MILLENNIUM CHEMICALS INC
Form 10-Q
November 14, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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	22-3436215
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

230 Half Mile Road
Red Bank, New Jersey 07701
(Address of principal executive offices)

732-933-5000
(Registrant's telephone number, including area code)

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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 63,083,883 shares of Common Stock, par value $.01 per share, as of October 31, 2002, excluding 14,812,703 shares held by the registrant, its subsidiaries and certain Company trusts, which are not entitled to vote.

MILLENNIUM CHEMICALS INC.

Table of Contents

Disclosure Concerning Forward-Looking Statements

The statements in this Quarterly 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 c 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, Millennium Chemicals Inc. (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 this filing. Actual events or results may differ materially. Factors that could cause such a difference include:

- the cyclicality and volatility of the segments of the chemical industry in which the Company and Equistar Chemicals, LP (Equistar) operate, particularly fluctuations in the demand for ethylene, its derivatives and acetyls and the sensitivity of these industry segments 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;
- 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 future capital commitments to Equistar;
- changes in the cost of energy and raw materials;
- 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; and
- 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) and other claims.

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, 2001, as amended, which is incorporated herein by reference.

Some of these Cautionary Statements are discussed in more detail in Management s Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report. Readers are cautioned not to place undue reliance on forward-looking or Cautionary Statements, which reflect management s opinions only as of the date hereof. The Company undertakes no obligation to update any forward-looking or Cautionary Statement. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on behalf of the Company are expressly qualified in their entirety by the Cautionary Statements in this Quarterly Report. 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.

In this Quarterly Report, references to the Company are to the Company and its consolidated subsidiaries, except as the context otherwise requires.

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

	September 30, 2002	December 31, 2001
ASSETS		
Current assets		
Cash and cash equivalents	$ 119	$ 114
Trade receivables, net	230	215
Inventories	343	370
Other current assets	70	61
Total current assets	762	760
Property, plant and equipment, net	845	880
Investment in Equistar	608	677
Deferred income taxes	89	72
Other assets	258	237
Goodwill	103	378
Total assets	$ 2,665	$ 3,004
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Notes payable	$ 4	$ 4
Current maturities of long-term debt	12	11
Trade accounts payable	199	222
Income taxes payable	12	7
Accrued expenses and other liabilities	167	139
Total current liabilities	394	383
Long-term debt	1,200	1,172
Other liabilities	514	550

	September 30,		December 31,
Total liabilities	2,108		2,105
Commitments and contingencies (Note 10)			
Minority interest	15		21
Shareholders' 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 at September 30, 2002 and December 31, 2001)	1		1
Paid in capital	1,298		1,299
Retained deficit	(375)		(20)
Cumulative other comprehensive loss	(119)		(136)
Treasury stock, at cost (14,854,042 and 14,594,614 shares at September 30, 2002 and December 31, 2001, respectively)	(279)		(283)
Deferred compensation	16		17
Total shareholders' equity	542		878
Total liabilities and shareholders' equity	$ 2,665		$ 3,004

See Notes to Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2002	2001	2002	2001
Net sales	$ 411	$ 393	$ 1,167	$ 1,256
Operating costs and expenses				
Cost of products sold	316	307	944	978
Depreciation and amortization	26	28	76	83
Selling, development and administrative expense	36	35	80	113
Reorganization and plant closure charges	--	--	--	36
Operating income	33	23	67	46
Interest expense	(23)	(18)	(67)	(62)

	Three Months Ended		Nine Months Ended	
Interest income	1	--	3	2
Equity in income (loss) of Equistar	4	(26)	(45)	(61)
Other (expense) income, net	(1)	2	(2)	1
Income (loss) before income taxes, minority interest and cumulative effect of accounting change	14	(19)	(44)	(74)
(Provision for) benefit from income taxes	(7)	8	22	26
Income (loss) before minority interest and cumulative effect of accounting change	7	(11)	(22)	(48)
Minority interest	(1)	(1)	(2)	(3)
Income (loss) before cumulative effect of accounting change	6	(12)	(24)	(51)
Cumulative effect of accounting change	--	--	(305)	--
Net income (loss)	$ **6**	$ **(12)**	$ **(329)**	$ **(51)**
Basic and diluted income (loss) per share:				
Before cumulative effect of accounting change	$ 0.10	$ (0.20)	$ (0.38)	$ (0.81)
From cumulative effect of accounting change	--	--	(4.80)	--
After cumulative effect of accounting change	$ **0.10**	$ **(0.20)**	$ **(5.18)**	$ **(0.81)**

See Notes to Consolidated Financial Statements.

