MILLENNIUM CHEMICALS INC
Form 10-Q/A
February 14, 2005
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(AMENDMENT NO. 4)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2004

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	**22-3436215**

(State or other jurisdiction of	**(I.R.S. Employer Identification No.)**
incorporation or organization)	

1221 McKinney Street, Suite 700

Houston, Texas 77010

(Address of principal executive offices)

713-652-72000

(Registrant s telephone number, including area code)

(Information regarding address and telephone number reflects changes resulting from

Lyondell Chemical Company s November 30, 2004 acquisition of the registrant.)

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 is required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x No ¨.

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 65,379,892 shares of Common Stock, par value $.01 per share, as of July 31, 2004, excluding 12,516,694 shares held by the registrant, its subsidiaries and certain Company trusts that are not entitled to vote. As a result of Lyondell Chemical Company s November 30, 2004 acquisition of the registrant, there is no established public trading market for the registrant s equity securities.

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MILLENNIUM CHEMICALS INC.

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Explanatory Note

Millennium Chemicals Inc. (the Company) filed Amendment No. 2 to its Annual Report on Form 10-K/A for the year ended December 31, 2003 (Amendment No. 2) on August 9, 2004 to reflect the restatement of its financial statements for the years ended December 31, 2001 through 2003. That restatement (the August 2004 Restatement) corrected errors in the computation of deferred income taxes relating to the Company s investment in Equistar Chemicals, LP (Equistar), a partnership in which the Company owns a 29.5% interest. The August 2004 Restatement decreased the Company s liability for deferred income taxes and Shareholders deficit at December 31, 2003 and 2002 by $15 million. The August 2004 Restatement similarly decreased liabilities for deferred income taxes and increased Shareholders equity at December 31, 2001 and 2000 by $15 million. The August 2004 Restatement did not affect the Company s cash flow or operating income in any year. For more information on the effect of the August 2004 Restatement for each period presented see Note 17 to the Consolidated Financial Statements.

The Company is filing this Amendment No. 4 to its Quarterly Report on Form 10-Q/A for the period ended June 30, 2004 (Amendment No. 4) to restate its financial statements for the second quarter of 2004. Included herein are restated consolidated statements of operations and statements of cash flows for the three and six month periods ended June 30, 2004 and 2003 and restated consolidated balance sheets as of June 30, 2004 and December 31, 2003. This restatement (the February 2005 Restatement) corrects errors made in recording estimated liabilities for future environmental remediation spending associated with existing obligations, primarily related to the Kalamazoo River Superfund Site, that were not recorded previously. The February 2005 Restatement increased environmental remediation liabilities by $51 million, decreased deferred tax liabilities by $17 million, and increased Accumulated deficit by $34 million as of June 30, 2004, and increased net loss for each of the three month periods ended June 30, 2004 and 2003 by $1 million, or $0.02 per share, and $3 million, or $0.05 per share, and $2 million, or $0.03 per share, respectively, for the six months ended June 30, 2004 and 2003. The Company has also made certain adjustments to the financial statements for the periods presented that previously had been considered immaterial to those financial statements. For more information on the effect of the February 2005 Restatement for each period presented, see Note 18 to the Consolidated Financial Statements.

The Company concluded, in January 2005, that it would restate its financial statements for the three and six months ended June 30, 2004 because of the errors that are corrected in the February 2005 Restatement. The conclusion was reached, as a result of an analysis of environmental remediation liabilities conducted in connection with Lyondell Chemical Company s (Lyondell) acquisition of the Company on November 30, 2004, and the preparation of the financial statements of Lyondell and the Company as of and for the year ended December 31, 2004. These errors were reported by the Company on February 1, 2005, in a press release, a copy of which was filed as an exhibit to a Current Report on Form 8-K filed on February 2, 2005.

A discussion of the February 2005 Restatement is set forth in Note 18 to the Consolidated Financial Statements included in this Amendment No. 4. Changes also have been made to the following items in this Amendment No. 4 as a result of the February 2005 Restatement:

Item 1, Financial Statements has been revised to reflect the February 2005 Restatement;

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Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations has been revised to reflect the February 2005 Restatement; and

Item 4, Controls and Procedures has been updated in connection with the errors discussed above.

On November 30, 2004, the Company was acquired by Lyondell. As a result, the Company is a wholly owned subsidiary of Lyondell. This Amendment No. 4 does not reflect events, including Lyondell s November 30, 2004 acquisition of the Company, that have occurred after August 9, 2004, the date the Quarterly Report on Form 10-Q was originally filed. Information with respect to events that have occurred after August 9, 2004, has been or will be set forth, as appropriate, in the Company s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Any references to facts and circumstances at a current date refer to such facts and circumstances as of such original filing date. This Amendment No. 4 consists of relevant portions of the Company s prior filing of the Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, as previously amended, as prepared by the Company s prior management. The Company is under new management following the acquisition of the Company by Lyondell on November 30, 2004.

The Company is also filing with the Securities and Exchange Commission, amendments to its Annual Report on Form 10-K/A for the year ended December 31, 2003, and is also filing, as soon as practicable, amendments to its Quarterly Reports on Form 10-Q/A for each of the three months ended March 31 and September 30, 2004, to reflect changes required as a result of the February 2005 Restatement.

The only changes made to the prior disclosures in this Amendment No. 4 are those that were determined necessary by the Company s new management as a result of the February 2005 Restatement. The Company has provided and will continue to provide current information as appropriate through filings on Form 8-K, as well as through the new filings on Form 10-Q referred to above. Also, the Company s new management is preparing the Company s Annual Report on Form 10-K for the year ended December 31, 2004, which, in many respects, may update and supersede the information included in this Amendment No.4 and the Company s prior periodic reports, including regarding environmental liabilities.

In this Amendment No. 4, the terms our , we , and the Company refer to Millennium Chemicals Inc. and its consolidated subsidiaries, except as the context otherwise requires.

Non-GAAP Financial Measures

Financial measures based on accounting principles generally accepted in the United States of America (GAAP) are commonly referred to as GAAP financial measures. A non-GAAP financial measure is generally defined by the Securities and Exchange Commission as one that purports to measure historical or future financial performance, financial position, or cash flows, but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. From time to time the Company discloses non-GAAP financial measures, primarily EBITDA. EBITDA represents income from operations before interest, taxes, depreciation and amortization, other income items, equity earnings, and the cumulative effect of accounting changes. EBITDA is a key measure used by the banking and investing communities in their evaluation of economic performance. Accordingly, management believes that disclosure of EBITDA provides useful information to investors because it is frequently cited by financial analysts in evaluating companies performance. EBITDA is not a measure of operating performance computed in accordance with GAAP and should not be considered as a substitute for GAAP measures. Additionally, these measures may not be comparable to similarly named measures of other companies.

The Company also periodically reports adjusted net or operating income (loss) or adjusted EBITDA, excluding designated items. Management believes that excluding these items generally helps investors to compare operating performance between two periods. Such adjusted data are not reported without an explanation of the items that are excluded.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements (Unaudited)***

MILLENNIUM CHEMICALS INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(Millions, except share data)

	June 30, 2004	December 31, 2003
		(Restated See Notes 17 and 18)
ASSETS		
Current assets		
Cash and cash equivalents	$ 191	$ 209
Trade receivables, net	342	277
Inventories	372	457
Other current assets	69	65
Total current assets	974	1,008
Property, plant and equipment, net	725	766
Investment in Equistar	483	469
Other assets	45	51
Goodwill	104	104
Total assets	$ 2,331	$ 2,398
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities		
Notes payable	$ 3	$
Current maturities of long-term debt	5	6
Trade accounts payable	264	236
Income taxes payable	6	5
Accrued expenses and other liabilities	118	126
Total current liabilities	396	373
Long-term debt	1,400	1,461
Deferred income taxes	253	257
Other liabilities	365	371
Total liabilities	2,414	2,462

Commitments and contingencies (Note 13)		
Minority interest	29	27
Shareholders deficit		
Preferred stock (par value $.01 per share, authorized 25,000,000 shares, none issued and outstanding)		
Common stock (par value $.01 per share, authorized 225,000,000 shares; issued 77,896,586 shares at June 30, 2004 and December 31, 2003)	1	1
Paid in capital	1,286	1,292
Accumulated deficit	(1,015)	(995)
Accumulated other comprehensive loss	(152)	(141)
Treasury stock, at cost (12,755,355 and 13,905,687 shares at June 30, 2004 and December 31, 2003, respectively)	(238)	(260)
Unearned restricted shares	(1)	(1)
Deferred compensation	7	13
Total shareholders deficit	(112)	(91)
Total liabilities and shareholders deficit	$ 2,331	$ 2,398

See Notes to Consolidated Financial Statements (Unaudited).

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MILLENNIUM CHEMICALS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(Millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(Restated	See Notes 17 and 18)		
Net sales	$ 488	$ 416	$ 953	$ 831
Operating costs and expenses				
Cost of products sold	413	326	801	657
Depreciation and amortization	24	28	48	55
Selling, development and administrative expense	35	39	71	70
Asset impairment charges	5		8	
Combination costs	1		4	
Reorganization and office closure costs	1	1	2	1
Operating income	9	22	19	48
Interest expense	(25)	(24)	(52)	(47)
Interest income	1	1	3	2
Earnings (loss) on Equistar investment	12	(14)	14	(57)
Other expense, net	(1)	(1)	(2)	(1)
Loss before income taxes, minority interest and cumulative effect of accounting change	(4)	(16)	(18)	(55)
(Provision for) benefit from income taxes	(2)	7	1	22
Loss before minority interest and cumulative effect of accounting change	(6)	(9)	(17)	(33)
Minority interest	(2)	(1)	(3)	(4)
Loss before cumulative effect of accounting change	(8)	(10)	(20)	(37)
Cumulative effect of accounting change				(1)
Net loss	$ (8)	$ (10)	$ (20)	$ (38)
Basic and diluted loss per share:				
Before cumulative effect of accounting change	$ (0.12)	$ (0.16)	$ (0.31)	$ (0.57)
From cumulative effect of accounting change				(0.02)
After cumulative effect of accounting change	$ (0.12)	$ (0.16)	$ (0.31)	$ (0.59)

See Notes to Consolidated Financial Statements (Unaudited).

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MILLENNIUM CHEMICALS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Millions)

	Six Months Ended June 30,	
	2004	2003
	(Restated See Notes 17 and 18)	
Cash flows from operating activities:		
Net loss	$ (20)	$ (38)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Cumulative effect of accounting change		1
Asset impairment charges	8	
Depreciation and amortization	48	55
Deferred income tax benefit	(6)	(33)
(Earnings) loss on Equistar investment	(14)	57
Minority interest	3	4
Other, net	(3)	1
Changes in assets and liabilities:		
Increase in trade receivables	(66)	(5)
Decrease (increase) in inventories	80	(14)
(Increase) decrease in other current assets	(6)	13
Decrease in other assets		1
Increase (decrease) in trade accounts payable	31	(49)
Decrease in accrued expenses and other liabilities and income taxes payable	3	(23)
Decrease in other liabilities	(11)	(12)
Cash provided by (used in) operating activities	47	(42)
Cash flows from investing activities:		
Capital expenditures	(23)	(19)
Cash used in investing activities	(23)	(19)
Cash flows from financing activities:		
Dividends to shareholders		(17)
Proceeds from long-term debt, net of financing costs	16	279
Repayment of long-term debt	(72)	(173)
Increase (decrease) in notes payable and other short-term borrowings	1	(5)
Proceeds from exercise of stock options	9	
Cash (used in) provided by financing activities	(46)	84
Effect of exchange rate changes on cash	4	7

(Decrease) increase in cash and cash equivalents	(18)	30
Cash and cash equivalents at beginning of year	209	125
Cash and cash equivalents at end of period	$ 191	$ 155

See Notes to Consolidated Financial Statements (Unaudited).

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in millions, except share data)

Note 1 Basis of Presentation

Pursuant to the rules and regulations of the Securities and Exchange Commission, the accompanying unaudited interim consolidated financial statements do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America for complete financial statements. The accompanying unaudited consolidated financial statements should be read in conjunction with the financial statements and disclosures included in the Annual Report on Form 10-K of Millennium Chemicals Inc. (the Company) for the year ended December 31, 2003, as amended by Amendment No. 5 on Form 10-K/A filed with the Securities and Exchange Commission on February 14, 2005. In the opinion of management, all adjustments considered necessary to present fairly the financial position and results of operations for the interim periods are included in the accompanying unaudited consolidated financial statements.

The unaudited consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Minority interest represents the minority ownership of the Company s Brazilian subsidiary and the La Porte Methanol Company. All significant intercompany accounts and transactions have been eliminated. The Company s 29.5% investment in Equistar Chemicals, LP (Equistar), a joint venture between the Company and Lyondell Chemical Company (Lyondell), is accounted for by the equity method; accordingly, the Company s share of Equistar s pre-tax net income or loss is included in net income or loss.

Note 2 Agreement for a Stock-for-Stock Business Combination

On March 29, 2004, Lyondell and the Company announced that their respective Boards of Directors had approved, and the companies had executed, an agreement and plan of merger. The proposed transaction is intended to qualify as a reorganization for U.S. federal income tax purposes, in which Millennium shareholders generally will not recognize gain or loss, other than any gain or loss recognized on the receipt of cash for fractional shares.

The Company s shareholders will receive between 0.95 and 1.05 shares of Lyondell common stock for each share of the Company s Common Stock, depending on the average of the volume-weighted average price of Lyondell shares for the 20 trading days ending on the third trading day before the consummation of the transaction. The Company s shareholders will receive 0.95 shares of Lyondell common stock if the average price of Lyondell shares during the period is $20.50 per share or greater, and 1.05 shares if it is $16.50 per share or less. If the average price is between these two amounts, the exchange ratio will vary proportionately. The new shares will be entitled to receive the same cash dividend as existing outstanding Lyondell shares. The Company s 4.00% convertible senior debentures (the 4.00% Convertible Senior Debentures) will become convertible into Lyondell common stock in accordance with the terms of the convertible debenture indenture following the closing of the transaction.

The transaction is subject to approval by both companies shareholders and other customary conditions. The Company and Lyondell have obtained amendments to the Company s and Lyondell s respective bank credit agreements and Lyondell s accounts receivable sales facility to permit the transaction. Although the Company and Lyondell originally expected the transaction to close in the third quarter of 2004, the Company and Lyondell announced on July 29, 2004 that they expected their respective special shareholders meetings to be held in the fourth quarter of 2004. The Company expects the transaction to close in the fourth quarter of 2004; however, there can be no assurance that the transaction will close. The transaction involves the merger of Millennium Subsidiary LLC, a newly created subsidiary of the Company, into the Company, in which the Company s Common Stock now held by its public shareholders will be converted into common stock of Lyondell, and the Company s preferred stock to be issued to Lyondell immediately before the merger will be converted into common stock of the Company, as the surviving entity in the merger. As a result of the transaction, the Company will become a wholly-owned subsidiary of Lyondell. After the closing of the transaction, the combined company will be called Lyondell Chemical Company and will be headquartered in Houston, Texas.

For the three months and six months ended June 30, 2004, the Company incurred approximately $1 and $4, respectively, of professional services costs in connection with the proposed combination, which are included in Combination costs in the accompanying unaudited Consolidated Statements of Operations.

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

Note 3 Loss per Share and Stock-Based Compensation

The weighted-average number of equivalent shares of common stock outstanding used in computing loss per share is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Weighted-average common stock outstanding basic and diluted	64,963,367	63,972,811	64,730,316	63,913,148

The calculation of diluted loss per share for the three months and six months ended June 30, 2004 does not include 133,190 restricted shares; 239,023 and 167,503 options to purchase Common Stock, respectively; 188,565 and 192,307 shares held in trust for the Company s employee benefit plans, respectively; and shares reserved for conversion of the Company s 4.00% Convertible Senior Debentures, as more fully described in Note 9. The calculation of diluted loss per share for the three months and six months ended June 30, 2003 does not include 5,767 and 628 options to purchase Common Stock, respectively; 58,212 and 58,038 restricted shares, respectively; and 220,718 and 222,575 shares held in trust for the Company s employee benefit plans, respectively. The effect of including these options and shares would be antidilutive due to the reported net losses in each of these periods.

Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, encourages a fair value based method of accounting for employee stock options and similar equity instruments, which generally would result in the recording of additional compensation expense in the Company s financial statements. SFAS No. 123, as amended, also allows the Company to continue to account for stock-based employee compensation using the intrinsic value for equity instruments under Accounting Principles Board Opinion No. 25 (APB Opinion No. 25). The Company has elected to account for such instruments using APB Opinion No. 25 and related interpretations, and thus has adopted the disclosure-only provisions of SFAS No. 123, as amended. Accordingly, no compensation cost has been recognized for the stock option plans in the accompanying financial statements as all options granted had an exercise price equal to the market value of the underlying Common Stock on the date of grant.

Disclosure on a pro forma basis of net loss and related per-share amounts as if the Company had applied the fair value recognition provisions of SFAS No. 123, as amended, to stock-based employee compensation is omitted because the effect on pro forma net loss is insignificant.

Note 4 Recent Accounting Developments

On January 1, 2003, the Company adopted SFAS No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143). SFAS No. 143 applies to legal obligations associated with the retirement of long-lived assets. This standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred and the associated asset retirement costs be capitalized as part of the carrying amount of the long-lived asset. Accretion expense and depreciation expense related to the liability and capitalized asset retirement costs, respectively, are recorded in subsequent periods. The Company s asset retirement obligations arise from activities associated with the eventual remediation of sites used for landfills and mining and include estimated liabilities for closure, restoration, and post-closure care. None of the Company s assets are legally restricted for purposes of settling these obligations. As these liabilities are settled, a gain or loss is recognized for any difference between the settlement amount and the liability recorded. The amount of the asset retirement obligations was $12 and $13 at each of June 30, 2004 and December 31, 2003, respectively. The Company reported an after-tax transition charge of $1 in the first quarter of 2003 as the cumulative effect of this accounting change. The impact of adoption was to increase the Company s reported assets and liabilities by $2 and $3, respectively.

In December 2003, the Financial Accounting Standards Board (FASB) issued revised FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements (FIN 46R). FIN 46R requires the assets, liabilities, and results of operations of a variable interest entity (VIE) to be consolidated in the financial statements of the enterprise considered to be the primary beneficiary of that entity. The Company evaluated material relationships with certain entities that were considered potential VIEs. The Company concluded, with one possible exception discussed below, that those

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

Note 4 Recent Accounting Developments (Continued)

entities are not VIEs or the Company is not the primary beneficiary of the VIE. As such, in accordance with FIN 46R, the Company is not required to consolidate those entities.

