MILLENNIUM CHEMICALS INC
Form 10-K/A
August 14, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1

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[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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 RED BANK, NJ (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	07701 (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	New York Stock Exchange

$0.01 per share

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

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

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

The aggregate market value of voting stock held by non-affiliates as of March 22, 2002 (based upon the closing price of $14.85 per common share as quoted on the New York Stock Exchange), is approximately $900 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 22, 2002, was 62,900,173 shares, excluding 14,996,413 shares held by the registrant, its subsidiaries and certain Company trusts, which are not entitled to be voted.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to the 2002 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, 2001 to revise the Supplemental Financial Information of the Company included on pages F-1 through F-5 of such Form 10-K. The Supplemental Financial Information in this amendment has been revised to disclose the financial position, results of operations and cash flows of (i) the Company, (ii) Millennium America Inc., an indirect, wholly owned subsidiary of the Company ("Millennium America"), and (iii) all subsidiaries of the Company other than Millennium America, to reflect Millennium America's and the Company's shareholders' equity as if each of those companies and their respective subsidiaries were reported on a consolidated basis. The information in the columns headed "Millennium Chemicals Inc. and Subsidiaries" is unchanged. Item 14, as amended, is hereby provided in its entirety.

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. Supplemental Financial Information.

The Supplemental Financial Information relating to the Company, Millennium America and Equistar consist of the following:

2. Financial Statement Schedule.

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

3. Exhibits.

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT

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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 (as amended on February 4, 2002) Filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (The "2001 Form 10-K")*
4.1(a)	-- Form of Indenture, dated as of November 27, 1996, among Millennium America (formerly named Hanson America Inc.), the Company and The Bank of New York, as Trustee, in respect of the 7% Senior Notes due November 15, 2006 and the 7.625% Senior Debentures due November 15, 2026 (Filed as Exhibit 4.1 to the Registration Statement of the Company and Millennium America on Form S-1 (Registration No. 333-15975) (the 'Form S-1'))*
4.1(b)	-- First Supplemental Indenture dated as of November 21, 1997 among Millennium America, the Company and The Bank of New York, as Trustee (Filed as Exhibit 4.1(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (the '1997 Form 10-K'))*

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
4.2	-- Indenture, dated as of June 18, 2001, among Millennium America as Issuer, the Company as Guarantor, and The Bank of New York, as Trustee (including the form of 9 1/4% Senior Notes due 2008 and the Note Guarantee) (filed as Exhibit 4.1 to the Registration Statement of the Company and Millennium America (Registration Nos. 333-65650 and 333-65650-1 on Form S-4 (the 'Form S-4'))*
10.1	-- Form of Post-Demerger Stock Purchase Agreement, dated as of September 30, 1996, between Hanson and MHC Inc. (including related form of Indemnification Agreement and Tax Sharing and Indemnification Agreement) (Filed as Exhibit 10.6 to the Form 10)*
10.2	-- Demerger Agreement, dated as of September 30, 1996, between Hanson, Millennium Overseas Holdings Ltd. (formerly Hanson Overseas Holdings Ltd.) and the Company (Filed as Exhibit 10.7 to the Form 10)*
10.3	-- Form of Indemnification Agreement, dated as of September 30, 1996, between Hanson and the Company (Filed as Exhibit 10.8 to the Form 10)*
10.4	-- Form of Tax Sharing and Indemnification Agreement, dated as of September 30, 1996, between Hanson, Millennium Overseas Holdings Ltd., Millennium America Holdings Inc.

	(formerly HM Anglo American Ltd.), Hanson North America Inc. and the Company (Filed as Exhibit 10.9(a) to the Form 10)*
10.5(a)	-- Deed of Tax Covenant, dated as of September 30, 1996, between Hanson, Millennium Overseas Holdings Ltd., Millennium Inorganic Chemicals Limited (formerly SCM Chemicals Limited), SCMC Holdings B.V. (formerly Hanson SCMC B.V.), Millennium Inorganic Chemicals Ltd. (formerly SCM Chemicals Ltd.), and the Company (the 'Deed of Tax Covenant') (Filed as Exhibit 10.9(b) to the Form 10)*
10.5(b)	-- Amendment to the Deed of Tax Covenant dated January 28, 1997 (Filed as Exhibit 10.9(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (the '1996 Form 10-K'))*
10.6(a)	-- Credit Agreement, dated June 18, 2001, among Millennium America Inc., as Borrower, Millennium Inorganic Chemicals Limited, as Borrower, certain borrowing subsidiaries of Millennium Chemicals Inc., from time to time party thereto, Millennium Chemicals Inc., as Guarantor, the lenders from time to time party thereto, Bank of America, N.A., as Syndication Agent and The Chase Manhattan Bank as Administrative Agent and collateral agent (filed as Exhibit 10.1 to the Form S-4)*
10.6(b)	-- First Amendment, dated as of December 14, 2001, to the Credit Agreement dated as of June 18, 2001, with Bank of America, N.A. and JP Morgan Chase Bank and the lenders party thereto (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K dated December 18, 2001)*
10.7	-- Form of Agreement, dated as of July 24, 1998, between Millennium America Holdings Inc. and William M. Landuyt, Robert E. Lee, C. William Carmean, 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'
10.8	-- Form of Agreement, dated as of July 24, 1998, between each of the Company's operating subsidiaries and certain officers of such subsidiaries. (Filed as Exhibit 10.2 to the September 30, 1998, Form 10-Q)*'D'
10.9	-- 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'
10.10	-- Form of Change-in-Control Agreement, dated as of July 24, 1998, between Millennium America Holdings Inc. and each of A. Mickelson Foster, James A. Lofredo, Corey A. Siegel and Christine F. Wubbolding (Filed as Exhibit 10.2 to the September 30, 1998 Form 10-Q)*'D'

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
10.11	-- 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'
10.12(a)	-- Millennium Chemicals Inc. Annual Performance Incentive Plan (Filed as Exhibit 10.23 to the Form 10)*'D'
10.12(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'
10.12(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'
10.12(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'
10.13(a)	-- Millennium Chemicals Inc. Long Term Stock Incentive Plan (Filed as Exhibit 10.25 to the Form 10)*'D'
10.13(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'
10.13(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'
10.13(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'
10.14	-- Millennium Chemicals Inc. Supplemental Executive Retirement Plan (Filed as Exhibit 10.15(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 (the '2000 Form 10-K'))*'D'
10.15	-- Millennium Chemicals Grandfathered Supplemental Executive Retirement Plan (Filed as Exhibit 10.15(b) to the 2000 Form 10-K)*'D'
10.16	-- Millennium Petrochemicals Grandfathered Supplemental Executive Retirement Plan (Filed as Exhibit 10.16 to the 2000 Form 10-K)*'D'
10.17	-- Millennium Inorganic Chemicals Grandfathered Supplemental Executive Retirement Plan (Filed as Exhibit 10.17 to the 2000 Form 10-K)*'D'
10.18	-- Millennium Specialty Chemicals Grandfathered Supplemental Executive Retirement Plan (Filed as Exhibit 10.18 to the 2000 Form 10-K+)*'D'
10.19(a)	-- Millennium Chemicals Inc. Salary and Bonus Deferral Plan (Filed as Exhibit 10.30 to the 1996 Form 10-K)*'D'
10.19(b)	-- Amendment Number 1 dated January 23, 1998, to the Millennium Chemicals Inc. Salary and Bonus Deferral Plan (Filed as Exhibit 10.30(b) to the 1997 Form 10-K)*'D'
10.19(c)	-- Amendment Number 2 dated January 22, 1999, to the Millennium Chemicals Inc. Salary and Bonus Deferral Plan (Filed as Exhibit 10.28(c) to the 1998 Form 10-K)*'D'
10.20	-- 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 (Filed as Exhibit 10.21 to the 2000 Form 10-K)*'D'
10.22	--	Millennium Chemicals Inc. Executive Long Term Incentive Plan (Filed as Exhibit 10.22 to the 2000 Form 10-K)*'D'
10.23	--	Millennium America Holdings Inc. Long Term Incentive Plan and Executive Long Term Incentive Plan Trust Agreement (Filed as Exhibit 10.23 to the 2000 Form 10-K)*'D'

