MILLENNIUM CHEMICALS INC
Form 10-K/A
July 06, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

OR

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

FOR THE TRANSITION PERIOD FROM ____________ TO _____________

COMMISSION FILE NUMBER: 1-12091

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

Delaware (State or other jurisdiction of incorporation or organization)	22-3436215 (I.R.S. Employer Identification No.)
230 Half Mile Road P.O. Box 7015 Red Bank, NJ (Address of principal executive offices)	07701-7015 (Zip Code)

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

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

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

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

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant is required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [ ].

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

The aggregate market value of voting stock held by non-affiliates as of March 23, 2001 (based upon the closing price of $16.22 per common share as quoted on the New York Stock Exchange), is approximately $1,000 million. For purposes of this computation, the shares of voting stock held by directors, officers and employee benefit plans of the registrant and its wholly owned subsidiaries were deemed to be stock held by affiliates. The number of shares of common stock outstanding at March 23, 2001, was 63,450,643 shares, excluding 14,445,943 shares held by the registrant, its subsidiaries and certain Company trusts, which are not entitled to be voted.

Documents Incorporated by Reference

Portions of the Registrant's Annual Report to Shareholders for the year ended December 31, 2000, are incorporated by reference into Parts I and II of this Annual Report on Form 10-K as indicated herein. Portions of the Registrant's definitive Proxy Statement relating to the 2001 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III of this Annual Report on Form 10-K as indicated herein.

EXPLANATORY NOTE

Millennium Chemicals Inc. (the 'Company') is filing this amendment to its Form 10-K for the fiscal year ended December 31, 2000 to revise the Supplemental Financial Information of the Company that was included on pages F-2 through F-6 of such Form 10-K. Such revised Supplemental Financial Information includes revisions to disclose the financial position, results of operations and cash flows of the Company, Millennium America Inc., an indirect, wholly owned subsidiary of the Company ('Millennium America'), and subsidiaries of the Company other than Millennium America. Items 8 and 14, as amended, are hereby provided in their entirety.

PART II

Item 8. Financial Statements and Supplementary Data

The Consolidated Financial Statements of the Company, including the Notes thereto, and the report of PricewaterhouseCoopers LLP thereon, contained on pages 27 through 45 of the Annual Report to Shareholders are incorporated herein by reference.

In addition, the revised Supplemental Financial Information and the Financial Statement Schedule listed in Item 14(a)(1)(ii) and (2) of this Form 10-K/A, including the report of PricewaterhouseCoopers LLP thereon, are incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedule and Reports on Form 8-K

(a) The following documents are filed as part of this report:

1. (i) The Consolidated Financial Statements of the Company, including the Notes thereto, and the report of PricewaterhouseCoopers LLP thereon, contained on pages 27 through 45 of the Annual Report to Shareholders, consist of the following:

	Page of the Company's Annual Report
-- Report of PricewaterhouseCoopers LLP....................	27
-- Consolidated Balance Sheets -- December 31, 2000 and 1999..	28
-- Consolidated Statements of Operations -- Years Ended December 31, 2000, 1999 and 1998..........................	29
-- Consolidated Statements of Cash Flows -- Years Ended December 31, 2000, 1999 and 1998..........................	30
-- Consolidated Statements of Changes in Shareholders' Equity -- Years Ended December 31, 2000, 1999 and 1998....	31
-- Notes to Consolidated Financial Statements.............	32 - 45

With the exception of the information listed directly above and the information specifically incorporated by reference into Items 1, 5, 6, 7, 7A and 8 of the Annual Report on Form 10-K, the Annual Report to Shareholders is not to be deemed filed as a part of the Annual Report on Form 10-K.

(ii) Supplemental Financial Information.

The Supplemental Financial Information relating to the Company, Millennium America Inc. ('Millennium America') and Equistar consist of the following:

Page of

2. Financial Statement Schedule.

Financial Statement Schedule II -- Valuation and Qualifying Accounts, located on page S-1 of the Annual Report on Form 10-K, should be read in conjunction with the Financial Statements included in Item 8 of the Annual Report on Form 10-K. Schedules, other than Schedule II, are omitted because of the absence of the conditions under which they are required or because the information called for is included in the Consolidated Financial Statements of the Company or the Notes thereto.

3. Exhibits.

3.1	-- Amended and Restated Certificate of Incorporation of the Company (Filed as Exhibit 3.1 to the Company's Registration Statement on Form 10 (File No. 1-12091) (the 'Form 10'))*
3.2	-- By-laws of the Company (Filed as Exhibit 3.2 to the Form 10)*
4.1(a)	-- Form of Indenture, dated as of November 27, 1996, among Millennium America Inc. (formerly Hanson America Inc.) ('Millennium America'), the Company and The Bank of New York, as Trustee, in respect of the 7% Senior Notes due November 15, 2006 and the 7.625% Senior Debentures due November 15, 2026 (Filed as Exhibit 4.1 to the Registration Statement of the Company and Millennium America on Form S-1 (Registration No. 333-15975)(the 'Form S-1'))*
4.1(b)	-- First Supplemental Indenture dated as of November 21, 1997 among Millennium America, the Company and The Bank of New York, as Trustee (Filed as Exhibit 4.1(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (the '1997 Form 10-K'))*
10.1	-- Form of Post-Demerger Stock Purchase Agreement, dated as of September 30, 1996, between Hanson and MHC Inc. (including related form of Indemnification Agreement and Tax Sharing and Indemnification Agreement) (Filed as Exhibit 10.6 to the Form 10)*

Exhibit Number	Description of Document
10.2	-- Demerger Agreement, dated as of September 30, 1996, between Hanson, Millennium Overseas Holdings Ltd. (formerly Hanson Overseas Holdings Ltd.) and the Company (Filed as Exhibit 10.7 to the Form 10)*
10.3	-- Form of Indemnification Agreement, dated as of September 30, 1996, between Hanson and the Company (Filed as Exhibit 10.8 to the Form 10)*
10.4(a)	-- Form of Tax Sharing and Indemnification Agreement, dated as of September 30, 1996, between Hanson, Millennium Overseas Holdings Ltd., Millennium America Holdings Inc. (formerly HM Anglo American Ltd.), Hanson North America Inc. and the Company (Filed as Exhibit 10.9(a) to the Form 10)*
10.4(b)	-- Deed of Tax Covenant, dated as of September 30, 1996, between Hanson, Millennium Overseas Holdings Ltd., Millennium Inorganic Chemicals Limited (formerly SCM Chemicals Limited), SCMC Holdings B.V. (formerly Hanson SCMC B.V.), Millennium Inorganic Chemicals Ltd. (formerly SCM Chemicals Ltd.), and the Company (the 'Deed of Tax Covenant') (Filed as Exhibit 10.9(b) to the Form 10)*
10.4(c)	-- Amendment to the Deed of Tax Covenant dated January 28, 1997, (Filed as Exhibit 10.9(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (the '1996 Form 10-K'))*
10.5(a)	-- Credit Agreement ('Credit Agreement'), dated as of July 26, 1996, among Millennium America, the Company, as Guarantor, the borrowing subsidiaries party thereto, the lenders party thereto, The Chase Manhattan Bank, as Documentation Agent, and Bank of America National Trust and Savings Association, as Administration Agent (Filed as Exhibit 10.14 to the Form 10)*
10.5(b)	-- Amendment to the Credit Agreement dated as of December 18, 1996, (Filed as Exhibit 10.14(b) to the 1996 Form 10-K)*
10.5(c)	-- Second Amendment to the Credit Agreement dated as of October 20, 1997, (Filed as Exhibit 10.14(b) to the 1996 Form 10-K)*
10.5(d)	-- Third Amendment to the Credit Agreement dated as of December 31, 1999 (Filed as Exhibit 10.5(d) to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (the '1999 Form 10-K'))*
10.6	-- Form of Agreement, dated as of July 24, 1998, between Millennium America Holdings Inc. and William M. Landuyt; Robert E. Lee; George H. Hempstead, III; Richard A. Lamond; and, John E. Lushefski (Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the

	quarter ended September 30, 1998 (the 'September 30, 1998, Form 10-Q'))*'D'
10.7	-- Form of Agreement, dated as of July 24, 1998, between Millennium Specialty Chemicals Inc. and George W. Robbins. This form of agreement is identical to the agreements between the Company's operating subsidiaries and certain officers of such subsidiaries who are not executive officers of the Company. (Filed as Exhibit 10.2 to the September 30, 1998, Form 10-Q)*'D'
10.8	-- Form of Agreement, dated as of July 24, 1998, between Millennium Petrochemicals Inc. and each of Peter P. Hanik and Charles F. Daly (Filed as Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (the '1998 Form 10-K'))*'D'
10.9	-- Form of Change-in-Control Agreement, dated as of July 24, 1998, between Millennium America Holdings Inc. and each of C. William Carmean, A. Mickelson Foster, James A. Lofredo, Corey A. Siegel and Christine F. Wubbolding (Filed as Exhibit 10.22 to the Form 10-Q)*'D'
10.10	-- Form of Change-in-Control Agreement between each of the Company's operating subsidiaries and certain officers of such subsidiaries who are not executive officers of the Company (Filed as Exhibit 10.19 to the 1998 Form 10-K)*'D'
10.11(a)	-- Millennium Chemicals Inc. Annual Performance Incentive Plan (Filed as Exhibit 10.23 to the Form 10)*'D'

Exhibit Number	Description of Document
10.11(b)	-- Amendment Number 1 dated January 20, 1997, to the Millennium Chemicals Inc. Annual Performance Plan. (Filed as Exhibit 10.23(b) to the 1996 Form 10-K)*'D'
10.11(c)	-- Amendment Number 2 dated January 23, 1998, to the Millennium Chemicals Inc. Annual Performance Incentive Plan (Filed as Exhibit 10.23(c) to the 1997 Form 10-K)*'D'
10.11(d)	-- Amendment Number 3 dated January 22, 1999, to the Millennium Chemicals Inc. Annual Performance Incentive Plan (Filed as Exhibit 10.20(d) to the 1998 Form 10-K)*'D'
10.12(a)	-- Millennium Chemicals Inc. 1996 Long Term Incentive Plan (Filed as Exhibit 10.24 to the Form 10)*'D'
10.12(b)	-- Termination Amendment dated as of October 23, 1997, to the Millennium Chemicals Inc. 1996 Long Term Incentive Plan (Filed as Exhibit 10.24(b) to the 1997 Form 10-K)*'D'
10.12(c)	-- Amendment dated January 23, 1998 to the Millennium Chemicals Inc. 1996 Long Term Incentive Plan (Filed as Exhibit 10.24(c) to the 1997 Form 10-K)*'D'
10.12(d)	-- Amendment dated January 22, 1999, to the Millennium Chemicals Inc. 1996 Long Term Incentive Plan (Filed as

