MILLENNIUM CHEMICALS INC
Form 10-K/A
August 09, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 2)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

OR

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

FOR THE TRANSITION PERIOD FROM ______________ TO ______________

COMMISSION FILE NUMBER: 1-12091

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

Delaware (State or other jurisdiction of incorporation or organization)	22-3436215 (I.R.S. Employer Identification No.)
20 Wight Avenue, Suite 100 Hunt Valley, MD (Address of principal executive offices)	21030 (Zip Code)

Registrant's telephone number, including area code: 410-229-4400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

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 75 days. Yes [X] 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 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. [X]

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

The aggregate market value of voting stock held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter (based upon the closing price of $9.51 per common share as quoted on the New York Stock Exchange), was approximately $593 million. For purposes of this computation, the shares of voting stock held by directors, officers and employee benefit plans of the registrant and its wholly-owned subsidiaries were deemed to be stock held by affiliates. The number of shares of common stock outstanding at March 5, 2004, was 64,605,553 shares, excluding 13,291,033 shares held by the registrant, its subsidiaries and certain Company trusts that are not entitled to vote.

Documents Incorporated by Reference

None.

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EXPLANATORY NOTE

Millennium Chemicals Inc. (the "Company") is filing this Amendment No. 2 to its Annual Report on Form 10-K/A for the year ended December 31, 2003 ("Amendment No. 2") to reflect the restatement of its financial statements for the years ended December 31, 2001 through 2003. Included herein are restated consolidated balance sheets as of December 31, 2003 and 2002, restated consolidated statements of changes in Shareholders' equity (deficit) for the three years ended December 31, 2003 and restated selected financial data for the five years ended December 31, 2003. The restatement corrects 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. This restatement decreased the Company's liability for deferred income taxes and Shareholders' deficit at December 31, 2003 and 2002 by $15 million. This restatement similarly decreased liabilities for deferred income taxes and increased Shareholders' equity at December 31, 2001 and 2000 by $15 million. The restatement did not affect the Company's cash flow or operating income in any year.

The restatement was initially reported by the Company on July 29, 2004, in a press release, a copy of which was appended as an exhibit to a Current Report on Form 8-K of the same date.

A discussion of the restatement is set forth in Note 19 to the Consolidated Financial Statements included in this Amendment No. 2. Changes also have been made to the following items in this Amendment No. 2 as a result of the restatement:

- Item 6, Selected Financial Data, has been revised to reflect this restatement;

- Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations has been revised to reflect the restatement. (The only revisions to this item are: (1) The addition of two paragraphs to the end of "Introduction - Restatement of Financial Statements" to describe this restatement; (2) the reduction of the amount of the deferred income taxes reported in the first line of the footnote for the table in "Liquidity and Capital Resources - Contractual Obligations" from $287 million to $272 million; and (3) cross-references to the original Form 10-K for the year ended December 31, 2003 and Amendment No. 1 thereto.);

- Item 8, Financial Statements and Supplementary Data has been revised to reflect the restatement; and

- Item 9A, Controls and Procedures has been updated to reflect the evaluation made in connection with this Amendment No. 2.

This Amendment No. 2 does not reflect events that have occurred after March 12, 2004, the date the Annual Report on Form 10-K was originally filed. Information with respect to those events has been or will be set forth, as appropriate, in the Company's Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Any reference to facts and circumstances at a "current" date refer to such facts and circumstances as of such original filing date.

The Company is also filing with the Securities and Exchange Commission an amendment to its Quarterly Report on Form 10-Q/A for the three months ended March 31, 2004 to reflect changes required as a result of the restatement.

In this Amendment No. 2, the terms "our", "we", and "the Company" refer to Millennium Chemicals Inc. and its consolidated subsidiaries, except as the context otherwise requires.

Disclosure Concerning Forward-Looking Statements

The statements in this Amendment No. 2 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" or "plans," or the 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 March 12, 2004, the date the Company's Annual Report on Form 10-K for the year ended December 31, 2003 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 the "Recent Development" section of Part 1, Item 1, Business in Amendment No. 1 to the Annual Report on Form 10-K/A for the year ended December 31, 2003, filed with the Securities and Exchange Commission on April 27, 2004.

- the cyclicality and volatility of the chemical industries in which the Company and Equistar Chemicals, LP ("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.

A further description of these risks, uncertainties and other matters can be found in Exhibit 99.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, as initially filed with the Securities and Exchange Commission on March 12, 2004.

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 Amendment No. 2. Readers are cautioned not to place undue reliance on forward-looking or Cautionary Statements, which reflect present expectations as at March 12, 2004, the date the Company's Annual Report on Form 10-K for the year ended December 31, 2003 was originally filed with the Securities and Exchange Commission.

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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 Amendment No. 2. 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 to the Securities and Exchange Commission.

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 identified above 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 used by 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. Adjusted data are not reported without an explanation of the items that are excluded.

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PART II

Item 6.Selected Financial Data

The selected financial data presented below for each of the five years ended December 31, 2003 have been restated to correct errors in the Company's computation of deferred income taxes relating to its investment in Equistar. The effect of this restatement on the Company's selected financial data is presented in the table that follows the selected financial data in this Item 6 and is more fully described in Note 19 to the Consolidated Financial Statements included in this Amendment No. 2.

The selected financial data included below were derived from the Consolidated Financial Statements of the Company, and should be read in conjunction with such financial statements, including the Notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included in Part II, Items 8 and 7, respectively, of this Amendment No. 2.

Selected Financial Data

	Year Ended Dec	
	2003	2002
	(Restated)*	(Restate
	(Millions, ex share da	
Income Statement Data		
Net sales	$1,687	$1,554
Operating (loss) income	(51)(1)	80
(Loss) earnings on Equistar investment	(100)(2)	(73)
(Loss) income from continuing operations before cumulative effect of accounting change	(183)(3)	(28)

Cumulative effect of accounting change	(1)(4)	(305)
Net (loss) income from continuing operations	(184)(3)	(333)
Basic (loss) earnings per share from continuing operations before cumulative effect of accounting change	(2.86)(3)	(0.44)
Basic (loss) earnings per share from continuing operations	(2.88)(3)	(5.24)
Dividends declared per share	0.27	0.54
Balance Sheet Data (at period end)		
Total assets	$2,398	$2,396
Total liabilities	2,429	2,397
Minority interest	27	19
Shareholders' (deficit) equity	(58)	(20)
Other Data (with respect to continuing operations)		
Depreciation and amortization	$ 113	$ 102
Capital expenditures	48	71

	Year Ended December 3	
	2000	1999
	(Restated)*	(Restate
	(Millions, except pe share data)	
Income Statement Data		
Net sales	$1,793	$1,589
Operating (loss) income	201(11)	139(1
(Loss) earnings on Equistar investment	45(9)	(7)(
(Loss) income from continuing operations before cumulative effect of accounting change	111(12)	(545)(
Cumulative effect of accounting change	--	--
Net (loss) income from continuing operations	111(12)	(545)(
Basic (loss) earnings per share from continuing operations before cumulative effect of accounting change	1.73(12)	(7.88)(
Basic (loss) earnings per share from continuing operations	1.73(12)	(7.88)(
Dividends declared per share	0.54	0.54
Balance Sheet Data (at period end)		
Total assets	$3,259	$3,286
Total liabilities	2,616	2,606
Minority interest	22	16
Shareholders' (deficit) equity	621	664
Other Data (with respect to continuing operations)		
Depreciation and amortization	$ 113	$ 105
Capital expenditures	110	109

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* The Company restated its financial statements as disclosed in Note 19 to the Consolidated Financial Statements included in this Amendment No. 2. The table that follows in this Item 6 presents a summary of the effect of the restatement.

(1) Includes $103 million of asset impairment charges associated primarily with the writedown of property, plant and equipment at the Company's Le Havre, France TiO_2 manufacturing plant and $18 million of reorganization and office closure costs associated with the Company's cost reduction program.

(2) Includes the Company's share of Equistar's financing costs of $11 million, loss on sale of assets of $4 million and severance costs of $2 million.

(3) Includes after-tax asset impairment charges of $101 million or $1.58 per share associated primarily with the writedown of property, plant and equipment at the Company's Le Havre, France TiO_2 manufacturing plant; a tax charge of $22 million or $0.34 per share to provide a full valuation allowance for newly generated deferred tax assets of the Company's French subsidiaries, unrelated to the impairment charges reported in 2003; a net tax benefit of $18 million or $0.28 per share unrelated to transactions in 2003; after-tax reorganization and office closure charges of $12 million or $0.19 per share; and an after-tax benefit of $2 million or $0.03 per share from the collection of a note receivable previously written off. In addition, this amount includes the Company's after-tax share of Equistar's financing costs of $7 million or $0.11 per share, loss on sale of Equistar's assets of $3 million or $0.04 per share and Equistar's severance costs of $1 million or $0.02 per share.

(4) Reflects the cumulative effect of a change in accounting for asset retirement obligations in accordance with Statement of Financial Accounting Standards ("SFAS") No. 143. See "Cumulative Effect of Accounting Changes" in Item 7 included in this Amendment No. 2.

(5) Includes a benefit of $6 million from a reduction of reserves due to favorable resolution of environmental claims related to predecessor businesses reserved for in prior years.

(6) Includes an after-tax benefit of $4 million or $0.06 per share from a reduction of reserves due to favorable resolution of environmental claims related to predecessor businesses reserved for in prior years, a tax benefit of $22 million or $0.35 per share primarily related to a federal tax refund claim, and a tax charge of $10 million or $0.16 per share to establish a valuation allowance against deferred tax assets for the Company's French subsidiaries.

(7) Reflects the cumulative effect of a change in accounting for goodwill of the Company and Equistar in accordance with SFAS No. 142. See "Cumulative Effect of Accounting Changes" in Item 7 included in this Amendment No. 2.

(8) Includes $36 million in reorganization and plant closure charges, $15 million to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses and $13 million of the Company's goodwill amortization.

(9) Includes $10 million of Equistar's goodwill amortization.

(10) Includes $24 million after-tax or $0.38 per share in reorganization and plant closure charges, an additional $4 million or $0.07 per share representing the Company's after-tax share of costs related to the shutdown of Equistar's Port Arthur, Texas plant, $9 million after-tax or $0.14 per share to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses, $13 million or $0.20 per share of the Company's goodwill amortization, $10 million or $0.16 per share of Equistar's goodwill amortization and a tax benefit of $42 million or $0.66 per share from

a reduction in the Company's income tax accruals due to favorable developments related to matters reserved for in prior years.

(11) Includes $6 million to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses and $13 million of the Company's goodwill amortization.

(12) Includes $4 million after-tax or $0.06 per share to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses, $13 million or $0.20 per share of the Company's goodwill amortization and $10 million or $0.16 per share of Equistar's goodwill amortization.

(13) Includes $5 million to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses and $12 million of the Company's goodwill amortization.

(14) Includes a charge for loss in value of the Equistar interest of $639 million to reduce the carrying value of the Equistar interest to estimated fair value, $3 million after-tax or $0.04 per share to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses, and $12 million or $0.17 per share of the Company's goodwill amortization and $10 million or $0.14 per share of Equistar's goodwill amortization.

The table that follows presents a summary of the effect of the restatement described above on the Company's selected financial data for the years ended December 31, 2003, 2002, 2001, 2000, and 1999. See Note 19 to the Consolidated Financial Statements included in this Amendment No. 2 for a complete description of the restatement.

	Year Ended December 31,				
	2003 (1)		2002 (1)		20
	As Reported	As Restated	As Reported	As Restated	As Reported
			(Millions)		
Balance sheet data (at period end)					
Total liabilities....................	$ 2,444	$2,429	$2,412	$2,397	$2,454
Shareholders' (deficit) equity........	(73)	(58)	(35)	(20)	490

Year Ended December 31,			
2000 (1)		1999 (1)(2)	
As Reported	As Restated	As Reported	As Restated

	(Millions)			
Balance sheet data (at period end)				
Total liabilities....................	$2,631	$2,616	$2,621	$2,606
Shareholders' (deficit) equity........	606	621	649	664

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(1) The restatement for deferred taxes related to the Company's investment in Equistar (see Note 19 to the Consolidated Financial Statements included in this Amendment No. 2) had no impact on Income Statement Data for the years 2000 through 2003. This restatement decreased income tax expense and net loss from continuing operations by $4 million in 1999 (See Income Statement Data below) and decreased Total liabilities and increased Shareholders' equity at December 31, 1998 by $11 million.

(2) A summary of the effect of the restatement adjustment on Income Statement Data for the year ended December 31, 1999 follows:

	Year En
	(Millions
	A Repo
Income Statement Data	
Loss from continuing operations before cumulative effect of accounting change.......	$(5
Net loss from continuing operations...	(5
Basic loss per share from continuing operations before cumulative effect of accounting change...	(7.
Basic loss per share from continuing operations.................................	(7.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

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 costs not allocated to its three business segments, employee-related costs from predecessor businesses and certain other expenses, including costs associated with the Company's cost reduction program announced in July 2003 and the Company's reorganization activities in 2001 (see Note 3 to the Consolidated Financial Statements included in this Amendment No. 2), 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 Notes 1 and 4 to the Consolidated Financial Statements included in this Amendment No. 2.) 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. In connection with the forward-looking statements that appear in the following information, please carefully review the Cautionary Statements in "Disclosure Concerning Forward-Looking Statements" included in this Amendment No. 2.

Restatement of Financial Statements

The Company restated its financial statements for the years 1998 through 2002 and for the first quarter of 2003 to correct errors in its accounting for deferred taxes relating to its Equistar investment, the calculation of its pension benefit obligations, its accounting for a multi-year precious metals agreement, and the timing of its recognition of income and expense associated with previously established reserves for legal, environmental and other contingencies for certain of the Company's predecessor businesses.

In addition, during the course of the Company's review of its deferred tax assets related to its investment in Equistar, the Company reexamined the deferred tax asset associated with its French subsidiaries and concluded that, due to the unlikelihood of realizing the value of that asset, it should be eliminated as of December 31, 2002. Finally, as a consequence of the Company's review of its accounting with respect to its investment in Equistar, the Company elected to further amend its Consolidated Statements of Operations for the years 1998 through 2002 to reclassify to Selling, development and administrative expense various costs allocated to its investment in Equistar and previously included in (Loss) earnings on Equistar investment in those Consolidated Statements of Operations.

On November 12, 2003, the Company filed with the Securities and Exchange Commission Amendment No. 1 to its Annual Report on Form 10-K for the year ended December 31, 2002, and on November 14, 2003, the Company filed Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003, to reflect changes therein required as a consequence of the restatements and the reclassification described above. A detailed discussion of the restatements of the Company's financial statements, including a summary of the aggregate effect of the changes implemented by the restatements, as well as the reclassification of costs associated with the Company's investment in Equistar, can be found in Note 2 to the Consolidated Financial Statements included in Amendment No. 1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, and Note 2 to the Consolidated Financial Statements included in Amendment No. 1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003.

In addition to the restatements and the reclassification described above, the Company restated its financial statements for the years 2001 through 2003 to correct errors in the computation of deferred income taxes relating to its Equistar investment. The prior restatement overstated the Company's liability for deferred income taxes relating to its Equistar investment. This restatement decreased the Company's liability for deferred income taxes and

Shareholders' deficit at December 31, 2003 and 2002 by $15 million. This restatement similarly decreased liabilities for deferred income taxes and increased Shareholders' equity at December 31, 2001 and 2000 by $15 million. The restatement did not affect the Company's cash flow or operating income in any year. See Note 19 to the Consolidated Financial Statements for additional information.

On August 9, 2004, the Company filed with the Securities and Exchange Commission this Amendment No. 2 to its Annual Report on Form 10-K/A for the year ended December 31, 2003 and also filed Amendment No. 1 to its Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2004 to reflect changes required therein as a consequence of such restatement. A detailed discussion of such restatement, including a summary of the effect of the changes implemented by such restatement, can be found in Note 19 to the Consolidated Financial Statements included in this Amendment No. 2 and in Note 17 to the Consolidated Financial Statements (Unaudited) included in Amendment No. 1 to the Company's Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2004.

Major Factors Affecting 2003 Results

- The Company's results in 2003 include non-cash, pre-tax asset impairment charges of $103 million ($101 million after tax or $1.58 per share) associated primarily with the writedown of property, plant and equipment at its Le Havre, France TiO[u]2 manufacturing plant.

- During 2003, the Company recorded pre-tax reorganization and office closure charges of $18 million ($12 million after tax or $0.19 per share) associated with its cost reduction program.

- 2003 results include a net tax benefit of $18 million or $0.28 per share unrelated to 2003 transactions and a tax charge of $22 million or $0.34 per share to provide a full valuation allowance for newly generated deferred tax assets of the Company's French subsidiaries unrelated to the impairment charges reported in 2003.

- TiO[u]2 and Acetyls average selling prices, after reaching a low in the first quarter of 2002, rose steadily from the second quarter of 2002 to the second quarter of 2003 as certain of the worldwide price increases announced during 2002 and the first quarter of 2003 by the Company and most other major producers for TiO[u]2 and for Acetyls' principal products were gradually realized. Although average selling prices for both TiO[u]2 and Acetyls decreased slightly from the second quarter of 2003 to the end of the year, average selling prices for TiO[u]2 for the full year 2003 were higher than the prior year and Acetyls average selling prices for the full year 2003 were significantly higher than 2002 average prices.

- Demand for TiO[u]2 decreased from the prior year primarily due to the lack of a coatings season in most of North America due to poor weather conditions, as well as weak global economic conditions throughout most of 2003.

- Sales prices measured in US dollars further increased due to the strengthening of the euro, the British pound and the Australian dollar versus the US dollar. The weakening US dollar increased foreign currency based manufacturing costs, when measured in US dollars, which substantially offset revenue increases from foreign currency strength.

- TiO[u]2 manufacturing costs increased in 2003 compared to 2002 primarily due to the unfavorable effect of translating manufacturing costs incurred in stronger foreign currencies into US dollars, higher maintenance and fixed costs, and higher costs for utilities, including higher natural gas costs. The increase in average selling prices was more than offset by the increase in manufacturing costs during 2003, which contributed to lower margins for the TiO[u]2 business segment.

- Acetyls revenues were higher in 2003 compared to 2002 due to significantly higher average selling prices as the result of price increases and the favorable effect of translating foreign currency denominated sales into US dollars. The price increases were implemented in response to significantly higher feedstock and energy costs. In addition, Acetyls sales volume was slightly higher in 2003 compared to 2002 primarily due to higher acetic acid sales volume.

- Acetyls production costs per ton increased significantly in 2003 compared to 2002 primarily due to higher feedstock and energy costs, particularly natural gas and ethylene. However, the increase in production costs were more than offset by higher average selling prices, contributing to higher margins in the Acetyls business segment.

- Continued soft demand and strong competition from low-cost manufacturers characterized the business environment for Specialty Chemicals in 2003. Manufacturing and other costs of sales were higher in 2003

compared to 2002 primarily due to an increase in the cost of crude sulfate turpentine ("CST") and the use of a higher-cost alternative raw material due to the short supply of CST, and higher natural gas costs.

- Interest costs were higher in 2003 compared to 2002 as the result of higher average debt levels and the higher cost of debt. In April 2003, the Company issued $100 million additional principal amount of 9.25% Senior Notes and in November 2003 $150 million of 4% Convertible Senior Debentures. Additionally, in November 2003, the Company terminated its European receivables securitization program.

- At Equistar, operating losses in 2003 were greater than 2002. Equistar's results in 2003 include lower sales volume and significantly higher raw material and energy costs, which were only partially offset by higher average selling prices. In response to the higher raw material and energy costs in 2003, Equistar implemented significant sales price increases in 2003 for substantially all of its petrochemicals and polymers products. Raw material and energy cost increases of nearly $1 billion were recovered through sales price increases in 2003. However, the magnitude of these price increases had a negative effect on demand and contributed to lower sales volume.

Outlook for 2004

Operating income in the first quarter of 2004 for the TiO[u]2 business segment is expected to be slightly higher than the fourth quarter of 2003 excluding asset impairment charges (fourth quarter 2003 operating loss was $102 million; however, excluding $103 million of asset impairment charges operating income would have been $1 million), but substantially lower than the first quarter of 2003. Sales volume in the first quarter of 2004 is expected to be seasonally higher than the fourth quarter of 2003, but manufacturing costs are expected to remain high in part due to anticipated continued weakness in the US dollar compared to foreign currencies.

First quarter 2004 operating income for the Acetyls business segment is expected to be lower than the fourth quarter of 2003 due to anticipated higher feedstock costs, particularly ethylene and natural gas costs. Sales volume is expected to be similar to the fourth quarter of 2003.

Operating income for the Specialty Chemicals business segment in the first quarter of 2004 is expected to improve from the fourth quarter of 2003, primarily due to expected higher sales volume, improved operating efficiency and favorable product mix.

The completion of scheduled maintenance turnarounds at three of Equistar's largest ethylene plants has better positioned Equistar to take advantage of any recovery in 2004. A fourth ethylene plant will begin a scheduled maintenance turnaround in the first quarter of 2004. Thus far in 2004, Equistar has seen a continuation of the improvement in product sales volume experienced in the second half of 2003. However, Equistar's product margins are heavily dependent on hydrocarbons pricing, primarily crude oil and natural gas. Thus far in 2004, hydrocarbon prices have remained high and volatile. Equistar has responded by implementing product price increases and announcing additional product price increases across the majority of its product lines. Since Equistar's products have broad utilization across the economy, external factors such as the pace of global economic growth, in addition to raw materials pricing, will be important factors to Equistar's financial performance during 2004.

The Company's priorities in 2004 will continue to be increasing customer focus, reducing costs and improving financial flexibility. Based on negotiations with customers during the last few months, the Company's market share in the TiO[u]2 business segment continues to improve. Indications thus far in 2004 of increased demand as well as continuing improvement in the economy are expected to support the TiO[u]2 price increases announced in the fall of 2003. The successful implementation of these announced price increases as well as those announced in the first quarter of 2004 for certain of the Company's TiO[u]2 and Acetyls products is dependent on continuing economic recovery and strong customer demand. Successful implementation of announced price increases will be a key business driver for improving and sustaining margins in the TiO[u]2 and Acetyls business segments in 2004. The Company will continue to evaluate opportunities to decrease production costs through both structural and control measures. All costs and capital expenditures will continue to be managed tightly. Feedstock costs, particularly ethylene and natural gas costs, will be critical to profitability in the Acetyls business segment. The Company will continue to seek options to reduce debt in 2004 and progress with its plans to dispose of non-core assets that have limited strategic value. The Company's Specialty Chemicals business segment will implement measures to reduce the number of its product offerings and total costs, while the Company entertains offers to purchase this business, as it is not a key strategic long-term asset for the Company.

With the Company's lowered cost base and expected continued economic recovery coupled with stronger customer demand for its major products during the first quarter, overall prospects for the Company's business segments are expected to be favorable for 2004 compared to 2003. A slower economic global recovery and volatility in the energy markets could adversely affect these prospects as well as the prospects of Equistar.

Critical Accounting Estimates

The preparation of the Company's financial statements requires management to apply generally accepted accounting principles to the Company's specific circumstances and make estimates and assumptions that affect the reported amount 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company considers the following accounting estimates to be critical to the preparation of the Company's financial statements:

Environmental Liabilities and Legal Matters -- The Company periodically reviews matters associated with potential environmental obligations and legal matters brought against the Company, its subsidiaries and predecessor companies. In order to make estimates of liabilities, the Company's evaluation of and judgments about environmental obligations and legal matters are based upon the individual facts and circumstances relevant to the particular matters and include advice from legal counsel, if applicable. The Company believes that the reasonably probable and estimable range of potential liability for environmental and other legal contingencies, collectively, but which primarily relates to environmental remediation activities, is between $53 million and $78 million and has accrued $61 million as of December 31, 2003, including $22 million for the Kalamazoo River matter discussed below. 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 costs. In 2003, net benefits resulting from changes in the estimated liabilities for these contingencies were not significant. Included in 2002 is a benefit of $6 million from a reduction of reserves due to a favorable resolution of certain environmental claims related to predecessor businesses reserved for in prior years. Additionally, 2002 includes $3 million of expenses associated with environmental and other legal contingencies related to the Company's current businesses. In 2001, $15 million of the Company's total $16 million of expenses for environmental and other legal contingencies resulted from increases in reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses. 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.