The Company evaluated its long-term obligations with one entity that may be a VIE. The Company has no equity interest in this entity and has confirmed that the entity is consolidated by an equity owner. The Company has not been able to obtain the financial information from the entity necessary to determine whether the Company is the primary beneficiary of the entity. Management of the entity cited confidentiality considerations with regard to the decision not to provide the Company with certain financial information. The Company pays approximately $3 in plant and equipment rental charges on an annual basis to this entity.

In March 2004, the Emerging Issues Task Force (EITF) of the FASB issued EITF Issue No. 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share (EITF 03-6). EITF 03-6 addresses a number of questions regarding the computation of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. EITF 03-6 became effective for periods beginning after March 31, 2004. EITF 03-6 had no impact on the Company s financial statements, as the Company has not issued securities for which EITF 03-6 would apply.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law on December 8, 2003. In January 2004, the FASB issued FASB Staff Position (FSP) No. FAS 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FSP No. FAS 106-1), which permitted a sponsor of a postretirement healthcare plan that provides a prescription drug benefit to make a one-time election to defer recognition and accounting for the effects of the Act and the disclosures related to its plans as required by SFAS No. 132 (Revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits until the FASB developed and issued authoritative guidance on accounting for the Federal subsidies provided by the Act. The Act introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a Federal subsidy to sponsors of retiree healthcare benefit plans that provide a medical benefit that is at least actuarially equivalent to Medicare Part D. The Company elected to make the one-time deferral and, accordingly, the measures of its accumulated postretirement benefit obligation and net periodic postretirement benefit cost included in its financial statements and accompanying notes thereto do not reflect the effects of the Act. On May 19, 2004, the FASB issued FSP No. FAS 106-2 of the same title, which provided final guidance on the accounting for subsidies under the Act and will become effective for the Company s third quarter financial report ending September 30, 2004. The Company is currently evaluating the impact of FSP No. FAS 106-2, and the Act. The Company does not expect the effects of the Act to be a significant event and will reflect the effects of the Act in its next measurement of plan obligations as required by SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions . This measurement of plan obligations will occur on the earlier of December 31, 2004 or the effective date of the announced stock-for-stock business combination with Lyondell. See Note 2 regarding the announced stock-for-stock business combination.

Note 5 Asset Impairment Charges

In the three months and six months ended June 30, 2004, the Company recorded asset impairment charges of $5 and $8, respectively, primarily related to the write-off of expenditures for property, plant and equipment at the Company s Le Havre, France titanium dioxide (TiO_2) manufacturing plant. In the fourth quarter of 2003, the carrying value of the property, plant and equipment at this plant was determined to be impaired, and a charge was required to write down the basis in those assets to zero. Capital expenditures at this plant for the three months and six months ended June 30, 2004 were capitalized as property, plant and equipment and then immediately written off as asset impairment charges as a result of evaluating those assets for impairment under the guidance of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). Since the basis of all of the property, plant and equipment for the Le Havre, France TiO_2 plant was written down to zero, no depreciation expense for this plant was recorded in manufacturing and other costs of sales for the three months and six months ended June 30, 2004.

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

Note 6 Reorganization and Office Closure Costs

On July 21, 2003, the Company announced that it would implement a program to reduce costs. This program included a reduction of approximately 5% in the number of the Company s employees worldwide. The Company closed its executive offices in Red Bank, New Jersey, effective September 1, 2003, and relocated its headquarters to Hunt Valley, Maryland, where the Company has existing administrative offices. In addition, the Company announced the suspension of payment of dividends on its Common Stock.

The Company has recorded cumulative charges related to the program of $20 (including $1 and $2 for the three months and six months ended June 30, 2004, respectively), of which $19 was for severance-related costs and $1 was for contractual commitments for ongoing lease costs, net of expected sublease income, associated with the closure of the Red Bank, New Jersey office for the remaining term of the lease agreement. All costs associated with this program are accounted for in accordance with SFAS No. 112, Employer s Accounting for Postemployment Benefits or SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, as appropriate. Cumulative severance-related cash payments of $23 for the implementation of this program were made through June 30, 2004, including $1 and $9 in the three months and six months ended June 30, 2004, respectively. Substantially all of the remainder of the cash payments relating to this program, which are estimated to be approximately $3, will be disbursed during the next several quarters. No significant charges associated with this program are expected in future periods. Accrued liabilities associated with this program and included in Accrued expenses and other liabilities were $2 at June 30, 2004. The cumulative charges of $20 associated with the cost reduction program are less than the cumulative severance-related cash payments of $23 because some of the cash payments made under the program, primarily for retirement benefits, were related to expenses and liabilities that were recorded through the normal course of business in periods prior to the implementation of this program in mid-2003.

Note 7 European Receivables Securitization Program

From March 2002 until November 2003, the Company had been transferring its interest in certain European trade receivables to an unaffiliated third party as its basis for issuing commercial paper under a revolving securitization arrangement (annually renewable for a maximum of five years on April 30 of each year at the option of the third party) with maximum availability of 70 million *euro*, which was treated, in part, as a sale under accounting principles generally accepted in the United States of America. In November 2003, the Company terminated this securitization arrangement and there were no balances outstanding at June 30, 2004 or December 31, 2003. The cumulative gross proceeds from this securitization arrangement through June 30, 2003 were $182. Cash flows from this securitization arrangement were reflected as operating activities in the Consolidated Statement of Cash Flows. The aggregate loss on sales associated with this arrangement for each of the three months and six months ended June 30, 2003 was $1 and was included in selling, development and administrative (S,D&A) expense. Servicing liabilities associated with the transaction were insignificant.

Note 8 Inventories

Inventories are stated at the lower of cost or market value.

	June 30, 2004	December 31, 2003
Finished products	$ 184	$ 258
In-process products	35	38
Raw materials	86	96
Maintenance parts and supplies	67	65
	$ 372	$ 457

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

Note 9 Long-Term Debt and Credit Arrangements

The maturities of the Company s long-term debt through 2009 and thereafter are as follows:

	July 1 - December 31, 2004	2005	2006	2007	2008	2009	Thereafter	Total at June 30, 2004	Total at December 31, 2003
Revolving loans	$	$	$	$	$	$	$	$	$ 52
7.00% Senior Notes			500					500	500
7.625% Senior Debentures							250	250	250
9.25% Senior Notes					475			475	475
4.00% Convertible Senior Debentures							150	150	150
Other long-term debt	2	5	5	3	1	1	3	20	23
Maturities of long-term debt	$ 2	$ 5	$ 505	$ 3	$ 476	$ 1	$ 403	1,395	1,450
Non-cash components of long-term debt								10	17
Total debt								1,405	1,467
Less: current maturities of long-term debt								(5)	(6)
Total long-term debt								$ 1,400	$ 1,461

On November 25, 2003, the Company received approximately $125 in gross proceeds and, on December 2, 2003, received an additional $25 in gross proceeds from the sale by Millennium Chemicals Inc. (Millennium Chemicals) of $150 aggregate principal amount of the 4.00% Convertible Senior Debentures, which are guaranteed by Millennium America Inc. (Millennium America), a wholly-owned indirect subsidiary of Millennium Chemicals. The gross proceeds of the sale were used to repay all of the $47 of outstanding borrowings at that time under the term loan portion (the Term Loan) of the Company s five-year credit agreement expiring June 18, 2006, as amended, (the Credit Agreement) and $103 of outstanding borrowings under the revolving loan portion (the Revolving Loans) of its Credit Agreement, which currently has a maximum availability of $150. The Company used $4 of cash to pay the fees relating to the sale of the 4.00% Convertible Senior Debentures. Under the terms of the agreements relating to the sale of the 4.00% Convertible Senior Debentures, Millennium Chemicals and Millennium America agreed to: (1) file with the Securities and Exchange Commission on or before March 24, 2004 a registration statement covering the resale of the debentures and the common stock issuable upon conversion thereof pursuant to Rule 415 under the Securities Act, and (2) use reasonable efforts to cause this registration statement to be declared effective under the Securities Act of 1933, as amended (the Securities Act), on or before May 23, 2004. On March 23, 2004, Millennium Chemicals and Millennium America, as guarantor, initially filed a registration statement with the Securities and Exchange Commission, and on June 16, 2004, filed an amendment to this registration statement. However, as of August 9, 2004, this registration statement has not yet been declared effective by the Securities and Exchange Commission. Accordingly, since March 23, 2004, Millennium Chemicals has accrued and will continue to accrue additional interest on the debentures until the registration statement is declared effective by the Securities and Exchange Commission, at an annualized rate of 0.25% until August 22, 2004 and 0.50% thereafter.

On April 25, 2003, the Company received approximately $107 in net proceeds ($109 in gross proceeds) from the issuance and sale by Millennium America of $100 additional principal amount at maturity of its 9.25% Senior Notes due June 15, 2008 (the 9.25% Senior Notes), which are guaranteed by Millennium Chemicals. The net proceeds were used to repay all of the $85 of outstanding borrowings at that time under the Revolving Loans and for general corporate purposes. Millennium Chemicals and Millennium America guarantee the obligations under the Credit Agreement. Under the terms of this issuance and sale, Millennium America and Millennium Chemicals entered into an exchange and registration rights agreement with the initial purchasers of the $100 additional principal amount of these 9.25% Senior Notes. Pursuant to this agreement, each of Millennium America and

MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

Note 9 Long-Term Debt and Credit Arrangements (Continued)

Millennium Chemicals agreed to: (1) file with the Securities and Exchange Commission on or before July 24, 2003 a registration statement relating to a registered exchange offer for the notes, and (2) use its reasonable efforts to cause this exchange offer registration statement to be declared effective under the Securities Act on or before October 22, 2003. On June 13, 2003, Millennium America and Millennium Chemicals, as guarantor, initially filed a registration statement with the Securities and Exchange Commission, and on December 15, 2003 and June 25, 2004, filed amended registration statements. However, as of August 9, 2004, the exchange offer registration statement had not yet been declared effective. As a result, since October 22, 2003, Millennium America has been obligated to pay additional interest at the annualized rate of approximately 1.00% to each holder of the $100 additional amount of notes. This additional interest will be paid until such time as this registration statement becomes effective.

The Company had $21 of outstanding undrawn standby letters of credit and no outstanding borrowings under the Revolving Loans and, accordingly, had $129 of unused availability under such facility at June 30, 2004. In addition to letters of credit outstanding under the Credit Agreement, the Company also had outstanding undrawn standby letters of credit and bank guarantees under other arrangements of $6 at June 30, 2004. The Company had unused availability under short-term uncommitted lines of credit, other than the Credit Agreement, of $41 at June 30, 2004.

The Revolving Loans are available in US dollars, British pounds and *euros*. The Revolving Loans may be borrowed, repaid and reborrowed from time to time. The Revolving Loans include a $50 letter of credit subfacility and a swingline facility in the amount of $25. As of June 30, 2004, $21 was outstanding under the letter of credit subfacility, and no amount under the swingline facility. The Term Loans were entirely prepaid on November 25, 2003, which effectively retired the Term Loans as any such amounts prepaid may not be reborrowed. The interest rates on the Revolving Loans are floating rates based upon margins over LIBOR, NIBOR, or the Administrative Agent s prime lending rate, as the case may be. Such margins, as well as the facility fee, are based on the Company s Leverage Ratio. The Leverage Ratio is the ratio of Total Indebtedness to cumulative EBITDA for the prior four fiscal quarters, each as defined in the Credit Agreement prior to its amendment in the fourth quarter of 2003.

The Credit Agreement contains various restrictive covenants and requires that the Company meet certain financial performance criteria. Compliance with these covenants is monitored frequently in order to assess the likelihood of continued compliance. As a result of the restatement of its prior financial statements, the Company obtained waivers on July 29, 2004, and February 2, 2005, under the Credit Agreement relating to certain representations under the Credit Agreement regarding such prior financial statements. The Company was in compliance with all covenants under the Credit Agreement in effect at June 30, 2004**.**

The financial covenants in the Credit Agreement require the Company to maintain a Senior Secured Leverage Ratio, defined as the ratio of Senior Secured Indebtedness, as defined, to cumulative EBITDA for the prior four fiscal quarters, each as defined, of no more than 1.25 to 1.00 for each of the remaining quarters of 2004 and 1.00 to 1.00 for the first quarter of 2005 and thereafter, and an Interest Coverage Ratio, defined as the ratio of cumulative EBITDA for the prior four fiscal quarters to Net Interest Expense, for the same period, each as defined, of no less than 1.35 to 1.00 for the first and second quarters of 2004; 1.40 to 1.00 for the third quarter of 2004; 1.50 to 1.00 for the fourth quarter of 2004; and 1.75 to 1.00 for the first quarter of 2005 and thereafter. The covenants in the Credit Agreement also limit, among other things, the ability of the

Company and/or certain subsidiaries of the Company to: (i) incur debt and issue preferred stock; (ii) create liens; (iii) engage in sale/leaseback transactions; (iv) declare or pay dividends on, or purchase, the Company s stock; (v) make restricted payments; (vi) engage in transactions with affiliates; (vii) sell assets; (viii) engage in mergers or acquisitions; (ix) engage in domestic accounts receivable securitization transactions; and (x) enter into restrictive agreements. In addition, in the event the Company sells certain assets as specified in the Credit Agreement and the Leverage Ratio is equal to or greater than 3.75 to 1.00, the outstanding Revolving Loans must be prepaid with a portion of the Net Cash Proceeds, as defined, of such sale and the maximum availability under the Credit Agreement would be decreased by 50% of the aggregate Net Cash Proceeds received from such asset sales in excess of $100. Any sale involving Equistar or certain inventory or accounts receivable would reduce the maximum availability under the Credit Agreement by 100% of such Net Cash Proceeds received. The obligations under the Credit Agreement are collateralized by: (1) a pledge of 100% of the stock of the Company s existing and future domestic subsidiaries and 65% of the stock of certain of the Company s existing and future foreign subsidiaries, in both cases other than subsidiaries that hold immaterial assets (as defined

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

Note 9 Long-Term Debt and Credit Arrangements (Continued)

in the Credit Agreement); (2) all the equity interests held by the Company s subsidiaries in Equistar and the La Porte Methanol Company (which pledges are limited to the right to receive distributions made by Equistar and the La Porte Methanol Company, respectively); and (3) all present and future accounts receivable, intercompany indebtedness and inventory of the Company s domestic subsidiaries, other than subsidiaries that hold immaterial assets. In connection with the announced stock-for-stock business combination with Lyondell, the Company obtained an amendment to its Credit Agreement on July 7, 2004, which will allow the consummation of the announced stock-for-stock business combination with Lyondell and modifies the definition of EBITDA to exclude certain transaction costs related to this business combination.

Millennium America also has outstanding $500 aggregate principal amount of 7.00% Senior Notes due November 15, 2006 (the 7.00% Senior Notes) and $250 aggregate principal amount of 7.625% Senior Debentures due November 15, 2026 (the 7.625% Senior Debentures and, together with the 7.00% Senior Notes and the 9.25% Senior Notes, the Senior Notes), that are fully and unconditionally guaranteed by Millennium Chemicals. The indenture under which the 7.00% Senior Notes and 7.625% Senior Debentures were issued contains certain covenants that limit, among other things: (i) the ability of Millennium America and its Restricted Subsidiaries (as defined) to grant liens or enter into sale/leaseback transactions; (ii) the ability of the Restricted Subsidiaries to incur additional indebtedness; and (iii) the ability of Millennium America and Millennium Chemicals to merge, consolidate or transfer substantially all of their respective assets. This indenture allows Millennium America and its Restricted Subsidiaries to grant security on loans of up to 15% of Consolidated Net Tangible Assets (CNTA), as defined, of Millennium America and its consolidated subsidiaries. Accordingly, based upon CNTA and secured borrowing levels at June 30, 2004, any reduction in CNTA below approximately $1,000 would decrease the Company s availability under the Revolving Loans by 15% of any such reduction. CNTA was approximately $2,000 at June 30, 2004. The 7.00% Senior Notes and the 7.625% Senior Debentures can be accelerated by the holders thereof if any other debt in excess of $20 is in default and is accelerated.

The 9.25% Senior Notes were issued by Millennium America and are guaranteed by Millennium Chemicals. The indenture under which the 9.25% Senior Notes were issued contains certain covenants that limit, among other things, the ability of the Company and/or certain subsidiaries of the Company to: (i) incur additional debt; (ii) issue redeemable stock and preferred stock; (iii) create liens; (iv) redeem debt that is junior in right of payment to the 9.25% Senior Notes; (v) sell or otherwise dispose of assets, including capital stock of subsidiaries; (vi) enter into arrangements that restrict dividends from subsidiaries; (vii) enter into mergers or consolidations; (viii) enter into transactions with affiliates; and (ix) enter into sale/leaseback transactions. In addition, this indenture contains a covenant that would prohibit the Company from (i) paying dividends or making distributions on its common stock; (ii) repurchasing its common stock; and (iii) making other types of restricted payments, including certain types of investments, if such restricted payments would exceed a restricted payments basket. Although the Company has no intention at the present time to pay dividends or make distributions, repurchase its Common Stock, or make other restricted payments, the Company would be prohibited by this covenant from doing so at the present time. The indenture also requires the calculation of a Consolidated Coverage Ratio, defined as the ratio of the aggregate amount of EBITDA, as defined, for the four most recent fiscal quarters to Consolidated Interest Expense, as defined, for the four most recent quarters. The Company must maintain a Consolidated Coverage Ratio of 2.25 to 1.00. Currently, the Company s Consolidated Coverage Ratio is below this threshold and, therefore, the Company is subject to certain restrictions that limit the Company s ability to incur additional indebtedness, pay dividends, repurchase capital stock, make certain other restricted payments, and enter into mergers or consolidations. However, if the 9.25% Senior Notes were to receive investment grade credit ratings from both Moody s Investors Service (Moody s) and Standard & Poor s (S&P) and meet certain other requirements as specified in the indenture, certain of these covenants would no longer apply. The 9.25% Senior Notes can be accelerated by the holders thereof if any other debt in excess of $30 is in default and is accelerated.

The consummation of the announced stock-for-stock business combination with Lyondell is expected to give each holder of the 9.25% Senior Notes the right to require the Company to purchase all or part of such holder s securities at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest to the date of purchase.

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

Note 9 Long-Term Debt and Credit Arrangements (Continued)

The 4.00% Convertible Senior Debentures were issued by Millennium Chemicals and are guaranteed by Millennium America. Holders may convert their debentures into shares of the Company s Common Stock at a conversion price, subject to adjustment upon certain events, of $13.63 per share, which is equivalent to a conversion rate of 73.3568 shares per one thousand dollar principal amount of debentures. The conversion privilege may be exercised under the following circumstances:

prior to November 15, 2018, during any fiscal quarter commencing after December 31, 2003, if the closing price of the Company s Common Stock on at least 20 of the 30 consecutive trading days ending on the first trading day of that quarter is greater than 125% of the then current conversion price;

on or after November 15, 2018, at any time after the closing price of the Company s Common Stock on any date is greater than 125% of the then current conversion price;

if the debentures are called for redemption;

upon the occurrence of specified corporate transactions, including a consolidation, merger or binding share exchange pursuant to which the Company s Common Stock would be converted into cash or property other than securities;

during the five business-day period after any period of ten consecutive trading days in which the trading price per one thousand dollar principal amount of debentures on each day was less than 98% of the product of the last reported sales price of the Company s Common Stock and the then current conversion rate; and

at any time when the long-term credit rating assigned to the debentures is either Caa1 or lower, in the case of Moody s, or B- or lower in the case of S&P, or either rating agency has discontinued, withdrawn or suspended its rating.