	Exhibit 10.21(d) to the 1998 Form 10-K)*'D'
10.13	-- Millennium Chemicals Inc. 1997 Executive Long-Term Incentive Plan, as amended by the Termination Amendment thereto, dated as of October 23, 1997, and as further amended by amendments thereto dated January 23, 1998 and January 22, 1999 (Filed as Exhibit 10.22 to the 1998 Form 10-K)*'D'
10.14(a)	-- Millennium Chemicals Inc. Long Term Stock Incentive Plan (Filed as Exhibit 10.25 to the Form 10)*'D'
10.14(b)	-- Amendment Number 1 to the Millennium Chemicals Inc. Long Term Stock Incentive Plan (Filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997)*'D'
10.14(c)	-- Amendment dated July 24, 1997 to the Millennium Chemicals Inc. Long Term Stock Incentive Plan (Filed as Exhibit 10.25(c) to the 1997 Form 10-K)*'D'
10.14(d)	-- Amendments dated January 23, 1998 and December 10, 1998, to the Millennium Chemicals Inc. Long Term Stock Incentive Plan (Filed as Exhibit 10.23(d) to the 1998 Form 10-K)*'D'
10.15(a)	-- Millennium Chemicals Inc. Supplemental Executive Retirement Plan**'D'
10.15(b)	-- Millennium Chemicals Grandfathered Supplemental Executive Retirement Plan**'D'
10.16	-- Millennium Petrochemicals Grandfathered Supplemental Executive Retirement Plan**'D'
10.17	-- Millennium Inorganic Chemicals Grandfathered Supplemental Executive Retirement Plan**'D'
10.18	-- Millennium Specialty Chemicals Grandfathered Supplemental Executive Retirement Plan**'D'
10.19(a)	-- Millennium Chemicals Inc. Salary and Bonus Deferral Plan (Filed as Exhibit 10.30 to the 1996 Form 10-K)*'D'
10.19(b)	-- Amendment Number 1 dated January 23, 1998, to the Millennium Chemicals Inc. Salary and Bonus Deferral Plan (Filed as Exhibit 10.30(b) to the 1997 Form 10-K)*'D'
10.19(c)	-- Amendment Number 2 dated January 22, 1999, to the Millennium Chemicals Inc. Salary and Bonus Deferral Plan (Filed as Exhibit 10.28(c) to the 1998 Form 10-K)*'D'
10.20	-- Millennium Chemicals Inc. Supplemental Savings and Investment Plan (Filed as Exhibit 10.29 to the 1998 Form 10-K)*'D'
10.21	-- Millennium Chemicals Inc. Long Term Incentive Plan **'D'
10.22	-- Millennium Chemicals Inc. Executive Long Term Incentive Plan**'D'
10.23	-- Millennium America Holdings Inc. Long Term Incentive Plan and Executive Long Term Incentive Plan Trust Agreement **'D'

Exhibit Number	Description of Document

10.24	-- Millennium Chemicals Inc. Omnibus Incentive Compensation Plan **'D'
10.25(a)	-- Master Transaction Agreement between the Company and Lyondell (Filed as an Exhibit to the Company's Current Report on Form 8-K dated July 25, 1997)*
10.25(b)	-- First Amendment to Master Transaction Agreement between Lyondell and the Company (Filed as an Exhibit to the Company's Current Report on Form 8-K dated October 17, 1997)*
10.26(a)	-- Amended and Restated Partnership Agreement of Equistar, dated May 15, 1998 (Filed as Exhibit 10.36 to the 1998 Form 10-K)*
10.26(b)	-- First Amendment to the Limited Partnership Agreement, dated as of June 30, 1998 (Filed as Exhibit 10.22(b) to the 1999 Form 10-K)*
10.26(c)	-- Second Amendment to the Limited Partnership Agreement dated as of February 16, 1999(filed as Exhibit 10.22(c) to 1999 Form 10-K)*
10.27(a)	-- Asset Contribution Agreement ('Millennium Asset Contribution Agreement') among Millennium Petrochemicals, Millennium Petrochemicals LP LLC and Equistar (Filed as an Exhibit to the Company's Current Report on Form 8-K dated December 10, 1997)*
10.27(b)	-- First Amendment to the Millennium Asset Contribution Agreement dated as of May 15, 1998 (Filed as Exhibit 10.23(b) to the 1999 Form 10-K)*
10.28(a)	-- Asset Contribution Agreement ('Lyondell Asset Contribution Agreement') among Lyondell, Lyondell Petrochemicals L.P. Inc. and Equistar (Filed as an Exhibit to the Company's Current Report on Form 8-K dated December 10, 1997)*
10.28(b)	-- First Amendment to Lyondell Asset Contribution Agreement dated as of May 15, 1998 (Filed as Exhibit 10.24(b) to the 1999 Form 10-K)*
10.29(a)	-- Amended and Restated Parent Agreement among Lyondell, the Company, Occidental, Oxy CH Corporation, Occidental Chemical Corporation, and Equistar, dated as of May 15, 1998, (Filed as Exhibit 10.37 to the 1998 Form 10-K)*
10.29(b)	-- First Amendment to Amended and Restated Parent Agreement, dated as of June 30, 1998 (Filed as Exhibit 10.25(b) to the 1999 form 10-K)*
11.1	-- Statement re: computation of per share earnings**
13	-- Information incorporated by reference from the Annual Report to Shareholders for the Year Ended December 31, 2000**
21.1	-- Subsidiaries of the Company**
23.1	-- Consent of PricewaterhouseCoopers LLP**
23.2	-- Consent of PricewaterhouseCoopers LLP**
23.3	-- Consent of PricewaterhouseCoopers LLP**
23.4	-- Consent of PricewaterhouseCoopers LLP**
27.1	-- Financial Data Schedule**
99.1	-- Form of Letter Agreement, dated July 3, 1996, between Hanson and United Kingdom Inland Revenue (Filed as Exhibit 99.2 to the Form 10)*

In additon, the Company hereby agrees to furnish to the SEC, upon request, a copy of any instrument not listed above which defines the rights of the holders of long-term debt of the Company and its subsidiaries.

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* Incorporated by reference

** Filed herewith

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

(b) Reports on Form 8-K None.

SIGNATURES

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

MILLENNIUM CHEMICALS INC.
By: /s/ JOHN E. LUSHEFSKI
....
John E. Lushefski
Senior Vice President and
Chief Financial Officer

July 5, 2001

REPORT OF INDEPENDENT ACCOUNTANTS ON
SUPPLEMENTAL FINANCIAL INFORMATION AND
THE FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of
MILLENNIUM CHEMICALS INC.

Our audits of the consolidated financial statements referred to in our report dated January 26, 2001, appearing on page 27 of the 2000 Annual Report to Shareholders of Millennium Chemicals Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K/A) also included an audit of the Supplemental Financial Information of Millennium Chemicals Inc. and the Financial Statement Schedule listed in Item 14(a) of this Annual Report on Form 10-K/A. In our opinion, such Supplemental Financial Information of Millennium Chemicals Inc. and the Financial Statement Schedule present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PRICEWATERHOUSECOOPERS LLP

Florham Park, NJ
January 26, 2001

MILLENNIUM CHEMICALS INC.
SUPPLEMENTAL FINANCIAL INFORMATION

Millennium America Inc. ('Millennium America'), a wholly owned indirect subsidiary of Millennium Chemicals Inc. (the 'Company'), is a holding company for all of the Company's operating subsidiaries other than its operations in the United Kingdom, France, Brazil and Australia. Millennium America is the issuer of the 7% Senior Notes due November 15, 2006, and the 7.625% Senior Debentures due November 15, 2026, and is the principal borrower under the Company's Revolving Credit Agreement. The Senior Notes and Senior Debentures, as well as the borrowings under the Revolving Credit Agreement, are guaranteed by the Company. Accordingly, the following Condensed Consolidating Balance Sheets at December 31, 2000 and 1999, and the Condensed Consolidating Statements of Operations and Cash Flows for each of the three years in the period ended December 31, 2000, are provided for Millennium Chemicals Inc. as supplemental financial information of the Company to disclose the financial position, results of operations and cash flows of the Company, Millennium America and all subsidiaries of the Company other than Millennium America. The investment in subsidiaries is accounted for on the equity method.

