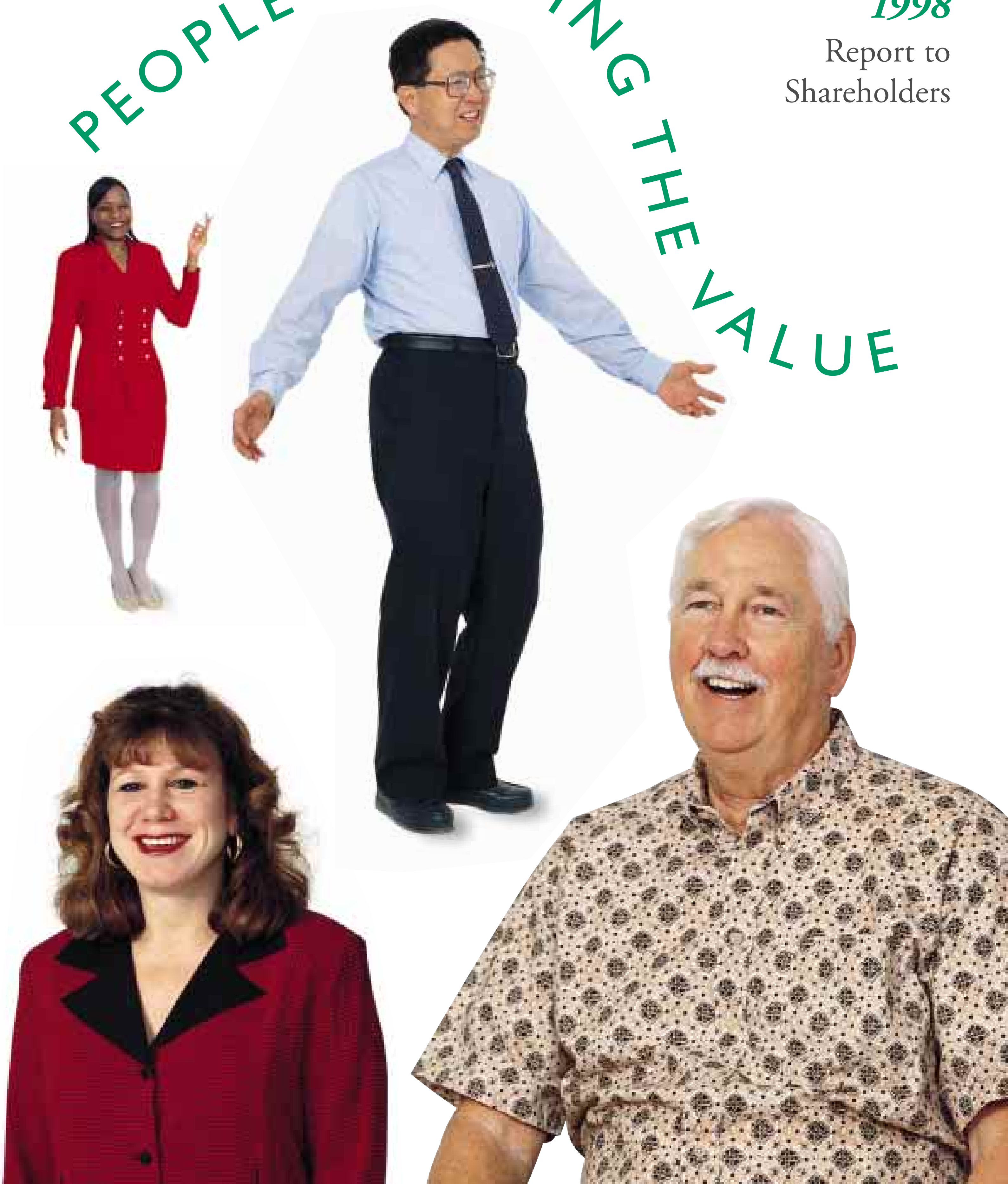
Millennium Chemicals Inc.

1998

Report to Shareholders

PEOPLE CREATING THE VALUE



Millennium Chemicals Inc.

creating value

VISION

Be the most value-creative chemical company in the world.

POLICY

Create value for all stakeholders:

Shareholders Customers Employees

VALUES

- Employ the highest ethical standards.
- Treat each other with respect, trust and openness.
- Protect the environment and the health and safety of our employees and the public.

STRATEGY

- Provide customers with high-quality products and service.
- Use EVA® to define financial success.
- Focus growth on value-creative businesses.
- Improve our cost position continuously and aggressively.
- Emphasize employee ownership and performance-based pay.

DRIVEN BY

The Millennium People Policy and Core Values

Responsible Care®

EVA®

CHAIRMAN'S MESSAGE

"People create the value" is the basis of Millennium's People Policy. It is most appropriate, then, that this year's annual report focuses on the many imaginative ways during 1998 that the women and men of Millennium advanced our Vision: ***"Be the most value-creative chemical company in the world!"*** Their stories can be found throughout this annual report.

Despite a collapse in profitability for virtually every major chemical company in 1998, whether commodity, intermediate or specialty, Millennium's people battled their way to positive Economic Value Added ("EVA®"). That was accomplished not only by working hard and smart within our traditional operational areas, but also by aggressively pursuing cash profit opportunities in disciplines such as insurance and tax.

EVA® for 1998 was $29 million, down from $104 million last year. Earnings per share, excluding non-recurring items, fell to $1.46 from $2.64 in 1997. Pro forma earnings before interest, tax, depreciation and goodwill amortization ("EBITDA"), a measure that more closely tracks cash earnings from operations, including our portion of Equistar Chemicals, LP ("Equistar"), was down less dramatically, to $502 million, versus 1997's $683 million.

Millennium made substantial progress toward its goal of reducing debt. Cash generated in 1998 and early 1999 from operations and a number of strategic disposals now make a stock repurchase program a viable option for delivering value to our fellow shareholders. That program has already commenced.

BE THE MOST VALUE-CREATIVE

William M. Landuyt
Chairman & Chief Executive Officer

CHEMICAL COMPANY IN THE WORLD

Long-term growth was not compromised. Acquisitions and capital expenditures, while strictly controlled to meet our cost-of-capital hurdle rates and other disciplined criteria, substantially exceeded depreciation and amortization. Specific projects are described in more detail throughout this annual report.

Operationally, we began

1998 facing rapidly deteriorating petrochemical industry conditions. That trend continued without relief through the end of the year and only recently has the slide started to flatten out. Unfortunately, the trough conditions that we are currently experiencing are likely to stay with us for several more months, depressing results from our 29.5% stake in Equistar. The positive news is that Equistar is more than able to meet its obligations on a cash basis, and conditions have improved.

Our acetyls operation faced many of the same challenges, with prices for its products at historically low levels. As described later in this annual report, our people responded to the challenge by making some dramatic changes to the way we do business in acetyls. These changes will result in our producing more product at lower cost and with less capital invested in the business…clearly an EVA®-enhancing result.

While our specialty fragrance chemical business didn't face nearly the same degree of pricing pressure, the Asian crisis, new capacity and competition from new entrants resulted in a softer business climate as we ended the year. However, this business is benefiting from lower raw material costs and did manage to finish with its ninth consecutive year of record operating profit.

One of the few products that provided a bright spot in the chemical industry during 1998 was titanium dioxide ("TiO_2"). Millennium advanced its position in this business during 1998 through our acquisition of Tibras, South America's only integrated TiO_2 producer and by commissioning a significant expansion at our Stallingborough, United Kingdom, location. We are now the world's second-largest producer of this widely used chemical, popular for whitening and opacifying. Prices for TiO_2 advanced throughout the year and our internal cost-cutting efforts were a welcome offset to higher raw material costs. During 1999, we will open a state-of-the-art research and development facility to support our scientists' creative efforts.

Thanks in part to a tough decision we made to throttle back fourth-quarter 1998 production in order to maintain responsible inventory levels, we entered 1999 with an opportunity to create

significant value from this business. With a global presence now solidly established, our challenge for the year will be to reduce a cost structure that is still too high relative to our main competition. Specific projects are being identified throughout our TiO_2 business to take $100 million out of our cost base over the next two years.

Part of that cost reduction will be a direct result of the implementation of an SAP-based business resource system. This integrated information system encompasses sales, production, quality control, logistics, maintenance and financial data. It will be rolled out at the Americas division of our TiO_2 business in May 1999 and in the European division in July 1999. This follows a very successful implementation in the Asia/Pacific region early this year.

Our petrochemical and specialty fragrance chemical companies are already on SAP, having "gone-live" in July and November 1998, respectively. Initial reports are favorable as to the benefits of the new system, which involves not only implementing new information technology, but also executing a complete review and, where necessary, an overhaul of our business processes.

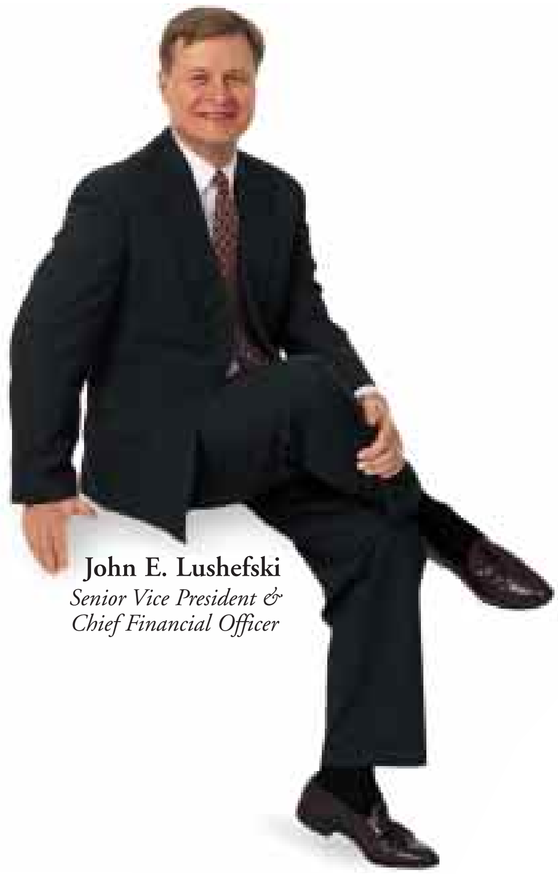
Our SAP system is Year 2000 compliant and is one of the most important elements of our strategy for dealing with potential Y2K problems. Our employees, working with outside experts, have devoted a significant amount of time and resources to identify which information systems and process control devices need to be made compliant in order to carry on business without interruption. Another step in that effort has been an ongoing dialogue with our major suppliers and customers to assess their readiness as well as to keep them informed of ours. We will continue diligently to address this issue and aim to have solutions in place well before the end of this year. Where we are uncertain as to the readiness of a critical supplier, we will identify alternative sources for our business needs.

This year will mark the tenth anniversary of the Chemical Manufacturers Association's ("CMA") adoption of Responsible Care®. In 1989, the chemical industry committed to a set of guiding principles and certain Codes of Management Practice to advance the Responsible Care® goal, which is to "earn the public trust." Over those ten years, substantial progress has been made in improving health and safety in the workplace and reducing the amount of environmental emissions and waste that the chemical industry generates.

Unfortunately, public perception of our industry has not substantially improved. To address that issue, in January 1999 a new set of guiding principles was adopted by CMA companies, including Millennium. These new principles include, for the first time, a commitment by members to publicly set individual company improvement goals and to report regularly against those goals. Millennium is proud to be part of this effort and we are currently determining how best to measure and monitor our progress in pursuing our stated commitment to ***"protect the environment and the health and safety of our employees and the public."*** We anticipate publishing those goals later this year.

Millennium is committed to the Vision that I mentioned at the beginning of this letter: ***"Be the most value-creative chemical company in the world."*** The drivers we rely on to achieve that Vision are EVA®, our People Policy and Core Values, and the guiding principles of Responsible Care®. Our people have embraced the challenge we've given ourselves to build a new and different kind of chemical company by employing these drivers in original and innovative ways. On behalf of the Board of Directors and all our fellow shareholders, I thank them.

We find our Company in a very challenging business environment. I can only echo Winston Churchill's admonition: "This is no time for ease and comfort. It is the time to dare and endure." I remain confident we will emerge from the current downturn in the chemical industry as a company which proves that by releasing the energy of its people, it is possible to create value even in the most difficult of times.



John E. Lushefski
Senior Vice President & Chief Financial Officer

CAPITALIZATION

During 1998, we continued to strengthen Millennium's balance sheet, although earnings were less than in 1997. We made this progress after spending $129 million to acquire Brazil's only integrated TiO_2 producer. Net debt (total debt less cash) at December 31, 1998, totaled $979 million, versus $1.283 billion at the end of 1997. Our net-debt-to-total-capitalization declined to 38%, compared to 47% at December 31, 1997. Factoring Millennium's 29.5% share of Equistar's net debt into our capitalization, our net debt was $1.614 billion, or 50% of total capitalization. We are committed to maintaining our investment-grade credit rating. EBITDA-to-interest coverage was about 4.25 times in 1998 and is expected to improve in 1999.

In November 1998, we announced that our Board authorized up to $200 million of share repurchases. With expected after-tax cash proceeds in the first half of 1999 of about $150 million from previously announced asset disposals, Millennium

SETTING THE GOALS;

is in a position to repurchase shares and still maintain our target leverage ratio and interest coverage levels.

CAPITAL SPENDING

Capital spending during 1998 was $215 million, compared to depreciation of $88 million. In 1999, we anticipate capital spending to approximate $150 million, versus depreciation of about $95 million. These spending levels are indicative of the investments we are making to improve efficiency, reduce costs and selectively add capacity.

Our 41 thousand metric tons per year chloride-process TiO_2 expansion at Stallingborough in the United Kingdom was substantially completed in the last quarter of 1998, with $50 million spent on this project during the year. We also spent about $54 million company-wide for the continuing implementation of SAP software to improve information technology and business processes. All major businesses and plants, with the exception of our TiO_2 operations in Brazil, will be utilizing the SAP integrated software by the third quarter of 1999. Millennium Inorganic Chemicals will complete an $18 million project to relocate and consolidate global research and development into a new facility located near the group's worldwide headquarters in Baltimore, Maryland. The new research center will be officially opened in September 1999.

EARNINGS

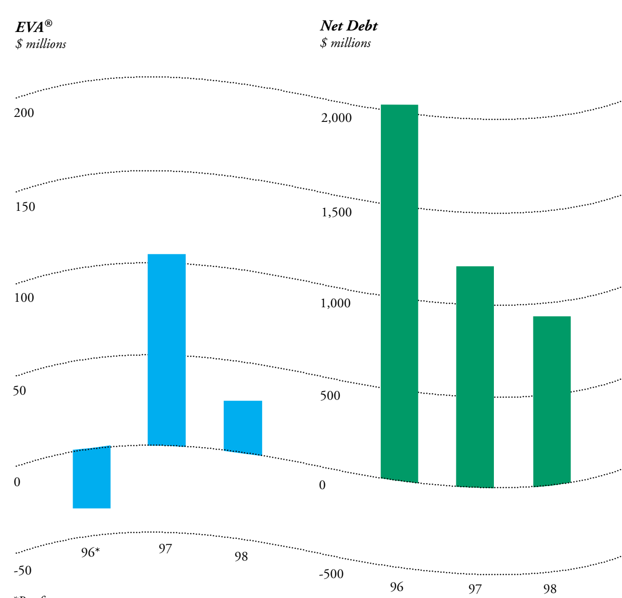
For the year, net income was $164 million or $2.18 per share, compared to $185 million or $2.48 per share in 1997. Excluding unusual non-recurring items, income from continuing operations would have been $110 million or $1.46 per share in 1998, compared to $197 million or $2.64 per share in 1997. Although our core TiO_2 business improved dramatically, with EBITDA twice the 1997 level, cyclical trough conditions in the petrochemical sector reduced earnings significantly at both acetyls and Equistar.

Although the outlook for our TiO_2 business looks good for 1999, our acetyl and specialty fragrance chemical businesses are facing market conditions that are more difficult than last year. Millennium's profitability in 1999 will also depend on the extent of any recovery in the petrochemical sector, which affects both Equistar and our acetyl business.

