

MILLENNIUM CHEMICALS INC

Form 10-K

March 31, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

- Annual Report Pursuant to Section 13 or 15(D) of the Securities Exchange Act of 1934 for the Fiscal Year Ended December 31, 2007
- Transition Report Pursuant to Section 13 or 15(D) of the Securities Exchange Act of 1934

Commission File No. 1-12091

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

Delaware
(State or other jurisdiction of
incorporation or organization)

22-3436215
(I.R.S. Employer Identification
No.)

Two Greenville Crossing, 4001
Kennett Pike
Suite 238, Greenville, Delaware
(Address of principal executive
offices)

19807
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90

days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

There is no established public trading market for the Registrant's equity securities. As of June 30, 2007, the last business day of the Registrant's most recently completed second fiscal quarter, all of the Registrant's equity securities were held by affiliates.

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

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PART I

Item 1. Business

MILLENNIUM

Overview of the Business

Millennium Chemicals Inc. (together with its consolidated subsidiaries, “Millennium”) is a manufacturer and marketer of chemicals, with 2007 revenues of \$642 million and assets of approximately \$959 million as of December 31, 2007. On November 30, 2004, Lyondell Chemical Company (“Lyondell”) acquired Millennium in a stock-for-stock business combination. On December 20, 2007, an indirect wholly owned subsidiary of LyondellBasell Industries AF S.C.A. (“LyondellBasell Industries,” formerly known as Basell AF S.C.A.) merged with and into Lyondell, and Lyondell and Millennium both are now indirect wholly owned subsidiaries of LyondellBasell Industries.

Millennium operates in one reportable business segment: chemicals. Millennium’s chemicals business segment produces and markets: acetyls, which include vinyl acetate monomer (“VAM”), acetic acid and methanol; and fragrance and flavors chemicals.

Millennium also owns an equity interest in Equistar Chemicals, LP (together with its consolidated subsidiaries, “Equistar”), the balance of which is owned by Lyondell through other subsidiaries. Millennium accounts for its interest in Equistar using the equity method. In connection with LyondellBasell Industries’ December 20, 2007 acquisition of Lyondell, subsidiaries of Lyondell owning the portion of Equistar not held through subsidiaries of Millennium made non-pro rata capital contributions to Equistar and, as a result, Millennium’s indirect percentage ownership interest in Equistar was reduced from approximately 29.5% to approximately 21%. Equistar operates in two reportable business segments:

- Equistar’s chemicals business segment produces and markets ethylene, its co-products and derivatives. Ethylene co-products include propylene, butadiene and aromatics, which include benzene and toluene. Derivatives of ethylene in this segment include ethylene oxide (“EO”), ethylene glycol (“EG”) and other EO derivatives, as well as ethanol. Equistar’s chemicals business segment also produces gasoline blending components such as methyl tertiary butyl ether (“MTBE”) and alkylate.
- Equistar’s polymers business segment produces and markets polyethylene (high density polyethylene (“HDPE”), low density polyethylene (“LDPE”) and linear low density polyethylene (“LLDPE”)) and polypropylene.

On May 15, 2007, Millennium sold its worldwide inorganic chemicals business to The National Titanium Dioxide Company Ltd (Cristal) in a transaction valued at approximately \$1.3 billion, including the acquisition of working capital and the assumption of specified liabilities directly related to the business. For a description of the sale, see Note 4 to the Consolidated Financial Statements.

Prior to Lyondell’s December 20, 2007 acquisition by LyondellBasell Industries, Millennium operated in the following two business segments: ethylene, co-products and derivatives; and fragrance and flavors chemicals. For additional segment information and for geographic information for each of the years in the three-year period ended December 31, 2007, see Note 21 to the Consolidated Financial Statements.

Additional Information Available

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Millennium was incorporated under the laws of Delaware in 1996. Its principal executive offices are located at Two Greenville Crossing, 4001 Kennett Pike, Suite 238, Greenville, Delaware. Its telephone number is (713) 652-7200 and its website address is www.lyondellbasell.com. Millennium's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports are available free of charge through www.lyondellbasell.com as soon as reasonably practicable after those reports are electronically filed with or furnished to the Securities and Exchange Commission.

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In addition, Millennium has adopted a “code of ethics,” as defined in Item 406(b) of Regulation S-K. Millennium’s code of ethics, known as its Business Ethics and Conduct Policy, is part of the overall Lyondell Business Ethics and Conduct Policy. It applies to all officers and employees of Millennium, including Millennium’s principal executive officer, principal financial officer, principal accounting officer and controller. A copy of the Business Ethics and Conduct Policy is available at www.lyondellbasell.com free of charge. In addition, Millennium intends to satisfy the disclosure requirements of Item 5.05 of Form 8-K regarding any amendment to, or waiver from, a provision of the Business Ethics and Conduct Policy that applies to Millennium’s principal executive officer, principal financial officer, principal accounting officer or controller and relates to any element of the definition of code of ethics set forth in Item 406(b) of Regulation S-K by posting such information at www.lyondellbasell.com.

