MILLENNIUM CHEMICALS INC
Form 10-K/A
November 12, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
(AMENDMENT NO. 1)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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 90 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 March 19, 2003 (based upon the closing price of $11.90 per common share as quoted on the New York Stock Exchange), is approximately $740 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 19, 2003, was 63,440,462 shares, excluding 14,456,124 shares held by the registrant, its subsidiaries and certain Company trusts, which are not entitled to be voted.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement relating to the 2003 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III of this Annual Report on Form 10-K as indicated herein.

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Explanatory Note

Millennium Chemicals Inc. (the "Company") is filing this amendment to its Annual Report on Form 10-K for the year ended December 31, 2002 to reflect restatements of its financial statements for the years ended December 31, 1998 through 2002. Included herein are restated consolidated statements of operations and consolidated statements of cash flows for each of the three years in the period ended December 31, 2002, and restated consolidated balance sheets as of December 31, 2002 and 2001, as well as selected financial data for the five years ended December 31, 2002. The restatements correct errors in:

- the accounting for deferred taxes relating to the Company's investment in Equistar Chemicals, LP ("Equistar"), a partnership in which the Company owns a 29.5% interest;
- the calculation of the Company's minimum pension benefit liability as reflected in its balance sheet at December 31, 2002 and its pension expense for the year then ended, as a result of actuarial valuation errors by the Company's independent actuarial valuation firm; and
- the accounting for a five-year precious metals agreement entered into in April 1998 that had been characterized as an operating lease and should have been characterized as a secured financing.

These errors, all of which were discovered in July 2003, were initially reported by the company on August 6, 2003, 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. The Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 filed with the Securities and Exchange Commission on August 19, 2003, included restated financial statements which reflected adjustments for these errors.

Subsequent to the announcement of these errors, and during the course of preparing the restatements of its financial statements, the Company commenced an analysis of comments of the staff of the Securities and Exchange Commission with respect to the accounting in the Company's financial statements for the years 2000 through 2002

for previously established reserves for legal and environmental contingencies. In connection with the Company's preparation of a proposed response to these comments, the Company's independent auditors, which, in the course of their annual audits of the Company's financial statements beginning in 1996 had previously reviewed these reserves and changes therein, raised various questions with respect to these reserves and thereafter brought these questions to the attention of the Audit Committee of the Company's Board of Directors. The Audit Committee, with the assistance of independent legal counsel and accountants, conducted a review of the questions raised by the Company's auditors, as well as the accounting by the Company for legal, environmental and other reserves established for certain of the Company's predecessor businesses. As a consequence of this review, which was completed in early November 2003, the Company determined to include in its restated financial statements adjustments to the timing of income and expense recognition associated with those reserves. These adjustments had the effect of increasing income in the years prior to 1998 by $38 million and increasing expense in financial statements for the years ended December 31, 1998 through 2001 by $38 million. These adjustments also are reflected in this Amendment.

In addition, during the course of its 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 its 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.

A detailed discussion of the restatements of the Company's financial statements reflected in this amended Annual Report, 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, is set forth in Note 2 to the Consolidated Financial Statements included in this amended Annual Report. Those financial statements, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations, also reflect changes made in response to comments of the staff of the Securities and Exchange Commission following its review of the Company's Annual Report on Form 10-K for the year ended December 31, 2002, as initially filed with the Securities and Exchange Commission in March 2003. Changes also have been made to the following additional items of the Annual Report on Form 10-K as a result of the changes to the financial statements, principal among which are the following:

- Item 1, Business, has been revised to reflect the changes to financial information in the Consolidated Financial Statements as a result of the restatements and the reclassification and to reflect changes to the numbering of the Notes to the Consolidated Financial Statements that are referenced in Item 1. In addition, the phrase "other environmental proceedings" has been deleted to reflect the

fact that there are no environmental proceedings other than those involving environmental remediation activities, and the subsection entitled "Executive Officers" has not been repeated in this Amendment;

- Item 3, Legal Proceedings, has been revised only to change the cross-reference to Note 15 to the Consolidated Financial Statements in the penultimate paragraph;
- Item 6, Selected Financial Data, has been revised to reflect the restatements and the reclassification;
- Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, has been revised to reflect the restatements and the reclassification. In addition, Item 7 has been revised to delete the presentation of financial results that exclude unusual items;
- Item 7A, Quantitative and Qualitative Disclosures About Market Risk, has been revised to reflect the changes to the numbering of the Notes to the Consolidated Financial Statements;
- Item 8, Financial Statements and Supplementary Data, has been revised to reflect the restatements and the reclassification; and
- Item 14, Controls and Procedures, has been updated to reflect the evaluation made by the Company in connection with this Amendment.

This Amendment does not reflect events that have occurred after March 25, 2003, 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 for the three-month periods ended March 31, 2003, June 30, 2003, and September 30, 2003. The Company will file with the Securities and Exchange Commission an amendment to its Quarterly Report on Form 10-Q for the three months ended March 31, 2003 to reflect changes therein required as a consequence of the above-described financial statement restatements and reclassification.

Disclosure Concerning Forward-Looking Statements

The statements in this Annual Report on Form 10-K/A (the "Annual Report") 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 are only present expectations as at the time of the initial filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2002. Actual events or results may differ materially. Factors that could cause such a difference include:

- the cyclicality and volatility of the chemical industries in which the Company and Equistar operate, particularly fluctuations in the demand for ethylene, its derivatives and acetyls and the sensitivity of these industries to capacity additions;
- general economic conditions in the geographic regions where the Company and Equistar generate sales, and the impact of government regulation and other external factors, in particular, the events in the Middle East;
- the ability of Equistar to distribute cash to its partners and uncertainties arising from the Company's shared control of Equistar and the Company's contractual commitments regarding possible future capital contributions to Equistar;
- changes in the cost of energy and raw materials, particularly natural gas and ethylene, and the ability of the Company and Equistar to pass on cost increases to their customers;
- the ability of raw material suppliers to fulfill their commitments;
- the ability of the Company and Equistar to achieve their productivity improvement, cost reduction and working capital targets, and the occurrence of operating problems at manufacturing facilities of the Company or Equistar;
- risks of doing business outside the United States, including currency fluctuations;
- the cost of compliance with the extensive environmental regulations affecting the chemical industry and exposure to liabilities for environmental remediation and other environmental matters relating to the Company's and Equistar's current and former operations;
- pricing and other competitive pressures;
- legal proceedings relating to present and former operations (including proceedings based on alleged exposure to lead-based paints and lead pigments, asbestos and other materials), ongoing or future tax audits and other claims;
- 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, 2002, as initially filed with the Securities and Exchange Commission on March 25, 2003.

Some of these Cautionary Statements are discussed in more detail under "Business" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report. Readers are cautioned not to place undue reliance on forward-looking or Cautionary Statements, which reflect management's opinions only as of the date of the initial filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2002. 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 Annual Report. 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. For this purpose, 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 so-called non-GAAP financial measures, primarily EBITDA, Pro Forma EBITDA, Pro Forma Operating Income, Pro Forma Net Sales and Pro Forma Depreciation and Amortization. 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. Pro Forma EBITDA and Pro Forma Operating Income include the Company's underlying interest (29.5%) in Equistar's results. Pro Forma Net Sales and Pro Forma Depreciation and Amortization include net sales and depreciation and amortization, respectively, in accordance with GAAP together with the Company's underlying interest in Equistar's corresponding amounts. The Company believes this pro forma information provides useful information to investors regarding its underlying interest in Equistar. EBITDA and the pro forma measures identified above are not a measure of operating performance computed in accordance with GAAP and should not be considered as a substitute for GAAP measures. Additionally, these measures may not be comparable to similarly named measures of other companies.

The Company also periodically reports adjusted net or operating income (loss) or adjusted EBITDA, excluding certain items that are unusual in nature or not comparable from period to period and that are included in GAAP measures of earnings. Management believes that excluding these items generally helps investors to compare operating performance between two periods. Such adjusted data is not reported without an explanation of the items that are excluded.

PART I

Item 1. Business

The Company is a major international chemical company, with leading market positions in a broad range of commodity, industrial, performance and specialty chemicals.

The Company has three business segments: Titanium Dioxide and Related Products, Acetyls, and Specialty Chemicals. The Company also owns a 29.5% interest in Equistar, a joint venture owned by the Company and Lyondell Chemical Company ("Lyondell"). The Company accounts for its interest in Equistar as an equity investment.

The Company has leading market positions in the United States and the world:

- Through its Titanium Dioxide and Related Products business segment, the Company is the second-largest producer of titanium dioxide ("TiO_2") in the world, with manufacturing facilities in the United States, the United Kingdom, France, Brazil and Australia. The Company is also the largest merchant seller of titanium tetrachloride ("$TiCl_4$") in North America and Europe and a leading producer of zirconia, silica gel and cadmium-based pigments;

- Through its Acetyls business segment, the Company is the second-largest producer of vinyl acetate monomer ("VAM") and acetic acid in North America, and through its 85% interest in La Porte Methanol Company, LP ("La Porte Methanol Company"), a partner in a leading US producer of methanol;

- Through its Specialty Chemicals business segment, the Company is a leading producer of terpene-based fragrance and flavor chemicals;

- Through its 29.5% interest in Equistar, the Company is a partner in the second-largest producer of ethylene and the third-largest producer of polyethylene in North America, and a leading producer of performance polymers, oxygenated chemicals, aromatics and specialty petrochemicals.

The Company's management strategy is based on "Operational Excellence" and "Growth and Development" models. The Operational Excellence model focuses on optimizing cash flow and disciplined growth for the Company's more mature businesses. The Company's high-volume TiO_2 and acetyls businesses, as well as its interest in Equistar, are managed pursuant to the Operational Excellence model. The Growth and Development model focuses on developing the Company's current and prospective higher margin, higher growth-potential businesses to achieve operating margins that exceed chemical industry averages. The businesses within the Company's Specialty Chemicals segment, as well as the specialty and performance chemicals businesses within the Titanium Dioxide and Related Products segment, are managed pursuant to the Growth and Development model. The Company's centralized Shared Services organization is responsible for providing finance, human resources, certain manufacturing services, research and development, strategic planning, supply chain, legal, information technology, quality, safety, health and environmental services to all Company businesses. The Company is testing its business plan with an independent third party to help drive optimal performance.

The Company's Titanium Dioxide and Related Products segment is operated through Millennium Inorganic Chemicals Inc. and its non-United States affiliates (collectively, "Millennium Inorganic Chemicals"); the Company's Acetyls segment is operated through Millennium Petrochemicals Inc. ("Millennium Petrochemicals") and the Company's Specialty Chemicals segment is operated through Millennium Specialty Chemicals Inc. ("Millennium Specialty Chemicals"). In addition to its 29.5% interest in Equistar, the Company owns an 85% interest in La Porte Methanol Company, a Delaware limited partnership, which owns a methanol plant located in La Porte, Texas and certain related facilities that were contributed to the partnership by Millennium Petrochemicals. La Porte Methanol Company is included in the Company's Consolidated Financial Statements.

The Company was incorporated in Delaware on April 18, 1996 and became a publicly traded company following its demerger (i.e., spin-off) from Hanson plc ("Hanson"), a company incorporated in the United Kingdom, on October 1, 1996 (the "Demerger"). The Company's principal executive offices are located at 230 Half Mile Road, Red Bank, NJ 07701. Its telephone number is (732) 933-5000 and its fax number is (732) 933-5240. Its website is http://www.millenniumchem.com. The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and all amendments thereto are available free of charge through the Company's website as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission. Information contained on the Company's website or any other website is not incorporated into this Annual Report and does not constitute a part of this Annual Report.

In this Annual Report:

- References to the Company are to the Company and its consolidated subsidiaries, except as the context otherwise requires.
- References to "tpa" are to metric tons per annum (a metric ton is equal to 1,000 kilograms or 2,204.6 pounds).
- References to the Company's and Equistar's market positions, with the exception of the Company's market position in the Specialty Chemicals business segment, are based on estimates of their respective production capacities, as compared to the production capacities of other industry participants. The reference to the Company's market position with respect to the Specialty Chemicals business segment is based on sales volumes of the Specialty Chemicals business segment, as compared to the estimated sales volumes of its competitors.
- Estimates of the Company's and Equistar's production capacities are based upon engineering assessments made by the Company and Equistar, respectively, and estimates of the production capacities and sales volumes of other industry participants are based on available information from a variety of sources. Actual production may vary depending on a number of factors including feedstocks, product mix, unscheduled maintenance and demand.

Business Segments

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 selling, development and administrative ("S,D&A") costs not allocated to its three business segments, employee-related costs from predecessor businesses and certain other expenses, are reflected as Other. See Note 17 to the Consolidated Financial Statements included in this Annual Report. The Company also holds a 29.5% interest in Equistar that is accounted for under the equity method. See Notes 1 and 5 to the Consolidated Financial Statements included in this Annual Report.

Principal Products

The following is a description of the principal products of the Company's business segments:

Product	Uses
Titanium Dioxide and Related Products:	
Titanium dioxide ("TiO[u]2").....................	A white pigment used to provide whitenes opacity and durability in paint and coat paper and elastomers.
Titanium tetrachloride ("TiCl[u]4")..............	The intermediate product used in making used for: the manufacture of titanium me to make a wide variety of products inclu frames, aerospace parts and golf clubs; catalysts and specialty pigments; and, a treatment for glass.
Zirconium-based compounds and chemicals...........	Chemicals used in coloring for ceramics, treatment, solid oxide fuel cells and to
Ultra-fine TiO[u]2..............................	Nanoparticle and ultra-fine products use electronic, catalyst and ultra-violet ab applications.
Silica gel..	Inorganic product used to reduce gloss a coatings. Also used to stabilize beer an life of plastic films, powdered food pro pharmaceuticals.
Cadmium-based pigments............................	Inorganic colors used in engineered plas colors, ceramics, inks, automotive refin and extrusion coatings, aerospace coatin industrial finishes.

Acetyls:	
Vinyl acetate monomer ("VAM")......................	A petrochemical product used to produce products used in adhesives, water-based coatings and paper coatings.
Acetic acid..	A feedstock used to produce VAM, terepht produce polyester for textiles and plast industrial solvents, and a variety of ot
Methanol...	A feedstock used to produce acetic acid; butyl ether ("MTBE"), a gasoline additiv several other products. The Company is a methanol through its 85% interest in La Company.
Specialty Chemicals	
Terpene fragrance chemicals........................	Individual components that are blended t used in detergents, soaps, perfumes, per household goods.
Flavor chemicals...................................	Individual components that are blended t flavors used in toothpaste, chewing gum products.

For a description of Equistar's principal products, see "Equity Interest in Equistar," below.

Titanium Dioxide and Related Products

Titanium Dioxide

The Company is the second-largest producer of TiO_2 in the world, based on reported production capacities. TiO_2 is a white pigment used for imparting whiteness, brightness, opacity and durability in a wide range of products, including paint and coatings, plastics, paper and elastomers.

The following table sets forth the Company's annual production capacity (excluding the Hawkins Point, Maryland sulfate-process plant, which has been idle since September 2001) as of the date of this report, using the chloride process and the sulfate process discussed below, and the approximate percentage of its total production capacity represented by each such process.

Millennium Chemicals' TiO_2 Rated Capacity
(metric tons per annum)

Process	Capacity	Perce of Ca
Chloride..	505,000	7

Sulfate..	185,000	2
Total..	690,000	10

TiO[u]2 is produced in two crystalline forms: rutile and anatase. Rutile TiO[u]2 is a more tightly packed crystal that has a higher refractive index than anatase TiO[u]2 and, therefore, better opacification and tinting strength in many applications. Some rutile TiO[u]2 products also provide better resistance to the harmful effects of weather. Rutile TiO[u]2 is the preferred form for use in paint and coatings, ink and plastics. Anatase TiO[u]2 has a bluer undertone and is less abrasive than rutile. It is often preferred for use in paper, ceramics, rubber and man-made fibers.

TiO[u]2 producers process titaniferous ores to extract a white pigment using one of two different technologies. The sulfate process is a wet chemical process that uses concentrated sulfuric acid to extract TiO[u]2, in either anatase or rutile form. The sulfate process generates higher volumes of waste materials, including iron sulfate and spent sulfuric acid. The newer chloride process is a high-temperature process in which chlorine is used to extract TiO[u]2 in rutile form, with greater purity and higher control over the size distribution of the pigment particles than the sulfate process permits. In general, the chloride process is also less intensive than the sulfate process in terms of capital

investment, labor and energy. Because much of the chlorine can be recycled, the chloride process produces less waste subject to environmental regulation. Once an intermediate TiO[u]2 pigment has been produced by either the chloride or sulfate process, it is "finished" into a product with specific performance characteristics for particular end-use applications through proprietary processes involving surface treatment with various chemicals and combinations of milling and micronizing.

The Company's TiO[u]2 plants are located in the four major world markets for TiO[u]2: North America, South America, Western Europe and the Asia/Pacific region. The North American plants, consisting of one in Baltimore, Maryland and two in Ashtabula, Ohio have aggregate production capacities of 260,000 tpa using the chloride process. The plant in Salvador, Bahia, Brazil has a capacity to produce approximately 60,000 tpa using the sulfate process. The Company also owns a mineral sands mine located at Mataraca, Paraiba, Brazil, which supplies the Brazilian plant with titanium ores. The mine has over two million metric tons of recoverable reserves and a capacity to produce over 120,000 tpa of titanium ores, which are generally consumed in the Salvador TiO[u]2 plant, and 19,000 tpa of zircon and 2,000 tpa rutile TiO[u]2, which are sold to third parties. The Company's Stallingborough, United Kingdom plant has chloride-process production capacity of 150,000 tpa. The plants in France at Le Havre, Normandy and Thann, Alsace have sulfate-process capacities of 95,000 tpa and 30,000 tpa, respectively. The Kemerton plant in Western Australia has chloride-process production capacity of 95,000 tpa.

The Company's TiO[u]2 plants operated at an average rate of 89%, 85% and 94% of installed capacity during 2002, 2001 and 2000, respectively. The decline

in the operating rate in 2001 compared to 2000 was primarily due to curtailment of production at certain facilities in response to reduced market demand. The increase in operating rate from 2001 to 2002 was primarily due to higher production driven by increased market demand.

Titanium-bearing ores used in the TiO[u]2 extraction process (ilmenite, leucoxene and natural rutile) occur as mineral sands and hard rock in many parts of the world. Mining companies increasingly treat ilmenite to extract iron and other minerals and produce slag or synthetic rutile with higher TiO[u]2 concentrations, resulting in lower amounts of wastes and by-products during the TiO[u]2 production process. Ores are generally shipped by bulk carriers from terminals in the country of origin to TiO[u]2 production plants, usually located near port facilities. The Company obtains ores from a number of suppliers in South Africa, Australia, Canada, Brazil, and Ukraine, generally pursuant to one-to six-year supply contracts expiring in 2003 through 2006. Rio Tinto Iron & Titanium Inc. (through its affiliates Richards Bay Iron & Titanium (Proprietary) Limited and QIT-Fer et Titane Inc.) and Iluka Resources Limited are the world's largest producers of titanium ores and upgraded titaniferous raw materials and accounted for approximately 76% of the titanium ores and upgraded titaniferous raw materials purchased by the Company in 2002.

Other major raw materials and utilities used in the production of TiO[u]2 are chlorine, caustic soda, petroleum and metallurgical coke, aluminum, sodium silicate, sulfuric acid, oxygen, nitrogen, natural gas and electricity. The number of sources for and availability of these materials is specific to the particular geographic region in which the facility is located. For the Company's Australian plant, chlorine and caustic soda are obtained exclusively from one supplier under a long-term supply agreement. There are certain risks related to the acquisition of raw materials from less-developed or developing countries.

A number of the Company's raw materials are provided by only a few vendors and, accordingly, if one significant supplier or a number of significant suppliers were unable to meet their obligations under present supply arrangements, the Company could suffer reduced supplies and/or be forced to incur increased prices for its raw materials. Such an event could have a material adverse effect on the consolidated financial condition, results of operations or cash flows of the Company. At the present time, chloride- and sulfate-process feedstock is available in sufficient quantities.

Of the total 627,000 metric tons of TiO[u]2 sold by the Company in 2002, approximately 62% was sold to customers in the paint and coatings industry, approximately 23% to customers in the plastics industry, approximately 12% to customers in the paper industry, and approximately 3% to other customers. The Company's ten largest customers accounted for approximately 40% of its TiO[u]2 sales volume in 2002. The Company experiences some seasonality in its sales because its customers' sales of paint and coatings are greatest in the spring and summer months.

TiO[u]2 is sold either directly by the Company to its customers or, to a lesser extent, through agents or distributors. TiO[u]2 is distributed by rail, truck and ocean carrier in either dry or slurry form.

The global markets in which the Company's Titanium Dioxide and Related Products business segment operates are all highly competitive. The Company competes primarily on the basis of price, product quality and service. Certain of the Company's competitors are partially vertically integrated, producing titanium-bearing ores as

well as TiO[u]2. The Company is vertically integrated at its Brazilian facility, which owns a titanium ore mine that supplies the facility. The Company's major competitors in the TiO[u]2 business are E. I. DuPont deNemours and Company ("DuPont"), Kerr-McGee Chemical Corporation (both directly and through various joint ventures) ("Kerr-McGee Chemicals"), a unit of Kerr-McGee Corporation, Huntsman Tioxide ("Huntsman"), a business segment of Huntsman International LLC, and, Kronos, Inc. ("Kronos"), a unit of NL Industries Inc. Collectively, DuPont, the Company, Kerr-McGee Chemicals, Huntsman and Kronos account for approximately three-quarters of the world's production capacity.

In certain applications, TiO[u]2 competes with other whitening agents that are generally less effective but less expensive. For example, paper manufacturers have, in recent years, developed alternative technologies that reduce the amount of TiO[u]2 used in paper by using kaolin and precipitated calcium carbonate as fillers in medium- and lower-priced products.

New plant capacity additions in the TiO[u]2 industry are slow to develop because of the substantial capital expenditure required and the significant lead time (three to five years typically for a new plant) needed for planning, obtaining environmental approvals and permits, construction of manufacturing facilities and arranging for raw material supplies. Debottlenecking and other capacity expansions at existing plants require substantially less time and capital and can increase overall industry capacity. As of the date of this report, no major new plant capacity additions or expansions have been announced in the TiO[u]2 industry.

Related Products

The Company produces a number of specialty and performance TiO[u]2-related products, some of which are manufactured at dedicated plants and others of which are manufactured at plants that also produce other TiO[u]2 products.

Titanium Tetrachloride: The Company is the largest merchant seller of TiCl[u]4 in North America and Europe. It produces TiCl[u]4 for merchant sales at its plants in Ashtabula, Ohio and Thann, Alsace, France. TiCl[u]4 is distributed by rail and truck as anhydrous TiCl[u]4 and as an aqueous solution, titanium oxychloride. These products are sold into a wide variety of markets, including the titanium metal, catalyst, pearlescent pigment and surface treatment markets. The Company's principal competitors in the TiCl[u]4 market are Toho Titanium Co. and Kronos.

Ultra-fine TiO[u]2 Products: Ultra-fine TiO[u]2 products are produced at the Company's plant in Thann, Alsace, France. These non-pigmentary products with a particle size of less than 150 nanometers in size are produced and sold for their physico-chemical characteristics in various applications. The Company is a major supplier of ultra-fine TiO[u]2 used to remove nitrogen oxides from power plant emissions. The principal competitors in the ultra-fine TiO[u]2 products market are Ishihara Sangyo Kaisha, Ltd., Kerr-McGee Chemicals, and Tayca Corporation.

Zirconium-based Compounds and Chemicals: A wide range of zirconium products is produced at the Company's Rockingham, Western Australia plant. These products are sold globally into the electronics, catalyst, glass, solid oxide fuel cells and colored pigments markets. In addition, zirconium dioxide is sold

internally to the Company's TiO_2 operations and to other TiO_2 producers to enhance the durability and treat the surfaces of various TiO_2 products. The Company's principal competitors in this market are Daiichi Kigenso Kagakukgyo Co., Ltd. and MEL Chemicals, a subsidiary of Luxfer Holdings, PLC.

Silica Gel: The Company produces several grades of fine-particle silica gel at the St. Helena plant in Baltimore, Maryland, and markets them internationally. Fine-particle silica gel is a chemically and biologically inert form of silica with a particle size ranging from three to ten microns. The Company's SiLCRON 'r' brand of fine-particle silica gel is used in coatings as a flatting or matting (gloss reduction) agent and to provide mar-resistance. SiLCRON 'r' is also used in food and pharmaceutical applications. SiL-PROOF 'r' grades of fine-particle silica gel are chill-proofing agents used to stabilize chilled beer and prevent clouding. Fine-particle silica gel is distributed in dry form in palletized bags by truck and ocean carrier.

Cadmium-based Pigments: The Company manufactures a line of cadmium-based colored pigments at its St. Helena, Maryland plant, and markets them internationally. In addition to their brilliance, cadmium colors are light and heat stable. These properties promote their use in such applications as artists' colors, plastics and glass colors. Due to concern for the toxicity of heavy metals, including cadmium, the Company has introduced low-leaching cadmium-based pigments that meet all United States government requirements for landfill disposal of non-hazardous waste. Colored pigments are distributed in dry form in drums by truck and ocean carrier.

Acetyls

The following table sets forth information concerning the annual production capacity, as of the date of this report, of the Company's principal Acetyls products:

Millennium Chemicals' Acetyls Rated Capacity
(millions of pounds per annum)

Product	Capacity
Vinyl Acetate Monomer..........................	850
Acetic Acid....................................	1,200

In addition, the Company owns an 85% interest in La Porte Methanol Company, which owns a methanol plant with an annual production capacity of 207 million gallons per annum. For a description of the plant and La Porte Methanol Company, see "La Porte Methanol Company" below.

Vinyl Acetate Monomer

The Company is the second-largest producer of VAM in North America, and the third-largest producer worldwide, based on reported production capacities. Its VAM plant is located downstream from the Company's acetic acid plant at La Porte, Texas. The process used by the Company to produce VAM is proprietary.

The principal feedstocks for the production of VAM are acetic acid and ethylene. The Company obtains its entire requirements for acetic acid from its internal production and buys all of its ethylene requirements from Equistar under a long-term supply contract based on market prices.

The Company has a long-term agreement with DuPont to toll acetic acid produced at the Company's La Porte, Texas plant through DuPont's nearby VAM plant, thereby acquiring all the VAM production at DuPont's plant not utilized internally by DuPont. The contract expires on December 31, 2006 but may be extended by mutual agreement thereafter from year-to-year. The tolling arrangement provided approximately 35% of the VAM available for sale by the Company in 2002.

The Company sells VAM into domestic and export markets under contracts that range in term from one to seven years, as well as on a spot basis. The majority of sales are completed under contract. The pricing for domestic contracts generally is determined by formula or index-based pricing in accordance with movements in the costs of raw materials. The Company also sells VAM to Equistar pursuant to a yearly contract at a formula-based price. The Company ships this product by barge, ocean-going vessel, pipeline, tank car and tank truck. The Company has bulk storage arrangements for VAM in the Netherlands, the United Kingdom, Italy, Turkey and several Asian countries to better serve its customers' requirements in those regions. Sales are made through the Company's direct sales force and through agents and distributors. The Company's ten largest VAM customers accounted for approximately 65% of its VAM sales volume in 2002.

The global market for VAM is highly competitive. The Company competes primarily on the basis of price, product quality and service. The Company's principal competitors in the VAM business are Celanese AG ("Celanese"), BP P.L.C. ("BP"), The Dow Chemical Company ("Dow"), Acetex Chemie S.A., a subsidiary of Acetex Corporation ("Acetex") and Dairen Chemical Corporation.

Acetic Acid

The Company is the second-largest producer of acetic acid in North America, and the third-largest producer worldwide, based on reported production capacities. Its acetic acid plant is located at La Porte, Texas. In 2002, the Company used approximately 62% of its acetic acid production to produce VAM. The Company utilizes proprietary technology to produce acetic acid.