DRIVING THE VALUE

EVA®

EVA® was $29 million in 1998, versus $104 million in 1997. Depressed cyclical pricing in the petrochemical sector had material, adverse effects on Millennium's ability to generate EVA® in 1998. Although we managed to generate positive EVA® in spite of tough petrochemical business conditions, our experience in 1998 confirms that the strategy we are pursuing to reduce our relative exposure to the cyclical petrochemical sector will add value for our shareholders. We will continue our work to execute that strategy in 1999.

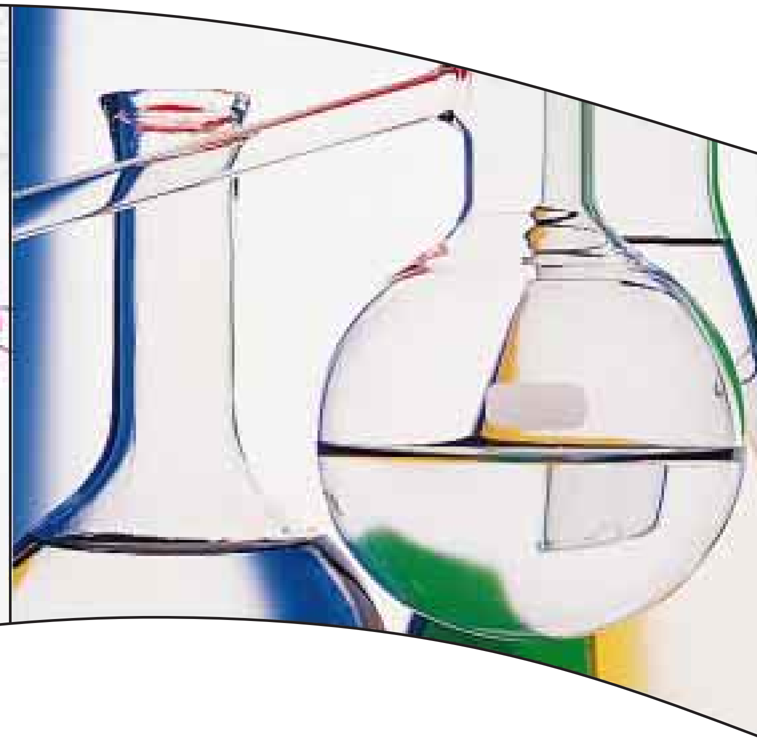


MILLENNIUM INORGANIC CHEMICALS

The second-largest producer of titanium dioxide (TiO_2) in the world, with manufacturing facilities in the United States, the United Kingdom, France, Brazil and Australia. The company is also the largest merchant seller of titanium tetrachloride in the United States and Europe.

MILLENNIUM PETROCHEMICALS

The second-largest United States producer of acetic acid and vinyl acetate monomer and a major United States producer of methanol.



MAJOR PRODUCTS

Titanium Dioxide - Non-hazardous white pigment used to provide whiteness, brightness and opacity in coatings and paints, plastics, paper and rubber. It is the ingredient in paint that allows paint to cover in one coat.

Titanium Tetrachloride - Intermediate product in making TiO_2. Also the raw material for making ultra-light and ultra-strong titanium metal, which in turn is used to make a wide variety of products from eyeglass frames to aerospace parts to golf clubs. Titanium tetrachloride is also used to manufacture catalysts and specialty pigments and as a surface treatment for glass.

Zirconium-based Compounds - Chemicals used in coloring for ceramics, in pigment surface treatment and to enhance optics.

Specialty $\boldsymbol{TiO_2}$ - Micropure and ultra-fine products used in optical, electronic and ultra-violet absorption applications.

MAJOR PRODUCTS

Vinyl Acetate Monomer - Petrochemical used to produce adhesives, water-based paints, textile coatings, paper coatings and a variety of polymer products.

Acetic Acid - Feedstock used to produce vinyl acetate monomer, terephthalic acid (used to produce polyester for textiles and plastic bottles) and industrial solvents.

Methanol - Feedstock used to produce acetic acid, MTBE (a gasoline additive) and formaldehyde.

MILLENNIUM SPECIALTY CHEMICALS

The world's largest producer of terpene fragrance chemicals, the world's second-largest manufacturer of cadmium-based pigments and a major producer of silica gel.

EQUISTAR CHEMICALS, LP

The largest producer of ethylene and polyethylene in North America. It is also a leading producer of performance polymers, oxygenated chemicals, aromatics and specialty chemicals.

MAJOR PRODUCTS

Terpene Fragrance Chemicals - Components blended together to make fragrances and flavors used in detergents, soaps, personal care items, perfumes and food products.

Cadmium-based Pigments - Inorganic colors used in engineered plastics, artists' colors, ceramics, inks, automotive refinish coatings, coil and extrusion coatings, aerospace coatings and specialty industrial finishes.

Silica Gel - Inorganic product used to reduce gloss and control flow in coatings. Also used to stabilize and extend the shelf life of beer, plastic films, powdered food products and pharmaceuticals.

MAJOR PRODUCTS

Olefins - Ethylene, propylene and butadiene used as key building blocks for many chemical and polymer products, including polyethylene, polypropylene and rubber.

Aromatics - Benzene used in the production of nylon and polystyrene plastics. Toluene used as a gasoline component and chemical feedstock for producing benzene.

Oxygenated Chemicals - Ethylene oxides and derivatives used to produce surfactants, industrial cleaners, cosmetics, emulsifiers, paint, heat transfer fluids and ethylene glycol. Ethylene glycol used as a key component of polyester fibers and film, PET resin and antifreeze. Ethyl alcohol used in the cosmetic, drug, toiletries and perfume industries.

Specialty Chemicals and Components - Products such as dicyclopentadiene, isoprene, resin oil and piperylenes, used to make adhesives, sealants and inks. Alkylate and MTBE used as premium blending components for reformulated gasoline.

Polymers - High density polyethylene, low density polyethylene, linear low density polyethylene and polypropylene. Polyethylenes used in plastic bottles and containers, grocery and trash bags, food packaging, housewares and toys. Polypropylene used in carpets, upholstery fabric, housewares and automotive components.

Performance Polymers - A wide range of products used in wire and cable compounds for insulation and jacketing and polymers for adhesives, sealants and coatings.

MILLENNIUM INORGANIC CHEMICALS

Terry Emmitt, Instrument & Electronic mechanic for Millennium Inorganic Chemicals in Ashtabula, Ohio, ran packers using plant air instead of individual blowers. If that sounds like just a lot of hot air, consider that all of Terry's modest little improvements like this one added up to $800,000 of savings for the company.

1998: RELATIVELY SPEAKING

With strong demand in Europe and the Americas supporting price increases, TiO_2 profits more than doubled in 1998. Operating income in 1998 rose to $136 million from 1997's $60 million, while the yearly average price for TiO_2 rose to $1,952 per metric ton, up 11% or $194 per metric ton higher than a year ago. Even in Asia, where demand was down about 20% relative to 1997, pricing levels actually improved.

Construction has begun on a new $18 million research center near Baltimore, Maryland. Covering 120 thousand square feet, the new facility is designed to provide 27 first-class laboratories and facilities for 150 scientists and technical professionals. The center will improve Millennium Inorganic Chemicals' ability to research, develop and test new products and processes, providing customers with additional value-added products and services.

Millennium Inorganic Chemicals is the second-largest producer of TiO_2 in the world, with production capacity on four continents. Through acquisitions and expansions, Millennium Inorganic Chemicals' share of the global TiO_2 market has grown to roughly 16% of the $8 billion industry. The newly integrated French and Brazilian operations in 1998 contributed over $300 million of sales revenue. In addition, these acquisitions helped Millennium Inorganic Chemicals grow with its customers, improve process efficiency, provide better product quality and increase value along the way. For instance, the company's first TiO_2 mining acquisition in Brazil assures a secure, low-cost supply of feedstock for TiO_2. Millennium Inorganic Chemicals is the only integrated TiO_2 producer in South America. This enables the company to grow with some of its largest customers who have expanded their own operations in South America.

EVA®: APPLYING THE FORMULA

EVA® generated in 1998 was $31 million, versus $(16) million in 1997. Almost 60% of all employees participated in EVA® incentive programs during 1998, and over 200 projects were dedicated to building EVA®. The co-generation energy project at the Hawkins Point Plant is a perfect example of employees creating EVA®. Our partner's power generation expertise allows Millennium Inorganic Chemicals to concentrate on what it does best while saving millions of dollars in energy costs. The end result is increased efficiency, cost reduction and reduced emissions — EVA® positive in every way.

AHEAD OF OUR TIME

To manage its business globally, Millennium Inorganic Chemicals has re-organized into a team-based structure. Executive-level teams have been established for global operations, development and specialty products. These teams, along with the new coatings, plastics and paper product business teams, will leverage Millennium Inorganic Chemicals' most valued asset, its people, to advance the company's value-creative agenda. In addition, the implementation of SAP software and the sharing of technology capabilities will improve the company's cost position.

Millennium Inorganic Chemicals continues to aggressively pursue cost-reduction opportunities. Following on from programs initiated in 1997, an additional $100 million cost-reduction effort is to be completed by the end of 2000. For the long term, investments being made in R&D and SAP will stimulate

OUR SUCCESS FORMULA: $e(VA)=m(I)c^2$

Robert E. Lee
President &
Chief Executive Officer
Millennium Inorganic
Chemicals

the development of new technology and work-process capabilities. The ultimate goal is to boost EVA® through lower costs and improved products like the recently developed TiONA® 4000 — a new anatase product for the United States paper market that provides substantial optical brightener efficiency, and improved opacity for greater value to the paper manufacturer. With higher average pricing, further cost-reduction programs and the integration of acquisitions, EVA® should continue to grow in 1999.

Harry Pathak, one of Millennium Petrochemicals' engineers in La Porte, TX, developed an improved neutralization technique that lowers cost and improves product quality.

RE-FUELING PETROCHEMICALS

1998: BURNING THE MIDNIGHT OIL

Millennium Petrochemicals faced many challenges in 1998. Asia's financial difficulties weakened demand for acetic acid and vinyl acetate monomer ("VAM"), and this weakness spread to Europe as well. North American demand was robust.

Last year was Millennium Petrochemicals' first full year as a stand-alone acetyls company. In making this transition, the company established a new culture — one that is responsive, flexible and totally committed to EVA®. In fact, creating EVA® is the driving force behind the new Millennium Petrochemicals. All 235 employees participated in EVA®-based incentive programs, helping make Millennium Petrochemicals one of the most dynamic companies in its industry as well as a leader in EVA® creativity.

EVA® FUELING THE WAY

During 1998, Millennium Petrochemicals' employees used the principles of EVA® to improve the business in numerous ways. A team of engineers at the La Porte plant designed, installed and commissioned new distributed-control systems in all of its facilities, leading the way for lower costs and improved yields. Plant controller Lantz Pledger re-evaluated Millennium Petrochemicals' fixed assets after the Equistar transaction, lowering property taxes by over $1 million per year. These are some of the many ways employees are using EVA® to achieve new levels of performance.

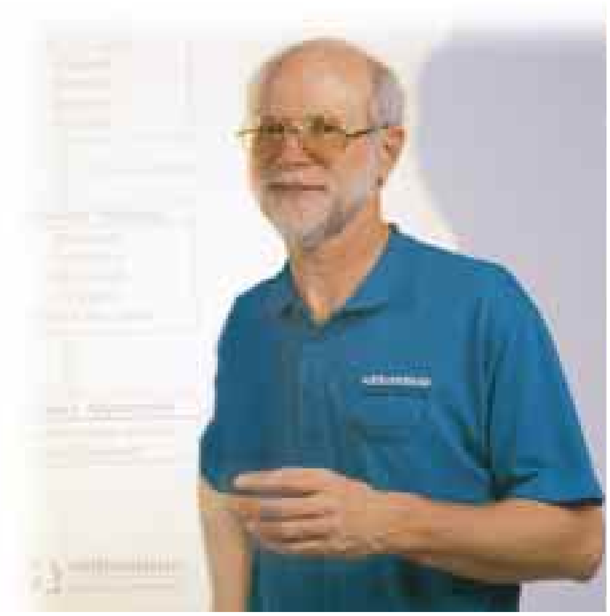
Another key to value creation is the company's ability to be highly innovative. Take, for example, Millennium Petrochemicals' transfer of its La Porte, Texas, syngas operations and a portion of its methanol capacity to Linde AG. This transaction generated $122.5 million in cash and formed a value-creative partnership with long-term EVA® benefits. Linde will use its specialized technology and know-how for the production of syngas to improve plant economics. Millennium Petrochemicals will share in this improvement by way of favorable rates on purchases of syngas and carbon monoxide. Millennium Petrochemicals will now be free to focus on its core acetic acid and VAM businesses. Cultivating innovative business relationships like these allows Millennium Petrochemicals to leverage low-cost positions and decrease capital requirements.

Millennium Petrochemicals is also working hard to lower its operating costs. The recent commercialization of an acetic acid low-water technology has reduced manufacturing costs. This proprietary technology increased capacity from 900 million to 1 billion pounds per year. Similarly, Millennium Petrochemicals' next-generation VAM catalyst technology should reduce costs and provide expansion opportunities. The successful implementation of the SAP enterprise management system has made real-time, integrated information available throughout Millennium Petrochemicals. This allows for more effective interfacing with customers and improved information for decision making.

TECHNOLOGY: THE NEW FUEL

Looking forward, the VAM business is expected to modestly improve in 1999, while conditions in the oversupplied methanol and acetic acid businesses are not expected to improve in the near future. During 1999, the expanded use of proprietary technology within Millennium Petrochemicals' core businesses, combined with reduced costs resulting from the syngas transaction, will contribute to the strength of the company and the generation of EVA®.

Peter P. Hanik
President &
Chief Executive Officer
Millennium Petrochemicals



Michael A. Shafer, General Superintendent of Millennium Specialty Chemicals in Jacksonville, FL, was invaluable in developing and implementing SAP in 1998. He was the prime information resource for data quality, contributing to the definition of product codes and validation of master data for over six thousand products. Mike also developed training courses for production workers, while continuing to manage fine chemicals production in Jacksonville.

THE SWEET SMELL OF SUCCESS IN 1998

While producers cut prices, and worldwide consumption for fragrance ingredients flattened in 1998, Millennium Specialty Chemicals enjoyed its best year ever, with overall profits up 2%. Earnings increased even though the average price of crude sulfate turpentine ("CST"), the principal raw material for Millennium Specialty Chemicals, increased by 15% over 1997.

Most major fragrance chemical producers cut selling prices. Millennium Specialty Chemicals focused on its core strategy of selling higher value-added fragrance chemicals. Selling this richer mix of products maintained profit momentum in spite of difficult market conditions, and this "value per kilogram" approach, as opposed to a "price per kilogram" approach, meant more profit for the company. For the customer, it meant high quality and the best service in the industry.

AT MILLENNIUM, SMELL SELLS

EVA®: THE CENTS OF SMELL

In 1998, Millennium Specialty Chemicals again achieved positive EVA®, due in part to expanded capacity and advances in the production of high-purity anethole, a licorice-like flavor chemical. Millennium Specialty Chemicals now utilizes a crystallization process to make anethole, which improves product quality and lowers production costs. Expanding production capabilities of WS-3, another flavor chemical, used in chewing gum and mouthwash, is also in progress. Meanwhile, debottlenecking and new equipment investments over the last two years have doubled capacity for linalool and geraniol, keeping Specialty Chemicals ahead of the demand curve for these basic fragrance chemical building blocks.

COLORS & SILICA

The Colors & Silica business improved its EVA® in 1998 through enhanced operating efficiencies and continued growth of sales volume. In order to keep pace with continued market growth, Millennium Specialty Chemicals is moving forward with its plans to increase the capacity of its silica gel operations.

A ROSY FUTURE

Millennium Specialty Chemicals continued to strengthen its position in emerging economies. New bonded warehouses in Mexico and Brazil have reduced product delivery time to customers. This efficiency also eliminates paperwork and reduces customer inventory costs. Other active areas of expansion included China, India and Indonesia, where long-term economic growth will create greater consumer demand.

The overall strategy for 1999 is to maximize EVA® by applying the "value per kilogram" approach, reducing costs and selectively increasing volume. Although CST prices are dropping, worldwide demand for fragrance chemicals has slowed and the industry has added capacity. While this will put pressure on 1999's results, the long-term future for Millennium Specialty Chemicals looks rosy. In fact, it smells rosy too.