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

	Nine Months Ended	
	September 30,	
	2002	2001
Cash flows from operating activities		
Net loss	$ (329)	$ (51)
Adjustments to reconcile net loss to net cash provided by operating activities		
Cumulative effect of accounting change	305	--
Write-off of assets related to plant closure	--	10
Depreciation and amortization	76	83
Deferred income tax benefit	(24)	(40)

	Nine Months Ended	
Equity in loss of Equistar	45	61
Minority interest	2	3
Other, net	2	(2)
Changes in assets and liabilities		
(Increase) decrease in trade receivables	(17)	35
Decrease in inventories	30	32
Increase in other current assets	(9)	(21)
Increase in other assets	(13)	(33)
Decrease in trade accounts payable	(23)	(2)
Increase in accrued expenses and other liabilities and income taxes payable	25	24
Decrease in other liabilities	(18)	(32)
Cash provided by operating activities	52	67
Cash flows from investing activities		
Capital expenditures	(43)	(85)
Proceeds from sales of property, plant & equipment	--	5
Cash used in investing activities	(43)	(80)
Cash flows from financing activities		
Dividends to shareholders	(26)	(26)
Proceeds from long-term debt	255	754
Repayment of long-term debt	(234)	(701)
Increase (decrease) in notes payable	3	(33)
Cash used in financing activities	(2)	(6)
Effect of exchange rate changes on cash	(2)	(7)
Increase (decrease) in cash and cash equivalents	5	(26)
Cash and cash equivalents at beginning of year	114	107
Cash and cash equivalents at end of period	$ **119**	$ **81**

See Notes to Consolidated Financial Statements.

MILLENNIUM CHEMICALS INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (Millions) 6

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

Note 1 Basis of Presentation

Pursuant to the rules and regulations of the Securities and Exchange Commission, the accompanying unaudited interim consolidated financial statements do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America for complete financial statements. The accompanying consolidated financial statements should be read in conjunction with the financial statements and disclosures included in the Company s most recent Annual Report on Form 10-K, as amended, for the year ended December 31, 2001. In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary to present fairly the financial position and results of operations for the interim periods.

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Minority interest represents the minority ownership of the Company s Brazilian subsidiary. All significant intercompany accounts and transactions have been eliminated. The Company s 29.5% investment in Equistar, a joint venture between the Company and Lyondell Chemical Company (Lyondell), is accounted for by the equity method; accordingly, the Company s share of Equistar s net income or loss is included in the Company s net income or loss. Certain prior year balances have been reclassified to conform to the current year presentation including segment analysis presented in Note 11.

Note 2 Recent Accounting Developments

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and 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. The Company and Equistar adopted this standard on January 1, 2002. 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 using various valuation methods considering expected future profitability and cash flows. Additionally, 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, which the Company also reported as a charge for the cumulative effect of this accounting change. Amortization expense for the three months and nine months ended September 30, 2001 for goodwill that was recorded on the Company s Consolidated Balance Sheets was $4 and $10, respectively. Additionally, the Company s share of amortization expense reported by Equistar for the three months and nine months ended September 30, 2001 for its goodwill, included in Equity in income (loss) of Equistar, was $2 and $7, respectively. Following is a reconciliation of the reported net income (loss) to net income (loss) adjusted for goodwill amortization and the cumulative effect of the accounting change, and related per share amounts:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2002	2001	2002	2001
Reported net income (loss)	$ 6	$ (12)	$ (329)	$ (51)
Goodwill amortization	--	4	--	10
Equistar goodwill amortization included in Equity in income (loss) of Equistar	--	2	--	7
Adjusted net income (loss)	6	(6)	(329)	(34)
Cumulative effect of accounting change	--	--	305	--
Adjusted net income (loss) before cumulative effect of accounting change	$ 6	$ (6)	$ (24)	$ (34)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
Per share amounts, basic and diluted:	2002	2001	2002	2001
Reported net income (loss)	$ 0.10	$ (0.20)	$ (5.18)	$ (0.81)
Goodwill amortization	--	0.06	--	0.16
Equistar goodwill amortization included in Equity in income (loss) of Equistar	--	0.03	--	0.11
Adjusted net income (loss)	0.10	(0.11)	(5.18)	(0.54)
Cumulative effect of accounting change	--	--	4.80	--
Adjusted net income (loss) before cumulative effect of accounting change	$ **0.10**	$ **(0.11)**	$ **(0.38)**	$ **(0.54)**

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 and is currently evaluating the potential impact on its consolidated financial position and results of operations.