The principal starting feedstocks for the production of acetic acid are carbon monoxide and methanol. The Company purchases its carbon monoxide from Linde AG ("Linde") pursuant to a long-term contract based primarily on cost of production. Linde produces this carbon monoxide at the Company's synthesis gas ("syngas") plant at La Porte, Texas, which is owned by the Company and leased to Linde pursuant to a long-term lease that commenced on January 18, 1999. La Porte Methanol Company, 85% owned by the Company, supplies all of the Company's requirements for methanol. See "La Porte Methanol Company" below.

Acetic acid not consumed internally by the Company is sold into domestic and export markets under contract and on a spot basis. These contracts range in term from one to five years. Pricing for domestic sales under these contracts generally is determined by formula or index-based pricing in accordance with movements in the costs of raw materials. Acetic acid is shipped by ocean-going vessel, barge, tank car and tank truck. Sales are made through the Company's direct sales force and through agents and distributors. The Company's ten largest acetic acid customers accounted for approximately 85% of its acetic acid sales volume in 2002.

The global market for acetic acid is highly competitive. The Company competes primarily on the basis of price, product quality and service. The Company's principal competitors in the acetic acid business are Celanese, BP, Kyodo Sakusan, Acetex and Eastman Chemical Corp ("Eastman").

Specialty Chemicals

The Company is one of the world's leading producers of terpene-based fragrance ingredients and a major producer of flavor ingredients, primarily for the oral care markets. In addition, the Company supplies products into a number of other applications, including initiators to the rubber industry, intermediates to the vitamin market, and solvents and cleaners like pine oil to the hard surface cleaner markets.

The Company operates manufacturing facilities in Jacksonville, Florida and Brunswick, Georgia. The Jacksonville site has facilities for the fractionation of crude sulfate turpentine ("CST"), the Company's key raw material for producing fragrance ingredients. Through fractionation, the molecular components of CST are separated into relatively pure individual materials such as alpha- and beta-pinene. The Company believes it is the largest purchaser and distiller of CST in the world based on the amount of CST processed. Sophisticated chemical processes are then used to produce a number of fragrance and flavor ingredients.

The Jacksonville facility also produces synthetic pine oil, anethole, l-carvone and coolants. Synthetic pine oil is an active ingredient in cleaning products. Anethole is a flavor ingredient and sweetener used in mint formulations primarily in the oral care market. L-carvone is the primary component in spearmint oil. Coolants are used in confectionery, oral care and other food and personal care applications. The Brunswick site produces linalool, geraniol and dihydromyrcenol from the alpha-pinene component of CST. Linalool, geraniol and dihydromyrcenol are fragrance ingredients used in a wide range of fragrance applications including soaps, detergents and fine fragrances. Linalool and geraniol are produced utilizing a proprietary and, the Company believes, unique technology. Linalool and geraniol produced at the Brunswick site are generally further processed at the Jacksonville site to produce fragrance ingredients including citral, citronellol and dimethyloctanol. The Company believes, based on production capacity, it operates the world's largest dihydromyrcenol facility at Brunswick, with a rated annual capacity of over three thousand tons.

CST is a by-product of the kraft process of papermaking. The Company purchases CST from approximately 40 pulp mills in North America. Additionally, the Company purchases quantities of gum turpentine or its derivatives from Indonesia, China and other Asian countries, Europe and South America, as business conditions dictate.

The Company has experienced tightness in CST supply from time to time,

together with corresponding price increases. Generally, the Company seeks to enter into long-term supply contracts with pulp mills in order to ensure a stable supply of CST. At the present time, sufficient quantities of CST are available; however, the price of CST has increased due to a decline in the quantity of CST available, which is a result of decreased paper production by North American pulp mills.

Fragrance ingredients are used primarily in the production of perfumes. The major consumers of perfumes worldwide are soap and detergent manufacturers. The Company sells directly worldwide to major soap, detergent and fabric conditioner producers. It also sells a significant quantity of product to the major fragrance compounders and to producers of cosmetics and toiletries. Approximately 70% of the Company's specialty chemical sales are to users of fragrance ingredients, 20% are to users of flavor ingredients, and 10% are to users of solvents and cleaners and industrial specialties. Approximately 60% of the Company's 2002 specialty chemicals sales were made outside the United States, to more than 45 different countries. Sales are made primarily through the Company's direct sales force, while agents and distributors are used in outlying areas where volume does not justify full-time sales coverage.

The markets in which the Company's Specialty Chemicals business segment competes are highly competitive. The Company competes primarily on the basis of price, quality, service and on its ability to produce its products to the technical and qualitative requirements of its customers. The Company works closely with many of its customers in developing products to satisfy their specific requirements. The Company's supply agreements with

customers are typically short-term in duration (up to one year). Therefore, its Specialty Chemicals business segment is substantially dependent on long-term customer relationships based upon quality, innovation and customer service. Customers from time to time change the formulations of an end product in which one of the Company's fragrance ingredients is used, which may affect demand for such ingredients. The Company's ten largest Specialty Chemicals business segment customers accounted for approximately 57% of its total Specialty Chemicals business segment revenue in 2002. The Company's major Specialty Chemicals competitors are BASF AG, Givaudan SA, Derives Resiniques Et Terpeniques (DRT), Kuraray Co. LTD and International Flavors & Fragrances Inc.

Research and Development

The Company's expenditures for research and development totaled $20 million, $20 million and $26 million in 2002, 2001 and 2000, respectively. Research and development expense decreased by approximately $6 million from 2000 to 2001 due to the Company's efforts to reduce S,D&A costs in the current economic environment. The Company conducts research at facilities in Baltimore, Maryland, Stallingborough, United Kingdom, Bunbury, Western Australia, Le Havre, Normandy and Jacksonville, Florida. The Company's research efforts are principally focused on improvements in process technology, product development, technical service to customers, applications research and product quality enhancements.

International Exposure

The Company generates revenue from export sales (i.e., sales outside the United States by domestic operations), as well as revenue from the Company's operations conducted outside the United States. Export sales, which are made to more than 90 countries, amounted to approximately 14%, 13% and 11% of total revenues in 2002, 2001 and 2000, respectively. Revenue from non-United States operations amounted to approximately 45%, 41% and 40% of total revenues in 2002, 2001 and 2000, respectively, principally reflecting the operations of the Company's Titanium Dioxide and Related Products business segment in Europe, Australia and Brazil. Identifiable assets of the non-United States operations represented 36% and 28% of total identifiable assets at December 31, 2002 and 2001, respectively, principally reflecting the assets of these operations. Identifiable assets of non-United States operations as a percentage of the Company's total assets increased in 2002 compared to 2001 due to a decrease in the Company's identifiable assets in the United States, primarily goodwill, pension assets and the Company's investment in Equistar. See Notes 5 and 12 and "Goodwill" in Note 1 to the Consolidated Financial Statements included in this Annual Report.

The Company obtains a portion of its principal raw materials from sources outside the United States. The Company obtains ores used in the production of TiO[u]2 from a number of suppliers in South Africa, Australia, Canada, Brazil and Ukraine. The Company's Specialty Chemicals business segment obtains a portion of its requirements of CST and gum turpentine and its derivatives from suppliers in Indonesia, China and other Asian countries, Europe and South America.

The Company's export sales and its non-United States manufacturing and sourcing are subject to the usual risks of doing business abroad, such as fluctuations in currency exchange rates, transportation delays and interruptions, political and economic instability and disruptions, restrictions on the transfer of funds, the imposition of duties and tariffs, import and export controls and changes in governmental policies. The Company's exposure to the risks associated with doing business abroad will increase if the Company expands its worldwide operations. From time to time, the Company utilizes derivative financial instruments to hedge the impact of currency fluctuations on its purchases and sales.

The functional currency of each of the Company's non-United States operations is the local currency. As a result of translating the functional currency financial statements of all its foreign subsidiaries into US dollars, consolidated Shareholders' equity increased by approximately $27 million during 2002, and decreased by $19 million during 2001 and by $46 million during 2000. Future events, which may significantly increase or decrease the risk of future movement in the currencies in which the Company conducts business, including the Brazilian real or the euro, 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. The Company hedges certain revenues and costs to minimize the impact of changes in the exchange rates of those currencies compared to the functional currencies. The Company does not use derivative financial instruments for trading or speculative purposes. Net foreign currency transactions aggregated gains of $3 million in 2002 and losses of $7 million and $4 million in 2001 and 2000, respectively.

Equity Interest in Equistar

Through its 29.5% interest in Equistar, the Company is a partner in one of the largest chemical producers in the world with total 2002 revenues of $5.5 billion and assets of $5.1 billion at the end of 2002. Equistar is currently the world's third-largest, and North America's second-largest, producer of ethylene. Ethylene is the world's most widely used petrochemical. Equistar currently is also the third-largest producer of polyethylene in North America, and a leading producer of performance polymers, oxygenated products, aromatics and specialty products.

Equistar commenced operations on December 1, 1997, when the Company contributed substantially all of the assets comprising its former ethylene, polyethylene, ethanol and related products business to Equistar and Lyondell contributed substantially all the assets comprising its petrochemical and polymer business segments to Equistar. On May 15, 1998, the Company and Lyondell expanded Equistar with the addition of the ethylene, propylene, ethylene oxide, ethylene glycol and other ethylene oxide derivatives businesses of the chemicals subsidiary of Occidental Petroleum Corporation ("Occidental"). On August 22, 2002, Occidental sold its 29.5% equity interest in Equistar to Lyondell, bringing Lyondell's ownership interest in Equistar to 70.5%, with the Company holding the remaining 29.5% interest. See the description of the Equistar Partnership Agreement and Equistar Parent Agreement in "Equity Interest in Equistar -- Management of Equistar; Agreements between Equistar, Lyondell and the Company".

Equistar's petrochemical segment manufactures and markets olefins, oxygenated products, aromatics and specialty products. Equistar's olefins products are primarily ethylene, propylene and butadiene. Olefins and their co-products are basic building blocks used to create a wide variety of products. Ethylene is used to produce polyethylene, ethylene oxide, ethylene dichloride and ethylbenzene. Propylene is used to produce polypropylene and propylene oxide. Equistar's oxygenated products include ethylene oxide, ethylene glycol, ethanol and MTBE. Oxygenated products have uses ranging from paint to cleaners to polyester fibers to gasoline additives. Equistar's aromatics are benzene and toluene.

Equistar's polymer segment manufactures and markets polyolefins, including high density polyethylene, low density polyethylene, linear low density polyethylene, polypropylene and performance polymers. Polyethylene is used to produce packaging film, grocery and trash bags, housewares, toys and lightweight high-strength plastic bottles and containers for milk, juices, shampoos and detergents. Polypropylene is used in a variety of products including carpets, upholstery, housewares, automotive components, rigid packaging and plastic caps and other closures. Equistar's performance polymers include enhanced grades of polyethylene, such as wire and cable insulating resins, polymeric powders, polymers for adhesives, sealants and coatings, reactive polyolefins, and liquid polyolefins.

Equistar's Petrochemical Segment

Equistar produces petrochemicals at eleven facilities located in five states. Equistar's Chocolate Bayou, Corpus Christi and two Channelview, Texas olefin plants use petroleum liquids, including naphtha, condensates and gas oils (collectively, "Petroleum Liquids"), to produce ethylene. The use of Petroleum Liquids results in the production of a significant amount of co-products, such as propylene, butadiene, benzene and toluene, and specialty products such as dicyclopentadiene, isoprene, resin oil and piperylenes. Assuming the co-products

are recovered and sold, the cost of ethylene production from Petroleum Liquids historically has been less than the cost of producing ethylene from natural gas liquid feedstocks, including ethane, propane and butane (collectively, "NGLs"). For example, facilities using petroleum liquids historically have generated approximately four cents additional variable margin on average per pound of ethylene produced compared to using ethane. This margin advantage is based on an average of historical data over a period of years and is subject to short-term fluctuations, which can be significant. During the second half of 2001 and in 2002, the advantage has been significantly less than the historical average. Equistar has the capability to realize this margin advantage due to its ability to process petroleum liquids at the Channelview, Corpus Christi and Chocolate Bayou, Texas facilities. Equistar's Channelview and Corpus Christi, Texas facilities can process 100% and 70% Petroleum Liquids, respectively, or up to 80% and 70% NGLs, respectively, subject to the availability of NGLs. The Chocolate Bayou facility processes 100% Petroleum Liquids.

Equistar's Morris, Illinois, Clinton, Iowa, Lake Charles, Louisiana, and, La Porte, Texas plants are designed to use primarily NGLs, which primarily produce ethylene with some co-products, such as propylene. Equistar's La Porte, Texas facility can process heavier NGLs such as butane and natural gasoline. A comprehensive pipeline system connects Equistar's Gulf Coast plants with major olefin customers. Raw materials are sourced both internationally and domestically from a wide variety of sources. The majority of Equistar's Petroleum Liquids requirements are purchased via contractual arrangements. Equistar obtains a portion of its olefin raw material

requirements from LYONDELL-CITGO Refining LP, a joint venture owned by Lyondell and CITGO Petroleum Corporation ("LCR"), at market-related prices. Raw materials are shipped via vessel and pipeline.

Equistar produces ethylene oxide and derivatives thereof, including ethylene glycol, at facilities located at Pasadena, Texas and through a joint venture located in Beaumont, Texas that is 50% owned by Equistar and 50% owned by DuPont. Equistar produces synthetic ethanol at Tuscola, Illinois and denatures ethanol at facilities in Newark, New Jersey. In March 2002, Equistar permanently shut down its Anaheim, California facility for denaturing ethanol.

The following table outlines Equistar's primary petrochemical products and the annual processing capacity for each product, as of January 1, 2003:

Product	Annual Capacity
Olefins:	
Ethylene	11.6 billion pounds(a)
Propylene	5.0 billion pounds(a)(b)
Butadiene	1.2 billion pounds
Oxygenated Products:	
Ethylene oxide	1.1 billion pounds
Ethylene glycol	1.0 billion pounds
Ethylene oxide derivatives	225 million pounds
MTBE	284 million gallons(c)
Ethanol	50 million gallons
Aromatics:	
Benzene	310 million gallons

Toluene	66 million gallons
Specialty Products:	
Dicyclopentadiene	130 million pounds
Isoprene	145 million pounds
Resin oil	150 million pounds
Piperylenes	100 million pounds
Alkylate	337 million gallons(d)
Diethyl ether	5 million gallons

(a) Includes 850 million pounds/year of ethylene capacity and 200 million pounds/year of propylene capacity at Equistar's Lake Charles, Louisiana facility. Equistar's Lake Charles facility has been idled since the first quarter of 2001.

(b) Does not include refinery-grade material or production from the product flexibility unit at Equistar's Channelview facility, which can convert ethylene and other light petrochemicals into propylene. This facility has an annual processing capacity of one billion pounds per year of propylene.

(c) Includes up to 44 million gallons/year of capacity operated for the benefit of LCR.

(d) Includes up to 172 million gallons/year of capacity operated for the benefit of LCR.

Ethylene produced by the La Porte, Morris and Clinton facilities is generally consumed as raw material by the polymer operations at those sites, or is transferred to Tuscola from Morris by pipeline for the production of ethanol. Ethylene produced at Equistar's La Porte facility is consumed as a raw material by Equistar's polymers operations and the Company's VAM operations in La Porte and also is distributed by pipeline for other internal uses and to third parties. Ethylene and propylene produced at the Channelview, Corpus Christi, Chocolate Bayou and Lake Charles olefin plants are generally distributed by pipeline or via exchange agreements to Equistar's Gulf Coast polymer and ethylene oxide and glycol facilities as well as Equistar's affiliates and third parties. Equistar's Lake Charles facility has been idled since the first quarter of 2001. For the year ended December 31, 2002, approximately 70% of the ethylene produced by Equistar, based on sales dollars, was consumed by Equistar's polymers or oxygenated products business or sold to Equistar's owners and their affiliates at market-related prices.

With respect to sales to third parties, Equistar sells a majority of its olefin products to customers with whom it has had long-standing relationships, generally pursuant to written agreements that typically provide for monthly negotiation of price, customer purchase of a specified minimum quantity, and three to six year terms with automatic one- or two-year extension provisions. Some contracts may be terminated early if deliveries have been suspended for several months.

Most of the ethylene and propylene production of the Channelview, Chocolate Bayou, Corpus Christi and Lake Charles facilities is shipped via a pipeline system that has connections to numerous Gulf Coast ethylene and propylene consumers. Exchange agreements with other olefin producers allow access to customers who are not directly connected to this pipeline system. Some ethylene is shipped by railcar from Clinton, Iowa to Morris, Illinois and some propylene is shipped by ocean-going vessel. A pipeline owned and operated by

Williams Pipeline Company is used to transport ethylene from Morris, Illinois to Tuscola, Illinois.

The bases for competition in Equistar's petrochemical products are price, product quality, product deliverability and customer service. Equistar competes with other large domestic producers of petrochemicals, including BP, Chevron Phillips Chemical Company LP ("Chevron Phillips"), Dow, ExxonMobil Chemical Company ("ExxonMobil"), Huntsman Chemical Company, NOVA Chemicals Corporation ("NOVA Chemicals") and Shell Chemical Company. Industry consolidation has concentrated North American production capacity under the control of fewer, although larger and stronger, competitors.

Equistar's Polymer Segment

Through facilities located at nine plant sites in four states, Equistar's polymer business unit manufactures a wide variety of polyolefins, including polyethylene, polypropylene and various performance polymers.

Equistar currently manufactures polyethylene using a variety of technologies at five facilities in Texas and at its Morris, Illinois and Clinton, Iowa facilities. The Morris and Clinton facilities are the only polyethylene facilities located in the United States Midwest. These facilities enjoy a freight cost advantage over Gulf Coast producers in delivering products to customers in the United States Midwest and on the East Coast of the United States.

Equistar's Morris, Illinois and Pasadena, Texas facilities manufacture polypropylene using propylene produced as a co-product of Equistar's ethylene production as well as propylene purchased from third parties. Equistar produces performance polymer products, which include enhanced grades of polyethylene and polypropylene, at several of its polymer facilities. Equistar produces wire and cable insulating resins and compounds at Morris, Illinois and La Porte, Texas and wire and cable insulating compounds at Tuscola, Illinois and Fairport Harbor, Ohio. Wire and cable insulating resins and compounds are used to insulate copper and fiber optic wiring in power, telecommunication, computer and automobile applications. In August 2002, Equistar permanently shut down its Peachtree, Georgia wire and cable insulating compounds facility.

Equistar's polymers facilities have the capacity to produce annually 3.1 billion pounds of high density polyethylene, 1.5 billion pounds of low density polyethylene, 1.1 billion pounds linear low density polyethylene and 680 million pounds of polypropylene. Equistar's polymer facilities also produce wire and cable insulating resins and compounds, polymeric powders, polymers for adhesives, sealants and coatings, reactive polyolefins and liquid polyolefins. These products are enhanced grades of polyethylene. Equistar's capacity to produce these products is included in the capacity figures for polyethylene, discussed above.

With the exception of the Chocolate Bayou polyethylene plant, Equistar's polyethylene and polypropylene production facilities can receive their ethylene and propylene directly from Equistar's petrochemical facilities via Equistar's olefin pipeline system, third party pipelines or Equistar's own on-site production. The polyethylene plants at Chocolate Bayou, La Porte and Pasadena, Texas are connected to third parties and can receive ethylene via exchanges or purchases. The polypropylene facility at Morris, Illinois receives propylene from third parties.

Equistar's polymer products are primarily sold to an extensive base of established customers. Approximately 45% of Equistar's polymers products volumes are sold to customers under term contracts, typically having a duration of one to three years. The remainder is generally sold without contractual term commitments. In either case, in most of the continuous supply relationships,

prices may be changed upon mutual agreement between Equistar and its customer. Equistar sells its polymer products in the United States and Canada primarily through its own sales organization. It generally engages sales agents to market its polymer products in the rest of the world. Polymers are distributed primarily by railcar.

The bases for competition in Equistar's polymers products are price, product performance, product quality, product deliverability and customer service. Equistar competes with other large producers of polymers, including BP Solvay Polyethylene, Chevron Phillips, Dow, Eastman, ExxonMobil, Formosa Plastics, Huntsman, NOVA Chemicals, TotalFinaElf and Westlake Polymers. Industry consolidation has concentrated North American production capacity under the control of fewer, although larger and stronger, competitors.

Management of Equistar; Agreements between Equistar, Lyondell and the Company

Equistar is a Delaware limited partnership. The Company owns its 29.5% interest in Equistar through two wholly owned subsidiaries of Millennium Petrochemicals, one of which serves as a general partner of Equistar and one of which serves as a limited partner. The Equistar Partnership Agreement governs, among other things, the ownership, cash distributions, capital contributions and management of Equistar.

The Equistar Partnership Agreement provides that Equistar is governed by a Partnership Governance Committee consisting of six representatives, three appointed by each general partner. Matters requiring agreement by the representatives of Lyondell and the Company include changes in the scope of Equistar's business, approval of the five-year Strategic Plan (and annual updates thereof) (the "Strategic Plan"), the sale or purchase of assets or capital expenditures of more than $30 million not contemplated by an approved Strategic Plan, additional investments by Equistar's partners not contemplated by an approved Strategic Plan or required to achieve or maintain compliance with health, safety and environmental laws if the partners are required to contribute more than a total of $100 million in a specific year or $300 million in a five-year period, incurring or repaying debt under certain circumstances, issuing or repurchasing partnership interests or other equity securities of Equistar, making certain distributions, hiring and firing executive officers of Equistar (other than Equistar's Chief Executive Officer), approving material compensation and benefit plans for employees, commencing and settling material lawsuits, selecting or changing accountants or accounting methods and merging or combining with another business. All decisions of the Partnership Governance Committee that do not require consent of the representatives of Lyondell and the Company (including approval of Equistar's annual budget, which must be consistent with the most recently approved Strategic Plan, and selection of Equistar's Chief Executive Officer, who must be reasonably acceptable to the Company) may be made by Lyondell's representatives alone. The day-to-day operations of Equistar are managed by the executive officers of Equistar. Dan F. Smith, the Chief Executive Officer of Lyondell, also serves as the Chief Executive Officer of Equistar.

Millennium Petrochemicals and Equistar entered into an agreement on December 1, 1997 providing for the transfer of assets to Equistar. Among other things, such agreement sets forth representations and warranties by Millennium Petrochemicals with respect to the transferred assets and requires indemnification by Millennium Petrochemicals with respect to such assets. Such agreement also provides for the assumption of certain liabilities by Equistar,

subject to specified limitations. Lyondell and Occidental entered into similar agreements with Equistar with respect to the transfer of their respective assets and Equistar's assumption of liabilities. Millennium Petrochemicals, Lyondell and Occidental each remains liable under these indemnification arrangements to the same extent following Lyondell's acquisition of Occidental's interest in Equistar as it was before.

Equistar is party to a number of agreements with Millennium Petrochemicals for the provision of services, utilities and materials from one party to the other at common locations, principally La Porte, Texas. In general, the goods and services under these agreements, other than the purchase of ethylene by Millennium Petrochemicals from Equistar and the purchase of VAM by Equistar from Millennium Petrochemicals, are provided at cost. Millennium Petrochemicals purchases its ethylene requirements at market-based prices from Equistar pursuant to a long-term contract. Equistar purchases its VAM requirements from Millennium Petrochemicals at a formula-based price pursuant to a long-term contract. Lyondell also entered into agreements with Equistar for the provision of services. Pursuant to the Equistar Parent Agreement, the Company and Lyondell have agreed to guarantee the obligations of their respective subsidiaries under each of the agreements discussed above, including the Equistar Partnership Agreement and the asset-transfer agreements.

Millennium America Inc. ("Millennium America"), a wholly owned indirect subsidiary of the Company, had an indemnity agreement with Equistar pursuant to which Millennium America could have been required under certain circumstances to contribute to Equistar up to $750 million. This indemnity terminated upon the closing of the purchase by Lyondell of Occidental's interest in Equistar. The requirement under the December 1, 1997 asset transfer agreement to indemnify Equistar with respect to the assets transferred to Equistar and the requirement under the Equistar Partnership Agreement to make additional investments in Equistar, each as described above, remain in effect to the same extent after Lyondell purchased Occidental's interest in Equistar.

The Equistar Partnership Agreement and Equistar Parent Agreement contain certain limitations on the ability of the partners and their affiliates to transfer, directly or indirectly, their interests in Equistar. The following is a summary of those limitations:

Equistar Partnership Agreement: Without the consent of the general partners of Equistar, no partner may transfer less than all of its interest in Equistar, nor can any partner transfer its interest other than for cash. If one of the limited partners and its affiliated general partner desire to transfer, via a cash sale, all of their units, they must give written notice to Equistar and the other partner and the non-selling partner shall have the option, exercisable by delivering written acceptance notice of the exercise to the selling partner within 45 days after receiving notice of the sale, to elect to purchase all of the partnership interests of the selling partner on the terms described in the initial notice. The notice of acceptance will set a date for closing the purchase, which is not less than 30 nor more than 90 days after delivery of the notice of acceptance, subject to extension. The purchase price for the selling partners' partnership interests will be paid in cash.

If the non-selling partner does not elect to purchase the selling partner's partnership interests within 45 days after the receipt of initial notice of sale, the selling partner will have a further 180 days during which it may consummate the sale of its units to a third-party purchaser. The sale to a

third-party purchaser must be at a purchase price and on other terms that are no more favorable to the purchaser than the terms offered to the non-selling partner. If the sale is not completed within the 180-day period, the initial notice will be deemed to have expired, and a new notice and offer shall be required before the selling partner may make any transfer of its partnership interests.

Before the selling partner may consummate a transfer of its partnership interests to a third party under the Equistar Partnership Agreement, the selling partner must demonstrate that the person willing to serve as the proposed purchaser's guarantor has outstanding indebtedness that is rated investment grade by Moody's Investor's Services, Inc. ("Moody's") and Standard & Poor's ("S&P"). If the proposed guarantor has no rated indebtedness outstanding, it shall provide an opinion from a nationally recognized investment banking firm that it could be reasonably expected to obtain suitable ratings. In addition, a partner may transfer its partnership interests only if, together with satisfying all other requirements (1) the transferee executes an appropriate agreement to be bound by the Equistar Partnership Agreement, (2) the transferor and/or the transferee bears all reasonable costs incurred by Equistar in connection with the transfer and (3) the guarantor of the transferee delivers an agreement to the ultimate parent entity of the non-selling partner and to Equistar substantially in the form of the Equistar Parent Agreement.

Equistar Parent Agreement: Without the consent of Lyondell or the Company (collectively, the "Parents") as the case may be, the other Parent may not transfer less than all of its interests in the entities that hold its general partnership and limited partnership interests in Equistar (the "Partner Sub Stock") except in compliance with the following provisions.

Each Parent may transfer all, but not less than all, of its Partner Sub Stock, without the consent of the other Parent, if the transfer is in connection with either (1) a merger, consolidation, conversion or share exchange of the transferring Parent or (2) a sale or other disposition of (A) the Partner Sub Stock, plus (B) other assets representing at least 50% of the book value of the transferring Parent's assets excluding the Partner Sub Stock, as reflected on its most recent audited consolidated or combined financial statements.

In addition, any transfer of Partner Sub Stock by any Parent described above is only permitted if the acquiring, succeeding or surviving entity, if any, both (1) succeeds to and is substituted for the transferring Parent with the same effect as if it had been named in the Equistar Parent Agreement and (2) executes an instrument agreeing to be bound by the obligations of the transferring Parent under the Equistar Parent Agreement, with the same effect as if it had been named in the instrument.

The transferring Parent may be released from its guarantee obligations under the Equistar Parent Agreement after the successor parent agrees to be bound by the transferring Parent's obligations.

Unless a transfer is permitted under the provisions described above, a Parent desiring to transfer all of its Partner Sub Stock to any person, including the other Parent or any affiliate of the other Parent, may only transfer its Partner Sub Stock for cash consideration and must give a written right of first option to Equistar and the other Parent. The offeree Parent will then have the option to elect to purchase all of the Partner Sub Stock of the selling Parent, on the terms described in the right of first offer. If the offeree Parent does not elect to purchase all of the selling Parent's Partner Sub Stock within 45 days after the receipt of the initial notice from the selling Parent, the selling Parent will have a further 180 days during which it may, subject to the provisions of the following paragraph, consummate the sale of its Partner Sub Stock to a third-party purchaser at a purchase price and on other terms that are no more favorable to the purchaser than the initial terms

offered to the offeree Parent. If the sale is not completed

within the further 180-day period, the right of first offer will be deemed to have expired and a new right of first offer is required.