The debentures are redeemable at the Company s option beginning November 15, 2010 at a redemption price equal to 100% of their principal amount, plus accrued interest, if any. On November 15 in each of 2010, 2013 and 2018, holders of debentures will have the right to require the Company to repurchase all or some of the debentures they own at a purchase price equal to 100% of their principal amount, plus accrued interest, if any. The Company may choose to pay the purchase price in cash or shares of the Company s Common Stock or any combination thereof. In the event of a conversion request upon a credit ratings event as described above, after June 18, 2006, the Company has the right to deliver, in lieu of shares of Common Stock, cash or a combination of cash and shares of Common Stock. Holders of the debentures will also have the right to require the Company to repurchase all or some of the debentures they own at a cash purchase price equal to 100% of their principal amount, plus accrued interest, if any, upon the occurrence of certain events constituting a Fundamental Change, as defined in the indenture. This indenture also limits the Company s ability to consolidate with or merge with or into any other person, or sell, convey, transfer or lease properties and assets substantially as an entirety to another person, except under certain circumstances. The consummation of the announced stock-for-stock business combination with Lyondell is not expected to be considered a Fundamental Change, as defined in the indenture. However, the Company does expect to execute with the trustee a supplemental indenture providing that each debenture shall be convertible into Lyondell s common stock at a conversion ratio determined in accordance with the indenture to reflect the exchange ratio in the business combination.

Although the Company does not currently pay a dividend to its common stockholders, Lyondell does currently pay a dividend. If the Company executes a supplemental indenture with the trustee, as described above, and Lyondell continues to pay a dividend to its common stockholders, the conversion rate, as defined, will be adjusted. The conversion rate will be increased by a percentage calculated by dividing the average of the last reported sales price of Lyondell s common stock for the ten consecutive trading days prior to the business day immediately preceding the record date by this average less the amount in cash per share that Lyondell distributes to holders of its common stock. At the current market prices of Lyondell s common stock, this percentage would be approximately 1.0% per quarter.

At June 30, 2004, the Company was in compliance with all covenants in the indentures governing the 9.25% Senior Notes, 7.00% Senior Notes, 7.625% Senior Debentures, and 4.00% Convertible Senior Debentures.

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

Note 9 Long-Term Debt and Credit Arrangements (Continued)

The Company, as well as the Senior Notes and the 4.00% Convertible Senior Debentures, are currently rated BB- by S&P with a stable outlook. Moody s has assigned the Company a senior implied rating of Ba3, and the Senior Notes and the 4.00% Convertible Senior Debentures a rating of B1 with a negative outlook. These ratings are non-investment grade ratings.

On March 29, 2004, S&P placed the Company s ratings on Credit Watch with negative implications reflecting the future ownership by the highly leveraged Lyondell and the strong likelihood that the ratings of the Company will be lowered modestly upon completion of the proposed transaction. On March 30, 2004, Moody s placed the Company s credit ratings under review for possible downgrade following the announcement by Lyondell and the Company that the two companies signed a definitive agreement that, if completed, will result in the combination of the Company with Lyondell in a stock-for-stock transaction. Moody s cited concerns over the potential impact that future distributions by the Company, as an operating subsidiary of Lyondell, to Lyondell will have on the Company s credit profile over the long term, primarily the potential for elevated debt levels over the next several years while Lyondell seeks to de-lever its balance sheet.

Note 10 Derivative Instruments and Hedging Activities

The Company is exposed to market risk, such as changes in currency exchange rates, interest rates and commodity pricing. To manage the volatility relating to these exposures, the Company selectively enters into derivative transactions pursuant to the Company s policies for hedging practices. Designation is performed on a specific exposure basis to support hedge accounting. The changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the fair value or cash flows of the underlying exposures being hedged. The Company does not hold or issue derivative financial instruments for speculative or trading purposes.

Foreign Currency Exposure Management: The Company manufactures and sells its products in a number of countries throughout the world and, as a result, is exposed to movements in foreign currency exchange rates. The primary purpose of the Company s foreign currency hedging activities is to manage the volatility associated with foreign currency purchases and foreign currency sales. The Company utilizes forward exchange contracts with various terms. As of June 30, 2004, these contracts had expiration dates no later than December 28, 2004.

The Company utilizes forward exchange contracts with contract terms normally lasting less than three months to protect against the adverse effect that exchange rate fluctuations may have on foreign currency denominated trade receivables and trade payables. These derivatives have not been designated as hedges for accounting purposes. The gains and losses on both the derivatives and the foreign currency denominated trade receivables and payables are recorded in current earnings. Net amounts included in earnings, which offset similar amounts from foreign currency denominated trade receivables and payables, were a loss of $2 and insignificant for the three months and six months ended June 30, 2004, respectively, and were a gain of $3 for each of the three months and six months ended June 30, 2003.

In addition, the Company utilizes forward exchange contracts that qualify as cash flow hedges. These are intended to offset the effect of exchange rate fluctuations on forecasted sales and inventory purchases. Gains and losses on these instruments are deferred in other comprehensive income (OCI) until the underlying transaction is recognized in earnings. The earnings impact is reported either in Net sales or Cost of products sold to match the underlying transaction being hedged. Net amounts on forward exchange contracts designated as cash flow hedges reclassified to earnings to match the gain or loss on the underlying transaction being hedged were insignificant for each of the three months and six months ended June 30, 2004 and were a loss of $4 for each of the three months and six months ended June 30, 2003. Hedge ineffectiveness had no impact on earnings for the three months and six months ended June 30, 2004 and 2003. No forward exchange contract cash flow hedges were discontinued during the three months and six months ended June 30, 2004 and 2003. The Company currently estimates that the net gains on foreign currency cash flow hedges included in OCI at June 30, 2004 that will be reclassified to earnings during the next twelve months is insignificant.

Commodity Price Risk Management: Raw materials used by the Company are subject to price volatility caused by demand and supply conditions and other unpredictable factors. The Company selectively uses commodity swap arrangements and commodity options with various terms to manage the volatility related to anticipated purchases of natural gas and certain commodities, a portion of which exposes the Company to natural

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

Note 10 Derivative Instruments and Hedging Activities (Continued)

gas price risk. As of June 30, 2004, there were no such contracts outstanding. The mark-to-market gains or losses on qualifying hedges were included in OCI to the extent effective, and reclassified into Cost of products sold in the period during which the hedged transaction affected earnings. The mark-to-market gains or losses on ineffective portions of hedges are recognized immediately in Cost of products sold. Net amounts on commodity swaps designated as cash flow hedges reclassified to Cost of products sold to match the gain or loss on the underlying transaction being hedged were insignificant for each of the three months ended June 30, 2004 and 2003 and the six months ended June 30, 2004, and were gains of $1 for the six months ended June 30, 2003. Hedge ineffectiveness had no impact on earnings for the three months and six months ended June 30, 2004 and 2003. No commodity swap cash flow hedges were discontinued in the three months and six months ended June 30, 2004 or in the three months ended June 30, 2003, and net losses on commodity swap cash flow hedges that were discontinued in the six months ended June 30, 2003 were not significant. The Company had no gains or losses on commodity swaps included in OCI at June 30, 2004.

In addition, the Company utilizes commodity swap and option arrangements to manage price volatility related to anticipated purchases of certain commodities, a portion of which exposes the Company to natural gas price risk. These derivatives are not designated as hedges for accounting purposes. The gains and losses on these instruments are recorded in current earnings. Net amounts included in earnings were insignificant in each of the three months and six months ended June 30, 2004 and net losses were $1 for each of the three months and six months ended June 30, 2003.

Interest Rate Risk Management: The Company selectively uses derivative instruments to manage its ratio of debt bearing fixed interest rates to debt bearing variable interest rates. At June 30, 2004, the Company had outstanding interest rate swap agreements with a notional amount of $225, which are designated as fair value hedges of underlying fixed-rate obligations. The valuation of these interest rate swap agreements at June 30, 2004 resulted in a loss of $1, which required the recognition of a swap liability and a corresponding decrease in the carrying value of long-term debt of $1. The gains and losses on both the interest rate swaps and the hedged portion of the underlying debt are recorded in Interest expense. Hedge ineffectiveness had no impact on earnings for the three months and six months ended June 30, 2004 and 2003.

Note 11 Pension and Other Postretirement Benefits

The following table provides the components of net periodic benefit cost and the amount of contributions for pensions:

	Pension Benefits	
	For the Three Months Ended June 30,	For the Six Months Ended June 30,

	2004	2003	2004	2003
Net periodic benefit cost				
Service cost, including interest	$ 4	$ 4	$ 7	$ 7
Interest on PBO	13	13	26	26
Return on plan assets	(16)	(17)	(32)	(34)
Amortization of unrecognized net loss	3	1	6	3
Net periodic benefit cost	4	1	7	2
Defined contribution plan	1	1	2	2
Net periodic benefit cost	$ 5	$ 2	$ 9	$ 4
Company pension trust contributions	$ 3	$ 2	$ 6	$ 4

The Company expects to contribute approximately $12 to pension plan trusts during 2004.

MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

Note 11 Pension and Other Postretirement Benefits (Continued)

The following table provides the components of net periodic benefit cost and the amount of benefits paid for other postretirement benefits:

	Other Postretirement Benefits			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2004	2003	2004	2003
Net periodic benefit (income) cost				
Service cost, including interest	$	$	$	$
Interest on PBO	1	1	1	2
Amortization of prior service credit	(2)	(1)	(3)	(1)
Net periodic benefit (income) cost	$ (1)	$	$ (2)	$ 1
Other postretirement benefits paid	$ 3	$ 4	$ 6	$ 6

As a result of rising medical benefit costs and competitive business conditions, the Company announced in the first quarter of 2004 that, effective April 1, 2004, it planned to reduce the level of retiree medical benefits provided to essentially all of its retirees by offering a monthly subsidy to retirees that enroll in designated preferred provider organization plans or Medicare supplement insurance plans. This change will reduce the Company s accumulated postretirement benefit obligation by approximately $45. Beginning in 2004, the Company is recognizing this reduction ratably over approximately thirteen years through other postretirement employee benefit (OPEB) net periodic benefit cost. Estimated OPEB net periodic benefit cost for the year ending December 31, 2004, after giving effect to this change, will be income of approximately $4 compared to a benefit cost of $2 for the year ended December 31, 2003. The Company estimates that cash payments for retiree medical and insurance benefits for the year ending December 31, 2004 will be approximately $11, which is slightly less than such payments made for the year ended December 31, 2003 of $12, as the Company transitions to the subsidy plan. Cash payments for retiree medical and insurance benefits in subsequent years are estimated to be significantly less than in 2003.

Note 12 Comprehensive Income (Loss)

The following table sets forth the components of other comprehensive income (loss) and total comprehensive income (loss):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	Restated*		Restated	
Net loss	$ (8)	$ (10)	$ (20)	$ (38)
Other comprehensive (loss) income				
Net gains (losses) on derivative financial instruments			1	(3)
Currency translation adjustment	(21)	46	(12)	59
Total comprehensive (loss) income	$ (29)	$ 36	$ (31)	$ 18

* The Company restated its financial statements as disclosed in Notes 17 and 18 to the Consolidated Financial Statements in this Amendment No. 4.

Note 13 Commitments and Contingencies

Legal and Environmental: The Company and various Company subsidiaries are defendants in a number of pending legal proceedings relating to present and former operations. These include several proceedings alleging injurious exposure of plaintiffs to various chemicals and other materials on the premises of, or manufactured by, the Company s current and former subsidiaries. Typically, such proceedings involve claims made by many plaintiffs against many defendants in the chemical industry. Millennium Petrochemicals Inc., a wholly-owned operating

MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

subsidiary of the Company (Millennium Petrochemicals), is one of a number of defendants in 100 active premises-based asbestos cases (i.e., where the alleged exposure to asbestos-containing materials was to employees of third-party contractors or subcontractors on the premises of certain current or former Company facilities, and did not relate to any products manufactured or sold by the Company or any of its predecessors). Of the cases filed against Millennium Petrochemicals, only three assert specific damage amounts other than asserting damages in excess of the statutory minimum. The three cases that do assert a specific amount of damages each assert a minimum of $200,000 exemplary damages. Millennium Petrochemicals is responsible for these premises-based cases as a result of its indemnification obligations under the Company s agreements with Equistar; however, Equistar will be required to indemnify Millennium Petrochemicals for any such claims filed on or after December 1, 2004 related to the assets or businesses contributed by Millennium Petrochemicals to Equistar. Millennium Inorganic Chemicals Inc., a wholly-owned operating subsidiary of the Company (Millennium Inorganic Chemicals), is one of a number of defendants in 90 premises-based asbestos cases filed primarily in late 2003 in Baltimore County, Maryland, which assert damages in excess of the statutory minimum. Approximately half of these claims are on the active docket and half are on an inactive docket of claims for which no legal obligations attach and no defense costs are being incurred. With respect to the active docket, at the current rate, cases filed in 2003 are not likely to be scheduled to be tried for at least 10 years. To date, no premises-based asbestos case has been tried in the State of Maryland. A defunct indirect Company subsidiary is among a number of defendants in 60 asbestos cases in Texas, where the alleged exposure was to persons on the premises of facilities where vessels formerly fabricated by this defunct subsidiary were situated. All of these cases assert unspecified monetary damages in excess of the statutory minimum.

Together with other alleged past manufacturers of lead-based paint and lead pigments for use in paint, the Company, a current subsidiary, as well as alleged predecessor companies, have been named as defendants in various legal proceedings alleging that they and other manufacturers are responsible for personal injury, property damage, and remediation costs allegedly associated with the use of these products. The plaintiffs in these legal proceedings include municipalities, counties, school districts, individuals and the State of Rhode Island, and seek recovery under a variety of theories, including negligence, failure to warn, breach of warranty, conspiracy, market share liability, fraud, misrepresentation and public nuisance. The majority of these legal proceedings assert unspecified monetary damages in excess of the statutory minimum and, in certain cases, contain general language requesting equitable relief from defendants such as abatement of lead-based paint in buildings. Legal proceedings relating to lead pigment or paint are in various procedural stages or pre-trial, post-trial and post-dismissal settings.

The Company s defense costs to date for lead-based paint and lead pigment litigation largely have been covered by insurance. The Company has not accrued any liabilities for any lead-based paint and lead pigment litigation. The Company has insurance policies that potentially provide approximately $1,000 in indemnity coverage for lead-based paint and lead pigment litigation. That estimate of indemnity coverage would depend upon the timing of any request for indemnity and the solvency of the various insurance carriers that are part of the coverage block at the time of such a request. As a result of insurance coverage litigation initiated by the Company, an Ohio trial court issued a decision in 2002 effectively requiring certain insurance carriers to resume paying defense costs in the lead-based paint and lead pigment cases. Indemnity coverage was not at issue in the Ohio court s decision. The insurance carriers may appeal the Ohio decision regarding defense costs, and they have in the past and may in the future attempt to deny indemnity coverage if there is ever a settlement or an adverse judgment in any lead-based paint or lead pigment case.

In 1986, a predecessor of a company that is now a subsidiary of the Company sold its recently acquired Glidden Paints business. As part of that sale, the seller agreed to indemnify the purchaser against certain claims made during the first eight years after the sale; the purchaser agreed to indemnify the seller against such claims made after the eight-year period. With the exception of two cases, all pending lead-based paint and lead pigment litigation involving the Company and its subsidiaries, including the Rhode Island case, was filed after the eight-year period. Accordingly, the Company believes that it is entitled to full indemnification from the purchaser against lead-based paint and lead pigment cases filed after the eight-year period. The purchaser disputes that it has such an indemnification obligation, and claims that the seller must indemnify it. Since the Company s defense costs to date largely have been covered by insurance and there never has been a settlement paid by, nor any judgment rendered against, the Company (or any other company sued in any lead-based paint or lead pigment litigation), the parties indemnification claims have not been ruled on by a court.

MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

The Company s businesses are subject to extensive federal, state, local and foreign laws, regulations, rules and ordinances concerning, among other things, emissions to the air, discharges and releases to land and water, the generation, handling, storage, transportation, treatment and disposal of wastes and other materials and the remediation of environmental pollution caused by releases of wastes and other materials (collectively, Environmental Laws). The operation of any chemical manufacturing plant and the distribution of chemical products entail risks under Environmental Laws, many of which provide for substantial fines and criminal sanctions for violations. There can be no assurance that significant costs or liabilities will not be incurred with respect to the Company s operations and activities. In particular, the production of TiO_2, $TiCl_4$, vinyl acetate monomer (VAM), acetic acid, methanol and certain other chemicals involves the handling, manufacture or use of substances or compounds that may be considered to be toxic or hazardous within the meaning of certain Environmental Laws, and certain operations have the potential to cause environmental or other damage. Significant expenditures including facility-related expenditures could be required in connection with any investigation and remediation of threatened or actual pollution, triggers under existing Environmental Laws tied to production or new requirements under Environmental Laws.

The Company cannot predict whether future developments or changes in laws and regulations concerning environmental protection will affect its earnings or cash flow in a materially adverse manner or whether its operating units, Equistar or La Porte Methanol Company will be successful in meeting future demands of regulatory agencies in a manner that will not materially adversely affect the consolidated financial position, results of operations or cash flows of the Company. For example, the eight-county Houston/Galveston region has been designated a severe non-attainment area for ozone by the U.S. Environmental Protection Agency (the EPA) under a one-hour ozone standard. Emission reduction controls for nitrogen oxides (NOx), which contribute to ozone formation, must be installed at each of Equistar s six plants located in the Houston/Galveston region prior to a November 2007 compliance deadline for the one-hour ozone standard. Revised rules adopted by the regulatory agencies changed the required NOx emission reduction levels from 90% to 80%. Under the revised 80% standard, Equistar estimates that the incremental capital expenditures would range between $165 and $200. Equistar s cumulative capital expenditures through June 30, 2004 totaled $85. This estimate could be affected by increased costs for stricter proposed controls over highly reactive, volatile organic compounds (HRVOCs). The regulatory agency for the state of Texas, the Texas Commission on Environmental Quality, or TCEQ, plans to finalize the HRVOC rules by December 2004. Equistar is still assessing the impact of the proposed HRVOC revisions. In addition, in April 2004, the EPA designated the eight-county Houston/Galveston region a moderate non-attainment area under an eight-hour ozone standard. As a result, the TCEQ must submit a plan to the EPA in 2007 to demonstrate compliance with the eight-hour ozone standard in 2010. The TCEQ is continuing with its current plan to revise the HRVOC rules in 2004. The timing and amount of the estimated expenditures are subject to these regulatory and other uncertainties, as well as to obtaining the necessary permits and approvals. There can be no assurance as to the ultimate cost of implementing any plan developed to comply with the final ozone standards.