MILLENNIUM CHEMICALS INC.
CONDENSED CONSOLIDATING BALANCE SHEETS
as of December 31, 2000 and 1999

	Millennium America Inc. (Issuer)	Millennium Chemicals Inc. (Guarantor)	Non-guarantor Subsidiaries	El
2000				
ASSETS				
Inventories................................	$	$	$ 373	
Other current assets.......................	1		527	
Property, plant and equipment, net..........			957	
Investment in Equistar.....................			760	
Investment in subsidiaries.................	5,229	1,033		
Other assets...............................	3		208	
Goodwill...................................			391	
Due from parent and affiliates.............	633			
Total assets...........................	$5,866	$1,033	$3,216	

LIABILITIES AND SHAREHOLDERS' EQUITY			
Current maturities of long-term debt........	$ 360	$	$ 31
Other current liabilities...................	24		368
Long-term debt..............................	749		18
Other liabilities...........................		3	662
Due to parent and affiliates................		47	586
Total liabilities.......................	1,133	50	1,665
Minority interest...........................			22
Shareholders' equity........................	4,733	983	1,529
Total liabilities and shareholders' equity...............................	$5,866	$1,033	$3,216
1999			
ASSETS			
Inventories.................................	$	$	$ 361
Other current assets........................	1		495
Property, plant and equipment, net..........			995
Investment in Equistar......................			800
Investment in subsidiaries..................	5,170	1,020	
Other assets................................	4		190
Goodwill....................................			404
Due from parent and affiliates..............	536		
Total assets............................	$5,711	$1,020	$3,245
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities.........................	$ 41	$	$ 454
Long-term debt..............................	1,010		13
Other liabilities...........................		3	698
Due to parent and affiliates................		2	534
Total liabilities.......................	1,051	5	1,699
Minority interest...........................			16
Shareholders' equity........................	4,660	1,015	1,530
Total liabilities and shareholders' equity...............................	$5,711	$1,020	$3,245

MILLENNIUM CHEMICALS INC.
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2000, 1999 and 1998

	Millennium America Inc. (Issuer)	Millennium Chemicals Inc. (Guarantor)	Non-guarantor Subsidiaries	Eliminati
2000				
Net sales............................	$	$	$1,793	$
Cost of products sold................			1,267	
Depreciation and amortization.........			113	
Selling, development and administrative expense.............			200	
Operating income.................	--		213	--
Interest expense, net................	(76)		(1)	
Intercompany interest income/(expense)	109		(109)	
Equity in earnings of Equistar........			39	
Equity in earnings of subsidiaries....	59	43		(102)
Other income (expense), net..........		(1)	8	
(Provision) benefit for income taxes............................	(12)		(48)	
Net income (loss)................	$ 80	$ 42	$ 102	$(102)
1999				
Net sales............................	$	$	$1,589	$
Cost of products sold................			1,112	
Depreciation and amortization.........			105	
Selling, development and administrative expense.............			204	
Operating income.................	--	--	168	--
Interest expense, net................	(65)		(4)	
Intercompany interest income/(expense)	111		(111)	
Equity in loss of Equistar...........			(19)	
Equity in earnings of subsidiaries....	(336)	19		317
Loss in value of Equistar investment.........................			(639)	
Other income (expense), net..........		(1)	25	
Income from discontinued operations (net of tax).......................			38	
(Provision) benefit for income taxes............................	(16)		225	
Net income (loss)................	$(306)	$ 18	$ (317)	$ 317
1998				
Net sales............................	$	$	$1,677	$ (80)
Cost of products sold................			1,214	(80)
Depreciation and amortization.........			102	
Selling, development and administrative expense.............			156	
Operating income.................	--	--	205	--
Interest expense, net................	(67)		(5)	
Intercompany interest income/(expense)	105		(105)	
Equity in earnings of Equistar........			40	
Equity in earnings of subsidiaries....	79	60		(139)

Other income (expense), net...........			27	
Income from discontinued operations (net of tax)........................			1	
Provision for income taxes............	(13)		(24)	
Net income........................	$104	$ 60	$ 139	$(139)

F-4

MILLENNIUM CHEMICALS INC.
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2000, 1999 and 1998

	Millennium America Inc. (Issuer)	Millennium Chemicals Inc. (Guarantor)	Non-guarantor Subsidiaries	Eli
2000				
Cash flow from operations..................	$ 80	$ 36	$ 6	
Cash flow from investing activities				
Capital expenditures....................			(110)	
Distributions from Equistar............			83	
Proceeds from sale of fixed assets......			4	
Cash provided by (used in) investing activities.......................	--	--	(23)	
Cash flow from financing activities				
Dividends to shareholders..............		(35)		
Repurchase of common stock.............			(65)	
Proceeds from long-term debt...........	275		36	
Repayment of long-term debt............	(165)		(22)	
Intercompany...........................	(172)	(1)	71	
(Decrease) Increase in notes payable....	(18)		1	
Cash (used in) provided by financing activities...............................	(80)	(36)	21	
Effect of exchange rate changes on cash.....			(7)	
Decrease in cash and cash equivalents.......	--	--	(3)	
Cash and cash equivalents at beginning of year....................................			110	
Cash and cash equivalents at end of year....	$ --	$ --	$ 107	
1999				
Cash flow from operations..................	$(306)	$ 25	$ (13)	
Cash flow from investing activities				

Capital expenditures....................			(109)
Distributions from Equistar.............			75
Proceeds from syngas transaction........			123
Proceeds from sale of Suburban Propane investment............................			75
Proceeds from sale of fixed assets......			13
Cash provided by (used in) investing activities.......................	--	--	177
Cash flow from financing activities			
Dividends to shareholders...............		(38)	
Repurchase of common stock..............			(200)
Proceeds from long-term debt............	115		3
Repayment of long-term debt.............	(66)		(27)
Intercompany............................	231	13	73
Increase (decrease) in notes payable....	26		1
Cash provided by (used in) financing activities................................	306	(25)	(150)
Effect of exchange rate changes on cash.....			(7)
Increase in cash and cash equivalents.......	--	--	7
Cash and cash equivalents at beginning of year....................................			103
Cash and cash equivalents at end of year....	$ --	$ --	$ 110

MILLENNIUM CHEMICALS INC.
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS -- (Continued)
For the Years Ended December 31, 2000, 1999 and 1998

	Millennium America Inc. (Issuer)	Millennium Chemicals Inc. (Guarantor)	Non-guarantor Subsidiaries	Eli
1998				
Cash flow from operations...................	$ 104	$ 67	$ 118	
Cash flow from investing activities				
Capital expenditures....................			(215)	
Acquisition of businesses...............			(85)	
Accounts receivable collection through Equistar.............................			225	
Distributions from Equistar.............			317	
Proceeds from sale of fixed assets......			10	
Cash provided by (used in) investing activities.......................	--	--	252	

Cash flow from financing activities			
Dividends to shareholders..............		(47)	
Proceeds from long-term debt...........	119		53
Repayment of long-term debt............	(409)		(110)
Intercompany...........................	165	(22)	(282)
Increase in notes payable..............	9		20
Cash (used in) provided by financing activities...............................	(116)	(69)	(319)
Effect of exchange rate changes on cash.....			2
(Decrease) increase in cash and cash equivalents..............................	(12)	(2)	53
Cash and cash equivalents at beginning of year....................................	12	2	50
Cash and cash equivalents at end of year....	$ --	$ --	$ 103

REPORT OF INDEPENDENT ACCOUNTANTS

To the Partnership Governance Committee
of EQUISTAR CHEMICALS, LP:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of partners' capital and of cash flows present fairly, in all material respects, the financial position of Equistar Chemicals, LP (the 'Partnership') and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Partnership's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

Houston, Texas
March 12, 2001

EQUISTAR CHEMICALS, LP
CONSOLIDATED STATEMENTS OF INCOME

	For the year ended December 31, 2000	1999	1998
	(Millions of dollars)		
Sales and other operating revenues:			
Unrelated parties	$5,770	$4,506	$3,987
Related parties	1,725	1,088	537
	7,495	5,594	4,524
Operating costs and expenses:			
Cost of sales:			
Unrelated parties	5,417	4,069	3,437
Related parties	1,491	933	491
Selling, general and administrative expenses	182	259	229
Research and development expense	38	42	40
Amortization of goodwill and other intangibles	33	33	31
Restructuring and other unusual charges	--	96	14
	7,161	5,432	4,242
Operating income	334	162	282
Interest expense	(185)	(182)	(156)
Interest income	4	6	17
Other income, net	--	46	--
Net income and comprehensive income	$ 153	$ 32	$ 143

See Notes to Consolidated Financial Statements.

EQUISTAR CHEMICALS, LP
CONSOLIDATED BALANCE SHEETS

	December 31, 2000	1999
	(Millions of dollars)	

ASSETS		
Current assets:		
Cash and cash equivalents	$ 18	$ 108
Accounts receivable:		
Trade, net	568	491
Related parties	190	209
Inventories	506	520
Prepaid expenses and other current assets	50	32
Total current assets	1,332	1,360
Property, plant and equipment, net	3,819	3,926
Investment in PD Glycol	53	52
Goodwill, net	1,086	1,119
Other assets	292	279
Total assets	$6,582	$6,736
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable:		
Trade	$ 426	$ 424
Related parties	61	35
Current maturities of long-term debt	90	92
Other accrued liabilities	166	233
Total current liabilities	743	784
Long-term debt, less current maturities	2,158	2,169
Other liabilities	141	121
Commitments and contingencies	--	--
Partners' capital	3,540	3,662
Total liabilities and partners' capital	$6,582	$6,736

See Notes to Consolidated Financial Statements.

EQUISTAR CHEMICALS, LP
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,		
	2000	1999	1998
	(Millions of dollars)		
Cash flows from operating activities:			

Net income	$ 153	$ 32	$ 143
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	310	300	268
Net loss on disposition of assets	5	35	8
(Increase) decrease in accounts receivable	(58)	(213)	105
Decrease in receivables from partners	--	--	150
Decrease in inventories	14	17	118
Increase in accounts payable	28	119	98
Decrease in payables to partners	--	(6)	(66)
(Decrease) increase in other accrued liabilities	(65)	82	64
Net change in other working capital accounts	(18)	(5)	2
Other	(30)	(17)	(59)
Net cash provided by operating activities	339	344	831
Cash flows from investing activities:			
Expenditures for property, plant and equipment	(131)	(157)	(200)
Proceeds from sales of assets	4	75	3
Net cash used in investing activities	(127)	(82)	(197)
Cash flows from financing activities:			
Net borrowing (payments) under lines of credit	20	(502)	502
Proceeds from issuance of long-term debt	--	898	--
Payment of debt issuance costs	--	(6)	--
Repayments of long-term debt	(42)	(150)	(35)
Repayments of obligations under capital leases	--	(205)	--
Distributions to partners	(280)	(255)	(1,421)
Proceeds from Lyondell note repayment	--	--	345
Net cash used in financing activities	(302)	(220)	(609)
(Decrease) increase in cash and cash equivalents	(90)	42	25
Cash and cash equivalents at beginning of period	108	66	41
Cash and cash equivalents at end of period	$ 18	$ 108	$ 66

See Notes to Consolidated Financial Statements.