EXHIBIT NUMBER		DESCRIPTION OF DOCUMENT
10.24(a)	--	Millennium Chemicals Inc. Omnibus Incentive Compensation Plan (Filed as Exhibit 10.24 to the 2000 Form 10-K)*'D'
10.24(b)	--	Form of Stock Option Agreement under Omnibus Incentive Compensation Plan (filed as Exhibit 10.24(G) to the 2001 Form 10-K)*'D'
10.25(a)	--	Master Transaction Agreement between the Company and Lyondell (Filed as an Exhibit to the Company's Current Report on Form 8-K dated July 25, 1997)*
10.25(b)	--	First Amendment to Master Transaction Agreement between Lyondell and the Company (Filed as an Exhibit to the Company's Current Report on Form 8-K dated October 17, 1997)*
10.26	--	Amended and Restated Limited Partnership Agreement of Equistar Chemicals, LP as amended through August 24, 2001 (Filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (the 'September 30, 2001 Form 10-Q))*
10.27(a)	--	Asset Contribution Agreement (the 'Millennium Asset Contribution Agreement') among Millennium Petrochemicals, Millennium Petrochemicals LP LLC and Equistar (Filed as an Exhibit to the Company's Current Report on Form 8-K dated December 10, 1997)*
10.27(b)	--	First Amendment to the Millennium Asset Contribution Agreement dated as of May 15, 1998 (Filed as Exhibit 10.23(b) to the 1999 Form 10-K)*
10.27(c)	--	Second Amendment to the Asset Contribution Agreement among Millennium Chemicals Inc., Millennium Petrochemicals LP LLC, and Equistar Chemicals, LP*
10.28	--	First Amendment to Lyondell Asset Contribution Agreement dated as of May 15, 1998 (Filed as Exhibit 10.24(b) to the 1999 Form 10-K)*
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)*
10.30(a)	--	Letter Agreement dated as of August 24, 2001 between Millennium America Inc. and Equistar (Filed as Exhibit 10.3 to the September 30, 2001 Form 10-Q)*
10.30(b)	--	Indemnity Agreement dated as of August 24, 2001 between Millennium America Inc. and Equistar (Filed as Exhibit 10.4 to the September 30, 2001 Form 10-Q)*
10.30(c)	--	Indemnity Agreement dated as of August 24, 2001 between Millennium America Inc. and Equistar (Filed as Exhibit 10.5 to the September 30, 2001 Form 10-Q)*
11.1	--	Statement re: computation of per share earnings (filed as Exhibit 10.24(G) to the 2001 Form 10-K)*
21.1	--	Subsidiaries of the Company*
23.1	--	Consent of PricewaterhouseCoopers LLP (filed as Exhibit 10.24(G) to the 2001 Form 10-K)*
23.2	--	Consent of PricewaterhouseCoopers LLP (filed as Exhibit 10.24(G) to the 2001 Form 10-K)*
23.3	--	Consent of PricewaterhouseCoopers LLP **
23.4	--	Consent of PricewaterhouseCoopers LLP **
99.1	--	Information relevant to forward-looking statements (filed as an Exhibit to the 2001 Form 10-K)*
99.2	--	Form of Letter Agreement, dated July 3, 1996, between Hanson and United Kingdom Inland Revenue (Filed as Exhibit 99.2 to the Form 10)*

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

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* Incorporated by reference

(footnotes continued on next page)

(footnotes continued from previous page)

** Filed herewith

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

(b) REPORTS ON FORM 8-K.

Current Reports on Form 8-K dated October 3, 2001, October 30, 2001, December 19, 2001, February 1, 2002 and March 20, 2002 were filed during the quarter ended December 31, 2001 and through the date hereof.

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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

August 14, 2002

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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 25, 2002, which appears in the Millennium Chemicals Annual Report on Form 10-K for the year ended December 31, 2001 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, New Jersey
January 25, 2002

MILLENNIUM CHEMICALS INC.
SUPPLEMENTAL FINANCIAL INFORMATION

Millennium America, a wholly owned indirect subsidiary of the Company, is a holding company for all of the Company's operating subsidiaries other than its operations in the United Kingdom, France, Brazil and Australia. Millennium America is the issuer of the 7.00% Senior Notes, the 7.625% Senior Debentures, and the 9.25% Senior Notes, and is the principal borrower under the Credit Agreement. Millennium America guarantees all obligations under the Credit Agreement. The 7.00% Senior Notes, the 7.625% Senior Debentures and the 9.25% Senior Notes, as well as outstanding amounts under the Credit Agreement, are guaranteed by the Company. Accordingly, the following Condensed Consolidating Balance Sheets at December 31, 2001 and 2000, and the Condensed Consolidating Statements of Operations and Cash Flows for each of the three years in the period ended December 31, 2001, are provided for the Company as supplemental financial information to the Company's consolidated financial statements to disclose the financial position, results of operations and cash flows of (i) the Company, (ii) Millennium America, and (iii) all subsidiaries of the Company other than Millennium America (the 'Non-Guarantor Subsidiaries'). The investment in subsidiaries of Millennium America and the Company are accounted for by the equity method; accordingly, the shareholders' equity of Millennium America and the Company are presented as if each of these companies and their respective subsidaries were reported on a consolidatd basis.

MILLENNIUM CHEMICALS INC.
CONDENSED CONSOLIDATING BALANCE SHEETS
AS OF DECEMBER 31, 2001 AND 2000

	MILLENNIUM AMERICA INC.	MILLENNIUM CHEMICALS INC.	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS
			(MILLIONS)	
2001				

ASSETS				
Inventories..........................	$ -	$ -	$ 370	$ -
Other current assets.................	6	-	384	-
Propery, plant and equipment, net.....	-	-	880	-
Investment in Equistar...............	-	-	677	-
Investment in subsidiaries...........	1,061	968	-	(2,029)
Other assets.........................	13	-	296	-
Goodwill.............................	-	-	378	-
Due from parent and affiliates, net...	590	-	-	(590)
Total assets.....................	$1,670	$ 968	$2,985	$(2,619)
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current maturities of long-term debt..............................	$ 3	$ -	$ 8	$ -
Other current liabilities............	8	-	364	-
Long-term debt.......................	1,156	-	16	-
Other liabilities....................	-	1	549	-
Due to parent and affiliates, net.....	-	89	501	(590)
Total liabilities................	1,167	90	1,438	(590)
Minority interest....................	-	-	21	-
Shareholders' equity.................	503	878	1,526	(2,029)
Total liabilities and shareholders' equity...........	$1,670	$ 968	$2,985	$(2,619)
2000				
ASSETS				
Inventories..........................	$ -	$ -	$ 373	$ -
Other current assets.................	1	-	513	-
Property, plant and equipment, net....	-	-	957	-
Investment in Equistar...............	-	-	760	-
Investment in subsidiaries...........	1,098	1,033	-	(2,131)
Other assets.........................	3	-	222	-
Goodwill.............................	-	-	391	-
Due from parent and affiliates, net...	592	-	-	(592)
Total assets.....................	$1,694	$1,033	$3,216	$(2,723)
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, net.....	-	47	545	(592)
Total liabilities................	1,133	50	1,624	(592)
Minority interest....................	-	-	22	-
Shareholders' equity.................	561	983	1,570	(2,131)
Total liabilities and shareholders' equity...........	$1,694	$1,033	$3,216	$(2,723)