Before the selling Parent may consummate a transfer of its Partner Sub Stock to a third party under the provisions described in the preceding paragraph, the selling Parent shall demonstrate to the other Parent that the proposed purchaser, or the person willing to serve as its guarantor as contemplated by the terms of the Equistar Parent Agreement, has outstanding indebtedness that is rated investment grade by either Moody's or S&P. If such proposed purchaser or the other person has no rated indebtedness outstanding, that person shall provide an opinion from Moody's, S&P or from a nationally recognized investment banking firm that it could be reasonably expected to obtain a suitable rating. Moreover, a Parent may transfer its Partner Sub Stock under the previous paragraph only if all of the following occur: (A) the transfer is accomplished in a nonpublic offering in compliance with, and exempt from, the registration and qualification requirements of all federal and state securities laws and regulations; (B) the transfer does not cause a default under any material contract which has been approved unanimously by the Partnership Governance Committee and to which Equistar is a party or by which Equistar or any of its properties is bound; (C) the transferee executes an appropriate agreement to be bound by the Equistar Parent Agreement; (D) the transferor and/or transferee bear all reasonable costs incurred by Equistar in connection with the transfer; (E) the transferee, or the guarantor of the obligations of the transferee, delivers an agreement to the other Parent and Equistar substantially in the form of the Equistar Parent Agreement; and (F) the transferor is not in default in the timely performance of any of its material obligations to Equistar.

La Porte Methanol Company

The La Porte Methanol Company is a Delaware limited partnership that owns a methanol plant and certain related facilities in La Porte, Texas. The partnership is owned 85% by the Company and 15% by Linde. Linde is also required to purchase, under certain circumstances, an additional 5% interest in the partnership. A wholly owned subsidiary of the Company is the managing general partner of the partnership. A wholly owned subsidiary of Linde is responsible for operating the methanol plant. The partnership commenced operations on January 18, 1999 when the methanol plant and certain related facilities owned by the Company were contributed to the partnership and Linde purchased its partnership interest from the Company.

La Porte Methanol Company's methanol plant had an annual production capacity of 207 million gallons as of December 31, 2002. The plant employs a process supplied by a major engineering and construction firm to produce methanol.

Methanol is used primarily as a feedstock to produce acetic acid, MTBE and formaldehyde. The Company uses approximately 80 million gallons of La Porte Methanol Company's annual methanol production for the manufacture of acetic acid at the Company's La Porte, Texas acetic acid plant. The methanol produced by La Porte Methanol Company not consumed by the Company or sold by Linde to a customer of Linde is marketed by the Company on behalf of itself and Linde. Methanol is sold under contracts that range in term from one to six years and on

a spot basis to large domestic customers. The product is shipped by barge and pipeline.

The principal feedstocks for the production of methanol are carbon monoxide and hydrogen, collectively termed synthesis gas or syngas. These raw materials are largely supplied to La Porte Methanol Company from the Company's syngas plant at La Porte, Texas, which is owned by the Company and leased to Linde pursuant to a long-term lease that commenced on January 18, 1999. La Porte Methanol Company also purchases relatively small volumes of hydrogen from time to time from other parties.

La Porte Methanol Company's principal competitors in the methanol business are Methanex Company, Saudi Basic Industries Corporation, and Caribbean Petrochemical Marketing Company Limited.

Employees

At December 31, 2002, the Company had approximately 3,800 full- and part-time employees. Approximately 3,100 of the Company's employees were engaged in manufacturing, 500 were engaged in sales, distribution and technology, and 200 were engaged in administrative, executive and support functions. Approximately one-fourth of the Company's United States employees are represented by various labor unions, and a significant percentage of the Company's European and Brazilian employees are represented by various worker associations. Of the Company's nine collective bargaining agreements or other required labor negotiations, four must be renegotiated on an annual basis, four others must be renegotiated in 2003, and one must be renegotiated in 2004. All required annual

renegotiations relate to units outside the United States. The Company believes that the relations of its operating subsidiaries with employees, unions and worker associations are generally good.

Environmental Matters

The Company's businesses are subject to extensive federal, state, local and foreign laws, regulations, rules and ordinances concerning, among other things, emissions to the air, discharges and releases to land and water, the generation, handling, storage, transportation, treatment and disposal of wastes and other materials and the remediation of environmental pollution caused by releases of wastes and other materials (collectively, "Environmental Laws"). The operation of any chemical manufacturing plant and the distribution of chemical products entail risks under Environmental Laws, many of which provide for substantial fines and criminal sanctions for violations. There can be no assurance that significant costs or liabilities will not be incurred with respect to the Company's operations and activities. In particular, the production of TiO_2, $TiCl_4$, 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's annual operating expenses relating to environmental matters were approximately $46 million, $46 million and $47 million in 2002, 2001 and 2000, respectively. These amounts cover, among other things, the Company's cost of complying with environmental regulations and permit conditions, as well as managing and minimizing its waste. Capital expenditures for environmental compliance and remediation were approximately $17 million, $19 million and $7 million in 2002, 2001 and 2000, respectively. In addition, capital expenditures for projects in the normal course of operations and major expansions include costs associated with the environmental impact of those projects that are inseparable from the overall project cost. Capital expenditures and costs and operating expenses relating to environmental matters for years after 2002 will be subject to evolving regulatory requirements and will depend, to some extent, on the amount of time required to obtain necessary permits and approvals.

The Company cannot predict whether future developments or changes in laws and regulations concerning environmental protection will affect its earnings or cash flow in a materially adverse manner or whether its operating units, Equistar or La Porte Methanol Company will be successful in meeting future demands of regulatory agencies in a manner that will not materially adversely affect the consolidated financial position, results of operations or cash flows of the Company. For example, the 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 requiring increased capital investment by Equistar of between $200 million and $260 million before the 2007 regulatory deadline, as well as create higher annual operating costs. This result could potentially affect cash distributions from Equistar to the Company. In January 2001, Equistar, individually and as part of an industry coalition, filed a lawsuit in State District Court in Travis County, Texas seeking adoption of an alternative plan for air quality improvement. In response to the lawsuit, the TCEQ conducted an accelerated scientific review during 2001 and 2002. 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. 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 million and $200 million before the 2007 deadline, and could result in higher annual operating costs. Equistar is still assessing the impact of the new HRVOC control requirements. Additionally, the TCEQ plans to make a final review of these rules, with final rule revisions to be adopted by May 2004. The timing and amount of these expenditures are subject to regulatory and other uncertainties, as well 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.

From time to time, various agencies may serve cease and desist orders or notices of violation on an operating unit or deny its applications for certain licenses or permits, in each case alleging that the practices of the operating unit are not consistent with regulations or ordinances. In some cases, the relevant operating unit may seek to meet with the agency to determine mutually acceptable methods of modifying or eliminating the practice in question. The

Company believes that its operating units generally operate in compliance with applicable regulations and ordinances in a manner that should not have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

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 or previously owned, operated or used by the Company's current or former subsidiaries or their predecessors, some of which are on the Superfund National Priorities List of the EPA or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage, or both. Based upon third-party technical reports, the projections of outside consultants or outside counsel, or both, the Company has estimated its individual exposure at these sites to be between $0.025 million and $26.7 million. In the most significant of these proceedings, a subsidiary is named as one of four PRPs at the Kalamazoo River Superfund Site in Michigan. The site involves contamination of river sediments and floodplain soils with polychlorinated biphenyls. Originally commenced on December 2, 1987 in the United States District Court for the Western District of Michigan as Kelly v. Allied Paper, Inc. et al., the matter was stayed and is being addressed under the Comprehensive Environmental Response, Compensation and Liability Act. 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 and recommended a remedy involving the stabilization of several miles of river bank and the long-term monitoring of river sediments at a total collective cost of approximately $73 million. During 2001, additional sampling activities were performed in discrete parts of the river. At the end of 2001, the EPA took responsibility for the site at the request of the State. While the State has submitted comments to the EPA on the Draft Study, the EPA has yet to similarly comment. The Company has estimated its liability at this site based upon the KRSG's recommended remedy. Guidance as to how the EPA will likely proceed with further evaluation and remediation, if required, at the Kalamazoo site is expected by early 2004. At that time, the Company's estimate of its liability will be reevaluated. The Company's ultimate liability for the Kalamazoo site will depend on many 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.

The Company is defending a matter that involves the potential for civil penalties or sanctions in excess of $0.1 million. In April 1997, the Illinois Attorney General filed a complaint in Circuit Court in Grundy, Illinois alleging releases into the environment from Millennium Petrochemical's former Morris, Illinois facility (which was contributed to Equistar on December 1, 1997). The Company believes it has substantial defenses to this action.

In 2002, the Company settled on favorable terms the matter of South Carolina Department of Health and Environmental Control v. Henkel Corp, Cognis Corp, Millennium Petrochemicals Inc., et al., civil action no. 6:00-2570-20 (U.S. District Court for the District of South Carolina).

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 $67 million and $95 million and has accrued $71 million as of December 31, 2002. Expense associated with these contingencies included in Selling, development and administrative expense totaled $15 million and $6 million in 2001 and 2000, respectively. These expenses 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. For example, the Company agreed as part of its Demerger to indemnify Hanson and certain of its subsidiaries against certain of such contractual indemnification obligations, and Millennium Petrochemicals agreed as part of the December 1, 1997 formation of Equistar to indemnify Equistar for certain liabilities related to the assets contributed by Millennium Petrochemicals to Equistar in excess of $7 million, which threshold was exceeded in 2001. The terms of these indemnification agreements do not limit the maximum potential future payments to the indemnified parties. The maximum amount of future indemnification payments is dependent upon many factors and is not practicable to estimate.

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

Patents, Trademarks, and Licenses

The Company's subsidiaries have numerous United States and foreign patents, registered trademarks and trade names, together with applications. The Company has licensed to others certain of its process technology for the manufacture of VAM. The Company is also licensed by others in the application of certain processes and equipment designs related to its Acetyls business segment. The Company generally does not license its Titanium Dioxide and Related Products business segment's proprietary processes to third parties or hold licenses from others. While the patents and licenses of the Company's subsidiaries provide certain competitive advantages and are considered important, particularly with regard to processing technologies such as the Company's proprietary titanium dioxide chloride production process, the Company's proprietary acetic acid process and the Company's proprietary terpene chemistry process, the Company does not consider its business, as a whole, to be materially dependent upon any one particular patent or license.

Item 3. Legal Proceedings

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 80 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 also one of a number of defendants in one inactive premises-based asbestos case where the court placed the claim on a formal registry for dormant claims, and for which no defense costs are being incurred. 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. Various other Company subsidiaries and alleged former subsidiaries are among a number of defendants in 50 active premises-based asbestos cases.

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 one state, 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 of pre-trial, post-trial and post-dismissal settings. These legal proceedings are described below in groups pursuant to their particular procedural posture. Pending legal proceedings relating to lead pigment or paint in various pre-trial stages are as follows: The City of New York et al. v. Lead Industries Association, Inc., et al., commenced in the Supreme Court of the State of New York on June 8, 1989; Kayla Sabater et al., individually and on behalf of all those similarly situated in the State of New York v. Lead Industries Association, Inc., et al., commenced in the Supreme Court of New York, Bronx County, on November 25, 1998; Jackson, et al. v. The Glidden Co., et al., commenced in the Court of Common Pleas, Cuyahoga County, Ohio, on August 12, 1992; City of St. Louis v. Lead Industries Association, Inc., et al., commenced in the St. Louis, Missouri, Circuit Court on January 25, 2000; The County of Santa Clara, a political subdivision of the State of California, individually and on behalf of all those similarly situated v. Atlantic Richfield et al., commenced in the Santa Clara County, California, Superior Court on March 23, 2000; Frederick Moore and Virginia Moore v. The Glidden Company, et al, commenced on June 17, 2002, in the Court of Common Pleas, Hamilton County, Ohio; Mark Ludwigsen v. NL Industries, Inc., et al, commenced on July 18, 2002, in the Supreme Court, County of Kings, New York; and City of Chicago v. American Cyanamid Company, et al, commenced on September 5, 2002, in the Circuit Court, Cook County, Illinois.

One legal proceeding relating to lead pigment or paint was tried in 2002. On October 29, 2002, after a trial in which the jury deadlocked, the court in the State of Rhode Island v. Lead Industry Association, Inc., et al, commenced in the Superior Court of Providence, Rhode Island, on October 13, 1999, declared a mistrial. The sole issue before the jury in this phase of the proceeding was whether lead pigment in paint in and on public and private Rhode Island buildings constitutes a "public nuisance." On March 20, 2003, the court denied the motions for the judgment as a matter of law filed by both sides during and after the trial. The State of Rhode Island may seek a new trial.

Legal proceedings relating to lead pigment or paint dismissed after summary judgment was granted by the court in favor of the defendants, but pending appeal are as follows: Steven Thomas, et al. v. Lead Industries

Association, Inc., et al., commenced in the Milwaukee County, Wisconsin, Circuit Court on September 10, 1999; Reginald Smith, et al. v. Lead Industries Association, Inc., et al. commenced in the Baltimore City, Maryland, Circuit Court on September 29, 1999; Mary Lewis, Tashswan Banks and Jacqueline Nye v. Lead Industries Association, Inc., et al, filed on March 14, 2002, in the Circuit Court, Cook County, Illinois; and New Jersey as In Re Lead Paint Litigation, consolidated on February 11, 2002, in the Superior Court of New Jersey, Law Division: Middlesex County, Case Code 702.

One legal proceeding relating to lead pigment or paint was dismissed after summary judgment was granted by the court in favor of the defendants. Joan Young, et al v. Lead Industries Association, Inc., et al, commenced on February 14, 2002, in the Baltimore City, Maryland, Circuit Court is no longer pending and the appeal period has run.

Legal proceedings relating to lead pigment or paint, which have been voluntarily dismissed by the plaintiffs are as follows: Jefferson County School District v. Lead Industries Association, et al., commenced in the Circuit Court of Jefferson County, Mississippi, on April 6, 2001; Quitman County School District v. Lead Industries Association, et al., commenced in the Circuit Court of Quitman County, Mississippi, on November 27, 2001; Carletta Justice v. Sherwin-Williams Company, et al., commenced in the Superior Court in the County of San Francisco on October 5, 2000, and amended in August 2002; and Spring Branch Independent School District v. Lead Industries Association, et al., commenced in the District Court of Harris County, Texas, on June 20, 2000.

Legal proceedings relating to lead pigment or paint that are pending but have been abated under the laws of the State of Texas pending resolution of the appeal of a decision granting summary judgment in favor of one lead pigment defendant in Spring Branch Independent School District v. Lead Industries Association, and for which no defense costs will be incurred during the abatement period (expected to last one to two years), are as follows: Houston Independent School District v. Lead Industries Association, et al., commenced in the District Court of Harris County, Texas, on June 30, 2000; Harris County v. Lead Industries Association, et al., commenced in the District Court of Harris County, Texas, on April 23, 2001; Liberty Independent School District v. Lead Industries Association, et al., commenced in the District Court of Liberty County, Texas, on January 22, 2002; and Brownsville Independent School District v. Lead Industries Association, Inc., et al, filed on May 28, 2002, in the District Court, Cameron County, Texas.

Legal proceedings relating to lead pigment or paint that have been filed with a court, are pending, but have yet to be formally served on the Company, any of its subsidiaries, or alleged predecessor companies, are as follows: Hall, et al v. Lead Industries Association, et al., commenced in the Baltimore City, Maryland, Circuit Court on June 19, 2000; Hart, et al v. Lead Industries Association, et al., commenced in the Baltimore City, Maryland, Circuit Court on June 26, 2000; Johnson, et al v. Clinton, et al., commenced in the Baltimore City, Maryland, Circuit Court on October 10, 2000; Randle, et al v. Lead Industries Association, et al., commenced in the Baltimore City, Maryland, Circuit Court on August 10, 2000; Williams, et al v. Lead Industries Association, et al., commenced in the Baltimore City, Maryland, Circuit Court on July 7, 2000; William Russell, et al. v. NL Industries, et al., commenced in the Circuit Court of LeFlore County, Mississippi on December 30, 2002; Myreona Stewart, et al. v. NL Industries, et al., commenced in the Circuit Court of LeFlore County, Mississippi on December 31, 2002; Will T. Turner v.

Sherwin-Williams Company, et al., commenced in the Circuit Court of Jefferson County, Mississippi on December 30, 2002; and John Henry Sweeney v. The Sherwin Williams Co., et al., commenced in the Circuit Court of Hinds County, Mississippi on December 30, 2002.

The Company's defense costs to date for lead-based paint and lead pigment litigation largely have been covered by insurance. The Company has not accrued any liabilities for any lead-based paint and lead pigment litigation. The Company has insurance policies that potentially provide approximately $1 billion in indemnity coverage for lead-based paint and lead pigment litigation. 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 the two cases discussed below, 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.

A current subsidiary and an alleged predecessor company are parties to the only two remaining cases originally filed within the eight-year period following the 1986 sale of the Glidden Paints business referred to above. In the first of these cases, The City of New York et al. v. Lead Industries Association, Inc., et al., commenced in the Supreme Court of the State of New York on June 8, 1989, the New York City Housing Authority brought an action relating to tens of thousands of public housing units. All claims in that case have been dropped except for those relating to two housing projects. The other remaining case, Jackson, et al. v. The Glidden Co., et al., commenced in the Court of Common Pleas, Cuyahoga County, Ohio, on August 12, 1992, includes five minors as plaintiffs. Dispositive motions were filed in that case in late 2002 and have yet to be ruled on by the court.

The Company believes that it has valid defenses to all pending lead-based paint and lead pigment proceedings and is vigorously defending them. However, litigation is inherently subject to many uncertainties. There can be no assurance that additional lead-based paint and lead pigment litigation will not be filed against the Company or its subsidiaries in the future asserting similar or different legal theories and seeking similar or different types of damages and relief. While an outcome such as that reached in the Rhode Island proceeding may have a positive effect on the lead-based paint and lead pigment litigation against the Company, its subsidiaries and other defendants by reducing the

number and nature of future claims and proceedings, other adverse court rulings or determinations of liability, among other factors, could encourage an increase in the number of future claims and proceedings. In addition, from time to time, legislation and administrative regulations have been enacted or proposed to impose obligations on present and former manufacturers of lead-based paint and lead pigment respecting asserted health concerns associated with such products or to overturn successful court decisions. Due to the uncertainties involved, the Company is unable to predict the outcome of lead-based paint and lead pigment litigation, the number or nature of possible future claims and proceedings, or the effect that any legislation and/or administrative regulations may have on the Company or its subsidiaries. In addition, management cannot reasonably estimate the scope or amount of the costs and potential liabilities related to such litigation, or any such legislation and regulations. Accordingly, the Company has not accrued any amounts for such litigation. However, based upon, among other things, the outcome of such litigation to date, including the dismissal of most of the over 50 lawsuits brought in recent years, management does not currently believe that the costs or potential liabilities ultimately determined to be attributable to the Company arising out of such litigation will have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

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 it has valid defenses to the legal proceedings described above and intends to defend these legal proceedings vigorously. However, litigation is subject to many uncertainties and the Company cannot guarantee the outcome of these proceedings. Based upon information currently available, the Company does not believe that the outcome of these proceedings will, either individually or in the aggregate, have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company. For additional information, see "Environmental and Litigation Matters" in Item 7 and Note 16 to the Consolidated Financial Statements included in this Annual Report.

For information concerning the Company's environmental proceedings, see "Environmental Matters" in Item 1 of this Annual Report, which is incorporated in this Item 3 by reference.

PART II

Item 6. Selected Financial Data

The selected financial data presented below for each of the five years ended December 31, 2002 have been restated to correct errors in the Company's accounting for deferred taxes relating to its investment in Equistar, 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.

During the course of its review of deferred tax assets, the Company concluded that its realization of a deferred tax asset related to its French subsidiaries was unlikely and has also restated its financial statements to eliminate such deferred tax asset. In addition, selling, development and administrative costs allocated to the Company's investment in Equistar and previously reported in Loss on Equistar investment have been reclassified to Selling, development and administrative expense. The effect of these restatement adjustments and the reclassification 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 2 to the Consolidated Financial Statements included in this Annual Report.

The selected financial data included below were derived from the Consolidated Financial Statements of the Company, as restated, 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 Annual Report.

During the fourth quarter of 2002, the Company changed from the last-in first-out ("LIFO") method to the first-in first-out ("FIFO") method of accounting for certain of its United States inventories in the Titanium Dioxide and Related Products business segment. The method was changed in part to achieve a better matching of revenues and expenses due to decreasing inventory quantities and costs. The FIFO method, or methods that approximate FIFO, are now used to determine cost for all inventories of the Company. Information presented below and throughout this Annual Report has been restated for all periods presented to reflect the change from the LIFO to FIFO method.

Selected Financial Data

	Year Ended December		
	2002(1)	2001(1)	2000(1)
	(Restated)*	(Restated)*	(Restated)*
	(Millions, except per share		
Income Statement Data			
Net sales	$1,554	$1,590	$1,793
Operating income	80 (3)	14 (6)	201 (9)
(Loss) earnings on Equistar investment	(73)	(83)(7)	45 (7)
(Loss) income from continuing operations before cumulative effect of accounting change	(28)(4)	(54)(8)	111(10)
Cumulative effect of accounting change	(305)(5)	--	--
Net (loss) income from continuing operations ..	(333)(4)	(54)(8)	111(10)
Basic (loss) earnings per share from continuing operations before cumulative effect of accounting change	(0.44)(4)	(0.85)(8)	1.73(10)
Basic (loss) earnings per share from continuing operations	(5.24)(4)	(0.85)(8)	1.73(10)
Dividends declared per share(2)	0.54	0.54	0.54

Balance Sheet Data (at period end)			
Total assets	$2,396	$2,965	$3,259
Total liabilities	2,412	2,454	2,631
Minority interest	19	21	22
Shareholders'(deficit) equity	(35)	490	606
Other Data (with respect to continuing operations)			
Depreciation and amortization	$ 102	$ 110	$ 113
Capital expenditures	71	97	110

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* The Company restated its financial statements as disclosed in Note 2 to the Consolidated Financial Statements included in this Annual Report. The table that follows in this Item 6 presents a summary of the effect of the revisions.

(1) The restatement of the Company's results to reflect the accounting change from LIFO to FIFO had the following impact on net income (loss) for each of the years presented above: increase of less than $1 million in 2002; decrease of $4 million or $0.07 per share in 2001; increase of $2 million or $0.04 per share in 2000; decrease of $6 million or $0.09 per share in 1999; and increase of $7 million or $0.11 per share in 1998.

(2) Amounts for 1998 through 2001 were previously reported at $0.60 per share, which included dividends declared of $0.54 per share, plus United Kingdom Notional Tax Credit of $0.06 per share. See Item 5 in this Annual Report for more information regarding dividends.

(3) 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.

(4) 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.

(5) Reflects cumulative effect of change in accounting for goodwill of the Company and Equistar in accordance with SFAS No. 142. See "Accounting Changes" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report.

(6) 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.

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

(8) 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.

(9) 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.

(10) 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.

(11) 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.

(12) Includes non-recurring 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.

(13) Includes six months of earnings of the Brazilian TiO[u]2 business acquired on July 1, 1998.

(14) Includes $14 million of the Company's goodwill amortization.

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

(16) Includes $14 million or $0.18 per share of the Company's goodwill amortization and $9 million or $0.12 per share of Equistar's goodwill amortization.

The table that follows presents a summary of the effect of the restatement adjustments and the reclassification described above on the Company's selected financial data at and for the years ended December 31, 2002, 2001, 2000, 1999 and 1998. See Note 2 to the Consolidated Financial Statements included in this Annual Report for a complete description of the restatement adjustments and reclassification.

	Year Ended December 31,			
	2002(1)		2001(1)	
	As Reported	As Restated	As Reported	As Restated
	(Millions, except per share da			
Income Statement Data				
Operating income	$ 93	$ 80	$ 39	$ 14
(Loss) earnings on Equistar investment	(80)	(73)	(90)	(83)
(Loss) income from continuing operations before cumulative effect of accounting change	21	(28)	(47)	(54)
(Loss) income from continuing operations	(284)	(333)	(47)	(54)
Basic (loss) earnings per share from continuing operations before cumulative effect of accounting change	0.33	(0.44)	(0.75)	(0.85)
Basic (loss) earnings per share from continuing operations..........	(4.47)	(5.24)	(0.75)	(0.85)
Balance Sheet Data (at period end)				
Total assets	$2,467	$2,396	$2,990	$2,965
Total liabilities	2,009	2,412	2,072	2,454
Shareholders' equity (deficit)	439	(35)	897	490

	Year Ended December 31,			
	1999(1)		1998(1)(2)	
	As Reported	As Restated	As Reported	As Restated
	(Millions, except per share data)			
Income Statement Data				
Operating income	$ 159	$ 139	$ 216	$ 193
(Loss) earnings on Equistar investment	(19)	(7)	40	56
(Loss) income from continuing operations before cumulative effect of accounting change	(332)	(549)	171	13
(Loss) income from continuing operations	(332)	(549)	171	13
Basic (loss) earnings per share from continuing operations before cumulative effect of accounting change	(4.80)	(7.93)	2.29	0.17
Basic (loss) earnings per share from continuing operations..........	(4.80)	(7.93)	2.29	0.17
Balance Sheet Data (at period end)				
Total assets	$3,282	$3,286	$4,141	$4,145
Total liabilities	2,230	2,621	2,521	2,695
Shareholders' equity (deficit)	1,036	649	1,605	1,435

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(1) The restatement adjustments described in Note 2 to the Consolidated Financial Statements included in this Annual Report had the following effect on Income Statement Data for the years 1998 through 2002:

- Restatement adjustments for deferred taxes related to the Company's investment in Equistar increased income tax expense and increased Loss from continuing operations by $36 million and $212 million in 2002 and 1999, respectively; decreased income tax expense and decreased Loss from continuing operations by $4 million in 2001; and increased tax expense and decreased Income from continuing operations by $6 million and $154 million in 2000 and 1998, respectively;

- Income tax expense and Loss from continuing operations were increased by $10 million in 2002 to establish a valuation allowance against deferred tax assets for the Company's French subsidiaries;

- Net periodic benefit cost increased and Operating income decreased by $2 million and Loss from continuing operations increased by $1 million in 2002 resulting from the correction of errors in the calculation of the Company's pension benefit obligations;

- The effect of the restatement adjustments to correct the accounting for the Company's multi-year precious metals agreement was to decrease Operating income by $4 million, $2 million, $1 million, and $2 million for the years 2002, 2001, 2000, and 1999, respectively; increase Loss from continuing operations by $2 million, $1 million, and $1 million for 2002, 2001 and 1999, respectively; and decrease Income from continuing operations by $1 million for 2000; and

- Restatement adjustments related to the timing of the Company's recognition of income and expense associated with previously established reserves for legal, environmental and other contingencies for certain of the Company's predecessor businesses, decreased Operating income by $16 million, $9 million, $6 million and $7 million for the years 2001, 2000, 1999 and 1998, respectively; increased Loss from continuing operations by $10 million in 2001; decreased Income from continuing operations by $6 million and $4 million for the years 2000 and 1998, respectively; and increased Loss from continuing operations by $4 million in 1999.

(2) The restatement adjustments for deferred taxes related to the Company's investment in Equistar (see Note 2 to the Consolidated Financial Statements included in this Annual Report) increased net deferred tax liabilities and decreased Shareholders' equity at December 31, 1997 by $36 million, and the restatement adjustments for the timing of the Company's recognition of income and expense associated with previously established reserves for legal, environmental and other contingencies for certain of the Company's predecessor businesses decreased Total liabilities and increased Shareholders' equity at December 31, 1997 by $24 million.

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

Restatement of Financial Statements

The Company restated its financial statements for the years 1998 through 2002, 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 and thereafter accounted for by the Company.

