

MILLENNIUM CHEMICALS INC  
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Subject Company: Millennium Chemicals Inc.

**Additional Information:**

On September 16, 2004, Lyondell Chemical Company ( Lyondell ) filed with the Securities and Exchange Commission (the SEC ) an amendment to its registration statement on Form S-4 (as amended, the Form S-4 ) containing a preliminary joint proxy statement/prospectus regarding the proposed transaction between Lyondell and Millennium Chemicals Inc. ( Millennium ). **Investors and security holders are urged to read that document and any other relevant documents filed or that will be filed with the SEC, including the definitive joint proxy statement/prospectus that will be part of the definitive registration statement, as they become available, because they contain, or will contain, important information.** Investors and security holders may obtain a free copy of the definitive joint proxy statement/prospectus (when it becomes available) and other documents filed by Lyondell and Millennium with the SEC at the SEC's web site at [www.sec.gov](http://www.sec.gov). The definitive joint proxy statement/prospectus (when it becomes available) and the other documents filed by Lyondell may also be obtained free from Lyondell by calling Lyondell's Investor Relations department at (713) 309-4590.

The respective executive officers and directors of Lyondell and Millennium and other persons may be deemed to be participants in the solicitation of proxies in respect of the proposed transaction. Information regarding Lyondell's executive officers and directors is available in the proxy statement filed with the SEC by Lyondell on March 16, 2004 and in the Form S-4, and information regarding Millennium's directors and its executive officers is available in Millennium's Annual Report on Form 10-K/A for the year ended December 31, 2003, which was filed with the SEC on April 27, 2004, and in the Form S-4. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the definitive joint proxy statement/prospectus and other relevant materials filed with the SEC, as they become available.

**Forward-Looking Statements:**

This release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, statements about the benefits of the proposed transaction between Lyondell and Millennium, including financial and operating results, Lyondell's plans, objectives, expectations and intentions and other statements that are not historical facts. Such statements are based upon the current beliefs and expectations of Lyondell's management and are subject to significant risks and uncertainties. Actual results may differ materially from those set forth in the forward-looking statements. The following factors, among others, could affect the proposed transaction and the anticipated results: approval by Lyondell's and Millennium's respective shareholders and the parties' ability to achieve expected synergies in the transaction within the expected timeframes or at all. Additional factors that could cause Lyondell's results to differ materially from those described in the forward-looking statements can be found in Lyondell's Annual Report on Form 10-K for the year ended December 31, 2003, which was filed with the SEC on March 12, 2004, and Lyondell's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, which was filed with the SEC on August 6, 2004.

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This filing contains slides used by Lyondell in a presentation to analysts during the Credit Suisse First Boston 17<sup>th</sup> Annual Chemical Conference on September 28, 2004. A transcript of the presentation is also contained herein. This information is being filed pursuant to Rule 425 under the Securities Act of 1933.

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Dan Smith: Thank you very much for that introduction, Nancy. And thank all of you for joining us today. Today, what I'd like to do with the slides is briefly introduce the company to those who may be new to Lyondell, provide an overview of our pending transaction with Millennium Chemicals, some insights into our strategy, and then briefly review each of the product lines and the current industry dynamics, which I think you've been hearing a lot about all day from others. And then finally touch on our financial strategy.

If I can get the convention down on this okay. Now half of my presentation is contained on this slide. We are in registration, so bear with me. I need to read the entire contents of this. I'd like for you to review our forward-looking statements disclosure on this first slide. In addition, as shown on the slide, please note that on September 16, 2004, Lyondell filed with the SEC, a registration statement on form S-4, containing the preliminary joint proxy statements/prospectus regarding the proposed transaction between Lyondell and Millennium.

Investors and security holders are urged to read that document and any other document filed or that will be filed with the SEC, including the definitive joint proxy/prospectus that will part of the definitive registration statement, because they contain or will contain important information.

Investors and security holders may obtain a free copy of the definitive joint proxy statement/prospectus and other documents filed by Lyondell and Millennium with the SEC at the SEC's website at [www.SEC.gov](http://www.SEC.gov) as they become available. The definitive joint proxy statement/prospectus and other documents filed by Lyondell may also be obtained free from Lyondell as they become available, by calling Lyondell's Investor Relations department at (713) 309-4590.

Now Nancy touched on some of this, but I think it's important to go back and recognize that we have built a large basic chemical manufacturer in a mature business, but businesses that are still growing. These are commodity cyclical and mature industries. We've built the portfolio over the last 15 years primarily through merger and acquisition. We have a very simple value proposition. We operate these businesses very well, at low cost, and return cash to shareholders.