Note 3 Securitization of Trade Receivables

Since March 2002, the Company has been transferring its interest in certain European trade receivables to an unaffiliated third party as the 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, $56 outstanding at September 30, 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, $8 at September 30, 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 September 30, 2002 was 5 million *euro*. For the three months and nine months ended September 30, 2002, cumulative gross proceeds from this securitization arrangement were $76 and $159, respectively. Cash flows from this securitization arrangement are reflected as operating activities in the Consolidated Statements of Cash Flows. For the nine months ended September 30, 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 4 Inventories

Inventories are stated at the lower of cost or market value. For certain United States operations representing 29% and 27% of consolidated inventories at September 30, 2002 and December 31, 2001, respectively, cost is determined under the last-in, first-out (LIFO) method. The first-in, first-out (FIFO) method, or methods that approximate FIFO, are used by all other subsidiaries.

	September 30,	December 31,
	2002	2001
Inventories		
Finished products	$ 156	$ 204

	September 30,	December 31,
In-process products	26	21
Raw materials	103	93
Other inventories	58	52
	$ 343	$ 370

Note 5 Reorganization and Plant Closure Charges

Reorganization and plant closure costs of $36 before tax ($24 after-tax or $0.38 per share) were recorded in the nine months ended September 30, 2001 related to activities within each of the Company s business segments.

During the second quarter of 2001, $31 ($20 after-tax or $0.31 per share) was recorded in connection with the Company s announced decision to indefinitely idle its sulfate-process TiO_2 plant in Hawkins Point, Maryland and reduce its worldwide workforce. 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 ($4 after-tax or $0.07 per share) 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.

Note 6 Earnings per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Weighted-average common stock outstanding - basic	63,618,337	63,517,778	63,547,478	63,515,039
Options	--	--	--	--
Restricted shares	91,282	--	--	--
Shares held by employee benefit plan trusts	227,970	--	--	--
Weighted-average common stock outstanding - diluted	**63,937,589**	**63,517,778**	**63,547,478**	**63,515,039**

The calculation of diluted earnings per share for the nine months ended September 30, 2002 does not include 63,998 options to purchase common stock, 91,929 restricted shares issued under a Company incentive plan, and 227,970 shares held by certain of the Company s employee benefit plan trusts. The calculation of diluted earnings per share for the three months and nine months ended September 30, 2001 does not include 302,071 and 308,933 restricted shares issued under a Company incentive plan, respectively. The effect of including these options and shares would be antidilutive.

Note 7 Comprehensive Loss

The following table sets forth the components of Other comprehensive income (loss) and Total comprehensive income (loss):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2002	2001	2002	2001
Net income (loss)	$ 6	$ (12)	$ (329)	$ (51)
Other comprehensive income (loss)				
Net gains (losses) on derivative financial instruments	4	(6)	6	(16)
Minimum pension liability adjustment	--	--	1	--
Currency translation adjustment	(14)	8	10	(18)
Total comprehensive loss	$ (4)	$ (10)	$ (312)	$ (85)

Note 8 Long-Term Debt and Credit Arrangements

In 2001, Millennium America Inc. (Millennium America), a wholly owned indirect subsidiary of the Company, entered into a five-year Credit Agreement (the Credit Agreement) and issued $275 of seven-year 9.25% Senior Notes due June 15, 2008 (the 9.25% Senior Notes). The Credit Agreement includes a revolving credit portion with total availability of $175 (the Revolving Loans), and a term loan portion (the Term Loans). The Company and Millennium America guarantee the obligations under the Credit Agreement.

On June 26, 2002, the Company received approximately $102.5 in gross proceeds ($100 in net proceeds) from the completion of an offering of $100 additional principal amount of the 9.25% Senior Notes. The gross proceeds of the offering were used to repay all outstanding borrowings under the Company s Revolving Loans and to repay $65 outstanding under the Term Loans.