Deferred tax assets and liabilities and deferred tax expense for the years 1998 through 2002 were restated to appropriately account for the Company's book and tax basis differences associated with its investment in Equistar in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). The accounting for deferred tax associated with Equistar was previously based on the difference between book and tax basis of a subsidiary that holds the partnership investment. Deferred tax is now based on the difference between book basis and tax basis of the actual partnership interest held by the subsidiary. The effect of the adjustments to deferred tax assets and liabilities was to increase net deferred tax liabilities and Accumulated deficit by $402 million at December 31, 1999. The effect of the adjustments to Benefit from income taxes for 2002 and 2001 was a decrease of $36 million and an increase of $4 million, respectively, and the effect to Provision for income taxes for 2000 was an increase of $6 million. Other comprehensive loss was reduced by $15 million in 2002 due to these adjustments. In addition, during the course of its review of its deferred tax assets, the Company concluded that its realization of a deferred tax asset of $10 million related to its French subsidiaries was unlikely. The elimination of this deferred tax asset as of December 31, 2002, resulted in an increase of $10 million in net deferred tax liabilities and a decrease in Benefit from income taxes for 2002 of $10 million.

The Company also restated its accrued pension benefit costs, included in Other liabilities, and its net periodic pension benefit cost for 2002 to correct errors in the calculation of its pension liability. The Company's principal actuarial firm incorrectly utilized participant data in its 2002 actuarial valuation and underestimated the accumulated benefit obligation at December 31, 2002 for the Company's largest domestic pension plan. The effect of these corrections was to increase accrued pension benefit cost by $53 million and to decrease net deferred tax liabilities by $19 million at December 31, 2002, and to increase net periodic pension benefit cost by $2 million, to decrease Operating income by $2 million, to increase Net loss by $1 million, and to increase Other comprehensive loss by $33 million for the year then ended.

The financial statements for the years 1998 through 2002 also were restated to reflect a retroactive change in accounting treatment for a five-year agreement entered into in 1998 that provides the Company with the right to use gold owned by a third party, as more fully described in Note 9 to the Consolidated Financial Statements included in this Annual Report. The Company previously accounted for this agreement as an operating lease but is now accounting for this agreement as a secured financing. As a result, at December 31, 1999, Other assets increased by $4 million, Accrued expenses and other liabilities decreased by $1 million, Other long-term borrowings increased by $11

million, net deferred tax liabilities decreased by $1 million, Other liabilities decreased by $4 million, and Accumulated deficit increased by $1 million ; Operating income for 2002, 2001 and 2000 decreased by $4 million, $2 million and $1 million, respectively; Net loss for 2002 and 2001 increased by $2 million and $1 million, respectively; and Net income for 2000 decreased by $1 million.

The restatement of the financial statements for the years 1998 through 2001 also includes changes to correct the timing of income and expense recognition associated with previously established reserves for legal, environmental and other contingencies for certain of the Company's predecessor businesses. The effect of this restatement was to decrease Accrued expenses and other liabilities and Other liabilities by $1 million and $24 million, respectively, and to increase net deferred tax liabilities and Accumulated deficit by $9 million and $16 million, respectively, at December 31, 1999, to decrease Operating income by $16 million and $9 million for the years 2001 and 2000, respectively; to increase Net loss by $10 million in 2001; and to decrease Net income by $6 million in 2000.

In addition, $7 million, $7 million and $6 million of selling, development and administrative ("S,D&A") costs allocated to the Company's investment in Equistar and previously reported in (Loss) earnings on Equistar investment for the years ended December 31, 2002, 2001 and 2000, respectively, were reclassified to Selling, development and administrative expense in the Company's Consolidated Statements 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 to 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, are reflected as Other. The Company also holds a 29.5% interest in Equistar, which is accounted for using the equity method. (See Notes 1 and 5 to the Consolidated Financial Statements included in this Annual Report.) A discussion of Equistar's financial results for the relevant period is included below, as the Company's interest in Equistar represents a significant component of the Company's assets and Equistar's results can have a significant effect on the Company's consolidated results of operations.

The following information should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto. 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 Annual Report.

Historical 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_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. For example, if supply exceeds demand, producers are often pressured to maintain sales volume with customers and, consequently, pressure to reduce prices may result. This is especially true in periods of economic decline or uncertainty, when demand may be limited and customers may become cautious about building inventory. Producers, such as the Company and Equistar, may respond in various ways depending upon the particular circumstances, including by meeting competitive price reductions, short-term curtailment of production, or longer-term temporary or permanent plant shutdowns. 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_2, which is influenced by changes in the gross domestic product of various regions of the world, has fluctuated from year to year, averaging an increase of approximately 2.5% to 3.0% per year over the last ten years. The industry is also sensitive 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_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. However, over the last ten years, global demand for ethylene and its primary derivative, polyethylene, has increased an average of approximately 5% per year. This industry segment is 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. Currently, there is overcapacity in these industries, as a number of Equistar's competitors in various segments of these industries have added capacity. There can be no assurance that future growth in product demand will be sufficient to utilize current or any additional capacity. Excess industry capacity has depressed and may continue to depress Equistar's volumes and margins.

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.

Different facilities may have differing operating rates from period to period depending on supply and demand for the product produced at the facility during that period and other factors, such as energy costs, feedstock costs and transportation costs. As a result, individual facilities may be operated below or above rated capacities, may be idled

or may be shut down and restarted in any period. It is possible that lower demand in the future will cause the Company or Equistar to reduce operating rates or idle facilities.

The global economic and political environment continues to be uncertain, contributing to lower operating rates, adding to the volatility of raw material and energy costs, and forestalling recovery from trough conditions, all of which is placing, and may continue to place, pressure on the Company's and Equistar's results of operations.

Major Factors Affecting 2002 Results

- Demand for TiO[u]2 and acetyls products increased significantly over prior-year levels as signs of economic recovery began to emerge in most world markets except South America and customers rebuilt inventory levels depleted during 2001.

- Unstable economic conditions prevailed in South America, resulting in lower sales volume and prices in that region in 2002.

- 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 price increases announced by the Company and most of its competitors were gradually realized, supported by increased demand.

- The value of the euro, British pound and Australian dollar strengthened versus the US dollar, further contributing to increasing sales revenue when translated into US dollars. The Brazilian real continued to weaken against the US dollar, contributing to declining sales revenue in that region.

- TiO[u]2 manufacturing costs decreased in 2002 as compared with 2001 due to productivity and reliability improvements, lower cost of natural gas and other purchased materials, 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 and lower unit production costs due to higher fixed cost absorption from higher production rates as a result of increased customer demand.

- Acetyls prices rose steadily through the end of the year after reaching a low early in the second quarter, as announced price increases were realized.

- Acetyls margins in 2002 were greatly improved in comparison with 2001. Higher demand resulted in lower per unit production costs due to higher fixed cost absorption resulting from increased plant operating rates. Unfavorable fixed-price natural gas purchase positions that increased Acetyls operating loss in 2001 by $19 million expired at the end of the first quarter of 2002.

- Acetyls feedstock costs, including costs of natural gas and ethylene, remained relatively stable throughout much of the year, but increased during the fourth quarter primarily due to unseasonably cold weather in certain regions of the US and events in the Middle East.

- Conditions in the worldwide markets of the Specialty Chemicals business segment remained competitive due to excess capacity, and volume was negatively affected by competition from low cost

manufacturers in Asia. In addition, the Company's production facilities for specialty chemicals experienced high maintenance and production costs due to planned and unplanned production interruptions.

- S,D&A costs were lower by $31 million or 18% from 2001.
- Higher interest costs were incurred primarily as a result of higher average debt levels and the higher cost of debt due to the issuance in June 2002 of $100 million additional principal amount of 9.25% Senior Notes.
- At Equistar, operating results were slightly lower 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.

Outlook for 2003

The Company has announced additional price increases for TiO_2 and acetyls products during the first quarter of 2003. However, contracts with most of the Company's large-volume TiO_2 customers include periods of price protection. Therefore, the benefits of TiO_2 price increases, if implementation is successful, may not be fully realized by the Company for several months after the effective date of the price increases. The success of price increases in both the TiO_2 and Acetyls business segments is dependent on continuing economic recovery and accompanying strong customer demand. The TiO_2 business segment expects sales volume and prices in the first quarter of 2003 to be up slightly compared to the fourth quarter of 2002.

Natural gas and ethylene pricing is critical to profitability in the Acetyls business segment. Natural gas prices have been on the rise since early December due to unseasonably cold weather in certain regions of the US and events in the Middle East. Natural gas prices and, as a result, the cost of ethylene, have increased significantly in the first quarter of 2003. The Company has responded by announcing price increases for acetyls products in the first quarter of 2003. The higher costs could help to support the recently announced price increases for acetyls products, but the increase in feedstock costs has put pressure on margins in the Acetyls business segment. Acetyls price increases have not been sufficient to offset rising natural gas prices; accordingly, the profitability of the Acetyls business segment is expected to be adversely affected in the first quarter of 2003. First quarter 2003 operating income is expected to be positive for Acetyls but below fourth quarter 2002 levels.

First quarter 2003 operating results for the Specialty Chemicals business segment are expected to improve slightly from the fourth quarter of 2002 based on an increase in sales volume without the production outages and maintenance that led to increased costs in the fourth quarter of 2002.

The Company has achieved reductions in production costs and S,D&A expenses as a result of process improvement, cost reduction and cost containment programs. These programs have been critical to achieving improved operating profit levels and will continue to be a priority in 2003.

In the first quarter of 2003, the olefins and polyethylene industries experienced significantly higher and more volatile energy and raw material costs than in the fourth quarter 2002. Equistar has responded by implementing price increases in the first quarter of 2003 for substantially all of its petrochemicals and polymers products. However, the effect of historically high energy-related feedstocks will make for a very difficult first quarter. Equistar's ethylene cash costs have risen significantly faster than the effective price increases Equistar has obtained or expects to obtain in the first quarter. Due to price protection and market forces, typically, there is a lag of weeks to months before a cost increase in Equistar's feedstocks translates to full or partial price increase realization in polymers and derivatives. Accordingly, the Company's equity loss in Equistar's results is expected to be greater than the $35 million loss recorded in the fourth quarter of 2002.

Industry analysts forecast that the olefins industry will experience improved supply/demand conditions in 2003, driven by industry announcements of plant shutdowns and maintenance turnarounds. However, unless global economic uncertainties and energy market issues are resolved, the impact of high raw material and energy costs could outweigh these benefits and could depress demand. If global economic uncertainties and energy market issues are resolved, it should result in reduced raw material costs and increased industrial activity, which would benefit Equistar's operations.

As discussed in more detail in "Financing and Capital Structure" the Company believes that it will not be in compliance with certain financial covenants at June 30, 2003, unless economic and business conditions improve significantly in the second quarter of 2003. Accordingly, the Company is seeking a waiver or amendment to its credit agreement, which it expects to obtain by June 30, 2003.

With the Company's lowered cost base and improved prices for its major products during the first quarter, overall prospects for the Company's business segments are expected to be favorable for 2003 compared to 2002; however, the current global economic uncertainties and volatile energy markets could significantly adversely affect these prospects as well as the prospects of Equistar.

Pension Assets and Equity

Because of the recent declines in the financial markets, certain of the Company's US and foreign pension plans had underfunded Accumulated Benefit Obligations ("ABO") at the end of 2002. The Company is required to charge to Shareholders' (deficit) equity a minimum liability for any underfunded amount and the existing prepaid pension asset related to the affected plans. The charge to Shareholders' (deficit) equity at December 31, 2002, net of

income taxes, was $188 million. See Note 12 to the Consolidated Financial Statements included in this Annual Report.

Due to the reduction in the fair value of pension plan assets and the Company's decision to reduce its assumptions for the expected return on pension plan assets and the discount rate related to its pension plans, pension expense for 2003 is expected to increase by approximately $10 million. Pension income

was $7 million, $8 million and $9 million for 2002, 2001 and 2000, respectively. Pension plan funding requirements are not expected to materially change in 2003.

Income Taxes

The Company recorded a tax benefit of $22 million in 2002 and $42 million in 2001 unrelated to transactions for those years. In 2002, the tax benefit primarily relates to an $18 million refund of tax and interest originating from refund claims filed with the Internal Revenue Service ("IRS") in 2002 which carried back expenses incurred in 1993 and 1994 to earlier tax years. In 2001, the tax benefit relates 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. The reversal of those accruals was 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.

As a result of the Company's assessment of its net deferred tax assets, a valuation allowance of $10 million was required for the net deferred tax assets of its French subsidiaries at December 31, 2002. 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.

Results of Consolidated Operations

	2002	2001	2000
	(Restated)*	(Restated)*	(Restated)*
	(Millions, except per share data)		
Net sales	$1,554	$1,590	$1,793
Operating income	80 (1)	14 (4)	201(7)
(Loss) earnings on Equistar investment	(73)	(83)(5)	45(8)
(Loss) income before cumulative effect of accounting change	(28)(2)	(54)(6)	111(9)
Cumulative effect of accounting change	(305)(3)	--	--
Net (loss) income	(333)(2)	(54)(6)	111(9)
Basic (loss) earnings per share before cumulative effect of accounting change	(0.44)(2)	(0.85)(6)	1.73(9)
Diluted (loss) earnings per share before cumulative effect of accounting change	(0.44)(2)	(0.85)(6)	1.72(9)
Basic (loss) earnings per share	(5.24)	(0.85)	1.73
Diluted (loss) earnings per share	(5.24)	(0.85)	1.72

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* The Company restated its financial statements as disclosed in Note 2 to the Consolidated Financial Statements included in this Annual Report.

(1) 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.

(2) 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.

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(3) Cumulative effect of change in accounting for goodwill of the Company and Equistar in accordance with SFAS No. 142.

(4) 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 goodwill amortization of $13 million.

(5) 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.

(6) 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, $23 million or $0.36 per share of 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.

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

(8) Includes $10 million of goodwill amortization.

(9) 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 and $23 million or $0.36 per share of goodwill amortization.

Accounting Changes

LIFO

During the fourth quarter of 2002, the Company changed from the LIFO method to the FIFO method of accounting for certain of its United States inventories in the Titanium Dioxide and Related Products business segment. The method was changed in part to achieve a better matching of revenues and expenses due to decreasing inventory quantities and costs. The FIFO method, or methods that approximate FIFO, are now used to determine cost for all product inventories of the Company. The change increased operating income in the Titanium Dioxide and Related Products business segment by less than $2 million and positively impacted the net loss of the Company by less than $1 million or $0.02 per share in 2002. The effect of the change on operating income for the Titanium Dioxide and Related Products business segment was a decrease of $7

million and an increase of $4 million for the year 2001 and 2000, respectively. Net (loss) income and net (loss) income per share of the Company were negatively impacted by $4 million or $0.07 per share, respectively, for the year 2001 and positively impacted by $2 million or $0.04 per share, respectively, for the year 2000. Information presented above and throughout this Annual Report has been restated for all periods presented to reflect the change from the LIFO to FIFO method.

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 each of the years 2001 and 2000 included $13 million of expense in operating income for amortization of the Company's goodwill and $10 million included in (Loss) earnings on Equistar investment for the Company's share of Equistar's goodwill amortization.

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 each of the Company's business

segments, $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 write-down 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 Acetyls 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 write-down 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 $32 million in the Acetyls business segment, including $5 million of reorganization and plant closure costs in 2001 that did not recur in 2002 and $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 increased by $21 million in the Titanium Dioxide and Related Products business segment, including $30 million of reorganization and plant closure costs in 2001 that did not recur in 2002 and $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 $5 million in the Specialty Chemicals business segment, including $1 million of reorganization and plant closure costs in 2001 that did not recur in 2002. Other operating loss not identified with the three separate business segments for 2002 was $18 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 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 polymer margins primarily due to lower raw material costs were more than offset by lower margins in the petrochemical segment primarily as a result of lower sales prices.

2001 Versus 2000

Net sales for 2001 decreased $203 million or 11% from 2000 primarily due to weak demand in the Titanium Dioxide and Related Products business segment and declining prices across all business segments. Operating income of $14 million decreased $187 million or 93% from 2000. This decrease in operating income includes $36 million of reorganization and plant closure costs related to reorganization activities within each of the Company's business segments, as more fully described in "2002 Versus 2001" above. All three business segments were affected by the slowdown in the global economy. Operating income in the Titanium Dioxide and Related Products segment decreased $106 million or 72% from 2000, including $30 million of reorganization and plant closure costs in 2001. The Titanium Dioxide and Related Products business segment experienced competitive pressure on pricing globally, reduced sales volume and higher manufacturing costs, primarily caused by lower fixed cost absorption due to reduced plant operating rates. In the Acetyls business segment, 2001 operating results declined by $68 million or 145% from 2000, including $5 million of reorganization and plant closure costs in 2001, as the segment was severely impacted by declining prices during the third and fourth quarters, the high cost of natural gas during the first quarter and the impact of unfavorable fixed-price natural gas purchase positions entered during the first quarter,

which negatively impacted operating results by $19 million in the last three quarters of the year. Specialty Chemicals operating profit of $11 million was down $9 million or 45% from 2000, including $1 million of reorganization and plant closure costs in 2001. The Specialty Chemicals business segment remained under significant competitive pressure. Other operating loss not identified with the three business segments for 2001 increased $4 million from 2000, primarily due to higher charges to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses, partially offset by higher income from employee benefit plans related to predecessor businesses. The Company reduced S,D&A costs by $55 million or 26% from 2000, excluding $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. This significant reduction in S,D&A costs was achieved through the Company's cost-saving initiatives, which included benefits from the Company's reorganization and reduction in workforce, reduced external consultant fees, reduced employee bonuses and travel, and various other cost reductions.

The Company reported a net loss of $54 million or $0.85 per share for 2001 compared to net income of $111 million or $1.73 per share for 2000. The decrease was primarily due to decreased operating results in all three business segments, reorganization and plant closure costs included in 2001 and a loss from the Company's investment in Equistar of $83 million compared to earnings from its investment in Equistar of $45 million in 2000. Additionally, the 2001 results include a tax benefit of $42 million due to favorable developments related to matters reserved for in prior years, as more fully described in "Income Taxes" above.

Segment Analysis

A description of the products and markets for each of the business segments is included in Item 1 of this Annual Report. Additional segment information is included in Note 17 to the Consolidated Financial Statements in this Annual Report.

Titanium Dioxide and Related Products

	2002	2001	2000
		(Millions)	
Net sales..................................	$1,129	$1,145	$1,355
Operating income...........................	63	42	148

2002 Versus 2001

Operating income for 2002 of $63 million increased $21 million or 50% from the prior year. Operating income in 2001 includes $30 million of reorganization and plant closure costs that did not recur in 2002, as more fully described in "Results of Consolidated Operations" above, and $2 million of

goodwill amortization that was suspended on January 1, 2002 in accordance with SFAS No. 142. Excluding the reorganization and plant closure costs and 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_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_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_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_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_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 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.

2001 Versus 2000

Operating income for 2001 of $42 million decreased $106 million or 72% from the prior year. Operating income in 2001 includes $30 million of reorganization and plant closure costs, as more fully described in "Results of Consolidated Operations" above. Excluding the reorganization and plant closure costs from the 2001 results, operating income in 2001 decreased $76 million from the prior year primarily due to lower sales volume ($43 million), lower selling prices ($42 million) and higher manufacturing costs ($30 million), partially offset by lower S,D&A expenses ($39 million).

Net sales decreased 15% to $1.145 billion. Overall, sales volume was down 11% and average selling prices were down 5% from the prior year. Sales volume in 2001 was down compared to 2000 in all three major TiO_2 markets: paint and coatings, 10%; plastics, 6%; and paper, 20%. TiO_2 sales volume was also down in all major geographic regions globally. In addition, TiO_2 sales prices were down in all three major markets and in all major geographic regions globally.

For all of 2001, global economic conditions restricted demand and fueled competitive pricing situations in all markets, most notably in paint and coatings and paper. The United States and European paper markets suffered declining business conditions, adversely affecting TiO_2 volume and price into these markets. These economic and business conditions continued in the fourth quarter. TiO_2 sales volume and price in the fourth quarter of 2001 declined 16% and 9%, respectively, from the fourth quarter of 2000. Operating income for the segment, excluding goodwill amortization, was $7 million for the fourth quarter of 2001 compared to $18 million in the third quarter of 2001 and $38 million in the fourth quarter of 2000.

The overall operating rate for the Company's TiO_2 plants in 2001 was 85% compared to 94% for the prior year. Production was curtailed in line with reduced market demand. The Company idled its 44,000 tpa Hawkins Point, Maryland sulfate-process plant and re-rated its Kemerton, Australia, and Ashtabula, Ohio plants at the end of the third quarter of 2001, reducing annual nameplate capacity from 712,000 to 690,000 metric tons.

The overall TiO_2 cost per metric ton increased 1% in 2001. Productivity and reliability improvements, cost-cutting initiatives, and the benefit of translating local currency manufacturing costs into a stronger US dollar were more than offset by lower fixed cost absorption due to decreased production and by increases in raw material costs compared to the prior year.

In 2001, S,D&A costs were $39 million or 24% lower than 2000. This significant reduction in S,D&A costs was achieved through the Company's cost-saving initiatives, which included benefits from the Company's reorganization, reduction in workforce, reduced external consultant fees, reduced employee bonuses and travel, and various other cost reductions.

Acetyls

	2002 (Restated)*	2001 (Restated)*	2000 (Restated)*
		(Millions)	
Net sales	$334	$355	$337
Operating income (loss)	11	(21)	47

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* The Company's financial statements have been restated as disclosed in Note 2 to the Consolidated Financial Statements included in this Annual Report.

2002 Versus 2001

Operating income in the Acetyls business segment for 2002 of $11 million increased by $32 million from an operating loss of $21 million in 2001.

Operating income in 2001 includes $5 million of reorganization and plant closure costs that did not recur in 2002, as more fully described in "Results of Consolidated Operations" above, and $11 million of goodwill amortization that was suspended on January 1, 2002 in accordance with SFAS No. 142. Excluding the reorganization and plant closure costs and 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 9 to the Consolidated Financial Statements included in this Annual Report.

2001 Versus 2000

The Acetyls business segment's operating loss for 2001 was $21 million, a decrease of $68 million or 145% from operating profit of $47 million in 2000. Operating income in 2001 includes $5 million of reorganization and plant closure costs, as more fully described in "Results of Consolidated Operations" above. Excluding the reorganization and plant closure costs from the 2001 results, operating income in 2001 decreased $63 million from the prior year, primarily due to higher production costs ($69 million), lower sales volume ($2 million) and lower selling prices ($1 million), partially offset by lower S,D&A expenses ($9 million). Net sales increased $18 million to $355 million, primarily due to higher prices and higher VAM sales volume in the first half of the year compared to 2000. The operating loss in the fourth quarter of 2001 was $13 million compared to $4 in the third quarter of 2001 and income of $18 million in the fourth quarter of 2000, as deteriorating business conditions over the course of

2001 impacted the Acetyls business segment.

The high cost of natural gas compared to the prior year and lower fixed cost absorption due to decreased operating rates were the primary causes for decreased profits in 2001. The Company did not enjoy the full benefit of lower natural gas prices in the last half of the year because of unfavorable fixed-price purchase positions entered into during the first quarter of 2001 that negatively impacted operating loss by approximately $19 million for the year.

Average VAM prices for 2001 decreased 1% from the prior year, while acetic acid and methanol prices increased 3% and 6%, respectively. With the declining cost of natural gas, the global economic slowdown and continued oversupply in the marketplace, price increases that were achieved during the first half of 2001 were eroded by rapidly falling prices in the second half. VAM volume increased 9% in 2001 versus the prior year primarily due to the tolling arrangement with DuPont offset by a generally weaker market. Acetic acid volume was down 30% for the year 2001, due mainly to reduced merchant sales as a result of acetic acid shipped to the DuPont facility under the tolling arrangement and weak demand in the United States and Europe. Methanol volume increased 3% in 2001.

In 2001, S,D&A costs were $9 million or 39% lower than 2000. This significant reduction was achieved through the Company's cost-saving initiatives, which included benefits from the Company's reorganization and reduction in workforce, reduced employee bonuses, and various other cost reductions.

Specialty Chemicals

	2002	2001	2000
		(Millions)	
Net sales......................................	$91	$90	$101
Operating income...............................	6	11	20

2002 Versus 2001

Operating income for 2002 of $6 million was $5 million or 45% lower than 2001. Operating income in 2001 includes $1 million of reorganization and plant closure costs that did not recur in 2002, as more fully described in "Results of Consolidated Operations" above. Excluding the reorganization and plant closure costs from the 2001 results, operating income in 2002 decreased $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.

2001 Versus 2000

Operating income for 2001 was $11 million, a decrease of $9 million or 45% from the prior year. Operating income in 2001 includes $1 million of reorganization and plant closure costs, as more fully described in "Results of Consolidated Operations" above. Excluding the reorganization and plant closure costs from the 2001 results, operating income in 2001 decreased $8 million from the prior year, primarily due to lower selling prices ($9 million) and lower sales volume ($1 million), partially offset by lower S,D&A expenses ($2 million).

Net sales decreased 11% to $90 million. Fourth quarter 2001 operating income was $1 million compared to $3 million in both the third quarter of 2001 and the fourth quarter of 2000.

Average selling prices were down 3% from 2000. Competitive conditions in the fragrance chemical market adversely impacted prices, as did the continued strength of the US dollar. Sales volume was down 9% from 2000 as a result of competitive conditions and the global economic slowdown. The fourth quarter of the year was particularly soft, resulting from global economic uncertainty.

The average cost of CST, the principal raw material for the business, remained relatively level with the prior year.

In 2001, S,D&A costs were $2 million or 13% lower than 2000. This significant reduction was achieved through the Company's cost-saving initiatives, which included benefits from the Company's reorganization and various other cost reductions.

Other

	2002	2001	2000
	(Restated)*	(Restated)* (Millions)	(Restated)*
Operating loss.........................	$ --	$(18)	$(14)

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* The Company's financial statements have been restated as disclosed in Note 2 to the Consolidated Financial Statements included in this Annual Report.

2002 Versus 2001

Operating loss not identified with the three separate business segments

for 2002 was $18 million less than 2001, primarily due to 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.

2001 Versus 2000

Operating loss not identified with the three separate business segments for 2001 was $4 million greater than 2000, primarily due to higher charges to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses, partially offset by higher income from employee benefit plans related to predecessor businesses.

Equistar

	Company's Share		
	2002	2001	2000
	(Restated)*	(Restated)*	(Restated)*
			(Mill
(Loss) earnings on Equistar investment....................	$ (73)	$ (83)	$ 45

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* The Company's financial statements have been restated as disclosed in Note 2 to the Consolidated Financial Statements included in this Annual Report.

(1) Before cumulative effect of accounting change

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 petrochemical segment decreased by $129 million compared to the prior year, while the polymer 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 petrochemical 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 polymer 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 polymer 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 polymer 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.

2001 Versus 2000

The Company recorded a loss from its investment in Equistar of $83 million in 2001 compared to income of $45 million in 2000. Equistar reported a net loss for 2001 of $283 million compared to net income of $153 million for 2000. Operating profits were lower than the prior year in the petrochemical segment. Equistar's polymer segment experienced operating losses similar to those incurred in 2000. Equistar's expenses not allocated to its separate business segments in 2001 increased $13 million from 2000 primarily due to $22 million of plant closure costs related to the shutdown of Equistar's Port Arthur, Texas plant in 2001. Overall, lower demand and selling prices were only partially offset by lower costs. Additionally, Equistar's interest costs increased by $7 million in 2001 compared to 2000.

Petrochemical segment operating profit for 2001 was 60% below the prior year. Sales volume for this segment decreased by 12% from the prior year, while the average selling price dropped 15% year over year. Cost of sales for this segment decreased 19% compared to the prior year. The effect of the decrease in sales volume and lower average raw material costs was partly offset by decreases in co-product prices. Benchmark crude oil prices, which affect the cost of raw materials, averaged 14% lower in 2001 compared to 2000, while benchmark prices for co-product propylene averaged 23% lower in 2001 compared to 2000.

Interest Expense

	2002	2001	2000

		(Millions)	
Interest expense, net..............................	$ 86	$ 82	$ 77

During 2002, interest expense, net of interest income, increased $4 million to $86 million from $82 million in the prior year. The $4 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 described below in "Liquidity and Capital Resources". Interest expense, net in 2001 was $82 million versus $77 million in 2000, primarily due to higher debt levels throughout the year and the Company's refinancing of debt in 2001, which included the issuance of 9.25% Senior Notes.

Liquidity and Capital Resources

The Company has historically financed its operations primarily through cash generated from its operations and cash distributions from Equistar. 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 2003.

