notes within this 180-day period) and

(ii) following the time that the fixed rate second lien loans have been converted into exchange notes and certain lenders under the amended and restated agreement hold, in aggregate, less than $950 million of such notes, to convert new floating rate second lien loans into fixed rate second lien notes and to convert new floating rate third lien loans into fixed rate third lien notes and/or fixed rate unsecured notes. In all such cases, the exchange notes will bear interest at a rate equal to 12% per annum (12.5% in the case of certain ratings downgrades), may be denominated in euro or dollars, and will have maturity dates between June 2015 and December 2019.

In addition, the amendments include revisions to some of the terms of the exchange notes to make them consistent, in some instances, with similar provisions of the senior secured credit facility. The amendments also make other changes, including technical and typographical corrections.

MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

12. Long-Term Debt – (Continued)

In May 2008, an affiliate of Access Industries, which indirectly owns LyondellBasell Industries, entered into a swap, with one of the JLAs based on a notional amount of $1.6 billion of the Interim Loan. Under the swap, Access will receive a single payment at maturity determined with reference to the payments made by LyondellBasell Industries on the Interim Loan prior to maturity. Access's obligations under the swap are partly collateralized with collateral posted by Access Industries or its affiliates (excluding LyondellBasell Industries and it subsidiaries). Neither LyondellBasell Industries nor its affiliates, including Equistar and Millennium, are a party to this transaction.

Other—During the nine months ended September 30, 2008, Millennium repaid the $158 million of its 4% Convertible Senior Debentures due 2023.

Amortization of debt discounts and debt issuance costs resulted in expenses of less than $1 million for each of the three month periods ended September 30, 2008 and 2007 and resulted in expenses of $2 million and less than $1 million, respectively, for each of the nine month periods ended September 30, 2008 and 2007, which are included in interest expense in the Consolidated Statements of Income. Amounts related to push-down debt are included in "Interest Expense on push-down debt" in the Consolidated Statements of Income for the three and nine months ended September 30, 2008.

Effects of a breach—A breach by Millennium or any other obligor of the covenants or the failure to pay principal and interest when due under any of the Interim Loan, Senior Secured Credit Facilities, Asset-Based Facilities or other indebtedness of Millennium or its affiliates could result in a default or cross-default under all or some of those instruments. If any such default or cross-default occurs, the applicable lenders may elect to declare all outstanding borrowings, together with accrued interest and other amounts payable thereunder, to be immediately due and payable. In such circumstances, the lenders under the Senior Secured Credit Facilities, the Access Revolving Credit Facility and the ABL Inventory-Based Credit Facility also have the right to terminate any commitments they have to provide further borrowings, and the counterparties under the ABL Asset-Based Receivables Facility, as well as under legacy Basell U.S. and European securitization programs, may terminate further purchases of interests in accounts receivable and receive all collections from previously sold interests until they have collected on their interests in those receivables, thus reducing the entity's liquidity. In addition, following such an event of default, the lenders under the Senior Secured Credit Facilities and the counterparties under the ABL Inventory-Based Credit Facility have the right to proceed against the collateral granted to them to secure the obligations, which in some cases includes its available cash. If the obligations under the Interim Loan, Senior Secured Credit Facilities, the Asset-Based Facilities or any other material financing arrangement were to be accelerated, it is not likely that the obligors would have, or be able to obtain, sufficient funds to make these accelerated payments, and as a result Millennium could be forced into bankruptcy or liquidation.

MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

13. Pension and Other Postretirement Benefits

Net periodic pension benefits for continuing operations included the following cost components:

	Successor	Predecessor	Successor	Predecessor
	For the three months ended September 30,		For the nine months ended September 30,	
Millions of dollars	2008	2007	2008	2007
Service cost	$ 1	$ - -	$ 2	$ 2
Interest cost	8	6	24	22
Expected return on plan assets	(10)	(10)	(29)	(28)
Amortization	- -	5	- -	9
Net periodic pension benefit cost (benefit)	$ (1)	$ 1	$ (3)	$ 5

Net periodic other postretirement benefits costs were less than $1 million and $1 million, respectively, in the three- and nine-month periods ended September 30, 2008 and were net credits of $2 million and $3 million, respectively, in the three- and nine-month periods ended September 30, 2007.