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MILLENNIUM CHEMICALS INC.
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

	MILLENNIUM AMERICA INC.	MILLENNIUM CHEMICALS INC.	NON-GUARANTOR SUBSIDIARIES	ELIMI
			(MILLIONS)	
2001				
Net sales..................................	$ -	$ -	$1,590	$
Cost of products sold......................	-	-	1,252	
Depreciation and amortization..............	-	-	110	
Selling, development and administrative expense..................................	-	-	146	
Reorganization and plant closure...........	-	-	36	
Operating income........................	-	-	46	
Interest expense, net......................	(81)	-	(1)	
Intercompany interest income (expense)......	108	(4)	(104)	
Equity in loss of Equistar.................	-	-	(90)	
Equity in loss of subsidiaries.............	(62)	(40)	-	10
Other expense, net.........................	(2)	(1)	-	
Income taxes...............................	(9)	2	93	
Net loss	$ (46)	$(43)	$ (56)	$ 10
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	(4)	(105)	
Equity in earnings of Equistar.............	-	-	39	
Equity in earnings of subsidiaries.........	59	125	-	(18
Other income, net..........................	-	-	7	
Income taxes...............................	(12)	1	(49)	
Net income	$ 80	$122	$ 104	$(18
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 loss of subsidiaries.............	(336)	(287)	-	62
Loss in value of Equistar investment........	-	-	(639)	
Other (expense) income, net.................	-	(1)	25	
Income from discontinued operations (net of tax)..................................	-	-	38	
Income taxes..............................	(16)	-	225	
Net loss................................	$(306)	$(288)	$ (317)	$ 62

MILLENNIUM CHEMICALS INC.
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

	MILLENNIUM AMERICA INC.	MILLENNIUM CHEMICALS INC.	NON-GUARANTOR SUBSIDIARIES	ELI
			(MILLIONS)	
2001				
Cash flows from operating activities.......	$ 7	$ (5)	$ 110	$
Cash flows from investing activities				
Capital expenditures...................	-	-	(97)	
Proceeds from sales of property, plant & equipment..............................	-	-	19	
Cash used in investing activities....	-	-	(78)	
Cash flows from financing activities				
Dividends to shareholders..............	-	(35)	-	
Proceeds from long-term debt...........	741	-	42	
Repayment of long-term debt............	(675)	-	(61)	

Intercompany...........................	(51)	40	11	
Decrease in notes payable..............	(17)	-	(17)	
Cash (used in) provided by financing activities........................	(2)	5	(25)	
Effect of exchange rate changes on cash....	-	-	(5)	
Increase in cash and cash equivalents......	5	-	2	
Cash and cash equivalents at beginning of year....................................	-	-	107	
Cash and cash equivalents at end of year...	$ 5	$ -	$ 109	$
2000				
Cash flows from operating activities.......	$ 21	$ (3)	$ 2	$
Cash flows from investing activities				
Capital expenditures...................	-	-	(110)	
Distributions from Equistar............	-	-	83	
Proceeds from sales of property, plant & equipment.............................	-	-	4	
Cash used in investing activities....	-	-	(23)	
Cash flows from financing activities				
Dividends to shareholders..............	-	(35)	-	
Repurchase of common stock.............	-	-	(65)	
Proceeds from long-term debt...........	275	-	36	
Repayment of long-term debt............	(165)	-	(22)	
Intercompany...........................	(114)	38	76	
Decrease in notes payable..............	(17)	-	-	
Cash (used in) provided by financing activities........................	(21)	3	25	
Effect of exchange rate changes on cash....	-	-	(7)	
Decrease in cash and cash equivalents......	-	-	(3)	

Cash and cash equivalents at beginning of year	-	-	110	
Cash and cash equivalents at end of year	$ -	$ -	$ 107	$

MILLENNIUM CHEMICALS INC.
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS -- (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

	MILLENNIUM AMERICA INC.	MILLENNIUM CHEMICALS INC.	NON-GUARANTOR SUBSIDIARIES	ELI
			(MILLIONS)	
1999				
Cash flows from operating activities	$ 31	$ (3)	$ (5)	$
Cash flows 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 sales of property, plant & equipment	-	-	13	
Cash provided by investing activities	-	-	177	
Cash flows 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	(106)	41	65	
Increase in notes payable	26	-	1	
Cash (used in) provided by financing activities	(31)	3	(158)	
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	$

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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, 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 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.

/s/ PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Houston, Texas

March 8, 2002

EQUISTAR CHEMICALS, LP
CONSOLIDATED STATEMENTS OF INCOME

	FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(MILLIONS OF DOLLARS)		
Sales and other operating revenues:			
Unrelated parties	$4,583	$5,770	$4,506
Related parties	1,326	1,725	1,088
	5,909	7,495	5,594
Operating costs and expenses:			
Cost of sales	5,733	6,908	5,002
Selling, general and administrative expenses	181	182	259
Research and development expense	39	38	42
Amortization of goodwill	33	33	33
Unusual charges	22	-	96
	6,008	7,161	5,432
Operating income (loss)	(99)	334	162
Interest expense	(192)	(185)	(182)
Interest income	3	4	6
Other income, net	8	-	46
Income (loss) before extraordinary item	(280)	153	32
Extraordinary loss on extinguishment of debt	(3)	-	-
Net income (loss)	$ (283)	$ 153	$ 32

See Notes to Consolidated Financial Statements.

EQUISTAR CHEMICALS, LP
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2001	DECEMBER 31, 2000
	(MILLIONS OF DOLLARS)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 202	$ 18
Accounts receivable:		
Trade, net	440	568
Related parties	100	190
Inventories	448	506
Prepaid expenses and other current assets	36	50
Total current assets	1,226	1,332
Property, plant and equipment, net	3,705	3,819
Investment in PD Glycol	47	53
Goodwill, net	1,053	1,086
Other assets, net	277	292
Total assets	$6,308	$6,582
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable:		
Trade	$ 331	$ 426
Related parties	29	61
Current maturities of long-term debt	104	90
Accrued liabilities	197	166
Total current liabilities	661	743
Long-term debt	2,233	2,158
Other liabilities	177	141
Commitments and contingencies	-	-
Partners' capital:		
Partners' accounts	3,257	3,540
Accumulated other comprehensive income (loss)	(20)	-
Total partners' capital	3,237	3,540
Total liabilities and partners' capital	$6,308	$6,582

See Notes to Consolidated Financial Statements.