The transaction with Millennium will unmask a lot of what we've done. I say it that way, because when we consolidate the results we will be allowed to after the transaction is completed we'll stack up number-three in the publicly traded chemical companies in the United States. That's because the Equistar joint venture has not been consolidated on anybody's balance sheet, and that's about a \$7 billion annual revenue.

We think that we've built the scale and the skills to be competitive with any of the other names in the business, going forward.

From a legal standpoint we will still maintain four separate entities, wonders of having high yield debt parked in many places with different restrictions on it. Those balance sheets will remain in place, but three of them—the Intermediate Chemicals, the Equistar and the Millennium will be consolidated and reported as one. They will, of course, be operated as one. The LYONDELL-CITGO joint venture will still be accounted for on the equity method. So with that, I think the global presence and the size we've built will become much more apparent.

Importantly, as we've been building this enterprise, we have been cognizant of the fact that one of the attractions to us by investors is the volumetric leverage that we have to the commodity chemical cycle. And importantly here, you can see that we have maintained that as measured in pounds per share over the period of time here and indeed grown larger. We have almost twice as many pounds per share, but over a broader range. So we think that we potentially add you more value than you ever could have gotten



before. That product diversity also gives us a little more stability as we go through cycles, and importantly, that portfolio is integrated.

When you look at us a little bit differently, irrespective of the individual balance sheets, and look at where the products go, we attempted to show you, sort of, the split. And I would tell you we're like one of our competitors, you don't really see us as a company in the end use products, but importantly we are there on a broad range. And most importantly, most of these products have become thought of as necessities in our economies as we move forward.

Equally important, is whether you're looking at the very embryonic end of use on this curve, the far left hand side of this, where I would point you to the bottom three dots on there, accounting for about 2.5 billion people in the world who are just starting to develop, if you will, disposable income and move into this zone where the pounds per person gets a very rapid increase. Or whether you're talking about the far right where you have the very developed economies, we're growing across the world in each of the areas.

Importantly, as we spent time in China earlier in the year, you can think about China as really three different regions – the cities, the coastal zone and then the interior. And the cities certainly are well up in the disposable income and growing very rapidly. If you've not visited Shanghai, I would encourage you to go there if you want a cultural experience. It's also a place you can buy any luxury brand known to mankind. So consumption is alive and well in China. It emulates what you see in Paris, London and New York.

As you move on to the cost structure, you just got through hearing from an energy expert. And people tend to think in two things here. They say well, we have two kinds of costs. You have labor costs and you have energy costs translated as feedstock. And how could you be competitive in either one?

I will tell you first and foremost, the labor cost is a very small piece of the industry where we're most prominent, here in the ethylene/polyethylene production end. Most critical is the skill involved there, so not any laborer will substitute. We do have people who are highly trained and we trust each person with a large amount of assets. The cost, per se, is a little bit less important than the skills you're employing.

Then when we get into raw materials, we are predominantly users of crude oil derivatives. And the important thing about crude oil is it is equated around the world. It is a fungible commodity, so the pricing does not get strongly different in any part of the world, unlike some of the natural gas liquids.

So the last point is, if you look at the industrial application of the technology, the technology that we practice is the same that's been practiced for a long time, with minor variations. There have not been shutdown economics employed in new technology here, so older plants are still very usable. So those of us who have a mature set of plants where we've already paid back the investment costs, don't have to worry about getting the capital recovery on a new investment like people making new investments.

Now to develop the crude oil situation a little bit further – we went back through and Doug didn't give me the r-squared on these, but I think you can see that there are two attempts at correlation here. The first is correlating earnings with the price of feedstock on the left-hand side. And I think by inspection you can see that's not a very good correlation. The right hand side is the correlation of operating rate versus profitability, which of course, with a commodity you would expect it's supply/demand that determines whether or not price moves and margin moves. And that's exactly what we see in these businesses.

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So with that in mind, we'll move on to talk a little bit about what's going on right now and why \$50 crude has not been the killer in the business that you might think it would have been. First, to step back and look at supply/demand in the ethylene chain. This is the most recent CMAI data that came out in

September. It clearly shows here that the recession that we saw in the ethylene business in North America was the most pronounced of anywhere in the world.