Certain Company subsidiaries have been named as defendants, 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 range between $0.01 million for several small sites and $22 million for the Kalamazoo River Superfund Site in Michigan. In October 2000, the Kalamazoo River Study Group, of which one of the Company's subsidiaries is a member, evaluated a number of remedial options for the Kalamazoo River Superfund Site and recommended a remedy at a total collective cost of $73 million. The collective exposure for the Kalamazoo River Superfund Site could range from $0 to $2.5 billion, if one of the previously identified remedial options is selected by the EPA; however, the Company strongly believes that the likelihood of the cost being either $0 or $2.5 billion is remote. Another as yet unidentified remedial option may also be selected by the EPA. Based upon an interim allocation, the Company is paying 35% of costs related to studying and evaluating the environmental conditions of the river. Guidance as to how the EPA will likely proceed with any further evaluation and remediation at the Kalamazoo site is not expected until late 2004 at the earliest. At the point in time when the EPA announces how it intends to proceed with any such evaluation and remediation, the Company's estimate of its liability at the Kalamazoo site will be re-evaluated. See "Environmental Matters" in Item 1 and "Legal Proceedings" in Item 3 included in Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2003.

Income Taxes -- The Company periodically assesses the likelihood of realization of deferred tax assets and with respect to net operating loss carryforwards, prior to expiration, by considering the availability of taxable income in prior carryback periods, the scheduled reversal of deferred tax liabilities, certain distinct tax planning strategies, and projected future taxable income. If it is considered to be more likely than not that the deferred tax assets will not be realized, a valuation allowance is established against some or all of the deferred tax assets. The

Company's deferred tax assets, net of valuation allowances, were $342 million at December 31, 2003. See "Income Taxes" below for additional information on the Company's deferred tax assets.

The Company periodically assesses tax exposures and establishes or adjusts estimated reserves for probable assessments by the Internal Revenue Service (the "IRS") or other taxing authorities. Such reserves represent an estimated provision for taxes ultimately expected to be paid. The Company believes it has adequately provided for any probable assessments and does not anticipate any material earnings impact from their ultimate settlement or resolution. However, if the IRS's position on certain issues is upheld after all of the Company's administrative and legal options are exhausted, a material impact on the Company's consolidated financial position, results of operations or cash flows could result.

The Company has recorded significant tax benefits in the past three years associated with its assessment and resolution of tax exposures. See "Income Taxes" below for additional information related to these benefits.

Equity Interest in Equistar -- The Company has evaluated the carrying value of its investment in Equistar at December 31, 2003 using fair value estimates prepared by the Company and third parties. Those valuations included discounted cash flow analysis of both internal management and external party cash flow projections, as well as replacement cost analysis. Additionally, the Company analyzed Lyondell's 2002 purchase of Occidental's 29.5% interest in Equistar and determined, after considering tax effects, that the fair value of such transaction related to Occidental's partnership investment exceeds the Company's carrying value for its Equistar investment. The carrying value of the Company's investment in Equistar at December 31, 2003 was $469 million. If future valuation estimates for the Company's interest in Equistar are lower than the Company's carrying value for its interest in Equistar, an adjustment to write down the investment would be required.

Goodwill -- The Company evaluates the carrying value of goodwill annually or sooner if events or changes in circumstances indicate that the carrying amount may exceed fair value. Recoverability is determined by comparing the estimated fair value of the reporting unit to which the goodwill applies to the carrying value, including goodwill, of that reporting unit. Fair value estimates are prepared by the Company and third parties. Those valuation estimates include discounted cash flow analysis, replacement cost analysis, precedent transaction analysis and various other valuation methodologies. If the estimated fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is not impaired. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The carrying value of goodwill at December 31, 2003 was $104 million, of which, $56 million and $48 million was associated with the Company's TiO[u]2 and Acetyls business segments, respectively. The recoverability of the Company's goodwill is dependent upon the future valuations associated with its reporting units, which could change significantly based upon business performance or other factors.

Retirement-Related Benefits -- The Company evaluates the appropriateness of retirement-related benefit plan assumptions annually. Some of the more significant assumptions used to determine the Company's benefit obligations and net periodic benefit costs are the expected rate of return on plan assets, the discount rate, the rate of compensation increases, and healthcare cost trend rates.

To develop its expected return on plan assets, the Company uses long-term historical actual return information, the mix of investments that comprise plan assets, and future estimates of long-term investment returns by reference to external sources rather than relying on current fluctuations in market conditions. The discount rate assumptions reflect the rates available on high-quality fixed-income debt instruments on December 31 of each year. The rate of compensation increase is determined by the Company based upon its long-term plans for such increases. The Company reviews external data and its own historical trends for healthcare costs to determine the healthcare cost trend rates.

Due to the reduction of rates on high-quality fixed income debt instruments, the Company reduced the discount rate at December 31, 2003. The weighted average discount rate, the expected return on plan assets, and the rate of compensation increase assumptions at December 31, 2003 and 2002 were 5.94% and 6.35%; 8.33% and 8.34%; and 3.59% and 3.52%, respectively.

A decrease in the discount rate by 1% would increase the Company's annual net periodic pension cost by approximately $5 million due primarily to increased loss amortization costs. A decrease in the expected return on plan assets by 1% would increase the Company's annual net periodic pension cost by approximately $8 million.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. The assumed healthcare cost trend rate used in measuring the healthcare portion of the postretirement benefit obligation at December 31, 2003 was 8.5% for 2004, declining gradually to 5.5% for 2010 and thereafter. A 1% increase or decrease in assumed healthcare cost trend rates would affect service and interest components of postretirement healthcare benefit costs by an insignificant amount in each of the years ended December 31, 2003 and 2002. The effect on the accumulated postretirement benefit obligation would be $4 million at each of December 31, 2003 and 2002. See "Pension and Other Postretirement Benefits" below and Note 11 to the Consolidated Financial Statements included in this Amendment No. 2 for additional information related to the Company's retirement-related benefits.

Asset Impairment Charges

In the fourth quarter of 2003, the Company recorded a non-cash, pre-tax asset impairment charge of $103 million ($101 million after tax) associated primarily with the writedown of property, plant and equipment at the Company's Le Havre, France TiO[u]2 manufacturing plant. Management prepared and the Company's Board of Directors approved its strategic operating plan for this manufacturing plant in the fourth quarter of 2003. Financial projections resulting from this strategic planning process produced cash flow estimates for this plant that were less favorable than previous estimates. The Company evaluated the carrying value of the Le Havre manufacturing plant assets by analyzing the estimated future cash flows associated with these assets. Such analysis demonstrated that the undiscounted estimated future cash flows were insufficient to recover the carrying value of these assets. Accordingly, an impairment charge was required to write down the basis in the property, plant and equipment to its estimated fair value. The Company evaluated discounted cash flow analysis and information from third parties to determine a fair value estimate. At December 31, 2003, after the impairment charge, the carrying value of the property, plant and equipment at the Le Havre manufacturing plant was zero. Future capital expenditures at this plant are expected to be included in period charges and classified as asset impairment charges when incurred.

The operations of the Le Havre, France TiO[u]2 manufacturing plant were not profitable in 2003. The Company does not expect these operations to return to profitability in the future and is evaluating various alternatives for the facility. The Company has decided to rationalize certain equipment at this plant in the second quarter of 2004, which will result in the reduction of the plant's rated capacity from 95,000 metric tons per annum to 65,000 metric tons per annum. This rationalization will include the idling of certain equipment for which the carrying value is zero, after the asset impairment charge reported in 2003.

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 charges for the year ended December 31, 2003 of $18 million, of which $17 million is for severance-related costs and $1 million is 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. Substantially all of the remaining charges for this program, estimated at $1 million to $3 million, are expected to be recorded during the next several quarters. Severance-related cash payments of $14 million for the implementation of this program were made during the year ended December 31, 2003. Substantially all of the remainder of the cash payments relating to this program, which are estimated to be approximately $11 million, will be disbursed during the next several quarters.

Pension and Other Postretirement Benefits

Certain of the Company's foreign and US pension plans had underfunded Accumulated Benefit Obligations ("ABO") at December 31, 2003 and December 31, 2002. Due to recent improvement in the financial markets, the underfunded ABO was reduced in 2003. The Company recorded an after-tax benefit in 2003 of $26 million in Shareholders' deficit to reflect the improvement in the underfunded status of the ABO for these plans. At December 31, 2002, the Company recorded an after-tax charge in Shareholders' deficit of $188 million to reflect the required additional minimum pension liability resulting from the underfunded status of the ABO at that time.

Pension expense for 2003 was $7 million and pension income was $7 million and $8 million for 2002 and 2001, respectively. The 2003 pension expense includes a $3 million curtailment charge resulting from the Company's 2003 cost reduction program. Due to a reduction in the discount rate assumption related to the Company's pension plans and the amortized recognition of pension fund investment losses in the financial markets in recent years prior to 2003, pension expense for 2004 is estimated to be approximately $14 million, or $10 million more than pension expense in 2003, excluding the $3 million curtailment charge.

The Company expects to contribute approximately $12 million to its US and foreign defined benefit pension plans and approximately $10 million to its Other Postretirement Employee Benefits ("OPEB") plan in 2004. These estimates reflect expected increases in pension plan trust funding to meet minimum requirements. Additionally, the Company expects to contribute approximately $4 million to its defined contribution pension plans in 2004.

As a result of rising medical benefit costs and competitive business conditions, the Company announced in early 2004 that effective April 1, 2004 it will reduce the level of retiree medical benefits provided to essentially all of its retirees by offering a monthly subsidy in 2004 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 million. Beginning in 2004, this reduction will be recognized ratably over approximately thirteen years through OPEB net periodic benefit cost. Estimated OPEB net periodic benefit cost for 2004, after giving affect to this change, will be income of approximately $4 million compared to a benefit cost of $2 million in 2003. The Company estimates that 2004 cash payments for retiree medical and insurance benefits to be slightly less than 2003 as it transitions to the subsidy plan. Cash payments in subsequent years are estimated to be significantly less than 2003.

Income Taxes

The Company recorded tax benefits of $37 million, $22 million and $42 million in 2003, 2002 and 2001, respectively, unrelated to transactions for those years. In 2003, the tax benefit primarily related to the reversal of tax reserves recorded in prior years associated with the IRS audits that were settled during 2003. In 2002, the tax benefit primarily related to an $18 million refund of tax and interest originating from refund claims filed with the IRS in 2002, which carried back expenses incurred in 1993 and 1994 to earlier tax years. In 2001, the tax benefit primarily related to the reversal of tax accruals recorded in 1996. During 2001, through ongoing discussions and negotiations with the IRS, it was determined that the Company's original 1996 position would not be challenged and the accruals recorded in 1996 were no longer necessary. These benefits were offset to an extent by certain new tax provisions the Company determined probable of assessment based on the evolution of various domestic and foreign tax examinations and changes in relevant tax regulations.

The undistributed earnings of the Company's foreign subsidiaries are generally considered to be indefinitely reinvested and, accordingly, no provision for US Federal or state income taxes or foreign withholding taxes has been provided. In 2003, deferred tax expense on certain unremitted earnings of foreign subsidiaries of $19 million was recorded due to the Company's plan to repatriate approximately $107 million from its Australian and European businesses to the US by implementing certain intercompany financing strategies in early 2004.

As a result of the Company's assessment of its net deferred tax assets, a valuation allowance of $69 million and $10 million was required for the net deferred tax assets of its French subsidiaries at December 31, 2003 and 2002, respectively. No income tax benefits associated with 2003 operating losses for the Company's French subsidiaries were recognized. The Company currently expects that if its French subsidiaries continue to report net operating losses in future periods, income tax benefits associated with those losses would not be recognized, and the Company's results in those periods would be adversely affected. Additionally, due to the uncertainty of the realization of deferred tax assets for state net operating loss carryforwards and Federal capital loss carryforwards, a valuation allowance totaling $28 million and $25 million was recorded at December 31, 2003 and 2002, respectively.

Historic Cyclicality of the Chemicals Industry

The Company's income and cash flow levels reflect the cyclical nature of the chemicals industries in which it operates. Most of these industries are mature and sensitive to cyclical supply and demand balances. In particular, the markets for ethylene and polyethylene, in which the Company participates through its interest in Equistar, are highly cyclical, resulting in volatile profits and cash flow over the business cycle. The global markets for TiO[u]2, VAM, acetic acid, and fragrance and flavor chemicals are also cyclical, although to a lesser degree. The balance of supply and demand in the markets in which the Company and Equistar do business, as well as the level of inventories held by downstream customers, has a direct effect on the sales volume and prices of the Company's and Equistar's products. In contrast, the Company believes that, over a business cycle, the markets for specialty chemicals are generally more stable in terms of industry demand, selling prices and operating margins.

Demand for TiO[u]2 is influenced by changes in the gross domestic product of various regions of the world and to changes in its customers' marketplaces, which are primarily the paint and coatings, plastics and paper industries. In recent history, consolidations and negative business conditions within certain of those industries have put pressure on TiO[u]2 prices as companies compete to keep volume placed. Demand for ethylene and its derivatives and for acetyls has fluctuated from year to year depending on various factors, including but not limited to the economy, industrial production, weather and threat of war. These markets are particularly sensitive to capacity additions. Producers have historically experienced alternating periods of inadequate capacity, resulting in increased selling prices and operating margins, followed by periods of large capacity additions, resulting in declining capacity utilization rates, selling prices and operating margins. This cyclical pattern is most visible in the markets for ethylene and polyethylene, resulting in volatile profits and cash flow over the business cycle.

Profitability in the Acetyls business segment and in Equistar's businesses is further influenced by fluctuations in the price of natural gas and feedstocks for ethylene. It is not possible to predict accurately the effect that future changes in natural gas and feedstock costs, market conditions and other factors will have on the Company's or Equistar's profitability.

Results of Consolidated Operations

	2003	2002
	(Millions, except	
Net sales	$1,687	$1,554
Operating (loss) income	(51)(1)	80
Loss on Equistar investment	(100)(2)	(73
Loss before cumulative effect of accounting change	(183)(3)	(28
Cumulative effect of accounting change	(1)(4)	(305
Net loss	(184)(3)	(333
Basic and diluted loss per share before cumulative effect of accounting change	(2.86)(3)	(0.44
Basic and diluted loss per share	(2.88)(3)	(5.24

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(1) Includes $103 million of asset impairment charges associated primarily with the writedown of property, plant and equipment at the Company's Le Havre, France TiO[u]2 manufacturing plant and $18 million of reorganization and office closure costs associated with the Company's cost reduction program.

(2) Includes the Company's share of Equistar's financing costs of $11 million, loss on sale of assets of $4 million and severance costs of $2 million.

(3) Includes after-tax asset impairment charges of $101 million or $1.58 per share associated primarily with the writedown of property, plant and equipment at the Company's Le Havre, France TiO[u]2 manufacturing plant; a tax charge of $22 million or $0.34 per share to provide a full valuation allowance for newly generated deferred tax assets of the Company's French subsidiaries unrelated to the impairment charges reported in 2003; a net tax benefit of $18 million or $0.28 per share unrelated to transactions in 2003; after-tax reorganization and office closure charges of $12 million or $0.19 per share; and an after-tax benefit of $2 million or $0.03 per share from the collection of a note receivable previously written off. In

addition, this amount includes the Company's after-tax share of Equistar's financing costs of $7 million or $0.11 per share, loss on sale of Equistar's assets of $3 million or $0.04 per share and Equistar's severance costs of $1 million or $0.02 per share.

(4) Reflects the cumulative effect of a change in accounting for asset retirement obligations in accordance with SFAS No. 143. See "Cumulative Effect of Accounting Changes" below.

(5) Includes a benefit of $6 million from a reduction of reserves due to favorable resolution of environmental claims related to predecessor businesses reserved for in prior years.

(6) Includes an after-tax benefit of $4 million or $0.06 per share from a reduction of reserves due to favorable resolution of environmental claims related to predecessor businesses reserved for in prior years, a tax benefit of $22 million or $0.35 per share primarily related to a federal tax refund claim, and a tax charge of $10 million or $0.16 per share to establish a valuation allowance against deferred tax assets for the Company's French subsidiaries.

(7) Reflects the cumulative effect of change in accounting for goodwill of the Company and Equistar in accordance with SFAS No. 142. See "Cumulative Effect of Accounting Changes" below.

(8) Includes $36 million in reorganization and plant closure charges, $15 million to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses and $13 million of the Company's goodwill amortization.

(9) Includes $10 million of goodwill amortization and $6 million representing the Company's share of costs related to the shutdown of Equistar's Port Arthur, Texas plant.

(10) Includes $24 million after-tax or $0.38 per share in reorganization and plant closure charges; an additional $4 million or $0.07 per share representing the Company's after-tax share of costs related to the shutdown of Equistar's Port Arthur, Texas plant; $9 million after-tax or $0.14 per share to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses; $13 million or $0.20 per share of the Company's goodwill amortization; $10 million or $0.16 per share of Equistar's goodwill amortization; and a tax benefit of $42 million or $0.66 per share from a reduction in the Company's income tax accruals due to favorable developments related to matters reserved for in prior years.

Cumulative Effect of Accounting Changes

Asset Retirement Obligations

On January 1, 2003, the Company adopted Statement of Financial Accounting Standards ("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 Company reported an after-tax transition charge of $1 million 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 million and $3 million, respectively. The ongoing annual expense resulting from the initial adoption of SFAS No. 143 is expected to be approximately $1 million. Activity associated with the asset retirement obligations other than the effect of initial adoption of SFAS No. 143 was $1 million for the year ended December 31, 2003. Disclosure on a pro forma basis of net income and related per-share amounts as if SFAS No. 143 had been applied during all periods presented is omitted because the effect on pro forma net income is not significant. The amount of the asset retirement obligation at December 31, 2003 was $13 million. The pro forma amount of the asset retirement obligation at January 1, 2001, December 31, 2001, and December 31, 2002, as if SFAS No. 143 had been applied at the beginning of 2001, the earliest year presented, is $10 million, $11 million and $12 million, respectively.

Goodwill

On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Intangible Assets" ("SFAS No. 142"), which applies to all goodwill and intangible assets acquired in a business combination. Under this new standard, all goodwill, including goodwill acquired before initial application of the standard, is not amortized but must be tested for impairment at least annually at the reporting unit level, as defined in the standard. Accordingly, the Company reported a charge for the cumulative effect of a change in accounting principle of $275 million in the first quarter of 2002 to write off goodwill related to its Acetyls business. Also in accordance with SFAS No. 142,

Equistar reported an impairment of goodwill in the first quarter of 2002. The write-off at Equistar required an adjustment of $30 million to reduce the carrying value of the Company's investment in Equistar to its approximate proportional share of Equistar's Partners' capital. The Company reported this adjustment as a charge for the cumulative effect of a change in accounting principle.

Goodwill amortization was suspended on January 1, 2002 in accordance with SFAS No. 142. Results for the year 2001 include $13 million of expense in operating income for amortization of the Company's goodwill and $10 million in Loss on Equistar investment for the Company's share of Equistar's goodwill amortization.

2003 Versus 2002

The Company reported a loss before the cumulative effect of an accounting change for asset retirement obligations of $183 million or $2.86 per share in 2003 compared to a loss before the cumulative effect of an accounting change for goodwill of $28 million or $0.44 per share in 2002. The Company's pre-tax results decreased $163 million in 2003 compared to 2002, including $131 million lower operating income, a $27 million larger loss from the Company's investment in Equistar and higher net interest expense of $6 million. Income taxes in 2003 and 2002 include net tax benefits unrelated to transactions for those years of $18 million and $22 million, respectively. In addition, income taxes in 2003 and 2002 include tax charges of $22 million (unrelated to the impairment charges reported in 2003) and $10 million, respectively, to provide full valuation allowances for deferred tax assets of the Company's French subsidiaries. These tax matters are more fully described in "Income Taxes" above.

The Company's 2003 operating loss was $51 million compared to operating income of $80 million for the prior year. The $131 million decrease in the Company's operating income from 2002 to 2003 was due primarily to a decrease in operating income of $114 million in the Titanium Dioxide and Related Products business segment, which includes $103 million of asset impairment charges associated primarily with the writedown of property, plant and equipment at the Company's Le Havre, France TiO[u]2 manufacturing plant (see "Asset Impairment Charges" above), and a decrease of $29 million in Other operating income and expense not identified with the three separate business segments, which includes $18 million of reorganization and office closure costs for the year ended December 31, 2003 (see "Cost Reduction Program; Suspension of Dividend" above). Additionally, operating income in the Specialty Chemicals segment decreased by $4 million while operating income in the Acetyls business segment increased by $16 million.

Net sales of $1.687 billion for 2003 increased by $133 million, or 9%, compared to the same period of 2002 primarily due to higher local currency sales prices and foreign currency strength against the US dollar in the Titanium Dioxide and Related Products and Acetyls business segments. TiO[u]2 and acetyls average selling prices, after reaching a low in the first quarter of 2002, rose steadily from the second quarter of 2002 to the second quarter of 2003 as certain of the worldwide price increases announced during 2002 and the first quarter of 2003 by the Company and most other major producers were gradually realized. Sales volume for 2003 for the Acetyls business segment was higher than in the prior year, but was lower for the Titanium Dioxide and Related Products business segment. Specialty Chemicals revenue increased by $3 million, or 3%, compared to the prior year due to volume increases that were partially offset by lower average selling prices for flavor and fragrance products.

Manufacturing costs were generally higher for most of the Company's products in 2003 as compared to 2002 primarily due to the unfavorable effect of translating local currency manufacturing costs into a weaker US dollar, and higher utility and feedstock costs, particularly natural gas and ethylene. Selling, development and administrative ("S,D&A") costs for the year ended December 31, 2003 were $127 million, a decrease of $11 million, or 8%, from the prior year. S, D &A costs decreased primarily due to a decrease in employee-related costs and various other expenses as the result of the Company's focus on cost reduction initiatives.

The Company's loss from its Equistar investment was $100 million in 2003 and $73 million in 2002. The loss in 2003 includes the Company's share of Equistar's financing costs of $11 million, loss on the sale of a polypropylene production facility of $4 million, and severance costs of $2 million. Excluding the effect of these items, the Company's loss from its Equistar investment was $10 million larger in 2003 compared to 2002 primarily due to lower sales volume, higher pension and medical benefit costs, and a higher provision for doubtful accounts, partially offset by higher average product margins.

2002 Versus 2001

The Company reported a loss before the cumulative effect of an accounting change for goodwill of $28 million or $0.44 per share in 2002 compared to a loss of $54 million or $0.85 per share in 2001. The Company's pre-tax results increased $68 million in 2002 compared to 2001, including $66 million higher operating income and

a $10 million lower loss from the Company's investment in Equistar, partially offset by $4 million greater net interest expense and $4 million higher minority interest and other expenses. Income taxes in 2002 include a tax benefit of $22 million or $0.35 per share, primarily related to a federal tax refund claim, while income taxes in 2001 include a tax benefit of $42 million or $0.66 per share as a result of a reduction in the Company's income tax accruals due to favorable developments related to matters reserved for in prior years. These tax benefits are more fully described in "Income Taxes" above.

Operating income for 2002 of $80 million increased by $66 million from 2001 primarily due to charges recorded in 2001 for reorganization and plant closure costs and to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses that did not recur in 2002 and the suspension of goodwill amortization in 2002. Operating income in 2001 includes $36 million of aggregate reorganization and plant closure costs related to reorganization activities within the Company's Other segment, $15 million of charges to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses and $13 million of goodwill amortization that was suspended on January 1, 2002 in accordance with SFAS No. 142. During the second quarter of 2001, $31 million was recorded in connection with the Company's announced decision to reduce its worldwide workforce and indefinitely idle its sulfate-process TiO[u]2 plant in Hawkins Point, Maryland. The $31 million charge included severance and other employee-related costs of $19 million for the termination of approximately 400 employees involved in manufacturing, technical, sales and marketing, finance and administrative support, a $10 million writedown of assets and $2 million in other costs associated with the idling of the plant. During the first quarter of 2001, the Company announced the closure of its facilities in Cincinnati, Ohio, and recorded reorganization and other charges of $5 million in the Other segment. These charges included $3 million of severance and other termination benefits related to the termination of about 35 employees involved in technical, marketing and administrative activities, as well as $2 million related to the writedown of assets, lease termination costs and other charges associated with the Cincinnati facility. The office in Cincinnati was closed during the second quarter of 2001. All payments for severance and related costs and for other costs related to the reorganization and plant closure have been made as of December 31, 2002.