Since December 31, 2007, the financial markets have experienced significant turmoil including declines in asset values and increases in corporate bond yields. Millennium's pension plans, which are remeasured annually at December 31 and, absent changes in financial market conditions, are subject to decreases in plan asset values and increases in discount rates.

14. Commitments and Contingencies

Environmental Remediation—Millennium's accrued liability for future environmental remediation costs at current and former plant sites and other remediation sites totaled $174 million and $181 million as of September 30, 2008 and December 31, 2007, respectively. The remediation expenditures are expected to occur over a number of years, and not to be concentrated in any single year. In the opinion of management, there is no material estimable range of reasonably possible loss in excess of the liabilities recorded for environmental remediation. However, it is possible that new information about the sites for which the accrual has been established, new technology or future developments such as involvement in investigations by regulatory agencies, could require Millennium to reassess its potential exposure related to environmental matters.

The following table summarizes the activity in Millennium's accrued environmental liability for the nine months ended September 30:

Millions of dollars	Successor 2008	Predecessor 2007
Balance at January 1	$ 181	$ 148
Additional accruals	- -	12
Amounts paid	(12)	(12)
Adjustments to purchase price allocation	5	- -
Balance at September 30	$ 174	$ 148

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14. Commitments and Contingencies – (Continued)

The liabilities for individual sites range from less than $1 million to $137 million. The $137 million liability relates to the Kalamazoo River Superfund Site.

A Millennium subsidiary has been identified as a Potential Responsible Party ("PRP") with respect to the Kalamazoo River Superfund Site. The site involves cleanup of river sediments and floodplain soils contaminated with polychlorinated biphenyls, cleanup of former paper mill operations, and cleanup and closure of landfills associated with the former paper mill operations.

In 2000, the Kalamazoo River Study Group (the "KRSG"), of which the Millennium subsidiary and other PRPs are members, submitted to the State of Michigan a Draft Remedial Investigation and Draft Feasibility Study, which evaluated a number of remedial options for the river. The estimated costs for these remedial options ranged from $0 to $2.5 billion. Although the KRSG study identified a broad range of remedial options, not all of those options would represent reasonably possible outcomes. Management does not believe that it can identify a single remedy among those options that would represent the highest-cost reasonably possible outcome.

In 2004, Millennium recognized a liability representing the Millennium subsidiary's interim allocation of 55% of the $73 million total of estimated cost of riverbank stabilization, recommended as the preferred remedy in 2000 by the KRSG study, and of certain other costs.

At the end of 2001, the U.S. Environmental Protection Agency ("EPA") took lead responsibility for the river portion of the site at the request of the State of Michigan. In 2004, the EPA initiated a confidential process to facilitate discussions among the agency, the Millennium subsidiary, other PRPs, the Michigan Departments of Environmental Quality and Natural Resources, and certain federal natural resource trustees about the need for additional investigation activities and different possible approaches for addressing the contamination in and along the Kalamazoo River. As these discussions have continued, Millennium has obtained new information about regulatory oversight costs and other remediation costs, including a proposed remedy to be applied to a specific portion of the river, and has been able to reasonably estimate anticipated costs for certain other segments of the river, based in part on experience to date with the remedy currently being applied to the one portion of the river. As a result, management can reasonably estimate the probable spending for remediation of three segments of the river, which has been accrued as of September 30, 2008. Management's best estimates for costs relating to other segments of the river, which may remain uncertain for the foreseeable future, also have been accrued based on the KRSG study.

As of September 30, 2008, the probable additional future remediation spending associated with the river cannot be determined with certainty but the amounts accrued are believed to be the current best estimate of future costs, based on information currently available. At September 30, 2008, the balance of the liability related to the river was $92 million.

In addition, Millennium has recognized a liability primarily related to Millennium's estimated share of remediation costs for two former paper mill sites and associated landfills, which are also part of the Kalamazoo River Superfund Site. At September 30, 2008, the balance of the liability was $45 million. Although no final agreement has been reached as to the ultimate remedy for these locations, Millennium has begun remediation activity related to these sites.

Millennium's ultimate liability for the Kalamazoo River Superfund Site will depend on many factors that have not yet been determined, including the ultimate remedies selected, the determination of natural resource damages, the number and financial viability of the other PRPs, and the determination of the final allocation among the PRPs.

MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

14. Commitments and Contingencies – (Continued)

The balance, at September 30, 2008, of remediation liabilities related to Millennium sites other than the Kalamazoo River Superfund Site was $37 million.

Litigation—Together with alleged past manufacturers of lead-based paint and lead pigments for use in paint, Millennium has been named as a defendant in various legal proceedings alleging personal injury, property damage, and remediation costs allegedly associated with the use of these products. The majority of these legal proceedings assert unspecified monetary damages in excess of the statutory minimum and, in certain cases, seek equitable relief such as abatement of lead-based paint in buildings. Legal proceedings relating to lead pigment or paint are in various trial stages and post-dismissal settings, some of which are on appeal.

One legal proceeding relating to lead pigment or paint was tried in 2002. On October 29, 2002, the judge in that case declared a mistrial after the jury declared itself deadlocked. The sole issue before the jury was whether lead pigment in paint in and on Rhode Island buildings constituted a "public nuisance." The re-trial of this case began on November 1, 2005. On February 22, 2006, a jury returned a verdict in favor of the State of Rhode Island finding that the cumulative presence of lead pigments in paints and coatings on buildings in the state constitutes a public nuisance; that a Millennium subsidiary, Millennium Holdings, LLC, and other defendants either caused or substantially contributed to the creation of the public nuisance; and that those defendants, including the Millennium subsidiary, should be ordered to abate the public nuisance. On February 28, 2006, the judge held that the state could not proceed with its claim for punitive damages. On February 26, 2007, the court issued its decision denying the post-verdict motions of the defendants, including the Millennium subsidiary, for a mistrial or a new trial. The court concluded that it would enter an order of abatement and appoint a special master to assist the court in determining the scope of the abatement remedy. On March 16, 2007, the court entered a final judgment on the jury's verdict. On March 20, 2007, the Millennium subsidiary and the other defendants filed a notice of appeal with the Rhode Island Supreme Court. On December 18, 2007, the trial court appointed two special masters to serve as "examiners" and to assist the trial court in the proposed abatement proceedings. On May 15, 2008, the Rhode Island Supreme Court heard oral argument on, among other things, Millennium's appeal of the jury's verdict in favor of the State of Rhode Island. On July 1, 2008, the Rhode Island Supreme Court unanimously reversed the jury's verdict and subsequent judgment against Millennium and the other defendants. The Rhode Island Supreme Court's verdict effectively ends this legal proceeding.

Millennium's defense costs to date for lead-based paint and lead pigment litigation largely have been covered by insurance. Millennium has insurance policies that potentially provide approximately $1 billion in indemnity coverage for lead-based paint and lead pigment litigation. Millennium's ability to collect under the indemnity coverage would depend upon, among other things, the resolution of certain potential coverage defenses that the insurers are likely to assert and the solvency of the various insurance carriers that are part of the coverage block at the time of such a request.

While Millennium believes that it has valid defenses to all the lead-based paint and lead pigment proceedings and is vigorously defending them, litigation is inherently subject to many uncertainties. Any liability that Millennium may ultimately incur, net of any insurance or other recoveries, cannot be estimated at this time.

Guarantees—In addition to debt guarantees disclosed in Note 12, Millennium continues to guarantee certain obligations related to the sold inorganic chemicals business until such time as the buyer completes certain procedures to replace Millennium as guarantor. The guarantees, principally with respect to the lease of research facilities, have a total potential obligation of approximately $31 million over their remaining term. Millennium does not expect that any payments will be required under these guarantees.

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

14. Commitments and Contingencies – (Continued)

Indemnification—Millennium and its joint ventures are parties to various indemnification arrangements, including arrangements entered into in connection with acquisitions, divestitures and the formation of joint ventures. For example, Millennium entered into indemnification arrangements in connection with its demerger from Hanson plc, and Equistar and its owner companies (including Millennium) entered into indemnification arrangements in connection with the formation of Equistar. Pursuant to these arrangements, Millennium and its joint ventures provide indemnification to and/or receive indemnification from other parties in connection with liabilities that may arise in connection with the transactions and in connection with activities prior to completion of the transactions. These indemnification arrangements typically include provisions pertaining to third party claims relating to environmental and tax matters and various types of litigation. As of September 30, 2008, Millennium has not accrued any significant amounts for such indemnification obligations. Millennium cannot determine with certainty the potential amount of future payments under the indemnification arrangements until events arise that would trigger a liability under the arrangements.