The Revolving Loans are available in US dollars, pounds sterling 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. The Term Loans may be prepaid in part or in total at the option of the Company at any time, but 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 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 8.25 to 1.00 for the third quarter of 2002; 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 1.60 to 1.00 for the third quarter of 2002; 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 Company was in compliance with these amended covenants at September 30, 2002. These covenants are monitored frequently in order to assess the likelihood of continued compliance. 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 had $11 outstanding (no outstanding borrowings and outstanding letters of credit of $11) under the Revolving Loans and, accordingly, had $164 of unused availability under such facility at September 30, 2002. In addition, the Company had $49 outstanding under the Term Loans at September 30, 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 September 30, 2002. The Company had unused availability under short-term uncommitted lines of credit, other than the Credit Agreement, of $45 at September 30, 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 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 September 30, 2002, any reduction in CNTA below approximately $1,500 would decrease the Company s availability under the Revolving Loans by 15% of any such reduction. CNTA was approximately $2,200 at September 30, 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 percent of the Company s Cumulative Net Income (as defined in such indenture) since July 1, 2001 (or is reduced by 100 percent 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 percent of any cash distributions received from Equistar. As of November 14, 2002, the amount of such future restricted payments the Company is permitted to make is approximately $18 after taking into account the common stock dividend declared for the fourth quarter of 2002. 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 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. The Company s investment grade rating from S&P was placed on negative outlook on October 1, 2001. 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.

At September 30, 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.

Millennium America had an indemnity agreement with Equistar pursuant to which Millennium America could have been required to contribute to Equistar up to $750. This indemnity terminated upon the closing of the purchase by Lyondell of the interest Occidental Petroleum Corporation (Occidental) held in Equistar. For additional information, see Note 12.

Note 9 Derivative Instruments and Hedging Activities

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

Foreign Currency Exposure Management: The Company manufactures and sells its products in a number of countries throughout the world and, as a result, is exposed to movements in foreign currency exchange rates. The primary purpose of the Company s foreign currency hedging activities is to manage the volatility associated with foreign currency purchases and foreign currency sales. The Company utilizes forward exchange contracts with various terms. As of September 30, 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 Selling, development and administrative expense, which offset similar amounts from foreign currency denominated trade receivables and payables, also included in Selling, development and administrative expense, were a loss of $2 and a gain of $2 in the three months and nine months ended September 30, 2002, respectively.

In addition, the Company utilizes forward exchange contracts that qualify as cash flow hedges. These are intended to offset the effect of exchange rate fluctuations on forecasted sales and inventory purchases. Gains and losses on these instruments are deferred in other comprehensive income (OCI) until the underlying transaction is recognized in earnings. The earnings impact is reported either in Net sales or Cost of products sold to match the underlying transaction being hedged. During the three months and nine months ended September 30, 2002, net gains on forward exchange contracts designated as cash flow hedges reclassified to earnings to match the gain or loss on the underlying transaction being hedged were $1 and $4, respectively. Hedge ineffectiveness had no significant impact on earnings for the first nine months of 2002. No forward exchange contract cash flow hedges were discontinued during the first nine months of 2002. The Company estimates that approximately $1 of net gains on foreign currency cash flow hedges included in OCI at September 30, 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 September 30, 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 the three months and nine months ended September 30, 2002, net losses on commodity swaps designated as cash flow hedges of $1 and $4, 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 the first nine months of 2002. No commodity swap cash flow hedges were discontinued in the first nine months of 2002. The Company estimates that approximately $3 of net losses on commodity swaps included in OCI at September 30, 2002 will be reclassified to earnings during the next twelve months.

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 September 30, 2002, the Company had outstanding interest rate swap agreements with a notional amount of $125, which are designated as fair value hedges of underlying fixed-rate obligations. The fair value of the Company s interest rate swap agreements was approximately $3 at September 30, 2002. The gains and losses on both the interest rate swaps and the hedged portion of the underlying debt are recorded in Interest expense. All existing fair value hedges are completely effective; therefore, there is no impact to earnings due to hedge ineffectiveness. 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 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 by these interest rate swaps. The amount of these deferred gains recognized as a reduction of Interest expense during the three months ended September 30, 2002 was not significant.