Cash provided by operating activities for the year ended December 31, 2002 was $84 million compared to $112 million provided in the year ended December 31, 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 ($58 million), movements in other long-term liabilities that were unfavorable to a lesser extent during 2002 compared to the prior year ($36 million, including $12 million proceeds from termination of interest rate swaps), 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).

Cash used in investing activities in the year ended December 31, 2002 was $70 million compared to $78 million used in 2001. The Company spent approximately $71 million in 2002 for capital expenditures, down from $97 million in 2001. Also during 2002, the Company received $1 million in proceeds from sales of Property, plant and equipment, a decrease of $18 million from the $19 million in proceeds received in 2001, which included proceeds of $17 million from the Research Center Sale Leaseback transaction more fully described in Note 4 to the Consolidated Financial Statements included in this Annual Report. There were no cash distributions from Equistar in 2002 or 2001.

Cash used in financing activities was $2 million in the year ended 2002 compared to $22 million used in 2001. Financing activities in 2002 included $33 million of net debt proceeds, while 2001 included $13 million of net debt proceeds. Dividends paid to shareholders totaled $35 million in both years.

In 2001, the Company's cash flows from operations increased to $112 million from $20 million in 2000. Aggressive efforts in 2001 to collect accounts receivable, reduce raw materials inventory levels and extend vendor terms resulted in cash generation of $144 million. Capital expenditures for 2001 were $97 million, down from $110 million in 2000. There were no distributions from

Equistar in 2001, while $83 million was received during 2000. In 2000, the Company paid $151 million in taxes and interest to settle certain issues relating to the tax years 1986 through 1988. In addition, the Company utilized $65 million in 2000 to repurchase a total of 3,500,000 shares of Common Stock, representing 5% of the total shares outstanding at the beginning of 2000.

Net debt (short-term and long-term debt less cash) at December 31, 2002 totaled $1.117 billion versus $1.084 billion at the end of 2001. At December 31, 2002, the Company had approximately $198 million of unused availability under short-term uncommitted lines of credit and its five-year credit agreement (the "Credit Agreement"). The Company's focus in 2003 is to sustain the benefits of cost reduction efforts achieved to date, and manage working capital and capital spending to levels deemed reasonable given the current state of business performance. The Company believes these efforts, along with the borrowing availability under the Credit Agreement, will be sufficient to fund the Company's cash requirements.

At March 19, 2003, the Company had $71 million outstanding ($60 million of outstanding borrowings, and outstanding letters of credit of $11 million) under the revolving loan portion of the Credit Agreement (the "Revolving Loans") and, accordingly, had $104 million of unused availability under such facility at March 19, 2003. In addition, the Company had $49 million outstanding under the term loan portion of the Credit Agreement (the "Term Loans") at March 19, 2003. Additionally, at March 19, 2003, the Company had unused availability under short-term uncommitted lines of credit, other than the Credit Agreement, of $41 million. For a discussion of the covenants under the Credit Agreement, see "Financing and Capital Structure."

Capital Expenditures

	2002	2001	2000
		(Millions)	
Additions to property, plant and equipment.................	$ 71	$ 97	$ 110

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.

Planned capital spending in 2003 is projected to be at a similar level to 2002.

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.

Capital expenditures in 2000 totaled $110 million, which was similar to 1999 levels. Significant capital expenditures during 2000 included multi-year projects, such as the design and construction of new packaging equipment at several of the Company's TiO2 manufacturing facilities and the dredge project at the Company's raw material mine in Mataraca, Paraiba, Brazil. Expenditures also included various cost reduction and yield improvement projects in all of the businesses.

Financing and Capital Structure

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 9.25% Senior Notes. The gross proceeds of the offering were used to repay all 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 a $175 million revolving credit facility and $125 million in term loans, and the issuance of $275 million aggregate principal amount of 9.25% Senior Notes by Millennium America. The Company 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 include 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. 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. To permit the Company to be in compliance, these covenants were amended in the fourth quarter of 2001 and again in the second quarter of 2002. This second amendment was conditioned upon consummation of the offering of $100 million additional principal amount of the 9.25% Senior Notes and retirement of the Credit Agreement debt described above. Under the covenants now in effect, the Company is required to maintain a Leverage Ratio of no more than 7.25 to 1.00 for the fourth quarter of 2002, 5.75 to 1.00 for the first quarter of 2003, 4.75 to 1.00 for the second quarter of 2003, 4.50 to 1.00 for the third and fourth quarters of 2003, and 4.00 to 1.00 for January 1, 2004 and thereafter, and an Interest Coverage Ratio of no less than 1.90 to 1.00 for the fourth quarter of 2002, 2.25 to 1.00 for the first quarter of 2003, 2.50 to 1.00 for the second, third and fourth quarters of 2003, and 3.00 to 1.00 for January 1, 2004 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, the Term Loans must be prepaid with a portion of the net cash proceeds of such sale.

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, 2002. Compliance with these covenants is monitored frequently in order to assess the likelihood of continued compliance. The Company currently expects that it will be in compliance with these covenants at March 31, 2003. However, the Company believes that it will not be in compliance with certain of these financial covenants at June 30, 2003, unless economic and business conditions improve significantly in the second quarter of 2003. Accordingly, the Company is seeking a waiver or amendment to the Credit Agreement, which it expects to obtain by June 30, 2003.

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 allows the Company to grant security on loans of up to 15% of Consolidated Net Tangible Assets ("CNTA"), as defined, of Millennium America. Accordingly, based upon CNTA and secured borrowing levels at December 31, 2002, any reduction in CNTA below approximately $1.6 billion would decrease the Company's availability under the Revolving Loans by 15% of any such reduction. CNTA was approximately $2.0 billion at December 31, 2002.

The 9.25% Senior Notes were issued by Millennium America and are guaranteed by the Company. 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." The basket is reduced by the amount of each such restricted payment and is increased by: (i) 50% of the Company's Cumulative Net Income (as defined in such indenture) since July 1, 2001 (or is reduced by 100% of its Cumulative Net Income if such amount is negative); (ii) the net cash proceeds from the sale by the Company of its common stock to third parties; and, (iii) 50% of any cash distributions received from Equistar. As of March 25, 2003, the date of filing of the original Annual Report on Form 10-K, and after taking into consideration the $9 million dividend declared in the first quarter of 2003 and the restatements and reclassification reflected in this Form 10-K/A, the amount of the restricted payments basket was $11 million. 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 fiscal quarters. If this ratio were to cease to be greater than 2.00 to 1.00 (2.25 to 1.00 after June 15, 2003), there would be certain restrictions on the Company's

ability to incur additional indebtedness and the Company's ability to pay dividends, repurchase capital stock or make certain other restricted payments would be limited. 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.

At December 31, 2002, the Company was in compliance with all covenants in the indentures governing the 9.25% Senior Notes, 7.00% Senior Notes and 7.625% Senior Debentures.

The Company is currently rated BB+ by S&P and Ba1 by Moody's. On March 7, 2003, S&P lowered the Company's credit rating from investment grade rating BBB- to non-investment grade rating BB+ with a negative outlook, reflecting S&P's concern regarding the Company's ability to generate the cash flow necessary to substantially improve its financial profile during a period of economic uncertainties and higher raw material costs. Moody's affirmed the Company's non-investment grade rating on June 19, 2002, but revised its ratings outlook to negative from stable, reflecting Moody's concern over the Company's cash flow performance in the fourth quarter of 2001 and the first quarter of 2002.

Millennium America had an indemnity agreement with Equistar pursuant to which Millennium America could have been required under certain circumstances to contribute to Equistar up to $750 million. This indemnity terminated upon the closing of the purchase by Lyondell of Occidental's interest in Equistar. The requirement under the December 1, 1997 asset transfer agreement to indemnify Equistar with respect to the assets transferred to Equistar and the requirement under the Equistar Partnership Agreement to make additional investments in Equistar remain in effect to the same extent after Lyondell purchased Occidental's interest in Equistar.

The Company uses gold as a component in a catalyst in the Company's La Porte, Texas facility. In April 1998, the Company entered into an agreement that provides the Company with the right to use gold owned by a third party for a five-year term. The agreement requires the Company to either deliver the gold to the third party at the end of the term or pay for it at its then-current value. As a result of a change in accounting for this agreement, the Company's financial statements were restated as more fully described in Note 2 to the Consolidated Financial Statements included in this Annual Report. The value of the gold and the Company's obligation under this agreement at December 31, 2002 and at December 31, 2001 was $14 million and $11 million, respectively. Such obligation at December 31, 2002 and 2001 is included in Other short-term borrowings and Other long-term borrowings, respectively. The change in value of the gold and the Company's obligation under this agreement, which is included in Selling, development and administrative expense, for the year ended December 31, 2002 was a loss of $3 million and for the years ended December 31, 2001 and 2000 was not significant.

European Receivables Securitization Program

Since March 2002, the Company has 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 up to five years) with maximum availability of 70 million euro, which is treated, in part, as a sale under GAAP. Accordingly, transferred trade receivables that qualify as a sale, $61 million outstanding at December 31, 2002, are removed from the Company's Consolidated Balance Sheet. The Company

continues to carry its retained interest in a portion of the transferred assets that do not qualify as a sale, $9 million at December 31, 2002, in Trade receivables, net in its Consolidated Balance Sheet at amounts that approximate net realizable value based upon the Company's historical collection rate for these trade receivables. Unused availability under this arrangement at December 31, 2002 was 3 million euro. For the year ended December 31, 2002, cumulative gross proceeds from this securitization arrangement were $213 million. Cash flows from this securitization arrangement are reflected as operating activities in the Consolidated Statements of Cash Flows. For the year ended December 31, 2002, the aggregate loss on sale associated with this arrangement was $2 million. Administration and servicing of the trade receivables under the arrangement remains with the Company. Servicing liabilities associated with the transaction are not significant.

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, 2002:

	2003	2004	2005	2006	2007	Thereafter	T
	(Restated)*						(Re
				(Millions)			
Long-term debt..................	$ 12	$ 6	$ 26	$ 534	$ 4	$ 629	$
Other short-term borrowings......	14	--	--	--	--	--	
Operating leases................	21	17	14	11	10	88	
VAM toll........................	57	60	66	64	--	--	
Unconditional purchase obligations..................	327	238	248	122	78	654	
Total contractual obligations.	$ 431	$ 321	$ 354	$ 731	$ 92	$ 1,371	$

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* The Company's financial statements have been restated as disclosed in Note 2 to the Consolidated Financial Statements included in this Annual Report.

The Company is currently rated BB+ by S&P and Ba1 by Moody's. On March 7, 2003, S&P lowered the Company's credit rating from investment grade rating BBB- to non-investment grade rating BB+ with a negative outlook, reflecting S&P's concern regarding the Company's ability to generate the cash flow necessary to substantially improve its financial profile during a period of economic uncertainties and higher raw material costs. Moody's affirmed the Company's non-investment grade rating on June 19, 2002, but revised its ratings outlook to negative from stable, reflecting Moody's concern over the Company's cash flow performance in the fourth quarter of 2001 and the first quarter of 2002. The Company could be required to cash collateralize the mark-to-market positions of

certain derivative instruments dependent upon the market value of these instruments. Based on the current market value of these instruments, the Company would not be required to place any funds on deposit with the counterparty to these transactions. Furthermore, the Company will also provide a $2.5 million letter of credit in accordance with a real estate lease. Obtaining this letter of credit will result in an equal reduction of availability under the revolving credit portion of the Credit Agreement.

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 or previously owned, operated or used by the Company's current or former subsidiaries or their predecessors, some of which are on the Superfund National Priorities List of the EPA or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage, or both. Based upon third-party technical reports, the projections of outside consultants or outside counsel, or both, the Company has estimated its individual exposure at these sites to be between $0.025 million and $26.7 million. In the most significant of these proceedings, a subsidiary is named as one of four PRPs at the Kalamazoo River Superfund Site in Michigan. The site involves contamination of river sediments and floodplain soils with polychlorinated biphenyls. Originally commenced on December 2, 1987 in the United States District Court for the Western District of Michigan as Kelly v. Allied Paper, Inc. et al., the matter was stayed and is being addressed under the Comprehensive Environmental Response, Compensation and Liability Act. In October 2000, the KRSG, of which one of the Company's subsidiaries is a member, submitted to the State of Michigan a Draft Study, which evaluated a number of remedial options and recommended a remedy involving the stabilization of several miles of river bank and the long-term monitoring of river sediments at a total collective cost of approximately $73 million. During 2001, additional sampling activities were performed in discrete parts of the river. At the end of 2001, the EPA took responsibility for the site at the request of the State. While the State has submitted comments to the EPA on the Draft Study, the EPA has yet to similarly comment. The Company has estimated its liability at this site based upon the KRSG's recommended remedy. Guidance as to how the EPA will likely proceed with further evaluation and remediation, if required, at the Kalamazoo site is expected by early 2004. At that time, the Company's estimate of its liability will be reevaluated. The Company's ultimate liability for the Kalamazoo site will depend on many 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.

In addition, the Company and various of its subsidiaries are defendants in a number of pending legal proceedings relating to present and former operations. These include proceedings alleging injurious exposure of the plaintiffs to various chemicals and other materials on the premises of, or manufactured by, the Company's current and former subsidiaries; cases alleging historic premises-based exposure to asbestos-containing materials at various worksites; and cases alleging personal injury, property damage and remediation costs associated with use of the lead

pigment in paint. Typically, such proceedings involve claims made by many plaintiffs against many defendants in the chemical industry.

With respect to the non-environmental legal proceedings referred to above, the Company believes that it has valid defenses and intends to defend them vigorously. However, litigation is subject to uncertainties and the Company is unable to guarantee the outcome of these proceedings. As discussed in more detail under "Critical Accounting Policies -- Environmental Liabilities and Legal Matters" below, the Company believes that the reasonably probable and estimable range of potential liability for such environmental and litigation contingencies collectively, which primarily relates to environmental remediation activities, is between $67 million and $95 million and has accrued $71 million as of December 31, 2002. Expense associated with these contingencies included in Selling, development and administrative expense totaled $15 million and $6 million in 2001 and 2000, respectively. These expenses resulted from increases in reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses. Included in 2002 is a benefit of $6 million from a reduction of reserves due to favorable resolution of certain environmental claims related to predecessor businesses reserved for in prior years. The Company has not accrued any liabilities for any lead-based paint and lead pigment litigation. The Company expects that cash expenditures related to these potential liabilities will not be concentrated in any single year and, based on information currently available, the Company does not expect the outcome of these proceedings, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company. See "Environmental Matters" in Item I, "Legal Proceedings" in Item 3 and Note 16 to the Consolidated Financial Statements included in this Annual Report.

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 TiO[u]2 operations in the United Kingdom, France, Brazil and Australia) is the local currency. Consolidated Shareholders' equity increased approximately $27 million in 2002 and decreased approximately $19 million and $46 million in 2001 and 2000, respectively, 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 59%, 54% and 51% of total revenues in 2002, 2001 and 2000, respectively. These revenues were denominated in US dollars as well as other currencies.

Net foreign currency transactions aggregated gains of $3 million in 2002 and losses of $7 million and $4 million in 2001 and 2000, respectively.

Derivative Instruments and Hedging Activities

As more fully described in Note 10 to the Consolidated Financial Statements included in this Annual Report, 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 high-credit-quality institutions. The Company does not hold or issue derivative financial instruments for speculative or trading purposes.

Derivative contracts outstanding at December 31, 2002 were as follows:

Foreign Currency Forward Contracts

	Notional Amount (US$ Equivalent)(1)	Unrealized Gain/(Loss)(2)	Weighted Avera Settlement Pri
	(Dollars, in millions)		
Less than 1 year			
Receive AUS$/Pay US$............	$ 49	$ 2	0.5397 US$/A
Receive US$/Pay euro............	57	(2)	1.0096 US$/e
Receive GBP/Pay euro............	132	(2)	0.6437 GBP/e
Receive GBP/Pay JPY.............	1	--	193.1000 JPY/
Receive US$/Pay GBP.............	13	(1)	0.6450 GBP/
Receive GBP/Pay US$.............	4	--	1.5847 US$/
Receive euro/Pay US$............	5	--	1.0300 US$/e
Receive AUS$/Pay NZD............	2	--	1.1233 NZD/A
Receive AUS$/Pay JPY............	1	--	67.5000 JPY/A
		$ (3)	

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(1) US$ equivalent was determined based upon currency exchange rates at December 31, 2002.

(2) As of December 31, 2002.

Commodity Derivative Instruments

	Notional Amount	Unrealized Gain/(Loss)(1)	Weig Sett
	(Dollars, in millions)		
Less than 1 year			
Natural Gas Swap Contracts.................	$ 1	$ --	Pay Henr
1-2 Years			
Natural Gas Swap Contracts.................	14	(1)	Pay NYME
Total		$(1)	

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(1) As of December 31, 2002.

Interest Rate Swaps

	Notional Amount	Unrealized Gain/(Loss)(1)	Weig Pay
	(Dollars, in millions)		
Less than 1 year			
Interest Rate Swap Contract................	$ 50	$ --	Pay mont
3-4 Years			
Interest Rate Swap Contracts..............	200	4	Pay 3.18
Total		$ 4	

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(1) As of December 31, 2002.

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Non-Derivative Financial Instruments and Other Market-Related Risks

See Note 10 to the Consolidated Financial Statements included in this Annual Report.

Critical Accounting Policies

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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company considers the following accounting policies 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 and evaluates, accounts for, 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 particular 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 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, at minimum, but also applies judgment 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, results of operations or cash flows. 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.

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 or previously owned, operated or used by the Company's current or former subsidiaries or their predecessors, some of which are on the Superfund National Priorities List of the EPA or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage, or both. Based upon third-party technical reports, the projections of outside consultants or outside counsel, or both, the Company has estimated its individual exposure at these sites to be between $0.025 million and $26.7 million. In the most significant of these proceedings, a subsidiary is named as one of four PRPs at the Kalamazoo River Superfund Site in Michigan. The site involves contamination of river sediments and floodplain soils with polychlorinated biphenyls. Originally commenced on December 2, 1987 in the United States District Court for the Western District of Michigan as Kelly v. Allied Paper, Inc. et al., the matter was stayed and is being addressed under the Comprehensive Environmental Response, Compensation and Liability Act. In October 2000, the KRSG, of which one of the Company's subsidiaries is a member, submitted to the State of Michigan a Draft Study, which evaluated a number of remedial options and recommended a remedy involving the stabilization of several miles of river bank and the long-term monitoring of river sediments at a total collective cost of approximately $73 million. During 2001, additional sampling activities were performed in discrete parts of the river. At the end of 2001, the EPA took responsibility for the site at the request of the State. While the State has submitted comments to the EPA on the Draft Study, the EPA has yet to similarly comment. The Company has estimated its liability at this site based upon the KRSG's recommended remedy. Guidance as to how the EPA will likely proceed with further evaluation and remediation, if required, at the Kalamazoo site is expected by early 2004. At that time, the Company's estimate of its liability will be reevaluated. The Company's ultimate liability for the Kalamazoo site will depend on many 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.

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 $67 million and $95 million and has accrued $71 million as of December 31, 2002. Expense associated with these contingencies included in Selling, development and administrative expense totaled $15 million and $6 million in 2001 and 2000, respectively. These expenses resulted from increases in reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses. Included in 2002 is a benefit of $6 million from a reduction of reserves due to favorable resolution of certain environmental claims related to predecessor businesses reserved for in prior years. 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. For example, the Company agreed as part of its Demerger from Hanson to indemnify Hanson and certain of its subsidiaries against certain of such contractual indemnification obligations, and Millennium Petrochemicals agreed as part of the December 1, 1997 formation of Equistar to indemnify Equistar for certain liabilities related to the assets contributed by Millennium Petrochemicals to Equistar in excess of $7 million, which threshold was exceeded in 2001. The terms of these indemnification agreements do not limit the maximum potential future payments to the indemnified parties. The maximum amount of future indemnification payments is dependent upon many factors and is not practicable to estimate.

Due to the uncertainties involved, the Company is unable to predict the outcome of lead-based paint and lead pigment litigation, the number or nature of possible future claims and proceedings, or the effect that any legislation and/or administrative regulations may have on the Company or its subsidiaries. In addition, management cannot reasonably estimate the scope or amount of the costs and potential liabilities related to such litigation, or any such legislation and regulations. The Company has not accrued any liabilities for such litigation. However, based upon, among other things, the outcome of such litigation to date, including the dismissal of most of the over 50 lawsuits brought in recent years, management does not currently believe that the costs or potential liabilities ultimately determined to be attributable to the Company arising out of such litigation will have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company. See Note 16 to the Consolidated Financial Statements included in this Annual Report for additional information on the Company's loss contingencies.

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 generally accepted accounting principles, 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 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 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. In the opinion of management, no further adjustment to the carrying value of goodwill of $106 million is required at December 31, 2002 under SFAS No. 142. Amortization expense for the Company's goodwill was $13 million for each of the years 2001 and 2000. Additionally, the Company's share of amortization expense reported by Equistar for its goodwill, included in Equity in (loss) earnings of Equistar, was $10 million for each of the years 2001 and 2000.

Equity Interest in Equistar -- The Company has evaluated the carrying value of its investment in Equistar at December 31, 2002 using assumptions that anticipate a long-term holding value for the Equistar investment based upon anticipated future cash flows. Valuation of the Equistar investment under a current sale scenario could result in a different value. As described in Equity Interest in Equistar in Item 1 in this Annual Report, Occidental sold its 29.5% interest in Equistar to Lyondell on August 22, 2002. The value of this transaction was based on facts and circumstances significantly different from those surrounding the Company's interest in Equistar and therefore such

value cannot be viewed to represent similar value for the Company's investment in Equistar. The carrying value of the Company's investment in Equistar at December 31, 2002 and 2001 was $563 million and $677 million, respectively.

Income Taxes -- The Company accounts for income taxes using the liability method under SFAS No. 109, "Accounting for Income Taxes". 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 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 net deferred tax liabilities (net of deferred tax assets and valuation allowances) were $337 million and $373 million at December 31, 2002 and 2001, respectively. See "Income Taxes" for additional information on the Company's deferred taxes.

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.

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 1989 have been settled. The Company made

payment of $151 million of tax and interest to the IRS in 2000 to settle certain issues relating to the tax years 1986 through 1988. Additionally, the IRS has concluded its examinations of the Company's Federal income tax returns for 1989 through 1996 and 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. The Company has estimated the payment of tax and interest to be made to the IRS in 2003 under this settlement and has included such estimate in Income taxes payable. 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 positions through the IRS 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 positions on certain issues are upheld after all the Company's administrative and legal options are exhausted, a material impact on the Company's earnings and cash flows could result. The IRS examination for the years subsequent to 1996 will commence in early 2003. See Notes 8 and 16 to the Consolidated Financial Statements included in this Annual Report for additional information on the Company's income taxes and related loss contingencies.

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," 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 benefit obligations 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. 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 health care costs to determine the health care cost trend rates.

At December 31 of each year, if any of the Company's retirement-related plans is underfunded and requires 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 Other comprehensive loss for the remaining amount of the required minimum liability. This additional minimum liability is calculated and adjusted, if

necessary, annually through the Company's Consolidated Balance Sheet and has no immediate impact on the Company's Consolidated Statement of Operations.

Due to the reduction of rates on high-quality fixed income debt instruments, lowered expectations regarding long-term investment returns, and the Company's long-term plans for compensation increases, the Company reduced the discount rate, the expected return on plan assets and the rate of compensation increases at December 31, 2002. The weighted average discount rate, the expected return on plan assets, and the rate of compensation increase assumptions at December 31, 2002 and 2001 were 6.35% and 7.27%; 8.34% and 8.87%; and 3.52% and 4.23%, respectively.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The assumed healthcare cost trend rate used in measuring the healthcare portion of the postretirement benefit obligation at December 31, 2002 was 9.0% for 2003, declining gradually to 5.5% for 2010 and thereafter. A 1% increase or decrease in assumed health care cost trend rates would affect service and interest components of postretirement health care benefit costs by less than $1 million in each of the years ended December 31, 2002 and 2001. The effect on the accumulated postretirement benefit obligation would be $4 million at each of December 31, 2002 and 2001.

See "Pension Assets and Equity" and Note 12 to the Consolidated Financial Statements included in this Annual Report for other information related to the Company's retirement-related benefits.

Recent Accounting Developments

See the discussion under the caption "Recent Accounting Developments" in Note 1 to the Consolidated Financial Statements included in this Annual Report.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

See Note 10 to the Consolidated Financial Statements included in this Annual Report for discussion of the Company's management of foreign currency exposure, commodity price risk and interest rate risk through its use of derivative instruments and hedging activities and "Derivative Instruments and Hedging Activities" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
MILLENNIUM CHEMICALS INC.:

In our opinion, the consolidated balance sheets and the related consolidated statements of operations, cash flows, and changes in shareholders' equity present fairly, in all material respects, the financial position of Millennium Chemicals Inc. and its subsidiaries (the "Company") at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 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)(2) on page 102 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 auditing standards generally accepted in the United States of America, which 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, the Company changed its method of accounting for certain domestic inventories in 2002.

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 2 to the consolidated financial statements, the Company has restated its financial statements for the years ending December 31, 2002, 2001 and 2000.

PricewaterhouseCoopers LLP
Florham Park, NJ
January 30, 2003, except for the impact of restatement in Notes 1, 2, 8, 9, 12, 14, 17, 18 and 19, as to which date is November 12, 2003

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

	As of De
	2002
ASSETS	(Restated - See Note 2)
Current assets	
Cash and cash equivalents	$ 125
Trade receivables, net	210
Inventories	406
Other current assets	78

Total current assets	819
Property, plant and equipment, net	862
Investment in Equistar	563
Other assets	46
Goodwill	106
Total assets	$ 2,396
LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY	
Current liabilities	
Notes payable	$ 4
Other short-term borrowings	14
Current maturities of long-term debt	12
Trade accounts payable	274
Income taxes payable	44
Accrued expenses and other liabilities	127
Total current liabilities	475
Long-term debt	1,212
Other long-term borrowings	--
Deferred income taxes	337
Other liabilities	388
Total liabilities	2,412
Commitments and contingencies (Note 16)	
Minority interest	19
Shareholders' (deficit) equity	
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 2002 and 2001, respectively)	1
Paid in capital	1,297
Accumulated deficit	(776)
Cumulative other comprehensive loss	(299)
Treasury stock, at cost (14,766,279 and 14,594,614 shares in 2002 and 2001, respectively)	(275)
Deferred compensation	17
Total shareholders' (deficit) equity	(35)
Total liabilities and shareholders' (deficit) equity	$ 2,396

See Notes to Consolidated Financial Statements.

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

	Year Ended De	
	2002	2001
	(Restated - See Note 2)	(Restate See Not
Net sales	$ 1,554	$ 1,
Operating costs and expenses		
Cost of products sold	1,234	1,
Depreciation and amortization	102	
Selling, development and administrative expense	138	
Reorganization and plant closure costs	--	
Operating income	80	
Interest expense	(90)	
Interest income	4	
(Loss) earnings on Equistar investment	(73)	
Other (expense) income, net	(1)	
(Loss) income before income taxes and minority interest	(80)	(
Benefit from (provision for) income taxes	58	
(Loss) income before minority interest and cumulative effect of accounting change	(22)	
Minority interest	(6)	
(Loss) income before cumulative effect of accounting change	(28)	
Cumulative effect of accounting change	(305)	
Net (loss) income	$ (333)	$
Basic (loss) earnings per share:		
Before cumulative effect of accounting change	$ (0.44)	$ (0
From cumulative effect of accounting change	(4.80)	
After cumulative effect of accounting change	$ (5.24)	$ (0
Diluted (loss) earnings per share:		
Before cumulative effect of accounting change	$ (0.44)	$ (0
From cumulative effect of accounting change	(4.80)	
After cumulative effect of accounting change	$ (5.24)	$ (0

See Notes to Consolidated Financial Statements.