Operating income in 2002 compared to 2001 increased by $27 million in the Acetyls business segment, including $11 million of goodwill amortization that was suspended on January 1, 2002 in accordance with SFAS No. 142. Operating income in 2002 compared to 2001 decreased by $9 million in the Titanium Dioxide and Related Products business segment, including $2 million of goodwill amortization in 2001 that was suspended on January 1, 2002 in accordance with SFAS No. 142. Operating income in 2002 compared to 2001 decreased by $6 million in the Specialty Chemicals business segment. Other operating loss not identified with the three separate business segments for 2002 was $54 million lower compared to 2001. Other operating loss in 2002 included a benefit of $6 million from the reduction of reserves due to favorable resolution of environmental claims related to predecessor businesses reserved for in prior years, and in 2001 included $36 million of reorganization and plant closure costs that did not recur in 2002 and charges of $15 million to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses.

Net sales for 2002 of $1.554 billion decreased by $36 million or 2% from 2001 as higher sales volume in the Titanium Dioxide and Related Products and Acetyls business segments was more than offset by lower selling prices. Although average prices for many of the Company's products remained at lower levels compared to the prior year, TiO[u]2 and acetyls prices, after reaching a low in the first quarter of 2002, rose steadily through the end of the year as certain of the Company's worldwide price increases for TiO[u]2 and for Acetyls' principal products announced during 2002 were gradually realized. Specialty Chemicals sales revenue for 2002 was lower than 2001 due to lower sales volume as the business remained under significant competitive pressure.

Manufacturing costs decreased in 2002 as compared with 2001 due to productivity and reliability improvements, lower cost of natural gas and other purchased materials, and the realization of benefits from the Company's cost-saving initiatives, including the idling of its high-cost sulfate-process TiO[u]2 plant in Hawkins Point, Maryland at the end of the third quarter of 2001. Both the Titanium Dioxide and Related Products and Acetyls business segments benefited from lower unit production costs due to higher fixed cost absorption from higher production rates as a result of increased customer demand. Results for the Acetyls business segment also improved in comparison to 2001 as unfavorable fixed-price natural gas purchase positions entered into during the first quarter of 2001 expired at the end of the first quarter of 2002. These unfavorable contracts negatively impacted Acetyls operating loss by $19 million in the last three quarters of 2001, while 2002 operating profit was reduced by only $7 million. Specialty Chemicals manufacturing costs for 2002 were higher than 2001 due in part to planned and unplanned production outages that increased unit production costs.

After a reduction of $55 million or 26% in 2001, S,D&A costs were reduced in 2002 by an additional $10 million or 6%. The $55 million reduction in S,D&A costs in 2001 excludes $15 million and $6 million of charges in 2001 and 2000, respectively, to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses. The $10 million reduction in S,D&A costs in 2002 excludes $15 million of charges in 2001 to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses and a benefit of $6 million in 2002 from the reduction of reserves due to favorable resolution of environmental claims related to predecessor businesses reserved for in prior years. The Company continued to focus on its cost reduction initiatives and received a full year of benefit from its June 2001 reorganization and reduction in workforce. The savings from these initiatives were partially offset by higher incentive compensation costs in 2002.

The Company's loss from its Equistar investment was $73 million in 2002 and $83 million in 2001. The loss in 2001 includes $10 million representing the

Company's share of Equistar's goodwill amortization that was suspended on January 1, 2002 in accordance with SFAS No. 142, and $6 million of costs related to the shutdown of Equistar's Port Arthur, Texas plant. Excluding the effect of these items, the Company's loss on its Equistar investment was $6 million higher in 2002 compared to 2001. Higher polymers margins primarily due to lower raw material costs were more than offset by lower margins in the Petrochemicals segment primarily as a result of lower sales prices.

Segment Analysis

A description of the products and markets for each of the business segments is in Item 1 included in Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2003. Additional segment information is included in Note 16 to the Consolidated Financial Statements in this Annual Report.

Titanium Dioxide and Related Products

	2003	2002	2001
	(Millions)		
Net sales.................	$1,172	$1,129	$1,145
Operating (loss) income...	(51)	63	72

2003 Versus 2002

The operating loss for 2003 of $51 million included asset impairment charges of $103 million associated primarily with the Le Havre, France manufacturing plant, as more fully described in "Asset Impairment Charges" above. Excluding these asset impairment charges, operating income in 2003 decreased by $11 million primarily due to higher manufacturing and other costs of sales ($107 million) and lower sales volume ($7 million), partially offset by higher average selling prices ($93 million) and lower S,D&A costs ($10 million).

Net sales for 2003 increased $43 million, or 4%, to $1.172 billion. The average US dollar TiO[u]2 selling price for 2003 increased by 11% over 2002. Average local currency prices increased by 5% while translation of foreign currency-based prices to a weaker US dollar increased US dollar prices by 6% compared to the prior year. During 2003, local currency prices increased in all major geographic regions. TiO[u]2 sales volume decreased by 6% from 2002. Sales volume decreased from the prior year in all major markets and geographical regions, except for the Central and South American region. Contrary to traditional TiO[u]2 demand trends, the second half of 2003 was stronger than the first half of the year due primarily to the lack of a coatings season in the first half of 2003 in most of North America due to poor weather conditions in many areas, as well as weak global economic conditions.

The overall operating rate for the TiO[u]2 plants for each of 2003 and 2002 was 89%. Production volumes for 2003 and 2002 were similar.

Manufacturing and other costs of sales per metric ton increased 7% over the prior year. Costs increased primarily due to the unfavorable effect of translating foreign currency-based manufacturing costs into the weaker US dollar, higher maintenance and fixed costs, and higher costs for utilities, including higher natural gas costs.

S,D&A costs for 2003 decreased by $10 million or 8% compared to the prior year. The decrease is primarily due to lower employee-related costs, partially offset by higher professional fees.

2002 Versus 2001

Operating income for 2002 of $63 million decreased $9 million or 13% from the prior year. Operating income in 2001 includes $2 million in goodwill amortization that was suspended on January 1, 2002 in accordance with SFAS No. 142. Excluding the goodwill amortization from the 2001 results, operating income in 2002 decreased $11 million from the prior year primarily due to lower selling prices ($83 million) partially offset by the favorable effects of lower manufacturing and other costs of sales ($41 million), lower S, D&A expenses ($19 million) and higher sales volume ($12 million).

Net sales for 2002 decreased $16 million or 1% to $1.129 billion. Average selling prices for 2002 were 7% lower than for 2001, decreasing sales revenue by $83 million. After reaching their lowest level in more than five years in the first quarter of 2002, TiO[u]2 prices rose steadily through the end of the year as announced price increases were gradually realized. However, this increase in prices was not sufficient to raise the average price for 2002 to the prior year level. Average prices for 2002 were lower than 2001 in all three major TiO[u]2 markets and in all major geographic regions globally. This was partially offset by a 6% increase in sales volume, which increased revenue by $67 million. TiO[u]2 sales volume was higher than the prior year in all major geographic regions globally except Central and South America. Sales volume was 8% higher in the paint and coatings market and 15% higher in the plastics market. Sales volume declined by 13% in the paper market, which continued to be depressed in all major geographic regions except Europe, due to poor economic conditions and the Company's election to reduce its participation in the fine paper markets in light of unacceptably low margins.

The overall operating rate for the Company's TiO[u]2 plants in 2002 was 89% compared to 85% for the prior year. Production was increased due to increased market demand in 2002. The lower operating rate in 2001 was primarily due to curtailment of production at certain facilities in response to weak market demand in 2001.

Operating income was increased by $41 million as a result of lower manufacturing and other cost of sales per metric ton in 2002 compared with the prior year. Overall TiO[u]2 cost of sales per metric ton decreased 5% in 2002 primarily due to lower production costs resulting from higher fixed cost absorption due to increased production, idling of the Hawkins Point plant, reduced controllable and fixed costs due to productivity and reliability improvements and cost-saving initiatives, lower utility costs and lower distribution costs. This was slightly offset by the unfavorable effect of translating local currency manufacturing costs into a weaker US dollar.

S,D&A costs in 2002 decreased by $19 million or 15% compared to 2001. The Company continued to focus on its cost reduction initiatives. The savings from these initiatives were partially offset by higher incentive compensation costs in 2002.

Acetyls

	2003	2002	2001
		(Millions)	
Net sales.................	$421	$334	$355
Operating income (loss)...	27	11	(16)

2003 Versus 2002

Operating income in the Acetyls business segment for 2003 of $27 million increased by $16 million from operating income of $11 million in 2002. Operating income increased from the prior year primarily due to higher selling prices ($88 million), lower S,D&A expenses ($8 million) and higher sales volume ($2 million), partially offset by higher manufacturing and other costs of sales ($82 million).

Sales revenue for 2003 of $421 million increased by $87 million or 26% compared to 2002, primarily due to higher average selling prices. For the year ended December 31, 2003, the aggregate US dollar price for VAM and acetic acid was 23% higher than 2002. Certain worldwide price increases that were announced during 2002 and the first quarter of 2003 for Acetyls' principal products were realized. The increased value in US dollar terms of foreign currency denominated sales due to the weaker US dollar also contributed to the increase in net sales. The aggregate sales volume for VAM and acetic acid for the year ended December 31, 2003 increased 2% over the comparable period of 2002, primarily due to higher acetic acid sales volume.

For the year ended December 31, 2003, manufacturing and other costs of sales increased by $82 million or 27% from the same period of 2002. The increase was primarily due to higher feedstock and energy costs, particularly natural gas and ethylene.

S,D&A costs for 2003 were $8 million or 44% lower than 2002, primarily due to lower legal expenses and cost savings related to the Company's cost reduction initiatives.

2002 Versus 2001

Operating income in the Acetyls business segment for 2002 of $11 million increased by $27 million from an operating loss of $16 million in 2001. Operating income in 2001 includes $11 million of goodwill amortization that was suspended on January 1, 2002 in accordance with SFAS No. 142. Excluding the goodwill amortization from the 2001 results, operating income in 2002 increased $16 million from the prior year, primarily due to lower production costs ($65 million) and higher sales volume ($10 million), partially offset by lower selling prices ($55 million) and higher S,D&A expenses ($4 million).

Sales revenue for 2002 of $334 million decreased $21 million or 6% compared to 2001, primarily due to lower selling prices ($55 million) across all product lines, partially offset by higher sales volume ($34 million). Overall, sales volume for 2002 increased 14% from 2001, driven primarily by strong acetic acid demand due to competitor outages and growth in the purified terephthalic acid business, for which acetic acid is a reaction medium. Average selling prices declined by 14% in 2002 compared to 2001 due to high selling prices in the first half of 2001, which were supported by high feedstock costs during that period. During the second half of 2001, prices began to decline and continued to decline until reaching a low early in the second quarter of 2002. Price increases realized during the second, third and fourth quarters of 2002 were not sufficient to return revenue to 2001 levels; however, profitability on sales in 2002 was much improved due to lower costs.

The Acetyls business segment benefited from lower feedstock costs and lower unit production costs as increased demand resulted in higher fixed cost absorption from higher production volume in 2002. Additionally, unfavorable fixed-price natural gas purchase positions entered into during the first quarter of 2001, which negatively impacted Acetyls 2001 operating loss by $19 million in the last three quarters of 2001, expired at the end of the first quarter of 2002, negatively impacting 2002 operating profit by $7 million, a net benefit in the effect of these contracts on cost of $12 million.

S,D&A costs for 2002 were $4 million or 29% higher than 2001, primarily due to a loss in 2002 for the change in the value of gold and the Company's obligation under its agreement with a third party, which provides the Company with the right to use gold at its La Porte, Texas facility. See Note 8 to the Consolidated Financial Statements included in this Amendment No. 2.

Specialty Chemicals

	2003	2002	2001
	(Millions)		
Net sales..........	$94	$91	$90
Operating income...	2	6	12

2003 Versus 2002

Operating income for 2003 of $2 million was $4 million or 67% lower than 2002. The $4 million decrease in operating income in 2003 compared to 2002 is primarily due to lower average selling prices ($6 million) and higher manufacturing and other costs of sales ($2 million), partially offset by higher sales volume ($2 million) and a reduction in S,D&A ($2 million).

Net sales for 2003 of $94 million increased by $3 million or 3% from the prior year. Sales volume for 2003 was 11% higher than 2002 due to increases across most product lines. Average selling prices for 2003 decreased by 6%. The combination of competitive pricing and proportionally higher sales volume in lower-priced product lines contributed to the decrease in average selling prices in 2003 compared to 2002.

Manufacturing and other costs of sales increased in 2003 compared to the prior year, as the average cost of CST, the principal raw material for the business, increased from the prior year. In addition, the purchase of gum turpentine and its derivatives needed to supplement CST supply further increased overall costs. S,D&A costs for 2003 were $2 million lower than S,D&A costs in 2002 primarily due to lower employee-related costs.

2002 Versus 2001

Operating income for 2002 of $6 million was $6 million or 50% lower than 2001. Operating income in 2002 decreased by $6 million from the prior year, primarily due to higher manufacturing and other cost of sales ($17 million) and lower sales volume ($4 million), partially offset by higher average selling prices ($15 million).

Net sales for 2002 increased $1 million or 1% to $91 million. The weighted-average selling price for all Specialty Chemicals products increased by 19% over the 2001 weighted average, resulting primarily from a greater proportion of higher-priced products sold and the favorable effect of strengthening currencies against the US dollar. Sales volume was down 15% from 2001, as the marketplace remains fiercely competitive mainly due to price pressure from low cost manufacturers in Asia.

The average cost of CST, the principal raw material for the business, remained relatively level with the prior year. Production costs and other cost of sales increased in 2002 compared to 2001 due to expenses incurred as a result of planned and unplanned production outages and maintenance during the fourth quarter of 2002 and lower fixed cost absorption resulting from decreased production volume.

S,D&A costs were approximately equal to the prior year.

Other

	2003	2002	2001
	(Millions)		
Operating loss...	$(29)	$--	$(54)

2003 Versus 2002

Operating loss not identified with the three separate business segments for 2003 increased by $29 million from the prior year. This increase is primarily due to $18 million in reorganization and office closure charges associated with the Company's cost reduction program in 2003 (see "Cost Reduction Program; Suspension of Dividend" above), and a $6 million benefit in 2002 from a reduction of reserves due to favorable resolution of environmental claims related to predecessor businesses reserved for in prior years.

2002 Versus 2001

Operating loss not identified with the three separate business segments for 2002 was $54 million less than 2001 primarily due to $36 million of reorganization and plant closure costs included in 2001 that did not recur in 2002, a $15 million charge in 2001 to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses and a benefit of $6 million from the reduction of reserves in 2002 due to favorable resolution of environmental claims related to predecessor businesses reserved for in prior years.

Equistar

	Company's Share			Reported by Equistar		
	2003	2002	2001	2003	2002(1)	2001
			(Millions)			
Loss on Equistar investment...	$(100)	$(73)	$(83)	$(339)	$(246)	$(283)

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(1) Before cumulative effect of accounting change

2003 Versus 2002

The Company recorded a loss from its investment in Equistar of $100 million in 2003 compared to a loss of $73 million in 2002. Equistar reported a loss in 2003 of $339 million compared to a loss before the cumulative effect of an accounting change for goodwill in 2002 of $246 million. Equistar's operating loss in 2003 of $89 million was $45 million higher than the operating loss in 2002 of $44 million. The increase in Equistar's operating loss in 2003 compared to 2002 includes $22 million lower operating income in the Petrochemicals segment, a $4 million greater loss in the Polymers segment, and a $19 million increase in expenses not allocated to Equistar's separate business segments, which is primarily due to higher pension and medical benefit costs and a higher provision for doubtful accounts. Other non-operating expenses and interest expense, net of interest income, which are not included in Equistar's operating income, were $45 million and $3 million higher in 2003 than 2002, respectively. The $45 million increase in other expenses in 2003 is primarily due to $37 million of refinancing charges related to Equistar's financing activities in 2003. These financing activities included the issuance of $700 million of new senior unsecured notes that deferred Equistar's debt maturities, the restructuring of its credit facility, and the commencement of a new receivables sales facility.

Operating income in Equistar's Petrochemicals segment of $124 million decreased $22 million, or 15%, from 2002 primarily due to the negative effect of two scheduled maintenance turnarounds and 3% lower sales volume, partially offset by approximately $33 million of higher costs in 2002 as the result of certain above-market fixed price contracts for natural gas and natural gas liquids. Revenues in the Petrochemicals segment were 22% higher in 2003 than 2002 due to higher sales prices, partly offset by lower sales volume. In 2003, in response to significantly higher raw material and energy costs compared to 2002, Equistar implemented significant sales price increases for substantially all of its petrochemical products. However, the magnitude of these price increases had a negative effect on product demand, and contributed to lower sales volume in 2003. Benchmark ethylene sales prices averaged 28% higher in 2003 compared to 2002 in response to significant increases in the cost of ethylene production, while benchmark propylene sales prices averaged 19% higher. However, cost of sales for the Petrochemicals segment in 2003 increased approximately 23% compared to 2002 due to higher raw material costs, primarily crude oil-based liquids and natural gas-based liquids, and energy. The benchmark cost of ethylene production averaged 32% higher in 2003 compared to 2002, while benchmark natural gas costs averaged 63% higher.

The operating loss in Equistar's Polymers segment of $78 million increased $4 million, or 5%, from the prior year, including a $12 million loss on the sale of its Bayport polypropylene production facility and an $11 million write-off of a research and development facility in 2003. Excluding the effect of these losses, the operating loss in the Polymers segment was $19 million lower in 2003 compared to 2002 due to higher product margins partially offset by a 12% decrease in sales volume. Average sales prices in 2003 increased 23% compared to 2002 in response to higher raw material costs, primarily ethylene. The higher average sales prices more than offset the higher raw material costs and contributed to the higher product margins. However, the magnitude of these sales price increases had a negative effect on product demand resulting in the decrease in sales volume. The sale of the Bayport polypropylene production facility in 2003 also contributed to the lower sales volume.

2002 Versus 2001

The Company recorded a loss from its investment in Equistar of $73 million in 2002 compared to a loss of $83 million in 2001. Equistar reported a loss for 2002 of $246 million, before the cumulative effect of an accounting change, compared to a loss of $283 million for 2001. Equistar's operating losses in 2002 of $44 million were $55 million lower than the $99 million of operating losses in the prior year. Equistar's operating losses in the prior year include $33 million of goodwill amortization that was suspended on January 1, 2002 in accordance with SFAS No. 142, and $22 million of plant closure costs related to the shutdown of Equistar's Port Arthur, Texas plant. Operating income in the Petrochemicals segment decreased by $129 million compared to the prior year, while the Polymers segment reported operating losses of $112 million lower than those incurred in 2001. Equistar's expenses

not allocated to its separate business segments decreased by $72 million primarily due to the goodwill amortization and plant closure costs incurred in 2001. Equistar's interest costs increased by $13 million in 2002 compared to 2001.

Operating income in the Petrochemicals segment of $146 million for 2002 decreased $129 million or 47% from the prior year as sales prices decreased more than raw material costs, resulting in lower product margins in 2002 compared to 2001. The effect of the lower 2002 product margins was only partly offset by the benefit of a 4% increase in sales volume, which was in line with industry demand growth. Equistar's sales prices in 2002 averaged 11% lower than in 2001, reflecting lower raw material costs and low demand growth coupled with excess industry capacity. These lower sales prices were slightly offset by higher 2002 co-product propylene sales prices. Cost of sales decreased 6% compared to the prior year, 2% less than the percent decrease in revenues. While the costs of natural gas and natural gas liquid raw materials decreased from historically high levels experienced in 2001, other raw material costs, such as heavy liquids, did not decrease similarly.

The operating loss in the Polymers segment of $74 million for 2002 decreased $112 million compared to the operating loss of $186 million in 2001. The $112 million improvement was due to higher polymers product margins and, to a lesser extent, higher sales volume. Margins improved in 2002 compared to 2001, as decreases in sales prices were less than the decreases in polymers raw material costs. Sales prices decreased by 9% from 2001, partially offset by a 4% increase in sales volume. Lower sales prices in 2002 reflected generally lower raw material costs compared to 2001. Sales volume increased due to stronger demand in 2002 compared to 2001. Cost of sales decreased 10% compared to the prior year, or 4% more than the percent decrease in revenues. The decrease during 2002 reflected lower raw material costs, primarily ethylene, and lower energy costs, partly offset by the 4% increase in sales volume. Benchmark ethylene prices were 16% lower and were only partly offset by a 3% increase in benchmark propylene prices in 2002 compared to 2001.

Interest Expense

	2003	2002	2001
	(Millions)		
Interest expense, net...	$92	$86	$82

During 2003, interest expense, net of interest income, increased $6 million to $92 million from $86 million in the prior year. The $6 million increase in interest expense was due to higher average debt levels throughout the year compared to the prior year and the higher cost of debt due to the Company's issuance of additional 9.25% Senior Notes, as more fully described in "Liquidity and Capital Resources" below. Interest expense, net was $86 million in 2002 versus $82 million in 2001, primarily due to higher debt levels throughout the year and the Company's issuance of additional 9.25% Senior Notes in 2002.

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 2003, the Company financed its foreign operations through cash generated from those foreign operations and its domestic operations through cash generated from domestic operations and cash from various sources of external financing. 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 and it is unlikely the Company will receive any cash distributions from Equistar in 2004.

Cash used in operating activities for the year ended December 31, 2003 was $90 million compared to $84 million of cash provided by operating activities in the year ended December 31, 2002. The $174 million decrease was primarily due to unfavorable movements in trade working capital ($143 million), lower operating income before non-cash asset impairment charges and depreciation and amortization ($17 million), and various other net unfavorable changes ($14 million), including a $19 million payment to the Internal Revenue Service relating to a preliminary settlement of federal tax for audit years 1989 through 1992. The unfavorable movement in trade working capital (defined as trade receivables, inventories and trade accounts payable) in 2003 compared to 2002 is primarily due to the termination of the Company's European receivables securitization program (see "European Receivables Securitization Program" below), timing of vendor payments, and slightly higher inventory balances.

Cash used in investing activities for the year ended December 31, 2003 was $48 million compared to $70 million used in 2002. Capital expenditures in 2003 were $48 million, down from $71 million in 2002.

Cash provided by financing activities was $203 million for the year ended December 31, 2003 compared to $2 million used in 2002. Financing activities in 2003 included $220 million of net debt proceeds, while 2002 included $33 million of net debt proceeds. Dividends paid to shareholders totaled $17 million in 2003 and $35 million in 2002.

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 charges for the year ended December 31, 2003 of $18 million, of which $17 million is for severance-related costs and $1 million is 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. Substantially all of the remaining charges for this program, estimated at $1 million to $3 million, are expected to be recorded during the next several quarters. Severance-related cash payments of $14 million for the implementation of this program were made during the year ended December 31, 2003. Substantially all of the remainder of the cash payments relating to this program, which are estimated to be approximately $11 million, will be disbursed during the next several quarters.

In addition, 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. The decision to suspend payment of dividends in mid-2003 decreased the Company's reported cash outflows from financing activities by approximately $17 million in 2003 compared to 2002, and will decrease cash outflows by an additional $17 million in 2004, resulting in a total annual reduction of cash outflows of approximately $34 million.

In 2002, the Company's cash flows provided by operating activities was $84 million compared to $112 million provided in 2001. The $28 million decrease was primarily due to movements in trade receivables and trade accounts payable that were favorable to a lesser extent during 2002 compared to the prior year ($128 million), and unfavorable movements in other current assets compared to favorable movements in the prior year ($53 million), partially offset by higher operating income before depreciation and amortization in 2002 compared to 2001 ($58 million), movements in other long-term liabilities that were unfavorable to a lesser extent during 2002 than 2001 ($36 million, including $12 million of proceeds from the termination of interest rate swaps in 2002), and favorable movements in inventories, accrued expenses and other liabilities and taxes payable compared to unfavorable movements in the prior year ($57 million). Various other changes resulted in a net favorable movement compared to the prior year ($2 million). Capital expenditures for 2002 were $71 million, down from $97 million in 2001. In 2002, the Company received approximately $1 million in proceeds from the sales of property, plant and equipment, a decrease of $18 million from the $19 million of proceeds received in 2001, which included proceeds of $17 million from the sale of the Company's research center under a sale-leaseback arrangement.