Certain Company subsidiaries have been named as defendants, potentially responsible parties (the PRPs), or both, in a number of environmental proceedings associated with waste disposal sites or facilities currently owned, operated or used by the Company s current or former subsidiaries or predecessors. The Company s estimated individual exposure for potential cleanup costs, damages for personal injury or property damage related to these proceedings has been estimated to be between $0.01 for several small sites and $67 for the Kalamazoo River Superfund Site in Michigan.

A subsidiary of the Company is named as a PRP at 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 former paper mill operations. In October 2000, the Kalamazoo River Study Group (the KRSG), of which one of the Company s subsidiaries is a member, 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 cost for these remedial options above the amounts accrued could range from $0 to $2,500; however, the Company strongly believes that the likelihood of the cost being $2,500 is remote. At the end of 2001, the EPA took responsibility for the site at the request of the State. Based upon an interim allocation, the Company is paying 55% of costs related to studying and evaluating the environmental condition of the river. The EPA has initiated a process that will lead to a facilitation (the Facilitation) among the agency, the Company, another KRSG member, the Michigan Departments of Environmental Quality and Natural Resources, and certain federal natural resource trustees. The Facilitation participants, guided by the EPA, are in the process of selecting a facilitator and determining the governing principles of the Facilitation. One of the goals of the Facilitation, expected to commence

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

in late 2004, is to determine what additional investigation and data are needed to further develop cleanup options for downstream portions of the Kalamazoo River. Another interim measure the EPA is in the process of initiating is the development of a computer model that will be designed to seek to identify all polychlorinated biphenyls sources on the Kalamazoo River and determine how polychlorinated biphenyls move and where they are deposited. Some results, but not all, are expected by the end of 2005. The Company s ultimate liability for the Kalamazoo site will depend on many other factors that have not yet been determined, including the ultimate remedy selected, the number and financial viability of the other members of the KRSG as well as of other PRPs outside the KRSG, and the determination of the final allocation among the members of the KRSG and other PRPs.

On January 16, 2002, Slidell Inc. (Slidell) filed a lawsuit against Millennium Inorganic Chemicals alleging breach of contract and other related causes of action arising out of a contract between the two parties for the supply of packaging equipment. In the suit, Slidell seeks unspecified monetary damages in excess of the statutory minimum. The Company believes it has substantial defenses to these allegations and has filed a counterclaim against Slidell. The trial in this matter is expected to take place in the fourth quarter of 2004.

The Company has accrued $110 as of June 30, 2004 for potential liabilities for environmental and other contingencies, collectively, but which primarily relate to environmental remediation activities. Expenses or benefits associated with these contingencies, including changes in estimated costs to resolve these contingencies, are included in the Company s S,D&A expense. Expenses resulting from changes in estimated liabilities for these contingencies for the six months ended June 30, 2004 were $11, and for the three months ended June 30, 2004 and for the three and six months ended June 30, 2003 were insignificant. The Company expects that cash expenditures related to these potential liabilities will be made over a number of years, and will not be concentrated in any single year.

The Company agreed as part of its spin-off from Hanson plc (Hanson) to indemnify Hanson and certain of its subsidiaries against certain of such contractual indemnification obligations, and Millennium Petrochemicals agreed as part of the December 1, 1997 formation of Equistar to indemnify Equistar for certain liabilities related to the assets contributed by Millennium Petrochemicals to Equistar in excess of $7, which threshold was exceeded in 2001. The terms of these indemnification agreements do not limit the maximum potential future payments to the indemnified parties. The maximum amount of future indemnification payments is dependent upon many factors and is not practicable to estimate.

No assurance can be given that actual costs for environmental matters will not exceed accrued amounts or that estimates made with respect to indemnification obligations will be accurate. In addition, it is possible that costs will be incurred with respect to contamination, indemnification obligations or other environmental matters that currently are unknown or as to which it is currently not possible to make an estimate.

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

Note 14 Operations by Business Segment

The Company s principal operations are managed and grouped as three separate business segments: Titanium Dioxide and Related Products, Acetyls and Specialty Chemicals. Operating income and expense not identified with the three separate business segments, including certain of the Company s S,D&A expense not allocated to its three business segments, employee-related costs from predecessor businesses and certain other expenses, are grouped under the heading Other. The following is a summary of the Company s operations by business segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
		Restated*		Restated*
Net sales				
Titanium Dioxide and Related Products	$ 363	$ 293	$ 696	$ 581
Acetyls	101	99	207	201
Specialty Chemicals	24	24	50	49
Total	$ 488	$ 416	$ 953	$ 831
Operating income (loss)				
Titanium Dioxide and Related Products	$ 10	$ 23	$ 22	$ 44
Acetyls	2	5	11	12
Specialty Chemicals	2	2	4	4
Other	(5)	(8)	(18)	(12)
Total	$ 9	$ 22	$ 19	$ 48
Depreciation and amortization				
Titanium Dioxide and Related Products	$ 19	$ 23	$ 38	$ 45
Acetyls	3	3	6	6
Specialty Chemicals	2	2	4	4
Total	$ 24	$ 28	$ 48	$ 55
Capital expenditures				
Titanium Dioxide and Related Products	$ 12	$ 10	$ 21	$ 17
Acetyls	1		2	
Specialty Chemicals		1		2
Total	$ 13	$ 11	$ 23	$ 19

* The Company restated its financial statements as disclosed in Notes 17 and 18 to the Consolidated Financial Statements in this Amendment No. 4.

	June 30, 2004	December 31, 2003
Goodwill		
Titanium Dioxide and Related Products	$ 56	$ 56
Acetyls	48	48
Total	$ 104	$ 104

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

Note 15 Information on Equistar

The following is summarized financial information for Equistar:

	June 30, 2004	December 31, 2003
Current assets	$ 1,430	$ 1,261
Noncurrent assets	3,684	3,767
Total assets	$ 5,114	$ 5,028
Current liabilities	$ 782	$ 754
Noncurrent liabilities	2,686	2,673
Partners capital	1,646	1,601
Total liabilities and partners capital	$ 5,114	$ 5,028

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net sales	$ 2,099	$ 1,597	$ 4,061	$ 3,238
Operating income (loss)	99	24	160	(72)
Net income (loss)	43	(49)	48	(195)

On March 31, 2003, Equistar completed transactions involving a 15-year propylene supply arrangement and the sale of a polypropylene production facility in Pasadena, Texas. Equistar received total cash proceeds of $194, including the value of the polypropylene inventory sold. Approximately $159 of the total cash proceeds represented a partial prepayment for product to be delivered under a long-term supply arrangement, primarily at cost-based prices. Equistar will recognize this deferred revenue over 15 years, as the associated product is delivered. Equistar s results for the six months ended June 30, 2003, include a $12 loss on the sale of the polypropylene production facility.

In April 2003, Equistar issued $450 of 10.625% senior notes due in 2011. The proceeds, net of associated fees, were used to prepay $300 of 8.5% notes due in the first quarter of 2004, approximately $122 of the $296 of the then outstanding term loans under Equistar s credit facility and prepayment premiums of approximately $17. Equistar s results for the three months and six months ended June 30, 2003, include $19 of debt prepayment costs, consisting of the $17 prepayment premium and the write-off of $2 of unamortized debt issuance costs related to the prepaid term loan.

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)   (Continued)

(Dollars in millions, except share data)

Note 16   Supplemental Financial Information

Millennium America is a holding company for all of the Company s operating subsidiaries other than its operations in the United Kingdom, France, Brazil and Australia. Millennium America is the issuer of the 7% Senior Notes, the 7.625% Senior Debentures, and the 9.25% Senior Notes, and is the principal borrower under the Credit Agreement. Millennium Chemicals is the issuer of the 4% Convertible Senior Debentures. Millennium America fully and unconditionally guarantees all obligations under the Credit Agreement and the 4.00% Convertible Senior Debentures. The 7% Senior Notes, the 7.625% Senior Debentures and the 9.25% Senior Notes, as well as outstanding amounts under the Credit Agreement, are fully and unconditionally guaranteed by Millennium Chemicals. Accordingly, the following Condensed Consolidating Balance Sheets at June 30, 2004 and December 31, 2003, the Condensed Consolidating Statements of Operations for the three months and six months ended June 30, 2004 and 2003, and the Condensed Consolidating Statements of Cash Flows for the six months ended June 30, 2004 and 2003, are provided for the Company as supplemental financial information to the Company s consolidated financial statements to disclose the financial position, results of operations and cash flows of (i) Millennium Chemicals, (ii) Millennium America, and (iii) all subsidiaries of Millennium Chemicals other than Millennium America (the Non-Guarantor Subsidiaries). The investment in subsidiaries of Millennium America and Millennium Chemicals are accounted for by the equity method; accordingly, the shareholders deficit of Millennium America and Millennium Chemicals are presented as if each of those companies and their respective subsidiaries were reported on a consolidated basis.

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

Note 16 Supplemental Financial Information - Continued

Condensed Consolidating Balance Sheets June 30, 2004 (Restated See Notes 17 and 18)	Millennium America Inc.	Millennium Chemicals Inc.	Non-Guarantor Subsidiaries	Eliminations	Millennium Chemicals Inc. and Subsidiaries
ASSETS					
Inventories.	$	$	$ 372	$	$ 372
Other current assets	44	1	557		602
Property, plant and equipment, net			725		725
Investment in Equistar			483		483
Investment in subsidiaries	296	45		(341)	
Other assets	8	3	34		45
Goodwill			104		104
Due from parent and affiliates, net	675			(675)	
Total assets	$ 1,023	$ 49	$ 2,275	$ (1,016)	$ 2,331
LIABILITIES AND SHAREHOLDERS (DEFICIT) EQUITY					
Current maturities of long-term debt	$	$	$ 5	$	$ 5
Other current liabilities.	9	4	378		391
Long-term debt	1,237	150	13		1,400
Deferred income taxes			253		253
Other liabilities.	1		364		365
Due to parent and affiliates, net		7	668	(675)	
Total liabilities.	1,247	161	1,681	(675)	2,414
Minority interest.			29		29
Shareholders (deficit) equity	(224)	(112)	565	(341)	(112)
Total liabilities and shareholders (deficit) equity	$ 1,023	$ 49	$ 2,275	$ (1,016)	$ 2,331

December 31, 2003

(Restated See Notes 17 and 18)

ASSETS					
Inventories.	$	$	$ 457	$	$ 457
Other current assets	24	1	526		551

Property, plant and equipment, net			766		766
Investment in Equistar			469		469
Investment in subsidiaries	336	62		(398)	
Other assets	12	3	36		51
Goodwill			104		104
Due from parent and affiliates, net	733			(733)	
Total assets	$ 1,105	$ 66	$ 2,358	$ (1,131)	$ 2,398
LIABILITIES AND SHAREHOLDERS (DEFICIT) EQUITY					
Current maturities of long-term debt	$	$	$ 6	$	$ 6
Other current liabilities.	9	1	357		367
Long-term debt	1,295	150	16		1,461
Deferred income taxes			257		257
Other liabilities.			371		371
Due to parent and affiliates, net		6	727	(733)	
Total liabilities.	1,304	157	1,734	(733)	2,462
Minority interest.			27		27
Shareholders (deficit) equity	(199)	(91)	597	(398)	(91)
Total liabilities and shareholders (deficit) equity	$ 1,105	$ 66	$ 2,358	$ (1,131)	$ 2,398

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

Note 16 Supplemental Financial Information - Continued

Condensed Consolidating Statements of Operations	Millennium America Inc.	Millennium Chemicals Inc.	Non-Guarantor Subsidiaries	Eliminations	Millennium Chemicals Inc. and Subsidiaries
Three Months Ended June 30, 2004					
(Restated See Notes 17 and 18)					
Net sales	$	$	$ 488	$	$ 488
Cost of products sold			413		413
Depreciation and amortization			24		24
Selling, development and administrative expense	1		34		35
Asset impairment charges			5		5
Combination costs			1		1
Reorganization and office closure costs			1		1
Operating (loss) income	(1)		10		9
Interest (expense) income, net	(24)	(1)	1		(24)
Intercompany interest income (expense), net	26	(1)	(25)		
Earnings on Equistar investment			12		12
Equity in loss of subsidiaries	(9)	(6)		15	
Other expense, net			(3)		(3)
Provision for income taxes			(2)		(2)
Net loss	$ (8)	$ (8)	$ (7)	$ 15	$ (8)
Three Months Ended June 30, 2003					
(Restated See Notes 17 and 18)					
Net sales	$	$	$ 416	$	$ 416
Cost of products sold			326		326
Depreciation and amortization			28		28
Selling, development and administrative expense			39		39
Reorganization and office closure costs			1		1
Operating income			22		22
Interest expense, net	(23)				(23)
Intercompany interest income (expense), net	24	(1)	(23)		
Loss on Equistar investment			(14)		(14)
Equity in loss of subsidiaries	(20)	(9)		29	
Other expense, net			(2)		(2)
Benefit from income taxes			7		7

Net loss	$ (19)	$ (10)	$ (10)	$ 29	$ (10)

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

Note 16 Supplemental Financial Information Continued

Condensed Consolidating Statements of Operations	**Millennium America Inc.**	**Millennium Chemicals Inc.**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Millennium Chemicals Inc. and Subsidiaries**
Six Months Ended June 30, 2004					
(Restated See Notes 17 and 18)					
Net sales	$	$	$ 953	$	$ 953
Cost of products sold			801		801
Depreciation and amortization			48		48
Selling, development and administrative expense	1		70		71
Asset impairment charges			8		8
Combination costs			4		4
Reorganization and office closure costs			2		2
Operating (loss) income	(1)		20		19
Interest (expense) income, net	(47)	(3)	1		(49)
Intercompany interest income (expense), net	51	(1)	(50)		
Earnings on Equistar investment			14		14
Equity in loss of subsidiaries	(23)	(17)		40	
Other expense, net			(5)		(5)
(Provision for) benefit from income taxes	(1)	1	1		1
Net loss	$ (21)	$ (20)	$ (19)	$ 40	$ (20)
Six Months Ended June 30, 2003					
(Restated See Notes 17 and 18)					
Net sales	$	$	$ 831	$	$ 831
Cost of products sold			657		657
Depreciation and amortization			55		55
Selling, development and administrative expense			70		70
Reorganization and office closure costs			1		1
Operating income			48		48
Interest expense, net	(45)				(45)
Intercompany interest income (expense), net	48	(2)	(46)		
Loss on Equistar investment			(57)		(57)
Equity in loss of subsidiaries	(62)	(35)		97	
Other expense, net			(5)		(5)
(Provision for) benefit from income taxes	(1)		23		22
Cumulative effect of accounting change	1	(1)	(1)		(1)

Net loss	$ (59)	$ (38)	$ (38)	$ 97	$ (38)

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

Note 16 Supplemental Financial Information - Continued

Condensed Consolidating Statements of Cash Flows	**Millennium America Inc.**	**Millennium Chemicals Inc.**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Millennium Chemicals Inc. and Subsidiaries**
Six Months Ended June 30, 2004					
(Restated - See Notes 17 and 18)					
Cash flows provided by (used in) operating activities	$ (1)	$ 1	$ 47	$	$ 47
Cash flows from investing activities:					
Capital expenditures			(23)		(23)
Cash used in investing activities			(23)		(23)
Cash flows from financing activities:					
Proceeds from long-term debt	16				16
Repayment of long-term debt	(68)		(4)		(72)
Intercompany	73	(13)	(60)		
Increase (decrease) in notes payable and other short-term borrowings		3	(2)		1
Proceeds from exercise of stock options		9			9
Cash provided by (used in) financing activities	21	(1)	(66)		(46)
Effect of exchange rate changes on cash			4		4
Increase (decrease) in cash and cash equivalents	20		(38)		(18)
Cash and cash equivalents at beginning of year	20		189		209
Cash and cash equivalents at end of period	$ 40	$	$ 151	$	$ 191
Six Months Ended June 30, 2003					
(Restated - See Notes 17 and 18)					
Cash flows provide by (used in) operating activities	$ 3	$ (2)	$ (43)	$	$ (42)
Cash flows from investing activities:					
Capital expenditures			(19)		(19)

Cash used in investing activities			(19)		(19)
Cash flows from financing activities:					
Dividends to shareholders		(17)			(17)
Proceeds from long-term debt	279				279
Repayment of long-term debt	(166)		(7)		(173)
Intercompany	(99)	19	80		
Decrease in notes payable			(5)		(5)
Cash provided by financing activities	14	2	68		84
Effect of exchange rate changes on cash			7		7
Increase in cash and cash equivalents	17		13		30
Cash and cash equivalents at beginning of year	6		119		125
Cash and cash equivalents at end of period	$ 23	$	$ 132	$	$ 155

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

Note 17 Restatement of Financial Statements August 2004

In August 2004, the Company restated its Consolidated Balance Sheet and Statement of Shareholders Equity at December 31, 2003 to correct errors in the computation of deferred tax liabilities relating to the Company s investment in Equistar (the August 2004 Restatement). The August 2004 Restatement decreased the Company s liability for deferred income taxes and Shareholders deficit at December 31, 2003 by $15. The August 2004 Restatement did not affect the Company s cash flow or operating income for any period.

A summary of the aggregate effect of the August 2004 Restatement on the Company s Consolidated Balance Sheets for the periods presented herein is shown below. The Company s December 31, 2003 restated financial statements are included in Amendment No. 2 to its Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission on August 9, 2004.