Note 10 Commitments and Contingencies

Legal and Environmental: 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 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, as set forth in more detail below, cases alleging personal injury, property damage and remediation costs associated with use of lead-based paint or lead pigment in paint. Typically, such proceedings involve claims made by many plaintiffs against many defendants in the chemical industry. 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 tax liabilities and 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, and 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 nuisance. All these legal proceedings other than the Rhode Island proceeding discussed below are in various pre-trial stages. The first phase of a proposed multi-phase trial in the Rhode Island proceeding commenced on September 4, 2002. On October 29, 2002, the judge in the case declared a mistrial after the jury declared itself deadlocked. The sole issue before the jury was whether lead pigment in paint in and on Rhode Island buildings constitutes a public nuisance . The court has yet to rule on motions for judgment as a matter of law filed by both sides during the trial. The court could grant summary judgment in favor of either party, or deny both sides motions, allowing the mistrial to stand. Should the mistrial stand, the State of Rhode Island may seek a new trial. In addition, on November 4, 2002, the court in *In Re Lead Paint Litigation*, Superior Court of New Jersey, Law Division: Middlesex County, Case Code 702 (the consolidated lead-based paint litigation involving 24 New Jersey municipalities), the court granted the motion to dismiss the litigation made by the defendants (including a current Company subsidiary), and dismissed with prejudice all claims related to the litigation. The plaintiffs may decide to file an appeal. The Company s defense costs to date largely have been covered by insurance. The Company has not accrued any reserves for the Rhode Island proceeding or any other 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 coverage litigation initiated by the Company in Ohio in 2000, an Ohio trial court earlier this year issued a decision effectively requiring the 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. The first of these cases was filed in 1989 by the New York City Housing Authority relating to tens of thousands of public housing units. All claims in that case have been dropped except for those relating to three housing projects. The other remaining case is a 1992 Ohio lawsuit that now includes five minors as plaintiffs; dispositive motions are scheduled to be filed in that case in early 2003.

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. As indicated above, 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 in the United States District Court for the District of Minnesota, 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.

Certain Company subsidiaries have been named as defendants, potentially responsible parties (PRPs), or both, in a number of environmental proceedings associated with waste disposal sites and facilities currently or previously owned, operated or used by the Company s subsidiaries or their predecessors, some of which are on the Superfund National Priorities List of the United States Environmental Protection Agency (EPA) or similar state lists. The Company has estimated its individual exposure at these sites to be between twenty-five thousand dollars and $27.5. One potentially significant site at which a Company subsidiary is a PRP concerns alleged polychlorinated biphenyl contamination of a section of the Kalamazoo River in Michigan (Kalamazoo Site). The EPA is now the lead agency at the Kalamazoo Site and has ordered the Kalamazoo River Study Group (KRSG), of which the Company s subsidiary is a member, to undertake further sampling and analysis. Prior to the EPA assuming Kalamazoo Site leadership, in 2000, the KRSG had submitted to the State of Michigan a Draft Remedial Investigation and Draft Feasibility Study that recommended a Kalamazoo Site remedy involving the stabilization of several miles of river bank and the long-term monitoring of river sediments at a total cost for all parties of approximately $73. The Company has accrued for its estimated share of costs for this remedy. While the State has submitted comments to the EPA, as the lead agency, on the Draft Remedial Investigation and Draft Feasibility Study, the EPA has yet to similarly comment.

The Company believes that the reasonably probable and estimable range of potential liability for all legal and environmental proceedings, collectively, (which primarily relates to environmental remediation activities and other environmental proceedings) is between $71 and $101 and has accrued $79 as of September 30, 2002. 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.

Note 11 Operations by Business Segment

The Company s principal operations are managed and grouped as three separate business segments: Titanium Dioxide (TiO_2) and Related Products, Acetyls, and Specialty Chemicals. Operating income and expense not identified to the three separate business segments, consisting primarily of employee-related costs from predecessor businesses and certain other expenses, are reflected as Other. The following is a summary of the Company s operations by business segment:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2002	2001	2002	2001
Net sales				
Titanium Dioxide and Related Products	$ 296	$ 286	$ 858	$ 903
Acetyls	91	85	239	282
Specialty Chemicals	24	22	70	71
Total	$ 411	$ 393	$ 1,167	$ 1,256
Operating income (loss)(1)				
Titanium Dioxide and Related Products	$ 21	$ 21	$ 46	$ 39
Acetyls	9	(3)	6	(6)
Specialty Chemicals	2	3	8	10
Other	1	2	7	3
Total	$ 33	$ 23	$ 67	$ 46
Depreciation and amortization(2)				
Titanium Dioxide and Related Products	$ 21	$ 21	$ 61	$ 62
Acetyls	3	5	9	15
Specialty Chemicals	2	2	6	6
Total	$ 26	$ 28	$ 76	$ 83