It came about in my opinion, because the '95 peak that we saw, if you go back there you can see, that was not the peak of supply/demand use. But indeed we were at about a 95 percent operating rate. We had a major plant go offline for about six months, the Shell plant in Louisiana, that stimulated the commodity bidding cycle that led to the '95 peak. Which of course, encouraged people who were thinking of building otherwise to speed up their investment plans, since all good things are always because of our brilliance and all bad things are always because somebody did it to us. So we were brilliant. We built more capacity as an industry, got it on stream just in time for the recession that began in 2000. We got exacerbated by September 11, et cetera. But we had too much capacity and too little need for it and much more pronounced in this part of the world.

Having suffered through that for the last three to five years, what we're seeing right now is the healthy rates that we see throughout the rest of the world, are not only consuming the residual of capacity that existed there, but they're chewing up the incremental capacity from here as the United States is in a novel position in this industry now to swing the capacity as we move up here.

So we have over the past months moved over the 90 percent operating level. You can see by this that we will cross the 95 percent operating level next year. And history indicates that 90 percent or above gives you good ability to pass through costs at least and slowly expand margins. Above 95 percent leads to peak conditions. So this alone would probably suggest that we would see peak conditions sometime in the 2005-2006 range.

If you move on to some of the other product areas, the next largest for us, propylene oxide, there's a somewhat similar situation here. You can see the downturn was less severe. But this is still cyclical. Importantly, we began to see real signs of growth earlier this year. This product grows on average at 4.5 to five percent per year. And important here, there are really only three players in the world with modern technology. And with that kind of a growth rate, you really on average need a new plant about every 1.5 to two years. So we feel very strongly that this business will continue to prosper as well.

And then the newest sizable business to the portfolio, when we complete the Millennium transaction, will be their titanium dioxide business. And you can see similarly here, that it's moving into a very strong range of supply/demand. Indeed, this would indicate that the supply/demand will be the tightest it's been in 20 years, over the next several years.

Structure wise, this market is very similar to propylene oxide; relatively few players, relatively high component of technology leading to more stable kinds of margins. And very importantly, even though the growth rate is slower, there are no new supply additions announced here.

And then the final big area, the refining business. Refining has been extremely tight this year. I don't have to tell anybody in this room that. You've seen it every time you've filled up your vehicle at the gasoline pump. This phenomenon this year has been a little different. It's been a gasoline pull on crude price, rather than a crude price push. And that becomes important, because we do produce fuels in three of our operating entities, not only the refinery, but in Equistar and in IC&D.

Here also, there've been no new refineries built in this country since about 1970. We do continue to tighten the environmental standards, but we've become very reliant on imports, both for crude oil, but most importantly for gasoline, as well. So again, we think this is a bright outlook. And, in summary, I would say for all key areas we're facing a very bright outlook.



The next question would obviously be leverage and differentiation. Let me touch on the leverage first. This slide really just shows the increment from a penny-a-pound change in each of the products. So you can see the reason people focus on ethylene is it's the biggest thing with that. I will tell you that the difference from trough to peak is typically 15 to 20 cents in margin. So in our case, that's \$1.5 to \$2 billion.

Now moving on and kind of looking at each of the product areas a little differently here, I would again emphasize these are relatively mature commodity chemicals, but each of our positions has some degree of differentiation. In propylene oxide and  $\text{TiO}_2$ , we enjoy the best kind of differentiation, that is, technology differentiation, where we have a differential position, or in the case of  $\text{TiO}_2$ , will have, that we can maintain by continuing to develop it. And people do not have the ability licensed into the same position.

In LYONDELL-CITGO, the differentiation is primarily a very advantageous crude supply contract, a 25-year supply contract that we're about halfway through, so we've got a long way to go on it that provides a very stable level of earnings that we continue to exploit and we're getting more out of it every year.

In Equistar, the main advantage that we have is the most flexible set of ethylene crackers among the competition in North America. We have the capability to crack heavy materials and differentiate day-by-day among the heavy materials to choose the optimum feedstocks.

Now I'll develop that point a little further. Two-thirds of our capacity is liquid capable, versus the rest of the market without us being about only one-fourth liquid capable. And that becomes very meaningful, because the graph shows you that over the long history we've averaged about four cents a pound variable cost advantage by cracking the heavy liquids. But, more noticeably here, in tight market conditions, that advantage tends to open up.

The reason is really pretty straightforward. When you crack liquids you make about three pounds of other things for every pound of ethylene you make. And in a tight chemical market, all the co-products tend to go up in value. So you can see in the '88-'89 peaks, that differential got up close to seven cents and in the '95 peak it got north of five cents. But very importantly, this year for the first half, that advantage has averaged 5.7 cents. That's because we've seen the co-products tighten considerably and we've seen prices of those co-products go up from 15 percent to as much as 150 percent this year. In a more advantaged tight market, seven cents would equal about \$400 million differentially to this.