EQUISTAR CHEMICALS, LP
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL

	Lyondell	Millennium	Occidental	Tot
	(Millions of dollars)			
Balance at January 1, 1998	$1,055	$2,008	$--	$3,
Capital contributions:				

Net assets....................................	--	--	2,097	2,
Other...	(14)	9	8	
Net income (loss)...............................	84	64	(5)	
Distributions to partners........................	(512)	(460)	(449)	(1,
Balance at December 31, 1998.........................	613	1,621	1,651	3,
Net income..	14	9	9	
Distributions to partners........................	(105)	(75)	(75)	(
Balance at December 31, 1999.........................	522	1,555	1,585	3,
Net income..	63	45	45	
Distributions to partners........................	(114)	(83)	(83)	(
Other..	5	--	--	
Balance at December 31, 2000.........................	$ 476	$1,517	$1,547	$3,

See Notes to Consolidated Financial Statements.

EQUISTAR CHEMICALS, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Formation of the Partnership and Operations

Pursuant to a partnership agreement ('Partnership Agreement'), Lyondell Chemical Company ('Lyondell') and Millennium Chemicals Inc. ('Millennium') formed Equistar Chemicals, LP ('Equistar' or 'Partnership'), a Delaware limited partnership, which commenced operations on December 1, 1997. From December 1, 1997 to May 15, 1998, Equistar was owned 57% by Lyondell and 43% by Millennium. Lyondell owns its interest in Equistar through two wholly owned subsidiaries, Lyondell Petrochemical G.P. Inc. and Lyondell Petrochemical L.P. Inc. ('Lyondell LP'). Millennium also owns its interest in Equistar through two wholly owned subsidiaries, Millennium Petrochemicals GP LLC and Millennium Petrochemicals LP LLC ('Millennium LP').

On May 15, 1998, Equistar was expanded with the contribution of certain assets from Occidental Petroleum Corporation ('Occidental') (see Note 3). These assets included the ethylene, propylene and ethylene oxide ('EO') and EO derivatives businesses and certain pipeline assets held by Oxy Petrochemicals Inc. ('Oxy Petrochemicals'), a former subsidiary of Occidental, a 50% interest in a joint venture ('PD Glycol') between PDG Chemical Inc. and E.I. DuPont de Nemours and Company, and a lease to Equistar of the Lake Charles, Louisiana olefins plant and related pipelines held by Occidental Chemical Corporation ('Occidental Chemical') (collectively, 'Occidental Contributed Business'). Occidental Chemical and PDG Chemical Inc. are both wholly owned, indirect subsidiaries of Occidental. The Occidental Contributed Business included olefins plants at Corpus Christi and Chocolate Bayou, Texas, EO/ethylene glycol ('EG') and EG derivatives businesses located at Bayport, Texas, Occidental's 50% ownership of PD Glycol which operates EO/EG plants at Beaumont, Texas, 950 miles of owned and leased ethylene/propylene pipelines, and the lease to Equistar of the Lake Charles, Louisiana olefins plant and related pipelines.

In exchange for the Occidental Contributed Business, two subsidiaries of Occidental were admitted as limited partners and a third subsidiary was admitted as a general partner in Equistar for an aggregate partnership interest of 29.5%. In addition, Equistar assumed approximately $205 million of Occidental indebtedness and Equistar issued a promissory note to an Occidental subsidiary in the amount of $420 million, which was subsequently paid in cash in June 1998. In connection with the contribution of the Occidental Contributed Business and the reduction of Millennium's and Lyondell's ownership interests in the Partnership, Equistar also issued a promissory note to Millennium LP in the amount of $75 million, which was subsequently paid in June 1998. These payments are included in 'Distributions to partners' in the accompanying Statements of Partners' Capital and of Cash Flows. The consideration paid for the Occidental Contributed Business was determined based upon arms-length negotiations between Lyondell, Millennium and Occidental. In connection with the transaction, Equistar and Occidental also entered into a long-term agreement for Equistar to supply the ethylene requirements for Occidental Chemical's U.S. manufacturing plants.

Upon completion of this transaction, Equistar is now owned 41% by Lyondell, 29.5% by Millennium and 29.5% by Occidental, all through wholly owned subsidiaries.

Equistar owns and operates the petrochemicals and polymers businesses contributed by Lyondell, Millennium and Occidental ('Contributed Businesses'), which consist of 17 manufacturing facilities primarily on the U.S. Gulf Coast and in the U.S. Midwest. The petrochemicals segment manufactures and markets olefins, oxygenated products, aromatics and specialty products. Olefins include ethylene, propylene and butadiene, and oxygenated products include ethylene oxide, ethylene glycol, ethanol and methyl tertiary butyl ether ('MTBE'). The petrochemicals segment also includes the production and sale of aromatics, including benzene and toluene. The polymers segment manufactures and markets polyolefins, including high-density polyethylene ('HDPE'), low-density polyethylene ('LDPE'), linear low-density polyethylene ('LLDPE'), polypropylene, and performance polymers, all of which are used in the production of a wide variety of consumer and industrial products. The performance polymers include enhanced grades of polyethylene, including wire and cable insulating resins, and polymeric

powders. The concentrates and compounds business, which was part of performance polymers products, was sold effective April 30, 1999 (see Note 5).

The Partnership Agreement provides that Equistar is governed by a Partnership Governance Committee consisting of nine representatives, three appointed by each partner. Most of the significant decisions of the Partnership Governance Committee require unanimous consent, including approval of the Partnership's Strategic Plan and annual updates thereof.

Pursuant to the Partnership Agreement, net income is allocated among the partners on a pro rata basis based upon their percentage ownership of Equistar. Distributions are made to the partners based upon their percentage ownership of Equistar. Additional cash contributions required by the Partnership will also be based upon the partners' percentage ownership of Equistar.

2. Summary of Significant Accounting Policies

Basis of Presentation -- The consolidated financial statements include the accounts of Equistar and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Revenue Recognition -- Revenue from product sales is recognized upon delivery of products to the customer.

Cash and Cash Equivalents -- Cash equivalents consist of highly liquid debt instruments such as certificates of deposit, commercial paper and money market accounts purchased with an original maturity date of three months or less. Cash equivalents are stated at cost, which approximates fair value. Equistar's policy is to invest cash in conservative, highly rated instruments and limit the amount of credit exposure to any one institution. Equistar performs periodic evaluations of the relative credit standing of these financial institutions which are considered in Equistar's investment strategy.

Equistar has no requirements for compensating balances in a specific amount at a specific point in time. The Partnership does maintain compensating balances for some of its banking services and products. Such balances are maintained on an average basis and are solely at Equistar's discretion. As a result, none of Equistar's cash is restricted.

Accounts Receivable -- Equistar sells its products primarily to companies in the petrochemicals and polymers industries. Equistar performs ongoing credit evaluations of its customers' financial condition and, in certain circumstances, requires letters of credit from them. The Partnership's allowance for doubtful accounts, which is reflected in the accompanying Consolidated Balance Sheets as a reduction of accounts receivable, totaled $9 million and $6 million at December 31, 2000 and 1999, respectively.

Property, Plant and Equipment -- Property, plant and equipment are recorded at cost. Depreciation of property, plant and equipment is computed using the straight-line method over the estimated useful lives of the related assets, ranging from 5 to 30 years. Upon retirement or sale, Equistar removes the cost of the assets and the related accumulated depreciation from the accounts and reflects any resulting gains or losses in the Consolidated Statements of Income. Equistar's policy is to capitalize interest cost incurred on debt during the construction of major projects exceeding one year.

Turnaround Maintenance and Repair Expenses -- Cost of major repairs and maintenance incurred in connection with substantial overhauls or maintenance turnarounds of production units at Equistar's manufacturing facilities are deferred and amortized on a straight-line basis until the next planned turnaround, generally five to seven years. These costs are maintenance, repair and replacement costs that are necessary to maintain, extend and improve the operating capacity and efficiency rates of the production units. Equistar amortized $24 million, $25 million and $20 million of deferred turnaround maintenance and repair costs for the years ended December 31, 2000, 1999 and 1998, respectively.

Deferred Software Costs -- Costs to purchase and develop software for internal use are deferred and amortized on a straight-line basis over a range of 3 to 10 years. Equistar amortized $13 million, $12

EQUISTAR CHEMICALS, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

million and $6 million of deferred software costs for the years ended December 31, 2000, 1999 and 1998, respectively.

Goodwill -- Goodwill includes goodwill contributed by Millennium and goodwill recorded in connection with the contribution of Occidental's assets. Goodwill is being amortized using the straight-line method over 40 years. Accumulated amortization of goodwill was $232 million, $199 million and $166 million at December 31, 2000, 1999 and 1998, respectively.

Investment in PD Glycol -- Equistar holds a 50% interest in a joint venture with E.I. DuPont de Nemours and Company that owns an ethylene glycol facility in Beaumont, Texas. This investment was contributed by Occidental in 1998. The investment in PD Glycol is accounted for using the equity method of accounting. At December 31, 2000 and 1999, Equistar's underlying equity in the net assets of PD Glycol exceeded the cost of the investment by $7 million and $8 million, respectively. The excess is being accreted into income on a straight-line basis over a period of 25 years.

Environmental Remediation Costs -- Expenditures related to investigation and remediation of contaminated sites, which include operating facilities and waste disposal sites, are accrued when it is probable a liability has been incurred and the amount of the liability can be reasonably estimated. The estimated liabilities have not been discounted to present value. Environmental remediation costs are expensed or capitalized in accordance with accounting principles generally accepted in the United States of America.

Exchanges -- Inventory exchange transactions, which involve homogeneous commodities in the same line of business and do not involve the payment or receipt of cash, are not accounted for as purchases and sales. Any resulting volumetric exchange balances are accounted for as inventory in accordance with the normal LIFO valuation policy.

Income Taxes -- The Partnership is not subject to federal income taxes as income is reportable directly by the individual partners; therefore, there is no provision for income taxes in the accompanying financial statements.

Use of Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comprehensive Income -- Equistar had no items of other comprehensive income during the years ended December 31, 2000, 1999 and 1998.