George W. Robbins
President &
Chief Executive Officer
Millennium Specialty Chemicals

Fran Gerardi, Manager Human Resources for Millennium Chemicals Inc., demonstrated a complete and enthusiastic commitment to Millennium's People Policy. Along with coordinating the office move from Iselin, NJ, to Red Bank, NJ, her top initiatives were office safety, performance management and employee development.

REACH FOR THE EQUISTAR

THE BIG BANG OF 1998

As part of a continuing effort to reduce exposure to cyclical commodity products, Millennium partnered with Lyondell Chemical Company ("Lyondell") in December 1997 to form the partnership Equistar, the largest producer of ethylene and polyethylene in North America. In May 1998, Occidental Petroleum Corporation ("Occidental") joined the venture with its ethylene, propylene, ethylene oxide and derivatives products. As a result, Millennium's share of the partnership was reduced from 43% to 29.5%, and Equistar became the second-largest producer of ethylene in the world.

Even though Equistar's market is experiencing trough conditions, Equistar maintains a competitive advantage with technology that provides significant feedstock flexibility. That means Equistar is able to utilize the right mix of raw materials to maximize profitability.

SYNERGY, EVA® AND RISING EQUISTAR

Equistar's goal is to continue to generate value through synergies. The businesses contributed by Millennium and Lyondell were converted to an upgraded version of the SAP-based business resource system. The conversion of the businesses contributed by Occidental will be completed in 1999. The result will be improvements in efficiency and customer service. Among the other areas targeted for ongoing synergistic value creation are polyethylene production efficiency and technology best practices. Likewise, Equistar intends to leverage its purchasing power, reduce staff requirements and eliminate non-essential services.

EQUISTARGAZING BEYOND 1998

Through the end of 1998, total synergies achieved since formation and before transition costs exceeded the target of $100 million by $49 million.

Trough conditions in the petrochemical industry are forecast to continue through 1999. However, there are some signs of improvement, as ethylene and polyethlene prices rose slightly in early 1999.

Millennium Inorganic Chemicals received an award from the environmentalist group Greening of the South West for the rehabilitation of coastal dunes in Dalyellup, Western Australia. More than eighty thousand cubic meters of sand were used to reconstruct the dunes that were destroyed by strong winds and off-road vehicles. Over 42 species of local plants were also re-introduced to the site. Millennium, in coordination with Curtin University botanists, will continue to monitor the success of the site.

ABOVE AND BEYOND THE CALL

A COMMITMENT TO EXCELLENCE

Throughout 1998, Millennium honored its commitment to protect the safety, health and environment of employees and of the communities in which it operates. The Responsible Care® Program has now been instituted worldwide. But why stop there? Since guidelines and criteria specified by national chemical industry associations still differ from country to country, Millennium believes there is room for improvement. Accordingly, Millennium has developed a single global standard of excellence for Responsible Care® which will be rolled out in early 1999. The standard is a culmination of the "best of the best" practices from each and every country where Millennium operates.

AND THEN SOME

Expanding the boundaries of Responsible Care®, Millennium also serves the communities in which it operates through a wide variety of outreach efforts. Local Emergency Medical Teams and firefighters benefit from Millennium's support and assistance. In addition, Millennium conducts regular plant tours and provides educational support programs for students and community groups. Millennium's people also donate their time and resources, helping those less fortunate through the United Way, Adopt a Family, Habitat for Humanity, YMCA, American Red Cross, American Cancer Society and through many other worthwhile humanitarian causes.

MILLENNIUM CHEMICALS INC.

INDEX TO THE FINANCIAL REVIEW

Disclosure Concerning Forward-Looking Statements

All statements, other than statements of historical fact, included in this annual report to shareholders, including, without limitation, the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" are, or may be deemed to be, forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements ("Cautionary Statements") include: the balance between industry production capacity and operating rates, on the one hand, and demand for the products of Millennium Chemicals Inc. (the "Company") and Equistar Chemicals, LP ("Equistar"), including titanium dioxide, ethylene and polyethylene, on the other hand; the economic trends in the United States and other countries which serve as the Company's and Equistar's marketplace; customer inventory levels; competitive pricing pressures; the cost and availability of the Company's feedstocks and other raw materials, including natural gas and ethylene; operating interruptions (including leaks, explosions, fires, mechanical failures, unscheduled downtime, transportation interruptions, spills, releases and other environmental risks); competitive technology positions; failure to achieve the Company's or Equistar's productivity improvement and cost-reduction targets or to complete construction projects on schedule; difficulties in addressing Year 2000 issues on a timely basis by the Company, Equistar, their suppliers or their customers; and other unforeseen circumstances.

Some of these Cautionary Statements are discussed in more detail under "Management's Discussion and Analysis of Financial Condition and Results of Operations." All subsequent written and oral forward-looking statements attributable to the Company or persons acting on behalf of the Company are expressly qualified in their entirety by such Cautionary Statements.

MILLENNIUM CHEMICALS INC.

SELECTED AND QUARTERLY FINANCIAL DATA

(DOLLARS IN MILLIONS, EXCEPT SHARE DATA)

Selected Financial Data	Year Ended December 31				Three Months Ended December 31	Fiscal Year Ended September 30
	1998(1)	1997(2)	1996	1995	1994	1994
Income statement data:						
Net sales	**$1,597**	$3,048	$ 3,040	$ 3,156	$ 723	$2,610
Operating income	**205**	449	283(3)	787	177	268
Income from continuing operations	**163**	188	83(3)	296	68	34
Basic earnings per share from continuing operations	**2.17**	2.52	0.44	—	—	—
Net income (loss)	**164**	185	(2,701)(3)(4)	349	96	94
Dividends declared per share plus United Kingdom Advance Corporation Tax	**0.60**	0.60	—	—	—	—
Balance sheet data (at period end)						
Total assets(5)	**$4,100**	$4,326	$ 5,601	$ 9,678	$ 9,603	$9,268
Total liabilities	**2,507**	2,862	4,283	4,877	4,745	4,630
Minority interest	**15**	—	—	—	—	—
Shareholders' equity(5)	**1,578**	1,464	1,318	4,801	4,858	4,638
Other data (with respect to continuing operations)						
Depreciation and amortization	**$ 102**	$ 203	$ 201	$ 207	$ 50	$ 213
Capital expenditures	**215**	152	285	247	23	89

(1) Includes six months of earnings of the Brazilian TiO_2 business acquired on July 1, 1998, and twelve months of earnings of the French TiO_2 business acquired on December 31, 1997.

(2) Includes 11 months of polyethylene, alcohol and related products businesses which were contributed to Equistar on December 1, 1997. Since December 1, 1997, the equity method is used to account for the Company's partnership interest.

(3) Includes the effects of non-recurring charges of $75 ($48 after tax) to reduce the carrying value of certain facilities employed in the sulfate-process manufacturing of TiO_2 and to provide for the costs associated with the closure of certain of these facilities, as described in Note 5 to the Consolidated Financial Statements of the Company.

(4) Includes the effects of a non-cash after-tax charge of $3,206 relating to one of the Discontinued Businesses (as defined in Note 5 to the Consolidated Financial Statements of the Company) as a result of the Company's adoption of the long-lived asset carrying value methodology prescribed by SFAS 121, as described in Note 5 to the Consolidated Financial Statements of the Company. The Discontinued Businesses were sold to Hanson on October 6, 1996.

(5) Includes net assets of the Discontinued Businesses: $3,772 at December 31, 1995; $3,757 at December 31, 1994; and, $3,757 at September 30, 1994.

Quarterly Financial Data	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
1998				
Net sales	**$399**	**$408**	**$408**	**$382**
Operating income	**58**	**66**	**58**	**23**
Net income from continuing operations	**46**	**46**	**32**	**39**
Net income	**50**	**43**	**32**	**39**
Basic earnings per share from continuing operations	**$0.61**	**$0.61**	**$0.43**	**$0.52**
Basic earnings per share	**$0.67**	**$0.57**	**$0.43**	**$0.52**
Diluted earnings per share from continuing operations	**$0.61**	**$0.62**	**$0.42**	**$0.52**
Diluted earnings per share	**$0.66**	**$0.57**	**$0.42**	**$0.52**
1997				
Net sales	$ 794	$ 813	$ 816	$ 625
Operating income	66	132	157	94
Net income from continuing operations	17	85	70	16
Net income	20	82	67	16
Basic earnings per share from continuing operations	$0.23	$1.14	$0.94	$0.21
Basic earnings per share	$0.27	$1.10	$0.90	$0.21
Diluted earnings per share from continuing operations	$0.23	$1.14	$0.94	$0.21
Diluted earnings per share	$0.27	$1.10	$0.90	$0.21

MILLENNIUM CHEMICALS INC.

SEGMENT INFORMATION

(DOLLARS IN MILLIONS)

	1998	1997	1996
Net sales			
Titanium dioxide and related products	**$1,203**	$ 843	$ 868
Acetyls	**253**	271	240
Specialty chemicals	**141**	148	127
Polyethylene, alcohol and related products(1)	**—**	1,786	1,805
Total	**$1,597**	$3,048	$3,040
Operating income			
Titanium dioxide and related products(2)	**$ 136**	$ 60	$ 7
Acetyls	**26**	39	12
Specialty chemicals	**43**	42	36
Polyethylene, alcohol and related products(1)	**—**	308	228
Total	**$ 205**	$ 449	$ 283
Depreciation and amortization			
Titanium dioxide and related products	**$ 72**	$ 44	$ 46
Acetyls	**25**	28	24
Specialty chemicals	**5**	6	4
Polyethylene, alcohol and related products(1)	**—**	125	127
Total	**$ 102**	$ 203	$ 201
Capital expenditures			
Titanium dioxide and related products	**$ 154**	$ 77	$ 81
Acetyls	**31**	24	65
Specialty chemicals	**27**	10	12
Polyethylene, alcohol and related products(1)	**—**	41	127
Corporate	**3**	—	—
Total	**$ 215**	$ 152	$ 285
Identifiable assets			
Titanium dioxide and related products	**$1,459**	$1,093	
Acetyls	**792**	824	
Specialty chemicals	**133**	108	
Corporate(3)	**1,716**	2,301	
Total	**$4,100**	$4,326	

(1) The polyethylene, alcohol and related products businesses were contributed to Equistar on December 1, 1997. The Company's partnership interest in Equistar is accounted for using the equity method; accordingly, the Company's underlying interest in the operations of Equistar have been excluded in the segment disclosures above since December 1, 1997.

(2) 1996 includes non-recurring charges of $75 ($48 after tax) to reduce the carrying value of certain facilities employed in the sulfate-process manufacturing of TiO_2 and to provide for the costs associated with the closure of certain of these facilities, as described in Note 5 to the Consolidated Financial Statements of the Company.

(3) Corporate assets consists primarily of cash and cash equivalents, equity investments and other assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Millennium Chemicals Inc.'s (the "Company") principal operations are grouped into four business segments: titanium dioxide and related products; acetyls; specialty chemicals; and polyethylene, alcohol and related products. The Company's businesses comprising the polyethylene, alcohol and related products segment were contributed to Equistar Chemicals, LP ("Equistar"), a joint venture partnership formed by the Company and Lyondell Chemical Company ("Lyondell") on December 1, 1997, to own and operate the olefin and polymer businesses of the partners. Results of these businesses prior to the formation of Equistar are consolidated. On May 15, 1998, the Company's 43% interest in Equistar was reduced to 29.5% with the addition of the ethylene, propylene, ethylene oxide and derivatives businesses of Occidental Petroleum Corporation's ("Occidental") chemical subsidiary. The results of Equistar are accounted for using the equity method. See Note 2 to the Consolidated Financial Statements.

The following information should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto. In connection with the forward-looking statements that appear in the following information, the Cautionary Statements referred to in "Disclosure Concerning Forward-Looking Statements" should be reviewed carefully.

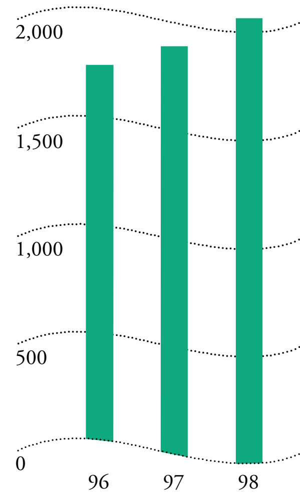
Historical Cyclicality of the Company's Operations

The markets for ethylene and polyethylene, in which the Company participates through its interest in Equistar, are highly cyclical, resulting in volatile profits over the business cycle. The global markets for titanium dioxide ("TiO_2") and acetyls are also cyclical, although to a lesser degree. In contrast, the Company believes that, over a business cycle, the markets for specialty chemicals are generally more stable in terms of industry demand, selling prices and operating margins.

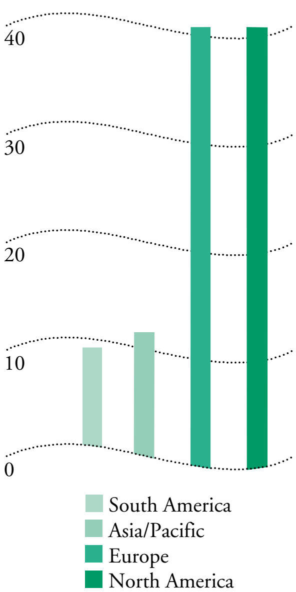
Demand for ethylene and its derivatives has fluctuated from year to year. However, over the last ten years, demand for ethylene and its primary derivative, polyethylene, has increased an average of approximately 4% per year. The industry is particularly sensitive to capacity additions, and producers have historically experienced alternating periods of inadequate ethylene and/or polyethylene capacity, resulting in increased selling prices and operating margins, followed by periods of large capacity additions, resulting in declining capacity utilization rates, selling prices and operating margins. The cyclicality of petrochemicals' profitability is further influenced by fluctuations in the price of feedstocks for ethylene, which generally follow price trends for crude oil. Producers of ethylene for merchant supply to unaffiliated customers typically experience greater variations in profitability when industry supply and demand relationships are at extremes, in comparison to more integrated competitors. Equistar currently consumes or sells approximately 75% of its ethylene production in its or its partners' downstream derivative facilities, which has the effect of reducing volatility. It is not possible to predict accurately the effect that future changes in feedstock costs, market conditions and other factors will have on this segment's profitability.

TiO_2 is considered an intermediate, performance chemical, the demand for which is influenced by changes in the gross domestic product of various regions of the world. The worldwide TiO_2 industry has experienced cyclical demand, supply and pricing, although to a lesser degree than the petrochemical industry. Demand for TiO_2, which has fluctuated from year to year and varies among the regional marketplaces in the world, has increased an average of approximately 3% per year over the last five years. The industry is also sensitive to changes in its customers' marketplaces, which are primarily the paint and coatings, plastics and paper industries. In recent history, consolidations and negative business conditions within certain of those industries have put pressure on TiO_2 prices as companies compete to keep volumes placed. Recently, the TiO_2 industry has experienced consolidation as producers aim to stay competitive through programs to reduce overall cost structures. TiO_2 is manufactured using two different technologies, the environmentally preferred chloride process and the sulfate process, which carry different properties and cost structures.

Global TiO2 Prices
average price at year-end in dollars per metric ton



TiO_2 Capacity Profile
In percent



1998 Results Compared to 1997 and Outlook for 1999

The Company had operating income of $205 million for the year ended December 31, 1998, a decrease of $244 million (54%) from 1997, which included $308 million related to the polyethylene, alcohol and related products businesses contributed to Equistar on December 1, 1997. Excluding these earnings, operating income from the Company's subsidiaries increased $64 million (45%) over 1997. Improved pricing trends and new acquisitions in TiO_2 during 1998 resulted in this segment's profits being two and one-quarter times 1997 levels.

Income from continuing operations for 1998 of $163 million decreased $25 million (13%), compared to 1997 income from continuing operations of $188 million. Income for 1998 includes $16 million (after tax) from insurance settlements and a $42 million tax benefit relating to previous years. Excluding these items and other non-recurring items, income from continuing operations would have decreased $87 million (46%) from 1997, primarily as a result of the impact of the downturn in the petrochemical cycle on Equistar's earnings.

During 1998, the Company announced its intention to dispose of its remaining Suburban Propane partnership interests ("Suburban Propane"), and has entered into an agreement to sell this interest to Suburban Propane and its management for $75 million. It is expected that this transaction will be completed during the first half of 1999 and will result in a pre-tax gain of approximately $50 million ($30 million after tax). Accordingly, the Company's interest in Suburban Propane has been classified as a discontinued operation for all periods presented.