Now the phenomenon that we're talking about this year was broken down for you a little further. The pie chart basically shows you the yields from a liquid cracker. I think most noticeable you see the gasoline wedge there is almost as big as the ethylene wedge. You see propylene also being very large, as well as many other things. But the area shaded in yellow on the far right, I think is most important, where we look at percentage increase in two cases, from December to June and December to August. So you see that as the feedstock prices were going up mightily, the phenomenon was that many of the co-products were going up more mightily.

So while ethylene itself was lagging somewhat, the co-products more than made up for it, so margins actually expanded because of the co-product credits.

Now as we move forward and the supply/demand fundamentals have continued to strengthen, I think you're going to see prices move much more on supply/demand fundamentals, rather than cost push.



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So when we look at the situation we face right now, we would come back and tell you that we have developed positions in products that have become necessities to day-to-day life. Supply/demand balances look very good across the board. We're moving into the phase of the cycle where it's really going to be

the price allocation determining where things go, rather than a cost push. So we're more easily seeing anything that happens to feedstock costs go through, plus adds to it with margin. So the product leverage that we have now should come to the fore and the differentiation position should help as well.

Now, are we seeing it? And I think if you look at history through the second-quarter, the answer is yes, but not very much so far. You can see the general trend is up, but it's only the leading edge here. And I think experience would dictate that as we move forward in the stronger conditions we would expect an acceleration of these earnings going forward.

To put it in perspective, I understand some of my competitors actually made some projections. Let me assure you this is not a projection. It's an exercise in arithmetic. What we did here was take the margins that were apparent year average margins in 1995 and the year average margins that were apparent in 1988. We applied those volumetrically to the company as it stands now. So, you can say, if the same thing repeated itself, you would expect to see numbers like this.

I say it that way, because we have not spent the time to try to really build a definitive pro forma. But important here is that you can see that out of Equistar, going from trough to peak, that couple of billion dollars that we talked about before, is apparent in what's happened in the past. But as importantly, I think if you go back and look at what we really had in the way of assets in '93-'95, we had in Lyondell at that point in time about one-third of what is now Equistar. And on that one-third we improved about \$600 million pretax between '93 and '95. And then in the ARCO Chemical assets that are now in IC&D, the improvement from '93 to '95 was about \$400 million. So the leverage that's apparent here I think is really there.

And very importantly, we don't have to get to there to generate significant free cash. We've shown you where the earnings were in 1999-2000, before we entered the trough. You can see we were generating significant free cash in that period of time. And I will tell you, the first half of this year, while we're not quite at that level, we've been at a level equivalent to about \$1.1 to \$1.2 billion of EBITDA. So we're definitely headed in the right direction.

Now, our financial strategy is very straightforward. As long as we were in the trough of the cycle and all of you ask us every presentation, could we maintain the dividend? Could we continue to pay the interest load on our debt? Did we have the firepower to survive the trough? We stacked liquidity on the balance sheet. So if you look at our second-quarter numbers, we were holding about \$450 million cash on top of an untouched \$350 million revolver in Lyondell, and have about \$500 million of available cash to us in Equistar through revolver-like facilities.

That was very important to keep the rating agencies calm and to keep all of you calm and ensure everybody we'd meet our obligations. But we have said continually for the last five years that the use of free cash is to repay debt. So now as we move through the inflection point on the cycle, much less focus on the sufficient liquidity, much more on repayment of debt.

I will remind all you that during the downturn, in the growth part of our businesses, in the propylene oxide business, we built the largest propylene oxide unit in the world, we built the largest butanediol facility in the world. So we're not sitting here waiting for a return to invest cash. Indeed, we don't have a strong need for cash in the businesses.

We think by doing that, we create value not only for you equity holders here, but also for all of our debt holders as well.



Now, we do have a design. We think that out of this upcycle we should get our hands on at least \$3 billion of cash. We think we need at least \$3 billion of cash to pay \$3 billion of debt off the balance sheet. You can see a \$3 billion infusion of cash here applied to debt would return the debt-to-capital ratio back to the mid-40s level and importantly, quench about \$300 million a year of interest cost, which results in about 80 cents a share. And if you're a believer in firm value, what that would say is where we troughed at about \$12 a share in the last trough, if you got to another trough like that in the future, we should trough at something like \$24 a share, which is a much more comfortable place to be.