Net debt (short-term and long-term debt less cash) at December 31, 2003 totaled $1.258 billion compared to $1.117 billion at the end of 2002. At December 31, 2003, the Company had approximately $113 million of unused availability under short-term uncommitted lines of credit and its five-year credit agreement expiring June 18, 2006 (the "Credit Agreement"). The Company's focus in 2004 is to sustain the benefits of cost reduction efforts achieved to date, achieve further benefits from cost reduction actions announced in the third quarter of 2003, 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.

At February 29, 2004, the Company had $21 million outstanding undrawn standby letters of credit and no outstanding borrowings under the revolving loan portion of the Credit Agreement (the "Revolving Loans") and, accordingly, had $129 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 $7 million. As these letters of credit and bank guarantees mature, the issuers could require the Company to renew them under the Credit Agreement. If this were to occur, it would result in a corresponding decrease in availability under the Credit Agreement. Additionally, at February 29, 2004, the Company had unused availability under short-term uncommitted lines of credit, other than the Credit Agreement, of

$34 million. For a discussion of the term loan repayment and the covenants under the Credit Agreement, see "Financing and Capital Structure" below.

Capital Expenditures

	2003	2002	2001
	(Millions)		
Additions to property, plant and equipment...............	$48	$71	$97

Capital spending for 2003 was $48 million compared to depreciation and amortization of $113 million. The 32% decrease in capital spending from 2002 reflects the Company's continued focus on optimization of its capital base. Capital expenditures in 2003 were primarily associated with replacement capital projects and certain environmental, cost reduction, and yield-improvement projects.

Planned capital spending in 2004 is projected to be approximately $60 million primarily for maintenance capital and cost reduction, yield-improvement and environmental projects. The Company expects to finance its planned capital spending using cash generated from operations and through availability under its

Credit Facility, if necessary.

Capital spending for 2002 was $71 million compared to depreciation and amortization of $102 million. The 27% decrease in capital spending from 2001 reflects the Company's continued focus on optimization of its capital base. Major expenditures included installation of a dredge and certain related processing equipment at the mine in Mataraca, Paraiba, Brazil, and environmental improvement projects at the Company's TiO[u]2 manufacturing locations in France and the United States. In addition, expenditures included cost reduction and yield-improvement projects at various sites.

Capital spending for 2001 was $97 million compared to depreciation and amortization of $110 million. The 12% decrease in capital spending from 2000 reflected the Company's focus on optimization of its capital base. Major expenditures included continuation of projects begun in 2000, including design and installation of a dredge and certain related processing equipment in Mataraca, Paraiba, Brazil, and the design and construction of new TiO[u]2 packaging equipment, as well as environmental improvement projects at the Company's TiO[u]2 manufacturing locations in France. In addition, expenditures included cost reduction and yield improvement projects at various sites.

Financing and Capital Structure

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 4.00% Convertible Senior Debentures due 2023, unless earlier redeemed, converted or repurchased (the "4.00% Convertible Senior Debentures"), which are guaranteed by Millennium America Inc. ("Millennium America"), a wholly-owned indirect subsidiary of the Company. 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 of the Credit Agreement (the "Term Loans") and $103 million of outstanding borrowings under the Revolving Loans, which currently have 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.

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. 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. 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 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, filed an amended registration statement. However, as of December 31, 2003, the exchange offer registration statement has 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 the registration statement becomes effective.

In June 2002, the Company received approximately $100 million in net proceeds ($102.5 million in gross proceeds) from the completion of an offering by Millennium America of $100 million additional principal amount at maturity of the 9.25% Senior Notes. The gross proceeds of the offering were used to repay all of the $35 million of outstanding borrowings at that time under the Company's Revolving Loans and to repay $65 million outstanding under the Term Loans. During 2001, the Company refinanced $425 million of borrowings and paid refinancing expenses of $11 million with the combined proceeds of the Credit Agreement, which provided the Revolving Loans and $125 million in Term Loans, and the issuance of $275 million aggregate principal amount of 9.25% Senior Notes by Millennium America. Millennium Chemicals and Millennium America guarantee the obligations under the Credit Agreement.

The Credit Agreement contains various restrictive covenants and requires that the Company meet certain financial performance criteria. The financial covenants in the Credit Agreement, prior to the amendment consummated in the fourth quarter of 2003, which is described below, included a Leverage Ratio and an Interest Coverage 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 the amendment in the fourth quarter of 2003. The Interest Coverage Ratio is the ratio of cumulative EBITDA for the prior four fiscal quarters to Net Interest Expense, for the same period, each as defined in the Credit Agreement prior to the amendment in the fourth quarter of 2003. To permit the Company to be in compliance, these covenants were amended in the fourth quarter of 2001, in the second quarter of 2002, in the second quarter of 2003, and in the fourth quarter of 2003. The amendment in the second quarter of 2002 was conditioned upon the consummation of the June 2002 offering of $100 million additional principal amount of the 9.25% Senior Notes and using such proceeds for the repayment of the Credit Agreement debt, as described above. The amendment in the second quarter of 2003 was not conditioned on the sale of the 9.25% Senior Notes in April 2003. The amendment in the fourth quarter of 2003 was conditioned on the Company obtaining at least $110 million of long-term financing in the capital markets, which the Company satisfied by the sale of $150 million of the 4.00% Convertible Senior Debentures. The amendment in the fourth quarter of 2003 amended, among other things, the maximum availability under the Credit Agreement from $175 million to $150 million, the performance criteria for the financial covenants, the definition of EBITDA, and replaced the Leverage Ratio with a Senior Secured Leverage Ratio. Under the financial covenants now in effect, the Company is required to maintain a Senior Secured Leverage Ratio, defined as the ratio of Senior Secured Indebtedness, 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 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 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. In addition, the maximum availability under the Credit Agreement will be decreased by 50% of the aggregate Net Cash Proceeds received from such asset sales in excess of $100 million from November 18, 2003, the effective date of the fourth quarter 2003 amendment. Any sale involving Equistar or certain inventory or accounts receivable will 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.

The Company was in compliance with all covenants under the Credit Agreement at December 31, 2003. Compliance with these covenants is monitored frequently in order to assess the likelihood of continued compliance.

The indenture governing the Company's $500 million aggregate principal amount of 7.00% Senior Notes due November 15, 2006 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") 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 December 31, 2003, any reduction in CNTA below approximately $1.0 billion would decrease the Company's availability under the Revolving Loans by 15% of any such reduction. CNTA was approximately $2.1 billion at December 31, 2003. 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 Millennium Chemicals and/or certain of its subsidiaries 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 Millennium Chemicals and its Restricted Subsidiaries 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 making any such payments 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 has fallen 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 S&P and Moody's 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 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. At the time the 4.00% Convertible Senior Debentures were issued, the common price per share exceeded the trading value of the Company's Common Stock. 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.

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. 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.

At December 31, 2003, 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 July 22, 2003, S&P lowered the Company's credit rating from BB+ to BB, citing the Company's July 2003 announcement regarding weak sales volume and competitive pricing pressures in the titanium dioxide business for the second quarter of 2003, as well as lingering economic uncertainties and the potential for additional raw material pressures in the petrochemicals industry as factors that are likely to further delay the Company's efforts to restore its financial profile. On September 22, 2003, S&P again lowered the Company's credit rating from BB to BB- citing the Company's subpar financial profile and weaker-than-expected prospects for reducing its substantial debt burden over the next couple of years, and revised its outlook from negative to stable. On November 19, 2003, S&P assigned its BB- rating to the 4.00% Convertible Senior Debentures, and affirmed its BB- rating of the Company with a stable outlook. Moody's announced on August 13, 2003, that it had lowered the Company's senior implied rating to Ba2, and the Senior Notes' rating to Ba3, citing the Company's high leverage, modest coverage of interest expense, weaker than anticipated Ti(O2) demand and potential covenant compliance issues. On November 19, 2003, Moody's again lowered the Company's senior implied rating from Ba2 to Ba3, and the Senior Notes' rating from Ba3 to B1 and affirmed its ratings outlook of negative, citing the challenging operating conditions within the Ti(O2) business, a significant deterioration in 2003 cash flow performance, and Moody's expectation that a protracted recovery in the TiO(2) business will limit the Company's ability to de-lever for the medium-term. These actions by S&P and Moody's could heighten concerns of the Company's creditors and suppliers which could result in these creditors and suppliers placing limitations on credit extended to the Company and demands from creditors for additional credit restrictions or security.

The Company uses gold as a component in a catalyst at its La Porte, Texas facility. In April 1998, the Company entered into an agreement that provided the Company with the right to use gold owned by a third party for a five-year term.

In April 2003, the Company renewed this agreement for a one-year term and simultaneously entered into a forward purchase agreement in order to mitigate the risk of change in the market price of gold. The renewed agreement required the Company to either deliver the gold to the counterparty at the end of the term or pay to the counterparty an amount equal to its then-current value. The renewed agreement provided that if the Company was downgraded below BB by S&P or Ba2 by Moody's, the third party could require the Company to purchase the gold at its then-current value. After discussions with the counterparty to the agreement as to whether the counterparty had the right to require the Company to purchase the gold due to Moody's August 13, 2003 announcement referenced above, the Company determined to terminate the renewed agreement and purchase the gold for its then-current market value. On August 28, 2003, the Company paid the counterparty $14 million, net of $1 million of proceeds from the termination of its forward purchase contract. The Company's obligation under this agreement was $14 million at December 31, 2002, and was included in Other short-term borrowings. The change in value of the gold and the Company's obligation under this agreement, which is included in Selling, development and administrative expense, was a loss of $1 million and $3 million for each of the years ended December 31, 2003 and 2002, respectively, and was not significant for the year ended December 31, 2001. The change in value of the

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forward purchase agreement was a gain of $1 million for the year ended December 31, 2003, which is included in S,D&A expense.

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 are no balances outstanding at December 31, 2003.

Transferred trade receivables outstanding at December 31, 2002 that qualified as a sale were $61 million and were not included in the Company's Consolidated Balance Sheet at December 31, 2002. The Company carried its retained interest in a portion of the transferred assets that did not qualify as a sale, $9 million at December 31, 2002, in Trade receivables, net in its Consolidated Balance Sheet at amounts that approximated net realizable value based upon the Company's historical collection rate for these trade receivables. For the years ended December 31, 2003 and 2002, cumulative gross proceeds from this securitization arrangement were $281 million and $213 million, respectively. Cash flows from the securitization arrangement were reflected as operating activities in the Consolidated Statements of Cash Flows. For the years ended December 31, 2003 and 2002, the aggregate loss on sale associated with this arrangement was $2 million and $2 million, respectively. Administration and servicing of the trade receivables under the arrangement remained with the Company. Servicing liabilities associated with the transaction were not significant at December 31, 2002.

Contractual Obligations

In addition to the Company's long-term indebtedness, in the ordinary course of business, the Company enters into contractual obligations to purchase raw materials, utilities and services for fixed or minimum amounts and lease arrangements for certain property, plant and equipment. Following is a schedule that shows long-term debt, unconditional purchase obligations, lease commitments and certain other contractual obligations as of December 31, 2003:

	2004	2005	2006	2007	2008	Thereafter	Total
				(Millions)			
Long-term debt	$ 6	$ 5	$557	$ 2	$476	$ 404	$1,450
Operating leases	20	15	12	11	11	75	144
VAM toll	63	67	72	--	--	--	202
Unconditional purchase obligations	332	272	224	173	99	750	1,850
Total contractual obligations (1) ...	$421	$359	$865	$186	$586	$1,229	$3,646

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(1) Contractual obligations exclude $272 million of deferred income taxes and $325 million of other non-current liabilities. Due to the nature of these estimated liabilities there are no contractual payments scheduled for ultimate settlement. Other non-current liabilities consist primarily of estimated liabilities for pension and other postretirement benefits, resolution of probable tax assessments, environmental and other legal contingencies, and asset retirement obligations. (See Notes 11, 7, 15 and 1, respectively, to the Consolidated Financial Statements included in this Amendment No. 2).

Off-Balance Sheet Financing Arrangements

The Company has no material off-balance sheet financing arrangements other than the European receivables securitization program, which was terminated in November 2003, as described in "European Receivables Securitization Program" above, and various operating leases as described in "Contractual Obligations" above.

Environmental and Litigation Matters

Certain Company subsidiaries have been named as defendants, 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 million for several small sites and $22 million for the Kalamazoo River Superfund Site in Michigan. In October 2000, the Kalamazoo River Study Group, of which one of the Company's subsidiaries is a member, evaluated a number of remedial options for the Kalamazoo River Superfund Site and recommended a remedy at a total collective cost of $73 million. The collective exposure for the Kalamazoo River Superfund Site could range from $0 to $2.5 billion if one of the previously identified remedial options is selected by the EPA; however, the Company strongly believes that the likelihood of the cost being either $0 or $2.5 billion is remote. Another as yet unidentified remedial option may also be selected by the EPA. Based upon an interim allocation, the Company is paying 35% of costs related to studying and evaluating the environmental conditions of the river. Guidance as to how the EPA will likely proceed with any further evaluation and remediation at the Kalamazoo site is not expected until late 2004 at the earliest. At the point in time when the EPA announces how it intends to proceed with any such evaluation and remediation, the Company's estimate of its liability at the Kalamazoo site will be re-evaluated. In addition, the Company and various of its subsidiaries are defendants in a number of pending legal proceedings relating to present and former operations. The Company believes that the reasonably probable and estimable range of potential liability for such environmental and litigation contingencies, collectively, is between $53 million and $78 million and has accrued $61 million as of December 31, 2003. See "Environmental Matters" in Item 1 and "Legal Proceedings" in Item 3 included in Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2003.

Inflation

The financial statements are presented on a historical cost basis. While the United States' inflation rate has been modest for several years, the Company operates in many international areas with both inflation and currency instability. The ability to pass on inflation costs is an uncertainty due to general economic conditions and competitive situations.

Foreign Currency Matters

The functional currency of each of the Company's non-United States operations (principally, the Company's Ti(O2) operations in the United Kingdom, France, Brazil and Australia) is generally the local currency. The Company is subject to the strengthening and weakening of various currencies against each other and against the US dollar. Foreign currency exposure from transactions and commitments denominated in currencies other than the functional currency are managed by selectively entering derivative transactions pursuant to the Company's hedging practices. Translation exposure associated with translating the functional currency financial statements of the Company's foreign subsidiaries into US dollars is generally not hedged. Upon translation to the US dollar, operating results could be significantly affected by foreign currency exchange rate fluctuations. Since the Company's mix of foreign denominated revenues and costs compared to functional currency denominated revenues and costs varies significantly from subsidiary to subsidiary, it is difficult to predict the impact foreign currency exchange fluctuations will have on the Company's results. Costs associated with the Company's non-United States operations are predominately denominated in foreign currencies; however, a portion of the revenue generated by these non-United States operations is denominated in US dollars. Consolidated Shareholders' deficit decreased approximately $128 million and $27 million in 2003 and 2002, respectively, and consolidated shareholders' equity decreased $19 million during 2001 as a result of translating subsidiary financial statements into US dollars. Future events, which may significantly increase or decrease the risk of future movements in foreign currencies in which the Company conducts business, cannot be predicted.

The Company generates revenue from export sales and revenue from operations conducted outside the United States that may be denominated in currencies other than the relevant functional currency. Revenues earned outside the United States accounted for 62%, 59% and 54% of total revenues in 2003, 2002 and 2001, respectively. These revenues were denominated in US dollars as well as other currencies.

Net foreign currency transactions aggregated losses of $2 million and $7 million in 2003 and 2001, respectively, and gains of $3 million in 2002.

Derivative Instruments and Hedging Activities

As more fully described in Note 9 to the Consolidated Financial Statements included in this Amendment No. 2, the Company is exposed to market risk, such as changes in currency exchange rates, interest rates and commodity pricing, and manages these exposures by selectively entering into derivative transactions pursuant to the Company's policies for hedging practices. The counterparties to the derivative financial instruments entered by the Company are major institutions deemed to be creditworthy by the Company and generally are financial institutions that provide the Company with debt financing. The Company does not hold or issue derivative financial instruments for speculative or trading purposes.

Derivative contracts outstanding at December 31, 2003 were as follows:

Foreign Currency Forward Contracts

	Notional Amount (US$ Equivalent)(1)	Unrealized Gain/(Loss)(2)	Weighted Average Settlement Price
	(Dollars, in millions)		
Less than 1 year			
Receive GBP/Pay US$....	$ 5	$--	1.7656 US$/GBP
Receive GBP/Pay euro...	121	(2)	0.6975 GBP/euro
Receive euro/Pay US$...	6	--	1.1670 US$/euro
Receive AUS$/Pay US$...	38	3	0.6958 US$/AUS$
Receive US$/Pay euro...	30	(1)	1.1967 US$/euro
Receive US$/Pay GBP....	3	--	1.6823 US$/GBP
Receive GBP/Pay JPY....	1	--	186.1600 JPY/GBP
		$--	

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(1) US$ equivalent was determined based upon currency exchange rates at December 31, 2003.

(2) As of December 31, 2003.

Commodity Derivative Instruments

	Notional Amount	Unrealized Gain/(Loss)(1)	Weighted Average Settlement Price/ Strike Price
	(Dollars, in millions)		
Less than 1 year			
Natural Gas Swap Contracts...	$1	$--	Pay $5.37/mmbtu, receive NYMEX settlement
Purchased Call Options.......	7	--	$6.25
Written Put Options..........	1	--	4.25
Written Call Options.........	1	--	7.25
		$--	

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(1) As of December 31, 2003.

Interest Rate Swaps

	Notional Amount	Unrealized Gain/(Loss)(1)	Weighted Average Pay/Receive
	(Dollars, in millions)		
2-3 Years			
Interest Rate Swap Contracts...	$225	$3	Pay six months LIBOR plus 3.22%, receive 7%

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(1) As of December 31, 2003.

Non-Derivative Financial Instruments and Other Market-Related Risks

See Note 10 to the Consolidated Financial Statements included in this Amendment No. 2.

Recent Accounting Developments

See the discussion under the caption "Recent Accounting Developments" in Note 1 to the Consolidated Financial Statements included in this Amendment No. 2.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Millennium Chemicals Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows, and changes in shareholders' equity (deficit) present fairly, in all material respects, the financial position of Millennium Chemicals Inc. and its subsidiaries (the "Company") at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(1) on page 81 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the Consolidated Financial Statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets".

As discussed in Note 19 to the Consolidated Financial Statements, the Company has restated its financial statements for the years ended December 31, 2003, 2002 and 2001.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Florham Park, NJ
March 8, 2004, except for the impact of the restatement in Note 19, as to which date is August 6, 2004

MILLENNIUM CHEMICALS INC.
CONSOLIDATED BALANCE SHEETS
(Millions, except share data)

	As of Dec
	2003 (Restated - See Note 19)
ASSETS	
Current assets	
Cash and cash equivalents	$ 209
Trade receivables, net	277
Inventories	457
Other current assets	65
Total current assets	1,008
Property, plant and equipment, net	766
Investment in Equistar	469
Other assets	51
Goodwill	104
Total assets	$2,398
LIABILITIES AND SHAREHOLDERS' DEFICIT	
Current liabilities	
Notes payable	$ --
Other short-term borrowings	--
Current maturities of long-term debt	6
Trade accounts payable	236
Income taxes payable	5
Accrued expenses and other liabilities	124
Total current liabilities	371
Long-term debt	1,461
Deferred income taxes	272
Other liabilities	325
Total liabilities	2,429
Commitments and contingencies (Note 15)	
Minority interest	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 in 2003 and 2002, respectively)	1
Paid in capital	1,292
Accumulated deficit	(962)

Cumulative other comprehensive loss	(141)
Treasury stock, at cost (13,905,687 and 14,766,279 shares in 2003 and 2002, respectively)	(260)
Unearned restricted shares	(1)
Deferred compensation	13
Total shareholders' deficit	(58)
Total liabilities and shareholders' deficit	$2,398

See Notes to Consolidated Financial Statements.

MILLENNIUM CHEMICALS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Millions, except per share data)

	Year Ended December 31,		
	2003	2002	2001
Net sales	$1,687	$1,554	$1,590
Operating costs and expenses			
Cost of products sold	1,377	1,234	1,261
Depreciation and amortization	113	102	110
Selling, development and administrative expense	127	138	169
Reorganization, office and plant closure costs	18	--	36
Asset impairment charges	103	--	--
Operating (loss) income	(51)	80	14
Interest expense	(98)	(90)	(85)
Interest income	6	4	3
Loss on Equistar investment	(100)	(73)	(83)
Other (expense) income, net	--	(1)	1
Loss before income taxes and minority interest	(243)	(80)	(150)
Benefit from income taxes	65	58	100
Loss before minority interest and cumulative effect of accounting change	(178)	(22)	(50)
Minority interest	(5)	(6)	(4)
Loss before cumulative effect of accounting change	(183)	(28)	(54)
Cumulative effect of accounting change	(1)	(305)	--
Net loss	$ (184)	$ (333)	$ (54)
Basic and diluted loss per share:			
Before cumulative effect of accounting change	$(2.86)	$(0.44)	$(0.85)
From cumulative effect of accounting change	(0.02)	(4.80)	--

After cumulative effect of accounting change	$(2.88)	$(5.24)	$(0.85)

See Notes to Consolidated Financial Statements.

MILLENNIUM CHEMICALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions)

	Year Ended December 31,		
	2003	2002	2001
Cash flows from operating activities:			
Net loss	$(184)	$(333)	$ (54)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Cumulative effect of accounting change	1	305	--
Asset impairment charges	103	--	--
Write-off of assets related to plant closure	--	--	10
Depreciation and amortization	113	102	110
Deferred income tax benefit	(40)	(35)	(68)
Non-cash income tax benefit	(37)	(22)	(42)
Loss on Equistar investment	100	73	83
Minority interest	5	6	4
Other, net	9	5	1
Changes in assets and liabilities:			
(Increase) decrease in trade receivables	(56)	7	83
(Increase) decrease in inventories	(13)	4	(3)
Decrease (increase) in other current assets	30	(23)	30
Decrease (increase) in other assets	2	(16)	(19)
(Decrease) increase in trade accounts payable ..	(51)	12	64
(Decrease) increase in accrued expenses and other liabilities and income taxes payable ..	(29)	15	(35)
Decrease in other liabilities	(43)	(16)	(52)
Cash (used in) provided by operating activities	(90)	84	112
Cash flows from investing activities:			
Capital expenditures	(48)	(71)	(97)
Proceeds from sales of property, plant & equipment	--	1	19
Cash used in investing activities	(48)	(70)	(78)
Cash flows from financing activities:			
Dividends to shareholders	(17)	(35)	(35)
Proceeds from long-term debt, net	626	302	783
Repayment of long-term debt	(387)	(272)	(736)
(Decrease) increase in notes payable and other short-term			

borrowings	(19)	3	(34)
Cash provided by (used in) financing activities	203	(2)	(22)
Effect of exchange rate changes on cash	19	(1)	(5)
Increase in cash and cash equivalents	84	11	7
Cash and cash equivalents at beginning of year	125	114	107
Cash and cash equivalents at end of year	$ 209	$ 125	$ 114

See Notes to Consolidated Financial Statements.