	As of December 31, 2003	
	As Reported	As Restated
Changes to Consolidated Balance Sheets:		
Deferred income taxes	$ 287	$ 272
Total liabilities	2,444	2,429
Accumulated deficit	(977)	(962)
Total shareholders deficit	(73)	(58)

Note 18 Restatement of Financial Statements February 2005

In February 2005, the Company restated its financial statements for each of the first two quarters of 2004 to correct errors made in recording estimated liabilities for future environmental remediation spending associated with existing obligations, primarily related to the Kalamazoo River Superfund Site, that were not recorded previously (the February 2005 Restatement). As a result of the February 2005 Restatement, the Company s consolidated balance sheet as of June 30, 2004 reflects increases in Other liabilities and Accumulated deficit of $51 and $34, respectively, and a decrease in Deferred tax liabilities of $17. Similarly, the consolidated balance sheet as of December 31, 2003 reflects increases in Other liabilities and Accumulated deficit of $46 and $31, respectively, and a decrease in Deferred tax liabilities of $15. The Company s consolidated statement of operations reflects an increase in S,D&A expense of $2 and $5, respectively for the three- and six-month periods ended June 30, 2004, and an increase in Benefit from income taxes of $1 and $2, respectively, for the three- and six-month periods ended June 30, 2004. Also reflected are an increase in S,D&A expense of $2 and $3, respectively, for the three- and six-month periods ended June 30, 2003, and an increase in Benefit from income taxes of $1 for the six-month period ended June 30, 2003. The Company also has made certain adjustments to the financial statements for the periods presented that previously had been considered immaterial to those financial statements, to correct the accrual for vacations earned and to correctly present the effect of bank overdrafts on cash flows as a financing activity. These adjustments, which had no effect on results of operations in the periods presented, increased cash provided by operations and decreased financing cash flows by $2 for the six month period ended June 30, 2004 and increased Accumulated deficit and Accrued expenses and other liabilities by $2 for each period presented.

The table below summarizes the aggregate effect of the February 2005 Restatement on the Company s Consolidated Balance Sheet, Consolidated Statement of Operations and Consolidated Statement of Cash Flows of operations for the periods presented herein.

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions, except share data)

	Three Month Period Ended June 30,				Six Month Period Ended June 30,			
	2004		2003		2004		2003	
	As Reported	As Restated	As Reported	As Restated	As Reported	As Restated	As Reported	As Restated
	(Millions)							
Changes to Consolidated Statements of Operations:								
Selling, development and administrative expense	$ 33	$ 35	$ 37	$ 39	$ 66	$ 71	$ 67	$ 70
Operating income	11	9	24	22	24	19	51	48
Loss before income taxes and minority interest	(2)	(4)	(14)	(16)	(13)	(18)	(52)	(55)
(Provision for) benefit from income taxes	(3)	(2)	6	7	(1)	1	21	22
Loss before minority interest and cumulative effect of accounting change	(5)	(6)	(8)	(9)	(14)	(17)	(31)	(33)
Loss before cumulative effect of accounting change	(7)	(8)	(9)	(10)	(17)	(20)	(35)	(37)
Net loss	(7)	(8)	(9)	(10)	(17)	(20)	(36)	(38)
Basic and diluted loss per share:								
Before cumulative effect of accounting change	(0.11)	(0.12)	(0.14)	(0.16)	(0.26)	(0.31)	(0.54)	(0.57)
After cumulative effect of accounting change	(0.11)	(0.12)	(0.14)	(0.16)	(0.26)	(0.31)	(0.56)	(0.59)

	As of June 30, 2004		As of December 31, 2003	
	As Reported	As Restated	As Reported	As Restated
Changes to Consolidated Balance Sheets:				
Accrued expenses and other liabilities	$ 116	$ 118	$ 124	$ 126
Deferred income taxes	270	253	272	257
Other liabilities	314	365	325	371
Total liabilities	2,378	2,414	2,429	2,462
Accumulated deficit	(979)	(1,015)	(962)	(995)
Total shareholders deficit	(76)	(112)	(58)	(91)

Six Month Period Ended June 30,	
2004	2003

	As Reported	As Restated	As Reported	As Restated
Changes to Consolidated Statements of Cash Flows:				
Net loss	$ (17)	$ (20)	$ (36)	$ (38)
Deferred income tax benefit	(4)	(6)	(32)	(33)
Decrease in accrued expenses and other liabilities and income taxes payable	1	3	(23)	(23)
Increase (decrease) in other liabilities	(16)	(11)	(15)	(12)
Cash provided by (used in) operating activities	45	47	(42)	(42)
Increase (decrease) in notes payable and other short-term borrowings	3	1	(5)	(5)
Cash (used in) provided by financing activities	(44)	(46)	84	84

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Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

In August 2004, Millennium Chemicals Inc. (the Company) restated its Consolidated Balance Sheet and Statement of Shareholders Equity at December 31, 2003 (the August 2004 Restatement) to correct errors in the computation of deferred income taxes relating to the Company s investment in Equistar. The August 2004 Restatement decreased the Company s liability for deferred income taxes at December 31, 2003 and decreased Accumulated deficit by $15 million. The Company s December 31, 2003 restated financial statements reflecting the August 2004 Restatement were included in Amendment No. 2 to its Annual Report on Form 10-K/A for the year ended December 31, 2003 filed with the Securities and Exchange Commission on August 9, 2004.

In addition to the August 2004 Restatement described above, the Company restated its Consolidated Balance Sheet at December 31, 2003, March 31, 2004, June 30, 2004 and September 30, 2004, and its Statement of Operations for the periods then ended to correct errors made in recording estimated liabilities for future environmental remediation spending associated with existing obligations, primarily related to the Kalamazoo River Superfund Site, that were not recorded previously (the February 2005 Restatement). The February 2005 Restatement increased environmental remediation liabilities by $46 million, decreased deferred tax liabilities by $15 million and increased shareholders deficit by $31 million as of December 31, 2003. The February 2005 Restatement similarly increased environmental remediation liabilities by $51 million, decreased deferred tax liabilities by $17 million and increased Shareholders deficit by $34 million at June 30, 2004. On February 14, 2005, the Company filed Amendment No. 5 to its Annual Report on Form 10-K/A with the Securities and Exchange Commission to restate its financial statements for the year ended December 31, 2003.

This Amendment No. 4 includes restated financial statements reflecting the February 2005 Restatement. For additional information including the effect of the February 2005 Restatement on each period presented, see Note 18 to the Consolidated Financial Statements.

Disclosure Concerning Forward-Looking Statements

The statements in this Amendment No. 4 that are not historical facts are, or may be deemed to be, forward-looking statements (Cautionary Statements) as defined in the Private Securities Litigation Reform Act of 1995. Some of these statements can be identified by the use of forward-looking terminology such as prospects, outlook, believes, estimates, intends, may, will, should, anticipates, expects, negative or other variation of these or similar words, or by discussion of trends and conditions, strategy or risks and uncertainties. In addition, from time to time, the Company or its representatives have made or may make forward-looking statements in other filings that the Company makes with the Securities and Exchange Commission, in press releases or in oral statements made by or with the approval of one of its authorized executive officers.

These forward-looking statements reflect present expectations as at August 9, 2004, the date the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 was originally filed with the Securities and Exchange Commission. Actual events or results may differ materially. Factors that could cause such a difference include:

- the ability of the Company to complete its proposed business combination with Lyondell Chemical Company (Lyondell), as described in more detail in Agreement for a Stock-for-Stock Business Combination below;
- the cyclicality and volatility of the chemical industries in which the Company and Equistar operate, particularly fluctuations in the demand for ethylene, its derivatives and acetyls and the sensitivity of these industries to capacity additions;

general economic conditions in the geographic regions where the Company and Equistar generate sales, and the impact of government regulation and other external factors, in particular, the events in the Middle East;

the ability of Equistar to distribute cash to its partners and uncertainties arising from the Company s shared control of Equistar and the Company s contractual commitments regarding possible future capital contributions to Equistar;

changes in the cost of energy and raw materials, particularly natural gas and ethylene, and the ability of the Company and Equistar to pass on cost increases to their customers;

the ability of raw material suppliers to fulfill their commitments;

the ability of the Company and Equistar to achieve their productivity improvement, cost reduction and working capital targets, and the occurrence of operating problems at manufacturing facilities of the Company or Equistar;

risks of doing business outside the United States, including currency fluctuations;

the cost of compliance with the extensive environmental regulations affecting the chemical industry and exposure to liabilities for environmental remediation and other environmental matters relating to the Company s and Equistar s current and former operations;

pricing and other competitive pressures;

legal proceedings relating to present and former operations (including proceedings based on alleged exposure to lead-based paints and lead pigments, asbestos and other materials), ongoing or future tax audits, and other claims; and

the Company s substantial indebtedness and its impact on the Company s cash flow, business operations and ability to obtain additional financing.

Some of these Cautionary Statements are discussed in more detail in Management s Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report. Readers are cautioned not to place undue reliance on forward-looking or Cautionary Statements, which reflect present expectations as at August 9, 2004, the date the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 was originally filed with the Securities and Exchange Commission. The Company undertakes no obligation to update any forward-looking or Cautionary Statement. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on behalf of the Company are expressly qualified in their entirety by the Cautionary Statements in this Quarterly Report and by any additional Cautionary Statements provided with such subsequent written and oral forward-looking statements. Readers are advised to consult any further disclosures the Company may make on related subjects in subsequent 10-Q, 8-K and 10-K reports, including amendments thereto, to the Securities and Exchange Commission.

Agreement for a Stock-for-Stock Business Combination

On March 29, 2004, Lyondell and the Company announced that their Boards of Directors had approved, and the companies had executed, an agreement and plan of merger. The proposed transaction is intended to qualify as a reorganization for U.S. federal income tax purposes, in which Millennium shareholders generally will not recognize gain or loss, other than any gain or loss recognized on the receipt of cash for fractional shares.

The Company s shareholders will receive between 0.95 and 1.05 shares of Lyondell common stock for each share of the Company s Common Stock, depending on the average of the volume-weighted average price of Lyondell shares for the 20 trading days ending on the third trading day before the consummation of the transaction. The Company s shareholders will receive 0.95 shares of Lyondell common stock if the average price of Lyondell shares during the period is $20.50 per share or greater, and 1.05 shares if it is $16.50 per share or less. If the average price is between these two amounts, the exchange ratio will vary proportionately. The new shares will be entitled to receive the same cash dividend as existing outstanding Lyondell shares. The Company s 4.00% convertible senior debentures (the 4.00% Convertible Senior Debentures) will become convertible into Lyondell common stock in accordance with the terms of the convertible debenture indenture following the closing of the transaction.

The transaction is subject to approval by both companies shareholders and other customary conditions. The Company and Lyondell have obtained amendments to the Company s and Lyondell s respective bank credit agreements and Lyondell s accounts receivable sales facility to permit the transaction. The transaction is expected to close in the fourth quarter of 2004; however, there can be no assurance that the transaction will close. The transaction involves the merger of Millennium Subsidiary LLC, a newly created subsidiary of the Company, into the Company, in which the Company s Common Stock now held by its public shareholders will be converted into common stock of Lyondell, and the Company s preferred stock to be issued to Lyondell immediately before the merger will be converted into common stock of the Company, as the surviving entity in the merger. As a result of the transaction, the Company will become a wholly-owned subsidiary of Lyondell. After the closing of the transaction, the combined company will be called Lyondell Chemical Company and will be headquartered in Houston, Texas. Dan F. Smith, Lyondell s current President and Chief Executive Officer, and Dr. William T. Butler, Lyondell s Chairman of the Board of Directors, will each continue in their respective roles. Two independent members of the Company s current Board of Directors will join the Lyondell Board of Directors, effective at the time of the closing.

In connection with the proposed transaction, on June 18, 2004 Lyondell filed with the Securities and Exchange Commission an amendment to its registration statement on Form S-4 (as amended, the Form S-4) containing a preliminary joint proxy statement/prospectus regarding the proposed transaction between Lyondell and the Company. The definitive joint proxy statement/prospectus will be sent to holders of Lyondell s and the Company s common stock after the Form S-4 has been declared effective. Investors and security holders are urged to read that document and any other relevant documents filed or that will be filed with the Securities and Exchange Commission, including the definitive joint proxy statement/prospectus that will be part of the definitive registration statement, as they become available, because they contain, or will contain, important information. Investors and security holders may obtain a free copy of the definitive joint proxy statement/prospectus (when it becomes available) and other documents filed by Lyondell and the Company with the Securities and Exchange Commission at the Securities and Exchange Commission web site at www.sec.gov. The preliminary joint proxy statement/prospectus and the definitive joint proxy statement/prospectus (when it becomes available) and the other documents filed by the Company may be obtained free from the Company by calling the Company s Investor Relations Department at (410) 229-8113. The preliminary joint proxy statement/prospectus and the definitive joint proxy statement/prospectus (when it becomes available) and the other documents filed by Lyondell may be obtained free from Lyondell by calling Lyondell s Investor Relations Department at (713) 309-4590.

The respective executive officers and directors of Lyondell and the Company and other persons may be deemed to be participants in the solicitation of proxies in respect of the proposed transaction. Information regarding Lyondell s executive officers and directors is available in the proxy statement filed with the Securities and Exchange Commission by Lyondell on March 16, 2004 and in the Form S-4, and information regarding the Company s directors and executive officers is available in its Amendment No. 1 to its Annual Report on Form 10-K for the year ended December 31, 2003, filed with the Securities and Exchange Commission on April 27, 2004, and in the Form S-4. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the definitive joint proxy statement/prospectus and other relevant materials filed with the Securities and Exchange Commission, as they become available.

For the three months and six months ended June 30, 2004, the Company incurred approximately $1 million and $4 million, respectively, of professional services costs in connection with the proposed combination, which are included in Combination costs in the accompanying unaudited Consolidated Statements of Operations.

Cost Reduction Program; Suspension of Dividend

On July 21, 2003, the Company announced that it would implement a program to reduce costs. This program included a reduction of approximately 5% in the number of the Company s employees worldwide. The Company closed its executive offices in Red Bank, New Jersey, effective September 1, 2003, and relocated its headquarters to Hunt Valley, Maryland, where the Company has existing administrative offices. In addition, the Company announced the suspension of payment of dividends on its Common Stock. Given the volatile industry in which it operates, the Company initiated these actions to reduce expenses and strengthen its balance sheet.

The Company expects to realize approximately $20 million of annual operating expense savings from the cost reduction program announced on July 21, 2003. The Company has recorded cumulative charges related to the program of $20 million (including $1 million and $2 million, respectively, for the three months and six months ended June 30, 2004), of which $19 million was for severance-related costs and $1 million was for contractual commitments for ongoing lease costs, net of expected sublease income, associated with the closure of the Red Bank, New Jersey office for the remaining term of the lease agreement. Cumulative severance-related cash payments of $23 million for the implementation of this program were made through June 30, 2004, including $1 million and $9 million in the three months and six months ended June 30, 2004, respectively. Substantially all of the remainder of the cash payments relating to this program, which are estimated to be approximately $3 million, will be disbursed during the next several quarters. No significant charges associated with this program are expected in future periods. The cumulative charges of $20 million associated with the cost reduction program are less than the cumulative severance-related cash payments of $23 million because some of the cash payments made under the program, primarily for retirement benefits, were related to expenses and liabilities that were recorded through the normal course of business in periods prior to the implementation of this program in mid-2003.

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Operating Results

The Company s principal operations are grouped into three business segments: Titanium Dioxide and Related Products, Acetyls, and Specialty Chemicals. Operating income and expense not identified with the three separate business segments, including certain of the Company s S,D&A expense not allocated to its three business segments, employee-related costs from predecessor businesses and certain other expenses, are grouped under the heading Other. The Company also holds a 29.5% interest in Equistar, which is accounted for using the equity method (see Note 1 to the unaudited Consolidated Financial Statements included in this Quarterly Report.) A discussion of Equistar s financial results for the relevant period is included below, as the Company s interest in Equistar represents a significant component of the Company s assets and Equistar s results can have a significant effect on the Company s consolidated results of operations.

The following information should be read in conjunction with the Company s Consolidated Financial Statements and Notes thereto and the discussion included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as amended by Amendment No. 5 on Form 10-K/A filed with the Securities and Exchange Commission on February 14, 2005.

Results of Consolidated Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
		Restated*		Restated*
	(Millions, except share data)			
Net sales	$ 488	$ 416	$ 953	$ 831
Operating income	9	22	19	48
Earnings (loss) on Equistar investment	12	(14)	14	(57)
Loss before income taxes, minority interest and cumulative effect of accounting change	(4)	(16)	(18)	(55)
Loss before cumulative effect of accounting change	(8)	(10)	(20)	(37)
Net loss	(8)	(10)	(20)	(38)
Basic and diluted loss per share:				
Before cumulative effect of accounting change	(0.12)	(0.16)	(0.31)	(0.57)
After cumulative effect of accounting change	(0.12)	(0.16)	(0.31)	(0.59)

* The Company restated its financial statements as disclosed in Notes 17 and 18 to the Consolidated Financial Statements included in this Amendment No. 4.

Three Months Ended June 30, 2004 Compared to the Three Months Ended June 30, 2003

The Company s net loss was $8 million, or $0.12 per share, for the three months ended June 30, 2004 and $10 million, or $0.16 per share, for the corresponding period in 2003. The Company s loss before income taxes, minority interest and cumulative effect of accounting change (pre-tax loss) decreased by $12 million in the second quarter of 2004 compared to the corresponding period in 2003, primarily due to a $26 million improvement in earnings (loss) from the Company s investment in Equistar, partially offset by a $13 million decrease in operating income and a $1 million increase in net interest expense.

The Company s operating income in the second quarter of 2004 of $9 million decreased by $13 million, from $22 million in the second quarter of 2003, due to a decrease in operating income of $13 million in the Titanium Dioxide and Related Products business segment and $3 million in the Acetyls business segment, partially offset by a $3 million decrease in Other operating loss not identified with the three business segments. Operating income in the Specialty Chemicals business segment for the second quarter of 2004 was consistent with the corresponding period in the prior year.

Net sales of $488 million in the second quarter of 2004 increased by $72 million, or 17%, from the same period in the prior year. The increase was primarily due to higher sales volume and foreign currency strength against the US dollar in the Titanium Dioxide and Related Products and Acetyls business segments, partially offset by lower average selling prices in the Titanium Dioxide and Related Products business segment.

Manufacturing and other costs of sales were generally higher in the second quarter of 2004 compared to the corresponding quarter of the prior year due to the unfavorable effect of translating local currency manufacturing costs into a weaker US dollar, lower fixed cost absorption due to reduced production volume, and higher utility and maintenance costs in the Titanium Dioxide and Related Products business segment. Manufacturing and other costs of sales in the Acetyls business segment also increased due to higher feedstock and distribution costs.

S,D&A expense of $35 million in the second quarter of 2004 decreased by $4 million from the second quarter of 2003 primarily due to a net decrease in expense not identified with the three separate business segments.

Asset impairment charges in the second quarter of 2004 of $5 million primarily related to the write-off of expenditures for property, plant and equipment at the Company s Le Havre, France titanium dioxide (TiO_2) manufacturing plant. In the fourth quarter of 2003, the carrying value of the property, plant and equipment at the Le Havre manufacturing plant was determined to be impaired, and a charge was required to write down the basis in those assets to zero. Capital expenditures at this plant for the three months ended June 30, 2004 were capitalized as property, plant and equipment and then immediately written off as asset impairment charges as a result of evaluating those assets for impairment under the guidance of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). Since the basis of all of the property, plant and equipment for this plant was written down to zero, no depreciation expense for this plant was recorded in manufacturing and other costs of sales.