Titanium dioxide and related products: Improved profitability from increased selling prices, which began in mid-1997, continued during 1998 for the titanium dioxide and related products segment. Operating income for 1998 increased over two-and-one-quarter times to $136 million, compared to $60 million in 1997. Net sales for 1998 increased 43% to $1.203 billion, compared to $843 million for 1997. Higher average selling prices from worldwide price increases accounted for the majority of the improvement in operating income. Newly acquired operations also contributed to the increased sales and profits of this segment. Fourth-quarter 1998 profits were much lower than the third quarter as seasonal slowness in the United States and price competition in Europe limited volumes sold to these regions. In response to these conditions, production was scaled back. In addition, incremental costs were incurred related to the re-start of the Stallingborough, United Kingdom, facility after its September shutdown to complete an expansion. These events resulted in costs which were $35 million higher than the previous quarter. As the difficulties at Stallingborough are corrected and demand increases during the spring coatings, season, volumes and profitability should return to more normal levels.

On December 31, 1997, the Company acquired Rhône-Poulenc Chimie S.A.'s French TiO_2 operations, which included two plants providing 138 thousand metric tons per year of TiO_2 capacity along with certain specialty and intermediate chemical businesses. On July 1, 1998, the Company acquired 99% of the voting shares and 72% of total shares of Titanio do Brazil S.A. ("Tibras") in Brazil, consisting of a plant having approximately 60 thousand metric tons per year of TiO_2 capacity and a mineral sands mine with over two million metric tons of recoverable reserves.

While strong demand existed in the North American and European markets for much of 1998, depressed markets in the Asia/Pacific region negatively impacted volumes to that area. Overall sales volumes were 25% higher than 1997, due to sales attributable to the acquired French and Brazilian operations. Excluding such operations, sales volumes were 4% lower than in 1997. Toward the end of the year, increased price competition in Europe limited volumes sold to these markets and seasonal slowness was evident in North America. Worldwide demand is expected to be flat during 1999, with slow recovery in the Asian markets. A full year of operations in Brazil should result in slight incremental sales volumes in 1999 over 1998.

Pricing trends continued upward during 1998 as global price increases were implemented despite depressed markets in Asia. The average TiO_2 selling price for 1998 was 11% higher than 1997, including the French operations which historically experienced lower pricing than the balance of this segment. Price gains by region were 8% in the Americas, 13% in Europe and

31% in Asia/Pacific, where the previous price declines were the most dramatic. Continued price improvement is expected in 1999 as the price increases announced in September for North America take effect. Price competition increased in Europe toward the end of the year due to economic and seasonal slowness along with competitor actions to increase market share. Europe is expected to remain highly competitive in 1999.

The impact of higher prices was partially offset by higher manufacturing costs, as discussed below, and higher functional costs, despite the progress made on cost-reduction initiatives put in place to reduce annual costs by $100 million by the end of 1999. The focus for 1999 is to continue these initiatives and to identify others to reduce the cost structure by an additional $100 million.

The TiO_2 plants operated at approximately 93% of capacity during 1998, compared to 97% during 1997. The Stallingborough, United Kingdom, plant was shutdown in the fall of 1998 to complete a project to expand capacity by 41 thousand metric tons per year. Some difficulties in its December start-up were experienced, lowering production and increasing costs in December. These difficulties are being vigorously examined and are expected to be resolved in early 1999. In addition, production at certain other facilities was slowed in December in response to the seasonal slowdown in demand and price competition in Europe, increasing costs for the fourth quarter.

The outlook for 1999 includes higher average pricing compared to 1998 and relatively stable worldwide demand. Combined with progress in realizing the benefits of cost initiatives, profitability should continue to improve in this segment.

Acetyls: Depressed markets in Asia, combined with overcapacity for some products, resulted in decreased profits in acetyls during 1998. Net sales of acetyls decreased $18 million (7%) to $253 million, while operating income decreased $13 million (33%) to $26 million. These market conditions resulted in declining selling prices for all product offerings with prices down 12%, 14% and 34% for vinyl acetate monomer ("VAM"), acetic acid and methanol, respectively, compared to 1997.

VAM pricing during 1998 was adversely affected by high export volumes at low prices and competitive pressures. However, sales volumes were 9% above 1997.

Similarly, sales volumes for acetic acid increased 9% over 1997 despite weak Asian markets. A scheduled turnaround of the acetic acid plant was completed during the year with the shutdown extended in light of weak market conditions.

Selling prices for methanol were adversely impacted by oversupply due to new competitor facilities and higher imports. While prices fell an average of 34% during 1998, sales volumes were 14% higher than in 1997.

The impact of lower prices was partially offset by favorable costs as a result of the 1997 synthesis gas ("syngas") plant conversion to natural gas feedstock. Initial difficulties resulting from this conversion were corrected during 1997, with the full benefit of lower production costs being realized during 1998. On November 16, 1998, the Company entered into agreements with Linde AG relating to the Company's syngas unit in Texas, and a 15% interest in its methanol business whereby the Company would receive $122.5 million in cash. No gain or loss is expected to result from this transaction. Linde AG will operate the syngas facility, under a long-term lease with a purchase option, and will hold a 15% interest in the methanol operation.

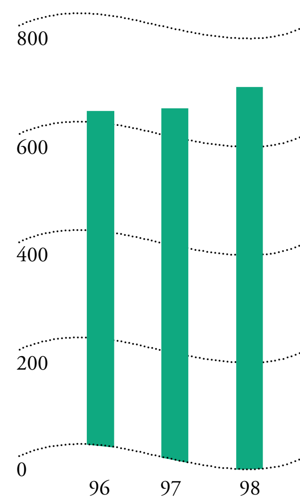
The VAM market is expected to tighten in 1999; however, conditions are expected to remain depressed for methanol and acetic acid where overcapacity exists.

Specialty chemicals: Millennium Specialty Chemicals achieved another record year with operating income of $43 million, $1 million over 1997. Net sales were down $7 million (5%) to $141 million.

The continued emphasis on high-margin products during 1998 was partially offset by lower overall volumes and higher crude sulfate turpentine ("CST") costs (the principal raw material for these chemicals). Although CST costs declined during the second half of 1998, the average price for 1998 of $1.97 per gallon was 15% higher than 1997. Effective January 1, 1999, CST prices decreased 25 cents per gallon and are expected to continue downward during the year.

While average selling prices were up 8% over 1997 primarily due to favorable product mix, price competition during the second half of the

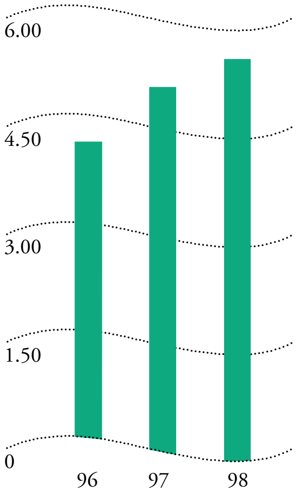
VAM Volume
in millions of pounds



year was experienced and is expected to continue into 1999. Business conditions were strong through the first half of the year but became competitive in the third quarter as weakness in the Asian markets, entry into the markets by new competitors and capacity additions made mid-year price negotiations difficult.

The outlook for fragrance chemicals, while good, is expected to include some downward pressure on prices, which may dampen profitability growth.

Fragrance Chemicals' Selling Price
yearly average in dollars per kilogram



Equistar: The Company's polyethylene, alcohol and related products businesses were contributed to Equistar on December 1, 1997. Equity earnings for 1998, which reflect the Company's share of Equistar's post-interest profits, were $40 million. Operating profits of $329 million during 1997 for the Company's contributed businesses compares to the Company's underlying share in Equistar's 1998 operating profits of $84 million, reflecting the dramatic downturn in the petrochemical cycle during the year.

Ethylene and ethylene derivative markets started their decline toward the end of the first quarter of 1998 and reached trough conditions during the fourth quarter of 1998. Equistar reported an operating loss (before interest) of $10 million for the fourth quarter of 1998 compared to income of $68 million in the third quarter. While volume was relatively stable during the year, excess industry supply, announced new capacity coming on stream and low feedstock prices put severe pressure on selling prices. By year-end, ethylene prices had dropped 30% from January, 1998. Following this trend, polyethylene prices also dropped over 25% during 1998, as price competition resulted from overcapacity in those markets. Other ethylene derivative products have also experienced declines in prices during 1998, but not as dramatic as polyethylene.

Feedstock costs were at relatively low levels during 1998, softening somewhat the impact of declining prices on margins. Prices for crude oil were down 11% in the month of December 1998 alone.

Synergies achieved during 1998, in combining the operations contributed by each of Equistar's partners, helped to soften the negative impact of the depressed markets. Through the end of 1998, total synergies achieved since formation and before transition costs, exceeded the target of $100 million by $49 million. Additional synergies are expected through the year 2000, with a cumulative annualized target of $275 million.

The severe market conditions currently being experienced by Equistar have resulted in recent losses and uncertain conditions for the future. Actions to reduce operating costs and sell non-core assets are being taken, and production was scaled back through lower operating rates and/or extended shutdowns to limit supply in the market. There are some signs of improvement as ethylene and polyethylene prices rose slightly in early 1999. New polyethylene industry capacity is expected to come on stream in the near-term keeping the timing of the cycle's recovery uncertain.

1997 Results Compared to 1996

The Company had operating income of $449 million for the year ended December 31, 1997, an increase of $166 million (59%) from 1996. These results include the results of operations for the polyethylene, alcohol and related products businesses through November 30, 1997, at which time the Company contributed these businesses to Equistar. During 1997, the Company incurred one-time reorganization and other costs related to the formation of Equistar of $47 million ($37 million after tax), which was principally offset by a one-time gain related to an insurance settlement of $46 million ($28 million after tax). During 1996, the Company recorded non-recurring charges of $75 million ($48 million after tax) to reduce the carrying value and provide for closure costs of certain TiO_2 sulfate-process production facilities. Excluding these non-recurring items, the Company's operating income increased $92 million (26%) from the prior year. This increase is due primarily to higher average selling prices for polyethylene and acetyls, the prices of which had dropped dramatically during 1996, combined with lower feedstock costs during 1997. While the pricing trends for TiO_2 improved during 1997, reversing the downward slide of prices which began in late 1995, the average selling price for the whole of 1997 was below that of 1996. Accordingly, 1997 operating income for this segment was below 1996 levels.

Income from continuing operations for 1997 was $188 million, compared to $33 million in 1996 due principally to improved pricing in the polyethylene and acetyl businesses discussed above. Income in 1997 and 1996 from continuing operations has been restated to reflect the Company's interest in Suburban Propane as a discontinued operation (see Note 2 to the Consolidated Financial Statements). Included in 1996 net income is a one-time after-tax gain from the sale by the Company of a 73.6% interest in Suburban Propane, of $86 million and post-tax earnings relative to Suburban Propane of $22 million. This compares to a net loss in 1997 from the continuing interest in Suburban Propane of $3 million.

Titanium dioxide and related products: Titanium dioxide and related products' operating income increased to $60 million from $7 million in 1996. In 1996, operating income included $75 million of non-recurring charges related to the closure of certain sulfate-process production facilities in response to deteriorating market conditions during that period. Excluding these charges, operating income for the year decreased 27% from 1996 as overall average selling prices were lower in 1997 compared to 1996. Net sales for 1997 decreased 3% to $843 million, compared to $868 million for 1996.

Strong demand during the spring paint and coating season, the rationalization of some industry capacity and other market factors steadied the marketplace during the year. Overall sales volumes reached record levels in 1997, 4% higher than 1996, despite the loss of some volume from the reduction of sulfate-process production during the year.

Pricing trends, which started downward in 1995 and continued to fall through 1996, reversed direction in March 1997 and rose through the balance of 1997. Global price increases were supported by strong demand and tight supply. While the average TiO_2 selling price for 1997 was 7% lower than the prior year, the fourth quarter's average price was 5% higher than in the third quarter and 4% above the comparable quarter in 1996. The fourth quarter price gains by region were 3% in the Americas, 8% in Europe and nearly 10% in Asia/Pacific, where the previous price declines were the most dramatic.

The lower average prices, combined with unfavorable foreign currency fluctuations in Europe and Australia, adversely impacted 1997 profitability. These effects were largely, but not fully, offset by lower production costs and higher production output as a result of cost-control programs put in place during 1997 to reduce annual production costs by $100 million from 1996 levels by 1999.

The TiO_2 plants produced at approximately 97% of capacity during 1997, compared to 88% during 1996. This added production not only reduced overall unit costs, but was necessary to meet growing demand during the year. By the end of 1997, inventories had dropped to record low levels. Progress was made in 1997 on a capital project to expand capacity at the Stallingborough, United Kingdom, plant by 41 thousand metric tons per year. On December 31, 1997, the Company acquired Rhône-Poulenc's TiO_2 and related intermediate and specialty chemical operations in France, adding 138 thousand metric tons per year of TiO_2 capacity.

Acetyls: Net sales of acetyls increased $31 million (13%) to $271 million in 1997, and operating income more than tripled to $39 million. The increase in operating income primarily related to increased selling prices in all three of its product lines over depressed 1996 levels. Average selling prices for 1997 were 10%, 3% and 28% higher than 1996 for VAM, acetic acid and methanol, respectively. In addition, the mechanical difficulties experienced in the 1996 conversion of the syngas unit to natural gas feedstock were resolved early in 1997, significantly improving production output and reducing production costs during the year.

Demand for VAM in 1997 was steady, with volumes 1% above 1996. A mid-year price increase and new industry capacity coming on stream were absorbed by higher demand. Weakening Asian markets had a negative impact in the fourth quarter, with prices falling 4% from the previous quarter. Continued reduced demand from these markets during 1998 put further pressure on prices.

Acetic acid sales volumes were 17% below prior year, primarily as a result of a planned customer outage during 1997. Prices, which increased earlier in the year, dropped 2% in the fourth quarter as formula-driven prices were impacted by falling feedstock costs.

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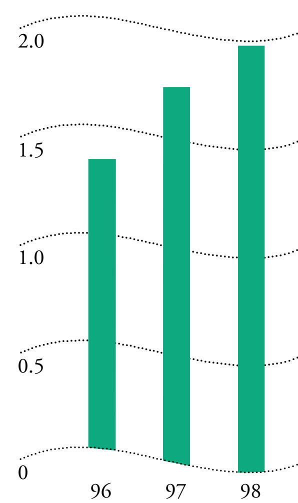
CST Cost
yearly average price in dollars per gallon



Methanol sales volumes for 1997 were 57% higher than the prior year, with industry outages during the year keeping supplies tight. Prices, which were up 17% in the fourth quarter over 1996, and equal to the third quarter, fell sharply in early 1998.

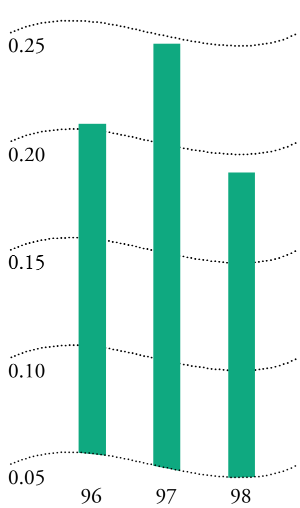
Specialty chemicals: Another record year was completed by Millennium Specialty Chemicals, with operating income of $42 million increasing $6 million (17%) from 1996. Net sales also increased $21 million (17%) to $148 million. A 6% increase in sales volume for fragrance chemicals was principally responsible for the increased profitability. The cost of CST increased an average of 25% over 1996 levels. These higher costs were offset by strong demand for these products together with tight supplies, keeping prices at premium levels.

Polyethylene, alcohol and related products: Net sales of polyethylene, alcohol and related products (which include sales from these businesses for the eleven months ended November 30, 1997, at which time they were contributed to Equistar) were $1.786 billion for 1997, a decrease of $19 million (1%) from 1996 full-year results.