So if I were going to summarize for you, I would say that we think we built a very sound and balanced portfolio. We've positioned the company to perform well against competition in any scenario. We would agree that energy costs are a concern. They're a concern for the general economy, but supply/demand is far more important and a far more important determinant of where profits will be.

We do think that we are strongly in a cyclical improvement. It's been sustained now for somewhat more than a year. And we think moving forward in our financing plan much more aggressively is where we will be. And I would remind you that we have, in the last couple of months, called \$200 million of debt for repayment where we are starting to see some of the free cash flow.

So with that, let me stop and I'll take your questions. It's tough to go early in the afternoon after everybody's eaten and they're sleeping, right?

Unidentified Participant: I had my coffee.

Dan Smith: Good.

Unidentified Participant: A question for you, too. It's good to see the integration with the takeover of all the Equistar interests. My concern is just exposure you still have with co-products like benzene hitting high prices. Could you just give us some color around where you're still short after the deal will be closed and what costs you'll be exposed to?

Dan Smith: Well, you mentioned benzene. We're actually long benzene as a company. So, we like benzene at \$4. We consume a lot of benzene and styrene, but we make more than we consume. So before or after the Millennium transaction, we're long benzene.

Unidentified Participant: Okay, my mistake then.

Dan Smith: That's alright.

Unidentified Participant: Other co-products then I just remember from your note, you'd find from the ?

Dan Smith: Well, if you go back, we're large users of propylene to make propylene oxide. So if you do the corporate balance, we're net producers of propylene. So as we go out into the future, what I would tell you generally speaking on co-products is we tend to be long on propylene,

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benzene, gasolines, butylenes, butadiene supplying merchant markets in all these areas. If you look at the balances going forward, the new capacity coming on in the world that's caused all the furor back and forth, the Middle East capacity, is predominantly ethane-based. Which means it doesn't make co-products.

When you look at, particularly, propylene, propylene derivatives are growing at a faster rate than ethylene derivatives. So what you have is a coming imbalance. The ethylene demand is going to be met by the ethane production in the Middle East, but there's not a concomitant propylene increase. So it indicates that propylene is probably going to get more dear, so being long in propylene is a good place to be.

I think you could make the same argument across the board for the co-products of liquid crackers, because the major editions to ethylene in the world are not going to be liquid crackers. So, I think this advantage that we have in liquid cracking is going to open, rather than be traditional as we go forward. And happily, we really don't have significant exposures that I think you're asking about.

Can you think of any others, Doug?

Unidentified Participant: Dan, how would you characterize the state of that new butanediol plant, which I think you said was the largest in the world?

Dan Smith: Well the state of it is it runs very well. It was the largest in the world when it came up. It's still the largest in the world and it was very big compared to the world capacity. Translation is, when we started it up we thought we'd run it at about half-rates for a good while. We've been successful in getting the rates much higher than that, not limited by ability to operate, but ability to sell the product. We also have learned that it's capable of doing more than it was designed to do. So we've got lots of capacity there and what we'll see is that rapidly growing market will be able to supply the incremental need for a good while yet.

Unidentified Participant: And how are the economics compared to the butane oxidation route?

Dan Smith: We continue to think they're much better than butane oxidation. We're the only people who go through the propylene oxide route. And I think, depending on how you get the propylene oxide route, the fact that we're integrated all the way back upstream with the best technology helps there. But we like the economics. We like what it does for the chain.

Unidentified Participant: Dan, do you see more consolidation in the olefins industry and if so, kind of tell us where you see yourself in five years?

Dan Smith: Well I think when you look at consolidation, we've been undergoing consolidation in most of these industries for the last 20 years. When you look at the market shares and where things stand right now, I think there's arguably a lot more room for consolidation. I think the forces that drive people that way are continuing. I think you're going to continue to see consolidation. If you look today at the number of people talking about moving assets in these sectors, I think that just reinforces that.

So where we see ourselves is that we thought we needed to move to the kind of level that we are at now in order to survive. We thought it was very important to get more mass and to get more product spread. I think from here we would like to have, to build, more product spread and more product depth and more international exposure, so you balance when you have recessions in one part of the world to the other. But to tell you that we have to do it, I would say no.

I think now we're into an opportunistic if the situations present themselves and they're very attractive, we can participate. But in order to survive I don't think we need to do any of those things. So it's a much more comfortable position to be in. But I would tell you, we look at almost every opportunity out there and evaluate it and see if it would make sense for us. But I would also assure you, we're not going to do anything that's going to get in the way of de-levering that balance sheet.

Unidentified Participant: Thank you, Dan.

Dan Smith: Thank you very much.