Information contained on Millennium’s website (www.lyondellbasell.com) or any other website is not incorporated into this Annual Report and does not constitute a part of this Annual Report.

MILLENNIUM BUSINESSES

Overview

Millennium’s chemicals businesses produce and market: acetyls, including VAM, acetic acid and methanol, which is a raw material for acetic acid; and fragrance and flavors chemicals.

Millennium produces VAM and acetic acid at facilities in La Porte, Texas. Millennium also owns an 85% interest in La Porte Methanol Company, which produces methanol at a plant in La Porte, Texas. The remaining 15% interest is owned by Linde AG (“Linde”).

Millennium also produces fragrance and flavors chemicals. The Brunswick, Georgia and Jacksonville, Florida facilities manufacture terpene-based fragrance ingredients and flavor ingredients, primarily for the oral care markets. Millennium also supplies products for use in a number of other applications, including chemical reaction agents, or initiators, for the rubber industry and solvents and cleaners, such as pine oil, for the hard surface cleaner markets.

The following table outlines:

- the primary products of Millennium’s chemicals segment;
- annual processing capacity as of December 31, 2007; and
 - the primary uses for those products.

See “Item 2. Properties” for the locations where Millennium produces the primary products of its chemicals segment.

Unless otherwise specified, annual processing capacity was calculated by estimating the average number of days in a typical year that a production unit of a plant is expected to operate, after allowing for downtime for regular maintenance, and multiplying that number by an amount equal to the unit’s optimal daily output based on the design raw material mix. Because the processing capacity of a production unit is an estimated amount, actual production volumes may be more or less than the capacities set forth below. Capacities shown include 100% of the capacity of joint venture facilities.

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Product	Annual Capacity	Primary Uses
Vinyl Acetate Monomer (VAM)	820 million pounds	VAM is a petrochemical product used to produce a variety of polymers products used in adhesives, water-based paint, textile coatings and paper coatings.
Acetic Acid	1.2 billion pounds	Acetic acid is a raw material used to produce VAM, terephthalic acid (used to produce polyester for textiles and plastic bottles), industrial solvents and a variety of other chemicals.
Methanol	190 million gallons (a)	Methanol is a raw material used to produce acetic acid, MTBE, formaldehyde and several other products.
Fragrance and Flavors Chemicals	(b)	Fragrance and flavors chemicals include terpene-based fragrance ingredients and flavor ingredients, primarily for the oral care markets, and also include products used in applications such as chemical reaction agents, or initiators, for the rubber industry and solvents and cleaners, such as pine oil, for the hard surface cleaner markets.

(a) Represents 100% of the methanol capacity at the La Porte, Texas facility, which is owned by La Porte Methanol Company, a partnership owned 85% by Millennium and 15% by Linde.

(b) With respect to fragrance and flavors chemicals, Millennium frequently works closely with customers in developing products to satisfy the specific requirements of those customers, and capacity varies accordingly.

Marketing and Sales

Sales of VAM accounted for approximately 45% of Millennium's total revenues in 2007, 48% in 2006 and 51% in 2005. Sales of acetyls collectively accounted for approximately 81% of Millennium's total revenues in 2007 and 2006 and 83% in 2005. Sales of fragrance and flavors chemicals collectively accounted for approximately 18% of Millennium's revenues in 2007, 19% in 2006 and 16% in 2005.

VAM is sold into domestic and export markets generally under multi-year contracts, and also on a spot basis. Acetic acid that is not consumed internally for the production of VAM is sold into domestic and export markets generally under multi-year contracts, and also on a spot basis. Contract pricing for sales of VAM and acetic acid generally is determined by market-based negotiation, market index or cost-based formulas. Millennium also sells VAM to Equistar and acetic acid to both Lyondell and Equistar at market-based pricing. VAM and acetic acid are shipped by barge, ocean-going vessel, pipeline, tank car and tank truck. Millennium has bulk storage arrangements in Europe and South America to better serve its customers' requirements in those regions. Sales are made through a direct sales force, agents and distributors.

The La Porte, Texas methanol facility is owned by La Porte Methanol Company, Millennium's 85%-owned joint venture with Linde. Each party to the joint venture receives its respective share of the methanol

production. Millennium uses the methanol as a raw material for acetic acid and also sells the methanol under annual contracts and on a spot basis to large domestic customers. The product is shipped by barge and pipeline.

Fragrance ingredients are used primarily in the production of perfumes. The major consumers of perfumes worldwide are soap and detergent manufacturers. Millennium sells directly worldwide to major soap, detergent and fabric conditioner producers. It also sells a significant quantity of product to the major fragrance compounders and to producers of cosmetics and toiletries. Millennium's supply agreements with customers are typically short-term in duration (up to one year). Approximately 60% of Millennium's 2007 fragrance and flavors chemicals sales were made outside the United States. Sales are made primarily by Millennium directly, while agents and distributors are used in areas where volume does not justify full-time sales coverage.