Operating income increased $80 million (35%) to $308 million for 1997, principally as a result of a 15% increase in average selling prices during the 1997 period, coupled with lower feedstock costs, which declined from peak 1996 levels. During 1997, strong demand both domestically and in the export markets, coupled with tight supply, resulted in prices rising through the third quarter. Prices began to slowly weaken thereafter as expectations of new industry capacity coming on stream and normal seasonal slowdowns reduced demand and put pressure on prices. Prices during the fourth quarter were down 5% from the third quarter. Polyethylene unit volumes for the 1997 period were 2% higher than 1996.

Feedstock costs were on average 31% lower than 1996's historical highs, as warmer-than-normal winter weather reduced demand for natural gas and natural gas liquids. These costs continued their decline late in 1997 as winter temperatures remained above normal and crude oil inventories began building due to decreased demand from Asian markets. By the end of 1997, and into 1998, feedstock costs continued below expectations, softening the impact of declining prices on margins late in the year.

Ethylene Contract Prices*
yearly average in dollars per pound



**Source: Chemical Data Inc.*

Effect of Inflation

Because of the relatively low level of inflation experienced in both the United States and most other world markets in which the Company participates, inflation did not have a material impact on the Company's results of operations for 1998, 1997 or 1996.

Foreign Currency Matters

The functional currency of each of the Company's non-United States operations (principally, the operations of Millennium Inorganic Chemicals in the United Kingdom, France, Brazil and Australia) is the local currency. The impact of currency translation in combining the results of operations and financial position of such operations has not been material to the consolidated financial position of the Company. The recent developments in Brazil, regarding the devaluation of its currency, the *real,* are not expected to have a material result on the Company's consolidated operations since approximately two-thirds of its Brazilian sales are referenced to a percentage of U.S. dollar prices. However, as a result of translating the functional currency financial statements into U.S. dollars, consolidated Shareholders' equity would decrease approximately $44 million as a result of this devaluation using the March 15, 1999 exchange rate. Future events, which may significantly increase or decrease the risk of future movement in the *real,* cannot be predicted.

In addition, the Company generates revenue from export sales and revenue from operations conducted outside the United States that may be denominated in currencies other than the relevant functional currency. The Company hedges certain revenues and costs to minimize the impact of changes in the exchange rates of those currencies compared to the functional currencies. The Company does not use derivative financial instruments for trading or speculative purposes. Foreign currency losses aggregated $4 million, $4 million and $7 million in 1998, 1997 and 1996, respectively.

Euro Conversion

On January 1, 1999, eleven of fifteen member countries of the European Union established fixed conversion rates between their existing sovereign currencies ("legacy currencies") and the European Union's common currency, the euro. As of that date, the euro began trading on currency exchanges and may be used in business transactions. The legacy currencies will remain legal tender in the participating countries for a transition period between January 1, 1999 and at least January 1, 2002 (but not later than July 1, 2002).

The Company has begun to identify issues associated with the conversion to the euro, including, among others, the need to adapt computer and financial systems to accommodate euro-denominated transactions and the impact of one common currency on pricing. Since financial systems and processes currently accommodate multiple currencies, the Company does not anticipate system-conversion costs to be material. Since the euro conversion may affect cross-border competition by creating cross-border price transparency, the Company will be assessing its pricing strategies to ensure it remains competitive in a broader European market.

Liquidity and Capital Resources

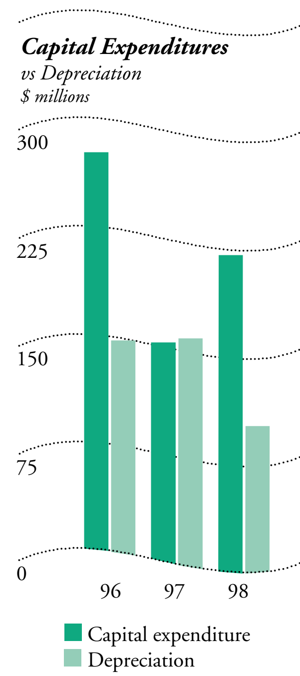
Through September 30, 1996, the Company financed its operations and capital and other expenditures from a combination of cash generated from operations, external borrowings and loans, and invested capital provided by Hanson PLC ("Hanson") or its United States affiliates. Since its demerger from Hanson, the Company has met all of its cash requirements through internally generated funds and external borrowings. The Company's ability to generate cash from operations, and the servicing and repayment of debt, depends upon numerous business factors, some of which are outside the control of the Company, including industry cyclicality, changes in global economic conditions, price volatility of certain raw materials and other conditions.

Net cash provided by operating activities was \$150 million, \$383 million and \$372 million in 1998, 1997 and 1996, respectively. The decline in 1998 compared to 1997 reflects the contribution of the polyethylene, alcohol and related products businesses to Equistar on December 1, 1997. Since December 1, 1997, cash distributions received from Equistar are reflected in net cash provided by investing activities, as described below. In addition, increases in TiO_2 and ore inventories during 1998 also contributed to the decrease in cash from operating activities. During 1997, cash generated from increased operating income was used primarily for working capital purposes, keeping 1997 levels on par with 1996.

Net cash provided by investing activities was \$252 million, \$474 million and \$458 million in 1998, 1997 and 1996, respectively. During 1998, 1997 and 1996, significant transactions were completed which provided cash to the Company: the contribution of the polyethylene, alcohol and related products businesses to Equistar, the subsequent addition of Occidental as a partner in Equistar and the sale of a 73.6% interest in Suburban Propane. These transactions provided cash of \$317 million, \$768 million and \$733 million for 1998, 1997 and 1996, respectively. The Company used funds for the acquisition of certain TiO_2 and specialty and intermediate chemical operations in France for \$169 million during 1997. Certain TiO_2 operations and ore reserves in Brazil were acquired for \$85 million during 1998. In addition, the Company spent \$215 million in capital expenditures during 1998, compared to \$152 million and \$285 million in 1997 and 1996, respectively, as a result of substantially completing the TiO_2 expansion in the United Kingdom at the end of 1998, among other projects.

The Company expects to spend approximately \$150 million in 1999 on capital expenditures. Major projects include building a technical research and development center in the United States for TiO_2 and completing the implementation of SAP-based business solutions company-wide. In January 1999, the Company received \$122.5 million as a result of a transaction involving the syngas and methanol operations of the Company's acetyls business. The Company expects an additional \$75 million to be received during 1999 when the sale of its investment in Suburban Propane is completed.

The Board of Directors has authorized the Company to spend up to \$200 million to repurchase shares of the Company's outstanding common stock ("Common Stock") from time to



time, in the open market and in privately negotiated transactions, subject to market conditions. Repurchases will not be made under the program if the Company's net-debt-to-total-capitalization would exceed 55%. The repurchased shares will be available for general corporate purposes. At December 31, 1998, the Company had 77,873,586 shares of Common Stock outstanding. Through March 15, 1999, the Company had repurchased 2.1 million shares at a total cost of $39 million.

Net cash used in financing activities was $365 million, $1.198 billion and $834 million in 1998, 1997 and 1996, respectively. The changes from year to year principally related to changes in the level of funding and other transactions between the Company and its affiliates prior to the demerger from Hanson and from external sources since October 1, 1996. At December 31, 1998, the Company had net debt of $979 million, over $1 billion less than at December 31, 1996.

The reduction in net debt during 1998 was funded primarily from operations and distributions from Equistar. Net-debt-to-total-capitalization at December 31, 1998, was 50%, including the Company's proportional share of Equistar's debt. A subsidiary of the Company guarantees certain debt obligations of Equistar up to $750 million. At December 31, 1998, the Company had approximately $432 million of unused availability under short-term lines of credit and its credit facility. The Company believes that, during 1999, cash from operations, disposals, expected distributions from Equistar and availability under existing borrowing facilities will provide adequate support for all of the Company's cash needs for working capital, dividends, share repurchases and capital expenditures for its existing businesses.

Year 2000

Each of the Company's three business units and its corporate headquarters has established a team to address Year 2000 compliance issues. Plans have been established by each team and actions taken toward the goal of Year 2000 compliance are reported, on a regular basis, to the Company's Operations Committee and its Board of Directors.

The Company has focused its Year 2000 efforts on three major exposure areas: information systems (which includes application software and technical infrastructure), manufacturing process controls (non-IT systems) and supply chain (which includes the Company's significant suppliers and customers). The project phases common to all exposure areas are: 1) inventory/assessment; 2) remediation; 3) testing; 4) implementation; and 5) designing contingency plans. Key components of each of these phases follows:

- The inventory/assessment phase involves identifying significant hardware and software that exist throughout the Company. The Company then assigns a business risk to each system and prioritizes each system to determine optimal allocation of resources and funds for Year 2000 remediation work.
- The remediation phase involves determining whether individual systems will be repaired, replaced or retired and develops plans, schedules and costs for correction. This phase also includes an allocation of resources and execution of a remedial plan.
- During the testing phase, the performance, functionality and integration of converted or replaced systems are tested.
- Thereafter, the implementation phase provides for the implementation of fully tested systems into the production environment.
- Contingency planning safeguards the Company in the event that risk assessments and action plans do not result in Year 2000 compliance or the timetable in which actions are scheduled to be taken is not adequate to ensure compliance by the Year 2000.

During 1997, as a part of a separate project to improve the quality of and access to business information, the Company began a company-wide implementation of the SAP R/3 enterprise system software from SAP America, Inc. ("SAP"). This system integrates information, including financial, human resources, customer and supply chain information, in a single database. The Company has received representations from SAP that the SAP R/3 system has been designed to be Year 2000 compliant. As part of the implementation, system interfaces with the SAP R/3 system have been minimized. Two of the Company's three business units completed their SAP implementations during 1998. The third business unit, Millennium Inorganic Chemicals, has recently completed its first regional implementation of SAP and is on schedule to complete the remaining implementations by the third quarter 1999. The Company has also completed modifications to existing business information systems for Millennium Inorganic Chemicals, as a contingency plan, in the unlikely event that the SAP implementation is not completed on schedule. The Company has outsourced the technical infrastructure for the SAP R/3 system to an internationally recognized provider of these services and has received assurances from the provider that all hardware and related system software are Year 2000 compliant. The Company has not deferred any of its currently planned projects as a result of Year 2000 efforts.

The Company's three business units have completed the inventory phase of the Year 2000 project for non-IT systems. The assessment phase has been 100% completed at one business unit, 70% completed at the second unit and 75% completed at the third unit. The Company has targeted October 1999 as the completion date for all five phases of the Year 2000 project. The Company has engaged independent consultants at certain locations to monitor remediation programs for certain systems and to provide additional expertise.

The Company has requested and received Year 2000 compliance information from most of its critical suppliers, customers and other third parties. The Company is in the process of evaluating and assessing these responses. The more significant third-party relationships include suppliers of ores, electrical power, natural gas and industrial gases and providers of transportation such as pipelines, rail and barges. Contingency plans will be developed for significant third-party risks identified by the Company as a result of its evaluations and assessments. Although the Company has planned these actions to address third-party issues and potential impacts to the Company, it often has little direct ability to influence the compliance actions of other parties.

The Company estimates that it will spend $84 million related to the company-wide implementation of SAP, consisting of $48 million for consulting costs, $6 million for hardware, $6 million for software, $13 million for internal human resources, and $11 million for training and incidental costs. The Company estimates that it will spend an additional $15 million for required modifications and replacements of non-IT systems to become Year 2000 compliant, excluding internal human resources costs, which the Company does not measure separately. This estimate excludes Year 2000 costs that may be incurred by Equistar. The total amount spent on the Year 2000 project during 1998 was approximately $60 million, of which $54 million was capitalized and $6 million was expensed.

The Company owns a 29.5% interest in Equistar. Equistar has formed a steering committee to oversee all Year 2000 remediation efforts. The chairman of the Equistar Year 2000 Steering Committee reports project progress regularly to the Equistar Governance Committee, which includes representatives from the Company's senior management. The Equistar Year 2000 Steering Committee is in the process of completing an assessment of the state of readiness of the information technology and non-IT systems of Equistar. These assessments cover manufacturing systems, including laboratory information systems and field instrumentation, and significant third-party vendor and supplier systems, including employee compensation and benefit plan maintenance systems. The Steering Committee is also in the process of assessing the readiness of significant customers and suppliers. The inventory, assessment and remediation phases for Equistar are nearly complete, with the majority of the testing and final implementation to take place in 1999. In addition, Equistar is in the process of replacing the business information systems for the operations contributed by Millennium and Occidental with SAP-based systems. In November 1998, Equistar completed a system-wide implementation of SAP for its polymer business and a portion of its petrochemical business. Conversion of its remaining businesses is expected to be completed in the first half of 1999. The operations of Millennium Petrochemicals are integrally related to those of Equistar's La Porte, Texas, facility from which materials and utilities are sourced. As a result, any Year 2000-related interruption in Equistar's operations at this location could severely impact Millennium Petrochemicals' ability to manufacture and ship products to customers.

The failure to correct a material Year 2000 problem could result in an interruption in, or a failure of, certain normal business activities or operations. In particular, if suppliers fail to provide the Company with raw materials necessary to manufacture its products, sufficient electrical power and other utilities to sustain its manufacturing processes, or adequate, reliable means of transporting its products to its customers, then any such failure could result in the temporary inability to manufacture and/or ship products to customers. This risk may be mitigated to some extent at Millennium Inorganic Chemicals, where manufacturing capacity is distributed among seven manufacturing locations. Due to the uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of the Year 2000 readiness of third-party suppliers, the Company is unable to determine at this time whether the consequences of Year 2000 failures, if any, would have a material impact on the Company's results of operations and/or financial condition.

The costs of the Company's Year 2000 project and the dates on which the Company believes it will complete such efforts are based on management's current best estimates, which were derived using numerous assumptions regarding future events, including the continued availability of certain resources and the continued progression toward the implementation of SAP at various facilities. There can be no assurance that these estimates will prove to be accurate and, therefore, actual results could differ materially from those anticipated. Specific factors that could cause material differences with actual results include, but are not limited to, the results of testing and the timeliness and effectiveness of remediation efforts of third parties.

Formal contingency plans for certain Year 2000-related risks have not yet been developed but are expected to include identification of alternate suppliers, allowing for sufficient inventory levels in the event of manufacturing or transportation interruption and replacing electronic applications with manual processes. These plans are expected to be completed by the end of the third quarter of 1999.

The Company's Year 2000 project is expected to reduce the Company's level of uncertainty about the Year 2000 problem and, in particular, the Year 2000 readiness of its significant suppliers and customers. The Company believes that the Year 2000 issues will be addressed on a timely basis. However, in the event that the Year 2000 issues of the Company and/or third parties with whom the Company transacts business are not addressed on a timely basis, it is possible that such issues could have an adverse impact on the Company's operations and/or financial condition.

REPORT OF THE INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Millennium Chemicals Inc.

We have audited the accompanying consolidated financial statements of Millennium Chemicals Inc. (the "Company") as of December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of HMB Holdings Inc. ("Cornerstone") which statements reflect a loss from discontinued operations of $2,877 million for the fiscal year ended September 30, 1996. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Cornerstone, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of the Company as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Florham Park, New Jersey
January 21, 1999

MILLENNIUM CHEMICALS INC.