	Three Months Ended		Nine Months Ended	
Capital expenditures				
Titanium Dioxide and Related Products	$ 14	$ 23	$ 37	$ 72
Acetyls	1	--	1	5
Specialty Chemicals	3	1	5	3
Other	--	--	--	5
Total	$ 18	$ 24	$ 43	$ 85

(1) Includes $5 adjustment of reserves due to favorable resolution of environmental claims related to predecessor businesses reserved for in prior years in the nine months ended September 30, 2002, non-recurring reorganization and plant closure charges of $36 in the nine months ended September 30, 2001 and goodwill amortization of $4 and $10 for the three months and nine months ended September 30, 2001, respectively.

(2) Includes goodwill amortization of $4 and $10 for the three months and nine months ended September 30, 2001, respectively.

	September 30,	December 31,
	2002	2001
Goodwill		
Titanium Dioxide and Related Products	$ 55	$ 55
Acetyls	48	323
Total	$ 103	$ 378

Note 12 Information on Equistar

The following is summarized financial information for Equistar:

	September 30,	December 31,
	2002	2001
Current assets	$ 1,271	$ 1,226
Noncurrent assets	3,902	5,082
Total assets	$ 5,173	$ 6,308
Current liabilities	$ 659	$ 661
Noncurrent liabilities	2,462	2,410

	September 30,		December 31,	
Partners' capital		2,052		3,237
Total liabilities and partners' capital	$	5,173	$	6,308

	Three Months Ended				Nine Months Ended			
	September 30,				September 30,			
	2002		2001		2002		2001	
Net sales	$	1,508	$	1,351	$	4,106	$	4,724
Operating income (loss)		71		(34)		18		(56)
Income (loss) before cumulative effect of accounting change		22		(82)		(132)		(189)
Cumulative effect of accounting change		--		--		(1,053)		--
Net income (loss)		22		(82)		(1,185)		(189)

Certain of the Company s Selling, development and administrative (S,D&A) costs that are associated with its investment in Equistar are included in Equity in income (loss) of Equistar on the Company s Consolidated Statements of Operations. S,D&A costs included therein were $2 for the three months ended September 30, 2002 and 2001 and $5 for the nine months ended September 30, 2002 and 2001.

The Company recorded $30 related to its share of Equistar s write-down of goodwill during the three months ended March 31, 2002. The Company s share (i.e., 29.5%) of Equistar s write-down is higher than the amount recorded by the Company because most of the write-down was previously taken by the Company in 1999 when it wrote down its investment in Equistar by $639.

On January 31, 2001, Lyondell and Occidental announced that they agreed in principle on a proposed transaction whereby Occidental would sell its 29.5% equity interest in Equistar to Lyondell. The transaction subsequently closed 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 as representing the basis for determining the value of the Company s investment in Equistar. The Company has evaluated the carrying value of its investment in Equistar at September 30, 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. The carrying value of the Company s investment in Equistar at September 30, 2002 was $608.

Millennium America had an indemnity agreement with Equistar pursuant to which Millennium America could have been required to contribute to Equistar up to $750. This indemnity terminated upon the closing of the purchase by Lyondell of Occidental s interest in Equistar.