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

	Year Ended De	
	2002	2001
	(Restated- See Note 2)	(Resta See No
Cash flows from operating activities:		
Net (loss) income	$(333)	$ (
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Cumulative effect of accounting change	305	
Write-off of assets related to plant closure	--	
Depreciation and amortization	102	1
Deferred income tax (benefit) provision	(35)	(
Non-cash income tax benefit	(22)	(
Restricted stock amortization and adjustments, net	--	
Loss (earnings) on Equistar investment	73	
Minority interest	6	
Other, net	5	
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	7	
Decrease (increase) in inventories	4	
(Increase) decrease in other current assets	(23)	
Increase in other assets	(16)	(
Increase in trade accounts payable	12	
Increase (decrease) in accrued expenses and other liabilities and income taxes payable	15	(
Decrease in other liabilities	(16)	(
Cash provided by operating activities	84	1
Cash flows from investing activities:		
Capital expenditures	(71)	(
Distributions from Equistar	--	
Proceeds from sales of property, plant & equipment	1	
Cash used in investing activities	(70)	(
Cash flows from financing activities:		
Dividends to shareholders	(35)	(
Repurchases of common stock	--	
Proceeds from long-term debt	302	7
Repayment of long-term debt	(272)	(7
Increase (decrease) in notes payable	3	(
Cash (used in) provided by financing activities	(2)	(
Effect of exchange rate changes on cash	(1)	
Increase (decrease) in cash and cash equivalents	11	
Cash and cash equivalents at beginning of year	114	1
Cash and cash equivalents at end of year	$ 125	$ 1

See Notes to Consolidated Financial Statements.

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

	Common Stock					
	Outstanding Shares	Amount	Treasury Stock	Deferred Compensation	Paid In Capital	Accumu Defi
			(Millions)			
Balance at December 31, 1999 (Restated - See Note 2)...	68	$ 1	$(210)	$10	$1,335	$(
Comprehensive income (loss)						
Net income................	--	--	--	--	--	
Other comprehensive loss						
Currency translation adjustment...........	--	--	--	--	--	
Total comprehensive income (loss)...................	--	--	--	--	--	--
Amortization and adjustment of unearned restricted shares...................	--	--	--	--	(9)	
Shares repurchased..........	(3)	--	(65)	--	--	
Shares purchased by employee benefit plan trusts.......	(1)	--	(7)	5	--	
Dividend to shareholders.....	--	--	--	--	--	
Balance at December 31, 2000 (Restated - See Note 2)...	64	1	(282)	15	1,326	(
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....................	--	--	--	--	(27)	
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 2)...	63	1	(283)	17	1,299	(
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	--	(2)	
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 2)...	63	$ 1	$(275)	$17	$1,297	$(

	Unearned Restricted Shares	Cumulative Other Comprehensive Loss	Total
		(Millions)	
Balance at December 31, 1999 (Restated - See Note 2)...	$(28)	$ (61)	$ 649
Comprehensive income (loss)			
Net income................	--	--	111
Other comprehensive loss			
Currency translation adjustment...........	--	(46)	(46)
Total comprehensive income (loss)...................	--	(46)	65
Amortization and adjustment of unearned restricted shares...................	3	--	(6)
Shares repurchased...........	--	--	(65)
Shares purchased by employee benefit plan trusts.......	--	--	(2)
Dividend to shareholders.....	--	--	(35)
Balance at December 31, 2000 (Restated - See Note 2)...	(25)	(107)	606
Comprehensive loss			
Net loss..................	--	--	(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.....	--	(29)	(83)
Amortization and adjustment of unearned restricted shares...................	25	--	(2)
Dividends related to forfeiture of restricted shares.........	--	--	3
Shares purchased by employee benefit plan trusts.......	--	--	1
Dividend to shareholders.....	--	--	(35)
Balance at December 31, 2001	--	(136)	490

(Restated - See Note 2)...			
Comprehensive loss			
Net loss..................	--	--	(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.....	--	(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)
Balance at December 31, 2002 (Restated - See Note 2)...	$ --	$(299)	$ (35)

See Notes to Consolidated Financial Statements.

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 the Company and its majority-owned subsidiaries. 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 investment in Equistar Chemicals, LP ("Equistar") 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.

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 and other long-term assets such as the Company's investment in Equistar and the Company's deferred tax assets. Actual results could differ from those estimates.

Reclassification: Certain prior year balances have been reclassified to conform with the current year presentation, principally $7, $7 and $6 of selling, development and administrative ("S,D&A") costs allocated to the Company's investment in Equistar and previously reported in (Loss) earnings on Equistar investment for 2002, 2001, and 2000, respectively, have been reclassified to Selling, development and administrative expense in the Company's Consolidated Statements of Operations.

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 and $4 in restricted cash at December 31, 2002 and 2001, respectively, 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. During the fourth quarter of 2002, the Company changed from the last-in first-out ("LIFO") method to the first-in first-out ("FIFO") method to account for certain of its United States ("US") product inventories. These financial statements have been restated for all periods presented to reflect the change to the FIFO method. The method was changed in part to achieve a better matching of revenues and expenses due to decreasing inventory quantities and costs. The FIFO method, or methods that approximate FIFO, are now used to determine cost for all product inventories of the Company. The change positively impacted net loss in 2002 by $1 or $0.02 per share and increased retained earnings for periods prior to 2000 by $21. The effect of the change on reported net (loss) income for 2002, 2001 and 2000 is as follows:

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, 2002 (Restate			4t
	1st Qtr.	2nd Qtr.	3rd Qtr.	4t
	(Quarterly amounts unaudited)			
Net (loss) income before change to FIFO..........	$ (337)	$ 1	$ 5	$
Change in inventory costing method.............	(1)	1	--	
Income tax effect of change....................	--	--	--	
Net (loss) income after change to FIFO...........	$ (338)	$ 2	$ 5	$
Basic (loss) income per share:				
Before change to FIFO..........................	$ (5.31)	$ 0.01	$ 0.08	$
Change in inventory costing method, net of tax	(0.01)	0.01	--	
After change to FIFO...........................	$ (5.32)	$ 0.02	$ 0.08	$
Diluted (loss) income per share:				
Before change to FIFO..........................	$ (5.31)	$ 0.01	$ 0.08	$
Change in inventory costing method...........	(0.01)	0.01	--	
After change to FIFO...........................	$ (5.32)	$ 0.02	$ 0.08	$

	Year Ended December 31, 2001 (Restate			4t
	1st Qtr.	2nd Qtr.	3rd Qtr.	4t
	(Quarterly amounts unaudited)			
Net (loss) income before change to FIFO...........	$ (17)	$ (26)	$ (14)	$
Change in inventory costing method.............	--	--	(4)	
Income tax effect of change...................	--	--	2	
Net (loss) income after change to FIFO...........	$ (17)	$ (26)	$ (16)	$
Basic (loss) income per share:				
Before change to FIFO.........................	$ (0.27)	$ (0.41)	$ (0.21)	$
Change in inventory costing method, net of tax	--	--	(0.04)	
After change to FIFO..........................	$ (0.27)	$ (0.41)	$ (0.25)	$

Diluted (loss) income per share:				
Before change to FIFO..........................	$ (0.27)	$ (0.41)	$ (0.21)	$
Change in inventory costing method, net of tax	--	--	(0.04)	
After change to FIFO..........................	$ (0.27)	$ (0.41)	$ (0.25)	$

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

Note 1 -- Significant Accounting Policies - Continued

	2000 (Restated - See Note 2)
Net income before change to FIFO................................	$ 109
Change in inventory costing method............................	4
Income tax effect of change..................................	(2)
Net income after change to FIFO.................................	$ 111
Basic income per share:	
Before change to FIFO...	$ 1.69
Change in inventory costing method, net of tax...............	0.04
After change to FIFO..	$ 1.73
Diluted income per share:	
Before change to FIFO...	$ 1.68
Change in inventory costing method, net of tax...............	0.04
After change to FIFO..	$ 1.72

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost. 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 $19 and $21 at December 31, 2002 and 2001, 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 $43 and $53 at December 31, 2002 and 2001, respectively, are included in Property, plant and equipment.

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 generally accepted accounting principles, 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

Note 1 -- Significant Accounting Policies - Continued

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 is required at December 31, 2002 under SFAS No. 142. Amortization expense was $13 for each of the years ended December 31, 2001 and 2000 for the Company's goodwill. Additionally, the Company's share of amortization expense reported by Equistar for each of the years ended December 31, 2001 and 2000 for its goodwill, included in (Loss) earnings on Equistar investment, was $10. Following

is a reconciliation of the reported net (loss) income to net income (loss) adjusted for goodwill amortization and the cumulative effect of the accounting change, and related per share amounts:

	Year Ended December 31,		
	2002	2001	20
	(Restated - See Note 2)	(Restated - See Note 2)	(Rest See No
Reported net (loss) income	$ (333)	$ (54)	$
Goodwill amortization	--	13	
Equistar goodwill amortization included in (Loss) earnings on Equistar investment	--	10	
Adjusted net (loss) income	(333)	(31)	
Cumulative effect of accounting change	305	--	
Adjusted net (loss) income before cumulative effect of accounting change	$ (28)	$ (31)	$

Per share amounts:	Year Ended December 31,		
	2002	2001	20
	Basic & Diluted	Basic & Diluted	Basic
	Restated - See Note 2)	Restated - See Note 2)	Restated See Note 2
Reported net (loss) income	$ (5.24)	$ (0.85)	$ 1.73
Goodwill amortization	--	0.20	0.20
Equistar goodwill amortization included in (Loss) earnings on Equistar investment	--	0.16	0.16
Adjusted net (loss) income	(5.24)	(0.49)	2.09
Cumulative effect of accounting change	4.80	--	--
Adjusted net (loss) income before cumulative effect of accounting change	$ (0.44)	$ (0.49)	$ 2.09

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

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

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 revenue, expenses and cash flows are translated at average exchange rates for the reporting period or, where practicable, at the exchange rates in effect at the dates on which transactions are recognized. Resulting translation adjustments are recorded as a component of Cumulative other comprehensive loss in Shareholders' (deficit) equity. 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 income as they occur.

Derivative Instruments and Hedging Activities: Effective January 1, 2001, all 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. Prior to January 2001, gains or losses on instruments that hedged foreign currency denominated

receivables and payables were recognized in income as they occurred. Gains or losses on instruments that hedged firm commitments were deferred and reported as part of the underlying transaction when settled.

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.

Note 1 -- Significant Accounting Policies - Continued

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 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 $20, $20 and $26 for the years ended December 31, 2002, 2001 and 2000, 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," 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 benefit obligations 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. 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 health care costs to determine the health care cost trend rates.

At December 31 of each year, if any of the Company's retirement-related plans is underfunded and requires 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 Other comprehensive loss for the remaining amount of the required minimum liability. This additional minimum liability is calculated and adjusted 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") 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 also allows the Company to continue to account for stock-based employee compensation

Note 1 -- Significant Accounting Policies - Continued

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. 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.

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

	Year End December	
	2002	2001
	(Restated- See Note 2)	(Restat See Not
Net (loss) income before cumulative effect of accounting change....	$ (28)	$ (
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects..	(2)	
Pro forma net (loss) income before cumulative effect of accounting change..	$ (30)	$ (
(Loss) earnings per share:		
Basic - as reported...	$ (0.44)	$ (0.
Basic - pro forma...	$ (0.48)	$ (0.
Diluted - as reported...	$ (0.44)	$ (0.
Diluted - pro forma...	$ (0.48)	$ (0.

Earnings Per Share: The weighted average number of equivalent shares of Common Stock outstanding used in computing (loss) earnings per share for 2002, 2001 and 2000 was as follows:

	2002	2001	
Basic...	63,587,561	63,564,497	64,
Options...	--	--	
Restricted and other shares.....................	--	--	
Diluted...	63,587,561	63,564,497	64,

The computation of diluted (loss) earnings per share for 2002 does not include 290,160 restricted and other shares and 4,727 options, and for 2001 does not include 318,606 restricted and other shares issued under the Company's stock-based compensation plans as their effect would be antidilutive.

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 high-credit-quality institutions, generally financial institutions that provide the Company with debt financing.

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. During 2002, revenue generated outside the United States accounted for 59%, 54% and 51% of total revenues in 2002, 2001 and 2000, respectively, from sales to customers in over 90 countries. Accordingly, there is no significant concentration of risk in any one particular country. In addition, 58%, 60% and 57% of the revenues of the Titanium Dioxide and Related Products business segment in 2002, 2001 and 2000, respectively (which accounts for approximately 73%, 72% and 76% of consolidated revenues in 2002, 2001 and 2000, respectively) are from 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 through 2002 despite the slow United States economic conditions. 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 July 2001, the FASB issued 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, would be recorded in subsequent periods. Although earlier application is permitted, the Company must adopt this standard on January 1, 2003. Upon adoption, the Company will recognize transition amounts for existing asset retirement obligations, associated capitalizable costs, and accumulated depreciation. The after-tax transition charge of $2 will be recorded as a cumulative effect of an accounting change. The ongoing annual expense resulting from the initial adoption of SFAS No. 143 is not expected to be significant.

In January 2003, the FASB issued Financial Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). FIN No. 46

provides guidance on the identification of and financial reporting for entities over which control is achieved through means other than voting rights. The Company must adopt FIN No. 46 for previously existing arrangements on June 15, 2003 and is currently evaluating the potential impact on its consolidated financial position and results of operations. Immediate adoption is required for arrangements newly created after January 31, 2003 to which FIN No. 46 applies.

Note 2 -- Restatement of Financial Statements

The Company restated its financial statements for the years 1998 through 2002, 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.

Deferred tax assets and liabilities and deferred tax expense for the years 1998 through 2002 were restated to appropriately account for the Company's book and tax basis differences associated with its investment in Equistar in accordance with SFAS No. 109. The accounting for deferred taxes associated with Equistar was previously based on the difference between book and tax basis of a subsidiary that holds the partnership investment. Deferred tax is now based on the difference between book and tax basis of the actual partnership interest held by the subsidiary. The effect of the adjustments to deferred tax assets and liabilities was to increase net deferred tax liabilities and Accumulated deficit by $402 at December 31, 1999. The effect of the adjustments to Benefit from income taxes for 2002 and 2001 was a decrease of $36 and an increase of $4, respectively, and the effect to Provision for income taxes for 2000 was an increase of $6. Other comprehensive loss was reduced by $15 in 2002 due to these adjustments. In addition, during the course of its review of its deferred tax assets, the Company concluded that its realization of a deferred tax asset of $10 related to its French subsidiaries was unlikely. The elimination of this deferred tax asset as of December 31, 2002, resulted in an increase of $10 in net deferred tax liabilities and a decrease in Benefit from income taxes for 2002 of $10.

Note 2 -- Restatement of Financial Statements - Continued

The Company also restated its accrued pension benefit costs, included in Other liabilities, and its net periodic pension benefit cost for 2002 to correct errors in the calculation of its pension liability. The Company's principal actuarial firm incorrectly utilized participant data in its 2002 actuarial valuation and underestimated the accumulated pension benefit obligation at December 31, 2002 for the Company's largest domestic pension plan. The effect of these corrections was to increase accrued pension benefit cost by $53 and to decrease net deferred tax liabilities by $19 at December 31, 2002, and to increase net periodic pension benefit cost by $2, to decrease Operating income by $2, to increase Net loss by $1, and to increase Other comprehensive loss by $33 for the year ended December 31, 2002.

The financial statements for the years 1998 through 2002 also were restated to reflect a retroactive change in accounting treatment for a five-year

agreement entered into in 1998 that provides the Company with the right to use gold owned by a third party, as more fully described in Note 9. The Company previously accounted for this agreement as an operating lease but is now accounting for this agreement as a secured financing. As a result, at December 31, 1999, Other assets increased by $4, Accrued expenses and other liabilities decreased by $1, Other long-term borrowings increased by $11, net deferred tax liabilities decreased by $1, Other liabilities decreased by $4, and Accumulated deficit increased by $1; Operating income for 2002, 2001 and 2000 decreased by $4, $2 and $1, respectively; Net loss for 2002 and 2001 increased by $2 and $1, respectively; and Net income for 2000 decreased by $1.

The restatement of the financial statements for the years 1998 through 2001 also includes changes to correct the timing of income and expense recognition associated with previously established reserves for legal, environmental and other contingencies for certain of the Company's predecessor businesses. The effect of this restatement was to decrease Accrued expenses and other liabilities and Other liabilities by $1 and $24, respectively, and to increase net deferred tax liabilities and Accumulated deficit by $9 and $16, respectively, at December 31, 1999; to decrease Operating income by $16 and $9 for the years 2001 and 2000, respectively; to increase Net loss by $10 in 2001; and to decrease Net income by $6 in 2000.

A summary of the aggregate effect of these restatements and the reclassification, described in Note 1, on the Company's Consolidated Balance Sheets and Consolidated Statements of Operations for the periods presented herein is shown below.

	As of December 31, 2002		As of December 31, 20	
	As Reported	As Restated	As Reported	As Resta
Changes to Consolidated Balance Sheets:				
Deferred income taxes - asset	$ 75	$ --	$ 29	$
Other assets	42	46	234	
Total assets	2,467	2,396	2,990	2,
Other short-term borrowings	--	14	--	
Accrued expenses and other liabilities	128	127	105	
Total current liabilities	462	475	383	
Other long-term borrowings	--	--	--	
Deferred income taxes - liability	--	337	--	
Other liabilities	335	388	517	
Total liabilities	2,009	2,412	2,072	2,
Accumulated deficit	(320)	(776)	(1)	(
Cumulative other comprehensive loss	(281)	(299)	(136)	(
Total shareholders' equity (deficit)	439	(35)	897	
Total liabilities and shareholders' equity (deficit)	2,467	2,396	2,990	2,

Note 2 -- Restatement of Financial Statements - Continued

	Year Ended December 31, 2002		Year Ended December 31, 2001	
	As Reported	As Restated	As Reported	As Restat
Changes to Consolidated Statements of Operations:				
Cost of products sold........................	$ 1,233	$ 1,234	$ 1,259	$ 1,26
Selling, development and administrative expense..................................	126	138	146	16
Operating income............................	93	80	39	1
(Loss) earnings on Equistar investment.......	(80)	(73)	(90)	(8
(Loss) income before income taxes, minority interest and cumulative effect of accounting change.........................	(74)	(80)	(132)	(15
Benefit from (provision for) income taxes....	101	58	89	10
Income (loss) before minority interest and cumulative effect of accounting change.....	27	(22)	(43)	(5
Income (loss) before cumulative effect of accounting change.........................	21	(28)	(47)	(5
Net (loss) income...........................	(284)	(333)	(47)	(5
Basic earnings (loss) per share:				
Before cumulative effect of accounting change..................................	0.33	(0.44)	(0.75)	(0.8
After cumulative effect of accounting change..................................	(4.47)	(5.24)	(0.75)	(0.8
Diluted earnings (loss) per share:				
Before cumulative effect of accounting change..................................	0.33	(0.44)	(0.75)	(0.8
After cumulative effect of accounting change..................................	(4.44)	(5.24)	(0.75)	(0.8

A summary of the aggregate effect of these restatements and the reclassification, described in Note 1, is shown below for the Company's Quarterly Financial Data for the periods presented in Note 18.

Note 2 -- Restatement of Financial Statements - Continued

Quarterly Financial Data (Unaudited)						
1st Qtr		2nd Qtr		3rd Qtr		4t
As Reported	As Restated	As Reported	As Restated	As Reported	As Restated	As Reporte

2002							
Operating income.........	$ 10	$ 7	$ 24	$ 20	$ 33	$ 30	$ 26
(Loss) earnings on Equistar investment....	(39)	(37)	(10)	(8)	4	6	(35
Net (loss) income before cumulative effect of accounting change......	(32)	(33)	2	2	6	5	45
Net (loss) income after cumulative effect of accounting change......	(337)	(338)	2	2	6	5	45
Basic (loss) earnings per share before cumulative effect of accounting change......	(0.50)	(0.52)	0.02	0.02	0.10	0.08	0.71
Basic (loss) earnings per share after cumulative effect of accounting change......	(5.30)	(5.32)	0.02	0.02	0.10	0.08	0.71
Diluted (loss) earnings per share before cumulative effect of accounting change......	(0.50)	(0.52)	0.02	0.02	0.10	0.08	0.70
Diluted (loss) earnings per share after cumulative effect of accounting change......	(5.27)	(5.32)	0.02	0.02	0.10	0.08	0.70
2001							
Operating income (loss)..	25	20	(2)	(9)	19	11	(3
Net (loss) income........	(16)	(17)	(23)	(26)	(14)	(16)	6
Basic (loss) earnings per share..............	(0.24)	(0.27)	(0.37)	(0.41)	(0.24)	(0.25)	0.10
Diluted (loss) earnings per share..............	(0.24)	(0.27)	(0.37)	(0.41)	(0.24)	(0.25)	0.10

Note 3 -- Reorganization and Plant Closure Charges

A provision for reorganization and plant closure costs of $36 before tax ($24 after-tax or $0.38 per share) was recorded in 2001 related to reorganization activities within each of the Company's business segments.

During the second quarter of 2001, $31 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 charge included severance and other employee-related costs of $19 for the termination of approximately 400 employees involved in manufacturing, technical, sales and marketing, finance and administrative support, a $10 write-down of assets and $2 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 in the Acetyls segment. These charges included $3 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 related to the write-down 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.

Note 4 -- Sale/Leaseback Transaction

On December 27, 2001, the Company sold its research facility in Baltimore, Maryland to an unrelated party in a sale/leaseback transaction. Cash proceeds from the sale were $17. The pre-tax gain on the sale of $3 will be amortized to income over the term of the related leaseback. In conjunction with the sale, the Company entered into an operating lease with the buyer to lease the research facility for a 20-year term at an annual fee of approximately $2, which escalates at a rate of 2.5% per annum. Certain renewal options exist to extend the term in five-year intervals.

Note 5 -- Investment in Equistar

On December 1, 1997, the Company and Lyondell Chemical Company ("Lyondell") completed the formation of Equistar, a joint venture partnership created to own and operate the petrochemical and polymer 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 ("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, 2002 using assumptions that anticipate a long-term holding value for the Equistar investment based upon anticipated future cash flows. Valuation of the Equistar investment under a current sale scenario could result in a different value. As described in "Equity Interest in Equistar" in Item 1 in this Annual Report, Occidental sold its 29.5% interest in Equistar to Lyondell. The value of this transaction was based on facts and circumstances significantly different from those surrounding the Company's interest in Equistar and therefore such value cannot be viewed to represent similar value for the Company's investment in Equistar. The carrying value of the Company's investment in Equistar at December 31, 2002 and 2001 was $563 and $677, 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 this Annual Report.

Note 6 -- European Receivables Securitization Program

Since March 2002, the Company has 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 up to five years) with maximum availability of 70 million euro, which is treated, in part, as a sale under accounting principles generally accepted in the United States of America. Accordingly, transferred trade receivables that qualify as a sale, $61 outstanding at December 31, 2002, are removed from the Company's Consolidated Balance Sheet. The Company continues to carry its retained interest in a portion of the transferred assets that do not qualify as a sale, $9 at December 31, 2002, in Trade receivables, net in its Consolidated Balance Sheet at amounts that approximate net realizable value based upon the Company's historical collection rate for these trade receivables. Unused availability under this arrangement at December 31, 2002 was 3 million euro. For the year ended December 31, 2002, cumulative gross proceeds from this securitization arrangement were $213. Cash

Note 6 -- European Receivables Securitization Program - Continued

flows from this securitization arrangement are reflected as operating activities in the Consolidated Statements of Cash Flows. For the year ended December 31, 2002, the aggregate loss on sale associated with this arrangement was $2. Administration and servicing of the trade receivables under the arrangement remains with the Company. Servicing liabilities associated with the transaction are not significant.

Note 7 -- Supplemental Financial Information

	2002	2001
Trade receivables		
Trade receivables	$ 217	$ 222
Allowance for doubtful accounts	(7)	(7)
	$ 210	$ 215

Inventories		
Finished products	$ 210	$ 219
In-process products	30	23
Raw materials	106	100
Maintenance parts and supplies	60	57
	$ 406	$ 399
Property, plant and equipment		
Land and buildings	$ 222	$ 218
Machinery and equipment	1,401	1,291
Construction-in-progress	111	121
	1,734	1,630
Accumulated depreciation and amortization	(872)	(750)
	$ 862	$ 880
Goodwill	$ 487	$ 487
Accumulated amortization	(106)	(106)
Cumulative effect of accounting change	(275)	--
	$ 106	$ 381

	2002	2001
Amortization expense	$ --	$

Rental expense on operating leases is as follows:

	2002	2001
Rental expense	$ 22	$

Cash paid for interest and taxes:

	2002	2001
Interest (net of interest received)	$ 86	$
Taxes (net of refunds)	(1)	

MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

(Dollars in millions, except share data)

Note 8 -- Income Taxes

	2002 (Restated - See Note 2)	2001 (Restated - See Note 2)
Pretax (loss) income is generated from:		
United States	$ (161)	$ (221)
Foreign	81	71
	(80)	(150)
Income tax (benefit) provision is comprised of:		
Federal		
Current	$ (19)	$ (12)
Deferred	(35)	(68)
Tax benefit from previous years	(22)	(42)
Foreign	16	21
State and local	2	1
	(58)	(100)

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

	2002 (Restated - See Note 2)	2001 (Restated - See Note 2)
Statutory federal income tax rate	(35.0)%	(35.0)%
State and local income taxes, net of federal benefit.	1.9	(0.3)
Provision for nondeductible expenses, primarily goodwill amortization	--	7.5
Foreign rate differential	(20.1)	(12.0)
Tax benefit from previous years	(27.5)	(31.3)
Establish valuation allowance for French subsidiaries	12.5	--
Other	(4.3)	4.4
Effective income tax rate	(72.5)%	(66.7)%

The Company recorded a tax benefit of $22 in 2002 and $42 in 2001 unrelated to transactions for those years. In 2002, the tax benefit primarily relates to an $18 refund of tax and interest originating from refund claims filed with the Internal Revenue Service ("IRS") in 2002 which carried back expenses incurred in 1993 and 1994 to earlier tax years. In 2001, the tax benefit relates 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. The reversal of those

accruals was 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.

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

Note 8 -- Income Taxes - Continued

Significant components of deferred taxes are as follows:

	2002 (Restated See Note 2)
Deferred tax assets	
Environmental and legal obligations	$ 27
Other postretirement benefits and pension	82
Net operating loss carryforwards	174
Capital loss carryforwards	9
AMT credits	97
Other accruals	14
	403
Valuation allowance	(19)
Total deferred tax assets	384
Deferred tax liabilities	
Excess of book over tax basis in property, plant and equipment	106
Other postretirement benefits and pension	--
Excess of book over tax basis in investment in Equistar	456
Reserve for income taxes	116
Other	43
Total deferred tax liabilities	721
Net deferred tax liabilities	$ 337

As a result of the Company's assessment of its net deferred tax assets at December 31, 2002, a valuation allowance of $10 was required for the net deferred tax assets of its French subsidiaries at December 31, 2002. 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.

At December 31, 2002 and 2001, certain subsidiaries of the Company had available US net operating loss carryforwards aggregating $288 and $223, respectively, and foreign net operating loss carryforwards aggregating $244 and $215, respectively, including $203 and $174, respectively, that were generated in the United Kingdom ("UK") and $41 and $41, respectively, that were generated in France. The net operating loss carryforwards generated in the UK do not expire but are subject to certain limitations on their use. The net operating loss carryforwards generated in France begin to expire at December 31, 2003 through December 31, 2007. The US net operating loss carryforwards begin to expire at December 31, 2021 through December 31, 2022. The majority of the capital loss carryforwards expired at December 31, 2001, with the remaining capital loss carryforward expiring at December 31, 2002 and 2006. The AMT credits have no expiration and can be carried forward indefinitely.

The undistributed earnings of Millennium Chemicals Inc.'s foreign subsidiaries 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 $155 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.

Note 8 -- Income Taxes - Continued

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 1989 have been settled. The Company made payment of $151 of tax and interest to the IRS in 2000 to settle certain issues relating to the tax years 1986 through 1988. Additionally, the IRS has concluded its examinations of the Company's Federal income tax returns for 1989 through 1996 and 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. The Company has estimated the payment of tax and interest to be made to the IRS in 2003 under this settlement and has included such estimate in Income taxes payable. 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 positions through the IRS 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 positions on certain issues are upheld after all the Company's administrative and legal options are exhausted, a material impact on the Company's earnings and cash flows could result. The IRS examination for the years subsequent to 1996 will commence in early 2003.

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.