CONSOLIDATED BALANCE SHEETS

(DOLLARS IN MILLIONS, EXCEPT SHARE DATA)

As of December 31	**1998**	1997
Assets		
Current assets		
Cash and cash equivalents	**$ 103**	$ 64
Trade receivables, net	**242**	369
Inventories	**334**	273
Assets of discontinued interests	**148**	24
Other current assets	**109**	106
Total current assets	**936**	836
Property, plant and equipment, net	**1,044**	851
Investment in Equistar	**1,519**	1,934
Other assets	**189**	237
Goodwill	**412**	468
Total assets	**$4,100**	$4,326
Liabilities and shareholders' equity		
Current liabilities		
Notes payable	**$ 29**	$ —
Current maturities of long-term debt	**14**	20
Trade accounts payable	**113**	86
Income taxes payable	**23**	12
Accrued expenses and other liabilities	**200**	323
Total current liabilities	**379**	441
Long-term debt	**1,039**	1,327
Deferred income taxes	**334**	280
Other liabilities	**755**	814
Total liabilities	**2,507**	2,862
Commitments and contingencies (Note 12)		
Minority interest	**15**	—
Shareholders' equity		
Preferred stock (par value $.01 per share, authorized 25,000,000 shares, none issued and outstanding)	**—**	—
Common stock (par value $.01 per share, authorized 225,000,000 shares; issued and outstanding 77,873,586 and 77,276,942 shares in 1998 and 1997, respectively)	**1**	1
Paid in capital	**1,333**	1,334
Retained earnings	**294**	177
Unearned restricted shares	**(35)**	(42)
Cumulative translation adjustment	**(15)**	(6)
Treasury stock (at cost, 502,572 shares in 1998)	**(7)**	—
Deferred compensation	**7**	—
Total shareholders' equity	**1,578**	1,464
Total liabilities and shareholders' equity	**$4,100**	$4,326

See Notes to Consolidated Financial Statements

MILLENNIUM CHEMICALS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLARS IN MILLIONS, EXCEPT SHARE DATA)

Year Ended December 31	**1998**	1997	1996
Net sales	**$ 1,597**	$ 3,048	$ 3,040
Operating costs and expenses			
Cost of products sold	**1,134**	2,180	2,264
Depreciation and amortization	**102**	203	201
Selling, development and administrative expense	**156**	216	217
Impairment of assets and related closure costs	**—**	—	75
Operating income	**205**	449	283
Interest expense (primarily to a related party in 1996)	**(76)**	(131)	(214)
Interest income	**4**	10	37
Equity in earnings of Equistar	**40**	18	—
Other income (expense), net	**29**	1	(23)
Income from continuing operations before provision for income taxes and minority interest	**202**	347	83
Provision for income taxes	**(37)**	(159)	(50)
Income from continuing operations before minority interest	**165**	188	33
Minority interest	**(2)**	—	—
Income from continuing operations	**163**	188	33
Income (loss) from discontinued operations (net of income taxes of $1, ($2) and ($1,028), respectively)	**1**	(3)	(2,734)
Net income (loss)	**$ 164**	$ 185	$ (2,701)
Income per share from continuing operations	**$ 2.17**	$ 2.52	$ 0.44
Income (loss) per share from discontinued operations	**0.01**	(0.04)	(36.74)
Net income (loss) per share — basic	**$ 2.18**	$ 2.48	$ (36.30)
Net income (loss) per share — diluted	**$ 2.17**	$ 2.48	$ (36.30)
Pro forma income from continuing operations (unaudited)			$ 168
Pro forma income from continuing operations per share (unaudited)			$ 2.26

See Notes to Consolidated Financial Statements

MILLENNIUM CHEMICALS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN MILLIONS)

Year Ended December 31	**1998**	1997	1996
Cash flows from operating activities			
Income from continuing operations	**$ 163**	$ 188	$ 33
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	**102**	203	201
Impairment of assets and related closure costs	**—**	—	75
Provision for deferred income taxes	**54**	122	15
Restricted stock amortization	**6**	23	—
Equity earnings	**(29)**	(18)	—
Minority interest	**2**	—	—
Unrealized translation gain	**—**	—	(21)
Changes in assets and liabilities (net of acquisitions and dispositions)			
Decrease in trade receivables	**24**	141	38
(Increase) decrease in inventories	**(42)**	14	5
(Increase) decrease in other current assets	**(45)**	(40)	126
Decrease (increase) in investments and other assets	**75**	58	(65)
Increase (decrease) in trade accounts payable	**15**	(97)	13
Decrease in accrued expenses and other liabilities and income taxes payable	**(82)**	(124)	(24)
Decrease in other liabilities	**(93)**	(87)	(24)
Cash provided by operating activities	**150**	383	372
Cash flows from investing activities			
Capital expenditures	**(215)**	(152)	(285)
Acquisition of businesses	**(85)**	(169)	—
Proceeds from Equistar	**—**	750	—
Accounts receivable collection through Equistar	**225**	25	—
Distributions from Equistar, net of liabilities paid	**317**	18	—
Proceeds from sale of business	**—**	—	733
Proceeds from sale of fixed assets	**10**	2	10
Cash provided by investing activities	**252**	474	458
Cash flows from financing activities			
Dividend to shareholders	**(47)**	(46)	—
Contribution to Suburban Propane	**—**	(22)	—
Proceeds from long-term debt	**172**	185	2,335
Repayment of long-term debt	**(519)**	(1,217)	(3,321)
Increase (decrease) in notes payable	**29**	(98)	(15)
Net contribution from Hanson PLC and Prior Affiliates	**—**	—	167
Cash used in financing activities	**(365)**	(1,198)	(834)
Effect of exchange rate changes on cash	**2**	(3)	—
Increase (decrease) in cash and cash equivalents	**39**	(344)	(4)
Cash and cash equivalents at beginning of year	**64**	408	412
Cash and cash equivalents at end of year	**$ 103**	$ 64	$ 408

See Notes to Consolidated Financial Statements

MILLENNIUM CHEMICALS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(IN MILLIONS)

	Common Stock Shares	Common Stock Amount	Treasury Stock	Deferred Compensation	Paid in Capital	Retained Earnings	Unearned Restricted Shares	Cumulative Translation Adjustment	Invested Capital	Total
Balance at December 31, 1995	—	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 4,801	$ 4,801
Comprehensive income										
Net income (loss)						38			(2,739)	(2,701)
Other comprehensive income										
–Currency translation adjustment								10		10
Total comprehensive income	—	—	—	—	—	38	—	10	(2,739)	(2,691)
Amortization and adjustment of unearned restricted shares					(13)		15			2
Issuance of stock	74	1			1,267				(1,268)	—
Issuance of restricted shares	3				65		(65)			—
Net capital contribution from Demerger									443	443
Net transaction with affiliates									(1,237)	(1,237)
Balance at December 31, 1996	77	1	—	—	1,319	38	(50)	10	0	1,318
Comprehensive income										
Net income						185				185
Other comprehensive income										
–Currency translation adjustment								(16)		(16)
Total comprehensive income	—	—	—	—	—	185	—	(16)	—	169
Amortization and adjustment of unearned restricted shares	(1)				15		8			23
Dividend to shareholders						(46)				(46)
Balance at December 31, 1997	76	1	—	—	1,334	177	(42)	(6)	—	1,464
Comprehensive income										
Net income						164				164
Other comprehensive income										
–Currency translation adjustment								(9)		(9)
Total comprehensive income	—	—	—	—	—	164	—	(9)	—	155
Amortization and adjustment of unearned restricted shares	1				(1)		7			6
Shares held by rabbi trust			(7)	7						—
Dividend to shareholders						(47)				(47)
Balance at December 31, 1998	**77**	**$ 1**	**$ (7)**	**$ 7**	**$ 1,333**	**$ 294**	**$ (35)**	**$ (15)**	**$ —**	**$ 1,578**
Cumulative other comprehensive income — 1997								$ (6)		$ (6)
Cumulative other comprehensive income — 1998								$ (15)		$ (15)

Note 1—Basis of Presentation and Description of Company

Millennium Chemicals Inc. (the "Company") is a major international chemicals company, with leading market positions in a broad range of commodity, industrial, performance and specialty chemicals, operating through its subsidiaries: Millennium Inorganic Chemicals Inc. (and its non-United States affiliates), Millennium Petrochemicals Inc., and Millennium Specialty Chemicals Inc.; and, beginning December 1, 1997, through its interest in Equistar Chemicals, LP ("Equistar"), a joint venture formed by the Company and Lyondell Chemical Company ("Lyondell") to jointly own and operate the petrochemical and polymer businesses of the Company and Lyondell. On May 15, 1998, the Company's interest in Equistar was reduced to 29.5% with the addition of the ethylene, propylene, ethylene oxide and derivatives businesses of Occidental Petroleum Corporation's ("Occidental") chemical subsidiary (see Note 2).

The Company was incorporated on April 18, 1996, and has been publicly owned since October 1, 1996, when Hanson PLC ("Hanson") transferred its chemical operations to the Company and, in consideration, all of the then outstanding shares of the Company's common stock ("Common Stock") were distributed pro rata to Hanson's shareholders (the "Demerger").

The consolidated financial statements of operations and cash flows for the year ended December 31, 1996 also include the combined operations of certain non-chemical businesses ("Discontinued Businesses"), which were owned by subsidiaries of Hanson that became subsidiaries of the Company upon the Demerger. The Company sold the Discontinued Businesses to Hanson on October 6, 1996. Since these operations were not a part of the Company upon completion of the Demerger transactions, their historical results of operations have been presented as discontinued operations.

Prior to the Demerger, the Company provided certain corporate, general and administrative services to certain other indirect wholly owned subsidiaries of Hanson ("Prior Affiliates"), including legal, finance, tax, risk management and employee benefit services. Charges for these services, which were allocated to the Prior Affiliates based on the respective revenues of the Company and the Prior Affiliates, reduced the Company's selling and administrative expense by $18 for the year ended December 31, 1996. The Company's management believes such method of allocation is reasonable. In addition, prior to the Demerger, a subsidiary of the Company controlled, on a centralized basis, all cash receipts and disbursements received or made by such affiliates.

Subsequent to the Demerger, the financial statements are presented on a consolidated basis. All significant intercompany accounts and transactions have been eliminated.

Note 2—Acquisitions and Dispositions

On December 1, 1997, the Company and Lyondell completed the formation of Equistar, a joint venture partnership created to own and operate the petrochemical and polymer businesses of the Company and Lyondell. The Company contributed to Equistar substantially all of the net assets of its polyethylene, performance polymer and ethyl alcohol businesses. The Company retained $250 from the proceeds of accounts receivable collections and substantially all the accounts payable and accrued expenses of its contributed businesses existing on December 1, 1997, and received proceeds of $750 from borrowings under a new credit facility entered into by Equistar. The Company used the $750 which it received to repay debt. A subsidiary of the Company guarantees $750 of Equistar's credit facility.

Equistar was owned 57% by Lyondell and 43% by the Company until May 15, 1998, when the Company and Lyondell expanded Equistar with the addition of the ethylene, propylene, ethylene oxide and derivatives businesses of Occidental's chemical subsidiary. Occidental contributed the net assets of those businesses (including approximately $205 of related debt) to Equistar. In exchange, Equistar borrowed an additional $500, $420 of which was distributed to Occidental and $75 to the Company. Equistar is now owned 41% by Lyondell, 29.5% by Occidental and 29.5% by the Company. No gain or loss resulted from this transaction.

Equistar is managed by a Partnership Governance Committee consisting of representatives of each partner. Approval of Equistar's strategic plans and other major decisions requires the consent of the representatives of the three partners. All decisions of Equistar's Governance Committee that do not require unanimity among the partners may be made by Lyondell's representatives alone.

The investment in Equistar at the date of contribution represented the carrying value of the Company's contributed net assets, less cash received, and approximated the fair market value of its interest in Equistar based upon independent valuation. The difference between the carrying value of the Company's investment and its underlying equity in the net assets of Equistar has been reduced from $617 to $404 as a result of adding Occidental as a partner and is being amortized over 25 years. The Company accounts for its interest in Equistar using the equity method.

Because of the significance of the Company's interest in Equistar to its total results of operations, the separate financial statements of Equistar are included in the Company's 1998 Annual Report filed on Form 10-K.

On December 31, 1997, the Company completed the purchase of the shares of Rhône-Poulenc Chimie S.A.'s Thann et Mulhouse titanium dioxide ("TiO_2") and related intermediate and specialty chemical operations in France for $185, including assumed debt. The operations in France provide capacity to produce approximately 138 thousand metric tons per year of TiO_2. The purchase price was allocated to the net assets acquired, principally property, plant and equipment and working capital, based on their fair value.

On July 1, 1998, the Company completed the acquisition of 99% of the voting shares and 72% of total shares of Titanio do Brazil S.A. ("Tibras"), Brazil's only integrated TiO_2 producer, for $129, including assumed debt. This acquisition was also accounted for using the purchase method of accounting with the purchase price allocated to the net assets acquired, principally property, plant and equipment and working capital based on their fair value. The two operations comprising Tibras included a plant which has capacity to produce approximately 60 thousand metric tons per year of TiO_2 and a mineral sands mine with over 2 million metric tons of recoverable reserves.

On November 16, 1998, the Company entered into agreements with Linde AG ("Linde") relating to the Company's synthesis gas ("syngas") unit in La Porte, Texas, and a 15% interest in its methanol business, whereby the Company would receive $122.5 in cash. Linde will operate the syngas facility under a long-term lease with a purchase option. In addition, Linde will operate and hold a 15% interest in the methanol facility. As a result, the assets involved in this transaction, including applicable goodwill of $42, have been classified at December 31, 1998 in the accompanying balance sheet as Assets of discontinued interests. This transaction was subsequently completed on January 18, 1999. No gain or loss resulted from this transaction.

In March 1996, the Company sold a 73.6% interest in Suburban Propane, through an initial public offering of 21,562,500 common units in a new master limited partnership, Suburban Propane Partners, L.P., and received aggregate proceeds from the sale of the common units and the issuance of notes of the Suburban Propane operating partnership, Suburban Propane, L.P., of approximately $831, resulting in a pre-tax gain of $210. The Company retained a combined subordinated and general partnership interest of 26.4% in Suburban Propane Partners L.P. and Suburban Propane L.P. (collectively "Suburban Propane"). On November 27, 1998, the Company entered into an agreement to sell its remaining interest to Suburban Propane and its management for $75 in cash, with an expected net after-tax gain of approximately $30. As such, Suburban Propane is reflected as a discontinued operation for all periods presented and the Company's interest at December 31, 1998 is included in Assets of discontinued interests. This transaction is expected to be completed in the second quarter of 1999.

Note 3—Significant Accounting Policies

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

Reclassification: Certain prior year balances have been reclassified to conform with the current year presentation.

Cash Equivalents: Cash equivalents represent investments in short-term deposits and commercial paper with banks which have original maturities of 90 days or less. In addition, investments and other assets include approximately $31 and $83 in restricted cash at December 31, 1998 and 1997, respectively, which is on deposit to satisfy insurance claims.

Inventories: Inventories are stated at the lower of cost or market value. For certain United States operations, cost is determined under the last-in, first-out (LIFO) method. The first-in, first-out (FIFO) method, or methods which approximate FIFO, are used by all other subsidiaries.

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost. Depreciation is provided by the straight-line method over the estimated useful lives of the assets, generally 20 to 40 years for buildings and 5 to 25 years for machinery and equipment.

Goodwill: Goodwill represents the excess of the purchase price over the fair value of assets allocated to acquired companies. Goodwill is being amortized using the straight-line method over 40 years. Management periodically evaluates goodwill for impairment based on the anticipated future cash flows attributable to its operations. Such expected cash flows, on an undiscounted basis, are compared to the carrying value of the tangible and intangible assets, and if impairment is indicated, the carrying value of goodwill is adjusted. In the opinion of management, no impairment of goodwill exists at December 31, 1998. In connection with the formation of Equistar, consolidated goodwill was reduced by $1,253 in 1997.

(DOLLARS IN MILLIONS, EXCEPT SHARE DATA)

Environmental Liabilities and Expenditures: Accruals for environmental matters are recorded in operating expenses when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Accrued liabilities are exclusive of claims against third parties (except where payment has been received or the amount of liability or contribution by such other parties, including insurance companies, has been agreed) and are not discounted. In general, costs related to environmental remediation are charged to expense. Environmental costs are capitalized if the costs increase the value of the property and/or mitigate or prevent contamination from future operations.

Foreign Currency Translation: Assets and liabilities of the Company's foreign operating subsidiaries are translated at the exchange rates in effect at the balance sheet dates, while revenue, expenses and cash flows are translated at average exchange rates for the reporting period. Resulting translation adjustments are recorded as a currency component of Shareholders' equity. Gains and losses resulting from foreign exchange changes on transactions denominated in currencies other than the functional currency are recognized in income in the Consolidated Statements of Operations except for gains and losses on hedges of net investments which are included as a component of Shareholders' equity.

Prior to the Demerger, certain of the Company's subsidiaries, whose holdings principally consisted of sterling-denominated cash deposits, were considered to hedge a portion of Hanson's investments in the United States. The functional currency of these subsidiaries was the local currency. After the Demerger, such deposits no longer acted as a hedge; instead, the entities were primarily holding companies, the assets of which were remittable to the Company. As such, the functional currency of these subsidiaries was changed to the U.S. dollar. Gains from the remeasurement of these deposits and other assets and liabilities into U.S. dollars are included in Other expense, net, and aggregated $34 for the year ended December 31, 1996.