Note 13 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 7.00% 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 7.00% 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 September 30, 2002 and December 31, 2001, the Condensed Consolidating Statements of Operations for the three months and nine months ended September 30, 2002 and 2001, and the Condensed Consolidating Statements of Cash Flows for the nine months ended September 30, 2002 and 2001, 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 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 America Inc.	Millennium Chemicals Inc.	Non-Guarantor Subsidiaries	Eliminations	Millennium Chemicals Inc. and Subsidiaries
Condensed Consolidating Balance Sheets					
September 30, 2002					
ASSETS					
Inventories	$ --	$ --	$ 343	$ --	$ 343
Other current assets	37	--	382	--	419
Property, plant and equipment, net	--	--	845	--	845
Investment in Equistar	--	--	608	--	608
Investment in subsidiaries	679	662	--	(1,341)	--
Other assets	18	--	329	--	347
Goodwill	--	--	103	--	103
Due from parent and affiliates, net	642	--	--	(642)	--
Total assets	$ **1,376**	$ **662**	$ **2,610**	$ **(1,983)**	$ **2,665**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current maturities of long-term debt	$ 3	$ --	$ 9	$ --	$ 12
Other current liabilities	8	--	374	--	382
Long-term debt	1,179	--	21	--	1,200
Other liabilities	--	--	514	--	514
Due to parent and affiliates, net	--	120	522	(642)	--
Total liabilities	1,190	120	1,440	(642)	2,108
Minority interest	--	--	15	--	15
Shareholders' equity	186	542	1,155	(1,341)	542
Total liabilities and shareholders' equity	$ **1,376**	$ **662**	$ **2,610**	$ **(1,983)**	$ **2,665**
December 31, 2001					
ASSETS					
Inventories	$ --	$ --	$ 370	$ --	$ 370
Other current assets	6	--	384	--	390
Property, plant and equipment, net	--	--	880	--	880
Investment in Equistar	--	--	677	--	677

	Millennium America Inc.		Millennium Chemicals Inc.		Non-Guarantor Subsidiaries		Eliminations		Millennium Chemicals Inc. and Subsidiaries
Investment in subsidiaries		1,061		968		--		(2,029)		--
Other assets		13		--		296		--		309
Goodwill		--		--		378		--		378
Due from parent and affiliates, net		590		--		--		(590)		--
Total assets	$	1,670	$	968	$	2,985	$	(2,619)	$	3,004
LIABILITIES AND SHAREHOLDERS' EQUITY										
Current maturities of long-term debt	$	3	$	--	$	8	$	--	$	11
Other current liabilities		8		--		364		--		372
Long-term debt		1,156		--		16		--		1,172
Other liabilities		--		1		549		--		550
Due to parent and affiliates, net		--		89		501		(590)		--
Total liabilities		1,167		90		1,438		(590)		2,105
Minority interest		--		--		21		--		21
Shareholders' equity		503		878		1,526		(2,029)		878
Total liabilities and shareholders' equity	$	1,670	$	968	$	2,985	$	(2,619)	$	3,004

		Millennium America Inc.		Millennium Chemicals Inc.		Non-Guarantor Subsidiaries		Eliminations		Millennium Chemicals Inc. and Subsidiaries
Condensed Consolidating Statements of Operations										
Three Months Ended										
September 30, 2002										
Net sales	$	--	$	--	$	411	$	--	$	411
Cost of products sold		--		--		316		--		316
Depreciation and amortization		--		--		26		--		26
Selling, development and administrative expense		1		--		35		--		36
Operating (loss) income		(1)		--		34		--		33

	Millennium America Inc.	Millennium Chemicals Inc.	Non-Guarantor Subsidiaries	Eliminations	Millennium Chemicals Inc. and Subsidiaries
Interest expense, net	(22)	--	--	--	(22)
Intercompany interest income (expense), net	26	(1)	(25)	--	--
Equity in income of Equistar	--	--	4	--	4
Equity in (loss) income of subsidiaries	(3)	7	--	(4)	--
Other expense, net	--	--	(2)	--	(2)
Income taxes	(1)	--	(6)	--	(7)
Net (loss) income	$ (1)	$ 6	$ 5	$ (4)	$ 6
Three Months Ended					
September 30, 2001					
Net sales	$ --	$ --	$ 393	$ --	$ 393
Cost of products sold	--	--	307	--	307
Depreciation and amortization	--	--	28	--	28
Selling, development and administrative expense	--	--	35	--	35
Operating income	--	--	23	--	23
Interest expense, net	(18)	--	--	--	(18)
Intercompany interest income (expense), net	27	(1)	(26)	--	--
Equity in loss of Equistar	--	--	(26)	--	(26)
Equity in loss of subsidiaries	(10)	(10)	--	20	--
Other (expense) income, net	(1)	(1)	3	--	1
Income taxes	(2)	--	10	--	8
Net loss	$ (4)	$ (12)	$ (16)	$ 20	$ (12)