EQUISTAR CHEMICALS, LP

CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(MILLIONS OF DOLLARS)		
Cash flows from operating activities:			
Net income (loss)	$(283)	$ 153	$ 32
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortization	321	310	300
Net (gain) loss on disposition of assets	(3)	5	35
Extraordinary loss on extinguishment of debt	3	-	-
Changes in assets and liabilities that provided (used) cash			
Accounts receivable	220	(58)	(213)
Inventories	61	14	17
Accounts payable	(129)	28	119
Accrued liabilities	30	(65)	82
Other assets and liabilities	10	(48)	(28)
Cash provided by operating activities	230	339	344
Cash flows from investing activities:			
Expenditures for property, plant and equipment	(110)	(131)	(157)
Proceeds from sales of assets	10	4	75
Purchase of business from AT Plastics, Inc.	(7)	-	-
Cash used in investing activities	(107)	(127)	(82)
Cash flows from financing activities:			
Net borrowing (payments) under lines of credit	(820)	20	(502)
Proceeds from issuance of long-term debt	1,000	-	898
Repayment of other long-term debt	(91)	(42)	(150)
Repayment of obligations under capital leases	-	-	(205)
Distributions to partners	-	(280)	(255)
Other	(28)	-	(6)
Cash provided by (used in) financing activities	61	(302)	(220)
Increase (decrease) in cash and cash equivalents	184	(90)	42
Cash and cash equivalents at beginning of period	18	108	66
Cash and cash equivalents at end of period	$ 202	$ 18	$ 108

See Notes to Consolidated Financial Statements.

EQUISTAR CHEMICALS, LP

CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL

	PARTNERS' ACCOUNTS				ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	COMPR INCOM
	LYONDELL	MILLENNIUM	OCCIDENTAL	TOTAL		
	(MILLIONS OF DOLLARS)					
Balance at January 1, 1999......................	$ 613	$1,621	$1,651	$3,885	$ -	$
Net income.............	14	9	9	32	-	
Distributions to partners.............	(105)	(75)	(75)	(255)	-	
Comprehensive income....						$
Balance at December 31, 1999.....................	522	1,555	1,585	3,662	-	
Net income.............	63	45	45	153	-	
Distributions to partners.............	(114)	(83)	(83)	(280)	-	
Other..................	5	-	-	5	-	
Comprehensive income....						$
Balance at December 31, 2000.....................	476	1,517	1,547	3,540	-	
Net loss...............	(115)	(84)	(84)	(283)	-	
Other comprehensive income:						
Unrealized loss on securities........	-	-	-	-	(1)	
Minimum pension liability.........	-	-	-	-	(19)	
Comprehensive loss......						$
Balance at December 31, 2001.....................	$ 361	$1,433	$1,463	$3,257	$(20)	

See Notes to Consolidated Financial Statements.

EQUISTAR CHEMICALS, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. FORMATION OF THE PARTNERSHIP AND OPERATIONS

Lyondell Chemical Company ('Lyondell') and Millennium Chemicals Inc. ('Millennium') formed Equistar Chemicals, LP ('Equistar' or 'the Partnership'), a Delaware limited partnership, which commenced operations on December 1, 1997. On May 15, 1998, Equistar was expanded with the contribution of certain assets from Occidental Petroleum Corporation ('Occidental'). Equistar is currently owned 41% by Lyondell, 29.5% by Millennium and 29.5% by Occidental, all through wholly owned subsidiaries (see also Note 18).

Equistar owns and operates the petrochemicals and polymers businesses contributed by Lyondell, Millennium and Occidental, which consist of 18 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.

Equistar is governed by a Partnership Governance Committee consisting of nine representatives, three appointed by each general 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. Distributions are made to the partners based upon their percentage ownership of Equistar. Additional cash contributions required by the Partnership are also 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.

Revenue Recognition -- Revenue from product sales is recognized as risk and title to the product transfer to the customer, which usually occurs when shipment is made.

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.

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. 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.

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, generally 25 years for major manufacturing equipment, 30 years for buildings, 10 to 15 years for light equipment and instrumentation, 15 years for office furniture and 3 to 5 years for information systems equipment. 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 Statement of Income. Equistar's policy is to capitalize interest cost incurred on debt during the construction of major projects exceeding one year.

Long-Lived Asset Impairment -- Equistar evaluates long-lived assets, including identifiable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When it is probable that undiscounted future cash flows will not be sufficient to recover an asset's carrying amount, the asset is written down to its fair value. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. Beginning in 2002, as discussed below, goodwill will be reviewed for impairment under SFAS No. 142 based on fair values.

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, 2001 and 2000, Equistar's underlying equity in the net assets of PD Glycol exceeded the cost of the investment by $7 million. The excess is being accreted into income on a straight-line basis over a period of 25 years.

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, the estimated useful life. Amortization of goodwill will cease as of January 1, 2002 as described below under Recent Accounting Standards.

Turnaround Maintenance and Repairs Costs -- Cost of maintenance and repairs incurred in connection with turnarounds of major units at Equistar's manufacturing facilities exceeding $5 million are deferred and amortized using the straight-line method until the next planned turnaround, generally four to six 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.

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

Environmental Remediation Costs -- Anticipated 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.

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.

Accounting Changes Adopted in 2001 -- As of January 1, 2001, Equistar adopted Statement of Financial Accounting Standards ('SFAS') No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities. Under SFAS No. 133, all derivative instruments are recorded on the balance sheet at fair value. Gains or losses from changes in the fair value of derivatives used as cash flow hedges are deferred in accumulated other comprehensive income, to the extent the hedge is effective, and

subsequently reclassified to earnings to offset the impact of the related forecasted transaction. Implementation of SFAS No. 133 and SFAS No. 138 did not have a material effect on the consolidated financial statements of Equistar.

Recent Accounting Standards -- In June 2001, the Financial Accounting Standards Board ('FASB') issued SFAS No. 141, Business Combinations, and SFAS

No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002. SFAS No. 141 is effective for business combinations initiated after June 30, 2001 and is not expected to have a material effect on intangible assets acquired in business combinations effected prior to July 1, 2001. SFAS No. 142 prescribed the discontinuance of amortization of goodwill as well as annual review of goodwill for impairment. Equistar expects the implementation of SFAS No. 142 to result in the impairment of the entire balance of goodwill, resulting in a $1.1 billion charge that will be reported as the cumulative effect of a change in accounting principle as of January 1, 2002. Earnings in 2002 and subsequent years will be favorably affected by $33 million annually because of the elimination of goodwill amortization.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Adoption of SFAS No. 143 and SFAS No. 144 in calendar years 2003 and 2002, respectively, is not expected to have a material effect on the consolidated financial statements of Equistar.

Reclassifications -- Certain previously reported amounts have been reclassified to conform to classifications adopted in 2001.

3. UNUSUAL CHARGES

Equistar shut down its Port Arthur, Texas polyethylene facility in February 2001. The asset values of the Port Arthur production units were previously adjusted as part of a $96 million restructuring charge recognized in 1999, as discussed below. During the first quarter 2001, Equistar recorded an additional $22 million charge, which included environmental remediation liabilities of $7 million (see Note 15), severance benefits of $5 million, pension benefits of $2 million, and other exit costs of $3 million. The severance and pension benefits covered approximately 125 people employed at the Port Arthur facility. The remaining $5 million of the charge related primarily to the write down of certain assets. Payments of $4 million for severance, $3 million for exit costs and $1 million for environmental remediation were made through December 31, 2001. The pension benefits of $2 million will be paid from the assets of the pension plans. As of December 31, 2001, the remaining liability included $6 million for environmental remediation costs and $1 million for severance benefits.