Note 9 -- Long-Term Debt and Credit Arrangements

	20
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 1.0%; or at LIBOR or NIBOR plus 2.0%, plus, in each case, a facility fee of .50%, to be paid quarterly	$
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	
7% Senior Notes due 2006	
7.625% Senior Debentures due 2026	
9.25% Senior Notes due 2008	
Debt payable through 2011 at interest rates ranging from 0% to 9.5%	
Other	
Less current maturities of long-term debt	
	$ 1

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

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

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 Inc. ("Millennium America"), a wholly owned indirect subsidiary of the Company, of $100 additional principal amount at maturity of 9.25% Senior Notes due June 15, 2008 (the "9.25% Senior Notes"). The gross proceeds of the offering were used to repay all outstanding borrowings at that time under the Company's revolving loan portion, which has a maximum availability of $175 (the "Revolving Loans"), of its five-year credit agreement (the "Credit Agreement") and to repay $65 outstanding under the term loan portion (the "Term Loans") of the Credit

Agreement. During 2001, the 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. The Company 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, 2002, $11 was outstanding under the letter of credit subfacility, and no amount under the swingline facility. The Term Loans may be prepaid in part or in total at the option of the Company at any time, but 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 3.9%, 5.4% and 6.7% for 2002, 2001 and 2000, respectively. The weighted average interest rate for borrowings under the Term Loans was 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 include 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. 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. To permit the Company to be in compliance, these covenants were amended in the fourth quarter of 2001 and again in the second quarter of 2002. This second amendment was conditioned upon consummation of the offering of $100 additional principal amount of the 9.25% Senior Notes and retirement of the Credit Agreement debt described above. Under the covenants now in effect, the Company is required to maintain a Leverage Ratio of no more than 7.25 to 1.00 for the fourth quarter of 2002; 5.75 to 1.00 for the first quarter of 2003; 4.75 to 1.00 for the second quarter of 2003; 4.50 to 1.00 for the third and fourth quarters of 2003; and 4.00 to 1.00 for January 1, 2004 and thereafter; and an Interest Coverage Ratio of no less than 1.90 to 1.00 for the fourth quarter of 2002; 2.25 to 1.00 for the first quarter of 2003; 2.50 to 1.00 for the second, third and fourth quarters of 2003; and 3.00 to 1.00 for January 1, 2004 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, the Term Loans must be prepaid with a portion of the net cash proceeds of such sale. 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.

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

The Company was in compliance with all covenants under the Credit Agreement at December 31, 2002. Compliance with these covenants is monitored frequently in order to assess the likelihood of continued compliance. The Company currently expects that it will be in compliance with these covenants at March 31, 2003. However, the Company believes that it will not be in compliance with certain of these financial covenants at June 30, 2003, unless economic and business conditions improve significantly in the second quarter of 2003. Accordingly, the Company is seeking a waiver or amendment to the Credit Agreement, which it expects to obtain by June 30, 2003.

The Company had $21 outstanding ($10 of outstanding borrowings and outstanding letters of credit of $11) under the Revolving Loans and, accordingly, had $154 of unused availability under such facility at December 31, 2002. In addition, the Company had $49 outstanding under the Term Loans at December 31, 2002. In addition to letters of credit outstanding under the Credit Agreement, the Company had outstanding letters of credit under other arrangements of $12 at December 31, 2002. The Company had unused availability under short-term uncommitted lines of credit, other than the Credit Agreement, of $44 at December 31, 2002.

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") that are fully and unconditionally guaranteed by the Company. 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 the Company to merge, consolidate or transfer substantially all of their respective assets. This indenture allows the Company to grant security on loans of up to 15% of Consolidated Net Tangible Assets ("CNTA"), as defined, of Millennium America. Accordingly, based upon CNTA and secured borrowing levels at December 31, 2002, any reduction in CNTA below approximately $1,600 would decrease the Company's availability under the Revolving Loans by 15% of any such reduction. CNTA was approximately $2,000 at December 31, 2002.

The 9.25% Senior Notes were issued by Millennium America and are guaranteed by the Company. 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." The basket is reduced by the amount of each such restricted payment and is increased by: (i) 50% of the Company's Cumulative Net Income (as defined in such indenture) since July 1, 2001 (or is reduced by 100% of its Cumulative Net Income if such amount is negative); (ii) the net cash proceeds from the sale by the Company of its common stock to third parties; and (iii) 50% of any cash distributions received from Equistar. As of March 25, 2003, the date of filing of the original Annual Report on Form 10-K, and after taking into consideration the $9 dividend declared in the first quarter of 2003 and the restatements and reclassification reflected in this Form 10-K/A, the amount of the restricted payments basket was $11. 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. If this ratio were to cease to be greater than 2.00 to 1.00 (2.25 to 1.00 after June 15, 2003), there would be certain restrictions on the Company's ability to incur additional indebtedness and pay dividends, repurchase capital stock or make certain other restricted payments. However, if the 9.25% Senior Notes were to receive investment grade credit ratings from both Standard & Poor's ("S&P") and Moody's Investor Services, Inc. ("Moody's") and meet certain other requirements as specified in the indenture, certain of these covenants would no longer apply. At December 31, 2002, the Company was in compliance with all covenants in the indentures governing the 9.25% Senior Notes, 7.00% Senior Notes and 7.625% Senior Debentures.

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

The Company is currently rated BB+ by S&P and Ba1 by Moody's. On March 7, 2003, S&P lowered the Company's credit rating from investment grade rating BBB- to non-investment grade rating BB+ with a negative outlook, reflecting S&P's concern regarding the Company's ability to generate the cash flow necessary to substantially improve its financial profile during a period of economic uncertainties and higher raw material costs. Moody's affirmed the Company's non-investment grade rating on June 19, 2002, but revised its ratings outlook to negative from stable, reflecting Moody's concern over the Company's cash flow performance in the fourth quarter of 2001 and the first quarter of 2002. The

Company could be required to cash collateralize the mark-to-market positions of certain derivative instruments dependent upon the market value of these instruments. Based on the current market value of these instruments, the Company would not be required to place any funds on deposit with the counterparty to these transactions. Furthermore, the Company will also provide a $2.5 letter of credit in accordance with a real estate lease. Obtaining this letter of credit will result in an equal reduction of availability under the revolving credit portion of the Credit Agreement.

Millennium America, a wholly owned indirect subsidiary of the Company, had an indemnity agreement with Equistar pursuant to which Millennium America could have been required under certain circumstances to contribute to Equistar up to $750. This indemnity terminated upon the closing of the purchase by Lyondell of Occidental's interest in Equistar.

The Company had outstanding Notes payable of $4 as of each of December 31, 2002 and 2001, bearing interest at an average rate of approximately 19.1% and 17.3% in 2002 and 2001, respectively, with maturity of 30 days or less. At December 31, 2002, the Company had outstanding standby letters of credit amounting to $23 and had unused availability under short-term uncommitted lines of credit and the Credit Agreement of $198.

The Company uses gold as a component in a catalyst in the Company's La Porte, Texas facility. In April 1998, the Company entered into an agreement that provides the Company with the right to use gold owned by a third party for a five-year term. The agreement requires the Company to either deliver the gold to the third party at the end of the term or pay for it at its then-current value. As a result of a change in accounting for this agreement, the Company's financial statements were restated as more fully described in Note 2. The value of the gold and the Company's obligation under this agreement was $14 and $11 at December 31, 2002 and 2001, respectively. Such obligation at December 31, 2002 and 2001 is included in Other short-term borrowings and Other long-term borrowings, respectively. 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 $3 for the year ended December 31, 2002, and was not significant for each of the years ended December 31, 2001 and 2000.

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

2003	$ 12
2004	6
2005	26
2006	534
2007	4
Thereafter	629
Non-cash components of long-term debt	13
	$1,224

Note 10 -- Derivative Instruments and Hedging Activities

Effective January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended ("SFAS No. 133"), which requires that all derivative instruments be reported on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships. The cumulative effect of adopting SFAS No. 133 as of

January 1, 2001 was not material to the Company's financial statements.

Note 10 -- Derivative Instruments and Hedging Activities - Continued

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, 2002 these contracts had expiration dates within the next twelve months. 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 S,D&A expense, which offset similar amounts from foreign currency denominated trade receivables and payables, also included in S,D&A expense, were a gain of $2 in 2002 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. During 2002 and 2001, net gains of $4 and net losses of $4, respectively, 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 2002 and 2001. No forward exchange contract cash flow hedges were discontinued during 2002 and 2001. The Company estimates that approximately $1 (less than $1 after-tax) of net derivative losses on foreign currency cash flow hedges included in OCI at

December 31, 2002 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 to manage the volatility related to anticipated purchases of natural gas with various terms. As of December 31, 2002, these swaps had expiration dates no later than January 2004. These market instruments are designated as cash flow hedges. The mark-to-market gain or loss on qualifying hedges is 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 in Cost of products sold immediately. During 2002 and 2001, net losses on commodity swaps designated as cash flow hedges of $6 and $5, respectively, were reclassified to Cost of products sold to match the gain on the underlying transaction being hedged. Hedge ineffectiveness had no significant impact on earnings for 2002 and 2001. No commodity swap cash flow hedges were discontinued in 2002 and 2001. The Company estimates that approximately $1 ($1 after-tax) of net losses on commodity swaps included in OCI at December 31, 2002 will be reclassified to earnings during the next twelve months. In addition, the Company uses commodity swap agreements to manage the 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. Net gains of $1 were included in Cost of products sold in 2002. As of December 31, 2002, these swaps had expiration dates no later than January 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, 2002, the Company had outstanding interest rate swap agreements with a notional amount of $200, which are designated as fair value hedges of underlying fixed-rate obligations. The fair value of these interest rate swap agreements was approximately $4 at December 31, 2002 resulting in an increase to long-term debt carrying value 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

Note 10 -- Derivative Instruments and Hedging Activities - Continued

recorded in Interest expense. In addition, at December 31, 2002, the Company had outstanding an interest rate swap agreement with a notional amount of $50, which is designated as a cash flow hedge of outstanding variable rate debt. The fair value of this interest rate swap agreement was not significant at December 31, 2002. Hedge ineffectiveness had no significant impact on earnings for 2002 and

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 to long-term debt carrying value 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 year ended December 31, 2002 was approximately $1.

During the year 2001, the Company had 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 was 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 11--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:

	2002		
	(Restated -- See Note 2)		(Restat
	Carrying Value	Fair Value	Carry Valu
Amount outstanding under Revolving Loans...............	$ 10	$ 10	$ 1
Term Loans..	49	49	12
7.00% Senior Notes..................................	500	480	50
7.625% Senior Debentures............................	249	208	24
9.25% Senior Notes..................................	377	392	27
Other short-term and long-term borrowings..............	14	14	1

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[u]2, CST 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.

Note 12-- Pension and Other Postretirement Benefits

Domestic Benefit Plans: The Company has non-contributory defined benefit pension plans and other postretirement benefit plans that cover 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. 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 account for less than 1% of master trust assets at December 31, 2002 and 2001.

Note 12 -- Pension and Other Postretirement Benefits - Continued

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 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, 2002, and a statement of the funded status as of December 31 for both years:

	Pension Benefits	
	2002	2001
	(Restated- See Note 2)	
Reconciliation of benefit obligation		
Projected benefit obligation at beginning of year	$ 758	$ 760
Service cost, including interest	12	12
Interest in PBO	52	53
Benefit payments	(78)	(84)
Curtailments	--	1
Net experience loss (gain)	74	15
Amendments	11	4
Translation and other adjustments	22	(3)
Projected benefit obligation at end of year	$ 851	$ 758
Reconciliation of fair value of plan assets		
Fair value of plan assets at beginning of year	$ 778	$ 895
Return on plan assets	(91)	(36)

Employer contributions	9	8	
Benefit payments	(78)	(84)	
Translation and other adjustments	11	(5)	
Fair value of plan assets at end of year	$ 629	$ 778	$
Funded status			
Funded status at December 31	$ (222)	$ 20	$
Unrecognized net asset	(3)	(4)	
Unrecognized prior service cost	19	8	
Unrecognized loss (gain)	384	146	
Net prepaid (accrued) benefit cost	178	170	
Additional minimum liabilities	(309)	(11)	
Intangible asset	16	3	
Net (accrued) prepaid benefit cost	$ (115)	$ 162	$

Note 12 -- Pension and Other Postretirement Benefits - Continued

As of December 31, 2002, the net accrued benefit cost for pension benefits is comprised of the following:

	2002 (Restated- See Note 2)
Prepaid benefit cost	$ 20
Intangible asset	16
Accrued benefit cost	(151)
Net accrued benefit cost	$ (115)

The net accrued benefit cost of $115 at December 31, 2002 is included in Other liabilities in the Consolidated Balance Sheet. An equity charge of $188 ($286 pre-tax) was required at December 31, 2002 to record additional minimum liabilities associated with certain of the Company's defined benefit pension plans and is included in Cumulative other comprehensive loss at December 31, 2002.

At December 31, 2001, Other assets includes an intangible asset of $3 and Cumulative other comprehensive loss includes $4 to record additional minimum liabilities associated with certain of the Company's defined benefit pension plans.

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

	2002 (Restated- See Note 2
Projected benefit obligation	$ 838
Fair value of assets	604

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

	2002 (Restated- See Note 2
Accumulated benefit obligation	$ 751
Fair value of assets	604

MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
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Note 12 -- Pension and Other Postretirement Benefits - Continued

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

	Pension Benefits			Pos
	2002 (Restated- See Note 2)	2001	2000	2002

Net periodic benefit cost				
Service cost, including interest	$ 12	$ 12	$ 12	$ --
Interest on PBO	52	53	54	6
Return on plan assets	(75)	(76)	(78)	--
Amortization of unrecognized net loss	1	--	2	(2)
Amortization of prior service cost	1	1	1	(2)
Net effect of curtailments and settlements	2	2	--	--
Net periodic benefit cost	(7)	(8)	(9)	2
Defined contribution plans	4	4	4	--
Net periodic benefit cost	$ (3)	$ (4)	$ (5)	$ 2

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

	Pension Benefits			
	2002	2001	2000	2002
Weighted average assumptions as of December 31				
Discount rate	6.35%	7.27%	7.38%	6.50%
Expected return on plan assets	8.34%	8.87%	8.86%	--
Rate of compensation increase	3.52%	4.23%	4.30%	--

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The assumed healthcare cost trend rate used in measuring the healthcare portion of the postretirement benefit obligation at December 31, 2002 was 9.0% for 2003, declining gradually to 5.5% for 2010 and thereafter. A 1% increase or decrease in assumed health care cost trend rates would affect service and interest components of postretirement health care benefit costs by less than $1 in each of the years ended December 31, 2002 and 2001. The effect on the accumulated postretirement benefit obligation would be $4 at each of December 31, 2002 and 2001.

Note 13--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 and 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.

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

Note 13 -- Stock-Based Compensation Plans - Continued

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, 2002, 1,588,000 of the maximum 3,200,000 shares of 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 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 957,000 and 655,000 non-qualified stock options in 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, 2002 and 2001, respectively. No compensation expense was recognized for such equity-related awards under this plan in 2002 or 2001.

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 Common Stock to be granted if annual Economic Value Added ("EVA'r'") targets are achieved, which can then vest at the end of the three-year vesting period. Unvested shares will be forfeited. A trust has been established to hold shares of Common Stock to fund this obligation. At December 31, 2002, 46,947 shares have been purchased at a total cost of $1 and are held in this trust. Compensation expense was $1 in 2002 and was not significant in 2001 and 2000.

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 Common Stock to be granted if annual EVA'r' targets are achieved, which can then vest at the end of the three-year vesting period. Unvested shares will be forfeited. A trust has been established to hold shares of Common Stock to fund this obligation. At December 31, 2002, 220,722 shares have been purchased at a total cost of $4 and are held in this trust. The remaining half of the award is based on the total shareholder return on the 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 $1 in 2002 and was $3 in each of 2001 and 2000.

Stock Incentive Plan: The Company's 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, 2002, 1,398,872 of the maximum 3,909,000 shares of 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, 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.

Note 13 -- Stock-Based Compensation Plans - Continued

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) equity and amortized over the restricted period. Income recognized in 2002 was not significant. Income of $2 and $6 was recognized for the years ended December 31, 2001 and 2000, respectively.

Stock Option Awards Under the Stock Incentive Plan: Stock options granted under the 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 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	Exe

Balance at December 31, 1999........	2,212,224	$23.71	538,000
Vested and issued................	(460,914)	$23.70	(5,000)
Cancelled........................	(172,495)	$23.75	(40,000)
Granted..........................	--	--	117,000
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

A summary of the Company's stock options as of December 31, 2002 is as follows:

	Options Outstanding			Opt
Range of exercise price	Shares	Weighted average remaining life (yrs)	Weighted average exercise price	Shares
$12.24 - $16.00	1,044,000	9.0	$12.48	-
$16.01 - $20.00	981,000	7.6	$17.49	252,00
$20.01 - $24.00	110,000	6.1	$22.27	54,00
$24.01 - $28.00	32,000	6.4	$27.38	32,00
$28.01 - $34.88	30,000	5.4	$34.88	30,00
$12.24 - $34.88	2,197,000	8.2	$15.73	368,00

The weighted average fair value of stock options at grant date was $4.04 per share, $3.16 per share and $9.00 per share for 2002, 2001 and 2000, respectively, using a Black-Scholes model with the following assumptions: expected dividend yield of 5%, 4% and 2% for 2002, 2001 and 2000, respectively; risk-free interest rate of 5% in 2002, 5% in 2001 and 6% in 2000; an expected life of 10 years; and, an expected volatility of 62%, 39% and 60% for 2002, 2001 and 2000, respectively.

Note 13 -- Stock-Based Compensation Plans - Continued

Salary and Bonus Deferral Plan: The Company has a deferred compensation

plan under which officers and certain management employees have deferred a portion of their compensation on a pre-tax basis in the form of Common Stock. A rabbi trust (the "Trust") has been established to hold shares of 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) equity. At December 31, 2002, 440,566 shares have been purchased at a total cost of $9 and are held in the Trust.

Note 14 -- 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 Comprehen Loss of Eq
			(Restated - See Note 2)	(Restate See Note
Balance, December 31, 1999...........	$ (61)	$ --	$ --	$
2000 Change.......................	(46)	--	--	
Balance, December 31, 2000...........	(107)	--	--	
2001 Change.......................	(19)	(6)	(4)	
Balance, December 31, 2001...........	(126)	(6)	(4)	
2002 Change.......................	27	5	(188)	
Balance, December 31, 2002...........	$ (99)	$ (1)	$ (192)	$

Note 15 -- 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 party may terminate on one year's notice, and neither party has provided such notice. The subsidiary incurred charges of $43, $53 and $90 in 2002, 2001 and 2000, 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 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 neither party has provided such notice. During the years ended December 31, 2002, 2001 and 2000, sales to Equistar were $10, $14 and $16, 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

Note 15 -- Related Party Transactions - Continued

office space, and health, safety and environmental services. The subsidiary incurred charges of $9, $17 and $23 in 2002, 2001 and 2000, respectively, for such services. In addition, the subsidiary charged Equistar $15, $18 and $13 in 2002, 2001 and 2000, respectively, for electricity and miscellaneous shared services.

Note 16 -- 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 80 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 also one of a number of defendants in one inactive premises-based asbestos case where the court placed the claim on a formal registry for dormant claims, and for which no defense costs are being incurred. 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. Various other Company subsidiaries and alleged former subsidiaries are among a number of defendants in 50 active premises-based asbestos cases. The Company believes that it has valid defenses to these proceedings and is defending them vigorously. However, litigation is subject to uncertainties and the Company is unable to guarantee the outcome of these proceedings. In addition, the Company may be subject to potential unknown liabilities associated with its present and former operations, including environmental liabilities,

arising from the operations of its predecessors and prior owners or operators of its sites or operations for which it may be responsible.

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.

There are eight pending legal proceedings relating to lead pigment or paint in various pre-trial stages. One proceeding relating to lead pigment or paint was tried in 2002. On October 29, 2002, after a trial in which the jury deadlocked, the court in the State of Rhode Island v. Lead Industry Association, Inc., et al commenced in the Superior Court of Providence, Rhode Island, on October 13, 1999, declared a mistrial. The sole issue before the jury in this phase of the proceeding was whether lead pigment in paint in and on public and private Rhode Island buildings constitutes a "public nuisance." On March 30, 2003, the court denied the motions for the judgment as a matter of law filed by both sides during and after the trial. The State of Rhode Island may seek a new trial.

There are four pending legal proceedings relating to lead pigment or paint that were dismissed after summary judgment was granted by the court in favor of the defendants, but are now pending appeal. There are four legal proceedings relating to lead pigment or paint which have been voluntarily dismissed by the plaintiffs. There is also one legal proceeding relating to lead pigment or paint that was dismissed after summary judgment was granted by the court in favor of the defendants, but which has not been appealed. There are four legal proceedings relating to lead pigment or paint that were abated under the laws of the State of Texas pending the resolution of an appeal in another legal proceeding involving lead pigment or paint where summary judgment was granted by the court in favor of one defendant. During the abatement period, expected to last one to two years, no defense costs will be incurred for the abated legal proceedings. Finally, there are nine legal proceedings relating to lead pigment or paint that have been filed with a court, are pending, but have yet to be formally served on the Company, any of its subsidiaries, or alleged predecessor companies.

Note 16 -- Commitments and Contingencies - Continued

The Company's defense costs to date for lead-based paint and lead pigment litigation largely have been covered by insurance. The Company has not accrued any liabilities for any lead-based paint and lead pigment litigation. The Company has insurance policies that potentially provide approximately $1 billion in indemnity coverage for lead-based paint and lead pigment litigation. 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 the two cases discussed below, 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.

A current subsidiary and an alleged predecessor company are parties to the only two remaining cases originally filed within the eight-year period following the 1986 sale of the Glidden Paints business referred to above. In the first of these cases, The City of New York et al. v. Lead Industries Association, Inc., et al., commenced in the Supreme Court of the State of New York on June 8, 1989, the New York City Housing Authority brought an action relating to tens of thousands of public housing units. All claims in that case have been dropped except for those relating to two housing projects. The other remaining case, Jackson, et al. v. The Glidden Co., et al., commenced in the Court of Common Pleas, Cuyahoga County, Ohio, on August 12, 1992, includes five minors as plaintiffs. Dispositive motions were filed in that case in late 2002 and have yet to be ruled on by the court.

The Company believes that it has valid defenses to all pending lead-based paint and lead pigment proceedings and is vigorously defending them. However, litigation is inherently subject to many uncertainties. There can be no assurance that additional lead-based paint and lead pigment litigation will not be filed against the Company or its subsidiaries in the future asserting similar or different legal theories and seeking similar or different types of damages and relief. While an outcome such as that reached in the Rhode Island proceeding may have a positive effect on the lead-based paint and lead pigment litigation against the Company, its subsidiaries and other defendants by reducing the number and nature of future claims and proceedings, other adverse court rulings or determinations of liability, among other factors, could encourage an increase in the number of future claims and proceedings. In addition, from time to time, legislation and administrative regulations have been enacted or proposed to impose obligations on present and former manufacturers of lead-based paint and lead pigment respecting asserted health concerns associated with such products or to overturn successful court decisions. Due to the uncertainties involved, the Company is unable to predict the outcome of lead-based paint and lead

pigment litigation, the number or nature of possible future claims and proceedings, or the effect that any legislation and/or administrative regulations may have on the Company or its subsidiaries. In addition, management cannot reasonably estimate the scope or amount of the costs and potential liabilities related to such litigation, or any such legislation and regulations. Accordingly, the Company has not accrued any liabilities for such litigation. However, based upon, among other things, the outcome of such litigation to date, including the dismissal of most of the over 50 lawsuits brought in recent years, management does not currently believe that the costs or potential liabilities ultimately determined to be attributable to the Company arising out of such litigation will have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

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

Note 16 -- Commitments and Contingencies - Continued

generation, handling, storage, transportation, treatment and disposal of wastes and other materials and the remediation of environmental pollution caused by releases of wastes and other materials (collectively, "Environmental Laws"). The operation of any chemical manufacturing plant and the distribution of chemical products entail risks under Environmental Laws, many of which provide for substantial fines and criminal sanctions for violations. There can be no assurance that significant costs or liabilities will not be incurred with respect to the Company's operations and activities. In particular, the production of TiO[U]2, TiCl[U]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, 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 requiring increased capital investment by Equistar of between $200 and $260 before the 2007 regulatory deadline, as well as create higher annual operating costs. This result could potentially affect cash distributions from Equistar to the Company. In January 2001, Equistar, individually and as part of an industry coalition, filed a lawsuit in State District Court in Travis County, Texas seeking adoption of an alternative plan for air quality improvement. In response to the lawsuit, the TCEQ conducted an accelerated scientific review during 2001 and 2002. 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. 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. Equistar is still assessing the impact of the new HRVOC control requirements. Additionally, the TCEQ plans to make a final review of these rules, with final rule revisions to be adopted by May 2004. The timing and amount of these expenditures are subject to regulatory and other uncertainties, as well 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.

From time to time, various agencies may serve cease and desist orders or notices of violation on an operating unit or deny its applications for certain licenses or permits, in each case alleging that the practices of the operating unit are not consistent with regulations or ordinances. In some cases, the relevant operating unit may seek to meet with the agency to determine mutually acceptable methods of modifying or eliminating the practice in question. The Company believes that its operating units generally operate in compliance with applicable regulations and ordinances in a manner that should not have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

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 or previously owned, operated or used by the Company's current or former subsidiaries or their predecessors, some of which are on the Superfund National Priorities List of the EPA or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage, or both. Based upon third-party technical reports, the projections of outside consultants or outside counsel, or both, the Company has estimated its individual exposure at these sites to be between $0.025 and $26.7. In the most significant of these proceedings, a subsidiary is named as one of four PRPs at the Kalamazoo River Superfund Site in Michigan. The site involves contamination of river sediments and floodplain soils with polychlorinated biphenyls. Originally commenced on December 2, 1987 in the United States District Court for the Western District of Michigan as Kelly v. Allied Paper, Inc. et al., the matter

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Note 16 -- Commitments and Contingencies - Continued

was stayed and is being addressed under the Comprehensive Environmental Response, Compensation and Liability Act. 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 and recommended a remedy involving the stabilization of several miles of river bank and the long-term monitoring of river sediments at a total collective cost of approximately $73. During 2001, additional sampling activities were performed in discrete parts of the river. At the end of 2001, the EPA took responsibility for the site at the request of the State. While the State has submitted comments to the EPA on the Draft Study, the EPA has yet to similarly comment. The Company has estimated its liability at this site based upon the KRSG's recommended remedy. Guidance as to how the EPA will likely proceed with further evaluation and remediation, if required, at the Kalamazoo site is expected by early 2004. At that time, the Company's estimate of its liability will be reevaluated. The Company's ultimate liability for the Kalamazoo site will depend on many 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.

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 $67 and $95 and has accrued $71 as of December 31, 2002. Expense associated with these contingencies included in Selling, development and administrative expense totaled $15 and $6 in 2001 and 2000, respectively. These expenses resulted from increases in reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses. Included in 2002 is a benefit of $6 from a reduction of reserves due to favorable resolution of certain environmental claims related to predecessor businesses reserved for in prior years. 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. For example, the Company agreed as part of its Demerger to indemnify Hanson and certain of its subsidiaries against certain of such contractual indemnification obligations, and Millennium Petrochemicals agreed as part of the December 1, 1997 formation of Equistar to indemnify Equistar for certain liabilities related to the assets contributed by Millennium Petrochemicals to Equistar in excess of $7, which threshold was exceeded in 2001. The terms of these indemnification agreements do not limit the maximum potential future payments to the indemnified parties. The maximum amount of future indemnification payments is dependent upon many factors and is not practicable to estimate.

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

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 it has valid defenses to the legal proceedings described above and intends to defend these legal proceedings vigorously. However, litigation is subject to many uncertainties and the Company cannot guarantee the outcome of these proceedings. Based upon information currently available, the Company does not believe that the outcome of these proceedings will, either individually or in the aggregate, have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

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, 2002 (at current exchange rates, where applicable) is as follows:

Note 16 -- Commitments and Contingencies - Continued

	Ore	Other	Total
2003	$ 195	$ 132	$ 327
2004	143	95	238
2005	167	81	248
2006	42	80	122
2007	--	78	78
Thereafter	--	654	654
Total	$ 547	$1,120	$1,667

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 $247.