Combination costs in the second quarter of 2004 of $1 million represented professional services costs incurred in connection with the proposed stock-for-stock business combination announced on March 29, 2004 that, if completed, will result in the combination of the Company with Lyondell (see *Agreement for a Stock-for-Stock Business Combination* above).

The Company reported pre-tax earnings from its investment in Equistar of $12 million for the three months ended June 30, 2004, an improvement of $26 million compared to the pre-tax loss of $14 million for the three months ended June 30, 2003. The loss in the second quarter of 2003 included the Company s share of financing costs of $6 million. The increase in Equistar s results for the second quarter of 2004 compared to the same period of 2003 is primarily due to a 25% increase in ethylene and derivative sales volume, partially offset by lower ethylene and polyethylene product margins as higher raw materials and energy costs during the period were not entirely recovered by increases in sales prices. Raw material costs increased significantly as crude oil prices averaged 30% higher in the second quarter of 2004 compared to the second quarter of 2003.

Six Months Ended June 30, 2004 Compared to the Six Months Ended June 30, 2003

The Company s net loss was $20 million, or $0.31 per share, for the six months ended June 30, 2004 and $38 million, or $0.59 per share, for the corresponding period in 2003. The Company s pre-tax loss decreased by $37 million in the first six months of 2004 compared to the corresponding period in 2003, primarily due to a $71 million improvement in earnings (loss) from the Company s investment in Equistar, partially offset by a $29 million decrease in operating income, a $4 million increase in net interest expense and a $1 million increase in Other expense, net. The net loss for the first half of 2003 included $1 million, or $0.02 per share, for the cumulative effect of an accounting change as a result of the Company s adoption of SFAS No. 143, Accounting for Asset Retirement Obligations (see Note 4 to the unaudited Consolidated Financial Statements included in this Quarterly Report).

The Company s operating income in the first half of 2004 of $19 million decreased by $29 million, from $48 million in the first half of 2003, due to a decrease in operating income in the Titanium Dioxide and Related Products and Acetyls business segments of $22 million and $1 million, respectively, and a $6 million increase in Other operating loss not identified with the three business segments. Operating income in the Specialty Chemicals business segment for the first half of 2004 was consistent with the corresponding period in the prior year.

Net sales of $953 million in the six months ended June 30, 2004 increased by $122 million, or 15%, from the same period in the prior year. The increase was primarily due to higher sales volume and foreign currency strength against the US dollar in the Titanium Dioxide and Related Products and Acetyls business segments, partially offset by lower average selling prices in the Titanium Dioxide and Related Products business segment.

Manufacturing and other costs of sales were generally higher in the first half of 2004 compared to the corresponding six month period in 2003. Manufacturing and other costs of sales in the Titanium Dioxide and Related Products business segment were higher in the first half of 2004 as a result of increased sales volume in addition to the unfavorable effect of translating local currency manufacturing costs into a weaker US dollar, lower fixed cost absorption due to reduced production volume, partially offset by lower raw material costs. Manufacturing and other cost of sales in the Acetyls business segment were also higher primarily due to higher cost inventory carried into the first quarter of 2004 compared to the first quarter of 2003 due to higher average feedstock costs in December 2003, particularly natural gas and ethylene. S,D&A expense in the six months ended June 30, 2004 increased by $1 million, or 1%, compared to the six months ended June 30, 2003.

Asset impairment charges in the first half of 2004 of $8 million primarily related to the write-off of expenditures for property, plant and equipment at the Company s Le Havre, France TiO_2 manufacturing plant. In the fourth quarter of 2003, the carrying value of the property, plant and equipment at the Le Havre manufacturing plant was determined to be impaired, and a charge was required to write down the basis in those assets to zero. Capital expenditures at this plant for the six months ended June 30, 2004 were capitalized as property, plant and equipment and then immediately written off as asset impairment charges as a result of evaluating those assets for impairment under the guidance of SFAS No. 144. Since the basis of all of the property, plant and equipment for this plant was written down to zero, no depreciation expense for this plant was recorded in manufacturing and other costs of sales.

Combination costs in the first half of 2004 of $4 million represented professional services costs incurred in connection with the proposed stock-for-stock business combination announced on March 29, 2004 that, if completed, will result in the combination of the Company with Lyondell (see *Agreement for a Stock-for-Stock Business Combination* above).

The Company reported pre-tax earnings from its investment in Equistar of $14 million for the six months ended June 30, 2004, an improvement of $71 million compared to the pre-tax loss of $57 million for the six months ended June 30, 2003. The loss in the first half of 2003 included the Company s share of refinancing costs of $6 million and a loss on the sale of a polypropylene production facility of $4 million. The increase in Equistar s results for the first half of 2004 compared to the same period of 2003 is primarily due to higher product margins and sales volume. Ethylene and derivative sales volume increased 14% compared to the first half of 2003.

Outlook for 2004

Operating income for the third quarter of 2004 in the Titanium Dioxide and Related Products business segment is expected to be significantly higher as the Company expects continued strong demand and more favorable local currency pricing in the third quarter of 2004 compared to the second quarter of 2004. In July 2004, the average local currency selling price increased 2.5% compared to the average local currency selling price in the second quarter of 2004. Plant operating rates are expected to be slightly higher than in the second quarter of 2004 because there are no maintenance shutdowns scheduled in the third quarter of 2004.

Operating income for the Acetyls business segment is expected to be significantly higher in the third quarter of 2004 compared to the second quarter of 2004. Sales volume is expected to be higher in the third quarter of 2004 as the plant returns to normal operating rates. The Company expects higher local currency sales prices in the third quarter of 2004 as previously announced price increases are implemented.

In the third quarter of 2004, operating income for the Specialty Chemicals business segment is expected to be similar to the second quarter of 2004 as business conditions are expected to remain stable.

Industry conditions have continued to reflect an improving supply/demand balance for Equistar s products. The industry and Equistar s product lines continue to move through the early phase of a cyclical recovery and Equistar expects that this trend will continue. However, near-term results will remain vulnerable to the volatility of crude oil and natural gas prices as well as consumer spending patterns. Equistar anticipates that it will begin making cash distributions to its owners in the third quarter of 2004.

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Segment Analysis

Titanium Dioxide and Related Products

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(Millions)			
Net sales	$ 363	$ 293	$ 696	$ 581
Operating income	10	23	22	44

Three Months Ended June 30, 2004 Compared to the Three Months Ended June 30, 2003

Operating income in the Titanium Dioxide and Related Products business segment for the second quarter of 2004 was $10 million, a decrease of $13 million, or 57%, compared to the corresponding quarter of 2003 as higher sales volume ($15 million) was more than offset by the unfavorable effects of higher manufacturing and other costs of sales ($14 million) and lower average selling prices ($9 million). Additionally, operating income for the second quarter of 2004 included asset impairment charges of $5 million, primarily related to the write-off of expenditures for property, plant and equipment at the Company s Le Havre, France manufacturing plant. In the fourth quarter of 2003, the carrying value of the property, plant and equipment at the Le Havre manufacturing plant was determined to be impaired, and a charge was required to write down the basis in those assets to zero. Capital expenditures at this plant for the three months ended June 30, 2004 were capitalized as property, plant and equipment and then immediately written off as asset impairment charges as a result of evaluating those assets for impairment under the guidance of SFAS No. 144. Since the basis of all the property, plant and equipment at this plant was written down to zero, no depreciation expense for this plant was recorded for the three months ended June 30, 2004.

Sales revenue in the second quarter of 2004 of $363 million increased by $70 million, or 24%, compared to the prior year quarter primarily due to higher sales volume and the favorable effect of translating sales denominated in stronger foreign currencies into US dollars. TiO_2 sales volume in the second quarter of 2004 was 29% higher than the prior year quarter, with increases reported in all major geographic regions. Overall, the Company estimates that the global TiO_2 market increased approximately 10% to 12% compared to the second quarter of the prior year due to improved global economic conditions. The Company s average TiO_2 selling price for the second quarter of 2004 in local currencies was 6% lower than the second quarter of 2003, and was 3% lower compared to the second quarter of 2003 in US dollar terms.

Manufacturing and other costs of sales in the second quarter of 2004 were higher than in the same quarter of 2003 as a result of the unfavorable effect of translating manufacturing costs incurred in stronger foreign currencies into US dollars, lower fixed cost absorption due to decreased production volume and higher utility costs and maintenance costs. The overall operating rate of the Company s TiO_2 plants was 92% in the second quarter of 2004, compared to 96% in the same period of 2003. The lower operating rate was primarily the result of maintenance shutdowns. The operating rate for the second quarter of 2004 was based on an annual nameplate capacity of 670,000 metric tons compared to 690,000 metric tons in the prior year quarter.

S,D&A expense in the second quarter of 2004 was similar to S,D&A expense in the same period of 2003.

Six Months Ended June 30, 2004 Compared to the Six Months Ended June 30, 2003

Operating income in the Titanium Dioxide and Related Products business segment for the first six months of 2004 was $22 million, a decrease of $22 million, or 50%, compared to the first six months of 2003. The decrease reflects the unfavorable effect of higher manufacturing and other costs of sales ($25 million), lower average selling prices ($9 million) and higher S, D&A expense ($1 million), all of which were partially offset by higher sales volume ($21 million). Additionally, operating income for the first six months of 2004 included asset impairment charges of $8 million, primarily related to the write-off of expenditures for property, plant and equipment at the Company s Le Havre, France manufacturing plant. In the fourth quarter of 2003, the carrying value of the property, plant and equipment at the Le Havre manufacturing plant was determined to be impaired, and a charge was required to write down the basis in those assets to zero. Capital expenditures at this plant for the six months ended June 30, 2004 were capitalized as property, plant and equipment and then immediately written off as asset impairment charges as a result of evaluating those assets for impairment under the guidance of SFAS No. 144. Since the basis of all the property, plant

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and equipment at this plant was written down to zero, no depreciation expense for this plant was recorded for the six months ended June 30, 2004.

Sales revenue for the first half of 2004 of $696 million increased by $115 million, or 20%, compared to the first half of 2003 primarily due to higher sales volume and the favorable effect of translating sales denominated in stronger foreign currencies into US dollar. TiO_2 sales volume in the first six months of 2004 was 22% higher than in the first six months of 2003, with increases reported in all major geographic regions. Overall, the Company estimates that the global TiO_2 market increased approximately 7% to 9% compared to the first half of the prior year due to improved global economic conditions. The Company s average TiO_2 selling price for the first half of 2004 in local currencies was 7% lower than the first half of 2003, and was 2% lower than the first half of 2003 in US dollar terms.

Manufacturing and other costs of sales in the first six months of 2004 were higher than in the first six months of 2003 due to the unfavorable effect of translating manufacturing costs incurred in stronger foreign currencies into US dollars and lower fixed cost absorption due to reduced production volume, partially offset by lower raw material costs. The overall operating rate of the Company s TiO_2 plants was 92% in the first half of 2004 and 2003. Beginning in the second quarter of 2004, the operating rate was based on an annual nameplate capacity of 670,000 metric tons compared to 690,000 metric tons in 2003.

S,D&A expense in the first six months of 2004 increased by $1 million, or 2%, compared to the first six months of 2003.

Acetyls

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
	(Millions)			
Net sales	$ 101	$ 99	$ 207	$ 201
Operating income	2	5	11	12

Three Months Ended June 30, 2004 Compared to the Three Months Ended June 30, 2003

Operating income in the Acetyls business segment of $2 million for the three months ended June 30, 2004 decreased by $3 million, or 60%, compared to operating income of $5 million in the three months ended June 30, 2003 due to higher manufacturing and other costs of sales ($11 million) partially offset by higher sales volume ($8 million). Net sales for the second quarter of 2004 of $101 million increased by $2 million, or 2%, compared to net sales of $99 million in the second quarter of 2003. Aggregate sales volume for VAM and acetic acid for the second quarter of 2004 was 8% higher than the second quarter of 2003, even though sales volume was adversely affected due to a delayed return to full operating rates at the Company s acetic acid plant related to an unscheduled outage at one of the Company s major raw material suppliers during the second quarter of 2004. The aggregate weighted-average selling price in US dollars for VAM and acetic acid in the second quarter of 2004 was similar to the second quarter of 2003.

Manufacturing and other costs of sales for VAM and acetic acid in the second quarter of 2004 were higher than the second quarter of 2003, primarily due to higher feedstock costs and higher distribution costs.

S,D&A expense in the second quarter of 2004 was similar to S,D&A expense in the same period of 2003.

Six Months Ended June 30, 2004 Compared to the Six Months Ended June 30, 2003

Operating income in the Acetyls business segment of $11 million for the six months ended June 30, 2004 decreased by $1 million, or 8%, compared to operating income of $12 million in the six months ended June 30, 2003 as a result of higher manufacturing costs ($14 million), which were partially offset by higher sales volume ($10 million) and higher average selling prices ($3 million).

Net sales for the first half of 2004 of $207 million increased $6 million, or 3%, compared to net sales of $201 million in the first half of 2003. Aggregate sales volume for VAM and acetic acid for the first half of 2004 was 8% higher than the first half of 2003. The aggregate weighted-average selling price in US dollars for VAM and acetic acid increased 2% compared to the first half of 2003.

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Manufacturing and other costs of sales for VAM and acetic acid in the first six months of 2004 were higher than the same period of 2003, primarily due to higher cost inventory carried into the first quarter of 2004 compared to the first quarter of 2003 due to higher average feedstock costs in December 2003, particularly natural gas and ethylene. S,D&A expense in the first half of 2004 was similar to S,D&A expense in the same period of 2003.

Specialty Chemicals

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(Millions)			
Net sales	$ 24	$ 24	$ 50	$ 49
Operating income	2	2	4	4

Three Months Ended June 30, 2004 Compared to the Three Months Ended June 30, 2003

Operating income in the Specialty Chemicals business segment for the three months ended June 30, 2004 of $2 million was similar to operating income for the three months ended June 30, 2003. Higher average selling prices in the second quarter of 2004 were offset by higher manufacturing and other costs of sales.

Net sales for the three months ended June 30, 2004 of $24 million was similar to net sales for the three months ended June 30, 2003. Sales volume in the second quarter of 2004 was 7% lower than the second quarter of 2003 as sales volume decreased across several product lines. However, the weighted average selling price for Specialty Chemicals products increased by 6% from the second quarter of 2003. Despite greater competitive pricing pressure in the second quarter of 2004 compared to the same period of 2003, proportionally higher sales volume in higher-priced product lines contributed to the increase in average selling prices.

Manufacturing and other costs of sales in the second quarter of 2004 were higher than the second quarter of 2003. The average cost of crude sulfate turpentine (CST), the principal raw material used in the business, and overall energy costs were higher in the second quarter of 2004 than in the prior year quarter.

S,D&A expense for the three months ended June 30, 2004 was similar to the same period of 2003.

Six Months Ended June 30, 2004 Compared to the Six Months Ended June 30, 2003

Operating income in the Specialty Chemicals business segment for the six months ended June 30, 2004 of $4 million was similar to operating income for the six months ended June 30, 2003. Higher average selling prices and lower S,D&A expense in the first half of 2004 were offset by higher manufacturing and other costs of sales.

Net sales for the six months ended June 30, 2004 of $50 million increased by $1 million, or 2%, compared to the six months ended June 30, 2003. Sales volume in the six months ended June 30, 2004 was similar to the same period of 2003. However, the weighted average selling price for Specialty Chemicals products increased by 1% from the first six months of 2003. Despite greater competitive pricing pressure during the six months ended June 30, 2004 compared to the same period of 2003, proportionally higher sales volume in higher-priced product lines contributed to the increase in average selling prices.

Manufacturing and other costs of sales in the six months ended June 30, 2004 were higher than the six months ended June 30, 2003. The average cost of CST, and overall energy costs were higher in the six months ended June 30, 2004 than in the same period of 2003.

S,D&A expense for the six months ended June 30, 2004 was $1 million, or 17%, lower than the same period of 2003.

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Other

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
		(Restated)*		
		(Millions)		
Operating loss	$ (5)	$ (8)	$ (18)	$ (12)

* The Company restated its financial statements as disclosed in Notes 17 and 18 to the Consolidated Financial Statements included in this Amendment No. 4.

Three Months Ended June 30, 2004 Compared to the Three Months Ended June 30, 2003

Operating loss not identified with the three separate business segments for the three months ended June 30, 2004 was $3 million lower than the three months ended June 30, 2003 primarily due to higher income from employee benefit plans related to predecessor businesses.

Six Months Ended June 30, 2004 Compared to the Six Months Ended June 30, 2003

Operating loss not identified with the three separate business segments for the six months ended June 30, 2004 was $6 million higher than the six months ended June 30, 2003 primarily due to expenses of $11 million in the six months ended June 30, 2004 resulting from changes in estimated liabilities for legal and environmental contingencies related to predecessor businesses, $4 million of professional services costs incurred in connection with the proposed stock-for-stock business combination announced on March 29, 2004 that, if completed, will result in the combination of the Company with Lyondell (see *Agreement for a Stock-for-Stock Business Combination* above), and higher reorganization and office closure charges associated with the Company s cost reduction program announced in July 2003 of $1 million, partially offset by $4 million higher income from employee benefit plans related to predecessor businesses and a $6 million reduction in other expenses not allocated to the separate business segments.

Equistar

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
		(Millions)		
Income (loss), as reported by Equistar	$ 43	$ (49)	$ 48	$ (195)

Earnings (loss) on Equistar investment, as reported by the Company	$ 12	$ (14)	$ 14	$ (57)

Three Months Ended June 30, 2004 Compared to the Three Months Ended June 30, 2003

The Company reported pre-tax earnings from its investment in Equistar of $12 million for the three months ended June 30, 2004, an improvement of $26 million compared to a pre-tax loss of $14 million for the three months ended June 30, 2003.

Equistar reported net income of $43 million in the second quarter of 2004 compared to a net loss of $49 million in the second quarter of the prior year. Net loss for the quarter ended June 30, 2003 included $19 million of refinancing costs. The increase in Equistar s results in the second quarter of 2004 compared to the corresponding period in the prior year was primarily due to a 25% increase in ethylene and derivative sales volume, partially offset by lower ethylene and polyethylene margins as higher raw material and energy costs during the period were not entirely recovered by increases in sales prices. Raw material costs increased significantly as crude oil prices averaged more than 30% higher than during the second quarter of 2003.

Equistar s Petrochemicals segment reported operating income of $136 million for the second quarter of 2004, an increase of $51 million compared to operating income of $85 million in the second quarter of 2003. The increase in operating income was primarily due to the higher sales volume in the second quarter of 2004 compared to the second quarter of the prior year. Revenues for Equistar s Petrochemicals segment increased 33% in the second quarter of 2004 compared to the corresponding period in the prior year due to higher average sales prices and a 12% increase in sales volume. Benchmark ethylene and propylene sales prices increased 4% and 31%, respectively, in the second quarter of 2004 compared to the second quarter of 2003. Cost of sales increased 31% as a result of higher sales volume and the higher cost of raw materials. The cost of liquid raw materials was affected in the second quarter of 2004 by the cost of crude oil, which increased 32% compared to the corresponding period of 2003.