Other—Millennium and its joint ventures are, from time to time, defendants in lawsuits and other commercial disputes, some of which are not covered by insurance. Many of these suits make no specific claim for relief. Although final determination of any liability and resulting financial impact with respect to any such matters cannot be ascertained with any degree of certainty, management does not believe that any ultimate uninsured liability resulting from these matters in which it, its subsidiaries or its joint ventures currently are involved will, individually or in the aggregate, have a material adverse effect on the financial position, liquidity or results of operations of Millennium.

General—In the opinion of management, the matters discussed in this note, other than potential future liabilities for environmental remediation which amounts cannot be estimated, are not expected to have a material adverse effect on the financial position or liquidity of Millennium. However, the adverse resolution in any reporting period of one or more of the matters discussed in this note could have a material impact on Millennium's results of operations for that period, which may be mitigated by contribution or indemnification obligations of others, or by any insurance coverage that may be available.

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

15. Comprehensive Income

The components of comprehensive income were as follows:

Millions of dollars	Successor For the three months ended September 30, 2008	Predecessor For the three months ended September 30, 2007	Successor For the nine months ended September 30, 2008	Predecessor For the nine months ended September 30, 2007
Net income (loss)	$ (3)	$ 9	$ 17	$ 290
Other comprehensive income (loss), net of tax:				
Continuing operations:				
Amortization of actuarial and investment loss included in net periodic pension cost	- -	1	- -	4
Discontinued operations:				
Foreign currency translation	- -	- -	- -	16
Amortization of actuarial and investment loss included in net periodic pension cost	- -	- -	- -	2
Sale of discontinued operations	- -	- -	- -	(63)
Total other comprehensive income (loss)	- -	1	- -	(41)
Comprehensive income	$ (3)	$ 10	$ 17	$ 249

16. Segment and Related Information

At the time of the acquisition of Lyondell by LyondellBasell Industries, LyondellBasell Industries established new business segments through which Millennium's operations are managed.

Millennium, a wholly owned subsidiary of Lyondell, operates in one reportable segment. Millennium's chemicals business segment produces and markets: acetyls, which include VAM, acetic acid and methanol; and fragrance and flavors chemicals.

On May 15, 2007, Millennium completed the sale of its worldwide inorganic chemicals business (see Note 5) and substantially all of the inorganic chemicals segment was reclassified as a discontinued operation.

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

16. Segment and Related Information – (Continued)

Summarized financial information concerning reportable segments is shown in the following table for the periods presented:

Millions of dollars	Chemicals	Other	Total
Successor			
For the three months ended September 30, 2008			
Sales and other operating revenues	$ 188	$ - -	$ 188
Operating income (loss)	11	(3)	8
Income from equity investment in Equistar before effects of push-down debt	23	- -	23
Predecessor			
For the three months ended September 30, 2007			
Sales and other operating revenues	$ 162	$ - -	$ 162
Operating income (loss)	21	(11)	10
Income from equity investment	6	- -	6
Successor			
For the nine months ended September 30, 2008			
Sales and other operating revenues	$ 587	$ - -	$ 587
Operating income (loss)	76	(11)	65
Loss from equity investment in Equistar before effects of push-down debt	(73)	- -	(73)
Predecessor			
For the nine months ended September 30, 2007			
Sales and other operating revenues	$ 471	$ 4	$ 475
Operating income (loss)	62	(39)	23
Income from equity investment	12	- -	12

Operating income (loss) in the “Other” column above included a business that was not a reportable segment and costs not allocated to Millennium’s chemicals segment, including costs from predecessor businesses.

The 2007 segment information presented above has been reclassified to conform with the new business segment created during the acquisition of Lyondell by LyondellBasell Industries.