MILLENNIUM CHEMICALS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
(Millions)

	Common Stock				
	Outstanding Shares	Amount	Treasury Stock	Deferred Compensation	P Ca
Balance at December 31, 2000 (Restated - See Note 19)	64	$ 1	$(282)	$15	$
Comprehensive loss					
Net loss	--	--	--	--	
Other comprehensive loss					
Net losses on derivative financial instruments:					
Losses arising during the year, net of tax of $5	--	--	--	--	
Less: reclassification adjustment, net of tax of $3	--	--	--	--	
Net losses	--	--	--	--	
Minimum pension liability adjustment, net of tax of $3	--	--	--	--	
Currency translation adjustment	--	--	--	--	
Total comprehensive loss	--	--	--	--	
Amortization and adjustment of unearned restricted shares	--	--	--	--	
Dividends related to forfeiture of Restricted shares	--	--	--	--	
Shares purchased by employee benefit plan trusts	(1)	--	(1)	2	

Dividend to shareholders	--	--	--	--	
	---	---	-----	---	-
Balance at December 31, 2001 (Restated - See Note 19)	63	1	(283)	17	
Comprehensive loss					
Net loss	--	--	--	--	
Other comprehensive loss					
Net gains on derivative financial instruments:					
Gains arising during the year, net of tax of $2	--	--	--	--	
Less: reclassification adjustment	--	--	--	--	
	---	---	-----	---	-
Net gains	--	--	--	--	
Minimum pension liability adjustment, net of tax of $98	--	--	--	--	
Equity in other comprehensive loss of Equistar:					
Minimum pension liability, net of tax of $4	--	--	--	--	
Currency translation adjustment	--	--	--	--	
	---	---	-----	---	-
Total comprehensive loss	--	--	--	--	
Shares issued to fund 401(k) plan	--	--	6	--	
Shares purchased by employee benefit plan trusts	--	--	2	(2)	
Current year compensation deferred	--	--	--	2	
Dividend to shareholders	--	--	--	--	
	---	---	-----	---	-
Balance at December 31, 2002 (Restated - See Note 19)	63	1	(275)	17	
Comprehensive loss					
Net loss	--	--	--	--	
Other comprehensive income (loss)					
Net losses on derivative financial instruments:					
Losses arising during the year, net of tax of $2	--	--	--	--	
Less: reclassification adjustment, net of tax of $2	--	--	--	--	
	---	---	-----	---	-
Net losses	--	--	--	--	
Minimum pension liability adjustment, net of tax of $14	--	--	--	--	
Equity in other comprehensive loss of Equistar:					
Minimum pension liability, net of tax of $2	--	--	--	--	
Net gains on derivative financial instruments	--	--	--	--	
Currency translation adjustment	--	--	--	--	
	---	---	-----	---	-
Total comprehensive loss	--	--	--	--	
Shares issued to fund 401(k) plan	1	--	7	--	
Shares purchased by employee benefit plan trusts	--	--	8	(4)	
Dividend to shareholders	--	--	--	--	
	---	---	-----	---	-
Balance at December 31, 2003 (Restated - See Note 19)	64	$ 1	$(260)	$13	$

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	Accumulated Deficit	Unearned Restricted Shares	Cumulative Other Comprehensive Loss	Total
Balance at December 31, 2000 (Restated - See Note 19)	$(307)	$(25)	$(107)	$ 621
Comprehensive loss				
Net loss	(54)	--	--	(54)
Other comprehensive loss				
Net losses on derivative financial instruments:				
Losses arising during the year, net of tax of $5	--	--	(12)	(12)
Less: reclassification adjustment, net of tax of $3	--	--	6	6
Net losses	--	--	(6)	(6)
Minimum pension liability adjustment, net of tax of $3	--	--	(4)	(4)
Currency translation adjustment	--	--	(19)	(19)
Total comprehensive loss	(54)	--	(29)	(83)
Amortization and adjustment of unearned restricted shares	--	25	--	(2)
Dividends related to forfeiture of Restricted shares	3	--	--	3
Shares purchased by employee benefit plan trusts	--	--	--	1
Dividend to shareholders	(35)	--	--	(35)
Balance at December 31, 2001 (Restated - See Note 19)	(393)	--	(136)	505
Comprehensive loss				
Net loss	(333)	--	--	(333)
Other comprehensive loss				
Net gains on derivative financial instruments:				
Gains arising during the year, net of tax of $2	--	--	6	6
Less: reclassification adjustment	--	--	(1)	(1)
Net gains	--	--	5	5
Minimum pension liability adjustment, net of tax of $98	--	--	(188)	(188)
Equity in other comprehensive loss of Equistar:				
Minimum pension liability, net of tax of $4	--	--	(7)	(7)
Currency translation adjustment	--	--	27	27
Total comprehensive loss	(333)	--	(163)	(496)
Shares issued to fund 401(k) plan	--	--	--	4
Shares purchased by employee benefit plan trusts	--	--	--	--

Current year compensation deferred	--	--	--	2
Dividend to shareholders	(35)	--	--	(35)
Balance at December 31, 2002 (Restated - See Note 19)	(761)	--	(299)	(20)
Comprehensive loss				
Net loss	(184)	--	--	(184)
Other comprehensive income (loss)				
Net losses on derivative financial instruments:				
Losses arising during the year, net of tax of $2	--	--	(4)	(4)
Less: reclassification adjustment, net of tax of $2	--	--	4	4
Net losses	--	--	--	--
Minimum pension liability adjustment, net of tax of $14	--	--	26	26
Equity in other comprehensive loss of Equistar:				
Minimum pension liability, net of tax of $2	--	--	3	3
Net gains on derivative financial instruments	--	--	1	1
Currency translation adjustment	--	--	128	128
Total comprehensive loss	(184)	--	158	(26)
Shares issued to fund 401(k) plan	--	--	--	3
Shares purchased by employee benefit plan trusts	--	(1)	--	2
Dividend to shareholders	(17)	--	--	(17)
Balance at December 31, 2003 (Restated - See Note 19)	$(962)	$ (1)	$(141)	$ (58)

See Notes to Consolidated Financial Statements.

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MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except share data)

Note 1 -- Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of Millennium Chemicals Inc. and its majority-owned subsidiaries (the "Company"). All significant intercompany accounts and transactions have been eliminated. Minority interest represents the minority ownership of the Company's Brazilian subsidiary and the La Porte Methanol Company. 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.

Estimates and Assumptions: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to 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 the reported amounts of revenues and expenses during the reporting period. Such estimates include the evaluation of and judgments about environmental obligations, legal matters and tax claims brought against the Company, pension and other postretirement benefits, the ability to recover the full carrying value of accounts receivable and inventories owned by the Company, and the carrying value of goodwill, the Company's deferred tax assets and other long-term assets such as the Company's investment in Equistar. Actual results could differ from those estimates.

Reclassification: Certain prior year balances have been reclassified to conform with the current year presentation.

Revenue Recognition: Revenue is recognized upon transfer of title and risk of loss to the customer, which is generally upon shipment of product to the customer or upon usage of the product by the customer in the case of consignment inventories.

Costs incurred related to shipping and handling are included in cost of products sold. Amounts billed to the customer for shipping and handling are included in sales revenue.

Cash Equivalents: Cash equivalents represent investments in short-term deposits and commercial paper with banks that have original maturities of 90 days or less. In addition, Other assets include approximately $3 of restricted cash at December 31, 2003 and 2002, which is on deposit to satisfy insurance claims.

Inventories: Product inventories are stated at the lower of cost or market value. Raw materials and maintenance parts and supplies are carried at average cost. The first-in first-out ("FIFO") method, or methods that approximate FIFO, are used to determine cost for all product inventories of the Company.

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost or cost adjusted for impairment writedown, where appropriate. Depreciation is provided by the straight-line method over the estimated useful lives of the assets, generally 20 to 40 years for buildings and 5 to 25 years for machinery and equipment. Environmental costs are capitalized if the costs increase the value of the property and/or mitigate or prevent contamination from future operations. Major repairs and improvements incurred in connection with substantial overhauls or maintenance turnarounds are capitalized and amortized on a straight-line basis until the next planned turnaround (generally 18 months to 3 years). Other less substantial maintenance and repair costs are expensed as incurred. Unamortized capitalized turnaround costs were $22 and $19 at December 31, 2003 and 2002, respectively.

Capitalized Software Costs: The Company capitalizes costs incurred in the acquisition and modification of computer software used internally, including consulting fees and costs of employees dedicated solely to a specific project. Such costs are amortized over periods not exceeding 7 years and are subject to impairment evaluation under Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). Unamortized capitalized software costs of $30 and $43 at December 31, 2003 and 2002, respectively, are included in Property, plant and equipment.

MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollars in millions, except share data)

Note 1 -- Significant Accounting Policies - Continued

Goodwill: Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies. Through December 31, 2001, goodwill was amortized using the straight-line method over 40 years in accordance with accounting principles generally accepted in the United States of America, and management evaluated goodwill for impairment based on the anticipated future cash flows attributable to its operations in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("SFAS No. 121"). Such expected cash flows, on an undiscounted basis, were compared to the carrying value of the tangible and intangible assets and, if impairment was indicated, the carrying value of goodwill was adjusted. In the opinion of management, no impairment of goodwill existed at December 31, 2001 under SFAS No. 121.

On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). Under this new standard, all goodwill, including goodwill acquired before initial application of the standard, is not amortized but must be tested for impairment at least annually at the reporting unit level, as defined in the standard. Accordingly, the Company reported a charge for the cumulative effect of this accounting change of $275 in the first quarter of 2002 to write off certain of its goodwill related to its Acetyls business based upon the Company's estimate of fair value for this business considering expected future profitability and cash flows. Also in accordance with SFAS No. 142, Equistar reported an impairment of its goodwill in the first quarter of 2002. The write-off at Equistar required an adjustment of $30 to reduce the carrying value of the Company's investment in Equistar to its approximate proportional share of Equistar's Partners' capital. The Company reported this adjustment as a charge for the cumulative effect of this accounting change. In the opinion of management, no further adjustment to the carrying value of goodwill of $106 was required at December 31, 2002 under SFAS No. 142. Amortization expense was $13 for the year ended December 31, 2001 for the Company's goodwill. Additionally, the Company's share of amortization expense reported by Equistar for the year ended December 31, 2001 for its goodwill, included in Loss on Equistar investment, was $10. Following is a reconciliation of the reported net loss to net loss adjusted for goodwill amortization and the cumulative effect of the goodwill accounting change, and related per share amounts:

	Year Ended December 31,		
	2003	2002	2001
Reported net loss	$(184)	$(333)	$(54)
Goodwill amortization	--	--	13
Equistar goodwill amortization included in Loss on Equistar investment	--	--	10

Adjusted net loss................................	(184)	(333)	(31)
Cumulative effect of goodwill accounting change...	--	305	--
Adjusted net loss before cumulative effect of goodwill accounting change.....................	$(184)	$ (28)	$(31)

MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollars in millions, except share data)

Note 1 -- Significant Accounting Policies - Continued

	Year Ended December 31,		
Per share amounts:	2003	2002	2001
	Basic & Diluted	Basic & Diluted	Basic & Diluted
Reported net loss................................	$(2.88)	$(5.24)	$(0.85)
Goodwill amortization............................	--	--	0.20
Equistar goodwill amortization included in Loss on Equistar investment................	--	--	0.16
Adjusted net loss................................	(2.88)	(5.24)	(0.49)
Cumulative effect of goodwill accounting change...	--	4.80	--
Adjusted net loss before cumulative effect of goodwill accounting change....................	$(2.88)	$(0.44)	$(0.49)

Long-Lived Assets Other than Goodwill: The Company evaluates long-lived assets other than goodwill for impairment whenever facts and circumstances indicate that the carrying amount may not be fully recoverable. To analyze recoverability, undiscounted net future cash flows are projected over the remaining life of the assets. If these projected cash flows are less than the carrying amount, an impairment would be recognized, resulting in a writedown of assets with a corresponding charge to earnings. The impairment loss is measured based upon the difference between the carrying amount and the fair value of the assets.

Asset Retirement Obligations: 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 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. The ongoing annual expense resulting from the initial adoption of SFAS No. 143 is expected to be approximately $1. Activity associated with the asset retirement obligations other than the effect of initial adoption of SFAS No. 143 was $1 for the year ended December 31, 2003. The amount of the asset retirement obligation at December 31, 2003 was $13. Disclosure on a pro forma basis of net income and related per-share amounts as if SFAS No. 143 had been applied during all periods presented is omitted because the effect on pro forma net income is not significant. The pro forma amount of the asset retirement obligation at January 1, 2001, December 31, 2001, and December 31, 2002, as if SFAS No. 143 had been applied at the beginning of 2001, the earliest year presented, is $10, $11 and $12, respectively.

Environmental Liabilities and Legal Matters: The Company periodically reviews matters associated with potential environmental obligations and legal matters brought against the Company and evaluates, accounts, reports and discloses these matters in accordance with SFAS No. 5, "Accounting for Contingencies" ("SFAS No. 5"). In order to make estimates of liabilities, the Company's evaluation of and judgments about environmental obligations and legal matters are based upon the individual facts and circumstances relevant to the individual matters and include advice from legal counsel, if applicable. The Company establishes reserves by recording charges to its results of operations for loss contingencies that are considered probable (the future event or events are likely to occur) and for which the amount of loss can be reasonably estimated. When a loss contingency is considered

Note 1 -- Significant Accounting Policies - Continued

probable but the amount of loss can only be reasonably estimated within a range, the Company records a reserve for the loss contingency at the low end of the range but also applies judgment to specific matters as to whether any particular amount within the range is a better estimate than any other amount. If an amount within the range is considered to be a better estimate of the loss, the Company records this amount as its reserve for the loss contingency. Reserves are exclusive of claims against third parties, except where the amount of liability or contribution by such other parties, including insurance companies, has been agreed, and are not discounted. Loss contingencies that are not considered probable or that cannot be reasonably estimated are disclosed in the Notes to the Consolidated Financial Statements, either individually or in the aggregate, if there is a reasonable possibility that a loss may be incurred and if the amount of possible loss could have a significant impact on the Company's consolidated financial position or results of operations. Loss contingencies that are considered remote (the chance of the future event or events occurring is slight) are not typically disclosed unless the Company believes the potential loss to be extremely significant to its consolidated financial position and results of operations.

Foreign Currency: Assets and liabilities of the Company's foreign subsidiaries are translated at the exchange rates in effect at the balance sheet dates, while revenues, expenses and cash flows are translated at the exchange rates in effect at the dates on which transactions are recognized, except where not practicable, then average exchange rates for the reporting period are used. Resulting translation adjustments are recorded as a component of Cumulative other comprehensive loss in Shareholders' deficit. Gains and losses resulting from changes in foreign currency on transactions denominated in currencies other than the functional currency of the respective subsidiary are recognized in earnings as they occur.

Derivative Instruments and Hedging Activities: Derivatives are recognized on the balance sheet at their fair value. If a derivative is designated as a hedging instrument for accounting purposes, the Company designates the derivative, on the date the derivative contract is entered into, as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), (2) a hedge of a forecasted transaction ("cash flow" hedge), (3) a foreign-currency fair value or cash flow hedge ("foreign currency" hedge) or (4) a hedge of a net investment in a foreign operation. For derivative instruments not designated as hedging instruments for accounting purposes, changes in fair values are recognized in earnings in the period in which they occur.

Changes in the fair value of derivatives that are highly effective as, and that are designated and qualify as, fair value hedges, along with the losses or gains on the hedged assets or liabilities that are attributable to the hedged risks (including losses or gains on firm commitments), are recorded in current-period earnings. Changes in the fair value of derivatives that are highly effective as, and that are designated and qualify as, cash flow hedges are recorded in Other comprehensive income (loss) ("OCI"), until earnings are affected by the variability of cash flows. Changes in the fair value of derivatives that are highly effective as, and that are designated and qualify as, foreign-currency hedges are recorded in either current-period earnings or OCI, depending on whether the hedge transactions are fair value hedges or cash flow hedges. If, however, a derivative is used as a hedge of a net investment in a foreign operation, its changes in fair value, to the extent effective as a hedge, are recorded as translation adjustments in OCI.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value, cash flow, or foreign-currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge, or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively.

Income Taxes: The Company accounts for income taxes using the liability method under SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). This method generally provides that deferred tax assets and liabilities, computed using enacted marginal tax rates of the respective tax jurisdictions, be recognized for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities and expected benefits of utilizing net operating loss carryforwards. The Company periodically assesses the likelihood of realization of deferred tax assets and with respect to net operating loss carryforwards, prior to expiration, by

Note 1 -- Significant Accounting Policies - Continued

considering the availability of taxable income in prior carryback periods, the scheduled reversal of deferred tax liabilities, certain distinct tax planning strategies, and projected future taxable income. If it is considered to be more likely than not that the deferred tax assets will not be realized, a valuation allowance is established against some or all of the deferred tax assets.

The Company periodically assesses tax exposures and establishes or adjusts estimated reserves for probable assessments by the Internal Revenue Service ("IRS") or other taxing authorities. Such reserves represent an estimated provision for taxes ultimately expected to be paid.

Research and Development: The cost of research and development efforts is expensed as incurred. Such costs aggregated $21, $20 and $20 for the years ended December 31, 2003, 2002 and 2001, respectively.

Retirement-Related Benefits: The Company determines its benefit obligations and net periodic benefit costs for its defined benefit pension plans and its other postretirement benefit plans using actuarial models required by SFAS No. 87, "Employers' Accounting for Pensions" ("SFAS No. 87") and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS No. 106"), respectively. These models use an approach that generally recognizes individual events like plan amendments and changes in actuarial assumptions such as discount rates, rate of compensation increases, inflation, medical costs and mortality over the service lives of the employees in the plan. The market-related value of plan assets, a calculated value that recognizes changes in the fair value of plan assets over a five-year period, is utilized to determine the Company's reported benefit liabilities and net periodic benefit cost.

The Company evaluates the appropriateness of retirement-related benefit plan assumptions annually. Some of the more significant assumptions used to determine the Company's benefit obligations and net periodic benefit costs are the expected rate of return on plan assets, the discount rate, the rate of compensation increases, and healthcare cost trend rates.

To develop its expected return on plan assets, the Company uses long-term historical actual return information, the mix of investments that comprise plan assets, and future estimates of long-term investment returns by reference to external sources rather than relying on current fluctuations in market conditions. The discount rate assumptions reflect the rates available on high-quality fixed-income debt instruments on December 31 of each year. The rate of compensation increase is determined by the Company based upon its long-term plans for such increases. The Company reviews external data and its own historical trends for healthcare costs to determine the healthcare cost trend rates.

(Dollars in millions, except share data)

At December 31 of each year, if any of the Company's defined benefit pension plans are underfunded and require adjustment to establish an additional minimum liability in accordance with SFAS No. 87, an adjustment is first made to establish an intangible asset to the extent of any unrecognized amount of prior service cost for the given plan and then an equity adjustment is included in OCI for the remaining amount of the required minimum liability. This additional minimum liability is calculated and adjusted, as necessary, annually through the Company's Consolidated Balance Sheet and has no immediate impact on the Company's Consolidated Statement of Operations.

Stock-Based Compensation: 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.

Note 1 -- Significant Accounting Policies - Continued

The following table illustrates the effect on net loss and loss per share before cumulative effect of accounting change if the Company had applied the fair value recognition provisions of SFAS No. 123, as amended, to stock-based employee compensation:

	Year Ended December		
	2003	2002	20
Net loss before cumulative effect of accounting change	$ (183)	$ (28)	$
Deduct: Total stock-based employee compensation expense determined under fair-value based method for all awards, net of related tax effects ...	(2)	(2)	
Pro forma net loss before cumulative effect of accounting change	$ (185)	$ (30)	$

Loss per share before cumulative effect of accounting change:			
Basic and diluted - as reported	$(2.86)	$(0.44)	$(0
Basic and diluted - pro forma	$(2.89)	$(0.48)	$(0

Earnings Per Share: Basic loss per share is computed based upon the weighted average number of common shares outstanding during the period. Diluted loss per share is computed based upon the weighted average number of common shares and potential dilutive common shares outstanding during the period. The computation of diluted loss per share for 2003 does not include 283,881 restricted and other shares, for 2002 the computation does not include 290,160 restricted and other shares and 4,727 options, and for 2001 the computation of diluted loss per share does not include 318,606 restricted and other shares issued under the Company's stock-based compensation plans as their effect would be antidilutive due to reported net losses in each of these periods.

Loss per share amounts were computed as follows:

	Year Ended Dec	
	2003	2002
Loss before cumulative effect of accounting change	$ (183)	$
Cumulative effect of accounting change	(1)	(
Net loss available for common shareholders - basic and diluted	$ (184)	$ (
Weighted average shares outstanding - basic and diluted	64,018,512	63,587,
Basic and diluted loss per share:		
Before cumulative effect of accounting change	$ (2.86)	$ (0
From cumulative effect of accounting change	(0.02)	(4
After cumulative effect of accounting change	$ (2.88)	$ (5

Concentration of Credit Risk: Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of temporary cash investments, foreign currency, interest rate and natural gas derivative contracts and accounts receivable. The Company maintains its investments and enters contracts with major institutions that it deems credit worthy, generally financial institutions that provide the Company with debt financing.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollars in millions, except share data)

Note 1 -- Significant Accounting Policies - Continued

The Company sells a broad range of commodity, industrial, performance and specialty chemicals to a diverse group of customers operating throughout the world. Revenue generated from export sales (i.e., sales from within the United States to foreign customers) as well as sales from those of the Company's operations that are conducted outside the United States accounted for 62%, 59% and 54% of total revenues in 2003, 2002 and 2001, respectively, which are made to customers in over 90 countries. Accordingly, there is no significant concentration of risk in any one particular country. In addition, 58%, 58% and 60% of the revenues of the Titanium Dioxide and Related Products business segment in 2003, 2002 and 2001, respectively (which accounts for approximately 69%, 73% and 72% of consolidated revenues in 2003, 2002 and 2001, respectively) were made to customers in the global paint and coatings industry. The leading United States economic indicator for this industry is new and existing home sales, which has remained relatively strong in recent years despite the weak economic conditions in the United States. In addition, some seasonality in sales exists because sales of paint and coatings are greatest in the spring and summer months. Credit limits, ongoing credit evaluation, and account-monitoring procedures are utilized to minimize credit risk. Collateral is generally not required, but may be used under certain circumstances or in certain markets, particularly in lesser-developed countries of the world. Credit losses to customers operating in this industry have not been material.

Recent Accounting Developments: In December 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 46 (Revised December 2003), "Consolidation of Variable Interest Entities" ("FIN No. 46R"), primarily to clarify the required accounting for interests in variable interest entities. This standard replaces FIN No. 46, "Consolidation of Variable Interest Entities," that was issued in January 2003 to address certain situations in which a company should include in its financial statements the assets, liabilities and activities of another entity. The Company's application of FIN No. 46R had no material impact on its consolidated financial statements.

Effective December 2003, the Company adopted SFAS No. 132 (Revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS No. 132R"), issued by the FASB in December 2003. SFAS No. 132R requires more detailed disclosures about plan assets, benefit obligations, cash flows, benefit costs and related information. Adoption of SFAS No. 132R does not change the Company's accounting for pension and other postretirement benefits.

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"). FSP No. FAS 106-1 permits 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 Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare Act of 2003"), which was signed into law on December 8, 2003, under SFAS No. 106 and SFAS No. 109, as well as in making disclosures related to its plans as required by SFAS No. 132R until the FASB develops and issues authoritative guidance on accounting for the Federal subsidies provided by the Medicare Act of 2003. The Medicare Act of 2003 introduces 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 Medicare Act of

2003. Specific authoritative guidance, when issued by the FASB, could require a change in currently reported information. The Company is currently evaluating the possible economic effects of the Medicare Act of 2003, if any, on its postretirement benefit plans.

In September 2003, the Accounting Standards Executive Committee ("AcSEC") approved for final issuance Statement of Position ("SOP"), "Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment," subject to AcSEC's positive clearance and FASB's clearance. AcSEC expects to issue the SOP in the first quarter of 2004. The proposed SOP addresses accounting and disclosure issues related to property, plant and equipment; component accounting for property, plant and equipment; and costs related to maintenance activities. The effective date of the proposed SOP will be for fiscal years beginning after December 15, 2004. Upon the

Note 1 -- Significant Accounting Policies - Continued

issuance of the final SOP, the Company will evaluate the SOP's impact on its accounting for property, plant, and equipment and maintenance activities.