Equistar s Polymers segment reported an operating loss of $6 million for the second quarter of 2004 compared to an operating loss of $27 million in the second quarter of 2003. The $21 million improvement in operating results in the second quarter of 2004 was primarily due to higher sales volume. Revenues in Equistar s Polymers segment in the second quarter of 2004 increased 36% compared to the corresponding period in the prior year, primarily due to higher sales volume and higher average sales prices. Sales volume in the second quarter of 2004 increased 33% compared to the second quarter of 2003 as a result of stronger demand. The increase in average sales prices for the second quarter of 2004 compared to the corresponding period of 2003 was the result of higher demand and higher raw material costs. Cost of sales increased 31% in the second quarter of 2004 compared to the second quarter of 2003 as a result of higher sales volume and higher raw material costs, primarily ethylene. The benchmark cost of ethylene was 4% higher in the second quarter of 2004 compared to the second quarter of 2003.

Six Months Ended June 30, 2004 Compared to the Six Months Ended June 30, 2003

The Company reported pre-tax earnings from its investment in Equistar of $14 million for the six months ended June 30, 2004, an improvement of $71 million compared to a pre-tax loss of $57 million for the six months ended June 30, 2003.

Equistar reported net income of $48 million for the six months ended June 30, 2004 compared to a net loss of $195 million in the six months ended June 30, 2003. Net loss for the first six months of 2003 included $19 million of refinancing costs, as well as a $12 million loss from the sale of a polypropylene production facility. The increase in Equistar s results in the first six months of 2004 was the result of higher product margins and sales volume compared to the first six months of 2003. Ethylene and derivative sales volume increased 14% compared to the first six months of 2003.

Equistar s Petrochemicals segment reported operating income of $240 million for the six months ended June 30, 2004, an increase of $187 million compared to operating income of $53 million in the six months ended June 30, 2003. The increase in operating income for the six months ended June 30, 2003 was primarily due to higher product margins and a 10% increase in sales volume compared to the six months ended June 30, 2003. The effect of sales price increases in response to higher raw material and energy costs were generally more favorable than in the first six months of 2003 due to improved supply/demand fundamentals, resulting in higher average product margins than in the first six months of 2003. Revenues for Equistar s Petrochemicals segment increased 27% in the first half of 2004 compared to the corresponding period in the prior year, primarily due to higher average sales prices and a 10% increase in sales volume. Benchmark ethylene and propylene sales prices increased 7% and 26%, respectively, in the first six months of 2004 compared to the first six months of 2003. Cost of sales increased 21% as a result of higher sales volume and the higher costs of raw materials. The cost of liquid raw materials was affected in the first half of 2004 by the cost of crude oil, which increased 16% compared to the corresponding period of 2003.

Equistar s Polymers segment reported an operating loss of $20 million for the six months ended June 30, 2004 compared to an operating loss of $62 million in the six months ended June 30, 2003. The operating loss in the first six months of 2003 included a $12 million loss on the sale of a polypropylene production facility in Pasadena, Texas. The remaining increase in operating results in the first half of 2004 was primarily due to an increase in sales volume. Revenues in Equistar s Polymers segment in the first half of 2004 increased 21% compared to the corresponding period in the prior year, primarily due to higher sales volume and higher average sales prices. Sales volume in the first six months of 2004 increased 15% compared to the second quarter of 2003 as a result of stronger demand. The increase in average sales prices for the first half of

2004 compared to the corresponding period of 2003 was the result of higher demand and higher raw material costs. Cost of sales increased 18% primarily as a result of higher sales volume, along with higher raw material costs, primarily ethylene. The benchmark cost of ethylene was 7% higher in the second quarter of 2004 compared to the second quarter 2003.

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Liquidity and Capital Resources

The Company has historically financed its operations primarily through cash generated from its operations and cash distributions from Equistar, as well as debt financings. In the first six months of 2004, both the domestic and foreign operations financed their operations through cash generated from those operations. Cash generated from operations is to a large extent dependent on economic, financial, competitive and other factors affecting the Company s businesses. The amount of cash distributions received from Equistar is affected by Equistar s results of operations and current and expected future cash flow requirements. The Company has not received any cash distributions from Equistar since 2000; however, Equistar anticipates that it will begin making cash distributions to its owners in the third quarter of 2004. Cash provided by operating activities for the six months ended June 30, 2004 was $47 million compared to $42 million of cash used in the six months ended June 30, 2003. The $89 million increase in cash provided by operating activities was primarily due to favorable movements in trade working capital (defined as trade accounts receivable, inventory and trade accounts payable) in the first half of 2004 compared to unfavorable movements in the same period of the prior year ($113 million), accrued expenses and other liabilities ($26 million) and various other net favorable changes ($5 million), partially offset by lower operating income before depreciation and amortization ($36 million) and unfavorable movements in other current assets in the first six months of 2004 compared to favorable movements in the same period of 2003 ($19 million). The favorable movement in trade working capital in the first half of 2004 compared to the same period in 2003 is primarily due to the timing of vendor payments and higher sales volume for the Company s products that has reduced product inventories and increased trade receivables.

Cash used in investing activities for capital expenditures in the six months ended June 30, 2004 was $23 million compared to $19 million used for capital expenditures in the six months ended June 30, 2003. The low level of capital spending in the first six months of both 2004 and 2003 reflects the Company s continued focus on optimization of its asset base. Capital spending for 2004 is expected to be approximately $60 million. The Company expects to finance its planned capital spending using cash generated from operations and through availability under its Credit Agreement, if necessary.

Cash used in financing activities was $46 million in the six months ended June 30, 2004 compared to cash provided by financing activities of $84 million in the six months ended June 30, 2003. Financing activities in the first half of 2004 included $55 million of net repayments of debt, while the first half of 2003 included $101 million of net debt proceeds. In the first half of 2004, the Company repatriated cash of approximately $107 million from Australia and Europe to the US. This cash was used to reduce outstanding borrowings under the Company s Credit Agreement and for general corporate purposes. Dividends paid to shareholders totaled $17 million for the first two quarters of 2003 and no dividends were paid in the same periods of 2004. In July 2003, the Company announced the suspension of the payment of dividends on its Common Stock, as more fully described in Cost Reduction Program; Suspension of Dividend above. In the first half of 2004, the company received proceeds of $9 million from the exercise of approximately 700,000 stock options.

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The maturities of the Company s long-term debt through 2009 and thereafter are as follows:

	July 1 - December 31, 2004	2005	2006	2007	2008	2009	Thereafter	Total at June 30, 2004	Total at December 31, 2003
					(Millions)				
Revolving loans	$	$	$	$	$	$	$	$	$ 52
7.00% Senior Notes			500					500	500
7.625% Senior Debentures							250	250	250
9.25% Senior Notes					475			475	475
4.00% Convertible Senior Debentures							150	150	150
Other long-term debt	2	5	5	3	1	1	3	20	23
Maturities of long-term debt	$ 2	$ 5	$ 505	$ 3	$ 476	$ 1	$ 403	1,395	1,450
Non-cash components of long-term debt								10	17
Total debt								1,405	1,467
Less: current maturities of long-term debt								(5)	(6)
Total long-term debt								$ 1,400	$ 1,461

On November 25, 2003, the Company received approximately $125 million in gross proceeds and, on December 2, 2003, received an additional $25 million in gross proceeds from the sale by Millennium Chemicals Inc. (Millennium Chemicals) of $150 million aggregate principal amount of the 4.00% Convertible Senior Debentures, which are guaranteed by Millennium America Inc. (Millennium America), a wholly-owned indirect subsidiary of Millennium Chemicals. The gross proceeds of the sale were used to repay all of the $47 million of outstanding borrowings at that time under the term loan portion (the Term Loan) of the Company s five-year credit agreement expiring June 18, 2006, as amended, (the Credit Agreement) and $103 million of outstanding borrowings under the revolving loan portion (the Revolving Loans) of its Credit Agreement, which currently has a maximum availability of $150 million. The Company used $4 million of cash to pay the fees relating to the sale of the 4.00% Convertible Senior Debentures. Under the terms of the agreements relating to the sale of the 4.00% Convertible Senior Debentures, Millennium Chemicals and Millennium America agreed to: (1) file with the Securities and Exchange Commission on or before March 24, 2004 a registration statement covering the resale of the debentures and the common stock issuable upon conversion thereof pursuant to Rule 415 under the Securities Act, and (2) use reasonable efforts to cause this registration statement to be declared effective under the Securities Act of 1933, as amended (the Securities Act), on or before May 23, 2004. On March 23, 2004, Millennium Chemicals and Millennium America, as guarantor, initially filed a registration statement with the Securities and Exchange Commission, and on June 16, 2004, filed an amendment to this registration statement. However, as of August 9, 2004, this registration statement has not yet been declared effective by the Securities and Exchange Commission. Accordingly, since March 23, 2004, Millennium Chemicals has accrued and will continue to accrue additional interest on the debentures until the registration statement is declared effective by the Securities and Exchange Commission, at an annualized rate of 0.25% until August 22, 2004 and 0.50% thereafter.

On April 25, 2003, the Company received approximately $107 million in net proceeds ($109 million in gross proceeds) from the issuance and sale by Millennium America of $100 million additional principal amount at maturity of its 9.25% Senior Notes due June 15, 2008 (the 9.25% Senior Notes), which are guaranteed by Millennium Chemicals. The net proceeds were used to repay all of the $85 million of outstanding borrowings at that time under the Revolving Loans and for general corporate purposes. Millennium Chemicals and Millennium America guarantee the obligations under the Credit Agreement. Under the terms of this issuance and sale, Millennium America and Millennium Chemicals entered into an exchange and registration rights agreement with the initial purchasers of the $100 million additional principal amount of these 9.25% Senior Notes. Pursuant to this agreement, each of Millennium America and Millennium Chemicals agreed to: (1) file with the Securities and Exchange Commission on or before July 24, 2003 a registration statement relating to a registered exchange offer for the notes, and (2) use its reasonable efforts to cause this

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exchange offer registration statement to be declared effective under the Securities Act on or before October 22, 2003. On June 13, 2003, Millennium America and Millennium Chemicals, as guarantor, initially filed a registration statement with the Securities and Exchange Commission, and on December 15, 2003 and June 25, 2004, filed amended registration statements. However, as of August 9, 2004, the exchange offer registration statement had not yet been declared effective. As a result, since October 22, 2003, Millennium America has been obligated to pay additional interest at the annualized rate of approximately 1.00% to each holder of the $100 million additional amount of notes. This additional interest will be paid until such time as this registration statement becomes effective.

The Company depends on its Credit Agreement as its primary source of liquidity for its operations and working capital needs. At July 31, 2004, the Company had $23 million of outstanding undrawn standby letters of credit and no outstanding borrowings under the Revolving Loans and, accordingly, had $127 million of unused availability under such facility. At that date, in addition to letters of credit outstanding under the Credit Agreement, the Company also had outstanding undrawn standby letters of credit and bank guarantees under other arrangements of $6 million. The Company had unused availability under short-term uncommitted lines of credit, other than the Credit Agreement, of $41 million at July 31, 2004.

The Credit Agreement contains various restrictive covenants and requires that the Company meet certain financial performance criteria. Compliance with these covenants is monitored frequently in order to assess the likelihood of continued compliance. As a result of the restatement of its prior financial statements as discussed above, the Company obtained waivers on July 29, 2004, and February 2, 2005, under the Credit Agreement relating to certain representations under the Credit Agreement regarding such prior financial statements. The Company was in compliance with all covenants under the Credit Agreement in effect at June 30, 2004.

The financial covenants in the Credit Agreement require the Company to maintain a Senior Secured Leverage Ratio, defined as the ratio of Senior Secured Indebtedness, as defined, to cumulative EBITDA for the prior four fiscal quarters, each as defined, of no more than 1.25 to 1.00 for each of the remaining quarters of 2004 and 1.00 to 1.00 for the first quarter of 2005 and thereafter, and an Interest Coverage Ratio, defined as the ratio of cumulative EBITDA for the prior four fiscal quarters to Net Interest Expense, for the same period, each as defined, of no less than 1.35 to 1.00 for the first and second quarters of 2004; 1.40 to 1.00 for the third quarter of 2004; 1.50 to 1.00 for the fourth quarter of 2004; and 1.75 to 1.00 for the first quarter of 2005 and thereafter. The covenants in the Credit Agreement also limit, among other things, the ability of the Company and/or certain subsidiaries of the Company to: (i) incur debt and issue preferred stock; (ii) create liens; (iii) engage in sale/leaseback transactions; (iv) declare or pay dividends on, or purchase, the Company s stock; (v) make restricted payments; (vi) engage in transactions with affiliates; (vii) sell assets; (viii) engage in mergers or acquisitions; (ix) engage in domestic accounts receivable securitization transactions; and (x) enter into restrictive agreements. In addition, in the event the Company sells certain assets as specified in the Credit Agreement and the Leverage Ratio, as defined, is equal to or greater than 3.75 to 1.00, the outstanding Revolving Loans must be prepaid with a portion of the Net Cash Proceeds, as defined, of such sale and the maximum availability under the Credit Agreement would be decreased by 50% of the aggregate Net Cash Proceeds received from such asset sales in excess of $100 million. Any sale involving Equistar or certain inventory or accounts receivable would reduce the maximum availability under the Credit Agreement by 100% of such Net Cash Proceeds received. The obligations under the Credit Agreement are collateralized by: (1) a pledge of 100% of the stock of the Company s existing and future domestic subsidiaries and 65% of the stock of certain of the Company s existing and future foreign subsidiaries, in both cases other than subsidiaries that hold immaterial assets (as defined in the Credit Agreement); (2) all the equity interests held by the Company s subsidiaries in Equistar and the La Porte Methanol Company (which pledges are limited to the right to receive distributions made by Equistar and the La Porte Methanol Company, respectively); and (3) all present and future accounts receivable, intercompany indebtedness and inventory of the Company s domestic subsidiaries, other than subsidiaries that hold immaterial assets. In connection with the announced stock-for-stock business combination with Lyondell, the Company obtained an amendment to its Credit Agreement on July 7, 2004, which will allow the consummation of the announced stock-for-stock business combination with Lyondell and modifies the definition of EBITDA to exclude certain transaction costs related to this business combination.

Millennium America also has outstanding $500 million aggregate principal amount of 7.00% Senior Notes due November 15, 2006 (the 7.00% Senior Notes) and $250 million aggregate principal amount of 7.625% Senior Debentures due November 15, 2026 (the 7.625% Senior Debentures and, together with the 7.00% Senior Notes and the 9.25% Senior Notes, the Senior Notes), that are fully and unconditionally guaranteed by Millennium Chemicals. The indenture under which the 7.00% Senior Notes and 7.625% Senior Debentures were issued contains certain covenants that limit, among other things: (i) the ability of Millennium America and its Restricted Subsidiaries (as defined) to grant liens or enter into sale/leaseback transactions; (ii) the ability of the Restricted Subsidiaries to incur additional indebtedness; and (iii) the ability of Millennium America and Millennium Chemicals to merge, consolidate or transfer substantially all of their respective assets. This indenture allows Millennium America and its Restricted

Subsidiaries, as defined, to grant security on loans of up to 15% of Consolidated Net Tangible Assets (CNTA), as defined, of Millennium America and its consolidated subsidiaries. Accordingly, based upon CNTA and secured borrowing levels at June 30, 2004, any reduction in CNTA below approximately $1 billion would decrease the Company s availability under the Revolving Loans by 15% of any such reduction. CNTA was approximately $2 billion at June 30, 2004. The 7.00% Senior Notes and the 7.625% Senior Debentures can be accelerated by the holders thereof if any other debt in excess of $20 million is in default and is accelerated.

The 9.25% Senior Notes were issued by Millennium America and are guaranteed by Millennium Chemicals. The indenture under which the 9.25% Senior Notes were issued contains certain covenants that limit, among other things, the ability of the Company and/or certain subsidiaries of the Company to: (i) incur additional debt; (ii) issue redeemable stock and preferred stock; (iii) create liens; (iv) redeem debt that is junior in right of payment to the 9.25% Senior Notes; (v) sell or otherwise dispose of assets, including capital stock of subsidiaries; (vi) enter into arrangements that restrict dividends from subsidiaries; (vii) enter into mergers or consolidations; (viii) enter into transactions with affiliates; and (ix) enter into sale/leaseback transactions. In addition, this indenture contains a covenant that would prohibit the Company from (i) paying dividends or making distributions on its common stock; (ii) repurchasing its common stock; and (iii) making other types of restricted payments, including certain types of investments, if such restricted payments would exceed a restricted payments basket. Although the Company has no intention at the present time to pay dividends or make distributions, repurchase its Common Stock, or make other restricted payments, the Company would be prohibited by this covenant from doing so at the present time. The indenture also requires the calculation of a Consolidated Coverage Ratio, defined as the ratio of the aggregate amount of EBITDA, as defined, for the four most recent fiscal quarters to Consolidated Interest Expense, as defined, for the four most recent quarters. The Company must maintain a Consolidated Coverage Ratio of 2.25 to 1.00. Currently, the Company s Consolidated Coverage Ratio is below this threshold and, therefore, the Company is subject to certain restrictions that limit the Company s ability to incur additional indebtedness, pay dividends, repurchase capital stock, make certain other restricted payments, and enter into mergers or consolidations. However, if the 9.25% Senior Notes were to receive investment grade credit ratings from both Moody s Investors Service (Moody s) and Standard & Poor s (S&P) and meet certain other requirements as specified in the indenture, certain of these covenants would no longer apply. The 9.25% Senior Notes can be accelerated by the holders thereof if any other debt in excess of $30 million is in default and is accelerated.

The consummation of the announced stock-for-stock business combination with Lyondell is expected to give each holder of the 9.25% Senior Notes the right to require the Company to purchase all or part of such holder s securities at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest to the date of purchase.

The 4.00% Convertible Senior Debentures were issued by Millennium Chemicals and are guaranteed by Millennium America. Holders may convert their debentures into shares of the Company s Common Stock at a conversion price, subject to adjustment upon certain events, of $13.63 per share, which is equivalent to a conversion rate of 73.3568 shares per $1,000 principal amount of debentures. The conversion privilege may be exercised under the following circumstances:

- prior to November 15, 2018, during any fiscal quarter commencing after December 31, 2003, if the closing price of the Company s Common Stock on at least 20 of the 30 consecutive trading days ending on the first trading day of that quarter is greater than 125% of the then current conversion price;

- on or after November 15, 2018, at any time after the closing price of the Company s Common Stock on any date is greater than 125% of the then current conversion price;

- if the debentures are called for redemption;

- upon the occurrence of specified corporate transactions, including a consolidation, merger or binding share exchange pursuant to which the Company s Common Stock would be converted into cash or property other than securities;

during the five business-day period after any period of ten consecutive trading days in which the trading price per $1,000 principal amount of debentures on each day was less than 98% of the product of the last reported sales price of the Company s Common Stock and the then current conversion rate; and

at any time when the long-term credit rating assigned to the debentures is either Caa1 or lower, in the case of Moody s, or B- or lower in the case of S&P, or either rating agency has discontinued, withdrawn or suspended its rating.