Long-Lived Asset Impairment -- In accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, Equistar reviews its long-lived assets, including goodwill, for impairment on an exception basis whenever events or changes in circumstances indicate a potential loss in utility. Impairment losses are recognized in 'Restructuring and other unusual charges' in the Consolidated Statements of Income.

Derivatives -- Adoption of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, did not have a significant impact on the

Consolidated Financial Statements of Equistar. The statement is effective for Equistar's calendar year 2001.

Reclassifications -- Certain previously reported amounts have been reclassified to conform to classifications adopted in 2000.

3. Occidental Contributed Business

On May 15, 1998, Equistar was expanded with the contribution of certain assets from Occidental. The acquisition was accounted for using the purchase method of accounting and, accordingly, the results of operations for these assets are included in the accompanying Consolidated Statements of Income

prospectively from May 15, 1998. Occidental contributed assets and liabilities to Equistar with a net fair value of $2.1 billion in exchange for a 29.5% interest in the Partnership. Equistar also issued a promissory note to an Occidental subsidiary in the amount of $420 million, which was subsequently paid in cash in June 1998. The fair value was allocated to the assets contributed and liabilities assumed based upon the estimated fair values of such assets and liabilities at the date of the contribution. The fair value was determined based upon a combination of internal valuations performed by Lyondell, Millennium and Occidental using the income approach. The fair values of the assets contributed and liabilities assumed by the Partnership on May 15, 1998 were as follows:

	(Millions of dollars)
Total current assets	$ 281
Property, plant and equipment	1,964
Investment in PD Glycol	58
Goodwill	43
Deferred charges and other assets	49
Total assets	$2,395
Other current liabilities	$ 79
Long-term debt	205
Other liabilities and deferred credits	14
Partners' capital	2,097
Total liabilities and partners' capital	$2,395

The unaudited pro forma combined historical results of Equistar as if the Occidental Contributed Business had been contributed on January 1, 1998 were as follows:

	For the year ended December 31, 1998
	(Millions of dollars)
Sales and other operating revenues................	$4,869
Restructuring and other unusual charges...........	14
Operating income..................................	320
Net income..	154

The unaudited pro forma data presented above are not necessarily indicative of the results of operations of Equistar that would have occurred had such transaction actually been consummated as of January 1, 1998, nor are they necessarily indicative of future results.

4. Related Party Transactions

Product Transactions with Lyondell -- Lyondell has purchased benzene, ethylene, propylene and other products at market-related prices from Equistar since Lyondell's acquisition of ARCO Chemical Company in July 1998. Currently, Equistar sells ethylene, propylene and benzene to Lyondell at market-related prices pursuant to agreements dated effective as of August 1999. Under the agreements, Lyondell is required to purchase 100% of its benzene, ethylene and propylene requirements for its Channelview and Bayport, Texas facilities, with the exception of quantities of one product that Lyondell is obligated to purchase under a supply agreement with an unrelated third party entered into prior to 1999 and expiring in 2015. The initial term of each of the agreements between Equistar and Lyondell expires on December 31, 2014. After the initial term, each of those agreements automatically renews for successive one-year periods and either party may terminate any of the agreements on one year's notice. The pricing terms under the agreements between Equistar and Lyondell are similar to the pricing terms under the ethylene sales agreement between Equistar and Occidental Chemical. In addition, a wholly owned subsidiary of Lyondell licenses MTBE technology to Equistar. Lyondell also purchases a significant portion of the MTBE produced by Equistar at one of its two Channelview units at market-related prices. Sales to Lyondell totaled $572 million, $242 million and $89 million for the years ended

December 31, 2000 and 1999 and for the period from August 1, 1998 to December 31, 1998, respectively. Purchases from Lyondell totaled $2 million, $6 million and $2 million for the years ended December 31, 2000 and 1999 and for the period from August 1, 1998 to December 31, 1998, respectively.

Product Transactions with Occidental Chemical -- Equistar and Occidental Chemical entered into a Sales Agreement, dated May 15, 1998 ('Ethylene Sales Agreement'). Under the terms of the Ethylene Sales Agreement, Occidental Chemical agreed to purchase an amount of ethylene from Equistar equal to 100% of the ethylene feedstock requirements of Occidental Chemical's United States plants less any quantities up to 250 million pounds tolled in accordance with the provisions of such agreement. Upon three years notice from either party to the other, Equistar's maximum supply obligation in any calendar year under the Ethylene Sales Agreement may be 'phased down' as set forth in the agreement, provided that no phase down may occur prior to January 1, 2009. In accordance with the phase down provisions of the agreement, the annual minimum requirements set forth in the agreement must be phased down over at least a five year period so that the annual required minimum cannot decline to zero prior to December 31, 2013 unless certain specified force majeure events occur. The Ethylene Sales Agreement provides for sales of ethylene at market-related prices. In addition to ethylene, Equistar sells methanol, ethers, and glycols to Occidental Chemical. During the years ended December 31, 2000 and 1999 and the period from May 15, 1998 to December 31, 1998, Equistar sold Occidental Chemical $558 million, $435 million and $171 million, respectively, of product, primarily under the Ethylene Sales Agreement.

Equistar also purchases various products from Occidental Chemical. During the years ended December 31, 2000 and 1999 and the period from May 15, 1998 to December 31, 1998, purchases from Occidental Chemical totaled $2 million, $2 million and $4 million, respectively.

Product Transactions with Millennium -- Equistar sells ethylene to Millennium at market-related prices pursuant to an agreement entered into in connection with the formation of Equistar. Under this agreement, Millennium is required to purchase 100% of its ethylene requirements for its LaPorte, Texas facility. The initial term of the contract expired December 1, 2000 and thereafter, renews annually. Either party may terminate on one year's notice. Neither party has provided notice of termination of the agreement. The pricing terms of this agreement are similar to the pricing terms of the Ethylene Sales Agreement with Occidental Chemical. Equistar sold Millennium $90 million, $54 million, and $41 million of ethylene in 2000, 1999 and 1998, respectively.

Equistar purchases vinyl acetate monomer ('VAM') feedstock from Millennium at formula-based market prices pursuant to an agreement entered into in connection with the formation of Equistar. Under this agreement, Equistar is required to purchase 100% of its VAM feedstock requirements for its LaPorte, Texas, Clinton, Illinois, and Morris, Illinois plants for the production of ethylene vinyl acetate products at those locations. The initial term of the contract expires December 31, 2000 and thereafter, renews annually. Either party may terminate on one year's notice of termination. The initial term will extend until December 31, 2002 if Millennium elects to increase the amount of ethylene purchased under the Ethylene Sales Agreement. Millennium did not elect to increase the amount of ethylene purchased under the Ethylene Sales Agreement. Therefore, the contract for VAM purchases expired December 31, 2000 and was subsequently renewed for one year under the automatic renewal provisions. During the years ending December 31, 2000, 1999 and 1998, purchases from Millennium, primarily of vinyl acetate monomer, were $16 million, $12 million, and $14 million, respectively.

Product Transactions with Oxy Vinyls, LP -- Occidental Chemical owns 76% of Oxy Vinyls, LP ('Oxy Vinyls'), a joint venture company formed with an unrelated third party effective May 1, 1999. Equistar sells ethylene to Oxy Vinyls for Oxy Vinyls' LaPorte, Texas facility at market-related prices pursuant to an agreement dated effective as of June 1998, which agreement was assigned to Oxy Vinyls by one of its owners. The initial term of the agreement expires on December 31, 2003. After the initial term, the agreement automatically renews for successive one-year periods and either party may

EQUISTAR CHEMICALS, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

terminate the agreement on 24 months' notice. Ethylene sales to Oxy Vinyls totaled $67 million for the year ended December 31, 2000 and $93 million for the period from May 1, 1999 to December 31, 1999.

Transactions with LYONDELL-CITGO Refining LP -- Lyondell's rights and obligations under the terms of its product sales and feedstock purchase agreements with LYONDELL-CITGO Refining LP ('LCR'), a joint venture investment of Lyondell, were assigned to Equistar. Accordingly, certain olefins by-products are sold to LCR for processing into gasoline and certain refinery products are sold to Equistar as feedstocks. Sales of product to LCR were $425 million, $250 million and $223 million and purchases from LCR were $264 million, $190 million and $131 million for the years ended December 31, 2000, 1999 and 1998, respectively. Equistar also assumed certain processing arrangements as well as storage obligations between Lyondell and LCR and provides certain marketing and information processing services for LCR. Aggregate charges under these various service agreements of $15 million, $13 million and $15 million were made to LCR by Equistar for the years ended December 31, 2000, 1999 and 1998, respectively. All of the agreements between LCR and Equistar are on terms generally representative of prevailing market prices.

Transactions with LMC -- Lyondell Methanol Company, L.P. ('LMC') sells all of its products to Equistar. For the years ending December 31, 2000, 1999 and 1998, purchases from LMC were $165 million, $95 million and $103 million, respectively. Equistar sells natural gas to LMC at prices generally representative of its cost. Purchases by LMC of natural gas feedstock from Equistar totaled $85 million, $46 million and $44 million for the years ended December 31, 2000, 1999 and 1998, respectively. Equistar provides operating and other services for LMC under the terms of existing agreements that were assumed by Equistar from Lyondell, including the lease to LMC by Equistar of the real property on which its methanol plant is located. Pursuant to the terms of those agreements, LMC pays Equistar a management fee and reimburses certain expenses of Equistar at cost. Management fees charged by Equistar to LMC totaled $6 million during each of the years ending December 31, 2000, 1999 and 1998.