During 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. Accordingly, Equistar recorded a charge of $72 million to adjust the asset carrying values. The remaining $24 million of the total charge represented severance and other employee-related costs for approximately 500 employee positions that were eliminated. The eliminated positions, primarily administrative functions, resulted from opportunities to share such services between Lyondell and Equistar. Through December 31, 2001, approximately $19 million of severance and other employee-related costs had been paid and charged against the accrued liability. As of December 31, 2001, all of the employee terminations had been completed and the remaining liability of $5 million was eliminated.

4. EXTRAORDINARY ITEM

As part of the third quarter 2001 refinancing (see Note 11), Equistar wrote off unamortized debt issuance costs and amendment fees of $3 million related to the early repayment of the $1.25 billion bank credit facility and reported the charge as an extraordinary loss on extinguishment of debt.

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

5. RELATED PARTY TRANSACTIONS

Product Transactions with Lyondell -- Lyondell purchases ethylene, propylene and benzene at market-related prices from Equistar under various agreements expiring in 2013 and 2014. Under the agreements, Lyondell is required to purchase 100% of its ethylene, propylene and benzene 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. 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.

Product Transactions with Occidental Chemical -- In connection with the contribution of Occidental Chemical assets to Equistar, Equistar and Occidental Chemical entered into a long-term agreement for Equistar to supply 100% of the ethylene requirements for Occidental Chemical's U.S. manufacturing plants. The pricing terms under the agreement between Equistar and Occidental Chemical are similar to the pricing terms under the ethylene sales agreement between Equistar and Lyondell. The ethylene raw material is exclusively for internal use in production at these plants, less any quantities up to 250 million pounds per year tolled in accordance with the provisions of the agreement. Upon three years notice from either party to the other, sales may be 'phased down' over a period not less than five years. No phase down may commence before January 1, 2009. Therefore, the annual required minimum cannot decline to zero prior to December 31, 2013, unless certain specified force majeure events occur. In addition to ethylene, Equistar sells methanol, ethers, and glycols to Occidental Chemical. Equistar also enters into over-the-counter derivatives, primarily price swap contracts, for crude oil with Occidental Energy Marketing, Inc., a subsidiary of Occidental Chemical, to help manage its exposure to commodity price risk with respect to crude oil-related raw material purchases (see Note 13). Equistar also purchases various products from Occidental Chemical at market-related prices.

Product Transactions with Millennium Petrochemicals -- Equistar sells ethylene to Millennium Petrochemicals at market-related prices pursuant to an agreement entered into in connection with the formation of Equistar. Under this agreement, Millennium Petrochemicals is required to purchase 100% of its ethylene requirements for its LaPorte, Texas facility from Equistar. The contract expires December 1, 2002 and, thereafter, renews annually. Either party may terminate on one year's notice. The pricing terms of this agreement are similar to the pricing terms of the ethylene sales agreements with Lyondell and Occidental Chemical.

Under an agreement entered into in connection with the formation of Equistar, Equistar is required to purchase 100% of its vinyl acetate monomer ('VAM') raw material requirements at market-related prices from Millennium Petrochemicals for its LaPorte, Texas, Clinton, Iowa and Morris, Illinois plants for the production of ethylene vinyl acetate products at those locations. The contract expires December 31, 2002 and, thereafter, renews annually.

Product Transactions with Oxy Vinyls, LP -- Occidental Chemical owns 76% of Oxy Vinyls, LP ('Oxy Vinyls'), a joint venture partnership. Equistar sells ethylene to Oxy Vinyls for Oxy Vinyls' LaPorte, Texas facility at market-related prices pursuant to an agreement which expires on December 31, 2003.

Transactions with LYONDELL-CITGO Refining LP -- Lyondell's rights and obligations under the terms of its product sales and raw material purchase agreements with LYONDELL-CITGO Refining LP ('LCR'), a joint venture investment of Lyondell, have been assigned to Equistar. Accordingly, certain olefins by-products are sold by Equistar to LCR for processing into gasoline and certain refinery products are sold by LCR to Equistar as raw materials. Equistar also has assumed certain processing arrangements as well as storage obligations between Lyondell and LCR and provides certain marketing services for LCR. 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 at market-related prices. The natural gas for LMC's plant is purchased by Equistar as agent for LMC under Equistar master agreements with various third party suppliers. 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 LMC's 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.

Shared Services Agreement with Lyondell -- During 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. Effective January 1, 2000, Lyondell and Equistar implemented a revised agreement to utilize shared services more broadly. Lyondell now provides services to Equistar including information technology, human resources, raw material supply, supply chain, health, safety and environmental, engineering, research and development, facility services, legal, accounting, treasury, internal audit and tax. Lyondell charges Equistar for its share of the cost of such services. Direct third party costs, if incurred exclusively for Equistar, are charged directly to Equistar.

Shared Services and Shared-Site Agreements with Millennium Petrochemicals -- Equistar and Millennium Petrochemicals have agreements under which Equistar provides utilities, fuel streams and office space to Millennium Petrochemicals. In addition, Millennium Petrochemicals provides Equistar certain operational services, including utilities as well as barge dock access and related services.

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 agreement, Occidental Chemical provided Equistar certain services in connection with the businesses contributed by Occidental Chemical, including services related to accounting, payroll, office administration, marketing, transportation, purchasing and procurement, management, human resources, customer service, technical services and others. Most of these services ceased in June 1999. Health, safety, and environmental services were extended until December 31, 1999.

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

Related party transactions are summarized as follows:

	FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(MILLIONS OF DOLLARS)		
Equistar billed related parties for:			
Sales of products and processing services:			
Lyondell............	$405	$572	$246
Occidental Chemical..........	441	558	435
LCR.................	377	438	260
Millennium Petrochemicals....	55	90	54
Oxy Vinyls..........	48	67	93
Shared services and shared site agreements:			
LCR.................	3	2	3
LMC.................	6	6	6
Millennium Petrochemicals....	17	24	21
Lyondell............	-	-	8
Gas purchased for LMC...	86	85	46
Related parties billed Equistar for:			
Purchases of products:			
LCR.................	$203	$264	$190
LMC.................	151	165	95
Millennium Petrochemicals....	15	16	12
Lyondell............	4	2	6
Occidental Chemical..........	1	2	2
Shared services and transition agreements:			
Lyondell............	147	133	9
Millennium			

Petrochemicals....	19	22	24
LCR.................	2	-	-
Occidental Chemical..........	-	-	2

6. PURCHASE AND SALE OF BUSINESSES

Effective June 1, 2001, Equistar expanded its wire and cable business through the acquisition of the low- and medium-voltage power cable materials business of AT Plastics, Inc. Equistar accounted for the acquisition as a purchase, allocating the $7 million purchase price to property, plant and equipment and inventory.

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.

7. ACCOUNTS RECEIVABLE

Equistar sells its products primarily to other chemical manufacturers 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 $14 million and $9 million at December 31, 2001 and 2000, respectively.

During 2001, Equistar terminated an agreement with an independent issuer of receivables-backed commercial paper. Previously, Equistar sold, on an ongoing basis and without recourse, designated accounts receivable, maintaining the balance of the accounts receivable sold by selling new receivables as existing receivables were collected. At December 31, 2000 and 1999, the balance of Equistar's

accounts receivable sold was $130 million. Increases and decreases in the amount sold were reported as operating cash flows in the Consolidated Statement of Cash Flows. Costs related to the sales were included in 'Selling, general and administrative expenses' in the Consolidated Statement of Income.