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

17. Supplemental Guarantor Information

Millennium America Inc. (“Millennium America”), a 100% owned indirect subsidiary of Millennium, is a holding company for all of Millennium’s continuing and, prior to May 15, 2007, discontinued operating subsidiaries other than its discontinued operations in the United Kingdom, France, Brazil and Australia. Millennium America is the issuer of the 7.625% Senior Debentures. Millennium was the issuer of the 4% Convertible Senior Debentures, which were completely repaid during the first nine months of 2008. Millennium America fully and unconditionally guaranteed all obligations under the 4% Convertible Senior Debentures, while outstanding. The 7.625% Senior Debentures are fully and unconditionally guaranteed by Millennium. The following condensed consolidating financial information presents supplemental information for Millennium Chemicals Inc., the parent, and Millennium America as of September 30, 2008 and December 31, 2007 and for the three- and nine-month periods ended September 30, 2008 and 2007.

CONDENSED CONSOLIDATING FINANCIAL INFORMATION

BALANCE SHEET
As of September 30, 2008

Millions of dollars	Millennium Chemicals Inc.	Millennium America Inc.	Non-Guarantor Subsidiaries	Eliminations	Millennium Chemicals Inc. and Subsidiaries
Inventories	$ - -	$ - -	$ 111	$ - -	$ 111
Other current assets	- -	- -	160	- -	160
Property, plant and equipment, net	- -	- -	307	- -	307
Investment in Equistar Chemicals, LP:					
Prior to push-down debt	- -	- -	1,579	- -	1,579
Effect of push-down debt	- -	- -	(1,579)	- -	(1,579)
Net investment in Equistar Chemicals, LP	- -	- -	- -	- -	- -
Other investments and long-term receivables	17	324	16	(341)	16
Other assets, net	2	- -	174	- -	176
Due from parent and affiliates, net	- -	259	- -	(259)	- -
Total assets	$ 19	$ 583	$ 768	$ (600)	$ 770
Notes payable to related party	$ - -	$ - -	$ 22	$ - -	$ 22
Other current liabilities	- -	7	146	- -	153
Long-term debt:					
Push-down	308	308	- -	(308)	308

Debt of Millennium	- -	172	- -	- -	172
Other liabilities	- -	- -	228	- -	228
Deferred income taxes	- -	- -	256	- -	256
Due to parent and affiliates, net	87	- -	172	(259)	- -
Total liabilities	395	487	824	(567)	1,139
Minority interest	- -	- -	7	- -	7
Total stockholder’s equity (deficit)	(376)	96	(63)	(33)	(376)
Total liabilities and stockholder’s equity	$ 19	$ 583	$ 768	$ (600)	$ 770

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING FINANCIAL INFORMATION

BALANCE SHEET
As of December 31, 2007

Millions of dollars	Millennium Chemicals Inc.	Millennium America Inc.	Non-Guarantor Subsidiaries	Eliminations	Millennium Chemicals Inc. and Subsidiaries
Inventories	$ - -	$ - -	$ 104	$ - -	$ 104
Notes receivable from related party	80	- -	- -	- -	80
Other current assets	3	24	229	- -	256
Property, plant and equipment, net	- -	- -	324	- -	324
Investment in Equistar Chemicals, LP:					
Prior to push-down debt	- -	- -	1,652	- -	1,652
Effect of push-down debt	- -	- -	(1,652)	- -	(1,652)
Net investment in Equistar Chemicals, LP	- -	- -	- -	- -	- -
Other investments and long-term receivables	68	355	16	(423)	16
Other assets, net	2	1	176	- -	179
Due from parent and affiliates, net	- -	163	- -	(163)	- -
Total assets	$ 153	$ 543	$ 849	$ (586)	$ 959
Current maturities of long-term debt	$ 44	$ - -	$ 114	$ - -	$ 158
Other current liabilities	115	2	64	- -	181
Long-term debt:					
Push-down	350	350	- -	(350)	350
Debt of Millennium	- -	170	- -	- -	170
Other liabilities	- -	- -	238	- -	238
Deferred income taxes	- -	- -	221	- -	221
Due to parent and affiliates, net	10	- -	153	(163)	- -
Total liabilities	519	522	790	(513)	1,318
Minority interest	- -	- -	7	- -	7
Total stockholder’s equity (deficit)	(366)	21	52	(73)	(366)
Total liabilities and stockholder’s equity	$ 153	$ 543	$ 849	$ (586)	$ 959

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MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING FINANCIAL INFORMATION

STATEMENT OF INCOME
Successor
For the Three Months Ended September 30, 2008

Millions of dollars	Millennium Chemicals Inc.	Millennium America Inc.	Non-Guarantor