Shared Services Agreement with Lyondell -- During 1998 and 1999, Lyondell provided certain administrative services to Equistar, including legal, risk management, treasury, tax and employee benefit plan administrative services, while Equistar provided services to Lyondell in the areas of health, safety and environment, human resources, information technology and legal. In November 1999, Lyondell and Equistar announced an agreement to utilize shared services more broadly, consolidating such services among Lyondell and Equistar. These services included information technology, human resources, materials management, raw material supply, customer supply chain, health, safety and environmental, engineering, research and development, facility services, legal, accounting, treasury, internal audit, and tax (the 'Shared Services Agreement'). Beginning January 1, 2000, employee-related and indirect costs were allocated between the two companies in the manner prescribed in the Shared Services Agreement, while direct third party costs, incurred exclusively for either Lyondell or Equistar, were charged directly to that entity. During the years ended December 31, 2000, 1999 and 1998, Lyondell charged Equistar $133 million, $9 million and $3 million for these services. The increased charges to Equistar during 2000 resulted from the increase in services provided by Lyondell under the Shared Services Agreement. During the years ended December 31, 1999 and 1998, Equistar charged Lyondell approximately $8 million and approximately $1 million, respectively, for services. There were no billings from Equistar to Lyondell for the year ended December 31, 2000.

Shared Services and Shared-Site Agreements with Millennium -- Equistar and Millennium have entered into a variety of operating, manufacturing and technical service agreements related to the business of Equistar and the businesses retained by Millennium Petrochemicals. These agreements include the provision by Equistar to Millennium Petrochemicals of materials management, certain utilities, administrative office space, and health and safety services. During the years ended December 31, 2000, 1999 and 1998, Equistar charged Millennium Petrochemicals $2 million, $3 million and $5 million for these services. These agreements also include the provision by Millennium Petrochemicals to Equistar of certain operational services, including barge dock access. During each of

the years ended December 31, 2000, 1999 and 1998, Millennium Petrochemicals charged Equistar less than $1 million for these services.

Operating Agreement with Occidental Chemical -- On May 15, 1998, Occidental Chemical and Equistar entered into an Operating Agreement ('Operating Agreement') whereby Occidental Chemical agreed to operate and maintain the Occidental Contributed Business and to cause third-parties to continue to provide equipment, products and commodities to those businesses upon substantially the same terms and conditions as provided prior to the transfer. The Operating Agreement terminated on June 1, 1998. During the term of the Operating Agreement, Equistar paid Occidental Chemical an administrative fee of $1 million.

Transition Services Agreement with Occidental Chemical -- On June 1, 1998, Occidental Chemical and Equistar entered into a Transition Services Agreement. Under the terms of the Transition Services Agreement, Occidental Chemical agreed to provide Equistar certain services in connection with the Occidental Contributed Business, including services related to accounting, payroll, office administration, marketing, transportation, purchasing and procurement, management, human resources, customer service, technical services and others. Predominantly all services under the Transition Services Agreement ceased in June 1999 in accordance with the terms of the agreement. Health, safety, and environmental services were extended until December 31, 1999 as permitted by the Transition Services Agreement. During the year ended December 31, 1999 and the period from June 1, 1998 to December 31, 1998, Equistar expensed $2 million and $6 million, respectively, in connection with services provided pursuant to the Transition Service Agreement.

Loans to Millennium and Occidental -- In connection with Occidental's admission into Equistar in May 1998, Equistar executed promissory notes to Millennium and Occidental in the principal amounts of $75 million and $420 million, respectively. Each of the notes provided for the annual accrual of interest at a rate equal to LIBOR plus 0.6%. These notes were paid in full in June 1998. Interest expense incurred on these notes during 1998 was $3 million.

Note Receivable from Lyondell LP -- Upon formation of the Partnership, Lyondell LP contributed capital to Equistar in the form of a $345 million promissory note ('Lyondell Note'). The Lyondell Note bore interest at LIBOR plus a market spread. The note was repaid in full by Lyondell in July 1998. Interest income on the Lyondell Note totaled $13 million during 1998.

5. Sale of Concentrates and Compounds Business

Effective April 30, 1999, Equistar completed the sale of its concentrates and compounds business. The transaction included two manufacturing facilities, located in Heath, Ohio and Crockett, Texas, and related inventories. Equistar's proceeds from the sale were approximately $75 million.

6. Restructuring and Other Unusual Charges

During the fourth quarter 1999, Equistar recorded a charge of $96 million associated with decisions to shut down certain polymer reactors and to consolidate certain administrative functions between Lyondell and Equistar. The decision to shut down the reactors was based on their high production cost, market conditions in the polyethylene industry and the flexibility to utilize more efficient reactors to meet customer requirements. Accordingly, Equistar recorded a charge of $72 million to adjust the asset carrying values. The remaining $24 million of the total charge represents severance and other employee-related costs for approximately 500 employee positions that are being eliminated. The eliminated positions, primarily administrative functions, resulted from opportunities to share such services between Lyondell and Equistar and, to a lesser extent, positions associated with the shut down polymer reactors. Through December 31, 2000, approximately $19 million of severance and other employee-related costs had been paid and charged against the accrued liability. As of December 31, 2000, substantially all of the employee terminations had been completed and the remaining liability was eliminated.

In 1998, Equistar recorded and paid, as incurred, an additional $12 million in restructuring charges related to the initial merger and integration of Equistar. These costs included costs associated with the consolidation of operations and facilities of $11 million and other miscellaneous charges of $1 million.

7. Accounts Receivable

In December 1998, Equistar entered into a purchase agreement with an independent issuer of receivables-backed commercial paper. Under the terms of the agreement, Equistar agreed to sell on an ongoing basis and without recourse, designated accounts receivable. To maintain the balance of the accounts receivable sold, Equistar is obligated to sell new receivables as existing receivables are collected. The agreement continues until terminated upon notice by either party.

At December 31, 1998, 1999 and 2000, Equistar's gross accounts receivable that had been sold to the purchasers aggregated $130 million. Increases and decreases in the amount have been reported as operating cash flows in the Consolidated Statements of Cash Flows. Costs related to the sale are included in 'Selling, general and administrative expenses' in the Consolidated Statements of Income.

8. Inventories

Inventories are stated at the lower of cost or market. Cost is determined on the last-in, first-out ('LIFO') basis except for materials and supplies, which are valued at average cost. Inventories at December 31, 2000 and 1999 consisted of the following:

	2000	1999
	(Millions of dollars)	
Finished goods	$273	$278
Work-in-process	16	10
Raw materials	123	137
Materials and supplies	94	95
Total inventories	$506	$520

The excess of the current cost of inventories over book value was approximately $165 million at December 31, 2000.

9. Property, Plant and Equipment, Net

The components of property, plant and equipment, at cost, and the related accumulated depreciation were as follows at December 31:

	2000	1999
	(Millions of dollars)	
Land	$ 78	$ 78
Manufacturing facilities and equipment	5,769	5,656
Construction in progress	134	134
Total property, plant and equipment	5,981	5,868
Less accumulated depreciation	2,162	1,942
Property, plant and equipment, net	$3,819	$3,926

No interest was capitalized during 2000, 1999 and 1998. Depreciation expense for the years ending December 31, 2000, 1999 and 1998 was $229 million, $221 million and $200 million, respectively.

In July 1998, the depreciable lives of certain assets, primarily manufacturing facilities and equipment, were increased from a range of 5 to 25 years to a range of 5 to 30 years. The change was made to more accurately reflect the estimated periods during which such assets will remain in service, based upon Equistar's actual experience with those assets. This change was accounted for as a change in accounting estimate and resulted in a $33 million decrease in depreciation expense for 1998.

EQUISTAR CHEMICALS, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

10. Other Accrued Liabilities

Other accrued liabilities at December 31, 2000 and 1999 were as follows:

	2000	1999
	(Millions of dollars)	
Accrued property taxes	$ 73	$ 68
Accrued payroll costs	38	68
Accrued interest	52	50
Other	3	47
Total other accrued liabilities	$166	$233

11. Pension and Other Postretirement Benefits

All full-time regular employees of the Partnership are covered by defined benefit pension plans sponsored by Equistar. The plans became effective January 1, 1998, except for union represented employees formerly employed by Millennium, whose plans were contributed to Equistar on December 1, 1997, and union represented employees formerly employed by Occidental, whose plans were contributed to Equistar on May 15, 1998. In connection with the formation of Equistar, there were no pension assets or obligations contributed to Equistar, except for the union represented plans described above. Retirement benefits are based upon years of service and the employee's highest three consecutive years of compensation during the last ten years of service. Equistar accrues pension costs based upon an actuarial valuation and funds the plans through periodic contributions to pension trust funds as required by applicable law. Equistar also has unfunded supplemental nonqualified retirement plans, which provide pension benefits for certain employees in excess of the tax qualified plans' limits. In addition, Equistar sponsors unfunded postretirement benefit plans other than pensions for both salaried and nonsalaried employees, which provide medical and life insurance benefits. These postretirement health care plans are contributory while the life insurance plans are noncontributory.

The following table provides a reconciliation of benefit obligations, plan assets and the funded status of these plans:

	Pension Benefits		Other Postretirement Bene	
	2000	1999	2000	19
	(Millions of dollars)			
Change in benefit obligation:				
Benefit obligation, January 1	$ 99	$ 88	$ 77	$
Service cost	17	22	2	
Interest cost	9	7	6	
Actuarial loss (gain)	8	(8)	11	
Net effect of curtailments, settlements and special termination benefits	(1)	--	1	--
Transfer to Lyondell	--	--	(3)	--
Benefits paid	(12)	(10)	(2)	--
Benefit obligation, December 31	120	99	92	
Change in plan assets:				
Fair value of plan assets, January 1	101	88	--	--
Actual return of plan assets	(3)	7	--	--
Partnership contributions	31	16	2	--
Benefits paid	(12)	(10)	(2)	--
Fair value of plan assets, December 31	117	101	--	--
Funded status	(3)	2	(91)	(
Unrecognized actuarial loss	24	5	20	
Net amount recognized	$ 21	$ 7	$(71)	$(
Amounts recognized in the Consolidated Balance Sheets consist of:				
Prepaid benefit cost	$ 35	$ 33	$--	$-
Accrued benefit liability	(14)	(26)	(71)	(
Net amount recognized	$ 21	$ 7	$(71)	$(

The benefit obligation, accumulated benefit obligation and fair value of assets for pension plans with benefit obligations in excess of plan assets were $63 million, $42 million and $40 million, respectively, as of December 31, 2000 and $40 million, $26 million and $13 million, respectively, as of December 31, 1999.