Future Minimum Rental Commitments: Future minimum rental commitments under non-cancelable operating leases, as of December 31, 2002, are as follows:

2003	$ 21
2004	17
2005	14
2006	11
2007	10
Thereafter	88
	$161

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 8 for additional information regarding income tax contingencies.

Note 17 -- 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, are reflected as Other. The accounting policies of the segments are the same as those described in Note 1.

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) earnings on Equistar investment.

Export sales from the United States for the years ended December 31, 2002, 2001 and 2000 were approximately $254, $245 and $201, respectively.

Note 17 -- Operations by Business Segment and Geographic Area - Continued

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

	2002 (Restated - See Note 2)	2001 (Restated - See Note 2)
Net sales		
Titanium Dioxide and Related Products	$ 1,129	$ 1,145
Acetyls	334	355
Specialty Chemicals	91	90
Total	$ 1,554	$ 1,590
Operating income (loss)		
Titanium Dioxide and Related Products	$ 63	$ 42
Acetyls	11	(21)
Specialty Chemicals	6	11
Other	--	(18)
Total	$ 80	$ 14

Depreciation and amortization		
Titanium Dioxide and Related Products	$ 83	$ 81
Acetyls	11	21
Specialty Chemicals	8	8
Total	$ 102	$ 110
Capital expenditures		
Titanium Dioxide and Related Products	$ 61	$ 82
Acetyls	1	6
Specialty Chemicals	9	3
Other	--	6
Total	$ 71	$ 97
Identifiable assets		
Titanium Dioxide and Related Products	$ 1,389	$ 1,385
Acetyls	294	568
Specialty Chemicals	99	96
Other (1)	614	916
Total	$ 2,396	$ 2,965

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

	December 31,	
	2002	2001
Goodwill		
Titanium Dioxide and Related Products	$ 58	$ 58
Acetyls	48	323
Total	$ 106	$ 381

Note 17 -- Operations by Business Segment and Geographic Area - Continued

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

	2002 (Restated - See Note 2)	2001 (Restated - See Note 2)
Net sales		
United States	$ 923	$ 983
Non-United States		
United Kingdom	404	364
France	183	179
Asia/Pacific	178	160
Brazil	103	113
	868	816
Inter-area elimination	(237)	(209)
Total	$ 1,554	$ 1,590
Operating income (loss)		
United States	$ 6	$ (50)
Non-United States		
United Kingdom	5	(7)
France	(11)	(8)
Asia/Pacific	54	51
Brazil	23	30
	71	66
Inter-area elimination	3	(2)
Total	$ 80	$ 14
Identifiable assets		
United States	$ 1,536	$ 2,129
Non-United States		
United Kingdom	346	363
France	250	216
Asia/Pacific	137	114
Brazil	116	134
All Other	11	9
	860	836
Total	$ 2,396	$ 2,965

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

Note 18 - Quarterly Financial Data (Unaudited)

	1st Qtr. (Restated - See Note 2)	2nd Qtr. (Restated - See Note 2)	3rd Qtr (Restate See Note
2002			
Net sales	$ 351	$ 405	$ 4
Operating income	7	20 (1)	
Net (loss) income before cumulative effect of accounting change	(33)	2 (1)	
Cumulative effect of accounting change	(305)	--	
Net (loss) income after cumulative effect of accounting change	(338)	2 (1)	
Basic (loss) earnings per share before cumulative effect of accounting change	(0.52)	0.02 (1)	0.
Cumulative effect of accounting change	(4.80)	--	
Basic (loss) earnings per share after cumulative effect of accounting change	(5.32)	0.02 (1)	0.
Diluted (loss) earnings per share before cumulative effect of accounting change	(0.52)	0.02 (1)	0.
Cumulative effect of accounting change	(4.80)	--	
Diluted (loss) earnings per share after cumulative effect of accounting change	(5.32)	0.02 (1)	0.
2001			
Net sales	$ 444	$ 419	$ 3
Operating income (loss)	20 (4)	(9) (6)	
Net (loss) income	(17) (5)	(26) (6)	(
Basic (loss) earnings per share	(0.27) (5)	(0.41) (6)	(0.
Diluted (loss) earnings per share	(0.27) (5)	(0.41) (6)	(0.

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(1) 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.

(2) 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.

(3) 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.

(4) Includes $5 in reorganization and plant closure charges and a charge of $4 to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses.

(5) Includes $4 after-tax or $0.07 per share in reorganization and plant closure charges, an additional $4 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 and $3 after-tax or $0.05 per share to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses.

(6) Includes $31 ($20 after-tax or $0.31 per share) in reorganization and plant closure charges and a charge of $3 ($2 after-tax or $0.03 per share) to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses.

(7) Includes a charge of $4 ($3 after-tax or $0.05 per share) to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses.

(8) Includes a charge of $4 to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses.

(9) Includes a tax benefit of $42 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 and a $2 charge after-tax or $0.03 per share to increase reserves for the estimated costs to resolve legal and environmental claims related to predecessor businesses.

Note 19 - 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 America guarantees all obligations under the Credit

Agreement. 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 guaranteed by the Company. Accordingly, the following Condensed Consolidating Balance Sheets at December 31, 2002 and 2001, and the Condensed Consolidating Statements of Operations and Cash Flows for each of the three years in the period ended December 31, 2002, 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) the Company, (ii) Millennium America, and (iii) all subsidiaries of the Company other than Millennium America (the "Non-Guarantor Subsidiaries"). The investment in subsidiaries of Millennium America and the Company are accounted for by the equity method; accordingly, the shareholders' (deficit) equity of Millennium America and the Company are presented as if each of those companies and their respective subsidiaries were reported on a consolidated basis.

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

Note 19 - Supplemental Financial Information - Continued

CONDENSED CONSOLIDATING BALANCE SHEETS
As of December 31, 2002 and 2001

	Millennium America Inc. (Issuer)	Millennium Chemicals Inc. (Guarantor)	Non-Guarantor Subsidiaries	Eliminations
2002 (Restated - See Note 2)				
ASSETS				
Inventories	$ --	$ --	$ 406	$ --
Other current assets	10	--	403	--
Property, plant and equipment, net	--	--	862	--
Investment in Equistar	--	--	563	--
Investment in subsidiaries	349	95	--	(444)
Other assets	15	--	31	--
Goodwill	--	--	106	--
Due from parent and affiliates	638	--	--	(638)
Total assets	$1,012	$ 95	$2,371	$(1,082)

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...............	--	--	337	--
Other liabilities...................	--	--	388	--
Due to parent and affiliates.........	--	130	508	(638)
Total liabilities................	1,207	130	1,713	(638)
Minority interest...................	--	--	19	--
Shareholders' (deficit) equity.......	(195)	(35)	639	(444)
Total liabilities and shareholders' (deficit) equity..	$1,012	$ 95	$2,371	$(1,082)
2001 (Restated - See Note 2)				
ASSETS				
Inventories.........................	$ --	$ --	$ 399	$ --
Other current assets................	6	--	384	--
Property, plant and equipment, net...	--	--	880	--
Investment in Equistar..............	--	--	677	--
Investment in subsidiaries..........	657	580	--	(1,237)
Other assets........................	13	--	225	--
Goodwill............................	--	--	381	--
Due from parent and affiliates.......	590	--	--	(590)
Total assets.....................	$1,266	$580	$2,946	$(1,827)
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current maturities of long-term debt.	$ 3	$ --	$ 8	$ --
Other current liabilities...........	8	--	363	--
Long-term debt......................	1,156	--	16	--
Deferred income taxes...............	--	--	373	--
Other liabilities...................	--	1	526	--
Due to parent and affiliates.........	--	89	501	(590)
Total liabilities................	1,167	90	1,787	(590)
Minority interest...................	--	--	21	--
Shareholders' equity................	99	490	1,138	(1,237)
Total liabilities and shareholders' equity...........	$1,266	$580	$2,946	$(1,827)

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

Note 19 - Supplemental Financial Information - Continued

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2002, 2001 and 2000

	Millennium America Inc. (Issuer)	Millennium Chemicals Inc. (Guarantor)	Non-Guarantor Subsidiaries	Elimin
2002 (Restated - See Note 2)				
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)	103	(5)	(98)	
Loss on Equistar investment	--	--	(73)	
Equity in loss of subsidiaries	(402)	(328)	--	
Other expense	--	--	(7)	
(Provision for) benefit from income taxes	(6)	1	63	
Cumulative effect of accounting change	--	--	(305)	
Net loss	$ (392)	$ (333)	$ (338)	$
2001 (Restated - See Note 2)				
Net sales	$ --	$ --	$ 1,590	$
Cost of products sold	--	--	1,261	
Depreciation and amortization	--	--	110	
Selling, development and administrative expense	--	--	169	
Reorganization and plant closure	--	--	36	
Operating income	--	--	14	
Interest expense, net	(81)	--	(1)	
Intercompany interest income (expense)	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)	$
2000 (Restated - See Note 2)				
Net sales	$ --	$ --	$ 1,793	$
Cost of products sold	--	--	1,264	
Depreciation and amortization	--	--	113	
Selling, development and				

administrative expense	--	--	215	
Operating income	--	--	201	
Interest expense, net	(76)	--	(1)	
Intercompany interest income (expense)	109	(4)	(105)	
Earnings on Equistar investment	--	--	45	
Equity in earnings of subsidiaries ..	48	114	--	(
Other income	--	--	7	
(Provision for) benefit from income taxes	(12)	1	(54)	
Net income	$ 69	$ 111	$ 93	$ (

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

Note 19 - Supplemental Financial Information - Continued

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2002, 2001 and 2000

	Millennium America Inc. (Issuer)	Millennium Chemicals Inc. (Guarantor)	Non-Guarantor Subsidiaries	Eli
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
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

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

Note 19 - Supplemental Financial Information - Continued

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS - Continued
For the Years Ended December 31, 2002, 2001 and 2000

	Millennium America Inc. (Issuer)	Millennium Chemicals Inc. (Guarantor)	Non-Guarantor Subsidiaries	Eli
2000				

Cash flows from operating activities	$ 21	$ (3)	$ 2
Cash flows from investing activities:			
Capital expenditures	--	--	(110)
Distributions from Equistar	--	--	83
Proceeds from sales of property, plant & equipment	--	--	4
Cash used in investing activities	--	--	(23)
Cash flows from financing activities:			
Dividends to shareholders	--	(35)	--
Repurchase of common stock	--	--	(65)
Proceeds from long-term debt	275	--	36
Repayment of long-term debt	(165)	--	(22)
Intercompany	(114)	38	76
Decrease in notes payable	(17)	--	--
Cash (used in) provided by financing activities	(21)	3	25
Effect of exchange rate changes on cash	--	--	(7)
Decrease in cash and cash equivalents	--	--	(3)
Cash and cash equivalents at beginning of year	--	--	110
Cash and cash equivalents at end of year	$ --	$ --	$ 107

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PART III

Item 14. Controls and Procedures

(a) The Company maintains disclosure controls and procedures that are designed to ensure 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. 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. Within 90 days prior to filing the initial Annual Report on Form 10-K for the year ended December 31, 2002, 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 the Company's principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. In addition, in October and early November 2003, prior to filing this Amendment to the Annual Report on Form 10-K, the Company carried out a further evaluation, also under the supervision and with the participation of the Company's management, including the Company's principal executive officer and the Company's principal financial officer, of the effectiveness of the design and operation of the Company's disclosure

controls and procedures. Based on both of these evaluations, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were and are effective.

(b) In light of the restatements described in Note 2 to the Consolidated Financial Statements included in this Amendment to the Annual Report on Form 10-K, the Company is considering whether any changes to enhance the Company's internal control processes and procedures are warranted. There were no significant changes in the Company's internal controls over financial reporting that occurred since the date of the further evaluation described above that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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 Annual Report, should be read in conjunction with the Financial Statements included in Item 8 of this Annual Report. 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
3.1(a)	Amended and Restated Certificate of Incorporation of the Company (Filed as Exhibit 3.1 to the Company's Registration Statement on Form 10 (File No. 1-12091) (the "Form 10"))*
3.1(b)	Certificate of Elimination of Series A Junior Preferred Stock of Millennium Chemicals Inc. (Filed as Exhibit 3.1(b) to the Company's Annual Report on Form 10-K, as filed on March 25, 2003 (the "Original 2002 Form 10-K"))*
3.2	By-laws of the Company (as amended on February 4, 2002) (Filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (the "2001 Form 10-K"))*
4.1(a)	Form of Indenture, dated as of November 27, 1996, among Millennium America (formerly named Hanson America Inc.), the Company and The Bank of New York, as Trustee, in respect of the

	7% Senior Notes due November 15, 2006 and the 7.625% Senior Debentures due November 15, 2026 (Filed as Exhibit 4.1 to the Registration Statement of the Company and Millennium America on Form S-1 (Registration No. 333-15975) (the "Form S-1"))*
4.1(b)	First Supplemental Indenture dated as of November 21, 1997 among Millennium America, the Company and The Bank of New York, as Trustee (Filed as Exhibit 4.1(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (the "1997 Form 10-K"))*
4.2	Indenture, dated as of June 18, 2001, among Millennium America as Issuer, the Company as Guarantor, and The Bank of New York, as Trustee (including the form of 9 1/4% Senior Notes due 2008 and the Note Guarantee) (filed as Exhibit 4.1 to the Registration Statement of the Company and Millennium America (Registration Nos. 333-65650 and 333-65650-1 on Form S-4 (the "Form S-4"))*
10.1	Form of Post-Demerger Stock Purchase Agreement, dated as of September 30, 1996, between Hanson and MHC Inc. (including related form of Indemnification Agreement and Tax Sharing and Indemnification Agreement) (Filed as Exhibit 10.6 to the Form 10)*
10.2	Demerger Agreement, dated as of September 30, 1996, between Hanson, Millennium Overseas Holdings Ltd. (formerly Hanson Overseas Holdings Ltd.) and the Company (Filed as Exhibit 10.7 to the Form 10)*
10.3	Form of Indemnification Agreement, dated as of September 30, 1996, between Hanson and the Company (Filed as Exhibit 10.8 to the Form 10)*
10.4	Form of Tax Sharing and Indemnification Agreement, dated as of September 30, 1996, between Hanson, Millennium Overseas Holdings Ltd., Millennium America Holdings Inc. (formerly HM Anglo American Ltd.), Hanson North America Inc. and the Company (Filed as Exhibit 10.9(a) to the Form 10)*
10.5(a)	Deed of Tax Covenant, dated as of September 30, 1996, between Hanson, Millennium Overseas Holdings Ltd., Millennium Inorganic Chemicals Limited (formerly SCM Chemicals Limited), SCMC Holdings B.V. (formerly Hanson SCMC B.V.), Millennium Inorganic Chemicals Ltd. (formerly SCM Chemicals Ltd.), and the Company (the "Deed of Tax Covenant") (Filed as Exhibit 10.9(b) to the Form 10)*
10.5(b)	Amendment to the Deed of Tax Covenant dated January 28, 1997 (Filed as Exhibit 10.9(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (the "1996 Form 10-K"))*

Exhibit Number	Description
10.6(a)	Credit Agreement, dated June 18, 2001, among Millennium America Inc., as Borrower, Millennium Inorganic Chemicals Limited, as Borrower, certain borrowing subsidiaries of Millennium Chemicals Inc., from time to time party thereto, Millennium Chemicals Inc., as Guarantor, the lenders from time to time party thereto, Bank of America, N.A., as Syndication Agent and The Chase Manhattan Bank as Administrative Agent and collateral agent (filed as Exhibit 10.1 to the Form S-4)*
10.6(b)	First Amendment, dated as of December 14, 2001, to the Credit Agreement dated as of June 18, 2001, with Bank of America, N.A. and JP Morgan Chase Bank and the lenders party thereto (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K dated December 18, 2001)*
10.6(c)	Second Amendment, dated as of June 19, 2002, to the Credit Agreement dated as of June 18, 2001, with the Bank of America, N.A. and JP Morgan Chase Bank and the lenders party thereto (Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (the "June 30, 2002, Form 10-Q"))*
10.7	Form of Agreement between Millennium America Holdings Inc., (or certain of its subsidiaries), and each of William M. Landuyt, Robert E. Lee, C. William Carmean, Timothy E. Dowdle, Marie S. Dreher, Peter P. Hanik, John E. Lushefski, Myra J. Perkinson, David L. Vercollone and certain other executives of the Company (Filed as Exhibit 10.7 to the Original 2002 Form 10-K) *'D'
10.8	Form of Agreement between each of the Company's operating subsidiaries and certain officers of such subsidiaries (Filed as Exhibit 10.8 to the Original 2002 Form 10-K) *'D'
10.9(a)	Millennium Chemicals Inc. Annual Performance Incentive Plan (Filed as Exhibit 10.23 to the Form 10)*'D'
10.9(b)	Amendment Number 1 dated January 20, 1997, to the Millennium Chemicals Inc. Annual Performance Plan. (Filed as Exhibit 10.23(b) to the 1996 Form 10-K)*'D'
10.9(c)	Amendment Number 2 dated January 23, 1998, to the Millennium Chemicals Inc. Annual Performance Incentive Plan (Filed as Exhibit 10.23(c) to the 1997 Form 10-K)*'D'
10.9(d)	Amendment Number 3 dated January 22, 1999, to the Millennium Chemicals Inc. Annual Performance Incentive Plan (Filed as Exhibit 10.20(d) to the 1998 Form 10-K)*'D'
10.9(e)	Amendment Number 4 dated as of June 1, 2002, to the Millennium Chemicals Inc. Annual Performance Incentive Plan (Filed as Exhibit 10.9(e) to the Original 2002 Form 10-K) *'D'
10.10(a)	Millennium Chemicals Inc. Long Term Stock Incentive Plan (Filed as Exhibit 10.25 to the Form 10)*'D'
10.10(b)	Amendment Number 1 to the Millennium Chemicals Inc. Long Term Stock Incentive Plan (Filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended September

30, 1997)*'D'

10.10(c)	Amendment dated July 24, 1997 to the Millennium Chemicals Inc. Long Term Stock Incentive Plan (Filed as Exhibit 10.25(c) to the 1997 Form 10-K)*'D'
10.10(d)	Amendments dated January 23, 1998 and December 10, 1998, to the Millennium Chemicals Inc. Long Term Stock Incentive Plan (Filed as Exhibit 10.23(d) to the 1998 Form 10-K)*'D'
10.10(e)	Amendment to the Millennium Chemicals Inc. Long Term Stock Incentive Plan (Filed as Exhibit 10.23(d) to the 1998 Form 10-K) (Filed as Exhibit 10.10(e) to the Original 2002 Form 10-K)*'D'
10.11(a)	Amended and Restated Millennium Chemicals Inc. Supplemental Executive Retirement Plan (Filed as Exhibit 10.11(a) to the Original 2002 Form 10-K)*'D'
10.11(b)	Millennium Chemicals Inc. 2003 Supplemental Executive Retirement Plan (Filed as Exhibit 10.11(b) to the Original 2002 Form 10-K)*'D'
10.15	Millennium Chemicals Grandfathered Supplemental Executive Retirement Plan (Filed as Exhibit 10.15(b) to the 2000 Form 10-K)*'D'
10.16	Millennium Petrochemicals Grandfathered Supplemental Executive Retirement Plan (Filed as Exhibit 10.16 to the 2000 Form 10-K)*'D'
10.17	Millennium Inorganic Chemicals Grandfathered Supplemental Executive Retirement Plan (Filed as Exhibit 10.17 to the 2000 Form 10-K)*'D'

Exhibit Number	Description
10.18	Millennium Specialty Chemicals Grandfathered Supplemental Executive Retirement Plan (Filed as Exhibit 10.18 to the 2000 Form 10-K)*'D'
10.19(a)	Millennium Chemicals Inc. Salary and Bonus Deferral Plan (Filed as Exhibit 10.30 to the 1996 Form 10-K)*'D'
10.19(b)	Amendment Number 1 dated January 23, 1998, to the Millennium Chemicals Inc. Salary and Bonus Deferral Plan (Filed as Exhibit 10.30(b) to the 1997 Form 10-K)*'D'
10.19(c)	Amendment Number 2 dated January 22, 1999, to the Millennium Chemicals Inc. Salary and Bonus Deferral Plan (Filed as Exhibit 10.28(c) to the 1998 Form 10-K)*'D'
10.19(d)	Amendment Number Three to the Millennium Chemicals Inc. Salary and Bonus Deferral Plan (Filed as Exhibit 10.19(d) to the Original 2002 Form 10-K)*'D'

10.20(a)	Millennium Chemicals Inc. Supplemental Savings and Investment Plan (Filed as Exhibit 10.29 to the 1998 Form 10-K)*'D'
10.20(b)	Amendment to the Millennium Chemicals Inc. Supplemental Savings and Investment Plan (Filed as Exhibit 10.20(b) to the Original 2002 Form 10-K)*'D'
10.21(a)	Millennium Chemicals Inc. Long Term Incentive Plan (Filed as Exhibit 10.21 to the 2000 Form 10-K)*'D'
10.21(b)	Amendment Number 1 to the Millennium Chemicals Inc. Long Term Incentive Plan (Filed as Exhibit 10.21(b) to the Original 2002 Form 10-K)*'D'
10.22(a)	Millennium Chemicals Inc. Executive Long Term Incentive Plan (Filed as Exhibit 10.22 to the 2000 Form 10-K)*'D'
10.22(b)	Amendment Number 1 to the Millennium Chemicals Inc. Executive Long Term Incentive Plan (Filed as Exhibit 10.22(b) to the Original 2002 Form 10-K)*'D'
10.23(a)	Millennium America Holdings Inc. Long Term Incentive Plan and Executive Long Term Incentive Plan Trust Agreement (Filed as Exhibit 10.23 to the 2000 Form 10-K)*'D'
10.23(b)	Amendment Number 1 to the Millennium America Holdings Inc. Long Term Incentive Plan Trust Agreement (Filed as Exhibit 10.23(b) to the Original 2002 Form 10-K)*'D'
10.24(a)	Millennium Chemicals Inc. Omnibus Incentive Compensation Plan (Filed as Exhibit 10.24 to the 2000 Form 10-K)*'D'
10.24(b)	Form of Stock Option Agreement under Omnibus Incentive Compensation Plan (Filed as Exhibit 10.24(b) to the 2001 Form 10-K)*'D'
10.24(c)	Amendment to Millennium Chemicals Inc. 2001 Omnibus Incentive Compensation Plan (Filed as Exhibit 10.24(c) to the Original 2002 Form 10-K)*'D'
10.25(a)	Master Transaction Agreement between the Company and Lyondell (Filed as an Exhibit to the Company's Current Report on Form 8-K dated July 25, 1997)*
10.25(b)	First Amendment to Master Transaction Agreement between Lyondell and the Company (Filed as an Exhibit to the Company's Current Report on Form 8-K dated October 17, 1997)*
10.26	Amended and Restated Limited Partnership Agreement of Equistar Chemicals, LP dated as of November 6, 2002 (Filed as Exhibit 10.26 to the Company's Current Report on Form 8-K dated November 25, 2002 (the "November 26, 2002 Form 8-K"))*
10.27(a)	Asset Contribution Agreement (the "Millennium Asset Contribution Agreement") among Millennium Petrochemicals, Millennium Petrochemicals LP LLC and Equistar (Filed as an Exhibit to the Company's Current Report on Form 8-K dated December 10, 1997)*
10.27(b)	First Amendment to the Millennium Asset Contribution Agreement dated as of May 15, 1998 (Filed as Exhibit 10.23(b) to the 1999 Form 10-K)*

10.27(c)	Second Amendment to the Asset Contribution Agreement among Millennium Chemicals Inc., Millennium Petrochemicals LP LLC, and Equistar Chemicals, LP*
10.28	First Amendment to Lyondell Asset Contribution Agreement dated as of May 15, 1998 (Filed as Exhibit 10.24(b) to the 1999 Form 10-K)*

Exhibit Number	Description
10.29(a)	Amended and Restated Parent Agreement among Lyondell, the Company and Equistar, dated as of November 6, 2002, (Filed as Exhibit 10.29 to the November 26, 2002 8-K)*
11.1	Statement re: computation of per share earnings (Filed as Exhibit 11.1 to the Original 2002 Form 10-K)*
11.2	Statement re: computation of per share earnings**
18.1	Change in Accounting Principle (Filed as Exhibit 18.1 to the Original 2002 Form 10-K)*
21.1	Subsidiaries of the Company (Filed as Exhibit 21.1 to the Original 2002 Form 10-K)*
23.1	Consent of PricewaterhouseCoopers LLP (Filed as Exhibit 23.1 to the Original 2002 Form 10-K)*
23.2	Consent of PricewaterhouseCoopers LLP (Filed as Exhibit 23.2 to the Original 2002 Form 10-K)*
23.3	Consent of PricewaterhouseCoopers LLP**
31.1	Certificate of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**
31.2	Certificate of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**
32.1	Certificate of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Furnished, not filed, in accordance with Item 601(b)(32)(ii) of Regulation S-K, 17 CFR 229.601(b)(32)(ii))**
32.2	Certificate of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Furnished, not filed, in accordance with Item 601(b)(32)(ii) of Regulation S-K, 17 CFR 229.601(b)(32)(ii))**
99.1	Information relevant to forward-looking statements (Filed as Exhibit 99.1 to the Original 2002 Form 10-K). For a revised and updated statement regarding information relevant to

forward-looking statements, please see Exhibit 99.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, which is incorporated by reference herein.*

99.2 Form of Letter Agreement, dated July 3, 1996, between Hanson and United Kingdom Inland Revenue (Filed as Exhibit 99.2 to the Form 10)*

In addition, the Company hereby agrees to furnish to the Securities and Exchange Commission, upon request, a copy of any instrument not listed above that defines the rights of the holders of long-term debt of the Company and its subsidiaries.

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* Incorporated by reference.

** Filed herewith.

'D' Management contract or compensatory plan or arrangement required to be filed pursuant to Item 14(c).

(b) Reports on Form 8-K.

Current Reports on Form 8-K dated October 30, 2002, November 14, 2002, November 26, 2002, December 3, 2002, December 16, 2002, December 19, 2002, January 9, 2003, January 27, 2003, January 31, 2003 and March 19, 2003, were filed during the quarter ended December 31, 2002 and through March 25, 2003, the date the original Form 10-K was filed with the Securities and Exchange Commission.

SIGNATURE

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

MILLENNIUM CHEMICALS INC.

By: /s/ ROBERT E. LEE

Robert E. Lee
President and
Chief Executive Officer

November 12, 2003

SCHEDULE II

MILLENNIUM CHEMICALS INC.
VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended 2000, 2001 and 2002

	Balance at Beginning of Year	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Ded
Year ended December 31, 2000				
Deducted from asset accounts:				
Allowance for doubtful accounts..........	$ 2	$ 2	--	$
Valuation allowance for deferred tax assets................................	76	--	--	
Year ended December 31, 2001				
Deducted from asset accounts:				
Allowance for doubtful accounts..........	4	4	--	
Valuation allowance for deferred tax assets................................	70	--	--	
Year ended December 31, 2002 (Restated)*				
Deducted from asset accounts:				
Allowance for doubtful accounts..........	7	--	--	
Valuation allowance for deferred tax assets................................	9	--	10(d)	

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* The Company's financial statements have been restated as disclosed in Note 2 to the Company's Consolidated Financial Statements included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2002.

(a) Valuation allowance for capital loss carryover.

(b) Uncollected accounts written off, net of recoveries.

(c) Portion of underlying capital loss carryover expired.

(d) Valuation allowance related to the net deferred tax assets of the Company's French subsidiaries.

Exhibit Index

Exhibit Number	Description of Document
11.2	Statement re: computation of per share earnings
23.3	Consent of PricewaterhouseCoopers LLP
31.1	Certificate of Principal Executive Officer pursuant to Section 302

of the Sarbanes-Oxley Act of 2002

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

STATEMENT OF DIFFERENCES

The registered trademark symbol shall be expressed as.................. 'r'
The section symbol shall be expressed as............................... 'SS'
The dagger symbol shall be expressed as................................ 'D'
Characters normally expressed as subscript shall be preceded by......... [u]