Federal Income Taxes: Deferred tax assets and liabilities are computed based on the difference between the financial statement basis and income tax basis of assets and liabilities using enacted marginal tax rates of the respective tax jurisdictions. Deferred income tax expense (credit) is based on the changes in the assets and liabilities from period to period.

The Company and certain of its subsidiaries have entered into tax-sharing and indemnification agreements with Hanson or its subsidiaries in which the Company and/or its subsidiaries generally agreed to indemnify Hanson or its subsidiaries for income tax liabilities attributable to periods when such other operations were included in the consolidated tax returns of the Company's subsidiaries.

Research and Development: The cost of research and development efforts is expensed as incurred. Such costs aggregated $21, $28 and $39 for the years ended December 31, 1998, 1997 and 1996, respectively.

Earnings per share: The weighted-average number of common equivalent shares outstanding used in computing earnings per share for 1998, 1997 and 1996 was as follows:

	1998	1997	1996
Basic	**75,126,209**	74,484,588	74,412,283
Options	**119,939**	31,846	—
Restricted shares	**450,500**	130,000	—
Diluted	**75,696,648**	74,646,434	74,412,283

Pro forma income from continuing operations for 1996 was calculated as if: (a) the Demerger had been consummated at the beginning of the period; (b) the changes in the Company's capital structure resulting from the Demerger had occurred on such date; (c) the Company's level of general and administrative corporate costs is that as if it operated as a separate entity; and (d) compensation expense related to the restricted share awards pursuant to the Long Term Stock Incentive Plan (see Note 10) had been incurred for a full year.

Note 4—Supplemental Balance Sheet Information

	1998	1997
Trade receivables		
Trade receivables	**$ 245**	$ 371
Allowance for doubtful accounts	**(3)**	(2)
	$ 242	$ 369
Inventories		
Finished products	**$ 139**	$ 121
In-process products	**28**	21
Raw materials	**117**	89
Other inventories	**50**	42
	$ 334	$ 273

Inventories valued on a LIFO basis were approximately $41 and $32 less than the amount of such inventories valued at current cost at December 31, 1998 and 1997, respectively.

(DOLLARS IN MILLIONS, EXCEPT SHARE DATA)

	1998	1997
Property, Plant and Equipment		
Land and buildings	**$ 267**	$ 217
Machinery and equipment	**1,377**	1,205
	1,644	1,422
Allowance for depreciation and amortization	**600**	571
	$1,044	$ 851
Goodwill	**$ 480**	$ 528
Accumulated amortization	**68**	60
	$ 412	$ 468

	1998	1997	1996
Amortization expense	**$ 14**	$ 45	$ 48

Rental expense for operating leases is as follows:

	1998	1997	1996
Minimum rentals	**$ 12**	$ 55	$ 53

Future minimum rental commitments under non-cancelable operating leases, as of December 31, 1998, are as follows:

1999	$ 11
2000	8
2001	4
2002	3
2003	2
Thereafter	12

Note 5—Impairment of Long-Lived Assets

During 1996, the Company recorded a $75 non-recurring charge ($48 after tax), to reduce the carrying value of certain facilities employed in sulfate-process manufacturing of TiO_2 and to provide for the cost associated with the closure of certain of these facilities. During the first half of 1996, intense price competition was experienced, as customers of the anatase products associated with the sulfate-process operations sought more cost efficient manufacturing inputs to their applications. As a result of the deterioration of market conditions in the TiO_2 industry, the Company decided to implement a program which included a reduction of its sulfate-process manufacturing capacity in both the United Kingdom and United States. The carrying value of plant and equipment associated with sulfate-process manufacturing was reduced by $60 as a result of evaluating the recoverability of such assets under the unfavorable market conditions existing at that time. The amount of the write-down was determined by comparison to the fair value of the related assets, as determined based on the projected discounted cash flows identified to such assets.

During 1996, the Company also recorded an initial non-cash charge resulting from adopting the evaluation methodology provided by SFAS 121 of $4,497 ($3,206 after tax), related to one of the Discontinued Businesses. Prior to the adoption of SFAS 121, asset impairment was evaluated at an operating company level based on the contribution of operating profits and undiscounted cash flows being generated from those operations. Under this policy, assets used in one of the Discontinued Businesses, comprised of approximately 20 separate operating companies, were evaluated for impairment based on gross margins and cash flows generated by each separate operating company in a given business cycle. Evaluation of the businesses' assets at this level did not result in any impairment.

SFAS 121 requires the impairment review to be performed at the lowest level of asset grouping for which there are identifiable cash flows which represents a change from the level at which the previous accounting policy measured impairment. In this case, economic groupings of assets were made based on local marketplaces. Evaluation of assets at this lower grouping level indicated an impairment of certain of those assets. The impairment loss was measured based on the difference between estimated discounted cash flows and the carrying value of such assets.

Note 6—Income Taxes

	1998	1997	1996
Pre-tax income is generated from			
United States	**$ 101**	$ 321	$ 12
Foreign	**101**	26	71
	202	347	83
Income taxes are comprised of			
Federal			
Current	**$ (36)**	$ 19	$ 67
Deferred	**43**	116	(1,083)
Foreign	**23**	6	15
State and local	**8**	16	23
	38	157	(978)
Income taxes are classified as			
Continuing operations	**$ 37**	$ 159	$ 50
Discontinued operations	**1**	(2)	(1,028)
	$ 38	$ 157	$ (978)

(DOLLARS IN MILLIONS, EXCEPT SHARE DATA)

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

	1998	1997	1996
Continuing Operations			
Statutory federal income tax rate	**35.0%**	35.0%	35.0%
State and local income taxes, net of federal benefit	**2.4**	3.0	17.0
Provision for non-deductible expenses, primarily goodwill amortization	**7.6**	5.2	20.8
Foreign rate differential	**(5.1)**	—	(10.0)
Utilization of net operating loss carryforwards	**—**	—	(20.3)
Tax benefit from previous years	**(20.8)**	—	—
Other	**(0.8)**	2.6	17.7
Effective income tax rate for continuing operations	**18.3%**	45.8%	60.2%
Discontinued operations			
Effective income tax rate	**38.9%**	45.8%	30.7%

As a result of a favorable tax judgement received during 1998, the Company recorded a benefit of $42 related to taxes recoverable from previous years' tax filings.

The difference between the effective income tax rate on discontinued operations and the statutory federal income tax rate in 1996 primarily relates to non-deductible goodwill amortization and tax depletion of the Discontinued Businesses.

At December 31, 1998, certain foreign subsidiaries of the Company had available net operating loss carryforwards aggregating $20, which are subject to certain limitations on their use.

Significant components of deferred taxes are as follows:

	1998	1997
Deferred tax assets		
Environmental and legal obligations	**$ 54**	$ 62
Other postretirement benefits and pension obligations	**47**	60
Net operating loss carryforwards	**20**	28
Capital loss carryforwards	**136**	143
AMT credits	**98**	131
Other accruals	**40**	59
	395	483
Valuation allowance	**(136)**	(143)
Total deferred tax assets	**259**	340
Deferred tax liabilities		
Excess of book over tax basis in property, plant and equipment	**400**	412
Other	**183**	186
Total deferred tax liabilities	**583**	598
Net deferred tax liabilities ($10 in 1998 and $22 in 1997, classified in Current assets)	**$ 324**	$ 258

Certain of the income tax returns of the Company's subsidiaries are currently under examination by the Internal Revenue Service and various state tax agencies. In the opinion of management, any assessments which may result will not have a material adverse effect on the financial condition or results of operations of the Company.

Income taxes paid during 1998 and 1997 were $40 and $53, respectively.

Note 7—Long-Term Debt and Credit Arrangements

	1998	1997
Revolving Credit Facility bearing interest at the prime lending rate, or at LIBOR or NIBOR plus .275%, at the option of the Company, plus a Facility Fee of .15% to be paid quarterly	**$ 235**	$ 546
7% Senior Notes due 2006 (net of unamortized discount of $.5 and $.5)	**500**	500
7.625% Senior Notes due 2026 (net of unamortized discount of $1.1 and $1.1)	**249**	249
Debt payable through 2007 at interest rates ranging from 2.4% to 22%	**69**	52
Less current maturities of long-term debt	**(14)**	(20)
	$1,039	$1,327

Under the Revolving Credit Agreement, as amended on October 20, 1997, certain of the Company's subsidiaries may borrow up to $500 under an unsecured multi-currency revolving credit facility, which matures in July 2001 (the "Credit Agreement" or the "Revolving Credit Facility"). The Company is the guarantor of this facility. Borrowings under the Credit Agreement may consist of standby loans or uncommitted competitive loans offered by syndicated banks through an auction bid procedure. Loans may be borrowed in U.S. dollars and/or other currencies. The proceeds from the borrowings may be used to provide working capital and for general corporate purposes.

The Credit Agreement contains covenants and provisions that restrict, among other things, the ability of the Company and its material subsidiaries to: (i) create liens on any of its property or assets, or assign any rights to or security interests in future revenues; (ii) engage in sale-and-leaseback transactions; (iii) engage in mergers, consolidations or sales of all or substantially all of their assets on a consolidated basis; (iv) enter into agreements restricting dividends and advances by their subsidiaries; and (v) engage in transactions with affiliates other than those based on arm's-length negotiations. The Credit Agreement also limits the ability of certain subsidiaries of the Company to incur indebtedness or issue preferred stock. In addition, the Credit Agreement requires the Company to satisfy certain financial performance criteria.

The Senior Notes and Senior Debentures were issued by Millennium America Inc., a wholly owned subsidiary of the

(DOLLARS IN MILLIONS, EXCEPT SHARE DATA)

Company, and are guaranteed by the Company. The indenture under which the Senior Notes and Senior Debentures were issued contains certain covenants that limit, among other things: (i) the ability of Millennium America Inc. and its Restricted Subsidiaries (as defined) to grant liens or enter into sale-and-leaseback transactions; (ii) the ability of the Restricted Subsidiaries to incur additional indebtedness; and (iii) the ability of Millennium America Inc. and the Company to merge, consolidate or transfer substantially all of their respective assets.

At December 31, 1998, the Company had outstanding notes payable of $29 bearing interest at an average rate of approximately 12% with maturity of 30 days or less; no outstanding notes were payable December 31, 1997. At December 31, 1998, the Company had outstanding standby letters of credit amounting to $102 and had unused availability under short-term lines of credit and its Revolving Credit Facility of $432. In addition, Millennium America Inc. has guaranteed certain debt obligations of Equistar up to $750.

The maturities of long-term debt during the next five years are as follows: 1999 — $5; 2000 — $24; 2001 — $245; 2002 — $5; and 2003 and beyond — $760.

Interest paid for the years ended December 31, 1998, 1997 and 1996 was $72, $129 and $58, respectively.

Note 8—Financial Instruments

Fair Value of Financial Instruments: The fair value of all short-term financial instruments approximate their carrying value due to their short maturity. The fair value of long-term financial instruments (excluding forward exchange contracts, interest rate protection agreements and the Senior Notes and Senior Debentures) approximates carrying value as they were based on terms that continue to be available to the Company from its lenders.

The fair value of the Company's other financial instruments are based upon estimates received from independent financial advisors as follows:

	1998		1997	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Senior Notes and Debentures	**$ 749**	**$ 695**	$ 749	$ 748

Off Balance Sheet Risk: The Company has certain receivables, payables and borrowings denominated in currencies other than the functional currency of the Company and/or its subsidiaries. The Company hedges certain of these exposures by entering into forward exchange contracts. Gains and losses related to these hedges are recognized in income as part of, and concurrent with the hedged transactions. The Company does not use derivative financial instruments for trading or speculative purposes.

The table below summarizes the contractual amounts of the Company's forward exchange contracts at December 31, 1998, all of which mature within 90 days. The foreign currency amounts have been translated into U.S. dollars using applicable exchange rates at December 31, 1998.

	Sell
German Marks	$ 2
French Francs	6
Italian Lira	5
Belgium Francs	5
Spanish Pesetas	3
Other	3
	$ 24

SFAS 133: On June 15, 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivatives and Hedging Activities," effective for fiscal years beginning after June 15, 1999 (January 1, 2000 for the Company). SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in net income or as Comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The Company is currently evaluating the implications of this new pronouncement but, due to the Company's limited use of derivative instruments, the adoption of SFAS 133 is not expected to have a significant effect on the Company's results of operations or its financial position.

Note 9—Pension and Other Postretirement Benefits

Domestic Pension Plans: The Company has adopted SFAS 132, Employers' Disclosures about Pensions and Other Postretirement Benefits. SFAS 132 revises the employer's disclosure presentation but does not change the measurement or recognition of these plans.

The Company has several noncontributory defined benefit pension and other postretirement benefit plans covering substantially all of its United States employees. The benefits for these plans are based primarily on years of credited service and average compensation as defined under the respective plan provisions. The Company's funding policy is to contribute amounts to the plans sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Company may determine to be appropriate from time to time.

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(DOLLARS IN MILLIONS, EXCEPT SHARE DATA)

The Company also sponsors defined contribution plans for its salaried and certain union employees. Contributions relating to defined contribution plans are made based upon the respective plan provisions.

The following table provides a reconciliation of the changes in the benefit obligations and the fair value of the plan assets over the two-year period ending December 31, 1998, and a statement of the funded status as of December 31 for both years.

	Pension Benefits		Other Post-retirement Benefits	
	1998	1997	**1998**	1997
Reconciliation of benefit obligation				
Projected benefit obligation at December 31	**$ 671**	$ 636	**$ 127**	$ 234
Service cost, including interest	**7**	14	**10**	8
Interest on PBO	**46**	45	**—**	—
Participant contributions	**—**	—	**2**	2
Benefit payments	**(79)**	(54)	**(14)**	(15)
Special termination benefits	**6**	—	**—**	1
Curtailments	**(2)**	5	**—**	—
Net experience loss (gain)	**42**	25	**2**	(19)
Amendments	**24**	—	**—**	(65)
Divestiture	**—**	—	**—**	(19)
Projected benefit obligation at December 31	**715**	671	**127**	127
Reconciliation of fair value of plan assets				
Fair value of plan assets at December 31	**776**	718	**—**	—
Return on plan assets	**87**	106	**—**	—
Employer contributions	**2**	6	**11**	13
Participant contributions	**—**	—	**2**	2
Benefit payments	**(75)**	(54)	**(13)**	(15)
Fair value of plan assets at December 31	**790**	776	**—**	—
Funded status				
Funded status at December 31	**75**	105	**(127)**	(127)
Unrecognized net asset	**(1)**	(1)	**—**	—
Unrecognized prior-service cost	**23**	5	**—**	—
Unrecognized loss (gain)	**22**	10	**(23)**	(26)
Additional minimum liability	**(8)**	(5)	**—**	—
Prepaid (accrued) interest	**$ 111**	$ 114	**$ (150)**	$ (153)

The following table provides the components of net periodic benefit cost for the plans for 1998 and 1997.

Pension benefit income was $10 while other postretirement benefits costs were $6 for the year ended December 31, 1996.

	Pension Benefits		Other Post-retirement Benefits	
	1998	1997	**1998**	1997
Net periodic benefit cost				
Service cost, including interest	**$ 7**	$ 13	**$ 10**	$ 8
Interest on PBO	**46**	45	**—**	—
Return on plan assets	**(61)**	(82)	**—**	—
Amortization of unrecognized net loss	**2**	—	**(2)**	(2)
Amortization of prior-service cost	**1**	1	**—**	—
Deferral	**—**	21	**—**	—
Special termination benefits	**6**	—	**—**	2
Recognition of prior-service cost	**5**	—	**—**	—
Curtailment loss	**—**	5	**—**	—
Net periodic benefit cost	**6**	3	**8**	8
Defined contribution plans	**1**	1	**—**	—
Net periodic benefit cost after curtailment	**$ 7**	$ 4	**$ 8**	$ 8

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

	Pension Benefits		Other Post-retirement Benefits	
	1998	1997	**1998**	1997
Weighted-average assumptions as of December 31				
Discount rate	**7.00%**	7.25%	**7.00%**	7.25%
Expected return on plan assets	**9.00%**	9.00%	**—**	—
Rate of compensation increase	**4.25%**	4.25%	**4.25%**	4.25%

The projected benefit obligation, accumulated benefit obligation and the fair value of plan assets for pension plans with accumulated benefit obligations in excess of the plan assets were $42, $40 and $28, respectively, for the year ended December 31, 1998; and $36, $34 and $25; respectively, for the year ended December 31, 1997.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% increase or decrease in assumed health care cost trend rates would affect service and interest components of postretirement health care benefit cost by $1 for the years ended December 31, 1998 and 1997, respectively. The effect on the accumulated postretirement benefit obligation would be $8 for the years ended December 31, 1998 and 1997, respectively.