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The debentures are redeemable at the Company s option beginning November 15, 2010 at a redemption price equal to 100% of their principal amount, plus accrued interest, if any. On November 15 in each of 2010, 2013 and 2018, holders of debentures will have the right to require the Company to repurchase all or some of the debentures they own at a purchase price equal to 100% of their principal amount, plus accrued interest, if any. The Company may choose to pay the purchase price in cash or shares of the Company s Common Stock or any combination thereof. In the event of a conversion request upon a credit ratings event as described above, after June 18, 2006, the Company has the right to deliver, in lieu of shares of Common Stock, cash or a combination of cash and shares of Common Stock. Holders of the debentures will also have the right to require the Company to repurchase all or some of the debentures they own at a cash purchase price equal to 100% of their principal amount, plus accrued interest, if any, upon the occurrence of certain events constituting a Fundamental Change, as defined in the indenture. This indenture also limits the Company s ability to consolidate with or merge with or into any other person, or sell, convey, transfer or lease properties and assets substantially as an entirety to another person, except under certain circumstances. The consummation of the announced stock-for-stock business combination with Lyondell is not expected to be considered a Fundamental Change, as defined in the indenture. However, the Company does expect to execute with the trustee a supplemental indenture providing that each debenture shall be convertible into Lyondell s common stock at a conversion ratio determined in accordance with the indenture to reflect the exchange ratio in the business combination.

Although the Company does not currently pay a dividend to its common stockholders, Lyondell does currently pay a dividend. If the Company executes a supplemental indenture with the trustee, as described above, and Lyondell continues to pay a dividend to its common stockholders, the conversion rate, as defined, will be adjusted. The conversion rate will be increased by a percentage calculated by dividing the average of the last reported sales price of Lyondell s common stock for the ten consecutive trading days prior to the business day immediately preceding the record date by this average less the amount in cash per share that Lyondell distributes to holders of its common stock. At the current market prices of Lyondell common stock, this percentage would be approximately 1.0% per quarter.

At June 30, 2004, the Company was in compliance with all covenants in the indentures governing the 9.25% Senior Notes, 7.00% Senior Notes, 7.625% Senior Debentures and 4.00% Convertible Senior Debentures.

The Company, as well as the Senior Notes and the 4.00% Convertible Senior Debentures are currently rated BB- by S&P with a stable outlook. Moody s has assigned the Company a senior implied rating of Ba3, and the Senior Notes and the 4.00% Convertible Senior Debentures a rating of B1 with a negative outlook. These ratings are non-investment grade ratings.

On March 29, 2004, S&P placed the Company s ratings on Credit Watch with negative implications reflecting the future ownership by the highly leveraged Lyondell and the strong likelihood that the ratings of the Company will be lowered modestly upon completion of the proposed transaction. On March 30, 2004, Moody s placed the Company s credit ratings under review for possible downgrade following the announcement by Lyondell and the Company that the two companies signed a definitive agreement that, if completed, will result in the combination of the Company with Lyondell in a stock-for-stock transaction. Moody s cited concerns over the potential impact that future distributions by the Company, as an operating subsidiary of Lyondell, to Lyondell will have on the Company s credit profile over the long term, primarily the potential for elevated debt levels over the next several years while Lyondell seeks to de-lever its balance sheet.

The Company s focus in 2004 is to sustain the benefits of cost reduction efforts achieved to date and manage working capital and capital spending to levels deemed reasonable given the current state of business performance. In the first quarter of 2004, the Company repatriated approximately $107 million from its Australian and European businesses to the US. This cash was used primarily to reduce outstanding borrowings under the Company s Credit Agreement and for general corporate purposes. The Company believes these efforts, along with the borrowing availability under the Credit Agreement, and considering the suspension of the payment of dividends on the Company s Common Stock announced in the third quarter of 2003, will be sufficient to fund the Company s cash requirements until 2006. At that time, the Company must repay or refinance the 7% Senior Notes and renegotiate or refinance the Credit Agreement.

Off-Balance Sheet Financing Arrangements

Millennium had no material off-balance sheet financing arrangements as described in Item 7 of its Annual Report on Form 10-K for the year ended December 31, 2003, as amended by Amendment No. 5 on Form 10-K/A filed with the Securities and Exchange Commission on February 14, 2005.

Critical Accounting Estimates

The preparation of the Company s financial statements requires management to apply accounting principles generally accepted in the United States of America to the Company s specific circumstances and make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

There have been no revisions to the critical accounting estimates as originally filed in the Company s Annual Report on Form 10-K for the year ended December 31, 2003, as amended by Amendment No. 5 on Form 10-K/A filed with the Securities and Exchange Commission on February 14, 2005.

Recent Accounting Developments

See Note 4 to the unaudited Consolidated Financial Statements included in this Amendment No. 4 for discussion of recent accounting developments.

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Item 4. ***Controls and Procedures***

The Company maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in the Company s filings under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to the Company s management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

On November 30, 2004, the Company became a wholly owned subsidiary of Lyondell. As a result of the acquisition of the Company by Lyondell, the Company s Board of Directors and executive management were replaced with a new Board of Directors and a new executive management team. Lyondell and the Company are in the process of integrating the Company s internal control over financial reporting into the Lyondell control processes. During the integration process, key Company controls that have been in place historically are being maintained, while supplementing such controls with key elements of the Lyondell control framework.

Material Weakness in Controls over Accounting for Deferred Income Taxes

As a result of tax integration activities that began in the second quarter of 2004 with respect to the acquisition of the Company by Lyondell, the Company determined at the beginning of July 2004 that it had made errors in the computation of its tax basis in Equistar, which in turn had been used to compute the Company s deferred income taxes. In response to the determination that errors had been made, the Company performed an analysis and re-computation of the Company s tax basis in Equistar. In late July 2004, the Company completed the analysis and re-computation necessary to verify and quantify the errors and prepare the August 2004 Restatement to correct the errors, which August 2004 Restatement was reflected in Amendment No. 2 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2003; Amendment No. 1 to the Company s Quarterly Report on Form 10-Q for the period ended March 31, 2004; and the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 (the Second Quarter 2004 Form 10-Q), all of which were filed with the SEC on August 9, 2004.

The August 2004 Restatement of prior periods financial statements that resulted from the analysis and re-computation discussed above decreased the Company s liability for deferred income taxes and shareholders deficit at June 30, 2004, March 31, 2004, and December 31, 2003 and 2002 by $15 million. The August 2004 Restatement similarly decreased liabilities for deferred income taxes and increased shareholders equity at December 31, 2001 and 2000 by $15 million. The August 2004 Restatement did not affect the Company s cash flow or operating income in any period.

The errors corrected in the August 2004 Restatement were the result of (1) an incorrect computation by the Company in 1998 of the Company s original tax basis in the net assets it contributed to Equistar upon the joint venture s formation in December 1997 and (2) incorrect computations by the Company for 1998 and 1999 of changes in the amount of such tax basis. The Company also discovered a de minimis error made in 2001. The Company believes that the errors were attributable to a material weakness in internal control over financial reporting relating to the computation by the Company of deferred income taxes for the Company s investment in Equistar (the First Material Weakness). The First Material Weakness consisted of (1) inadequate review and verification by the Company in 1998 of tax basis data relating to net assets contributed by the Company to Equistar in December 1997 and (2) incorrect interpretation by the Company of Equistar tax return information provided by the tax matters partner of Equistar and used by the Company to compute changes in its tax basis in Equistar for 1998 and 1999. Under Equistar s partnership agreement, Lyondell serves as the tax matters partner and, as such, prepares and files Equistar s tax returns.

In order to remediate the First Material Weakness, in the third quarter of 2004, the Company documented the procedures that were used to analyze and re-compute the Company s tax basis in Equistar during July 2004 for implementation with respect to the third quarter of 2004 and subsequent reporting periods. These procedures documented in the third quarter of 2004 included (1) the detailed review by the Company s Director-Tax and its Vice President-Tax of estimates of tax return data provided quarterly by Equistar s tax matters partner, (2) followed by discussions of the results of such review with the tax matters partner to confirm the correctness of the Company s interpretation of the estimated tax return data provided by the tax matters partner and (3) thereafter, review of the results of these procedures by the Company s Corporate Controller and Chief Financial Officer (the Company s Principal Accounting Officer).

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After the November 30, 2004 acquisition of the Company by Lyondell, the new management team reviewed the Company s deferred tax accounts in conjunction with the preparation of the financial statements of Lyondell and the Company as of December 31, 2004 utilizing the existing Lyondell internal control over financial reporting related to deferred income taxes. The Lyondell tax controls and procedures are being implemented at the Company in the fourth quarter of 2004 and the first quarter of 2005 to complete the remediation of the First Material Weakness. These Lyondell controls and procedures include (1) detailed review by the Lyondell Director Worldwide Tax Reporting of the tax and book bases associated with the Company s and Lyondell s investments in Lyondell s wholly-owned indirect subsidiary, Equistar, and the related deferred tax assets and liabilities, using both information available to Lyondell as the Equistar tax matters partner and information previously available to the Company; and (2) review and concurrence with that detailed review by Lyondell s Vice President Tax, Lyondell s Senior Tax Counsel, and the Company s Vice President Tax, as well as the Company s Vice President and Controller (the Company s Principal Accounting Officer, who is also the Lyondell Vice President and Controller and Principal Accounting Officer) and the Lyondell Assistant Controller. These procedures were utilized by the new Company management to confirm the deferred taxes related to the Company s investment in Equistar reflected in the financial statements included in this Amendment No. 4; however, the First Material Weakness will not be considered remediated until these procedures operate for a period of time, are tested and it is concluded that such procedures are operating effectively at the reasonable assurance level.

Material Weakness in Controls over Accounting for Contingencies

Also subsequent to the November 30, 2004 acquisition date, the new Company management reexamined the Company s environmental remediation liabilities in conjunction with the preparation of the financial statements of Lyondell and the Company as of and for the year ended December 31, 2004, following procedures that are part of the Lyondell internal control over financial reporting. In late January of 2005, the Company concluded, with the concurrence of the Company s Board of Directors, that the Company s financial statements for the three-year period ending December 31, 2003 and the first three quarters of 2004 should no longer be relied upon because of errors in such financial statements. Accordingly, in February 2005, the Company restated its financial statements for those periods to recognize an increase of $52 million in its recorded liabilities for environmental remediation as of September 30, 2004 to record additional amounts for estimated future environmental remediation spending that were not recorded previously. This increase in environmental remediation liabilities results, as of September 30, 2004, in a decrease in deferred tax liabilities of $17 million, and an increase in accumulated deficit of $35 million, of which $18 million relates to years prior to 1999. The February 2005 Restatement is reflected in Amendment No. 5 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2003; Amendment No. 4 to the Company s Quarterly Report on Form 10-Q for the period ended March 31, 2004; this Amendment No. 4; and Amendment No. 1 to the Company s Quarterly Report on Form 10-Q for the period ended September 30, 2004.

The errors corrected in the February 2005 Restatement were the result of failure to increase the probable liabilities for future remediation spending related to past environmental contamination when the reasonably estimable amounts of such probable future spending increased. The Company believes that the errors were attributable to a material weakness in internal control over financial reporting relating to the recording by the Company of the probable liabilities related to contingencies, including environmental remediation obligations (the Second Material Weakness). The Second Material Weakness consisted of (1) inadequate procedures to verify the appropriateness of period-end balances of recorded liabilities reflecting the Company s best estimate of probable future spending associated with contingent liabilities and (2) ineffective communication among the corporate functions with knowledge and accountability relating to environmental remediation, legal contingencies, accounting, and disclosure.

In order to remediate the Second Material Weakness, the Company documented, in the first quarter of 2005, the procedures that were used to reevaluate the Company s environmental remediation liabilities, which include application of Lyondell control processes to the Company. The Company utilized these documented procedures in preparing the financial statements contained in this Amendment No. 4. These Lyondell controls and procedures include:

relating to liability for environmental remediation:

1. detailed review by the Lyondell General Manager HS&E, the Lyondell Senior Corporate Counsel Environmental, the Lyondell Manager Environmental Affairs and the Lyondell Manager

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Environmental Issues of the current status of previously existing, new and potential remediation projects, including spending estimates,

2. detailed review and discussion of each project and related estimates with the above parties and the Company s Vice President and Controller (who is also the Lyondell Vice President and Controller), the Lyondell Senior Manager of Accounting Policy, and the Lyondell Assistant Controller, and

3. detailed assessment of the appropriate accounting for those estimates by the Company s Vice President and Controller, the Lyondell Senior Manager of Accounting Policy, and the Lyondell Assistant Controller; and

relating to legal contingencies:

1. detailed review and assessment of all existing and known potential litigation by the Lyondell Associate General Counsel-Litigation, the Lyondell Corporate and Securities Counsel, and the Lyondell Litigation department,

2. detailed review and discussion of those matters that may have accounting or financial disclosure impacts by the Lyondell Associate General Counsel-Litigation, the Lyondell Corporate and Securities Counsel and the Lyondell Assistant Controller, and

3. detailed assessment of the appropriate accounting and financial disclosure for legal contingencies by the Company s Vice President and Controller, the Lyondell Senior Manager of Accounting Policy and the Lyondell Assistant Controller.

The Company intends to continue to use these procedures in preparing its financial statements for subsequent reporting periods; however, the Second Material Weakness will not be considered remediated until these procedures operate for a period of time, are tested and it is concluded that such procedures are operating effectively at the reasonable assurance level. In addition, as a result of the acquisition of the Company by Lyondell and the resultant change in the executive management team, additional procedures were followed during the fourth quarter of 2004 and the first quarter of 2005 to confirm the financial statements included in this Amendment No. 4, including inquiry of previous management, discussion with outside counsel and discussion with outside consulting engineers.

Evaluation of Disclosure Controls and Procedures

Before filing the Second Quarter 2004 Form 10-Q, the Company completed an evaluation under the supervision and with the participation of the Company s then-existing management team, including the Company s principal executive officer and principal financial officer at that time (Former Management), of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of June 30, 2004. Based on this evaluation, the Former Management of the Company concluded that, solely as a result of the First Material Weakness referred to above, the Company s disclosure controls and procedures were not effective at the reasonable assurance level as of June 30, 2004. In addition, in connection with this Amendment No. 4, the Company completed an evaluation under the supervision and with the participation of the Company s current management team, including the Company s current principal executive officer and current principal financial officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of June 30, 2004, after taking into consideration the prior evaluation. Based on the evaluation, the current principal executive officer and current principal financial officer of the Company concluded that the Company s disclosure controls and procedures also were not effective at the reasonable assurance level as of June 30, 2004 due to the Second Material Weakness described above. However, as a result of the new management team s most recent reevaluation of liabilities for contingencies, as well as its detailed review of deferred tax liabilities, both discussed above, and its utilization of the documented procedures in preparing the financial statements contained in this Amendment No. 4 as described above, management believes that the financial statements included in this Amendment No. 4 present fairly, in all material respects, the Company s financial position, results of operations and cash flows for the periods presented.

There were no changes in the Company s internal control over financial reporting that occurred during the most recent fiscal quarter covered by this Amendment No. 4 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting. However, as discussed above, after the November 30, 2004 acquisition by Lyondell, the new management team reviewed the deferred tax computations and

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analysis and the computation and analysis of liabilities for contingencies, including liabilities for environmental remediation, for the fourth quarter 2004 and for the year ended December 31, 2004 utilizing existing Lyondell controls and procedures. These Lyondell controls and procedures continue to be implemented at the Company in the first quarter of 2005 to complete the remediation of the First Material Weakness and the Second Material Weakness.

As a result of Section 404 of the Sarbanes-Oxley Act of 2002 and the rules issued thereunder (the Section 404 Requirements), the Company will be required to include in its Annual Report on Form 10-K for the year ending December 31, 2005 a report on management s assessment of the effectiveness of the Company s internal control over financial reporting. As part of the process of preparing for compliance with the Section 404 Requirements, the Company initiated in 2003 a review of its internal control over financial reporting. This review now is being conducted under the direction of the Company s new management team. As a result, the new management team has made improvements, as described above, to the Company s internal control through the date of the filing of this Amendment No. 4 as part of this review. The Company anticipates that improvements will continue to be made as part of the ongoing review.

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PART II. OTHER INFORMATION

Item 6. ***Exhibits and Reports on Form 8-K***

(a) Exhibits

10.1	Fifth Amendment dated as of July 7, 2004 to the Credit Agreement dated as of June 18, 2001 among Millennium America Inc., as Borrower, Millennium Inorganic Chemicals Limited, as Borrower, certain borrowing subsidiaries of Millennium Chemicals Inc. from time to time party thereto, Millennium Chemicals Inc., as Guarantor, the lenders from time to time party thereto, Bank of America, N.A., as Syndication Agent and JP Morgan Chase Bank, as Administrative Agent and as Collateral Agent.**
31.1	Certificate of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certificate of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certificate of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Furnished, not filed, in accordance with Item 601(b)(32)(ii) of Regulation S-K, 17 CFR 229.601(b)(32)(ii)).*
32.2	Certificate of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Furnished, not filed, in accordance with Item 601(b)(32)(ii) of Regulation S-K, 17 CFR 229.601(b)(32)(ii)).*

* Filed or furnished herewith.

** Incorporated by reference to Exhibit 10.1 to Amendment No. 1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 and filed on August 11, 2004.

(b) Reports on Form 8-K.

Current Reports on Form 8-K dated May 17, 2004, May 18, 2004, July 29, 2004 and August 9, 2004 were filed or furnished during the quarter ended June 30, 2004 and through August 9, 2004, the date the original Quarterly Report on Form 10-Q was filed with the Securities and Exchange Commission. Such Current Reports either filed or furnished information to the Securities and Exchange Commission.

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SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	MILLENNIUM CHEMICALS INC.	
Date: February 14, 2005	By:	/s/ CHARLES L. HALL **Charles L. Hall** Vice President and Controller (Duly Authorized Officer and Principal Accounting Officer)

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Exhibit Index

Exhibit Number	Description of Document
31.1	Certificate of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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32.1	Certificate of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Furnished, not filed, in accordance with Item 601(b)(32)(ii) of Regulation S-K, 17 CFR 229.601(b)(32)(ii)).
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