No single customer of Millennium's chemicals segment accounted for 10% or more of Millennium's total revenues in 2007.

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Raw Materials

The primary raw materials for the production of VAM are acetic acid and ethylene. For VAM produced by Millennium, Millennium obtains its entire requirements for acetic acid from its internal production and buys all of its ethylene requirements from Equistar under a long-term supply contract based on market prices. In 2007, Millennium used a large percentage of its acetic acid production to produce VAM.

The primary raw materials required for the production of acetic acid are carbon monoxide and methanol. Millennium purchases its carbon monoxide from Linde pursuant to a long-term contract under which pricing is based primarily on cost of production. La Porte Methanol Company, Millennium's 85%-owned joint venture, supplies all of Millennium's requirements for methanol production. Natural gas is the primary raw material required for the production of methanol.

Millennium's Jacksonville site has facilities for the fractionation of crude sulfate turpentine ("CST"), the key raw material used by Millennium for the production of fragrance ingredients. Through fractionation, the components of CST are separated into relatively pure individual materials, which are then used to ultimately produce a number of fragrance and flavors chemicals, including synthetic pine oil, anethole, l-carvone and coolants. The Brunswick site produces linalool, geraniol and dihydromyrcenol from the alpha-pinene component of CST. Millennium believes it is the largest purchaser and distiller of CST in the world, based on the amount of CST processed. CST is a by-product of the kraft papermaking process. Millennium purchases CST from approximately 35 pulp mills in North America. These purchases are made under long-term contracts in order to ensure a stable supply of CST. Additionally, Millennium purchases quantities of CST, gum turpentine or derivatives from Indonesia, China, Europe and South America, as business conditions dictate.

Competition and Industry Conditions

The bases for competition in Millennium's acetyls businesses are price, product performance, product quality, product delivery, reliability of supply and customer service. Millennium competes globally with other large marketers and producers for sales of acetyls, including BP p.l.c., Celanese Corporation ("Celanese"), The Dow Chemical Company ("Dow"), Eastman Chemical Company, Methanex Corporation and Methanol Holdings Trinidad Limited. Millennium is the second largest producer of VAM and acetic acid in North America and the fourth largest producer of VAM and acetic acid worldwide, based on 2007 published rated production capacity.

Millennium competes in the fragrance and flavors chemicals businesses primarily on the basis of price, quality, service and on its ability to produce its products to the technical and quality specifications of its customers. Millennium works closely with many of its customers in developing products to satisfy the specific requirements of those customers. Since Millennium's supply agreements with customers are typically short-term in duration (up to one year), Millennium's fragrance and flavors chemicals businesses are substantially dependent on long-term customer relationships based upon quality, innovation and customer service. From time to time, a customer may change the formulations of an end-product into which one of Millennium's fragrance ingredients is used, which may affect demand for that ingredient. The major competitors with respect to fragrance and flavors chemicals are BASF SE, Derives Resiniques Et Terpeniques (DRT), DSM, Kuraray Co. LTD and International Flavors & Fragrances Inc.

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EQUISTAR BUSINESSES

Millennium owns an approximately 21% interest in Equistar, a joint venture with Lyondell. Millennium accounts for its interest in Equistar using the equity method. The following is a description of Equistar's two reportable business segments: chemicals; and polymers.

Chemicals Segment

Overview

Equistar's chemicals business segment produces ethylene, co-products and derivatives at ten facilities located in four states in the U.S. Ethylene co-products include propylene, butadiene and aromatics, which include benzene and toluene. Ethylene derivatives include EO, EG and other EO derivatives, as well as ethanol. Equistar also produces gasoline blending components, such as MTBE and alkylate.

Ethylene is the most significant petrochemical in terms of worldwide production volume and is the key building block for polyethylene and a large number of other chemicals, plastics and synthetics. Ethylene and its co-products and derivatives are fundamental to many segments of the economy, including the production of consumer products, packaging, housing and automotive components and other durable and nondurable goods.

The following table outlines:

- the primary products of Equistar's chemicals segment;
- annual processing capacity as of December 31, 2007; and
- the primary uses for those products.

See "Item 2. Properties" for the locations where Equistar produces the primary products of its chemicals segment.

Unless otherwise specified, annual processing capacity was calculated by estimating the average number of days in a typical year that a production unit of a plant is expected to operate, after allowing for downtime for regular maintenance, and multiplying that number by an amount equal to the unit's optimal daily output based on the design raw material mix. Because the processing capacity of a production unit is an estimated amount, actual production volumes may be more or less than the capacities set forth below. Capacities shown include 100% of the capacity of joint venture facilities.

Products	Annual Capacity	Primary Uses
Ethylene	10.8 billion pounds (a)	Ethylene is used as a raw material to manufacture polyethylene, EO, ethanol, ethylene dichloride, styrene and vinyl acetate monomer.
Ethylene Co-Products:		
Propylene	4.8 billion pounds (a)(b)	Propylene is used to produce polypropylene, acrylonitrile and propylene oxide.