Foreign Benefit Arrangements: The Company's foreign subsidiaries have several defined benefit plans. The assets of these plans are held separately from the Company in independent funds. The total pension expense was $3 in each of the years ended December 31, 1998 and 1997.

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(DOLLARS IN MILLIONS, EXCEPT SHARE DATA)

Where required, the contributions are determined by a qualified actuary every three years. The most recent such valuation was April 1, 1998. Assumptions were 8% per year for return on investment, 8% per year for salary increases and 4% per year for present and future pension increases.

The aggregate market value of the plan assets was $110, approximately 120% of the benefit obligations, after allowing for expected future increases in earnings.

Note 10—Employee Benefit Plans

The Company adopted a Long Term Stock Incentive Plan ("Stock Incentive Plan") for the purpose of enhancing the profitability and value of the Company for the benefit of its shareholders. A maximum of 3,909,000 shares of Common Stock may be issued or used for reference purposes pursuant to the Stock Incentive Plan.

The Stock Incentive Plan provides for the following types of awards to employees: (i) stock options, including incentive stock options and non-qualified stock options; (ii) stock appreciation rights; (iii) restricted stock; (iv) performance units; and (v) performance shares. The vesting schedule for granted restricted stock awards is as follows: (i) three equal tranches aggregating 25% of the total award will vest in each of October 1999, 2000 and 2001; and (ii) three equal tranches aggregating 75% of the total award will be subject to the achievement of "value creation" performance criteria established by the Compensation Committee for each of the three performance cycles commencing January 1, 1997 and ending December 31, 1999, 2000 and 2001, respectively. If and to the extent such criteria are achieved, half of the earned portion of a tranche relating to a particular performance-based cycle of the award will vest immediately and the remainder will vest in five equal annual installments commencing on the first anniversary of the end of the cycle.

Options granted under the Stock Incentive Plan vest three years from the date of grant and expire ten years from the date of grant. All grants under the Stock Incentive Plan fully vest in the event of a change-in-control (as defined by the plan) of the Company, or in the case of employees of a subsidiary of the Company, a change-in-control of the relevant subsidiary.

The Company has authorization under the Stock Incentive Plan to grant awards for up to an additional 184,256 shares at December 31, 1998.

Unearned restricted stock, based on the market value of the shares at each balance sheet date, is included as a separate component of Shareholders' equity and amortized over the restricted period. Compensation expense of $6, $23 and $2 was recognized for the years ended December 31, 1998, 1997 and 1996, respectively. Expense for 1997 included $12 as a result of the change-in-control provisions being triggered by the formation of Equistar for certain restricted stock awards and options held by employees of Millennium Petrochemicals.

A summary of changes in the awards under the Stock Incentive Plan (other than awards to non-employee directors) is as follows:

	Restricted Shares	Weighted-Average Grant Price	Share Options	Weighted-Average Exercise Price
Initial awards on October 8, 1996	2,912,322	$ 22.32	523,000	$ 19.00
Balance at December 31, 1996	2,912,322	$ 22.32	523,000	$ 19.00
Vested and issued	(683,273)	22.32	—	19.00
Cancelled	(226,491)	22.32	(200,000)	19.00
Granted	174,736	23.72	81,000	22.15
Balance at December 31, 1997	2,177,294	22.43	404,000	19.79
Vested and issued	(5,600)	22.32	(59,000)	19.00
Cancelled	(25,538)	22.32	—	—
Granted	311,153	33.15	160,000	23.91
Balance at December 31, 1998	**2,457,309**	**$ 23.81**	**505,000**	**$ 21.15**

For options outstanding at December 31, 1998, the range of exercise prices was $18.00 to $34.875 per share, and the weighted-average remaining contractual life was 9 years. The weighted-average fair value at December 31, 1998, was $4 per share option.

The Company adopted the disclosure-only provisions of SFAS 123, "Accounting for Stock-Based Compensation." The impact on net income and earnings per share would not have been materially different had compensation expense for the Company's incentive plan been determined based on the fair value of such grants on the grant date in accordance with the provisions of SFAS 123.

The Company has a deferred compensation plan that permits officers, directors and certain management employees to defer a portion of their compensation on a pre-tax basis in the form of Common Stock. A rabbi trust (the "Trust") has been established to hold shares of Common Stock purchased in open market transactions to fund this obligation. Shares purchased by the Trust are reflected as Treasury stock and along with the related obligation for this plan, are included in Shareholders' equity. At December 31, 1998, 256,987 shares have been purchased for $7 and are held in the Trust.

The Company has a Long Term Incentive Plan for certain management employees. The plan provides for awards of Common Stock to be granted if annual EVA® targets are achieved. Such earned shares are held in a trust until certain vesting provisions are satisfied. Such awards will vest on the later of: (a) three years following the date of grant or (b) achievement of cumulative positive EVA® during a three-consecutive-year period. Unvested shares will be forfeited after six years. Compensation expense of $1 was recognized in 1998.

Note 11—Related Party Transactions

One of the Company's subsidiaries purchases ethylene from Equistar at market-related prices pursuant to an agreement made in connection with the formation of Equistar. Under the agreement the subsidiary is required to purchase 100% of its ethylene requirements for its La Porte, Texas, facility up to a maximum of 330 million pounds per year. The initial term of the contract expires December 1, 2000. Thereafter, the contract automatically renews annually. Either party may terminate on one year's notice. The subsidiary incurred charges of $41 in 1998 under this contract.

One of the Company's subsidiaries and Equistar have entered into various operating, manufacturing and technical service agreements. These agreements provide the subsidiary with materials management, certain utilities, administrative office space, health, safety and environmental services. The subsidiary incurred charges of $5 in 1998 for such services.

Note 12—Commitments and Contingencies

The Company is subject, among other things, to several proceedings under the Federal Comprehensive Environmental Response Compensation and Liability Act and other federal and state statutes or agreements with third parties. These proceedings are in various stages ranging from initial investigation to active settlement negotiations to implementation of the clean-up or remediation of sites. Additionally, certain of the Company's subsidiaries are defendants or plaintiffs in lawsuits that have arisen in the normal course of business including those relating to commercial transactions and product liability. While certain of the lawsuits involve allegedly significant amounts, it is management's opinion, based on the advice of counsel, that the ultimate resolution of such litigation will not have a material adverse effect on the Company's financial position or results of operations. The Company believes that the range of potential liability for these matters, collectively, which primarily relate to environmental remediation activities, is between $150 and $176 and has accrued $176 as of December 31, 1998.

The Company has various contractual obligations to purchase raw materials used in its production of TiO_2 and fragrance and flavor chemicals. Commitments to purchase ore used in the production of TiO_2 are generally 1-to 8-year contracts with competitive prices generally determined at a fixed amount subject to escalation for inflation. Total commitments to purchase ore for TiO_2 aggregate approximately $1,100 and expire between 1999 and 2002. Commitments to acquire crude sulfate turpentine, used in the production of fragrance chemicals, are generally pursuant to 1-to 5-year contracts with prices based on the market price and which expire between 1999 and 2008.

The Company is organized under the laws of Delaware and is subject to United States federal income taxation of corporations. However, in order to obtain clearance from the United Kingdom Inland Revenue as to the tax-free treatment of the Demerger stock dividend for United Kingdom tax purposes for Hanson and Hanson's shareholders, Hanson agreed with the United Kingdom Inland Revenue that the Company will continue to be centrally managed and controlled in the United Kingdom at least until September 30, 2001. Hanson also agreed that the Company's Board of Directors will be the only medium through which strategic control and policy making powers are exercised, and that board meetings almost invariably will be held in the United Kingdom during this period. The Company has agreed not to take, or fail to take, during such five-year period, any action that would result in a breach of, or constitute non-compliance with, any of the representations and undertakings made by Hanson in its agreement with the United Kingdom Inland Revenue and to indemnify Hanson against any liability and penalties arising out of a breach of such agreement. The Company's By-Laws provide for similar constraints. The Company and Hanson estimate that such indemnification obligation would have amounted to approximately $421 if it had arisen during the twelve months ended September 30, 1997, and that such obligation will decrease by approximately $84 on each October 1 prior to October 1, 2001, when it will expire.

If the Company ceases to be a United Kingdom tax resident at any time, the Company will be deemed for purposes of United Kingdom corporation tax on chargeable gains to have disposed of all of its assets at such time. In such a case, the Company would be liable for United Kingdom corporation tax on chargeable gains on the amount by which the fair market value of those assets at the time of such deemed disposition exceeds the Company's tax basis in those assets. The tax basis of the assets would be calculated in pounds sterling, based on the fair market value of the assets (in pounds sterling) at the time of acquisition of the assets by the Company, adjusted for United Kingdom inflation. Accordingly, in such circumstances, the Company could incur a tax liability even though it has not actually sold the assets and even though the underlying value of the assets may not actually have appreciated (due to currency movements). Since it is impossible to predict the future value of the Company's assets, currency movements and inflation rates, it is impossible to predict the magnitude of such liability, should it arise.

(DOLLARS IN MILLIONS, EXCEPT SHARE DATA)

Note 13—Operations by Business Segment and Geographic Area

Using the guidelines set forth in SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," the Company's principal operations are grouped into four business segments: titanium dioxide and related products; acetyls; specialty chemicals; and polyethylene, alcohol and related products. See page 19 for information with respect to these segments.

Most of the Company's foreign operations are conducted by subsidiaries in the United Kingdom, France, Brazil and Australia. Sales between the Company's operations are made on terms similar to those of its third-party distributors. Sales between geographic areas are not significant.

Income and expense not allocated to industry segment in computing operating income include interest income and expense and other income and expense of a general corporate nature.

Export sales from the United States for the years ended December 31, 1998, 1997 and 1996 were approximately $157, $273 and $272, respectively.

	1998	1997	1996
Net sales			
United States	**$ 993**	$2,677	$2,693
Non-United States			
United Kingdom	**220**	255	231
France	**228**	—	—
Asia / Pacific	**160**	138	146
Brazil	**76**	—	—
	684	393	377
Inter-area elimination	**(80)**	(22)	(30)
Total	**$ 1,597**	$ 3,048	$3,040
Operating income			
United States	**$ 90**	$ 422	$ 245
Non-United States			
United Kingdom	**23**	10	16
France	**22**	—	—
Asia / Pacific	**54**	17	22
Brazil	**16**	—	—
	115	27	38
Total	**$ 205**	$ 449	$ 283
Identifiable assets			
United States	**$ 3,098**	$3,599	
Non-United States			
United Kingdom	**354**	296	
France	**288**	253	
Asia / Pacific	**121**	102	
Brazil	**181**	—	
All Other	**58**	76	
	1,002	727	
Total	**$ 4,100**	$4,326	

Market for Registrant's Common Stock and Related Shareholder Matters

The Common Stock of the Company is traded on the New York Stock Exchange (the "NYSE") under the symbol "MCH". The following table sets forth the high and low closing sales prices per share of Common Stock reported by the NYSE since October 2, 1996, the commencement of "regular way" trading:

	High	Low
1996		
Fourth quarter	$ 23.000	$ 17.250
1997		
First quarter	$ 20.875	$ 16.875
Second quarter	22.750	17.500
Third quarter	23.500	20.250
Fourth quarter	24.063	22.250
1998		
First quarter	$ 33.625	$ 20.250
Second quarter	36.875	31.375
Third quarter	32.625	18.625
Fourth quarter	25.250	18.500

As of March 15, 1999, there were 29,014 record holders of Common Stock. The closing price per share of Common Stock as reported by the NYSE on such date was $19.00.

On January 22, 1999, the Company declared a dividend of $0.135 per share of Common Stock payable to all holders of record on March 24, 1999, and will carry a United Kingdom notional tax credit of $0.015 per share in respect of the dividend. This dividend will be paid on April 9, 1999.

MILLENNIUM CHEMICALS INC.

INFORMATION FOR SHAREHOLDERS

Exchange Listing

The common stock of Millennium Chemicals Inc. is listed on the New York Stock Exchange and trades under the symbol "MCH".

Stock Transfer Agent and Registrar

Inquiries and changes to shareholder accounts should be directed to our transfer agent:

First Chicago Trust Company of New York, a division of Equiserve
P.O. Box 2500
Jersey City, NJ 07303

Telephone within the United States:
800-756-8200

Outside the United States:
201-938-7888

e-mail: fctc@em.fnbd.com
FCTC website: http://www.equiserve.com

Annual Meeting

The Millennium Chemicals Inc. Annual Meeting of Shareholders will be held at 10:00 a.m. on Friday, May 14, 1999 at the Oyster Point Hotel, 146 Bodman Place, Red Bank, NJ 07701, Tel: 732-530-8200. Shareholders of record as of March 31, 1999 will be entitled to vote at this meeting.

Dividends

Dividends on Common Stock are declared quarterly by the Board of Directors and are scheduled to be paid in 1999 in April, June, September and December. The most recent dividend of $0.135 a share was paid on April 9, 1999 and carries a United Kingdom notional tax credit of $0.015.

Investor Relations

Inquiries about Millennium Chemicals Inc.'s business performance may be directed to Investor Relations:

Millennium Chemicals Inc.
Investor Relations
230 Half Mile Road
P.O. Box 7015
Red Bank, NJ 07701

Tel: 732-933-5440
Fax: 732-933-5240

Or you can e-mail us at:
dsaltarella@millenniumchem.com

Form 10-K

A copy of Millennium Chemicals Inc.'s report to the Securities and Exchange Commission on Form 10-K will be sent to any shareholder, without charge. Requests should be directed to Investor Relations.

On the Internet

Information on Millennium Chemicals Inc.'s products, latest news, quarterly reports and dividend announcements is available on the Internet at:

http://www.millenniumchem.com

Millennium Chemicals Inc.

Millennium Chemicals Inc.
230 Half Mile Road
P.O. Box 7015
Red Bank, NJ 07701-7015

Tel: 732-933-5000

Millennium Chemicals Inc.
Laporte Road
Stallingborough
Grimsby
North East Lincolnshire
DN40 2PR England

Tel: 0345-662663

Millennium Inorganic Chemicals Inc.
200 International Circle, Suite 5000
Hunt Valley, MD 21030

Tel: 410-229-4400

Millennium Petrochemicals Inc.
11500 Northlake Drive
P.O. Box 429550
Cincinnati, OH 45249

Tel: 513-530-6500

Millennium Specialty Chemicals Inc.
601 Crestwood Street, Bldg. 174
Jacksonville, FL 32208-4478

Mailing Address:
P.O. Box 389
Jacksonville, FL 32201-0389

Tel: 904-768-5800

This annual report is printed on a premium coated paper stock whose bright white color and opacity is made possible by Millennium Chemicals' titanium dioxide.

BOARD OF DIRECTORS

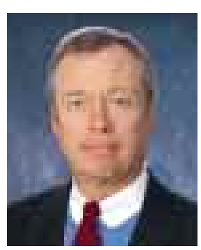
Seated, left to right: Worley H. Clark, Jr.; William M. Landuyt, Chairman and Chief Executive Officer; Martin G. Taylor, CBE; Robert E. Lee*, President and Chief Executive Officer, Millennium Inorganic Chemicals. Standing, left to right: The Rt. Hon. Lord Baker of Dorking, CH; The Rt. Hon. Lord Glenarthur; David J. P. Meachin; Professor Martin D. Ginsburg.*

*Also members of the Operations Committee.

OPERATIONS COMMITTEE

Peter P. Hanik
President & Chief Executive Officer,
Millennium Petrochemicals

George H. Hempstead III
Senior Vice President — Law and Administration & Secretary



Richard A. Lamond
Vice President
Human Resources

John E. Lushefski
Senior Vice President & Chief Financial Officer

George W. Robbins
President & Chief Executive Officer,
Millennium Specialty Chemicals

Responsible Care®
A Public Commitment

Millennium
Chemicals Inc.

Corporate Headquarters: 230 Half Mile Road, P.O. Box 7015, Red Bank, NJ 07701-7015
Telephone: 732-933-5000 • Fax: 732-933-5240 • http://www.millenniumchem.com

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