Net periodic pension and other postretirement benefit costs included the following components:

	Pension Benefits	Other Postretirement Benefits

	2000	1999	1998	2000	1999	1998
			(Millions of dollars)			
Components of net periodic benefit cost:						
Service cost	$ 17	$ 22	$ 16	$ 2	$ 4	$ 3
Interest cost	9	7	5	6	6	4
Amortization of actuarial loss	--	1	--	1	1	--
Expected return of plan assets	(8)	(8)	(6)	--	--	--
Net effect of curtailments, settlements and special termination benefits	(1)	--	--	1	--	--
Net periodic benefit cost	$ 17	$ 22	$ 15	$ 10	$ 11	$ 7
Weighted-average assumptions as of December 31:						
Discount rate	7.50%	8.00%	6.75%	7.50%	8.00%	6.75%
Expected return on plan assets	9.50%	9.50%	9.50%	--	--	--
Rate of compensation increase	4.50%	4.75%	4.75%	4.50%	4.75%	4.75%

For measurement purposes, the assumed annual rate of increase in the per capita cost of covered health care benefits as of December 31, 2000 was 7.0% for 2001 and 5.0% thereafter. The health care cost trend rate assumption does not have a significant effect on the amounts reported. To illustrate, increasing or decreasing the assumed health care cost trend rates by one percentage point in each year would change the accumulated postretirement benefit liability as of December 31, 2000 by less than $1 million and would not have a material effect on the aggregate service and interest cost components of the net periodic postretirement benefit cost for the year then ended.

Equistar also maintains voluntary defined contribution savings plans for eligible employees. Contributions to the plans by Equistar were $17 million, $20 million and $15 million for the years ended December 31, 2000, 1999 and 1998, respectively.

12. Long-Term Debt and Financing Arrangements

In February 1999, Equistar and Equistar Funding Corporation ('Equistar Funding') co-issued $900 million of debt securities. Equistar Funding, a wholly owned subsidiary of Equistar, is a Delaware corporation formed for the sole purpose of facilitating the financing activities of Equistar. Equistar is jointly and severally liable with Equistar Funding on the outstanding notes and new notes. The debt securities include $300 million of 8.50% Notes, which will mature on February 15, 2004, and $600 million of 8.75% Notes, which will mature on February 15, 2009. Equistar used the net proceeds from this offering (i) to repay the $205 million outstanding under a capitalized lease obligation relating to Equistar's Corpus Christi facility, (ii) to repay the outstanding balance under the $500 million credit agreement, after which the $500 million credit agreement was terminated, (iii) to repay the outstanding $150 million, 10.00% Notes due in June 1999, and (iv) to the extent of the remaining net proceeds, to reduce outstanding borrowing under the five-year credit facility and for Partnership working capital purposes.

Equistar has a five-year, $1.25 billion credit facility with a group of banks expiring November 2002. Borrowing under the facility bears interest at either the Federal Funds rate plus 1/2 of 1%, LIBOR plus 1/2 of 1%, a fixed rate offered by one of the sponsoring banks or interest rates that are based on a competitive auction feature wherein the interest rate can be established by competitive bids submitted by the sponsoring banks, depending upon the type of borrowing made under the facility. Borrowing under the facility had a weighted average interest rate of 7.13% and 6.0% at December 31, 2000 and 1999, respectively. Millennium America Inc., a subsidiary of Millennium, provided limited guarantees with respect to the payment of principal and interest on a total of $750 million principal amount of indebtedness under the $1.25 billion revolving credit facility. However, the lenders may not proceed against Millennium America Inc. until they have exhausted their remedies against Equistar. The guarantee will remain in effect indefinitely, but at any time after December 31, 2004, Millennium America Inc. may elect to terminate the guarantee if certain conditions are met including financial ratios and covenants. In addition, Millennium America Inc. may elect to terminate the guarantee if Millennium Petrochemicals Inc. sells its interests in Millennium GP and Millennium LP or if those entities sell their interests in Equistar, provided certain conditions are met including financial ratios and covenants.

The credit facility is available for working capital and general Partnership purposes as needed and contains covenants that, subject to exceptions, restrict sale and leaseback transactions, lien incurrence, debt incurrence, sales of assets and mergers and consolidations, and require Equistar to maintain specified financial ratios, in all cases as provided in the credit facility. The breach of these covenants could permit the lenders to declare the loans immediately payable and to terminate future lending commitments.

Equistar was in compliance with all covenants under its credit facility as of December 31, 2000. However, given the poor current business environment, Equistar is seeking an amendment to its credit facility that would increase its financial and operating flexibility, primarily by making certain financial

ratio requirements less restrictive. Equistar anticipates that the amendment will become effective prior to March 31, 2001.

The terminated $500 million credit agreement was entered into on June 12, 1998. Borrowing under the agreement bore interest at either the Federal Funds rate plus 1/2 of 1%, LIBOR plus 0.625%, a fixed rate offered by one of the sponsoring banks or interest rates that were based on a competitive auction feature.

Long-term debt at December 31 consisted of the following:

	2000	1999
	(Millions of dollars)	
Bank credit facilities:		
5-year term credit facility	$ 820	$ 800
Other debt obligations:		
Medium-term notes (due 2000-2005)	121	163
9.125% Notes due 2002	100	100
8.50% Notes due 2004	300	300
6.50% Notes due 2006	150	150
8.75% Notes due 2009	598	598
7.55% Debentures due 2026	150	150
Other	9	--
Total long-term debt	2,248	2,261
Less current maturities	90	92
Total long-term debt, net	$2,158	$2,169

Aggregate maturities of long-term debt during the next five years are as follows: 2001-$90 million; 2002-$921 million; 2003-$29 million; 2004-$300 million; 2005-$5 million and thereafter-$903 million. The 8.75% Notes have a face amount of $600 million and are shown net of unamortized discount. The medium-term notes mature at various dates from 2001 to 2005 and had a weighted average interest rate of 9.6% and 10.0% at December 31, 2000 and 1999, respectively.

The medium-term Notes, the 9.125% Notes, the 6.5% Notes and the 7.55% Debentures were assumed by Equistar from Lyondell when Equistar was formed in 1997. As between Equistar and Lyondell, Equistar is primarily liable for this debt. Lyondell remains a co-obligor for the medium-term notes and certain events involving only Lyondell could give rise to events of default under those notes, permitting the obligations to be accelerated. If such an event permitted more than $50 million of the medium-term notes to be accelerated, the lenders under Equistar's $1.25 billion revolving credit facility would have the right to accelerate all debt outstanding under the facility and to terminate future lending commitments. $90 million aggregate principal amount of the medium-term notes will mature on August 1, 2001. Under certain limited circumstances, the holders of the medium-term notes have the right to require repurchase of the notes. Following amendments to the indentures for the 9.125% Notes and 6.5% Notes and the 7.55% Debentures in November 2000, Lyondell remains a guarantor of that debt but not a co-obligor. The consolidated financial statements of Lyondell are filed as an exhibit to Equistar's Annual Report on Form 10-K for the year ended December 31, 2000.

13. Financial Instruments

Equistar does not buy, sell, hold or issue financial instruments for speculative trading purposes.

Beginning October 1999, Equistar entered into over-the-counter 'derivatives' and price collar agreements for crude oil with Occidental Energy Marketing, Inc., a subsidiary of Occidental, to help manage its exposure to commodity price risk with respect to crude-oil related raw material purchases. At December 31, 2000, 'derivatives' agreements covering 5.1 million barrels and maturing from January 2001 through July 2001 were outstanding. The carrying value and fair market value of these derivative instruments at December 31, 2000 represented a liability of $13 million and was based on

quoted market prices. At December 31, 1999, 'derivatives' and collar agreements covering 2.4 million and 1.5 million barrels, respectively, and maturing in January 2000, were outstanding. Both the carrying value and fair market value of these derivative instruments at December 31, 1999 represented an asset of $7 million and was based on quoted market prices. Unrealized gains and losses on 'derivatives' and price collars are deferred until realized at which time they are reflected in the cost of the purchased raw material. See Item 7a. Disclosure of Market and Regulatory Risk -- Commodity Price Risk.

The fair value of all nonderivative financial instruments included in current assets and current liabilities, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximated their carrying value due to their short maturity. Based on the borrowing rates currently available to Equistar for debt with terms and average maturities similar to Equistar's debt portfolio, the fair value of Equistar's long-term debt, including amounts due within one year, was approximately $2.1 billion and $2.2 billion at December 31, 2000 and 1999, respectively.

Equistar had issued letters of credit totaling $1 million and $6 million at December 31, 2000 and 1999, respectively.

14. Commitments and Contingencies

Commitments -- Equistar has various purchase commitments for materials, supplies and services incident to the ordinary conduct of business. In the aggregate, such commitments are not at prices in excess of current market. See also Note 4, describing related party commitments.

Equistar is party to various unconditional purchase obligation contracts as a purchaser for product and services. At December 31, 2000, future minimum payments under these contracts with noncancelable contract terms in excess of one year were as follows:

	(Millions of dollars)
2001	$ 29
2002	27
2003	23
2004	22
2005	22
Thereafter	118
Total minimum contract payments	$241

Equistar's total purchases under these agreements were $35 million, $39 million and $35 million for the years ending December 31, 2000, 1999 and 1998, respectively.

Indemnification Arrangements -- Lyondell, Millennium and Occidental have each agreed to provide certain indemnifications to Equistar with respect to the petrochemicals and polymers businesses contributed by the partners. In addition, Equistar agreed to assume third party claims that are related to certain pre-closing contingent liabilities that are asserted prior to December 1, 2004 for Lyondell and Millennium, and May 15, 2005 for Occidental, to the extent the aggregate thereof does not exceed $7 million to each partner, subject to certain terms of the respective asset contribution agreements. As of December 31, 2000, Equistar had incurred a total of $16 million for these uninsured claims and liabilities. Equistar also agreed to assume third party claims that are related to certain pre-closing contingent liabilities that are asserted for the first time after December 1, 2004 for Lyondell and Millennium, and for the first time after May 15, 2005 for Occidental.