Note 2 -- Asset Impairment Charges

In the fourth quarter of 2003, the Company recorded a non-cash, pre-tax asset impairment charge of $103 ($101 after tax) associated primarily with the writedown of property, plant and equipment at the Company's Le Havre, France titanium dioxide ("TiO[u]2") manufacturing plant. Management prepared and the Company's Board of Directors approved its strategic operating plan for this manufacturing plant in the fourth quarter of 2003. Financial projections resulting from this strategic planning process produced cash flow estimates for this plant that were less favorable than previous estimates. The Company evaluated the carrying value of the Le Havre manufacturing plant assets by analyzing the estimated future cash flows associated with these assets. Such analysis demonstrated that the undiscounted estimated future cash flows were insufficient to recover the carrying value of these assets. Accordingly, an impairment charge was required to write down the basis in the property, plant and equipment to its estimated fair value. The Company evaluated discounted cash flow analysis and information from third parties to determine a fair value estimate. At December 31, 2003, after the impairment charge, the carrying value of the property, plant and equipment at the Le Havre manufacturing plant was zero. Future capital expenditures at this plant are expected to be included in period charges and classified as asset impairment charges when incurred.

The operations of the Le Havre manufacturing plant were not profitable in 2003. The Company does not expect these operations to return to profitability in the future and is evaluating various alternatives for the facility. The Company has decided to rationalize certain equipment at this plant in the second quarter of 2004, which will result in the reduction of the plant's rated capacity from 95,000 metric tons per annum to 65,000 metric tons per annum. This rationalization will include the idling of certain equipment for which the carrying value is zero, after the asset impairment charge reported in 2003.

Note 3 -- Reorganization, Office and Plant Closure Charges

In July 2003, the Company announced the implementation of a program to reduce costs. This program included a reduction of approximately 5% in the number of the Company's employees worldwide and, effective September 1, 2003, the closure of the Company's executive offices in Red Bank, New Jersey and the relocation of its headquarters to the Company's existing administrative offices in Hunt Valley, Maryland. In addition, the Company announced the suspension of payment of dividends on its Common Stock.

The Company has recorded charges for the year ended December 31, 2003 of $18, of which $17 is for severance-related costs and $1 is 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. Substantially all of the remaining charges for this program, estimated at $1 to $3, are expected to be recorded during the next several quarters. All costs associated with this program are accounted for in accordance with SFAS No. 112, "Employer's Accounting for Postemployment Benefits" ("SFAS No. 112") or SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", as appropriate. Severance-related cash payments of $14 for the implementation of this program were made during the year ended December 31, 2003. Substantially all of the remainder of the cash payments relating to this program, which are estimated to be approximately $11, will be disbursed during the next several quarters. Accrued liabilities associated with this program and included in Accrued expenses and other liabilities were $6 at December 31, 2003.

In 2001, the Company recorded a provision for reorganization and plant closure costs of $36, including $31 in connection with the Company's announced decision to reduce its worldwide workforce and indefinitely idle its sulfate-process titanium dioxide plant in Hawkins Point, Maryland, and $5 in connection with the Company's announced decision to close its Acetyls facilities in Cincinnati, Ohio. The $31 charge included $19 of severance and other employee-related costs for the termination of approximately 400 employees involved in manufacturing, technical, sales and marketing, finance and administrative support, a $10 writedown of assets, and $2 in other costs associated with idling the plant. The $5 charge for the closure of the facilities in Cincinnati, Ohio, included $3 of severance and other termination benefits related to the termination of about 35 employees involved in technical,

Note 3 -- Reorganization, Office and Plant Closure Charges - Continued

marketing and administrative activities, as well as $2 related to the writedown of assets, lease termination costs and other charges. All payments for severance and related costs and for other costs related to the reorganization and plant closure charges in 2001 were made as of December 31, 2002.

Note 4 -- Investment in Equistar

On December 1, 1997, the Company and Lyondell completed the formation of Equistar, a joint venture partnership created to own and operate the petrochemical and polymers businesses of the Company and Lyondell. The Company contributed to Equistar substantially all of the net assets of its former ethylene, polyethylene, ethanol and related products business. The Company retained $250 from the proceeds of accounts receivable collections and substantially all the accounts payable and accrued expenses of its contributed businesses existing on December 1, 1997, and received proceeds of $750 from borrowings under a new credit facility entered into by Equistar. The Company used the $750 received from Equistar to repay debt. Equistar was owned 57% by Lyondell and 43% by the Company until May 15, 1998, when the Company and Lyondell expanded Equistar with the addition of the ethylene, propylene, ethylene oxide and derivatives businesses of the chemical subsidiary of Occidental Petroleum Corporation (together with its subsidiaries and affiliates, collectively "Occidental"). Occidental contributed the net assets of those businesses (including approximately $205 of related debt) to Equistar. In exchange, Equistar borrowed an additional $500, $420 of which was distributed to Occidental and $75 to the Company. Equistar was then owned 41% by Lyondell, 29.5% by Occidental and 29.5% by the Company. No gain or loss resulted from these transactions. On August 22, 2002, Occidental sold its 29.5% equity interest in Equistar to Lyondell. Equistar is now owned 70.5% by Lyondell and 29.5% by the Company.

The Company has evaluated the carrying value of its investment in Equistar at December 31, 2003 using fair value estimates prepared by the Company and third parties. Those valuations included discounted cash flow analysis of both internal management and external party cash flow projections, as well as replacement cost analysis. Additionally, the Company analyzed Lyondell's 2002 purchase of Occidental's 29.5% interest in Equistar and determined, after considering tax effects, that the fair value of such transaction related to Occidental's partnership investment exceeds the Company's carrying value for its Equistar investment. The carrying value of the Company's investment in Equistar at December 31, 2003 and 2002 was $469 and $563, respectively.

Equistar is managed by a Partnership Governance Committee consisting of representatives of both partners. Approval of Equistar's strategic plans and other major decisions requires the consent of the representatives of both partners. All decisions of Equistar's Governance Committee that do not require unanimity among the partners may be made by Lyondell's representatives alone.

Because of the significance of the Company's interest in Equistar to the Company's total results of operations, the separate financial statements of Equistar are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as amended by Amendment No. 1 on Form 10-K/A filed with the Securities and Exchange Commission on April 27, 2004.

Note 5 -- 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 are no balances outstanding at December 31, 2003.

Transferred trade receivables outstanding at December 31, 2002 that qualified as a sale were $61 and were not included in the Company's Consolidated Balance Sheet at December 31, 2002. The Company carried its retained interest in a portion of the transferred assets that did not qualify as a sale, $9 at

(Dollars in millions, except share data)

December 31, 2002, in Trade receivables, net in its Consolidated Balance Sheet at amounts that approximated net realizable value based upon the Company's historical collection rate for these trade receivables. For the years ended December 31, 2003 and 2002, cumulative gross proceeds from this securitization arrangement were $281 and $213, respectively. Cash flows from

Note 5 -- European Receivables Securitization Program - Continued

the securitization arrangement were reflected as operating activities in the Consolidated Statements of Cash Flows. For the years ended December 31, 2003 and 2002, the aggregate loss on sale associated with this arrangement was $2 and $2, respectively. Administration and servicing of the trade receivables under the arrangement remained with the Company. Servicing liabilities associated with the transaction were not significant at December 31, 2002.

Note 6 -- Supplemental Financial Information

	2003	2002
Trade receivables		
Trade receivables	$ 286	$ 217
Allowance for doubtful accounts	(9)	(7)
	$ 277	$ 210
Inventories		
Finished products	$ 258	$ 210
In-process products	38	30
Raw materials	96	106
Maintenance parts and supplies	65	60
	$ 457	$ 406
Property, plant and equipment		
Land and buildings	$ 220	$ 222
Machinery and equipment	1,413	1,401
Construction-in-progress	77	111
	1,710	1,734
Accumulated depreciation and amortization	(944)	(872)
	$ 766	$ 862
Goodwill		
Goodwill at beginning of year	$ 106	$ 381
Cumulative effect of accounting change	--	(275)

Other	(2)	--
Goodwill at end of year	$ 104	$ 106
Accrued expenses and other liabilities		
Customer rebates	$ 31	$ 37
Other accrued expenses and other liabilities	93	90
	$ 124	$ 127

MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollars in millions, except share data)

Note 6 -- Supplemental Financial Information - Continued

	2003	2002	2001
Amortization expense	$--	$--	$13
Rental expense on operating leases is as follows:			
Rental expense	$22	$22	$19
Cash paid (received) for interest and taxes:			
Interest, net	$95	$86	$81
Taxes, net	38	(1)	1

Note 7 -- Income Taxes

	2003	2002	2001
Pretax (loss) income is generated from:			
United States	$(206)	$(161)	$(221)
Foreign	(37)	81	71
	$(243)	$ (80)	$(150)
Income tax (benefit) provision is comprised of:			
Current			
Federal	$ --	$ (19)	$ (12)
State and local	--	2	1
Foreign	12	16	21
Total current provision (benefit)	12	(1)	10

(Dollars in millions, except share data)

Deferred			
Federal	(63)	(35)	(58)
State and local	(2)	--	--
Foreign	6	--	(10)
Unremitted earnings of foreign subsidiaries	19	--	--
Total deferred benefit	(40)	(35)	(68)
Tax benefit from previous years	(37)	(22)	(42)
Total income tax benefit	$ (65)	$ (58)	$(100)

The Company's effective income tax rate differs from the amount computed by applying the statutory federal income tax rate as follows:

	2003	2002	2001
Statutory federal income tax rate	(35.0)%	(35.0)%	(35.0)%
State and local income taxes, net of Federal benefit	(0.8)	1.9	(0.3)
Provision for nondeductible expenses, primarily goodwill	0.4	--	7.5
Foreign rate differential	(9.5)	(20.1)	(12.0)
Tax benefit from previous years	(15.2)	(27.5)	(31.3)
Provision for unremitted earnings of foreign subsidiaries	7.8	--	--
Establish valuation allowance for French subsidiaries	23.0	12.5	--
Other	2.6	(4.3)	4.4
Effective income tax rate	(26.7)%	(72.5)%	(66.7)%

Note 7 -- Income Taxes - Continued

The Company recorded tax benefits of $37, $22, and $42 in 2003, 2002 and 2001, respectively, unrelated to transactions for those years. In 2003, the tax benefit primarily related to the reversal of tax reserves recorded in prior years associated with IRS audits that were settled during 2003. In 2002, the tax benefit primarily related to an $18 refund of tax and interest originating from refund claims filed with the IRS in 2002 which carried back expenses incurred in 1993 and 1994 to earlier tax years. In 2001, the tax benefit primarily related to the reversal of tax accruals recorded in 1996. During 2001, through ongoing discussions and negotiations with the IRS, it was determined that the Company's original 1996 position would not be challenged and the accruals recorded in 1996 were no longer necessary. These benefits recorded in 2003, 2002, and 2001 were offset to an extent by certain new tax provisions the Company determined probable of assessment based on the evolution of various domestic and foreign tax examinations and changes in relevant tax regulations.

Deferred tax expense on certain unremitted earnings of foreign subsidiaries of $19 was recorded in 2003 due to the Company's plan to repatriate $107 from its Australian and European businesses to the US by implementing certain intercompany financing strategies in early 2004.

Significant components of deferred taxes are as follows:

	2003 (Restated - See Note 19)	2002 (Restated See Note 1
Deferred tax assets		
Environmental and legal obligations	$ 20	$ 27
Other postretirement benefits and pension	67	82
Net operating loss carryforwards	246	196
Capital loss carryforwards	3	3
AMT credits	97	97
Other accruals	8	14
	441	419
Valuation allowance	(97)	(35)
Total deferred tax assets	344	384
Deferred tax liabilities		
Excess of book over tax basis in property, plant and equipment	68	106
Excess of book over tax basis in investment in Equistar	397	441
Reserve for unremitted earnings of foreign subsidiaries	19	--
Reserve for income taxes	94	94
Other	38	43
Total deferred tax liabilities	616	684
Net deferred tax liabilities	$272	$300

As a result of the Company's assessment of its net deferred tax assets, a valuation allowance of $69 and $10 was required for the net deferred tax assets of its French subsidiaries at December 31, 2003 and 2002, respectively. No income tax benefits associated with 2003 operating losses for the Company's French subsidiaries were recognized. The Company currently expects that if its French subsidiaries continue to report net operating losses in future periods, income tax benefits associated with those losses would not be recognized, and the Company's results in those periods would be adversely affected. Additionally, due to the uncertainty of the realization of deferred tax assets for state net operating loss carryforwards and Federal capital loss carryforwards, a valuation allowance totaling $28 and $25 was recorded at December 31, 2003 and 2002, respectively.

MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollars in millions, except share data)

Note 7 -- Income Taxes - Continued

At December 31, 2003 and 2002, certain subsidiaries of the Company had available US net operating loss carryforwards aggregating $379 and $288, respectively, and foreign net operating loss carryforwards aggregating $290 and $244, respectively, including $226 and $203, respectively, that were generated in the United Kingdom ("UK") and $64 and $41, respectively, that were generated in France. The net operating loss carryforwards generated in the UK and France do not expire; however, those generated in the UK are subject to certain limitations on their use. The US net operating loss carryforwards expire beginning on December 31, 2021 and continuing through December 31, 2023. The capital loss carryforwards expire on December 31, 2006. The AMT credits of $97 have no expiration and can be carried forward indefinitely.

The undistributed earnings of the Company's foreign subsidiaries, except for those described above that are impacted by the implementation of recent intercompany financing strategies, are considered to be indefinitely reinvested. Accordingly, no provision for US Federal and state income taxes or foreign withholding taxes has been provided on approximately $143 of such undistributed earnings. Determination of the potential amount of unrecognized deferred US income tax liability and foreign withholding taxes is not practicable because of the complexities associated with its hypothetical calculation.

The Company and certain of its subsidiaries have entered into tax-sharing and indemnification agreements with Hanson or its subsidiaries in which the Company and/or its subsidiaries generally agreed to indemnify Hanson or its subsidiaries for income tax liabilities attributable to periods when certain operations of Hanson were included in the consolidated United States tax returns of the Company's subsidiaries. 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 the results of future audits by various tax authorities and is not practicable to estimate.

Certain of the income tax returns of the Company's domestic and foreign subsidiaries are currently under examination by the IRS, Inland Revenue and various foreign and state tax authorities. In many cases, these audits result in the examining tax authority issuing proposed assessments. In the United States, IRS audits for tax years prior to 1993 have been settled. During 2002, the Company negotiated a settlement with the IRS with respect to the audit issues relating to the Company's Federal income tax returns for the years 1989 through 1992. In July 2003, the Company paid $19 to the IRS with respect to a settlement relating to the tax years 1989 through 1992. In connection with the 1993 through 1996 examination, the IRS has issued proposed assessments that challenge certain of the Company's tax positions. The Company believes that its tax positions comply with applicable tax law and it intends to defend its position through the IRS's appeals process. The Company believes it has adequately provided for any probable outcome related to these matters, and does not anticipate any material earnings impact from their ultimate settlement or resolution. However, if the IRS's position on certain issues is upheld after all of the Company's administrative and legal options are exhausted, a material impact on the Company's consolidated financial position, results of operations or cash flows could result. The IRS examination for the years 1997 through 2001 commenced in 2003. The IRS has yet to issue any material proposed assessments related to this audit cycle.

Reserves for the resolution of probable tax assessments that are expected to result in the reduction of tax attributes recognized in deferred tax assets, rather than a cash payment to the taxing authorities, are included as a component of deferred tax liabilities. Other reserves for the resolution of probable tax assessments where cash payment is expected, but not within the next year, are included in Other liabilities.

MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollars in millions, except share data)

Note 8 -- Long-Term Debt and Credit Arrangements

	2003	2002
Revolving Loans due 2006 bearing interest at the option of the Company at the higher of the Federal funds rate plus .50% and the bank's prime lending rate plus 1.25%; or at LIBOR or NIBOR plus 2.25%, plus, in each case, a facility fee of .50%, to be paid quarterly	$ 52	$ 10
Term Loans due 2006 bearing interest at the option of the Company at the higher of the Federal funds rate plus .50% and the bank's prime lending rate plus 2.0%; or at LIBOR or NIBOR plus 3.0%, to be paid quarterly	--	49
7.00% Senior Notes due 2006	500	500
7.625% Senior Debentures due 2026	249	249
9.25% Senior Notes due 2008	485	377
4.00% Convertible Senior Debentures due 2023	150	--
Debt payable through 2011 at interest rates ranging from 0% to 9.5%	21	26
Other	10	13
Less current maturities of long-term debt	(6)	(12)
	$1,461	$1,212

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 4.00% Convertible Senior Debentures due 2023, unless earlier redeemed, converted or repurchased (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 (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.

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 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, filed an amended registration statement. However, as of December 31, 2003, the exchange offer registration statement has 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 the registration statement becomes effective.

In June 2002, the Company received approximately $100 in net proceeds ($102.5 in gross proceeds) from the completion of an offering by Millennium America of $100 additional principal amount at maturity of the 9.25% Senior Notes. The gross proceeds of the offering were used to repay all of the $35 of outstanding borrowings at that time under the Company's Revolving Loans and to repay $65 outstanding under the Term Loans. During 2001, the

Note 8 -- Long-Term Debt and Credit Arrangements - Continued

Company refinanced $425 of borrowings and paid refinancing expenses of $11 with the combined proceeds of the Credit Agreement, which provided the Revolving Loans and $125 in Term Loans, and the issuance of $275 aggregate principal amount of 9.25% Senior Notes by Millennium America. Millennium Chemicals and Millennium America guarantee the obligations under the Credit Agreement.

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 December 31, 2003, $19 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 Loan portion of the credit facility, as any such amounts prepaid may not be reborrowed. The interest rates on the Revolving Loans and the Term 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, as defined. The margins set forth in the table above are the margins at the end of the fourth quarter and through the date hereof. The weighted-average interest rate for borrowings under the Company's Revolving Loans, excluding facility fees, was 3.3%, 3.9% and 5.4% for 2003, 2002 and 2001, respectively. The weighted average interest rate for borrowings under the Term Loans was 4.2% while borrowings were outstanding in 2003, 4.9% for 2002 and 6.4% for 2001.

The Credit Agreement contains various restrictive covenants and requires that the Company meet certain financial performance criteria. The financial covenants in the Credit Agreement, prior to the amendment consummated in the fourth quarter of 2003, which is described below, included a Leverage Ratio and an Interest Coverage 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 the amendment in the fourth quarter of 2003. The Interest Coverage Ratio is the ratio of cumulative EBITDA for the prior four fiscal quarters to Net Interest Expense, for the same period, each as defined in the Credit Agreement prior to the amendment in the fourth quarter of 2003. To permit the Company to be in compliance, these covenants were amended in the fourth quarter of 2001, in the second quarter of 2002, in the second quarter of 2003, and in the fourth quarter of 2003. The amendment in the second quarter of 2002 was conditioned upon the consummation of the June 2002 offering of $100 additional principal amount of the 9.25% Senior Notes and using such proceeds for the repayment of the Credit Agreement debt, as described above. The amendment in the second quarter of 2003 was not conditioned on the sale of the 9.25% Senior Notes in April 2003. The amendment in the fourth quarter of 2003 was conditioned on the Company obtaining at least $110 of long-term financing in the capital markets, which the Company satisfied by the sale of $150 of the 4.00% Convertible Senior Debentures. The amendment in the fourth quarter of 2003 amended, among other things, the maximum availability under the Credit Agreement from $175 to $150, the performance criteria for the financial covenants, the definition of EBITDA, and replaced the Leverage Ratio with a Senior Secured Leverage Ratio. Under the financial covenants now in effect, the Company is required 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 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 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. In addition, the maximum availability under the Credit Agreement will be decreased by 50% of the aggregate Net Cash Proceeds received from such asset sales in excess of $100 from November 18, 2003, the effective date of the fourth quarter 2003 amendment. Any sale involving Equistar or certain inventory or accounts receivable will reduce the maximum

MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollars in millions, except share data)

Note 8 -- Long-Term Debt and Credit Arrangements - Continued

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.

The Company was in compliance with all covenants under the Credit Agreement at December 31, 2003. Compliance with these covenants is monitored frequently in order to assess the likelihood of continued compliance.

The Company had $71 outstanding ($52 of outstanding borrowings and outstanding undrawn standby letters of credit of $19) under the Revolving Loans and, accordingly, had $79 of unused availability under such facility at December 31, 2003. In addition to letters of credit outstanding under the Credit Agreement, the Company had outstanding undrawn standby letters of credit and bank guarantees under other arrangements of $11 at December 31, 2003. The Company had unused availability under short-term uncommitted lines of credit, other than the Credit Agreement, of $34 at December 31, 2003.

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, 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 December 31, 2003, 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 $2,100 at December 31, 2003. 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 making any such payments 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 has fallen 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 S&P and Moody's 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 4.00% Convertible Senior Debentures were issued by Millennium Chemicals Inc. 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. At the time the 4.00% Convertible Senior Debentures were issued, the common price per share exceeded the trading value of the Company's Common Stock. 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. 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.

At December 31, 2003, 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.

MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollars in millions, except share data)

Note 8 -- Long-Term Debt and Credit Arrangements - Continued

On July 22, 2003, S&P lowered the Company's credit rating from BB+ to BB, citing the Company's July 2003 announcement regarding weak sales volume and competitive pricing pressures in the titanium dioxide business for the second quarter of 2003, as well as lingering economic uncertainties and the potential for additional raw material pressures in the petrochemicals industry as factors that are likely to further delay the Company's efforts to restore its financial profile. On September 22, 2003, S&P again lowered the Company's credit rating from BB to BB- citing the Company's subpar financial profile and weaker-than-expected prospects for reducing its substantial debt burden over the next couple of years, and revised its outlook from negative to stable. On November 19, 2003, S&P assigned its BB- rating to the 4.00% Convertible Senior Debentures, and affirmed its BB- rating of the Company with a stable outlook. Moody's announced on August 13, 2003, that it had lowered the Company's senior implied rating to Ba2, and the Senior Notes' rating to Ba3, citing the Company's high leverage, modest coverage of interest expense, weaker than anticipated TiO[u]2 demand and potential covenant compliance issues. On November 19, 2003, Moody's again lowered the Company's senior implied rating from Ba2 to Ba3, and the Senior Notes' rating from Ba3 to B1 and affirmed its ratings outlook of negative, citing the challenging operating conditions within the TiO[u]2 business, a significant deterioration in 2003 cash flow performance, and Moody's expectation that a protracted recovery in the TiO[u]2 business will limit the Company's ability to de-lever for the medium-term. These actions by S&P and Moody's could heighten concerns of the Company's creditors and suppliers which could result in these creditors and suppliers placing limitations on credit extended to the Company and demands from creditors for additional credit restrictions or security.

The Company uses gold as a component in a catalyst at its La Porte, Texas facility. In April 1998, the Company entered into an agreement that provided the Company with the right to use gold owned by a third party for a five-year term. In April 2003, the Company renewed this agreement for a one-year term and simultaneously entered into a forward purchase agreement in order to mitigate the risk of change in the market price of gold. The renewed agreement required the Company to either deliver the gold to the counterparty at the end of the term or pay to the counterparty an amount equal to its then-current value. The renewed agreement provided that if the Company was downgraded below BB by S&P or Ba2 by Moody's, the third party could require the Company to purchase the gold at its then-current value. After discussions with the counterparty to the agreement as to whether the counterparty had the right to require the Company to purchase the gold due to Moody's August 13, 2003 announcement referenced above, the Company determined to terminate the renewed agreement and purchase the gold for its then-current market value. On August 28, 2003, the Company paid the counterparty $14, net of $1 of proceeds from the termination of its forward purchase contract. The Company's obligation under this agreement was $14 at December 31, 2002, and was included in Other short-term borrowings. The change in value of the gold and the Company's obligation under this agreement, which is included in Selling, development and administrative expense, was a loss of $1 and $3 for each of the years ended December 31, 2003 and 2002, respectively, and was not significant for the year ended December 31, 2001. The change in value of the forward purchase agreement was a gain of $1 for the year ended December 31, 2003, which is included in Selling, development and administrative expense.

The Company had outstanding Notes payable of $4 as of December 31, 2002, bearing interest at an average rate of approximately 19.1%, with a maturity of 30 days or less. No such Notes payable were outstanding at December 31, 2003.

The maturities of Long-term debt during the next five years and thereafter are as follows:

2004	$ 6
2005	5
2006	557
2007	2
2008	476
Thereafter	404
Non-cash components of long-term debt	17
	$1,467

MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollars in millions, except share data)

Note 9 -- 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 December 31, 2003 these contracts had expiration dates no later than September 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 gains of $10 and $2 in 2003 and 2002, respectively, and were not significant in 2001.