8. INVENTORIES

Inventories were as follows at December 31:

	2001	2000

	(MILLIONS OF DOLLARS)	
Finished goods	$243	$273
Work-in-process	12	16
Raw materials	104	123
Materials and supplies	89	94
Total inventories	$448	$506

Income in 2001 benefited from a reduction in the levels of raw material and product inventories, which are carried under the LIFO method of accounting. The charges to cost of sales associated with the inventory reductions were valued based on relatively low LIFO inventory values. If these charges had been valued based on average 2001 costs, cost of sales for 2001 would have been higher by approximately $10 million. The excess of the current cost of inventories over book value was approximately $28 million at December 31, 2001.

9. PROPERTY, PLANT AND EQUIPMENT AND OTHER ASSETS

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

	2001	2000
	(MILLIONS OF DOLLARS)	
Land	$ 79	$ 78
Manufacturing facilities and equipment	5,929	5,769
Construction in progress	92	134
Total property, plant and equipment	6,100	5,981
Less accumulated depreciation	2,395	2,162
Property, plant and equipment, net	$3,705	$3,819

Equistar did not capitalize any interest during 2001, 2000 and 1999 with respect to construction projects.

Goodwill, at cost, and the related accumulated amortization were as follows at December 31:

	2001	2000
	(MILLIONS OF DOLLARS)	
Goodwill	$1,318	$1,318
Less accumulated amortization	265	232
Goodwill, net	$1,053	$1,086

The unamortized balances of deferred turnaround, software and debt issuance costs included in 'Other assets, net' were as follows at December 31:

	2001	2000
	(MILLIONS OF DOLLARS)	
Turnaround costs	$ 70	$ 75
Software costs	97	104
Debt issuance costs	34	9

Depreciation and amortization is summarized as follows for the periods presented:

	FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(MILLIONS OF DOLLARS)		
Property, plant and equipment	$237	$229	$221
Goodwill	33	33	33
Turnaround expense	20	24	25
Software costs	12	13	12
Other	17	11	9
Debt issuance costs	2	-	-
	$321	$310	$300

10. ACCRUED LIABILITIES

Accrued liabilities were as follows at December 31:

	2001	2000
	(MILLIONS OF DOLLARS)	

Property taxes	$ 68	$ 73
Interest	68	52
Payroll and benefits	49	38
Other	12	3
Total accrued liabilities	$ 197	$ 166

11. LONG-TERM DEBT

In August 2001, Equistar completed a $1.5 billion debt refinancing. The refinancing included a bank credit facility consisting of a $500 million secured revolving credit facility maturing in August 2006 and a $300 million secured term loan, maturing in August 2007, with scheduled quarterly amortization payments, beginning December 31, 2001. The revolving credit facility was undrawn at December 31, 2001. Borrowing under the revolving credit facility generally bears interest based on a margin over, at Equistar's option, LIBOR or a base rate. The sum of the applicable margin plus a facility fee varies between 1.5% and 2.5%, in the case of LIBOR loans, and 0.5% and 1.5%, in the case of base rate loans, depending on Equistar's ratio of debt to EBITDA. The term loan generally bears interest at a rate equal to LIBOR plus 3% or the base rate plus 2%, at Equistar's option. Borrowing under the term loan had a weighted average interest rate of 6.26% during 2001. Certain financial ratio requirements were modified in the refinancing to make them less restrictive. The bank credit facility is secured by a lien on Equistar's accounts receivable, inventory, other personal property and certain fixed assets. The refinancing also included the issuance of $700 million of new unsecured 10.125% senior notes maturing in August 2008. The 10.125% senior notes rank pari passu with existing Equistar notes.

The August 2001 refinancing replaced a five-year, $1.25 billion credit facility with a group of banks that would have expired November 2002. Borrowing under the facility at December 31, 2000 was $820 million and had a weighted average interest rate of 7.13% at December 31, 2000. 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. As a result of the refinancing, the related guarantees have been terminated.

In March 2001, Equistar amended the previous $1.25 billion credit facility making certain financial ratio requirements less restrictive. As a result of the amendment, the interest rate on the previous credit facility was increased from LIBOR plus 5/8 of 1% to LIBOR plus 8/10 of 1%.

In February 1999, Equistar issued $900 million of debt securities. The debt securities included $300 million of 8.50% Notes, which mature on February 15, 2004, and $600 million of 8.75% Notes, which mature on February 15, 2009. Equistar used the net proceeds from this offering (i) to repay $205 million outstanding under a capitalized lease obligation relating to Equistar's Corpus Christi facility, (ii) to repay the outstanding balance under a $500 million credit agreement, after which the $500 million credit agreement was terminated, (iii) to repay $150 million of 10.00% Notes due in June 1999, and (iv) to the extent of the remaining net proceeds, to reduce outstanding borrowing under the revolving credit facility and for Partnership working capital purposes.

The bank credit facility and the indenture governing Equistar's 10.125% senior notes contain covenants that, subject to certain exceptions, restrict sale and leaseback transactions, lien incurrence, debt incurrence, sales of assets and mergers and consolidations. In addition, the bank credit facility requires Equistar to maintain specified financial ratios. The breach of these covenants could permit the lenders to declare the loans immediately payable and could permit the lenders under Equistar's credit facility to terminate future lending commitments.

As a result of the continued poor current business environment, Equistar is seeking an amendment to its credit facility that would increase its financial flexibility by easing certain financial ratio requirements. Such an amendment will require the payment of additional fees. Equistar anticipates that the amendment will become effective prior to March 31, 2002.

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

	2001	2000
	(MILLIONS OF DOLLARS)	
Bank credit facilities:		
Revolving credit facility due 2006	$ -	$ 820
Term loan due 2007	299	-
Other debt obligations:		
Medium-term notes due 2002-2005	31	121
9.125% Notes due 2002	100	100
8.50% Notes due 2004	300	300
6.50% Notes due 2006	150	150
10.125% Senior Notes due 2008	700	-
8.75% Notes due 2009	598	598
7.55% Debentures due 2026	150	150
Other	9	9
Total long-term debt	2,337	2,248
Less current maturities	104	90
Total long-term debt, net	$2,233	$2,158

The 8.75% notes have a face amount of $600 million and are shown net of unamortized discount. The medium-term notes had a weighted average interest rate of 9.8% and 9.6% at December 31, 2001 and 2000, 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. 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, 2001.

Aggregate maturities of long-term debt during the next five years are $104 million in 2002, $32 million in 2003; $303 million in 2004; $8 million in 2005; $153 million in 2006 and $1.8 billion thereafter.

12. LEASE COMMITMENTS

Equistar leases various facilities and equipment under noncancelable lease arrangements for various periods.

Operating leases include leases of railcars used in the distribution of products in Equistar's business. Equistar leases the railcars from unaffiliated entities established for the purpose of serving as lessors with respect to these leases. The leases include options for Equistar to purchase the railcars during a lease term. If Equistar does not exercise a purchase option, the affected railcars will be sold upon termination of the lease. In the event the sales proceeds are less than the related guaranteed residual value, Equistar will pay the difference to the lessor. The total guaranteed residual value under these leases was approximately $225 million at December 31, 2001.