	Millennium America Inc.	Millennium Chemicals Inc.	Non-Guarantor Subsidiaries	Eliminations	Millennium Chemicals Inc. and Subsidiaries
Condensed Consolidating Statements of Operations					
Nine Months Ended					

	Millennium America Inc.	Millennium Chemicals Inc.	Non-Guarantor Subsidiaries	Eliminations	Millennium Chemicals Inc. and Subsidiaries
September 30, 2002					
Net sales	$ --	$ --	$ 1,167	$ --	$ 1,167
Cost of products sold	--	--	944	--	944
Depreciation and amortization	--	--	76	--	76
Selling, development and administrative expense	1	--	79	--	80
Operating (loss) income	(1)	--	68	--	67
Interest expense, net	(64)	--	--	--	(64)
Intercompany interest income (expense), net	79	(4)	(75)	--	--
Equity in loss of Equistar	--	--	(45)	--	(45)
Equity in loss of subsidiaries	(361)	(326)	--	687	--
Other expense, net	--	--	(4)	--	(4)
Income taxes	(5)	1	26	--	22
Cumulative effect of accounting change	--	--	(305)	--	(305)
Net loss	$ (352)	$ (329)	$ (335)	$ 687	$ (329)
Nine Months Ended					
September 30, 2001					
Net sales	$ --	$ --	$ 1,256	$ --	$ 1,256
Cost of products sold	--	--	978	--	978
Depreciation and amortization	--	--	83	--	83
Selling, development and administrative expense	--	--	113	--	113
Reorganization and plant closure charges	--	--	36	--	36
Operating income	--	--	46	--	46
Interest expense, net	(58)	--	(2)	--	(60)
Intercompany interest income (expense), net	81	(3)	(78)	--	--
Equity in loss of Equistar	--	--	(61)	--	(61)
Equity in loss of subsidiaries	(84)	(48)	--	132	--
Other expense, net	(1)	(1)	--	--	(2)
Income taxes	(7)	1	32	--	26

	Millennium America Inc.	Millennium Chemicals Inc.	Non-Guarantor Subsidiaries	Eliminations	Millennium Chemicals Inc. and Subsidiaries
Net loss	$ (69)	$ (51)	$ (63)	$ 132	$ (51)

	Millennium America Inc.	Millennium Chemicals Inc.	Non-Guarantor Subsidiaries	Eliminations	Millennium Chemicals Inc. and Subsidiaries
Condensed Consolidating Statements of Cash Flows					
Nine Months Ended					
September 30, 2002					
Cash flows from operating activities	$ (6)	$ (4)	$ 62	$ --	$ 52
Cash flows from investing activities					
Capital expenditures	--	--	(43)	--	(43)
Cash used in investing activities	--	--	(43)	--	(43)
Cash flows from financing activities					
Dividends to shareholders	--	(26)	--	--	(26)
Proceeds from long-term debt	245	--	10	--	255
Repayment of long-term debt	(228)	--	(6)	--	(234)
Intercompany	(3)	30	(27)	--	--
Increase in notes payable	--	--	3	--	3
Cash provided by (used in) financing activities	14	4	(20)	--	(2)
Effect of exchange rate changes on cash	--	--	(2)	--	(2)
Increase (decrease) in cash and cash equivalents	8	--	(3)	--	5
Cash and cash equivalents at beginning of year	5	--	109	--	114

	Millennium America Inc.	Millennium Chemicals Inc.	Non-Guarantor Subsidiaries	Eliminations	Millennium Chemicals Inc. and Subsidiaries
Cash and cash equivalents at end of period	$ 13	$ --	$ 106	$ --	$ 119
Nine Months Ended					
September 30, 2001					
Cash flows from operating activities	$ 20	$ (3)	$ 50	$ --	$ 67
Cash flows from investing activities					
Capital expenditures	--	--	(85)	--	(85)
Proceeds from sales of property, plant & equipment	--	--	5	--	5
Cash used in investing activities	--	--	(80)	--	(80)
Cash flows from financing activities					
Dividends to shareholders	--	(26)	--	--	(26)
Proceeds from long-term debt	716	--	38	--	754
Repayment of long-term debt	(640)	--	(61)	--	(701)
Intercompany	(76)	29	47	--	--
Decrease in notes payable	(17)	--	(16)	--	(33)
Cash (used in) provided by financing activities					