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 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 losses of $5 and $4 during 2003 and 2001, respectively, and net gains of $4 during 2002 on forward exchange contracts designated as cash flow hedges were reclassified to earnings to match the gain or loss on the underlying transaction being hedged. Hedge ineffectiveness had no significant impact on earnings for 2003, 2002 or 2001. No forward exchange contract cash flow hedges were discontinued during 2003, 2002 or 2001. The Company currently estimates that net losses of approximately $1 ($1 after-tax) on foreign currency cash flow hedges included in OCI at December 31, 2003 will be reclassified to earnings during the next twelve months.

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 gas price risk. As of December 31, 2003, these instruments had expiration dates no later than March 2004. Certain of these instruments are designated as cash flow hedges. The mark-to-market gains or losses on qualifying hedges are included in OCI to the extent effective, and reclassified into Cost of products sold in the period during which the hedged transaction affects earnings. The mark-to-market gains or losses on ineffective portions of hedges are recognized immediately in Cost of products sold. During 2003, 2002 and 2001, net losses on commodity swaps designated as cash flow hedges of $1, $6 and $5, respectively, were reclassified to Cost of products sold to match the gain or loss on the underlying transaction being hedged. Hedge ineffectiveness had no significant impact on earnings for 2003, 2002 or 2001. Net losses on commodity swap cash flow hedges that were discontinued during 2003, 2002 and 2001 were not significant, and no commodity swap cash flow hedges were discontinued during 2002 or 2001. The Company currently estimates that net gains on commodity swaps included in OCI at December 31, 2003 that will be reclassified to earnings during the next twelve months will not be significant.

In addition, the Company uses 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 have not been designated as hedges for accounting purposes. The gains and losses on these instruments are recorded in current earnings. Net losses of $2 were included in earnings in 2003, and net gains of $1 were included in earnings in 2002. The Company held no such derivatives during 2001.

Note 9 -- Derivative Instruments and Hedging Activities - Continued

In April 2003, the Company entered into a forward purchase agreement in order to mitigate the risk of change in the market price of gold. This forward purchase contract was terminated in August 2003 when the Company discontinued its arrangement for the right to use gold owned by a third party, as more fully described in Note 8. This derivative was not designated as a hedge for accounting purposes. The gain on this instrument, which is included in Selling, development and administrative expense and offsets a similar amount of loss on the Company's obligation under the gold agreement while the agreement was in effect, was $1 for the year ended December 31, 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 December 31, 2003, 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 fair value of these interest rate swap agreements was approximately $3 at December 31, 2003 resulting in an increase in the carrying value of long-term debt and the recognition of a corresponding swap asset. 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 significant impact on earnings for 2003, 2002 or 2001. In July 2002, the Company terminated all of the interest rate swap agreements that were in effect at that time. Proceeds received upon termination were approximately $12. Gains deferred on these interest rate swaps of approximately $10 result in an increase in the carrying value of long-term debt and will be recognized as a reduction in Interest expense ratably over approximately four years, the remaining term of the underlying fixed-rate obligations previously hedged. The amount of these deferred gains recognized as a reduction of Interest expense during the years ended December 31, 2003 and 2002 was approximately $2 and $1, respectively.

During the year 2001, the Company entered into interest-rate swap agreements to convert $200 of its fixed-rate debt into variable-rate debt. These derivatives did not qualify for hedge accounting because the maturity of the swaps was less than the maturity of the hedged debt. Accordingly, changes in the fair value of such agreements were recognized as a reduction or increase in Interest expense. The swap agreements were terminated in 2001 and realized gains of $5 were recorded as a reduction of Interest expense for 2001.

Note 10 -- Fair Value of Non-Derivative Financial Instruments

The fair value of all short-term financial instruments (i.e., trade receivables, notes payable, etc.) and restricted cash approximates their carrying value due to their short maturity or ready availability. The fair value of the Company's other financial instruments is based upon estimates received from independent financial advisors as follows:

	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Amount outstanding under Revolving Loans...	$ 52	$ 52	$ 10	$ 10
Term Loans................................	--	--	49	49
7.00% Senior Notes........................	500	513	500	480
7.625% Senior Debentures..................	249	233	249	208
9.25% Senior Notes........................	485	518	377	392
4.00% Convertible Senior Debentures........	150	189	--	--
Other short-term borrowings................	--	--	14	14

In addition, the Company has various contractual obligations to purchase raw materials, utilities and services used in the production and distribution of its products, including but not limited to: titanium ores for TiO_2, crude sulfate turpentine for fragrance chemicals, syngas for methanol, carbon monoxide for acetic acid and ethylene for VAM. Such commitments are generally at market prices, formula prices based primarily on costs of raw materials, or at fixed prices but subject to escalation for inflation. Accordingly, the fair value of such obligations approximates their contractual value.

(Dollars in millions, except share data)

Note 11 -- Pension and Other Postretirement Benefits

Domestic Benefit Plans: The Company has non-contributory defined benefit pension plans that provide postretirement benefits for substantially all of its United States employees. The benefits for the pension plans are based primarily on years of credited service and average compensation as defined under the respective plan provisions. The Company's funding policy is to contribute amounts to the pension plans sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Company may determine to be appropriate from time to time. In addition, the Company currently provides Other Postretirement Employee Benefits ("OPEB") for healthcare and life insurance to most employees and their dependents.

The pension plans' assets are held in a master asset trust and are managed by independent portfolio managers. Such assets include the Company's Common Stock, which comprised less than 1% of master trust assets at December 31, 2003 and 2002. The investment objective for the portfolio assets of the Company's domestic pension plans is to provide maximum total return with a strong emphasis on preservation of capital in real terms. This investment strategy allows the assets to participate in rising markets with defensive action in declining markets. The portfolio is expected to be generally less volatile than the market average.

The portfolio investments are marketable securities that provide sufficient liquidity to pay benefits as required.

The weighted-average asset allocation by category for US pension plans at December 31 and the Company's current target for asset allocation is as follows:

	Target	2003	2002
Asset Categories			
Domestic equities........	35% - 60%	55%	53%
International equities...	15% - 25%	17	13(1)
Fixed income.............	20% - 40%	27	33
Cash equivalents.........	1% - 5%	1	1
Total...................		100%	100%

(Dollars in millions, except share data)

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(1) The asset allocation percentage for 2002 was below the target due to unfavorable investment performance in this asset category.

In addition, no more than 20% of the total portfolio may be invested in one industry and no more than 5% of the total portfolio may be invested in the securities of one company.

The Company also sponsors defined contribution plans for its salaried and certain union employees. Contributions relating to defined contribution plans are made based upon the respective plan provisions.

Foreign Benefit Arrangements: Certain of the Company's foreign subsidiaries have defined benefit plans. The assets of these plans are held separately from the Company in independent funds.

The Company expects to contribute approximately $12 to its US and foreign defined benefit pension plans and approximately $10 to its OPEB plan in 2004. These estimates reflect expected increases in pension plan trust funding to meet minimum requirements. Additionally, the Company expects to contribute approximately $4 to its defined contribution pension plans in 2004.

Note 11 -- Pension and Other Postretirement Benefits - Continued

The measurement date for all of the Company's benefit obligations and plan assets is December 31. The following table provides a reconciliation of the changes in the benefit obligations and the fair value of the plan assets over the two-year period ending December 31, 2003, and a statement of the funded status as of December 31 for both years:

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
Accumulated benefit obligation at end of year..........	$ 815	$ 765	$ --	$ --
Reconciliation of projected benefit obligation				
Projected benefit obligation at beginning of year...	$ 851	$ 758	$ 76	$ 80
Service cost, including interest...................	13	12	--	--
Interest on PBO....................................	52	52	6	6
Benefit payments...................................	(80)	(78)	(12)	(12)
Curtailments.......................................	(1)	--	--	--
Net experience loss................................	36	74	7	15
Amendments...	--	11	3	(13)

(Dollars in millions, except share data)

Translation and other adjustments	22	22	--	--
Projected benefit obligation at end of year	$ 893	$ 851	$ 80	$ 76
Reconciliation of fair value of plan assets				
Fair value of plan assets at beginning of year	$ 629	$ 778	$ --	$ --
Return on plan assets	143	(91)	--	--
Employer contributions	12	9	12	12
Benefit payments	(80)	(78)	(12)	(12)
Translation and other adjustments	17	11	--	--
Fair value of plan assets at end of year	$ 721	$ 629	$ --	$ --
Funded status				
Funded status at December 31	$(172)	$(222)	$ (80)	$ (76)
Unrecognized net asset	(3)	(3)	--	--
Unrecognized prior service cost	12	19	(23)	(23)
Unrecognized loss (gain)	348	384	(3)	(17)
Net prepaid (accrued) benefit cost	185	178	(106)	(116)
Additional minimum liabilities	(269)	(309)	--	--
Intangible asset	12	16	--	--
Net accrued benefit cost	$ (72)	$(115)	$(106)	$(116)

As of December 31, the net accrued benefit cost for pension benefits is comprised of the following:

	2003	2002
Prepaid benefit cost	$ 29	$ 20
Intangible asset	12	16
Accrued benefit cost	(113)	(151)
Net accrued benefit cost	$ (72)	$(115)

Note 11 -- Pension and Other Postretirement Benefits - Continued

The net accrued benefit cost of $72 and $115 at December 31, 2003 and 2002, respectively, was included in Other liabilities in the Consolidated Balance Sheet. A benefit to equity of $26 ($40 pre-tax) and a charge to equity of $188 ($286 pre-tax) were required at December 31, 2003 and 2002, respectively, to reflect the appropriate additional minimum liabilities associated with certain of the Company's defined benefit pension plans and were included in Cumulative other comprehensive loss at each of December 31, 2003 and 2002.

Pension plans with projected benefit obligations in excess of the fair value of assets are summarized as follows at December 31:

	2003	2002
Projected benefit obligation	$879	$838
Fair value of assets	690	604

Pension plans with accumulated benefit obligations in excess of the fair value of assets are summarized as follows at December 31:

	2003	2002
Accumulated benefit obligation	$767	$751
Fair value of assets	656	604

The assumptions used in the measurement of the Company's benefit obligations are shown in the following table:

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
Weighed average assumptions at December 31:				
Discount rate	5.94%	6.35%	6.00%	6.50%
Expected return on plan assets	8.33%	8.34%	--	--
Rate of compensation increase	3.59%	3.52%	--	--

The following table provides the components of net periodic benefit cost:

	Pension Benefits			Other Postretirement Benefits		
	2003	2002	2001	2003	2002	20
Net periodic benefit cost (income)						
Service cost, including interest	$ 13	$ 12	$ 12	$--	$--	$
Interest on PBO	52	52	53	6	6	
Return on plan assets	(68)	(75)	(76)	--	--	
Amortization of unrecognized net loss	6	1	--	(1)	(2)	
Amortization of prior service cost	1	1	1	(2)	(2)	
Net effect of curtailments and settlements	3	2	2	(1)	--	

Net periodic benefit cost (income)	7	(7)	(8)	2	2	
Defined contribution plans	4	4	4	--	--	
Net periodic benefit cost (income)	$ 11	$ (3)	$ (4)	$ 2	$ 2	$

MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
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Note 11 -- Pension and Other Postretirement Benefits - Continued

The assumptions used in the measurement of the Company's net periodic benefit cost are shown in the following table:

	Pension Benefits			Other Postretirement Benefits		
	2003	2002	2001	2003	2002	20
Weighted average assumptions as of December 31:						
Discount rate	6.35%	7.27%	7.38%	6.50%	7.50%	7
Expected return on plan assets	8.34%	8.87%	8.86%	--	--	
Rate of compensation increase	3.52%	4.23%	4.30%	--	--	

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. The assumed healthcare cost trend rate used in measuring the healthcare portion of the postretirement benefit obligation at December 31, 2003 was 8.5% for 2004, declining gradually to 5.5% for 2010 and thereafter. A 1% increase or decrease in assumed healthcare cost trend rates would affect service and interest components of postretirement healthcare benefit costs by an insignificant amount in each of the years ended December 31, 2003 and 2002. The effect on the accumulated postretirement benefit obligation would be $4 at each of December 31, 2003 and 2002.

As a result of rising medical benefit costs and competitive business conditions, the Company announced in early 2004 that effective April 1, 2004 it will reduce the level of retiree medical benefits provided to essentially all of its retirees by offering a monthly subsidy in 2004 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, this reduction will be recognized ratably over approximately thirteen years through OPEB net periodic benefit cost. Estimated OPEB net periodic benefit cost for 2004, after giving affect to this change, will be income of approximately $4 compared to a benefit cost of $2 in 2003. The Company estimates that 2004 cash payments for retiree medical and insurance benefits to be slightly less than 2003 as it transitions to the subsidy plan. Cash payments in subsequent years are estimated to be significantly less than 2003.

As more fully described in the "Recent Accounting Developments" section of Note 1, the Company elected to make the one-time deferral provided by FSP No. FAS 106-1 to defer recognition and accounting for the effects of the Medicare Act of 2003. Accordingly, the measures of the Company's 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 Medicare Act of 2003. Specific authoritative guidance, when issued by the FASB, could require a change in currently reported information. The Company is currently evaluating the possible economic effects of the Medicare Act of 2003, if any, on its postretirement benefit plans.

Note 12 -- Stock-Based Compensation Plans

Omnibus Incentive Compensation Plan: The Company's 2001 Omnibus Incentive Compensation Plan (the "Omnibus Incentive Plan") was designed to optimize the profitability and growth of the Company through annual and long-term incentives that are consistent with the Company's goals and to link the personal interests of the participants to those of the Company's shareholders. The Omnibus Incentive Plan was ratified by the Company's shareholders in 2001. Since January 1, 2001, awards under the Company's Long Term Incentive Plan and Executive Long Term Incentive Plan described below have been granted under the Omnibus Incentive Plan.

The Omnibus Incentive Plan provides for the following types of awards: (i) stock options, including incentive stock options and non-qualified stock options; (ii) stock appreciation rights; (iii) restricted shares; (iv) performance units; (v) performance shares; (vi) stock awards; and (vii) cash-based awards. Awards can be granted to employees and non-employee directors. At December 31, 2003, 1,020,100 of the maximum 3,200,000 shares of the Company's

Note 12 -- Stock-Based Compensation Plans - Continued

Common Stock originally reserved for delivery to participants under the Omnibus Incentive Plan were available to be granted as awards under the plan.

Stock Options Awards Under the Omnibus Incentive Plan: The Compensation Committee of the Board of Directors determines the vesting schedule and expiration date of all options granted under the Omnibus Incentive Plan, except that options expire no later than ten years from the date of grant. Stock options are to be granted at exercise prices no less than the market price of the Company's Common Stock on the date of grant. All stock option grants under the Omnibus Incentive Plan fully vest in the event of a change-in-control (as defined by the plan) of the Company.

A limited number of executive officers and key employees of the Company were awarded an aggregate of 445,800, 957,000, and 655,000 non-qualified stock options in March 2003, January 2002, and May 2001, respectively. The stock option awards vest in three equal annual installments commencing on the first anniversary of the date of grant, and expire ten years from the date of grant. No other stock option awards were granted under the Omnibus Incentive Plan as of December 31, 2003 and 2002, respectively. No compensation expense was recognized for such equity-related awards under this plan in 2003, 2002 or 2001.

Restricted Stock and Performance Unit Awards Under the Omnibus Incentive Plan: A limited number of officers and key employees of the Company were awarded an aggregate of 122,100 shares of restricted stock and performance units in November 2003. The restricted stock and performance unit awards vest in three equal annual installments commencing on the first trading day of the New York Stock Exchange in 2005. All grants under the Stock Incentive Plan fully vest in the event of a change-in-control (as defined by the plan) of the Company. Compensation expense was not significant in 2003.

Long Term Incentive Plan: The Company has a Long Term Incentive Plan for certain management employees. Commencing in 2001, these awards have been granted under the Omnibus Incentive Plan by reference to the Long Term Incentive Plan. The plan provides for awards of the Company's Common Stock to be granted if certain of the Company's performance targets are achieved, which can then vest at the end of the three-year vesting period. Unvested shares will be forfeited. A trust was established to hold shares of the Company's Common Stock to fund this obligation. At December 31, 2003, no shares remained in this trust. Compensation expense was $1 and $1 in 2003 and 2002 and was not significant in 2001.

Executive Long Term Incentive Plan: In 2000, the Company established an Executive Long Term Incentive Plan for its senior executives. Commencing in 2001, these awards have been granted under the Omnibus Incentive Plan by reference to the Executive Long Term Incentive Plan. One half of the award granted to each executive provides for the Company's Common Stock to be granted if certain of the Company's performance targets are achieved, which can then vest at the end of the three-year vesting period. Unvested shares will be forfeited. A trust was established to hold shares of the Company's Common Stock to fund this obligation. At December 31, 2003, no shares remained in this trust. The remaining half of the award is based on the total shareholder return on the Company's Common Stock compared to total shareholder return on the common stock of the Company's peer group (companies in the Standard & Poor's Chemical Composite Index) over a three-year period, in each case including reinvested dividends. This award will be paid in cash. Compensation expense was $2, $1, and $3 in 2003, 2002, and 2001, respectively.

Long Term Stock Incentive Plan: The Company's Long Term Stock Incentive Plan ("Stock Incentive Plan") was designed to enhance the profitability and value of the Company for the benefit of its shareholders and was ratified by the Company's shareholders in 1997.

The Stock Incentive Plan provides for the following types of awards to employees: (i) stock options, including incentive stock options and non-qualified stock options; (ii) stock appreciation rights; (iii) restricted shares; (iv) performance units; and (v) performance shares. At December 31, 2003, 1,388,214 of the maximum 3,909,000 shares of the Company's Common Stock originally reserved for delivery to participants under the Stock Incentive Plan were available to be granted as awards under the plan.

Restricted Share Awards Under the Stock Incentive Plan: The vesting schedule for granted restricted share awards was as follows: (i) three equal tranches aggregating 25% of the total award vesting in each of October 1999,

MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollars in millions, except share data)

Note 12 -- Stock-Based Compensation Plans - Continued

2000 and 2001; and (ii) three equal tranches aggregating 75% of the total award subject to the achievement of "value creation" performance criteria established by the Compensation Committee for each of the three performance cycles commencing January 1, 1997 and ending December 31, 1999, 2000 and 2001, respectively. Half of the earned portion of a tranche relating to a particular performance-based cycle of the award vested immediately and the remainder vests in five equal annual installments commencing on the first anniversary of the end of the cycle.

Unearned and/or unvested restricted shares, based on the market value of the shares at each balance sheet date, are included as a separate component of Shareholders' deficit and amortized over the restricted period. Expense recognized in 2003 and 2002 was not significant. Income of $2 was recognized for the year ended December 31, 2001.

Stock Option Awards Under the Long Term Stock Incentive Plan: Stock options granted under the Long Term Stock Incentive Plan vest three years from the date of grant and expire ten years from the date of grant. All stock options have been granted at exercise prices equal to the market price of the Company's Common Stock on the date of grant. All grants under the Stock Incentive Plan fully vest in the event of a change-in-control (as defined by the plan) of the Company.

A summary of changes in all of the awards of restricted stock and stock options for all employees, including executive officers and key employees, under the Omnibus Incentive Plan and the Stock Incentive Plan, which are the only plans under which such awards can be made, is as follows:

	Restricted Shares	Weighted-Average Grant Price	Stock Options	We A Exerc
Balance at December 31, 2000	1,578,815	$23.73	610,000	$
Vested and issued	(298,065)	$23.81	--	
Cancelled	(641,427)	$23.39	(57,000)	$
Granted	--	--	748,000	$
Balance at December 31, 2001	639,323	$23.69	1,301,000	$
Vested and issued	(63,447)	$24.22	--	
Cancelled	(509,502)	$23.94	(103,000)	$
Granted	--	--	999,000	$
Balance at December 31, 2002	66,374	$21.19	2,197,000	$
Vested and issued	(50,251)	$24.63	--	
Exercised	--	--	(8,000)	$
Cancelled	--	--	(44,000)	$

Granted	122,100(1)	$10.02	485,800	$
Balance at December 31, 2003	138,223	$10.07	2,630,800	$

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(1) Includes 7,800 performance units

MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollars in millions, except share data)

Note 12 -- Stock-Based Compensation Plans - Continued

A summary of the Company's stock options as of December 31, 2003 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Shares	Weighted Average Remaining Life (Yrs)	Weighted Average Exercise Price	Shares	Weighted Averag Exercise Price
$11.20 - $16.00	1,512,800	8.43	$12.21	41,000	$15.94
$16.01 - $20.00	955,000	6.63	$17.46	233,000	$19.34
$20.01 - $24.00	102,000	5.21	$22.29	102,000	$22.29
$24.01 - $28.00	31,000	5.42	$27.38	31,000	$27.38
$28.01 - $34.88	30,000	4.42	$34.88	30,000	$34.88
$11.20 - $34.88	2,630,800	6.73	$14.94	437,000	$21.34

The weighted average fair value of stock options at grant date was $4.15 per share, $4.04 per share and $3.16 per share for 2003, 2002 and 2001, respectively, using a Black-Scholes model with the following assumptions: expected dividend yield of 5% for 2003 and 4% for 2002 and 2001, respectively; risk-free interest rate of 4% in 2003, 5% in 2002 and 2001, respectively; an expected life of 10 years; and an expected volatility of 48%, 62%, and 39% for 2003, 2002 and 2001, respectively.

Salary and Bonus Deferral Plan: The Company had a deferred compensation plan under which officers and certain management employees had deferred a portion of their compensation on a pre-tax basis in the form of the Company's Common Stock. A rabbi trust (the "Trust") had been established to hold shares of the Company's Common Stock purchased in open market transactions to fund this obligation. Shares purchased by the Trust are reflected as Treasury stock, at cost, and, along with the related obligation for this plan, are included in Shareholders' deficit. At December 31, 2003, 420,212 shares have been purchased at a total cost of $8 and are held in the Trust. At December 31, 2003, this plan is no longer active but continues to hold shares in the Trust and to distribute such shares based on elections made by participants.

(Dollars in millions, except share data)

Note 13 -- Cumulative Other Comprehensive Loss

Cumulative other comprehensive loss consists of changes in foreign currency translation adjustments, net unrealized losses on certain derivative instruments, the minimum pension liability, and the Company's share of Equistar's Cumulative other comprehensive loss. The following table sets forth the components of Cumulative other comprehensive loss:

	Foreign Currency Translation Adjustments	Unrealized Losses on Derivative Instruments	Minimum Pension Liability	Equity in Other Comprehensive Loss of Equistar
Balance, December 31, 2000...........	$(107)	$--	$ --	$--
2001 Change.......................	(19)	(6)	(4)	--
Balance, December 31, 2001...........	(126)	(6)	(4)	--
2002 Change.......................	27	5	(188)	(7)
Balance, December 31, 2002...........	(99)	(1)	(192)	(7)
2003 Change.......................	128	--	26	4
Balance, December 31, 2003...........	$ 29	$(1)	$(166)	$(3)

Note 14 -- Related Party Transactions

One of the Company's subsidiaries purchases ethylene from Equistar at market-related prices pursuant to an agreement made in connection with the formation of Equistar. Under the agreement, the subsidiary is required to purchase 100% of its ethylene requirements for its La Porte, Texas facility up to a maximum of 330 million pounds per year. The initial term of the contract was through December 1, 2000 and automatically renews annually. Either

Note 14 -- Related Party Transactions - Continued

party may terminate on one year's notice, and neither party has provided such notice. The subsidiary incurred charges of $46, $43 and $53 in 2003, 2002 and 2001, respectively, under this contract.

One of the Company's subsidiaries sells VAM to Equistar at formula-based prices pursuant to an agreement entered into in connection with the formation of Equistar. Under this agreement, Equistar is required to purchase 100% of its VAM feedstock requirements for its La Porte, Texas, and Clinton and Morris, Illinois, plants, estimated to be 48 million to 55 million pounds per year, up to a maximum of 60 million pounds per year (the "Annual Maximum") for the production of ethylene vinyl acetate products at those locations. If Equistar fails to purchase at least 42 million pounds of VAM in any calendar year, the Annual Maximum quantity may be reduced by as much as the total purchase deficiency for one or more successive years. In order to reduce the Annual Maximum quantity, Equistar must be notified within at least 30 days prior to restricting the VAM purchases provided that the notice is not later than 45 days after the year of the purchase deficiency. The initial term of the contract was through December 31, 2000 and renews annually. Either party may terminate on one year's notice, and Equistar provided notice to the Company that it will terminate this contract on December 31, 2004. During the years ended December 31, 2003, 2002 and 2001, sales to Equistar were $10, $10 and $14, respectively.