Certain of Equistar's railcar operating leases contain financial and other covenants that are substantially the same as those contained in the credit facility discussed in Note 11 above. A breach of these covenants would permit the early termination of those leases. As a result of the continued poor current business environment, Equistar is seeking an amendment to these railcar leases. Such amendments will require the payment of additional fees. Equistar anticipates that the amendments will become effective prior to March 31, 2002.

In addition, the credit rating downgrade in 2002 permits the early termination of one of Equistar's railcar leases by the lessor, which would accelerate the payment of $126 million of minimum lease payments. Equistar has reached an agreement in principal with the lessor to renegotiate the lease.

At December 31, 2001, future minimum lease payments and residual value guarantees relating to noncancelable operating leases with lease terms in excess of one year were as follows:

	MINIMUM LEASE PAYMENTS	RESIDUAL VALUE GUARANTEES
	(MILLIONS OF DOLLARS)	
2002	$ 95	$ 39
2003	78	-
2004	67	186
2005	43	-
2006	35	-
Thereafter	287	-
Total minimum lease payments	$605	$225

Operating lease net rental expense was $110 million, $115 million and $112 million for the years ending December 31, 2001, 2000 and 1999, respectively.

13. FINANCIAL INSTRUMENTS AND DERIVATIVES

Equistar enters into over-the-counter derivatives, primarily price swap contracts, related to crude oil with Occidental Energy Marketing, Inc., a subsidiary of Occidental Chemical, to help manage its exposure to commodity price risk with respect to crude oil-related raw material purchases. At December 31, 2000, price swap contracts covering 5.1 million barrels of crude oil were outstanding. The carrying value and fair market value of these derivative instruments at December 31, 2000 represented a liability of $13 million, which was based on quoted market prices. The resulting loss from these hedges of anticipated raw material purchases was deferred on the consolidated balance sheet. On January 1, 2001, in accordance with the transition provisions of SFAS No. 133, Equistar reclassified the deferred loss of $13 million to accumulated other comprehensive income as a transition adjustment, representing the cumulative effect of a change in accounting principle. The transition adjustment was reclassified to the Consolidated Statement of Income during the period January through July 2001 as the related raw material purchases occurred.

During 2001, Equistar entered into additional price swap contracts covering 7.2 million barrels of crude oil and primarily maturing from July 2001 through December 2001. In the third quarter 2001, outstanding price swap contracts, covering 4.1 million barrels of crude oil and primarily maturing from October 2001 through December 2001, were effectively terminated. The termination resulted in realization of a gain of nearly $9 million, which was recognized in the fourth quarter 2001 as the related forecasted transactions occurred. There were no outstanding price swap contracts at December 31, 2001.

The following table summarizes activity included in accumulated other comprehensive income ('AOCI') related to the fair value of derivative instruments for the year ended December 31, 2001:

	2001 (MILLIONS OF DOLLARS)
Gain (loss):	
Balance at beginning of period	$ -
January 1, 2001 transition adjustment --reclassification of December 31, 2000 deferred loss	(13)
Net gains on derivative instruments	35
Reclassification of gains on derivative instruments to earnings	(22)
Net change included in AOCI for the period	-
Net gain on derivative instruments included in AOCI at December 31, 2001	$ -

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 $2.3 billion and $2.1 billion at December 31, 2001 and 2000, respectively.

Equistar is exposed to credit risk related to its financial instruments in the event of nonperformance by the counterparties. Equistar does not generally require collateral or other security to support these financial instruments. The counterparties to these transactions are major institutions deemed creditworthy by Equistar. Equistar does not anticipate nonperformance by the counterparties.

Equistar accounts for certain investments as 'available-for-sale' securities in accordance with the provisions of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Accordingly, changes in the fair value of the investments are recognized in the balance sheet and the unrealized holding gains and losses are recognized in other comprehensive income.

14. PENSION AND OTHER POSTRETIREMENT BENEFITS

All full-time regular employees of the Partnership are covered by defined benefit pension plans sponsored by Equistar. In connection with the formation of Equistar, no pension assets or obligations were contributed to Equistar, with the exception of union represented plans contributed by Occidental.

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. 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, which provide medical and life insurance benefits. The postretirement medical 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	
	2001	2000	2001	20
	(MILLIONS OF DOLLARS)			
Change in benefit obligation:				
Benefit obligation, January 1	$120	$ 99	$ 92	$
Service cost	16	17	2	
Interest cost	10	9	6	
Plan amendments	-	-	29	
Actuarial loss (gain)	12	8	(14)	
Benefits paid	(11)	(12)	(3)	
Net effect of curtailments, settlements and special termination benefits	-	(1)	-	
Transfer to Lyondell	-	-	-	
Benefit obligation, December 31	147	120	112	
Change in plan assets:				
Fair value of plan assets, January 1	117	101	-	
Actual return on plan assets	(6)	(3)	-	
Partnership contributions	7	31	3	
Benefits paid	(11)	(12)	(3)	
Fair value of plan assets, December 31	107	117	-	
Funded status	(40)	(3)	(112)	(
Unrecognized actuarial loss	48	24	5	
Unrecognized prior service cost	-	-	29	
Net amount recognized	$ 8	$ 21	$(78)	$(
Amounts recognized in the Consolidated Balance Sheet consist of:				
Prepaid benefit cost	$ 22	$ 35	$ -	$
Accrued benefit liability	(33)	(14)	(78)	(
Accumulated other comprehensive income	19	-	-	

Net amount recognized	$ 8	$ 21	$(78)	$(

The increase in other postretirement benefit obligations in 2001 resulted from a medical plan amendment that increased Equistar's maximum contribution level per employee by 25%.

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

	2001	2000
Benefit obligation	$129	$63
Fair value of assets	81	40

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

	2001	2000
Accumulated benefit obligation	$106	$9
Fair value of assets	81	6

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

	PENSION BENEFITS			OTHER POSTRETIREMENT BENEFITS		
	2001	2000	1999	2001	2000	19
	(MILLIONS OF DOLLARS)					
Components of net periodic benefit cost:						
Service cost	$16	$17	$22	$ 2	$ 2	$

Interest cost	10	9	7	6	6	
Amortization of actuarial loss	2	-	1	-	1	
Expected return on plan assets	(11)	(8)	(8)	-	-	
Net effect of curtailments, settlements and special termination benefits	3	(1)	-	2	1	
Net periodic benefit cost	$20	$17	$22	$10	$10	$1

The assumptions used in determining the net pension cost and the net pension liability were as follows at December 31:

	PENSION BENEFITS			OTHER POSTRETIREMENT BENEFITS		
	2001	2000	1999	2001	2000	1999
Weighted-average assumptions as of December 31:						
Discount rate	7.00%	7.50%	8.00%	7.00%	7.50%	8.00%
Expected return on plan assets	9.50%	9.50%	9.50%	-	-	-
Rate of compensation increase	4.50%	4.50%	4.75%	4.50%	4.50%	4.75%

The assumed annual rate of increase in the per capita cost of covered health care benefits as of December 31, 2001 was 7.0% for 2002 through 2004 and 5.0% thereafter. The health care cost trend rate assumption does not have a significant effect on the amounts reported due to limits on Equistar's maximum contribution level under the medical plan. 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, 2001 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 $16 million, $17 million and $20 million for the years ended December 31, 2001, 2000 and 1999, respectively.