Environmental -- Equistar's policy is to be in compliance with all applicable environmental laws. Equistar is subject to extensive environmental laws and regulations concerning emissions to the air, discharges to surface and subsurface waters and the generation, handling, storage, transportation, treatment and disposal of waste materials. Some of these laws and regulations are subject to varying and conflicting interpretations. In addition, Equistar cannot accurately predict future developments, such as increasingly strict requirements of environmental laws, inspection and enforcement policies and

compliance costs therefrom which might affect the handling, manufacture, use, emission or disposal of products, other materials or hazardous and non-hazardous waste. Equistar had no reserves for environmental matters as of December 31, 2000 and 1999.

The eight-county Houston/Galveston region has been designated a severe non-attainment area for ozone by the EPA. As a result, the Texas Natural Resource Conservation Commission ('TNRCC') has submitted a plan to the EPA to reach and demonstrate compliance with the ozone standard by the year 2007. These emission reduction controls must be installed during the next several years, well in advance of the 2007 deadline. This could result in increased capital investment, which could be between $150 million and $300 million before the 2007 deadline, as well as higher annual operating costs for Equistar. Equistar has been actively involved with a number of organizations to help solve the ozone problem in the most cost-effective manner and, in January 2001, Equistar and an organization composed of industry participants filed a lawsuit against the TNRCC to encourage adoption of their alternative plan to achieve the same air quality improvement with less negative economic impact on the region.

In the United States, the Clean Air Act Amendments of 1990 set minimum levels for oxygenates, such as MTBE, in gasoline sold in areas not meeting specified air quality standards. However, while studies by federal and state agencies and other organizations have shown that MTBE is safe for use in gasoline, is not carcinogenic and is effective in reducing automotive emissions, the presence of MTBE in some water supplies in California and other states due to gasoline leaking from underground storage tanks and in surface water from recreational water craft has led to public concern that MTBE may, in certain limited circumstances, affect the taste and odor of drinking water supplies, and thereby lead to possible environmental issues.

Certain federal and state governmental initiatives have sought either to rescind the oxygenate requirement for reformulated gasoline or to restrict or ban the use of MTBE. Such actions, to be effective, would require (i) a waiver of the state's oxygenate mandate, (ii) Congressional action in the form of an amendment to the Clean Air Act or (iii) replacement of MTBE with another oxygenate such as ethanol, a more costly, untested, and less widely available additive. At the federal level, a blue ribbon panel appointed by the EPA issued its report on July 27, 1999. That report recommended, among other things, reducing the use of MTBE in gasoline. During 2000, the EPA announced its intent to seek legislative changes from Congress to give the EPA authority to ban MTBE over a three-year period. Such action would only be granted through amendments to the Clean Air Act. Additionally, the EPA is seeking a ban of MTBE utilizing rulemaking authority contained in the Toxic Substance Control Act. It would take at least three years for such a rule to issue. Recently, however, senior policy analysts at the U.S. Department of Energy presented a study stating that banning MTBE would create significant economic risk. The presentation did not identify any benefits from banning MTBE. The EPA initiatives mentioned above or other governmental actions could result in a significant reduction in Equistar's MTBE sales. Equistar has developed technologies to convert its process to produce alternate gasoline blending components should it be necessary to reduce MTBE production in the future.

General -- The Partnership is also subject to various lawsuits and proceedings. Subject to the uncertainty inherent in all litigation, management believes the resolution of these proceedings will not have a material adverse effect upon the financial statements or liquidity of Equistar.

In the opinion of management, any liability arising from the matters discussed in this Note is not expected to have a material adverse effect on the financial statements or liquidity of Equistar. However, the adverse resolution in any reporting period of one or more of these matters discussed in this Note could have a material impact on Equistar's results of operations for that period without giving effect to contribution or indemnification obligations of co-defendants or others, or to the effect of any insurance coverage that may be available to offset the effects of any such award.

15. Lease Commitments

Equistar leases various facilities and equipment under noncancelable lease arrangements for varyious periods. At December 31, 2000, future minimum lease payments relating to noncancelable operating leases with lease terms in excess of one year were as follows:

	(Millions of dollars)
2001	$ 83
2002	66
2003	59
2004	54
2005	48
Thereafter	317
Total minimum lease payments	$627

Operating lease net rental expense was $115 million, $112 million and $110 million for the years ending December 31, 2000, 1999 and 1998, respectively.

Equistar leases railcars for the distribution of products in its polymers business segment. The railcars are leased under two master leases entered into in 1999 and a third master lease entered into in 1996 by Millennium and assumed by Equistar upon its formation on December 1, 1997. The leases have five renewable one-year terms and mature after the fifth year. Equistar may, at its option, purchase the railcars during or at the end of the lease term for an amount generally equal to the lessor's unrecovered costs, as defined. If Equistar does not exercise the purchase option, the railcars will be sold and Equistar will pay the lessor to the extent the proceeds from the sale of the railcars are less than their guaranteed residual value, as defined by the agreements. The guaranteed residual value under these leases was approximately $185 million at December 31, 2000.

16. Supplemental Cash Flow Information

Supplemental cash flow information is summarized as follows for the periods presented:

	For the Year Ended December 31,		
	2000	1999	1998
	(Millions of dollars)		
Cash paid for interest	$180	$146	$154

17. Segment Information and Related Information

Using the guidelines set forth in SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, Equistar has identified two reportable segments in which it operates. The reportable segments are petrochemicals and polymers. The petrochemicals segment includes olefins, oxygenated products, aromatics and specialty products. Olefins include ethylene, propylene and butadiene, and the oxygenated products include ethylene oxide, ethylene glycol, ethanol and MTBE. Aromatics include benzene and toluene. The polymers segment consists of polyolefins, including high-density polyethylene, low-density polyethylene, linear low-density polyethylene, polypropylene, and performance polymers. The performance polymers include enhanced grades of polyethylene, including wire and cable insulating resins, and polymeric powders. The concentrates and compounds business, which was part of performance polymers, was sold effective April 30, 1999 (see Note 5).

No customer accounted for 10% or more of sales during the years ended December 31, 2000, 1999 or 1998.

The accounting policies of the segments are the same as those described in 'Summary of Significant Accounting Policies' (see Note 2).

Summarized financial information concerning Equistar's reportable segments is shown in the following table. Intersegment sales between the petrochemicals and polymers segments were made at prices based on current market values.

	Petrochemicals	Polymers	Unallocated	Eliminations	Consoli
			(Millions of dollars)		
For the year ended December 31, 2000:					
Sales and other operating operating revenues:					
Customers.................	$5,144	$2,351	$--	$--	$7,4
Intersegment.............	1,887	--	--	(1,887)	--
	7,031	2,351	--	(1,887)	7,4
Operating income (loss).......	694	(185)	(175)	--	3
Total assets..................	3,693	1,534	1,355	--	6,5
Capital expenditures..........	79	46	6	--	1
Depreciation and amortization expense.....................	199	55	56	--	3
For the year ended December 31, 1999:					
Sales and other operating operating revenues:					
Customers.................	3,435	2,159	--	--	5,5
Intersegment.............	1,324	--	--	(1,324)	--
	4,759	2,159	--	(1,324)	5,5
Restructuring and other unusual charges.............	--	--	96	--	
Operating income..............	447	51	(336)	--	1
Total assets..................	3,671	1,551	1,514	--	6,7
Capital expenditures..........	61	83	13	--	1
Depreciation and amortization expense.....................	194	53	53	--	3
For the year ended December 31, 1998:					
Sales and other operating operating revenues:					
Customers.................	2,362	2,162	--	--	4,5

Intersegment	1,112	46	--	(1,158)	--
	3,474	2,208	--	(1,158)	4,5
Restructuring and other unusual charges	--	--	14	--	
Operating income	319	177	(214)	--	2
Total assets	3,625	1,563	1,477	--	6,6
Capital expenditures	71	116	13	--	2
Depreciation and amortization expense	152	65	51	--	2

The following table presents the details of 'Operating income' as presented above in the 'Unallocated' column for the years ended December 31, 2000, 1999 and 1998.

	2000	1999	1998
	(Millions of dollars)		
Expenses not allocated to petrochemicals and polymers:			
Principally general and administrative expenses	$(175)	$(240)	$(200)
Restructuring and other unusual charges	--	(96)	(14)
Total-Unallocated	$(175)	$(336)	$(214)

EQUISTAR CHEMICALS, LP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

The following table presents the details of 'Total assets' as presented above in the 'Unallocated' column as of December 31, for the years indicated:

	2000	1999	1998
	(Millions of dollars)		
Cash	$ 18	$ 108	$ 66
Accounts receivable -- trade and related parties	16	18	14
Prepaids and other current assets	17	22	25
Property, plant and equipment, net	56	58	48
Goodwill, net	1,086	1,119	1,151
Other assets	162	189	173
	$1,355	$1,514	$1,477

18. Subsequent Event

Equistar discontinued production at its Port Arthur, Texas, polyethylene facility on February 28, 2001 and shut down the facility. Closed production units include a 240 million pounds per year HDPE reactor and an LDPE reactor with annual capacity of 160 million pounds. These units and a 300 million pounds per year HDPE reactor mothballed in 1999 have been shut down permanently. The asset values of these production units were previously adjusted as part of a $96 million restructuring charge recognized in 1999. Equistar expects to incur approximately $20 million of costs, including severance benefits for approximately 125 people at the Port Arthur facility as well as shutdown-related costs.

F-28

SCHEDULE II

MILLENNIUM CHEMICALS INC.
VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Bala En of P
		(In Millions)		
Description				
Year ended December 31, 1998				
Deducted from asset accounts:				
Allowance for doubtful accounts............	$ 2	$1	$	$
Valuation Allowance........................	143		(7)(a)	
Year ended December 31, 1999				
Deducted from asset accounts:				
Allowance for doubtful accounts............	3		(1)(b)	
Valuation Allowance........................	126		(60)(a)	
Year ended December 31, 2000				
Deducted from asset accounts:				
Allowance for doubtful accounts............	2	2		
Valuation Allowance........................	76		(6)(a)	

(a) Valuation allowance for capital loss carryover.

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

S-1

STATEMENT OF DIFFERENCES

The dagger symbol shall be expressed as....................................'D'