One of the Company's subsidiaries and Equistar have entered into various operating, manufacturing and technical service agreements. These agreements provide the subsidiary with certain utilities, steam, administrative office space, and health, safety and environmental services. The subsidiary incurred charges of $8, $9 and $17 in 2003, 2002 and 2001, respectively, for such services. In addition, the subsidiary charged Equistar $15, $15 and $18 in 2003, 2002 and 2001, respectively, for electricity and miscellaneous shared services.

Note 15 -- 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 is one of a number of defendants in 95 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 facilities, and did not relate to any products manufactured or sold by the Company or any of its predecessors). 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 is one of a number of defendants in 80 premises-based asbestos cases filed in late 2003 in Baltimore County, Maryland. 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. Defunct indirect Company subsidiaries are among a number of defendants in 65 premises-based asbestos cases in Texas.

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. 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

Note 15 -- Commitments and Contingencies - Continued

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.

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. In particular, the production of TiO_2, $TiCl_4$, 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, in December 2000, the Texas Commission on Environmental Quality (the "TCEQ") submitted a plan to the United States Environmental Protection Agency ("EPA") requiring the eight-county Houston/Galveston, Texas area to come into compliance with the National Ambient Air Quality Standard for ozone by 2007. These requirements, if implemented, would mandate significant reductions of nitrogen oxide ("NOx") emissions. In December 2002, the TCEQ adopted revised rules, which changed the required NOx emission reduction levels from 90% to 80% while requiring new controls on emissions of highly reactive volatile organic compounds ("HRVOCs"), such as ethylene, propylene, butadiene and butanes. The TCEQ plans to make a final review of these rules, with final rule revisions to be adopted by October 2004. These new rules still require approval by the EPA. Based on the 80% NOx reduction requirement, Equistar estimates that its aggregate related capital expenditures could total between $165 and $200 before the 2007 deadline, and could result in higher annual operating costs. This result could potentially affect cash distributions from Equistar to the Company. Equistar's spending through December 31, 2003 totaled $69. Equistar is still assessing the impact of the new HRVOC control requirements. The timing and amount of these expenditures are subject to regulatory and other uncertainties, as well

Note 15 -- Commitments and Contingencies - Continued

as obtaining the necessary permits and approvals. At this time, there can be no guarantee as to the ultimate capital cost of implementing any final plan developed to ensure ozone attainment by the 2007 deadline.

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 $22 for the Kalamazoo River Superfund Site in Michigan. A subsidiary of the Company is named as one of four PRPs at the Kalamazoo River Superfund Site. The site involves contamination of river sediments and floodplain soils with polychlorinated biphenyls. 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 (the "Draft Study"), which evaluated a number of remedial options. The cost for these remedial options ranged from $0 to $2,500; however, the Company strongly believes that the likelihood of the cost being either $0 or $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 35% of costs related to studying and evaluating the environmental condition of the river. Guidance as to how the EPA will likely proceed with any further evaluation and remediation at the Kalamazoo site is not expected until late 2004 at the earliest. At the point in time when the EPA announces how it intends to proceed, the Company's estimate of its liability at the Kalamazoo site will be re-evaluated. 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 by the EPA, 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. Recently, the EPA identified 14 private entities and 7 municipalities and sent them formal requests for information regarding their possible connection with the Kalamazoo site.

On January 16, 2002, Slidell Inc. ("Slidell") filed a lawsuit against Millennium Inorganic Chemicals Inc., a wholly-owned operating subsidiary of the Company, 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. The Company believes it has substantial defenses to these allegations and has filed a counterclaim against Slidell.

The Company believes that the reasonably probable and estimable range of potential liability for such environmental and litigation contingencies, collectively, is between $53 and $78 and has accrued $61 as of December 31, 2003. Expenses or benefits associated with these contingencies including changes in estimated costs to resolve these contingencies are included in the Company's selling, development and administrative ("S, D&A") costs. In 2003, net benefits resulting from changes in the estimated liabilities for these contingencies were not significant. Included in 2002 is a benefit of $6 from a reduction of reserves due to a favorable resolution of certain environmental claims related to predecessor businesses reserved for in prior years. Additionally, 2002 includes $3 of expenses associated with environmental and other legal contingencies related to the Company's current businesses. In 2001, $15 of the Company's total $16 of expenses for environmental and other legal contingencies resulted from increases in reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses. 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. This accrual also reflects the fact that certain Company subsidiaries have contractual obligations to indemnify other parties against certain environmental and other liabilities.

Purchase Commitments: The Company has various agreements for the purchase of ore used in the production of TiO[u]2 and certain other agreements to purchase raw materials, utilities and services with various terms extending through 2020. The fixed and determinable portion of obligations under purchase commitments at December 31, 2003 (at current exchange rates, where applicable) is as follows:

MILLENNIUM CHEMICALS INC.
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Note 15 -- Commitments and Contingencies - Continued

	Ore	Other	Total
2004	$183	$ 149	$ 332
2005	155	117	272
2006	117	107	224
2007	65	108	173
2008	--	99	99
Thereafter	--	750	750
Total	$520	$1,330	$1,850

One of the Company's subsidiaries has entered into an agreement with DuPont to toll acetic acid through DuPont's VAM plant, thereby acquiring all of the VAM production at such plant not utilized by DuPont. The tolling fee is based on the market price of ethylene, plus a processing charge. The term of the contract is from January 1, 2001 through December 31, 2006, and thereafter from year-to-year. The total commitment over the remaining term of the contract is expected to be $202.

Future Minimum Rental Commitments: Future minimum rental commitments under non-cancelable operating leases, as of December 31, 2003, are as follows:

2004	$ 20
2005	15
2006	12
2007	11
2008	11
Thereafter	75
Total	$144

Other Contingencies: The Company is organized under the laws of Delaware and is subject to United States Federal income taxation of corporations. However, in order to obtain clearance from the United Kingdom Inland Revenue as to the tax-free treatment of the Demerger stock dividend for United Kingdom tax purposes for Hanson and Hanson's shareholders, Hanson agreed with the United Kingdom Inland Revenue that the Company would continue to be centrally managed and controlled in the United Kingdom at least until September 30, 2001. The Company agreed with Hanson not to take, or fail to take, during such five-year period, any action that would result in a breach of, or constitute non-compliance with, any of the representations and undertakings made by Hanson in its agreement with the United Kingdom Inland Revenue. The Company also agreed to indemnify Hanson against any liability and penalties arising out of a breach of such agreement.

Effective February 4, 2002, the Company ceased being centrally managed and controlled in the United Kingdom. The Company believes that it has satisfied all obligations that it be managed and controlled in the United Kingdom for the requisite five-year period.

See Note 7 for additional information regarding income tax contingencies.

Note 16 -- Operations by Business Segment and Geographic Area

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 costs not allocated to its three business segments, employee-related costs from predecessor businesses and certain other expenses, including costs associated with the Company's cost reduction program announced in July 2003 and the Company's reorganization activities in 2001 (see Note 3), are grouped under the heading Other. The accounting policies of the segments are the same as those described in Note 1.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
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Note 16 -- Operations by Business Segment and Geographic Area - Continued

Most of the Company's foreign operations are conducted by subsidiaries in the United Kingdom, France, Brazil and Australia. Sales between the Company's operations are made on terms similar to those of its third-party distributors.

Income and expense not allocated to business segments in computing operating income include interest income and expense, other income and expense and loss on Equistar investment.

Export sales from the United States for the years ended December 31, 2003, 2002 and 2001 were approximately $316, $254 and $245, respectively.

The following is a summary of the Company's operations by business segment:

	2003	2002	2001
Net sales			
Titanium Dioxide and Related Products	$1,172	$1,129	$1,145
Acetyls	421	334	355
Specialty Chemicals	94	91	90
Total	$1,687	$1,554	$1,590
Operating (loss) income			
Titanium Dioxide and Related Products	$ (51)	$ 63	$ 72
Acetyls	27	11	(16)

(Dollars in millions, except share data)

Specialty Chemicals	2	6	12
Other	(29)	--	(54)
Total	$ (51)	$ 80	$ 14
Depreciation and amortization			
Titanium Dioxide and Related Products	$ 94	$ 83	$ 81
Acetyls	11	11	21
Specialty Chemicals	8	8	8
Total	$ 113	$ 102	$ 110
Capital expenditures			
Titanium Dioxide and Related Products	$ 42	$ 61	$ 82
Acetyls	3	1	6
Specialty Chemicals	3	9	3
Other	--	--	6
Total	$ 48	$ 71	$ 97
Identifiable assets			
Titanium Dioxide and Related Products	$1,487	$1,389	
Acetyls	285	294	
Specialty Chemicals	95	99	
Other (1)	531	614	
Total	$2,398	$2,396	

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(1) Other assets consist primarily of cash and cash equivalents, the Company's interest in Equistar and other assets.

Note 16 -- Operations by Business Segment and Geographic Area - Continued

	December 31,	
	2003	2002
Goodwill		
Titanium Dioxide and Related Products	$ 56	$ 58
Acetyls	48	48
Total	$104	$106

The following is a summary of the Company's operations by geographic region:

	2003	2002	2001
Net sales			
United States	$ 984	$ 923	$ 983
Non-United States			
United Kingdom	447	404	364
France	187	183	179
Asia/Pacific	203	178	160
Brazil	107	103	113
	944	868	816
Inter-area elimination	(241)	(237)	(209)
Total	$1,687	$1,554	$1,590
Operating income (loss)			
United States	$ (9)	$ 6	$ (53)
Non-United States			
United Kingdom	27	5	(5)
France	(137)	(11)	(8)
Asia/Pacific	51	54	52
Brazil	21	23	30
	(38)	71	69
Inter-area elimination	(4)	3	(2)
Total	$ (51)	$ 80	$ 14
Identifiable assets			
United States	$1,424	$1,536	
Non-United States			
United Kingdom	451	346	
France	146	250	
Asia/Pacific	231	137	
Brazil	133	116	
All Other	13	11	
	974	860	
Total	$2,398	$2,396	

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Note 17 -- Quarterly Financial Data (unaudited)

	1st Qtr.	2nd Qtr.	3rd
2003			
Net sales	$ 415	$ 416	$
Operating income (loss)	27	24 (2)	
Net loss before cumulative effect of accounting change	(26)(1)	(9)(3)	
Cumulative effect of accounting change	(1)	--	
Net loss after cumulative effect of accounting change	(27)(1)	(9)(3)	
Basic and diluted loss per share:			
Before cumulative effect of accounting change	(0.41)(1)	(0.14)(3)	(0
From cumulative effect of accounting change	(0.02)	--	
After cumulative effect of accounting change	(0.43)(1)	(0.14)(3)	(0
2002			
Net sales	$ 351	$ 405	$
Operating income	7	20 (8)	
Net (loss) income before cumulative effect of accounting change	(33)	2 (8)	
Cumulative effect of accounting change	(305)	--	
Net (loss) income after cumulative effect of accounting change	(338)	2 (8)	
Basic and diluted (loss) earnings per share:			
Before cumulative effect of accounting change	(0.52)	0.02 (8)	0
From cumulative effect of accounting change	(4.80)	--	
After cumulative effect of accounting change	(5.32)	0.02 (8)	0

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(1) Includes $3 after tax or $0.04 per share from the Company's share of Equistar's loss on sale of assets.

(2) Includes $1 of reorganization charges.

(3) Includes after-tax reorganization charges of $1 or $0.02 per share and the Company's after-tax share of Equistar's debt prepayment costs of $4 or $0.06 per share.

(4) Includes $15 of reorganization and office closure charges.

(5) Includes after-tax reorganization and office closure charges of $10 or $0.16 per share and an after-tax benefit of $2 or $0.03 per share from the collection of a note receivable previously written off.

(6) Includes $103 of asset impairment charges and $2 of reorganization and office closure charges.

(7) Includes after-tax asset impairment charges of $101 or $1.58 per share, a net tax benefit of $18 or $0.28 per share unrelated to transactions in 2003, after-tax reorganization and office closure charges of $1 or $0.03 per share, and the Company's after-tax share of Equistar's financing costs of $3 or $0.04 per share and severance costs of $1 or $0.02 per share.

(8) Includes a benefit of $5 ($3 after-tax or $0.05 per share) from a reduction of reserves due to favorable resolution of environmental claims related to

predecessor businesses reserved for in prior years.

(9) Includes a benefit of $1 from a reduction of reserves due to favorable resolution of environmental claims related to predecessor businesses reserved for in prior years.

(10) Includes a benefit of $1 after-tax or $0.01 per share from a reduction of reserves due to favorable resolution of environmental claims related to predecessor businesses reserved for in prior years, a tax benefit of $22 or $0.35 per share, primarily related to a federal tax refund claim, and a tax charge of $10 or $0.16 per share to establish a valuation allowance against deferred tax assets for the Company's French subsidiaries.

Note 18 -- Supplemental Financial Information

Millennium America, a wholly-owned indirect subsidiary of the Company, 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% 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 December 31, 2003 and 2002, and the Condensed Consolidating Statements of Operations and Cash Flows for each of the three years in the period ended December 31, 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' equity (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.

Note 18 -- Supplemental Financial Information - Continued

CONDENSED CONSOLIDATING BALANCE SHEETS
As of December 31, 2003 and 2002

	Millennium America Inc.	Millennium Chemicals Inc.	Non-Guarantor Subsidiaries	Elimi
2003 (Restated - See Note 19)				
ASSETS				
Inventories	$ --	$ --	$ 457	$
Other current assets	24	1	526	
Property, plant and equipment, net	--	--	766	
Investment in Equistar	--	--	469	
Investment in subsidiaries	369	95	--	
Other assets	12	3	36	
Goodwill	--	--	104	
Due from parent and affiliates, net	733	--	--	
Total assets	$1,138	$ 99	$2,358	$(
LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY				
Current maturities of long-term debt	$ --	$ --	$ 6	$
Other current liabilities	9	1	355	
Long-term debt	1,295	150	16	
Deferred income taxes	--	--	272	
Other liabilities	--	--	325	
Due to parent and affiliates, net	--	6	727	
Total liabilities	1,304	157	1,701	
Minority interest	--	--	27	
Shareholders' (deficit) equity	(166)	(58)	630	
Total liabilities and shareholders' (deficit) equity	$1,138	$ 99	$2,358	$(
2002 (Restated - See Note 19)				
ASSETS				
Inventories	$ --	$ --	$ 406	$
Other current assets	10	--	403	
Property, plant and equipment, net	--	--	862	
Investment in Equistar	--	--	563	
Investment in subsidiaries	364	110	--	
Other assets	15	--	31	
Goodwill	--	--	106	
Due from parent and affiliates, net	638	--	--	
Total assets	$1,027	$110	$2,371	$(
LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY				
Current maturities of long-term debt	$ 3	$ --	$ 9	$
Other current liabilities	8	--	455	

Long-term debt	1,196	--	16	
Deferred income taxes	--	--	300	
Other liabilities	--	--	410	
Due to parent and affiliates, net	--	130	508	
Total liabilities	1,207	130	1,698	
Minority interest	--	--	19	
Shareholders' (deficit) equity	(180)	(20)	654	
Total liabilities and shareholders' (deficit) equity	$1,027	$110	$2,371	$(

MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued
(Dollars in millions, except share data)

Note 18 -- Supplemental Financial Information - Continued

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2003, 2002 and 2001

	Millennium America Inc.	Millennium Chemicals Inc.	Non-Guarantor Subsidiaries	E
2003				
Net sales	$ --	$ --	$1,687	
Cost of products sold	--	--	1,377	
Depreciation and amortization	--	--	113	
Selling, development and administrative expense	--	1	126	
Reorganization and office closure costs	--	--	18	
Asset impairment charges	--	--	103	
Operating loss	--	(1)	(50)	
Interest expense (income), net	(94)	--	2	
Intercompany interest income (expense), net	98	(3)	(95)	
Loss on Equistar investment	--	--	(100)	
Equity in loss of subsidiaries	(110)	(180)	--	
Other expense	(1)	--	(4)	
(Provision for) benefit from income taxes	(1)	1	65	
Cumulative effect of accounting change	1	(1)	(1)	
Net loss	$(107)	$(184)	$ (183)	
2002				
Net sales	$ --	$ --	$1,554	
Cost of products sold	--	--	1,234	

Depreciation and amortization	--	--	102
Selling, development and administrative expense	1	1	136
Operating (loss) income	(1)	(1)	82
Interest expense, net	(86)	--	--
Intercompany interest income (expense), net	103	(5)	(98)
Loss on Equistar investment	--	--	(73)
Equity in loss of subsidiaries	(97)	(23)	--
Other expense	--	--	(7)
(Provision for) benefit from income taxes ...	(6)	1	63
Cumulative effect of accounting change	(305)	(305)	(305)
Net loss	$(392)	$(333)	$ (338)
2001			
Net sales	$ --	$ --	$1,590
Cost of products sold	--	--	1,261
Depreciation and amortization	--	--	110
Selling, development and administrative expense	--	--	169
Reorganization and plant closure costs	--	--	36
Operating income	--	--	14
Interest expense, net	(81)	--	(1)
Intercompany interest income (expense), net	108	(4)	(104)
Loss on Equistar investment	--	--	(83)
Equity in loss of subsidiaries	(76)	(51)	--
Other expense	(2)	(1)	--
(Provision for) benefit from income taxes ...	(9)	2	107
Net loss	$ (60)	$ (54)	$ (67)

MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued
(Dollars in millions, except share data)

Note 18 -- Supplemental Financial Information - Continued

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2003, 2002 and 2001

	Millennium America Inc.	Millennium Chemicals Inc.	Non-Guarantor Subsidiaries	El
2003				

Cash flows from operating activities	$ 7	$ (2)	$(95)
Cash flows from investing activities:			
Capital expenditures	--	--	(48)
Cash used in investing activities	--	--	(48)
Cash flows from financing activities:			
Dividends to shareholders	--	(17)	--
Proceeds from long-term debt, net	478	146	2
Repayment of long-term debt	(378)	--	(9)
Intercompany	(93)	(127)	220
Decrease in notes payable and other short-term borrowings	--	--	(19)
Cash provided by financing activities	7	2	194
Effect of exchange rate changes on cash	--	--	19
Increase in cash and cash equivalents	14	--	70
Cash and cash equivalents at beginning of year	6	--	119
Cash and cash equivalents at end of year ...	$ 20	$ --	$189

2002			
Cash flows from operating activities	$ 18	$ (6)	$ 72
Cash flows from investing activities:			
Capital expenditures	--	--	(71)
Proceeds from sales of property, plant & equipment	--	--	1
Cash used in investing activities	--	--	(70)
Cash flows from financing activities:			
Dividends to shareholders	--	(35)	--
Proceeds from long-term debt	290	--	12
Repayment of long-term debt	(264)	--	(8)
Intercompany	(43)	41	2
Increase in notes payable	--	--	3
Cash (used in) provided by financing activities	(17)	6	9
Effect of exchange rate changes on cash	--	--	(1)
Increase in cash and cash equivalents	1	--	10
Cash and cash equivalents at beginning of year	5	--	109
Cash and cash equivalents at end of year ...	$ 6	$ --	$119

(Dollars in millions, except share data)

Note 18 -- Supplemental Financial Information - Continued

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS - Continued
For the Years Ended December 31, 2003, 2002 and 2001

	Millennium America Inc.	Millennium Chemicals Inc.	Non-Guarantor Subsidiaries	El
2001				
Cash flows from operating activities	$ 7	$ (5)	$110	
Cash flows from investing activities:				
Capital expenditures	--	--	(97)	
Proceeds from sales of property, plant & equipment	--	--	19	
Cash used in investing activities	--	--	(78)	
Cash flows from financing activities:				
Dividends to shareholders	--	(35)	--	
Proceeds from long-term debt	741	--	42	
Repayment of long-term debt	(675)	--	(61)	
Intercompany	(51)	40	11	
Decrease in notes payable	(17)	--	(17)	
Cash (used in) provided by financing activities	(2)	5	(25)	
Effect of exchange rate changes on cash	--	--	(5)	
Increase in cash and cash equivalents	5	--	2	
Cash and cash equivalents at beginning of year	--	--	107	
Cash and cash equivalents at end of year ...	$ 5	$ --	$109	

Note 19 -- Restatement of Financial Statements

The Company restated its financial statements for the years 2001 through 2003 to correct errors in its computation of deferred income taxes relating to its Equistar investment. This restatement decreased the Company's liability for deferred income taxes and Shareholders' deficit at December 31, 2003 and 2002 by $15. This restatement similarly decreased liabilities for deferred income taxes and increased Shareholders' equity at December 31, 2001 and 2000 by $15. The restatement did not affect the Company's cash flow or operating income in any year.

A summary of the aggregate effect of this restatement on the Company's

Consolidated Balance Sheets for the periods presented herein is shown below.

	As of December 31, 2003		As of December 31,	
	As Reported	As Restated	As Reported	As Res
Changes to Consolidated Balance Sheets:				
Deferred income taxes	$ 287	$ 272	$ 315	$ 3
Total liabilities	2,444	2,429	2,412	2,3
Accumulated deficit	(977)	(962)	(776)	(7
Total shareholders' deficit	(73)	(58)	(35)	(

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Item 9A. Controls and Procedures

(a) 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.

As a result of activities relating to the Company's proposed business combination with Lyondell, the Company discovered errors in the computation of its tax basis in Equistar used to compute the Company's deferred income taxes. The restatement reflected in this Amendment No. 2 decreased the Company's liability for deferred income taxes and Shareholders' deficit at December 31, 2003 and 2002 by $15 million. This restatement similarly decreased liabilities for deferred income taxes and increased Shareholders' equity at December 31, 2001 and 2000 by $15 million. The restatement did not affect the Company's cash flow or operating income in any year.

The Company believes that the errors resulted from a "material weakness" in internal controls relating to the computation of deferred income taxes for its investment in Equistar.

As a result of the Company's decision to restate its financial statements, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2003. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that, solely as a result of the material weakness referred to above, the Company's disclosure controls and procedures were not effective as of December 31, 2003.

(b) There were no changes in the Company's internal controls over financial reporting that occurred during the most recent fiscal quarter covered by this Annual Report that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

As a result of Section 404 of the Sarbanes-Oxley Act of 2002 and the rules issued thereunder (collectively, 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, 2004 a report on management's assessment of the effectiveness of the Company's internal controls over financial reporting. As part of the process of preparing for compliance with the Section 404 Requirements, in 2003, the Company initiated a review of its internal controls over financial reporting. This review is being conducted under the direction of senior management. As a result, management has made improvements to the Company's internal controls through the date of the filing of this Amendment No. 2 as part of its normal review process. The Company's management does not believe these changes have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. The Company anticipates that improvements will continue to be made as part of the ongoing review.

As a result of the errors discovered as discussed in paragraph (a) above, the Company performed a thorough analysis and re-computation of the Company's tax basis in Equistar to correct the Company's deferred income taxes. Additionally, the Company is establishing formal procedures for the regular review of the Company's tax basis relating to its investment in Equistar. These procedures will be evaluated for effectiveness and implemented in the third quarter.

PART IV

Item 15. Exhibits, Financial Statement Schedule and Reports on Form 8-K

(a) The Following Documents are Filed as Part of This Report:

1. Financial Statement Schedule.

   Financial Statement Schedule II -- Valuation and Qualifying Accounts, located on page S-1 of this Amendment No. 2 to the Annual Report on Form 10-K/A, should be read in conjunction with the Financial Statements included in Item 8 of this Amendment No. 2 to the Annual Report on Form 10-K/A. Schedules, other than Schedule II, are omitted because of the absence of the conditions under which they are required or because the information called for is included in the Consolidated Financial Statements of the Company or the Notes thereto.

2. Exhibits.

Exhibit Number	Description of Document

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3.1(a)   Amended and Restated Certificate of Incorporation of the Company
          (Filed as Exhibit 3.1