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

15. COMMITMENTS AND CONTINGENCIES

Commitments -- Equistar has various purchase commitments for materials, supplies and services incident to the ordinary conduct of business. At December 31, 2001, Equistar had commitments for natural gas and natural gas liquids at prices in excess of current market. Using December 31, 2001 spot market prices for these products the estimated negative impact on first quarter 2002 operating results would be approximately $30 million. Since December 31, 2001, natural gas prices have further declined. These fixed-price contracts substantially terminate by the end of the first quarter 2002. See also Note 5, describing related party commitments.

Equistar is party to various unconditional purchase obligation contracts as a purchaser for products and services, principally for steam and power. At December 31, 2001, future minimum payments under these contracts with noncancelable contract terms in excess of one year were as follows:

	(MILLIONS OF DOLLARS)
2002	$ 109
2003	132
2004	135
2005	137
2006	138
Thereafter	1,688
Total minimum contract payments	$2,339

Equistar's total purchases under these agreements were $77 million, $51 million and $56 million for the years ending December 31, 2001, 2000 and 1999, respectively. The increases in 2001, 2002 and 2003 are due to commitments for steam and power from a new co-generation facility, which is expected to reach full capacity in mid-2002.

Indemnification Arrangements -- Lyondell, Millennium Petrochemicals and certain subsidiaries of 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 as to Lyondell and Millennium Petrochemicals, and May 15, 2005 as to certain Occidental subsidiaries, 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, 2001, Equistar had incurred a total of $17 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 as to Lyondell and Millennium Petrochemicals, and for the first time after May 15, 2005 as to certain Occidental subsidiaries. As of September 30, 2001, Equistar, Lyondell, Millennium Petrochemicals and certain subsidiaries of Occidental amended the asset contribution agreements governing these indemnification obligations to clarify the treatment of, and procedures pertaining to the management of, certain claims arising under the asset contribution agreements. Equistar management believes that these amendments do not materially change the asset contribution agreements.

Environmental Remediation -- Equistar's accrued liability for environmental matters as of December 31, 2001 was $6 million and related to the Port Arthur facility, which was permanently shut down on February 28, 2001. In the opinion of management, there is currently no material estimable range of loss in excess of the amounts recorded for environmental remediation.

Clean Air Act -- The eight-county Houston/Galveston region has been designated a severe non-attainment area for ozone by the U.S. Environmental Protection Agency ('EPA'). Emission reduction controls for nitrogen oxides ('NOx') must be installed at each of Equistar's six plants located in the Houston/Galveston region during the next several years. Compliance with the plan will result in increased capital investment, which could be between $200 million and $260 million, before the 2007

deadline, as well as higher annual operating costs for Equistar. The timing and amount of these expenditures are subject to regulatory and other uncertainties, as well as obtaining the necessary permits and approvals. In January 2001, Equistar and an organization composed of industry participants filed a lawsuit against the Texas Natural Resource Conservation Commission ('TNRCC') to encourage adoption of their alternative plan to achieve the same air quality improvement with less negative economic impact on the region. Adoption of the alternative plan, as sought by the lawsuit, is expected to reduce Equistar's estimated capital investments for NOx reductions required to comply with the standards. However, there can be no guarantee as to the ultimate capital cost of implementing any final plan developed to ensure ozone attainment by the 2007 deadline.

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. 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 about the use of MTBE. 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. These initiatives or other governmental actions could result in a significant reduction in Equistar's MTBE sales, which represented approximately 4% of its total 2001 revenues. 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. However, implementation of such technologies would require additional capital investment.

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 on the financial position or liquidity of Equistar.

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

FOR THE YEAR ENDED
DECEMBER 31,

	2001	2000	1999
	(MILLIONS OF DOLLARS)		
Cash paid for interest................................	$171	$180	$146

17. SEGMENT INFORMATION AND RELATED INFORMATION

Equistar operates in two reportable segments, petrochemicals and polymers. The accounting policies of the segments are the same as those described in 'Summary of Significant Accounting Policies' (see Note 2). No third-party customer accounted for 10% or more of sales during the three-year period ended December 31, 2001.

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

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

	PETROCHEMICALS	POLYMERS	UNALLOCATED	ELIMINATIONS	CONSOLI
			(MILLIONS OF DOLLARS)		
FOR THE YEAR ENDED DECEMBER 31, 2001:					
Sales and other operating revenues:					
Customers.................	$3,929	$1,980	$ -	$ -	$5,9
Intersegment.............	1,455	-	-	(1,455)	
	5,384	1,980	-	(1,455)	5,9
Unusual charges...............	-	-	22	-	
Operating income (loss).......	275	(186)	(188)	-	(
Total assets..................	3,458	1,365	1,485	-	6,3
Capital expenditures..........	84	24	2	-	1
Depreciation and amortization expense....................	204	58	59	-	3
FOR THE YEAR ENDED DECEMBER 31, 2000:					
Sales and other 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 revenues:					
Customers.................	$3,435	$2,159	$ -	$ -	$5,5
Intersegment..............	1,324	-	-	(1,324)	
	------	------	------	-------	----
	4,759	2,159	-	(1,324)	5,5
Unusual charges...............	-	-	96	-	
Operating income (loss).......	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

The following table presents the details of 'Operating income (loss)' as presented above in the 'Unallocated' column for the years ended December 31, 2001, 2000 and 1999.

	2001	2000	1999
	(MILLIONS OF DOLLARS)		
Expenses not allocated to petrochemicals and polymers:			
Principally general and administrative expenses.........	$(166)	$(175)	$(240)
Unusual charges...	(22)	-	(96)
	-----	-----	-----
Total -- Unallocated..............................	$(188)	$(175)	$(336)
	-----	-----	-----
	-----	-----	-----

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:

	2001	2000	1999
	(MILLIONS OF DOLLARS)		

Cash..	$ 202	$ 18	$ 108
Accounts receivable -- trade and related parties...........	17	16	18
Prepaids and other current assets..........................	20	17	22
Property, plant and equipment, net.........................	44	56	58
Goodwill, net..	1,053	1,086	1,119
Other assets...	149	162	189
	$1,485	$1,355	$1,514

18. SUBSEQUENT EVENT

Early in 2002, Lyondell and Occidental agreed in principle for Lyondell's acquisition of Occidental's 29.5% share of Equistar and Occidental's purchase of an equity interest in Lyondell. Upon completion of these transactions, Lyondell's ownership interest in Equistar would increase to 70.5%. Millennium holds the remaining 29.5% interest in Equistar. There can be no assurance that the proposed transactions will be completed.

SCHEDULE II

MILLENNIUM CHEMICALS INC.
VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED 1999, 2000 AND 2001

	BALANCE AT BEGINNING OF YEAR	CHARGE TO COSTS AND EXPENSES	DEDUCTIONS	BALAN END YE
		(MILLIONS)		
Year ended December 31, 1999				
Deducted from asset accounts:				
Allowance for doubtful accounts..............	$ 3	$ -	$ (1)(b)	$
Valuation allowance..........................	126	-	(60)(a)	7
Year ended December 31, 2000				
Deducted from asset accounts:				
Allowance for doubtful accounts..............	2	2	-	
Valuation allowance..........................	76	-	(6)(a)	7
Year ended December 31, 2001				
Deducted from asset accounts:				
Allowance for doubtful accounts..............	4	4	(1)	
Valuation allowance..........................	70	-	(70)(c)	

(a) Valuation allowance for capital loss carryover deferred tax asset.

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

(c) Underlying capital loss carryover expired.

STATEMENT OF DIFFERENCES

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